



2020

SUSTAINABILITY REPORT



PUBLIC JOINT
STOCK FINANCIAL
CORPORATION

// sistema.com

DISCLAIMER

Certain statements in this Sustainability report may contain assumptions or projections regarding forthcoming or expected events related to Sistema PJSFC or its portfolio companies. Statements of this nature may be expressed by using the words "expect," "estimate," "intend," "will," "could," negations of such words, as well as similar expressions. These statements are only predictions, and actual events or results may differ materially.

Sistema PJSFC does not commit to reviewing these statements in order to correlate them with actual events and circumstances that may occur after the above-mentioned date or to highlight the events that were not expected to occur when this annual report was prepared.

Many factors could cause the actual results of Sistema PJSFC or its portfolio companies to differ materially from those set forth in our projections or forward-looking statements, including, among others, macroeconomic conditions, our competitive environment, country-specific risks of operating in Russia, rapid technological and market changes in the industries where Sistema PJSFC and its portfolio companies operate, the impact of the COVID-19 pandemic on the macroeconomic situation in the markets where Sistema PJSFC and its portfolio companies operate and on their financial performance, as well as many other risks specifically related to Sistema and its operations.

02

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Statement from the Chairman of the Board of Directors

GRI 102-14

Dear Colleagues and Partners,

The COVID-19 pandemic that broke out last year reached an unprecedented scale and became a serious challenge for all of us. Year 2020 was a turning point for the entire world, and business was no exception. The sustainability agenda gained new relevance: corporate social responsibility became a greater priority, while approaches to asset management and investor relations changed. The pandemic affected all economic sectors where the Group companies operate and required quick and decisive action on our part. In these difficult circumstances, our portfolio assets demonstrated their resilience at a time of crisis and ability to adapt to the new environment; they executed on their values based on principles of sustainable development and social welfare.

Amid the global challenges of 2020, our businesses did not slow down their investment activities and embarked on proactive ESG transformation. Change marked both the structure of our asset portfolio, with new companies going public, and our investment principles. Sistema Group exited Detsky Mir, proving that it was possible for a company with 100% free float to appear in Russia; we organised a successful IPO¹ of Ozon on

the NASDAQ with simultaneous listing on the Moscow Exchange; and in early 2021, the first 'green' IPO of Segezha Group took place on the Moscow Exchange. In response to demand from society, government and market, Sistema increased investment in the pharma industry and expanded capacity for manufacturing state-of-the-art medications, many of which are included in the list of essential drugs and in COVID-19 treatment and prevention protocols. The Corporation consolidated its pharmaceutical assets in Binnopharm Group, which became one of Russia's biggest pharma producers. Medsi Group, while expanding its chain of clinics, acquired a stake in the digital platform Third Opinion, which uses artificial intelligence to improve efficiency of monitoring the progress of patients with the coronavirus infection. Our innovative company Sistema BioTech, which specialises in solutions for gene diagnostics and predictive medicine, entered the market of diagnostic services.

Sistema took unprecedented measures to protect its employees, customers and people in the regions of its operations from the new coronavirus threat. In 2020, Binnopharm Group's facility began producing the world's first COVID-19 vaccine, Sputnik V. Also in 2020, Medsi's flagship hospital became the first private clinic to admit patients infected with coronavirus. The Otradnoye clinical hospital was converted into an infectious disease hospital within an unprecedentedly short timeframe of seven days. Amid the uncertainty and the intensity of change, sustainability became crucial for increasing the value of the business and improving its market prospects, which means that the Corporation needed to shape a clear management approach to all aspects of ESG, including environment, CSR, and the system of making decisions and managing risks in this area. In 2020, Sistema



Vladimir Evtushenkov

Chairman of the Board of Directors
Sistema PJSC

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¹ Initial Public Offering of Joint Stock Company shares.

seriously updated its approach to management of sustainability and responsible investment, which will increase the appeal of our assets for our shareholders and potential investors in future. Importantly, the bulk of our free float is already held by investors that have declared their commitment to the ESG principles, and their share will be growing. Therefore, it is important for the Corporation to comply with ESG requirements, to implement best practices in the operations of the Group companies and serve as an example of a Russian business that has low ESG risks and manages them confidently.

Sistema has several roles. On the one hand, the Corporation as an issuer needs to meet the requirements of the regulator, shareholders, investors and ESG analysts. On the other hand, Sistema as a responsible investor is the driver and pioneer of ESG development, setting high standards and examples of business conduct for its portfolio assets.

In the reporting year, the principles of responsible investment were set down in the investment thesis and documents regulating corporate governance, which ensures that they are complied with at all stages of investment activities, from building of a portfolio to exit.

The Board of Directors approved a new version of Sistema's Corporate Governance Code and the Sustainability Policy, which determines the guiding principles for the Corporation in the area of corporate responsibility. The document for the first time identified priority ESG areas – Accessibility and Quality, Wellbeing, and Smart Environment – in which Sistema makes a substantial positive impact and creates long-term value for stakeholders. In May 2021, the Board approved the Environmental Policy and the Human Rights Policy of Sistema. In June 2021, the Board's Investor Relations and Dividend Policy Committee was transformed into the Sustainability and Investor Relations Committee.

In addition, certain steps were taken to help assets to develop their ESG initiatives. Amendments were made to the Corporate Governance and Planning Code, which regulates relations with portfolio companies, to include basic ESG requirements for assets. This is especially important since the Group's portfolio companies are at different levels of maturity: there are both highly developed public companies and growing businesses, acquired by Sistema at an early development phase.

The leading portfolio companies continued enhancing their management systems in accordance with the updated international sustainability agenda. In 2020, MTS developed a new sustainability and corporate social responsibility policy for 2021-2025. In March 2021, the Corporate Governance Committee of the Board of Directors of MTS was reorganised into the ESG Committee. At the beginning of 2021, Segezha Group established a Strategy and Sustainability Committee of the Board of Directors. The company also approved its Sustainability Policy and Strategy till 2025.

Back in 2002, Sistema became one of the first Russian participants of the UN Global Compact, and in 2017, it joined the Social Charter of Russian Business. The Corporation's commitment to the principles of corporate responsibility is bolstered by development of cooperation with stakeholders and by external assessments. In 2020, Sistema signed an agreement with Sberbank for a RUB 10 bn credit facility where specific interest rates may be tied to the company's sustainability performance. It was the first such deal between a Russian company and a bank. The Corporation's efforts to enhance approaches to sustainability management and support of portfolio assets were confirmed by independent international assessments. Sistema's score from MSCI ESG Research was confirmed at BB. In April 2021, Sustainalytics rated the Group's risk level as Low (12.1 score points), which demonstrates that its value is little exposed to the risk of significant financial impact caused by ESG factors. Sistema made it to the top 15 out of 9,000 companies and to the top 7 among Russian companies in the ranking of CDP, which assesses the carbon footprint of businesses

Sistema confirmed its position in the MSCI ESG Ratings assessment

on **BB** level

Sistema received a Low risk rating in the ESG Sustainalytics Risk Rating (as of April 2021)

12.1 scores

as part of the climate change agenda. The Corporation was also named among the top 5 global investment companies for the quality of ESG reporting according to ESG Reporting Awards organised by the ESG Investing media platform. These achievements confirm the Corporation's leading positions among diversified financial companies of the world.

We are only at the beginning of our journey, but we have already made ESG part of the assets' mandatory preparations for IPO, and having embarked on this path we are determined to follow it, developing

Sistema was ranked to the **top 15** out of 9,000 companies and to the

top 7 among Russian companies in the ranking of CDP

corresponding corporate culture within Sistema Group and expanding the pool of the Corporation's investors that share our values and the UN sustainable development goals, which we support at both national and international levels.

A B O U T

THE CORPORATION

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TO SUSTAINABILITY
MANAGEMENT

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Business overview

GRI 102-1, GRI 102-5

Sistema PJSC (hereinafter, Sistema or the Corporation) is one of the largest private investors in Russia's economy. Founded in 1993, Sistema now operates in more than 15 industries of the Russian economy, with its portfolio assets servicing about 150 million customers. The Corporation is among the country's top 25 companies by revenue (RBC) and the top 20 public Russian companies in Forbes Global 2000.

1.4
RUB TN
total assets

0.6%
contribution
to Russian GDP



In 2020, Sistema was included in the rating of Russia's top companies by revenue, RBC 500

The Corporation's shares are traded on the Moscow Exchange and on the London Stock Exchange in the form of global depository receipts.

The Corporation's investment portfolio includes Russian companies in such industries as telecommunications, timber processing, agriculture, healthcare, real estate, e-commerce and others.

MOSCOW STOCK EXCHANGE



MOSCOW EXCHANGE

Ticker: AFKS

Quotation list — 1

LONDON STOCK EXCHANGE



London Stock Exchange

Ticker: SSA

1 GDR = 20 ordinary shares of Sistema

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KEY INDICATORS FOR 2020 GRI 102-7, UNCTAD A.1.1

	2020	2019	CHANGE VS. 2019, %
Economy			
Revenue, RUB bn	691.6	654.3	+5.7
OIBDA, RUB bn	229.8	201.7	+13.9
Adjusted OIBDA margin, %	34.2	34.1	+0.1
Operating income, RUB bn	109.4	86.8	+26.0
Net profit/(loss), RUB bn	10,216	28,597	-64.3
Total investments in fixed assets, RUB bn	127.8	117.6	+8.6
Taxes and payments to social funds, RUB bn	118.9	125.2	-5.3
Environment			
Environmental protection expenditures, RUB m	731.8	576.0	+27
Energy consumption, m GJ	43.3	83.8	-48.3
Water withdrawal, m cu m	84.7	93.5	-9.4
Personnel			
Total headcount, persons	134,143 ¹	139,872	-4,1
Average labour productivity, RUB m per person	5.2	4.7	+10.6
Society			
Social investments, RUB bn	1.76	1.42	+26.7
Participants of charity programmes, persons	85 thsd+	1.1 m+	-92.2
Sistema representatives listed among the Top 1000 Russian Managers, persons	100+	100+	-

GENERATED AND DISTRIBUTED DIRECT ECONOMIC VALUE, RUB bn² GRI 201-1

	2020	2019	2018
Generated value, including:			
Consolidated revenue	691.63	656.86	777.40
Financial and other revenues	26.81	3.11	10.05
Distributed value, including:			
Operating and other expenses	577.68	561.06	644.03
including wages, social and other payments to employees	143.83	133.41	137.64
Taxes	12.47	31.96	39.22
Investments in communities	1.76	1.42	1.12
Financial expenses	71.47	87.34	68.02
Other expenses	15.52	-78.00	74.49
Accrued dividends to shareholders	1.22	1.05	1.05
Retained value	38.31	55.14	-40.47

¹ Including Ozon.

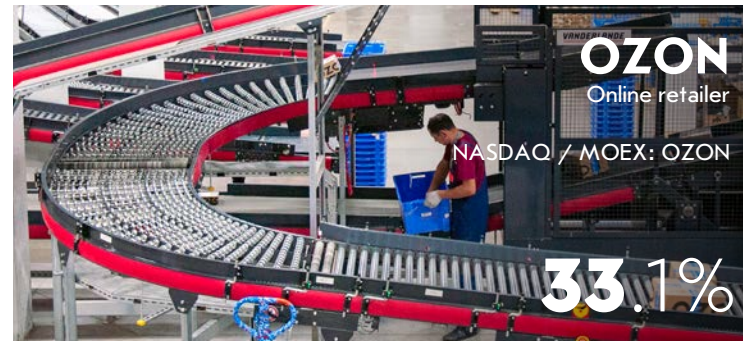
² Data for 2018 and 2019 are restated taking into account the adjustment of the data.

ASSETS

OUR



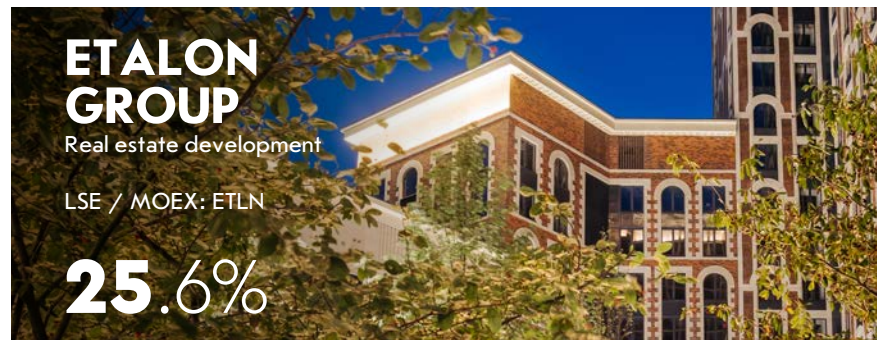
MTS
Telecommunications
MOEX: MTSS / NYSE: MBT
50.02%



OZON
Online retailer
NASDAQ / MOEX: OZON
33.1%



SEGEZHA GROUP
Forestry holding
MOEX: SGZH
73.7%



ETALON GROUP
Real estate development
LSE / MOEX: ETLN
25.6%

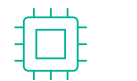


MEDSI
Private healthcare chain
95.5%



STEPPE
Agroholding
92.8%

OTHER ASSETS



49.53%
ELEMENT
High tech



43%
CONCEPT GROUP
Retail



100%
EAST-WEST UNITED BANK S.A.
Banking

FUNDS



90%
SISTEMA VENTURE CAPITAL



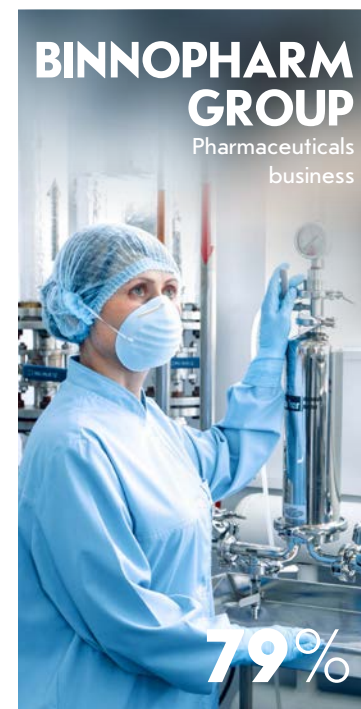
83%
SISTEMA ASIA FUND



49%
SISTEMA CAPITAL PARTNERS GROUP



70%
SISTEMA CAPITAL MC



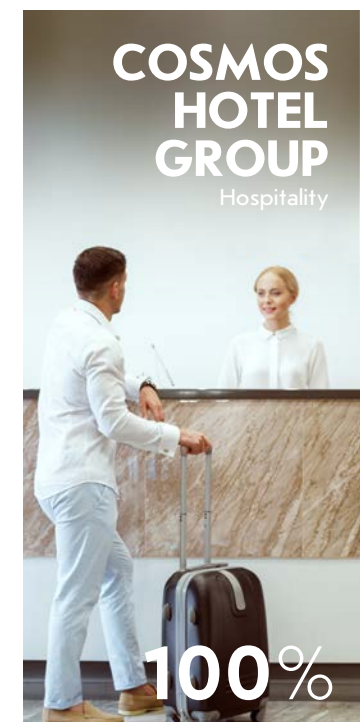
BINNOPHARM GROUP
Pharmaceuticals business
79%



BPGC
Power grids company
91%



BUSINESS NEDVIZHIMOST
Real estate
100%



COSMOS HOTEL GROUP
Hospitality
100%

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Geographical Footprint

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

Since 2008 Russia has maintained a list of systemically important enterprises that may receive support during a crisis to ensure their uninterrupted operations. A systemically important enterprise is an enterprise which goods or services are crucial for functioning of a territory or industry or for a region's social and economic system.

- ☑ The symbol indicates Group companies that in 2020 were included in the list of systemically important enterprises due to the economic crisis following the COVID-19 pandemic.

☑ MTS Telecommunications

Equity Stake 50.02 %

86 m+ mobile subscribers in Russia, Belarus, and Armenia

200+ Russian cities geography of fixed-line, broadband Internet and digital TV services

10 data centres

Federal chain

Ozon E-commerce

Equity Stake 33.1 %

73.9 m orders delivered in 2020

11 m+ unique SKUs

13.8 m active customers in 2020

40% of Russian population have access to next-day delivery

58% growth of the Russian e-commerce sector in 2020

Federal chain

☑ Segezha Group Timber industry

Equity Stake 73.7 %

7 regions of operations in Russia

7 plants in Europe

About 13,000 employees

Republic of Karelia
Arkhangelsk region
Vologda region
Kirov region
Krasnoyarsk region
Rostov region
Moscow

100+ countries geography of sales

representative offices in **11** countries

Over 70% of Segezha Group's revenue is in foreign currency

☑ Etalon Group Real estate

Equity Stake 25.6 %

2.8 m sq m the net saleable area of projects in the company's portfolio¹

Moscow
St Petersburg

Business Nedvizhimost Real estate

Equity Stake 100 %

305.1 thsd sq m total area of leased out properties at the end of 2020

Moscow
Moscow region

☑ Medsi Group Healthcare

Equity Stake 95.5 %

7.6 m patient visits

10 regions of operation

Moscow and Moscow region, Barnaul, Bryansk Nizhnevartovsk, Perm (5 clinics), St Petersburg, Volgograd, Nyagan, Izhevsk

☑ Steppe AgroHolding Agriculture

Equity Stake 92.8 %

1.3 m t collected in gross harvest across crop types²

Krasnodar region, Stavropol region, Rostov region, Republic of Karachay-Cherkessia

¹ As of 31 December 2020 according to Colliers International.
² Steppe AgroHolding plus RZ Agro.

☑ **Binnopharm Group** Pharmaceuticals

Equity Stake 79 %¹

450+
market authorisations
for drugs

35+
drugs registered
in 2020

5
production
facilities

Moscow
Moscow region

☑ **Bashkir Power Grid Company** Power industry

Equity Stake 91 %

13.7 thsd
new connections

86,800 km
of power grids

Republic of
Bashkortostan

Cosmos Hotel Group Hospitality

Equity Stake 100 %

20
hotels under management

850 thsd
guests in 2020

Moscow, Moscow region, Izhevsk, Kazan,
Sochi, Novosibirsk, Yaroslavl, Petrozavodsk,
Astrakhan, Volgograd, Voronezh, Republic
of Altay, Republic of Karelia, Forte Dei Marmi
(Italy), Karlovy Vary (the Czech Republic),
Okanjanga (Namibia)

Element Group Hi-tech

Equity Stake 49.5 %

>2.6 bn+
microchips
produced

RUB 3 bn
revenue

Leading
Russian exporter
of microelectronics

Federal chain

☑ **Concept Group** Retail

Equity Stake 43 %

350+
stores

Present in
100+ cities

Federal chain

East-West United Bank S. A. Banking

Equity Stake 100 %

EUR 155 m
in equity

EUR 697 m
in total assets

EUR 11.8 m
interest rate
revenue

EUR 5.1 m
commission
revenue

Europe

Sistema_VC Funds

Equity Stake 90 %

RUB 155 bn
target fund size

Sistema Asia Fund Funds

Equity Stake 83 %

800+
venture deals
in India in 2020

USD 10 bn+
venture investments
in India in 2020

India,
South-East Asia

Sistema Capital Partners Group Funds

Equity Stake 49 %

EUR 2 bn
assets under management

Europe

LLC Sistema Capital MC Funds

Equity Stake 70 %

RUB 175,5 bn
assets under management

RUB 122 m
net income

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¹ Aggregate effective shareholding together with VTB Group.

Key Sustainability-Related Events of 2020

January	› Sistema and LLC Sistema BioTech signed an investment agreement with the International Medical Cluster Fund on establishment of a multi-profile biotech R&D laboratory Sistema BioTech and a centre for pre-clinical testing of cutting-edge international developments and technologies at the International Medical Cluster in Skolkovo
February	› Sistema established Sistema SmartTech, a new startup fund that will support companies at early development stages
March	› Segezha Group joined the Social Charter of Russian Business
April	› Sistema SmartTech invested RUB 200 m in LLC Urentbike.ru (Urent), which develops one of the largest scooter-sharing services in Russia
May	› Sistema's Board of Directors approved a new version of the Corporate Governance Code
June	› Sistema's Board of Directors approved the new Sustainability Policy
July	› MTS became the first company in Russia to receive a licence to provide 5G mobile communication services within the 24.25-24.65 GHz range in 83 regions across Russia
August	› Sokol Pulp&Paper Mill (part of Segezha Group) commissioned a new production facility for dry lignosulphonates with an annual capacity of 21,000 t ¹
September	› Medsi Group acquired an equity stake in Sistema BioTech, a biotechnology company that specialises in genetic diagnostics, predictive medicine and development of new drugs
October	› Segezha Group became member of the new Climate Policy and Carbon Regulation Committee of the Russian Union of Industrialists and Entrepreneurs
November	› Sistema signed an agreement with Sberbank for an up to RUB 10 bn credit facility where specific interest rates may be tied to the company's sustainability performance › Ozon had an initial public offering of American depositary receipts on NASDAQ and listed its ADRs on the Moscow Exchange › In Karelia, a new paper packaging line with an annual capacity of 87 million paper sacks was assembled that uses a unique technology of digital glue application to packaging, increasing the ecofriendliness of the product › Medsi Group and MTS Startup Hub launched an accelerator for promising health tech projects › MTS with support from the Russian Ecological Society launched a federal programme for digitalisation of waste handling, which helps to control removal and disposal of municipal solid waste
December	› Sistema's Board of Directors approved updated investment criteria as part of the Corporation's strategy, for the first time including ESG factors in the investment process and solidifying Sistema's strategic approach to responsible investment › The Board of Directors of Segezha Group approved the Occupational Health and Industrial Safety Strategy and the Environmental Strategy. Both seek to introduce best global practices and standards in the company's business processes › Medsi's Clinicodiagnostic Centre at Krasnaya Presnya in Moscow was accredited by the international non-profit organisation Joint Commission International (JCI)

¹ Product of hi-tech processing of raw wood used for production of technical carbon, in the oil industry, foundry operations, in cement production, construction, for manufacturing chipboards, fibreboards and rock wool construction boards, and in road construction.

Events after Reporting Date

January	› MTS and Segezha Group launched a smart video surveillance system at the construction site of the Galich plywood mill in the Kostroma region › MTS and Vodafone extended their strategic partnership till 2023 to develop joint projects seeking to identify new opportunities for branching out beyond current business boundaries, advancing technological innovations and further strengthening positions in the B2C and B2B segments
February	› Segezha Group commissioned Sokol CLT, Russia's first plant producing CLT panels, with an annual capacity of 50,000 cu m, in the Vologda region › MTS deployed an NB-IoT network at Russia's Progress research station in Antarctica to transmit data from devices of the Arctic and Antarctic Research Institute
March	› Segezha Group joined the UN Global Compact › The Board of Directors of MTS approved transformation of the Corporate Governance Committee into the ESG Committee (the Committee for Corporate Governance and Environmental and Social Responsibility) › Segezha Group and WWF Russia signed an agreement for preservation of forests of high environmental value on forest plots in the Arkhangelsk region managed by the Onega Woodworking Plant
April	› Segezha Group's Board of Directors approved its Sustainability Policy and Strategy till 2025 › Segezha Group raised RUB 30 bn in an IPO on the Moscow Exchange › Cosmos Hotel Group and JSC Corporation Tourism.RF signed cooperation agreements in order to carry out large construction projects of Cosmos-branded hotels › Medsi Group opened outpatient cancer centres at its clinics in Izhevsk and Perm
May	› Sistema's Board of Directors approved new documents: the Human Rights Policy and the Environmental Policy
June	› The Lift to the Future education platform, a flagship project of Sistema Charitable Foundation, and Generation M, MTS's charitable project promoting creativity, were included in the UN's official SDG Good Practices › Sberbank and Steppe AgroHolding signed a cooperation agreement to develop AI technologies in agriculture

Business model

CAPITAL CREATION	TYPE OF RESOURCES (CAPITAL)	2020	2019
FINANCIAL CAPITAL Raising → Allocating → Increasing the value of assets → Monetising → Reinvesting in new promising projects / development of current portfolio companies → Ensuring returns for shareholders in the form of dividends / distribution of profits from the sale (full or partial) or IPO/SPO of assets	Equity, RUB bn	87.3	65.7
	Debt to equity ratio	0.64	0.92
HUMAN CAPITAL → Building management teams in portfolio companies → Engagement, training and professional development of employees → Health and wellbeing of employees → Investments in education and human resource development for various industries	Average headcount, FTEs GRI 102-8	134,143	139,872
	Share of female workers at Sistema Group, % GRI 405-1	45.0	53.2
	Average ratio of entry-level wage to the Russian minimum wage GRI 202-1	2.1	2.3
SOCIAL AND REPUTATIONAL CAPITAL → Development in important social fields → Relations with stakeholders → Investments in communities, charity and volunteering	Number of consumers, m	150+	150+
	Number of agreements signed with local administrations	17	15
	Participants of charity programmes, persons	85 k+	1,1 m+
PRODUCTION CAPITAL → Modernisation of production facilities → Investment programmes of portfolio companies	Number of industries	15+	15+
INTELLECTUAL CAPITAL → Innovations, new technologies and R&D → VC investments in tech startups	Number of new agreements signed with research institutes	8	7
	Spending on IT, RUB m	178.5	318.3
	Number of VC transactions	4	17
NATURAL CAPITAL → Compliance with environmental standards and environmental protection → Green tech and resource efficiency → Climate change risk management	Environmental protection expenditures, RUB m	732	576
	Energy consumption, m GJ GRI 302-1	43.33	83.8
	Water withdrawal, m cu m GRI 303-3	84.7	93.5

ACTIVITIES

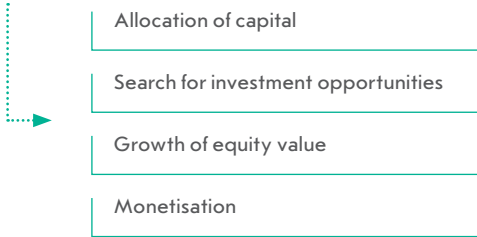
STRATEGIC FOCUS

Growing USD 1 bn+ businesses (Steppe AgroHolding, Segezha Group, Medsi, Ozon) → Generation of value in existing assets, including through the adoption of advanced technologies and digital solutions

Stronger focus on investments in technology → Embracing unique investment opportunities in traditional sectors in Russia

Continuous improvement of the corporate governance system

REINVESTMENT



TAKING ESG FACTORS INTO ACCOUNT AT ALL STAGES OF THE INVESTMENT PROCESS

KEY ESG AREAS

Accessibility and quality → Smart environment → Wellbeing

RESULTS

	2020	2019
Dividends declared, RUB bn GRI 201-1	>1¹	>1²
Investment earnings, incl. dividends from portfolio companies and proceeds from asset monetisation, RUB bn	93.9	85.2
Adjusted net income, RUB bn	16.0	53.4
Revenue, RUB bn	691.6	656.9

SUSTAINABLE DEVELOPMENT GOALS



	2020	2019
Average annual labour productivity, RUB m/FTE	5.2	4.7
Average hours of training per year per employee GRI 404-1	10.7	15.6
Work-related injuries GRI 403-9	80	98



	2020	2019
Taxes paid to budgets of all levels, RUB bn GRI 201-1	118.9	125.2
Social investments in communities, RUB bn GRI 203-1	1.76	1.42
Proportion of positive media stories reflecting the Corporation's strategic goals, %	54.8	52.3



	2020	2019
Total investments in fixed assets, RUB bn GRI 203-1	127.8	117.6



	2020	2019
Number of registered intellectual property assets	203	179
Number of patent & trademark applications	72	67



	2020	2019
Greenhouse gas emissions, m t GRI 305-1	0.56	0.85
Water disposal, m cu m GRI 303-4	61.4	81.9
Energy consumed per RUB m of consolidated revenue, GJ/RUB m	62.65	127.62



¹ For 2020.
² For 2019.

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Responsible Investment Strategy and Approaches

Sistema's mission is to build Russia's leading investment company with diverse expertise and a strong track record, which will become 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 high-potential technologies and fuelling long-term growth in shareholder value.

STRATEGIC GOALS

- › Steady growth of the Corporation's shareholder value
- › Building profitable and growing companies that are leaders in their industries
- › Maximising net asset value

STRATEGIC FOCUS

- › Building and continuously developing businesses worth over USD 1 billion
- › Embracing unique investment opportunities in traditional and new sectors
- › Creating value in assets through team strengthening, strategic repositioning, business transformation, operational improvements, equity structure optimisation, digitalisation, etc.
- › Continuous improvement of the quality of corporate governance and focus on ESG development

Responsible Investment Approach

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

For Sistema, responsible investment is an integral element of its investment strategy and long-term success. The Corporation takes into account not only financial and operating aspects, but also significant environmental, social and governance (ESG) factors at all stages of its investment activities and asset ownership to create long-term value for shareholders and other stakeholders.

In 2020, Sistema's Board of Directors reviewed its updated strategy, approving new investment criteria with integrated ESG factors reflecting the Corporation's guiding principles of responsible business conduct and international ESG standards.

IMPLEMENTATION OF PRINCIPLES FOR RESPONSIBLE INVESTMENT

WHEN COMPILING AN ASSET PORTFOLIO	DURING HOLDING PERIOD	WHEN DIVESTING ASSETS
<p>No 'toxic' industries and activities that are forbidden by local law or international standards</p> <p>Attention to the ESG-profile of each company when making investment decisions</p>	<p>Basic sustainability standards in portfolio companies and extra requirements in preparing for IPOs</p> <p>Interactions with portfolio companies via their boards (as per established corporate procedures) to enhance sustainability management and drive ESG performance</p>	<p>Ensuring the independence and reliability of sustainability management systems within the company</p> <p>Preparing information and reference materials on sustainability at the company (if necessary)</p>

For more details on implementation of responsible investment principles, visit Sistema's official website: <https://sistema.com/sustainable-development/responsible-investment-principles>

Sistema Group's total investment in 2020 exceeded
RUB 167.3 bn

Raising ESG financing

In 2020, Sistema signed an agreement with Sberbank for an up to RUB 10 bn credit facility where specific interest rates may be tied to the company's sustainability performance. The money will be used for general corporate purposes.

The agreement helped to integrate the principles of responsible investment in the investment process and the business model of the Corporation. This is the first ESG credit facility provided by a Russian bank to a Russian company.

Investment Process

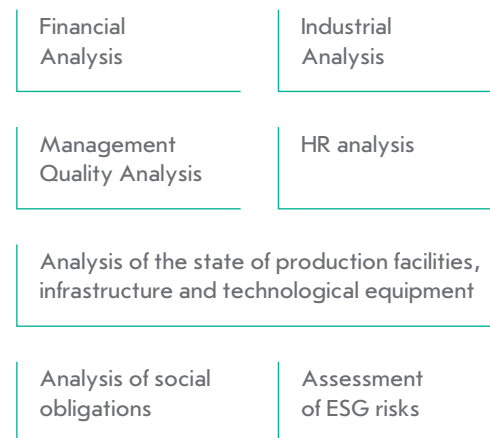
GRI 103-1, GRI 103-2, GRI 103-3, SASB FN-AC-410a.2

Investment processes across the Group are regulated by corporate documents and procedures. Potential investment opportunities 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, and if endorsed 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 a forecasting horizon as possible.

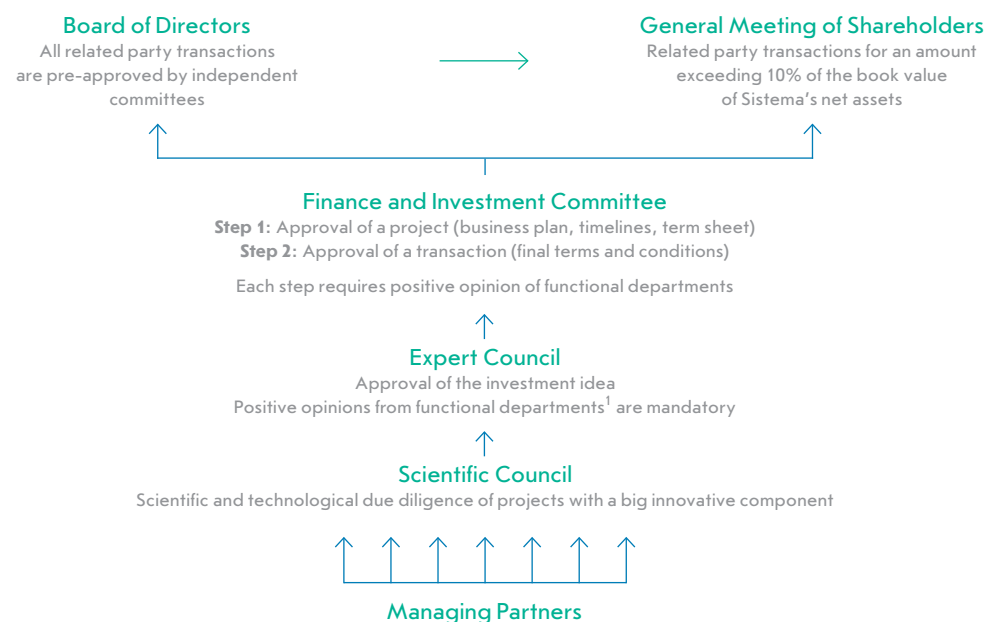
The preliminary assessment of ESG risks leads to an understanding if the project warrants further analysis, and the scope and level of detail such analysis is required to involve, depending on the materiality of risks identified. Material risks are risks that can have a material effect on the company's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

Comprehensive Due Diligence of Potential Investments



About **10%** of M&A projects prepared by Managing Partners reach the Expert Council and the Finance and Investment Committee

Review of Investment Projects at Sistema



¹ The Strategy and Development Function, the Finance Function and the Corporate Governance and Legal Affairs Function.

Investments in innovations

Sistema invests in knowledge- and technology-intensive projects requiring profound industry-specific analysis. Whenever a new investment idea comes up that heavily uses innovations or science, it is 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 a raft of cooperation agreements with research and education institutions: the RAS³,

Asset Management

GRI 102-16

Sistema's indirect ESG impact through its portfolio assets is more significant than the direct one. Therefore, the Corporation makes efforts to promote the following principles in Sistema Group companies through their governance bodies at the stage of asset management using established corporate procedures:

- › Compliance with high standards of corporate governance and principles of responsible business conduct;
- › Improvement of their sustainability management approaches and performance indicators;
- › Minimisation of negative and maximisation of positive impact through innovation, services, products and investments in communities.

The Corporation deploys a partnership model allowing its key executives 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 (if such business's maturity status so requires). The incentive systems of partners are pegged on growing and monetising asset values.

² Data for Etalon Group, Steppe AgroHolding, Binnopharm Group, BPGC, Element Group and Sistema BioTech.

³ The Russian Academy of Sciences.

⁴ The Russian School of Economics.

⁵ Moscow State University.

⁶ The Far Eastern Federal University.

RUB 2.48 bn
Sistema's investments in R&D² in the sectors of microelectronics, agricultural and biotechnologies, pharmaceuticals, power generation and construction in 2020

RSE⁴, MSU⁵ and FEFU⁶. In addition to that, Sistema has established collaborations with independent think tanks, which also provide valuable insights for project analysis.

Asset management principles under the partnership model:

- › Portfolio companies have Boards of Directors, which in each case include independent directors;
- › Portfolio companies comprise 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 invests in certain businesses through special funds along with co-investors or the larger portfolio companies that develop their own ecosystems through M&A and branching out into new markets.



Partnership with Foreign Investors

Sistema cooperates 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 collective projects with the Russian Direct Investment Fund (RDIF) and other partners and investments in growing companies through Sistema's own VC and PE funds.

Sistema's priority geographies for international cooperation in 2020:

- › Asia (China, India, South Korea, Singapore);
- › Middle East (Saudi Arabia, UAE, Qatar);
- › Europe (UK and Germany).

Interaction with Business Community

Due to the COVID-19 pandemic, travelling restrictions and cancellation of a number of big economic forums, Sistema's delegation was able to visit only the international forum in Davos held in January 2020.

Sistema is a permanent participant of the Davos forum, representing the Russian business. In 2020, the Chairman of Sistema's Board of Directors and the top managers of the Corporation held a number of meetings with the representatives of business and political circles, the largest global banks, investment and manufacturing companies in the US, Japan, China and some Middle Eastern countries. In particular, the issues they discussed with international partners included investment and joint business development in Russia in such promising areas as healthcare, pharmacology, e-commerce, as well as investments in new technology via venture capital funds.

In the absence of international events in 2020, Sistema's Board Chairman and top managers took business trips to Russian regions to discuss prospects of developing the businesses of Sistema's portfolio companies with regional governments. During the visits to Omsk, Kemerovo and Novosibirsk, they discussed projects of infrastructure and housing construction in regions, opening of hotels, development of telecom networks and the possibilities for the Corporation's assets to branch out into new regions.

Effect from Investment Programmes

Sistema heavily invests in the upgrades and development of the industrial and management potential of assets across a variety of industries, which results in creating 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.

SISTEMA GROUP'S INVESTMENTS

	RUB BN
CAPEX	127.8
Investments in assets	39.5
Total	167.3

SHARE OF THE CORPORATION'S INVESTMENTS IN THE TOTAL VOLUME OF INVESTMENT IN THE RUSSIAN ECONOMY BY INDUSTRY

	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	1,196.6	97.4	8.14
Forest management and logging	206.4	11.7	5.67
Healthcare	580.1	5.5	0.95
Electricity, gas and steam supply, air conditioning	1,108.4	3.4	0.31
Wholesale and retail	637.7	6.8	1.07
Crop farming and livestock production	743.8	2.5	0.34

In 2020, Sistema invested RUB 167.3 bn in the Russian economy. Its capital expenditures totalled RUB 127.8 bn. The funds went towards enhancing efficiency of Sistema businesses in several industries, including investment projects aimed at upgrading and increasing the output and capabilities of production assets.

Sistema's projects are designed to enhance the economic and environmental efficiency of assets while also raising local standards of living. The biggest share of capital expenditures in 2020 went to telecom and digital services.

INVESTMENT IN FIXED ASSETS BROKEN DOWN BY INDUSTRY

	RUB BN	%
Telecoms and digital services	97.4	76.2
Timber industry	11.7	9.2
Healthcare	5.5	4.3
Electric power	3.4	2.7
The consumer sector	6.8	5.3
Agriculture	2.5	2.0
Other	0.5	0.4

SHARE OF SISTEMA'S FIXED CAPITAL INVESTMENTS IN TOTAL PRIVATE INVESTMENT IN RUSSIA

	2020	2019	2018	2017	2016
Capital investments, RUB bn	127.8	117.6	124	104.4	122.9
Private investment in Russia, RUB bn	12,450	12,232	10,466	9,318	8,241
Share of investments, %	1.03	0.96	1.18	1.12	1.49

Development of Housing Construction in Russia

Sistema, Etalon, DOM.RF and Bank DOM.RF signed an agreement on strategic cooperation in order to develop housing construction in Russia.

The parties agreed to jointly carry out projects of housing construction and comprehensive development of territories and to develop a pool of rental housing on the basis of apartment blocks built as part of cooperation.

The agreement envisages participation of DOM.RF and Bank DOM.RF in financing of Etalon Group's investment projects, including opening of targeted credit facilities and provision of mortgage loans, with the possibility of financing Etalon's housing construction projects with infrastructure bonds.

By combining efforts, resources and competences, Russia's leading developers and government development agencies are trying to resolve problems in the sector and make quality housing more affordable for the Russian people.

0.65%

was the share of the Corporation's consolidated revenue in Russian GDP

0.16%

the ratio of Sistema's total investment to Russian GDP

22.19%

the ratio of Sistema's total investment to its total consolidated revenue

76.4%

investments in fixed capital

Corporate Governance

Corporate Governance System

High quality of corporate governance and information transparency are important elements of Sistema's investment strategy. The Corporation uses best international corporate governance standards as a foundation for developing its own standards. Continuously improving corporate governance practices, the Corporation timely implements all the necessary changes and maintains high efficiency of management decisions.

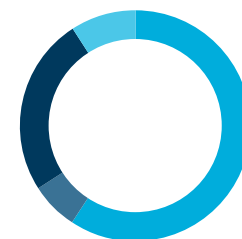
Live Streaming of the Annual General Meeting of Shareholders

In 2020, due to COVID-19 pandemic, a new law was passed in Russia allowing joint-stock companies to conduct their annual general meetings of shareholders in the form of absentee voting. However, in addition to absentee voting, Sistema's Board of Directors decided to organise a live stream of the meeting on the final date of voting. In the course of the live stream the Corporation's management made a report on the results of 2019 and took questions from the shareholders.

