

# 2019

SUSTAINABILITY  
REPORT



SISTEMA  
PJSFC



[sistema.com](http://sistema.com)

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# STATEMENT FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

GRI 102-14

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Dear Colleagues and Investors,



As we are preparing this report, the mankind is fighting the coronavirus pandemic that has presented an unprecedented challenge to the world, our nation, and our Corporation. Faced with the hardship, Sistema has demonstrated strong resilience against crises that comes from a diversified investment portfolio and immediately joined the pandemic-busting effort on all fronts once the infection first broke out nationally, proving to be a truly responsible and reliable partner to the state and all stakeholders.

Our portfolio assets evolved into something of an "umbrella" giving the nation protection from the virus, with Sistema BioTech developing diagnostic kits for COVID-19, Medsi clinics and hospitals diagnosing and treating patients, Binnopharm producing the world's first COVID-19 vaccine, other pharma assets manufacturing vital medications, and other businesses supplying people with personal protection equipment (PPE) and other essential goods and services.

The companies within the Group moved fast to create support plans for their employees and customers. All businesses introduced stringent hygiene control, organised regular COVID-19 testing and health monitoring, and made sure their staff is well-provisioned with PPE and sanitisers when in office and with steady communication access

when working remotely. The Group was among the first Russian businesses to extend coronavirus-fighting support to consumers, vendors, doctors, and patients, by medical and other means. MTS, Ozon and other businesses engaged in retail activities swiftly adapted their product offering to meet changing customer needs, while Segezha Group and other exporting operations modified supply chains and carried on delivering on their obligations towards customers. The lockdown increased the role of digital technology (including telemedicine, financial services, and e-commerce with contactless deliveries) in everyone's life. Ozon moved fast to upscale its business to meet the growing demand.

The Group invested about one billion roubles to prevent the spread of the disease in the pandemic's first weeks alone, and the total coronavirus-fighting investments will no doubt be a multiple of that. While it's obvious that the pandemic will keep hurting us all long and hard, I think it's safe to say at this point that Sistema has emerged from its most violent initial phase with minimal losses, having preserved jobs for employees and provided significant help to the nation and its residents.

We do business on a global scale, with an investment portfolio spread over more than 15 industries and a consumer base of 150 million users in over 20 countries. Our unchanging goal pertains to building Russia's leading investment company as a platform for managing both its own and third-party capital from anywhere in the world. In 2019, the Company demonstrated robust business growth through the successful development of its public and major non-public businesses, efficient management of social and environmental impacts, and persistent debt burden reduction, and continued investing in disruptive technologies, healthcare, education, and culture. Sistema is among Russia's largest private investors and public companies and matches the world's investment leaders in market capitalisation and economic efficiency. It is also a leader in corporate charity that spends over a billion roubles each year on socially impactful programmes and aid for local communities, educational institutions, and NGOs.

Our key to efficiency is based on the thorough selection of investment projects with evaluations that go beyond financial and economic parameters to include ESG factors and non-financial risks. A

crucial role in the implementation of these projects plays a high quality management. The Corporation applies a partnership management model to all of its portfolio companies, with specific managing partners and key Sistema executives sitting on the boards of businesses in their charge while also co-investing in such businesses, sharing in both risks and future profits.

In 2019, we embarked on a revision of our approach to sustainability management and responsible investing. A new ESG road map was developed that enables a deeper integration of ESG principles in the Group's investing and other activities. In 2020, we updated our Corporate Governance Code and developed a brand-new Sustainability Policy, a guideline that is now approved by the Board. It sets out the key ESG areas, in which Sistema can produce a lasting positive effect and create long-term value for stakeholders: Accessibility and Quality, Wellbeing, and Smart Environment. Further down the road, we will continue refining our internal regulatory framework, business processes, and approaches to sustainability management and non-financial disclosures for a fuller integration of responsible investing principles in our day-to-day practices.

Investing in the disruptive tech sector, through our VC funds and otherwise, remains among the Corporation's primary strategic focuses. In a bid to raise standards of living for communities around us, Sistema supports the development of novel ideas and technology through consistent investments in prospective research, tech startups, new solutions, and digitalisation, encourages the implementation of advanced technology and organisational innovations at portfolio companies, and promotes education through Lift to the Future, a long-standing signature project of Sistema Charitable Foundation. Sistema's assets continue developing products and services in the IoT sphere, both in consumer and industrial segments. In 2019, MTS launched Smart City, a platform for managing municipal services and an all-purpose interface for smart devices, signed agreements with 28 local governments across Russia, and embarked on 10 pilot municipal digitalisation projects. Also, in 2019, Sistema set about pro-actively developing a business that holds immense promise in today's world: the biotechnology company Sistema BioTech entered into an agreement with the International Medical Cluster Foundation to build a multi-specialty R&D

lab at the national Skolkovo Innovation Centre, aiming to design advanced solutions in medicine and pharmacology and put them into clinical practice.

Sistema also keeps ramping up investments in the pharma business and enhancing capacity to produce latest medical drugs that are especially needed amid the current coronavirus outbreak. Among steps taken in this direction, the commissioning of a new solids factory in the Moscow region, an upgrade of the Sintez antibiotics factory in the Kurgan region in the Urals, and first moves in the transformation of Sistema's pharma assets into an integrated holding company with five production sites across the nation and a strong R&D centre occurred.

Another vivid example of sustainable investing is delivered by Segezha Group, which embarked on the construction of a factory in the Vologda region to produce eco-friendly CLT panels for housebuilding. The project that cost the company over 3 billion roubles in investment will deliver up to 250,000 square metres of CLT a year. The Ministry of Industry and Trade put it on the list of high-priority timber-industry projects, as it is believed to greatly benefit the nationwide advancement of a time-efficient 'green' construction technology that is equally suitable for homes and facility structures. In a tie-up with Sistema's construction arm Etalon Group, Segezha is now working on a pilot project in Moscow to use CLT panels to erect high-rise buildings.

Whether by upgrading the existing production sites or setting up brand-new ones, like Segezha's pellet plant in Lesosibirsk (which Phase 2 was commissioned early in 2020) or Steppe's hi-tech dairy farms, we contribute to the social and economic development of woodland and rural territories. The companies within the entire Group create value for local communities by generating employment, paying taxes (both federal and local), and affording opportunities for self-fulfillment through large-scale sociocultural initiatives pursued by Sistema Charitable Foundation, specific portfolio companies, or corporate volunteers.

Sistema companies go to great lengths to enhance quality and customer focus, always striving to attract new customers while retaining old ones. A case in point, Medsi has implemented a

patient-centred care model where patients play an active and involved role in the therapy process and establish trusting partner-to-partner relationships with their doctors, working together towards a common goal.

Special attention by Sistema Group is paid to the environmental efficiency and safety of its production assets. The Group's companies strive to reduce their environmental footprint and adhere to the principles of rational use of natural resources. In 2019, the Group's total environmental expenses went up nearly 30% year-on-year, to over half a billion roubles.

2019 marked the start of a three-year modernisation programme at Segezha Pulp & Paper Mill, prioritising environmental impact management. In particular, the programme will involve extensive upgrades of the biological water treatment system and the installation of state-of-the-art air filters to trap atmospheric emissions.

In September 2019, MTS joined the GSMA global initiative to minimise the impact of the telecommunications industry on climate change. Companies across the Group pay heed to risks related to climate change, always aiming to swiftly adapt to potential impacts.

2020 marks the 75th anniversary of Russia's victory in the Great Patriotic War and has been proclaimed a Year of Remembrance and Glory by the presidential decree. Care and support for war veterans has long been among Sistema's priorities. 2019 marked the start of comprehensive hi-tech healthcare programme pursued by Sistema Charitable Foundation in cooperation with Medsi, where seniors receive free state-of-the-art diagnostic, treatment, and rehabilitation services.

The adversity of 2020 has given us yet more confidence about the investment strategy chosen and the relevance of the ESG agenda pursued in 2019 and has by now delivered first measurable results. This is confirmed by Russian and international independent evaluations from the perspectives of transparency, responsibility, and sustainability. In 2019, Sistema affirmed its long-standing leadership in the sustainability ratings of the Russian Union of Industrialists and Entrepreneurs: "Responsibility and Transparency" and "Sustainable Development Vector".

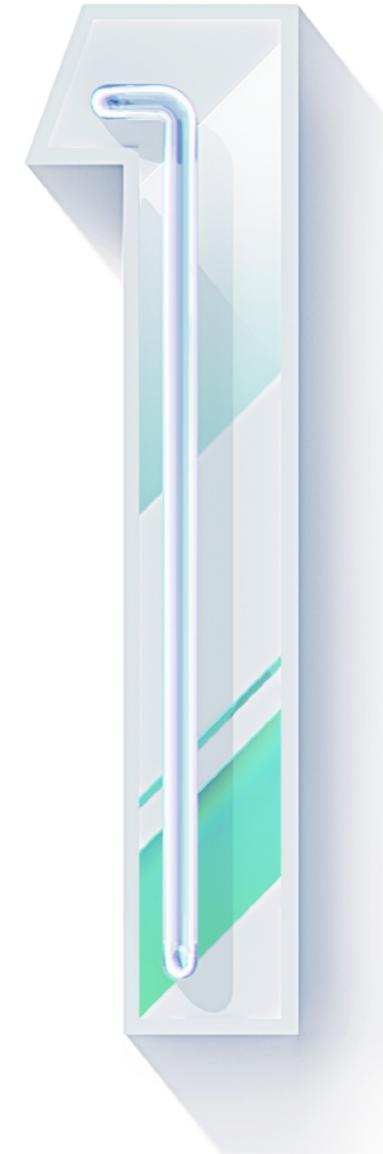
A long-standing champion of corporate responsibility and a signatory to the UN Global Compact the Corporation also confirmed its high standing in international ESG ratings and indices, sending a positive signal to investors that increasingly look beyond financial metrics to factors involving social and environmental impacts.

Amid the change and turbulence brought on by the coronavirus pandemic, we look to the future with cautious optimism. When confronted with adversity, Sistema rose to the task with no loss of stability and remains a responsible and reliable partner to all stakeholders.

**Vladimir Evtushenkov**  
CHAIRMAN OF THE BOARD OF  
DIRECTORS, SISTEMA PJSC

# ABOUT THE CORPORATION

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# BUSINESS OVERVIEW

GRI 102-1  
GRI 102-5

Sistema Public Joint Stock Financial Corporation<sup>1</sup> is among the world's biggest public companies, according<sup>1</sup> to Forbes Global 2000. The Corporation is also one of Russia's systemically substantial enterprises, having a critical influence on the country's GDP, employment rates and prosperity of the population.

## 1.3<sup>TN</sup> RUB

TOTAL ASSETS

## 145.7<sup>BN</sup> RUB

INVESTMENTS IN 2019

## 0.8%

CONTRIBUTION TO RUSSIAN  
GDP

## >150<sup>M</sup>

CONSUMERS

Sistema's shares are listed on the Moscow Exchange and global depository receipts on the London Stock Exchange.



Ticker: AFKS  
Quotation list-1



Ticker: SSA  
1 GDR = 20 ordinary shares of Sistema

Sistema is one of Russia's biggest private investment companies; it manages assets in such sectors as telecommunications, timber processing, agriculture, healthcare, real estate, retail trade, etc. The Group Companies drive the development of their regions of operations and the country as a whole, creating the long-term value for a broad range of stakeholders.

<sup>1</sup> Hereinafter also "Sistema PJSC", "Sistema", "the Corporation", and, jointly with portfolio companies, "Sistema Group".

## KEY INDICATORS FOR 2019

GRI 102-7

	2018	2019	CHANGE VS. 2018
<b>ECONOMY</b>			
Revenue, RUB bn	625.0	656.8	5.1%
OIBDA, RUB bn	221.1	201.7	-8.8%
Adjusted OIBDA margin, %	34.1	34.09	-
Operating income, RUB bn	108.6	86.4	-20.4%
Net profit/(loss), RUB bn	(45.9)	28.6	-
Investments in fixed assets, RUB bn	124.0	117.6	-5.2%
Taxes and payments to social funds, RUB bn	108.9	125.2	+15.0%
<b>ENVIRONMENT</b>			
Environmental protection expenditures, RUB M	451.5	576.0	+27.5%
Direct GHG Emissions, t	1,093,158	847,205	-22.5%
Energy consumption, M GJ	146.2	219.9	+50.4%
Water withdrawal, M cu m (GRI 303-1 2016)	107.2	93.5	-12.8%
<b>PERSONNEL</b>			
Total headcount, persons	138,892	139,872	+0.7%
Average labour productivity, RUB M per person	5.6	4.7	-16.1%
<b>SOCIETY</b>			
Social investments, RUB bn <sup>1</sup>	1.12	1.42	+26.8%
Participants of charity programmes, M people	>1.06	>1.1	>3.8%
Sistema representatives listed among the Top 1000 Russian Managers <sup>2</sup> , persons	93	>100	>7.5%

## GENERATED AND DISTRIBUTED DIRECT ECONOMIC VALUE, RUB BN<sup>3</sup>

GRI 201-1

	2017	2018	2019
<b>DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED</b>			
<b>Generated value, including:</b>	<b>717.90</b>	<b>787.46</b>	<b>659.97</b>
Consolidated revenue	704.55	777.40	656.86
Financial and other revenues	13.35	10.05	3.11
<b>Distributed value, including:</b>	<b>784.44</b>	<b>825.76</b>	<b>602.36</b>
Operating and other expenses	612.71	644.03	561.06
including wages, social and other payments to employees <sup>4</sup>	131.87	137.64	133.41
Taxes <sup>5</sup>	17.35	39.22	31.96
Investments in communities <sup>6</sup>	1.31	1.12	1.42
Financial expenses	48.98	68.02	87.34
Other expenses	105.39	74.49	-78.00
Accrued dividends to shareholders	14.06	1.05	1.05
<b>Retained value</b>	<b>-0.71</b>	<b>-39.35</b>	<b>56.56</b>

<sup>3</sup> Data for 2018 and 2017 is presented in accordance with the consolidation perimeter at the time of disclosure of financial statements.

<sup>4</sup> Employee remuneration expenses (wages, bonuses and social contributions) included in production cost; selling, general and administrative expenses.

<sup>5</sup> Include expenses for income tax and other irrecoverable taxes.

<sup>6</sup> Including financing of private charity and social projects of Sistema Group, financing of programmes and operational expenditure of Sistema Charitable Foundation (SCF), and donations made by Sistema PJSC and portfolio companies to SCF.

# INVESTMENT PORTFOLIO

SISTEMA IS THE MAJORITY SHAREHOLDER IN MOST OF ITS PORTFOLIO COMPANIES.

20+

COUNTRIES

15+

INDUSTRIES

SISTEMA'S EFFECTIVE SHAREHOLDING

98.6%<sup>5</sup>  
HIGH TECH  
KRONSTADT

98.6%<sup>5</sup>  
HIGH TECH  
AEROMAX

91%  
POWER GRIDS  
BPGC

100%  
REAL ESTATE  
BUSINESS  
NEDVIZHIMOST

100%  
BANKING  
EWUB

83%  
FUNDS  
SISTEMA  
ASIA FUND

80%  
FUNDS  
SISTEMA\_VC

70%  
FUNDS  
SISTEMA CAPITAL MC

96.9%  
PRIVATE  
HEALTHCARE  
MEDSI  
Largest private  
healthcare chain  
in Russia

50.01%  
TELECOMMUNICATIONS  
MTS

Leading telecommunications operator and digital services provider in Russia  
MOEX: MTSS / NYSE: MBT

42.999%  
E-COMMERCE  
OZON  
Largest multcategory  
online retailer in Russia

25%<sup>1</sup>  
REAL ESTATE DEVELOPMENT  
ETALON GROUP

One of the leading public development and construction companies in Russia  
LSE / MOEX: ETLN

84.6%<sup>2</sup>  
AGRICULTURE  
STEPPE  
AGROHOLDING  
Major agricultural holding and one of Russia's largest land owners

42.9%  
RETAIL  
CONCEPT GROUP

33.4%  
RETAIL  
DETSKY MIR

Leading children goods retailer in Russia and Kazakhstan  
MOEX: DSKY

98.3%  
FORESTRY  
SEGEZHA GROUP  
Largest vertically integrated forestry holding in Russia

24.9%<sup>3</sup>  
PHARMA  
ALIUM

46.5%<sup>4</sup>  
PHARMA  
SINTEZ

87%  
HIGH TECH  
RTI

50%  
HIGH TECH  
ELEMENT

100%  
HOSPITALITY  
COSMOS  
HOTEL GROUP

1 Shareholding of Sistema and its affiliates.  
2 92.8% as of 31 December 2019.  
3 26.3% as of 31 December 2019.  
4 Joint shareholding with a financial partner.  
5 97.8% as of 31 December 2019.

## GEOGRAPHICAL FOOTPRINT

GRI 102-2  
GRI 102-4  
GRI 102-6

ASSETS	COMPANY	SCALE	GEOGRAPHICAL FOOTPRINT	EQUITY STAKE, % <sup>1</sup>
<b>TELECOMMUNICATIONS</b>	MTS PJSC	About 86.9M subscribers 5,680 retail outlets	Federal chain	50.01
<b>RETAIL</b>	Detsky Mir PJSC	842 stores Present in 100+ cities	Federal chain	33.4
	Concept Group	350+ stores	Federal chain	42.9
<b>REAL ESTATE</b>	Etalon Group plc	3.3M sq m in the project portfolio	Moscow St Petersburg	25 <sup>2</sup>
	Business Nedvizhimost	52,300 sq m in the project portfolio	Moscow Moscow region	100
<b>FORESTRY</b>	Segezha Group	70%+ share of foreign-currency revenue 6.8M ha of woodland area	Republic of Karelia Arkhangelsk region Vologda region Kirov region Krasnoyarsk region	98.3
<b>HEALTHCARE</b>	Medsi Group	8.5M patient visits	Moscow Barnaul Bryansk Nizhnevartovsk Perm (7 clinics) St Petersburg Volgograd Yalta	96.9
<b>AGRICULTURE</b>	Steppe AgroHolding, JSC	560,000 ha of land 1.4M t - gross harvest	Krasnodar region Stavropol region Rostov region Republic of Karachay-Cherkessia	92.8
<b>PHARMACEUTICALS</b>	Alium Group	200+ medication items 4 production facilities	Moscow Moscow region	26.3
	Sintez JSC	300+ medication items	Moscow Moscow region Stavropol Kurgan	46.5 <sup>3</sup>
<b>E-COMMERCE</b>	Ozon Holdings Limited	16,700 pick-up points and parcel terminals	Federal chain	42.99 <sup>4</sup>
<b>HOSPITALITY</b>	Cosmos Hotel Group	17 hotels under management	Izhevsk Kazan Sochi Novosibirsk Yaroslavl Petrozavodsk	100
<b>POWER INDUSTRY</b>	Bashkir Power Grid Company	16,500 new grid connections	Republic of Bashkortostan	91
<b>BANKING</b>	East-West United Bank S. A.	Over EUR 800M in assets under management	Europe	100

<sup>1</sup> As of the end of 2019.

<sup>2</sup> Equity stake incl. affiliates.

<sup>3</sup> Equity stake held together with a financial partner.

<sup>4</sup> Aggregate stake of Sistema Group.

ASSETS	COMPANY	SCALE	GEOGRAPHICAL FOOTPRINT	EQUITY STAKE, % <sup>1</sup>
<b>HI-TECH</b>	RTI Group	10,000+ hi-tech workplaces	Moscow St Petersburg Yaroslavl Dubna Saransk Veliky Novgorod	87
	SITRONICS	Operates 50,000+ video surveillance cameras	Moscow Moscow region	100
	Element Group	2.2bn+ microchips produced 20+ microelectronic enterprises	Federal chain	50
	Kronstadt, JSC	80+ projects implemented in 10 countries and 45 cities over 10 years	Moscow St Petersburg	97.8
	Aeromax LLC	5 projects for third-party customers carried out in 2019 100+ construction sites monitored in Moscow and the Moscow region	Moscow St Petersburg	97.8
<b>FUNDS</b>	Sistema Asia Fund	USD 120M—target fund amount	-	83
	Sistema_VC	RUB 10bn—target fund amount	-	80
	LLC Sistema Capital MC	RUB 95.5bn in assets under management	-	70

## KEY EVENTS OF 2019

<b>JANUARY</b>	<ul style="list-style-type: none"> <li>A state-of-the-art multi-fuel boiler fired by bark waste was put into operation at Segezha PPM (part of Segezha Group) as envisaged by the upgrade project</li> </ul>
<b>FEBRUARY</b>	<ul style="list-style-type: none"> <li>Sistema began building a 4* business hotel chain under the Cosmos brand</li> <li>Lesosibirsk Woodworking Plant No 1 and Xylotech Siberia (both part of Segezha Group) completed the international Sustainable Biomass Programme certification</li> <li>Detsky Mir opened its first store in the Republic of Belarus</li> </ul>
<b>MARCH</b>	<ul style="list-style-type: none"> <li>MTS and the Skolkovo Institute of Science and Technology (Skoltech) established an artificial intelligence lab, which will conduct research in the area of natural language processing</li> <li>Steppe AgroHolding joined the Association of Responsible Agricultural Market Players and became member of its management board.</li> </ul>
<b>APRIL</b>	<ul style="list-style-type: none"> <li>Ozon launched Ozon.Invest, a platform for investing individual investors' money in small and medium-sized businesses</li> </ul>
<b>MAY</b>	<ul style="list-style-type: none"> <li>OBL Pharm and Binnopharm merged to create Alium JSC</li> <li>Ozon registered Ozon Technologies, a company that will focus on IT developments</li> </ul>
<b>JUNE</b>	<ul style="list-style-type: none"> <li>MTS started selling robotised custom service systems</li> </ul>
<b>JULY</b>	<ul style="list-style-type: none"> <li>Segezha Group launched the Cosy Workplace programme to modernise and expand production facilities</li> </ul>
<b>AUGUST</b>	<ul style="list-style-type: none"> <li>Sistema acquired 46.5% in Sintez and 75.1% in Biocom</li> </ul>
<b>SEPTEMBER</b>	<ul style="list-style-type: none"> <li>Medsi Group launched a franchise chain</li> <li>MTS joined GSMA's global initiative to develop an industrial road map setting out actions aimed at minimising the impact of the telecom industry on climate</li> </ul>
<b>OCTOBER</b>	<ul style="list-style-type: none"> <li>MTS opened a 5G centre: a site for developing and testing digital solutions and devices working in 5G networks</li> </ul>
<b>NOVEMBER</b>	<ul style="list-style-type: none"> <li>Etalon Group developed a web application for project management: a cloud service for managing investment and construction projects based on BIM models of properties under construction</li> <li>Ozon launched a logistical marketplace for SME in Russian regions</li> </ul>
<b>DECEMBER</b>	<ul style="list-style-type: none"> <li>Segezha PPM (part of Segezha Group) and legislators of the town of Segezha initiated establishment of a public environmental council under the Segezha municipal district administration</li> <li>MTS joined the Telecom Infra Project, a global initiative that brings together innovative activities of the world's leading ICT companies in order to participate in the development of the ecosystem of telecom equipment vendors</li> </ul>

<sup>1</sup> As of the end of 2019.

## EVENTS AFTER THE REPORTING DATE

MONTH	EVENTS
JANUARY	<ul style="list-style-type: none"> <li>Sistema and Sistema BioTech signed an investment agreement with the International Medical Cluster Fund on establishment of a centre for pre-clinical testing of cutting-edge international developments and technologies at the International Medical Cluster in Skolkovo</li> <li>Karelian Wood Company became part of Segezha Group</li> </ul>
FEBRUARY	<ul style="list-style-type: none"> <li>Sistema established Sistema SmartTech, a venture capital fund that will support companies at early development stages</li> </ul>
MARCH	<ul style="list-style-type: none"> <li>Medsi Group acquired Aspek chain of clinics in Izhevsk</li> </ul>
JUNE	<ul style="list-style-type: none"> <li>Sistema's Board of Directors approved the new Sustainability Policy</li> </ul>
AUGUST	<ul style="list-style-type: none"> <li>Binnopharm began manufacturing the world's first registered COVID-19 vaccine at its production facility in Zelenograd</li> </ul>

Sistema Group stays committed to taking all the necessary steps to protect the health of people around and prevent the spread of the COVID-19 virus.

## #COUNTRYWITHOUTVIRUS:

### FIGHTING THE COVID-19 PANDEMIC IN 2020

At the time this report was being written, the COVID-19 pandemic was in an active phase in many regions of Russia. In the first weeks after the Russian government introduced a lockdown due to a high number of coronavirus cases, Sistema Group spent about RUB 1 billion to prevent the spread of the disease in the country. The money was used to finance healthcare-related measures, launch of manufacturing of personal protective equipment, protection of employees' health and support to consumers of goods and services provided by the Group Companies.

In order to keep medical personnel healthy, efficient and motivated, a support centre was established for those involved in fighting the pandemic. The Centre accepts donations and material aid from individuals and organisations. Its first initiative was a large-scale social campaign titled #CountryWithoutVirus, which organised delivery of 200,000 protective suits for medical workers from China to the Moscow region.

The world's first registered COVID-19 vaccine was developed by the Gamaleya Scientific Research Institute of Epidemiology and Microbiology. Binnopharm's production facility was chosen alongside the Gamaleya Institute to manufacture the new vaccine. Mass production is expected to start by the end of 2020.

"One of the crucial tasks in fighting the pandemic is to ensure quick production of a vaccine against COVID-19. We are pleased to announce that our plant in Zelenograd, which has extensive experience in the manufacturing of vaccines and biotech drugs, is involved in this project. Binnopharm's production capacity enables it to produce about 1.5M doses of the vaccine a year. We are planning to install additional equipment at the plant in order to increase vaccine production volumes."

Vladimir Chirakhov, CEO of Sistema.



You can watch a [video](#) about the #CountryWithoutVirus campaign

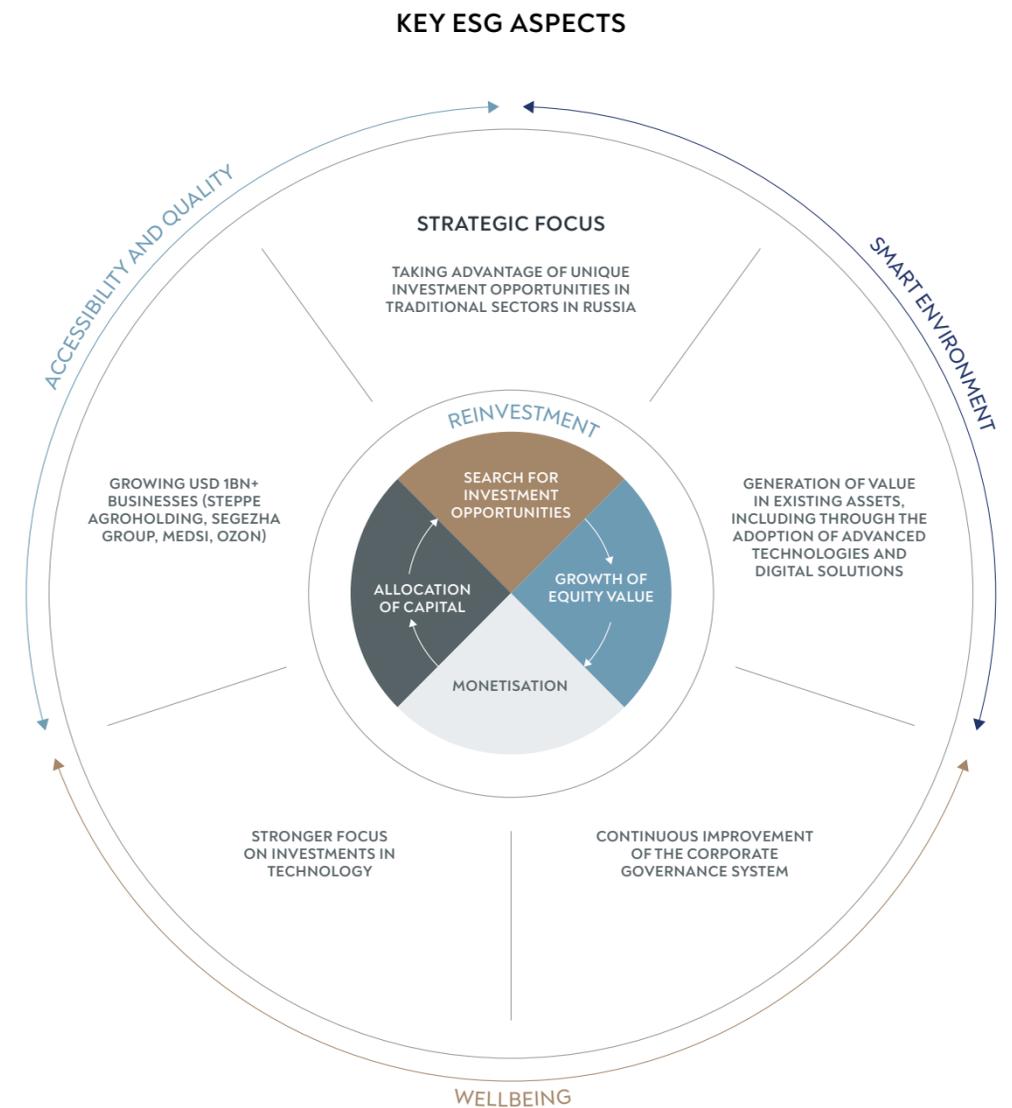
ASSETS	STEPS
<b>MEDSI GROUP</b> 	<ul style="list-style-type: none"> <li>Medsi's clinical hospital in Otradnoye (north of Moscow) was repurposed into an infectious disease hospital and provided with all the necessary equipment, including 40 lung ventilators. The 100-bed facility has capacity for expansion. Effective 01 April 2020, the hospital started admitting solely confirmed and suspected coronavirus patients.</li> <li>Medsi also offers testing for COVID-19 all across its chain of clinics, while Medsi doctors publish detailed advice on coronavirus prevention techniques (e.g., handwashing and putting on masks) in the social media.</li> </ul>
<b>SISTEMA BIOTECH</b> 	<ul style="list-style-type: none"> <li>The biotech laboratory has developed a Covid-19 diagnostic kit that allows to detect the coronavirus with a 95%+ accuracy in just two hours. Moscow clinics have by now received about a million of Sistema BioTech test kits of the type.</li> <li>In addition to that, the company is currently designing a rapid isothermal amplification test to obtain results in under 30 minutes, intended for mass testing.</li> </ul>
<b>MTS</b> 	<ul style="list-style-type: none"> <li>MTS has provided cloud resources for computer modeling of the new virus's mechanism of action as part of Folding@Home, a global project aimed to help scientists to find effective treatment for COVID-19.</li> <li>The company also provided its outlets and warehouses with abundant personal protective equipment, air recirculation units, sanitisers, thermometers and other protection and disinfection material.</li> <li>To keep network capacity high and ensure that digital services suffer no interruptions despite the internet traffic surge amid the pandemic, the company increased network power, with a redundancy reserve for future periods.</li> <li>MTS also launched special options in customer support, such as: <ul style="list-style-type: none"> <li>the possibility to use home internet and TV (both cable and satellite) even with negative account balance;</li> <li>free access to dozens of TV channels, the learning platform Smart University, and apps such as MTS Fitness and MTS Library;</li> <li>online consultations with Medsi doctors through the healthcare app SmartMed for just RUB 1, whatever your mobile operator;</li> <li>the possibility to receive calls even when your phone is blocked for non-payment;</li> <li>free calls to public coronavirus helplines and air carriers;</li> <li>free traffic on popular educational platforms and culture &amp; arts websites;</li> <li>senior support, with volunteers helping the elderly to learn how to get online doctor consultations, order grocery deliveries, and apply to the authorities online;</li> <li>discounts and instalment plans for a variety of services and special solutions for corporate customers;</li> <li>a free psychological helpline for those struggling with anxiety amid the pandemic (in collaboration with Moscow State Lomonosov University and the Russian Presidential Academy of National Economy and Public Administration).</li> </ul> </li> <li>MGTS (MTS's fixed telephony arm in Moscow) announced that it would continue servicing subscribers (wiring installations and repairs included) with no interruptions despite the corona-crisis, with service staff rigorously required to wear PPE.</li> </ul>
<b>DETSKY MIR GROUP</b> 	<ul style="list-style-type: none"> <li>Detsky Mir provided its outlets and warehouses with abundant personal protective equipment, air recirculation units, sanitisers, thermometers and other protection and disinfection material.</li> <li>The retailer also significantly increased its stocks to ensure a high availability of children's goods in the high season and launched free courier delivery all across the nationwide chain. 95% of the chain's outlets stayed open throughout the lockdown.</li> </ul>
<b>SEGEZHA GROUP</b> 	<ul style="list-style-type: none"> <li>Segezha Group donated RUB 1M to Lesosibirsk Infections Disease Hospital and RUB 18M to Segezha Central Hospital.</li> <li>The money went towards medical equipment, PPE, transport vehicles, and other materials and machines for fighting the coronavirus.</li> </ul>
<b>BINNOPHARM</b> 	<ul style="list-style-type: none"> <li>The pharmaceutical company set up the trial testing and industrial production of a coronavirus vaccine (in cooperation with the Russian Direct Investment Fund and the Gamaleya Scientific Research Institute of Epidemiology and Microbiology).</li> </ul>
<b>LLC VOLOGDA TEXTILE</b> 	<ul style="list-style-type: none"> <li>To meet society's needs in the corona-crisis, the textile factory specifically converted many of its production lines to increase fabric output by 5x, to 120,000 linear metres a month (an equivalent of 2M face masks), and is currently preparing to start a trial production of special fabric for biohazard suits.</li> <li>The company is on the governmental "priority" list of businesses involved in the production of materials and components essential to the fight against the coronavirus pandemic.</li> </ul>
<b>OZON</b> 	<ul style="list-style-type: none"> <li>Throughout the lockdown period, the marketplace host was meticulously monitoring prices for "hot products" in heightened demand due to the pandemic and subjected vendors caught exceeding their respective maximal allowed prices to harsh penalties. Just one day into the monitoring programme, the company blocked over 300 offers with surcharges ranging from 200% to 3,000%, both detected by Ozon and reported by customers.</li> <li>Ozon has upscaled its "delivery by the door" service launched back in 2019 and ramped up investment in a special information campaign to popularise contactless delivery methods.</li> </ul>
<b>MTS BANK (FINANCIAL ARM OF MTS)</b> 	<ul style="list-style-type: none"> <li>Effective April of 2020, the bank cancelled cash transfer commissions for SMEs (applied both to all types of payments to other legal entities and to salaries).</li> <li>The bank also declared a loan holiday for individuals whose personal income amid the lockdown dropped more than 30%, seniors aged 60+, and individuals with confirmed COVID-19.</li> <li>The financial company also rolled out an extensive information campaign to bring clients up to date with available online service options.</li> </ul>
<b>SISTEMA ASIA FUND</b> 	<ul style="list-style-type: none"> <li>HealthifyMe (an Indian investment of Sistema Asia Fund) has developed a special health &amp; fitness app to help people improve their immunity, including a free immunity-assessment test, workouts with coaches, and trackers for sleep, smoking and handwashing.</li> </ul>

# BUSINESS MODEL

CAPITAL CREATION	TYPE OF RESOURCES	2018	2019	PERFORMANCE METRICS	2018	2019	SDGs
 <b>FINANCIAL CAPITAL</b> Raising–Allocating–Increasing the value of assets–Monetising–Reinvesting in new promising projects / developing portfolio companies–Ensuring returns for shareholders in the form of dividends / distribution of sale proceeds (full or partial) or IPO/SPO of assets	Shareholder's equity, RUB bn	63.0	65.7	Dividends declared, RUB bn (GRI 201-1)	>1 <sup>1</sup>	>1 <sup>2</sup>	
	Debt to equity ratio	1.63	0.92	Investment earnings, incl. dividends from portfolio companies and proceeds from asset monetisation, RUB bn	62.2	85.2	
				Adjusted net income, RUB bn	1.1	53.4	
				Revenue, RUB bn	625.0	656.9	
 <b>HUMAN CAPITAL</b> Building management teams in portfolio companies Engagement, training and professional development of employees Health and well-being of employees Investments in education and human resource development for various industries	Average headcount, FTEs (GRI 102-8)	138,892	139,872	Average labour productivity, RUB M/FTE	5.6	4.7	
	Share of female workers at Sistema PJSFC, % (GRI 405-1)	49.2	53.2	Average hours of training per year per employee (GRI 404-1)	9.3	15.6	
	Average ratio of entry-level wage to the Russian minimum wage (GRI 202-1)	2.0	2.3	Work-related injuries (GRI 403-2 2016)	106	98	
 <b>NATURAL CAPITAL</b> Environmental compliance and protection Green tech and resource efficiency Climate change risk management	Environmental protection expenditures, RUB M	451.5	576	GHG emissions, m t (GRI 305-1)	1.1	0.85	
	Energy consumption, M GJ (GRI 302-1)	146.2	219.9	Water disposal, M cu m (GRI 306-1 2016)	93.0	81.9	
	Water withdrawal, M cu m (GRI 303-1 2016)	107.2	93.5	Energy consumed per RUB M of consolidated revenue, GJ/RUB M	188.1	334.8	
 <b>PRODUCTION CAPITAL</b> Modernisation of production facilities Investment programmes of portfolio companies	No of industries	>15	>15	Total investments in fixed assets, RUB bn (GRI 203-1)	124.0	117.6	
							
 <b>INTELLECTUAL CAPITAL</b> Innovations, new technologies and R&D VC investments in tech startups	No of new agreements signed with research institutes	1	7	No of patent & trademark applications	146	179	
	Expenditure on IT, RUB M	292.2	318.3	No of patent & trademark applications	63	67	
	No of VC transactions	15	17				

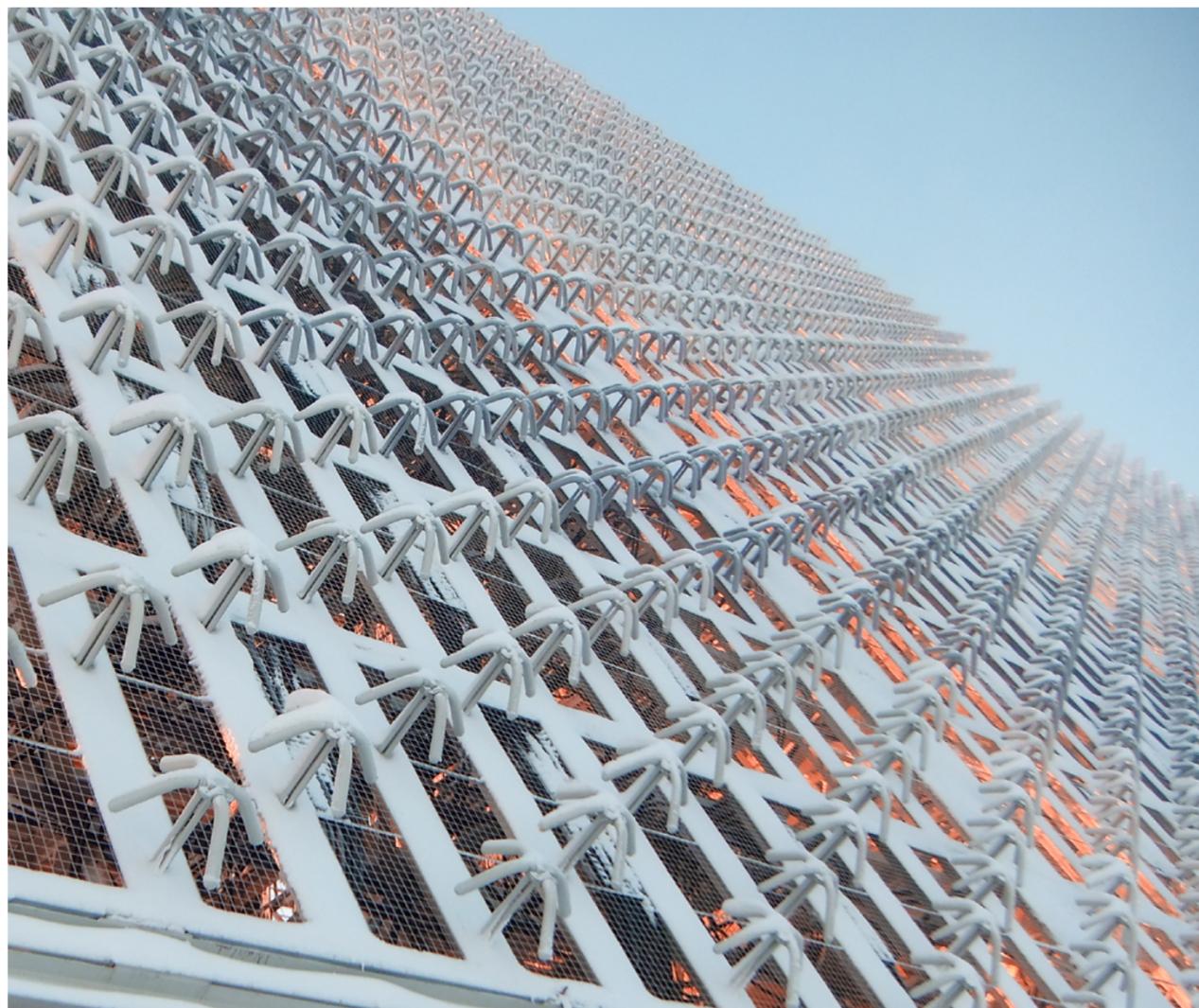
1 For 2018.  
2 For 2019.

CAPITAL CREATION	TYPE OF RESOURCES	2018	2019	PERFORMANCE METRICS	2018	2019	SDGs
 <b>SOCIAL AND REPUTATION CAPITAL</b> Development in important social fields Relations with stakeholders Investments in communities, charity and volunteering	No of consumers, M	>150	>150	Taxes paid to budgets of all levels, RUB bn (GRI 201-1)	108.9	125.2	
	No of agreements signed with local administrations	13	15				
	Participants of charity programmes, M people	>1.06	>1.1	Social investments in communities, RUB bn (GRI 203-1)	1.12	1.42	
				Proportion of positive media stories reflecting the Corporation's strategic goals, %	51.5	52.3	



# STRATEGY AND RESPONSIBLE INVESTMENT APPROACHES

**Sistema's mission** is aimed at forming Russia's leading investment company with diverse expertise and a strong track record of transactions as an investment platform for managing both its own and third-party capital, while also providing access to unique investment opportunities in the most attractive industries and technologies in Russia and fuelling long-term growth in shareholder value.



## STRATEGIC GOALS

- Maximising shareholder value and decreasing discount to NAV
- Raising outside capital for investments

## STRATEGIC FOCUS

- Growing USD 1bn+ businesses (Steppe AgroHolding, Segezha Group, Medsi, Ozon)
- Taking advantage of unique investment opportunities in traditional sectors in Russia
- Stronger focus on investments in technology
- Generation of value in existing assets, including through the adoption of advanced technologies and digital solutions
- Continuous improvement of the corporate governance system

GRI 102-16

## RESPONSIBLE INVESTMENT APPROACH

GRI 103-1  
GRI 103-2

Responsible investment is an integral element of Sistema's investment strategy and long-term success.

Responsible investment is an integral element of Sistema's investment strategy and long-term success. This concept goes beyond financial and operational performance at all investment stages and addresses significant environmental, social and governance (ESG) parameters, creating long-term value for shareholders and other parties.

Sistema's investments are aimed at developing new, innovative and competitive businesses in a way that is both socially and environmentally responsible, while also conducive to the sustainable development of specific industries and geographies, socio-economic and technological evolution, and the enhancement of the human capital, standards of living, and public well-being.

Sistema promotes responsible investment among the expert and professional investment community through involvement in relevant activities and events and interaction with the UN Global Compact Association in Russia and other non-profit entities it belongs to.

### Principles for Responsible Investment

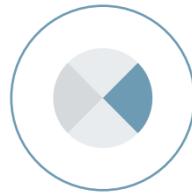


Value Creation Model



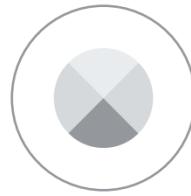
MARKET ANALYSIS AND SEARCH FOR INVESTMENT OPPORTUNITIES

- Comprehensive due diligence.
- In-depth analysis of financial and non-financial risks and opportunities



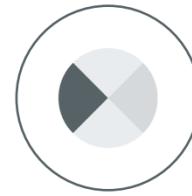
INCREASE OF THE VALUE OF ASSETS UNDER MANAGEMENT

- Arrangement of effective management for the acquired assets.
- Formulation of a development strategy.
- Improvement of business efficiency.
- Creation of synergies with other companies of the Group.
- Introduction of new technologies and digital solutions



MONETISATION

- Generation of income from dividends or a sale of assets or their stakes.



ALLOCATION OF CAPITAL

- Distribution of dividends.
- Investment in new projects and development of existing assets.

>145.7 BN RUB

SISTEMA GROUP'S TOTAL INVESTMENTS

in 2019

For more details about responsible investment, see our [Sustainability Policy](#)



[or on our website](#)



Investment processes across the Group are regulated by internal documents and procedures.

Investment ideas are first studied by investment partner teams and then, if found worthwhile, are submitted for approval by Sistema's Strategy and Development Function, Finance Function, and Corporate Governance & Legal Function, after whose endorsement they are subject for review by the Expert Council of Sistema's Finance and Investment Committee.

In addition to financial analysis and industry analysis that underlie decision-making for each project, specific investment opportunities are regarded in light of management quality, staffing, compliance, the state of the production base, infrastructure and technology, the related legal and social obligations, and environmental and reputational risks, due account being taken of their particular industries, geographies, and trends. All-round analysis of investment projects also factors in social, ethical, economic, and health consequences with as long as forecasting horizon as possible.

The preliminary assessment of ESG risks leads to an understanding if the project requires further analysis, the scope and level of detail of which depends on the materiality of risks identified. "Material" are the risks that can have a material effect on the company's ability to create and retain value (financial, environmental and social) for the business itself and a variety of stakeholders.

As a next step, Sistema may initiate (in due course through the governance bodies of specific businesses) the alignment of the related governance systems with the established responsible investment principles and the scrutiny of ESG risks identified as applied to corporate risk management systems.

Comprehensive due diligence of potential investments



INVESTMENT PROCESS AUTOMATION AT SISTEMA

In 2019, Sistema launched a special project to automate investing, involving a computer-aided project management system extending to the entire project cycle, from investment idea to closing.

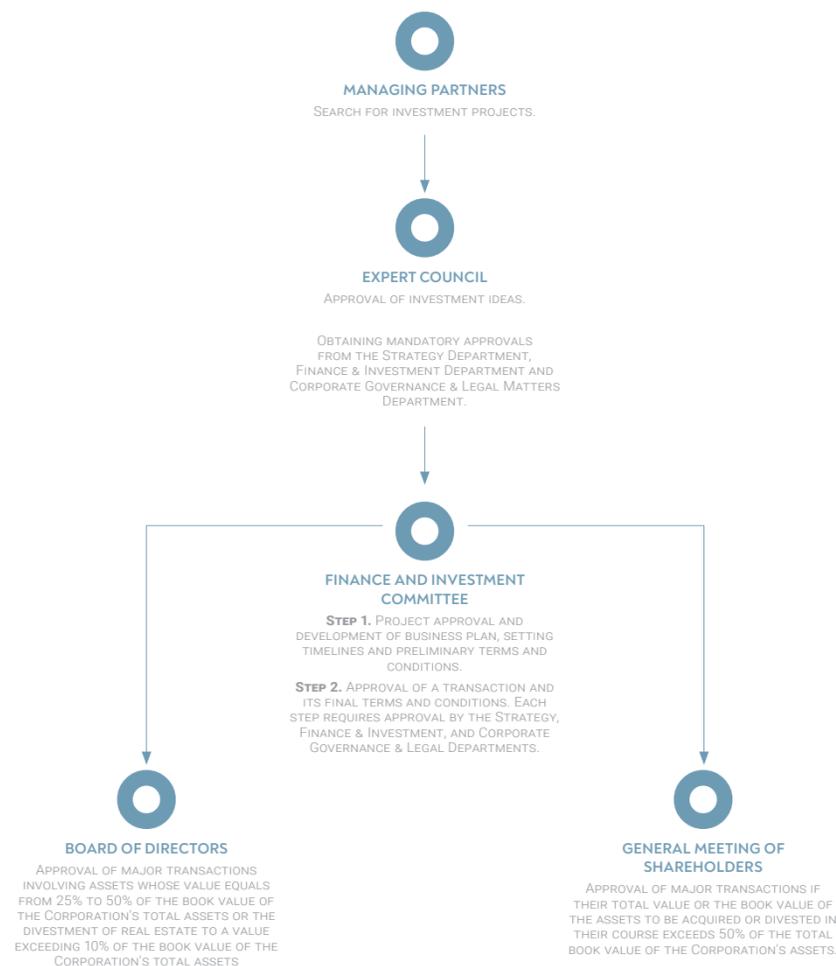
The new philosophy involves a single updatable database of projects that incorporates special tools for controlling the status of specific transactions and management decisions made at every stage. The information so accumulated allows preparing transaction reports and keeping track of the main performance metrics and recent developments.

Among other things, the system's sophisticated tools enable the following:

- maintaining a single database of records on all projects, with documents enclosed;
- administering projects with deployment of Kanban boards;
- keeping a single database with contacts of partners and corporate persons in charge;
- recording management decisions at different stages;
- preparing information for the meetings of collective bodies.

The system enables greater transparency of the Corporation's investment activities, with special priority given to information security.

Review of Investment Projects Selection at Sistema



## ASSET MANAGEMENT

The Corporation uses a partnership model allowing its key executives—Managing Partners—to share with shareholders the risks of and returns on investment activities.

This model is based on Managing Partners' co-investment in portfolio assets they are responsible for. Managing Partners typically chair the boards of directors of their respective portfolio assets and are responsible for the implementation of their investment and business strategies. They are heavily involved in the related strategic decision-making and help the leadership of specific businesses with organisational management (depending on such business maturity status). The incentive systems of partner management model participants are pegged to capitalisation growth and maximisation and monetisation of asset values.

**Asset management principles under the partnership model:**

- portfolio companies form Boards of Directors, which in each case include independent directors;
- portfolio companies recruit efficient management teams with effective incentive systems that encourage them to work towards increased shareholder value;
- strategic and financial planning cycles are implemented based on best international corporate governance practices;
- new management and production technologies are identified so as to improve efficiency, optimise business processes, develop innovative products and services, and broaden the current markets of portfolio companies.

Sistema also invests in certain businesses through controlled funds along with co-investors or the larger portfolio companies that develop their own ecosystems through M&A and branching out into new markets.

Sistema's investment portfolio comprises businesses of diverse management models, from industrial holding companies to small hi-tech operations.

For more details on the investment ecosystem, see pages 35-45 of section Investment Ecosystem of [Sistema's 2018 Sustainability Report](#).



## INVESTMENTS IN INNOVATIONS

Sistema invests in knowledge- and technology-intensive projects requiring profound industry-specific analysis. With this in mind, in 2019, the Corporation decided to create a new advisory body, the Science and Technology Council reporting to Sistema's President. Whenever a new investment idea comes up that heavily uses innovations or science, it will be thoroughly reviewed by the Science and Technology Council before it's turned over to the Expert Council.

To enlist best experts for in-depth analysis of investment projects, the Corporation has signed cooperation agreements with research and education institutions: the RAS, the RSE, MSU and the FEFU<sup>1</sup>. In addition to that, Sistema has established collaborations with independent think tanks, which also provide valuable insights for project analysis.

Going forward, Sistema considers participation in the MSU Vorobyevy Gory Innovative Science and Technology Centre, involvement in high-profile IT projects at the FEFU, and cooperation with the RAS BMEI<sup>2</sup> Research Centre for Nonlinear Wave Mechanics and Technology.

**4.9** BN RUB

### SISTEMA'S INVESTMENTS IN R&D<sup>3</sup>

in the microelectronics and electric power industries in 2019

For more details on investment projects in innovative industries see [Innovation Management Digitalisation](#).

1 The Russian Academy of Sciences, the Russian School of Economics, Moscow State University, the Far Eastern Federal University  
2 The Blagonravov Mechanical Engineering Institute  
3 Data for BPGC, RTI, Element Group.

**Agreements signed with research and education institutions**



**PARTNERSHIPS WITH FOREIGN INVESTORS**

Sistema has extensive experience in cooperating with international strategic investors and heavily interacts with foreign states to attract investments to various sectors of the Russian economy and develop the export potential of Russian businesses through the Corporation's projects. This involves joint projects with the Russian Direct Investment Fund (RDIF) and other partners and investments in growing companies through Sistema's own VC and PE funds.

**STEPPE AGROHOLDING: AGRICULTURAL DUE DILIGENCE FOR PARTNERS FROM THE ARAB STATES**

In 2019, Steppe AgroHolding launched a pilot project to provide free-of-charge due diligence services for partners from Arab countries looking for a prospective to invest in Russian agricultural assets.

Projects are first reviewed in terms of their commercial potential on a particular market, with the research findings in crop and animal farming published in Arabic and English. If a partner shows a clearly expressed interest, Steppe enlists the services of advisory companies to prepare specific information bulletins containing all project fundamentals including risks.

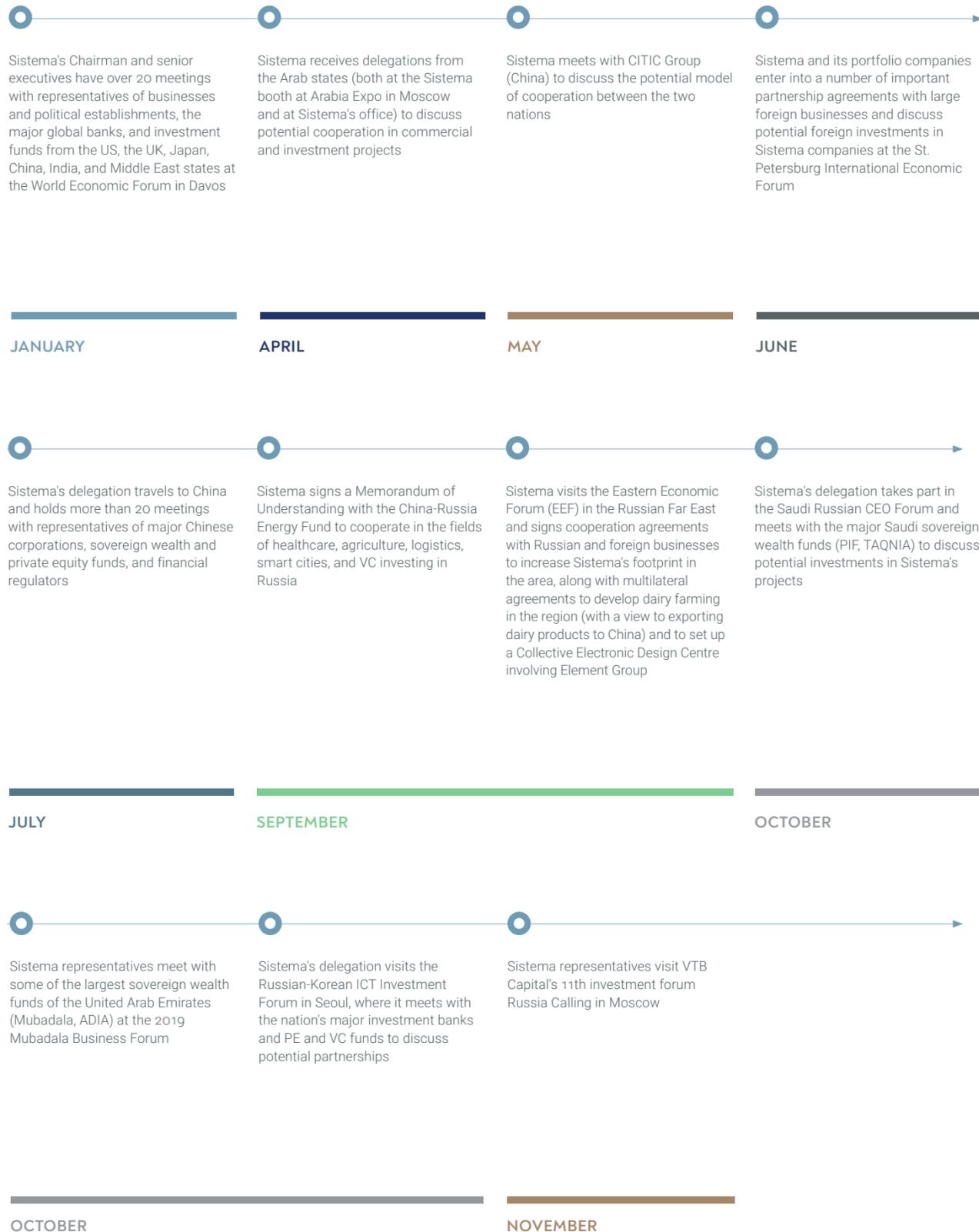
If Steppe itself finds the project interesting, it may join as a co-investor. Otherwise, with consent from the foreign partner, potentially interesting projects may be recommended to other market players.