Corporate Governance Principles

- › Clear and effective procedures for taking investment decisions
- › Reasonable transparency of management processes for investors and partners
- › A dividend policy that takes due account of both the reasonable expectations of investors and Sistema's financial resources
- › Professionalism of the Board of Directors and its active involvement in strategic planning and the management and oversight of business processes
- › Special focus of the Board of Directors on related-party transactions and other situations with potential conflicts of interest

EQUITY STRUCTURE¹, %



● Vladimir Evtushenkov, Chairman of the Board of Directors	59.2
● GDRs (free float)	6.9
● Ordinary shares (free float)	25.0
● Other ²	8.9

¹ As of 31 December 2020.
² Ordinary shares and GDRs owned by Sistema Group companies, members of the Board of Directors and the management of Sistema.

Operation of Corporate Governance Bodies in 2020 GRI 102-18, GRI 102-23, UNCTAD D.1.1



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

OPERATION OF ADVISORY BODIES UNDER THE PRESIDENT AND THE MANAGEMENT BOARD IN 2020

Expert Council	Review of investment ideas and asset acquisition initiatives	10 meetings
Finance and Investment Committee	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	47 meetings
Risk Committee	Identification, assessment and analysis of risks of the Corporation and its portfolio companies	4 meetings
Tender Committee	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	25 meetings
Information Technologies Committee	Ensuring interaction of the Corporation's divisions and officers on IT-related matters, creating conditions to maximise effect from IT projects and initiatives at Sistema, building and maintaining integrated IT architecture of the Corporation based on the latest digital technologies, ensuring uniform corporate standards and tools in the area of IT	1 meeting

Overview of Sistema's Board of Directors¹

GRI 405-1, SASB FN-AC-330a.1, UNCTAD D.1.2

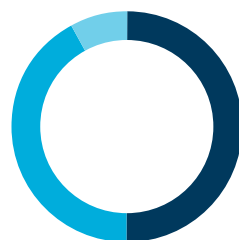
12 members on the Board of Directors

6 of whom are independent directors

8% share of women in Sistema's Board of Directors in 2020

61 years average age of Board members in 2020

COMPOSITION OF THE BOARD OF DIRECTORS



- **Independent directors** 50%
A. Belova
R. Kocharyan
R. Munnings
A. Chubais
E. Schneider
D. Lakobashvili
- **Non-Executive directors** 42%
V. Evtushenkov
F. Evtushenkov
M. Shamolin
R. Sommer
A. Dubovskov
- **Executive director** 8%
V. Chirakhov

Sistema's Board Committees

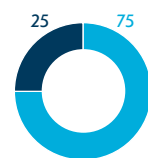
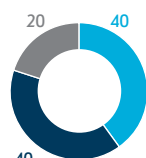
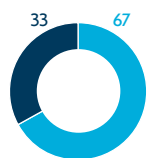
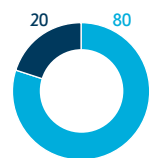
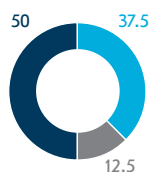
STRATEGY COMMITTEE

AUDIT, FINANCE AND RISK COMMITTEE

NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

ETHICS AND CONTROL COMMITTEE

SUSTAINABILITY AND INVESTOR RELATIONS COMMITTEE



- Independent director
- Non-executive director
- Executive director

MEETINGS OF THE BOARD OF DIRECTORS

	2020
Number of meetings held during the year, including	12
In person	7
By letter ballot	5
Total items reviewed	68

ISSUES REVIEWED BY THE BOARD OF DIRECTORS

SUBJECT	NUMBER OF ISSUES, %
Business strategies, investments, new business segments	40
Financial statements, planning, audit	13
Approval of transactions	12
Shareholding in portfolio companies, groups, JVs, branches	10
Appointments and HR policy	9
Corporate governance and securities	9
Approval of internal regulations	6
Functional strategies	1

Corporate Governance Across Sistema Group

In order 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.

The boards of directors of the key portfolio companies include professional independent

members with expertise in the relevant industries, as well as in strategy, finance, audit and corporate governance. Independent directors account for about one-third of members of the boards of key portfolio companies (depending on the level of the company's organisational maturity).

Boards of directors of portfolio companies and their committees ensure supervision and coordination, and support the management, seeking to further enhance the management quality.

SASB FN-AC-330a.1

OVERVIEW OF THE BOARDS OF DIRECTORS OF SISTEMA'S KEY ASSETS IN 2020²

Average number of members on the boards of directors	9
Average number of board meetings per year	15
Average share of women on the boards of directors, %	23
Average age of board members, years	51


¹ As of 31 December 2020.

² The following portfolio companies were included in the calculation: MTS, Segezha Group, BPGC, Etalon Group.







External Assessment and Public Recognition

ESG ratings and rankings in 2020

GRI 103-3

 FTSE4Good	Confirmed its status as participant of FTSE4Good. Above average among international financial companies.												
 DISCLOSURE INSIGHT ACTION	Ranked among top 15 globally and top 7 among 29 Russian companies that voluntarily disclosed their climate data via CDP, the leading international carbon accounting platform, getting a B score.												
 <table border="1" data-bbox="350 1081 617 1159"> <tr> <th>2018</th> <th>2019</th> <th>2020</th> </tr> <tr> <td>B</td> <td>BB</td> <td>BB</td> </tr> </table>	2018	2019	2020	B	BB	BB	Confirmed its MSCI ESG Rating at BB in 2020.						
2018	2019	2020											
B	BB	BB											
 a Morningstar company <table border="1" data-bbox="142 1276 617 1354"> <tr> <td>12.1 2021</td> <td>15.3 2020</td> <td>30.4 2019</td> </tr> <tr> <td>NEGL</td> <td>LOW</td> <td>MED</td> </tr> <tr> <td></td> <td></td> <td>HIGH</td> </tr> <tr> <td></td> <td></td> <td>SEVERE</td> </tr> </table>	12.1 2021	15.3 2020	30.4 2019	NEGL	LOW	MED			HIGH			SEVERE	Improved its position in the Sustainalytics rating to 12.1, ranking 12th among 750+ global diversified financial companies.
12.1 2021	15.3 2020	30.4 2019											
NEGL	LOW	MED											
		HIGH											
		SEVERE											
	Top-17 Russian companies. Was included in leading groups of sustainable development indices compiled by the Russian Union of Industrialists and Entrepreneurs: Responsibility and Transparency and Sustainable Development Vector.												
	Subrating ESG as Value Factor of the Russian Regional Integrated Reporting Network - assigned level A+ (leader of corporate ESG practices in Russia)												
	Was included in the top 20 Russian companies in the new RAEX Europe rating.												



Other Ratings, Awards and Prizes

	The Russian Institute of Directors (RID) confirmed Sistema's corporate governance score at level 8: "Advanced corporate governance practice"
	The Russian Federal Service for Intellectual Property recognised Sistema as Russia's first investment brand of high renown.
	Was included in Group A out of 12 participants of the Leaders of Corporate Charity ranking in 2020 with best corporate charity practices.
	Representatives of Sistema made it to Top 1000 Russian managers according to AMR and Kommersant.
	Employees of Sistema were included in the list of the best procurement directors compiled by the RAEX agency and the Association of Procurement Directors.
	Ten employees of Sistema received state awards for their work achievements and many years of diligent work, including two Orders of Friendship.

Participation in International and Industry Initiatives

GRI 102-13

Representatives of Sistema and the Group companies take part in the activities of numerous business and public organisations. Through cooperation with leading international and Russian organisations and business associations, the Group contributes to achievement of sustainable development goals and promotes the ESG agenda in the country.

	United Nations Global Compact	In 2002, Sistema PJSC 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.

GRI 102-12

The Company supports Initiatives:

	PRI Principles for Responsible Investment	Principles for responsible investment (PRI)
	SUSTAINABLE DEVELOPMENT GOALS	The UN Sustainable Development Goals
	UNITED NATIONS GUIDING PRINCIPLES ON BUSINESS & HUMAN RIGHTS	The United Nations Guiding Principles on Business and Human Rights.
	ISO 26000:2010	Guidance on Social Responsibility

Russian Organisations and Associations

	РСПП	Russian Union of Industrialists and Entrepreneurs (RUIE)
	ОБЩЕРОССИЙСКАЯ ОБЩЕСТВЕННАЯ ОРГАНИЗАЦИЯ ДЕЛОВАЯ РОССИЯ	Russian non-governmental organisation Business Russia
	Торгово-промышленная палата Российской Федерации	Chamber of Commerce and Industry of the Russian Federation
	МОСКОВСКАЯ БИРЖА	Issuers' Committee of the Moscow Exchange
	АИД АССОЦИАЦИЯ ПРОФЕССИОНАЛЬНЫХ ДИРЕКТОРОВ	Independent Directors Association (IDA)
	РОССИЙСКИЙ ИНСТИТУТ ДИРЕКТОРОВ	Russian Institute of Directors (RID)
	АССОЦИАЦИЯ МЕНЕДЖЕРОВ	Russian Managers Association
	НОКС НАЦИОНАЛЬНОЕ ОБЪЕДИНЕНИЕ КОРПОРАТИВНЫХ СЕКРЕТАРЕЙ	National Association of Corporate Secretaries and Club of Corporate Secretaries
	АССОЦИАЦИЯ РИСК-МЕНЕДЖЕРОВ	Russian Risk Management Society (RusRisk)
	АГЕНТСТВО СТРАТЕГИЧЕСКИХ ИНИЦИАТИВ	Agency for Strategic Initiatives (ASI)
	Объединение Корпоративных Юристов	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
- › Eastern Committee of the German Economy (OAOEV)
- › Emerging Markets Private Equity Association (EMPEA)

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 Chambers of Commerce and Industry of Russia
- › 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 of the Board of the Moscow Confederacy 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 Timiryazev Russian State Agricultural University
- › Russian Geographical Society
- › Russian Olympians Foundation
- › Handball Federation of Russia
- › Holy Trinity Monastery at Sergiev Posad and the Moscow Ecclesiastical Academy (since 2018)
- › The Patriarch's Board of Trustees for restoration of the Transfiguration of the Saviour Monastery on Valaam
- › The Moscow First State Sechenov Medical University
- › The Alexander Gorchakov Public Diplomacy Fund

Segezha Group joined sustainable development initiatives

In March 2020, Segezha Group became the 269th member of the Social Charter of Russian Business. The Charter's members are industrial and regional business associations and non-profits.

In 2021, the company joined the UN Global Compact.

Segezha Group makes regular efforts to contribute to harmonious development of the economy, environment and the social sphere. The company is consistently implementing its Sustainability strategy till 2025.

MTS joined the international project studying COVID-19 virus

In 2020, MTS joined the Folding@Home global project. It uses computing capacity across the world for computer modelling of functioning of protein molecules that help the immune system to suppress COVID-19.

The cloud provider #CloudMTS allocated resources for computer modelling of the new virus's mechanisms and searching for treatment methods. The operator provided capacity on the basis of NVIDIA Tesla V100d 32Gb graphic accelerators united into a 100 Gb high-speed network. These resources make it possible to perform computing operations at a speed of up to 3.6 petaflops.

Etalon Group became a new member of the Managers' Association

In May 2020, Etalon Group joined the Managers' Association, which is an efficient channel of communications between the business community and the government.

Membership in the Association helps Etalon with:

- › exchange of experience, state-of-the-art practices and knowledge with colleagues from different sectors;
- › the company's communication with leaders of various business segments;
- › participation in professional conferences and discussions.

A P P R O A C H T O

SUSTAINABILITY MANAGEMENT

Awards Received by Sistema GRI 103-3



Sistema's public sustainability report was named one of the five best among the world's investment companies at ESG Reporting Awards 2021. The Corporation was the only Russian finalist in its category.



Sistema won the 23rd competition of annual reports organised by the Moscow Exchange in the Best Information Disclosure on the Corporate Website category. The Corporation got the highest score for the quality of information disclosure on its website, which was updated in 2020 with a focus on increasing transparency and availability of information for all users, including investors and shareholders.

Awards Received by Group Companies



MTS and Segezha Group were among leaders of the first rating of sustainability reporting compiled by AK&M.



Since November 2020, Sistema and MTS have been included in the ESG ranking of Russian companies prepared by RAEX Europe. Segezha Group was for the first time included in the ranking in April 2021. As of July 2021, Sistema was ranked 20th, MTS 6th and Segezha Group 36th in the ESG ranking of 121 companies from 20 industries.



MTS's sustainability report for 2019 won in the non-financial reporting category for Best Presentation and Visualisation of Information of the Change Management. Visionaries award.



In 2020, the World Benchmarking Alliance (WBA) named MTS among 2,000 most influential companies in the world that have the greatest potential to help us move to a more sustainable future and achieve the UN Sustainable Development Goals by 2030.

Key Areas of Sustainability

GRI 103-1

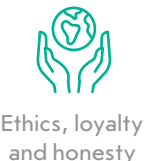
Sistema abides by principles of transparent and responsible business and considers it important to introduce and promote such principles at the Group companies and among its stakeholders - contractors, suppliers, partners and consumers.

Principles of Responsible Business Conduct

GRI 103-2

Sistema strives to ensure that all Group companies adhere to the same principles of responsible business conduct, 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.



Context of the Corporation's Sustainability Activities



International agenda



National agenda

Key ESG Areas as the Investment Strategy Extension

GRI 103-3

Sistema identified three key ESG areas, promoting their development through its investment activities and trying to have a significant positive effect within them:

- › Accessibility and quality of products and services
- › Wellbeing of employees, customers and local communities
- › Smart, efficient and safe environment



SISTEMA'S CONTRIBUTION TO ACHIEVEMENT OF GLOBAL SUSTAINABLE DEVELOPMENT GOALS AND NATIONAL PRIORITIES OF THE RUSSIAN FEDERATION

UN SDGs	UN SDG TARGETS
NATIONAL PRIORITIES	CORPORATION'S CONTRIBUTION TO ACHIEVING THE GOALS

	<p>1.2 Reduce at least by half the proportion of men, women and children living in poverty</p> <p>1.3 Implement proper systems and measures of social protection</p> <p>1.4 Ensure equal rights to economic resources, as well as access to basic services, appropriate new technology and financial services</p>
	<p>Demography</p> <ul style="list-style-type: none"> › Taxes and contributions in 2020 totalled RUB 118.9 bn (GRI 207-4; UNCTAD A.2.1) ▼
	<p>Labour productivity and support of employment</p> <ul style="list-style-type: none"> › Social investments exceeded RUB 1.76 bn in 2020 (UNCTAD A.3.2) ▲ › The average entry-level wage across the Group is 21 time higher than the minimum wage (GRI 202-1) ▲
	<p>Education</p> <ul style="list-style-type: none"> › East-West United Bank organised financial literacy classes for kids (GRI F516)
	<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>
	<p>Labour productivity and support of employment</p> <ul style="list-style-type: none"> › 565,000 ha is the size of Steppe AgroHolding's land holdings › 1.3 Mt was collected by AgroHolding in gross harvest across crop types
	<p>International cooperation and exports</p> <ul style="list-style-type: none"> › 71.4 kt is the milk output by AgroHolding ▲ › AgroHolding has 6,687 lactating cows¹ (GRI FP19) ▼
	<p>3.4 Reduce by one third premature mortality from non-communicable diseases through prevention, treatment and promotion of mental health and wellbeing</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>
	<p>Healthcare</p> <ul style="list-style-type: none"> › Expenses on occupational safety exceeded RUB 1.1bn (UNCTAD A.3.1)
<p>Demography</p> <ul style="list-style-type: none"> › Expenses on voluntary health insurance and social programmes at Sistema Group companies totalled RUB 1.68 in 2020 	
<p>Environment</p> <ul style="list-style-type: none"> › Over RUB 1.7bn was spent on supply of medical equipment, test kits and PPE to regions as part of the #COUNTRYWITHOUTVIRUS project. (UNCTAD A.3.2) › 7.6m patient visits were registered at Medsi clinics in 2020 › Over 165,000 people (+83%) received home care, getting 337,000 services › Medsi was the country's first private clinic to open an outpatient care centre for cancer patients 	

¹ Lactating cows receive supplementary fodder to increase milk yields.





	<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>
Education	<ul style="list-style-type: none"> › 10.7 hours was the average hours of training per employee (GRI 404-1, UNCTAD C.2.1) ▼ › 22 classes in 10 regions of Russia were fitted out › In 2020, the online education and career guidance platform of the Liff to the Future programme was launched (https://liff-bf.ru). Over 36,000 users¹ registered on the platform, and 1,153 received career guidance consultations



	<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>
Demography	<ul style="list-style-type: none"> › The share of women among Sistema Group employees was 50% in 2020 ▼ › 23% was the average share of women in boards of directors of Sistema's key assets in 2020 (UNCTAD D.1.2) › Basic salaries of women and men for work of equal value do not differ at Sistema Group's assets (GRI 405-2)



	<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>
Environment	<ul style="list-style-type: none"> › 84.7 m cu m was the aggregate water intake by Group companies in 2020 (GRI 303-3 2018) › 61.4 m cu m was the aggregate volume of waste water produced at Sistema's assets (GRI 303-4 2018)



	<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>
Comprehensive plan for modernisation and expansion of trunk infrastructure	<ul style="list-style-type: none"> › In 2020, BPGC connected to grids about 3,000 new consumers of electricity and 10,600 benefit-entitled users (GRI EU7) › BPGC (LLC Bashkirenergo and LLC BGC) invested over RUB 4 bn in the development of the energy sector of the Republic of Bashkortostan (GRI 203-1; GRI EU8)
Environment	<ul style="list-style-type: none"> › Bashkirenergo's total grid losses in 2020 stood at 7.63% (GRI EU12)



	<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 Develop 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>
Labour productivity and support of employment	<ul style="list-style-type: none"> › Group companies employ about 134,000 people (GRI 102-8) ▼ › More than 49,000 new employees were hired in 2020 (GRI 401-1) ▲ › Average employee turnover at the Corporation was 17% in 2020 (GRI 401-1) › Average annual labour productivity at Sistema Group companies was RUB 5.2 bn per employee in 2020



ABOUT THE CORPORATION

APPROACH TO SUSTAINABILITY MANAGEMENT

ROLL-OUT OF KEY SUSTAINABILITY AREAS IN ACTIVITIES OF SISTEMA GROUP COMPANIES

ANNEX



¹ As of 10 February 2021



- 9.1 Develop quality, reliable, sustainable and resilient infrastructure
- 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
- 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
- 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&D workers and R&D spending
 - 9.a. Support domestic technology development, research and innovation, including by ensuring industrial diversification and value addition to commodities sectors
 - 9.b. Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet

Digital economy › In 2020, 4 venture capital deals were completed

Comprehensive plan for modernisation and expansion of trunk infrastructure

Education

Science



- 10.2 Empower and promote the social, economic and political inclusion of all

- Demography › Over 85,000 people became participants of Sistema Group's charitable programmes ▼
- Labour productivity and support of employment › 3,416 employees of the Group took part in the events arranged by Sistema Charitable Foundation
- Education › Sistema Group employed 1,202 persons with disabilities ▲



- 11.4 Strengthen efforts to protect and safeguard the world's cultural and natural heritage
- 11.6 Reduce the adverse per capita environmental impact of cities, paying special attention to air quality and municipal and other waste management
- 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

- Housing and urban environment › The participants of Sistema Charitable Foundation's Volunteer Centre worked 1,458 hours in 2020 ▼
- Environment › Digitalisation of culture projects: the first online training course with the Russian Museum and a 3D tour of the Lenino-Snegiri Military History Museum were launched
- Comprehensive plan for modernisation and expansion of trunk infrastructure › Grants to winners of the Sistema in Support of Good Cause contest in Kurgan amounted to RUB 500,000
- › Segezha Group spent RUB 767m to provide heat and hot water to the population (UNCTAD A.3.2)
- Culture



- 12.2 Achieve the sustainable management and efficient use of natural resources
- 12.6 Adopt sustainable practices and integrate sustainability information into reporting cycle
- 12.8 Ensure that people everywhere have the relevant information on sustainable development and lifestyles in harmony with nature

Environment › As many as 1,254 employees from 21 Group companies took part in the Green Marathon, a corporate initiative promoting responsible consumption



- 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
- 13.3 Enhance scope of education and awareness-raising; boost up human and institutional capacities on climate change mitigation and impact reduction

Environment › Greenhouse gas emissions by Sistema Group companies totalled 0.56 Mt in 2020 (GRI 305-1; UNCTAD B.3.1)



- 15.1 Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services
- 15.2 Promote the implementation of sustainable management of all types of forests, halt deforestation and substantially increase afforestation and reforestation
- 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
 - 15.b. Mobilise significant resources to finance sustainable forest management, including for conservation and reforestation

Environment › Segezha Group reforested 29.1 ha of woodland in 2020 ▲

› RUB 141.5m was spent by Segezha on reforestation efforts (UNCTAD A.3.1)

› 83% of Segezha Group's timber reserves are FSC-certified

› Two enterprises of Segezha Group are PEFC-certified

› RUB 732m was spent by Sistema Group on activities related to environmental protection (UNCTAD A.3.1)



- 16.5 Substantially reduce corruption and bribery in all their forms
- 16.10 Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements

National Anticorruption Plan › 204 incidents of corruption were identified and confirmed at Group companies (GRI 205-3) ▼

› Over 42,000 employees of Sistema Group companies completed the anticorruption training (GRI 205-2) ▲

› The Corporation paid RUB 0.2m in fines and penalties related to corruption in 2020 ▼



- 17.16 Enhance the global partnership for sustainable development to support the achievement of the sustainable development goals

Science › In 2020, Etalon Group joined the Managers' Association, and Segezha Group became member of the Social Charter of Russian Business

Education › In 2021, Segezha Group joined the UN Global Compact

Sustainability Governance Structure

Sustainability is an integral part of Sistema's corporate governance and culture. In determining the key approaches to and principles of sustainability and responsible investment, Sistema relies on the following corporate regulations:

- › Code of Ethics;
- › Corporate Governance Code (updated in 2020);
- › Sustainability Policy (approved in 2020);
- › Corporate Social Responsibility Policy;
- › Risk Management Policy;
- › Anticorruption Policy;
- › Charity Policy;
- › Human Rights Policy (approved in 2021);
- › Environmental Policy (approved in 2021).

In 2020, the Corporation continued developing approaches to sustainability management and responsible investing. The Corporation's Board of Directors approved a new version of the Code of Corporate Conduct devised in reliance on best global ESG practices. In 2020, Sistema adopted a Sustainability Policy that sets out the guiding principles of the Group's activities in the area of corporate governance.

In May 2021, the Board approved an Environmental Policy and a Human Rights Policy of Sistema PJSFC. The documents elaborate on the Corporation's approaches to sustainability management and serve as guidelines for portfolio companies.

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

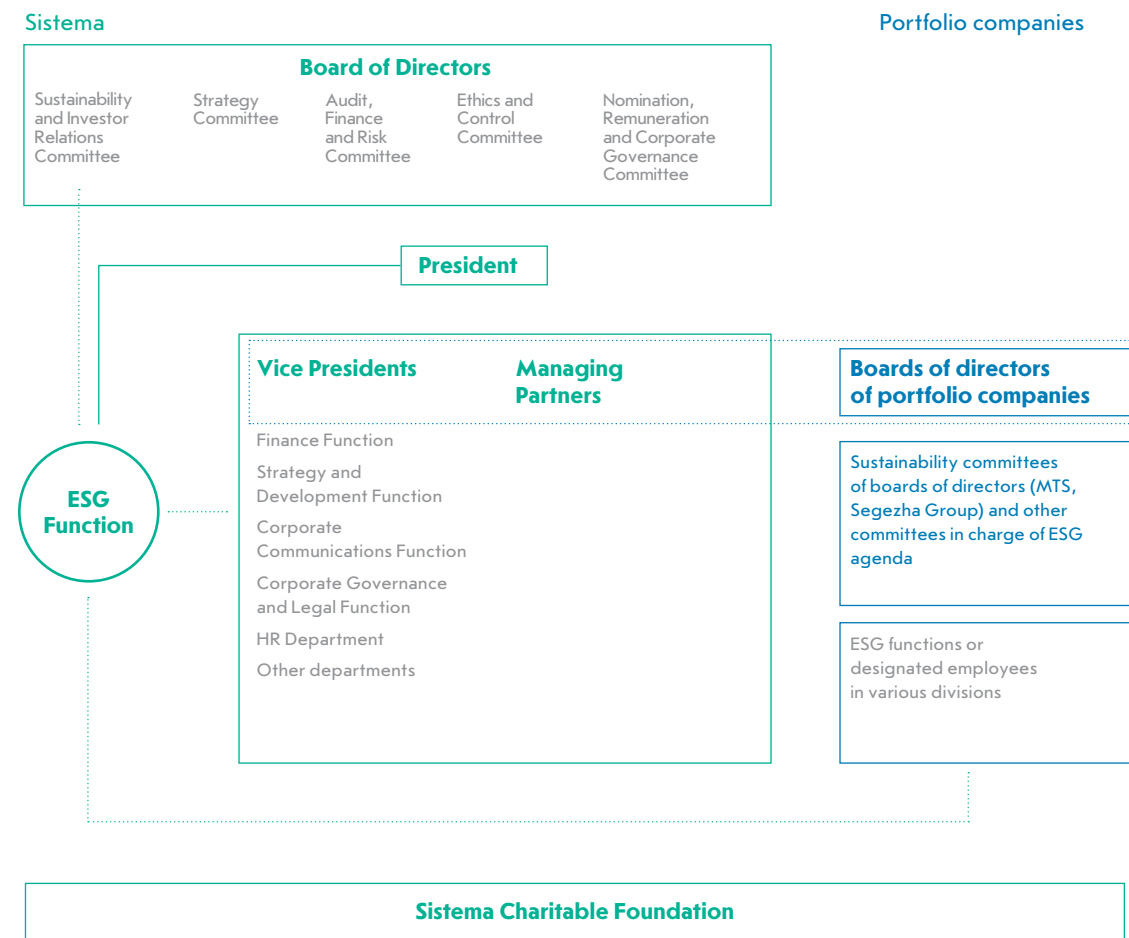
- › Human rights conventions and declarations of the United Nations (UN) and the International Labour Organisation;
- › The UN Sustainable Development Goals;
- › The UN Global Compact principles;
- › The UN Guiding Principles on Business and Human Rights;
- › The OECD Guidelines for Multinational Enterprises;
- › Principles for responsible investment (PRI);
- › The Performance Standards of the International Finance Corporation;
- › The GRI and SASB sustainability reporting standards;
- › Recommendations of the Task Force for Climate-Related Financial Disclosures (TCFD) and the Carbon Disclosure Project (CDP).

Governance Structure GRI 102-20, GRI 102-26, GRI 102-32

Sistema's Board of Directors plays a key role in determining the strategic areas of the Corporation's sustainability activities and overseeing its results. The Corporation manages sustainability aspects that are material for it on both strategic and functional

levels. The key principles and approaches are translated to the Group companies through their boards of directors, where Sistema is represented by its key managers (managing partners and vice presidents).

Sustainability Governance Structure



In June 2021, the Corporation's Board of Directors approved the Provisions on Sustainability and Investor Relations Committee (hereinafter, the Committee), which was established to replace the Investor Relations and Dividend Policy Committee. The new Provisions stipulate the Committee's leading role in setting the Corporation's ESG agenda. The ESG activities of the Committee are aimed at the development of the Company's corporate culture based on the ESG principles and the integration of ESG into the Company's strategy in order to increase the sustainability of Sistema's investment portfolio. Anna Belova was elected to be Chairperson of the Committee.

As many as 57% of members of the Sustainability and Investor Relations Committee of Sistema's Board of Directors are independent directors that have vast professional knowledge in various areas and extensive experience of management and board work at leading international and Russian companies.

MEMBERS OF SUSTAINABILITY AND INVESTOR RELATIONS COMMITTEE OF THE BOARD OF DIRECTORS OF SISTEMA PJSFC

NAME	TITLE
Anna Belova	Deputy chair of the Board of Directors of Sistema PJSFC, chair of the Sustainability and Investor Relations Committee
Ron Sommer	Non-executive director
Roger Munnings	Independent director, chairman of the Audit, Finance and Risks Committee
Mikhail Shamolin	Non-executive director, President, chairman of the board of directors of Segezha Group
David Iakobachvili	Independent director; chairman of the Ethics and Control Committee
Anatoly Chubais	Independent director
Alexander Shokhin	Independent director

For more information on the Sustainability and Investor Relations Committee of Sistema see the Terms of Reference of the Sustainability and Investor Relations Committee:

https://sistema.com/upload/iblock/9f2/b4c5yd01g4d8i8514c0c4sc78vxhn9be/ToR_ESG_IR-Committee.pdf

and Sistema's website:

<https://sistema.com/investors-and-shareholders/committee-investor-relations>

CSR Governance at Group Companies

Over 10 Group companies have approved top-level documents on 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.

In 2020, MTS announced the results of its first CSR strategy adopted for 2017-2020, which included:

- › update of the sustainability and CSR management structure;
- › optimisation of information collection and disclosure;
- › increase of employees' activity and engagement in volunteering initiatives;
- › broader participation in international industry initiatives. MTS supports sustainable development initiatives of the GSM Association (GSMA) and Joint Audit Cooperation (JAC);
- › achievement of high positions in ESG ratings.

In 2020, MTS developed a new sustainability and corporate social responsibility policy for 2021-2025. Until 2025, the company will work to improve its approaches along three vectors:

- › streamlining – closing gaps and utilising the 'underused',
- › multiplying – building on previous success,
- › and testing – trying out new opportunities.

In March 2021, the Corporate Governance Committee of the Board of Directors of MTS was reorganised into the ESG Committee.

For more information about MTS's CSR efforts see the Company's Sustainability Report for 2020:

https://www.mts.ru/upload/images/MTS_OUR_2020_book_eng.pdf?_ga=2.210157397.1954491446.1639462703-1969921550.1639044273

At the beginning of 2021, Segezha Group established a Strategy and Sustainability Committee of the Board of Directors, which comprised eight members. The Company also approved its Sustainability Policy and Strategy until 2025. The updated strategy is focused on four key areas:

- › innovative forest business
- › comfortable living environment in the forest regions of Russia
- › climate-oriented forest management
- › production and a responsible supply chain in the forest industry.

The Company declared the following priorities:

- › Develop & launch a decarbonisation strategy (drawing on Science Based Targets);
- › Ensure certification of 100% of leased forest plots according to international standards of voluntary forest certification (FSC and/or PEFC);
- › Ensure that 50% of the company's capital expenditures comes from 'green' financing;
- › Provide complete certification of supply chains confirming responsibility, inclusiveness and sustainability thereof.

For more information about Segezha Group's activities in the area of corporate social responsibility see its official website: <https://segezha-group.com/en/sustainable-development/>

Social Investment Management

Sistema's investments are aimed at achieving a long-term social effect and lasting benefits for stakeholders, such as corporate staff, consumers and local communities. Social investments are to facilitate a positive business effect, such as the promotion of goods and services, brand value growth, partnerships and employee loyalty.

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

In the middle of 2020, the Foundation adopted a new Development Strategy through 2023. A priority for Sistema is development of the Liff to the Future, a programme designed to promote career opportunities across the Group and address SDG No. 4 to provide comprehensive and quality education and encourage continuous education for everybody. A novelty of 2020, the Sistema in Support of Charity programme combines all social initiatives from across the Corporation on a single platform.

Charity Activities Management at Sistema

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

The Board of Trustees supervises SCF's activities, its use of funds and implementation of charity 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.

MEMBERS OF THE BOARD OF TRUSTEES OF SISTEMA CHARITABLE FOUNDATION

NAME	TITLE
Felix Evtushenkov	Chairman of the Board of Trustees of SCF, member of the Board of Directors of Sistema PJSC
Vyacheslav Nikolayev	President, Chairman of the Management Board of PJSC MTS ¹
Artemy Marinin	CEO of Business Nedvizhimost ²
Vsevolod Rozanov	Chairman of the Board of Directors of PJSC MTS Bank
Ali Uzdenov	Managing Partner, Sistema PJSC
Vladimir Chirakhov	President, Chairman of the Management Board of Sistema PJSC
Mikhail Shamolin	President, Chairman of the board of Segezha Group
Andrey Sharonov	President of SKOLKOVO-Moscow School of Management
Gennady Shcherbina	President of Etalon Group JSC

SCF BOARD AS OF 31 DECEMBER 2020, persons

	PERSONS
President of Sistema Charitable Foundation	1
Representative of the Corporation (Chair of the SCF Board, Vice President for HR of Sistema PJSC)	1
CEOs of portfolio companies	3
TOTAL	5

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

69.6%

the engagement level of Group companies in corporate-wide CSR projects in 2020

6.1%

The 2020 activity-to-media conversion ratio (i.e., the percentage of CSR & community projects that received coverage in public and social media)

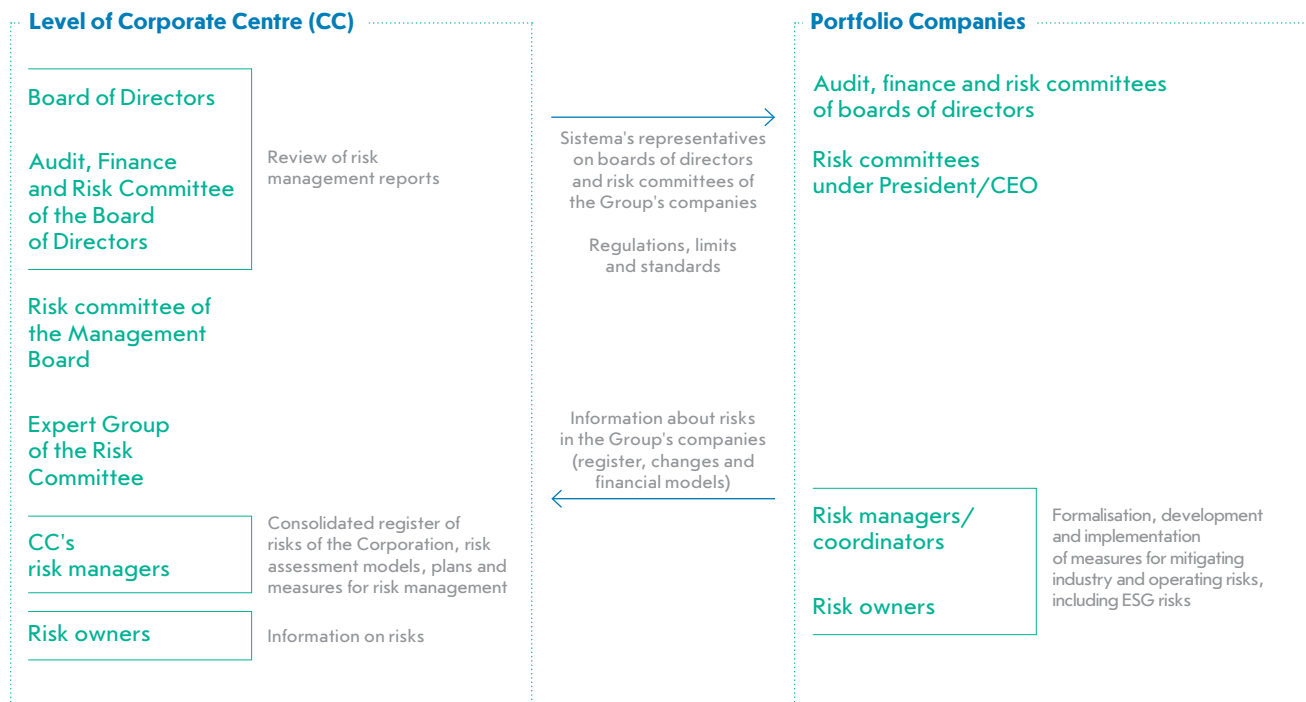
¹ From 1 May 2021.

² Before May 2021.

Risk Management

Risk management at Sistema is integrated into strategy planning and implementation, investing, budgeting, procurement and operations. Sistema's integrated risk management system is built in accordance with international standards, recommendations and best practices in risk management and is governed by Sistema's Integrated Risk Management Policy.

Interaction of Parties in Sistema's Risk Management System



For more details on the Risk Management System, see the Risk Management section of Sistema's 2020 Annual Report, pages 162-171: https://sistema.com/upload/iblock/a1e/4vmuhzvc3l5v7dn8w2lkvwhlgfeqaca/AFK_Sistema_AR2020_ENG.pdf

Sustainability Risks GRI 102-15

The Corporation's long-term success depends on its ability to manage sustainability risks and opportunities. This is why they are regularly assessed and managed.

Risks are assessed in terms of their impact on the implementation of the Corporation's overall strategy and the operations of the Group's 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.

[TCFD risk management | a](#), [TCFD risk management | b](#)

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 non-profits.
Climate risks	All Group companies take into account risks related to climate change. These risks may have a material impact on the Corporation's agricultural assets situated in the southern part of 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. Segezha Group's enterprises are also exposed to climate risks, such as risk of forest fires. Therefore, the company regularly inspects its leased forests for fire safety, tests personnel for knowledge of fire safety requirements and takes other measures to prevent fires.
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 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.

RISK	DESCRIPTION
Risks related to compliance with laws and regulations	Sistema's activities are regulated by the anticorruption laws of the jurisdictions where it conducts its business or where its securities are listed. Any investigation into potential violations of anticorruption laws of the US, 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 cybersecurity 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.

Industry-Specific ESG Risks

Material ESG risks for Sistema Group companies are environmental and occupational risks, as well as the risks related to the state of infrastructure and the threat of accidents, which are critical for telecommunications and power grid companies.

RISK AREAS	SPECIFIC RISKS
Telecommunications	Violation of 'digital rights' of subscribers (spam and fraud in communication networks, dangerous content, personal data leaks, etc)
High technology	Motivation and retention of the key personnel, formation of the succession pool, recruitment of new employees and transfer of knowledge
Healthcare and pharmaceuticals	Quality of professional training, accuracy of diagnostics and risk of medical error, protection of patients' personal data
Consumer sector	Quality of products, comprehensive security of leased store premises and visitors, impact of logistical chains, rights of employees
Agriculture	Crop losses as a result of adverse climate and environmental conditions
Hospitality	Safety of infrastructure facilities and hotel guests
Forest industry	Shortage of high-quality raw materials due to the inefficient use of forest resources and negative impact on the environment due to a significant amount of water consumption and air emissions

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

Identifying Material Sustainability Risks and Trends

GRI 102-21, GRI 102-44

Sistema is a strategic investor in many industries, and it regularly analyses the current trends that influence the economy, the environment and the society.

In 2019, a survey of internal and external stakeholders was carried out to identify ESG risks and trends. A total of 68 forms were completed, including 15 by the Corporation's

management and employees, 28 by representatives of Sistema Group companies and 25 by external stakeholders.

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.

RESPONDENTS



These trends can be grouped by ESG aspects, namely:

- › Environmental trends;
- › Social trends;
- › Economic trends;
- › Corporate governance trends.

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.

FACTORING IN MATERIAL RISKS AND TRENDS IN 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, %
Corporate governance trends	
Instances of corruption, fraud and violation of business ethics	75
Tightening of regulations (mandatory compliance) in the area of sustainability and reporting, imposition of new duties and payments	46
Conflicts of interest	68
Toughening of corporate customers' requirements to supply chains	79
Increased transparency, speed of dissemination and accessibility of information	71
Environmental trends	
Extreme weather conditions and natural disasters	54
Economic trends	
Development of green manufacturing and construction technologies, smart cities, etc	61
Development of responsible investing, increased attention of investors to sustainability issues	61
Import substitution and localisation of production	75
Decrease in real disposable household incomes and consumer spending	57
Social trends	
Increased role of the work environment and corporate culture to ensure employee motivation and productivity	86
Qualification gap and staff shortage (due to changes in the labour market and employers' requirements, digitalisation)	79
Deteriorating standards of living and potential growth of social tensions in the regions where the company operates	68
Increase in the number of incidents related to confidentiality and personal data protection, online security	71
Drastically new expectations from employers on the part of the younger generation of employees	71
Pandemics	82
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 most often taken into account in the strategies.

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

Contribution to Improving the Risk Management Quality in Russia

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

A representative of Sistema is a member of the Management Board of the Russian Risk Management Society (RusRisk), a professional association that operates to enhance the effectiveness and sustainability of Russian business via risk reduction. A Sistema risk manager is involved in the work of the technical committee ISO/TC 262 Risk management and CEN TC 10, a technical committee of the European Committee for Standardisation, which serve as platforms for cooperation of interested industrial companies, integrated

structures, state-owned corporations, scientific organisations, government bodies and individuals conducting national, inter-state and international work to standardise risk management-related activities. The Corporation's risk managers participate in training of young professionals in the area of risk management and insurance, including for voluntary certification.

In 2020, a risk manager of Sistema took part in the insurance training programme FERMA/Lloyd's Professional Development Programme 2020/21 (London, UK).

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

Plans for the Risk Management System Development in 2021

Measures scheduled for the development and improvement of the risk management function in the Corporation in 2021 include:

- › Updating the regulatory risk management framework taking into account the latest changes in international concepts, standards and recommendations in the area of risk management and corporate control (the Risks Code was updated in June 2021);
- › Adopting ERM 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;
- › Holding corporate training workshops on risk management for financial managers and risk managers of the Corporation;
- › Arranging trainings for risk managers to deal with the national risk management certification and European FERMA RIMAP certification (voluntary).

Human Rights and Stakeholders' Engagement

Human Rights Management GRI 103-1, GRI 103-2

Sistema is aware of its influence on and responsibility for observing human rights. It seeks to prevent any exertion of harmful influence on human rights, eliminate or mitigate the potential consequences of such influence whenever it takes place.

In 2020, Sistema drafted a Human Rights Policy, which was approved by the Board of Directors in May 2021. The Policy defines Sistema's approaches to and responsibility for human rights observance and complements the aspects of human rights covered in other corporate documents, such as:

- › Code of Ethics;
- › Sustainability Policy;
- › Environmental Policy;
- › Anticorruption Policy;
- › Corporate regulatory documents on HR management;
- › Policy on Processing and Protection of Personal Data.

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:

- › Universal Declaration of Human Rights;
- › International Covenant on Economic, Social and Cultural Rights;
- › International Covenant on Civil and Political Rights;
- › Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work;
- › Constitution and the Labour Code of the Russian Federation;
- › UN Guiding Principles on Business and Human Rights;
- › OECD Guidelines for Multinational Enterprises;
- › UN Global Compact;
- › Social Charter of Russian Business.

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:

- › Workers' rights;
- › Rights of customers, patients and consumers;
- › Rights of local communities.

Moreover, the Corporation has zero tolerance for human rights violations across its entire value chain and expects its suppliers, contractors and partners to ensure the same extent of commitment to legal compliance and respect for human rights.

Procedures for Controlling Human Rights Observance

The Corporation monitors the performance of its portfolio companies in respect of human rights aspects as part of the regular collection of information on sustainability, provides relevant expert support and also discloses information on human rights observance by the Group companies.

All risks associated with human rights are taken into account in the risk management systems of Sistema Group companies, and related material matters are 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.

If the Corporation becomes the reason for or contributes to a human rights violation, it is willing to deploy legal procedures, cooperate with stakeholders and engage in a dialogue to resolve the situation.

For full text of the Human Rights Policy see: https://sistema.com/upload/iblock/70d/tejazhtom0mt8b3eugvucqwkcmvnx03l/Sistema_Human-Rights-Policy.pdf

Report Handling Mechanisms GRI 103-3, GRI 412-1

The Group's companies have formalised and accessible channels in place for submitting and reviewing reports, which ensure confidentiality, unbiased consideration, absence of negative consequences for the one who reports the incompliance, and feedback.

Each report is thoroughly investigated. In 2020, 16.8% of reports received on the Single Hotline of the Corporation or Group companies were related to personnel management and observance of employees' rights at the workplace. All the reported problems were resolved in due course.

Personal Data Protection and Anticorruption Efforts

The Corporation ensures protection of privacy and personal data of its employees, shareholders, partners and consumers. This aspect is also regulated by the Policy of Sistema PJSFC on Personal Data Processing and Protection, which was adopted in 2019.

Reports can be submitted through Sistema's Hotline on the corporate website or through the hotlines of individual Group Companies.
Email: report@sistema.ru
Phone: +7 (495) 228-15-02

For more details on the functioning of hotlines, see [Ethics and Anticorruption Efforts](#)

Sistema educates employees in the area of human rights as part of training in ethics and sustainable development.

Its provisions are mandatory for all employees of Sistema.

There were no personal data leaks identified in 2020.

For more details on activities in the area of information security and data protection, see [Confidentiality and personal data protection](#)

Relations with Stakeholders

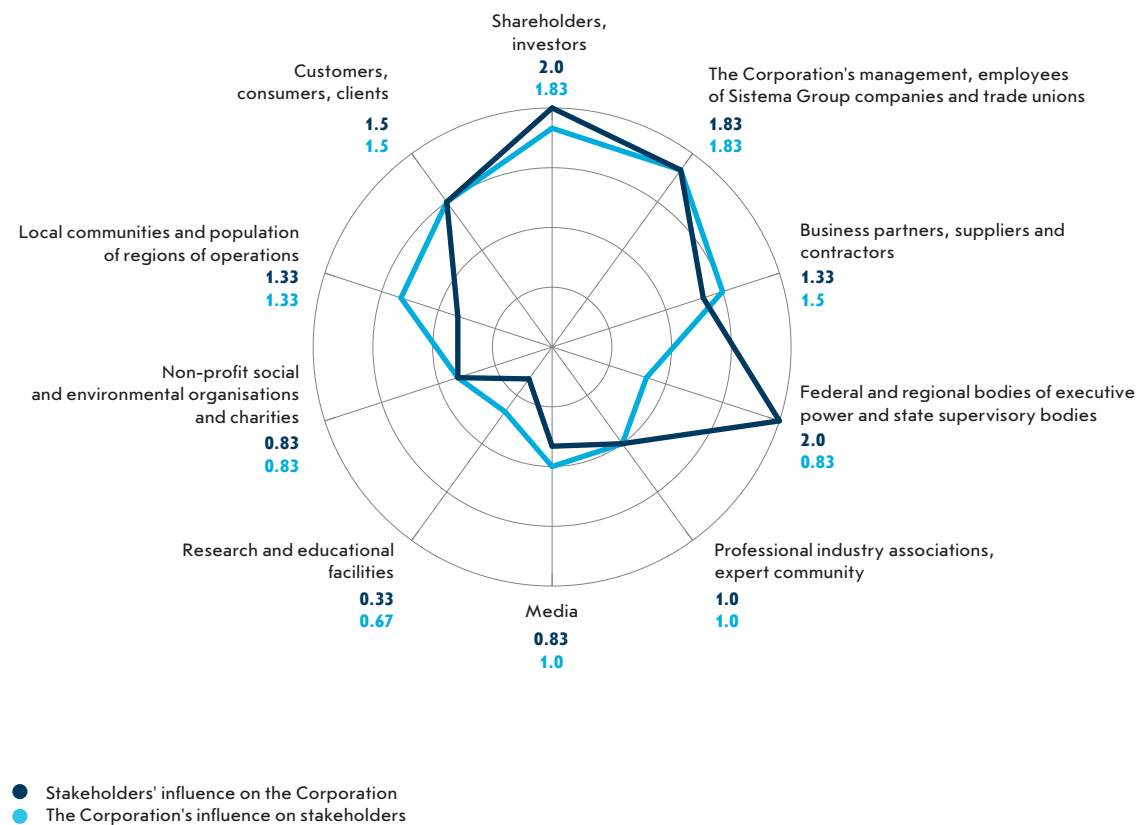
GRI 102-42, GRI 102-44

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.

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

MAP OF STAKEHOLDERS



COMMUNICATION WITH KEY GROUPS OF STAKEHOLDERS IN 2020

GRI 102-40, GRI 102-43

INTERESTS	COMMUNICATION MECHANISM	EXAMPLES OF COMMUNICATION AND RESULTS IN 2020
Shareholders and investors		
<ul style="list-style-type: none"> › Growth of equity value and stable dividend income › Enhancement of transparency of non-public assets › Dividend policy 	<ul style="list-style-type: none"> › Annual meetings of shareholders and meetings of the Board of Directors › Participation in investment conferences › Disclosure of financial results and material non-financial information › Organisation of conference calls › Individual and group meetings of investors and shareholders with the top management 	<ul style="list-style-type: none"> › Annual General Meeting of shareholders was held on 26 June 2020. › Corporation's Board of Directors held 12 meetings . › Russian Institute of Directors (RID) confirmed Sistema's corporate governance score at level 8: "Advanced corporate governance practice". <p>For more details, see Sistema's Annual Report for 2020 and the Investors and Shareholders section of the corporate website</p>
Customers, consumers, clients		
<ul style="list-style-type: none"> › High quality of products and services › Responsible business conduct 	<ul style="list-style-type: none"> › Direct interaction at the premises of Group companies › Improvement of customer service › Response to requests 	<ul style="list-style-type: none"> › MTS won the Best Corporate B2B Customer Experience category of CX World Awards 2021. › The SmartMed app (a joint project of MTS and Medsi) was declared one of the best telemedicine applications by Roskachestvo and the National Quality Assurance Institute. <p>For more details, see Accessibility and Quality</p>
The Corporation's management, employees of Sistema Group companies and trade unions		
<ul style="list-style-type: none"> › High quality of corporate governance › Economic efficiency of operations › Adequate working conditions and wages › Occupational safety › Social support › Development of the human resources potential › Corporate volunteering › Achievement of strategic goals 	<ul style="list-style-type: none"> › Management decision-making › Annual strategy sessions › Establishment of corporate culture › Implementation of an HR and social policy › Volunteering opportunities for employees of the Corporation and Group companies within the existing projects › Posting of information about Sistema's corporate resources › Interaction with trade unions › Organisation of professional competitions and corporate contests 	<ul style="list-style-type: none"> › 20+ strategy sessions of portfolio companies. › The volunteer centre of Sistema Charitable Foundation organised 12 events in 25 regions involving more than 3,416 employees. <p>For more details, see Sistema's Annual Report for 2020 and the Human Capital section of this report</p>

INTERESTS	COMMUNICATION MECHANISM	EXAMPLES OF COMMUNICATION AND RESULTS IN 2020
Non-profit social and environmental organisations and charities		
<ul style="list-style-type: none"> Mitigation of environmental impact Participation in the global environmental agenda Restoration of the environment and natural habitats Implementation of social and charity projects 	<ul style="list-style-type: none"> Transparency in terms of environmental impact Introduction of sustainable technologies and a responsible production model Membership in trustee boards of organisations Donations to charities 	<ul style="list-style-type: none"> Over 100 events were organised as part of the #COUNTRYWITHOUTVIRUS project, with RUB 1.7bn worth of aid provided in 12 regions of Russia. Sistema and the Moscow City Council of Veterans extended their cooperation agreement for five years. In 2020, 3,040 war veterans received support, including high-tech medical services. Segezha Group and WWF Russia signed an agreement on preservation of old-growth forest in the Arkhangelsk region. <p>For more details, see Operational Environmental Efficiency and Support to Regions and Social and Charity Projects</p>
Federal and regional bodies of executive power and state supervisory bodies		
<ul style="list-style-type: none"> Contribution to implementation of national projects Mitigation of environmental impact Import substitution Implementation of social and investment projects Environment protection Jobs and a comfortable social environment Taxes Compliance with legislation 	<ul style="list-style-type: none"> Participation in discussions of legislative initiatives Participation of the Corporation's representatives in meetings of committees, commissions and hearings of the Russian parliament Support to government policies Agreements with regional governments Corporate programmes for support and development of social infrastructure Submission of reports to controlling and supervisory bodies and information about mergers and acquisitions to the Federal Antimonopoly Service 	<ul style="list-style-type: none"> Two agreements with governments of Russian regions were signed in 2020. As of the end of 2020, the Group had a total of 17 agreements with regions. RUB 94.8m was the amount of fine for breach of legislation. <p>Key results of interaction with federal and regional bodies of executive power in 2020:</p> <ul style="list-style-type: none"> Inclusion of Sistema's anchor assets in the list of enterprises that are systemically important for the Russian economy. Organisation of uninterrupted functioning of retail outlets to ensure the population's access to essential goods. Defence of the forest and timber-processing enterprises' interests in the course of adoption of Russia's new Forest Code. Inclusion of the Segezha West project in the first batch of agreements on protection and encouragement of investment in the Russian economy. Resolution of legal issues related to the development of wooden housing construction and construction using CLT panels. <p>For more details, see Ethics and Anticorruption Efforts, Product Stewardship, Support to Regions and Social and Charity Projects</p>
Research and educational institutions		
<ul style="list-style-type: none"> Innovative activities Digitalisation Participation in the development of secondary and higher education Joint educational programmes 	<ul style="list-style-type: none"> Participation in the development of smart city infrastructure Joint projects with research and development organisations Development of the human resources and scientific potential Membership in trustee boards of colleges and universities Offering internships to students 	<ul style="list-style-type: none"> 8 agreements were signed with research and development organisations and educational establishments. <p>For more details, see Innovation management. Digitalisation, Human Capital and Smart Homes, Cities and Production</p>

INTERESTS	COMMUNICATION MECHANISM	EXAMPLES OF COMMUNICATION AND RESULTS IN 2020
Professional industry associations, expert community		
<ul style="list-style-type: none"> Creating a transparent and competitive business environment Compliance with high standards of business ethics Cooperation on industry-specific and public initiatives 	<ul style="list-style-type: none"> Participation in the work of business unions Factoring in interests of the business community in government policies Participation in forming national risk management standards 	<ul style="list-style-type: none"> In 2020, Etalon Group joined the Russian Managers' Association, while Segezha Group became member of the Social Charter of Russian Business. In 2021, Segezha Group joined the UN Global Compact. <p>For more details, see Participation in International and Industry Initiatives</p>
Local communities and population of regions of operations		
<ul style="list-style-type: none"> Security Jobs Implementation of social and charity projects 	<ul style="list-style-type: none"> Expansion of local labour markets (creating jobs) Participation in regional social, environmental and charity projects 	<ul style="list-style-type: none"> Two agreements with governments of Russian regions (Arkhangelsk and Kemerovo) were signed in 2020. As many as 85,129 people participated in the charity programmes of Sistema Charitable Foundation. <p>For more information, see Support to Regions and Social and Charity Projects or visit the website of Sistema Charitable Foundation</p>
Business partners, suppliers and contractors		
<ul style="list-style-type: none"> Accessibility, transparency and competitiveness of procurement procedures 	<ul style="list-style-type: none"> Development of strategic partnerships Implementation of advanced procurement management practices at portfolio companies Business meetings 	<ul style="list-style-type: none"> In 2020, Steppe AgroHolding implemented a single automated procurement system based on the 1C solution "Holding company management". Sistema_VC invested in a platform for optimisation of supply of agricultural produce. <p>For more details, see Sustainable Supply Chain</p>
Media		
<ul style="list-style-type: none"> Comprehensive coverage of the Corporation's activities Public awareness about social projects 	<ul style="list-style-type: none"> Posts in social media and on the websites of Sistema Group companies 	<p>For more details on media relations, see the Press Room section of the corporate website</p>

Ethics and Anticorruption Efforts

Business Ethics GRI 103-1, GRI 103-2

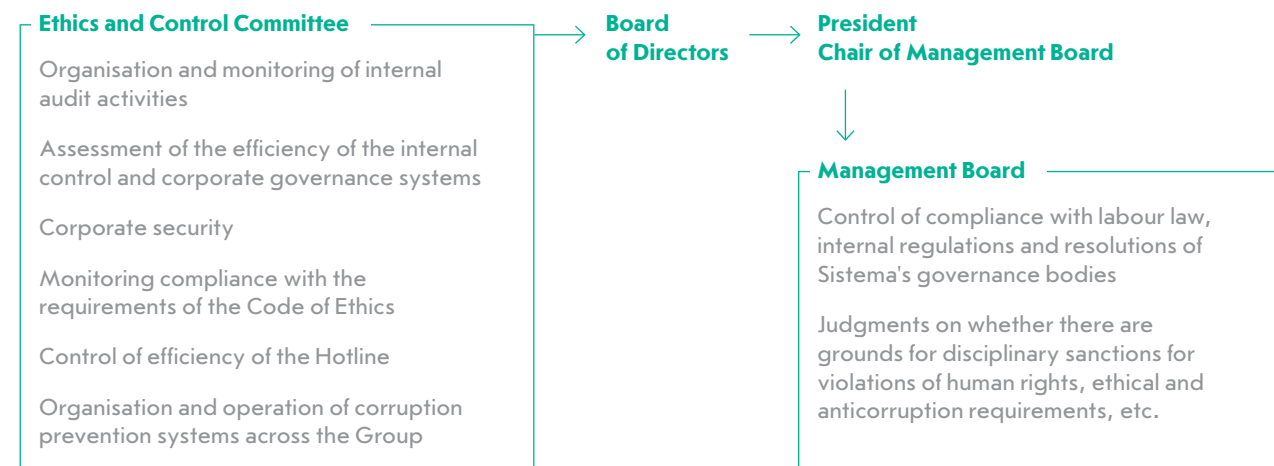
Ethical conduct of business, prevention of corruption and unlawful disclosure or use of inside information, and observance of human rights are among Sistema's essential principles of operation and elements of its risk management system. Sistema's Code of Ethics¹ contains the basic rules of responsible conduct and interaction between employees and counterparties of Sistema Group.

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

In 2020, the Committee held six meetings and considered the following items:

- › Results of assessment of corporate control systems within the Group companies;
- › Results of ethics assessment of the employees of Sistema and the Group companies;
- › Hotline performance results;
- › Corporation's development strategy in the area of internal audit and corporate security;
- › Report on measures taken to identify and prevent fraud and violations of law at Sistema and the Group companies;
- › Findings of the performance assessment of the heads of security units in 2020.

Organisational Structure



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.

Ethics Assessment and Conflicts of Interest GRI 103-3, GRI 102-25

The Code of Ethics lays down the rules and regulations that govern conduct and interaction of Sistema Group employees and counterparties. In line with best practices of corporate governance, the Corporation employs an ethics assessment procedure where employees declare potential or existing conflicts of interest.

3,972 employees submitted declarations in 2020, up 4x from 2019

531 conflicts of interest were identified

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;
- › Annual ethics assessment whereby employees fill in ethics and conflict of interest declarations intended for collecting information about possible conflicts of interest among employees both at the time of hiring and during their employment.

In 2020, the Internal Audit Service prepared a quick reference sheet with the Corporation's key ethical principles, including examples of situations that can be interpreted as potential conflicts of interests.

Since 2020, members of the boards of directors of Sistema's portfolio companies have been included in the list of persons who must fill in ethics and conflict of interest declarations. Process automation made it possible to reach employees below the CEO-1 level, as well as procurement officers and the employees of other at-risk departments. As many as 3,972 employees participated in ethics assessment in 2020, a four-fold increase from 2019 (928 people). 531 conflicts of interest were identified, 67 of which required a resolution.

Sistema plans to update its Code of Ethics in 2021.

Ethics assessment was conducted at all companies of the Group

MTS's single compliance system

MTS has introduced and continues developing a single corporate compliance system to ensure compliance with applicable legislation and ethical conduct of business, and to ensure uniform and efficient management of compliance risks. At the end of 2020, MTS added an IP compliance programme to the Single Compliance System for managing risks related to intellectual property.

Also in 2020, the company successfully completed the three-year audit of the Single Compliance System for meeting such international standards as ISO 19600:2014 (Compliance management systems) and ISO 37001:2016 (Anticorruption compliance management systems). A new audit cycle began in 2021.

Typical Examples of Conflicts of Interest

- › Immediate family members being employed in positions directly or indirectly subordinated to the declarant, whether with Sistema, portfolio companies, or with their competitors/counterparties;
- › Owning assets or other financial interests in counterparties or competitors;
- › Immediate family members being employed with Sistema or portfolio companies;
- › Employment at other companies or business ownership;
- › Violations of corporate requirements as regards receiving, giving and reporting business gifts;
- › Disclosure of inside information and transactions based thereon

¹ <https://sistema.com/upload/iblock/852/852054feb6dbe608559ec3cc59f80276.pdf>

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:

- › Ethics and Control Committee;
- › Immediate supervisor;
- › Hotlines of the Corporation or Sistema Group companies;
- › Internal Audit Service or the Corporate Governance and Legal Function of Sistema.

The Internal Audit Service checks all reports received via the Hotline.

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

Hotline. The archive of received messages is maintained in Sistema's cloud system.

In 2020, the number of messages received through the Corporation's Hotline was

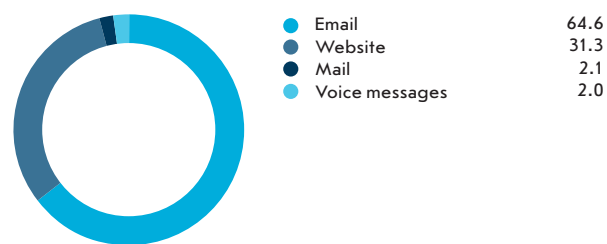
1,943

an increase of 51% from 2019

MESSAGES RECEIVED THROUGH THE HOTLINES OF SISTEMA AND THE GROUP COMPANIES IN 2020 BY SUBJECT, %



MESSAGES RECEIVED THROUGH THE HOTLINES OF SISTEMA AND THE GROUP COMPANIES IN 2020 BY REPORTING CHANNEL, %



Anticorruption Efforts

GRI 103-2

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

Anticorruption activities are carried out in accordance with:

- › Laws of the Russian Federation;
- › Charter of Sistema PJSFC;
- › Security Code;
- › Anticorruption Policy of Sistema PJSFC¹;
- › Corruption Prevention Concept of Sistema PJSFC;
- › Code of Ethics of Sistema PJSFC;
- › UK Bribery Act 2010.

The Corporation's Anticorruption Policy defines the key principles and requirements aimed at preventing corruption and complying with applicable anticorruption 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.

In 2020, amendments were made to the Security Code with view to enhance the efficiency of procurement and identification of corruption incidents.

PRINCIPLES OF THE ANTICORRUPTION POLICY

Responsibility of Senior Management

Screening of counterparties

Assessment of Corruption Risks

Information and training

Adequate Anticorruption Procedures

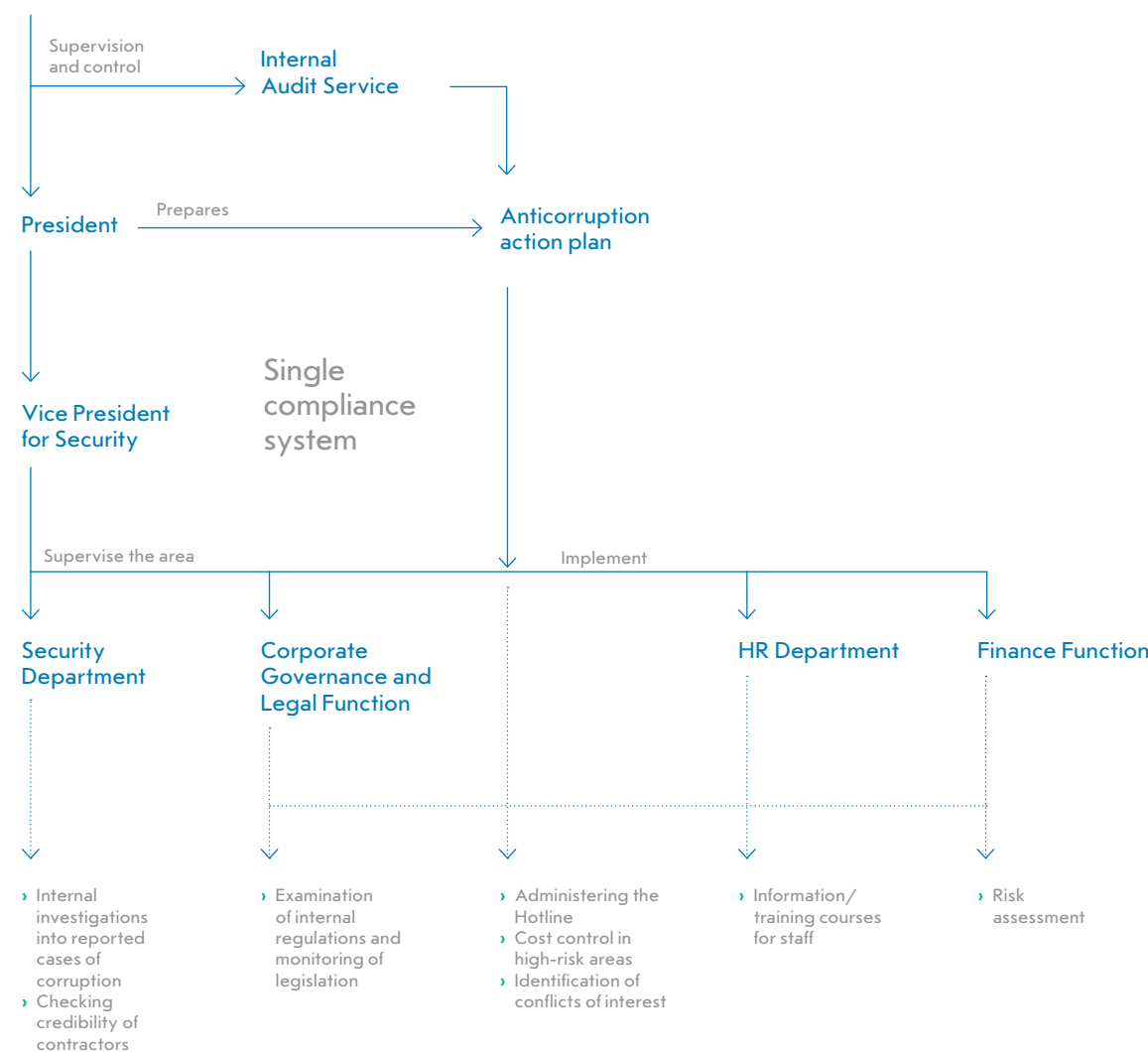
Monitoring and control

¹ The Anticorruption Policy of Sistema PJSFC: <https://sistema.com/upload/iblock/37f/37faa7bce12f43f2eba719c231bf89e1.pdf>

Anticorruption Management

Sistema's anticorruption activities are carried out within the following organisational structure:

Ethics and Control Committee



Assessment of Effectiveness of Anticorruption Procedures and Assessment of Corruption Risks
GRI 103-3, GRI 205-1

Anticorruption plans for the reporting year were fully carried out. Notably, the Group companies conducted internal assessment of effectiveness of anticorruption procedures as part of assessment of effectiveness of heads of security units. For Group companies that did not demonstrate sufficient effectiveness in 2020, remediation plans were developed.

In 2020, Sistema conducted assessment of fraud risks, which included risks of corruption. The degree of the risk was determined on the basis of global best practices for combating fraud, taking into account the realities of corporate business, industry-wide statistics and the level of security at assets.

Risk assessment was conducted at 95% of the Group's assets (22 companies). The results showed that the Group's companies in the sector of financial services, telecommunication, energy and construction are the most exposed to fraud risks. The key corruption risks identified at the Group companies are related to procurement procedures and contractual activities.

Based on the risk assessment, the following methods for preventing adverse events were devised:

- › Timely identification and elimination of reasons of corruption;
- › Enhancement of the anticorruption policy taking into account the context of the corporate business operations;
- › Detection of conflicts of interest;
- › Analysis of procurement activities;
- › Organisation of scheduled and surprise audits.

Since 2019, Sistema has had the automated Fraud and Abuse Incident Management System, which ensures efficient response to identified deficiencies and allows developing and implementing incident management processes, minimising risks of abuse and also bringing offenders to justice and compensating for damage.

UNCTAD D.2.1 In 2020, 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.

Educating and Informing Employees and Counterparties
GRI 205-2

All employees, including new hires, get familiarised with the provisions of the Anticorruption Policy.

In 2020, over 560 contracts of the Corporation included anticorruption clauses, which obligated the counterparties to comply with anticorruption regulations.

A total of 106,736 counterparties (74.6%) were informed about anticorruption policies and methods, including 57,030 new counterparties.

Sistema also updated the format of the anticorruption educational seminar for its employees. As many as 42,873 employees of Sistema Group underwent remote or in-person training in 2020.

In 2021, Sistema plans to:

- › Monitor Russian and applicable foreign legislation related to corruption prevention;
- › Update relevant internal regulations taking into account new threats to the Corporation's economic interests and best global anticorruption practices;
- › If necessary, initiate comprehensive assessment of corruption risks under the transactions that require control of compliance with the corporate procedures, as well as the transactions related to mergers & acquisitions and divestment of the Corporation's assets.

RESULTS OF ANTICORRUPTION EFFORTS AT SISTEMA GROUP IN 2020 GRI 205-3

Total number of confirmed cases of corruption	204
Total number of identified perpetrators	236
Total number of disciplinary penalties imposed	125
Total number of dismissals for corruption/violation of the Anticorruption Policy	111
Total number of cases of non-renewal or termination of contracts with business partners due to corruption-related violations	10
Total number of corruption-related lawsuits brought against the organisation or its employees during the reporting period	45
Number of fines and penalties for violations in the area of corruption	0
Amount of fines and financial penalties related to corruption, RUB m	0

EMPLOYEES OF THE GROUP THAT UNDERWENT ANTICORRUPTION TRAINING IN 2020, persons

Senior management	292
Middle management	4,025
Junior management	1,865
Entry-level professionals	13,870
Blue-collar workers	22,821
Total	42,873

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 anticorruption measures following the adoption of the system.

PREVENTED DAMAGE AT SISTEMA GROUP, RUB m

	2020	2019	2018
Prevented damage	12,051.74	15,119.60	5.16
Recovered losses	2,246.54	6,916.76	3.74

Compliance with Legislation¹

GRI 103-1, GRI 307-1, GRI 419-1, UNCTAD D.2.1, SASB FN-AC-510a.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.

The total amount of fines for Sistema Group amounted to RUB 94,783 thousand in 2020. In the reporting year, there were 43 cases of non-financial sanctions in portfolio companies.

MAIN TYPES OF VIOLATIONS IN SISTEMA GROUP IN 2020, %

Construction law violations	2.2
Environmental laws and regulations	1.6
Labour safety violations	0.6
Violation of disease control and prevention laws	0.5
Missed deadlines set by regulators	0.3
Transport safety violations	0.3
Labour law violations	0.2
Fire safety non-compliance	0.1
Other	94.3
Total	100

FINES FOR NON-COMPLIANCE WITH REGULATIONS IN 2020, BY SISTEMA'S ASSETS, %

Sitronics Group	86.95
Business Nedvizhimost	7.07
Etalon Group	4.28
Steppe AgroHolding	1.66
BPGC	0.05

FINES AND NON-FINANCIAL PENALTIES IMPOSED ON SISTEMA GROUP COMPANIES IN 2020

	NUMBER OF FINES	AMOUNT OF FINES, RUB THOUSAND	NUMBER OF NON-FINANCIAL SANCTIONS IMPOSED	SHARE OF FINANCIAL FINES AS PERCENTAGE OF REVENUE IN 2020
Total, including:	250	94,783	43	0.0137
Environmental laws and regulations	14	1,486	2	0.0002
Labour law violations	3	160	2	0.00002
Occupational safety violations	8	540	-	0.0001
Missed deadlines set by regulators	9	340	-	0.00004
Fire safety non-compliance	1	75	7	0.00001
Violations of disease control and prevention laws (not related to the requirements to manufactured products)	6	481	2	0.0001
Construction law violations	18	2,130	-	0.0003
Transport safety violations	30	263	-	0.00004
Other	161	89,344	30	0.0129

¹ The section includes data on Etalon Group, Medsi, Steppe AgroHolding, BPGC, Business Nedvizhimost and Sitronics Group.

Innovation Management. Digitalisation

Innovative Activities

GRI 103-1, GRI 103-2

A focus of Sistema's investment strategy is investment in the high-potential tech sector and technologies of the future. Development of innovations helps to improve the Corporation's competitiveness and has a synergistic effect for many of its portfolio companies.

GRI 103-3

The Corporation's portfolio includes a number of large Russian research and production enterprises conducting diverse research, development, production and educational activities. Portfolio assets contribute to the development of the country's intellectual and scientific database, thus helping to unlock its digital potential and accelerate digitalisation.

Russia developed and approved the Digital Economy of the Russian Federation programme and began developing sectoral programmes for the digital transition. The national programme comprises the following federal projects:

- › Legal regulation of the digital environment;
- › Talent for the digital economy;
- › Information infrastructure;
- › Information security;
- › Digital technologies;
- › Digital state administration;
- › Artificial intelligence.

In December 2020, vice presidents of Sitronics Group became members of working groups of the Digital Economy non-profit. The company will participate in pursuing such goals as increasing digital maturity of the Russian business, upscaling imports substitution and digital transformation of economic sectors, professional training

Based on 2020 results, Sitronic Group was ranked among Russia's Top 20 IT companies¹

and development of digital infrastructure. The company participates in discussion of educational programmes and update of professional standards taking into account current trends in the development of smart cities and digital utility services; it also provides expert support to the development of the country's HR potential.

Innovation Days

The corporate forum Innovation Day gathers Sistema Group's senior executives to discuss the latest trends and potential for their application in their companies. In 2020, only one such event, devoted to artificial intelligence, was held due to the pandemic.

¹ Ranked 16th by CNews Analytics (cnews.ru) and 21st by tadviser.ru.

MOST ATTRACTIVE TECHNOLOGIES FOR INVESTMENT

MOST ATTRACTIVE TECHNOLOGIES FOR INVESTMENT²

THE CORPORATION'S PRIORITIES AND APPROACHES TO INVESTMENT

Technologies that can be tested at Sistema Group's companies to improve the product and/or reduce the development time

Large-scale technologies drastically changing the development of the economy and society	Cross-cutting nature of technologies, with possibility to apply them in a broad range of industries	<ol style="list-style-type: none"> 1. Selection criteria: <ul style="list-style-type: none"> – Technologies that are at an early stage of practical application in individual industries. – Expected to reach the stage of wide industrial use in the medium term 2. Selection criteria: <ul style="list-style-type: none"> – Technologies at the stage of development and search for promising spheres for product use – Achievement of the industrial use stage is expected in the long term 3. Continuous market monitoring and analysis
Virtual assistants	Blockchain	
Machine learning and neural networks	PropTech ³	
IoT		
Industry 4.0		
Augmented reality		
MedTech	Autonomous vehicles and robots	
Cybersecurity	Carbon nanotubes	
	Digital twins	
	Silicon batteries	
	CRISPR	
	Biochips	
Ability to create a long-term competitive advantage for the company	Technologies that will have the biggest impact on business models of companies in the next 5 years	

² According to analysts at Morgan Stanley, Russell Reynolds and Gartner.
³ Digital projects in the real estate market.

The Corporation consistently invests in growth of the intellectual potential, namely, science and education, promising research and new developments, in innovative infrastructure and digitalisation. The main criterion for selecting the most promising technologies for the Corporation is the possibility of testing them at Sistema Group's largest companies, taking into account the value and potential risks of such technologies for the assets themselves and their stakeholders.

Sistema cooperates with organisations that support innovations, sets up own R&D centres and helps to implement advanced technologies at its portfolio companies.

GRI 203-1, GRI 203-2, UNCTAD A.3.3

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

RUB 2.48 bn
 Sistema's investments in R&D in the sectors of microelectronics, agricultural and biotechnologies, pharmaceuticals, power generation and construction in 2020¹

RUB 178.5 m
 Sistema Group's investments in information technologies in 2020²

INTELLECTUAL PROPERTY ITEMS OF SISTEMA GROUP COMPANIES

	2020	2019	2018
Registered intellectual property items	203	179	146
Applications for intellectual property items	72	67	63

For more details on innovation projects of Sistema Group companies, see the Smart Environment section.

Digital Transformation of Sistema Group

In 2020, the Corporation carried out independent diagnostic reviews of the larger portfolio companies in the course of development of its digital strategy. 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 of each portfolio asset, including next steps for digitalisation and Sistema's role in supporting the digital evolution across the Group.

For details about the results of assessment of portfolio companies' digital maturity see the Sustainability Report for 2019

¹ Data for Etalon Group, Steppe AgroHolding, Binnopharm Group, BPGC, Element Group and Sistema BioTech.
² Data for Etalon Group, BPGC.

Innovation Centres

In 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. In 2020, the partners began construction of the lab and a centre for pre-clinical trial of latest international technologies and solutions with a total area of 15,000 sq m. The R&D lab will develop five areas: genetic research, production of diagnostic kits, cell-based biomedical products, a biobank and production of biopharmaceuticals. In addition to research, it will also engage in educational activities. The project is being rolled out in close cooperation with other Sistema's medical and pharmaceutical assets. The Corporation invested in the equipment for the laboratory, and its subsidiary LLC Sistema BioTech is responsible for equipment installation and start-up and will hire qualified professionals to implement the project. The laboratory will be commissioned in the middle of 2022, becoming one of the largest private labs in Russia.

In 2020, Segezha Group began establishing an innovation centre that will develop more efficient and high-tech products in the segment of paper packaging. Investment in the project will amount to some RUB 90m. The centre will have over 30 units of state-of-the-art equipment, including testing and measuring devices for testing new materials and coatings, manufacturing prototypes and preparing them for serial production. The company will equip the Centre by the end of 2021. New packaging products and solutions are expected to account for at least 10% of Segezha Group's portfolio by 2022. In 2022, the company plans to launch several innovative products in the market, including packaging for fruit and vegetables made of moisture-resistant paper, which will significantly increase the storage period of fresh produce.



Partnerships in Innovative Technologies in 2020

ASSET	PARTNER(S)	SUBJECT OF AGREEMENT
Etalon Group	Sberbank	Joint research work, search for innovative technologies in Russia and abroad and their implementation, development of accelerated training programmes and investment in joint innovative projects
	Moscow State Construction University	Joint research & development in the applications of new materials and technologies and the identification of scientific and technical challenges that require solving to drive the evolution of the construction industry
MTS	Microsoft	Development of the Russian IoT market: integration of two global platforms, Microsoft Azure IoT Central and NB-IoT; providing access to the service managing IoT devices via the CloudMTS cloud service provider
	State-owned corporation Roscosmos	The company became the first member of the working group of the global communication programme Sphere that envisages creation of a global network of 600 satellites to provide internet and phone communication in Russia and other countries
Element Group	Russian Mendeleev University of Chemical Technology	Development of new ultra-pure materials for microelectronics, implementation of joint projects, research, engineering and other work
	Tomsk Polytechnic University	Research, development and implementation of innovative industrial electronic technologies, including in the areas of IoT and AI Implementation of projects to create ultra-pure materials, chemical reagents, parts and equipment for microelectronics production
	the Russian Ministry of Industry and Commerce	The Group became a co-founder of the non-profit Computing Equipment consortium, which seeks to develop the radioelectronic industry, protect the interests of domestic computer developers and manufacturers and create conditions for increasing their market share.
Sitronics Group	JSC MCST ¹	Implementation of a project within the state federal programme Development of Electronic and Radioelectronic Industry to develop and organise serial production of servers based on domestic Elbrus processors

MTS: establishing the Open Network Technologies association

In 2020, MTS and its partners established an Association of Open Network Technologies to support manufacturers of telecommunication equipment and software developers in the development and application of open standards and technologies, which will allow new suppliers to enter the market and will increase the efficiency of network development by operators.





Use of open network technologies creates favourable conditions for the development of domestic suppliers and integration of equipment made by various producers in communication networks; it will also reduce capital expenses and time needed to implement new solutions, as well as ensure flexibility of infrastructure management. The association hopes to see interested players of the Russian telecom market as its members and will work to develop the legal framework needed to implement and operate communication networks based on new solutions.

¹ A private Russian company specialising in development of universal microchips.

VC Funds

To invest in high-tech companies, Sistema establishes VC funds.

FAMILY OF SISTEMA'S VC FUNDS

FUND	ESTABLISHED IN	DESCRIPTION
 Sistema Venture Capital	2016	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	2015	The fund's goal is to efficiently invest investors' money into promising projects in the fast-growing Indian tech market.
 Rusnano Sistema SICAR	2016	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.
 Sistema SmartTech	2020	The fund provides comprehensive (financial, structural and marketing) support to companies at early stages of development. It also helps them to develop a promotion and sales strategy, contributing to multi-faceted development of projects at different stages of product development and launch. Established for eight years with an investment period of five years.

For more information about the assets of Sistema's VC funds see Sistema's Annual Report for 2020

Sustainable Supply Chain

Awards Received by Sistema Group Companies GRI 103-3



Sistema's Finance Function made it to the top 50 procurement subdivisions and BPGC's Director for Procurement and Logistics became a winner in the Best Director for Procurement in the area of supporting SMEs category in a pilot ranking on the quality of procurement management. The pilot ranking was organised by the Expert RA credit rating agency and the analytical company Expert Business Solutions with the support of the Middle Way business club.



BPGC's Director for Procurement and Logistics and Steppe AgroHolding's Head of Procurement Department were included in the third annual list of Russia's best procurement directors compiled by the RAEX agency and the Association of Procurement Directors.



MTS received the Leader of Competitive Procurement award in the category "The Best Supplier Management System" and Segezha Group came first in the Leader of Digitalisation of Procurement Processes category.



BPGC's Director for Procurement and Logistics was included in the annual list of Top 1000 Russian managers compiled by the Russian Managers' Association and the Kommersant publishing house and was ranked second in the Director for Logistics and Supply Chains nomination in the Energy and Fuel Complex category.



Segezha Group received the SAP Unstoppable Business award for the best implementation of SAP Ariba project.

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 organise a transparent system of purchasing and procurement at its portfolio companies and promote the principles of responsible business conduct among its counterparties.