**SISTEMA'S PRIORITY GEOGRAPHIES FOR INTERNATIONAL COOPERATION IN 2019**

- GREAT BRITAIN
- GERMANY
- SAUDI ARABIA
- UAE
- INDIA
- CHINA
- SOUTH KOREA



International business meetings in 2019



EFFECT FROM INVESTMENT PROGRAMMES

GRI 103-1  
GRI 103-2

**0.6%**  
SHARE OF SISTEMAS CONSOLIDATED REVENUE IN RUSSIAN GDP<sup>1</sup> IN 2019

Sistema heavily invests in the upgrades and development of the industrial and management potential of assets across a variety of industries and in so doing creates jobs, enhances the quality of products and services, and raises the living standards of local communities.

Sistema implements its investment programmes on the bedrock of diverse expertise and mutually beneficial intersectoral partnerships with government bodies, scientific and educational institutions, and public and non-profit organisations, while also arranging for engagements between its multiple portfolio companies.

In 2019, Sistema disbursed RUB 145.7bn in investments in the Russian economy and RUB 117.6bn in Capex. The funds went towards greater efficiency of Sistema businesses in several industries including investment projects aimed at upgrading and increasing the output and capabilities of production assets.

Sistema Group's investments, RUB bn

CAPEX	117.6
Investments in assets	28.1
<b>Total</b>	<b>145.7</b>

Sistema's projects are designed to enhance the economic and environmental efficiency of assets while also raising local standards of living. The heaviest Capex item in 2019 was the development of telecoms and digital services (invested by MTS).

**0.13%**  
RATIO OF SISTEMAS TOTAL INVESTMENTS TO THE RUSSIAN GDP

CAPEX

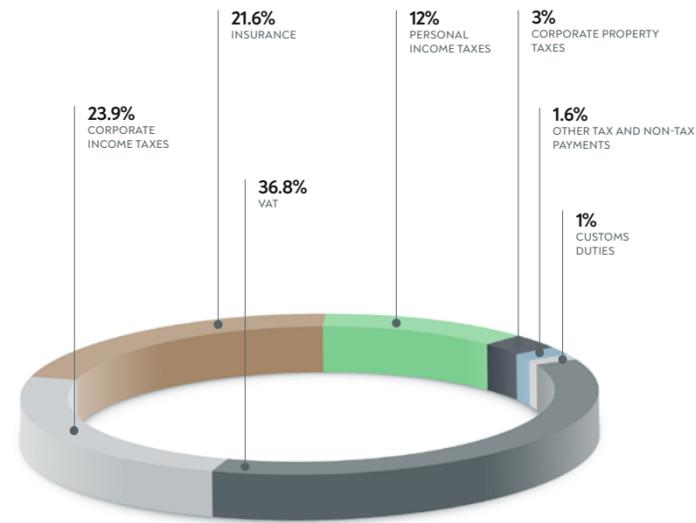
	RUB BN	%
Telecoms and digital services	91.7	78.0
Forestry	6.3	5.4
Healthcare	4.3	3.7
Power industry	3.6	3.1
Consumer sector	5.4	4.6
Agriculture	1.9	1.6
Other	4.3	3.7

**22.18%**  
RATIO OF SISTEMAS TOTAL INVESTMENT TO ITS TOTAL CONSOLIDATED REVENUE

<sup>1</sup> GDP in current prices: <https://rosstat.gov.ru/storage/mediabank/watKADPB/tab1.htm>

Sistema Group is among the largest tax payers in Russia. In 2019, the Group's total tax payments (both federal and local) went up 9.8% year-on-year, to RUB 125.2bn, of which 22% went towards the Russian Pension Fund and health/social insurance.

SISTEMA'S TAX PAYMENTS BY TYPE



The largest taxpayers in Sistema Group are MTS, RTI and BPGC, which aggregate tax payments in 2019 accounted for 85% of the Group's total taxes.

Sistema rigorously abides by the Russian tax legislation and received no material tax claims in 2019.

The companies across Sistema Group use tax benefits and special tax treatments to develop their businesses locally. This is especially relevant to the companies operating in the industries and regions of particular strategic importance to the state.

GRI 201-4

**0.75%**  
 TOTAL AMOUNT OF TAXES ACROSS  
 THE GROUP SAVED DUE TO THE USE  
 OF TAX BENEFITS IN 2019



# CORPORATE GOVERNANCE

## DESCRIPTION OF THE CORPORATE GOVERNANCE SYSTEM

### NATIONAL CORPORATE GOVERNANCE RATING (NCGR):



**8** ADVANCED CORPORATE GOVERNANCE PRACTICE

Only three Russian companies have scored 8 in the rating.



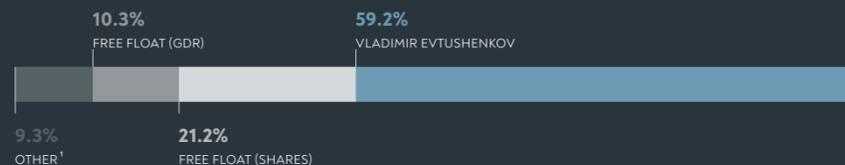
As an investment company, Sistema views high quality of its corporate governance and information transparency as crucial elements of its strategy. Sistema aims to meet the best international standards of corporate governance and transparency and improves its corporate governance practices on an ongoing basis through timely implementation of required changes and high efficiency of managerial decision-making.

In the area of corporate governance, the Corporation is guided by requirements of law and the following key regulations:

- the Corporate Governance Code recommended by the Russian Central Bank;
- the UK Corporate Governance Code;
- the Listing Rules of the Moscow Exchange;
- the Charter of Sistema PJSFC;
- the Corporate Governance Code of Sistema PJSFC;
- the Code of Ethics.

### Structure of shareholders equity

AS OF 31 DECEMBER 2019



<sup>1</sup> Ordinary shares and GDRs owned by Sistema Group companies, members of the Board of Directors and the management of Sistema.

Sistema is among the **top 10 companies by quality of disclosed information related to the corporate governance principles** it complies with based on results of the [National Corporate Governance Index 2019](#) survey.<sup>2</sup>



### Corporate Governance Principles

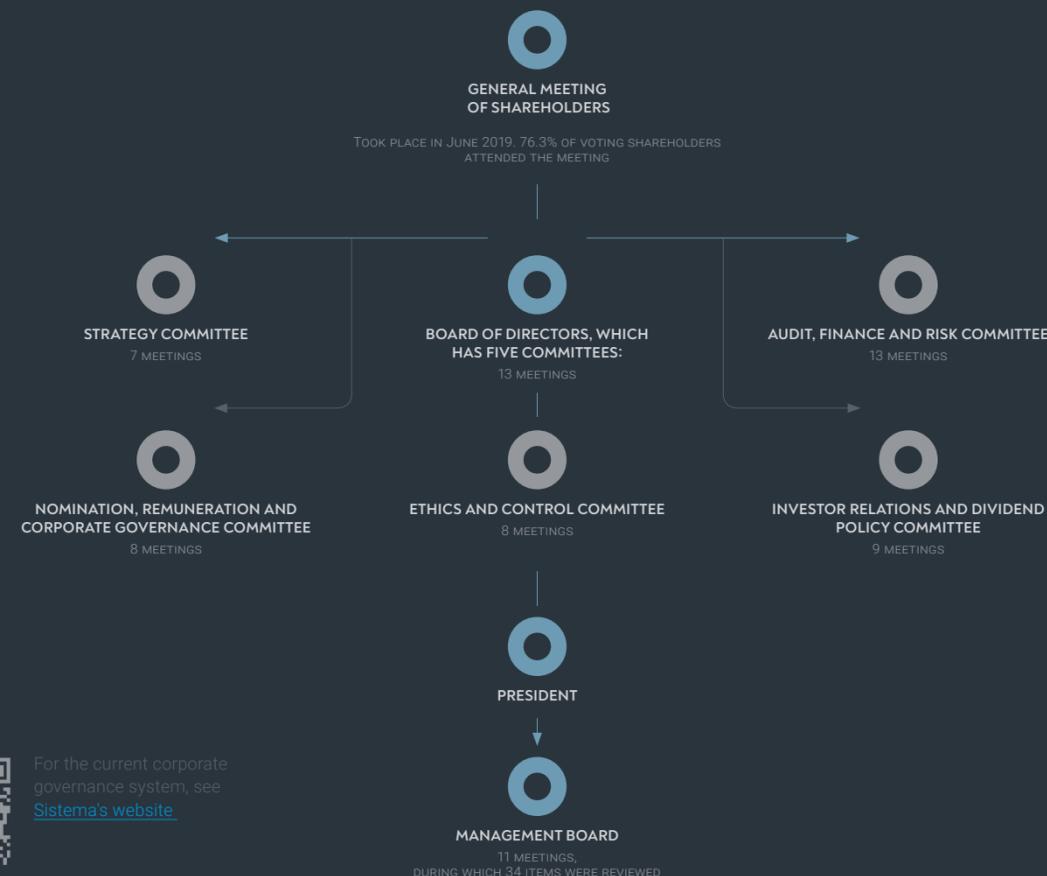
- 1** Clear and effective procedures for making investment decisions
- 2** Reasonable transparency of managerial processes for investors and counterparties
- 3** Dividend policy taking into account reasonable expectations of investors and the Corporation's financial resources
- 4** Professional excellence of the Board of Directors and its active involvement in strategic planning, management and control of the Corporation's business processes
- 5** Special attention of the Board of Directors to related-party transactions and other situations that may have a conflict of interest

<sup>2</sup> Since February 2020, Sistema has been included in the Russian Corporate Governance Index (RUCGI) calculated by the Moscow Exchange on the basis of the National Corporate Governance Index.

## CORPORATE GOVERNANCE BODIES

ACTIVITY IN 2019

GRI 102-18  
GRI 102-23



For the current corporate governance system, see [Sistema's website](#).

In order to improve the managerial decision-making process, Sistema has a number of advisory bodies under the President and the Management Board:

CORPORATE GOVERNANCE BODY/FUNCTIONS	ACTIVITY IN 2019
<b>EXPERT COUNCIL</b>	Review of investment ideas and asset acquisition initiatives 11 MEETINGS
<b>FINANCE AND INVESTMENT COMMITTEE</b>	Review of investment projects that have been approved by the Expert Council: approval of the financial model, business plan and KPIs, recommendations, and review of financing terms 38 MEETINGS
<b>RISK COMMITTEE</b>	Identification, assessment and analysis of risks of the Corporation and its portfolio companies 4 MEETINGS
<b>TENDER COMMITTEE</b>	Ensuring procurement of goods, works and services on the most favourable terms, ensuring transparency of procurement procedures and prevention of corruption, fraud and other malpractices in procurement activities 32 MEETINGS

CORPORATE GOVERNANCE

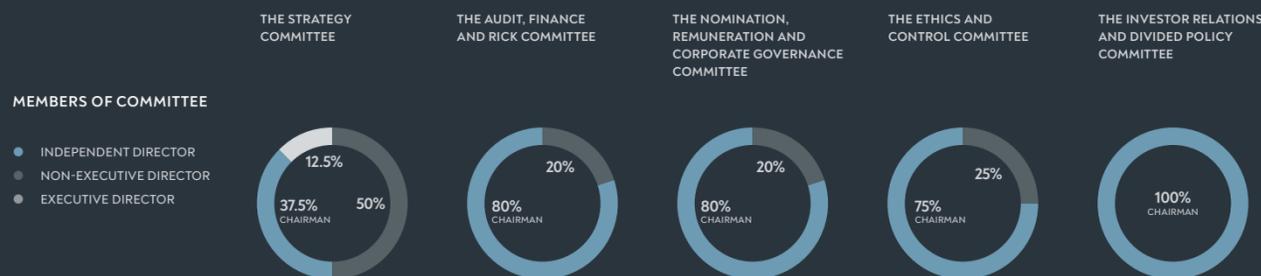
# OVERVIEW OF SISTEMA'S BOARD OF DIRECTORS

GRI 405-1

The board of Directors consist of **11 members**



The structure of Sistema's Board Committees as of 31 December 2019



**9%**  
SHARE OF WOMEN ON THE BOARD OF DIRECTORS IN 2019

**62 YEARS**  
AVERAGE AGE OF THE BOARD MEMBERS IN 2019

## Meetings of the Board of Directors

	2019
Number of meetings held during the year, including	13
In person	8
By letter ballot	5
Total items reviewed	74

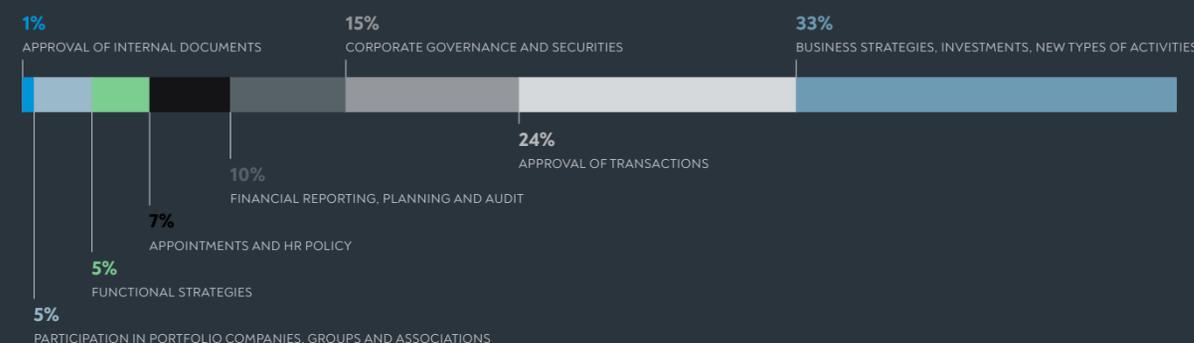
<sup>1</sup> After the end of the reporting period, from 19 April 2020, A. Dubovskov became non-executive director due to termination of his powers as the President of the Corporation. In accordance with the resolution of the Annual General Meeting of shareholders on 27 June 2020, the number of the Board members was increased to 12 people. New members elected to the Board were V. Chirakov, A. Chubais (as an independent director) and E. Schneider (as an independent director). S. Boev and J. Krecké left the Board.



For more information about corporate governance, see [Sistema's Annual Report for 2019, pages 118-147](#).

In 2019, performance of the Corporation's Board of Directors and its Committees was assessed using a survey of the Board members. The resulting total score was 4,33 on a 5-point scale, i.e., on the same level as 2018. A greater involvement in the planning of the succession of the Corporation's key management and in the nomination of members of the boards of portfolio companies was indicated as an area for improvement.

## NUMBER OF AGENDA ITEMS REVIEWED BY THE BOARD OF DIRECTORS IN 2019, BY DIRECTIONS



# CORPORATE GOVERNANCE ACROSS SISTEMA GROUP

To enhance the quality of strategic planning and the investment appeal of its portfolio companies, Sistema pays special attention to improving the quality of corporate governance at its assets.

The Corporation carries out the strategic management of its key portfolio companies by ensuring the efficient work of their boards of directors. In 2019, the Corporation introduced the practice of holding working meetings of the Nomination, Remuneration and Corporate Governance Committee with executives responsible for the Corporation's investments in a particular asset as part of the cycle of nominating candidates for election to the boards of directors of portfolio companies. Such meetings involve the Deputy Chair

of the Board of Directors and other independent directors. Their aim is to ensure proper discussion and identification of specific needs of assets as regards board expertise and translate into recommended skills profiles issued by independent directors to the respective management of each asset company. The Committee then proceeds to consider lists of board nominees in light of such skills profiles and may suggest adjustments thereto as necessary.

The boards of the key portfolio companies include professional independent members with expertise in the companies' industries, as well as in strategy, finance, audit and corporate governance. Independent directors account for about one third

of members of the boards of the key portfolio companies (depending on the level of the company's organisational maturity).

The boards of directors of the portfolio companies and their committees ensure control and coordination, and support the management, seeking to further enhance the quality of management.

The Corporation also aims to adopt and roll out best compliance practices (such as anticorruption and exchange compliance, data privacy and security protection, anti-money laundering and counter-terrorism practices) across its assets, acting through its representatives on boards and special committees of portfolio companies.

## Overview of the Boards of Directors of Sistema's Key Assets<sup>1</sup>

Average number of members on the boards of directors	9
Average number of board meetings per year	16
Average share of women on the boards of directors, %	15
Average age of board members, years	48

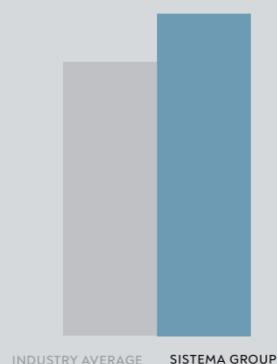
<sup>1</sup> Calculated based on MTS, Detsky Mir, Segezha Group, BPGC, and Etalon Group.

# EXTERNAL ASSESSMENT AND PUBLIC RECOGNITION

GRI 103-3

## ESG RATINGS AND RANKINGS IN 2019

## OTHER RATINGS, AWARDS AND PRIZES



Has been included in the FTSE4Good Index since 2016.

**B → BB**

IMPROVED ITS MSCI ESG RATING TO BB IN 2019.

MSCI ESG RATINGS

Improved its Sustainalytics Risk Rating to 15.3 (Low Risk) in February 2020, ranking 37th out of 578 companies in the category “Diversified Financials”.

**30.9** → **15.3**  
2019      02.2020

SUSTAINALYTICS



Ranked second in the list of the most active corporations and large companies compiled by the Russian Venture Company in partnership with EY.



Sistema Asia and Sistema VC funds ranked 13th and 20th, respectively, in the list of the most active VC funds.

**8**



ADVANCED CORPORATE GOVERNANCE PRACTICE IN THE NATIONAL CORPORATE GOVERNANCE RATING (NCGR).

Only three Russian companies have scored 8 in the rating.

**+1**

Sistema won in the category “Best Economic Impact Disclosure” of Change Management. Visionaries 2019 award by Plus One.

## TOP-2000



MTS WAS INCLUDED IN THE TOP 2,000 GLOBAL COMPANIES IN TERMS OF IMPACT ON THE ACHIEVEMENT OF THE UN SUSTAINABLE DEVELOPMENT GOALS IN THE SDG2000 LIST COMPILED BY THE WORLD BENCHMARKING ALLIANCE.

## TOP-15

ONE OF THE TOP 15 COMPANIES WITH THE HIGHEST SOCIAL EFFICIENCY PER UNIT OF ENVIRONMENTAL LOAD AND NUMBER FOUR AMONG DIVERSIFIED, MACHINE-BUILDING, TRANSPORT AND COMMUNICATIONS COMPANIES.



Sistema and Group companies were included in the Sustainability Ranking according to a study of the activities of leading Russian companies by Expert magazine in 2019.



One of the top 5 leaders of corporate charity, according to a joint project of the Donors Forum, PwC and the Vedomosti newspaper.



## TOP-10

MTS became one of Russia's 10 top-ranked CDP-reporting companies, with an assigned score of C (“Awareness”).



Has been one of the leaders of the rankings “Responsibility and Transparency” and “Sustainable Development Vector” of the Russian Union of Industrialists and Entrepreneurs (RSPP) since 2016 and has been included in the respective MOEX-RSPP ESG indices since 2019.

**>100**

REPRESENTATIVES OF SISTEMA GROUP WERE INCLUDED IN THE LIST OF THE BEST MANAGERS IN RUSSIA.

# PARTICIPATION IN INTERNATIONAL AND INDUSTRY INITIATIVES

GRI 102-12

Sistema and Sistema Group Companies are involved in shaping the agendas of their respective industries, revising relevant legislation and ensuring market self-regulation through membership in leading international and Russian organisations and business associations.



In 2002, Sistema PJSFC became one of the first Russian companies to join the United Nations Global Compact and the Association "National Network of the Global Compact".



Социальная хартия российского бизнеса

In 2017, Sistema joined the Social Charter of Russian Business, a set of key principles of socially responsible business practices in the Russian Federation.

The Company also supports:



Principles for Responsible Investment (PRI)



The UN Sustainable Development Goals



The United Nations Guiding Principles on Business and Human Rights



ISO 26000:2010 Guidance on Social Responsibility

## RUSSIAN ORGANISATIONS AND ASSOCIATIONS

GRI 102-13



Russian Union of Industrialists and Entrepreneurs (RUII)



Russian non-governmental organisation Business Russia



Chamber of Commerce and Industry of the Russian Federation



Issuers' Committee of the Moscow Exchange



Independent Directors Association (IDA)



Russian Institute of Directors (RID)



Russian Managers Association



National Association of Corporate Secretaries and Club of Corporate Secretaries



Russian Risk Management Society (RusRisk)



Agency for Strategic Initiatives (ASI)



Corporate Lawyers Association

## INTERNATIONAL ORGANISATIONS AND ASSOCIATIONS

- World Economic Forum
- 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
- EU-Russia Industrialists' Roundtable
- German Eastern Business Association (OAOEV)
- Emerging Markets Private Equity Association (EMPEA)
- U.S.-Russia Business Council (USRBC)

## 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 for Scientific and Technical Innovations and High Technology)
- Russian-Arab Business Council (chairman) and Russian-Saudi Business Council
- Russian-Saudi Economic Council
- Board of the Moscow Confederation of Industrialists and Entrepreneurs (Employers)
- National Council on Corporate Governance
- Board of the Business Centre for Economic Cooperation of the CIS countries
- EU-Russia Industrialists' Roundtable

## SISTEMA'S BOARD CHAIRMAN VLADIMIR EVTUSHENKOV IS A MEMBER OF THE BOARDS OF TRUSTEES OF:

- Fund for Development of the State Russian Museum "Friends of the Russian Museum" (Chairman)
- The Lomonosov Moscow State University
- Higher School of Management of St Petersburg State University
- The Russian Timiryazev State Agricultural University
- Russian Geographical Society
- Russian Olympians Foundation
- Handball Federation of Russia
- Holy Trinity St Sergius Lavra, Moscow Ecclesiastical Academy (from 2018)
- The Patriarch's Board of Trustees for restoration of the Transfiguration of the Saviour Monastery on Valaam
- I.M. Sechenov First Moscow State Medical University (Sechenov University)
- The Alexander Gorchakov Public Diplomacy Fund

## SEGEZHA PACKAGING JOINED THE UNITED NATIONS GLOBAL COMPACT

In September 2018, Segezha Packaging (the operator of Segezha Group's paper packaging facilities abroad) joined the United Nations Global Compact.

In 2019, Segezha Packaging prepared the first Progress Report, in which it confirmed its commitment to the principles of the UN Global Compact in the area of human rights, labour relations, environmental safety and corruption prevention and provided specific examples and information about the integration of such principles into the company's business practices.

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

The Corporation's portfolio companies and their representatives are active members of such industry-specific associations as the Digital Economy autonomous non-profit organisation, Joint Audit Cooperation (JAC) Association (MTS), the RUIE Commission for the Health Industry (Medsi), the Union of Timber Industrialists and Exporters of Russia (Segezha Group), the AERONET Association of Operators and Developers of Unmanned Aerial Systems (Kronstadt Group), RUEI's Anticorruption Charter (RTI, MTS, Detsky Mir) and other organisations.

# SUSTAINABILITY MANAGEMENT

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40 KEY ESG AREAS

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46 SUSTAINABILITY GOVERNANCE

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52 RISK MANAGEMENT

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58 HUMAN RIGHTS AND STAKEHOLDERS ENGAGEMENT

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64 ETHICS AND ANTI-CORRUPTION EFFORTS

---

72 INNOVATION MANAGEMENT, DIGITALISATION

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80 SUSTAINABLE SUPPLY CHAIN



# KEY ESG AREAS

The Corporation aims to build a competitive and sustainable business that follows the principles of social and environmental responsibility and facilitates the creation of value for shareholders and a wide range of stakeholders in the long term.

As a major investor in various industries, Sistema strives to improve its own management practices and disseminate uniformly high principles of corporate governance and business ethics Sistema Group companies, and also contributes to economic, environmental and social development in the regions of its operations.

## CORPORATE RESPONSIBILITY PRINCIPLES

The Corporation strives to ensure that all Sistema Group companies adhere to the same corporate responsibility principles, and makes reasonable efforts to induce Sistema Group companies to implement these principles in their activities.

Sistema sets high standards in the area of corporate responsibility not only for itself and its assets, but also for the Group's suppliers, contractors and other business partners.

Guiding Corporate Responsibility Principles

PRINCIPLE 1	PRINCIPLE 2	PRINCIPLE 3	PRINCIPLE 4
Risk management	Integrity and transparency	Respect for human rights	Ethics, loyalty and honesty
PRINCIPLE 5	PRINCIPLE 6	PRINCIPLE 7	PRINCIPLE 8
Employee care	Focused allocation of financial and intellectual resources on promoting innovation	Respect for the environment	Investing part of profits in socially impactful projects and programmes

## CONTEXT OF THE CORPORATION'S ACTIVITIES IN THE AREA OF SUSTAINABLE DEVELOPMENT



## KEY ESG AREAS AS A CONTINUATION OF THE INVESTMENT STRATEGY

Sistema identified three key ESG areas, which it promotes through investment activities and where it has a significant positive impact. The Corporation's work in these areas is based on the best corporate governance practices, well-functioning internal processes aimed at improving operational efficiency, innovation and synergies within the Sistema Group.

The Corporation's sustainability activities take into account the priorities of Russia's national projects—comprehensive development programmes of national importance—and the UN Sustainable Development Goals aimed at addressing the global challenges.



## SISTEMA'S CONTRIBUTION TO THE ACHIEVEMENT OF GLOBAL SUSTAINABILITY GOALS AND NATIONAL PRIORITIES OF THE RUSSIAN FEDERATION

UN SDGS	UN SDG TARGETS	NATIONAL PRIORITIES	CORPORATION'S CONTRIBUTION TO ACHIEVING THE GOALS <sup>1</sup>
	<p>1.2 Reduce at least by half the proportion of the population living in poverty</p> <p>1.3 Implement appropriate social protection systems and measures</p> <p>1.4 Ensure equal rights to economic resources, as well as access to basic services, appropriate new technology and financial services</p>	<ul style="list-style-type: none"> <li>Demography</li> <li>Labour productivity and support of employment</li> <li>Education</li> </ul>	<ul style="list-style-type: none"> <li>Taxes and contributions exceeded RUB 125bn in 2019 (GRI 203-2)</li> <li>Social investments exceeded RUB 1.4bn in 2019</li> <li>Average entry-level wage across the Group is 2.7x higher than the national minimum wage (GRI 202-1)</li> <li>East-West United Bank: financial literacy lessons for children (GRI FS16) (see <a href="#">page 177</a> for details)</li> <li>Detsky Mir: charity campaign Participate! (see <a href="#">page 176</a> for details)</li> </ul>
	<p>2.3 Double the agricultural productivity and incomes of small-scale food producers</p> <p>2.4 Ensure sustainable food production systems and implement agricultural practices that increase productivity and production and that progressively improve land and soil quality</p> <p>2.a Increase investment in rural infrastructure, agricultural research and extension services, and technology development</p>	<ul style="list-style-type: none"> <li>Labour productivity and support of employment</li> <li>International cooperation and exports</li> </ul>	<ul style="list-style-type: none"> <li>Gross harvest of agricultural crops: more than 1.3M t</li> <li>Raw milk output: 56,900 t</li> <li>Head of cattle: 12,300 (GRI FP19)</li> <li>Area of intensive orchards: 747 ha</li> <li>Five state-of-the-art dairy farms equipped with monitoring systems with online central management</li> <li>Grain exports: 1,198,000 t</li> <li>Connecterra: participation in the international initiative Farming for Generations (see <a href="#">page 144</a> for details)</li> <li>Sistema_VC: investment in a platform for optimising the agricultural supply chain (see <a href="#">page 81</a> for details)</li> </ul>
	<p>3.4 Reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being</p> <p>3.7 Ensure universal access to sexual and reproductive healthcare services</p> <p>3.8 Achieve universal health coverage and access to essential medicines and vaccines for all</p> <p>3.b Support the research and development of vaccines and medicines</p> <p>3.c Substantially increase health financing and the recruitment, development, training and retention of the health workforce</p>	<ul style="list-style-type: none"> <li>Healthcare</li> <li>Demography</li> <li>Environment</li> </ul>	<ul style="list-style-type: none"> <li>More than 692,000 patients visited Medsi clinics in 2019, with over 17.3M services provided</li> <li>Expenses on voluntary health insurance and social programmes at Sistema Group companies exceeded RUB 2bn in 2019</li> <li>2,500 doctors completed a refresher course under the programme Cancer Awareness with Medsi</li> <li>Medsi provides assistance to critically ill patients and their families at its Patient Care Centre</li> <li>Pharmaceutical companies Sintez and Biocom joined Sistema's asset portfolio</li> <li>Medsi and the Moscow Agency of Innovations signed an agreement on cooperation within the framework of pilot testing of innovative solutions</li> <li>Sistema will create a biotech R&amp;D lab in Skolkovo (see <a href="#">page 74</a> for details)</li> <li>BPGC: prevention of electrical injuries in children (GRI EU24) (see <a href="#">page 111</a> for details)</li> </ul>
	<p>4.3. Ensure equal access to affordable and quality technical, vocational and tertiary education, including university</p> <p>4.4 Significantly increase the number of people who have relevant skills for employment, decent jobs and entrepreneurship</p> <p>4.5 Eliminate gender disparities in education and ensure equal access for the vulnerable, including persons with disabilities and children in vulnerable situations</p> <p>4.7 Ensure that all learners acquire the knowledge and skills needed to promote sustainable development</p> <p>4.a Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all</p>	<p>Education</p>	<ul style="list-style-type: none"> <li>Over 16,000 people became participants of Sistema Charitable Foundation's comprehensive nationwide programme Education and Technology</li> <li>The educational programme Microelectronics. Level 157 resulted in the formation of 23 project teams from nine leading universities of Russia</li> <li>Element Group opened the first Russian Centre for Collective Design in the Russian Far East</li> <li>Sintez: Internships 2.0 project (see <a href="#">page 100</a> for details)</li> <li>MTS: final exam preparation courses at Smart University (see <a href="#">page 103</a> for details)</li> <li>Sistema Charitable Foundation: the programme of modern engineering education Lift to the Future (see <a href="#">page 103</a> for details)</li> <li>Segezha Group: professional training programme for pre-retirement employees (see <a href="#">page 99</a> for details)</li> </ul>

<sup>1</sup> The examples given relate to portfolio companies; for more details on the Group's assets, see section Business Overview.

UN SDGS	UN SDG TARGETS	NATIONAL PRIORITIES	CORPORATION'S CONTRIBUTION TO ACHIEVING THE GOALS <sup>1</sup>
	<p>5.1 End all forms of discrimination against all women and girls everywhere</p> <p>5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making</p> <p>5.b Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women</p>	<p>Demography</p>	<ul style="list-style-type: none"> <li>Share of women among Sistema Group employees was 53% in 2019</li> <li>Average share of women on the boards of directors of key assets was 15% in 2019</li> <li>Basic salaries of women and men for work of equal value do not differ at Sistema Group's assets (GRI 405-2)</li> <li>Respect for human rights and inclusion in the workplace: experience of MTS (see <a href="#">page 59</a> for details)</li> </ul>
	<p>6.3. Improve water quality by reducing pollution, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally</p> <p>6.4 Substantially increase water-use efficiency</p> <p>6.6 Protect and restore water-related ecosystems</p>	<p>Environment</p>	<ul style="list-style-type: none"> <li>Total water withdrawal by Sistema Group companies amounted to 93M cu m in 2019 (GRI 303-1 2016)</li> <li>Total water discharge by assets amounted to 82M cu m (GRI 306-1 2016)</li> <li>Segezha Group: restoring the population of sturgeons in the Yenisey River (see <a href="#">page 154</a> for details)</li> <li>Segezha Group planned a large-scale modernisation of the biological water treatment system at Segezha PPM in 2020</li> </ul>
	<p>7.1. Ensure universal access to affordable, reliable and modern energy services</p> <p>7.2. Increase substantially the share of renewable energy in the global energy mix</p> <p>7.3. Double the global rate of improvement in energy efficiency</p> <p>7.a Enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology</p>	<ul style="list-style-type: none"> <li>Infrastructure: comprehensive plan for modernisation and expansion of trunk infrastructure</li> <li>Environment</li> </ul>	<ul style="list-style-type: none"> <li>BPGC connected to grids more than 3,000 new consumers of electricity and 13,400 benefit-entitled users (GRI EU7)</li> <li>BPGC invested more than RUB 4bn for the development of the energy sector of the Republic of Bashkortostan (GRI 203-1, GRI EU8)</li> <li>BPGC's total grid losses in 2019: 7.69% (GRI EU12)</li> <li>Reductions in energy consumption archived by the Corporation in 2019: 96,000 kWh (GRI 302-4)</li> <li>Segezha Group: pellet production (GRI OG2, GRI OG3) (see <a href="#">page 160</a> for details)</li> <li>Segezha Group: a boiler house working on bark waste (GRI OG3) (see <a href="#">page 160</a> for details)</li> </ul>
	<p>8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation</p> <p>8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation</p> <p>8.5 Ensure full and productive employment and decent work, including for young people and persons with disabilities, and equal pay for work of equal value</p> <p>8.8 Protect labour rights and promote safe and secure working environments for all workers</p> <p>8.9 Devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products</p> <p>8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all</p>	<p>Labour productivity and support of employment</p>	<ul style="list-style-type: none"> <li>Sistema Group companies employ about 140,000 people (GRI 102-8)</li> <li>Over 45,000 new employees were hired in 2019 (GRI 401-1)</li> <li>Employee turnover at the Corporation was 6.6% in 2019 (GRI 401-1)</li> <li>Average annual labour productivity at Sistema Group companies was RUB 4.7M per employee in 2019</li> <li>BPGC became one of the best companies in Russia in terms of occupational safety</li> <li>Mikron and MTS: personnel evacuation automation and employee safety analytics (see <a href="#">page 112</a> for details)</li> </ul>

UN SDGS	UN SDG TARGETS	NATIONAL PRIORITIES	CORPORATION'S CONTRIBUTION TO ACHIEVING THE GOALS <sup>1</sup>
	<p>9.1 Develop quality, reliable, sustainable and resilient infrastructure</p> <p>9.3 Increase the access of small-scale industrial and other enterprises to financial services, including affordable credit, and their integration into value chains and markets</p> <p>9.4 Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes</p> <p>9.5 Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, including encouraging innovation and substantially increasing the number of R&amp;D workers and R&amp;D spending</p> <p>9.b Support domestic technology development, research and innovation, including by ensuring industrial diversification and value addition to commodities</p> <p>9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet</p>	<ul style="list-style-type: none"> <li>Digital economy</li> <li>Comprehensive plan for modernisation and expansion of trunk infrastructure</li> <li>Education</li> <li>Science</li> </ul>	<ul style="list-style-type: none"> <li>In 2019, 17 venture capital deals were completed, totalling USD 69M</li> <li>A large-scale technology research project Odyssey had 130 participating teams</li> <li>MTS: project for digitalisation of the urban infrastructure in Yakutsk (see <a href="#">page 141</a> for details)</li> <li>MTS: improving signal quality along railway tracks (see <a href="#">page 123</a> for details)</li> <li>MTS and Ericsson deployed Russia's first industrial 5G zone on a private LTE network at the Kamaz plant (see <a href="#">page 143</a> for details)</li> <li>Sistema, RVC and NTI Platform signed an agreement on cooperation in the implementation of technological projects to solve social problems</li> </ul>
	<p>10.2 Empower and promote the social, economic and political inclusion of all</p>	<ul style="list-style-type: none"> <li>Demography</li> <li>Labour productivity and support of employment</li> <li>Education</li> </ul>	<ul style="list-style-type: none"> <li>Over 1.1M people became participants in Sistema Group's charitable programmes</li> <li>About 10,200 employees of Sistema Group companies took part in charitable and volunteer initiatives in 2019</li> <li>More than 50 events with the participation of 693 corporate volunteers of Sistema were held in 2019</li> <li>Sistema Group employs 1,084 persons with disabilities.</li> <li>MTS: bridging digital inequality (see <a href="#">page 122</a> for details)</li> <li>Sistema Charitable Foundation and Russian Museum: art for people with special needs (see <a href="#">page 125</a> for details)</li> <li>Sistema Charitable Foundation and MTS organised an inclusive volunteer theatre project for children with hearing impairments Beyond the Silence</li> <li>Medsi became a partner of the interregional inclusive festival #NormalPeople for children and adults with autism</li> </ul>
	<p>11.4 Strengthen efforts to protect and safeguard the world's cultural and natural heritage</p> <p>11.6 Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management</p> <p>11.7. Provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities</p>	<ul style="list-style-type: none"> <li>Housing and urban environment</li> <li>Environment</li> <li>Comprehensive plan for modernisation and expansion of trunk infrastructure</li> <li>Culture</li> </ul>	<ul style="list-style-type: none"> <li>Segezha Group: cooperation with the town of Onega—a comprehensive programme for the improvement of urban public spaces I Love Sports (see <a href="#">page 168</a> for details)</li> <li>68 volunteers of Sistema Charitable Foundation participated in clean-up days in Borodino Field and Yasnaya Polyana museums</li> <li>The participants of Sistema Charitable Foundation's Volunteer Centre worked 3,200 hours in 2019 (up 60% compared to 2018)</li> <li>MTS Bank: activities in priority development areas in the Far East (see <a href="#">page 123</a> for details)</li> <li>MTS and JSC Kvant signed an agreement on partnership in the area of the Internet of Things to develop smart meters (see <a href="#">page 137</a> for details)</li> <li>MTS and the Smart City National Centre of Excellence of the Russian Ministry of Construction signed an agreement on cooperation for the development of "smart cities"</li> <li>Mikron developed an online street lighting control system (see <a href="#">page 140</a> for details)</li> </ul>

UN SDGS	UN SDG TARGETS	NATIONAL PRIORITIES	CORPORATION'S CONTRIBUTION TO ACHIEVING THE GOALS <sup>1</sup>
	<p>12.2. Achieve the sustainable management and efficient use of natural resources</p> <p>12.6 Adopt sustainable practices and integrate sustainability information into reporting cycle</p> <p>12.8 Ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature</p>	Environment	<ul style="list-style-type: none"> <li>Electricity consumption by Sistema Group companies decreased by 37% in 2019 (GRI 302-4)</li> <li>Detsky Mir and Segezha Group: environmental campaign on Paper Bag Day—more than 66,000 paper bags were handed out in eight regions of Russia (see <a href="#">page 133</a> for details)</li> </ul>
	<p>13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries</p> <p>13.3. Improve education, awareness-raising and human and institutional capacity on climate change mitigation and impact reduction</p>	Environment	<ul style="list-style-type: none"> <li>Greenhouse gas emissions by Sistema Group companies totalled 0.85M t in 2019</li> <li>Segezha Packaging: report on CO2 emissions (see <a href="#">page 162</a> for details)</li> <li>MTS: participation in Climate Change Working Group (see <a href="#">page 163</a> for details)</li> </ul>
	<p>15.1. Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services</p> <p>15.2. Promote the implementation of sustainable management of all types of forests, halt deforestation and substantially increase afforestation and reforestation</p> <p>15.5. Take action to reduce the degradation of natural habitats, halt the loss of biodiversity and protect and prevent the extinction of threatened species</p> <p>15.b Mobilise significant resources to finance sustainable forest management, including for conservation and reforestation</p>	Environment	<ul style="list-style-type: none"> <li>Segezha Group reforested 26 ha of woodland in 2019</li> <li>86% of Segezha Group's timber reserves are FSC-certified</li> <li>Sistema Group's spending on environmental protection amounted to RUB 576M in 2019</li> <li>Segezha Group, Medsi and BPGC: tree planting (see <a href="#">page 155</a> for details)</li> <li>Segezha Group's volunteers planted 700 trees in six regions of Russia</li> </ul>
	<p>16.5. Substantially reduce corruption and bribery in all their forms</p> <p>16.10 Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements</p>	National Anti-Corruption Plan	<ul style="list-style-type: none"> <li>In March 2019, the Internal Control and Audit Department completed audit of compliance procedures (GRI 205-1)</li> <li>Fraud and abuse incident management system (FAIMS) was launched</li> <li>570 incidents of corruption were identified and confirmed at Sistema Group companies (GRI 205-3)</li> <li>Over 37,000 employees of Sistema Group companies completed anti-corruption training (GRI 205-2)</li> <li>The Corporation paid RUB 4.9M in fines and penalties related to corruption in 2019 (GRI 416-2)</li> <li>MTS has launched its #CloudMTS service for the protection of personal medical data (GRI 418-1) (see <a href="#">page 116</a> for details)</li> <li>MTS became one of the first large Russian companies to sign the Code of Data Ethics in 2019 (see <a href="#">page 115</a> for details)</li> </ul>
	<p>17.16 Enhance the global partnership for sustainable development to support the achievement of the sustainable development goals</p>	<ul style="list-style-type: none"> <li>Science</li> <li>Education</li> </ul>	<ul style="list-style-type: none"> <li>Sistema signed seven agreements with research institutions</li> <li>MTS: joining the GSMA global initiative (see <a href="#">page 163</a> for details)</li> <li>Segezha Packaging joined the UN Global Compact (see <a href="#">page 37</a> for details)</li> </ul>

# SUSTAINABILITY GOVERNANCE

**Sustainability is an integral part of Sistema's corporate governance and culture. In 2019, the Corporation embarked on a programme of sustainability and responsible investment management system development, having by now completed the following:**

- Analysing the existing sustainability management system development as well as relevant international standards and practices of peers around the globe;
- Determining the main lines of activity and devising a road map for improving the sustainability management system;
- Analysing the ESG concerns and requests of investors and other stakeholders.

**In determining the key approaches to and principles of sustainability and responsible investment, Sistema relies on the following internal corporate regulations:**

- Code of Ethics;
- Corporate Governance Code;
- Corporate Social Responsibility Policy;
- Risk Management Policy;
- Anticorruption Policy;
- Charity Policy.

**The Corporation also adheres to the following recognised international documents and standards:**

- Human rights conventions and declarations of the United Nations (UN) and the International Labour Organisation;
- UN Sustainable Development Goals;
- UN Global Compact principles;
- UN Guiding Principles on Business and Human Rights;
- OECD Guidelines for Multinational Enterprises;
- Principles for Responsible Investment (PRI);
- Performance Standards of the International Finance Corporation;
- GRI and SASB sustainability reporting standards.

The governance enhancement plan extends to updating the Corporate Governance Code, developing a Sustainability Policy and a Human Rights Policy, defining strategic sustainability areas, and refining approaches to the disclosure of non-financial information.

## GOVERNANCE STRUCTURE

The priority areas of sustainability and CSR development, tasks and objectives and performance against them are regularly reviewed and approved by Sistema's Board of Directors.

The main ESG aspects are managed at both strategic and functional levels, with the key principles and approaches transmitted to Group Companies through their boards of directors.

## DISTRIBUTION OF RESPONSIBILITIES FOR SUSTAINABILITY GOVERNANCE

GRI 102-20  
GRI 102-26  
GRI 102-32

### BOARD OF DIRECTORS

- Governs the activities of the Corporation and is responsible for strategic planning, determination of investment principles and criteria, and assessment of management's efficiency.

### INVESTOR RELATIONS AND DIVIDEND POLICY COMMITTEE

- Responsible for:
- maintaining sustainability in general and the preliminary definition of the Corporation's position in the area;
  - considering the strategy of the corporate charitable foundation;
  - maintaining effective relations with the financial community and public authorities;
  - protecting the rights and interests of the Corporation shareholders.

### NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

- Responsible for:
- promoting the development of an effective corporate governance system that meets international standards in the Corporation and Group Companies;
  - assisting in the development and the implementation monitoring of the HR strategy of the Corporation;
  - developing the motivation and remuneration policy of the Corporation's employees,
  - promoting the corporate culture development.

### STRATEGY COMMITTEE

- Responsible for:
- pre-approving the strategy and strategic goals of the Corporation;
  - reviewing mergers and acquisitions and major investment projects.

### ETHICS AND CONTROL COMMITTEE

- Responsible for:
- ensuring an effective system of economic and corporate security;
  - monitoring compliance with the requirements of the Code of Ethics of the Corporation;
  - assisting in the functioning of the system for combating corruption and fraud, as well as other abuses related to violations of applicable law in the Group Companies;
  - monitoring the effectiveness of the grievance system aimed at detecting potential violations in the Corporation's activities (jointly with the Audit, Finance and Risk Committee).

### AUDIT, FINANCE AND RISK COMMITTEE

- Responsible for:
- assessing the risk management system;
  - pre-assessing the transactions submitted for review by the Board of Directors;
  - monitoring the effectiveness of the grievance system aimed at detecting potential violations in the Corporation's activities (jointly with the Ethics and Control Committee).

### PRESIDENT AND THE MANAGEMENT BOARD

- Managing day-to-day operations of the Corporation in order to achieve its strategic goals;
- determining the methods and ways to implement the Corporation's development strategy, prepare development plans, and determine and monitor the execution of the investment process.

### FINANCE FUNCTION

- Responsible for:
- implementing the defined sustainability position;
  - providing communication to investors;
  - developing the sustainability management system;
  - functioning of the risk management system including the management of sustainability risks;
  - coordinating the Sistema Group's sustainability activities;
  - public non-financial reporting.

## DISTRIBUTION OF RESPONSIBILITIES FOR SUSTAINABILITY GOVERNANCE

### GR DEPARTMENT

- Responsible for:
- assuming corporate social responsibility;
  - sharing information about the Corporation's sustainability activities through the media and social networks;
  - implementing regional policy;
  - supporting charitable activities.

### OTHER DIVISIONS

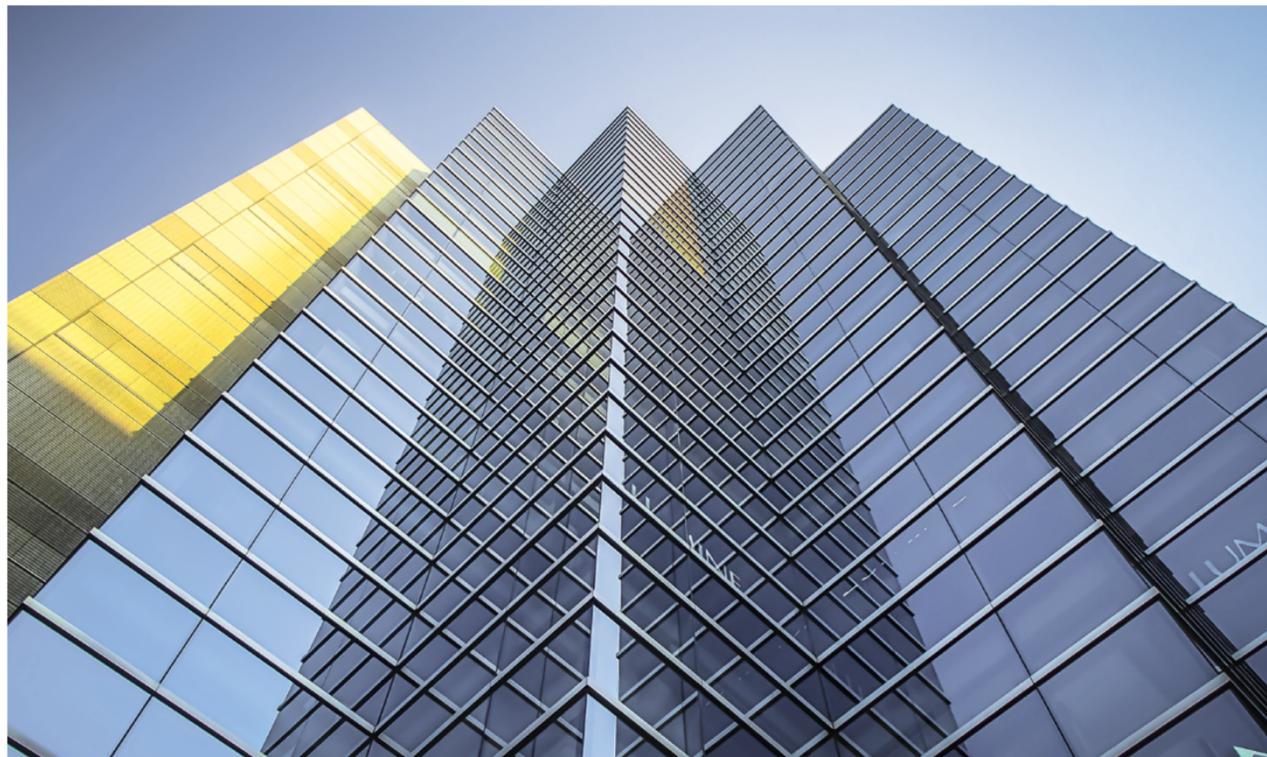
- Responsible for certain sustainability aspects (corporate governance, ethics, risks, HR management, etc.) and interaction with stakeholders within their mandates.

### MANAGING PARTNERS

- Responsible for:
- implementing the investment strategy regarding the Group Companies;
  - organising shareholder governance and transmitting key governance principles and approaches;
  - forming effective management teams in assets;
  - arranging projects synergistic with other Group Companies.

### SISTEMA CHARITABLE FOUNDATION

- Is a centre of expertise and integrator of corporate projects and an operator for social investments and charitable initiatives of Sistema and the Group Companies.
- Invests in the advancement of education and professional development, supports cultural and awareness-raising projects and provides social assistance, while creating a platform for the implementation and promotion of the Group Companies' systematic social activities.



## EcoVadis Silver recognition level reconfirmed for Segezha Packaging

In 2019, Segezha Packaging, a European paper packaging arm of Segezha Group, received a reconfirmation of Silver recognition level from EcoVadis, an international platform assessing the corporate, social and environmental responsibility of vendor companies.

The expert analysis covered the company's strategy in CSR, as well as relevant steps taken and their results. The audit revealed that Segezha Packaging had further improved its performance in terms of environmental protection and supplier sustainability versus 2018.

## CORPORATE RESPONSIBILITY MANAGEMENT AT THE GROUP COMPANIES

The Corporation sees its management function in stepping up synergies between assets for more efficient social development efforts, consolidation of resources for corporate-wide programmes, greater openness and transparency across the Group, and the monitoring of progress towards corporate responsibility and sustainability targets.

Over 10 Group Companies have approved strategies of social and environmental responsibility setting out their specific development priorities and goals, as well as certain steps to be taken towards progress in corporate responsibility. The most elaborate of these documents are:

- MTS's Social Responsibility Strategy for 2017–2020;
- Segezha Group's Strategy for CSR & Charity through 2021 (potentially to be extended through 2025);
- Detsky Mir's 2016 CSR Strategy;
- Medsi's Corporate Social Responsibility Policy.

In 2019, MTS conducted a corporate survey to identify the most relevant sustainability issues for its employees and so determined five priorities from among the UN sustainability goals for the company to address for the benefit of its personnel and society in general.



## SOCIAL INVESTMENT MANAGEMENT

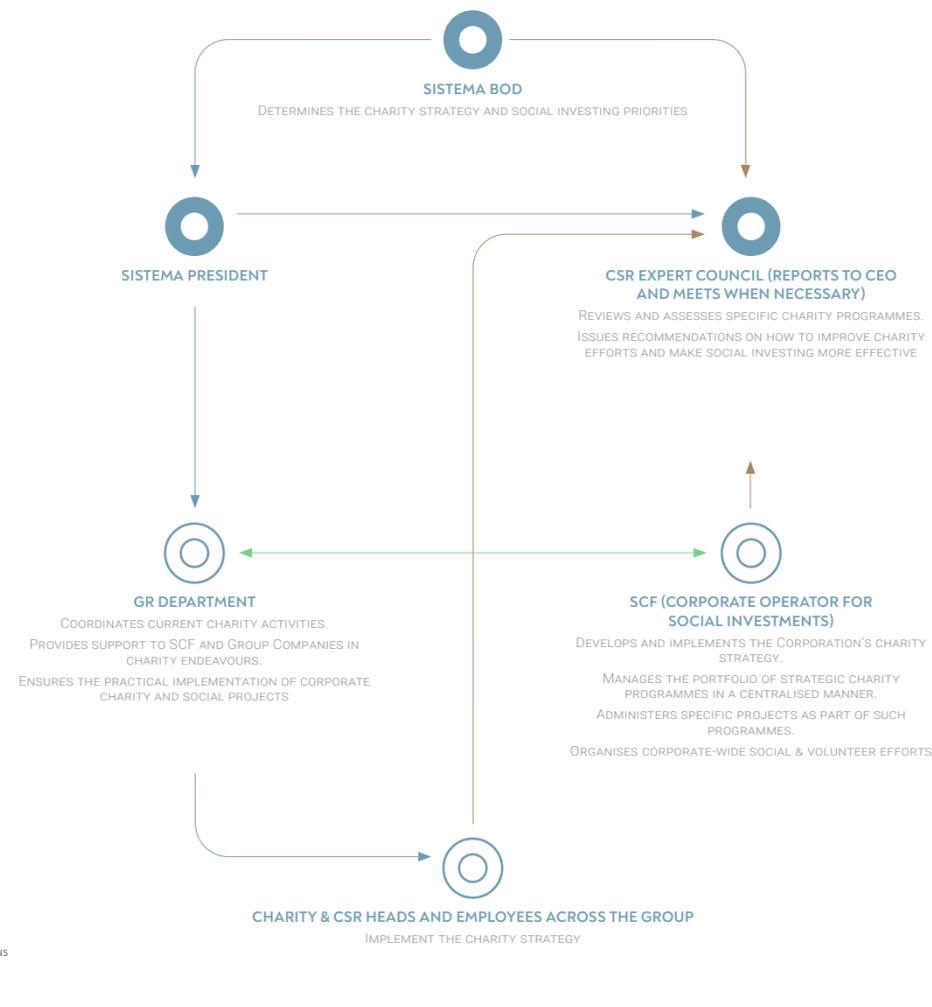
Social investments and charity play an important part in Sistema's sustainability management, aiming for long-term social effect and lasting benefits for stakeholders, such as corporate staff, consumers and local communities.

In contrast to charity, Sistema's social investments aim for a positive business effect, such as the promotion of goods and services, brand value growth, partnerships, employee loyalty, etc., and so benefit both stakeholders and the Corporation's business.

At the end of 2019, the company approved a Charity Policy, regulating the charity and social activities of Sistema and specific Group companies.

Sistema's charity and community activities are primarily organised through Sistema Charitable Foundation (SCF).

## CHARITY ACTIVITIES MANAGEMENT AT SISTEMA



Sistema's Board of Directors shapes the strategy for all charity activities as well as social investing priorities, while SCF sees to their implementation through specific charity programmes and projects. The GR Department helps communicate the corporate philanthropy & community initiatives and makes sure that the corporate Charity Policy is complied with. A specialised CSR Expert Council meets as and when necessary and issues recommendations as to enhancing charitable and social projects and making them more effective.