Effective management of procurement and relations with suppliers helps to lower financial and ESG risks and increase operating income, while generating additional value for shareholders. Supply chain and procurement management are regulated by the following documents:

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

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

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

The Corporation uses category management as the main method for organising procurement: the most effective approach is determined for each category of products, works and services after analysing the relevant category and the market. This approach makes it possible to conduct a comprehensive technical and economic analysis of whole groups of products, as opposed to isolated SKUs, in order to determine the new drivers of operational efficiency management.

PROCUREMENT PRINCIPLES OF SISTEMA

Principle of competition

Creating reasonable competition among suppliers

Principle of equality

Creating equal competitive opportunities and setting uniform rules for all participants before carrying out procurement procedures

Principle of economic feasibility

Assessment of procurement needs in terms of economic feasibility

Principle of openness in relations 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

MTS's Counterparty Code of Conduct

GRI 308-2

In 2020, MTS revised its Counterparty Code of Conduct. The new Code also covers the counterparties of MTS's subsidiaries.

The Code was revised to ensure compliance with MTS's strategy CLV 2.0:

- Two major sections were introduced: fair practices in commercial activities and integrity in commercial activities;
- Important requirements to counterparties were added: protection of confidential information, interaction with government officials, prevention of conflicts of interest, artificial intelligence and protection of intellectual property.

According to MTS's Counterparty Code of Conduct, the counterparties of the company should have an effective environmental policy and observe all the existing laws and regulations in the area of environmental protection. Moreover, the Code recommends adopting a preventive approach to environmental management and carrying out initiatives aimed at enhancing environmental responsibility and facilitating the promotion of technologies designed to preserve the environment and apply rational methods for organising product life cycles. The participants of MTS's procurement procedures are required to agree to comply with the Code when submitting their commercial offers.



MTS's Counterparty Code of Conduct is available on the website: https://tenders.mts.ru/upload/SUPPLIER_CODE.rar

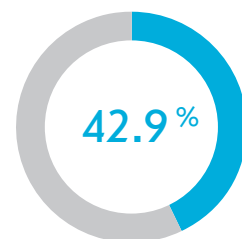
Procurement Results in 2020¹

GRI 204-1, UNCTAD A.4.1

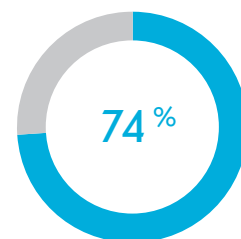
RUB 360.6 bn
Sistema Group's procurement volumes in 2020²

PROCUREMENT FROM LOCAL SUPPLIERS AND SMEs IN 2020³, %

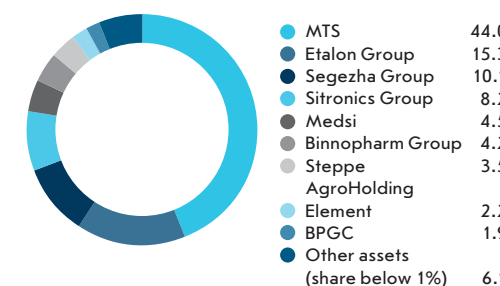
Average share of procurement from SMEs



Average share of procurement from local suppliers



SHARE OF INDIVIDUAL COMPANIES IN SISTEMA GROUP'S AGGREGATE PROCUREMENT VOLUMES IN 2020, %



SHARE OF SUPPLIERS FOR GROUP COMPANIES IN 2020, %

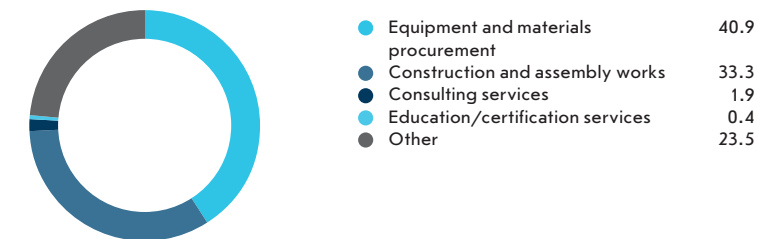


The Group companies struggle to increase the share of electronic procurement procedures to enhance the transparency of procurement procedures. Most of the Group's companies are cooperating with the electronic trading platform Sberbank AST. In 2020, Steppe AgroHolding, Medsi and Segezha Group developed and started using own electronic trading platforms as part of a full-cycle automation initiative "Supply Chain Management".

MTS, BPGC, Steppe AgroHolding and Concept Group became leaders in electronic procurement in 2020.

The Group's companies regularly conduct supplier pre-qualification procedures for the key procurement categories.

BREAKDOWN OF SISTEMA GROUP PROCUREMENT IN 2020⁵, %



Over **32,000** suppliers cooperated with Sistema Group in 2020

100% of procurement procedures at MTS and Steppe AgroHolding are done electronically

>4.5% the average savings from procurement procedures across the Group⁴ and 4.16% at Sistema

>75% the share of competitive procurement

¹ Significant growth is due to extension of the data consolidation perimeter. Procurement data for 2020 is shown for the following portfolio assets (unless otherwise indicated): MTS, Segezha Group, Etalon Group, Medsi, Steppe AgroHolding, Binnopharm Group, BPGC, Cosmos Hotel Group, Sistema, Koncel, Element Group, RTI, TelecomCapStroy, Sitronics Group, Concept Group.

² The total procurement volumes remain unchanged despite the deconsolidation of Detsky Mir following its sale.

³ Data for MTS, Segezha Group, BPGC, Business Nedvizhimost, RZ Agro, Element Group, MGTS, and Sitronics Group.

⁴ Data for MTS, Segezha Group, Etalon Group, Medsi, Steppe AgroHolding, Binnopharm Group, BPGC, Cosmos Hotel Group, Sistema, Koncel, Element Group, RTI, TelecomCapStroy, Sitronics Group, Concept Group.

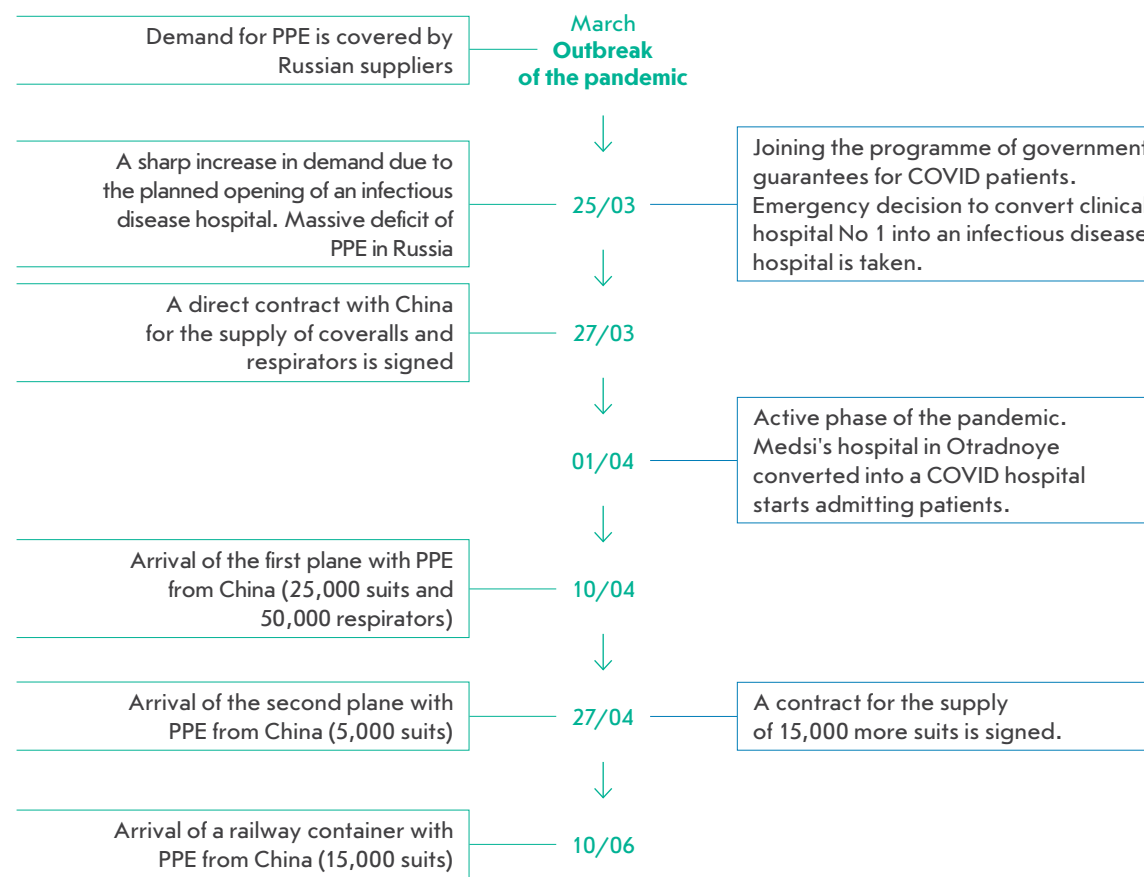
⁵ Data for Etalon Group, Medsi, Binnopharm Group, Cosmos Hotel Group, Sistema, Koncel, RTI, TelecomCapStroy, Sitronics Group.

Procurement at Sistema Group Companies

In 2020, after the outbreak of the COVID pandemic, Medsi conducted emergency procurement procedures in order to convert its hospital in Otradnoye into an infectious disease hospital. The procurement plan included more than 20 lung ventilators, 15 intensive care beds, two medical isolation boxes for transporting patients, as well as other appliances and personal protective equipment (PPE). In just eight days the company rolled out 100 beds that became available for admitting patients on 1 April 2020.

The conversion of the hospital made it necessary to include new product categories in the procurement plan. For example, the company purchased items from the 'workwear' category for the first time. Having framework contracts with suppliers enabled the company to avoid deficit and sharp price rises when purchasing medical consumables¹.

Timeline of Emergency Supplies of PPE at Medsi Group of Companies



In 2020, Medsi started making purchases in direct cooperation with the world's biggest producers. This partnership enables the company to use the advantages of vendor financing that makes it possible to defer payments by six or more months and increase the efficiency of money use.

In 2020, BPGC optimised the supply of workwear to its personnel: the company launched Occupational Safety module in 1C software making it possible to automatically monitor the availability of personal protective

¹ Medical caps, gloves, high shoe covers, gowns, consumables for intensive care units, disinfectants and medications.
² A vendor is an individual or legal entity that manufactures and/or supplies goods under own brand. A vendor does not have to manufacture the product, its main task is to promote and distribute it.

equipment to personnel, ensure redistribution of PPE stocks among the company's subdivisions and form correct procurement requests.

Over the past year, BPGC has been working to improve information systems and enhance the automation of procurement processes, in particular, adjustments were made in 1C software module Production Enterprise Management. Moreover, the company introduced a practice for purchasing specific product categories from online stores, making it possible to reduce delivery time to two weeks from order placement, to rule out the risk of purchasing products at above-market prices or substituting products with low-quality analogues.

In 2020, Steppe AgroHolding implemented a single automated procurement system based on 1C: Holding Management solution. This system was integrated with the corporate document control system. Automation of the system helped improve the company's competitiveness by cutting labour costs and procurement time, increasing the effectiveness of holding company management and the transparency of tender processes.

As part of its effort to protect the confidential data transferred during procurement procedures, the company also introduced a Supplier Account, which does not only ensure access to the tendered lots and filing of proposals, but also provides information about the signed contracts and supply requests.

Starting from 2020, Segezha Group has been using the cloud solution SAP Ariba to manage its relations with suppliers. SAP Ariba was integrated with the automated enterprise management system SAP S/4HANA that offers a set of solutions for building a common information space on the basis of the enterprise and effective management of resources and work processes.

The new system will enable Segezha Group to increase the economic efficiency of business processes through standardisation and automation of the supplier selection procedure, greater transparency and higher quality of communications with the supplier; moreover, the company will introduce centralised monitoring of procurement activities.

Interaction with suppliers through SAP Ariba will help reduce the human factor risks, cut man hours and increase the level of satisfaction of all company divisions with the procurement process.

In 2020, one of Sitronics Group companies implemented the Automation of Procurement Procedures in the Corporate Navision Accounting System project.

The system covers all stages of the process to provide the manufacturing and administrative subdivisions of the company with required materials and services: from the moment of request filing to the time when the internal customer gets the product/service.

Today, 100% of orders are placed through the Navision system. In 2021, the company plans to further enhance and improve the automated procurement system.

In 2020, Sistema's Management Board took the decision to modernise the IT infrastructure. To implement this project, it was necessary to make substantial purchases of IT equipment and software. In order to get the best IT equipment available in the market at the lowest possible prices the company developed a category strategy with the main criteria being technical specification for equipment and software from various producers (vendors), ensuring competition among producers and not distributors (integrators).

All procedures were carried out openly, and contracts were awarded to the vendors offering the lowest price for equipment and software. As a result of such procurement procedures, the company achieved substantial savings: up to 80% of GPL³ prices for certain categories. As part of cross-functional interaction between the employees of the IT and Information Security Departments, additional competitive technical specifications for various vendors⁴ were developed, making it possible to achieve the target economic effect. The achieved results have demonstrated the effectiveness of category management.

³ Prices recommended by the producer net of any special conditions, discounts, sales, etc.
⁴ The technical qualification of vendors was based on the Gartner Magic Quadrant and covered only the vendors holding leading positions in the Quadrant.

Relations with Suppliers

Sistema and the companies of the Group have whistleblower hotlines in place to ensure a transparent, open and competitive environment across the Corporation.

For more details on the Hotline, see the Ethics and Anticorruption Efforts section

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 existing laws and Sistema's Code of Ethics.

All new suppliers are subjected to a mandatory screening procedure to rule out, inter alia, a potential conflict of interest. The Group's standard contracts include provisions that require counterparties to comply with regulations in the area of environmental protection, occupational safety and product quality. The companies of Sistema Group provide their employees with training in occupational and fire safety. At Medsi Group of companies all hazardous works are conducted in compliance with the "contractor safety check list".

Whenever conflict situations arise, Sistema negotiates with suppliers. In the event of their failure to comply with regulatory requirements, Sistema either terminates cooperation or imposes a fine on the supplier.

MTS regularly holds online conferences with counterparties to enable the management of contractor companies to raise any issues that cannot be resolved with the customer on a local level. All meetings were held in the format of audio or video conferences, no in-person meetings took place in 2020 in compliance with coronavirus prevention measures.

Steppe AgroHolding also organises training for its suppliers and contractors, in particular, it provides them with detailed guidelines on using their personal accounts and posts video materials on its website.

Sistema also participates in online meetings on procurement organised by the RAEX club.

MTS: sustainability suppliers audits

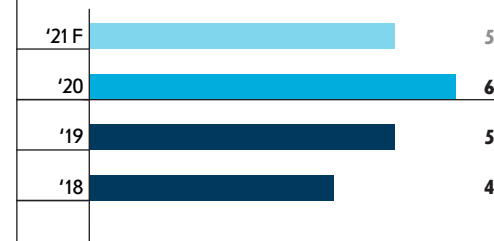
Since 2017, MTS has been a member of the international association of telecom operators JAC (Join Audit Cooperation), which specialises in auditing and raising the awareness of ICT providers about responsible business conduct.

The audits are carried out in accordance with the JAC principles, which are based on the international sustainability standards (SA8000, ISO 14000) and cover five basic areas: working conditions; health and safety; impact on the environment; ethical norms; management systems.

Audits conducted in accordance with JAC principles

Following each supplier audit, a report is prepared and a remediation plan is adopted, its implementation is closely monitored.

Audit reports, remediation plans and information on their progress are stored in a single database and available to all JAC members.



Plans for 2021

Sistema	› Revision of the Tender Procedures and Procurement Code of Sistema PJSFC to add extended ESG requirements.
MTS	› Support of business development initiatives and implementing innovations in accordance with strategy CLV 2.0. › Development of a service-oriented model to migrate to interaction with customers in the format of a business partnership with simultaneous achievement of goals set for the procurement function (savings, quality, timeliness).
Segezha Group	› Increase in centralisation of procurement procedures and contract support. The target level of centralisation is 90% of the total annual procurement volumes. › Enhancement of the level of automation of materials supply processes (SAP, marketplace for tail spend, robotics). › Implementation of the process of annual and short-term procurement planning.
Etalon Group	› Revision of the Tender Policy.
Medsi	› Issue of a new version of the Procurement Policy providing for optimised procurement processes at the Company. › Migration of key counterparties to electronic document management. › Migration of 90% of all procurement procedures to electronic format (by using Medsi's electronic trading platform).
Steppe AgroHolding	› Enhancement of control over procurement procedures, the level of automation of procurement procedures. › Increase in the volumes of import substitution without compromising the quality of purchased materials (profitable assets of the enterprise involved in turnover). › Improvement of the effectiveness of suppliers' operations when interacting through their personal accounts by making the interface more user-friendly and reducing the number of user applications to the support service.
Binnopharm Group	› Completion of 90% of procurement procedures via an electronic trading platform.
BPGC	› Upgrade of the Procurement section on BPGC's corporate website. › Arrangement of trainings for the participants of the business process on the key aspects of drafting ToR and performing an expert appraisal. › Improvement of the quality of the electronic procurement function for the internal customer (purchasing auxiliary goods: tools, stationery, housekeeping supplies, plumbing, construction materials). › Enhancement of the effectiveness of warehouse operations.
Cosmos Hotel Group	› Standardisation of procurement categories and making consolidated purchases (alcohol, household chemicals, paper products).

ROLL - O U T O F

KEY SUSTAINABILITY AREAS

IN ACTIVITIES
OF SISTEMA GROUP
COMPANIES

Wellbeing



134,143 people
average headcount at Sistema Group¹

RUB 5.2
bn per person
average labour productivity

RUB 1.15 bn
occupational safety
expenses in 2020

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 Sistema Group Employees GRI 103-3



The Russian President awarded representatives of Sistema Group for development of diagnostic tests, treatment of patients and organisation of production of medications for preventing and treating COVID-19, including the world's first COVID-19 vaccine.



**МИНИСТЕРСТВО
ЗДРАВООХРАНЕНИЯ
РОССИЙСКОЙ ФЕДЕРАЦИИ**

The Russian Healthcare Minister presented awards to Sistema Group employees for their contribution to prevention of coronavirus spread in the country.

Awards Received by Group Companies



MTS was included in the top 200 best employers among the biggest companies (over 5,000 employees) in a rating compiled by HeadHunter.

MTS and MTS Bank were included in the subrating of companies with the best developed HR processes.

MTS was named among the top 3 leaders of the telecom industry.

Ozon was included in the top 200 best employers among the biggest companies (over 5,000 employees).

Ozon came in 1st in the IT and Internet category according to HeadHunter's rating.

Etalon Group was ranked among the best big companies (from 1,000 to 5,000 employees).

It was included in the subrating of companies with the best developed HR processes.

Segezha Group made it to the top 100 of the Russian employers' rating among companies with similar headcount (67th place).

Medsi is among the biggest representatives of the pharma and healthcare sector, according to HeadHunter.

JSC NIIME, a leading research and development centre of Element Group, ranked second among medium-sized organisations (under 1,000 employees) in the Science and Education category.

Concept Group made it to the top 200 of the Russian employers' rating among companies with similar headcount (118th place).

Forbes

MTS was ranked among Russia's top 10 employers by Forbes.



Alexander Karaulov, member of the Russian Academy of Sciences, member of Medsi's Academic Council, founder and chair of the clinical immunology and allergology department of the Professional Education Institute of the Moscow First Medical Sechenov University received the Mechnikov Prize, an award given in the area of immunology, biology and biomedicine.



The Athletic Summer social project of OJSC Sintez, a member of Binnopharm Group, won third place in the Health category of the 6th Russian national competition of corporate volunteering projects Good Cause Champions.



The production departments of LLC Bashkirenergo (part of BPGC) won all prizes in the Best Work Conditions and Occupational Safety competition in the Republic of Bashkortostan.



Sistema Biotech won the Discovery of the Year prize in the Medicine and Healthcare category of the 10th annual award Innovation Time.

¹ Including Ozon.

Human Capital GRI 103-1, GRI 103-2

0.2%

of the total workforce in the Russian Federation are employed by Sistema Group

Professionalism and motivation are key to the successful development of Sistema Group. Companies across the Group aim to recruit and retain best talents through constant improvements in working conditions and evolving corporate culture.

Sistema's HR Department determines the methodology and general principles of handling human capital and also works towards transparent recruitment processes, appropriate incentive mechanisms, and organisational development.

Sistema's HR management is regulated by the Code of Ethics, the HR Management Code, and other internal documents. In managing people, HR sees its ultimate goal in creating conditions conducive to business growth and higher efficiency through day-to-day support.

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

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

Staff Composition¹ GRI 102-8

Sistema Group companies are invariably among the biggest employers wherever they operate. The Group's average headcount in 2020 was roughly 130 thousand FTEs.

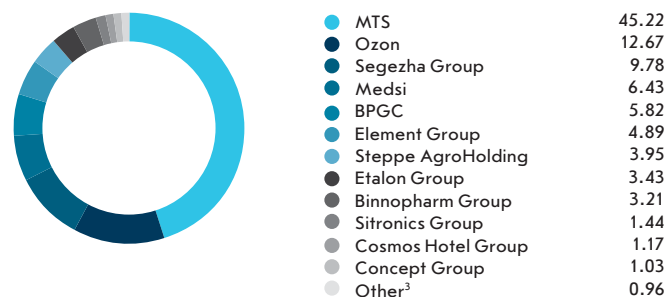
AVERAGE GROUP HEADCOUNT, persons



PERSONNEL STRUCTURE BY CATEGORY, %

CATEGORY OF EMPLOYEES	2020 ³	2019	2018
Senior management	0.5	0.4	0.5
Middle management	3.2	2.3	3.2
Junior management	8.3	11.9	10.6
Non-management	88	85.4	85.7

HEADCOUNT BY ASSET, %



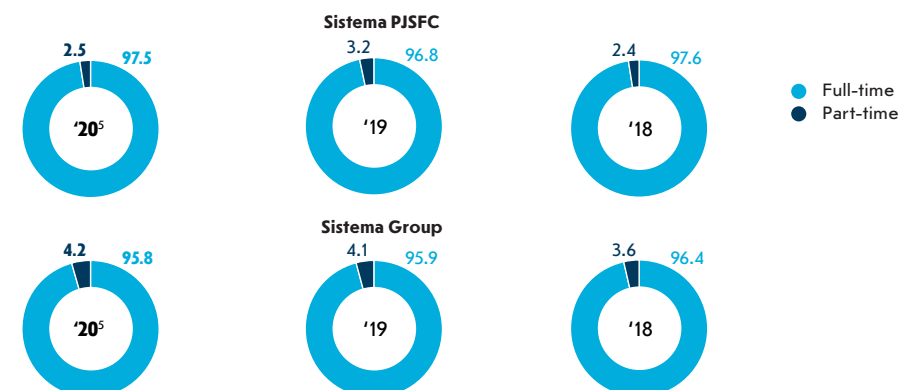
¹ Data for 2019 is provided for MTS, Detsky Mir, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Alium, Sintez, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema PJSFC, Vologda Textile, Element Group, Sitronics, Sistema Capital and Concept Group, unless otherwise specified. Data for 2020 is provided for MTS, Ozon, Segezha Group, Etalon Group, Medsi, Steppe AgroHolding, Binnopharm Group, BPGC, Business Nedvizhimost, Cosmos Hotel Group, Sistema PJSFC, Vologda Textile, Element Group, Sistema BioTech, Sistema Capital, Concept Group, EWUB, SCP Group, Sistema VC, Sistema SmartTech and Sitronics Group, unless otherwise specified.

² Including Ozon.

³ Net of Ozon, SCP Group, Sistema VC and Sistema SmartTech.

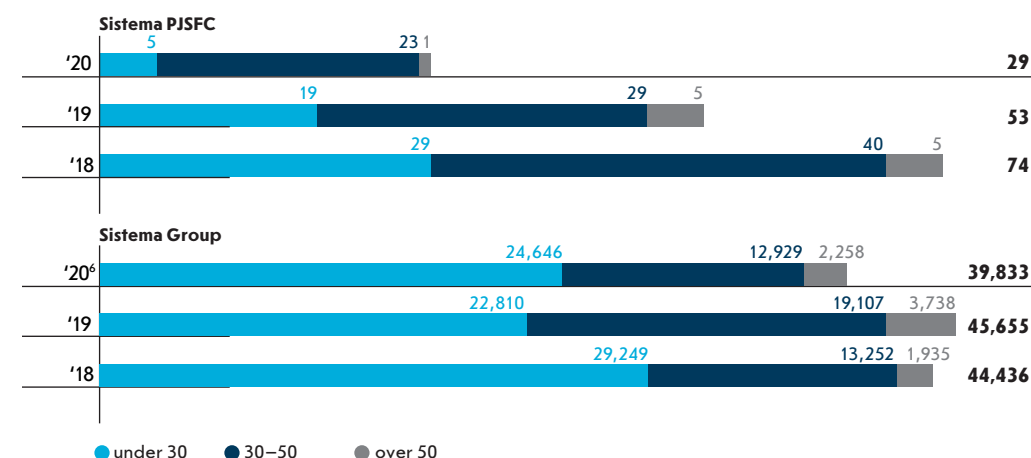
⁴ Other includes Business Nedvizhimost, Sistema PJSFC, Vologda Textile, Sistema BioTech, Sistema Capital, EWUB, SCP Group, Sistema VC, Sistema SmartTech.

STRUCTURE BY TYPE OF EMPLOYMENT, %



The Corporation offers ample opportunities for career development in various business segments and is an attractive employer for young people.

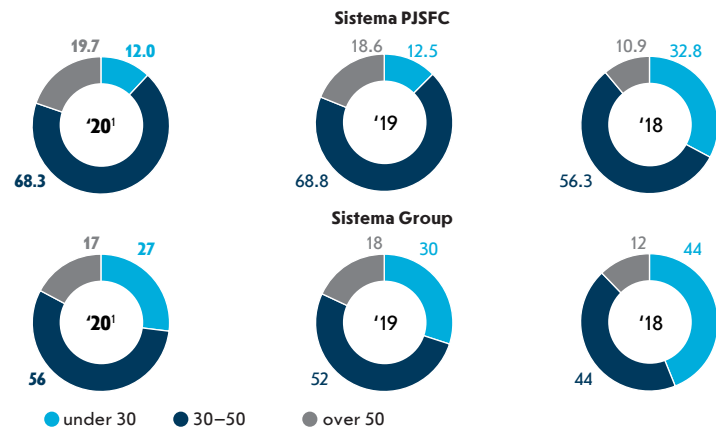
NEW HIRES BY AGE, persons GRI 401-1, SASB FN-AC-330a.1



⁵ Net of Ozon, Binnopharm Group, EWUB, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).

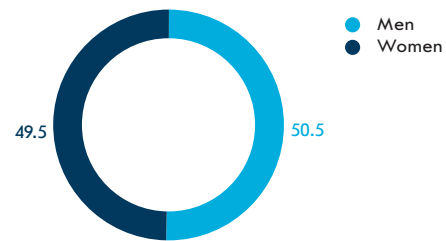
⁶ Net of Ozon, Segezha Group, Binnopharm Group, EWUB, SCP Group, Sistema VC, Sistema SmartTech, Vologda Textile (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).

STRUCTURE BY AGE, %

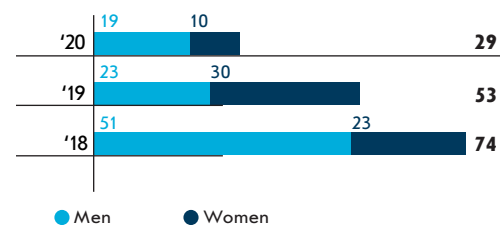


The Corporation promotes gender equality and ensures career mechanisms that are free from any discrimination by gender, age, ethnic background, and any other attributes other than professionalism. In 2020, Group companies recruited a total of 49,092 people.

NEW HIRES BY GENDER, %
SASB FN-AC-330a.1



NEW HIRES BY GENDER, FTEs



STRUCTURE BY EMPLOYMENT DURATION WITHIN SISTEMA GROUP, %³

Under 1 year	22
1–3 years	24
3–5	13
5–10	20
Over 10 years	21

SENIOR GOVERNANCE BODIES' STRUCTURE BY GENDER
GRI 405-1, UNCTAD C.1.1, D.1.2

GENDER	FTEs	%
Management Board		
Men	14	93
Women	1	7
Board of Directors		
Men	11	92
Women	1	8

PERSONNEL STRUCTURE BY GENDER, %

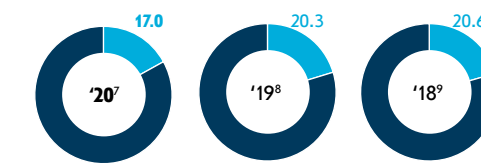
GENDER	2020 ⁴	2019	2018
Sistema PJSC			
Men	54	49	47
Women	46	50	52
Sistema Group			
Men	55	53	49
Women	45	46	50

STRUCTURE BY TYPE OF EMPLOYMENT AGREEMENT AND BY GENDER, % GRI 103-3

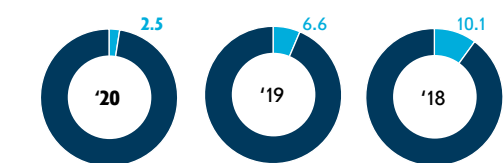
		SISTEMA PJSC			SISTEMA GROUP		
		2020	2019	2018	2020 ⁵	2019	2018
Permanent Contracts	Men	53.2	50.5	51.5	51.04	46.5	48.3
	Women	45.8	47.9	45.7	41.9	46.5	45.6
Term Contracts	Men	0.4	0.3	0.7	3.1	3.1	2.9
	Women	0.7	1.3	2.1	3.9	3.6	3.2

The average personnel turnover rate across the Group in 2020 was 24.2%

AVERAGE PERSONNEL TURNOVER RATE AT PORTFOLIO COMPANIES⁶, %



PERSONNEL TURNOVER AT SISTEMA¹⁰, %



AVERAGE TURNOVER OF LEADERSHIP ACROSS THE GROUP¹¹, %

	2020 ¹²	2019	2018
Senior management	0.2	0.1	0.6
Middle management	0.4	0.5	1.3
Junior management	2.6	3.0	2.7

VOLUNTARY STAFF TURNOVER AT SISTEMA BY AGE¹³, %

	2020 ¹⁴	2019	2018
under 30 years old	0.36	1.1	4.7
30–50 years old	1.8	5	4.7
over 50 years old	0.36	0.5	0.7

RATIO OF VOLUNTARY TO TOTAL TURNOVER AT SISTEMA AND THE GROUP, %

		2020 ¹⁵	2019	2018
Sistema	Voluntary turnover, %	2.5	7	10
	Voluntary to overall turnover, %	12.5	53	23
Group	Voluntary turnover, %	26.65	20	21
	Voluntary to overall turnover, %	84.56	70	65

¹ Net of Ozon, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
² Net of Ozon, EWUB, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
³ Net of Ozon, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
⁴ Net of Ozon, EWUB, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).

⁵ Net of Ozon, Binnopharm Group, Sistema Capital, EWUB, SCP Group, Sistema VC, Sistema SmartTech.
⁶ Voluntary turnover only.
⁷ The indicator for 2018 was recalculated using the updated methodology.
⁸ Net of Detsky Mir, Cosmos Hotel Group, Concept Group (in accordance with the consolidation perimeter for 2019, given at the beginning of the section).
⁹ Net of Ozon, Cosmos Hotel Group, Concept Group, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
¹⁰ Voluntary turnover only.
¹¹ Both voluntary and otherwise.
¹² Net of Ozon, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
¹³ Both voluntary and otherwise.
¹⁴ Net of Ozon, Cosmos Hotel Group, Concept Group, SCP Group, Sistema VC, Sistema SmartTech.
¹⁵ Net of Ozon, Cosmos Hotel Group, Concept Group, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).

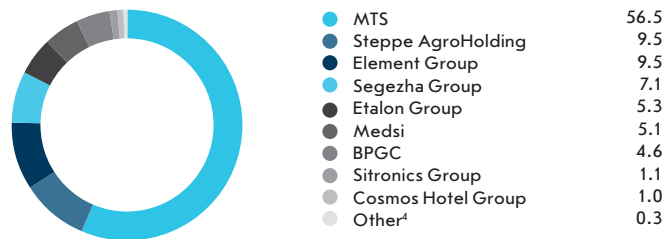
GRI 202-2 Companies across the Group hire employees primarily from local communities and organise local training programmes for unceasing the number of the required professionals where necessary. People from other geographies are hired only if local recruiting of the needed specialist is impossible.

SHARE OF LOCAL LEADERSHIP

	2020	2019	2018
No. of senior executives at Sistema, FTEs	19	19	18
Of which locals (from Moscow and its suburbs) are, %	89	94.7	94.4

Sistema Group affords equal employment opportunities to all candidates and provides jobs to people with disabilities. In 2020, Group was employing 1,202 persons with disabilities, or 0.9% of total headcount.

EMPLOYEES WITH DISABILITIES BY ASSET, %



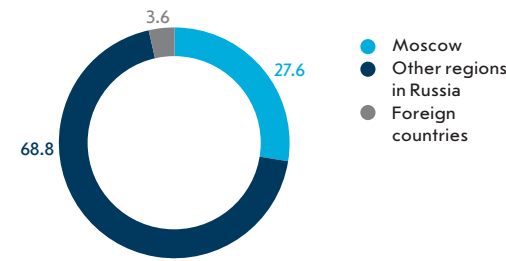
Incentives and Remuneration
GRI 102-21, 102-35

Sistema has an incentive and compensation system in place. On average, the minimum entry-level wage across the Group is roughly RUB 25,000, which is 2x higher than the statutory living wage in 2020.

ANNUAL TOTAL COMPENSATION RATION FOR THE ORGANISATION'S HIGHEST-PAID INDIVIDUAL TO THE MEDIAN ANNUAL TOTAL COMPENSATION FOR ALL EMPLOYEES⁴ GRI 102-38



STRUCTURE OF GROUP PERSONNEL BY GEOGRAPHY IN 2020, %¹



TOTAL NUMBER OF EMPLOYEES WITH DISABILITIES AT SISTEMA GROUP



PERSONNEL EXPENSES ACROSS THE GROUP, RUB bn

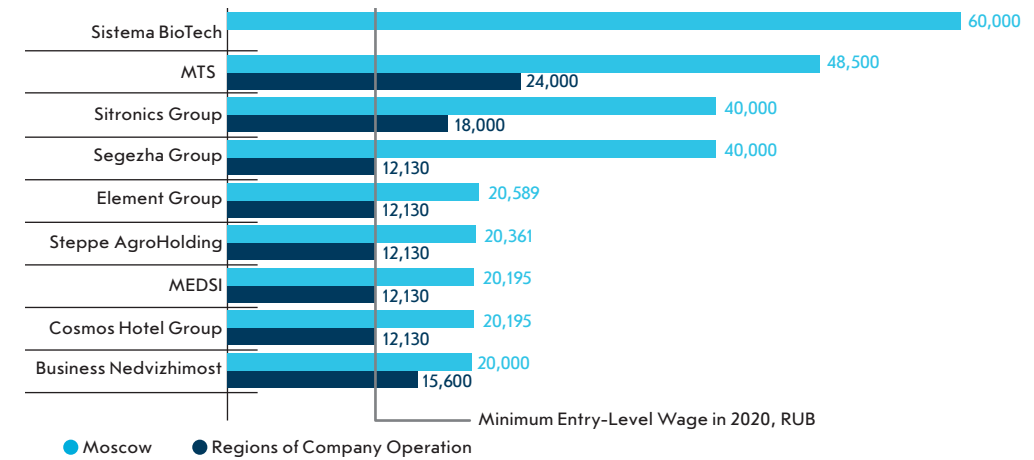


AVERAGE RATIO OF ENTRY-LEVEL WAGE TO STATUTORY LIVING WAGE



¹ Net of Ozon, EWUB, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
² Other includes Binnopharm Group, Business Nedvizhimost, Sistema PJSFC, Vologda Textile, Sistema BioTech, Sistema Capital, Concept Group, EWUB.
³ Net of Ozon, SCP Group, Sistema VC, Sistema SmartTech (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
⁴ 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.

MINIMUM ENTRY-LEVEL WAGE IN 2020, RUB GRI 202-1



Non-Financial Incentives
GRI 401-2

Sistema uses a programme of non-financial employee incentives that includes:

- Programmes for recognition of employees' achievements;
- Social benefits and participation in corporate events and volunteer projects.

Sistema offers employees extended benefits, including voluntary health insurance, sick pay above the statutory minimum, financial aid for those in difficult circumstances, travel insurance, and accident insurance.

Employees are also invited to use corporate discounts to obtain health insurance for their families. Specific benefits vary from asset to asset according to the realities of their respective businesses and employee needs.

SISTEMA EXPENDITURES RELATED TO VOLUNTARY HEALTH INSURANCE AND SOCIAL PROGRAMMES FOR EMPLOYEES, RUB m⁵

	2020	2019	2018
Spending on social programmes	600.88	2,093	2,007
Spending on voluntary health insurance	1,084	914	731
Total	1,684.88	3,007	2,738

PARENTAL LEAVES AT SISTEMA PJSFC GRI 401-3

	2020	2019	2018
No. of employees entitled to parental leave	15	18	28
No. of employees on parental leave	15	18	22
No. of employees back from parental leave	1	1	6
Return-to-work rate	100 %	50 %	100 %

RUB 7.4 bn
was allocated by Sistema for social programmes and health insurance of employees in 2018-2020

18.6 %
growth in spending on voluntary health insurance in 2020

⁵ Data for 2018 and 2019 have been restated due to adjustments to the calculation method.

Collective Bargaining Agreements

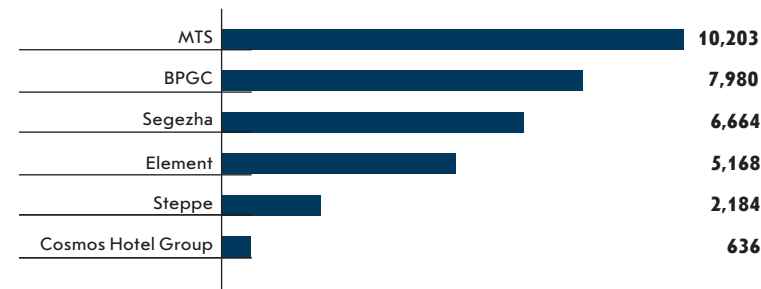
GRI 102-41, UNCTAD C.4.1

Sistema and its group companies are committed to develop social partnerships with their employees. At some companies of the Group the terms of such partnerships are set out in collective bargaining agreements that provide for employee benefits and compensations that go beyond statutory requirements, including voluntary health insurance,

pensions, additional paid leaves, increased sick pay, etc.

25% of employees across the Group are parties to collective bargaining agreements.

NUMBER OF INDIVIDUAL PARTIES TO COLLECTIVE BARGAINING AGREEMENTS IN 2020, persons



SHARE OF SISTEMA EMPLOYEES BEING PARTIES TO COLLECTIVE BARGAINING AGREEMENTS, %



Training and Development of Employees

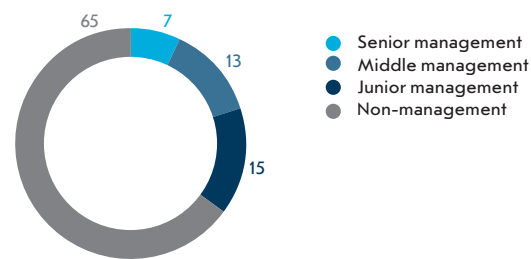
GRI 404-2

Sistema always aims to help employees grow their business, professional, and soft skills. In 2020 alone, the Corporation invested RUB 242.4m in employee training and development.

TRAINING EXPENDITURES ACROSS THE GROUP, RUB m



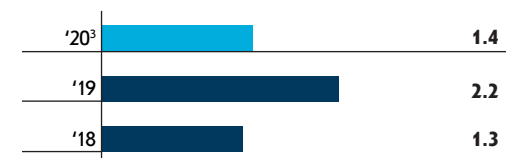
STRUCTURE OF TRAINING EXPENDITURE BY STAFF CATEGORY, %²



GRI 103-2 Cognizant that the quality of employee education directly correlates with their performance, Sistema always puts education first. This takes a variety of forms, from advanced training courses for long-standing employees to onboarding for new hires to programmes targeting talented high schoolers and undergraduates.

Galich Plywood Mill (part of Segezha Group) has entered into a cooperation agreement with the local Galich College of Agriculture and Technology to organise training for the factory's future workers.

ACADEMIC TIME FINANCED IN 2020, million hours



The company took it upon itself to provide the practical component of the syllabus, including tours to production facilities and internships providing insights into the entire plywood production cycle, along with consultations from top tech minds. The project will go a long way towards creating attractive employment opportunities for the college's young talents.

¹ Net of Ozon, Etalon Group, Medsi, Binnopharm Group, Sistema PJSFC, Vologda Textile, Sistema BioTech, Sistema Capital, Concept Group, EWUB, SCP Group, Sistema VC, Sistema SmartTech, Sitronics Group (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
² Net of Sistema PJSFC, Ozon, SCP Group, Sistema VC, Sistema SmartTech, Vologda Textile, Sistema BioTech, Sistema Capital, EWUB (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
³ Net of Sistema PJSFC, Ozon, SCP Group, Sistema VC, Sistema SmartTech, Vologda Textile, Sistema BioTech, EWUB (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).

Building Leadership Teams

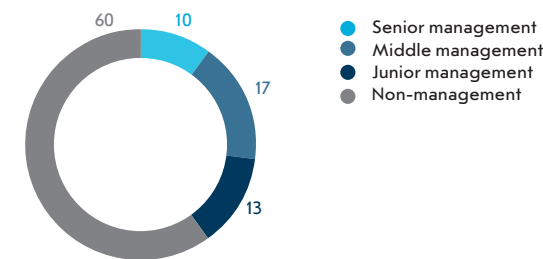
GRI 404-3

Finding best leadership talents and making sure their skills and personalities are smoothly integrated in the corporation's ecosystem is the province of Sistema's in-house recruitment team. Sistema also has succession pool programmes in place targeting every level of leadership.

SISTEMA GROUP'S SUCCESSION POOL IN 2020⁴

	NO. OF SUCCESSION POOL MEMBERS	NO. OF SP MEMBERS PROMOTED	SHARE OF SP MEMBERS PROMOTED, %
Senior management	30	7	23
Middle management	134	20	15
Junior management	211	17	8
Non-management	276	17	15
Total	651	61	9

SHARE OF GROUP PERSONNEL COVERED BY PERFORMANCE ASSESSMENT, %⁵



NUMBER OF GROUP PERSONNEL COVERED BY PERFORMANCE ASSESSMENT BY CATEGORY, persons⁶

Senior management	80
Middle management	146
Junior management	111
Non-management	512

GRI 103-2 Sistema sets great store by collaborating with academia and works hard to create education and self-actualisation opportunities for the talented young. This is achieved through specific cooperation agreements with the nation's leading universities, colleges and schools.

⁴ Data for Etalon Group, Steppe AgroHolding, Binnopharm Group, BPGC, Cosmos Hotel Group, Element Group.
⁵ Data for Segezha Group, Etalon Group, Steppe AgroHolding, Element Group, Concept Group, EWUB.
⁶ Data for Segezha Group, Etalon Group, Steppe AgroHolding, Element Group, Concept Group, EWUB.

In 2020 specifically, Sistema signed a research and education cooperation agreement with Peoples' Friendship University of Russia with a view to meeting current needs for innovation, conducting fundamental and experimental research, and collaborating with academia in science fields relevant to the company's business. The project's keynote is assimilating and using latest technology and trends in agriculture, healthcare, pharmaceuticals, telecoms, and 5G. The collective educational and research initiatives include lectures and master classes from Sistema's experts, internships for undergraduates, and mutual support in devising learning techniques, building up a case library, aggregating data, and sharing best practices and experience.

In 2020, Sistema's telecoms arm MTS together with Moscow Physics and Technology Institute and Skolkovo Business School launched a free master's programme for tech graduates titled Digital Technologies in Business. The programme is both technical and managerial, with MTS inviting interns to hone their new skills in both areas on the ground.

Another educational alliance of the telco closed in 2020 is for Saint Petersburg's ITMO University, to launch a Conversational Technology Profile for master students. The new programme will teach students to develop speech and noise recognition systems for AI-driven apps, such as voice assistants, voice-activated systems, and knowledge bases (all of which are right at the centre of MTS's current research work) and invite interns to acquire practical skills at MTS Artificial Intelligence Centre and write research papers under the supervision of MTS's best engineers. In addition to that, the company committed to set up a fully equipped AI laboratory on ITMO's campus for practical studies, master classes, meet-ups, hackathons, and other forms of collaborations with MTS.

The medical chain Medsi has signed an agreement with the General Surgery department of the Sechenov Medical University and the Obstetrics and Gynaecology department of the Pirogov Medical University (two leading medical schools in Russia) to provide access to its leading-edge Botkinsky Proyezd Clinical hospital as a clinical site for research and internships. Both senior students and post-graduates will receive hands-on training along with instruction and mentorship from Medsi's best doctors. The health provider is working on setting up a university clinic for best quality of practical training for future doctors.

The microelectronics producer Element Group has partnered with the National Research University of Electronic Technology (MIET) to drive the research and production potential of the Russian ME

industry, create new skill sets, and promote sophisticated technical solutions and industrial ecosystems. The partners will focus on developing microchip design and production technologies, building an infrastructure for collective learning, innovative and production centres, organising training activities, and conducting comprehensive scientific research and design initiatives, with an eye to batch production of best solutions. The parties' aspirations go beyond training talents for the Russian ME industry to developing completely new branches of science, such as nanophotonics, spintronics, plasmonics, etc.

The apparel retailer Concept Group partnered up with Saint Petersburg Stieglitz State Academy of Art and Design to open a brand-new Fashion Industry Technology and Management Department with a syllabus focussed on time-relevant practical needs of the textile industry, including computer-aided fashion design solutions and automation tools. Mentorship from Concept Group experts, involvement in project-oriented learning programmes, and profound hands-on training in using latest tech solutions will all translate into highly skilled graduates with just the right skill sets for the modern-day industry. The Company commits to affording attractive employment opportunities for the department's future alumni.

In November of 2020, the property developer Etalon Group signed a long-term cooperation agreement with Moscow State Construction University to grow future employees from both undergraduates and grad students and share talents and expertise in broader learning initiatives.

In the end of 2020, the company's engineers delivered an off-site lecture for construction master students of the Russian Presidential

Academy for National Economy and Public Administration about the latest BIM¹ engineering tools and how to apply them at every stage of the construction process, from initial design to delivery. Attendees were filled in on the bleeding-edge construction digitalisation trends along with the practical aspects of digital modeling in property development and made an informative tour of one of the company's construction sites, gaining insights into ways to organise investment and construction processes.

Lift to the Future

In 2020, Sistema Charitable Foundation (SCF) launched a digital platform for its flagship project Lift to the Future, affording access to educational courses and career aptitude tests, a corporate job bank comprising workplaces across the entire Sistema Group, and internship and mentoring opportunities from Sistema's leaders and outside expert invitees. The training programmes are free of charge and welcome high-school and college students and young professionals from all across Russia. What sets Lift to the Future apart from other educational projects is direct contact with potential future employers, with Sistema's HR closely tracking latest developments to identify best talents to recruit as interns or permanent employees. The platform contains 40 learning courses in a variety of fields, such as engineering, banking, agriculture, etc. Lift to the Future is relied on to evolve into an efficient tool not just for driving the Corporation's social strategy, but also for meeting the UN's SDG No. High-Quality Education to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

GRI 103-2 In 2020, Sistema Charitable Foundation, MYS, and Steppe AgroHolding launched a network of free digital schools titled Lift to the Future. School in the Rostov region in Russia's south, with priority focus on affording educational opportunities for underprivileged teenagers. Students aged 13-17 will spend three years learning the basics of some of the newest technologies, including Python programming and microelectronic design. The Digital Skills School is stage 1 of the nationwide learning initiative Lift to the Future 3.0 aimed at building a full-blown ecosystem for training microelectronic engineers. The programme contemplates transforming a network of local high-school partners into a chain of highly equipped 'talent factories' (Lift to the Future. School), forming powerful educational clusters from disparate tech colleges (Lift to the Future. Academia), and issuing grants to young scientists (Lift to the Future. Science). Graduates of Lift to the Future. School will be invited to apply for a local free two-year follow-up programme Lift to the Future. Academia, building their own areas and trajectories of personal development when moving between stages. In 2020 alone, Lift to the Future involved 2.4 thousand teenagers from eight regions of Russia.

On 17 December 2020, undergraduates of Petrozavodsk State University (PSU) were invited to an online career event titled Lift to the Future with Segezha Group. The programme comprised lectures, master classes and practical tutorials on various aspects of obtaining employment. Topics ranged from most sought-for skills to online internship opportunities (a pressing necessity in pandemic times) to ways to make a good impression and enhance one's employability, each covered at length by experts from Segezha Pulp and Paper Mill, PSU Automation Centre, and SCF. The event's most active participants received bonus career consultations and special prizes.

¹ Building Information Modeling, a process that employs intelligent 3d models to design, build, and operate buildings and infrastructure.

Corporate Culture GRI 403-6

Another priority for Sistema is the development of corporate culture among its personnel. 2020 became the second year in the company's history with both winter and summer Corporate Sports Days held for employees across Sistema Group. These are truly elaborate events with both athletic competitions and entertainment programmes for everyone to enjoy. In 2020 specifically, winter sports games were organised by both Sistema in Moscow and Bashkir Power Grid Company (BPGC) in Ufa.

The 18th Summer Games in September of 2020 comprised running races and competitions in such sports as long jump, shot put, and general fitness, an 1,800-metre Swedish relay, and an obstacle course.

BPGC hosted a Young Power Professionals Convention that was attended by some 150 young people working in Bashkortostan's power grid industry. The participants introduced their teams, attended personal growth classes, made presentations, played a quiz game, and met with the company's CEO Dmitry Sharovarov.

Employees across Sistema Group take part in a variety of volunteer and charity initiatives primarily targeting:

- › Underprivileged children;
- › Large families;
- › Veterans;
- › People with disabilities.

Sistema Group's volunteer projects are coordinated by Sistema Charitable Foundation (SCF).

SCF CORPORATE VOLUNTEER CENTRE PERFORMANCE

	2020	2019	2018
No. of Group companies involved (at least once)	22	22	15
No. of events held	12	50	29
No. of (at least one-time) individual participants	324	693	440
Man-hours invested	1,458	3,200	2,000

Health and Safety

Management Approach to Occupational Health and Safety

GRI 103-1, GRI 103-2

Ensuring comfortable and safe working conditions is a priority for Sistema Group. Portfolio companies annually update their goals in the area of occupational safety and health 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.

The key principles of the Corporation's activities in the area of occupational health and safety are described in the Sustainability Policy and in HR management regulations.

GRI 403-1, GRI 403-2, GRI 403-3, GRI 403-7

Apart from that, Sistema Group companies control the observance of health and safety norms by contractors, including on production sites:

- › When taking on contractors, Group Companies make sure their contracts contain labour safety clauses formulated specifically for the type of activities 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.

GRI 403-4

Many of the Group's production companies have special committees in charge of occupational safety and health. In 2020, 47 such committees were registered across the Group, each including representatives from both management and employees. Group companies have feedback channels for reports about deficiencies and violations in occupational safety.

In 2020, all of Segezha Group's key enterprises carried out work to prepare for ISO 45001 certification as part of group certification planned for 2021. In addition, Segezha Pulp and Paper Mill implemented an occupational safety development programme, an integrated occupational safety management system with a clear distribution of responsibility and an integrated industrial safety management system. Karelian Wood Company implemented a project for creating a voluntary disinfection team called "Fight against COVID" from among the company's employees in 2020.

In 2020, MTS joined the international Vision Zero or Zero Injuries approach. It is a new approach to prevention that integrates the three dimensions of safety, health and wellbeing at all levels of work. The concept includes seven "Golden Rules", which will help employers reduce the rates of occupational accidents and work-related diseases. In 2020, the company was developing a new strategy for safety, health and wellbeing for 2021–2023, which will include international practices and methods for implementing Vision Zero.

Etalon Group's Safety Index increased in 2020 by 6 p.p. and reached 86% with a target level of 75%. The company plans to increase the target value of its Safety Index to 80% in the future.

GRI 103-3 Since 2014, Etalon Group has been determining the level of occupational health and safety at its construction sites using a special tool called "Safety Index". The index is calculated using data on a number of key parameters obtained during monitoring of construction sites with Building Information Modelling (BIM), and is measured by the ratio of positive ratings to the total number of ratings at a controlled site. The measurement range is from 0% to 100%, with the target index for Etalon Group set at 75%. The Safety Index enables Etalon Group to conduct effective OHS monitoring at its construction sites, to receive up-to-date information from monitored sites in real time, to get a 3D view of locations where OHS violations have occurred, and to identify hazardous situations that require immediate intervention. In 2019, the company introduced a three-stage safety monitoring system at its construction sites using the Safety Index.

In 2021, Etalon Group will approve a new version of the Safety Index methodology including a methodology for determining the fire safety index and the degree of risk at the group's construction sites.

BPGC, in its Occupational Health and Safety Policy and the Zero Injuries Programme, established the priority of the life and health of employees over the results of production activities. The following activities were carried out within the framework of the Programme for Improving Working Conditions and Injury Prevention in 2020:

- › providing electrical personnel with arc flash suits and regular overalls and footwear;
- › surprise checks of working crews;
- › quarterly/monthly Occupational Safety weeks followed by an analysis and an action plan to eliminate the identified deficiencies.

GRI 403-9 TOTAL NUMBER OF OCCUPATIONAL INJURIES AT SISTEMA GROUP, pcs

	2020 ²	2019 ³	2018 ³
Number of work-related accidents	80	98	106
including accidents with fatalities	1	2	3

¹ Data for MTS, Segezha Group, Etalon Group, Medsi, Steppe AgroHolding, Binnopharm Group, BPGC, Business Nedvizhimost, Cosmos Hotel Group, Vologda Textile, Element Group, Sistema Capital, Concept Group and Sitronics Group.
² MTS, Segezha Group, Etalon Group, Medsi, Steppe AgroHolding, BPGC, Business Nedvizhimost, Cosmos Hotel Group, Vologda Textile, RTI, Sistema Capital, Concept Group and Sitronics Group.
³ Data for MTS, Segezha Group, Etalon Group, Medsi, Steppe AgroHolding, Binnopharm Group, BPGC, Business Nedvizhimost, Cosmos Hotel Group, Element Group, Concept Group and Sitronics Group.

RUB 1.15 bn
 Sistema Group's expenditures on employee health and safety in 2020

Sitronics Group has a working group for identifying and assessing occupational risks in its structural units. Occupational risk assessment has several stages:

- › identification of the source and the direct hazard for workers;
- › analysis of the likelihood of risks and the severity of possible consequences using a statistical method;
- › determination of existing measures to reduce and mitigate the identified risks;
- › development of additional measures aimed at reducing risk levels;
- › residual risk assessment.

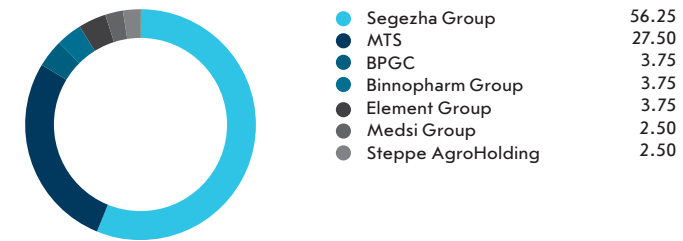
Results of Occupational Health and Safety Activities

In 2020, seven cases of occupational diseases were identified in Segezha Group, Medsi and Element Group.

GRI 403-10

Group companies reported 80 accidents in 2020, primarily at production assets, including two fatalities at BPGC. Each case was followed up by an internal investigation seeking to reveal their causes and prevent similar accidents in the future.

ACCIDENTS BY SISTEMA ASSETS, %



Occupational Health and Safety Training

GRI 403-5

All categories of employees at Group companies take occupational safety training courses designed to maintain and improve working conditions and to ensure employee health and safety.

In 2020, 6,040 employees of Segezha Group completed training in occupational safety, up 52% year-on-year. Sokol Woodworking Plant purchased a simulator for training in methods of first aid and cardiopulmonary resuscitation.

In 2020, 34,402 people, including 17,816 employees, completed OHS training at MTS. The company uses various training systems for internal training on occupational health and safety, including "Colossus" and the distance learning system of MTS Virtual Academy. The company also provides training on first aid to persons injured at production facilities before arrival of rescue services.

All Etalon Group managers responsible for safe working practices are trained and tested at least once every 3 years. Training is carried out both within the company and at third-party educational organisations. All employees whose activities are associated with permanent or periodic presence at construction sites are required to undergo basic safety training and pass certification tests. In 2020, training courses on occupational and industrial safety totalled 8,918 hours and were attended by 225 employees.

Employee Protection Measures Taken in Response to COVID-19 Pandemic

GRI 403-6

In 2020, Sistema Group took a number of measures to prevent the spread of COVID-19 among employees and ensure uninterrupted production activities of its portfolio assets. The measures include:

- › Transfer of some employees to remote work; provision of paid days off;
- › Distribution of information materials on the danger of the coronavirus (posters and instructions);
- › Meetings via video conferencing; cancellation of mass gatherings;
- › Contactless thermometry and free personal protective equipment for employees at workplaces;
- › Regular disinfection of premises and vehicles, including air disinfection;
- › Social distancing and hand sanitisers;
- › Doctor consultations at company offices, including preliminary and periodic health examinations;
- › Hotlines for employees;
- › Employee health insurance plans providing for payments in case of COVID-19;
- › COVID-19 and antibody tests for employees;
- › Vaccination of employees.

In addition, Group companies are developing tech solutions to prevent the spread of COVID-19 among a wide range of stakeholders.

Sitronics Group started testing a contactless body temperature monitoring system. It includes a hybrid thermal imager, a video camera, a reference heat source for calibration and a PC with software for real-time data processing, storage and management. The system has a throughput of 30 persons per minute and delivers an accuracy rate of 97%. If a person has a body temperature above the set threshold, the thermal imager instantly triggers an acoustic and visual alarm.

In 2020, the Indian startup Rebel Foods (Sistema Asia Fund's portfolio company) deployed Wobot, an AI-based solution for real-time hygiene and safety monitoring. When connected to a CCTV camera, the solution can effectively monitor hand washing time, personal protective equipment and social distancing compliance. Notifications can be sent via Wobot app, WhatsApp or email. An AI-based health and fitness app HealthifyMe (yet another portfolio company of Sistema Asia Fund) launched a slew of initiatives to help people improve their immune system and adopt a healthy lifestyle during lockdown. The startup launched Immunity Assessment Tests which can be taken by anyone free of cost. Those who score low also receive a free consultation by a trained coach. The app also offers home workouts and trackers for nutrition, sleep, hand washing and other parameters.

Health and Safety of Stakeholders

Ensuring consumer safety and promoting healthy lifestyles among customers, local communities and other stakeholders are important activities for Sistema Group companies. Business across the portfolio come up with technology and project solutions working towards the health and safety of all stakeholders.

At the beginning of 2020, MTS provided SIM cards for portable cardiographs of the Altay region's ambulance service as part of the national project Healthcare. When visiting patients with cardiovascular diseases, ambulance doctors can make a cardiogram on the spot and, using IoT technology, transmit data about the patient's condition to a cardiological centre where specialists can make a diagnosis within a few minutes and decide where to take the patient. The company purchased 250 ECG machines under this project. Using data transmission in the MTS network increases the accessibility of ECG, while instant diagnostics makes it possible to provide care as soon as possible to patients who are far from hospitals.

In May 2020, during lockdown, MTS provided free access for all medical institutions to its mobile app MTS 120/80 for three months, which is intended for monitoring the condition of patients with arterial hypertension and other cardiovascular diseases.

For more details on Sistema Group's security measures related to the COVID-19 pandemic, see COVID-19 Relief in 2020.

Meds Group and Bioniq Health-Tech Solutions specialising in biohacking launched Bioniq, a digital personalised platform for monitoring and improving people's health. It combines a system for AI-based monitoring of personal medical indicators, consultative support from expert doctors, development and adjustment of a healthy lifestyle programme, and other personalised solutions, including diet plans and recommendations on physical activity.

Meds also held a project on rehabilitation and training in social skills for children with disabilities aged 5 to 17 years in its Rehabilitation Centre in 2020. The three-week rehabilitation courses included a set of physical therapy procedures, individual therapeutic exercises, robotic mechanotherapy and other rehabilitation measures. As part of the project, 45 children with cerebral palsy and other motor disorders completed these comprehensive rehabilitation courses.

In 2020, BPGC had an annual information campaign on prevention of electrical injuries in children, publishing materials in local media about the hazards of electricity in case of violation of electrical safety rules. New channels of information were also used to expand the audience. For instance, Ishimbay Power Grids and LLC Bashkirenergo posted electrical safety rules on the social networks VKontakte and Odnoklassniki. Information was also posted on the websites of municipal administrations and on bulletin boards in rural settlements. Active information campaigns on prevention of electrical injuries help raise electrical safety awareness and minimise cases of unauthorised access to dangerous transformer substations and switchgears.

Development of Search-and-Rescue Technology

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

In 2018–2019, SCF held the Odyssey technology competition aimed at creating a solution for finding and rescuing people lost in natural environment. The project brought together more than 1,000 scientists, entrepreneurs, students, engineers and developers. Applications were submitted by 130 engineering teams from 42 cities of Russia; 19 teams developed working prototypes and were admitted to the first qualification tests. In 2019, the Odyssey project won the communications award Silver Archer in the Corporate Social Responsibility category and was included in the best technology initiatives presented to the President of Russia.

In 2020, SCF and MTS selected some teams from the Odyssey project to participate in the semifinals of Social Idea, an international competition for digital solutions for a common future. By the decision of the jury, these teams will receive mentoring support from MTS experts and an additional opportunity to bring their projects to life. For two months, participants will undergo online training and work with mentors to increase the investment appeal of their projects. The winning teams with the most elaborate and relevant projects will have the opportunity to pilot them in MTS Accelerator.

Also in 2020, Sistema Charitable Foundation and the Missing People Search Centre provided a new all-terrain vehicle Lesnik for Liza Alert, a volunteer search and rescue team. The vehicle is equipped with a place for victims who have to lie down, can move on public roads, is able to float on the water and can move where no SUV will pass.

Confidentiality and Personal Data Protection

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

Among Sistema's essential priorities is the protection of privacy and personal data of its employees, consumers, partners, and vendors. This is especially relevant in light of the recent digitalisation trend prevalent all across the Group. The Corporation strives to ensure the continuity and security of Sistema Group's business processes through protection measures in the area of information and cyber security.

In the course of their activities, portfolio companies accumulate large sets of personal data of various stakeholders that can be leveraged to customise services and products. Every business makes sure to apply latest solutions to protect such data from unauthorised and accidental access, while also perfecting approaches to data management and enhancing the culture of handling personal information.

Mandatory data protection measures employed across the Group are:

- › Approving corporate regulations on the processing and protection of personal data;
- › Monitoring data processing and protection measures for compliance with Russian laws;
- › Registering and keeping track of all personal data processing operations;
- › Ensuring that employees are familiar with relevant laws, including precise personal data protection requirements;
- › Detecting threats to personal data security when processing them in information systems;
- › Detecting and promptly responding to unauthorised access to any personal data whatsoever.

In addition to internal requirements, companies across the Group join various outside initiatives promoting confidentiality and personal data protection. MTS was among Russia's first businesses to join the national Code of Data Ethics, conceived as a framework for data market participants to rely on when interacting with individuals, other organisations, governmental agencies, and each other. The code was devised by the Internet Development Institute and the Big Data Association and sets out basic ethical principles to go by when gathering, processing, and storing personal data and controlling access to it.

GRI 418-1

Any complaints about privacy breaches and loss of personal data can be made via the Corporation's centralised hotline or appropriate communication channels of its asset companies. There were no such personal data leaks identified in 2020.

Data Protection Solutions Applied across the Group

Sistema Group companies run their own data protection programmes along with specific solutions aiming to manage related risks.

As a host of the cloud storage service #CloudMTS, the telecom operator MTS has implemented a special project to protect data on government-run information systems that constitutes official, financial, or tax secret, as well as the personal data of individuals. The solution is aligned with the requirements of Russian law and enables optimising the IT infrastructure costs of storing and processing restricted data.

Russia's mobile operators have partnered with financial institutions to design an anti-fraud system that would block off phone calls from offenders purporting to represent banks and official authorities (an extremely popular scam in Russia). The partners will spend two years developing and testing the solution within a "regulatory sandbox" framework, with MTS an active participant of several sub-projects, including Voice AntiFraud.

Ozon launched a programme of money rewards for users who can detect any errors and vulnerabilities in the online platform. The public bug bounty programme is available on the HackerOne vulnerability coordination platform for users from Russia and anywhere in the world. The size of rewards to be paid for each identified "bug" will depend on the degree of its impact on the website's operation, the potential damage that such vulnerability may cause, and other factors.

The healthcare operator Medsi also has a system of measures in place to prevent data leaks, a risk that became doubly acute in light of the 2020 shelter-in-place order. All data operations are done through a protected VPN channel, with users having varying access rights according to the scope of their duties and having each and every action recorded through a remote access control system.

VisionLabs (an investment asset of Sistema VC) developed a remote biometric identification solution for the National Bank of Kazakhstan. The new face-recognition technology enables a raft of remote bank services, from opening bank accounts to issuing credit cards to lending.

Protection of Critical Information Infrastructure

Sistema and its Group companies take effort to ensure the security of critical information infrastructure (CII) facilities. CII facilities include information systems, data & telecommunication networks, and industrial control systems used by government bodies or organisations operating in certain industries.

Among the many industries Sistema Group is represented in, the following are officially designated as subject to CII facility requirements:

- › Healthcare;
- › Science;
- › Communications;
- › Energy industry;
- › Banking and other financial services;
- › Chemical industry.

[Federal Law On Security of Critical Information Infrastructure: http://publication.pravo.gov.ru/Document/View/0001201707260023](http://publication.pravo.gov.ru/Document/View/0001201707260023)

CII facilities are particularly vulnerable to cyberattacks, which is why the companies concerned are required to:

- › Immediately inform authorities about any cybersecurity incidents;
- › Assist the Federal Security Service in detecting, preventing and responding to computer attacks, as well as in investigating their causes and circumstances;
- › Ensure appropriate technical conditions for the installation, operation, and safety of the components of the State System for Detection, Prevention, and Elimination of the Consequences of Computer Attacks on Information Resources.

Sistema's power grid arm in Bashkortostan, BPGC, has a large-scale CII protection programme in place that spans the period of 2019–2022. In 2020 specifically, the company accomplished the following:

Establishment of the CII security system:

- › Created simulation models of threats to the main CII facilities;
- › Made a draft design of the CII security system;
- › Tested industrial tools for intrusion detection.

Implementation of the security systems for the CII and for the information network generally:

- › Upgraded the cryptographic security system;
- › Refurbished the vulnerability detection system and formulated regulations for the elimination of vulnerabilities;
- › Upgraded the security event processing system and formulated regulations for responding to information security incidents.

These steps facilitated:

- › Improvements in BPGC's information security;
- › Partial mitigation of information security risks;
- › Automation of information security processes;
- › Compliance with particular requirements of Federal Law No. 187 On Security of Critical Information Infrastructure.

BPGC has been carrying out the project in reliance on the advanced expertise of companies from across Sistema Group. This includes collaboration with NVision Group as an integrator of digital security solutions.

The project is intended to reduce information security risks and increase protection so as to meet Russian and global standards. It also aims for security of operations in the corporate information system and mitigation of cyberthreats to reliable and high-quality power supply.

In 2021–2022, BPGC plans to continue further development of CII security system and, in particular, to:

- › Obtain licences required for the implementation of next information security steps;
- › Roll out an automated identity and access management system;
- › Roll out an automated information security management system;
- › Implement barriers to unauthorised access;
- › Upgrade firewalls;
- › Upgrade the data backup system;
- › Perform a granular segmentation of the corporate data network;
- › Make CII facilities a corporate information subsystem.

Accessibility and Quality



Customers of Sistema Group companies

150 m+
people

Group companies operate

15+
industries

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 Sistema Group Companies GRI 103-3

Forbes

Etalon Group was ranked 6th in the Forbes rating of top 20 real estate developers.

Medsi topped the Forbes ranking of Russia's 20 largest medical companies.

КОМПАНИЯ®

Topped the rating of the top 10 anti-crisis companies of the year compiled by the Kompaniya publication.

Binnopharm Group came in 8th in the rating of the top 10 anti-crisis companies of the year compiled by the Kompaniya publication.

Brand Finance®

According to the Brand Finance global rating, MTS was ranked 8th among the most expensive Russian brands and scored AAA+ in the Brand Strength category.



9th place among best Russian corporate brands of the independent Best Brands award (Forbes).



Winner of the Best Corporate B2B Customer Experience category of CX World Awards 2021.

TELECOM DAILY

MGTS, a subsidiary of MTS, was named Moscow's internet provider with the highest connection speed, according to TelecomDaily.



MTS Music for Android was named the best music streaming app for available functions by Roskachestvo (the quality monitoring non-profit of the Industry and Commerce Ministry). The app also successfully passed tests for compliance with information security requirements.



The Botanica apartment complex was named among the top 3 apartment complexes in the new construction competition Top ZhK 2021.

The Nagatino i-Land residential island came in 2nd in the Best Residential Complex in Moscow category.

The Letny Sad apartment complex came in 3rd in the Affordable Housing in Old Moscow category.



Etalon Group was named Developer of the Year by the annual residential housing award RREF AWARDS.



Etalon Group made it to the top 10 Russian real estate developers by housing commissioning volumes in 2020 in the Single Developers' Database rating.



Lesosibirsk Woodworking Plant No 1 (one of Segezha Group's timber arms) won the Exporter of the Year national award.



Medsi topped the ranking of the 200 largest privately owned multi-profile clinics in Russia according to the analytical centre Vademecum.

Коммерсантъ®

Medsi's dental clinics were among the top 100 Russian dental chains according to Kommersant.



The SmartMed app (a joint project of MTS and Medsi) was declared one of the best telemedicine applications by Roskachestvo and the National Quality Assurance Institute.



Steppe AgroHolding came in 14th in the annual RBC rating of Russia's 50 fastest-growing companies.

Was the most active buyer of land during the year, according to BEFL.



Ozon (Orientir Sever-1) won the Best Warehouse Facility category of Arendator Awards 2020.

ЭНЕРГОНЬЮС

LLC Bashkirenergo was ranked 6th by EnergoNews Media in its rating of power grid connection service quality.

Won third prize in the Most Transparent Power Grid Company category of the 10th competition Russia's Best Power Grids.



Sibay Power Grids of LLC Bashkirenergo was named the Best Company of 2020 in the town of Sibay, winning the Stability of the Year prize.



Mikron Group was among nominees for the Priority 2.0 award – a national award in the area of efficient use of advanced technology.

Access to Products, Services and Information GRI 103-1, GRI 103-2

For Sistema Group companies, many of which operate in the mass market, customers and consumers are crucial stakeholders. Sistema Group companies strive to enhance the accessibility and quality of goods and services and to ensure the availability of information about them for customers and consumers. This is broadly enabled by digital and disruptive technology, new production sites, and support infrastructure.

Development of Digital Services

Online and digital services became especially important during the pandemic.

During lockdown in April 2020, MTS and Medsi offered Russians urgent online consultations from GPs and paediatricians free of charge and without limitations via the SmartMed telemedicine service. At the beginning of the pandemic, the app also had a COVID control service with free consultations on the coronavirus.

Cosmos Hotel Group launched a food delivery service, Cosmos Eda, becoming the first hotel operator in Russia to do so. The service is available in more than half of Cosmos Hotel Group's city hotels in Russia. In the first month of operation, the average number of orders via Cosmos Eda at the group's hotels was over 300. The share of Cosmos Eda in the revenue of the chain's restaurant division is expected to reach at least 15% by 2021.

In September 2020, Ozon launched live streams in its app with the participation of presenters, experts, brand representatives and marketplace sellers, which are dedicated to both individual products and entire product categories. During the streams, Ozon users can ask questions and purchase goods at a discount. Live streaming is an additional sales management tool for Ozon sellers.

In 2020, Etalon Group launched an online real estate store with properties of the group's Moscow Territorial Division. Customers can book a property, sign a shared construction participation agreement or a sale and purchase agreement, and pay an invoice online. Documents and personal data of customers can be sent using a dedicated website instead of e-mail or instant messaging services, which ensures the security of a transaction.

In the first month of operation, the average number of orders via Cosmos Eda at the group's hotels was

over **300**

The share of Cosmos Eda in the revenue of the chain's restaurant division is expected to reach at least

15%

Rusnano Sistema VC fund and the Internet Initiatives Development Fund decided to invest RUB 110m in the Russian start-up named Texel. The company is developing a computer vision technology for fashion retail, which allows customers to try on clothes online and sellers to increase the number of customers and reduce costs associated with clothes returns. The technology solves the problem of different size charts used by clothing manufacturers and errors in measurements with a sewing tape. A new funding round sponsored by Rusnano Sistema will enable Texel to scale sales of its virtual fitting room software and subsequently raise investments from global players. According to Rusnano Sistema estimates, the size of this market will exceed USD 7.5bn by 2025.

In December 2020, MTS held the world's first interactive online music festival in extended reality, MTS Live XR. The combination of virtual and real aspects created a feeling of complete immersion for the viewer. The festival also provided interaction between artists and viewers. A virtual studio was built especially for the festival in Moscow; unique virtual locations were created for each artist; interactive mechanics were introduced for viewers who were able to control special effects, make comments and ask questions during the show. The festival was watched by over 14 million people. MTS Live XR significantly outperformed MTS Live Youth Rap – MTS Live's previous most popular festival – in terms of views, likes, comments and audience engagement. A total of more than twenty musicians and bands performed at MTS platforms in 2020 and generated over 60 million views. In 2021, MTS also plans to hold several online concerts and continue testing new formats.

For the first time in Russia, MTS, together with the National Research University Higher School of Economics (HSE), launched a project to organise online broadcasts from classrooms, including in VR format. 150 HSE classrooms were equipped for conducting classes with online viewers. Six of them are equipped with 360-degree panoramic video cameras and a video camera with an auto-tracking function.

More than twenty musicians and bands performed at MTS platforms in 2020 and generated

60 m+ views

Local Access

One of the development areas for Sistema Group is the expansion of the geographical accessibility of goods and services for customers. Group companies regularly invest in new production facilities and expansion of retail chains, which contributes to the development of regions of operations and the enhancement of living standards there.

In 2021, Segezha Group launched a new paper packaging plant with a capacity of over 140 million units per year. The new production site is focused primarily on such segments as e-commerce, fashion & food retail, and pet supplies. It is also planned to produce paper packaging for fruits and vegetables, which will extend their shelf life. Paper packaging is a high-potential area for development, as it is environmentally friendly and easy to recycle. The launch of production in the Moscow region allows the company to be closer to its end consumers and ensures a high level of service and optimal prices.

In 2020, Binnopharm Group centralised its logistics flows through the warehousing complex Severnoye Domodedovo in the Moscow region, which significantly speeds up order processing and shortens the time of medicines delivery to all regions of Russia. Storage and fulfilment services for Binnopharm Group will be provided by one of the leading pharmaceutical logistics operators in the Russian market.

In 2020, Ozon began to offer its partners who open pick-up points under a franchise model to acquire its own existing pick-up points. A single pick-point station costs RUB 800,000 to RUB 1m taking into account the assignment of leasehold rights, the transfer of equipment and the employment of staff. Buying existing pick-points allows entrepreneurs to quickly grow their business without wasting time searching for new locations and renovating the premises.

Affordability

One of Sistema Group’s focus areas is support to small and medium-sized enterprises (SMEs). Group companies help SMEs reduce their costs, thereby restraining the growth of prices for their products. In particular, Sistema Group companies participate in projects aimed at helping SMEs with administrative tasks. Thanks to such projects, entrepreneurs can save time and money, focusing on business development and innovations.

In 2020, Ozon, together with Otkritie Bank, launched an online express lending service for SMEs. Ozon sellers can get an express loan from Otkritie Bank: up to RUB 10m with an interest rate of 9.5% per annum for a period of up to two years. The loans will be secured with sellers’ goods in Ozon warehouses.

In the summer of 2020, MTS launched a project that allows SMEs to create legal documents using ready-made templates. The AI-based service is available on the MTS Your Business platform. It automates the process of document life cycle management.

In the autumn of 2020, MTS also launched a new cloud accounting service for SMEs. This became possible after the integration of MTS Cash Register with the cloud accounting platform My Business. This cloud service automates document management and can replace an accountant or even an entire back office with accounting, business assistants, HR managers and lawyers.

Customer Experience

GRI 103-1, GRI 103-2

Strengthening customer confidence is one of the main priorities of Sistema Group companies. Group companies are focused on ensuring the high quality of goods and services. In addition, they strive to develop customer care and a create positive customer experience. The effectiveness of these efforts is reflected in the high level of loyalty to Group companies. Group companies analyse the behaviour, preferences and lifestyles of their customers to introduce new ways of providing services, including via digital technologies.

Ozon launched a regular delivery service – delivery of goods according to a custom schedule. It provides new opportunities for organising purchases, saves time and eliminates situations when a desired product is out of stock. Suppliers can increase the frequency of sales and more efficiently calculate stock balances.

Improving the Quality of Customer Service

Consumer loyalty level of Sistema Group companies in 2020:

- › Cosmos Hotel Group: 8.8 rating of hotels under own brand
- › Segezha Group: an NPS of 52
- › Etalon Group: NPS of 60-70 in sales-related parts of customer journey
- › Medsi Group: brand awareness of 84.2%, demand for telemedicine consultations tripled in 2020
- › MTS: No 2 among the world’s telecom brands in the Brand Strength Index (BSI) by Brand Finance (MTS is the only Russian telecom brand in the list)
- › BPGC: the number of applications for the provision of services in 2020 increased by 15% year-on-year, while the number of complaints decreased by 11%
- › Ozon: brand awareness of more than 70%, No 1 in Russian e-commerce in terms of brand awareness according to BBDO Brand Science

In 2020, Ozon launched the feature of tips to couriers and pick-up points staff. It is available on the Ozon app for two weeks after the order has been delivered. Giving customers the opportunity to thank employees will further motivate the latter to provide quality service.

Also in 2020, Ozon offered its customers a new service for the installation of household appliances from the YouDo service providers. The service allows customers registered on Ozon to order the installation of 12 categories of household appliances, including air conditioners, extractor hoods and water heaters. Buying appliances on Ozon is not required to use this service – it is enough to have an account on the platform. As YouDo works with self-employed people who enjoy a reduced tax rate, prices for a number of services can be significantly lower than the market average.

In 2020, MTS launched the sixth recruitment of the MTS StartUp Hub acceleration programme. One of the programme’s tracks is aimed at finding telemedicine, personalised medicine and customer service solutions for Medsi. Selected startups will have two months to adapt their solutions to the needs of the customer. The most successful participants will be able to launch a pilot project with Medsi. Other tracks are aimed at finding solutions in the areas of financial and banking technologies, insurance innovation and the Internet of things, as well as health monitoring services for the MTS eHealth business line. In three years, MTS StartUp Hub launched a total of 71 pilot projects, 26 of which started scaling.

The Cosmos Hotel managed by Cosmos Hotel Group launched a project to switch to electronic guest cards. An electronic guest card contains all the necessary data and a QR code, which can be scanned to check in, reducing the check-in time to two minutes. Serving guests as fast as possible and with maximum quality is one of the priority tasks for Cosmos Hotel Group.

LLC Bashkirenergo, having noticed frequent questions from consumers about new smart meters, issued a brochure on the topic. It contains answers to questions about the competence of territorial grid operators and consumers regarding installation and operation of electricity meters, the differences between smart meters and traditional meters, meter verification, methods of transmitting readings, and feedback to grid operators. It also lists phone numbers of the structural units of LLC Bashkirenergo in the towns and districts of Bashkortostan, which can be contacted with questions on electricity meters. The brochure is published on the websites of BPGC and LLC Bashkirenergo. LLC Bashkirenergo also plans to hand out this brochure to consumers when installing new smart electricity meters.

In three years, MTS StartUp Hub launched a total of

71 pilot projects

26 of which started scaling

Customer Experience

Etalon Group launched a mobile app My Etalon Home, which provides clients with support at all stages, from searching for properties to after-sales service. It is planned to update the app in the future, so that customers can accept properties online or order additional services: from installation of bathroom equipment to window washing and dry cleaning.

In the reporting year, Etalon Group, together with its partners, launched Generation Zil, a media platform for information and education. The project demonstrates a new modern approach to creating an urban environment. Moscow residents can discuss the future of the ZIL-Yug territory with the Russian and international expert community in real time. Generation Zil's public programme for 2020 included a series of panel discussions on the key topics for the development of the new district: master planning, approaches to the improvement of urban areas, construction materials and technologies, and digitalisation of the urban environment.

In 2020, Medsi's CDC Krasnaya Presnya launched a Medsi Premium department offering customers a fundamentally new approach to health consciousness in the framework of "pro-health philosophy" that is gaining popularity in the global market of medical services.

This approach includes 1) identifying predispositions to certain diseases and reducing the risk of their occurrence; 2) a systematic approach to prevention and treatment based on the analysis of a number of factors, including clinical, genetic and environmental ones; 3) creation of a long-term forecast and recommendations; 4) high level of patient engagement in the treatment process.