In 2019, the Corporation established and first convened its Board of Trustees, tasked with supervising SCF's activities, the use of funds and progress in charitable programmes. The Board will meet at least once a year and is authorised to issue recommendations to the Board of Directors and Sistema President with regard to any matters related to SCF.

# 77.8%

### ENGAGEMENT LEVEL OF GROUP COMPANIES

in corporate-wide CSR projects in 2019

# 10%

### ACTIVITY-TO-MEDIA CONVERSION RATIO

(i.e., the percentage of CSR & community projects that received coverage in public and social media) in 2019

For more details on specific projects pursued by SCF, see [Support to Regions and Social and Charity Projects](#).

### Advisory Board

FULL NAME	POSITION
Felix Evtushenkov	Member of Sistema BoD Chair of the BoD of MTS
Alexey Kornya	Member of the Board of SCF President of MTS
Ali Uzdenov	Managing Partner at Sistema
Vladimir Chirakhov	President, Chair of Sistema Management Board
Mikhail Shamolin	Member of the Board of SCF President & Chair of the Management Board of Segezha Group
Gennady Shcherbina	CEO of Etalon Group
Yury Yakovchik	CEO of Business Nedvizhimost

### SCF Board as of 31 December 2019, persons

<b>SCF PRESIDENT</b>	<b>1</b>
<b>SISTEMA REPRESENTATIVES, INCLUDING:</b>	<b>5</b>
Sistema directors, including Sistema's President	3
Managing Partners	2
<b>CEOS OF PORTFOLIO COMPANIES</b>	<b>3</b>
<b>TOTAL</b>	<b>9</b>

ASPECT	PLANS FOR 2020
<b>GOVERNANCE STRATEGY AND SYSTEM</b>	<ul style="list-style-type: none"> <li>update the Corporate Governance Code in line with the ESG principles;</li> <li>develop a Sustainability Policy along with human rights and environmental policies and update other internal regulations.</li> </ul>
<b>DISCLOSURES AND COMMUNICATIONS</b>	<ul style="list-style-type: none"> <li>include sustainability information in investor communications;</li> <li>develop approaches to sustainability information disclosure in non-financial reports and on the website;</li> <li>engage with Group Companies on sustainability matters;</li> <li>ensure that the Corporation's representatives are involved in specific sustainability initiatives across the Group.</li> </ul>
<b>SCF'S STRATEGIC GOALS</b>	<ul style="list-style-type: none"> <li>create an ecosystem of social activities and philanthropic initiatives to produce a single and highly coordinated charity programme;</li> <li>expand the flagship educational project Lift to the Future into a digital platform for all learning initiatives of Group Companies;</li> <li>reinforce SCF's communication strategy and promote key projects in the media.</li> </ul>

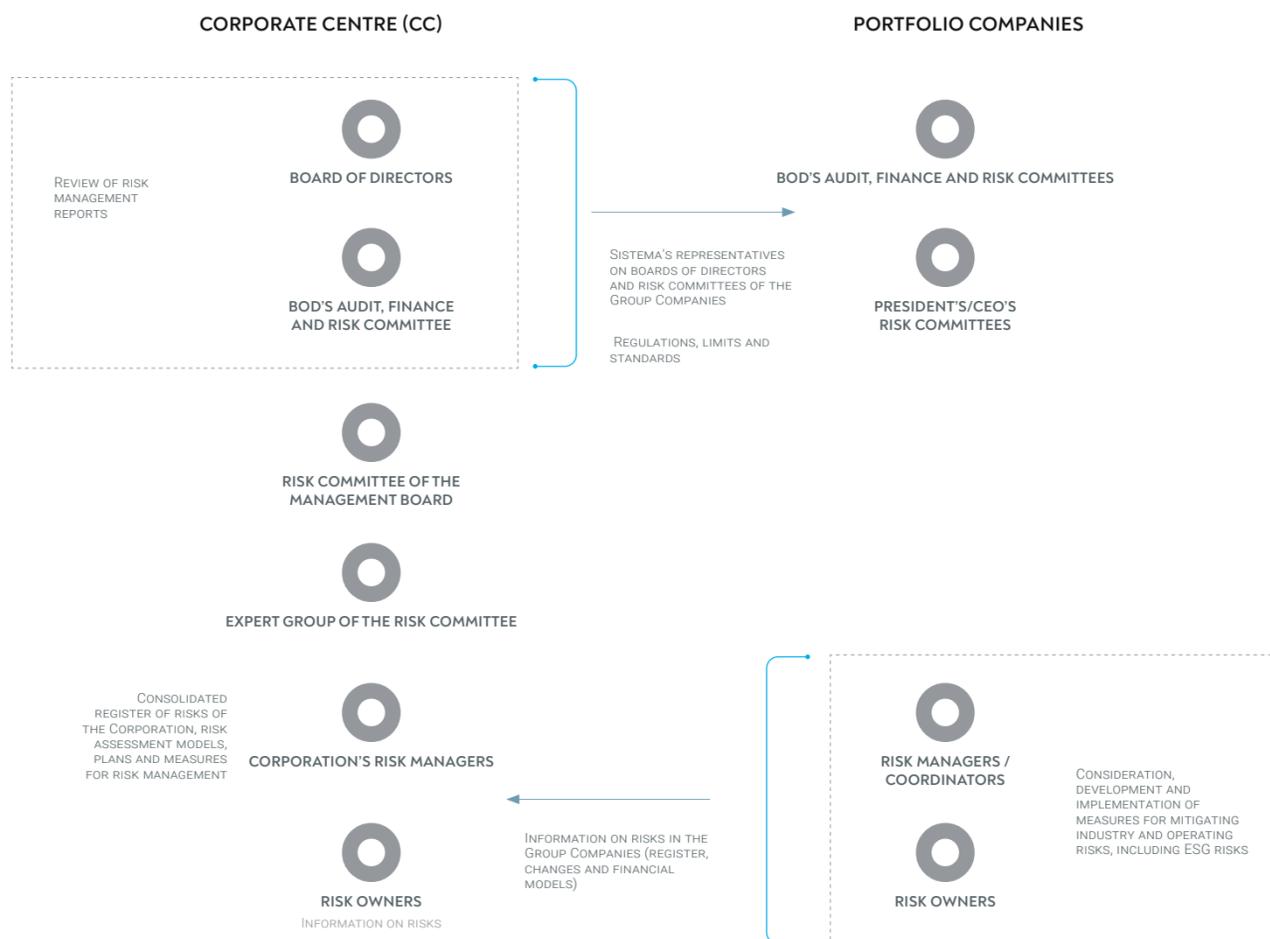
# RISK MANAGEMENT

Risk management is an integral part of all processes at Sistema: it covers strategy planning and implementation, investing, budgeting, procurement and operations. Sistema's integrated risk management system has been built in accordance with international standards, recommendations and best practices in risk management and is governed by Sistema's Integrated Risk Management Policy.



For more details on the risk management system, see the Risk Management section of [Sistema's 2019 Annual Report](#), pages 140-146

## INTERACTION OF PARTIES IN SISTEMA'S RISK MANAGEMENT SYSTEM



# SUSTAINABILITY RISKS

GRI 102-15  
GRI 102-21  
GRI 102-44

The Corporation's long-term success depends on its ability to manage risks and opportunities associated with sustainability aspects, which is why they are regularly assessed.

Risks are assessed in terms of their impact on the implementation of the Corporation's overall strategy and the operations of the Group Companies. Sistema's portfolio assets are significantly more exposed to ESG risks compared to the Corporation due to the scale of their impact on stakeholders and the nature of their activities.

### List of Key Sustainability Risks

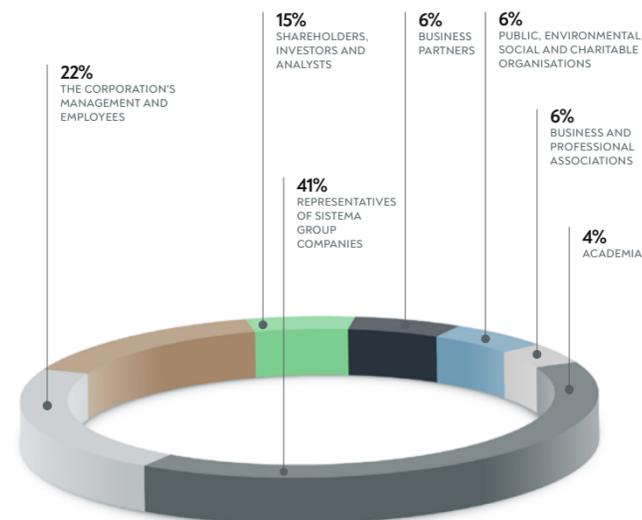
RISK	DESCRIPTION
REPUTATION RISKS AND BRAND RISKS	Unethical business conduct, professional errors, negligence and incidents related to dissemination of insider information, human rights violations and corruption at the Corporation or its portfolio companies are recognised as factors of negative impact on Sistema's reputation.
RISKS RELATED TO HUMAN RIGHTS	Any instances of violations of human rights may have an adverse effect on reputation and lead to court disputes, loss of confidence of investors, customers and employees, cause resistance from local communities, trade unions and NGOs.
CLIMATE RISKS	All Group companies look into risks associated with the climate change. Such risks 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 the natural and climatic factors associated with soil freezing, heavy rains, drought, storms, hail, fires, floods, plant diseases, pests, etc.
SOCIAL AND ENVIRONMENTAL RISKS	The social and environmental risks faced by the assets differ materially across the Group depending on the industry. To manage social and environmental risks, Sistema Group companies implement advanced technological solutions, improve management systems in the area of environmental protection, energy efficiency, occupational health and safety, and develop measures aimed at prevention and mitigation of accidents and emergencies.
RISKS RELATED TO THE CORONAVIRUS PANDEMIC	In March 2020, the World Health Organisation (WHO) declared the rapid spread of the novel coronavirus disease (COVID-19) a pandemic. The significance of COVID-19 impact on Sistema Group's operations largely depends on the duration and extent of its impact on the global and Russian economies.
RISKS RELATED TO MANAGEMENT AND KEY PERSONNEL	Failure to hire a sufficiently competent and motivated management team may jeopardise Sistema's business, performance, financial position and development prospects.
RISKS RELATED TO COMPLIANCE WITH LAWS AND REGULATIONS	Sistema's activities are regulated by the anti-corruption laws of the jurisdictions where it conducts its business or where its securities are listed. Any investigation into potential violations of anti-corruption laws of the US, the UK or other jurisdictions may adversely affect the reputation, business, financial situation and performance of Sistema and the companies of Sistema Group.
RISKS RELATED TO BUSINESS DIGITALISATION, IT DEVELOPMENT AND PERSONAL DATA PROTECTION	With digitalisation of businesses and widespread penetration of the Internet, risks related to cyber security and personal data protection are becoming a major threat to the business of Sistema Group companies.
COMPETITION RISKS	All business segments where Sistema operates are exposed to competition from other companies. Inability of Sistema Group companies to compete efficiently may have a material negative impact on the business, performance, financial situation and development prospects of the Corporation.



As a strategic investor in various industries, Sistema constantly analyses the current trends that affect the economy, the environment and society.

During the preparation of the Report, a survey of internal and external stakeholders was carried out to identify significant sustainability risks and trends. A total of 68 forms were completed, including 15 from the Corporation's management and employees, 28 from representatives of Sistema Group companies and 25 from external stakeholders.

STRUCTURE OF RESPONDENTS

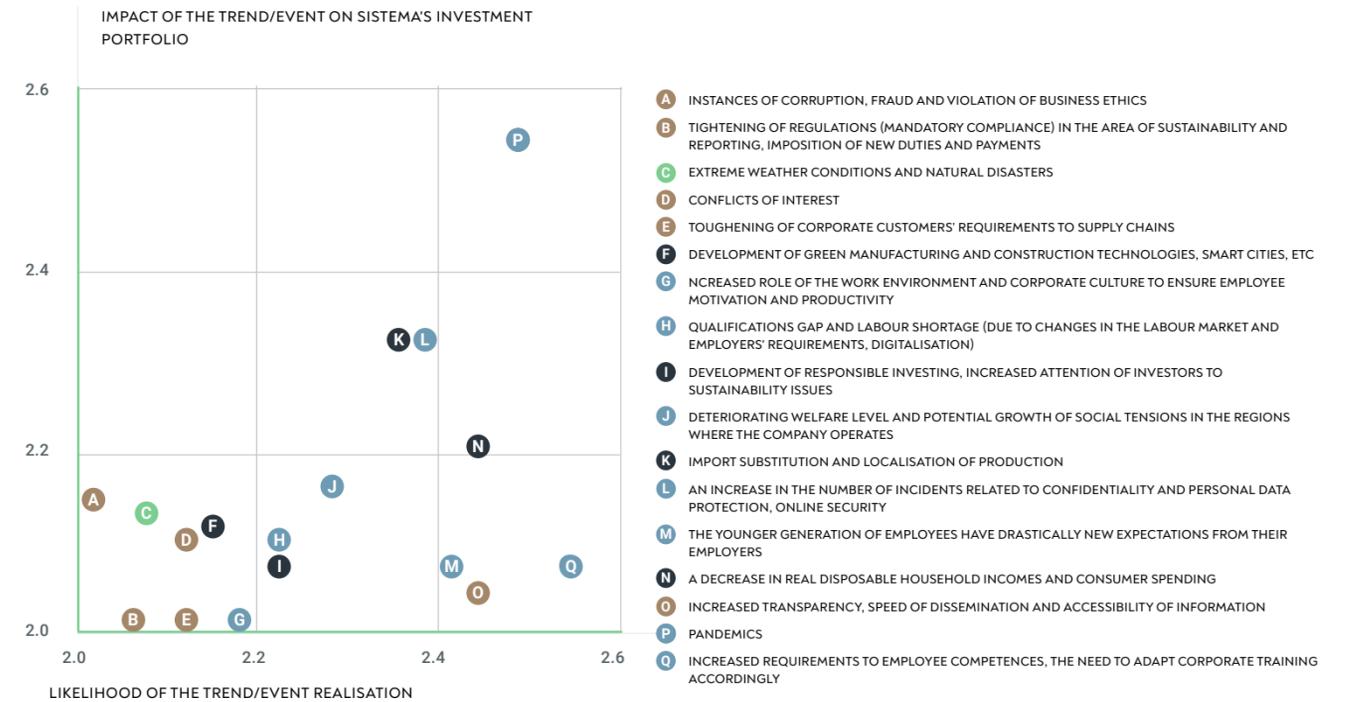


The analysis of the survey results showed that 17 ESG trends and risk events should be recognised as the most probable and having the greatest impact on the Corporation. These trends can be grouped by ESG aspects, namely:



As part of the survey, representatives of Sistema Group companies checked the trends and events that are taken into account in the strategies of their companies.

SUSTAINABILITY RISK MAP



Trends and events that were not rated as material

- FRESHWATER STRESS IN THE REGIONS OF THE COMPANY'S
- GLOBAL AND REGIONAL TERRORISM THREATS
- INCREASED ATTENTION TO PREVENTION OF DISCRIMINATION IN THE WORKPLACE AND PROMOTION OF SOCIAL AND CULTURAL DIVERSITY
- INSTANCES OF VIOLATION OF HUMAN RIGHTS (EMPLOYEES, LOCAL COMMUNITIES, CUSTOMERS, PATIENTS AND CONSUMERS, PARTNERS)
- TRANSITION TO RENEWABLE ENERGY
- DEVELOPMENT OF THE GREEN FINANCE MARKET AND ISSUE OF GREEN
- VIOLATION OF THE RIGHTS OF MINORITY SHAREHOLDERS
- VIOLATION OF ANTI-MONOPOLY REGULATIONS AND UNFAIR COMPETITION
- SOCIAL/ENVIRONMENTAL INCIDENTS IN SUPPLY CHAINS
- IRRATIONAL USE OF NATURAL RESOURCES (LAND, WATER, MATERIALS), INCLUDING THE RESULTING THREATS
- TIGHTENING OF LISTING REQUIREMENTS IN THE AREA OF SUSTAINABILITY
- BREAKING OF THE EXISTING ECONOMIC TIES, DISRUPTIONS IN THE SUPPLY AND DELIVERY OF GOODS
- SOCIAL AND ENVIRONMENTAL INCOMPLIANCE AND INCIDENTS, RELATED FINES AND NON-FINANCIAL PENALTIES
- INTRODUCTION OF PROTECTIVE FOREIGN TRADE BARRIERS RELATED TO SUSTAINABILITY (FOR EXAMPLE, CARBON BORDER (IMPORT) TAX)
- HIGHER EXPECTATIONS FROM COMPANIES WITH REGARD TO EMISSIONS AND IMPACT OF BUSINESS OPERATIONS ON CLIMATE CHANGE
- INCREASED LIFE EXPECTANCY, A HIGHER RETIREMENT AGE, CHANGING NEEDS OF THE AGEING POPULATION
- A GROWING DEMAND FOR CORPORATE CHARITY AND ENGAGEMENT WITH LOCAL COMMUNITIES
- MASS MIGRATION TO REMOTE WORKING
- CHANGE OF CONSUMER PREFERENCES IN FAVOUR OF ENVIRONMENTALLY FRIENDLY AND SOCIALLY RESPONSIBLE PRODUCERS (RESPONSIBLE CONSUMPTION)
- THE SPREAD OF NEW ECONOMIC MODELS (CIRCULAR / SHARING / GIG ECONOMY)
- HIGHER EXPECTATIONS FROM COMPANIES WITH REGARD TO WASTE MANAGEMENT, INCLUDING WASTE MINIMISATION, REUSE, RECYCLING, DISPOSAL, ETC
- HIGHER EXPECTATIONS IN THE AREA OF OCCUPATIONAL HEALTH AND SAFETY, SOCIAL AND PSYCHOLOGICAL SUPPORT OF EMPLOYEES
- JOB CUTS AT COMPANIES DUE TO AUTOMATION AND DIGITALISATION

Consideration of significant risks and trends in the strategies of Sistema Group companies

TREND / RISK EVENT	SHARE OF REPRESENTATIVES OF SISTEMA GROUP COMPANIES WHO CHECKED "TAKEN INTO ACCOUNT" OR "PARTIALLY TAKEN INTO ACCOUNT" IN THEIR FORMS
<b>A</b> Instances of corruption, fraud and violation of business ethics	75%
<b>B</b> Tightening of regulations (mandatory compliance) in the area of sustainability and reporting, imposition of new duties and payments	46%
<b>D</b> Conflicts of interest	68%
<b>E</b> Toughening of corporate customers' requirements to supply chains	79%
<b>O</b> Increased transparency, speed of dissemination and accessibility of information	71%
<b>C</b> Extreme weather conditions and natural disasters	54%
<b>F</b> Development of green manufacturing and construction technologies, smart cities, etc	61%
<b>I</b> Development of responsible investing, increased attention of investors to sustainability issues	61%
<b>K</b> Import substitution and localisation of production	75%
<b>N</b> A decrease in real disposable household incomes and consumer spending	57%
<b>G</b> Increased role of the work environment and corporate culture to ensure employee motivation and productivity	86%
<b>H</b> Qualifications gap and labour shortage (due to changes in the labour market and employers' requirements, digitalisation)	79%
<b>J</b> Deteriorating welfare level and potential growth of social tensions in the regions where the company operates	68%
<b>L</b> An increase in the number of incidents related to confidentiality and personal data protection, online security	71%
<b>M</b> The younger generation of employees have drastically new expectations from their employers	71%
<b>P</b> Pandemics	82%
<b>Q</b> Increased requirements to employee competences, the need to adapt corporate training accordingly	93%

In addition, the following five trends and events related to the activities of companies in the regions of operations, which were not included in the list of the most significant trends (although they were highly rated according to one of the criteria (probability/impact)), are some of the aspects most often taken into account in strategic planning:

4. Mass migration to remote working;
9. Higher expectations in the area of occupational health and safety, social and psychological support of employees;
19. Social and environmental non-compliance and incidents, related fines and non-financial penalties;
28. Breaking of the existing economic ties, disruptions in the supply and delivery of goods;
13. A growing demand for corporate charity and engagement with local communities.

## CONTRIBUTION TO THE DEVELOPMENT OF RISK MANAGEMENT IN RUSSIA IN 2019

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:

- The board of the Russian Risk Management Society;
- Technical Committee ISO/TC 262 Risk management;
- International Organisation for Standardisation;
- 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 2019, Sistema's risk managers were included in the group of developers of national standards in the area of risk management based on the adaptation of the international standards ISO 31000:2018 "Risk management—Guidelines" and IEC/DIS 31010 "Risk management—Risk assessment techniques", which were approved and put into effect by the order of the Federal Agency for Technical Regulation and Metrology (Rosstandart) dated 10 December 2019.

In June 2019, Yury Kostenko, Sistema's Director for Risk Management, became the winner of the competition Best Risk Management in Russia 2019 (RusRisk) in the category "Risk Manager of the Year in Russia".

## PLANS FOR DEVELOPMENT OF RISK MANAGEMENT SYSTEM IN 2020

Measures scheduled for the development and improvement of the Corporation's risk management system in 2020 include:

- Adopting enterprise risk management (ERM) systems in new assets of the Corporation, restarting the risk management process in assets that are undergoing transformation and consolidation, and increasing the level of maturity of the existing risk management systems;
- Improving the current insurance programmes of Sistema Group companies, increasing the limits of insurance coverage and reducing deductibles while maintaining or reducing current insurance costs;
- Conducting 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 the European FERMA RIMAP certification (which is voluntary).

# HUMAN RIGHTS AND STAKEHOLDERS ENGAGEMENT

## HUMAN RIGHTS MANAGEMENT

GRI 103-1  
GRI 103-2  
GRI 103-3  
GRI 407-1

Sistema is aware of its responsibility for observing human rights, preventing any negative impact on human rights, and eliminating or mitigating the potential consequences of such influence whenever it takes place.

**The Corporation ensures compliance with the provisions of Russian and international laws in the area of human rights and requires the same from all of its assets, including, among other things, compliance with the following documents:**

- the Universal Declaration of Human Rights;
- the International Covenant on Economic, Social and Cultural Rights;
- the International Covenant on Civil and Political Rights;
- the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work;
- the Constitution and the Labour Code of the Russian Federation;
- the UN Guiding Principles on Business and Human Rights.

In the course of its operations and cooperation with suppliers, contractors, partners and other stakeholders, the Corporation may have direct and indirect impact on the following aspects of human rights:

### WORKERS' RIGHTS

Decent working conditions and remuneration, occupational safety and health, inclusiveness and non-discrimination on any grounds, respect for honour and dignity, prevention of forced and child labour, freedom of association and collective bargaining

### RIGHTS OF LOCAL COMMUNITIES

The right to a safe environment, access to information, access to social infrastructure, respect for property rights, respect for traditions and customs, and respect for children's rights and rights of indigenous peoples

### RIGHTS OF CUSTOMERS, PATIENTS AND CONSUMERS

Accessibility, safety and quality of products and services, confidentiality and protection of personal data, availability of reliable information and prevention of unfair marketing practices, online security (especially for children, elderly people and other vulnerable groups), and assistance in realisation of the rights to education and health

The Corporation has zero tolerance for human rights violations in the value chain and expects its suppliers, contractors and partners to ensure the same strict compliance with laws and respect for human rights.

The Corporation advocates elimination of all forms of forced and child labour, non-discrimination on any grounds, freedom of association and the right to collective bargaining. Observance of human rights is regulated by the Code of Ethics, the HR Management Code of Sistema and other internal documents of the Corporation and Group companies.

The risks associated with human rights are taken into account in the risk management systems of Sistema Group companies, with material items regularly reviewed by their boards of directors. In addition, governance systems are constantly being improved to ensure respect for human rights, including policies and procedures, compliance programmes, training and internal audits. Human rights aspects are taken into account when conducting due diligence as part of investment projects. In 2019, there were no recorded cases of human rights violations.

In 2019, the Group's representatives participated in the following events of the UN Global Compact as business experts:

- the expert panel discussion "Human rights and efficient institutions of society development: openness and digitalisation";
- "Business and Human Rights", the first international seminar organised by the UN High Commission and its programme in Russia together with the UN Global Compact Network Russia.

GRI 412-1

## HUMAN RIGHTS AT WORKPLACE: MTS EXPERIENCE

In 2019, MTS continued developing its Human Rights in the Workplace programme, both as part of the risk management system and in interaction with personnel.

MTS employs people with disabilities and also launches services to improve the quality of life of this target group, including a video guide with interpretation into the Russian sign language, a series of puppet shows with sign language interpreting, etc.

**It has also undertaken a number of measures titled "Inclusion and Forming a Comfortable Environment for People with Disabilities":**

- the offices and retail outlets of MTS were audited for accessibility for people with different disabilities and with limited mobility;
- a webinar titled Understanding Disability and Proper Communication with People with Disabilities was prepared;
- the Human Rights at the Workplace section was created on the internal corporate web portal;
- the Business and Human Rights webinar was organised for employees.

In addition, the company updated the mandatory supplier questionnaire, adding questions on human rights observance.

## REPORTING MECHANISMS

The Group companies have created formalised and accessible channels in place for submitting and reviewing reports, which ensure confidentiality, unbiased consideration, absence of negative consequences for the applicant, and feedback. Each report is thoroughly investigated. In 2019, 29% of reports received on the Single Hotline of the Corporation or Group companies were related to personnel management and observance of employees' rights in the workplace. All the reported problems were resolved in due course.

For more details on the functioning of hotlines, see [Ethics and Anti-corruption Efforts](#).

GRI 103-1  
GRI 103-2

### PROTECTION OF PERSONAL DATA

The Corporation ensures protection of privacy and personal data of its employees, shareholders, partners and consumers. This aspect is regulated by the Policy of Sistema PJSC on Personal Data Processing and Protection, which was adopted in 2019. Its provisions are binding for all employees of Sistema.

No personal data leaks were identified in 2019.

GRI 103-3



You can read the Policy of Sistema PJSC on Personal Data Processing and Protection on the [official website](#)

For more details on activities in the area of information security and data protection, see [Data privacy and Security](#).

## STAKEHOLDER ENGAGEMENT

GRI 102-42

Relations with stakeholders are regulated by the following documents:

- Code of Ethics;
- Corporate Social Responsibility Policy;
- Charity Policy of Sistema PJSC;
- HR Management Code of Sistema PJSC.

Addressing interests of the stakeholders is an important part of the Corporation's strategy; it is done by building long-term, mutually beneficial relations with various groups of stakeholders.



### Communication with Key Groups of Stakeholders in 2019

GRI 102-40  
GRI 102-43  
GRI 102-44

STAKEHOLDER GROUP	INTERESTS	COMMUNICATION MECHANISM	EXAMPLES OF COMMUNICATION AND RESULTS IN 2019
 <b>SHAREHOLDERS AND INVESTORS</b>	<ul style="list-style-type: none"> <li>• Growth of equity value and stable dividend income</li> <li>• Enhancing transparency of non-public assets</li> <li>• Dividend policy</li> </ul>	<ul style="list-style-type: none"> <li>• Annual meetings of shareholders and meetings of the Board of Directors</li> <li>• Participation in investment conferences</li> <li>• Disclosure of financial results and material non-financial information</li> <li>• Organisation of conference calls</li> <li>• Individual and group meetings of investors and shareholders with the top management</li> </ul>	<ul style="list-style-type: none"> <li>• The Annual General Meeting of shareholders was held on 29 June 2019</li> <li>• 13 meetings of the Board of Directors were held.</li> <li>• The Russian Institute of Directors (RID) once again confirmed Sistema's corporate governance score at level 8: "Advanced corporate governance practice"</li> </ul> <p><i>For more details, see <a href="#">Sistema's Annual Report for 2019</a> and the <a href="#">Investors and Shareholders section</a> of the corporate website.</i></p>
 <b>CUSTOMERS, CONSUMERS, CLIENTS</b>	<ul style="list-style-type: none"> <li>• High quality of products and services</li> <li>• Responsible business conduct</li> </ul>	<ul style="list-style-type: none"> <li>• Direct interaction at the premises of Group companies</li> <li>• Improvement of customer service</li> <li>• Response to requests</li> </ul>	<ul style="list-style-type: none"> <li>• MTS and Medsi each received the international CX World Awards 2019 for their achievements in the field of customer experience</li> <li>• Ozon was included in the top 10 sellers of the Russian internet domain by Forbes</li> <li>• Steppe AgroHolding's products were awarded the Best Product 2019 diplomas</li> <li>• Etalon is ranked second in the rating of Russia's most reliable developers compiled by Forbes</li> </ul> <p><i>For more details, see <a href="#">Accessibility and Quality</a></i></p>
 <b>THE CORPORATION'S MANAGEMENT, EMPLOYEES OF SISTEMA GROUP COMPANIES AND TRADE UNIONS</b>	<ul style="list-style-type: none"> <li>• High quality of corporate governance</li> <li>• Economic efficiency of operations</li> <li>• Adequate working conditions and wages</li> <li>• Health and safety</li> <li>• Social support</li> <li>• Development of the human resources potential</li> <li>• Corporate volunteering</li> <li>• Achievement of strategic goals</li> </ul>	<ul style="list-style-type: none"> <li>• Management decision-making</li> <li>• Annual strategy sessions</li> <li>• Formulation of the corporate culture</li> <li>• Implementation of an HR and social policy</li> <li>• Volunteering opportunities for employees of the Corporation and Group companies in existing projects</li> <li>• Placement of information on Sistema's corporate resources</li> <li>• Interaction with trade unions</li> <li>• Arrangement of professional competitions and corporate contests</li> </ul>	<ul style="list-style-type: none"> <li>• 23 strategy sessions of portfolio companies</li> <li>• Day of collegiate bodies</li> <li>• Three Innovation Days onartificial intelligence, biotechnology and drones</li> <li>• The volunteer centre of Sistema Charitable Foundation organised over 50 events involving more than 600 volunteers from the Group</li> </ul> <p><i>For more details, see <a href="#">Sistema's Annual Report for 2019</a> and the <a href="#">Human Capital section</a> of this report</i></p>

Detsky Mir was recognised as one of the best companies for investor relations in the developing countries of Europe, the Middle East and Africa based on the Institutional Investor rating.

For achievements in communication with investors and shareholders, Sergey Levitsky, IR Director of Detsky Mir, won the Best IR Professional award in the segment of non-food retail.

STAKEHOLDER GROUP	INTERESTS	COMMUNICATION MECHANISM	EXAMPLES OF COMMUNICATION AND RESULTS IN 2019
<b>NON-PROFIT SOCIAL AND ENVIRONMENTAL ORGANISATIONS AND CHARITIES</b> 	<ul style="list-style-type: none"> <li>Reduction of negative impact on the environment</li> <li>Participation in the global environmental agenda</li> <li>Environment and natural habitats restoration</li> <li>Implementation of social and charity projects</li> </ul>	<ul style="list-style-type: none"> <li>Transparency in terms of environmental impact</li> <li>Introduction of sustainable technologies and a responsible production model</li> <li>Membership in trustee boards of organisations</li> <li>Donations to charities</li> </ul>	<ul style="list-style-type: none"> <li>Support of the UN initiative Sustainable Wood for a Sustainable World by Segezha Group</li> <li>Organisation of a Paper Bag Day by Segezha Group and Detsky Mir</li> <li>67,312 people participated in charity programmes of Sistema Charitable Foundation (in addition to the beneficiaries of partner organisations)</li> <li>10,495 veterans received support, including high-tech healthcare services</li> <li>73 regions of Russia were covered by charity projects of Sistema Charitable Foundation</li> </ul> <p><i>For more details, see <a href="#">Operational eco-efficiency and Support to Regions and Social and Charity Projects</a></i></p>
<b>FEDERAL AND REGIONAL BODIES OF EXECUTIVE POWER AND STATE SUPERVISORY BODIES</b> 	<ul style="list-style-type: none"> <li>Contribution to implementation of national projects</li> <li>Decrease of negative impact on the environment</li> <li>Import substitution</li> <li>Implementation of social and investment projects</li> <li>Environment protection</li> <li>Creation of jobs and a comfortable social environment</li> <li>Taxes</li> <li>Compliance with legislation</li> </ul>	<ul style="list-style-type: none"> <li>Participation in discussions of legislative initiatives</li> <li>Participation of the Corporation's representatives in meetings of committees, commissions and hearings of the Russian parliament</li> <li>Support to government policies</li> <li>Signing agreements with regional governments</li> <li>Corporate programmes for support and development of social infrastructure</li> <li>Submitting reports to controlling and supervisory bodies and information on mergers and acquisitions to the Federal Antimonopoly Service</li> </ul>	<ul style="list-style-type: none"> <li>Participation in implementation of national projects</li> <li>Two agreements with governments of Russian regions were signed in 2019. As of the end of 2019, the Group had a total of 15 agreements with regions.</li> <li>RUB 30.7M was the amount of fines for breach of legislation.</li> </ul> <p><i>For more details, see <a href="#">Ethics and Anti-corruption efforts</a>, <a href="#">Product Stewardship</a>, <a href="#">Support to Regions and Social and Charity Projects</a></i></p>
<b>RESEARCH AND EDUCATIONAL FACILITIES</b> 	<ul style="list-style-type: none"> <li>Innovative activities</li> <li>Digitalisation</li> <li>Participation in the development of secondary and higher education</li> <li>Joint educational programmes</li> </ul>	<ul style="list-style-type: none"> <li>Participation in the development of smart city infrastructure</li> <li>Joint projects with research and development organisations</li> <li>Development of the human resources and scientific potential</li> <li>Membership in trustee boards of colleges and universities</li> <li>Offering internships to students</li> </ul>	<ul style="list-style-type: none"> <li>Seven agreements were signed with research and development organisations and educational establishments</li> </ul> <p><i>For more details, see <a href="#">Innovation management</a>, <a href="#">Digitalisation</a>, <a href="#">Human capital</a> and <a href="#">Smart homes, cities and Industries</a></i></p>
<b>PROFESSIONAL INDUSTRY ASSOCIATIONS, EXPERT COMMUNITY</b> 	<ul style="list-style-type: none"> <li>Creation of a transparent and competitive business environment</li> <li>Compliance with high standards of business ethics</li> <li>Joint work on industry-specific and public initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Participation in the work of business unions</li> <li>Factoring in interests of the business community in government policies</li> <li>Participation in forming national risk management standards</li> </ul>	<ul style="list-style-type: none"> <li>Participation in review of impact from changes in legislation</li> <li>Monitoring of the situation in the domestic economy and business environment</li> <li>Participation in the development of national risk management standards adopted in December 2019</li> </ul> <p><i>For more details, see <a href="#">Participation in International and Industry Initiatives</a></i></p>
<b>LOCAL COMMUNITIES AND POPULATION OF REGIONS OF OPERATIONS</b> 	<ul style="list-style-type: none"> <li>Security</li> <li>Jobs</li> <li>Implementation of social and charity projects</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of local labour markets (creating jobs)</li> <li>Participation in regional social, environmental and charity projects</li> </ul>	<ul style="list-style-type: none"> <li>Development of the SmartMed platform that offers patients remote doctor consultations online</li> <li>Two agreements with governments of Russian regions were signed in 2019</li> <li>67,312 people participated in the charity programmes of Sistema Charitable Foundation</li> </ul> <p><i>For more details, see the sections <a href="#">Smart homes, cities and Industries</a> and <a href="#">Support to Regions and Social and Charity Projects</a> and the <a href="#">website of Sistema Charitable Foundation</a>.</i></p>

STAKEHOLDER GROUP	INTERESTS	COMMUNICATION MECHANISM	EXAMPLES OF COMMUNICATION AND RESULTS IN 2019
<b>BUSINESS PARTNERS, SUPPLIERS AND CONTRACTORS</b> 	<ul style="list-style-type: none"> <li>Accessibility, transparency and competitiveness of procurement procedures</li> </ul>	<ul style="list-style-type: none"> <li>Development of strategic partnerships</li> <li>Implementation of advanced procurement management practices at portfolio companies</li> <li>Business meetings</li> </ul>	<ul style="list-style-type: none"> <li>MTS launched an educational project for partners and suppliers, Platform of Social Knowledge. It also organises conferences and training programmes for suppliers</li> <li>Steppe AgroHolding started using the online trading platform 1C: Supplier Account and registering procurement procedures in 1C: Holding Management. About 3,000 tender participants were registered.</li> </ul> <p><i>For more details, see <a href="#">Sustainable Supply Chain</a></i></p>
<b>MEDIA</b> 	<ul style="list-style-type: none"> <li>Comprehensive coverage of the Corporation's activities</li> <li>Communication with the public on social projects</li> </ul>	<ul style="list-style-type: none"> <li>Posts in social networks and on the websites of Sistema Group companies</li> </ul>	<p><i>For more details on media relations, see the <a href="#">Press Centre</a> section of the corporate website.</i></p>



# ETHICS AND ANTI-CORRUPTION EFFORTS

## BUSINESS ETHICS

GRI 103-1  
GRI 103-2

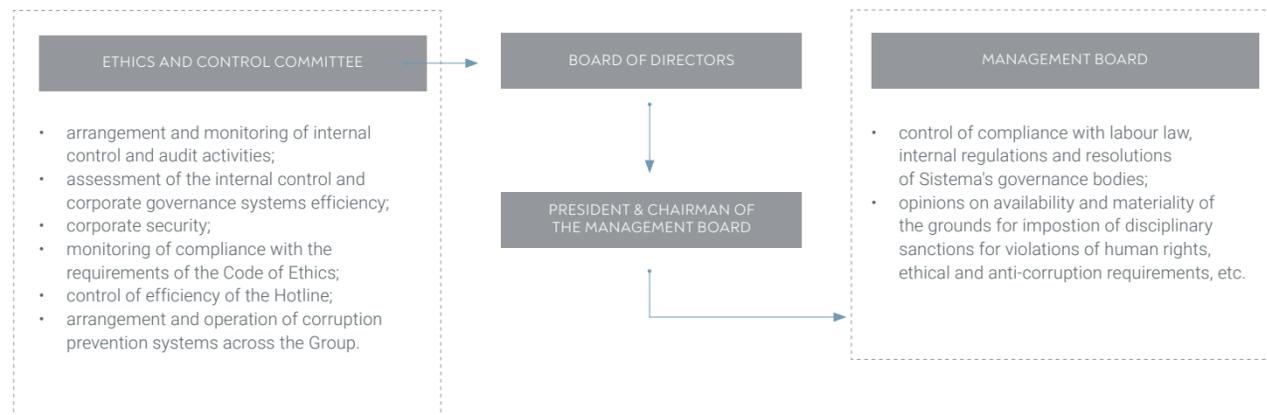
Sistema adheres to high ethical standards of business conduct and complies with anti-corruption laws. Sistema's Code of Ethics contains the basic principles and rules of responsible conduct and interaction between employees and counterparties of Sistema Group.

Sistema's bodies responsible for compliance with business ethics standards and anti-corruption provisions are the Management Board and the Ethics' and Control Committee of the Board of Directors of the Corporation.

In 2019, the Committee held eight meetings and reviewed the following items:

- Performance of the Internal Control and Audit Department in 2018 and its work plan for 2020;
- Results of ethics assessment of the Corporation's employees;
- Compliance system at Sistema;
- System for preventing fraud and corruption at Sistema;
- Internal control strategy for digital applications.

### ORGANISATIONAL CHART



All new hires take a mandatory online training course on ethics, and obligations to comply with ethical norms are set down in their employment agreements.

<sup>1</sup> <https://sistema.com/upload/iblock/852/852054feb6d8be608559ec3cc59f80276.pdf>

# ETHICS ASSESSMENT IN 2019

GRI 103-3

100%

OF THE CORPORATION'S EMPLOYEES

meeting the campaign application criteria filled in their ethics and conflict of interest declarations

39

CASES OF CONFLICT OF INTEREST

identified and settled

ETHICS ASSESSMENT

CARRIED OUT IN ALL OF THE GROUP COMPANIES

Based on the results of ethics assessment in 2019, an action plan was developed to eliminate the identified issues and conflicts in 2020. In particular, it is planned to implement digitalisation and automation of ethics assessment processes relating to collection and processing of declarations to optimise the analysis of possible ethical conflicts.

## CONFLICTS OF INTEREST

GRI 102-25

The Code of Ethics stipulates the rules and regulations that govern conduct and interaction of Sistema Group employees and counterparties.

The main tools for avoiding conflicts of interest at Sistema Group are:

- monitoring, identifying and resolving situations that are or may be conflicts of interest;
- conducting ethics assessment whereby employees fill in ethics and conflict of interest declarations, which is intended for collecting information about possible conflicts of interest among employees both at the time of hiring and during their employment.

## COMPLIANCE SYSTEM

In 2018, Sistema adopted a compliance system, which includes:

- anti-corruption compliance;
- anti-monopoly compliance;
- stock exchange compliance;
- compliance in personal data and confidential information protection;
- compliance related to the prevention of money laundering and terrorism financing.

A working group, which is chaired by Sistema's Corporate Secretary and comprises representatives of the Board of Director's Office, the Corporate Governance and Legal Affairs Department, the Internal Control and Audit Department, the Security Department and other units, is tasked with assessing compliance risks, developing an action plan for their mitigation, coordinating its implementation and drafting Sistema's uniform policy on compliance.

In 2019, Sistema unified internal regulations to create a single approach to the implementation of anti-corruption procedures, and the Internal Control and Audit Department conducted an audit of compliance procedures.

## COMPLIANCE PROGRAMMES OF MTS

In 2019, MTS continued to work on the development of its Human Rights in the Workplace programme. The programme was finalised based on the recommendations received as part of self-assessment for compliance with ISO 26000:2010 Guidance on social responsibility and the results of assessment of compliance risks.

The company organised a webinar "Business and Human Rights" for employees and added a section "Human Rights in the Workplace" to its internal corporate portal.

### MTS also continued the development of its Environment compliance programme:

- carried out compulsory periodic training for the heads of branches and persons responsible for environmental safety;
- introduced a new system for the accumulation of waste paper in offices;
- registered 27 facilities in nine branches with a negative impact on the environment;
- analysed all works and services to determine their impact on the environment.



Additional information about the compliance programmes of MTS is available on the [company's website](#)

## REPORTING CHANNELS

GRI 102-17

In order to inform Sistema's senior leadership about possible facts of abuse of authority, corruption and other violations, employees of the Group and stakeholders can use several channels:

- via the Ethics and Control Committee;
- via the immediate supervisor;
- via the Hotline of the Corporation or Sistema Group companies;
- via the Hotline to the Internal Control and Audit Department.

The Internal Control and Audit Department checks all reports received via the Hotline.

Sistema Group companies have internal hotlines. If their report is not reviewed, then the applicant can submit it again via the Corporation's Hotline.

In 2019, the operation of the Hotline was digitalised. The archive of received messages is maintained in Sistema's cloud system. A total of 1,283 reports were received via the Hotline of the Corporation and Sistema Group companies in 2019. The number of received reports, compared to 2018, grew 34% in the Corporation and 15% in Sistema Group companies. The share of relevant reports was 35%.

Messages Received through the Corporation's Hotline in 2019 by Subject, %



Following the processing of reports, disciplinary penalties were imposed on eight employees of the Corporation and 47 employees of Sistema Group companies.

## ANTI-CORRUPTION

Sistema has zero tolerance to corruption in any of its forms and manifestations.

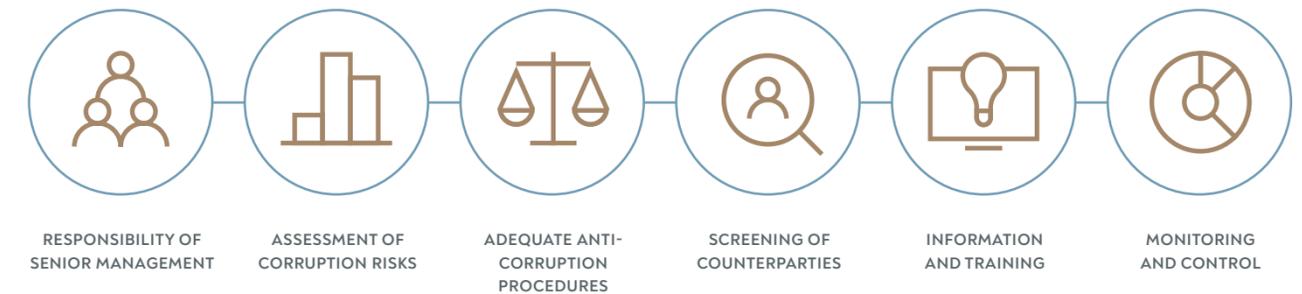
Anti-corruption activities are carried out in accordance with:

- laws of the Russian Federation;
- Charter of Sistema PJSC;
- Anti-Corruption Policy of Sistema PJSC;
- Corruption Prevention Concept of Sistema PJSC;
- Code of Ethics of Sistema PJSC;
- UK Bribery Act 2010.

The Corporation's Anti-Corruption Policy defines the key principles and requirements aimed at preventing corruption and complying with applicable anti-corruption laws. Methods aimed at the prevention of corruption, fraud and theft are defined in the Corruption Prevention Concept. Both documents are binding on both employees and counterparties of the Group.

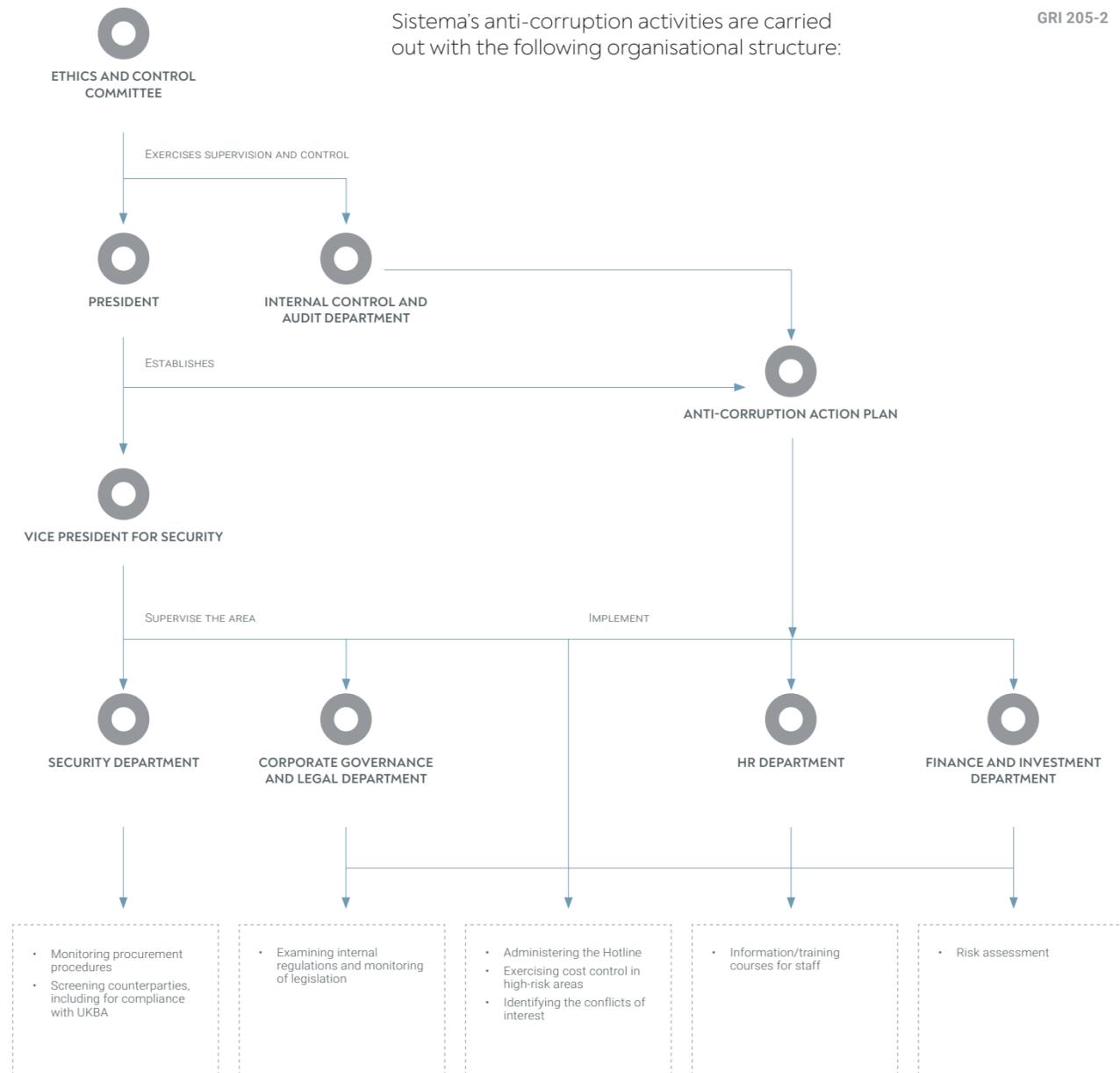
### ANTI-CORRUPTION POLICY PRINCIPLES

GRI 102-16



<sup>1</sup> <https://sistema.com/upload/iblock/37f/37faa7bce12f43f2eba719c231bf89e1.pdf>

# ANTI-CORRUPTION MANAGEMENT



In 2019, Sistema implemented an automated fraud and abuse incident management system. The system ensures an effective response to identified violations and can be used to develop and implement an incident management process, minimise abuse-related risks, bring offenders to justice and compensate for damage. The digitalisation of anti-fraud and anti-corruption activities will enhance the effectiveness of measures.

All employees, including new hires, familiarise themselves with the provisions of the Anti-Corruption Policy. In 2019, about 40,000 employees of Sistema and its portfolio companies also took online and offline training courses.



Anti-Corruption Training of Sistema Group Employees in 2019, persons



In 2019, 24,275 counterparties (94.2%) were informed about anti-corruption policies and methods, including 426 new counterparties.

## RESULTS OF ANTI-CORRUPTION MEASURES IN SISTEMA GROUP IN 2019

GRI 205-3

Total number of confirmed cases of corruption	570
Total number of identified perpetrators	491
Total number of disciplinary penalties imposed	190
Total number of dismissals for corruption/violation of the Anti-Corruption Policy	293
Total number of cases of non-renewal or termination of contracts with business partners due to corruption-related violations	7
Total number of corruption-related lawsuits brought against the organisation or its employees during the reporting period	1,464
Number of fines and penalties for violations in the area of corruption	5
Monetary amount of fines and financial penalties related to corruption, RUB M	4.9

GRI 205-1

In 2019, the Corporation received no fines for corruption-related violations. The Corporation also had no cases of termination of contracts with counterparties due to corruption-related violations.

The Corporation regularly assesses the corruption risks of various activities of Sistema Group, which are most susceptible to corruption: procurement, recovery of overdue receivables and lease of premises.

Prevented Damage within the Corporation, RUB M

	2017	2018	2019
Prevented damage	0.011	5.16	15,119.60
Recovered losses	2.06	3.74	6,916.76

A significant increase in 2019 is associated with a more complete reflection of the relevant information in the adopted fraud and abuse incident management system, as well as with higher effectiveness of anti-corruption measures following the adoption of the system.

In 2020, it is planned to carry out further anti-corruption monitoring for identifying cases of corruption in investment, procurement and contracting activities, and to update the relevant regulations of the Corporation and Sistema Group companies.



## COMPLIANCE WITH LEGISLATION<sup>1</sup>

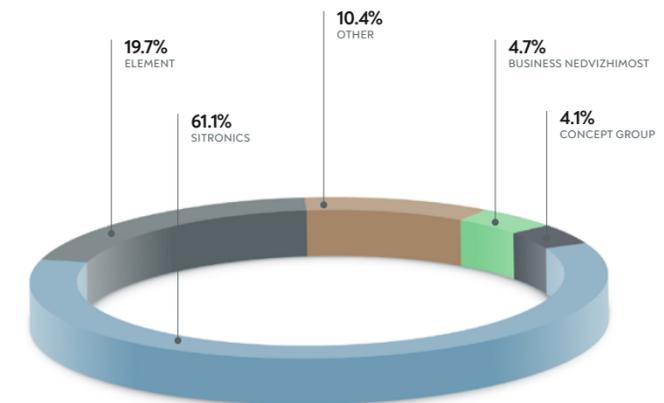
GRI 103-1

Sistema considers it mandatory to comply with the requirements of legislation and international law in order to create an ethical business environment and ensure stable and mutually beneficial relationships with partners.

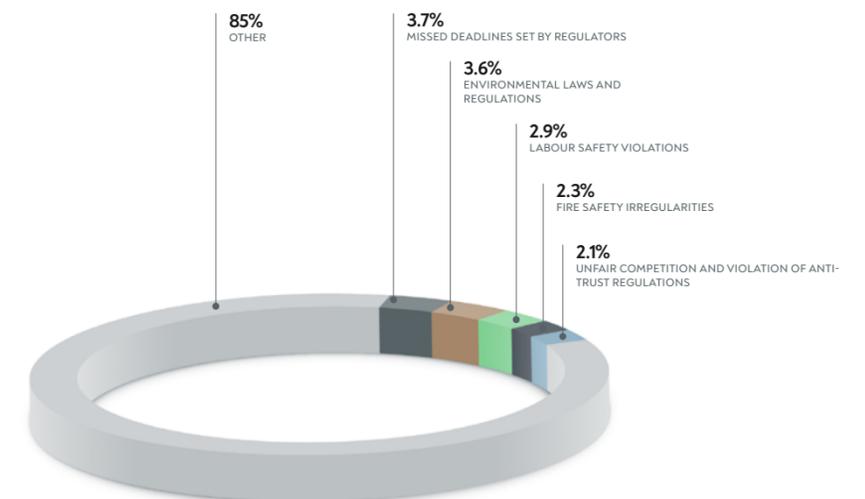
GRI 307-1  
GRI 419-1

The total amount of fines for Sistema Group amounted to RUB 30.7M in 2019. In 2019, there were 44 cases of non-financial sanctions related to the identification of instances of unfair competition and violation of anti-trust regulations, as well as to non-compliance with labour laws in portfolio companies.

FINES FOR NON-COMPLIANCE WITH REGULATIONS IN 2019, BY SISTEMA'S ASSETS



MAIN TYPES OF VIOLATIONS IN SISTEMA GROUP



<sup>1</sup> Data on fines and non-financial sanctions are presented for Etalon Group, Medsi, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Element Group, SITRONICS, Concept Group.

# INNOVATION MANAGEMENT. DIGITALISATION

## SEGEZHA GROUP



Segezha Pulp and Paper Mill is the winner of the National Award of the Pulp and Paper Industry of the Russian Federation in the category "Best organisation of the pulp and paper industry in the area of innovation and production modernisation".



## MEDSI



Medsi is the winner in the category "Organisation of the Year" of Digital Health Awards, Russia's first award ceremony in this sector; the company's president Elena Brusilova was named the "Person of the Year" in the category "Commercial Healthcare".



## INNOVATIVE ACTIVITIES

GRI 103-1  
GRI 103-2  
GRI 103-3

Investment in the high-tech sector and technologies of the future is one of the focus areas of Sistema's investment strategy. Investment in innovative technologies helps improve the Corporation's competitiveness and provides a synergistic effect for many of its portfolio companies.

**4.9** BN RUB

SISTEMA'S INVESTMENTS IN R&D<sup>2</sup> IN THE MICROELECTRONICS AND ELECTRIC POWER INDUSTRIES IN 2019

In 2017, Russia began to actively form and implement the policy of transition to the digital economy. The country developed and approved the programme "Digital Economy of the Russian Federation" and began the formation of sectoral programmes for the digital transition. Russia is well-positioned to continue realising its digital potential and to accelerate the pace of digitalisation: the country has an intellectual and scientific base supported by a good system of secondary and higher technical education. At the beginning of 2020, Russia ranked first in Europe and eighth in the world by the number of Internet users<sup>1</sup>, which creates conditions for potential business development and introduction of modern digital technologies in the manufacturing sector.

**318** M RUB

SISTEMA GROUP'S INVESTMENTS IN INNOVATIVE TECHNOLOGIES AND DIGITALISATION OF ASSETS<sup>3</sup> IN 2019

The Corporation's portfolio includes a number of large Russian research and production enterprises conducting diverse research, development, production and educational activities.

Sistema's strategic projects in the area of innovative development are implemented or coordinated at the level of a single cross-functional "digital team". Sistema's Strategy Department established a "digital office" that helps teams of managing partners and executives of assets identify and adopt new technologies at assets.

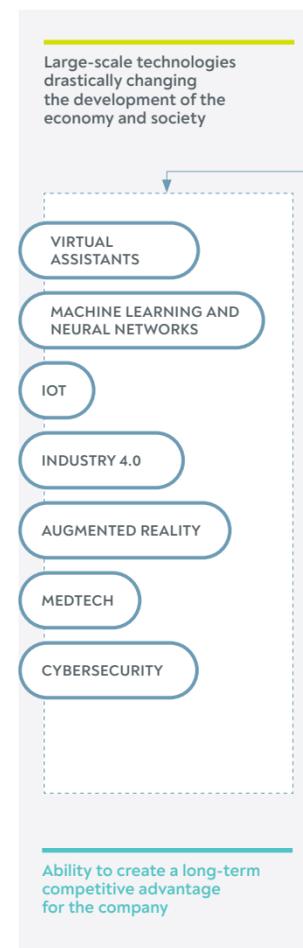
GRI 203-1  
GRI 203-2

1 Miniwatts Marketing Group, Internet World Stats. <https://www.internetworldstats.com/top20.html>  
2 Data for BPGC, RTI and Element Group.  
3 Data for Steppe AgroHolding, BPGC, RTI, Sistema Capital and EWUB.

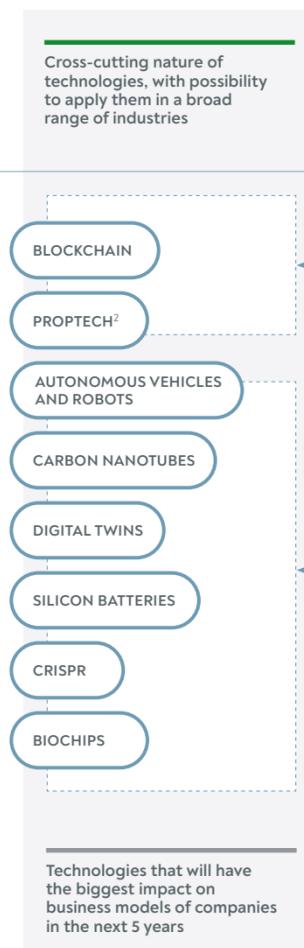
The main criterion for selecting the most promising technologies for the Corporation is the possibility of testing them on the basis of Sistema Group's largest companies, taking into account the value and potential risks of such technologies for the assets themselves and their stakeholders.

## THE MOST ATTRACTIVE TECHNOLOGIES FOR INVESTMENT

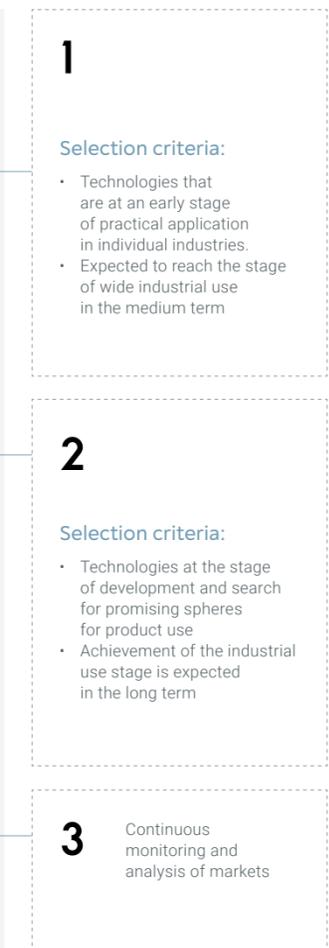
### MOST ATTRACTIVE TECHNOLOGIES FOR INVESTMENT<sup>1</sup>



### SELECTION CRITERIA



### CORPORATION'S PRIORITIES AND APPROACHES TO INVESTMENT



## INNOVATION DAYS

The corporate forums Innovation Day gather Sistema Group's senior executives to discuss the latest trends and potential for their application in their companies. In 2019, the events' priority topics were artificial intelligence, unmanned vehicles and biotechnology.

1 According to analysts at Morgan Stanley, Russell Reynolds and Gartner.  
2 Digital projects in the real estate market.

## INNOVATIVE PROJECTS

The Corporation seeks to create partnerships with organisations that are engaged in the development of advanced technologies and/or carry out expert activities, which contributes to the introduction of technological and organisational innovations in its portfolio companies. In particular, Sistema cooperates with innovation support institutions and creates its own R&D centres.

### SISTEMA TO CREATE A BIOTECH R&D LAB IN SKOLKOVO

During the St. Petersburg International Economic Forum 2019, Sistema and the International Medical Cluster Foundation (IMC Foundation), which is engaged in research in gene-based diagnostics, signed an agreement to create a multi-specialty R&D lab in Skolkovo.

Sistema will invest in equipment of the R&D lab and will also engage highly qualified specialists to implement the project.

The lab will make it possible to carry out early diagnosis of genetic disorders, introduce and adapt cell technology in clinical practice, and develop biotechnology for personalised medical care.

### MTS CREATED A 5G CENTRE FOR TESTING STARTUPS

With support from the Moscow Government, MTS opened a specialised centre for developing and testing 5G solutions and devices at Technograd, an innovation and education cluster.

Any teams or initiators who are ready to create products and services for 5G networks can become residents of the centre. Residents will receive expert and technical support from MTS and the project's partners. Creators of the best solutions will be able to receive grants for development, sign a contract with the Corporation, get investments from the corporate VC fund or MTS, or sell their technology to MTS.

### MEDSI AND BIONIQ LAUNCHED A FEDERAL BIOHACKING PLATFORM

Medsi and Bioniq Health-Tech Solutions have created a joint digital personalised platform that will help prevent diseases and improve health of Russians through a system for AI-based monitoring of personal medical indicators, consulting support of medical experts, and development and adjustment of a healthy lifestyle plan.

In 2020, the system is planned to be launched in Medsi clinics all across Russia.

### MTS DEVELOPS SERVICES AND DEVICES OF THE INTERNET OF THINGS

The Internet of Things (IoT) is a single network of physical objects connected to the Internet and interacting with each other and/or with the external environment.

In 2019, MTS launched services and devices of the Internet of Things based on the technology of Narrowband IoT (NB-IoT) in Tyumen and the Altay region. It will enable businesses and government organisations to reduce the cost of implementing digital services in various areas and to manage and maintain any devices, such as sensors and meters, more easily and safely.

In addition, MGTS (a part of MTS PJSC) added the Telematics price plan for businesses and public sector institutions that use IoT equipment. It will help corporate clients increase the number of smart devices and reduce the cost of communication services.

## VC FUNDS

In order to invest in high-tech companies, Sistema establishes VC funds.

### SISTEMA VENTURE CAPITAL



This VC fund was established to invest in deep tech startups rooted in knowledge-intensive, hard-to-copy technologies. Products of such companies use machine learning, computer vision and big data.

### SISTEMA ASIA FUND



The fund's goal is to efficiently invest investors' money into promising projects in the fast-growing Indian tech market.

### RUSNANO SISTEMA SICAR



The fund's main industrial focus is information technology, robotics and onboard equipment, software and cloud technologies, communication equipment and end-to-end solutions, renewable sources of energy and energy saving technologies (including fuel cells), etc.

In 2020, the Corporation established Sistema SmartTech, a startup fund aimed at supporting early-stage companies. Sistema SmartTech's term is eight years with an investment period of five years. The Fund is expected to support about 20 early-stage VC projects, with investments in each individual project ranging from RUB 50M to RUB 300M.

### SISTEMA ASIA FUND'S CONTRIBUTION TO EMERGING TECHNOLOGIES IN SOUTH AND SOUTHEAST

Sistema Asia Fund (SAF) has a target fund size of USD 120M and invests in tech startups in India and Southeast Asia (12 investments in portfolio, one exit in 2019—Qwikilver, a gift card platform).

In addition to investment activities, Sistema Asia became one of the co-founders of the Information and Communication Technology Hub (ICT-Hub) to develop technological cooperation between Russian and Singaporean companies in the area of ICT with the aim of mutually increasing high-tech exports. The main purpose of the ICT-Hub is to help ICT companies promote products and increase sales in new markets.

In 2019, Sistema Asia Fund began work on the establishment of an investment fund in Singapore for investments in ICT companies operating in the Smart City segment and implementing their technologies in Russia, Singapore, and South and Southeast Asia.

**PROGRAMMES OF THE SALES JET PLATFORM**

During the Eastern Economic Forum 2019, Sistema, Enterprise Singapore, MTS and the Skolkovo Foundation signed an agreement on the creation of the Sales Jet platform, which implements the programme of technology transfer between the Russian Federation, Singapore and Southeast Asia.

Companies participating in the programme receive information about local markets for their products and legislation, practical professional assistance in sales and marketing, and contacts with local consumers, investors and government organisations.

Five Russian and three Singaporean companies participated in the first round of the programme. All Russian companies successfully established footholds and develop their businesses in Singapore and Southeast Asia. The solutions of all Singaporean companies are being studied by MTS in order to carry out pilot projects in Russia, and negotiations have begun on their cooperation with large Russian companies.

The second round of the programme will include 10 Russian companies, which are in the final stage of selection.

**FIRST ROUND OF THE PROGRAMME**

**SECOND ROUND OF THE PROGRAMME**

RUSSIAN COMPANIES	SINGAPOREAN COMPANIES	RUSSIAN COMPANIES	RUSSIAN COMPANIES
<b>GROUP-IB</b> (CYBERSECURITY)	Ascent Solutions (smart logistics technologies)	Airome (cybersecurity for mobile banking)	Virtu Systems (technologies for insurance)
<b>VISIONLABS</b> (COMPUTER VISION)	Whizpace (high-speed data transmission through unused TV spectrum)	Wehire (artificial intelligence for analysing emotions)	QApp (quantum cryptography)
<b>THEA</b> (SMART CAR TECHNOLOGY)	HReasily (mobile technologies for HR management)	Ubic (big data platform for Smart City management)	Oz Forensics (artificial intelligence for fast and secure remote user identification)
<b>AUTOVISOR</b> (CYBERSECURITY FOR CARS)		Atlas Biomed (personalised medicine based on DNA and microbiota analysis)	Botkin.AI (artificial intelligence to support medical decision-making)
<b>FOOD4TEST</b> (PERSONALISED MEDICINE)		Neurotrend (market research and business solutions based on neuroscience)	ASP Labs (industrial cybersecurity)

It is planned that in 2020 seven companies from Singapore will arrive in Moscow to participate in the Softlanding in Skolkovo programme and have negotiations with MTS.

Over the period of 2019-2020, the platform will host 40-50 technology companies from Russia and Singapore.

**SISTEMA GROUP'S PARTNERSHIPS IN THE AREA OF INNOVATIVE TECHNOLOGIES IN 2019**

ASSET	PARTNER(S)	TECHNOLOGY	SUBJECT OF THE AGREEMENT
<b>SISTEMA</b>	RVC, NTI Platform, Sistema Charitable Foundation	Holding technology competitions to solve social problems using technology	BLOCKCHAIN
<b>MTS</b>	Enterprise Singapore, Skolkovo Foundation, Sistema Asia from Singapore	Selecting Singapore IT companies for tests at MTS and supporting the entry of startups from Russia into the Singapore market	BLOCKCHAIN
	Samara State Medical University	Creating artificial intelligence for the primary diagnosis of patients	MACHINE LEARNING AND NEURAL NETWORKS VIRTUAL AND AUGMENTED REALITY
	Invest India	Searching for and adopting technologies in e-commerce, telemedicine, fintech and IoT	BLOCKCHAIN
	Administrations of Moscow, the Republic of Tatarstan, and Kaluga, Ryazan and Samara regions	Developing technologies and services related to the digitalisation of the economy, the social sphere and the urban infrastructure in Russia's regions	INTERNET OF THINGS (IOT) CYBERSECURITY
	JSC SITRONICS	Searching for and adopting technical, integration and financial/economic solutions for the implementation of projects in the areas of strategic development of the Russian Federation	BLOCKCHAIN
<b>RTI</b>	Institute of Solar-Terrestrial Physics of the Siberian Branch of the Russian Academy of Sciences	Carrying out research, development and engineering work to create a research complex for the study of the ionosphere	MACHINE LEARNING AND NEURAL NETWORKS
<b>CJSC RTI MICROELECTRONICS</b>	State Corporation Rostec and JSC Ruselectronics	Creating a united company in the area of microelectronic component base	BLOCKCHAIN
<b>JSC SITRONICS</b>	Novosibirsk and Samara regions, Kaluga, Republic of Ingushetia and business partners	Expert offices for creating a partner ecosystem at the federal, regional and municipal levels and combining the experience and the most progressive developments to solve a large-scale task of using digital solutions for the implementation of national projects.	DIGITAL SOLUTIONS FOR THE IMPLEMENTATION OF NATIONAL PROJECTS
	Association "National Coordination Center for Processing Transactions with Rights and Intellectual Property Objects"	Participation in the IPChain project—a decentralised network of transactions with rights and objects of intellectual property, which allows to build the interaction between the state and industries in a new way. As the operator of the IPChain project, SITRONICS accumulates intellectual rights and technological developments for further use by other market participants.	PROTECTION OF INTELLECTUAL PROPERTY RIGHTS
<b>MEDSI</b>	Moscow Agency of Innovations	Launching a pilot testing programme for innovative solutions at the sites of the Moscow Government and- its partners	BLOCKCHAIN

For more details on innovation projects of Sistema Group companies, see the [Smart Environment section](#).

The results of Sistema's innovative activities are also expressed in the form of patents and applications for intellectual property.

INTELLECTUAL PROPERTY ITEMS OF SISTEMA GROUP COMPANIES



MTS: SECURITY OF INTELLECTUAL PROPERTY

In 2019, MTS, with the support of the global law firm Dentons, developed and launched a system for identifying and assessing IP-related legal risks. The system helps MTS make well-balanced business decisions, taking into account legal and business risks, which improves the company's economic security and stability.

In addition, MTS, Dentons and ISAR developed an IP risk calculator to assess the extent of potential adverse consequences of legal risks and determine the likelihood of their occurrence. The calculator takes into account the industrial and other specific aspects of the business, as well as case law and other legal factors.

The project received an award in the category "Effective Intellectual Property Management" as part of Legal Insight's competition Best Legal Departments in Russia 2019.

DIGITAL TRANSFORMATION OF SISTEMA GROUP

The innovation-driven growth of Sistema and Group Companies has long been a top strategic priority. In 2019, the Corporation and several key assets of the Group started rolling out an ERP system.

Among the project's central goals is the enhancement of the corporate Knowledge Base (Wiki), conceived as a source of valuable information for analysing investment projects and evaluating their efficiency metrics. The system will also automate numerous corporate processes, such as business monitoring, electronic document management, partner relations, etc.

In October of 2019, Sistema launched a new cycle of updates in the corporate digital strategy, seeking to harmonise the digital evolution vector across the Group, create a continuous flow of digital initiatives and align the digitalisation efforts between the headquarters and specific assets. In late 2019-early 2020, the Corporation carried out independent diagnostic reviews of the larger portfolio companies in light of their digitalisation potential. The review specifically addressed the 'digital maturity' statuses of businesses and industry-specific best practices and initiatives, with findings and takeaways discussed at special "digital" workshops organised to set the course for future development.

This produced a detailed digital status profile for each business, including the prospects and next steps in digitalisation aspects, and Sistema's role in supporting the digital evolution all across the Group.

SECTOR	SECTOR DIGITALISATION TRENDS GLOBALLY	SELF-ASSESSMENT OF DIGITAL MATURITY	GOALS OF DIGITALISATION	SYNERGIES WITH SISTEMA GROUP
 AGRICULTURE	Increase in complexity of technological processes and transition to digital technologies and platforms that involve several market participants at once.	Advanced level	Increased yields; optimisation of processes and costs.	Cooperation with other assets on projects: unified transport platform; vertical greenhouses; drone-based monitoring.
 HEALTHCARE	Development of personalised solutions for health management within the framework of building medical ecosystems consisting of health facilities, pharmacy chains, financial institutions, etc.	No self-assessment conducted	Creation of a digital platform that simplifies scaling and development of additional services.	Collaboration with other assets to improve efficiency, test new solutions, and increase personalisation of communications and products.
 RETAIL	Seamless shopping experience across sales channels, data-driven decision making, digitalisation and transition to ecosystems.	Advanced level	Improved customer experience and ecosystem development.	Collaboration with other assets: mutual expansion of depersonalised customer data to monetise it and develop targeted communications.
 FOREST INDUSTRY	Transition from analogue manufacturing to fully digital operations, enabling transparent resource and production management.	Developing level	Optimisation of processes and improvement of customer experience.	Support in the development of digital competences.
 CONSTRUCTION AND PROPERTY DEVELOPMENT	Formation of end-to-end business processes based on a unified IT platform that allows making decisions based on big data analysis.	Developed level	Digitalisation of design and construction, creation of a housing ecosystem based on digital platforms linking services for sale, maintenance and operation of real estate, and partnership programmes for the provision of convenience and financial services.	Support in the creation of a housing ecosystem, exchange of experience in testing initiatives.
 LEASE OF COMMERCIAL PROPERTIES	Creation of digital lease platforms	Developing level	Creation of a platform that combines functions for owners, tenants, contractors and investors.	Cooperation with other assets; creation of a single B2C customer base; marketplace of partner services for tenants.
 PHARMACEUTICALS	Development of personalised health management solutions within medical ecosystems.	No self-assessment conducted	Production efficiency improvement and brand development.	Exchange of experience for the effective development of the IT landscape.

# SUSTAINABLE SUPPLY CHAIN

## PROCUREMENT MANAGEMENT

GRI 103-1  
GRI 103-2  
GRI 102-9

Sistema Group is one of the major consumers of goods and services in Russia. The Corporation aims to establish a professional, responsible and transparent system of procurement at its portfolio companies, contributing to the development of sustainable supply chains in a variety of industries. Effective management of procurement and relations with suppliers helps mitigate financial and ESG risks and increase operating income, while generating additional value for shareholders.

**Management of the supply chain and procurement is regulated by the following internal documents:**

- Tender Procedures and Procurement Code of Sistema PJSFC.
- Code of Ethics;
- Anticorruption Policy.

### MTS: SUPPLIER CODE OF CONDUCT

MTS, which is the Group's leader in terms of procurement volumes, has adopted a Supplier Code of Conduct containing a set of standards that are expected to be met by its counterparties. In addition to the requirements of integrity and honesty, the company welcomes the integration of sustainability principles into the operations of suppliers and provides feedback and control mechanisms.

**Responsible suppliers undertake, among other things,** to protect confidential information, support sociocultural diversity and ensure equal opportunities for employees. They 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 do not use child labour or forced labour.

The automated questionnaire that is mandatory for everyone involved in MTS's procurement procedures includes a sustainability section, which in 2019 was supplemented with questions on human rights.

If a breach of the Code is confirmed by an audit, MTS may suspend or stop cooperation with the supplier.

The key role in ensuring transparency and efficiency of procurement belongs to the President's Tender Committee, a collective body in charge of procurement.

## PRINCIPLES OF PROCUREMENT AT SISTEMA

### PRINCIPLE OF COMPETITION

CREATING REASONABLE COMPETITION AMONG SUPPLIERS

### PRINCIPLE OF ECONOMIC RATIONALE

ASSESSMENT OF PROCUREMENT REQUIREMENTS IN TERMS OF ECONOMIC RATIONALE

### PRINCIPLE OF OPENNESS WITH SUPPLIERS

USE OF OPEN TENDER PROCEDURES AS THE PRIORITY PROCUREMENT FORMAT

### PRINCIPLE OF TRANSPARENT PROCUREMENT PROCEDURES

MONITORING AND CONTROL OF PROCUREMENT ACTIVITIES AT ALL STAGES

### PRINCIPLE OF COMPLIANCE WITH THE ESSENTIAL PROVISIONS AND REQUIREMENTS OF THE ANTICORRUPTION POLICY

INCLUDING ANTICORRUPTION CLAUSES INTO RELEVANT DOCUMENTS

As an investment company, Sistema is responsible for implementing uniform procurement standards, methodology of building sustainable supply chains and independent controls.

The Corporation uses category management for organising procurement: for each category of goods, works and services the most efficient approach is determined based on analysis of the category and the market. This approach allows reducing spending on goods, works and services of external counterparties, while increasing quality and operational efficiency.

The whistleblowing hotline of the Corporation helps to promote a transparent, open and competitive environment.

For more details on the Hotline, see [Ethics and Anti-corruption Efforts](#).

### MEDSI: TRANSITION TO STRATEGIC PARTNERSHIP

**In 2019, Medsi Group began buying medical equipment directly from major international producers instead of distributors and dealers, forming strategic partnerships, which has given the company a number of advantages:**

- best-in-market expertise;
- consulting and audit of projects and operational efficiency;
- co-branded promotion;
- professional training.

Strategic partnerships envisage professional training programmes, participation in conferences, visits of clinicians and top managers to reference centres. They may also allow for vendor lending, with payment deferrals increased to 6+ months, which makes use of funds more efficient.

The aggregate economic effect from the new scheme for the Corporation is 32%<sup>1</sup>.

### SISTEMA\_VC: INVESTMENTS IN A SUPPLY OPTIMISATION PLATFORM

In July of 2019, the Russian venture fund Sistema\_VC and the funds Notion and IQ Capital invested USD 4.2M in the development of KisanHub, a platform for optimisation of agricultural supply. KisanHub will integrate fragmented data and unite all participants of the supply chain, from farmers to restaurants, into a single transparent system, which is easy to monitor and optimise based on collected data. This will enable participants to move from intuitive to analytical business decisions, and the agricultural produce market will become more predictable and efficient.

There are plans to roll out the platform for use by tens of thousands of farmers on a huge territory.

<sup>1</sup> Compared to the prices before the launch of the strategy. In absolute terms, the company saved several hundreds of millions of roubles.

## ENGAGEMENT WITH SUPPLIERS

Sistema Group builds transparent and honest relations with its partners, based on mutual benefits and trust. Sistema cooperates only with reliable suppliers that comply with all the requirements of applicable laws and its Code of Ethics, including regulations on zero tolerance of corruption, human rights, working conditions, etc. All new suppliers are subjected to a mandatory screening procedure to rule out, inter alia, a potential conflict of interest.

GRI 308-2  
GRI 414-2

In case of a conflict, negotiations with suppliers are initiated, but if regulatory requirements are violated, Sistema cancels cooperation or imposes a fine.

### STEPPE AGROHOLDING: MEMBER OF THE ASSOCIATION OF RESPONSIBLE AGRICULTURAL MARKET PLAYERS

On 4 March 2019, Steppe AgroHolding joined the Association of Responsible Agricultural Market Players.

The Association seeks to ensure that all players in the farm produce selling market pay proper taxes and all trade operations are transparent and do not involve multi-stage reselling of produce.

### MTS: MEMBERSHIP IN AN INTERNATIONAL ASSOCIATION OF TELECOM OPERATORS

Since 2017, MTS has been member of the international association of telecom operators JAC (Join Audit Cooperation), which audits and develops providers in the area of ICT in part related to the principles of responsible business conduct.

For the purpose of ensuring the stability of the supply chain, MTS performs audits of suppliers' social and environmental responsibility. In 2019, it audited its five biggest suppliers using the JAC methodology. Another six companies will be audited in 2020.

Following each supplier audit, a report is prepared and a remediation plan is adopted, its implementation closely monitored. Audit reports, remediation plans and information on their progress are stored in a single database and available to all JAC members.

## PROCUREMENT RESULTS IN 2019

**360.6** BN RUB

SISTEMA GROUP'S PROCUREMENT VOLUMES<sup>1</sup> IN 2019

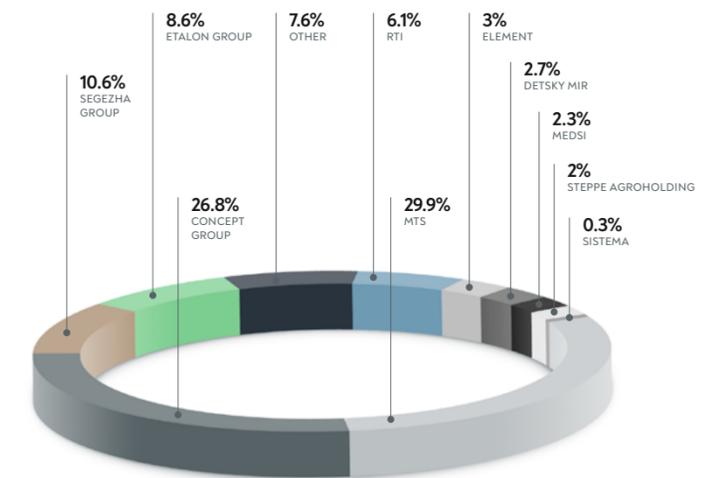
GRI 204-1

Procurement from Local Suppliers and SME in 2019<sup>2</sup>, %

Average share of procurement from small and medium-sized businesses, %	37.7
Average share of procurement from local suppliers, %	56.0

The Group companies strive, where possible and feasible, to engage with local suppliers and representatives of small and medium-sized enterprises.

Share of Individual Companies in Sistema Group's Aggregate Procurement Volumes in 2019

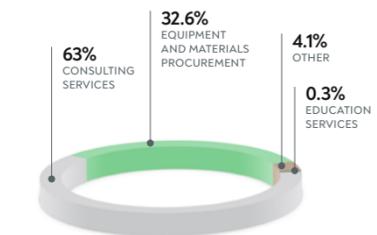


**>33.5** THSD SUPPLIERS

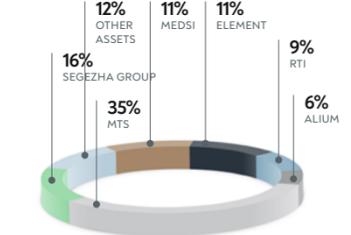
WORKED WITH SISTEMA GROUP IN 2019

GRI 103-3

Breakdown of Sistema Group's Procurement in 2019 by Category



Distribution of Suppliers by the Group Companies in 2019



1 Data for MTS, Detsky Mir, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Alium, Sintez, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, Element Group, SITRONICS and Concept Group.  
2 Figures for MTS, Etalon Group, Segezha Group, and Steppe AgroHolding, BPGC, RTI, Element Group, SITRONICS.

The Group Companies are increasing the share of electronic procurement to enhance the transparency of procurement procedures. In 2019, the Group's leaders in electronic procurement were MTS, Business Nedvizhimost, BPGC, Cosmos Hotel Group, Concept Group, and Detsky Mir.

### SEGEZHA GROUP: AUTOMATION OF EQUIPMENT AND MATERIALS PROCUREMENT

Since 2018, Segezha Group has been implementing a project for automation of equipment and materials procurement, iSupply, which covers requirements planning, procurement, stock management and warehouse logistics.

The goal of the project is to build procurement processes taking into account the best industry practices and to automate the main transactions and reports across the entire process, from requirement to expenditure. This makes the supply processes transparent and efficient, and creates a positive economic effect for the Company. In 2019, the system was running full-scale.

### KRONSTADT: AUTOMATION OF PROCUREMENT

In 2019, Kronstadt Technologies, JSC, introduced an automated procurement system on the basis of the Navision corporate accounting system.

This made it possible to timely supply all the necessary material resources and services to the production and administrative divisions. In addition, the company is improving work with the internal business customer and procurement planning processes.

In 2020, it plans to further enhance the automated system.

## >6.6%

AVERAGE SAVINGS FROM PROCUREMENT  
PROCEDURES ACROSS THE GROUP

## >9.8%

AT SISTEMA

### PLANS

In 2020, Sistema plans to update the Tender Procedures and Procurement Code following the structural changes within the company, introduce procurement standards at newly acquired assets, and establish strategic partnerships with suppliers.



# KEY ESG AREAS IN ACTIVITIES OF SISTEMA GROUP COMPANIES

**88 WELLBEING**

90 HUMAN CAPITAL

108 3HEALTH AND SAFETY

114 DATA PRIVACY AND SECURITY

**118 ACCESSIBILITY AND QUALITY**

120 ACCESS TO PRODUCTS, SERVICES AND INFORMATION

126 CUSTOMER EXPERIENCE

130 PRODUCT STEWARDSHIP

**134 SMART ENVIRONMENT**

136 SMART HOMES, CITIES AND INDUSTRIES

146 OPERATIONAL ECO-EFFICIENCY

156 ENERGY MANAGEMENT AND CLIMATE CHANGE

164 SUPPORT TO REGIONS AND SOCIAL AND CHARITY PROJECTS



# WELLBEING

GRI 103-3



# 139,872 PEOPLE

AVERAGE HEADCOUNT AT SISTEMA GROUP

# 4.7 M RUB PER PERSON

AVERAGE LABOUR PRODUCTIVITY

# 1.1 BN RUB

OCCUPATIONAL SAFETY EXPENSES IN 2019

## The UN Global Compact Principles

### PRINCIPLE 1

Businesses should support and respect the protection of internationally proclaimed human rights

### PRINCIPLE 2

Businesses should make sure that they are not complicit in human rights abuses

### PRINCIPLE 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

### PRINCIPLE 4

Businesses should uphold the elimination of all forms of forced and compulsory labour

### PRINCIPLE 5

Businesses should uphold the effective abolition of child labour

### PRINCIPLE 6

Businesses should uphold the elimination of discrimination in respect of employment and occupation

## Awards received by Group companies

### MTS



### MEDSI



### SEGEZHA GROUP



### BPGC



MTS won in three categories of the HR Brand 2018 award:

- "Federation" for implementation of Workforce Management system;
- "Big Heart" for the volunteer campaign Culture Code;
- "Region" in the competition for programming street fountains MTS Fountain Challenge.



The award was organised by the online recruitment platform HeadHunter.

MTS became a winner in the category "Best Employee Engagement Practices" of the international CX WORLD AWARDS 2019.



Medsi became one of the three most attractive employers according to a survey of senior students in the leading medical colleges and universities of Russia conducted by Future Today.



In October 2019, Medsi's CEO Elena Brusilova was awarded the Order of Friendship for her outstanding contribution to the healthcare industry and many years of diligent work.



Segezha Group's Sokol Woodworking Plant won the contest of collective agreements in the Vologda region in the category "Best Collective Agreement in Private Companies with Headcount of 700+ employees".



BPGC won in two categories of the 9th national competition The Best Power Grids of Russia:

- "Socially Responsible Power Grid Company";
- "The Most Transparent Power Grid Company";

The competition was organised by a specialised online portal EnergyNews.

Bashkirenergo was awarded the second prize in the category "Private Companies with Headcount of 1,500-10,000 Employees" in the first republic-wide competition among the companies of Bashkortostan creating favourable conditions for families.



The enterprises of Bashkirenergo were given high ranks in the nationwide contest Success and Safety 2018 and were included in the top 100 companies of the national ranking:

- Ishimbay Power Grids (8th place);
- Ufa City Power Grids (18th place);
- Central Power Grids (92nd place);

These enterprises also won in the category "The Best Company in the Area of Occupational Safety among Companies with Headcount above 500 Employees".

# HUMAN CAPITAL

GRI 103-1  
GRI 103-2

## 0.2%

OF THE TOTAL WORKFORCE IN THE RUSSIAN FEDERATION ARE EMPLOYED BY SISTEMA GROUP

The effectiveness of Sistema's development hinges on the professionalism and motivation of its employees. Attracting and retaining highly qualified specialists through continuous improvement of working conditions and development of corporate culture is one of the key tasks for all of Sistema Group's assets.

The HR Department of Sistema is acting as a senior business partner for the HR units of portfolio companies: it determines the methodology and general operational principles and also performs standard tasks related to ensuring a transparent recruitment process, implementing an adequate incentive scheme and facilitating the organisational development of the Corporation.

Sistema's activities in the area of HR management are regulated by the Code of Ethics, the HR Management Code and other documents. The key priority in HR management is creating conditions for business growth and higher efficiency through effective support with day-to-day HR services.

**Sistema fully complies with the provisions and requirements of labour legislation and business ethics in relation to its staff, as set forth in the following documents:**

- the Labour Code of the Russian Federation;
- labour legislation of the countries where its assets operate;
- the ILO Declaration on Fundamental Principles and Rights at Work;
- the UN Guiding Principles on Human Rights.

As a responsible employer, Sistema guarantees its employees freedom of association and collective bargaining, training and development opportunities in the workplace, competitive remuneration, decent working conditions and respect for working hours and rest periods.

In the reporting year, the corporate web portal #WeAreSistema was launched so that all of Sistema's employees have quick access to current corporate news, event calendar, information on new hires and appointments in portfolio companies, and office services. In 2019, an onboarding programme for new hires was launched with special support from HR during the initial period of work at Sistema. Sistema Group companies also develop their own corporate web portals and information systems.

## MEDSI: HR AUDIT

In 2019, Medsi conducted an audit of the HR administration and organisational management system, which resulted in the optimisation of HR processes:

- automation to decrease the labour intensity of the employees maintaining the HR records and carrying out organisational changes;
- the service rate was increased to 1,000 employees per 1 HR administration specialist.

Changes in HR administration made it possible to successfully pass an on-site inspection by the State Labour Inspectorate in 2019.

## SEGEZHA GROUP: A COMFORTABLE PRODUCTION ENVIRONMENT AT SEGEZHA PPM JSC

To improve working conditions and recreation facilities for its employees, Segezha Group has been implementing the Cosy Workplace programme at JSC Segezha PPM in the Republic of Karelia since 2019.

As part of the programme, 38 unused facilities at the territory of the mill were replaced with new modern facilities (a warehouse for finished products and a multi fuel boiler utilising bark waste) and a major overhaul of Power Plant 2 was carried out. Roughly 20,000 sq m of lawns, walkways and garden squares will appear on the territory. A parking lot and a car wash for employees have already been arranged outside the perimeter of the mill.

Total investment in the programme will amount to one billion roubles. The reconstruction and improvement programme will increase production efficiency and labour productivity by 4%-5% and will attract young specialists to the enterprise.

## STAFF COMPOSITION <sup>1</sup>

GRI 102-8

Sistema Group is a major employer in all regions of its operations. In 2019, Sistema Group had about 140,000 employees, both in Russia and abroad.

Sistema Group companies use various forms of employment to create comfortable working conditions, taking into account the business tasks assigned to a particular employee. In 2019, over 93% of Sistema's employees worked under full-time open-ended employment contracts.

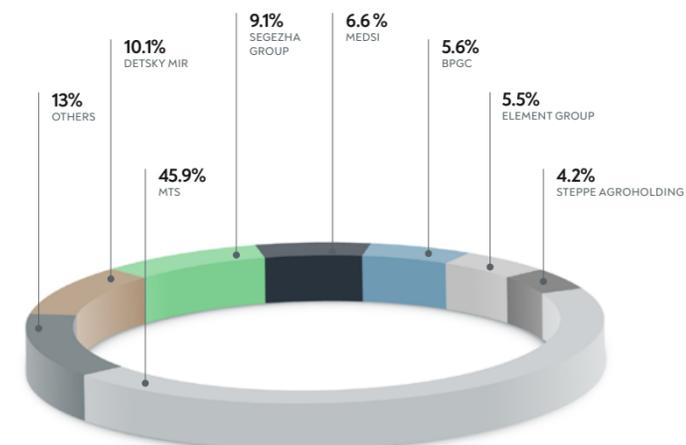
## 4.7 M RUB PER PERSON

AVERAGE LABOUR PRODUCTIVITY PER YEAR ACROSS SISTEMA GROUP

### HEADCOUNT AT SISTEMA GROUP



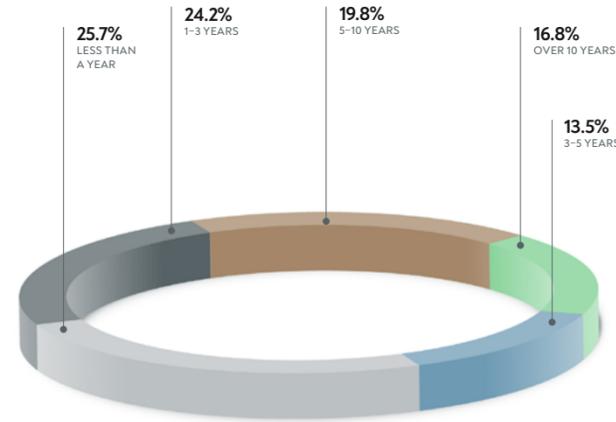
### HEADCOUNT WITH A BREAKDOWN BY ASSET



<sup>1</sup> Data for MTS, Detsky Mir, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Alium, Sintez, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, Vologda Textile, Element Group, SITRONICS, Sistema Capital and Concept Group.

The Corporation offers ample opportunities for career development in various business segments and is an attractive employer for young people. One-third of employees are under 30 and more than 82% are under 50.

TOTAL WORK EXPERIENCE OF EMPLOYEES WITHIN SISTEMA GROUP

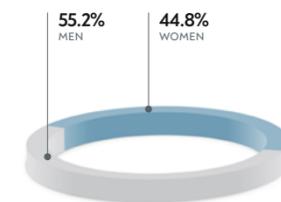


GRI 401-1

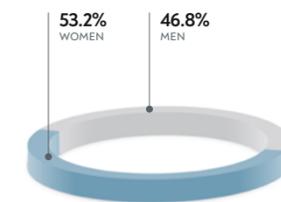
Sistema considers any form of discrimination unacceptable and strives to ensure the gender balance of its staff. Appointments to senior positions do not depend on gender, age, nationality and other characteristics unrelated to professional qualities of employees.

Sistema Group companies hired a total of 45,600 people in 2019.

BREAKDOWN OF NEW HIRES AT SISTEMA GROUP COMPANIES IN 2019



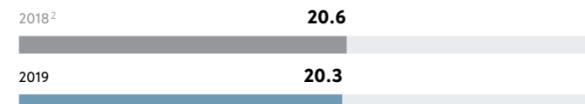
WORKFORCE GENDER COMPOSITION AT SISTEMA GROUP IN 2019



GRI 103-3

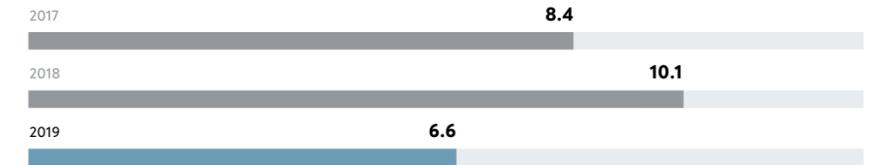
The average personnel turnover in Sistema's portfolio companies in 2019 was 20.3% excluding retail and hotel businesses which traditionally have higher turnover rates. At the same time, the composition of top, middle and junior management teams in these sectors remains stable: the average turnover of senior managers has stayed at a low level of 2%-3% over the last several years.

AVERAGE LEVEL OF PERSONNEL TURNOVER AT PORTFOLIO COMPANIES, %<sup>1</sup>



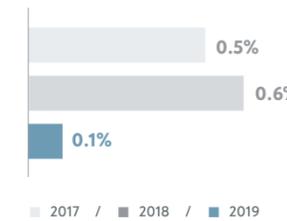
<sup>1</sup> Employees that terminated employment on their own accord (excluding Detsky Mir, Cosmos Hotel Group and Concept Group).  
<sup>2</sup> The indicator for 2018 was recalculated using the updated methodology.

PERSONNEL TURNOVER AT SISTEMA, %<sup>1</sup>

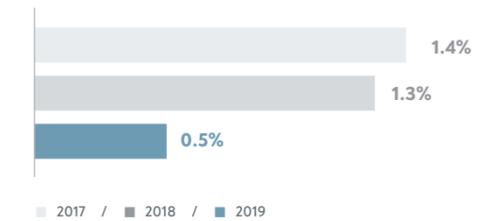


Average Turnover of Managerial Staff at Sistema Group, %<sup>2</sup>

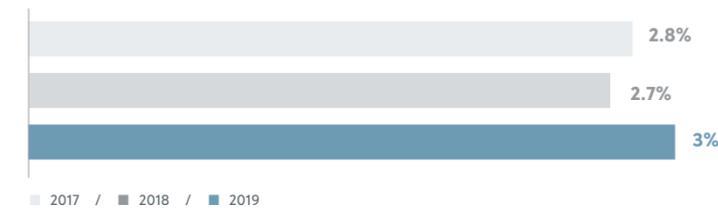
Top management turnover



Middle management turnover



Junior management turnover



DISTRIBUTION OF SISTEMA GROUP PERSONNEL BY REGIONS IN 2019



The Corporation operates in all federal districts of the Russian Federation, and therefore Sistema Group companies hire employees primarily among the local population and implement programmes aimed at training the necessary specialists locally. Employees from other regions are recruited only if there are no candidates with the required qualifications in the local labour market.

Sistema ensures equal recruitment opportunities for all candidates and creates jobs for people with disabilities. The Group had 1,084 such employees in 2019, or 0.7% of the average headcount.

In addition, Sistema's portfolio companies actively cooperate with employment centres: they participate in job fairs for people with disabilities, provide monthly data on open vacancies to authorities and publish them online.

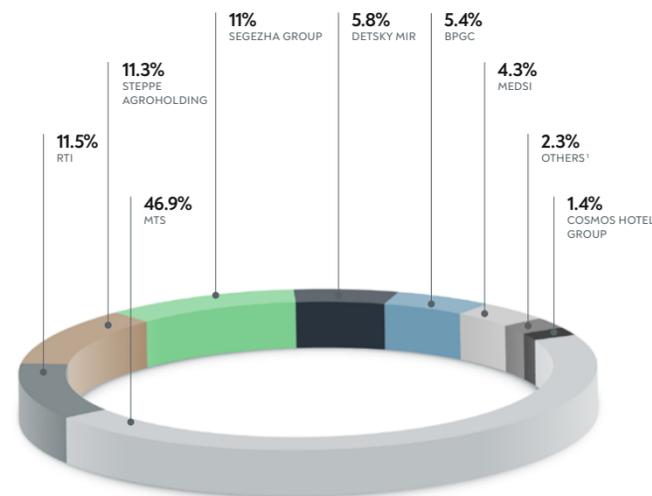
Sistema Group companies also cooperate with organisations assisting in social adaptation of disabled people and form a barrier-free environment at their production facilities and offices, including by allocating parking space for employees with special needs. Offices of MTS and Kronstadt Group in St Petersburg are equipped with a help button for employees with limited mobility.

<sup>1</sup> Voluntary turnover of staff.  
<sup>2</sup> General turnover of staff.

TOTAL NUMBER OF EMPLOYEES WITH DISABILITIES AT SISTEMA GROUP



BREAKDOWN OF EMPLOYEES WITH DISABILITIES AT SISTEMA GROUP BY ASSET



## INCENTIVES AND REMUNERATION

To maintain a decent and competitive level of remuneration for all categories of employees, Sistema has the incentive and compensation system.

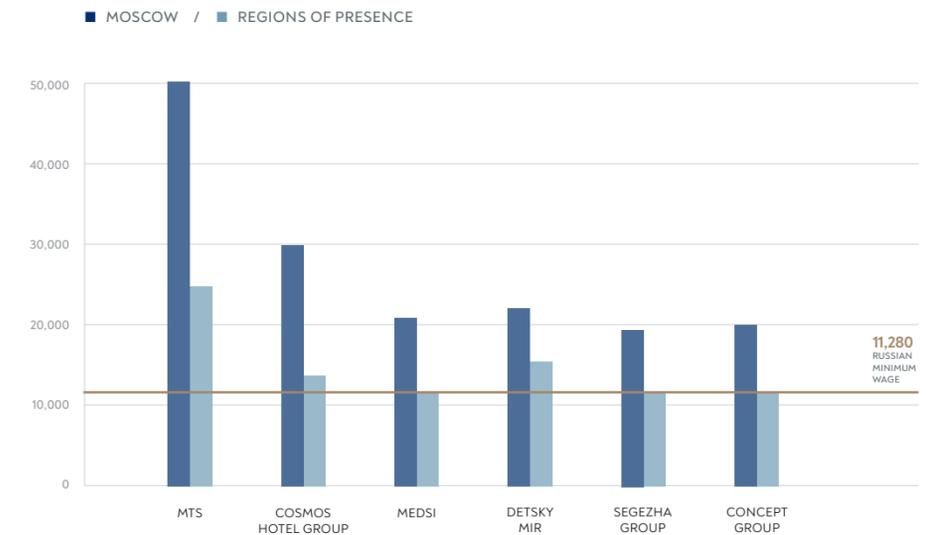
The amount of salary and remuneration depends on the results of work, regardless of gender and age.

On average for Sistema Group, the minimum entry-level wage is about RUB 26,000, which is 2.7x higher than the minimum wage set by the Russian government<sup>2</sup> in 2019.

GRI 202-1

GRI 102-35

MINIMUM ENTRY-LEVEL WAGE IN 2019, RUB



AVERAGE RATIO OF ENTRY-LEVEL WAGE TO THE RUSSIAN MINIMUM WAGE



SISTEMA GROUP'S EXPENSES ON REMUNERATION AND COMPENSATION, RUB BN



### INCENTIVES OF SENIOR EXECUTIVES

The employees covered by the long-term incentive scheme are entitled to get a share from an increase in Sistema's market capitalisation in the form of ordinary shares. Involvement of executives in assets in the achievement of long-term strategic goals generates an obvious positive result and balances the efforts of the management team for simultaneous work with goals of different time horizons.

<sup>1</sup> Others include Etalon Group, Alium, Business Nedvizhimost and Cosmos Hotel Group.  
<sup>2</sup> The minimum wage set by the Russian government was RUB 11,280 in 2019 and amounts to RUB 12,130 from 1 January 2020.

**NON-FINANCIAL INCENTIVES**

Sistema also has a system of non-financial incentives, which includes programmes for recognition of employees' achievements, social protection and conditions for participation in corporate events and volunteer projects.

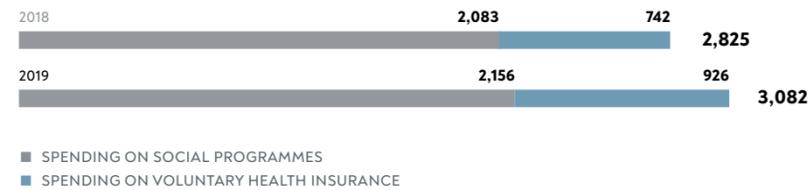
GRI 401-2

In addition to statutory social benefits Sistema also offers its employees an extended social package including voluntary health insurance, sick leave payments above the minimum established by the government, financial aid for people in difficult circumstances, travel insurance and accident insurance.

For more details on voluntary health insurance, see section [Health and Safety](#).

Employees are also invited to use corporate discounts to obtain health insurance for their families. The exact set of additional benefits depends on the industry specifics and the needs of employees at relevant portfolio companies.

**SISTEMA GROUP FUNDS SPENT ON VOLUNTARY HEALTH INSURANCE AND SOCIAL PROGRAMMES FOR EMPLOYEES, RUB M**



**> 7.3 BN RUB**

WAS ALLOCATED BY SISTEMA FOR SOCIAL PROGRAMMES AND HEALTH INSURANCE OF EMPLOYEES IN 2017-2019

**25%**

GROWTH IN SPENDING ON VOLUNTARY HEALTH INSURANCE IN 2019

**COLLECTIVE BARGAINING AGREEMENTS**

GRI 102-41

Sistema supports the well-being of its employees and builds its relations with personnel on the basis of social partnership implying not only compliance with existing laws and regulations by all parties, but also equality, mutual respect and consideration for the interests of both employees and employers.

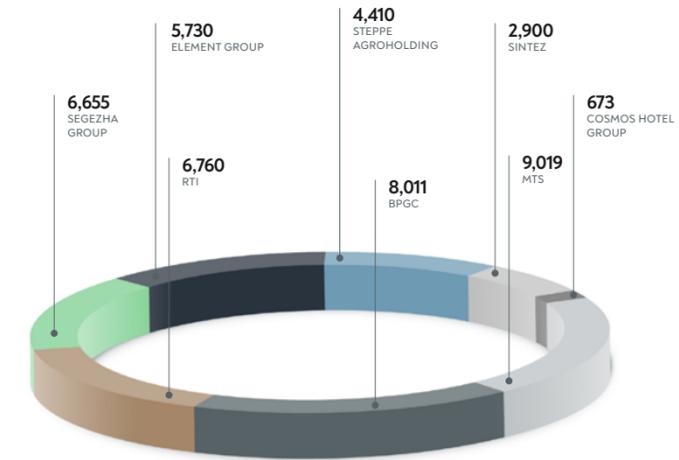
At some companies of the Group the terms of social partnership are set out in collective bargaining agreements that provide for employee benefits and compensations that go beyond the statutory requirements, including voluntary health insurance, pensions, additional paid leaves, increased payments for sick leaves, etc.

Collective bargaining agreements cover 31.6% of Sistema Group's total headcount.

**44,158**

NUMBER OF SISTEMA GROUP EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS IN 2019

**NUMBER OF SISTEMA GROUP EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS IN 2019**



**SHARE OF SISTEMA GROUP EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS, %**



The decrease in the share of Sistema Group employees covered by collective bargaining agreements was caused by the inclusion of new assets in the data perimeter.

**OZON AND COURIERS AGREED TO IMPROVE WORKING CONDITIONS**

In October 2019, Ozon successfully resolved the situation related to the voiced complaints of the company's couriers and their strike. The complaints included technical failures during the payment of wages, lack of bonuses, fines due to the fault of third parties and overtime work.

The company's management and the spearhead group of couriers signed a document on changes in business processes. Ozon resolved the issue with incorrect wage payments on the same day, cancelled the ban on postponing tasks before leaving the warehouse and fines for non-fulfilment of tasks due to the fault of third parties, and introduced compensation for petrol costs. As part of the changes, the company also optimised the time-keeping system, created a system of notifications about changes in work and started issuing pay sheets with breakdowns.

The company notified its customers of delays in deliveries and provided compensation for the delays.

# TRAINING AND DEVELOPMENT OF EMPLOYEES

GRI 404-2

Sistema aims at developing business, professional and soft skills of its employees.

In 2019, the company continued the implementation of its Knowledge Days programme, providing employees with open access to useful content that improves their professional skills and helps in personal development. Sistema also organises participation in external professional training events at the request of its employees and managers.

In 2019, 79% of the total workforce of Sistema Group took part in training programmes and educational projects.

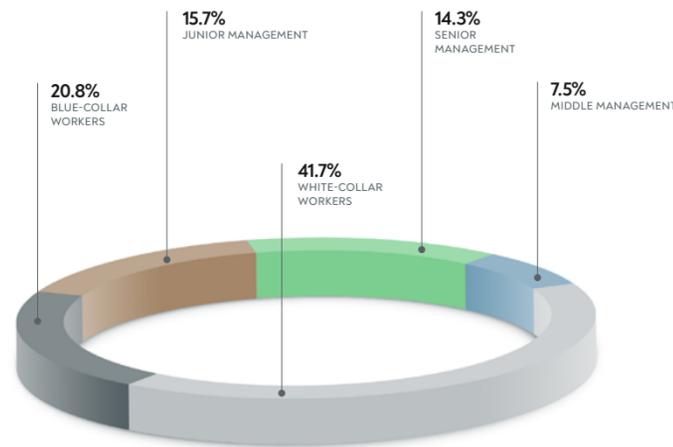
The Corporation's investments in staff training and development in 2019 amounted to RUB 395M, a 1.6% increase from previous year.

Most of the expenses (62.5%) are allocated for training rank and file employees and workers at Sistema Group companies.

## FUNDS SPENT ON STAFF TRAINING AT SISTEMA GROUP, RUB M



## FUND SPENT ON STAFF TRAINING AT SISTEMA GROUP BY STAFF CATEGORY IN 2019

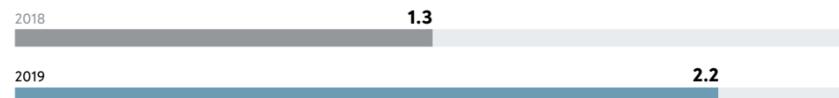


# 15.6 HOURS

OF TRAINING PER EMPLOYEE ON AVERAGE

GRI 404-1

## TOTAL NUMBER OF TRAINING HOURS ACROSS SISTEMA GROUP, M hours



## MEDSI: COMPREHENSIVE TRAINING PROGRAMMES

In 2019, Medsi introduced comprehensive training programmes for receptionists in three areas:

- customer service;
- sales in healthcare;
- conflict management.

Completed training increases the level of patient-centredness, reduces the number of complaints related to customer service by 50% and reduces staff turnover from 39% to 22% per year by increasing employee loyalty and engagement.

During 2019, 437 receptionists passed this comprehensive training.

In 2020, it is planned to develop comprehensive training programmes for all categories of staff on the following topics:

- customer service basics;
- conflict management;
- sales for doctors;
- stress management;
- phone conversations.

## MEDSI: A TRAINING MANUAL FOR NURSES

In 2019, Medsi published a training manual Technologies for Performing Basic Medical Services. Nursing Care Procedures by M. Sharocheva, head of the Nursing Department at Medsi Medical Academy, and V. Tikhomirova, lecturer at the same department.

The manual will help train practical skills of middle and junior medical staff. It is intended for a wide audience of nurses and nursing school students and lecturers.

## SEGEZHA GROUP: PROFESSIONAL TRAINING PROGRAMME FOR PRE-RETIREMENT EMPLOYEES

Sokol PPM (part of Segezha Group) is the first enterprise in the Vologda region which has been implementing a training programme for pre-retirement employees since 2019.

Employees undergo theoretical and practical training at the Sokol Forestry Technical School, after which they receive certificates of obtaining a repairman's profession and get a higher work grade and a pay raise.

The mill's management is interested in preserving jobs and supporting the employment of people who wish to learn a relevant profession.

## SEGEZHA GROUP AND MIKRON: "IDEA FACTORY"

In 2019, Mikron Group launched the Idea Factory programme under which it is implementing 13 initiatives for modernisation, cost reduction, production process optimisation and efficiency improvement at the enterprise, with several more projects under consideration.

Segezha PPM JSC has had a similar programme since 2016. In 2019, 188 ideas were registered, 55 projects were approved and 32 projects were implemented. More than RUB 400,000 were paid to the authors of promising ideas.

The economic effect from the events and projects of Idea Factory at Segezha PPM JSC exceeded RUB 1.3bn.

Idea Factory is a tool for engaging staff and a source of ideas. Each employee can come up with an idea of reducing costs and improving processes in the company's day-to-day operations. Suggestions are considered by special working groups in the main production and auxiliary areas.

**MTS: VR SIMULATOR FOR RECRUITING STAFF AT A CALL CENTRE**

In order to improve the quality and reduce the costs of recruiting and training staff, MTS, jointly with Samara State Medical University's Institute for Innovative Development, developed a simulator for recruiting staff using virtual reality (VR) technologies. MTS call centre in Samara became a ground for its pilot introduction.

The VR solution analyses the psycho-emotional reactions of applicants, automatically processes test results, eliminating the "human factor" during the interview, and quickly generates a conclusion regarding the professional aptitude of candidates.

**BUILDING A MANAGEMENT TEAM**

The comprehensive process for selecting and hiring candidates for executive positions is carried out by Sistema's in-house recruitment team, enabling the company to accumulate valuable expertise and save significant funds by doing without the services of executive search companies.

Sistema also has succession pool programmes at all levels of management. The appointment of internal candidates has a multiplier effect: employee motivation, opportunities and growth, quick adaptation, and high management standards. On average, about 45% of leadership appointments in 2019 came from within the Group.

A programme of six-month internships for young talents with attached development plans in the investment block was also launched in the reporting year.