VisionLabs (Sistema_VC's portfolio company), together with Flash, a chain of automated self-service filling stations, launched a contactless payment system FlashID in Rostov-on-Don. After adding a new feature in the Flash Pay app, the user just needs to look into the camera of the payment kiosk to refuel their car. The solution uses the Liveness technology developed by VisionLabs, which protects the transmitted data from intruders. The contactless payment system significantly reduces service time, which contributes to improving customer experience.

Product Stewardship

GRI 416-1

Sistema's reputation is directly related to responsibility for the products and services of Group companies. Therefore, the Corporation, guided by the principles of environmental friendliness and safety, pays special attention to the quality of products and services. In particular, Sistema's portfolio companies label their goods, obtain certification for the materials they use and the services they provide, and implement modern quality assurance tools throughout the entire product life cycle.

Certification

In 2020, Medsi's CDC Krasnaya Presnya was accredited by the international not-for-profit organisation Joint Commission International (JCI), becoming Russia's fifth health facility to receive a JCI certificate and Medsi's first asset to organise operations in line with international standards. The JCI certification is one of the most universally recognised and prestigious symbols of quality in healthcare. It testifies to a high level of maturity and culture of medical organisations. The accreditation covers a set of parameters related to patient safety, customer needs, the quality of diagnostic and therapeutic services, professional skills, observance of the rights of patients and their families, the safety of buildings, and information security.

Medsi's certification process was focused on the clinic's compliance with JCI's six international patient safety goals, which are not yet addressed in Russia. They include such important and problematic areas in patient care as patient identification, effective communication, safety of high-alert medications, hand hygiene, prevention of healthcare-associated infections, safe surgery and reducing the risk of patient harm resulting from falls. Medsi's CDC Krasnaya Presnya:

- › Ensured an 'accessible environment' in the hospital wards;
- › Renovated the operating room for dental surgery;
- › Provided training in cardiopulmonary resuscitation (CPR);
- › Trained staff in accordance with JCI standards, etc.

Segezha Group is guided by the requirements of Russian and international certificates throughout the entire product chain. Segezha Group complies with the principles of responsible forest management, including certification with the Forest Stewardship Council® (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). In 2020, 83% of the company's leased forest land was FSC-certified. As part of the annual audit, all of Segezha Group's certified enterprises confirmed their compliance with the requirements of FSC standards. Two PEFC-certified enterprises of Segezha Group also successfully passed the audit.

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 537,9 t, which is 5% lower than in 2018. At the same time, about 15% of all consumed paper comes from responsible sources certified by FSC.

PAPER CONSUMPTION, thsd t

2020	2019	2018
537.9	565.8	589



Patient identification



Effective communication



Safety of medications

INTERNATIONAL PATIENT SAFETY OBJECTIVES ADOPTED



Hand hygiene



Prevention of falls



Safe surgery

Smart Environment



RUB **178.5** m spent on information technologies

RUB **732** m spent on environmental protection

0.56 m t greenhouse gas emissions

62.65 GJ/RUB m energy consumed per RUB m of consolidated revenue

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 Sistema and Group Companies GRI 103-3



Sistema ranked among top 15 globally and top 7 among 29 Russian companies that voluntarily disclosed their climate data via CDP, the leading international carbon accounting platform, getting a B score.

MTS became one of Russia's top 7 CDP-reporting companies.



MTS was commended by the Expert Council of Eco Best Award 2020 for implementation of social initiatives and introduction of efficient ecosystems.



Segezha Group's project of a pellet plant received a special prize of the FSC Green Project of 2020 award in the economy category.



The Sokol Woodworking Plant received a medal at the international exhibition Russian Forest 2020 for introduction of state-of-the-art innovative technologies of wooden houses construction.



Etalon's residential compound Galaxy received Urban Awards 2020 as the best comprehensive development project.



Etalon Group won first prize in the Housing category of the BIM Technologies 2019/20 competition.



LLC Bashkirenergo received category A in the ranking of fundamental (environmental and energy) efficiency compiled by the ERA environmental rating agency.

A representative of LLC Bashkirenergo won bronze in the national competition Russia's Best Environmental Safety Specialist 2020.



Geosplit (a portfolio company of Rusnano Sistema) won the Moscow's Innovator competition in the Leaders of Energy Innovation category.

Smart Homes, Cities and Industries

GRI 203-1

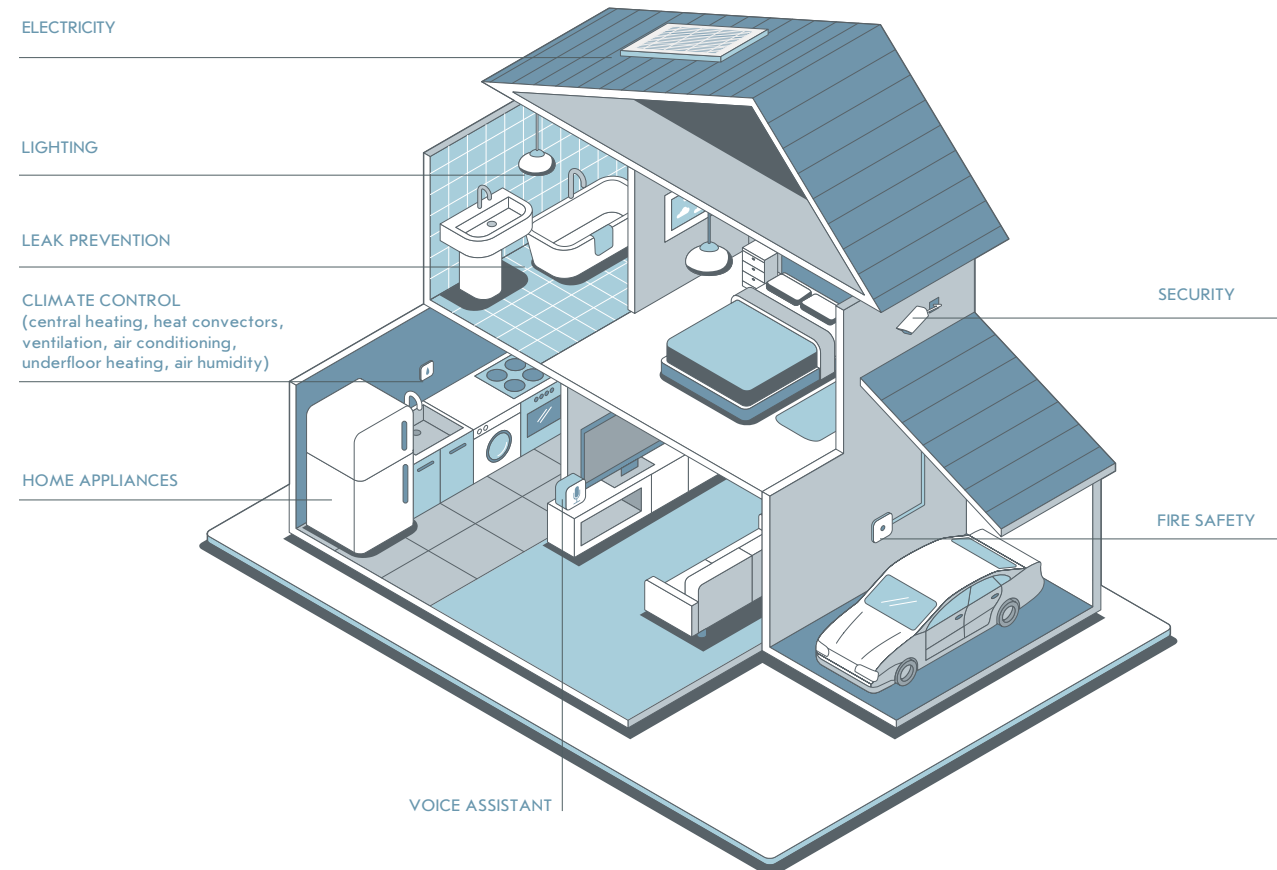
Sistema improves the quality of living by using cutting-edge digital technologies and creating a smart environment that makes life and city infrastructure more comfortable and manufacturing more efficient and eco-friendly.

Smart Homes and Cities

MTS as Russia's largest telecom operator and digital services provider contributes greatly to the development of digital technologies. In 2020, in order to intensify work with government agencies, MTS established a Department of State Programmes and Projects, which comprises the Smart City Centre, the Centre of Federal Programmes and some product divisions. The company focuses on the development of the urban environment in line with the smart home and smart city concepts.

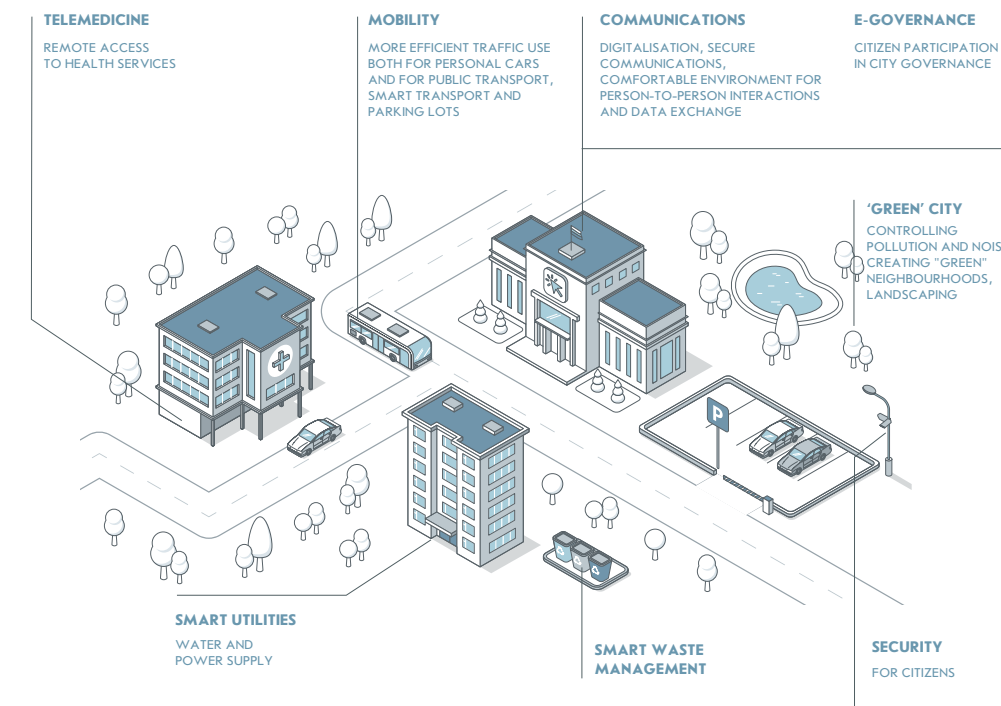
A **smart home** is an automation system that provides centralised control of specific functions (such as heating, lighting, ventilation etc.) in a home.

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. The system can draw curtains, switch on light in a selected room, regulate air temperature or turn on an energy-saving mode when the owner is not at home. This approach to home infrastructure management is conducive to lower consumption of utilities and resource conservation.



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.

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.



Partnership for Development of Intelligent Technologies

Sistema Group companies partner up with regions to implement digital technologies, which improve people's quality of living by increasing accessibility of services. Growing demand of regional governments for these technologies is reflected in the agreements they execute.

AGREEMENTS EXECUTED BY MTS

Government of the Kemerovo region - Kuzbass	Creating testing areas of the Smart City project in the region as part of the Digital Economy national programme, implementing projects to enhance security and quality of the urban environment, and launching programmes to make digital and financial services more accessible for the population. MTS is expected to invest over RUB 2 bn in Kuzbass's digital infrastructure before the end of 2022.
Kostroma region	A big data-based project has been prepared to generate geoanalytical reports and information about natural migration of the region's residents and tourists in order to unlock Kostroma's tourist potential. The agreement also envisages implementation of projects in other areas, such as introduction of a monitoring system for collection of municipal solid waste, with sensors controlling filling of waste containers, and monitoring of cattle health.
Rostov region	Development and implementation of regional projects to digitalise urban infrastructure and enhance security of the urban environment using smart video surveillance systems and wi-fi in public areas.
JSC Kaliningrad Region Development Corporation.	Launch of pilot testing of digital innovations in the region using the resources of MTS StarUp Hub.
Moscow Agency of Innovations	Joint pilot projects of innovative tech solutions in Moscow. As part of the agreement, startups that are residents of the MTS StartUp Hub corporate accelerator and the MTS 5G Centre will be able to test their developments on platforms provided by the city, which include industrial parks, universities, schools, museums, research centres, healthcare facilities and other sites ready to introduce new technologies. The parties also plan to select startups for pilot tests of solutions in such areas as Internet of Things (utilities, power generation, smart city, agriculture), financial services, media, retail and e-commerce, and also products using 5G.

The MTS 5G Centre is a platform for developing and testing digital solutions and devices working in 5G networks.

MTS StarUp Hub is an innovative site for development of technological projects; it comprises a corporate accelerator, the 5G Centre, the MTS VC fund, the fast pilot launch division and foreign offices.

Smart Homes and Cities

MTS is actively involved in the implementation of the federal Smart City programme for digitalisation of utilities and introduction of latest engineering solutions and in the Housing and Urban Environment national project.

In 2020, Russia's first 5G laboratory opened in Moscow, in the Smart City pavilion of VDNKh, with MTS acting as a partner and helping to obtain the necessary permits. The lab will search for and test various 5G-based urban services; the priority segments are transport, healthcare, security and education.

In 2020, MTS and the water service company of Mezhdurechensk, the Kemerovo region, installed industrial modems in the basements of residential apartment blocks for remote collection of data from metering devices. This made it possible to control sophisticated equipment in a real-time mode and notify employees about deviations in the meters' performance. The collected data also enables the service company to analyse and control consumption, thus reducing costs.

In 2020, MTS developed a single digital platform for 13 new apartment buildings in Abakan, the Republic of Khakassia. The platform based on the digital solution MTS VDome made it possible for residents to get important news from the management company and to pay bills online. It also allows calling service workers via the app: the management company will see where the needed employee is and send him/her over. Overall, the platform makes servicing of apartment buildings easier and communication between residents and the management company more efficient.

A set of digital solutions was developed for the Balchug Viewpoint apartment building in Moscow. MTS automated collection of data from water and electricity meters and billing of residents. Bills can be paid via the special MTS application developed for the apartment building. The same app can be used to order a pass, to answer the entry phone, to check street and parking surveillance cameras, to send a request to the management company and to manage devices in one's apartment.

MTS launched the MTS Entry Phone service in Yekaterinburg for residents of the Skazka

apartment block. The service enables residents to remotely open the door, to talk to visitors by video phone and check visitors using a mobile app. All calls and door openings are recorded in an event log with a photo of the visitor attached.

Also in 2020, MTS began providing a set of digital services to the Moya Ilyinka gated community in the Samara region. It includes a system for administering the community and a mobile application for residents, which enables them to get latest news and regular reports, pay bills and submit data from meters. The app has a chat with representatives of the Ilyinka service company, making it possible to resolve various issues remotely.

Safe City

Sitronics piloted a face recognition programme in the Murmansk region. It is based on computer vision created by VisionLabs (an investment of Sistema_VC). Using neural networks, the software analyses data from video surveillance cameras and recognises faces. The face recognition system is important for ensuring public security and helps to improve the efficiency of law-enforcement agencies, including the speed of solving cases. It can also be used to analyse crowd flows and to control the security situation in an individual municipality or in the region as a whole.

In Voronezh, MTS carried out a project to connect the information systems and terminals of the Peter I international airport to broadband internet. At present, this enables passengers to buy tickets, check in for their flights and check the timetable and airport employees to carry out their operations. The created infrastructure will be used to implement the Internet of Things, including indoor navigation¹ systems and automated screening of passengers and luggage.

MTS and the Solikamsk city administration, in cooperation with Uralkali, launched Russia's first Safe Digital Kindergarten comprehensive pilot project as part of the federal Smart City project. The set of innovative digital systems will ensure high-quality and prudent management of the kindergarten's infrastructure and safety of children and will also reduce utility bills by up to 30%. The project comprises a number of innovative solutions, including comprehensive security, control over utilities systems and over

¹ Indoor navigation - navigation and detection of objects (people or devices) within a building using radiowaves, magnetic fields, acoustic signals or other technologies.

compliance with sanitary requirements. A video surveillance system records movement of people and vehicles on the territory, determines their number and generates reports on visitors' age, gender and emotional state. A system for remote collection of data from electricity, cold water and heat meters allows controlling consumption and using the data for settlements with suppliers. A microclimate monitoring solution analyses the humidity and lighting inside, controlling compliance with parameters set for kindergartens. The package of digital solutions enables the employees to manage them online.

MTS launched a complex solution for retail in the Moscow region. It combines an anti-theft system with an information and advertising media panel with content managed via the MTS TVbit cloud platform. The new product consists of gates with integrated digital media panels to be installed at the exit from retail outlets and the MTS TVbit cloud system for content management. The solution can be integrated with a customer's internal IT systems - video surveillance, CRM and accounting software.

Digitalisation of Transport Systems

Introduction of new technologies helps to improve the quality of transport services and optimise logistic tasks within the Group's perimeter and beyond.

In 2020, Sitronics began development of a project for implementation of an intelligent automobile system in the Novosibirsk metropolitan area. The system will include subsystems managing traffic lights, smart transport stops, parking areas, video surveillance and other components.

VisionLabs released LUNA Cars, a new computer vision platform for car recognition. Going far beyond licence plate numbers, the system also identifies cars by brand, model, colour, type, and category. Additional functions of LUNA Cars include detection of the quality of images received from cameras. This reduces the workload of the processor, since recognition mechanism is not started for too light, dark or blurred images. LUNA Cars is intended for a broad spectrum of applications, including traffic monitoring and management, automated control at entrance to parking-meter zones and private parking lots, and marketing analytics at filling stations.

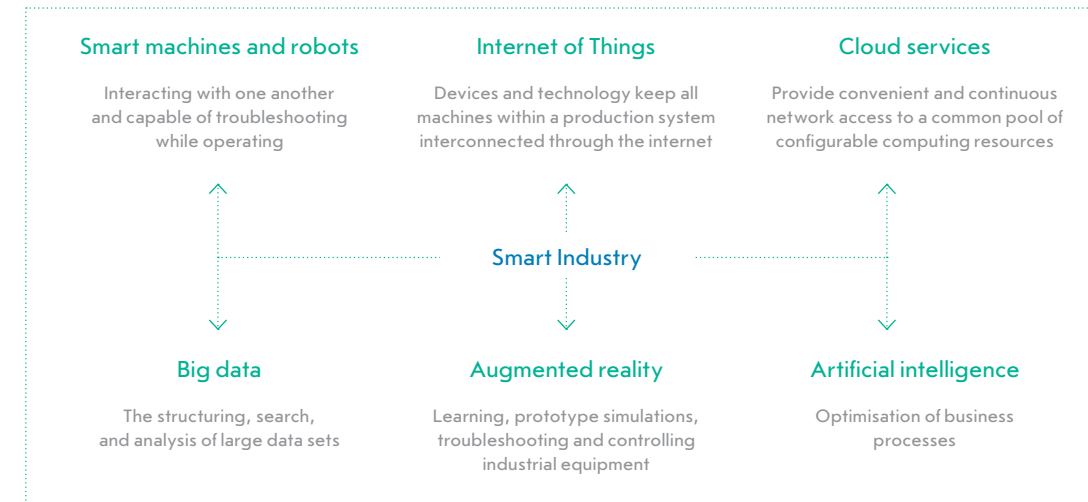
Developers of Element Group together with partners created an electronic device titled Autosmiler. It is mounted on the rear windshield of a car and transmits warning signs, such as "Disabled," "Baby on board," "Headlights", or "Caution: accident." The display is controlled through a mobile app. It is expected to reduce the frequency of mass road accidents in case of emergency stops in a situation of poor visibility.

MTS launched a shipment tracking service for industrial and trading companies that monitors the location of drivers and sends notifications of delivery time without GPS trackers installed in vehicles. The service optimises communications of sales managers, logistics managers, drivers, customers and suppliers, reducing the time needed to organise and track shipments.

Smart Industries

Smart manufacturing involves 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 manufacturing optimises 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.



MTS's B2B solutions for industry and business

No 1
5G-ready dedicated LTE network in Russia

+30%
users of IoT-based solutions

No 2
in Russia by revenue (CloudMTS)

+25%
of revenue from Digital and Cloud segments

Heavy Industry. Electronics. Power Generation

Sistema Group contributes to the development of domestic industry by carrying out innovative projects with enterprises from various industries, such as machine-building, oil, gold, chemical, electronic and other industries.

In 2020, MTS jointly with Gazprom Neft created Russia's first geo-distributed dedicated LTE line (Private LTE) for the oil industry with a single centre for managing digital services. The network connected the Palyanovskoye field in the Khanty-Mansi autonomous district, the Gladkoye fuel terminal in the Leningrad region and the industrial zone in Muravlenko in the Yamal-Nenets autonomous district. The sites have received voice communication services, video surveillance, telemetry, geo-referencing and an audio and visual assistant system with an AR¹ helmet to control engineering work.

MTS also developed a digital solution for oil and gas producing and refining companies that enables them to promptly notify the key employees and emergency services in case of an emergency. The innovative "panic button" is based on MTS's specialised software and fixed-line network. The system can connect several branches situated in different locations. Use of the digital alarm system allows notifying employees and rescue services almost ten times faster and totally rules out the human factor in communication of critical information.

In November 2020, MTS signed an agreement with Polymetal Group for construction of Russia's first commercial dedicated 5G-ready network for monitoring and controlling critical processes at the Nezhdaninskoye gold mine in the Republic of Sakha (Yakutia). As part of the project, MTS will deploy a wireless network for data transmission and processing that will optimise the operations and increase occupational safety amid the difficult weather conditions and varying mountainous terrain. The network will integrate an internal IP telephony line, mobile devices of employees, mining dispatch systems, positioning systems, and remote and automated control of transport and equipment.

In July 2020, MTS signed an agreement with a branch of the Kirovo-Chepetsk chemical plant for implementation of artificial intelligence, digital modelling and Internet of Things. In the course of cooperation, MTS's Industrial Automation Centre plans to perform a comprehensive audit of one of the plant's shops and offer a plan for enhancing the efficiency of production processes. Based on data analysis, the system will control the quality of raw materials in a real-time mode and give recommendations to process engineers, and a virtual assistant will suggest the optimal work mode based on the production needs,

external factors and specific characteristics of a particular unit.

MTS and LLC LUKoil Perm tested narrow band Internet of Things (NB IoT) at the Shagirtsko-Gozhanskoye field in the Kama area. The technology allows automatically measuring the functioning of wells and sending the data to corporate servers, and also managing all parameters of oil production. NB IoT ensures safe data transmission, high radio sensitivity, long service life and low cost of equipment. Users can connect tens of thousands of devices to the base station able to work up to ten years without recharging in areas where signal transmission is hindered.

In 2020, BPGC completed reconstruction of the electric grid system in Ufa using Smart Grid elements. As part of the project, which cost BPGC over RUB 4bn, the company organised remote control and monitoring of the system. The project also included installation of 75,000 electricity metering devices, implementation of an automated dispatch system for managing 6 kV grids and laying of 100 km of cables, which seriously optimised the network topology. These measures will reduce power supply interruptions in case of accidents, lower maintenance costs for equipment and network monitoring and will also decrease commercial electricity losses by up to 80%.

Timber Industry

In 2020, Segezha Group created a service for measuring the volume of logged wood using computer vision. The new system, based on video analytics and machine learning, reduces the time needed to assess the volume and quality of wood and makes the logging process more controllable. Machine learning models analyse the cargo and calculate its volume before shipment. Measuring can be done while logging trucks are on the road, without the need to stop them. Operators

can see the data on a monitor in an automated mode. The system adjusts for any weather conditions, recognises incorrect laying of stacks, has high speed of image processing and automatically identifies blurred images. Thus, it optimises the entire logistical process by reducing the impact of the human factor on assessment, decreasing the time of assessment and allowing giving up the services of contractors that used to accept wood in a manual mode. It also helps to develop objective metrics of wood quality for further analysis, lowering logistical costs.

In 2020, Segezha Group installed automated control over production at Segezha Pulp and Paper Mill. The 280 full HD video surveillance cameras cover all sections and divisions of the mill. Video surveillance cameras are especially valuable for the wood preparation shop, which has a significant area and many types of operations. The video recording system increases occupational safety and reduces the time needed to respond to any emergency. In addition to real-time monitoring of the mill, the system allows for analysing video archives, including for the purpose of training personnel. Intelligent video systems at the paper production shop of SPPM automatically identify defects in paper sheets, while intelligent systems at the mill's checkpoints record incoming and outgoing vehicles. Segezha plans to continue development of comprehensive video surveillance at the mill: at the final stage of the project, special fencing with lighting and high-precision cameras will be installed along the enterprise's perimeter to prevent accidents.

In the middle of 2020, Segezha Group completed pilot testing of the Smart Timber mobile app at the Segezha PPM. It is designed to measure solid volume and solid/stacked volume ratio of round timber. The application quickly and accurately measures wood loaded in a timber truck. In order to calculate solid volume, a user needs to open the app, take

a picture of the stack and enter the required parameters. The application increases the accuracy of measuring volumes of incoming wood and minimises the impact of the human factor in the assessment process.

At the end of 2020, Segezha PPM launched a pilot project of warehouse stock-taking using drones. Images of wood stacks were used to create a 3D model of Segezha PPM's warehouse, which allows calculating the geometric volume of wood fairly accurately. It takes a drone a few hours to cover the territory of the mill, which simplifies the process of wood stock-taking and accounting. A weekly shooting will make it possible to monitor changes in the warehouse as the system will identify stacks with a changed volume. It also allows preparing analytical reports and connecting video cameras and GPS devices from vehicles used to load and unload timber.

In 2021, Segezha Group started full-scale operation of Segezha Forest, an automated system for timber shipment accounting and control. The group's timber enterprise in the Vologda region, Kipelovo, fully transitioned to the new system. Segezha Forest makes it possible to monitor usage of and fuel consumption by logging machines and timber trucks in a real-time mode. In addition, automated workplaces were created at each checkpoint guarding exits from the forest to be used by controllers responsible for electronic document flows. These workplaces automatically calculate the total volume of timber and prepare documents, with all data being sent to the single dispatch centre. The new system significantly reduces the time needed to prepare documents. In addition to the Vologda region, the project is being rolled out at all of the company's logging branches in the Republic of Karelia and the Krasnoyarsk, Arkhangelsk and Kirov regions.

¹ AR — Augmented Reality.

Agriculture

Agriculture is one of the most promising segments in terms of introduction of smart technologies. Steppe AgroHolding has implemented Afifarm, an innovative system that allows monitoring all processes at the farms, including milking, feeding, the comfort and health of animals, and actions of the personnel. The system also monitors the livestock as a group, helping to identify a troubled animal and understand the problem. The unique system is able to identify troubled animals at very early stages. Timely information helps to improve the farm's efficiency by preserving breeding stock and herd reproduction and to increase the milk yield and quality.

In 2020, Steppe AgroHolding also introduced an intelligent analytical system based on the SAS Viya platform, which analyses data and helps to identify ways to cut losses, increase revenue, reduce operational expenses and raise the general efficiency of work processes. Notably, the system will be used in crop farming to resolve problems related to production planning, such as optimisation of the structure of crop areas, long-term planning of equipment procurement and short-term planning of agricultural work with rational distribution of resources in terms of time and crop areas.

In accordance with the cooperation agreement signed with the Kostroma region and with support from the region's agricultural sector, MTS launched a project of smart dairy farms, equipping them with a system for high-precision health monitoring of cattle. Sensors control motor activity of the livestock, body temperature and water intake. The data is collected by an analytical system that assesses the state of each animal, thus making it possible to increase the economic yield from it.

MTS launched a pilot digital project for dairy farm management at a farm in Belarus. The project is based on the internet of things and was developed together with a Chinese partner. Over 120 cows received smart collars with IoT sensors and special software for remote monitoring of their key health parameters. Data from the sensors is stored in the MTS Cloud and is available to the personnel on any device via a web browser.

Construction

Etalon Group uses digital innovations in construction projects and keeps upgrading its cutting-edge project management system that uses BIM models. Introduction of information modelling in construction is a priority task of the national project Housing and Urban Environment.

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.

In the midyear of 2020, Etalon Group commissioned the first building of the Silver Fountain housing development in north-east Moscow. It was the first commercial project to be constructed using BIM. BIM technologies will also be used for running the building, managing all stages of its life cycle in a digital format. Etalon Group was awarded a special certificate for the introduction and large-scale use of building information modelling during the construction of the Silver Fountain residential complex.

Operational Environmental Efficiency¹ GRI 103-1, GRI 103-2

As a responsible investor, Sistema understands the importance of global challenges and the scale of the environmental footprint of its portfolio companies and makes every effort to mitigate and manage such environmental externalities. The Corporation's primary responsibility is determining environmental management priorities within portfolio companies and monitoring their activities to evaluate their environmental footprints and manage related risks.

Sistema's approaches to environmental protection are set out in its Corporate Governance Code, Sustainability Policy, and the new Environmental Policy approved in 2021 that is binding on Sistema PJSFC and is recommended for Group companies as a template on which to model their respective internal regulations. The Corporation expects that the Group's suppliers, contractors and other business partners will also adhere to the high standards of environmental responsibility set out in the Environmental Policy. The company is also planning to update its Tender Procedures and Procurement Code to include ESG-related requirements in 2021.

Sistema Group sees the following as its main priorities in environmental protection:

- › Observing the right of employees, local residents and future generations to a healthy environment and respecting the natural and cultural heritage of communities where the Group operates;

- › Complying with local and international requirements, rules and obligations in the field of environmental protection, rational use of natural resources, and environmental and climate safety;
- › Reducing the impact and ensuring the environmental safety of operating processes, products and services of the Group Companies;
- › Continuously improving management practices and performance in the field of environmental protection;
- › Managing risks and opportunities associated with climate change, and assessing and reducing carbon footprint;
- › Developing stakeholder engagement and raising awareness of global and local environmental and climate challenges;
- › Maximising the Group's contribution to the achievement of the UN Sustainable Development Goals, national priorities for environmental development, and the creation of a healthy environment wherever Group companies operate.

Sistema's Environmental Policy is available for reading at the company's website https://sistema.com/upload/iblock/3a8/n6ceomgl3p88f4eyoqxr6boqm86ujbeb/Sistema_Environmental-Policy.pdf

¹ Data for 2019 is provided for MTS, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Business Nedvizhimost, Cosmos Hotel Group, BPGC, RTI, Sistema PJSFC, Sitronics, unless otherwise specified. Data for 2020 is provided for MTS, Segezha Group, Etalon Group, Medsi, Steppe AgroHolding, Binnopharm Group, BPGC, Cosmos Hotel Group, Sistema PJSFC, Element Group, Koncel, RZ Agro, unless otherwise specified.

ENVIRONMENTAL MANAGEMENT SYSTEM

ENVIRONMENTAL MANAGEMENT PRIORITIES	
CORPORATE CENTRE	GROUP COMPANIES
Strict compliance with environmental regulations	
<ul style="list-style-type: none"> › Corporate Governance Code › Sustainability Policy › Environmental Policy 	<ul style="list-style-type: none"> › Sustainability strategies › Environmental policies › Energy saving programmes
<ul style="list-style-type: none"> › Conveying commitment to environmental responsibility principles to Group companies › Promoting best practices of environmental responsibility among Group companies › Monitoring the performance of Group companies in the domain of environment protection and increasing environmental transparency 	<ul style="list-style-type: none"> › Managing environmental risks and impact › Introducing environmental responsibility and reporting standards › Enhancing efficiency (energy saving, resource saving, waste management, protection of air, water and land resources, biodiversity conservation) › Interacting with stakeholders on matters related to environment protection

Managing Environmental Impact across the Group

The Corporation guides its asset companies in implementing and enhancing their environmental management systems in light of their respective business scale and specific environmental risks characteristic of the industries they operate in. Group companies are working towards the implementation of environmental management systems according to ISO 14001:2015. Segezha Group, Etalon Group, and BPGC already hold ISO 14001:2015 certificates.

2020 witnessed the adoption of Segezha Group's long-term environmental security strategy for 2021–2025 aiming at decarbonisation and minimisation of human-induced environmental impact. The company is taking measures to attain compliance with the Paris Agreement on climate change, having allocated some RUB 1.3bn to the strategy's implementation in 2021. The funds will go towards reducing water and air pollution, upgrading production facilities to reduce waste, and migrating to the latest "green" tech solutions wherever possible.

2020 was also the year when Segezha Pulp and Paper Mill entered into an agreement with the local government to set up a Public Environmental Council to pursue a coordinated 'green' policy and enable cooperation between local authorities, residents and nonprofits. Segezha PPM's environmental programme is among the main projects the Council supervises.

The healthcare provider Medsi now has a permanent chief officer for environmental safety. The title was first instituted in 2021 within the company's Asset Operation Department. The property developer Etalon Group is currently devising an environmental policy of its own.

ENVIRONMENTAL IMPACT ACROSS THE GROUP, BY INDUSTRY

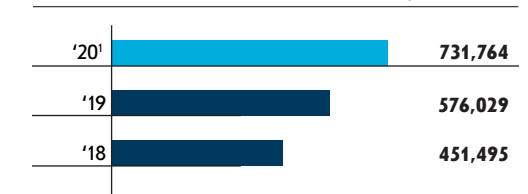
	ENERGY	WATER	BIODIVERSITY	EMISSIONS	EFFLUENTS AND WASTE
High tech	+				+
Hospitality	+	+			+
Timber & Paper	+	+	+	+	+
Healthcare	+	+			+
Microelectronics	+	+		+	+
Real Estate	+			+	+
Construction	+	+	+	+	+
Agriculture	+	+	+	+	+
Telecommunications	+			+	+
Pharmaceuticals	+	+		+	+
Funds & banks	+				
E-commerce	+			+	+
Power industry	+	+	+	+	+

Performance in Environmental Protection in 2020

UNCTAD A.3.1

Wherever they operate, Group companies take steps towards mitigating negative impacts on water and land resources and biodiversity. The entire Group's spending on environmental protection amounted to 731,764 RUB thsd, that is 27% more compared to 2019 due to an increase in expenses of the Segezha Group.

EXPENDITURES OF SISTEMA GROUP RELATED TO ENVIRONMENTAL PROTECTION, RUB thsd



GROUP EXPENDITURES RELATED TO ENVIRONMENTAL PROTECTION, %

	2020 ²	2019	2018
Air protection and climate change prevention	3.4	7.6	10.9
Wastewater collection and treatment	18.8	33.1	44.1
Waste management	12.3	30.0	24.7
Conservation of biodiversity and protection of natural habitats	0.01	9.7	12.7
Other segments	65.4 ³	19.6	7.6

¹ Net of BPGC, Cosmos Hotel Group (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
² Net of BPGC, Cosmos Hotel Group (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
³ Data for Segezha Group is shown without breakdown.

TOTAL ENVIRONMENTAL EXPENDITURES IN 2020 BY ASSET, %

Segezha Group	60.0
Binnopharm Group	19.4
Element Group	8.7
MEDSI	3.9
MTS	2.8
Other ¹	5.9

GRI 307-1 In 2020, 14 financial sanctions for breach of environmental legislation were imposed on Sistema's portfolio assets, totalling approx. RUB 1,486 thousand.

PENALTIES FOR NON-COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS IN 2020 BY ASSET

	AMOUNT, RUB thousand	%
Steppe AgroHolding	811	54.6
Sitronics Group	450	30.3
Business Nedvizhimost	165	11.1
Etalon Group	60	4.0
Total	1,486	100

Use of Water Resources²

GRI 303-1, GRI 303-2, GRI 303-5, UNCTAD B.1.3

Water is among the main resources consumed by every company of the Group, both for production and utility purposes. This makes rational water use a pressing need for every business without exception. The drawing and discharge of water from both surface and underground sources is always done in strict compliance with local laws and regulations. Sistema Group companies operate in geographies where water is in sufficient supply.

In 2020, the volume of water withdrawn by the Group's companies amounted to 84.7 million cubic metres, which is 9.4% less than the volume of water withdrawn in 2019. Most of the water so drawn was from natural sources and public water supply systems. The volume of water consumption³ within the Group amounted to 21.5 million cubic metre. Most of the water among the Group's companies is consumed by production assets.

¹ Other includes Etalon Group, Steppe AgroHolding, Sistema PJSFC, Koncel, PZ Agro.

² Data on use of water resources in 2018 was recalculated after adjustment of figures for individual companies of the Group.

³ The volume of water consumption may be calculated from the equation: $WC=x-y$, where WC = water consumption, x = water withdrawal and y = water discharge. Net of MTS, Medsi, BPGC, Cosmos Hotel Group (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).

WATER WITHDRAWAL BY SISTEMA GROUP COMPANIES BY SOURCE, thousand cubic metres
GRI 303-3

	2020 ⁴	2019	2018 ⁵
Water service companies	16,721.5	36,031	45,747
Natural sources	67,891	54,913	57,983
Other sources	97.5	2,550	3,511
Total	84,710	93,494	107,241

WATER CONSUMPTION IN 2020 BY COMPANY, %

Segezha Group	89.7
Steppe AgroHolding	3.9
Element Group	2.1
Binnopharm Group	1.5
Other ⁶	2.8

Water discharge by the Group's companies in 2020 totalled 61.4 million cubic metres, a decrease of 25% from 2019. Changes are related to the divestiture of some portfolio assets and the change in the calculation perimeter.

WATER DISCHARGE BY SISTEMA GROUP COMPANIES, thousand cubic metres
GRI 306-1, GRI 303-4

	2020 ⁷	2019 ⁸	2018 ⁹
Discharged for treatment	12,239	34,818	44,830
Treated	41,982	40,877	41,568
Discharged to water bodies untreated	7,163	6,272	6,616
Total	61,384	81,967	93,014

WATER DISCHARGE IN 2020 BY COMPANY, % **GRI 306-1**

Segezga Group	94.71
Element Group	2.86
Binnopharm Group	1.7
Other ¹⁰	0.73

⁴ Net of Medsi, BPGC, (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).

⁵ Data for 2018 includes MTS, Segezha Group, Etalon Group, Steppe AgroHolding, Binnopharm Group, BPGC, Business Nedvizhimost, Cosmos Hotel Group, Sistema PJSFC, Sitronics Group, EWUB, and RTI.

⁶ Other includes MTS, Etalon Group, Cosmos Hotel Group, Sistema PJSFC, Koncel, RZ Agro.

⁷ Net of MTS, Etalon Group, Medsi, BPGC, Cosmos Hotel Group (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).

⁸ Net of Etalon Group (in accordance with the consolidation perimeter for 2019, given at the beginning of the section).

⁹ Data for 2018 includes MTS, Segezha Group, Steppe AgroHolding, Cosmos Hotel Group, BPGC, RTI, Sistema PJSFC, Binnopharm, Sitronics Group, and EWUB.

¹⁰ Other includes Steppe AgroHolding, Sistema PJSFC, Koncel, RZ Agro.

Atmosphere Protection

Minimisation of air pollution is a priority for Sistema Group. In 2020, emissions of pollutants into the atmosphere totalled 20,859 tonnes, a decrease of 18% from 2019.

DISCHARGE OF NO_x, SO_x AND OTHER MATERIAL POLLUTANTS IN THE ATMOSPHERE BY SISTEMA GROUP COMPANIES, tonnes **GRI 305-7**

'20 ¹	20,859
'19 ²	25,453
'18 ³	25,549

DISCHARGE OF NO_x, SO_x AND OTHER MATERIAL POLLUTANTS IN THE ATMOSPHERE BY SISTEMA GROUP COMPANIES⁴

	2020 ⁵		2019 ⁶		2018	
	TONNES	%	TONNES	%	TONNES	%
NO _x	3,006	14.41	3,814.5	14.99	3,985.3	15.60
SO _x	2,191	10.5	2,047.2	8.04	3,131.5	12.26
Persistent organic pollutants	6.07	0.03	0.9	0.00	0.2	0.00
Volatile organic pollutants	298.4	1.43	441.1	1.73	377.9	1.48
Hazardous air pollutants	5,913	28.35	4,833.0	18.99	5,151.9	20.16
Particulate pollutants	8,503	40.77	10,792.5	42.40	9,544.5	37.36
Other standard categories of air pollutants according to regulations	941	4.51	3,524.2	13.85	3,357.9	13.14
Total	20,858	100	25,453.4	100	25,549.2	100

The agricultural and forestry assets are the largest emitters within Sistema Group. Steppe AgroHolding and Segezha Group take measures to reduce impact on the atmosphere and limit emissions of ozone-depleting, chemical and other substances. In 2020 specifically, Segezha Pulp & Paper Mill acquired ultra-fine electrical filters to install in its recovery boiler.