Sistema Group's Succession Pool in 2019

	NUMBER OF THE GROUP'S EMPLOYEES INCLUDED IN THE SUCCESSION POOL AT THE BEGINNING OF 2019	NUMBER OF THE SUCCESSION POOL PARTICIPANTS PROMOTED IN THE REPORTING PERIOD	PERCENTAGE OF THE SUCCESSION POOL PARTICIPANTS THAT RECEIVED A PROMOTION
Senior management	7	5	71.4
Middle management	153	30	19.6
Junior management	614	272	44.3
Grass roots	369	23	6.2
<b>Total</b>	<b>1,578</b>	<b>459</b>	<b>29.1</b>

**SINTEZ: "INTERNSHIPS 2.0" PROJECT**

In 2019, Sintez JSC became a partner of the educational competition Internships 2.0 organised by the non-profit organisation Russia: Land of Opportunity and the All-Russia People's Front (ONF). In August 2019, Sintez published 13 project topics in various areas: from the design of production facilities to the development and implementation of modern energy accounting systems. The company also allocated 10 specialists to advise students during their work.

The project topics are used by students as part their term papers or graduate theses. The winners of the competition are determined twice a year and receive invitations for internships in partner companies.

**RTI: RECRUITMENT PROGRAMME**

In 2018, RTI Group has resumed its recruitment programme Where are you, our new employee? under which the company participates in special university events.

The programme is designed to let students learn about their career opportunities.

In early 2019, RTI Group took part in Career Day at MIPT.

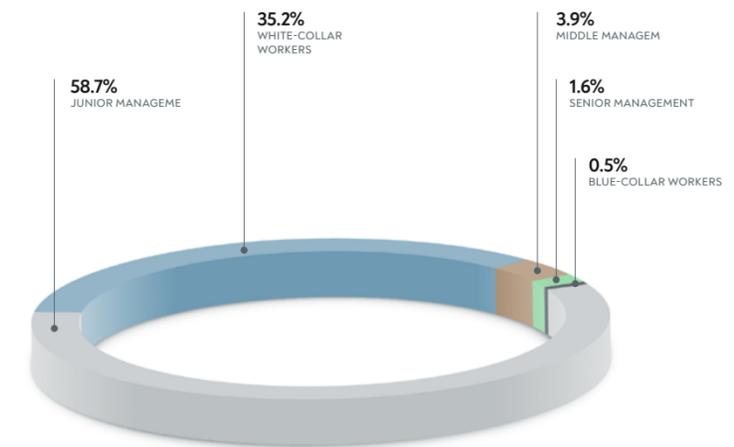
**COSMOS HOTEL GROUP: EDUCATIONAL PROJECT FOR STUDENTS "COSMOS START"**

In 2019, the Cosmos Moscow Hotel (part of Cosmos Hotel Group) launched the Cosmos Start project whereby the company allows students of relevant universities to undertake work placements at the hotel and learn the intricacies of working in the hospitality industry. In just a year, students from more than 19 universities and colleges in Moscow and the Moscow region had work placements at the Cosmos Moscow Hotel.

Students improve their competences, master the necessary skills and study in detail the hotel's operations. The project is being implemented by employees of the hotel and the management company of Cosmos Hotel Group.

In order to professionally assess the competence and potential of the Group's employees, comprehensive assessment using the 360-degree method was carried out in 2019. Each participant obtained an objective assessment of their strengths and areas for development, which in the long term can increase the effectiveness of Sistema. A total of roughly 3,900 persons participated in this assessment.

SISTEMA GROUP'S EMPLOYEES HAVING PARTICIPATED IN THE ASSESSMENT, WITH A BREAKDOWN BY CATEGORY



**COOPERATION WITH EDUCATION INSTITUTIONS AND YOUNG PROFESSIONALS DEVELOPMENT**

In 2019, Sistema Group continued to support higher education and develop partnerships with leading Russian universities, contributing to the development of human capital.

ASSETS	HIGHER EDUCATIONAL INSTITUTION	SUBJECT OF COOPERATION
SISTEMA	Russian School of Economics	Cooperation in the area of higher economic and financial education.
	Russian University of Cooperation <sup>1</sup>	Personnel training in the area of consumer cooperatives.
<p>The Corporation continues to implement the joint educational programme with the Graduate School of Management as part of the latter's development strategy until 2025.</p>		
MTS	Moscow School of Management Skolkovo	Launch of an additional education programme for students aimed at developing project management competences in the area of digital technology.
	Skolkovo Institute of Science and Technology (Skoltech)	Opening of an AI lab conducting research in the area of natural language processing.
	Samara State Medical University	Creation of a lab for AI-based developments in medicine.
	ITMO University <sup>1</sup>	Launch of the Conversational AI Technologies specialisation as part of the System and Applied Software Master's programme.
	Moscow Institute of Physics and Technology (MIPT) and Moscow School of Management Skolkovo <sup>1</sup>	Launch of the Master's programme Digital Technologies in Business.
	Moscow Polytechnic University	Continued implementation of the Master's programme for the training of telemedicine professionals.
	Moscow Aviation Institute	Continued training of Masters in Machine Learning and Big Data and Design of High-Load Web Services.
STEPPE AGROHOLDING	Don State Agrarian University	Continued cooperation and partnership in human resources and research.
BPGC	Ural Federal University	Implementation of the Master's programme Energy Business.
	<p>BPGC maintains long-term collaborations with Kazan State Power Engineering University, Ufa State Petroleum Technological University, Ufa State Aviation Technical University and Bashkir State Agriculture University.</p>	
SEGEZHA GROUP	Petrozavodsk State University	Continued training of personnel for the pulp and paper industry.
	St Petersburg State Technological University of Industrial Technologies and Design	Employees receive a higher education.
<p>Segezha Group implements joint innovation and educational projects with St Petersburg State Forest Technical University, Higher School of Technology and Energy, Vologda State University, Vologda State Dairy Farming Academy and Siberian State University of Science and Technology.</p>		
ELEMENT GROUP	National Research University of Electronic Technology (MIET)	Joint department.
	Moscow Institute of Physics and Technology	Continued work of the Department of Functional Nanoelectronics, which runs the Master's programme Physics and Technology of Nanoelectronic Devices.
	Far Eastern Federal University	Creation of the centre for collective design of electronics Vostok.

<sup>1</sup> As of the beginning of 2020.

ASSETS	HIGHER EDUCATIONAL INSTITUTION	SUBJECT OF COOPERATION
RTI GROUP	Mintz Radio Technology Institute	Department of Intelligent Information and Radio-Physical Systems.
	Russian Technological University (MIREA)	Training of radio engineers.
	Mordovia State University's Institute of Physics and Chemistry	Continued training of engineers specialising in radio-electronic systems.
	Yaroslavl State University	Continued work of the Department of Digital Technology and enrolment for the Test Engineering course.
	Novgorod State University	Continued work of the radio- and microelectronics research and education centre.
	MIPT Higher School of System Engineering	Continued training of RTI Group employees in the Master's programme Applied Systems Engineering.

RTI has a wide array of partnerships with universities all across Russia, including MIPT, National Research Nuclear University MEPhI, Moscow Aviation Institute, Bauman Moscow State Technical University, Ogarev Mordovia State University, Demidov Yaroslavl State University and Yaroslav-the-Wise Novgorod State University.

Sistema's Chairman of the Board is a member of boards of trustees of several academic institutions, including St Petersburg State University's Graduate School of Management and Lomonosov Moscow State University.

## SISTEMA CHARITABLE FOUNDATION: THE PROGRAMME OF MODERN ENGINEERING EDUCATION "LIFT TO THE FUTURE"

Since 2011, Sistema Charitable Foundation has been implementing the nationwide programme Lift to the Future intended for the development of modern engineering education. The content of the programme changed in 2018: it is now focused on technological initiatives and educational programmes for students aimed at providing unique skills and training professionals for the digital economy.

The first annual educational project Microelectronics. Level 157 was developed by Sistema Charitable Foundation together with PJSC Mikron, one of the top 5 ME enterprises in Europe, and involved students from eight leading tech universities in Russia. In February 2019, 23 project teams of programme participants took an intensive training course and learned about Mikron's technological processes during the Winter School.

In May 2019, teams from five universities presented 10 projects for the Internet of Things to potential investors and partners as part of a demo day. The four best teams received grants from Sistema Charitable Foundation in the total amount of RUB 1M. All projects were at the prototype stage.

In September 2019, two projects developed within the programme Microelectronics. Level 157 resulted in the establishment of the Vostok Centre, a hub for collective design of electronics. It was officially opened during the 5th Eastern Economic Forum.

## MTS: REMOTE FINAL EXAM PREPARATION COURSES AT SMART UNIVERSITY

MTS launched a programme of preparations for final exams at its online educational platform Smart University. The programme was developed by leading experts in USE<sup>1</sup> and MSE<sup>2</sup>; its assignments are similar to those of the real exam and meet the requirements of the Federal Institute of Pedagogical Measurements.

In 2019, courses were launched to prepare for maths, Russian and English exams. The platform offers a one-to-one programme, which is developed individually for each student using a special algorithm that takes into account each student's starting level, time available for learning and the score the student wants to get at the exam. Classes are held in an interactive format: students can ask questions and point out topics that are not clear. Thanks to interactive education, 92% of students are actively engaged in learning (only 46% of students are engaged with the usual format of classes).

During the lockdown in the spring of 2020, MTS provided free access to online courses for distance exam preparation. In April 2020, the number of students in the preparation programmes for the USE and MSE in maths, English and Russian doubled.

<sup>1</sup> Unified State Exam (in grade 11).  
<sup>2</sup> Main State Exam (in grade 9).

## SISTEMA\_VC: EDUCATIONAL PLATFORM MEL SCIENCE

In 2019, Sistema Venture Capital invested in the MEL Science educational platform.

MEL Science helps schoolchildren learn chemistry through hands-on experiments and virtual reality technologies. Parents receive MEL Chemistry kits by regular mail every month to create simple science experiments for the whole family. Each kit contains chemical reagents, equipment and other necessary components. All experiments are safe for home use and comply with the US safety standards.

## MEDSI: MEDSI FRIENDS CLUB

In the summer of 2019, Medsi Friends Club organised a series of guided tours at Medsi's Clinical Diagnostic Centre at Krasnaya Presnya for schoolchildren aged 14-18 as part of the programme Summer in a New Format, which has been implemented since 2019 by the Moscow Department of Labour and Social Protection and the career centre Summer of My Career. During the tours, children learned about advanced diagnostic and treatment technologies, what the future of medicine looks like and how a modern clinic works.

Medsi Friends Club creates shared space for doctors, patients, and all those interested in medicine and healthy lifestyles. The club's key objective is to build effective communication between doctors and patients and to promote Medsi's patient-centred company culture.

Since November 2018, Medsi organised several guided tours at its clinics in Moscow for more than 300 high-school students.

## CORPORATE CULTURE

Sistema Group creates conditions for an active life, self-improvement and development of necessary skills, including social skills. To this end, Sistema implements social projects in such areas as health, creativity, culture and the environment.

Each year, the Corporation awards its best employees who made the greatest contribution to business development. In 2019, 1,879 employees received an honorary award.

Moreover, the Corporation's employees can use the services offered by Sistema Group companies on special terms, including banking services, discounts for children's goods, residential properties, hotel accommodation, and additional medical services not covered by insurance.

### The following events were held for employees and their families in 2019:

- Corporate relay race as part of the Moscow Marathon for Sistema Running Team with corporate training sessions;
- Practice sessions of Sistema Football Team and participation in the corporate tournament;
- Winter and Summer Sports Games;
- Volunteer clean-up events for employees of the Corporation and Sistema Group and their families.

## SISTEMA: CORPORATE SPORTS GAMES

In 2019, more than 500 people from 16 companies of the Group took part in the Winter Sports Games at the Izumrudny Les Eco Hotel near Moscow. The teams competed in curling, cross-country skiing, ice hockey, ice fishing, etc.

More than a thousand athletes from all over Russia participated in the Summer Sports Games.

A total of 18 sports were included in the programme, seven of them for the first time. BPGC became a four-time winner of Sistema's Summer Sports Games. MTS and RTI ranked second and third, respectively.

Sistema has held its Sports Games twice a year since 2019. They consist of two large parts: sports (for teams of portfolio companies) and entertainment (for everyone). The mission of the Sports Games is to form a culture of sports and healthy lifestyles among the Corporation's employees.

## SISTEMA: EDUCATIONAL PROGRAMME "FOR CHILDREN AND PARENTS"

At the end of 2018, Sistema for the first time invited the children of its employees to the office before the New Year. The kids participated in contests, watched the performance of a magician and Detsky Mir's volunteer puppet theatre, made Christmas tree decorations and generally had fun. This gave rise to Sistema's programme For Children and Parents. In 2019, more than 150 employees' children of all age groups up to 18 years took part in the programme. The project included two guided tours to Sistema's assets and career guidance events for students of grades 8-11.

In December 2019, Sistema had a Family Day at its office in the format of the "city of professions". The kids watched a theatrical performance and a film, took a master class in acting from actress Olga Khokhlova and received interesting books as gifts.

The events held as part of the programme provide employees' children with opportunities for intellectual and creative development, help them choose their future profession, and also let them learn about the scale and diversity of the Corporation's businesses.

Sistema strives to build internal communications for removing barriers between levels of management and increasing employee engagement, and to encourage learning and a free atmosphere for unleashing creative potential in its employees. The Code of Ethics sets out the following values that the Corporation and its employees adhere to:

- Trust,
- Openness,
- Respect to people,
- Professionalism,
- Fairness and impartiality,
- Zero tolerance for corruption and unfair competition.

Sistema's senior management meets with employees so that they can better understand the strategic goals, objectives and priorities of business development, which was recommended following the corporate culture assessment based on Harvard technology in 2017.

## MTS, BPGC AND SEGEZHA GROUP: PARTNERSHIP WITH THE WORLDSKILLS COMPETITION 2019

In 2019, Sistema Group companies (BPGC, Segezha Group and MTS) became partners of national WorldSkills competitions held across Russia.

In August 2019, MTS built telecommunications infrastructure for Kazan Expo, the main WorldSkills site, with total investments of RUB 45M.

BPGC helped organise qualifying competitions of WorldSkills Russia for the skill "IT Software Solutions for Business" in Ufa.

Segezha Group supported the first interregional competition in vocational skills Yenisey Siberia Generation of Professionals, which was held in line with WorldSkills Russia standards.

The international WorldSkills Competition is held every two years for young skilled trade professionals with the most popular vocational skills. International competitions are held all over the world and are sometimes called the "Skills Olympics".

To increase employee engagement, Sistema Group actively uses and develops its previously launched Telegram channel and Instagram account. In 2019, the focus was on video content, which was published both through existing communication channels and via a separate channel—Sistema.TV.

[Sistema's Telegram channel](#)



[Sistema's Instagram account](#)



## CORPORATE VOLUNTEERING

Sistema Group's employees participate in volunteer and charitable projects, which are mostly focused on supporting underprivileged children, large families, veterans and people with disabilities. Sistema Group's volunteer projects are coordinated by Sistema Charitable Foundation (SCF).

The corporate volunteer centre acts as a tool for development of soft skills, socialisation, and enhancement of personnel motivation and engagement.

7.3%

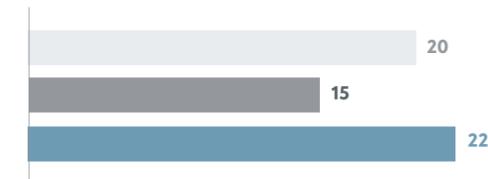
OF THE TOTAL HEADCOUNT OF SISTEMA GROUP IN 2019 PARTICIPATED IN VOLUNTEER PROJECTS

693

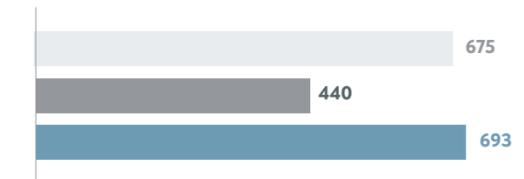
CORPORATE VOLUNTEERS REGULARLY PARTICIPATED IN SCF'S INITIATIVES IN 2019, UP 57.5% COMPARED TO 2018

## Results of SCF's Corporate Volunteer Centre

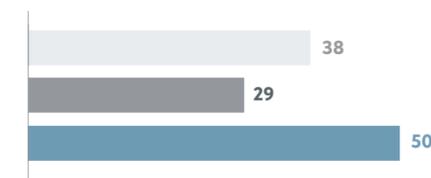
Total number of Sistema Group companies involved in volunteer projects (that took part in at least one event)



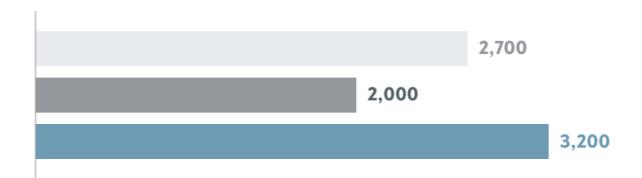
Total number of volunteers that took part in at least one event of SFC



Total number of events held



Total number of hours worked by volunteers



■ 2017 / ■ 2018 / ■ 2019

## SISTEMA'S CORPORATE VOLUNTEERING

The following projects were implemented SCF's Volunteer Centre in 2019:

- Beyond the Silence, an inclusive theatre project for children with hearing impairments;
- Charitable events as part of Sistema Fest, a sociocultural festival in Kostroma and the Republic of Bashkortostan (13,000 employees participated in it);
- Cultural Weekend, a nationwide campaign (13,700 participants);
- Cultural Exchange, an inter-museum project (3,000 participants);
- Volunteer clean-up days.

One of the significant projects of 2019 was the grant competition Sistema in Support of Good Cause. It is aimed at identifying the best initiatives for the development of corporate volunteering among the Corporation's employees. The competition includes five categories that cover the following vectors of the Group's social activity: environmental protection, preservation of cultural and historical heritage, development of a comfortable urban environment and support for underprivileged groups. The grant fund amounted to RUB 1.6M.

The projects submitted for the competition were assessed taking into account their social significance, the degree of involvement of volunteers, and financial transparency. The competition committee comprised representatives of Sistema, SCF and the Association of Managers.

A total of 38 applications from employees of nine companies of the Corporation were received for the competition. The grant fund was divided among 13 projects, which were submitted by employees of Segezha Group, MTS Group, Steppe AgroHolding and Medsi.

## PLANS

Plans for the development of the HR management system in 2020:

- Development of the succession pool programme, with coverage of more management levels;
- Introduction of a mentoring programme;
- Creation of a digital environment for contacting talents;
- Development of the corporate culture with a focus on openness, growth and unity.

# HEALTH AND SAFETY

## HEALTH AND SAFETY OF EMPLOYEES

Health and safety of employees is Sistema's ultimate value. Ensuring comfortable and safe working conditions is a priority for Sistema Group, especially crucial for production assets.

**GRI 103-1** Portfolio companies annually update their goals in the area of occupational health and safety and conduct special assessments in order to offer optimal working conditions and prevent accidents and occupational disease. Compliance with workplace safety rules in the Group is regulated by internal documents and collective agreements based on the specific realities of particular industries.

**GRI 103-2** **The basic principles of the Corporation's health and safety activities are set out in its internal regulations:**

- the Sustainability Policy;
- the Corporate Governance Code;
- the Code of Ethics.

**GRI 403-1** **GRI 403-4** Many of the Group's production companies have special committees in charge of occupational safety and health. 41 such committees were registered across the Group in 2019, each including representatives from both management and employees.

The Segezha Group enterprises have implemented an occupational health and safety management system in accordance with the OHSAS 18001: 2007 standard. In the future, it is planned to move organisations to the new standard ISO 45001: 2018 "Occupational Health and Safety Management System", which will replace OHSAS 18001: 2007.

**Apart from that, Group Companies control the observance of health and safety norms by contractors, especially on production sites:**

- when taking on contractors, Group Companies make sure their contracts contain labour safety clauses formulated specifically for the type of work to be done and equipment to be used;
- Group Companies regularly monitor the observance of workplace and fire safety rules by contractors;
- they also check that the contractors' staff uses personal protection equipment;
- and require contractor employees to have passed a medical check-up and completed a labour safety training before they are admitted to work.

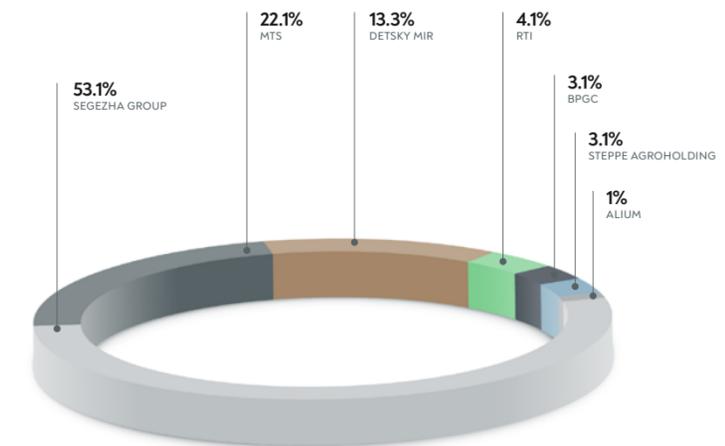
No cases of occupational diseases in the Group were reported in 2019.

Group Companies reported 98 accidents in 2019, primarily at production assets, including two fatalities at Segezha Group and Steppe AgroHolding. Each case was followed up by an internal investigation seeking to identify their causes and prevent similar accidents in the future. The overall 2019 accident rate across the Group is down 7.5% year-on-year.

**1.1 BN RUB**  
**OCCUPATIONAL SAFETY EXPENSES<sup>1</sup>**  
 in 2019

Workplace Injuries at Sistema Group		GRI 403-2
	2018	2019
<b>Number of work-related accidents</b>	106	<b>98</b>
<i>including fatalities</i>	3	<b>2</b>

### ACCIDENTS BY COMPANY



## ETALON GROUP: CONTROLLING SAFETY RULES

**GRI 103-3**

In order to monitor safety compliance, Etalon Group uses the Safety Index, a digital method for evaluating industrial safety at construction sites based on BIM (Building Information Modelling). Safety-index monitoring is conducted at least once every two weeks. The target index value is set by the Technology Council and then approved by the CEO of Etalon Group. Upon patenting the technology in 2017, the company set about designing and selling tailored solutions for third parties.

The Safety Index methodology and evaluation metrics are constantly evolving along with advancements in general technology. In 2019, Etalon Group launched a special service for the real-time online monitoring of construction sites using BIM models. The innovation helps management to control safety discipline, receive real-time updates from sites, see 3D models of the locations where safety rule violations are detected, and locate hazardous situations in need of immediate intervention. Another function added to the solution in 2019 is the specific Construction Camp Fire Safety Index.

The Safety Index significantly contributes to the reduction of injury rates, enhancement of workplace culture, and increase of labour efficiency. Characteristically, Etalon Group has been reporting a zero-mortality rate for the past four years, with the current Safety Index across the company's production sites well above the 75% target.

<sup>1</sup> Data for MTS, Detsky Mir, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Alium, Sintez, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, Vologda Textile, SITRONICS, Sistema Capital and Concept Group.

### LABOUR SAFETY TRAININGS

All categories of employees at Group Companies take labour safety trainings designed to maintain and improve working conditions and ensure occupational health and safety.

#### SEGEZHA GROUP: LABOUR SAFETY AND FIRST AID CLASSROOM

Early in 2019, Sokol PPM (a part of Segezha Group) created a state-of-the-art classroom for teaching employees (of both Sokol PPM and its sister company Vologda Paper Mill) the rules of labour, industrial and fire safety, civil defence, emergency response action, and first aid. The trainings previously held on factory grounds are now arranged here.

The classroom is equipped with demonstration stands, special reading material, basic fire extinguishing appliances, and a rescue manikin for practicing closed-chest cardiac massage, mouth-to-mouth resuscitation, the application of dressing, tourniquets and splints, and safe transportation of the injured (for when ambulance is inaccessible). The manikin uses animated interactive software for better informational value.

### CORPORATE INSURANCE

The Corporation provides each employee with health, travel, and accident insurance. The standard health insurance package available to employees across the Group involves free care at Medsi and other proven healthcare operators. This specifically includes consultations with general practitioners and doctors of more than 30 specialisations (both person-to-person and via telemedicine), some 25 laboratory and diagnostic tests using hi-tech equipment, and annual flu vaccination.

Employees are also invited to use corporate discounts to obtain health insurance for their families.

In 2019 the standard corporate health insurance programme was extended to more than 50 companies of the Group, with the total number of insured persons reaching 4,500.

For details on safety measures being taken to address the ongoing COVID-19 pandemic, see [About the Corporation](#).



## HEALTH AND SAFETY OF STAKEHOLDERS

It is in the best interest of Sistema Group Companies to ensure customer safety and promote healthy lifestyles among its customers, local communities, and other stakeholders. Businesses across the portfolio come up with technology and project solutions working towards the health and safety of all stakeholders.

### BPGC: PREVENTING ELECTRICAL INJURIES OF CHILDREN

In October of 2019, BPGC and Bashkortostan's Ministry of Education and Science renewed their cooperation agreement to educate school students about electrical safety and prevent electrical injuries in children.

In the previous academic year 2018/2019, the company's officers had taught more than 1,000 extracurricular safety classes at secondary schools across Bashkortostan.

#### In 2019, the campaign was extended to include:

- a republic-wide drawing contest for children, titled The Safe Childhood;
- publications about electrical safety rules for children in 14 local media outlets;
- an illustrated book of poetry for children based on the animated cartoon series The Adventures of BPGCman;
- power safety-themed theatre shows for elementary school students in two schools in Ufa.

### MTS: HEART CARE APP

In a tie-up with the National Cardiology Research Centre of the Russian Ministry of Health, MTS developed a special mobile app for monitoring heart health titled MTS 120/80 (for the general public) along with a "virtual cardiac monitoring room" (for professional cardiologists).

The app contains a "heart age" calculator, takes readings from blood pressure gauge photos, and automatically sends reports to the doctor. Tied to Medsi's app SmartMed, MTS 120/80 enables online consultations with Medsi cardiologists.

In May of 2020, as the nation was in lockdown due to the coronavirus pandemic, MTS made the app accessible free of charge to all medical institutions for three months, to ensure that those at high risk for complications receive timely professional care.

### MIKRON AND MTS: PERSONNEL EVACUATION AUTOMATION AND EMPLOYEE SAFETY ANALYTICS

In 2019, Mikron developed RFID (radio-frequency identification) tags for the automatic control of emergency staff evacuation. The solution involves personal protection equipment carrying RFID tags, a tag reader, and special software. When the fire safety alarm goes off, each employee is required to take their self-rescue device and leave the building. Persons wearing the RFID-bearing protection equipment are easy to locate within a 10-metre radius.

In addition to that, in 2019, MTS created a set of wearable sensors integrated with a special analytics and emergency alarm system. The sensors allow management to promptly locate employees in case of emergency and help them without delay.

The projects are designed both for industrial applications and for use by public safety authorities.

### MEDSI: IMPROVING HEALTH AWARENESS

The history of Be Healthy with Medsi, a non-profit project designed to promote healthy lifestyles among the general public, goes back to 2014.

**In 2019, the project's team toured the offices of partner companies with 'health days' involving healthy-living lectures and free doctor consultations. Much wider than just general health lectures, the project includes:**

- a variety of "health schools" with narrow specialisations: "paediatric schools" for parents, a course for snoring and apnoea awareness, pregnancy and parenting courses, and separate courses for those struggling with memory problems, psoriasis, and allergies;
- publications from best Medsi experts on specific topics;
- newsletters (discounts and special offers, unique Medsi services for project participants);
- online consultations with Medsi experts via the corporate blog and web portal.

In 2019, Medsi also introduced a special "cancer alertness" initiative to raise patient awareness of the importance and capabilities of early cancer detection and improve doctor-patient communications at initial consultations.

### RTI: X-RAY-FREE PASSENGER SCREENING

Towards the end of 2019, RTI started testing a novel non-X-ray passenger screening system enabling easy identification of weapons, controlled substances, and explosives.

The new long-range system uses terahertz wave bands, which means it's free from X-radiation.

### SITRONICS: SECURITY COOPERATION WITH AN IT R&D CENTRE

In November 2019, SITRONICS JSC entered into an agreement with the Protei R&D Centre to cooperate in the areas of security, telecommunications, and solutions for public applications with a view to increasing the efficiency of emergency response of intelligence services and simplifying the decision-making process at the regional level.

The agreement provides for cooperation in digitalisation programmes across the geographies where the companies operate. This involves the deployment of security systems, solutions for video conferences, video surveillance & analytics, and telemedicine & telecom systems.

## DEVELOPING SEARCH- AND-RESCUE TECHNOLOGY

Sistema Charitable Foundation supports volunteer rescue teams across Russia along with the developers of disruptive search-and-rescue technology.

In April of 2019, the foundation signed a cooperation agreement with the AERONET Association of Operators and Developers of Unmanned Aerial Systems (part of Kronstadt Group) aiming to put unmanned aerial vehicles (drones) to best use in search-and-rescue operations.

The agreement provides for the organisation of contests inviting best technological solutions, which requires the preparation of contest assignments and active expert/team involvement, in a bid to crash technological barriers in various spheres and find breakthrough solutions to intricate global problems. The project is hoped to create optimal conditions for extensive use of drones when searching for missing people.

In April of 2019, Sistema Charitable Foundation provided the first round of grants for the participants of the research project aimed at developing search-and-rescue technologies, which was dubbed The Odyssey. The contestants were tasked with creating a solution to find and rescue a person lost in a forest with no means of communication in 10 hours or less, whatever the weather and season. The total grants amount was RUB 6M.

Teams from technology companies, universities, academia, engineering teams, enthusiasts, and charitable organisations participated in the competition. All the solutions were field-tested in realistic conditions accurately simulating the assignment description.

SCF in conjunction with the Lisa Alert rescue team launched an information campaign titled What Should I do If I Ever Get Lost? specifically targeting children. Lisa Alert volunteers conducted lectures and large-scale awareness-enhancement activities for children and their parents. Kids were taught how to behave in forest and urban settings, how to respond to emergencies, and what to do right away if lost in a public place or on city transport. Some 20,000 children go missing in Russia every year, often unknowing where to turn for help. The campaign involved more than 3,000 school students in Bashkortostan, Krasnodar, Kostroma, and Samara.

# 13

PROJECTS IN THE  
FIELD OF PEOPLE  
SEARCH AND THE  
IOT ARE RECOGNISED  
AS PROMISING FOR  
IMPLEMENTATION

Over 150 project teams took part in the Odyssey competition for developers of search and rescue technologies and in the educational program of Sistema Foundation and Mikron PJSC on the creation of microelectronics projects



# DATA PRIVACY AND SECURITY

## PERSONAL DATA PROTECTION AND INFORMATION SECURITY

Sistema considers protection of privacy and personal data of its stakeholders an important aspect of its activities, which has become especially relevant in light of transition to digital technologies. The Corporation strives to ensure the continuity and security of Sistema Group's business processes by implementing protection measures in the area of information and cyber security.

In their activities, Sistema Group companies collect and store large amounts of personal data of their customers, suppliers and other stakeholders. On the one hand, this allows them to provide more personalised services and products; on the other hand, it increases the risks associated with data leaks. In view of this, the Corporation and Sistema Group companies provide data stores with advanced measures of protection against unauthorised or accidental access, develop approaches to personal data management and enhance the culture of handling personal data.

At the beginning of 2019, the Corporation updated its Policy on Processing and Protection of Personal Data. Its provisions are mandatory for everyone who has access to personal data of employees and job candidates, shareholders, nominees and members of the boards of directors and other governance bodies of the Corporation and Sistema Group companies. The policy applies to personal data of persons included in the list of insiders, all counterparties and visitors to the Corporation's offices.

### The mandatory measures for the protection of personal data at Sistema are:

- approving internal regulations on the processing and protection of personal data;
- monitoring the compliance of personal data processing and measures to ensure their security with the Russian legislation;
- registering and keeping track of actions with personal data;
- ensuring that the Corporation's employees are familiar with the provisions of the Russian personal data laws, including requirements for personal data protection;
- determining threats to the integrity of personal data during data processing in information systems;
- identifying incidents of unsanctioned access to personal data and adoption of relevant measures.

GRI 103-1  
GRI 103-2  
GRI 103-3

GRI 418-1

Complaints about privacy breaches and loss of personal data can be submitted to the Corporation's single hotline and through the relevant channels of Sistema Group companies. There have been no personal data leaks identified in 2019.

## MTS JOINED THE CODE OF DATA ETHICS



[Code of Data Ethics](#)

Sistema Group companies implement their own programmes and projects to manage industry-specific risks associated with personal data protection.

During the Russian Internet Week (RIW) in December 2019, MTS signed the Code of Data Ethics, which was also joined by other major Russian companies in the market of advertising, marketing and IT.

The code was developed by the Big Data Association and the Institute of Internet Development. The document is voluntary and designed for the industry's self regulation.

The purpose of creating the Code is to consolidate the basic principles of interaction between interested parties: the state, citizens and business. The document is expected to make the data market more transparent and secure, which will ensure the observance of the rights of individuals and organisations.

## MTS: PERSONAL DATA PROTECTION SYSTEM

In 2019, MTS created a centralised information protection system based on the ISO 27000 series of international standards and Russian legislation on the protection of personal data, secrecy of communication, trade secrets and inside information. In addition, the secrecy of communication is protected in accordance with international communication standards and requirements of the industry regulator.

MTS also provides information protection services in accordance with the licenses of the Federal Service for Technical and Export Control and the Federal Security Service of the Russian Federation for technical and cryptographic protection of confidential information and monitoring of information security events.

The Unified Centre for Comprehensive Security of MTS has the Department for Protection of Secrecy of Communication and Information Security, which controls access of users to information associated with the secrecy of communication. If cases of illegal access to such information are identified, official investigations are initiated with the subsequent submission of materials to law enforcement agencies.

### In the reporting year, 3,576 employees of MTS completed the distance course Processing of personal data in MTS in accordance with the requirements of Federal Law No. 152-FZ. The company also carried out the following activities in 2019 to improve its approach to the processing of personal data:

- an automated control system for the processing of personal data at the level of business processes was developed;
- a standard document for exchanging information with foreign counterparties was approved;
- the risk management system began to take into account risks associated with violation of personal data laws;
- the procedure for processing personal data of subscribers during the provision of communication services was defined;
- it became possible to execute a special confidentiality agreement if partners are engaged for the processing of personal data;
- information leaks channels were monitored;
- posters explaining the principles of personal data processing and requirements for personal data protection were put up at MTS offices; work computers have screensavers with a reminder of the need to ensure the confidentiality of personal data;
- all new hires take a short course and test on the processing of personal data.

## MTS: PROTECTION OF MEDICAL PERSONAL DATA

In November 2019, MTS launched a cloud service for medical institutions designed for collection, storage and protection of patients' personal data. Medical institutions can save up to 25% by outsourcing such functions to MTS compared to the deployment of their own infrastructure. One of the clients is Medsi Group.

The service is located in a dedicated segment of #CloudMTS with an increased level of security and an expanded range of personal data categories. This segment has passed the certification of the Federal Service for Technical and Export Control and fully complies with the requirements of Federal Law No. 152-FZ On Personal Data dated 27 July 2006 and related regulations.

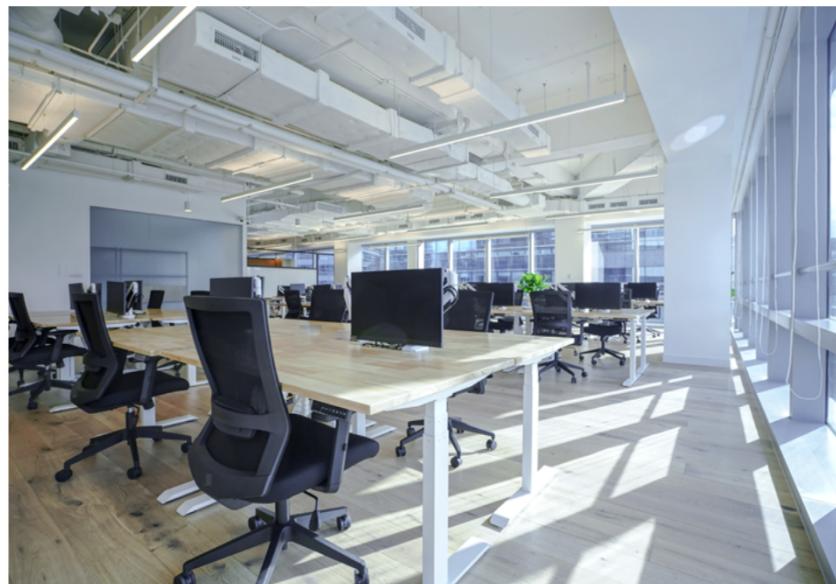
A total of more than 600 companies use MTS cloud services, including ~25% in retail, ~22% in finance and ~20% in industrial sector.

## OZON: PERSONAL DATA PROTECTION

In 2019, some journalists discovered an open-access database ostensibly containing personal data of Ozon users. The file was in effect, an aggregation of databases leaked from other websites (such as social media and gaming platforms) and also included auto-generated accounts. About 7% of the content was indeed genuine personal data. Ozon's security department had already stumbled upon the database back in 2018, while doing a regular monitoring routine, and immediately checked it for actual user accounts and reset the passwords of all accounts so identified. Ozon then sent messages to all owners of such accounts notifying them that their passwords had been reset for security reasons and recommending that they also change passwords on other websites and check personal gadgets for viruses. In July 2019, Russia's communications watchdog Roskomnadzor investigated the incident and concluded that the data had been collected by unknown persons from various sources, not resulting in an actual violation of the rights of personal data subjects, and that the company had done everything to keep its users safe.

## SITRONICS JSC AND BI.ZONE WILL ENSURE INFORMATION SECURITY OF DIGITAL INFRASTRUCTURE

In June 2019, SITRONICS JSC and BI.ZONE signed an agreement on cooperation in the area of intelligent systems taking into account the latest requirements for cybersecurity. The purpose of the agreement is the development of design and detailed documentation, production and supply of equipment, and implementation of projects with the commissioning of the facility for commercial operation.



## PROTECTION OF CRITICAL INFORMATION INFRASTRUCTURE

The Corporation and Sistema Group Companies take part in ensuring the security of critical information infrastructure (CII) facilities. CII facilities include information systems, information and telecommunication networks, and automated organisation management systems that are used by government bodies or organisations operating in certain sectors of the economy.

### Sistema Group Companies belong to these sectors from the list approved by Russian lawmakers<sup>1</sup>:

- healthcare;
- science;
- communications;
- energy industry;
- banking and other areas of the financial market;
- chemical industry;

### CII facilities are at significant risk of cyberattacks, which is why companies from the CII sectors are required to:

- immediately inform authorities about any computer incidents;
- assist the Federal Security Service in detecting, preventing and responding to computer attacks, as well as in establishing the causes and circumstances of such incidents;
- ensure the technical conditions for installation and operation of and the safety of the components of the State System for Identification, Prevention, and Response to Cyberattacks.

## MTS: CERTIFICATION OF THE INFORMATION SECURITY MANAGEMENT SYSTEM

In 2019, MTS expanded its competences and formed separate units for the protection of critical information infrastructure facilities, and also established a unit for applied solutions in security and monitoring systems.

For the first time, the corporate Information Security Management System of MTS was certified for compliance with the international standard ISO / IEC27001: 2013 Information Technology–Security Techniques–Information Security Management Systems–Requirements.

During the year, the company also entered into agreements with information security vendors such as Varonis, Fortinet, Wallarm and others.

## BPGC: PROTECTION OF CRITICAL INFORMATION INFRASTRUCTURE FACILITIES

In 2019–2022, BPGC will implement a project to protect critical information infrastructure facilities. In 2019, the company carried out a number of activities:

- identified CII facilities;
- adopted regulatory documents;
- introduced a system for detecting and eliminating vulnerabilities, processing information security events and responding to them;
- upgraded the anti-virus protection system;
- organised training of BPGC employees on information security requirements and rules of safe work in the corporate network.

The project is intended to reduce information security risks and increase protection to the levels of Russian and international standards. It will also allow the company to ensure safe work in its corporate information system and avoid the impact of cyber threats on reliable and high-quality power supply.

As of 2020, BPGC has automated the information security system. In 2020–2022, BPGC plans to continue the implementation of the system for ensuring the security of CII facilities, as well as to:

- obtain the necessary licenses from regulators for information security activities;
- test industrial intrusion detection tools;
- implement an automated permission management system;
- implement a system of protection against unauthorised access.

<sup>1</sup> <https://cdnimg.rg.ru/pril/150/87/97/49966.pdf>

# ACCESSIBILITY AND QUALITY

GRI 103-3

>150<sup>M</sup> PERSONS

THE TOTAL CONSUMER AUDIENCE ACROSS THE GROUP

>15 INDUSTRIES

COVERED BY COMPANIES OF THE GROUP



## The UN Global Compact Principles

### PRINCIPLE 1

Businesses should support and respect the protection of internationally proclaimed human rights

### PRINCIPLE 2

Businesses should make sure that they are not complicit in human rights abuses

### PRINCIPLE 7

Businesses should support a precautionary approach to environmental challenges

## Awards Received by Group Companies

### MEDSI



Medsi Group is the best-recognized healthcare provider according to the BusinessStat Customer Loyalty Rating of Moscow Clinics.



Medsi received the Best B2C Customer Experience prize from CX WORLD AWARDS 2019 for their Patient Support Centre and Patient Family Support Centre.



Medsi is also No.1 by revenue in Vademecum's annual ranking of Russian private multi-specialty clinics.

Medsi won two prizes from the national healthcare-industry award Meeting the World Halfway:

- for best compliance with the Ministry of Health's checklist requirements that apply to healthcare exports;
- and for best advertisement targeting foreign patients.

The contest is organised by the healthcare magazine Vademecum, the National Council for Medical Tourism, and the Russian Ministry of Health.

## Awards Received by Group Companies

### MTS



MTS won the Best Customer Experience Team title from CX WORLD AWARDS 2019.

### ETALON GROUP



The Petrovskaya Dominanta housing estate in Saint Petersburg (built by Etalon LenSpetsSMU) is among the winners of Urban Awards 2019 as the Best Business-Class Housing Estate and the Debut of 2019.



Etalon Group ranks 2nd in the Forbes list of the top 20 reliable property developers.

### STEPPE AGROHOLDING



Products of Steppe AgroHolding received Best Product-2019 diplomas from PRODEXPO 2019, an international exhibition for food, beverages and food raw materials.

### DETSKY MIR GROUP



Det sky Mir won prizes in four categories of the Little Golden Bear award:

- Best School Uniform;
- Best Baby Products;
- Leader of the Year. Quality;
- Charity Project (for Project Holdfast by Det sky Mir Charitable Foundation).

### OZON



Ozon ranks among Russia's top 10 e-commerce players according to Forbes. The ranking applies to companies selling non-online products and services through online channels.

### SEGEZHA GROUP



The Delovoy Peterburg newspaper awarded Segezha PPM as the 2019 Industrial Leader of the Republic of Karelia.



Segezha Group received the EUROSAC Silver Grand Prix for its new packaging solution for dry mixes at the annual congress of EUROSAC (European Federation of Multiwall Paper Sacks Manufacturers).



The Sokol Woodworking Plant received the 3rd Millennium National Brand award (The Golden Seal of Quality) for laminated beams and glued laminated logs.

The pellet producer Xylotec Siberia won the Responsible Forest User award and a badge of honour from the Krasnoyarsk arm of the Russian Forest Protection Agency.

### BPGC



### ЭНЕРГОНЬЮС

Bashkirenergo is among the top 10 Russian grid companies providing best quality of power grid connection services according to the rating agency EnergonNews Media.



BPGC has won the Russian national contest BPM Project of the Year, with its utility connection automation project scooping the Best Efficiency award.

### COSMOS HOTEL GROUP



The Izumrudny Les (managed by Cosmos Hotel Group) received the National Hospitality Award as the Best Countryside Hotel.

# ACCESS TO PRODUCTS, SERVICES AND INFORMATION

GRI 103-1  
GRI 103-2

## RELATIONS WITH CONSUMERS AND CUSTOMERS

All Companies of Sistema Group consider their customers and consumers as crucial stakeholders. This is especially relevant for the B2C space.

In delivering products and services, Sistema Group Companies invariably strive to enhance their accessibility and quality while also providing access to related information to customers, consumers, and patients. This is broadly enabled by digital and disruptive technology, new production sites, and support infrastructure.

### MEDSI: INVOLVEMENT IN THE DEVELOPMENT OF A ROAD MAP TO ENHANCE THE QUALITY AND ACCESSIBILITY OF HEALTHCARE SERVICES

In 2019, the President of Medsi Group joined the healthcare development task group set up by the governmental Agency for Strategic Initiatives. The group that comprises over 80 health professionals, officials and representatives is tasked with devising a road map for improving the quality and accessibility of healthcare services in Russia.

### MEDSI: COOPERATING WITH LOCAL GOVERNMENTS

In 2019, Medsi signed cooperation agreements with the governments of the Sakha (Yakutia) Republic, Tatarstan, Karelia, and the Nenets Autonomous District.

The Yakutia agreement provides for a state-of-the-art centre for post-injury, orthopaedic, and cancer rehabilitation to be set up locally, while the cooperation with the Nenets government will afford residents struggling with grave and complicated medical conditions the opportunity to receive hospital care at Medsi's clinics in and around Moscow.

The agreements also envisage a wide variety of master classes, Moscow internships for local doctors, extensive case concilia (both face-to-face and remote) and collaborative consultations. Last but not least, local doctors and nurses also get the much-desired chance to take advanced training courses at the top-of-the-line Medsi Medical Academy.

### MEDSI: ROLLING OUT A FRANCHISE NETWORK

In 2019, Medsi first started developing its very own franchise network. Partnership clinics may open both in cities where Medsi is already represented and in new cities with populations of 300,000+.

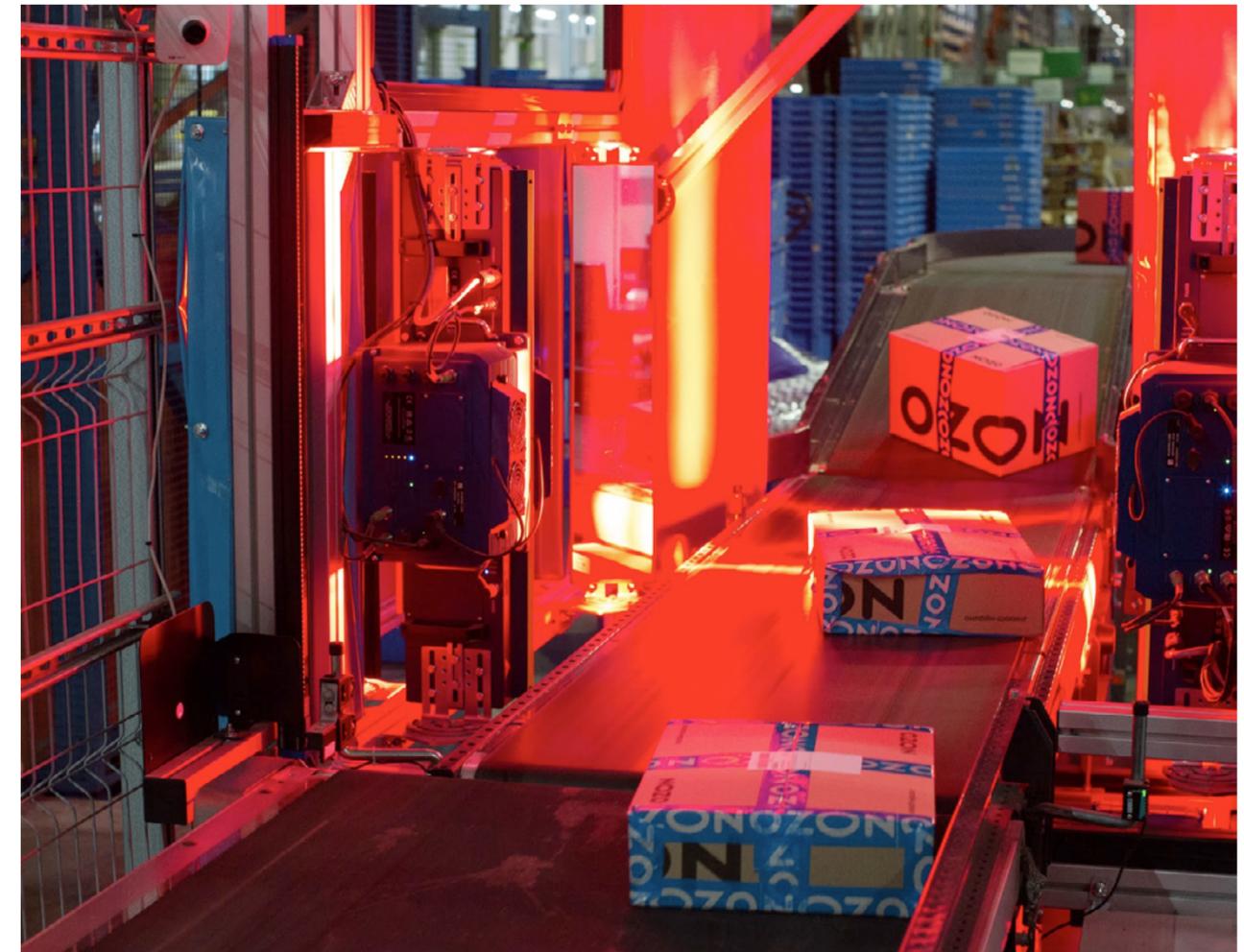
The franchise model creates big potential for upscaling the brand and infrastructure to new operations, expanding the service spectrum, and boosting patient traffic. The network is expected to grow to 20 Medsi-branded partnership clinics across Russia in a five-year term.

### OZON: INDIVIDUAL INVESTING PLATFORM

2019 saw the launch of Ozon.Invest, a special platform where individuals can invest in about 2,000 small and medium-sized businesses from among Ozon's proven vendors, carefully pre-selected based on 200 parameters.

The platform affords broad investment opportunities to Ozon customers. Although the investments take the form of lending and involve no formal insurance, Ozon is there for its customers in case they need any legal support. To minimise risks, Ozon evenly distributes customer investments among multiple businesses.

The company estimates that the platform will deliver investors a rate of return up to 18% p.a. The service is available to anyone willing to make a shot at investing with RUB 10,000 or more for one to nine months, with investment performance easily tracked through personal accounts on the platform's website.



## LOCAL ACCESS

Group Companies make regular investments in projects and programmes that create new production sites and expand retail chains. This makes a wide array of products and services accessible in new locations while contributing to the evolution of specific communities and the general enhancement of living standards.

### MTS: BRIDGING DIGITAL INEQUALITY

**An active participant of the 2019 national initiative Crashing the Digital Divide, MTS carried out a raft of projects to enhance cellular, online, and television connectivity in various Russian cities, and in particular:**

- brought internet to 289 smaller communities in the southern Russian region of Kuban (in a tie-up with RosTeleCom);
- launched an LTE2100 band network in small and remote communities of 39 constituent regions of Russia, by far accelerating data transfers;
- launched packaged convergent offers of mobile internet and satellite TV in 51 national locations with pre-existing satellite networks;
- introduced Wi-Fi Calling and VoLTE technologies in three geographies long struggling with poor signal quality due to harsh weather conditions.

In another move toward better connectivity, the company's special initiative Multi Region as part of a nationwide 2009–2018 programme Developing TV Broadcasting in Russia delivered digital television to locations beyond the broadcast areas of over-the-air digital TV. The project lasted from December of 2018 through February of 2020.

### OZON: A LOGISTICS HUB IN TATARSTAN

A recent agreement signed with the Ministry of the Economy of the Republic of Tatarstan will enable Ozon to build a 2,000 sq m logistics hub in Tatarstan with a throughput capacity of up to 20,000 parcels a day. The hub that has already cost the company one billion roubles in investment will create more than 500 jobs and install roughly a thousand of new parcel terminals.

Some 200 vendors from Tatarstan that used to have no choice but send their products to Ozon hubs in Tver or the Moscow region are now free to upscale sales channels and choose delivery routes through the republic's capital Kazan, the Volga region, or other hubs in Russia.

### OZON: DEVELOPING LAST-MILE DELIVERY LOGISTICS

In 2019, Ozon launched a logistics marketplace to build up 'last mile' capabilities.

The marketplace invites local businesses to act as pick-up points for Ozon, install parcel terminals, or perform courier deliveries.

In addition to providing personnel training, free Ozon signs, posters, and promotional aids, Ozon is also willing to finance the early-stage expenses of aspiring local partners through a special online platform.

### MTS BANK: ACTIVITIES IN PRIORITY DEVELOPMENT AREAS IN THE FAR EAST

In 2019 MTS Bank signed an agreement with JSC "Far East Development Corporation" to devise financing and banking support mechanisms for residents of "priority development areas" (PDA) in the Far Eastern Federal District.

The agreement puts MTS Bank among the partners of the new online lending platform designed to enable the residents of PDA and the Free Port of Vladivostok<sup>1</sup> to apply for loans to several banks in one go and receive prompt feedback. The initiative will materially improve access to financing for local businesses looking for development opportunities.

MTS Bank is also planning to support the region's international economic activity in the long run by providing currency conversion and Forex control services and hi-tech solutions for issuing guarantees to secure international contracts.

### MTS: IMPROVING SIGNAL QUALITY ALONG RAILWAY TRACKS

At the St Petersburg International Economic Forum in June of 2019, MTS signed an agreement with Russian Railways to enhance cellular signal quality alongside federal railway lines.

MTS will install special antenna towers and base stations, while Russian Railways will provide sites and integration with electrical networks. The project covers nine federal railroad lines and 49 train stations across the country. Train passengers all along the route will be provided with uninterrupted signal service and internet access.

The project lasts until 2021 and envisages up to RUB 1.5 bn in investment.

### MTS: A DATA CENTRE IN THE PRIMORYE REGION

In 2019, MTS and the Far Eastern Agency for Investment and Exports signed an agreement to build a modular data centre in the Primorye region.

Designed specifically to help digital businesses make their cloud-based services more accessible and increase computing performance, the data centre will include four modules and at least 500 server racks. The construction project is scheduled to last through 2021 and will cost MTS some RUB 1.5bn in investment.

### OBL PHARM: NEW FACTORY

In 2019, OBL Pharm (an Alium Group company) opened a new solid dosage form plant near the town of Serpukhov. The plant manufactures 150 medication items, from breakthrough in-house solutions to generics.

The plant has an annual output capacity of 120 million packages: 1.6 billion pills, 120 million capsules, and 15 million sachets, which makes it well-equipped to gain leadership on the Russian pharmaceutical market.

The plant comprises production facility that pioneers the use of 'control identification tagging', a warehouse, and administrative office, and an R&D laboratory. All of the plant's state-of-the-art equipment is safe and environmentally friendly. The total investment in the project is RUB 3bn.

Alium is planning to move all of its main medication items to the new plant.

<sup>1</sup> The Free Port of Vladivostok is a zone enjoying customs, tax, and administrative benefits.

## ACCESSIBILITY FOR PEOPLE WITH SPECIAL NEEDS

Sistema Group enables access to social services for various demographics, including people with disabilities and special needs.

### MEDSI: ORAL HYGIENE FOR BLIND AND VISUALLY CHALLENGED CHILDREN

In 2019, Medsi's clinico-diagnostic centre Belorusskaya launched (with support from the Social Security Department of Moscow) a series of special oral hygiene classes for children with vision impairments.

The students of Moscow's No.1 boarding school for the blind and visually impaired learned how to choose and properly use a tooth brush, what causes caries and other dental pathologies and how to prevent them, and found out about the physiological structure of human teeth and gums.



### MTS: CRASHING THE DIGITAL DIVIDE

In 2019, MTS's Mobile Academy went 100% digital. Launched in 2012 in classroom format to train the older generation to use the Internet, the project has by now involved more than 30,000 seniors in 30 Russian communities.

The special portal gramota.mts.ru serves to address digital inequality and teach seniors to use mobile gadgets and the internet along with a wide range of special apps making life easier, from medication reminders to fitness trackers and healthy lifestyle apps.