The solution will substantially cut the factory's emissions, with trapping efficiency up to 99.97%.

¹ Net of MTS, Etalon Group, BPGC, Sistema PJSFC (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
² Net of MTS, Etalon Group, Medsi, Business Nedvizhimost, Sistema PJSFC (in accordance with the consolidation perimeter for 2019, given at the beginning of the section). Данные 2018 год были пересчитаны с учетом уточнения данных по компаниям Группы.
³ Data for 2018 was recalculated after adjustment of figures for individual companies of the Group.
⁴ Data for 2018 was recalculated after adjustment of figures for individual companies of the Group.
⁵ Net of MTS, Etalon Group, BPGC, Sistema PJSFC (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
⁶ Net of MTS, Etalon Group, Medsi, Business Nedvizhimost, Sistema PJSFC (in accordance with the consolidation perimeter for 2019, given at the beginning of the section).

Industrial and Consumption Waste Management **UNCTAD B.2.3**

Sistema is responsible in waste management, always aiming for minimisation. All of the waste produced by Sistema and its portfolio companies is either low-hazard or non-hazardous to the environment. In 2020, 99.97% of waste across the Group was class 4 or 5 (non-hazardous). The total waste amount was 0.9 million tonnes.

TOTAL WASTE BY HAZARD CLASS, tonnes

TYPE OF WASTE	2020 ⁶	2019	2018
Hazardous, including:	69.2	174.0	349.5
Hazard class 1	10.6	124.8	36.2
Hazard class 2	58.6	49.2	313.3
Non-hazardous, including:	932,101.5	1,417,789.5	1,606,251.7
Hazard class 3	229.3	411.7	3,151.6
Hazard class 4	409,700.8	688,581.3	789,962.6
Hazard class 5	522,171.4	728,796.5	813,137.5
Total waste	932,170.7	1,417,963.5	1,606,601.2

Hazardous waste management and utilisation are invariably in compliance with applicable laws and regulations.

TOTAL WASTE OF SISTEMA GROUP BY DISPOSAL METHOD IN 2020⁸, % **GRI 306-2**

Landfill	0.8
Recovery, including energy recovery	11.04
Handed over to third parties	49.3
Disposal	0.06
Composting	0.3
Storage on premises	0
Other	38.5

WASTE GENERATED IN 2020 BY COMPANY, %

Segezha Group	94.06
RZ Agro	3.06
Steppe AgroHolding	0.8
Other ⁹	2.08

Segezha Group started a pilot project at Vyatka Plywood Mill where all waste is carefully sorted and then handed over to recyclers. Every production room of the factory has separate containers installed for solid waste, packing tape, cleaning cloth, and sorbing agents used to neutralise oil and dark oil spills. Along with waste sorting,

the company has put into place a system of sanitary-and-epidemiological measures to minimise the risk of COVID-19 transmission via waste. Before being handed over to a certified recycler, all solid waste and other recyclables are placed on a 3-day quarantine. Waste sorting and recycling enable reductions in solid-waste dumping sites and landfills.

⁷ Net of BPGC, Cosmos Hotel Group (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
⁸ Net of BPGC, Cosmos Hotel Group (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
⁹ Other includes MTS, Etalon Group, Medsi, Binnopharm Group, Sistema PJSFC, Element Group, Koncel.

Another waste-minimisation initiative at Vyatka Plywood Mill is a new waste briquetting line. RUF fuel briquettes are made from wood cuttings, free from toxic contaminants, and produce just a fraction of the amount of carbon dioxide emitted during gas and coal combustion. Before 2021, RUF briquettes were produced from fine birch dust only, with cuttings either burnt or sold to recyclers. Now that the new briquetting line is in operation, the factory is a proud zero-waste producer of plywood.

With the support of the Russian Ecological Society, MTS launched a nationwide programme for digitalisation of waste management. The solution allows local authorities to control the collection and disposal of municipal solid waste using digital services. While an interactive map shows all of the system's containers and sanitation trucks in real time, the platform tracks waste-bin fill-level and schedules pick-up routes for each vehicle. Performance is controlled via Glonass satellites and mobile apps, with drivers reporting the jobs done or reasons keeping them from picking up waste from a specific location. The system's first commercial applications were in Oryol, Sakhalin, and Perm.

The 2020 Sistema Fest organised by Sistema Charitable Foundation in the city of Kurgan in the Urals comprised a competition for "best social project". Among the winners is Waste Heap Conquerors, an initiative promoting awareness of types and classes of hazardous waste.

Electronic Waste
GRI 306-4

Among many communications made at the 2018 World Economic Forum in Davos was the Global E-Waste Report, an account of the world's fastest-growing waste stream, discarded electronic devices.¹ Sistema handles decommissioned electronics responsibly, by handing them over either to the original manufacturers or recyclers for best waste utilisation.

In 2020, MTS Moscow continued its campaign to collect used batteries, handing over 1,179 kg of waste to battery recyclers.

MTS is especially particular about the disposal of telecom devices. Most of the used equipment is returned to makers, with leftovers sold at scrap auctions or handed over to recyclers for the recovery of valuable components.

ELECTRONIC WASTE AT MTS

TYPE OF WASTE	HANDLING METHOD	2020	2019	2018
Used cartridges, pcs	Landfill	0	755	165
Computer equipment, pcs	Disposal	452	1,315	570
Batteries, kg	Disposal	1,179	1,927	874

Medsi has set itself the target of converting all lighting systems to LED only by 2023, making every facility free of glow, luminous and mercury vapour lamps.

¹ <http://ecopress.center/page4843325.html>

Biodiversity Preservation
GRI 304-3

Companies across the Group engage in nature conservation activities wherever they operate. Cognizant of the vital importance of biodiversity, Sistema companies invest in projects and initiatives to protect natural sites and habitats of endangered species, promote environmental consciousness among local residents, and develop sustainable tourism.

In 2020, Bashkirenergo (part of BPGC) carried on with its bird-proofing project aiming both to minimise the risks of bird kills and to make grids more fail-safe. In north-eastern Bashkortostan alone, the company replaced 75 transmission towers and 677 insulators and installed 37 bird diverters.

MTS partnered with the far-eastern national park Leopard Land to develop special CCTV recognition system to track the movements and activities of the endangered Amur leopards. The system automatically scans images for animals, saving conservationists the time and effort that once went into hand-processing 700-950K photos a year. The solution helps scientists track the rare cats and monitor their reproduction rates and any

changes in their population. The telco intends to further build on the software to adapt it to other animal species from the sanctuary, such as tigers, deer, bears, etc. Another solution in this vein is the stork-watching software designed for the Ryazan White Stork initiative, a non-profit project aimed at re-introduction of the once-native bird species into habitats in European Russia. The special 24/7 surveillance system records the life and tracks the movements of the endangered storks and automatically archives the footage so collected.

Yet another conservation project where MTS is involved is a highly sophisticated beehive monitoring system designed in conjunction with Saint Petersburg State University for Electrical Engineering. The system automatically signals hive falls, signs that bees are preparing to swarm, signs of illness, low temperature, or food shortage. The module installed on each beehive includes up to fifteen sensors that measure the hive's weight and interior temperature and humidity, while also recording sounds and bee movements. The firmware suite uses cellular technology to keep bee-farmers updated on what's going on in the colony in real time and enables prompt intervention in case of trouble.

Reforestation
GRI 304-1

The biggest timber operation in European Russia, Segezha Group is invested in establishing a forest management cycle that is both sustainable and economically sound. Part of the solution is an elaborate annual reforestation plan. Segezha Group was the first company in Karelia to implement intensive forest management practices, effective from 01 January 2021.

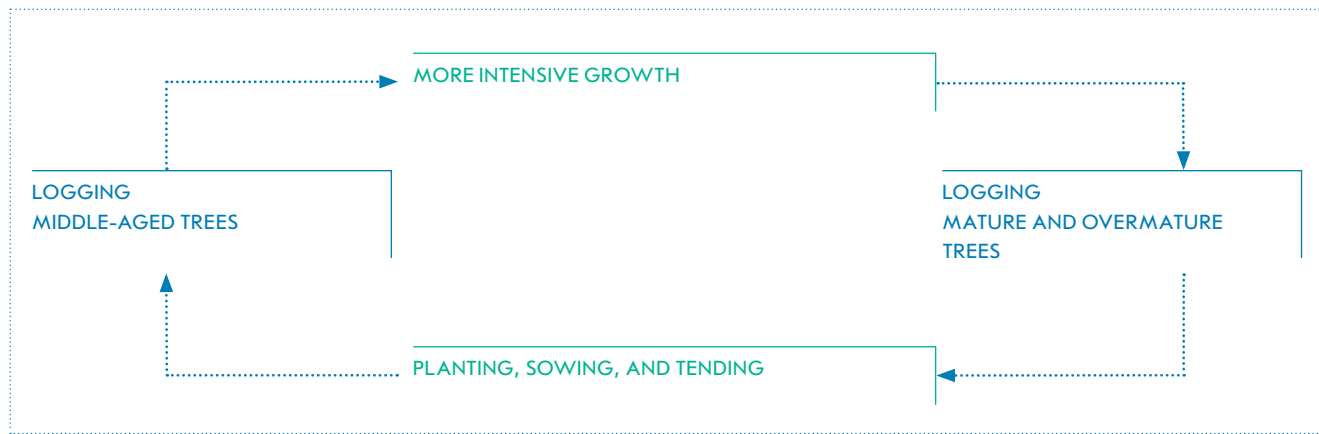
Extensive vs. Intensive Forest Management

EXTENSIVE MODEL



Although reforestation and husbandry steps are required from timber companies by law, they mean certain losses for businesses and so make them eligible to receive compensation once the plantings become exploitable

INTENSIVE MODEL



A system of economically sound husbandry & reforestation steps aimed specifically to grow the desired species

The intensive forest management model comprises a system of both economically and environmentally sound exploitation steps that limit environmental impact on unexploited forests of high conservation value, sustain biodiversity and natural ecosystems, and reduce the risks of wildfire. In the longer term, the approach leads to greater forest

productivity, encourages effective industrial production, and contributes to socio-economic evolution. The project's preparatory phase alone took roughly RUB 365m in investment.

The 2021 programme contains specific reforestation plans and targets for each geography where Segezha Group has timber, paper, or pellet operations, to be completed by the end of November: 11.6K ha in Krasnoyarsk, 9.5K ha in Karelia, 4.6K ha in Vologda, 4.1K ha in Arkhangelsk, and 3.1K ha in Kirov. The total area of woodland to be reforested this year is 32.9 ha, up 3.8 ha from 2020, and the programme's budget is RUB 178m.

Another biodiversity project of the timber company is the new breeding and seed centre in the town of Sharya near Kostroma, specifically designed to produce container-grown conifer seedlings that are highly adaptive and easy to transport and have good survival rates in any season, with roots securely protected from damage. With a facility revamp now in full swing, the company is

currently preparing to hook up utilities (cold water supply, electricity, etc.) and planning repairs where needed. The technology is due to be installed in November of 2021, with the company poised to make first plantings in April of 2022.

A matter of special concern for Segezha Group is the prevention of wildfires. The company makes sure that every site of woodland it operates is well-prepared to fight fire: this requires well-kept roads, adequate firebreaks, volunteer fire brigades, and outreach to local residents to raise awareness of wildfire risks and ways to avoid them. In the summer of 2020, the company's two operations in Siberia, SC Lesosibirsk Woodworking Plant No.1 and LLC Xylotech Siberia, joined local fire-fighters in putting out wildfire on 1,141.2 ha of forestland.

Energy Management and Climate Change¹

Energy Management
GRI 103-1, GRI 103-2

Sistema Group companies aim to reduce the carbon footprint of their manufacturing processes and decrease 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.

Group companies 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 LLC Bashkirenergo (part of BPGC);
- › Energy saving and energy efficiency strategy introduced by MTS and regional energy saving and energy efficiency programmes.
- › Segezha Group's long-term environmental security strategy for 2021-2025.

Moreover, the enterprises of the Group's portfolio companies are undergoing the certification of their energy management systems under ISO 50001.

¹ Data for 2019 is provided for MTS, Detsky Mir, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Cosmos Hotel Group, BPGC, RTI, Sitronics, Concept Club, unless otherwise specified. Data for 2020 is provided for MTS, Etalon Group, Segezha Group, Medsi, Steppe AgroHolding, Binnopharm Group, Cosmos Hotel Group, BPGC, Sistema PJSFC, Element Group, Koncel, RZ Agro, unless otherwise specified.



ABOUT THE CORPORATION

APPROACH TO SUSTAINABILITY MANAGEMENT

ROLL-OUT OF KEY SUSTAINABILITY AREAS IN ACTIVITIES OF SISTEMA GROUP COMPANIES

ANNEX



Energy Consumption and Enhancement of Energy Efficiency

GRI 302-4

In 2020, the total consumption of fuel and energy resources decreased by 48.3% that is related to the change in the elaboration of the methodology of data calculation and divestiture of AGK Yuzhny in the beginning of 2020.

CONSUMPTION OF FUEL AND ENERGY RESOURCES AT SISTEMA GROUP BY TYPE, GJ GRI 302-1, UNCTAD B.5.1

	2020 ¹	2019 ²	2018 ³
Electric power	12,209,870	10,362,549	9,841,625.5
Thermal power	10,259,420	9,530,125	9,402,246.5
Fuel	20,862,339	63,944,070	58,573,941
Total	43,331,629	83,836,744	77,817,813

FUEL CONSUMPTION BY GROUP COMPANIES BY TYPE OF FUEL, %⁴

Boiler and furnace fuel	9.35
Petroleum	2.47
Diesel and fuel oil	27.28
Natural gas	34.49
Renewable energy sources	26.41
Other types of fuel	0.001

In accordance with its energy saving and energy efficiency strategy MTS installs energy-saving equipment when building its base stations and aims to use alternative energy sources. Viva-MTS, a subsidiary of MTS in Armenia, annually acquires solar panels for the needs of the technical department. In 2020, the company bought 48 solar panels with a total capacity of 410 W. In addition, the company used solar panels in the Astrakhan region to organise uninterrupted operation of power plants, base stations and transportation hubs. The company also abides by energy efficiency criteria when buying reserve energy supply sources and uses diesel power plants made by European producers in strict compliance with requirements to energy efficiency and CO₂ emissions. In 2021, MTS launched a project for using alternative energy sources in the supply of communication systems. MTS will transfer communication facilities in remote and hard-to-access locations of the Krasnodar region to solar energy. This will make it possible to provide mobile Internet to sparsely populated villages where it is impossible to connect base stations to electric power lines.

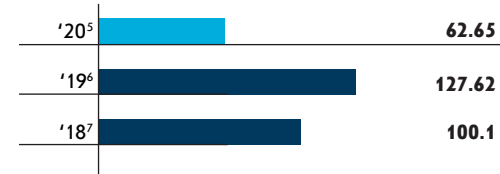
¹ Net of Koncel (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
² Data for 2019 was recalculated after adjustment of figures for individual companies of the Group.
³ Data for 2018 was recalculated after adjustment of figures for individual companies of the Group.
⁴ Net of Koncel (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
⁵ Net of Sistema PJSFC, Koncel, RZ Agro (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
⁶ Data for 2019 was recalculated after adjustment of figures for individual companies of the Group.
⁷ Data for 2018 was recalculated after adjustment of figures for individual companies of the Group.

Energy intensity across Sistema Group stood at 62.65 GJ/RUB million, which is 49% lower than in 2019.

Group companies are using various types of fuel and energy resources: thermal power accounts for 23.7% in total consumption, electric power accounts for 28.2%, boiler and furnace and motor fuel make up 48%. In 2020, the use of thermal power rose and the electric power consumption increased by 17.8%.

Steppe AgroHolding and Segezha Group are leaders in energy consumption due to the specific nature of their businesses, the growing scale of production and availability of own boiler units.

ENERGY INTENSITY, GJ/RUB m of Sistema Group's Consolidated Revenue GRI 302-3, UNCTAD B.5.2

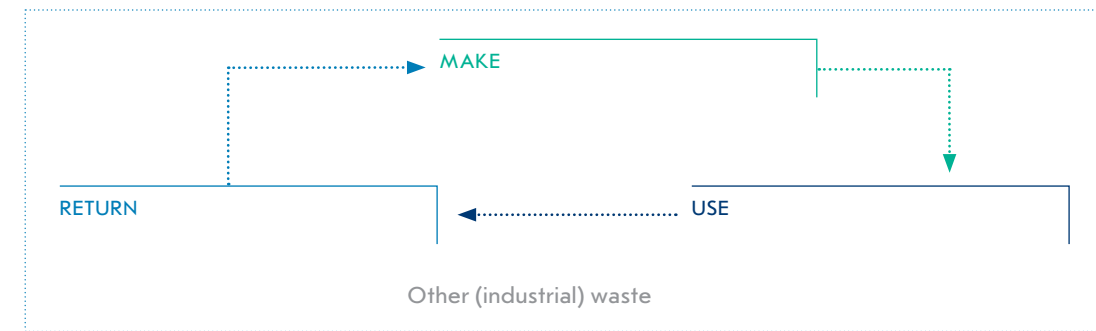


In 2021, LLC Bashkirenergo continued its programme to install environmentally friendly electrical equipment: vacuum 10 kV 3150 A switches that have replaced obsolete oil circuit breakers. Vacuum circuit breakers are more environmentally friendly, explosion- and fire-proof, which does not only increase the reliability of energy supplies to customers, but also reduces the environmental risks of negative impact on the environment.

Circular Economy and Bioenergy

Sistema Group is actively implementing bioenergy and circular economy technologies⁸. The main principles of such approach are based on recycling and switching from fossil fuels to renewable energy sources.

Circular economy



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. Pellets are an environmentally friendly renewable energy source in high demand across the world. The use of pellets makes it possible to reduce the consumption of fossil fuels and solve the problem of waste disposal.

Segezha Group's project of a pellet plant received a special prize of the FSC Green Project of 2020 award. LLC Xylotech Siberia, a pellet plant constructed on the site of Lesosibirsk WP No 1, is part of a priority investment project in which the company builds a full-cycle wood processing enterprise in the town of Lesosibirsk in the Krasnoyarsk region. The project is aimed at ensuring efficient use of forest resources, disposal of waste from timber production facilities by converting it to biofuel granules and heating energy. The plant will have a capacity of 110.5 thousand t of pellets a year.

Besides, in 2020 Segezha Group commissioned its fourth bark waste fired boiler in the Republic of Karelia, thus replacing the use of non-renewable energy sources. The boiler house will be also providing heating power to meet the needs of the Onega Woodworking Plant and the residents of Onega. The total investment in the project exceeded RUB 200m.

In the Vologda region, Segezha Group launched a new production facility for dry lignosulphonates⁹, which are made from liquid lignosulphonates as a by-product of pulp production. The drying process is based on advanced eco-friendly technologies. The new cleaning equipment will collect over 97% of the solid particles contained in the heat carrier. The facility's capacity is 21 thousand t per year. The total investments into the project amounted to approximately RUB 350m.

⁸ Circular (cyclical) 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 adverse impact on the environment is minimised.
⁹ Product of high-tech processing of raw wood used for production of technical carbon, in the oil industry, foundry operations, in cement production, construction, for manufacturing chipboards, fibreboards and rock wool construction boards, and in road construction.

Greenhouse Gas Emissions and Management of Climate Risks

GRI 103-1, GRI 305-1, UNCTAD B.3.1

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. Sistema Group companies consistently implement measures in this area: adopt energy saving technologies, conduct modernisation of production

DIRECT GREENHOUSE GAS EMISSIONS, tonnes of CO₂

'20 ²	560,160
'19 ³	847,205
'18	1,093,158

In 2020, Steppe AgroHolding accounted for the largest portion of the reduction in greenhouse gas emissions due to the divestiture of AGK Yuzhny.

GHG EMISSIONS INTENSITY, t/RUB m of Consolidated Revenue GRI 305-4

'20 ⁵	0.8
'19 ⁶	1.29
'18	1.4

facilities and infrastructure, broaden the use of alternative energy sources, optimise logistical routes and upgrade vehicle fleets.

Sistema Group companies are recording and monitoring greenhouse gas emissions. In 2020, direct greenhouse gas emissions stood at 0.56 million t of CO₂, which is 34% lower than in 2019¹.

TCFD Metrics and Targets | b

SISTEMA GROUP'S DIRECT GHG EMISSIONS IN 2020 BY COMPANY, %

Segezha Group	83.6
Steppe AgroHolding	8.6
MTS	5.6
Element Group	2.0
Other ⁴	0.2

RATIO OF GHG EMISSIONS TO CONSUMPTION OF FUEL AND ENERGY RESOURCES, t of CO₂/thousand GJ

'20 ⁷	12.93
'19 ⁸	10.11 ⁹
'18	14.05 ⁹

TCFD Strategy | b, TCFD Governance | a, TCFD Governance | b

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. The Corporation contributes to the growing awareness of Group companies of the need to take a systematic and strategic approach to the management of climate risks and of their impact on the business strategy and financial position of 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.

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. In 2021, Steppe AgroHolding established a Sustainability Commission to assess the risks associated with global climate change.

The Group's wood industry assets are also exposed to climate risks. According to Segezha Group's new Sustainability Policy

until 2025, it aims to organise environmentally neutral and climate neutral production processes. In 2020, Segezha Group became a member of the RSPP Committee on Climate Policy and Carbon Regulation. The company is currently the only representative of the Russian wood industry in the Committee. In early 2021, Segezha Packaging's paper sack plant in Denmark became Segezha Group's first enterprise to use wind power. The transition to renewable energy will help reduce the overall carbon footprint of the company's European assets.

GRI 102-13, GRI 308-2

In 2019, MTS joined the GSMA to minimise the impact of the telecommunications industry on climate change. Participation in the specialised JAC working group enabled MTS to gain access to the best practices in the area of carbon management and made it possible to continue the implementation of environmentally significant initiatives with greater efficiency, including identification of the most significant sources of greenhouse gas emissions and their share in the supply chain. Providing data on the volume of indirect greenhouse gas emissions (Scope 3) allowed MTS to improve the quality of its CDP reporting. Based on the results of disclosure for 2020, MTS ranked among the top 7 Russian brands in terms of disclosure of information on climate change in the Carbon Disclosure Project (CDP), upgrading its rating to Management (B) from last year's Awareness (C).

¹ Net of Etalon Group, Medsi, BPGC, Cosmos Hotel Group, Sistema PJSFC (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
² Net of Etalon Group, Medsi, BPGC, Cosmos Hotel Group, Sistema PJSFC (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
³ Net of Detsky Mir, Etalon Group, Medsi (in accordance with the consolidation perimeter for 2019, given at the beginning of the section).
⁴ Other includes Binnopharm Group, Koncel, RZ Agro.
⁵ Net of Etalon Group, Medsi, BPGC, Cosmos Hotel Group, Sistema PJSFC (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
⁶ Net of Detsky Mir, Etalon Group, Medsi (in accordance with the consolidation perimeter for 2019, given at the beginning of the section).
⁷ Net of Etalon Group, Medsi, BPGC, Cosmos Hotel Group, Sistema PJSFC (in accordance with the consolidation perimeter for 2020, given at the beginning of the section).
⁸ Net of Detsky Mir, Etalon Group, Medsi (in accordance with the consolidation perimeter for 2019, given at the beginning of the section).
⁹ Data was recalculated after adjustment of figures for individual companies of the Group

Support to Regions and Social and Charity Projects



RUB 118.9 bn
in tax payments to budgets of all levels

RUB 1.76 bn **17 agreements**
in social investment in communities¹ with regional governments of the Russian Federation

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.

¹ Including financing of private charity and social projects of Sistema and its portfolio companies, financing of programmes and operational expenditure of Sistema Charitable Foundation (SCF), and donations made by Sistema and portfolio companies to SCF.

Awards Received by Group Companies GRI 103-3



Sistema made it to Group A (Best Practice) of the 2020 Leaders of Corporate Charity (LCC) ranking. It's also the proud winner of the LCC prize for Best Programme (Project) Using Information Technology to Achieve Sustainable Development Goals, given in recognition of Project Odyssey.

MTS made it to LCC's Group B+ (Advanced Practice).

Segezha Group is in LCC's Group C (Emerging Practice) and holds a "good start" certificate from the Presidential Grant Foundation for grant-giving sustainability initiatives.

Sistema Fest was among the winners of last year's Leaders of Corporate Charity awards.



MTS is the top winner in the Local Communities category of the Sixth 2020 national competition for corporate volunteering projects Good Cause Champions (GCC).

Medsi Friends Club is No.1 in Skills-Based Volunteering category of the Sixth 2020 national competition for corporate volunteering projects Good Cause Champions (GCC).



Hand That Phone, a handset-donation project pursued by MTS in conjunction with the homeless nonprofit Nochlezhka in Saint Petersburg, won the 2020 Silver Archer award in the CSR category.



MTS is No.1 in the 2020 Social Efficiency Ranking of the AK&M Analytical Information Agency.

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. Companies across the Group engage in social and charity projects aiming to make a difference, develop reliable social infrastructure and promote science, education, and culture in the communities where they operate.

Social and Economic Partnership 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. Having signed new agreements



MTS's Culture Code won second prize in the culture & arts category of the 2020 Ministry of Culture awards.



Sistema's #COUNTRYWITHOUTVIRUS campaign is among the winners of the 2020 Best Social Projects of Russia contest and also received the People Investor award from the Managers' Association.



Sistema Charitable Foundation made it to the top 15 of the 2020 RAEX corporate & private charity ranking by partnership potential and to the top 10 by transparency.

with the governments of the Kemerovo region (in Siberia) and the Arkhangelsk region (in the Russian north), in 2020 Sistema became a party to 17 agreements with local administrations in the regions of operation.

The corporation also spent the year preparing cooperation agreements with the governments of the Tyumen, Vologda and Irkutsk regions and attained a sustainable collaboration footing with the administration of the Kurgan region, a vast territory in the Urals that is deeply important to Sistema.

All of the agreements pursued in 2020 were aiming to create favourable economic, investment and social conditions in locations critical to Sistema's business. The technology upgrades, efficiency enhancements and business scaling they entail will translate into larger tax revenues and attractive paying jobs.

KEY AGREEMENTS WITH LOCAL ADMINISTRATIONS AS OF 31 DECEMBER 2020

GROUP COMPANIES	REGIONS OF RUSSIA
Sistema PJSC	The Republic of Karelia and the Vologda, Kirov, Irkutsk, Arkhangelsk, Kostroma, Samara, Novosibirsk, Yaroslavl, Omsk, Stavropol, Krasnodar, Primorye, and Kemerovo regions
Sistema Charitable Foundation	The Republic Altay, Bashkortostan, and the Kostroma and Rostov regions
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, Samara, Kostroma, Tyumen, Kaliningrad, Pskov, Yekaterinburg and Perm regions and the Khanty-Mansi Autonomous District. City administrations: Kostroma, Moscow, Nizhni Novgorod, Orenburg, Polyarnye Zori, St Petersburg, Tobolsk, and Tolyatti Moscow Agency of Innovations
Segezha Group	Republic of Karelia, the Arkhangelsk, Vologda, Sakhalin, irov, Kostroma, Rostov, Krasnoyarsk, Omsk, and Tver regions, and the Ministry for Economic Development of the Russian Federation.
Steppe AgroHolding	Stavropol and Rostov regions
BPGC	Bashkortostan's Ministry of Education
Medsi	Saint Petersburg, the Sakha (Yakutia) Republic, Tatarstan, Karelia, and the Nenets Autonomous District, the Karelian Ministry of Health, the Russian Ministry for Economic Development of the Russian Federation, and the Udmurtia Ministry of Health
Sitronics Group	Republic of Ingushetia; Novosibirsk and Samara regions; city of Kaluga
Ozon	Samara region
Cosmos Hotel Group	Kemerovo region

Tax Management

GRI 207-1, 207-2, UNCTAD A.2.1

Sistema Group is among the largest taxpayers in Russia. In 2020, the Group's total tax payments (both federal and local) were down 8.7% year-on-year, to RUB118.9 bn, of which 21.8% went towards the Russian Pension Fund and health/social insurance.

GRI 201-4 The largest taxpayers in Sistema Group are MTS and BPGC, whose aggregate tax payments in 2020 accounted for 83% of the Group's total taxes. Sistema rigorously abides by the Russian tax legislation and received no tax claims in 2020.

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

SISTEMA'S TAX PAYMENTS BY TYPE

	%
VAT	36.1
Insurance contributions	21.8
Income tax	20.4
Personal income taxes	13.6
Corporate property taxes	3.0
Customs duties	0.2
Other tax and non-tax payments	4.9
Total	100

The use of tax benefits saved

0.33%

in total taxes across the Group in 2020

The amount of actual tax payments made to the budgets of all levels and off-budget social funds in 2020 reached RUB118.9 bn, of which more than RUB25 bn went toward pension, healthcare and social insurance funds.

SISTEMA GROUP'S TAX PAYMENTS TO FEDERAL BUDGET IN 2020
GRI 207-3

	RUB BN	%
Federal budget	50.6	42.6
Regional and municipal budgets	42.3	35.6
Non-tax contributions	25.94	21.8
Total	118.9	100

SISTEMA GROUP'S TAX PAYMENTS TO FEDERAL BUDGET, RUB bn

	2020	2019	2018
Payments to the budgets of all levels and to off-budget funds	118.9	125.2	108.9
Tax payments to the federal and regional budgets	87.7	97.8	92.96
Non-tax charges	25.94	27.4	24.7

GOVERNMENTAL SUPPORT BY TYPE, % GRI 201-4

	2020	2019	2018
Reduced income tax rate	21.11	54.61	18.74
Property tax exemption	74.26	25.53	56.90
Reduced rates on social security contributions	4.18	19.67	23.74
Land/lease tax relief	0.46	0.19	0.62

NON-TAX CHARGES IN 2020, RUB bn



TAX PAYMENTS TO FEDERAL AND REGIONAL BUDGETS, %

Federal budget	57.7
Moscow	23.5
Republic of Bashkortostan	2.0
Moscow region	1.7
St Petersburg	1.7
Krasnodar region	1.2
Nizhny Novgorod region	1.0
Rostov region	0.8
Republic of Karelia	0.7
Vologda region	0.5
Krasnoyarsk region	0.5
Novosibirsk region	0.5
Other	8.1

31.2%

of all tax payments made by Group Companies in 2020 went toward local budgets

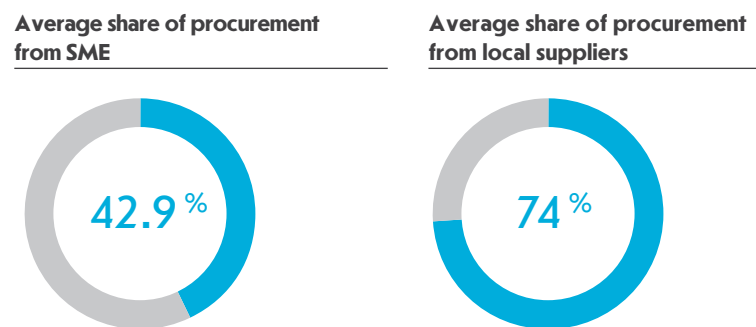
2020 SISTEMA GROUP'S TAX STRUCTURE BY COMPANY, %

Federal and local taxes combined	
MTS	79.4
BPGC	3.7
Sistema PJSFC	3.1
Sitronics Group	1.9
Business Nedvizhimost	1.8
Medsi	1.7
Segezha Group	0.7
Cosmos Hotel Group	0.3
Other, including non-consolidation companies ¹	7.3
Non-tax contributions	
MTS	51.1
Segezha Group	8.8
Medsi	8.6
BPGC	5.8
Sistema PJSFC	5
Sitronics Group	1.6
Cosmos Hotel Group	0.9
Business Nedvizhimost	0.6
Other, including non-consolidation companies ²	9.8

CUMULATIVE TAX PAID IN THE REPORTING PERIOD BY COUNTRY GRI 207-4

	RUB BN	%
Russia	118.9	88.5
Foreign jurisdictions	15.5	11.5
Total	134.4	100

PROCUREMENT FROM LOCAL SUPPLIERS AND SME IN 2020³, % GRI 204-1, UNCTAD A.4.1



RATIO OF TAX PAYMENTS TO CAPITAL INVESTMENTS OF SISTEMA GROUP

	2020	2019	2018	2017	2016
Tax payments, RUB bn	118.9	125.2	108.8	108.3	98.1
Investments of the Group, RUB bn	127.8	117.6	124	104.4	122.9
Ratio of tax payments to investments, %	93	106.6	87.7	108.7	79.8

¹ The amounts are pro rata to ownership interests.

² The amounts are pro rata to ownership interests.

³ Consolidation includes MTS, Segezha Group, BPGC, Business Nedvizhimost, RZ Agro, Element, MGTS and Sitronics Group.

Strategic Partnerships with Local Administrations

Sistema places a high premium on cooperating with local administrations, key to establishing new production facilities and jobs, developing infrastructure and enhancing the quality of services across the board.

In August of 2020, Sistema signed a cooperation agreement with the government of the Arkhangelsk region in Russia's north. Among many workstreams covered by the agreement are the expansion of timber products variety and the adoption of zero-waste sawing and production technologies. In particular, Segezha Group committed to launch a digital dispatch system at the Onega Timber Factory. Other companies across the group set out to develop local hospitality infrastructure, build a state-of-the-art medical centre (a private-public partnership project), and install latest monitoring & dispatch solutions for community needs.

In December of 2020, the Corporation signed another agreement with the government of the Kemerovo region in Siberia, providing for the development of hospitality, transit and telecom infrastructures, housing construction, and healthcare. On top of that, MTS entered into yet another agreement with the local administration to advance the national programme Russia's Digital Economy.

The Kostroma region is where Sistema Group companies drive a number of essential initiatives, such as the construction of a plywood factory in the city of Galich and a start-of-the-art forest seed centre in the city of Sharya. In addition to that, in March of 2020 Sistema, MTS and Segezha Group started a local learning project for aspiring engineers titled Lift to the Future. School, where 113 individuals were given free access to learning facilities with modern-day digital equipment in both Kostroma and Galich.

Udmurtia is yet another region where Sistema is driving investment partnerships. The projects concern healthcare and hospitality infrastructures as well as learning programmes. Other collaboration ideas relate to telecommunications and other businesses. In March of 2020, Medsi Group made an entry to the local healthcare landscape, having purchased four private clinics in the republic's capital of Izhevsk. Cosmos Hotel Group signed a commitment to enhance hospitality infrastructure, while Ozon launched an E-Commerce Learning School, teaching local businesses to sell products online, join marketplaces, and drive efficiency through e-commerce. Sistema Charitable Foundation is preparing career orientation programmes in a tie-up with the local Ministry of Education & Science.

2020 marked the start of a far-reaching Medsi project in the Republic of Karelia, also in close cooperation with the local administration. The initiative will bring top Medsi doctors to local health facilities for collaborative consultations, organise case conferences by telemedicine, and provide a wide range of learning opportunities, including lectures, master classes, and internships at Medsi's top clinics in Moscow. The healthcare provider has also signed similar agreements with the administrations of Yakutia, Tatarstan, and the Nenets Autonomous District.

In December of 2020 Segezha Group entered into an investment protection and promotion agreement with the Russian Ministry for Economic Development and the Vologda Region government to revamp the local pulp and paper mill in the city of Sokol. The project will take up more than RUB 11bn in investment, a lot of which will go towards a new paper-making machine, stock preparation facilities, treatment units, lignosulfonate⁴ drying lines, and boilers.

⁴ Lignosulfates are by-products of wood pulp production.

COMMUNITY DEVELOPMENT PRIORITIES IN 2021

REGION	PORTFOLIO ASSETS	KEY PROJECTS
Tyumen region	Segezha Group	Timber facility construction
	Medsi Group	Construction of a cancer centre
	Etalon Group	Home-building
	Cosmos Hotel Group	Construction of hotels in Tobolsk and Tyumen
	MTS	Construction of a 5G MTS StartUp Hub + Centre of IT Excellence
	OZON	Construction of a warehousing hub
Omsk region	Etalon Group	Construction of a housing estate and adjoining social infrastructure
	Segezha Group	Establishment of birch plywood and fibreboard production facilities
	Cosmos Hotel Group	Construction of a new four-star hotel in Omsk
Kemerovo region	Etalon Group	Investment & construction projects in Kemerovo and Novokuznetsk
	Segezha Group	Construction of facilities for the Sheregesh ski resort
	Cosmos Hotel Group	Construction of hotels for the Sheregesh ski resort
Vologda region	Segezha Group	› Attainment of design capacity for the CLT panel facility in Sokol › Installation of a new paper-making machine (PMM No.11) for Sokol Pulp & Paper Mill
	Vologda Textile	Vologda Technopark
Republic of Karelia	Segezha Group	Launch of Segezha West
Kurgan region	Binnopharm Group	Scaling of medicine production facilities, new equipment installation
Kostroma region	Segezha Group	Construction of a timber-processing cluster in the city of Galich
Krasnoyarsk region	Segezha Group	Construction of a pulp and paper mill in Lesosibirsk

Social Investments and Charity
GRI 103-2

Sistema Group's main social investment vehicle for more than 15 years now is Sistema Charitable Foundation (SCF), which manages group-wide philanthropy projects.

UNCTAD A.3.2 In addition to projects pursued by SCF, companies across the Group have their own charity and relief projects addressing specific pressing needs and challenges of local communities. The Corporation uses a broad range of tools for implementing social programmes, providing financial (grants, targeted donations, fund-raising), in-kind (goods, services) and non-financial

(volunteering, pro bono work) support to stakeholders, always aiming to use investment funds to best social effect. **GRI 203-1**

Sistema Group spent
RUB 1.3 bn
in direct social investment in 2020, which equals 0.19% of the Group's total consolidated revenue and 0.55% of adjusted OIBDA

DIRECT SOCIAL INVESTMENTS ACROSS THE GROUP, RUB m **GRI 203-1**

	2020	2019	2018
Total social investment from:	1,341.5	1,096.6	791.0
Sistema Charitable Foundation ¹	244.8	239.4	219.7
Group Companies ²	1,096.6	857.2	571.3

FINANCING OF SOCIAL AND CHARITABLE ACTIVITIES AT SISTEMA GROUP IN 2020, %

Projects of portfolio companies	72.34
SCF programmes	27.66

STRUCTURE OF EXPENDITURES RELATED TO CHARITABLE AND SOCIAL PROGRAMMES IN 2020³, %

Contributions to other charities	39.92
Contributions to SCF	27.66
Individual support of employees, their families, and retirees, including COVID-19 relief	19.39
Relief programmes for children and veterans	5.24
CSR	2.91
Sports and healthy lifestyles	2.49
Culture and arts	1.33
Churches	1.06

¹ Net of SCF's operating expenses.

² Net of contributions to SCF.

³ Including contributions to SCF.

2020 marked the adoption of SCF's new Development Strategy through 2023 aiming to:

- › Create an across-the-group ecosystem of social and philanthropic initiatives to produce a highly coordinated centralised charity programme;
- › Grow the flagship project Lift to the Future into a central digital platform to incorporate the learning initiatives of all Group Companies;
- › Reinforce SCF's communication strategy and promote key projects in the media to enhance image as a corporate citizen.

The foundation's updated strategy also encompasses new sustainability workstreams. The Foundation is soon to be transformed into an environmental, cultural and educational Centre of Excellence to best meet the needs of the Corporation and society.

A common sustainability agenda will serve to:

- › Achieve a more even distribution of donations among companies;
- › Enhance the efficiency of corporate social & environmental initiatives,
- › Scale up positive social and environmental impact;
- › Unleash synergies within the Group.

CONTRIBUTIONS TO THE GROUP'S CONSOLIDATED CHARITABLE BUDGET¹, %

MTS	55.24
Steppe AgroHolding	13.86
Segezha Group	9.62
Sistema PJSC	3.89
BPGC	4.48
Etalon Group	3.61
Binnopharm Group	2.71
Element Group	1.5
EWUB	1.23
Other	3.86

In 2020, SCF was put on the non-profits list of the Ministry of Economic Development, which entitles donors to report donations as non-operating expenses and so get tax breaks. A programme of governance improvements carried out at SCF in 2020 has made it possible to:

- › Optimise, streamline and diversify the foundation's financing channels (through a new and transparent pro-rata-to-OIBDA donations principle), with MTS's share in total donations down 20 p.p., from 91% to 71%, and the number of donors up by a factor of 3x, from 4 to 12;
- › Adjust the organisational structure and governance system to meet current legislative requirements of the Russian Federation, in particular, invite a first-ever independent representative on the Board of Trustees;
- › Consolidate the data on all social projects in one database and launch a corporate-wide programme involving 80% of Sistema Group companies;
- › Lend a digital dimension to Lift to the Future;
- › Digitalise culture advancement projects;
- › Start a pilot impact investment education project in the Kostroma region in a tie-up with VEB.RF, with related costs potentially to be reimbursed by the Russian Ministry of Finance provided the declared targets are met.