The training is free for all and, now that it is fully digitalised and remote, accessible even to people with limited mobility and residents of faraway Russian regions.

Sistema and its portfolio companies also support Great Patriotic War veterans with specific support campaigns and all-round access to healthcare.

### MEDSI: TAKING CARE OF VETERANS

Meds'i signature project Taking Care of Veterans pursued in a tie-up with Sistema Charitable Foundation continued in 2019, with three Medsi clinics launching a suite of new free hi-tech care services for war veterans, including the diagnosis of cardiological, oncological, and orthopaedic conditions, capsule endoscopy, and laboratory tests.

Taking Care of Veterans envisages free healthcare services, rehabilitation in the Otradnoye sanatorium in the Moscow region, and a variety of entertainment events and volunteer initiatives.

In case the diagnostic procedures uncover any conditions requiring therapeutic or surgical action, veterans are turned over to Medsi's clinical hospitals. After diagnosis and treatment, patients take a two-week rehabilitation course at the Otradnoye sanatorium.

The programme's total financing in 2019 reached RUB 60M.

Aside from healthcare services, Sistema Charity Foundation has allocated a total of ~RUB 250M for social support for military and public service veterans over the past four years (including RUB 60M in 2019). The programme involved 11,000 veterans in total and in particular provided free spa treatment for 2,000 persons.

### SISTEMA CHARITABLE FOUNDATION AND RUSSIAN MUSEUM: ART FOR PEOPLE WITH SPECIAL

In addressing its strategic priorities, Sistema Charitable Foundation strives to provide access to cultural facilities for as broad a public as possible, including at-risk groups and people with special needs.

A series of inclusion projects carried out in conjunction with the Russian Museum comprises adapted museum tours and art therapy for people with disabilities and special needs, with particular emphasis on user-friendly information services and wheelchair ramps.

An important project in the making is Russia's first tactile art gallery for the blind and visually impaired.

# CUSTOMER EXPERIENCE

GRI 103-1  
GRI 103-2

Sistema Group companies are focused on attracting new and retaining existing customers, which is why building trust and providing goods and services with a high level of customer care is one of the priorities and a key point of business growth.

To this end, Sistema Group companies take measures to improve the quality of customer experience: they analyse consumer behaviour, preferences and lifestyles and use this data to improve the quality of service and introduce new ways of providing services, including using digital technologies.

## CUSTOMER-ORIENTED APPROACH

The long-term relations with customers and the prospects for expanding the markets of Sistema's presence largely depend on the level of customer trust and loyalty, which are measured by Net Promoter Score (NPS). As a rule, companies that are the most proactive towards their customers turn out to be the most competitive ones.

### Consumer loyalty level of Sistema Group companies in 2019:

- Cosmos Hotel Group: **8.9 out of 10** average rating for hotels
- Segezha Group: an NPS of **52**
- Etalon Group: brand awareness<sup>1</sup> of **60%**
- Medsi: brand awareness of **84.2%** and customer loyalty<sup>2</sup> of **95.2%**
- Detsky Mir: an NPS of **73** for offline stores and **58** for the online store<sup>3</sup>
- MTS: **10th** strongest telecoms brand<sup>4</sup> in the world (the only Russian telecoms brand in the list).

<sup>1</sup> Aided awareness.

<sup>2</sup> Willingness of Medsi patients to return to the clinic.

<sup>3</sup> According to a survey by an independent agency.

<sup>4</sup> Brand Strength Index (BSI) is based on metrics evaluating marketing investment, stakeholder equity and business performance. It is assessed by the international consultancy Brand Finance.

## DEVELOPMENT OF CUSTOMER EXPERIENCE AT SISTEMA GROUP COMPANIES

### MTS: QUALITY AND IMPROVEMENT OF CUSTOMER EXPERIENCE

In 2019, MTS adopted its Development Strategy for 2020-2022 aimed at creating additional value for the customer from using the company's services and a high degree of integration of internal processes.

As part of the strategy, a new approach to researching customer experience and opinions was developed, linking all business segments. Now customers can leave feedback at any point of interaction, report an issue and be sure that they will receive a reply.

MTS uses customer opinion as a basis and, by introducing customer assessment as the main internal performance indicator, improves products and processes in all of the ecosystem's chains.

The introduction of personalised communication systems in online channels has become the key condition for attracting new customers and maintaining relationships with existing ones.

### BPGC: SPECIALISED CUSTOMER SERVICE CENTRE

As part of the project on transferring consumer calls to the Call Centre, seven subdivisions of Bashkirenergo LLC (part of BPGC) were serviced in 2019. Sibay Power Grids and Central Power Grids joined the system in the reporting year.

Calls from electricity consumers that used to be received by dispatch centres of individual subdivisions are now routed to the Call Centre operators, which significantly reduces the workload of operating staff.

The Call Centre allows the company to ensure a unified standard for processing customer calls and increase customer loyalty through the quality of service.

### QR CODE PAYMENT AT DETSKY MIR AND OZON

In 2019, Detsky Mir and Ozon outlets in Moscow began to accept QR code payments via the Faster Payments System (FPS), which enables customers to make instant money transfers.

To make a purchase, customers of banks that joined the FPS need to scan a QR code using the mobile app of their bank and confirm the transaction.

Ozon launched QR code payment at all pick-up points and for delivery. In addition, Ozon plans to implement a subscription payment format within the framework of the FPS, which is aimed at users who prefer to prepay their orders (up to 75%-80% of Ozon's customers). Detsky Mir plans to roll out the solution across the entire chain and subsequently launch QR-code payments in its online store. Moreover, the company offers bigger bonus points to customers making payments using QR codes.

### SEGEZHA GROUP: COMPLAINT HANDLING MECHANISM

Segezha Group has built a complaint handling system based on cross-functional work of sales, marketing, production, logistics, financial and legal departments. The system is aimed at providing prompt feedback to buyers, identifying systemic factors in the occurrence of complaints and finding ways to prevent them.

### OZON: TESTING THE SERVICE OF DELIVERY "BY THE DOOR"

In 2019, Ozon launched an experimental service of delivery 'by the door' in Moscow: a delivery person will leave a parcel by the door of a buyer's apartment or with a concierge. The service is available for prepaid orders without perishable goods or health products and with a total cost of up to RUB 2,000.

After dropping the order, the carrier will take a picture of the package to confirm the delivery. The user will receive the picture in the section My Orders in the app or on the website of Ozon. If a package is lost or stolen, Ozon will make a refund.

In 2020, during the coronavirus pandemic, this service became especially relevant and was introduced at the company on a permanent basis.

## PATIENT-CENTRIC MODEL

Medsi Group develops a patient-centric model to build an effective system of interaction with patients, improve the safety and quality of service, and create a positive patient experience along the entire treatment route.

This is a model with a trusting and partner-like relationship between the patient and the medical staff to achieve positive treatment results through joint efforts. The primary goal of partnering with patients is for patients to develop understanding of the treatment process and participate in it.

These tasks are performed by the company's centre of excellence for patient experience management. The centre is improving the model of the doctor-patient relationship through the formation of a community that brings together health professionals and patients who get to know the company, receive answers to questions and share their experience.

### MEDSI: A SYSTEM FOR ASSESSING RECEPTIONISTS

In order to increase the level of customer focus, a system for assessing receptionists was introduced at Medsi's clinics in Moscow in 2019. 168 employees were assessed to identify their strengths and growth areas. In particular, the company studied ways of communication with patients that contribute to building comfortable relationships, avoiding conflict situations and preventing stress.

Based on the results of the assessment, the training system for receptionists was improved and launched in 2020.

### MEDSI: IMPROVING THE QUALITY OF CUSTOMER SERVICE

In January 2019, the training course "Organisation of the work of junior medical staff" at the Medsi Medical Academy was completed.

The programme was aimed at improving the quality of patient care, since middle and junior staff take care of the patient during the entire treatment process, and the patient's health, among other things, depends on the level of their professionalism.

### MEDSI: CENTRALISED HOME CARE

In 2019, Medsi Group established the Department of Centralised Home Care.

The organisation of work of this department and support services is designed to ensure the prompt arrival of the doctor and the maximum efficiency of the visit. House call requests are received by Medsi's call centre and are promptly forwarded to the department's coordination centre, where they are routed to a specific doctor who can arrive first. All information received by the call centre staff is promptly transferred to the doctor's tablet along with the patient's contact details and medical record, so that the doctor is ready for the visit.

The service of house calls is available to all patients—those with the voluntary medical insurance and those who pay for the treatment themselves.

## THANK YOU MEDSI PROJECT

In 2019, Medsi launched the Thank You Medsi project, which allows patients to thank the clinic, doctors and nurses. By the end of the year, more than RUB 1.5M was collected and used for equipping and improving clinics.

Customers can wire transfer funds to the company's account for further improvement of clinics, introduction of new treatment methods and creation of a comfortable atmosphere for patients. Patients can choose exactly how to spend their money.

As part of the project, the company also developed a system of incentives for doctors and clinic teams. The number of mentions by patients is converted into points. At the end of each period (quarter, half year or year), employees included in the ranked list based on the number of points will be offered non-financial incentives, including professional training (in addition to planned refresher courses), vacation or medical care (in addition to the standard benefits package).

The company plans to integrate Thank you Medsi into its telemedicine app SmartMed to make it more convenient for patients.

## MEDSI: THE FIRST PREMIUM HOSPITAL

As part of the project of personalised medicine, Medsi opened a premium hospital with 11 beds in Moscow. It offers an individual approach, sympathetic communication with the doctor and state-of-the-art technologies in a wide range of medical specialties.

Premium standards of medical care will be offered to Medsi's patients at the chain's flagship facilities: clinical & diagnostic centres and clinical hospitals in Moscow and St Petersburg.



## PRODUCT STEWARDSHIP

GRI 416-1

Sistema's reputation is directly related to responsibility for the products and services of the Group Companies. Therefore, the Corporation guarantees a high quality of its products and services and ensures that they are safe for consumers and friendly to the environment. In particular, Sistema's portfolio companies label their goods, obtain certification for the materials they use and implement modern quality assurance tools throughout the entire product life cycle. Consumers may be confident that the products and services of Sistema Group carry no health risks and are completely safe.

### MEDSI: IMPLEMENTATION OF INTERNATIONAL QUALITY AND SAFETY STANDARDS IN MEDICAL CARE

In 2019, Medsi continued making preparations for accreditation under the international standards for health care quality and patient safety according to JCI (Joint Commission International). The adoption of JCI standards contributes to the development of work culture in medical organisations and helps improve the quality of health care provided to patients. Moreover, accreditation under JCI standards confirms the medical organisation's compliance with global health care standards.

### SEGEZHA GROUP: SIGNING WOOD TRADE CHARTER IN THE VOLOGDA REGION

In 2019, Segezha Group Vologda joined the national Wood Trade Charter.

The Charter is a voluntary agreement of forest industry enterprises. The Charter aims to ensure greater transparency and disintermediation in timber trade operations and to prevent unscrupulous market players from obtaining unfair competitive advantages by means of tax evasion.

In 2018, Segezha Group signed a similar Wood Trade Charter in the Arkhangelsk region.

### DETSKY MIR: SAFETY OF GOODS AND QUALITY ASSURANCE

In 2019, Detsky Mir continued its active work aimed at ensuring the safety of the company's goods and improving the quality of its product mix, in particular:

- 43,800 internal audits in stores were held;
- more than 6,000 samples of proprietary products and almost 9,000 samples of products purchased from third parties were analysed in a certified laboratory;
- 333 suppliers and 137 private label manufacturers successfully passed the test for compliance with regulatory requirements conducted by the certification department.

All products go through certification for compliance with the technical regulations adopted by the Customs Union member states (technical regulations, the Law On Consumer Rights Protection, rules for selling specific types of products). Each product receives all the necessary documents confirming its safety and quality. Each product gets checked for ISO certification (International Organisation for Standardisation) confirming compliance with the regulatory requirements of the country of origin and the laws of the Customs Union member states.

Effective control over product safety and quality enables Detsky Mir to prevent defective goods from getting access to its retail chain: such goods are identified at the very start of certification—during lab testing.

### ETALON GROUP ENGAGES EDUCATION AND PSYCHOLOGY EXPERTS FOR SETTING UP A SCHOOL

In 2019, Etalon Group engaged education and psychology experts for developing the architectural design of a new school in the residential compound Krylya ("Wings"). The experts helped create more comfortable conditions for students. They provided consultations on planning and colour solutions, façade and interior concepts. The experts also contributed to determining the interior design and functionality of classrooms, formulated psychological and teaching requirements to the building's design concept.

## PRODUCT CERTIFICATION AND LABELLING

The company ensures the safety and quality of its goods in accordance with Russian legislation and voluntary standards and initiatives. The main goal of product certification is to create conditions for compliance with manufacturer's warranties in order to ensure that products are safe for the customer. Product labelling guarantees that the products are original. Sistema is actively supporting the development of certification and product labelling practices in the companies of the Group.

### SEGEZHA GROUP: CERTIFICATION OF ENTERPRISES AND PRODUCTS

In 2019, Segezha Group enterprises renewed their voluntary certification under the standards of FSC (Forest Stewardship Council). The total share of forests certified under FSC was 86%.

Compliance with the FSC requirements provides a guarantee to the buyers that the company is using legal wood resources and conducts logging operations in keeping with biodiversity and social responsibility standards adopted in the forest industry. The control system implemented at the production facilities of the Group makes it possible to keep track of the entire technological cycle: from logging to delivery of certified products.

Segezha Group enterprises also passed voluntary certification under PEFC (Programme for the Endorsement of Forest Certification) in the reporting year. This certification guarantees that the company's timber products are made from certified wood in compliance with the European criteria and requirements. In 2019, four enterprises of Segezha Group were certified under PEFC: three for forest management (Segezha PPM JSC, PLO Onegales LLC and Onega Sawmills PJSC), and one for the supply chain (Onega Sawmilling and Woodworking Plant LLC).

## ECO-FRIENDLY AND SAFE PRODUCTS

Eco-friendly and safe products are defined as products that throughout their life cycle (production–processing–consumption–disposal) meet the existing environmental regulations and do not exert any negative impact on people's health, animals and the environment. Sistema aims to develop best practices in the area of product life cycle management at the companies of the Group.

### SEGEZHA GROUP: CONSTRUCTION OF CLT PLANT

In 2019, Segezha Group started construction of the first Russian plant for production of CLT (cross-laminated timber) panels at the Sokol Woodworking Plant (part of Segezha Group). Total investments in the project exceeded RUB 3bn, and the future plant's capacity will be 250,000 sq m of cross-laminated timber a year.

This material has the same strength as concrete, steel and bricks, but is superior to all of the traditional materials in terms of eco-friendliness, durability and production cost. The first pilot CLT panel will be produced at the end of 2020, and mass production is expected to start in January 2021. The project for building a CLT plant obtained the status of a priority regional project according to the decision of the Investment Council chaired by the governor of the Vologda region.

CLT panels are a modern environmentally friendly material with high fire resistance, strong sound and heat insulation. The modern CLT construction technology has won a good reputation with customers in Europe, the USA and Japan.

Segezha Group in cooperation with Etalon Group is planning to start construction of a multi-storey building from CLT panels in Moscow in the summer of 2021.

### PHARM ASSETS: A DIGITAL PASSPORT FOR MEDICATIONS

At the end of 2019, the Sistema pharm assets (OBL Pharm, Binnopharm and Sintez) implemented a system for marking pharmaceutical products with digital codes (DataMatrix). The codes are used to transfer data about the production chain and product characteristics to a shared monitoring system that covers the entire supply chain from the production facility to a pharmacy or a hospital where the drug will be administered to a patient. The main advantage of the marking system is that the life cycle of a drug becomes highly transparent, making counterfeiting impossible and guaranteeing the product's safety for customers.

Sintez has already started marking its drug Ibuprofen. The total investments made by Sintez into the marking equipment exceed RUB 200M.

## RESPONSIBLE CONSUMPTION

Responsible consumption is defined as a rational approach to purchasing and using goods and services aimed at minimising damage to the environment and cutting social costs. Sistema supports the idea of responsible consumption by offering more eco-friendly products and opportunities for package disposal and recycling, thus helping its customers to change traditional consumer behaviour.

### DETSKY MIR AND SEGEZHA GROUP: ENVIRONMENTAL CAMPAIGN ON THE PAPER BAG DAY

On 18 October 2019, Detsky Mir and Segezha Group conducted a joint environmental campaign on the Paper Bag Day.

As part of the initiative Detsky Mir provided free paper bags produced by Segezha Group to customers. In almost 300 Detsky Mir stores volunteers handed out 66,000 paper bags in the Moscow region, Saint Petersburg, the Arkhangelsk region, the Kirov region, the Rostov region, the Krasnoyarsk region, and the Republic of Karelia.

The companies of Sistema Group are making their contribution to the formation of responsible consumer culture, raising peoples' awareness about the environmental issues related to pollution with plastic waste and show that it is possible to replace plastic packaging with biodegradable paper bags.

The companies of the Group are carefully monitoring the use and consumption of paper as part of their activities. In 2019, total paper consumption at Sistema Group stood at 565,800 t, which is 4% lower than in 2018. At the same time, about 18% of all consumed paper comes from responsible sources certified by FSC.

**942** THSD T  
PAPER CONSUMPTION  
IN 2017

**589** THSD T  
PAPER CONSUMPTION  
IN 2018

**565.8** THSD T  
PAPER CONSUMPTION  
IN 2019

# SMART ENVIRONMENT

GRI 103-3



318.3<sup>M</sup> RUB

SPENT ON INFORMATION TECHNOLOGIES

17 DEALS

MADE IN THE VENTURE MARKET

0.85<sup>MT</sup>

OF GREENHOUSE GAS EMISSIONS

576.1<sup>M</sup> RUB

SPENT ON ENVIRONMENTAL PROTECTION

334.75<sup>GJ</sup>

OF ENERGY CONSUMED PER RUB M OF CONSOLIDATED REVENUE

## The UN Global Compact Principles

### PRINCIPLE 7

Businesses should support a precautionary approach to environmental challenges

### PRINCIPLE 8

Businesses should undertake initiatives to promote greater environmental responsibility

### PRINCIPLE 9

Businesses should encourage the development and diffusion of environmentally friendly technologies

## Awards Received by Group Companies

### MTS



MTS made it to the list of Russia's top 10 CDP-reporting companies, with an assigned score of C (Awareness).

### SEGEZHA GROUP



Segezha Group became a winner of the Change Management. Visionaries award in the Environment. Business category for its Introduction of Bioenergy Technologies in Forest Industry project, which consisted of two initiatives: commissioning a multi-fuel boiler that uses bark waste instead of fuel oil at Segezha PPM in Karelia and building a pellet plant located on the premises of Lesosibirsk Woodworking Plant No. 1 in the Krasnoyarsk region.

### ETALON GROUP



Etalon's residential compound Krylya ('Wings') received Urban Awards 2019 as the most eco-friendly business-class property.

# SMART HOMES, CITIES AND INDUSTRIES

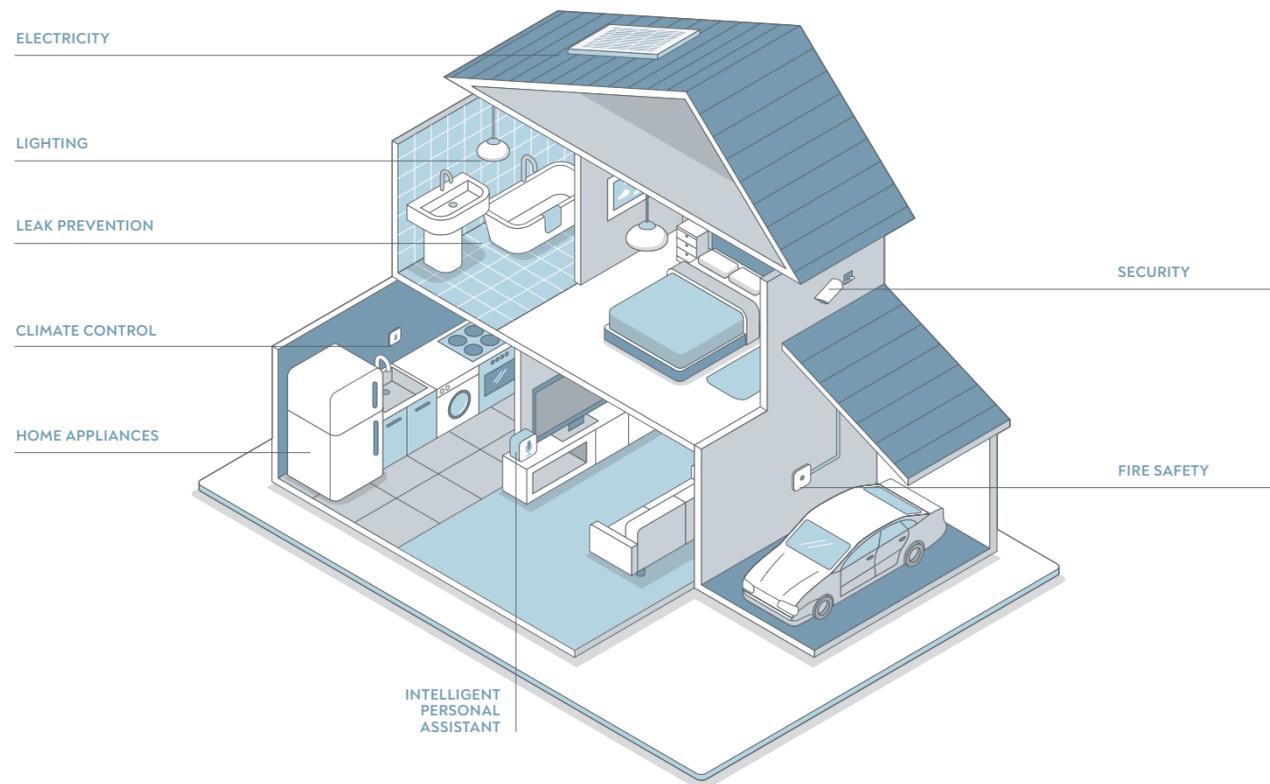
GRI 203-1

The improvement of living standards through the use of latest technology is a crucial achievement both for Sistema and for Group Companies. Disruptive technology makes life and city infrastructure more comfortable and manufacturing more efficient and eco-friendly.

## SMART HOMES

'Smart home' is an automation system that provides centralised control of specific functions (such as heating, lighting, ventilation etc.) in a home.

Smart Home solutions enable controlling water and power consumption, ensuring security, and (if the equipment is sophisticated enough) creating tailored pre-programmed day-to-day home automation scenarios with zero human input. This could include parting the curtains, turning on the light in specific rooms and controlling room temperature, or switching to low-energy mode when no human is present. This approach to home infrastructure management is conducive to lower consumption of utilities and resource conservation.



## MTS: AN IOT PLATFORM FOR APARTMENT BUILDING MANAGEMENT

In 2019, MTS launched VDome, a comprehensive domotics solution for managing entire apartment buildings composed of software for management companies and mobile apps for residents and maintenance professionals.

The platform meters the precise consumption of utility resources, takes and logs readings, and issues utility bills, all in a purely automatic mode.

The cloud platform will later be expanded to include new IoT functions, such as leak detection, elevator monitoring, and video surveillance.

The Internet of Things (IoT) connects multiple devices into a cohesive computer network, where they exchange data and interact in real time without human input.

## MTS: RUSSIA'S FIRST WATER METER WITH IOT CAPABILITIES

In late 2019, MTS signed an agreement with the instrumentation manufacturer OJSC Kvant to equip smart water meters with NB-IoT SIM cards to connect to the IoT network.

The solution will enable fast and accurate metering of water consumption, making it easier for businesses and individual customers to analyse data and reduce water bills.

MTS has rolled out the nation's biggest NB-IoT system that covers 62 constituent regions of Russia.

The solution integrates the meter with VDome, the telco's cloud platform for managing apartment buildings, with a mobile app displaying meter readings in real time. The integration makes it possible to gather immediate water consumption data and issue bills automatically, delivering greater billing transparency and minimising disputes.

MTS's monitoring system also enables reducing communal utility bills by an average of 10%, preventing system abuse (with sensors registering any tampering attempts) and detecting leaks and pipe breaks.

In January 2020, MTS signed an agreement with yet another meter manufacturer, Betar Ltd, to launch the production of Russia's first water meters equipped with special modules for connecting to IoT networks. The new meters will become the basic component of MTS's coming wide-ranging solution for the digital monitoring of utilities.

NB-IoT (Narrow Band Internet of Things) is a wireless technology standard for connecting home automation devices to standalone digital networks.

## ETALON GROUP: MICRO CLIMATE MODELLING

In 2019, Etalon Group first started using CFD (computational fluid dynamics) to design the optimal microclimate parameters for specific apartments in future buildings.

CFD modelling enables forecasting comfortable indoor climate variables, such as room temperature, air humidity, and air velocity, to ensure comfortable living early in the designing stage.

**MGTS: SMART ELECTRICITY METERS IN PILOT MODE**

In October of 2019, MGTS (a local telephony arm of MTS) teamed up with the utility company MosEnergoSbyt for a pilot project in the city of Zelenograd off Moscow, with smart electricity meters transmitting data directly from homes to the provider.

The company installed 174 new meters with embedded transmitters in place of old ones, enabling MosEnergoSbyt to monitor the readings in real time.

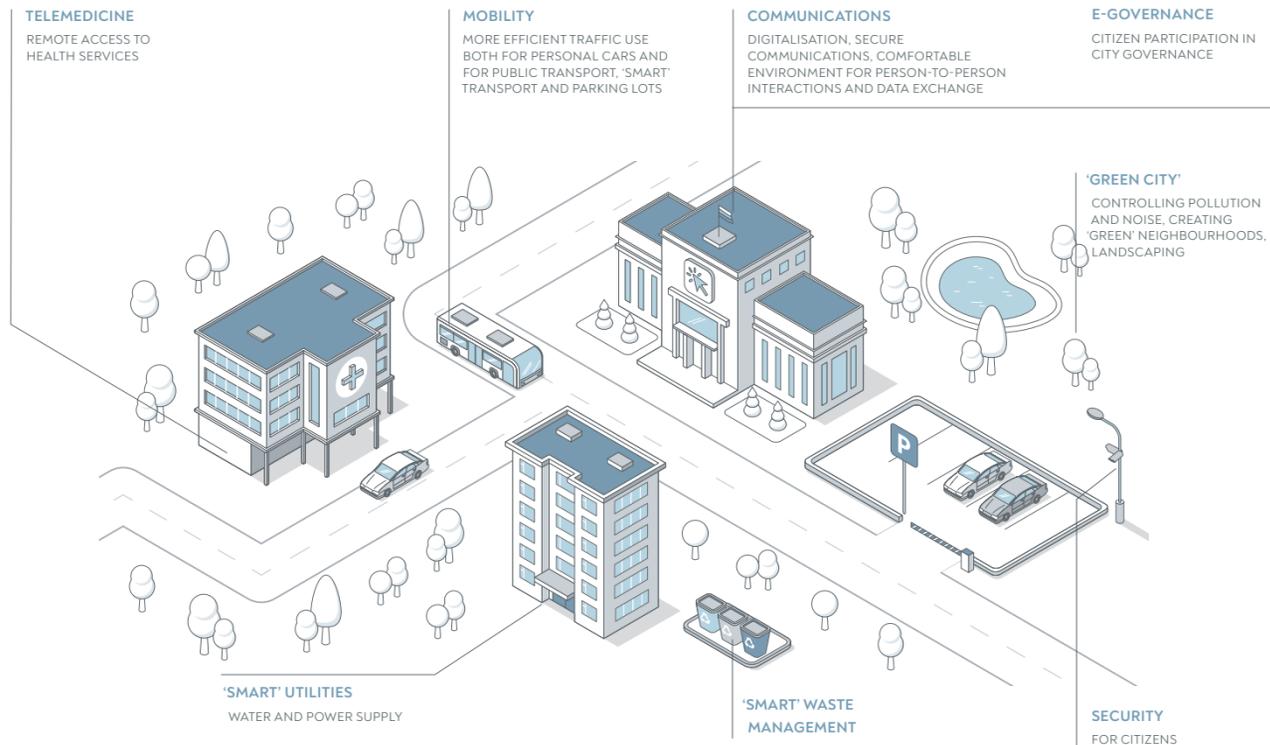
**ETALON GROUP: AN URBAN VERTICAL FARM IN A HOUSING ESTATE**

In August of 2019, the sales office of Etalon Group's housing estate Krylya opened an urban vertical farm in demonstration mode. The farm occupies a floor space of 15 square metres and allows growing up to 40 kilos of vegetables and greens a month in immediate proximity to consumers, guaranteeing their maximum freshness and nutritional value.

The greenhouse is born of a partnership between Etalon Group and Panasonic as one of many disruptive solutions for housing estates. The strategic focus of the partnership will include sustainable city development, energy-saving technologies, security, video surveillance and analytical systems, and new educational formats.

**SMART CITIES**

A 'smart city' is an automated system for managing the infrastructure of a particular community, including transports, energy, heat and water supply, and security, based on the data received from such community's information and communication networks. 'Smart' systems collect and analyse data without human input. For example, a 'smart' surveillance system can recognise and report a camera failure. A 'smart' traffic light analyses density data received from other lights and adjusts its operation mode so as to distribute the traffic in the optimal way.



'Smart city' solutions make communities more attractive to potential residents, enhance the efficiency of municipal services, and create safe and comfortable living conditions. A variety of 'smart city' projects are pursued as part of the national projects Housing and Urban Environment and Digital Economy.

The CEO of the property development company Leader Invest (part of Etalon Group) Oleg Mamayev is a member of the Smart City working group organised by the Russian Ministry of Construction Industry, Housing and Utilities.

Sistema Group companies are heavily involved in the innovative development of the communities they operate in and implement technologies designed to improve standards of living and urban environments.

**MTS: COOPERATION WITH THE SMART CITY NATIONAL CENTRE OF EXCELLENCE**

In March of 2019, MTS and the Smart City National Centre of Excellence of the Russian Ministry of Construction agreed on cooperating to devise and implement infrastructure digitalisation strategies for specific municipalities.

The Centre of Excellence develops, launches and promotes technologies, infrastructure, and programmes targeted at the digitalisation of urban services and facilities.

The cooperation will make best use of MTS's digital capabilities and practical experience in implementing 'smart city' projects, translating them into insights and methodological support for all those involved in infrastructure digitalisation.

**MTS: TECHNOLOGY FOR SAFE DRIVING**

In September of 2019, MTS introduced new 5G solutions for safe driving: Smart Overtaking, Smart Crossroads, and Safe Pedestrian.

Smart Overtaking improves visibility during overtaking manoeuvres and involves videos transmitted wirelessly from cameras in neighbouring cars to your dashboard screen.

Smart Crossroads uses wireless interaction of a car with the urban infrastructure and affords the driver real-time visibility all around the crossroads, minimising "blind spots".

Smart Pedestrian warns pedestrians of an approaching car through a smartphone or AR glasses and enables drivers to share front camera images in real time.

The above solutions are just an intermediate step from manual management to fully autonomous systems. Further down the line, MTS is planning to come up with a thorough and comprehensive Smart City solution.

**RUSNANO SISTEMA SICAR: HOLOGRAM TECHNOLOGY**

In May of 2019, the Russian company WayRay (an investee of Rusnano Sistema SICAR) came up with a first-ever holographic car navigator.

The solution projects 3D images directly on the windshield head-up display, making for easy navigation and other functions. The company signed contracts with 20 car makers and raised more than USD 100M in investments.

## MIKRON: CONTROLLING STREET LIGHTING AND WASTE HANDLING

In August of 2019, Mikron designed an IoT device to control street lighting in remote mode.

The solution can be used for automation and efficiency enhancement in the utilities sector, other critical infrastructure facilities, industrial sites, farms, greenhouses, and industrial lighting systems.

The technology minimises electricity costs, signals lamp malfunctions, and makes it easier to turn street lamps on and off and adjust their brightness, both individually and in bundles.

Also, in 2019, Mikron came up with a new IoT solution for the handling of solid municipal waste that remotely monitors the filling level of waste bins and optimises pick-up logistics by saving trips and fuel for refuse collection vehicles.

## MTS: A 'DIGITAL TWIN' FOR VLADIVOSTOK

The ambitious Digital Twin project in the city of Vladivostok was launched in 2019 pursuant to an agreement on the development of the Russian Far Eastern IT Cluster signed between MTS and Russian authorities. The project involves researchers and students from the Far Eastern Federal University.

The 'digital twin' technology is about creating accurate digital replicas of specific places from the physical world for analytical and forecasting purposes. MTS has by now modelled twins for 15 cities across Russia as part of a 'digital economy' concept.

The Vladivostok system will rely on MTS's own aggregated data at first but will go on to add more inputs as it matures, mirroring the region's environmental status, traffic density, connectivity and other aspects, coming to form a fully-featured 'digital twin'.

The system will enable the stakeholders to simulate and analyse various scenarios of urban processes, track population migrations, predict the adequacy of traffic junctions and urban infrastructure, assess the tourism carrying capacity, and ensure public safety.

## SITRONICS: DIGITAL DEVELOPMENT IN KALUGA

In 2019, SITRONICS JSC entered into an agreement with the city administration of Kaluga to pursue a programme of urban digitalisation.

The agreement provides for collaboration in a variety of projects, such as Smart City, Smart Transportation, Smart Education, and bespoke digital services for managing urban infrastructure and city-to-resident notifications.

## SITRONICS: URBAN DIGITALISATION IN THE REPUBLIC OF INGUSHETIA

In 2019, SITRONICS JSC made more progress in its Safe City project in Ingushetia, a 4.5-years initiative launched back in 2016. The company signed a new strategic partnership agreement with the republic's administration for a new round of Safe City steps to be taken in 2019-2024, while also tallying up the results achieved so far.

### Such achievements include:

- installing a traffic enforcement system of 55 photo & video nodes for controlling speed limits and crossroads rules;
- installing a smart video monitoring system & civilians-to-police emergency communications terminals;
- creating an Early Response Centre to predict, monitor, prevent and localise the consequences of emergencies and offences of law. The system analyses data gathered from the monitoring and communications system and so helps coordinate the actions of the first responders, police, road police, and the emergency dispatch office.

The now-signed new phase of the project is about building a full-blown republic-wide Safe City platform by 2021. The smart video surveillance system will be expanded to 550 cameras, with all districts equipped with special solutions to detect wildfires, maintain order and safety at vital utilities, monitor weather and seismic activity, and receive flood warnings.

## SITRONICS AND MTS: SMART TECHNOLOGY IN NOVOSIBIRSK

Sistema Group companies do their part in developing the Smart City concept in Novosibirsk, Russia's third-largest city.

- MTS created a video surveillance system to provide the local authorities with real-time security status updates and emergency alerts.
- SITRONICS created a transportation ecosystem for optimising traffic, enhancing the economic efficiency of public transport, and improving road safety.
- SITRONICS was also involved in the roll-out of a smart city park in the Dzerzhinsky District, providing video surveillance cameras, smart lighting poles that adjust to current weather conditions and by this way save electricity, and emergency communications terminals.

## BPGC: SMART GRIDS IN UFA

As of the end of 2019, BPGC had completed 91% of its Smart Grid programme.

The project aims to increase the transmission capacity of electrical grids and the security of power supply while also reducing electric losses and maintenance costs.

Smart Grids enable cutting repair and maintenance costs by 20%, speeding up diagnostic troubleshooting and switchovers by 70% (by ensuring grid observability and improving grid structure), and stretching service life by 10%.

The project was well received at the 2019 Russian Energy Week forum, with the Russian president Vladimir Putin mentioning it in his address as a good practice for other players to take a cue from.

## MTS: URBAN DIGITALISATION IN YAKUTSK

In November of 2019, MTS and the city administration of the near-Arctic city of Yakutsk launched two pilot projects in a bid to digitalise the community's utility functions:

- 'smart' collection of household waste;
- remote monitoring of the public utilities infrastructure.

MTS provided special sensors to mount inside solid household waste containers to monitor the filling level in real time. The analytics module inside the sensors makes it possible to predict the optimal number of containers in each district and plan waste truck routes in the best possible way.

MTS solutions also underlie the new technology used for taking automatic domestic meter readings and optimising the cost of utilities maintenance. Moreover, better metering practices allow utility operators to reduce their administrative costs by an average of 10-15%.

After a trial run in Yakutsk, the project will be scaled all across the region. Other local MTS initiatives concern implementing a special system to monitor the working condition of public vehicles and manage waste truck traffic.

## IIDEON: A FACE RECOGNITION SERVICE

November of 2019 marked the launch of Russia's first cloud-based face recognition service, Ivideon Faces, whose applications extend to retail, banking, the service sector, and corporate offices.

The project is a product of investments made by Rusnano Sistema SICAR and Skolkovo Ventures.

Ivideon Faces recognises new and regular customers, provides traffic analytics by day and by hour, and determines people's age, gender, and emotions. The service will allow businesses to make customer lists (both regulars and black lists), set notifications for when people from such lists make an appearance again, search the archive for specific faces, and make detailed reports about specific audiences.

## SMART INDUSTRIES

Smart industries involve the digitalisation of equipment, manufacturing processes, and human work, which often means integration with an IoT network, leading to innovative production methods and business models as well as greater efficiency.

Smart industries optimise and enhances the efficiency of industrial processes through the adoption of Information and Communication Technologies (ICT), while also delivering the means for a closer tracking of a company's environmental impact and its reduction by cutting consumption and waste.



Sistema Group companies actively integrate innovative and digital technology in their operations and aid the upgrades of other businesses by providing advanced tech services enabling better analysis of sales, inventory, and the status of production facilities and operational processes, which in turn translates into higher operating efficiency.

### MTS: A SINGLE INTERFACE FOR IOT APPLICATIONS

In December of 2019, MTS along with its system integration arm NVision Group launched a catch-all interface for IoT applications. The solution runs automatic device authentication and identification and makes it possible to manage the entire system through one interface.

The project received around one million US dollars in investment from MTS.

The technology has by now been tested by MTS clients in agriculture and energy sectors and by developers of door sensors, gas meters, and water and heat metering systems.

### MTS: NORMA THE VIRTUAL LAWYER

In 2019, MTS started selling the "virtual lawyer" application Norma for large and mid-size businesses.

The system uses artificial intelligence to process 90% of a business's documents while also reducing time spent on routine operations through paperwork optimisations and contract lifecycle management.

Norma is also capable of interacting with counterparties all by itself. E.g., in case a vendor or customer fails to respond to a notice or a deadline expires, Norma automatically issues a letter of claim charging a fine as per contract terms. The solution makes it possible to scale up paperwork processes while making them faster and accessible to all users.

### MIKRON: SUPPLY CHAIN OPTIMISATIONS

Mikron's new RFID solution makes it easy to track tagged products all along the supply chain, from start of production to delivery, and so optimise the production cycle by reducing downtime and minimising human errors, while also providing real-time control of all the key processes and enhancing production efficiency.

## FORESTRY

### SEGEZHA GROUP: LAUNCH SAP S/4HANA AND CREATIO

2019 saw the launch by Segezha Group of an SAP business process transformation project covering all of the company's main assets and functions, such as finance, logistics, accounting, consolidation, production, maintenance, and transportation. The technical infrastructure for the SAP project is developed by MTS.

The SAP solution will substitute more than 100 production and management systems and create a single digital core with best possible capabilities of cost management. The information will be conveniently accessible from all production sites via a user-friendly interface, both on corporate laptops and through mobile apps.

Also, in 2019, Segezha Group started implementing Creatio CRM system, to be fully operational by early 2021. The implementation works are in progress as we speak, with the system being tested and debugged and the staff learning to use it.

The solution will consolidate order and sales data across the Group and deliver more efficient customer communications.

## AUTOMOTIVE INDUSTRY

### MTS: A 5G INDUSTRIAL NETWORK AT A KAMAZ FACTORY

Another high-profile smart industries initiative launched in 2019 was born of a tie-up between MTS and Ericsson in a bid to create Russia's first private 5G & LTE network on the main production premises of Kamaz, the nation's largest producer of heavy-duty trucks.

The companies installed video surveillance and conference communications systems, organised secure access to local information resources, and delivered a VR/AR solution for remote training. The novel technology will serve to optimise the manufacturing process and add to the business's competitive strength.

## POWER INDUSTRY

### AEROMAX AND KRONSTADT: DRONE MONITORING OF POWER LINES

Aeromax and Kronstadt launched a new programme for the aerial monitoring of high-voltage power lines for granular condition control, enabling faster elimination of defects and better awareness of potential risks.

The system uses drone images to build 2D/3D terrain models, automatically scan them for defects (both natural and technical) and issue reports on the status of entire lines and their constituent elements.

## AGRICULTURE

### MIKRON: COW HEALTH MONITORING

In 2019 RTI's subsidiary Mikron presented a gadget for the all-round monitoring of farm cow health.

The device is worn on a cow's collar and closely tracks its physiological parameters and physical activity.

The data serves to control the state of health of each individual cow, enhance birth rates and milk output, minimise human errors, and optimise the labour inputs of farmers.

### STEPPE AND MTS: OPTIMISING MACHINERY MONITORING

In 2019 MTS provided tracking devices with embedded SIM cards to be mounted on the farm machinery used at Steppe AgroHolding in the Stavropol region.

The solution allows management to monitor the implementation of technological operations, fuel consumption, driving speed, and travel routes and receive timely updates about repair needs.

### CONNECTERRA: JOINING THE FARMING FOR GENERATIONS INITIATIVE

In the summer of 2019 Connecterra, a portfolio company of Sistema's venture capital arm Sistema\_VC, joined the Farming for Generations initiative launched by an alliance of agricultural sector leaders based on the understanding that the food system has to change in order to tackle a number of environmental and health problems and that agriculture has to play a pivotal role in the establishment of sustainable food systems of tomorrow. Farming for Generations aims to help dairy farms study the norms of regenerative agriculture for the preservation and replenishment of the planet's resources, proper livestock management and long-term economic viability of farms for future generations. Russia will become one of the project's pilot regions, with best practices formulated based on the experience gained from the 25 pilot projects in the USA, EU and Russia to be rolled out all across the alliance's global network.

## HOSPITALITY

### COSMOS HOTEL GROUP: DIGITAL SOLUTIONS IN HOSPITALITY

In March of 2019, the Cosmos Hotel (the flagship asset of Cosmos Hotel Group) became the first private hotel in Russia to use auto check-in, and in December of the same year it made a step further by introducing electronic 'guest cards'.

Guest cards are issued to customers booking rooms through the hotel's official website, via e-mail two or three days before the stay, and contain the booking number, personal identification data, stay dates, contacts, and QR-codes to be scanned at check-in for the guests to receive their room keys.

## REAL ESTATE

### LEADER INVEST AND KRONSTADT: NEURAL NETWORKS FOR THE REAL ESTATE MARKET

In 2019, Leader Invest (which belongs to Etalon Group) and Kronstadt developed special software to automate pricing and cost calculations for construction projects.

Kronstadt Group will start off by developing a system for automatic price list adjustments based on the progress of construction works and sales for optimal sales targets and price growth forecasts. The new system is expected to raise the profit margins of specific projects by 10-12%.

The novel software will rely on a neural network to automatically analyse data on each project, study the local competition, evaluate views from windows based on drone images, factor in market trends, and add up all the input data to set the initial prices and choose the optimal sales model.

### ETALON GROUP: DIGITAL INITIATIVES FOR THE CONSTRUCTION INDUSTRY

Etalon Group uses digital innovations in construction projects and keeps upgrading its cutting-edge project management system that uses BIM models, web-based systems, and TraceAir solutions.

BIM stands for building information modelling.

This involves digital models of buildings where all stakeholders interact over the entire lifecycle of the project. Such models typically combine physical, functional, technical, and economic parameters of the building.

The use of BIM technology addresses a wide variety of challenges related to design and construction works, speeds up engineering, and optimises cash flows and construction timing. BIM technology also enables assessing the scope of cost of necessary works early in the project.

Etalon Group also used BIM models to create a web-based comprehensive construction monitoring platform that helps management to control safety discipline, receive real-time updates from sites, see 3D models of the locations where safety rule violations are detected, and locate hazardous situations in need of immediate intervention.

The construction control system is further enhanced through the application of TraceAir, an automated solution for monitoring all construction stages based on data retrieved from drones.

## HEALTHCARE

### MEDSI: IMPLEMENTING IT TOOLS ACROSS

In 2019, Medsi Group embarked on automating its management analytics software around the centralised Microsoft SQL Server storage infrastructure and Microsoft Power BI visualisation tools.

The project provides for a centralised collection and processing of information across the chain, which makes corporate reporting materially easier and enables a more thorough analysis of the chain's financial and operating performance.

Moreover, the new analytical system is so accurate and detailed that users can easily parse data down to a specific service provided to a patient, track doctor performance, fine-tune overheads distribution methodologies, and calculate the costs of services.

# OPERATIONAL ECO-EFFICIENCY

## ENVIRONMENTAL IMPACT MANAGEMENT

Sistema strives to ensure responsible resource management and environmental safety of production processes, manufactured products and services provided by its portfolio companies.

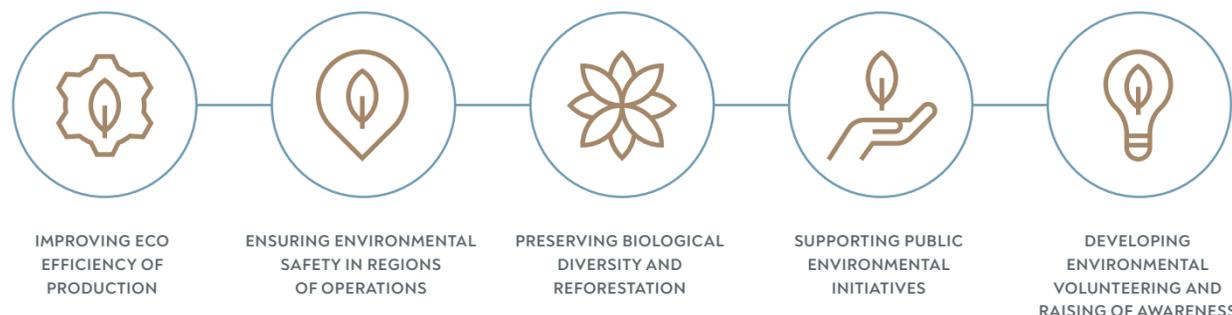
GRI 103-1  
GRI 103-2

As an investment company, Sistema has no direct environmental footprint, but it closely watches the footprint of its assets. The Corporation's primary responsibility is determining environmental management priorities within portfolio companies and monitoring their activities to evaluate their environmental footprints and manage risks.

Sistema's approaches to environment protection are set out in the Corporate Governance Code, the Code of Ethics, the Sustainability Policy and the Corporate Social Responsibility Policy. Environment protection will be covered in greater detail in the Environmental Policy that is being drafted by Sistema

Compliance with environmental legislation of regions and countries of operations is mandatory for the Corporation and its assets. Sistema Group companies implement environmental management systems in accordance with ISO 14001: 2015. The certificates are held by the enterprises of Segezha Group, Etalon Group, BPGC.

### AREAS OF THE CORPORATION'S ENVIRONMENTAL RESPONSIBILITY



### Environmental Management System

#### PRIORITIES OF THE CORPORATION'S ENVIRONMENTAL MANAGEMENT

Sistema	<ul style="list-style-type: none"> <li>Code of Ethics</li> <li>Corporate Governance Code</li> <li>Corporate Social Responsibility Policy</li> </ul>	<ul style="list-style-type: none"> <li>Demonstration of commitment to the principles of environmental responsibility to the Group Companies</li> <li>Promotion of best practices of environmental responsibility among the Group Companies</li> <li>Monitoring of the performance of the Group Companies in terms of environment protection and increasing environmental transparency</li> </ul>
Sistema Group companies	<p>Principle of strict compliance with environmental regulations</p> <ul style="list-style-type: none"> <li>Corporate responsibility strategies</li> <li>Codes of ethics</li> <li>Environmental policies</li> <li>Energy saving programmes</li> </ul>	<ul style="list-style-type: none"> <li>Management of environmental risks and impact</li> <li>Introduction of environmental responsibility and reporting standards</li> <li>Enhancement of eco-efficiency of production (areas: energy saving, resource saving, waste management, protection of air, water and land resources, preservation of biodiversity, etc.)</li> <li>Interaction with stakeholders on matters related to environment protection</li> </ul>

### SEGEZHA GROUP: PUBLIC ENVIRONMENTAL COUNCIL

In February 2020, the management of Segezha PPM (part of Segezha Group) and legislators of the town of Segezha established a public environmental council under the municipal administration.

The purpose of the Council is to pursue a coordinated environmental policy and ensure cooperation between local government bodies, citizens and regional public organisations.

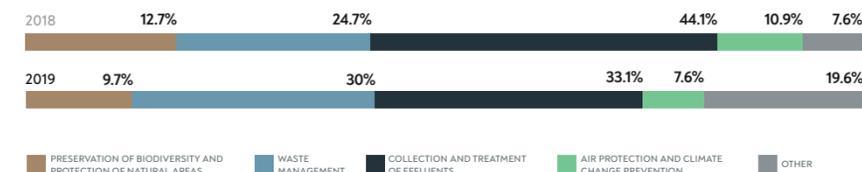
Membership is voluntary; the Council comprises representatives of public organisations, environmental experts and local residents. The first Council was composed of 13 members, including the chief environmental engineer of Segezha PPM, head of the territorial division of the Russian Federal Service for Supervision of Customer Rights Protection, members of the Commission for the Development of Economy, Entrepreneurship and Consumer Market and the Commission for Civil Society, Public Control, Interaction with Public Councils and Non-Profits of the Public Chamber of the Republic of Karelia.

### SISTEMA GROUP'S EXPENDITURES RELATED TO ENVIRONMENTAL PROTECTION, RUB THSD

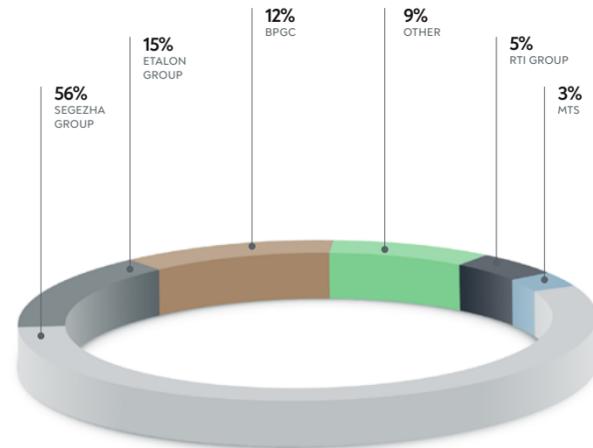


In 2019, spending on environmental protection grew by 27% compared to 2018. The increase came from the change in the calculation perimeter, new assets added to Sistema Group (notably, Etalon Group) and growing rates of environmental payments.

### STRUCTURE OF SISTEMA GROUP'S EXPENDITURES RELATED TO ENVIRONMENTAL PROTECTION, %



TOTAL ENVIRONMENTAL EXPENDITURES BROKEN DOWN BY ASSETS<sup>1</sup>



GRI 307-1

In 2019, 12 financial sanctions for breach of environmental legislation<sup>1</sup> were imposed on Sistema's portfolio assets, to an aggregate amount of approx. RUB 1.1 million.

SEGEZHA GROUP: DIALOGUE WITH COMMUNITY

In February 2020, President of Segezha Group Mikhail Shamolin met with local residents to discuss environmental matters. Over 150 residents of Segezha and local employees of Segezha Group attended the event.

At the meeting, Mr Shamolin presented an investment programme of Segezha PPM, including its environmental section. He spoke about the production processes and actual emissions, chemical reactions and functioning of the existing filters, and also about further development of the mill as part of the Segezha West investment project.

In 2019, the environmental situation in the town of Segezha attracted a lot of attention, and local residents were inclined to blame the mill's operations. At the start of 2020, the Federal Service for Supervision of Natural Resources carried out an inspection and established that the concentration of pollutants in the mill's emissions and waste water was slightly above the maximum permitted level. But the emissions did not contain any poisonous substances that could kill living organisms (birds). At the meeting, town residents received answers to their questions about the environmental component of the mill's operations and the company's plans for becoming more eco-friendly.

They also discussed Segezha Group's intention to participate in the region's development, including assistance to the administration of the Segezha municipal district with applying for the Water National Project, which may help to improve the quality of water supply in the town.

A four-party memorandum on cooperation in the area of ecology and environment protection was signed at the event. It was signed by the president of Segezha Group, the natural resources and ecology minister of Karelia, the head of administration of the Segezha district, and the chair of the Public Environmental Council.

<sup>1</sup> Data for MTS, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, and SITRONICS.  
<sup>2</sup> Data for Medsi, Business Nedvizhimost, Cosmos Hotel Group, Element Group.

ENVIRONMENTAL FOOTPRINT OF SISTEMA GROUP COMPANIES

The Group Companies strive to reduce their environmental footprint and adhere to the principles of rational use of natural resources. The Corporation's assets take measures to prevent a negative impact on water and land resources and on biodiversity in their regions of operations.

USE OF WATER RESOURCES<sup>1</sup>

Sistema Group strives to ensure rational use of water resources and reduction of water consumption within the portfolio companies' operations. Changes in water consumption are related to the change in the calculation perimeter, and elaboration of the methodology of data collection from the Group Companies, including elimination of duplicate data of some portfolio companies.

In 2019, water consumption by the Group was 93.5M cu m, which is 12.8% lower than in 2018.

GRI 303-1

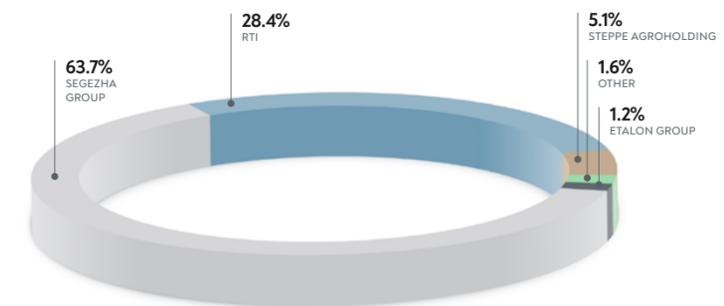
Water Withdrawal by Sistema Group Companies by Source, k cu m

	2017 <sup>2</sup>	2018 <sup>3</sup>	2019 <sup>4</sup>
Water service companies	35,434	45,747	36,031
Natural sources	51,635	57,983	54,913
Other sources	3,862	3,511	2,550
Total	90,931	107,241	93,494

The structure of water sources changed only slightly in 2019, with natural sources and municipal water supply systems accounting for the bulk of withdrawal.

GRI 303-1

WATER CONSUMPTION BY GROUP COMPANY



<sup>1</sup> Data on use of water resources in 2017 and 2018 was recalculated after adjustment of figures for individual companies of the Group.  
<sup>2</sup> Data for 2017 is provided for: MTS, Segezha Group, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, Binnopharm, SITRONICS, and EWUB.  
<sup>3</sup> Data for 2018 is provided for: MTS, Etalon Group, Segezha Group, Steppe AgroHolding, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, Binnopharm, SITRONICS, and EWUB.  
<sup>4</sup> Data for 2019 is provided for: MTS, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, SITRONICS.

The bulk of water consumed by Sistema Group is consumed by production assets. The water consumption structure in the Group did not change compared to the previous year.

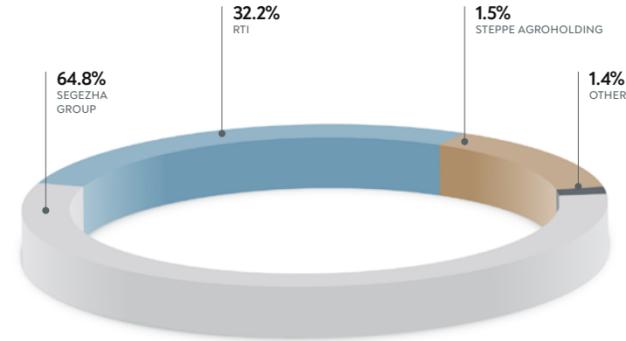
Water Discharge by Sistema Group Companies, *k cu m*

	2017 <sup>1</sup>	2018 <sup>2</sup>	2019 <sup>3</sup>
Discharged for treatment	36,319	44,830	<b>34,818</b>
Treated	41,553	41,568	<b>40,877</b>
Discharged to water bodies w/o treatment	5,045	6,616	<b>6,272</b>
<b>Total</b>	<b>82,917</b>	<b>93,014</b>	<b>81,967</b>

Water discharge by the Group Companies in 2019 totalled almost 82M cu m, a decrease of 11.9% from 2018.

GRI 306-1

WATER DISCHARGE BY GROUP COMPANY, %



The structure of water discharge by company changed only slightly, due to changes in the calculation perimeter.

ATMOSPHERE PROTECTION

The agricultural and forestry assets account for the bulk of emissions made by Sistema Group. Steppe AgroHolding and Segezha Group take extensive measures to reduce impact on the atmosphere and limit emissions of ozone-depleting, chemical and other substances.

GRI 305-7

RELEASE OF NO<sub>x</sub>, SO<sub>x</sub> AND OTHER MATERIAL POLLUTANTS INTO THE ATMOSPHERE BY SISTEMA GROUP COMPANIES<sup>4</sup>, *t*

2017 <sup>5</sup>	<b>22,892</b>
2018	<b>25,549</b>
2019	<b>25,453</b>

1 Data for 2017 is provided for: MTS, Segezha Group, Cosmos Hotel Group, BPGC, RTI, Sistema, Binnopharm, SITRONICS, and EWUB.  
 2 Data for 2018 is provided for: MTS, Segezha Group, Steppe AgroHolding, Cosmos Hotel Group, BPGC, RTI, Sistema, Binnopharm, SITRONICS, and EWUB.  
 3 Data for 2019 is provided for: MTS, Segezha Group, Medsi, Steppe AgroHolding, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, SITRONICS.  
 4 Data for Segezha Group, Steppe AgroHolding, Cosmos Hotel Group, BPGC, RTI, and SITRONICS. Data for 2017 and 2018 was recalculated after adjustment of figures for individual companies of the Group.  
 5 Data for 2017 does not include Steppe AgroHolding.



Release of NO<sub>x</sub>, SO<sub>x</sub> and Other Material Pollutants into the Atmosphere by Sistema Group Companies, %

	2017 <sup>5</sup>	2018	2019
NO <sub>x</sub>	12.0	15.7	<b>15.0</b>
SO <sub>x</sub>	19.7	12.3	<b>8.0</b>
Persistent organic pollutants	0.0	0.0	<b>0.0</b>
Volatile organic pollutants	2.0	1.5	<b>1.7</b>
Hazardous air pollutants	18.7	20.2	<b>19.0</b>
Particulate pollutants	26.9	37.5	<b>42.4</b>
Other standard categories of air pollutants used in related regulations	10.7	13.2	<b>13.8</b>

The structure of air emissions changed due to the change in Sistema's asset structure and the calculation perimeter.

MTS: CAR FLEET MODERNISATION PROGRAMME

In 2019, MTS carried out a large-scale replacement of company cars with cars whose engines meet the Euro 5 emissions standard.

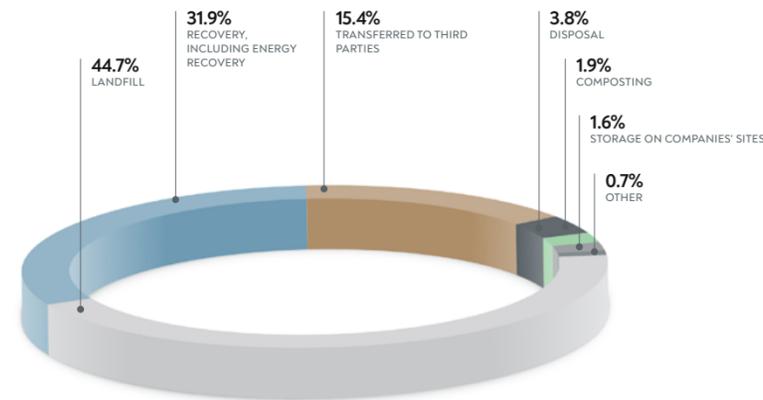
The reason for the launch of this programme was that company cars were among the main sources of MTS's negative impact on the environment; their exhaust gases contained over 200 toxic components and compounds.

## INDUSTRIAL AND CONSUMPTION WASTE MANAGEMENT

Sistema adopts a responsible approach to waste management and strives to minimise waste generation. Waste generated by the Corporation and its portfolio assets is low-hazard or practically non-hazardous. In 2019, 99% of the Corporation's waste was class IV or V (non-hazardous waste). The total waste amount was 1.6M t.

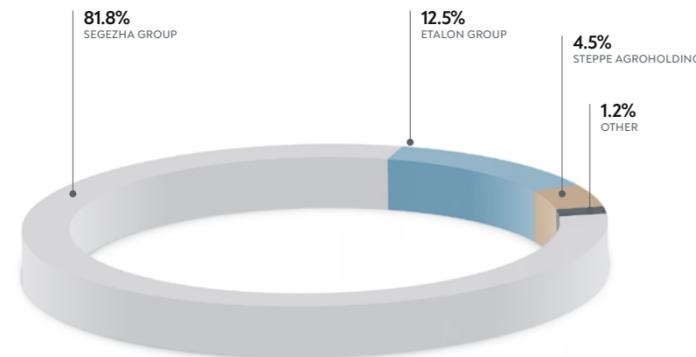
GRI 306-2

### TOTAL WASTE OF SISTEMA GROUP BY DISPOSAL METHOD IN 2019<sup>1</sup>



For more information on wood waste recycling at Segezha Group, see [Energy Management and Climate change](#).

### WASTE GENERATED BY GROUP COMPANIES



## SERVICES FOR DIGITALISATION OF WASTE MANAGEMENT

In July 2019, MTS launched a project for digital management of solid household waste collection in the Samara region.

The company remotely monitors the state of trucks and the load of containers by installing special sensors.

The results of the pilot project will be used to establish a single control centre for garbage trucks in the Samara region, integrated with the weight control system at landfills, which will also be automated.

Mikron (a part of RTI) developed a wireless optical device for remote monitoring of the amount of waste in garbage bins. This allows optimising the logistics of garbage collection.

The new device will be useful for utility services, and companies and organisations that are directly involved in waste generation or disposal. It will reduce the time of truck operation and fuel expenses, and make it possible to control the fact of garbage collection.

<sup>1</sup> Data for MTS, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, and SITRONICS.

## SEGEZHA GROUP: PREVENTION OF UNAUTHORISED DUMPING IN FORESTS

In accordance with the terms of its forest lease agreement, LPK Kipelovo JSC (a part of Segezha Group) monitors the state of its forest areas. Since dumping of solid household waste in forests of the Vologda region had become increasingly frequent, the company's experts organised a series of public discussions of the problem.

GRI 306-4

## ELECTRONIC WASTE

In 2018, a report was presented at the World Economic Forum in Davos devoted to the problem of the growing amount of electronic waste—thrown away electrical devices<sup>1</sup>.

Sistema and the Group Companies take into account the global waste management agenda and adopt a responsible approach to the disposal of electronic devices. Such waste is transferred to the manufacturer for proper disposal or to other companies for recycling.

## MTS: ELECTRONIC WASTE MANAGEMENT

# 30.5%

REDUCTION OF ELECTRONICS PROCUREMENT BY MTS IN 2019, WHICH WILL REDUCE THE AMOUNT OF ELECTRONIC WASTE IN THE FUTURE

In 2019, MTS continued its campaign to collect used batteries at its Moscow and regional offices. A total of 1,492 kg of batteries were collected for disposal. Another 435 kg were collected in volunteer programmes and submitted to public collection points at shopping centres.

The list of waste types that MTS gets recycled or disposed of grows longer every year, with special attention being paid to handling of electronic waste.

Type of waste	2018	2019	HANDLING
Used cartridges, pcs	165	755	Landfill
Computer equipment, pcs	570	1,315	Disposal
Batteries, kg	874	1,927	Disposal

## DETSKY MIR: COLLECTION OF BATTERIES, ACCUMULATORS AND USED HOUSEHOLD APPLIANCES

In 2019, Detsky Mir organised a pilot project for collection of used batteries and accumulators together with GP and provided special boxes for batteries at its central office. As many as ten boxes were filled, packaged and sent for recycling.

To draw the employees' attention, a campaign was organised in March 2019 titled "An apple for your batteries". In 2020, collection of used batteries and accumulators at Detsky Mir's central office will continue.

Also, in 2019, employees of the central office took part in collection of used household appliances for recycling together with the Sobirator project. As a result, over 120 kg of broken appliances were collected for recycling.



<sup>1</sup> <http://ecopress.center/page4843325.html>

## PRESERVATION OF BIODIVERSITY

The Group Companies participate in environment protection measures in regions where they operate. Sistema's portfolio assets recognise the importance of preserving biodiversity and invest in various projects aimed at protecting ecosystems.

### BPGC: PROTECTING BIRDS FROM POWER GRIDS

In 2019, Bashkirenergo (part of BPGC) continued installing bird protectors on power lines. The devices minimise the risk of birds being injured by electric current and enhance the reliability of the power grids.

GRI 304-3

The company uses self-supporting insulated wire in design, construction and upgrade of 0.4 and 6-10 kV overhead transmission lines. This wire has insulation that provides reliable protection for birds.

### SEGEZHA GROUP: RESTORING THE POPULATION OF STURGEONS IN THE YENISEY RIVER

Representatives of Lesosibirsk Woodworking Plant No 1 (part of Segezha Group), the Yenisey division of the Federal Fishery Agency and the Yenisey Department for Aquatic Bioresources Protection released 60,000 young sturgeons in the Yenisey in 2019.

In 2019, the company continued cooperation with the Russian Geographic Society (RGS) in carrying out important research and outreach initiatives and studies of local and global environmental and cultural heritage problems. Sistema Charitable Foundation and the RGS provided support to research projects related to protection of plants and animals, including rare species.

### MTS AND THE RGS: BOOK ON THE SHALABOLINO<sup>1</sup> CAVE DRAWINGS IN THE KRASNOYARSK REGION

In 2019, MTS and the Krasnoyarsk regional division of the RGS created a book titled Illustrated History of Yenisey Siberia: a Study of Shalabolino Petroglyphs as part of the Cultural Code project. The electronic version of the book is available on the website of the Nash Krasnoyarsky Kray newspaper.

In 2020, MTS will organise a series of workshops for students of Krasnoyarsk schools where they will learn about cave drawings.

<sup>1</sup> The biggest petroglyph site in the Krasnoyarsk region. There are eight clusters of drawings at different heights along 2 km of rocks. Overall, there are more than one hundred planes with 550 drawings.

## REFORESTATION

GRI 304-1

Segezha Group, a subsidiary of Sistema Group, is the biggest forest user in the European part of Russia. The company is interested in having an environmentally and economically sound cycle of forest use and carries out annual reforestation measures in regions of operations.

In 2019, Segezha Group joined the federal project Preservation of Forests.

It will establish and reconstruct tree nurseries in the Kostroma, Krasnoyarsk and other regions of operations that are expected to have a shortage of planting stock needed for reforestation.

The main goal of the partnership is to bridge the gap between the potential of the Russian forest (20% of global forests and 1.5% of the global forest GDP) and the efficiency of its use.

*For details on the model of intensive forest use see Segezha Group's Sustainability Report for 2019*

Segezha Group operates according to an intensive forest use model, which makes it possible to use wood resources more efficiently, but at the same time sensibly and without harming future generations. The intensive model reduces the burden on unexploited forests with high ecological value and helps to preserve the natural ecosystem of forests.

### SEGEZHA GROUP, MEDSI AND BPGC: PLANTING TREES

In 2019, Segezha Group's employees took part in the Plant a Tree environmental campaign that was timed to coincide with the Day of Forest Industry Workers. Volunteers from Segezha Group planted 700 young trees in forests, alleys and parks in six regions of the company's operations. The campaign took place in Vologda, Sokol, Lesosibirsk, Segezha, Kirov, Onga, and Moscow.

Another tree and bush planting campaign, Green Bashkiriya, was organised by BPGC. Its employees planted over 1,000 trees in Kumertau, and the Kuyurgazinsky and Kugarchinsky districts.

Medsi organised a traditional Saturday clean-up at the Otradnoye rehabilitation centre and clinical hospital in Pyatnitskoye highway, planting hydrangeas, lilacs and chestnuts.



# ENERGY MANAGEMENT AND CLIMATE CHANGE

## ENERGY MANAGEMENT

GRI 103-1  
GRI 103-2

With a view to improving the operational efficiency of the Group's business, all companies of Sistema Group put a great effort to reduce the energy intensity of their operations: they introduce energy saving technologies, start using more energy-efficient and eco-friendly types of fuel. The companies are increasing the share of renewable energy sources, which results in reduction of the carbon footprint of produced goods and helps decrease greenhouse gas emissions.

The companies of the Group have adopted regulations that govern their approaches and goals in the area of management of energy resources and enhancement of energy efficiency, for example:

- Energy saving and energy efficiency programme for 2016-2023 adopted by Bashkirenergo LLC (part of BPGC);
- Energy saving and energy efficiency strategy of MTS PJSC and regional energy saving and energy efficiency programmes.

Moreover, the enterprises of the Group's portfolio companies are undergoing the certification of their energy management systems under ISO 50001.

### MTS: ENERGY SAVING AND ENERGY EFFICIENCY STRATEGY

In 2010, MTS introduced Energy Saving and Energy Efficiency Strategy aimed at cutting the consumption of electric power. All regions where the company operates have introduced their own energy saving and energy efficiency initiatives.

The strategy is used in construction of base stations where MTS installs energy saving equipment.

The company is also guided by energy saving principles in procuring backup power sources and uses diesel power stations from European producers that comply with strict requirements to fuel consumption efficiency and CO<sub>2</sub> emissions.

## ENERGY CONSUMPTION AND ENERGY EFFICIENCY

GRI 302-4

In 2019, total consumption of fuel and energy resources increased by 50.4% due to the growth of energy consumption at Steppe AgroHolding and Segezha Group, expansion of the data monitoring perimeter across the companies of the Group<sup>1</sup> and adjustment of data collection methodology in 2018.

Energy intensity across Sistema Group stood at 334.7 GJ/RUB M, which is 78% higher than in 2018.

The companies of the Group are using different types of fuel and energy sources with thermal power accounting for about 5% of the total consumption, electric power for 17% and fuels (boiler, furnace, and motor types) for 78%. In 2019, the Group saw electric power consumption drop by 37%, while the consumption of thermal energy increased due to redistribution of energy resources at Segezha Group.

GRI 302-1

Consumption of Fuel and Energy Resources at Sistema Group by Type<sup>2</sup>, GJ

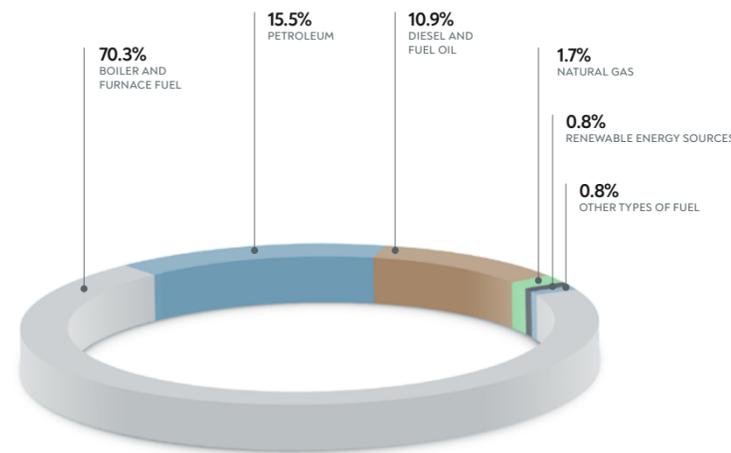
	2018	2019
Electric power	16,813,539	10,526,703
Thermal power	16,033,152	36,688,641
Fuel	113,359,288	172,669,668
Total	146,205,979	219,885,012

Steppe AgroHolding and Segezha Group are companies that lead the portfolio by fuel consumption due to the nature of their operations, growing business scale and the fact that they operate their own boiler plants.



1 The increase is related to inclusion of data from the foreign assets of Cosmos Hotel Group.  
2 Data for MTS, Detsky Mir, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Cosmos Hotel Group, BPGC, RTI, SITRONICS, Concept Group.

FUEL CONSUMPTION BY GROUP COMPANIES, BY TYPE OF FUEL



GRI 302-3

Energy Consumed per RUB M of Consolidated Revenue, GJ/RUB M

	2018	2019
Energy Consumed per RUB M of Consolidated Revenue, GJ/RUB M	188,07	334,75

**RTI: ENERGY EFFICIENT ENGINES**

In 2019, electric plant Uralelectro (part of RTI concern) launched a 5-year modernisation programme with total investments amounting to RUB 250M. The new equipment will make it possible to start manufacturing a series of new energy-efficient engines, broaden the product mix to include nuclear engines, as well as explosion-proof and railway transport engines that have no rivals in Russia. After modernisation the enterprise will get an unconditional competitive advantage, which will contribute to implementation of the import substitution programme.

Sistema and companies of the Group are continuously promoting the use of energy-efficient technologies in the regions where the Group operates.

**MGTS: OPTIMISATION OF ELECTRIC POWER CONSUMPTION**

In October 2019, MGTS (part of MTS) launched a pilot project for installing electric vehicle charging stations. This project will help the company to use its energy capacity to develop new business segments and become a player in the emerging high-tech market.

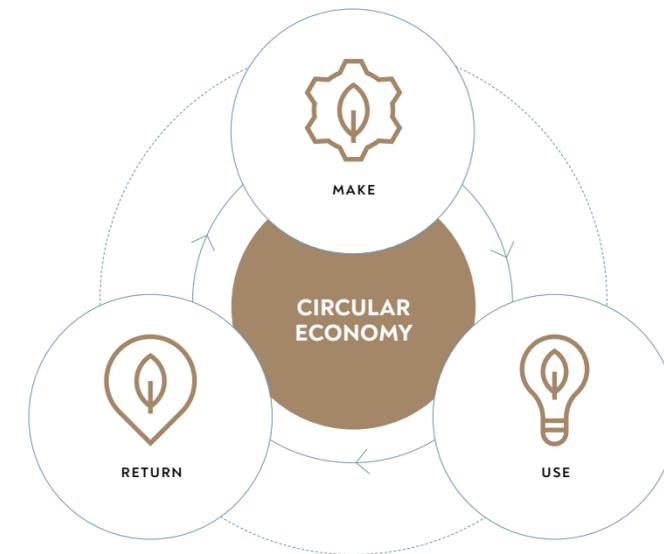
MGTS has a broad network of automatic telephone stations, which for many years housed energy-intensive equipment. After modernisation of the network and migration to GPON technology (a broadband network where one cable is used for providing Internet, TV and telephony services) the volumes and energy consumption of equipment significantly decreased. This enables the company to use energy reserves for developing new business segments, including a chain of electric charging stations.

In 2019, a network of 10 charging points was commissioned with an ultra-fast vehicle charging function, which makes it possible to charge a car in just 20-30 minutes.

The pilot project will explore several focus areas: demand for the service, its efficiency and possibility to migrate from traditional to electric vehicles. The demand for such infrastructure is due to comprehensive introduction of domestically produced electric public transport in Moscow. It is expected that a network of electric charging stations will be built in Moscow in the near future.

**CIRCULAR ECONOMY AND BIOENERGY**

Sistema Group is pro-actively implementing bioenergy and circular economy technologies<sup>1</sup>. The main principles of such approach are based on recycling and switching from fossil fuels to renewable energy sources.



**SEGEZHA GROUP: A MULTI-FUEL BOILER UTILISING BARK WASTE**

Segezha Group generates a lot of wood waste in the course of its operations. The moisture content of such waste is about 60%, which makes its disposal a complicated process.

In 2019, a new multi-fuel boiler fired by bark waste was installed at Segezha PPM with a capacity of 120 t of steam per hour. The total cost of the project is about RUB 3.5bn.

The boiler utilises bark waste from production facilities and generates additional electric power required for production needs with a minimum impact on the environment. At the same time, it helps reduce fuel oil consumption by 30% and harmful emissions by 40%. Segezha's multi-fuel boilers are fitted with state-of-the-art electrical filters that are capable of purifying atmospheric emissions with filtration effectiveness at 99.7%.

<sup>1</sup> Circular economy is an alternative to a traditional economy in which consumption and production go through a closed-loop cycle: resources are used to their maximum, there is no accumulation of waste and the adverse impact on the environment is minimised.

Combustion of wood waste will contribute to reduction of greenhouse gas emissions. The environmental impact of the new boiler is monitored by a specialised laboratory and production units of the plant. There is constant monitoring of air quality, noise level, soil continuum, the quantity of potable water and wastewater composition in wastewater treatment plants. As part of its effort to protect the Mozog-Guba bay in the Republic of Karelia Segezha Group has launched a project for returning the heated water used for equipment cooling to a water treatment unit in order to prepare purified water for production needs. The disposal of ash dust has been taken under control: the ash dust from the electric filter's collector is delivered to a special landfill.

The new boiler unit will not only enhance the eco-efficiency of the production facility, but will also help improve the level of technologies and reduce the production cost, making Segezha Group more competitive in the global market.

### SEGEZHA GROUP: PELLET PRODUCTION



Segezha Group aims to extract maximum value from wood resources and decrease its impact on the environment by implementing measures designed to ensure that 100% of wood is recycled. One of the company's key activities is production of fuel granules, also known as pellets.

In 2018, the company launched pellet production at Lesosibirsk Woodworking Plant No. 1 in the Krasnoyarsk region. According to the European standard EN plus®, the new pellet plant is equipped with a special mini-laboratory to ensure continuous monitoring of quality. In August 2019, the company started construction of a second pellet production line, which increased production output by 30,000 t a year. In 2020, production output is expected to go up to 100,000 t due to installation of the third line of pellet production.

The use of pellets makes it possible to reduce the consumption of fossil fuels and solve the problem of waste disposal. Compared to fossil fuels (coke, coal and natural gas), fuel granules produce ten times less CO<sub>2</sub> emissions.

The pellets produced by Segezha Group were certified by an independent auditor as A1-class pellets under the ENplus® standard – white pellets with minimum ash content (less than 0.5%), which makes them competitive in the European market.

### SEGEZHA GROUP: A BOILER HOUSE WORKING ON BARK WASTE

Onega Energy JSC (a subsidiary of Segezha Group) built the largest bark waste fired boiler in Russia. In 2019, the company completed the assembly of a new (the fourth) 14 MW bark waste fired boiler. The production facility already has two operating boilers with a production capacity of 17 MW each, which are utilising the bark waste from Onega Woodworking Plant. The boiler house also has a backup diesel boiler with a total capacity of 9 MW.

Following the launch of new boilers, the use of the diesel boiler as a backup and during peak demand will be reduced to almost zero. Due to the introduction of renewable energy sources the production capacity of the plant increased by 40% up to 40 MW in autumn 2019.

The boiler house is also providing heating power to meet the needs of the Onega Woodworking Plant and the residents of Onega.

## GREENHOUSE GAS EMISSIONS AND MANAGEMENT OF CLIMATE RISKS

GRI 103-1  
GRI 305-1

Greenhouse gas emissions to the Earth's atmosphere are believed to be the main cause of climate change.

Among the key sources of greenhouse gases are fuel and energy consumption and some production processes. In order to tackle this problem, businesses should aim to reduce direct greenhouse gas emissions, increase energy efficiency and decrease the energy intensity of their goods. Every year the companies of Sistema Group expand their activities in this area: implement energy-saving technologies, conduct modernisation of production facilities and infrastructure, broaden the use of alternative energy sources, optimise logistical routes and upgrade vehicle fleets.

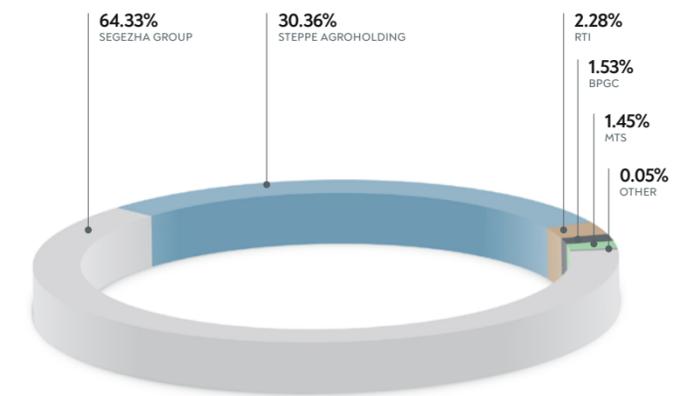
The companies of Sistema Group are recording and monitoring greenhouse gas emissions. In 2019, direct GHG emissions stood at 0.85M t of CO<sub>2</sub><sup>1</sup>.

Direct GHG Emissions, t CO<sub>2</sub>

	2017	2018	2019
	1,205,757	1,093,158	847,205

In 2019, the bulk of the reduction in greenhouse gas emissions fell on MTS and Steppe AgroHolding.

### SISTEMA GROUP'S DIRECT GHG EMISSIONS IN 2019 BY COMPANY



GRI 305-4

GHG emissions intensity by consolidated revenue, t CO<sub>2</sub>/ RUB M

	2018 <sup>2</sup>	2019
	1.4	1.29

The ratio of greenhouse gas emissions to the consumption of fuel and energy resources, t / THSD GJ

	2018	2019
	7.46	3.85

1 Data for MTS, Segezha Group, Steppe AgroHolding, Cosmos Hotel Group, BPGC, RTI, SITRONICS, Concept Group  
2 Data for 2018 is presented in accordance with the consolidation perimeter at the time of disclosure.

## SEGEZHA PACKAGING: REPORT ON CO<sub>2</sub> EMISSIONS

GRI 103-3

In 2019, Segezha Packaging (Segezha Group's assets operating in Europe) published a report on the amount of CO<sub>2</sub> emissions in 2018. The research was conducted with the support of DFGE (Institute for Energy, Ecology and Economy).

The purpose of the report is to determine the amount of CO<sub>2</sub> emitted to the atmosphere, including both direct GHG emissions and indirect emissions resulting from using external energy sources. The calculations were made in accordance with a methodology set out in the Greenhouse Gas Protocol that takes into account direct and indirect CO<sub>2</sub> emissions.

According to the assessment findings, the amount of CO<sub>2</sub> emissions in 2018 decreased by 14% year-on-year. The share of emissions coming directly from the companies' sources (vehicles and heating) was 25% and the share of indirect emissions produced in the process of consuming energy received from third parties was 75%, which is in line with the existing environmental safety standards.

Segezha Packaging aims to manage climate risks by implementing measures aimed at reducing greenhouse gas emissions and minimising the carbon footprint of the company. The report makes it possible to assess the progress made by the company in this area, measure and manage its impact on the environment.

The consequences of climate change may become a serious threat to the activities of the production facilities of Sistema Group. Climate change may potentially result in damage to infrastructure and natural reserves used for production activities (forests, agricultural land); it may also negatively influence the employees' health and have other negative effects. Therefore, the Group became aware of the need to take a systematic and strategic approach to the management of climate risks and have a better understanding of their impact on the business strategy and financial position of the Group Companies. Sistema is looking into potential strategic threats and opportunities related to climate change and building an adequate approach to the management, adaptation and selection of effective response measures.

For example, the greatest threat to the agricultural assets of Sistema Group is posed by climate risks relating to unfavourable weather conditions during the crop ripening season, the impact of adverse climate conditions on crop yields (frosts, hail, sunburn), water consumption and animal farming. Therefore, the company is taking specific measures to prevent the potential consequences of climate threats: using moisture-saving soil cultivation technologies, no-tillage farming<sup>1</sup>, anti-hail protection devices, etc.



<sup>1</sup> No-tillage or zero tillage is a farming system in which the seeds are directly deposited into untilled soil which has retained the previous crop residues. It is also referred to as no-till. Leaving the upper soil layers undisturbed helps prevent the erosion of soil by water and wind and preserve water.

## MTS: PARTICIPATION IN JAC CLIMATE CHANGE WORKING GROUP

GRI 308-2  
GRI 102-13

In 2019, MTS joined Climate Change Working Group created under the umbrella of JAC (Joint Audit Cooperation), which audits and develops the suppliers of information and communication technologies in terms of their compliance with responsible business principles.

The goals of the working group include development and implementation of standards aimed at decreasing a negative impact on climate. Participation in the working group enables MTS to get access to best practices in the area of management of greenhouse gas emissions. This initiative helped the company to formulate new goals in the area of greenhouse gas emissions:

- defining the most significant sources of greenhouse gas emissions and their amount in MTS's supply chain;
- setting goals for reduction of greenhouse gas emissions in MTS's supply chain and progress monitoring;
- setting requirements to suppliers to achieve emission reduction targets.

## MTS: JOINING GSMA CLIMATE CHANGE INITIATIVE

In September 2019, MTS joined the GSMA to minimise the impact of the telecommunications industry on climate change. Participation in the initiative will enable MTS to make a contribution to the decarbonisation of the telecom industry to achieve zero GHG emissions by 2050 in accordance with the Paris Agreement on climate change.

MTS aims to reduce GHG emissions from the use of the company's own infrastructure and, by offering digital services, help customers from other industries to reduce emissions and attain sustainable development goals.

Cooperation with the GSMA on climate issues is designed to ensure total transparency of the company's environmental impact and raise public awareness about the company's initiatives aimed at increasing energy efficiency and cutting carbon emissions.

At present MTS is disclosing a broad range of environmentally important data about its activities, including energy consumption and the amount of greenhouse gas emissions through a globally recognised information disclosure system CDP.

## MTS: CLIMATE CHANGE RISK MANAGEMENT

In 2019, MTS created a dedicated working group under the CSR Committee to develop and implement the Unified Carbon Management and Climate Risk Change Assessment Program, which included representatives of 10 departments of the company. The main tasks of the group are formulating a unified climate strategy for the company, establishing business processes for its implementation, developing a climate risk map and energy efficiency targets.

MTS became one of Russia's 10 top-ranked CDP<sup>1</sup>-reporting companies, with an assigned score of C ("Awareness"), which testifies to the high degree of transparency and responsibility of MTS in the area of disclosure of environmental information and impact on climate.

<sup>1</sup> Formerly known as the Carbon Disclosure Project (CDP).

# SUPPORT TO REGIONS AND SOCIAL AND CHARITY PROJECTS

GRI 103-3



>125 BN RUB

IN TAX PAYMENTS TO BUDGETS OF ALL LEVELS

>1.4 BN RUB

IN SOCIAL INVESTMENT TO COMMUNITIES

>1.1 M

PARTICIPANTS OF CHARITY PROGRAMMES EVERY YEAR

15

AGREEMENTS WITH REGIONAL GOVERNMENTS

## The UN Global Compact Principles

### PRINCIPLE 1

Businesses should support and respect the protection of internationally proclaimed human rights

### PRINCIPLE 2

Businesses should make sure that they are not complicit in human rights abuses

## Awards Received by Group Companies

### DETSKY MIR GROUP



Detsky Mir's charitable Operation Toys project was named as the best project in the Society. Business category of the Change Management. Visionaries 2019 annual national award.

### MTS



MTS's volunteer Culture Code project received Effective Grand Prix from the international PROBA Awards 2019. As part of the project the company's volunteers restore and preserve historic buildings, support vocational schools and local communities, help organise authentic local events and exhibitions.

### SEGEZHA GROUP



Segezha Group won in the For Contribution to the Social Development of Territories category in the national competition Leaders of Russian Business: Dynamics, Responsibility, Sustainability 2019 organised by the Russian Union of Industrialists and Entrepreneurs.



MTS became one of the top 5 companies in the list of Russia's leaders of corporate charity in 2019, which was compiled by Vedomosti newspaper, the Donors Forum and PwC.

GRI 103-1

Sistema's portfolio companies are active in almost all regions of Russia, as well as several foreign locations, substantially contributing to the socio-economic development of local communities. The Group's social policy prioritises the development of human capital and the improvement of living conditions, through technology and otherwise.

## SOCIAL AND ECONOMIC PARTNERSHIPS WITH LOCAL ADMINISTRATIONS

GRI 203-2  
GRI 413-1  
GRI 103-2

In its dealings with local governments across the country, Sistema is invariably committed to mutually beneficial socio-economic partnerships. Agreements signed with regional administrations aim to organise concerted efforts toward the development of communities and territories where Sistema Group companies operate.

Having signed new agreements with the governments of the Omsk region (in Siberia) and the Stavropol region (in the Russian south), in 2019 Sistema became a party to 15 agreements with local administrations of 13 regions.

The agreements define priority interests of the parties and ways for achieving common goals through traditional mechanisms of government support, such as special economic zones, priority development territories, monotown benefits, industrial, research and production clusters, etc. Whatever the arrangement, Sistema never extends financing for any political purposes whatsoever and rigorously opposes to any ideas of competitive advantages to be unfairly obtained to the prejudice of other market players.

### Key Agreements with Local Administrations

Group companies	Regions
SISTEMA PJSC	The Republic of Karelia and the Vologda, Kirov, Irkutsk, Arkhangelsk, Kostroma, Samara, Novosibirsk, Yaroslavl, Omsk, Stavropol, Krasnodar, and Primorye regions
SISTEMA CHARITABLE FOUNDATION	The Republic of Altay
MTS	The Republic of Adygeya, Dagestan, Ingushetia, Karachay-Cherkessia, Komi, Tatarstan, Buryatia, Sakha (Yakutia), Kalmykia; Kamchatka, Krasnoyarsk, Primorye, Voronezh, Novosibirsk, Rostov, Ryazan, Lipetsk, Sakhalin, Amur, Kaluga and Samara regions City administrations: Kostroma, Moscow, Nizhni Novgorod, Orenburg, Polyarnye Zori, St Petersburg, Tobolsk
SEGEZHA GROUP	The Republic of Karelia; Arkhangelsk, Vologda, Sakhalin, Kirov, Kostroma, Rostov and Krasnoyarsk regions
STEPPE AGROHOLDING	Stavropol and Rostov regions
BPGC	Bashkortostan's Ministry of Education
MEDSI	St. Petersburg, the Sakha (Yakutia) Republic, Tatarstan, Karelia, and the Nenets Autonomous District
SITRONICS	Republic of Ingushetia; Novosibirsk and Samara regions; city of Kaluga

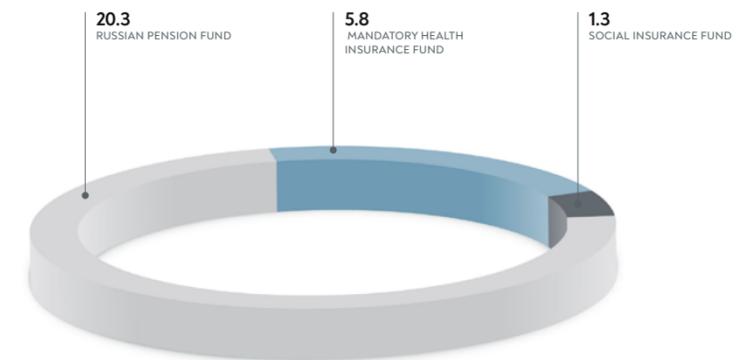
The geographical expansion and increased efficiency of the business boosts the tax revenues of regional budgets, creates new jobs, and supports the local business environment.

The amount of actual tax payments made to the budgets of all levels and off-budget social funds in 2019 reached RUB 125.2bn, of which almost 22% went toward pension, healthcare and social insurance funds.

### SISTEMA GROUP'S TAX PAYMENTS TO THE FEDERAL BUDGET, RUB BN



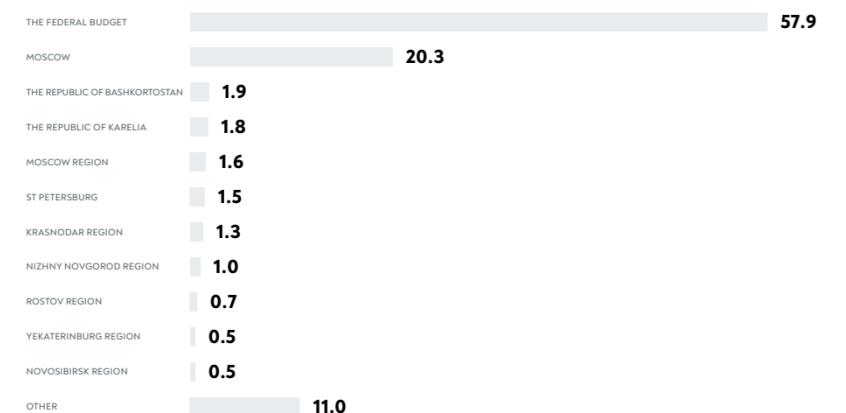
### NON-TAX CHARGES IN 2019, RUB BN



42%

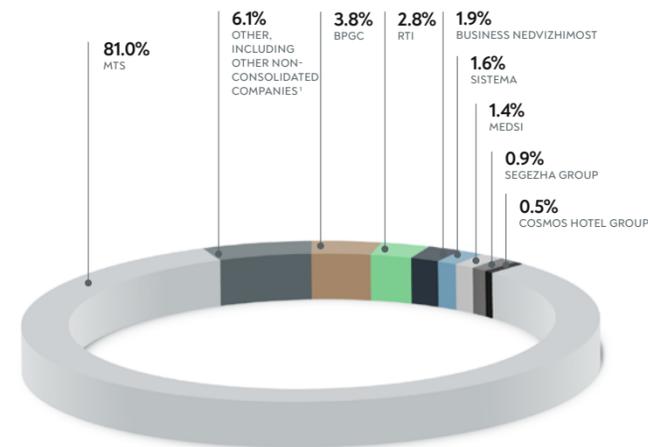
OF ALL TAX PAYMENTS MADE BY GROUP COMPANIES IN 2019 WENT TOWARD LOCAL BUDGETS

### 2019 SISTEMA GROUP'S TAX STRUCTURE BY RECIPIENT, %

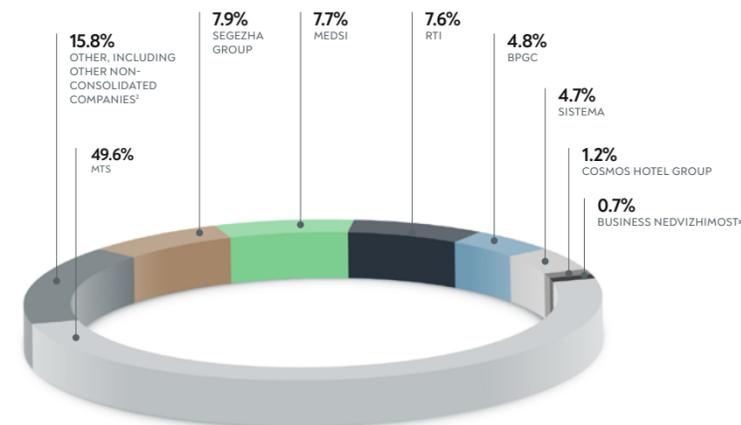


### 2019 Sistema Group's Tax Structure by Company

#### FEDERAL AND LOCAL TAXES COMBINED



#### NON-TAX CONTRIBUTIONS



#### Procurement from Local Suppliers and SME in 2019<sup>3</sup>, %

Average share of procurement from SME	37.7
Average share of procurement from local suppliers	56.0

### SEGEZHA GROUP: COOPERATION WITH ONEGA CITY

In pursuance of a special programme dubbed I Love Sports, in 2019 Segezha Group provided RUB 1M to the Karelian city of Onega to create public sports infrastructure.

The funds went toward special sports grounds equipped with exercise machines, chin-up and skid bars, abdominal crunch beds, and other workout gear, as well as rubberised coating and rain caps.

<sup>1</sup> Amounts are recognised in proportion to ownership.  
<sup>2</sup> Amounts are recognised in proportion to ownership.  
<sup>3</sup> Aggregated data for MTS, BPGC, RTI, Element, SITRONICS, Etalon Group, Segezha Group, and Steppe AgroHolding.

### SEGEZHA GROUP: HOTEL CONSTRUCTION IN THE CITY OF SEGEZHA

In 2019, Sistema—with the support of the Ministry of Economic Development of the Republic of Karelia—started the construction of a hotel complex (dubbed Karelskoye Belomorye) in the city of Segezha. The facility will include 60 guest rooms and a conference room for up to 100 people.

The project aimed at the development of the local tourism infrastructure received the support of the majority of Segezha residents at a public hearing.

Sistema's investment in the construction is some RUB 2bn.

#### HOTEL CONSTRUCTION IN SEGEZHA

>300<sup>M</sup>  
RUB  
TOTAL INVESTMENT

2020  
PROJECT TIMELINE

40  
NEW JOBS

60  
ROOMS

The tastefully landscaped premises will include multiple open-access amenities:

- a café;
- a playground;
- a sports ground;
- a bicycle/roller skate rental;
- conference rooms for meetings and events.

### MTS AND DETSKY MIR: FLOOD RELIEF IN THE IRKUTSK REGION

In 2019, MTS and Detsky Mir extended support to flood victims in the Irkutsk region.

In the summer of 2019, abundant rainfall in the Irkutsk region caused a major inundation that destroyed and critically damaged many homes.

Detsky Mir organised a donations campaign among its vendors and collected a relief consignment of 25,000 items of clothing, shoes, and stationery for the local children, to a total value of RUB 2.5M.

MTS Bank (a banking arm of MTS) provided a six months' loan holiday to those affected by the flood and cancelled/reversed penalties charged after June of 2019.

### SINTEZ: PARTICIPATION IN A YOUTH STRATEGY SESSION

In November of 2019, Kurgan State University held a youth strategy session titled The 2030 Kurgan Region as the Place to Live and Work In inviting young minds to think about the mid-term future of their home region. 10 teams of 600 students worked through proposed projects promoting advancements in various aspects of the local well-being.

At the end of the 2-day session, a jury comprising members of the local government and heads of major businesses (including Sintez) elected the 5 best projects and awarded their authors with certificates enabling the implementation of their respective initiatives.

## SOCIAL DEVELOPMENT EFFORTS

GRI 203-1

Always aiming to achieve the fullest social impact in all of its social support activities, Sistema extends support to stakeholders in a wide variety of ways:

- financial aid: grants, donations, fundraising;
- non-financial aid: volunteering and access to resources.

**1.1** BN RUB

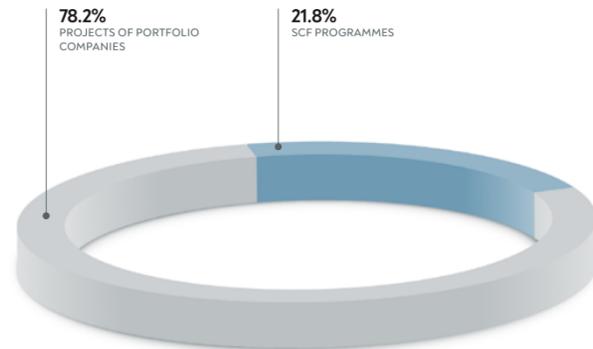
SPENT SISTEMA GROUP IN DIRECT SOCIAL INVESTMENT, WHICH EQUALS **0.17%** OF THE GROUP'S TOTAL CONSOLIDATED REVENUE IN 2019

### SISTEMA'S DIRECT SOCIAL INVESTMENTS, RUB M

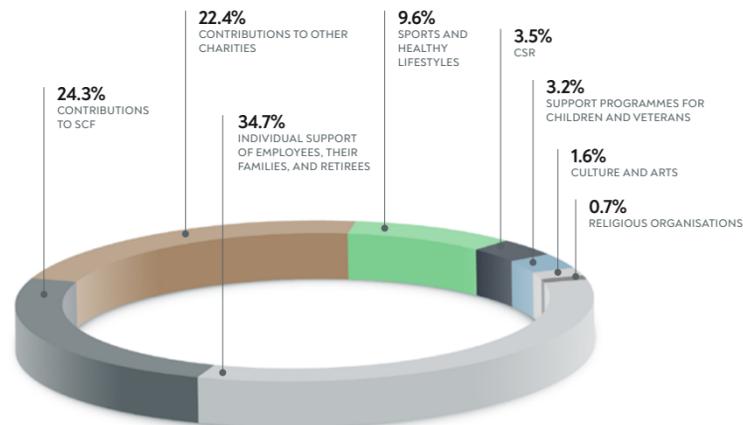


■ SISTEMA CHARITABLE FOUNDATION<sup>1</sup>  
■ GROUP COMPANIES<sup>2</sup>

### FINANCING OF SOCIAL AND CHARITABLE ACTIVITIES WITHIN SISTEMA GROUP IN 2019



### STRUCTURE OF SPENDING ON CHARITABLE AND SOCIAL PROGRAMMES IN 2019<sup>3</sup>



1 Net of SCF's operating expenses.  
2 Net of contributions to SCF.  
3 Including contributions to SCF.

## CHARITY AND SOCIAL INVESTMENT

GRI 103-2

Sistema Group's main charity operator for more than 15 years is Sistema Charitable Foundation, which manages group-wide charity projects in three spheres: Education and Technology, Culture and Arts, and Social Needs and Volunteering.

The focus of specific charity and community initiatives is determined based on the UN Sustainable Development Goals and national and corporate priorities, with efficiency assessed in two aspects:

- The social effect:
  - the number of beneficiaries;
  - the engagement of employees of Group Companies;
  - the difference made for the beneficiaries.
- The scale and systematic approach assessed through SCF's standing in the professional community:
  - charity rankings;
  - media indices;
  - surveys and polls.

In 2019, Sistema approved Charity Procedures that fully regulate the processing of outside charity applications, the specific mandates of SCF's employees, and the procedures for interacting with (and vetting) potential beneficiaries.

### KEY FOCUS AREAS AND PROJECTS OF SISTEMA CHARITABLE FOUNDATION

<b>EDUCATION AND TECHNOLOGY</b>	16,437 participants	<ul style="list-style-type: none"> <li>• The Odyssey: a series of technological contests bringing together businesses, the tech community and nonprofits for addressing social issues. For more details see Health and Safety.</li> <li>• Microelectronics. Level 157: a one-year advanced training programme in microelectronics for young engineers and project teams, combining theory with practice and industry requirements. For more details see Human Capital.</li> <li>• Future Tense: a sci-fi short story contest and a series of open lectures on science fiction. For more details see below.</li> </ul>
<b>SOCIAL ENVIRONMENT AND VOLUNTEERING</b>	36,495 participants	<p><b>Support for veterans:</b></p> <ul style="list-style-type: none"> <li>• Taking Care of Veterans: support and medical care for World War II and labour veterans (including former Group employees) in the regions where the Group operates. For more details see Access to Products, Services and Information.</li> </ul> <p><b>Local charity initiatives:</b></p> <ul style="list-style-type: none"> <li>• The international Giving Tuesday;</li> <li>• Charity New Year events for the underprivileged.</li> </ul> <p><b>Development of corporate volunteering:</b></p> <ul style="list-style-type: none"> <li>• The System of Good Deeds: a grant contest for supporting the best volunteering initiatives of Sistema Group employees and developing corporate volunteering. For more details see Human Capital.</li> <li>• Volunteer clean-up days.</li> </ul> <p><b>Partnership projects:</b></p> <ul style="list-style-type: none"> <li>• Crossing the Boundaries of Silence, an inclusivity theatre staging puppet shows with sign-language interpretation for deaf children, organised by MTS with support from SCF.</li> </ul>
<b>CULTURE AND ARTS</b>	14,380 participants	<ul style="list-style-type: none"> <li>• Long-term programme for supporting projects of the State Russian Museum (St Petersburg).</li> <li>• Cultural Weekend: a federal project where the best Russian museums (of arts, history, etc.) offer visitors free admission for 1-2 days on weekends.</li> <li>• Cultural Exchange: organising local exhibitions of art from museums across Russia.</li> </ul>

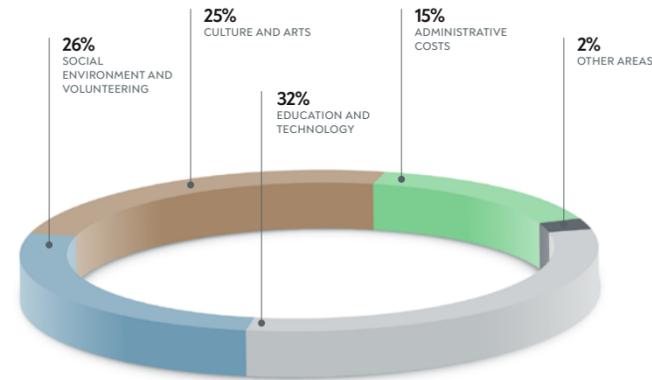
**275.4<sup>M</sup>**  
RUB

CONTRIBUTED BY GROUP COMPANIES TO SCF IN 2019 FOR GENERAL CORPORATE INITIATIVES

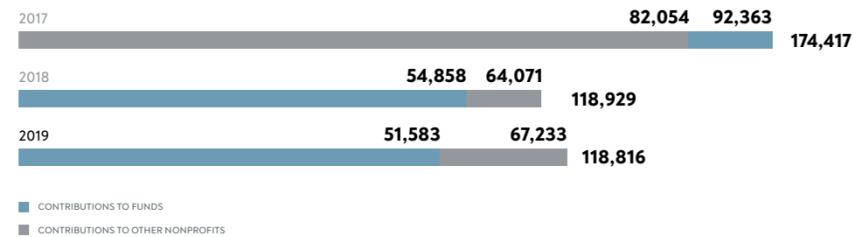
**283.2<sup>M</sup>**  
RUB

TOTAL SCF FUNDING IN 2019<sup>1</sup>

STRUCTURE OF FUNDING FOR SCF CHARITY PROJECTS



SCF'S DONATIONS TO FUNDS AND OTHER NON-PROFITS, RUB THSD



Contest Awards Issued in 2019

NAME OF CONTEST	NO. OF PARTICIPANTS	NO. OF BENEFICIARIES	GRANT AMOUNT, RUB THSD
Future Tense	1,141	7	1,100
Odyssey	130	8	22,146
Sistema in Support of Good Cause	27	13	1,648
Microelectronics. 157	80	4	1,000
<b>Total</b>	<b>1,378</b>	<b>32</b>	<b>25,894</b>

<sup>1</sup> Administrative costs included.

GRI 103-3

**67,312**

PERSONS FROM 73 REGIONS ACROSS RUSSIA WERE DIRECTLY INVOLVED IN VARIOUS SCF PROGRAMMES (NET OF BENEFICIARIES FUNDED BY NON-PROFITS)

Grants Issued by Sistema Charitable Foundation, RUB M

	2017	2018	2019
<b>TO INDIVIDUALS</b>			
No. of beneficiaries	17	26	32
Amount issued, RUB THSD	6,623	3,585	25,894
<b>TO LEGAL ENTITIES</b>			
No. of beneficiaries	40	44	-
Amount issued, RUB THSD	22,813	20,936	-

In 2019, over a million people from Russia and 30 other countries of the world received healthcare and social services, access to state-of-the-art educational, cultural and outreach programmes and opportunities to unlock their potential in the hi-tech sector through Sistema Group's charity efforts.

THE WRITING CONTEST FUTURE TENSE

The 2019 season of the Future Tense sci-fi writing contest garnered over a thousand entries from authors from 31 countries across the world. The winners will receive a total of RUB 1M in prizes, with the shortlisted stories published in book form and translated into English.

Future Tense is an SCF project promoting Russian science fiction among readers around the world.

FUTURE TENSE FOR GENERATION M

In 2019, MTS, AST Publishing, and Sistema Charitable Foundation launched a nationwide contest dubbed Future Tense for Generation M, combining SCF's sci-fi writing contest Future Tense with MTS's expertise in child creativity projects (Generation M) and AST's publishing capabilities.

The contenders were invited to create art or short stories on any of the proposed topics: Cities of Tomorrow, Healthcare of Tomorrow, Science and Technology of Tomorrow, Entertainments of Tomorrow, Education of Tomorrow, and Fashion of Tomorrow. The works of Russia's finest young writers and artists were collected into a book painting a future world.

NEW YEAR CHARITY EVENTS

In December of 2019, Sistema Charitable Foundation organised New Year shows for more than 5,000 children from large families, orphanages, and other social institutions. In addition to that, Detsky Mir sent support consignments to a total value of some RUB 29M to nine regions across Russia.

The New Year programme involved theatre musicals in the Kostroma region, featuring a brass band and performers from the local philharmonic, The New Year Star Mystery show in Moscow (organised with support from Detsky Mir and MTS), and shows arranged by Steppe AgroHolding and Segezha Group in the Stavropol and Krasnodar regions.

SCF also continues cooperating with the nationwide project Clown Doctors providing psychological support to children taking lengthy treatment courses or permanently living in nursing homes. In 2019, the project's participants visited over one hundred young patients cared for by Lighthouse Charity Foundation.

### INCLUSIVITY PROJECTS FOR PEOPLE WITH SPECIAL NEEDS

In 2019, SCF and the Russian Museum launched a programme of inclusivity projects for visitors with special needs:

1. Russia's first "tactile museum" with audio guidance and a Braille information board for the blind and deaf-blind;
2. an art therapy course A Bridge Over the Abyss for children with autism spectrum disorders;
3. a five-tour guide programme From Mikhail Vrubel to Pavel Filonov for the deaf and hard-of-hearing, along with other adapted museum tours;
4. an inclusivity musical puppet show for deaf children (with sign-language interpretation) titled Crossing the Boundaries of Silence, which was organised by the concerted effort of MTS and SCF and toured 20 cities of Russia. The show involved 380 volunteers from MTS and attracted an audience of 2,600 viewers, both young and adult;
5. inclusivity information services;
6. a mobile video-and-sign-language museum tour app for users with impaired hearing;
7. upgraded wheelchair ramps.

### THE SOCIO-CULTURAL CHARITY FESTIVAL SISTEMA FEST

In 2019, SCF conducted Sistema Fest, a charity festival in the Kostroma region (in partnership with MTS, Detsky Mir and Segezha Group) and Bashkortostan (in a tie-up with BPGC) involving corporate employees.

The festival comprised popular science documentaries for children, quizzes, lectures, master classes, an interactive research laboratory, a movable art exhibition, and career guidance classes.

An important part of Sistema Fest is Cultural Weekend, an initiative where multiple museums in major cities invite visitors free of charge on particular days.

As part of the festival, SCF issued RUB 5M in donations to local institutions.

### VICTORY DAY EVENTS

As in previous years, in 2019 SCF organised a series of events in celebration of the Victory Day, including tours to war history museums, theatre shows, volunteer clean-up days, and theme nights. The entertainment events were visited by more than 2,600 veterans.

MGTS (a Moscow fixed telephony arm of MTS Group) also joined the Victory Day effort, providing all war veterans from its subscriber base with unlimited free call privileges across the Moscow region throughout the festive season of 01-14 May 2019.

### #GIVINGTUESDAY

For more details about SCF and its 2019 performance results see [SCF's 2019 Annual Report](#)



or on SCF's official website



As in years before, in 2019, the companies of the Sistema Group took part in the international Giving Tuesday campaign:

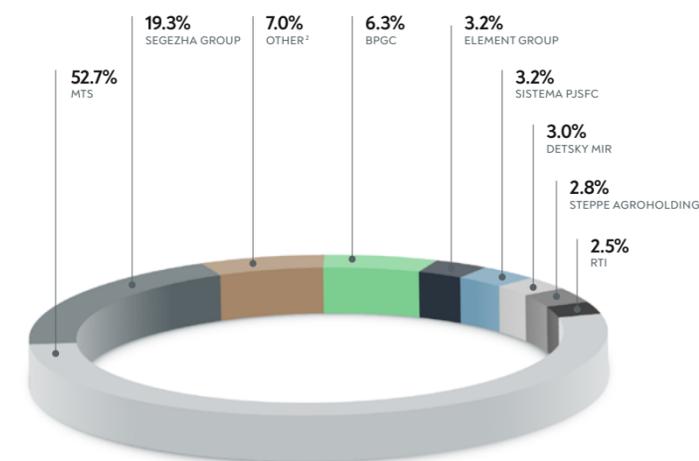
1. MTS Bank launched a donations-for-likes campaign in the social media, making donations to the charity Arithmetic of Goodness to finance extra classes and tutoring for six underprivileged children from various cities of Russia.
2. Medsi lent support to the charity programme Women's Health and ORBI Stroke Survivors Foundation by providing 300 free check-ups and doctor consultations.
3. SCF donated more than 1,500 books for children in the Rostov, Smolensk, Kostroma and Stavropol regions and the Republic of Altay and provided the Anima Development Centre in Saint Petersburg with tickets to the Russian Museum and exciting lecture programmes for 300 young developmentally challenged students.

### INDIVIDUAL CHARITY PROJECTS OF SISTEMA GROUP COMPANIES

In addition to projects pursued by SCF, companies across the Group have their own charity and support projects addressing specific pressing needs of local communities.

Group companies provided RUB 857.2M to social support and charity in 2019, the heaviest donations coming from MTS, Segezha Group and BPGC.

### CONTRIBUTIONS TO THE GROUP'S CONSOLIDATED CHARITABLE BUDGET<sup>1</sup>



<sup>1</sup> Net of contributions to SCF.  
<sup>2</sup> Other includes Etalon Group, Medsi, Alium, Sintez, Business Nedvizhimost, Cosmos Hotel Group, RTI, Kronstadt, SITRONICS, Sistema Capital, Concept Group and EWUB.

**SEGEZHA GROUP: THE GRANT CONTEST GOOD FORESTS OF SIBERIA**

In 2019, Segezha Group launched Good Forests of Siberia, a grant good citizenship contest aimed at the promotion of an eco-friendly culture, the creation and reconstruction of public spaces, and the popularisation of new forms of leisure activities among children and adults.

The contest garnered more than 50 entries, 15 of which received awards from a prize pool of RUB 1M. The projects were organised with a view to capturing the involvement of the wide public, authorities, and businesses.

**DETSKY MIR: OPERATION TOYS**

As part of its signature project Operation Toys, in August of 2019 the Detsky Mir Charitable Foundation set up three new play rooms in the Republican Pediatric Rehabilitation Hospital in the Minsk region (Belarus). All in all, in 2019 the Foundation arranged more than 400 play rooms in hospitals and rehabilitation centres.

Project Operation Toys is Detsky Mir's signature charity project where the company sets up and provides toys and decorations for play rooms in pediatric hospitals.

**DETSKY MIR: CHARITY CAMPAIGN PARTICIPATE!**

Detsky Mir's charity campaign Participate! that ran at all of the chain's stores between 1 January and 16 March 2019 collected over 1.72M much-needed items for children, including clothing, shoes, toys, candy, etc.

Customers were invited to leave gifts and necessary items for underprivileged children in special boxes near cash registers, to be handed over to 774 orphanages and social boarding schools.

**MEDSI: PATRIKI RUNNING**

As in years before, in June 2019 Medsi provided ambulance support for one of the largest athletic fundraising events in Moscow, the annual running race Patriki Running.

The race is organised in support of Galchonok, a charity foundation committed to helping children suffering from pathologies of the central nervous system.

The funds raised went toward Inclusive Education, a special project aimed at providing schooling opportunities for five children with autism spectrum disorders and one child with cerebral palsy.

**STEPPE AGROHOLDING: CHARITY FESTIVAL WORD OF MOUTH**

In April of 2019, Steppe AgroHolding conducted a charity festival Word of Mouth aiming to help the social engagement and creative fulfilment of disabled and special needs children. The Festival took place at Yuzhny Agricultural Complex's cultural & sports centre in Karachay-Cherkessia.

The event involved 70 children, including the students of a local secondary school and the Disabled Development Centre My Angel, who were invited to take part in a recitation contest (with gifts and prizes from Steppe) and enjoy master classes in pottery, embroidering, and drawing.

**OZON: NEW YEAR HACKATHON FOR CHILDREN AND TEENAGERS**

In December of 2019, Ozon Academy teamed up with the Algoritmika coding school to conduct a hackathon dubbed NewYear\_Hack for 60 kids and teenagers aged 10 to 16.

The young students were taught to create New Year stickers, prototypes of online games, invitation mailout apps, and Minecraft gift storage rooms.

**MTS: THE INTERNATIONAL CONTEST SOCIAL IDEA-2019**

Social Idea, an international digital projects contest organised by MTS in 2019, involved 307 projects in three categories: Social Mobile, Social Smart City and Social Big Data.

**The winners include:**

**Social Mobile**

- MTS Volunteer, a volunteer-training app;
- SOL, a real-time live sign language translation app for the deaf and hard-of-hearing, available online 24/7;
- VR Motion, a VR software helping patients in rehabilitation after orthopaedic injuries;
- Donorsearch.org, an IT platform for blood donor management with database and engagement tools.

**Social Smart City**

a real-time air quality map with smart monitoring tools.

Although the Social Big Data category had no winners, the jury gave an honorary mention to Skrepka. Employment, a career guidance app for young students that helps identify employer needs and requirements and prepare step-by-step learning plans. MTS's Head of Logistics Shamil Hairtdinov signed on as the project's supervisor to help evolve it into a mature solution.

**EAST-WEST UNITED BANK: FINANCIAL LITERACY FOR KIDS**

In April of 2019, East-West United Bank held financial literacy lessons for 76 kids from the Kalinka Russian School, to teach children to be prudent in managing personal finances.

The programme comprised a brief lecture and several game lessons: The Thoughtless Seller, StartUp, Investor's Maze, and Make Your Own Credit Card Layout. All participants received EWUB Junior Banker certificates. The project is the only money skills learning initiative in Luxembourg specifically catering to children.

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## ANNEX 1.

## QUANTITATIVE SUSTAINABILITY INDICATORS

## ECONOMIC IMPACT

## RATIO OF TAX PAYMENTS TO CAPITAL INVESTMENTS OF SISTEMA GROUP

	2015	2016	2017	2018	2019
Tax payments, RUB bn	88.2	98.1	108.3	108.8	<b>125.2</b>
Investments of the Group, RUB bn	101.2	122.9	104.4	124	<b>117.6</b>
Ratio of tax payments to investments	87.2%	79.8%	103.7%	87.7%	<b>106.5%</b>

≈ **4.5** BN  
RUB

INVESTMENTS THROUGH FUNDS IN  
RUSSIAN AND FOREIGN STARTUPS

in 2019

SHARE OF SISTEMA'S FIXED CAPITAL INVESTMENTS IN  
TOTAL PRIVATE INVESTMENT IN RUSSIA

	2015	2016	2017	2018	2019
Capital investments, RUB bn	101.2	122.9	104.4	124	<b>117.6</b>
Private investment in Russia, RUB bn	7,903	8,241	9,318	10,466	<b>12,232</b>
Share of investments	1.28%	1.49%	1.12%	1.18%	<b>0.96%</b>

**803** M  
RUB

VOLUNTARY DONATIONS COLLECTED<sup>1</sup>

in 2019

## INCREASE IN ANNUAL CHARITY SPENDING, %

	CHANGE
Segezha Group	<b>334%</b>
BPGC	<b>456%</b>
Medsi	<b>106%</b>
MTS	<b>112%</b>
Business Nedvizhimost	<b>141%</b>

GRI 201-4

FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT BY TYPE OF BENEFITS<sup>2</sup>, %

	2018	2019
Reduced income tax rate	21	<b>54</b>
Property tax exemption	58	<b>30</b>
Reduced rates on social security contributions	20	<b>16</b>
Land/lease tax relief	1	<b>0</b>

<sup>1</sup> The total value of goods received by Detsky Mir Charitable Foundation in the form of donations, in monetary terms.  
<sup>2</sup> Data for MTS, Detsky Mir, Segezha Group, Medsi, Alium, Cosmos Hotel Group, Element Group, SITRONICS.

SHARE OF THE CORPORATION'S INVESTMENTS IN THE TOTAL VOLUME  
OF INVESTMENT IN THE RUSSIAN ECONOMY BY INDUSTRY

**80.7%**

## INVESTMENTS IN FIXED CAPITAL

in 2019

	INVESTMENT IN FIXED CAPITAL IN RUSSIA BY INDUSTRY, RUB BN	DEVELOPMENT PROGRAMMES (CAPEX) OF SISTEMA GROUP ASSETS, RUB BN	SHARE OF INVESTMENTS, %
IT and telecoms	1,030.6	91.7	8.90%
Forest management and logging	222.8	6.3	2.83%
Healthcare	297.9	4.3	1.44%
Electricity, gas and steam supply, air conditioning	1,054.2	3.6	0.34%
Wholesale and retail	702.1	3.1	0.44%
Hospitality	61.5	1.9	3.09%
Crop farming and livestock production	746.6	1.9	0.25%

## SISTEMA GROUP'S INVESTMENTS, RUB BN

	2017	2018	2019
Asset development programmes (CAPEX)	104.4	124	<b>117.6</b>
Investments in assets, including M&A	26.1	31.1	<b>28.1</b>
<b>Total</b>	<b>130.5</b>	<b>155.1</b>	<b>145.7</b>

## STRUCTURE OF SISTEMA GROUP'S PAYMENTS TO RUSSIA'S BUDGET SYSTEM

	RUB BN	%
Federal budget	56.61	45
Regional and municipal budgets	41.14	33
Non-tax contributions	27.44	22
<b>Total</b>	<b>125.19</b>	-

## ENVIRONMENTAL IMPACT

NITROGEN OXIDES (NO<sub>x</sub>), SULFUR OXIDES (SO<sub>x</sub>), AND OTHER SIGNIFICANT AIR EMISSIONS<sup>1</sup>, Tonnes

GRI 305-7	TYPES OF EMISSIONS	2017			2018			2019		
	NO <sub>x</sub>	3,058.9	3,985.3							<b>3,814.5</b>
	SO <sub>x</sub>	5,013.8	3,131.5							<b>2,047.2</b>
	Persistent organic pollutants	0.0	0.2							<b>0.9</b>
	Volatile organic pollutants	498.9	377.9							<b>441.1</b>
	Hazardous air pollutants	4,747.3	5,151.9							<b>4,833.0</b>
	Particulate pollutants	6,852.4	9,544.5							<b>10,792.5</b>
	Other standard categories of air pollutants used in related regulations	2,720.2	3,357.9							<b>3,524.2</b>
	<b>Total</b>	<b>22,891.6</b>	<b>25,549.3</b>							<b>25,453.4</b>

GRI 306-2

## TOTAL WEIGHT OF SISTEMA GROUP WASTE BY HAZARD CLASS, Tonnes

TYPES OF EMISSIONS	2017		2018		2019	
I Extremely hazardous	43.9	0.0%	36.2	0.0%	<b>124.8</b>	<b>0.0%</b>
II Highly hazardous	48.2	0.0%	313.3	0.0%	<b>49.2</b>	<b>0.0%</b>
III Moderately hazardous	1,193.4	0.1%	3,151.6	0.2%	<b>411.7</b>	<b>0.0%</b>
IV Low-hazard	696,210.6	55.0%	789,962.6	49.2%	<b>688,581.3</b>	<b>48.6%</b>
V Virtually non-hazardous	567,895.0	44.9%	813,137.5	50.6%	<b>728,796.5</b>	<b>51.4%</b>
<b>Total</b>	<b>1,265,391.0</b>	<b>-</b>	<b>1,606,601.2</b>	<b>-</b>	<b>1,417,963.5</b>	<b>-</b>

Hazardous waste management and disposal is carried out in strict accordance with the relevant legislation.

PENALTIES FOR NON-COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS IN 2019 BY ASSET<sup>2</sup>

	AMOUNT, RUB THOUSAND	%
Element	40.0	3.6
Medsi	414.0	37.6
Cosmos Hotel Group	645.6	58.7
Business Nedvizhimost	0.4	0.04
<b>Total</b>	<b>1,100.0</b>	<b>100.0</b>

<sup>1</sup> Data for Segezha Group, Steppe AgroHolding, Cosmos Hotel Group, BPGC, RTI, and SITRONICS. Data for 2017 and 2018 was recalculated after adjustment of figures for individual companies of the Group.

<sup>2</sup> Data for MTS, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, and SITRONICS.

SOCIAL IMPACT<sup>2</sup>ANNUAL TOTAL COMPENSATION RATION FOR THE ORGANISATION'S HIGHEST-PAID INDIVIDUAL TO THE MEDIAN ANNUAL TOTAL COMPENSATION FOR ALL EMPLOYEES<sup>1</sup>

GRI 102-38	2018		2019	
	Ratio of the average compensation of the Management Board and the Board of Directors to the average salary	5.87		<b>11.36</b>

A significant increase in the indicator in 2019 was caused by successful monetisation of assets, including transactions to increase the Corporation's presence in the real estate market and the SPO of Detsky Mir.

## VOLUNTARY STAFF TURNOVER AT SISTEMA BY AGE IN 2019, %

AGE	2017	2018	2019
under 30 years old	5	4.7	<b>1.1</b>
30-50 years old	2.8	4.7	<b>5</b>
over 50 years old	0.6	0.7	<b>0.5</b>

## RATIO OF VOLUNTARY TO TOTAL TURNOVER AT SISTEMA AND THE GROUP, %

	2017	2018 <sup>3</sup>	2019
<b>SISTEMA</b>			
Voluntary turnover	8	10	<b>7</b>
Voluntary to overall turnover	49	23	<b>53</b>
<b>GROUP</b>			
Voluntary turnover		21	<b>20</b>
Voluntary to overall turnover		65	<b>70</b>

GRI 401-1

## TOTAL NUMBER OF NEW HIRES AT SISTEMA BY GENDER, Persons

	2017	2018	2019
Men	49	51	<b>23</b>
Women	32	23	<b>30</b>

<sup>1</sup> The methodology for calculating the indicator has been adjusted and represents the ratio of the average compensation of members of the Board of Directors and the Management Board to the average salary of all other employees.

<sup>2</sup> Data about staff composition for MTS, Detsky Mir, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Alium, Sintez, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema, Vologda Textile, Element Group, SITRONICS, Sistema Capital and Concept Group, unless otherwise specified.

<sup>3</sup> The indicator for 2018 was recalculated using the updated methodology.

## TOTAL NUMBER OF NEW HIRES IN 2019 BY AGE GROUP, persons

AGE GROUP	2017	2018	2019
<b>SISTEMA</b>			
under 30 years old	49	29	<b>19</b>
30-50 years old	25	40	<b>29</b>
over 50 years old	7	5	<b>5</b>
<b>Total</b>	<b>81</b>	<b>74</b>	<b>53</b>
<b>GROUP</b>			
under 30 years old	43,008	29,249	<b>22,810</b>
30-50 years old	11,672	13,252	<b>19,107</b>
over 50 years old	2,024	1,935	<b>3,738</b>
<b>Total</b>	<b>56,704</b>	<b>44,436</b>	<b>45,655</b>

GRI 404-3

## SISTEMA GROUP'S EMPLOYEES HAVING RECEIVED REGULAR PERFORMANCE REVIEWS BY CATEGORY, Persons

CATEGORY OF EMPLOYEES	2018	2019
Senior management	411	<b>63</b>
Middle management	1,255	<b>152</b>
Junior management	4,271	<b>2,263</b>
White-collar workers	34,877	<b>1,378</b>
<b>Total</b>	<b>40,814</b>	<b>3,856</b>

As performance reviews are cyclical and the main cycle was completed in 2018, the figure was significantly lower in 2019.

GRI 405-1

## PERCENTAGE OF WOMEN WITHIN SISTEMA'S GOVERNANCE BODIES

	NUMBER OF PEOPLE	%
<b>MANAGEMENT BOARD</b>		
Men	<b>14</b>	93.3
Women	<b>1</b>	6.7
<b>BOARD OF DIRECTORS</b>		
Men	<b>10</b>	90.91
Women	<b>1</b>	9.09

## AGE COMPOSITION OF EMPLOYEES OF SISTEMA AND THE GROUP, %

AGE GROUP	2017	2018	2019
<b>SISTEMA</b>			
Under 30 years old	37.2	32.8	<b>12.5</b>
30-50 years old	50	56.3	<b>68.8</b>
Over 50 years old	12.8	10.9	<b>18.6</b>
<b>GROUP</b>			
Under 30 years old	51	44	<b>30</b>
30-50 years old	39	44	<b>52</b>
Over 50 years old	10	12	<b>18</b>

## PERSONNEL STRUCTURE AT SISTEMA GROUP BY CATEGORY, %

CATEGORY OF EMPLOYEES	2017	2018	2019
Senior management	0.4	0.5	<b>0.4</b>
Middle management	2.9	3.2	<b>2.3</b>
Junior management	11.2	10.6	<b>11.9</b>
Grass roots	85.5	85.7	<b>85.4</b>

## PERSONNEL STRUCTURE AT SISTEMA AND THE GROUP BY TYPE OF EMPLOYMENT CONTRACT AND BY GENDER, %

YEAR	PERMANENT CONTRACTS		TERM CONTRACTS	
	MEN	WOMEN	MEN	WOMEN
<b>SISTEMA</b>				
2017	51.1	45.7	0.9	2.3
2018	51.5	45.7	0.7	2.1
<b>2019</b>	<b>50.5</b>	<b>47.9</b>	<b>0.3</b>	<b>1.3</b>
<b>GROUP</b>				
2017	48.8	46.6	2.7	1.9
2018	48.3	45.6	2.9	3.2
<b>2019</b>	<b>46.5</b>	<b>46.5</b>	<b>3.1</b>	<b>3.8</b>

## GENDER COMPOSITION AT SISTEMA AND THE GROUP, %

GENDER	2017	2018	2019
<b>SISTEMA</b>			
Women	48	47.8	<b>49.2</b>
Men	52	52.2	<b>50.8</b>
<b>GROUP</b>			
Women	48.4	49.2	<b>53.2</b>
Men	51.6	50.8	<b>46.8</b>

## GRI 205-3

## RESULTS OF ANTI-CORRUPTION MEASURES ON SISTEMA GROUP COMPANIES

	2017	2018	2019 <sup>1</sup>
Confirmed incidents	34	42	<b>570</b>
Perpetrators identified	34	42	<b>491</b>
Disciplined	34	42	<b>190</b>
Dismissed	34	42	<b>293</b>

GRI 307-1  
GRI 419-1FINES AND NON-FINANCIAL PENALTIES IMPOSED ON SISTEMA GROUP COMPANIES IN 2019<sup>2</sup>

	NUMBER OF FINES	AMOUNT OF FINES, RUB THOUSAND	NUMBER OF NON-FINANCIAL PENALTIES	SHARE OF FINANCIAL FINES AS A PERCENTAGE OF REVENUE IN 2018	SHARE OF FINANCIAL FINES AS A PERCENTAGE OF REVENUE IN 2019
<b>TOTAL, INCLUDING:</b>	<b>690</b>	<b>30,701</b>	<b>44</b>	<b>4.91%</b>	<b>4.67%</b>
environmental law and regulations	12	1,100	1	0.18%	0.17%
unfair competition and anti-monopoly law violations	1	650	5	0.10%	0.10%
labour law violations	4	131	4	0.02%	0.02%
labour safety violations	14	880	2	0.14%	0.13%
missed deadlines set by regulators	4	1,150	0	0.18%	0.18%
fire safety non-compliance	17	716	13	0.11%	0.11%
violations of disease control and prevention laws (not related to the requirements for manufactured products)	8	226	1	0.04%	0.03%
construction law violations	2	520	1	0.08%	0.08%
industrial safety violations	4	520	1	0.08%	0.08%
transport safety violations	303	187	0	0.03%	0.03%
other grounds	320	24,522	9	3.92%	3.73%

1 A significant increase in 2019 is associated with a more complete reflection of the relevant information in the adopted fraud and abuse incident management system, as well as with higher effectiveness of anti-corruption measures following the adoption of the system.  
2 Data for Etalon Group, Medsi, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Element Group, SITRONICS, Concept Group.

## GRI 202-2

## EMPLOYMENT OF THE LOCAL COMMUNITY BY SISTEMA

	2017	2018	2019
Number of senior executives at Sistema	18	18	<b>19</b>
Percentage of senior management hired from the local community (Moscow and the Moscow region)	94.4	94.4	<b>94.7</b>

## DISTRIBUTION OF STAFF BY TYPE OF EMPLOYMENT AT SISTEMA AND THE GROUP, %

FORM OF EMPLOYMENT	2017	2018	2019
<b>SISTEMA</b>			
Full-time	95.7	97.6	<b>96.8</b>
Part-time	4.3	2.4	<b>3.2</b>
<b>GROUP</b>			
Full-time	96.5	96.4	<b>95.9</b>
Part-time	3.5	3.6	<b>4.1</b>

## GRI 401-3

## PARENTAL LEAVE AT SISTEMA

	2017	2018	2019
Number of employees that were entitled to parental leave	17	28	<b>18</b>
Number of employees that took parental leave	17	22	<b>18</b>
Number of employees that returned to work after parental leave ended	4	6	<b>1</b>
Return to work rate	28.50%	100%	<b>50%</b>

## ANNEX 2.

## ABOUT THE REPORT

GRI 102-49  
GRI 102-50  
GRI 102-51  
GRI 102-52  
GRI 102-54

Committed to the practice of annual disclosures of non-financial corporate information, Sistema hereby presents its seventh Sustainability Report. Since 2014, reports have been published annually, and the previous report, for 2018, was published in Q4 2019.

The purpose of this Report is to inform a broad range of interested parties of the principles, goals, results and plans of Sistema in the area of sustainability and corporate responsibility.

The Corporation has prepared this Report in accordance with the GRI Standards: Core option. The business model in terms of capital concept is presented in accordance with the framework of the International Integrated Reporting Council (IIRC). The Materiality Map of the Sustainability Accounting Standards Board (SASB) was taken into account during assessment of material topics.

#### The Report was prepared in compliance with:

- the UN Global Compact;
- the Social Charter of the Russian Business;
- basic efficiency metrics and Responsibility and Transparency and Sustainable Development Vector indices developed by the Russian Union of Industrialists and Entrepreneurs (RSPP);
- Russian and global non-financial reporting practices of comparable companies (investment groups and conglomerates), as well as inquiries from the investment community and recommendations of ESG analysts regarding the Corporation's non-financial disclosures;
- recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Carbon Disclosure Project (CDP);
- ESG guidance of the London Stock Exchange;
- the annual corporate transparency rating of Russia's largest companies prepared by the Russian Regional Network for Integrated Accounting;
- UNCTAD's Guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals;
- the recommendations issued by the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs (RSPP) following the public verification of Sistema's 2018 Sustainability Report.

The preparation of annual non-financial reports is governed by the order by Sistema's President that determines members of the cross-functional working group charged with the preparation of the report and the procedures that apply to such preparation. To streamline the practices, the Corporation is planning to develop and roll out across the Group a corporate standard for disclosure of non-financial information.

The Group's key assets also publish their own non-financial reporting. More detailed information on management approaches and social and environmental projects is provided by MTS, Detsky Mir, Segezha Group, BPGC and Sistema Charitable Foundation.

## MATERIALITY ASSESSMENT PROCESS

In accordance with best practices, material topics for inclusion in the 2019 Report have been identified based on several sources:

1. **Strategic priorities** of the Corporation.
2. **Material topics included in the 2018 Sustainability Report.** The list of material topics was updated in 2018 based on the results of the stakeholder survey, with 11 topics identified for inclusion in the Report<sup>1</sup>.
3. **Research findings on sustainability risks and trends.** Based on the results of a survey of 68 representatives of external and internal stakeholders, 17 risks and trends that are significant for Sistema Group have been identified<sup>2</sup>.
4. **Inquiries from investors and other stakeholders** received by the company during the year. Among other things, the Corporation received questions related to human rights, gender diversity, climate change, reforestation, responsible packaging, etc.
5. **Sector-specific material topics** as recommended by the Global Reporting Initiative (GRI)<sup>3</sup> and the Materiality Map of the Sustainability Accounting Standards Board (SASB)<sup>4</sup>. The analysis included the following sectors: financials; light industry; food and beverage; healthcare; infrastructure; renewable resources and alternative energy; extractives and minerals processing; technology and communications; services; transportation; utilities.
6. **Sector-specific material topics determined by ESG analysts** and rating agencies.

Material topics from all sources were compared during the analysis.

<sup>1</sup> For more details on the 2018 materiality assessment, see pages 172-174 of the 2018 Sustainability Report.  
<sup>2</sup> For more details on the research, see the Risk Management section of this Report.  
<sup>3</sup> Sustainability Topics for Sectors: What do stakeholders want to know? GRI.  
<sup>4</sup> <https://materiality.sasb.org/>

UPDATED LIST OF MATERIAL TOPICS

GRI 102-44

MATERIAL TOPIC	SIGNIFICANT EVENTS/TRENDS FROM THE RESEARCH	MATERIAL SECTOR-SPECIFIC TOPICS	CORRESPONDING GRI TOPIC
<b>ECONOMY</b>			
Economic and operational performance (2018)	—	—	<b>GRI 201:</b> Economic Performance
Responsible investment (2018)	26. Development of responsible investing, increased attention of investors to sustainability issues	—	<b>GRI 102:</b> General Disclosures
Investing in infrastructure development and production upgrades, contribution to the nation's technological leadership (2018)	18. Development of green manufacturing and construction technologies, smart cities, etc 21. Import substitution and localisation of production	—	<b>GRI 203:</b> Indirect Economic Impacts
Compliance with legislation and compliance with national and international standards, including industry standards (2018)	35. Tightening of regulations (mandatory compliance) in the area of sustainability and reporting, introduction of new duties and payments 36. Increased transparency, speed of dissemination and accessibility of information	—	<b>GRI 307:</b> Environmental Compliance <b>GRI 419:</b> Socioeconomic Compliance <b>GRI 416:</b> Customer Health & Safety
<b>CORPORATE GOVERNANCE</b>			
Role of senior governance bodies in sustainability matters (2018)	—	—	<b>GRI 102:</b> General Disclosures
Remuneration of senior/executive management (2018)	—	—	<b>GRI 102:</b> General Disclosures
Ethical business conduct (2018)	40. Instances of corruption, fraud and violation of business ethics 37. Conflicts of interest	Business Ethics Anti-Corruption	<b>GRI 102:</b> General Disclosures <b>GRI 205:</b> Anti-Corruption <b>GRI 415:</b> Public Policy
Responsible supply chain (2018)	20. Toughening of corporate customers' requirements to supply chains 21. Import substitution and localisation of production	Supply Chain Management (Environment and Social)	<b>GRI 102:</b> General Disclosures <b>GRI 204:</b> Procurement Practices <b>GRI 308:</b> Supplier Environmental Assessment <b>GRI 414:</b> Supplier Social Assessment
<b>SOCIETY</b>			
Sistema and its portfolio companies as attractive employers (2018)	1. The younger generation of employees have drastically new expectations from their employers 6. Increased role of the work environment and corporate culture to ensure employee motivation and productivity	—	<b>GRI 202:</b> Market Presence <b>GRI 401:</b> Employment

MATERIAL TOPIC	SIGNIFICANT EVENTS/TRENDS FROM THE RESEARCH	MATERIAL SECTOR-SPECIFIC TOPICS	CORRESPONDING GRI TOPIC
Observance of labour and employment rights (2018)	—	Labor Practices / Standards	<b>GRI 102:</b> General Disclosures <b>GRI 402:</b> Labour/Management Relations <b>GRI 405:</b> Diversity and Equal Opportunity <b>GRI 406:</b> Non-Discrimination <b>GRI 407:</b> Freedom of Association and Collective Bargaining <b>GRI 412:</b> Human Rights Assessment
Meeting the need for qualified personnel (new topic)	2. Qualifications gap and labour shortage (due to changes in the labour market and employers' requirements, digitalisation) 5. Increased requirements to employee competences, the need to adapt corporate training accordingly	—	<b>GRI 404:</b> Training and Education
Employee health and safety (2018)	12. Pandemics	Health and safety	<b>GRI 403:</b> Occupational Health and Safety
Contribution to the country's economic growth and social well-being (2018)	12. Pandemics 14. Deteriorating standards of living and potential growth of social tensions in the regions where the company operates 22. A decrease in real disposable household incomes and consumer spending	—	<b>GRI 203:</b> Indirect Economic Impacts <b>GRI 413:</b> Local Communities
Charity and social investment (2018)	—	—	<b>GRI 203:</b> Indirect Economic Impacts
Data privacy and security (new topic)	17. An increase in the number of incidents related to confidentiality and personal data protection, online security 36. Increased transparency, speed of dissemination and accessibility of information	—	<b>GRI 412:</b> Human Rights Assessment <b>GRI 418:</b> Customer Privacy
<b>ENVIRONMENT</b>			
Climate change and energy management (new topic)	30. Extreme weather conditions and natural disasters	Energy Management Climate change GHG Emissions	<b>GRI 302:</b> Energy <b>GRI 305:</b> Emissions
Operational eco-efficiency (new topic)	—	Water & Wastewater Management Water security Waste & Hazardous Materials Management Pollution & Resources Air Quality Biodiversity	<b>GRI 303:</b> Water <b>GRI 306:</b> Effluents and Waste <b>GRI 305:</b> Emissions <b>GRI 304:</b> Biodiversity

**REPORT BOUNDARIES**

This report covers Sistema PJSFC and its key portfolio companies, broadly in line with the perimeter of the Corporation's consolidated financial reports.

**GRI 102-46**

When data for the Group is disclosed, this reports specifies the perimeter of indicators and information on restatements/recalculation of indicators and changes in the consolidation perimeter.

**NUMBER AND SHARE OF GRI ELEMENTS DISCLOSED ON A CONSOLIDATED BASIS FOR THE GROUP**

	2017	2018	2019
General disclosures	45	47	47
Topics (aspects)	27	27	17
GRI standards	36	37	46

**BOUNDARIES OF INFORMATION COLLECTION ON GRI TOPICS**

**GRI 102-45  
GRI 102-47  
GRI 103-1**

	Sistema	MTS	DETSKY MIR	ETALON GROUP	SEGEZHA GROUP	MEDSI	STEPPE AGROHOLDING	OZON
Economic and operational performance (of assets)	+	+	+	+	+	+	+	+
Responsible investment	+	-	-	-	-	-	-	-
Investing in infrastructure development and production upgrades, contribution to the nation's technological leadership	+	+	+	+	+	+	+	+
Compliance with legislation and compliance with national and international standards, including industry standards	+	+	+	+	+	+	+	+
Responsible supply chain	+	+	+	+	+	+	+	+
Role of senior governance bodies in matters of sustainability	+	-	-	-	-	-	-	-
Remuneration of senior/executive management	+	-	-	-	-	-	-	-
Ethical business conduct	+	+	+	+	+	+	+	+
Sistema and its portfolio companies as attractive employers	+	+	+	+	+	+	+	+
Observance of labour and employment rights	+	+	+	+	+	+	+	+
Meeting the need for qualified personnel	+	+	+	+	+	+	+	+
Employee health and safety	+	+	+	+	+	+	+	+
Contribution to the country's economic growth and social well-being	+	+	+	+	+	+	+	+
Charity and social investment	+	+	+	+	+	+	+	+
Data privacy and security	+	+	-	-	-	+	-	+
Energy management and climate change	+	+	+	+	+	+	+	-
Operational eco-efficiency	+	+	+	+	+	+	+	-

**GRI 102-48**

A number of indicators disclosed in previous non-financial reports of the Corporation were restated following a retrospective adjustment resulting from changes in the calculation perimeter of the corresponding indicators, as well as adjustment of data collection methods and elimination of previous technical inaccuracies:

- consumption of fuel and energy resources at Sistema Group by type;
- energy consumed per RUB M of Sistema Group's consolidated revenue;
- water withdrawal by Sistema Group companies by source;
- water discharge by Sistema Group;
- discharge of NOx, SOx and other material pollutants in the atmosphere by Sistema Group companies;
- average level of personnel turnover within portfolio companies;
- workplace injuries at Sistema Group;
- Sistema Group spending on voluntary health insurance and social programmes for employees;
- ratio of the annual total compensation for the organisation's highest-paid individual to the median annual total compensation for all employees.

**GRI 102-56**

Sistema's 2019 Sustainability Report has received external assurance from the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs.

According to the assurance statement, the report contains material information spanning all spheres of responsible business practices in accordance with the Social Charter of the Russian Business and provides sufficient detail about the Corporation's activities in the field.

We will consider the recommendations and comments received from the assurance provider during the preparation of our future reports.

	Alium	Sintez	BUSINESS NEDVIZHIMOST	COSMOS HOTEL GROUP	BPGC	RTI	OTHER ASSETS	FUNDS
Economic and operational performance (of assets)	+	+	+	+	+	+	+	+
Responsible investment	-	-	-	-	-	-	-	-
Investing in infrastructure development and production upgrades, contribution to the nation's technological leadership	+	+	+	+	+	+	+	-
Compliance with legislation and compliance with national and international standards, including industry standards	+	-	-	+	+	+	+	+
Responsible supply chain	+	-	+	+	+	+	+	-
Role of senior governance bodies in matters of sustainability	-	-	-	-	-	-	-	-
Remuneration of senior/executive management	-	-	-	-	-	-	-	-
Ethical business conduct	+	+	+	+	+	+	+	+
Sistema and its portfolio companies as attractive employers	+	+	+	+	+	+	+	-
Observance of labour and employment rights	+	+	+	+	+	+	+	+
Meeting the need for qualified personnel	+	+	+	+	+	+	+	+
Employee health and safety	+	+	+	+	+	+	+	-
Contribution to the country's economic growth and social well-being	+	+	+	+	+	+	+	+
Charity and social investment	+	+	+	+	+	+	+	+
Data privacy and security	-	-	-	-	-	-	-	-
Energy management and climate change	-	-	-	+	+	+	+	-
Operational eco-efficiency	-	-	+	+	+	+	+	-

**CONSIDERATION OF RECOMMENDATIONS RECEIVED FROM THE NON-FINANCIAL REPORTING BOARD OF THE RUSSIAN UNION OF INDUSTRIALISTS AND ENTREPRENEURS REGARDING SISTEMA'S 2018 SUSTAINABILITY REPORT**

EXCERPT FROM THE RECOMMENDATIONS OF THE NON-FINANCIAL REPORTING BOARD OF THE RSPP	CONSIDERATION AND FULFILMENT OF RECOMMENDATIONS IN THE 2019 REPORT
Expand plans for sustainability management (including disclosing measurable goals and medium-term goals)	Partially, in the section Sustainability Governance Structure.
Use indicators developed by UNCTAD and indicators used for the RSPP indices	UNCTAD indicators and indicators used for calculating the RSPP indices were used for disclosures of information on activities in the area of sustainability.
Show the Corporation's specific contribution to the implementation of those national projects in which Sistema participates	Partially, in the section Key ESG Areas.
Include in the reports information on ESG factors, associated risks and financial implications of non-financial risks Expand the analysis of problematic issues in the area of sustainability	Findings of the study of significant risks and trends are presented in the section Risk Management.
Disclose more information on assessment of the effectiveness of social investments, including with the use of digital technologies	Partially, in cases in the sections Support to Regions and Social and Charity Projects and Health and Safety.
Expand the practice of holding public events during the preparation of the Report	Will be considered in future reports.
Indicate relative indicators of environmental impact, types of environmental impact specific for the Group's companies, approaches to managing this impact and key results	Partially. Due to the investment nature of the Corporation's activities and the diversity of sectors to which the Corporation's assets belong, it does not seem appropriate to provide a detailed description of their environmental impacts within the current structure of the Corporation's report. A detailed description of specific environmental impacts and approaches to their management are disclosed in the reports of Sistema Group companies. However, the Corporation plans to continue developing its responsible investment practices, including interaction with assets to develop their sustainability management practices.

**CERTIFICATE OF EXTERNAL ASSURANCE FOR THE 2019 SUSTAINABILITY REPORT OF SISTEMA PJSFC**



## ANNEX 3.

# COMPLIANCE WITH INTERNATIONAL STANDARDS

## GRI CONTENT INDEX

GRI102-55

INDICATOR	SUBSECTION/COMMENT
<b>GRI 102: GENERAL DISCLOSURES 2016</b>	
<b>ORGANISATIONAL PROFILE</b>	
102-1 Name of the organisation	Business Overview
102-2 Activities, brands, products, and services	Business Overview
102-3 Location of headquarters	Moscow, Russia
102-4 Location of operations	Business Overview
102-5 Ownership and legal form	Business Overview
102-6 Markets served	Business Overview
102-7 Scale of the organisation	Business Overview
102-8 Information on employees and other workers	Business Overview Human Capital
102-9 Supply chain	Sustainable Supply Chain
102-10 Significant changes to the organisation and its supply chain	For details on the sale and acquisition of assets, see the 2019 Annual Report of Sistema PJSC, Key Events section
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 natural ecosystem and potential risks to the Corporation.
102-12 External initiatives	Participation in International and Industry Initiatives
102-13 Membership of associations	Participation in International and Industry Initiatives Energy Management and Climate Change
<b>STRATEGY</b>	
102-14 Statement from senior decision-maker	Statement of the Chairman of the Board of Directors
102-15 Key impacts, risks, and opportunities	Risk Management
<b>ETHICS AND INTEGRITY</b>	
102-16 Values, principles, standards, and norms of behaviour	Responsible Investment Strategy and Approaches Ethics and Anti-corruption efforts
102-17 Mechanisms for advice and concerns about ethics	Ethics and Anti-corruption efforts

INDICATOR	SUBSECTION/COMMENT
<b>CORPORATE GOVERNANCE</b>	
102-18 Governance structure	Corporate Governance
102-20 Executive-level responsibility for economic, environmental, and social topics	Corporate Governance
102-21 Consulting stakeholders on economic, environmental and social topics	Risk Management
102-22 Composition of the highest governance body and its committees	Sistema's Annual Report for 2019
102-23 Chair of the highest governance body	Corporate Governance
102-24 Nominating and selecting the highest governance body	Sistema's Annual Report for 2019 Corporate Governance Code
102-25 Conflicts of interest	Ethics and Anti-corruption efforts Code of Ethics Corporate Governance Code
102-26 Role of highest governance body in setting purpose, values and strategy	Sustainability Governance Structure
102-27 Collective knowledge of highest governance body	Sistema's Annual Report for 2019
102-28 Evaluating the highest governance body's performance	Sistema's Annual Report for 2019
102-32 Highest governance body's role in sustainability reporting	Sustainability Governance Structure
102-35 Remuneration policies	Human Capital Sistema's Annual Report for 2019
102-38 Annual total compensation ratio	Annex 1. Quantitative Sustainability Indicators
<b>STAKEHOLDER ENGAGEMENT</b>	
102-40 List of stakeholder groups	Human Rights and Stakeholder Engagement
102-41 Collective bargaining agreements	Human Capital
102-42 Identifying and selecting stakeholders	Human Rights and Stakeholder Engagement
102-43 Approach to stakeholder engagement	Human Rights and Stakeholder Engagement
102-44 Key topics and concerns raised	Risk Management Human Rights and Stakeholder Engagement Annex 2. About the Report

INDICATOR	SUBSECTION/COMMENT
<b>REPORTING PRACTICE</b>	
102-45 Entities included in the consolidated financial statements	<a href="#">Consolidated financial statements for 2019</a>
102-46 Defining report content and topic boundaries	Annex 2. About the Report
102-47 List of material topics	Annex 2. About the Report
102-48 Restatements of information	Annex 2. About the Report
102-49 Changes in reporting	Annex 2. About the Report
102-50 Reporting period	Annex 2. About the Report
102-51 Date of most recent report	Annex 2. About the Report
102-52 Reporting cycle	Annex 2. 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	Annex 2. About the Report
102-55 GRI content index	Annex 3. GRI Content Index
102-56 External assurance	Annex 2. About the Report

**MATERIAL TOPICS**

**GRI 201: ECONOMIC PERFORMANCE 2016**

GRI 103: MANAGEMENT APPROACH 2016	Strategy and Responsible Investment Approaches External Assessment and Public Recognition
201-1 Direct economic value generated and distributed	Business Overview
201-4 Financial assistance received from government	Effect from Investment Programmes Annex 1. Quantitative Sustainability Indicators

**GRI 202: MARKET PRESENCE 2016**

GRI 103: MANAGEMENT APPROACH 2016	Wellbeing Human Capital
202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Business Overview Key ESG Areas Human Capital
202-2 Proportion of senior management hired from the local community	Annex 1. Quantitative Sustainability Indicators

**GRI 203: INDIRECT ECONOMIC IMPACTS 2016**

GRI 103: MANAGEMENT APPROACH 2016	Innovation Management. Digitalisation Support to Regions and Social and Charity Projects
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INDICATOR	SUBSECTION/COMMENT
203-1 Infrastructure investments and services supported	Business Overview Innovation Management. Digitalisation Smart Homes, Cities and Industries Support to Regions and Social and Charity Projects
203-2 Significant indirect economic impacts	Innovation Management. Digitalisation Key ESG Areas Support to Regions and Social and Charity Projects
<b>GRI 204: PROCUREMENT PRACTICES 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Sustainable Supply Chain
204-1 Proportion of spending on local suppliers	Sustainable Supply Chain
<b>GRI 205: ANTI-CORRUPTION 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Ethics and Anti-corruption Efforts
205-1 Operations assessed for risks related to corruption	Ethics and Anti-corruption Efforts Key ESG Areas
205-2 Communication and training about anti-corruption policies and procedures	Ethics and Anti-corruption Efforts Key ESG Areas
205-3 Confirmed incidents of corruption and actions taken	Ethics and Anti-corruption Efforts Key ESG Areas Annex 1. Quantitative Sustainability Indicators
<b>GRI 302: ENERGY 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Smart Environment Energy Management and Climate Change
302-1 Energy consumption within the organisation	Business Overview Energy Management and Climate Change
302-3 Energy intensity	Energy Management and Climate Change
302-4 Reduction of energy consumption	Key ESG Areas Energy Management and Climate Change
<b>GRI 303: WATER 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Smart Environment Operational Eco-efficiency
303-1 Water withdrawal by source	Business Overview Key ESG Areas Operational Eco-efficiency
<b>GRI 304: BIODIVERSITY 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Smart Environment Operational Eco-efficiency

INDICATOR	SUBSECTION/COMMENT
304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Operational Eco-efficiency
304-3 Habitats protected or restored	Operational Eco-efficiency
<b>GRI 305: EMISSIONS 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Smart Environment Operational Eco-efficiency Energy Management and Climate Change
305-1 Direct (Scope 1) GHG emissions	Business Overview Energy Management and Climate Change
305-4 GHG emissions intensity	Energy Management and Climate Change
305-7 Nitrogen oxides (NO <sub>x</sub> ), sulphur oxides (SO <sub>x</sub> ) and other significant air emissions	Operational Eco-efficiency Annex 1. Quantitative Sustainability Indicators
<b>GRI 306: EFFLUENTS AND WASTE 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Smart Environment Operational Eco-efficiency
306-1 Water discharge by quality and destination	Business Overview Key ESG Areas Operational Eco-efficiency
306-2 Waste by type and disposal method	Operational Eco-efficiency Annex 1. Quantitative Sustainability Indicators
<b>GRI 307: ENVIRONMENTAL COMPLIANCE 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Operational Eco-efficiency
307-1 Non-compliance with environmental laws and regulations	Ethics and Anti-corruption Efforts Operational Eco-efficiency Annex 1. Quantitative Sustainability Indicators
<b>GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Sustainable Supply Chain
308-2 Negative environmental impacts in the supply chain and actions taken	Sustainable Supply Chain Energy Management and Climate Change
<b>GRI 401: EMPLOYMENT 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Wellbeing Human Capital
401-1 New employee hires and employee turnover	Key ESG Areas Human Capital Annex 1. Quantitative Sustainability Indicators
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Human Capital
401-3 Parental leave	Annex 1. Quantitative Sustainability Indicators

INDICATOR	SUBSECTION/COMMENT
<b>GRI 402: LABOUR/MANAGEMENT RELATIONS 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Wellbeing Human Capital
402-1 Minimum notice periods regarding operational changes	In accordance with Article 74 of the Labour Code of the Russian Federation (changes in organisational or technological working conditions) and Article 75 of the Labour Code (in cases of change of organisation property ownership, change of jurisdiction of an organisation and restructuring of organisation), the minimum period for notices to employees and their elected representatives about any significant changes in business activities that may significantly affect them is two months.
<b>GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Health and Safety
403-1 Workers representation in formal joint management-worker health and safety committees	Health and Safety
403-2 Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	Business Overview Health and Safety
403-4 Health and safety topics covered in formal agreements with trade unions	Health and Safety
<b>GRI 404: TRAINING AND EDUCATION 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Wellbeing Human Capital
404-1 Average hours of training per year per employee by gender and by employee category	Business Overview Human Capital
404-2 Programmes for upgrading employee skills and transition assistance programmes	Human Capital
404-3 Percentage of employees receiving regular performance and career development reviews	Annex 1. Quantitative Sustainability Indicators
<b>GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Human Rights and Stakeholder Engagement
405-1 Diversity of governance bodies and employees	Business Overview Corporate Governance Annex 1. Quantitative Sustainability Indicators
405-2 Ratio of basic salary and remuneration of women to men	Key ESG Areas Human Capital
<b>GRI 406: NON-DISCRIMINATION 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Human Rights and Stakeholder Engagement
406-1 Incidents of discrimination and corrective actions taken	No incidents of discrimination were registered in 2019.

INDICATOR	SUBSECTION/COMMENT
<b>GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Human Rights and Stakeholder Engagement
407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	No operations and suppliers in which the right to freedom of association and collective bargaining may be at risk have been identified.
<b>GRI 412: HUMAN RIGHTS ASSESSMENT 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Human Rights and Stakeholder Engagement
412-1 Operations that have been subject to human rights reviews or impact assessments	Human Rights and Stakeholder Engagement
<b>GRI 413: LOCAL COMMUNITIES 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Support to Regions and Social and Charity Projects
413-1 Operations with local community engagement, impact assessments, and development programmes	Support to Regions and Social and Charity Projects
413-2 Operations with significant actual and potential negative impacts on local communities	Operations of Sistema Group companies do not have significant negative impacts on local communities
<b>GRI 414: SUPPLIER SOCIAL ASSESSMENT 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Sustainable Supply Chain
414-2 Negative social impacts in the supply chain and actions taken	Sustainable Supply Chain
<b>GRI 415: PUBLIC POLICY 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Strategy and Responsible Investment Approaches
415-1 Political contributions	The Corporation does not finance political parties, organisations and movements (the Code of Ethics)
<b>GRI 416: CUSTOMER HEALTH AND SAFETY 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Access to Products, Services and Information Customer experience Accessibility and quality
416-1 Assessment of the health and safety impacts of product and service categories	Product stewardship
416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	No incidents of non-compliance have been identified.
<b>GRI 418: CUSTOMER PRIVACY 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Human Rights and Stakeholder Engagement Data Privacy and Security
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Data Privacy and Security
<b>GRI 419: SOCIOECONOMIC COMPLIANCE 2016</b>	
GRI 103: MANAGEMENT APPROACH 2016	Ethics and Anti-corruption Efforts
419-1 Non-compliance with laws and regulations in the social and economic area	Annex 1. Quantitative Sustainability Indicators

COMPLIANCE WITH THE UN GLOBAL COMPACT

AREAS	UN GLOBAL COMPACT PRINCIPLES	GRI DISCLOSURE	REFERENCE IN THE REPORT
Human rights	Businesses should support and respect the protection of internationally proclaimed human rights	<b>102-12</b> <b>102-13</b>	Participation in International and Industry Initiatives Human Rights and Stakeholder engagement Wellbeing
	Businesses should make sure that they are not complicit in human rights abuses		
Labour relations	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	<b>102-41</b> <b>407-1</b>	Human Rights and Stakeholder Engagement Human Capital
	Businesses should uphold the elimination of all forms of forced and compulsory labour	<b>412-1</b>	
	Businesses should uphold the effective abolition of child labour	<b>412-1</b>	
Environment	Businesses should uphold the elimination of discrimination in respect of employment and occupation	<b>406-1</b>	
	Businesses should support a precautionary approach to environmental challenges	<b>102-11</b>	Risk Management Operational Eco-efficiency Energy Management and Climate change
	Businesses should undertake initiatives to promote greater environmental responsibility	<b>102-12</b> <b>102-13</b>	Participation in International and Industry Initiatives Energy Management and Climate change
Anti-corruption	Businesses should encourage the development and diffusion of environmentally friendly technologies	<b>302-4</b> <b>307-1</b>	Key ESG Areas Energy Management and Climate Change Operational Eco-efficiency
	Businesses should work against corruption in all its forms, including extortion and bribery	<b>205-2</b> <b>205-3</b> <b>419-1</b>	Ethics and Anti-corruption Efforts Annex 1. Quantitative Sustainability Indicators

COMPLIANCE WITH UNCTAD<sup>1</sup>

INDICATOR	SUBSECTION/COMMENT
<b>ECONOMIC AREA</b>	
A.1.1: Revenue	Key Indicators for 2019
A.2.1: Taxes and other payments to the Government	Support to Regions and Social and Charity Projects
A.3.1: Green investment	Operational eco-efficiency
A.3.2: Community investment	Support to Regions and Social and Charity Projects
A.3.3: Total expenditures on research and development	Innovation Management. Digitalisation
A.4.1: Percentage of local procurement	Support to Regions and Social and Charity Projects
<b>ENVIRONMENTAL AREA</b>	
B.1.3: Water stress	Operational eco-efficiency
B.2.3: Hazardous waste	Operational eco-efficiency
B.3.1: Greenhouse gas emissions (scope 1)	Energy Management and Climate Change The indicator is calculated due to revenue
B.5.1: Renewable energy	Energy Management and Climate Change
B.5.2: Energy efficiency	Energy Management and Climate Change The indicator is calculated due to revenue
<b>SOCIAL AREA</b>	
C.1.1: Proportion of women in managerial positions	Annex 1. Quantitative Sustainability Indicators
C.2.1: Average hours of training per year per employee	Human Capital
C.2.2: Expenditure on employee training per year per employee	Human Capital
C.4.1: Percentage of employees covered by collective agreements	Human Capital
<b>INSTITUTIONAL AREA</b>	
D.1.1: Number of board meetings and attendance rate	Corporate Governance
D.1.2: Number and percentage of women board members	Corporate Governance
D.1.3: Board members by age range	Sistema's Annual Report for 2019
D.1.4: Number of meetings of audit committee and attendance rate	Sistema's Annual Report for 2019
D.1.5: Compensation: total compensation per board member (both executive and non-executive directors)	Sistema's Annual Report for 2019
D.2.1: Amount of fines paid or payable due to settlements	Annex 1. Quantitative Sustainability Indicators

<sup>1</sup> [https://unctad.org/system/files/official-document/diae2019d1\\_en.pdf](https://unctad.org/system/files/official-document/diae2019d1_en.pdf)

## CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

INDICATOR	SUBSECTION/COMMENT
<b>STRATEGY</b>	
The impact of climate-related risks and opportunities on the company's business, strategy and financial planning	Energy Management and Climate Change
<b>RISK MANAGEMENT</b>	
Processes to identify and assess climate-related risks	Risk Management Energy Management and Climate Change
The company's processes to manage climate-related risks	Risk Management Energy Management and Climate Change
<b>TARGETS AND INDICATORS</b>	
Specific and gross greenhouse gas emissions	Energy Management and Climate Change

## ANNEX 4

## ADDITIONAL INFORMATION

	Sistema's website	<a href="https://sistema.com">https://sistema.com</a>
	Sistema's Annual Report for 2019	<a href="https://sistema.com/upload/iblock/2d6/Annual_report_2019_ENG.pdf">https://sistema.com/upload/iblock/2d6/Annual_report_2019_ENG.pdf</a>
	Sistema's Sustainability Report for 2018	<a href="https://sistema.com/upload/iblock/e71/e71ef0a962b00b0e939b847eb3b34a7e.pdf">https://sistema.com/upload/iblock/e71/e71ef0a962b00b0e939b847eb3b34a7e.pdf</a>
<b>KEY DOCUMENTS</b>	Code of Ethics	<a href="https://sistema.com/upload/iblock/a88/a88ca7236ff614b76d55301d71424270.pdf">https://sistema.com/upload/iblock/a88/a88ca7236ff614b76d55301d71424270.pdf</a>
	Corporate Governance Code	<a href="https://sistema.com/upload/iblock/bb7/bb739face86602f8c96d937a5d936e09.pdf">https://sistema.com/upload/iblock/bb7/bb739face86602f8c96d937a5d936e09.pdf</a>
	Sustainability Policy	<a href="https://sistema.com/upload/iblock/0b6/0b6ebeabe7c86c5ccb7f3bb96b76c45c.pdf">https://sistema.com/upload/iblock/0b6/0b6ebeabe7c86c5ccb7f3bb96b76c45c.pdf</a>
	Anticorruption Policy	<a href="https://sistema.com/upload/iblock/d34/d34551df29c5701501fc715e814d0116.pdf">https://sistema.com/upload/iblock/d34/d34551df29c5701501fc715e814d0116.pdf</a>
	Other corporate documents	<a href="https://sistema.com/about/corpmanage/docs">https://sistema.com/about/corpmanage/docs</a>
<b>MATERIALS OF PORTFOLIO COMPANIES</b>	Sistema Charitable Foundation	<a href="http://bf.sistema.ru/en/">http://bf.sistema.ru/en/</a>
	MTS Sustainability reports	<a href="http://ir.mts.ru/home/default.aspx">http://ir.mts.ru/home/default.aspx</a> <a href="http://ir.mts.ru/sustainability/default.aspx">http://ir.mts.ru/sustainability/default.aspx</a>
	Detsky Mir Annual reports	<a href="http://corp.detmir.ru/en/">http://corp.detmir.ru/en/</a> <a href="https://ir.detmir.ru/en/yearly-reports">https://ir.detmir.ru/en/yearly-reports</a>
	Etalon Group Annual reports	<a href="https://www.etalongroup.com">https://www.etalongroup.com</a> <a href="https://www.etalongroup.com/investor-relations/annual-reports-and-accounts/">https://www.etalongroup.com/investor-relations/annual-reports-and-accounts/</a>
	Segezha Group Sustainability reports	<a href="https://segezha-group.com/en/">https://segezha-group.com/en/</a> <a href="https://segezha-group.com/en/sustainable-development/oy/">https://segezha-group.com/en/sustainable-development/oy/</a>
	Medsi	<a href="http://medsi.com">http://medsi.com</a>
	Steppe AgroHolding	<a href="https://www.ahstep.ru/en/main">https://www.ahstep.ru/en/main</a>
	Ozon	<a href="https://corporate.ozon.ru/">https://corporate.ozon.ru/</a>
	Alium	<a href="https://obolensk.ru/en/">https://obolensk.ru/en/</a>
	Sintez	<a href="http://ksintez.ru/en/">http://ksintez.ru/en/</a>
	Business Nedvizhimost	<a href="https://sistema-bn.ru/">https://sistema-bn.ru/</a>
	Cosmos Hotel Group	<a href="http://cosmosgroup.ru/en/">http://cosmosgroup.ru/en/</a>
	BPGC	<a href="https://bashes.ru/">https://bashes.ru/</a>
	RTI	<a href="https://www.aorti.ru/en/">https://www.aorti.ru/en/</a>
	SITRONICS	<a href="https://www.sitronics.com/en/">https://www.sitronics.com/en/</a>
	Concept Group	<a href="https://www.conceptgroup.ru/">https://www.conceptgroup.ru/</a>
	East-West United Bank Annual reports	<a href="https://www.ewub.lu/?lang=en">https://www.ewub.lu/?lang=en</a> <a href="https://www.ewub.lu/-Corporate-Documents-?lang=en">https://www.ewub.lu/-Corporate-Documents-?lang=en</a>

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