85,129

individuals
from 25 regions across Russia were directly involved in various 2020 SCF programmes (this excludes beneficiaries funded by nonprofits)

6.9%

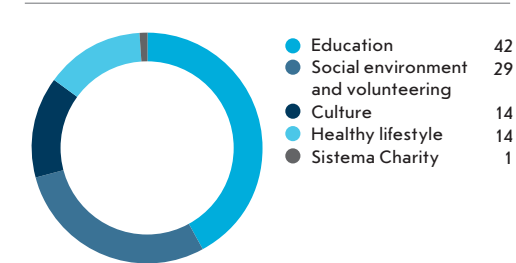
of the total headcount of Sistema group in 2020 participated in volunteer projects

¹ Including contributions to SCF.

SCF'S MAIN PROGRAMMES AND PROJECTS OF 2020
GRI 103-3

Education 25,347 participants	Lift to the Future: a nation-wide guidance & learning programme driving career growth
Social environment and volunteering 36,302 participants	The nationwide COVID-19 relief campaign #COUNTRYWITHOUTVIRUS included over 100 target projects, such as providing equipment and facilities for hospitals, hazmat suits for infectious disease wards, and test kits, medications and humanitarian aid to maintain the physical and mental resources and energy of health workers fighting the pandemic, etc. Sistema Fest: local festivals in the Kostroma, Kurgan (with grant awards), and the Republic of Altay (in online format) Support for veterans: Victory Day gifts to over 3 thousand veterans Corporate volunteering: SCF supports personal initiatives of its employees through the grant-giving campaign Sistema in Support of Good Cause. Healthy lifestyles: 150 employees took part in the corporate sports day ("Games of the Heroes") as part of a new sports initiative
Culture 73,000 participants	Digitalisation in culture: › Launched the first free-for-all online training course in conjunction with Russian Museum and a video tour guide titled Fashion for All Things Russian in the Era of Alexander III › Carried out inclusivity programmes for the Russian Museum › Created a 3D virtual tour of all exhibitions of the Lenino-Snegiri Military History Museum
Sistema Charity 20,064 participants	Launched a new Sistema Charity project in June of 2020 to execute a common coordinated programme to best social effect. To engage personnel in the common ESG agenda, Sistema organised a Green Marathon, which involved 1,254 employees from across the Group

SCF COST STRUCTURE, %



RUB 419.3_m
contributed by Group Companies to SCF in 2020 for general corporate initiatives

RUB 244.82_m
spent on financing SCF programmes in 2020²

² Administrative costs included.

SCF'S DONATIONS TO FUNDS AND OTHER NON-PROFIT PROJECTS, %

TYPE OF DONATION	2020	2019	2018
Donations to funds	8.7	18.2	20
Donations to other nonprofits	41.3	23.7	23.3

GRANTS ISSUED BY SISTEMA CHARITABLE FOUNDATION

	2020	2019	2018
To individuals			
No. of individual beneficiaries	6	32	26
Amount issued, RUB thsd	488	25,894	3,585
To organisations			
No. of individual beneficiaries	–	–	44
Amount issued, RUB thsd	–	–	20,936

For more details about SCF and its 2020 performance results see SCF's 2020 Annual Report at <https://bf.sistema.ru/upload/iblock/401/rew222.pdf> or SCF's official website: <https://bf.sistema.ru>

Community Infrastructure Projects

Sistema consistently invests in social infrastructure in geographies where it operates, aiming to improve the socio-economic status of local communities and enhance standards of living.

In this vein, MTS has now completed Phase 2 of its project to provide access to speedy data connectivity for social facilities of the St. Petersburg region as part of the nationwide project Russia's Digital Economy. The project proved especially relevant amid the raging pandemic, immediately translating into broader capabilities and stronger quality of governmental, educational, and healthcare services. In 2020 alone, the initiative involved 136 social infrastructure facilities in the St. Petersburg region, including health stations, schools, fire departments, and offices of local authorities.

In its turn, Segezha Group implemented 66 social projects in 2020, providing heating and hot water to households and communities in the cities of Segezha, Sokol, Lesosibirsk, and Onega. Segezha PPM was providing heating to 95% of consumers in Segezha, and Onega Energy, 83% of consumers in Onega. All in all, the group spent RUB768 m on supplying local communities with heating and hot water. Segezha PPM revamped more than 80km of worn-out heating systems of Segezha, some of which had been in operation for over 30 years. Segezha also signed on to build five nine-storey residential buildings in the city of Segezha, 330 apartments each, with a total built-up area of 28,575 square metres. That is in addition to a cottage village scheduled for construction in 2022-2023, with cottages to be offered to Segezha employees along with non-corporate local residents.

RUB 1.46 m¹

Segezha Group invested in infrastructure projects in the regions of presence including heating, hot water supply, and roads

Another high achiever of the Sistema portfolio, Etalon Group designed Russia's first fully BIM-developed kindergarten, with all the state expert assessments also done 100% digitally. The facility will adjoin a new Etalon residential complex in Saint Petersburg, accommodating up to 160 kids. Among the project's results of immediate strategic relevance is the improvement of BIM algorithms, including their adjustment to best meet governmental requirements. That will go a long way towards speeding up designing, whether it's housing, retail space, or social infrastructure.

¹ Net of RUB44 m in infrastructure expenditure as part of a charity programme.

Support for Underprivileged

Among Sistema's many charity focuses is the support of the underprivileged, including the disabled, orphans, the lonely elderly, and the homeless. Companies across the Group work hard to create the right conditions for regular people to take part in charity initiatives and know that their effort is indeed efficient and relevant.

In 2020 MTS launched Hand That Phone, a new project in conjunction with the homeless charity Nochlezhka. 20 MTS outlets across Saint Petersburg and a nearby town of Murino had special boxes installed for people to donate their old-but-still-functioning mobile phones for the local homeless. More than just a means of communication, for many it's a lifeline and a chance to find a job and stay in touch with their employer.

MTS and TikTok launched a nationwide creative contest Generation M TikToker, inviting users to record short videos showing off their singing or storytelling/stand-up comedy talents, with video uploads and views converting into points on a "Goodness Counter" and then into real donations to children in need of medical help.

Charity and Culture for Children

Sistema believes in equal opportunities for all children and contributes to building a productive learning & creative environment in specific communities.

A point in case, MTS is the author of Generation M, a project pursued in conjunction with artist associations, federal and local administrations, business corporations, and the Russian Ministry of Culture. The programme combines ideas of how to develop creativity in children all around the nation with helping the sick, with activity in groups and on the programme website converted into hard-cash donations to finance costly therapies. In 2020 specifically, the telco started an e-learning programme in partnership with the State Tretyakov Gallery that collected over RUB18 m in donations, sponsoring a total of 57 surgeries. The project that's both enabling and charitable invites

children from all over Russia to showcase their talents and take part in a wide range of contests, online master classes, and interactive exercises.

Another corporate citizenship project of MTS titled From Home to Wonderland offers free audio books from the vast collection of the National Electronic Library and the children's radio station Deti.FM. Having enlisted the support of the Russian Schoolchildren's Movement, the Journalism Department of M. Lomonosov Moscow State University, and the State Children's Library of the Russian Federation, the telecom operator inspires kids to get creative online. The project has already brought MTS hundreds of partners, such as librarians, volunteer college undergraduates, Russian celebrities, and representatives of media and nonprofits. Just one week into the project, its hotline had received over 10 thousand phone calls from kids and parents, and the audio content collected 850 "hours" of listening.

Sistema's power grid arms BPGC and Bashkirenergo, patrons of a local orphanage for children aged 4-12 in the Bashkir city of Kumertau, made a generous donation to the wards to mark the National Children's Day in June of 2020. The gifts included bicycles, scooters, gear for outdoor sports, learning games, and sweets. Before that, BPGC had funded improvements in the building where the orphanage is located. The company also donated New Year gifts for 40 disabled kids aged from 2 to 15 in Bashkortostan's Kaltasinsky district.

East-West United Bank organised a new round of financial literacy classes for Russian-speaking children in Luxembourg on a wide range of subjects, such as Shares and Bonds. What Is It and Why Do We Need Them?, Making Money: Investing and Business, Bank Cards. Watch Out for Frauds!, and Shopping: Budgeting and Life Hacks. The bank used cartoons and entertainment tests to help kids figure out what a budget is, how to save enough money to fulfil your dreams, and how to make money generally. The classes involved 60 kids aged 8-13. The company is planning to continue the learning practice next year with a broader range of subjects in both Russian and English..

Culture and Tourism

Companies from across Sistema Group have a number of large-scale long-term initiatives in culture and tourism.

2020 was a very productive year for MTS's initiatives aiming to promote culture and local tourism. Culture Code, a project designed to maintain and promote cultural authenticity, presented a breath-taking Virtual Aurora show over the Putorana Plateau in Krasnoyarsk region. In Samara, the company published an illustrated city guide (both in hard and electronic format) with 17 walking routes, including city sights, bedroom communities, and factories of historical value, affording local residents a new perspective on their home town. Project Urban Legends offers a two-hour tour guide of the city of Voronezh, interspersed by stories told by local residents. The project is a product of hard concerted work of local historians and ordinary citizens. A similar project titled Place of Power was done for Samara in conjunction with the local Samarskaya Luka national park and the Samara Tourist Information Centre. The project encompassed an audio guide of the sanctuary's most notable sights and video lectures on local history and safety rules. 2020 was also the closing year for MTS's earlier project Know Your Vladivostok organised in a tie-up with the Primorye Tourist Information Centre. Local residents picked their 5 favourite sights around the city they believed to be of most historical and architectural value. The buildings are now provided with special sign plates carrying QR codes that open up a virtual page on the sight's history in the Russian, English, Chinese, Korean, and Japanese languages with rare old-city photos.

Memory of Great Patriotic War and Help for Veterans

Sistema sets great store by promoting remembrance of the Great Patriotic War. Companies across the Group organise many educational and creative initiatives dedicated to the Great Patriotic War and involving volunteers. This includes tours to Russia's best military history museums, theatre shows, volunteer clean-up days, and theme nights. Among the Corporation's most important workstreams in the corporate citizenship domain is support for war veterans.

Sistema and the Moscow City Council of Veterans renewed their social partnership agreement until 2025. It covers free healthcare and rehabilitation at Medsi facilities and a variety of entertainment events and volunteer initiatives aiming to socially engage veterans and promote remembrance. Over the past five years, Sistema has spent RUB330 m to support more than 20 thousand veterans.

In September of 2020, Sistema Charitable Foundation, Element Group, Miloserdiye Charitable Foundation, and Ozon launched a campaign titled My Gift to a Veteran, inviting people to purchase much-needed items (such as blood pressure meters, radio sets, thermos bottles, trolley bags, etc.) to be donated to veterans. The initiative collected a RUB 340,000 worth of goods.

Overall, Sistema has spent some RUB250 m on Taking Care of Veterans since 2015, providing free healthcare, rehabilitation, and entertainment for roughly 2,000 veterans of Great Patriotic War and veterans of labour.

Segezha Group also supports veterans through a charity project named Pharmacy Certificates. Since 2016, the company has been distributing gift certificates from local pharmacies among its veteran retirees. In May 2020 alone, certificates were issued to 277 individuals in Karelia and the Vologda, Arkhangelsk, and Kirov regions. The certificates' nominal values had been increased to RUB 3,000 from the previous year's RUB 2,000 due to the new pandemic-related challenges.

In 2020, MTS published a Victory in Our Hearts Remembrance Book to mark the 75th anniversary of the Great Patriotic War victory. The book contains 700 real stories about the heroic ancestors of the company's employees. The telco also held an annual Poplar of Victory remembrance campaign, with volunteers, students, and communication and war veterans planting in various cities of Russia the seedlings of a poplar that 'witnessed' the Battle of Stalingrad. The tree's sprouts are now growing in 32 locations across the nation. In 2021, MTS went on to organise a learning project Memory Through Generations, aiming to promote patriotism and history knowledge among the younger generations. The programme spanned 10 Russian cities and included war movies, theme quests, and veteran meetings.

Element Group employees also arranged events in 2020 to support Great Patriotic War veterans, facilitate beautification of new remembrance sites, and put together an electronic memoir book with more than 700 stories as told by the family members of the company's employees, whether they were actually fighting in the war or working on the home front.

BPGC organised a children's arts contest across Bashkortostan, themed on the 75th Anniversary of the GPW victory day. In addition to a drawing competition, the programme included Best Video and Free Arts categories, enabling kids to express themselves in any creative way they choose, be it interviews, photos, singing, etc. The judges received some 150 entries to choose from.

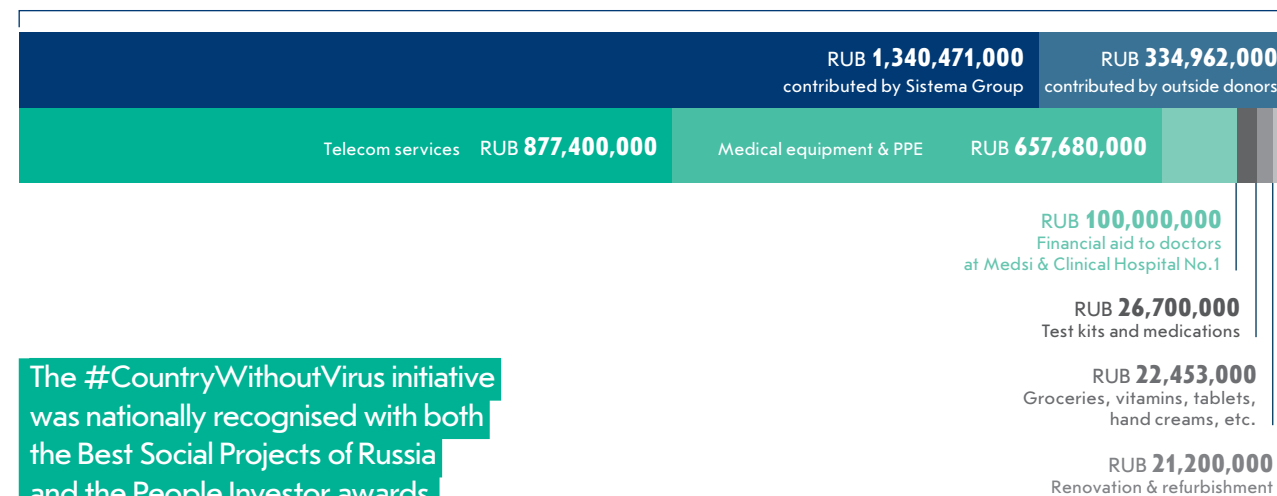
Response to COVID-19 in 2020

Companies across Sistema Group are heavily involved in initiatives to fight the spread of the novel Coronavirus infection. In April 2020 alone, the Group companies invested over RUB1 bn in various COVID relief efforts, including the development of test kits, the acquisition of hospital equipment and PPE for health professionals, and the provision of free telemedicine consultations and counselling for those under stay-at-home restrictions. Group companies involved in providing information and communication services or continuous selling of essential goods made sizeable investments in protecting their employees whose work is critical for continuous functioning of networks and serving of the clients, order processing, warehouse operation, goods delivery, etc. from the infection.

In order to protect and sustain the physical and mental health, performance in the workplace, and motivation of health professionals, Sistema and Medsi established a Health Professionals' Support Centre as an avenue for much-needed COVID relief funding.

Its first initiative was a large-scale social campaign titled #CountryWithoutVirus, which organised a prompt delivery of 200,000 protective suits for medical workers from China to Moscow. MTS moved swiftly to set up an online platform (странабезвируса.рф) to invite cash and in-kind donations for those directly involved in fighting the virus. The Centre was accepting cash donations and in-kind humanitarian aid as targeted delivery of goods and services from individuals and organisations.

RUB 1,705,433,000 collected



The #CountryWithoutVirus initiative was nationally recognised with both the Best Social Projects of Russia and the People Investor awards.

Sistema Charitable Foundation started a community outreach campaign in partnership with portfolio Group companies MTS, Steppe AgroHolding, Etalon Group, Concept Group and Sistema's pharmaceutical assets, dispatching relief consignments with test kits developed by the innovation biotechnological Sistema-BioTech company to detect COVID-19 infection to Saint Petersburg,

Krasnodar, Vologda, Kostroma, Tula, Yaroslavl, Altay, and Karachay-Cherkessia. Local hospitals also received parcels with medications for maintaining physical and mental health of doctors operating at the forefront of the coronavirus battle, alongside remote thermometers and personal protective equipment.

Medsi



As the pandemic broke out nationally in the spring of 2020, Medsi's Otradnoye hospital was swiftly repurposed into an infectious disease facility. This involved the acquisition of more than 20 lung ventilators, 15 intensive care beds, two isolation transport bags, and vast amounts of PPEs. Just eight days into the pandemic, by April 01, the first 100 hospital beds in the repurposed hospital stood ready to receive patients. All the necessary equipment was in place and prepared for subsequent scaling if necessary.

In a tie-up with the Russian tech company Third Opinion, the hospital introduced an AI-driven patient monitoring system that enabled minimising doctor-patient contacts and controlling health workers' discipline in PPE-wearing and administering care. All patient-specific data and nurse/doctor visit stats are automatically displayed on the control screen along with live-streamed ward images, saving unnecessary visits to the 'red zone'.

In July of 2020, one of Medsi's larger clinics in Moscow set up a specialised Long COVID Diagnostic Centre to identify and prevent post-COVID pathologies. 380 patients from Moscow and other cities have by now taken the rehabilitation programme. Medsi doctors also work hard

across a variety of communication channels to provide advice on how to stay safe in a pandemic and how to work towards a fast and full recovery if infected.

While Medsi's telehealth platform SmartMed was first launched in April of 2018, the pandemic really put the technology front and centre, with people increasingly seeking medical advice in a convenient and safe online format. The app that started out as a side option now has 800 thousand users. 2020 really changed things around, with demand for telemedicine growing every day. The 35 thousand telemedicine consultations held since the onset of the pandemic make as much as 80% of the entire remote consultation count since app launch. SmartMed enabled people across the nation to get remote advice from Medsi's best doctors (with patients free to choose between video and messenger chat formats), get help in understanding lab reports, plan which examinations to take, learn about caring for infected children, and more. Throughout April of 2020, SmartMed COVID-19 service was made free for all Russian residents, with people invited to get immediate consultations from on-duty physicians and pediatricians as many times as they needed it.

MTS

MTS is among the providers of cloud computing resources for the worldwide Folding@Home project aimed at assisting scientists in developing efficient drugs to treat COVID-19 through protein folding simulations.



As the pandemic broke out, MTS started a whole raft of special campaigns and free services to help subscribers organise their work and daily life under lockdown, such as:

- › Toll-free phone calls to the hotlines of the Federal Agency for Tourism (RosTurizm), Moscow Health Department, the Ministry of Foreign Affairs, and air lines, both international and domestic, and free messaging and incoming calls from hotlines and airlines for users that happened to be abroad;
- › Free access to learning and culture online platforms, such as Netology.ru, Arzamas, Coursera, Geek Brains, Synchronize.ru, the website of Mariinsky Theatre in Saint Petersburg, the Hermitage Museum Academy, and the Mobile Art Theatre;
- › Free two-month access to #CloudMTS for new corporate customers;
- › Reduced-rate plans for health workers directly involved in treating patients with COVID-19;
- › Repayment holidays for all MTS Bank clients with confirmed COVID-19, those aged 60+, and those having their personal income drop by more than 30% due to the stay-at-home order. The bank also developed a special insurance product for its SME customers, providing protection against pandemic-induced revenue losses, and made instant payments free for all individual clients through 31 December 2020.

There were also several other initiatives MTS put into action as a corporate citizen to help the anti-pandemic cause:

- › The company launched 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);

- › The company's corporate volunteers joined the nationwide project titled We're On This Together aimed to help at-risk seniors stranded at home by providing hotline advice on how to go about shopping online and getting medications and other essentials delivered to their door. MTS also started an initiative of its own to teach seniors using the internet to obtain much-needed services, including medical consultations, grocery deliveries, and communications with governmental authorities;
- › MTS unveiled a free app titled MTS 120/80 enabling remote doctor-to-patient communications for those with cardiac disease;
- › MTS moved ultra-fast to deploy a wi-fi network and amplified signal quality at Otradnoye Sanatorium, which had been temporarily repurposed into a hostel for medical staff, while its retail arm provided tablets for no-contact doctor-patient communications;
- › The company supplied thermal vision cameras for the local administrations of Moscow and other cities across Russia along with several private companies as part of Project Smart City;
- › MTS created an interactive map of Moscow specially designed to match local SMEs (such as restaurants and retailers) with nearby residents for meal and product deliveries.

Binnopharm Group and Sistema BioTech



Binnopharm Group became the first company in the world to organise the trial testing and industrial production of a registered coronavirus vaccine (a project done in cooperation with the Russian Direct Investment Fund and the Gamaleya Scientific Research Institute of Epidemiology and Microbiology). The company also produces rapid COVID-19 diagnostic kits designed by yet another Sistema subsidiary, Sistema Biotech.

It was still May of 2020 as Sistema BioTech started supplying first COVIDPCR kits to Medsi and state-run clinics and hospitals in Moscow. The hallmark of the proprietary solution is the capability to do multiple preparation phases in one test tube and to track precisely the RNA region that stays unchanged however the virus may mutate.

In September of 2020, the company had yet another coronavirus diagnostic kit registered. An ultra-rapid alternative to PCR testing, the new product delivers test results in just 15 minutes.

In 2020, Sintez, one of Binnopharm Group's production assets, increased its output of antibiotics and other medications recommend by health authorities for treating patients with COVID-19, by as much as 44%, a move that wouldn't be possible without a new state-of-the-art substance-production line that had cost the company more than RUB320 m. Sintez is the only one Russian pharma factory that produces all 14 positions from the Ministry of Health's list of medications recommended for COVID-19 treatment and prevention.

Etalon Group



Etalon Group was among the very first property developers to launch a remote apartment purchase option in both Saint Petersburg and Moscow. Real-time VR tours enable customers to check on every corner of their potential new apartment, look out the windows, and even examine the outside infrastructure. That is complemented by no-fee online payment capabilities, both for new apartment/retail space/parking stall contracts and for ones signed earlier.

Even before the Russian government issued a shelter-in-place order, the company was taking active steps towards reducing the risks of viral spread among employees, such as buying sanitisers, instructing cleaning staff to double down on disinfecting, and taking daily body

temperature measurements. The rules were adopted both at the company's headquarters and at all of its many construction sites. The company also ordered a moratorium on business travels (both inside Russia and abroad) and later sent office staff to work from the safety of their homes.

In addition to that, the company arranged for key deliveries by previous appointment, made sure to install air recirculation units and contactless sanitiser dispensers at every office and facility, and introduced rigid hygiene mandates, taking regular body temperature readings and requiring mask- and glove-wearing and social distancing from both employees and customers.

Ozon



In addition to strict control measures related to hygiene and mask mandates across its vast network of fulfilment and distribution centres, Ozon also implemented 24/7 monitoring of prices across the marketplace for product categories that were especially sought-after amid the pandemic, penalising 'price gougers'. Just one day into the campaign, the company had blocked over 300 offers with surcharges ranging from 200% to 3,000%, both detected by Ozon and reported by customers. Ozon has also upscaled its 'delivery to the door' service launched back in 2019 and offered users certificates for contactless at-home rapid COVID-19 tests.

Cosmos Hotel Group



Cosmos Hotel Group organised daily five-meals-a-day deliveries for the patients and personnel of the Medsi Otradnoye coronavirus hospital. On top of that, the company supplied essential household items such as bed linens, tableware, and small household appliances, and provided hotel accommodation for doctors.

Segezha Group



Faced with new realities of 2020, Segezha Group updated its occupational health and safety practices with contagion-preventing steps that cost the company RUB 44 m. Along with measures to protect employee health, the company donated RUB18 m to Segezha Central Hospital, RUB1 m to Lesosibirsk Infections Disease Hospital, and RUB 500 thsd to Kostomuksha District Hospital No.1. The money went towards medical equipment, PPE, transport vehicles, and other materials and appliances needed for fighting the coronavirus.

Sistema_VC



VisionLabs has created VisionLabs TERMO, a contactless instant solution for measuring the body temperatures of up to 40 people, whether they are just entering the building or are already inside, with real-time readings automatically displayed on a control screen. The solution is compatible with urban surveillance systems and other types of local video controls, enabling an instant detection of individuals with elevated body temperatures and those they've been in direct contact with. The company has by now had the TERMO solution installed at six buildings of Murmansk Industrial College in Russia's north, as a collective project with Sistema's ME arm Sitronics Group.

Vologda Textile



Vologda Textile moved fast to repurpose weaving machines to produce protective masks from natural textile materials, ramping up output by 5x, to 120,000 linear metres a month (an equivalent of 2 million face masks). The company was put on the governmental 'priority' list of businesses involved in the production of materials and components essential to the anti-pandemic effort.



ANNEX

ABOUT THE CORPORATION

APPROACH TO SUSTAINABILITY MANAGEMENT

ROLL-OUT OF KEY SUSTAINABILITY AREAS IN ACTIVITIES OF SISTEMA GROUP COMPANIES

Annex 1. 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 eighth Sustainability Report. Since 2014, reports have been published annually, and the previous report, for 2019, was published in Q4 2020.

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 Report has been prepared in compliance with:

- › the UN Global Compact;
- › the framework of International Integrated Reporting Council (IIRC) used to describe the business model with respect to capital concept;
- › UNCTAD's Guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals;
- › recommendations of the Task Force for Climate-Related Financial Disclosures (TCFD) and the Carbon Disclosure Project (CDP);
- › indicators of the Sustainability Accounting Standards Board (SASB);
- › the Social Charter of the Russian Business;
- › the basic efficiency metrics and the indices "Responsibility and Transparency" and "Sustainable Development Vector" 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;
- › 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;
- › recommendations issued by the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs (RSPP) following the public verification of Sistema's 2019 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, Segezha Group, BPGC, Etalon Group and Sistema Charitable Foundation.

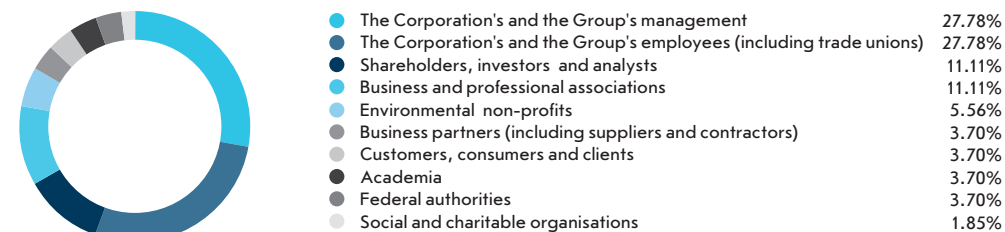
Materiality Assessment Process

In 2020, material topics for disclosure were identified through a survey of stakeholders and the working group for the preparation of the 2020 Report. In order to determine the materiality of topics for stakeholders, a survey of 54 people was conducted, including 24 representatives of external stakeholders and 30 representatives of Sistema Group (senior executives and employees of Group companies).

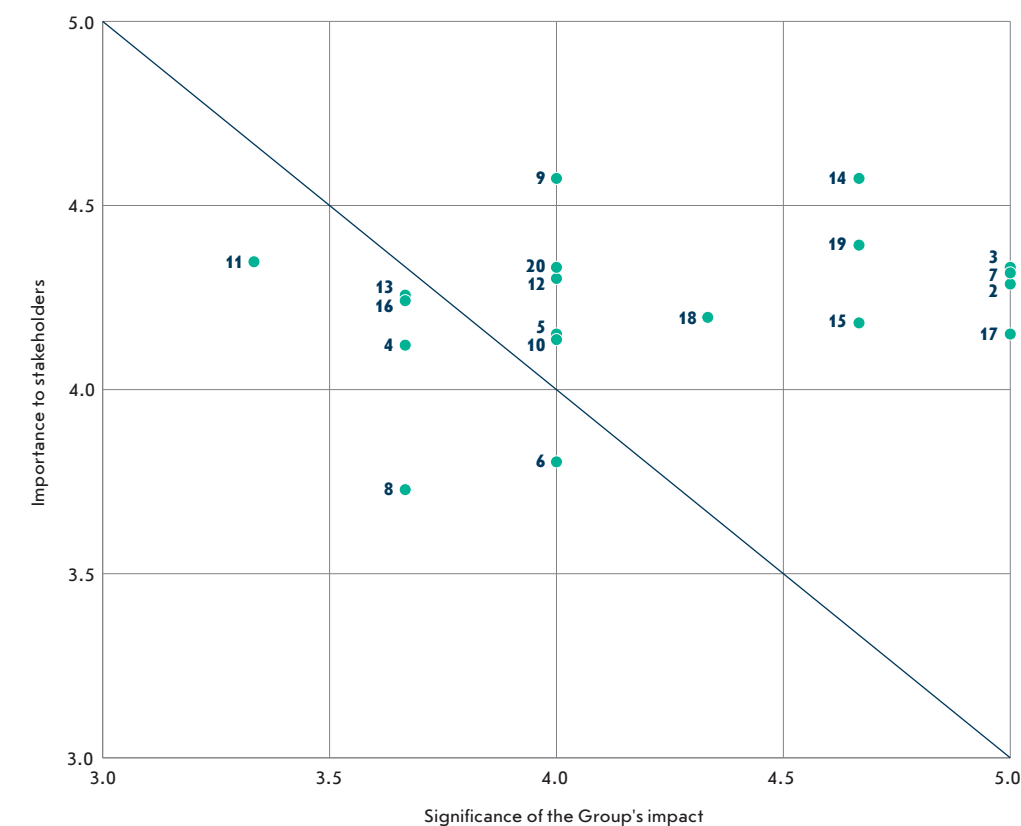
The materiality assessment process resulted in the identification of 14 most material topics in the area of sustainability for disclosure in the Report, which are located in the upper right-hand quadrant of the matrix above the cut-off axis. The working group also decided to include 2 additional topics in the list of material topics, which are disclosed in this Report as well (bold in the matrix), namely:

- › 4. Compliance with legislation and compliance with national and international standards, including industry standards;
- › 16. Social investment.

STRUCTURE OF RESPONDENTS IN THE MATERIALITY ASSESSMENT PROCESS, %



MATERIALITY MATRIX GRI 102-44



- | | |
|---|--|
| 1. Economic and operational performance | 11. Sistema and its portfolio companies as attractive employers |
| 2. Responsible investment | 12. Observance of labour and employment rights |
| 3. Investing in infrastructure development and production upgrades, contribution to the nation's technological leadership | 13. Meeting the need for qualified personnel |
| 4. Compliance with legislation and compliance with national and international standards, including industry standards | 14. Employee health and safety |
| 5. Consumer and customer relations | 15. Confidentiality and personal data protection |
| 6. Payment of taxes and tax risks (amount of taxes and fees paid, tax risk management, company tax policy) | 16. Social Investment |
| 7. Role of senior governance bodies in sustainability matters | 17. Contribution to the fight against COVID-19 |
| 8. Remuneration of senior/executive management | 18. Climate change and energy management (including greenhouse gas emissions) |
| 9. Ethical business conduct | 19. Operational eco-efficiency (water use, effluents and waste, emissions, biodiversity conservation, and reforestation) |
| 10. Responsible supply chain | 20. Products, services and technologies that help customers reduce their ecological footprint |

UPDATED LIST OF MATERIAL TOPICS BASED ON THE PREVIOUS YEAR'S MATRIX AND RESEARCH FINDINGS [GRI 102-44](#)

MATERIAL TOPIC	CORRESPONDING GRI TOPIC
1. Economic and operational performance	GRI 201: Economic Performance GRI 207: Taxes
2. Responsible investment	GRI 102: General Disclosures
3. Investing in infrastructure development and production upgrades, contribution to the nation's technological leadership	GRI 203: Indirect Economic Impacts
4. Compliance with legislation and compliance with national and international standards, including industry standards	GRI 307: Environmental Compliance GRI 419: Socioeconomic Compliance
5. Consumer and customer relations	GRI 416: Customer Health and Safety
7. Role of senior governance bodies in sustainability matters	GRI 102: General Disclosures
9. Ethical business conduct	GRI 102: General Disclosures GRI 205: Anti-Corruption GRI 415: Public Policy
10. Responsible supply chain	GRI 102: General Disclosures GRI 204: Procurement Practices GRI 308: Supplier Environmental Assessment GRI 414: Supplier Social Assessment
12. Observance of labour and employment rights	GRI 102: General Disclosures GRI 202: Market Presence GRI 401: Employment GRI 402: Labour/Management Relations GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity GRI 406: Non-Discrimination GRI 407: Freedom of Association and Collective Bargaining GRI 412: Human Rights Assessment
14. Employee health and safety	GRI 403: Occupational Health and Safety
15. Confidentiality and personal data protection	GRI 412: Human Rights Assessment GRI 418: Customer Privacy
16. Social Investment	GRI 203: Indirect Economic Impacts GRI 413: Local Communities
17. Contribution to the fight against COVID-19	GRI 403: Occupational Health and Safety
18. Climate change and energy management (including greenhouse gas emissions)	GRI 302: Energy GRI 305: Emissions
19. Operational eco-efficiency (water use, effluents and waste, emissions, biodiversity conservation, and reforestation)	GRI 303: Water GRI 306: Effluents and Waste GRI 305: Emissions GRI 304: Biodiversity
20. Products, services and technologies that help customers reduce their ecological footprint	GRI 416: Customer Health and Safety

Report Boundaries

GRI 102-46

This Report covers Sistema PJSFC and its key portfolio companies, broadly in line with the perimeter of the Corporation's consolidated financial statements, with clarifications given in case of any consolidation differences.

When data for the Group is disclosed, this Report 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

	2020	2019	2018	2017
General disclosures	47	47	47	45
Topics (aspects)	16	17	27	27
GRI standards	49	46	37	36

BOUNDARIES OF INFORMATION PROVISION BY THE PORTFOLIO COMPANIES ON GRI TOPICS GRI 102-45, GRI 102-47, GRI 103-1

MATERIAL TOPICS	SISTEMA	MTS	OZON	SEGEZHA GROUP	ETALON GROUP	MEDSI	STEPPE AGROHOLDING	BINNOPHARM GROUP	BPGC	BUSINESS NEDVIZHIMOST	COSMOS HOTEL GROUP	OTHER ASSETS	INVESTMENT FUNDS
1. Economic and operational performance	+	+	+	+	+	+	+	+	+	+	+	+	+
2. Responsible investment	+	+	+	+	+	+	+	+	+	+	+	+	+
3. Investing in infrastructure development and production upgrades, contribution to the nation's technological leadership	+	+	+	+	+	+	+	+	+	+	+	+	+
4. Compliance with legislation and compliance with national and international standards, including industry standards	+	+	-	+	+	+	+	-	+	+	-	+	-
5. Consumer and customer relations	n/a ¹	+	+	+	+	+	-	-	+	-	+	+	+
7. Role of senior governance bodies in sustainability matters	+	+	-	+	-	-	-	-	-	-	-	-	-
9. Ethical business conduct	+	+	+	+	+	+	+	+	+	+	+	+	+
10. Responsible supply chain	+	+	-	+	+	+	+	-	+	-	+	+	-
12. Observance of labour and employment rights	+	+	+	+	+	+	+	+	+	+	+	+	+
14. Employee health and safety	+	+	-	+	+	+	+	-	+	+	+	+	-
15. Confidentiality and personal data protection	+	+	+	-	-	+	-	-	+	-	-	-	-
16. Charity and social investment	+	+	-	+	+	-	+	-	+	-	-	+	-
17. Contribution to the fight against COVID-19	+	+	+	+	+	+	+	+	+	+	+	+	+
18. Climate change and energy management (including greenhouse gas emissions)	+	+	-	+	+	+	+	-	+	-	+	+	-
19. Operational eco-efficiency (water use, effluents and waste, emissions, biodiversity conservation, and reforestation)	+	+	-	+	+	+	+	-	+	-	+	+	-
20. Products, services and technologies that help customers reduce their ecological footprint	n/a	+	-	+	-	+	-	-	-	-	-	-	-

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:

- › Generated and distributed direct economic value;
- › Sistema Expenditures Related to Voluntary Health Insurance and Social Programmes for Employees;
- › Consumption of Fuel and Energy Resources at Sistema Group
- › Energy Intensity;
- › GHG Emissions Intensity;
- › Ratio of GHG Emissions to Consumption of Fuel and Energy Resources.

GRI 102-56 Sistema's 2020 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 significant 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 these spheres. We will consider the recommendations and comments received from the assurance provider during the preparation of our future reports.

¹ N/a — not applicable

Consideration of recommendations received from the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs regarding Sistema's 2019 Sustainability Report

EXCERPT FROM THE RECOMMENDATIONS OF THE NON-FINANCIAL REPORTING BOARD OF THE RSPP

Cover specific tasks and indicators within the framework of national projects with high priority for the Corporation and present the results of activities and their role in achieving national goals.

Cover in more detail not only the composition of the governance bodies and the list of matters within their remit, but also the analysis of implementation of sustainability-related decisions during the reporting period.

The Report contains information on the Corporation's environmental impact and examples of specific impacts of individual assets. It is recommended to develop this approach and present more data on industry specifics of portfolio companies associated with this risk, measures taken and results achieved. Given industry differences, it is important to select and apply universal indicators, such as energy intensity of production of products and services and relative indicators of environmental impact in each industry.

It is recommended to cover in more detail the management approach to accounting for compensatory measures to reduce anthropogenic impact on the climate in the future.

It is recommended to present in more detail approaches to assessing the effectiveness of social and charitable projects, including not only the methodology, but also the results of annual assessment, in the next reporting cycles.

It is recommended to include in the Report information on specific initiatives for promotion of responsible business practices by suppliers.

The Report provides information on the observance of corporate ethical principles by Group companies. It is also recommended to reflect information on the practical application of these principles taking into account the industry-specific aspects of portfolio companies, e.g., in healthcare, in digital technology and in other sectors.

It is recommended to provide quantitative data with comments and analytical conclusions, including in terms of data consolidation and changes in values. In the event of changes in the data consolidation perimeter for specific year-on-year indicators, it is recommended to carry out a more accurate comparison of their quantitative values.

It is recommended to present the indicator "Environmental protection expenditures" in more detail, so that it is clear what portions of this amount were spent on environmental payments and on measures to reduce the negative impact of portfolio companies.

CONSIDERATION AND FULFILMENT OF RECOMMENDATIONS IN THE 2020 REPORT

The Report describes the contribution of individual assets to various national programmes and projects, including the national programme "Digital Economy of the Russian Federation", the national project "Healthcare" and the national project "Housing and Urban Environment".

The section "Sustainability Governance Structure" presents the results of the development of the sustainability management system in 2020 and 2021.

The section "Energy Management and Climate Change" contains the calculation of the following indicators: energy intensity of Sistema Group's consolidated revenue and GHG emissions intensity for consolidated revenue.

The section "Operational Environmental Efficiency" also provides a breakdown of the Group's environmental impact by industry.

Information on the climate agenda has been expanded in the sections "Energy Management and Climate Change" and "Risk Management".

Will be considered in future reports.

This information has been expanded in the sections "Sustainable Supply Chain" and "Operational Environmental Efficiency".

The section "Product Responsibility" provides examples of portfolio companies' compliance with corporate ethical principles and commitment to responsible business conduct, which is confirmed by industry-specific certifications.

Taken into account throughout the Report. The approach will be improved in future reporting cycles.

The section "Operational Environmental Efficiency" shows environmental protection expenditures and data on environment-related fines.

Certificate of Public Assurance for 2020 Sistema PJSFC Sustainability Report



Annex 2. Report's Compliance with International Standards

GRI 102-55

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102-2 Activities, brands, products, and services	Business Overview	12
102-3 Location of headquarters	Moscow, Russia	
102-4 Location of operations	Business Overview	12
102-5 Ownership and legal form	Business Overview	8
102-6 Markets served	Business Overview	12
102-7 Scale of the organisation	Business Overview	9
102-8 Information on employees and other workers	Business Overview	18
	Key ESG Areas	43
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102-9 Supply chain	Sustainable Supply Chain	79
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102-28 Evaluating the highest governance body's performance	Sistema's Annual Report for 2020	
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102-44 Key topics and concerns raised	Risk Management	55
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102-54 Claims of reporting in accordance with the GRI Standards	Annex 1. About the Report	164
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	Operational Environmental Efficiency	130
GRI 308: Supplier Environmental Assessment 2016		
GRI 103 Management Approach 2016	Sustainable Supply Chain	78–85
308-2 Negative environmental impacts in the supply chain and actions taken	Sustainable Supply Chain	80
	Energy Management and Climate Change	141
GRI 401: Employment 2016		
GRI 103 Management Approach 2016	Wellbeing	88–161
	Human Capital	90–100
401-1 New employee hires and employee turnover	Human Capital	91
	Key ESG Areas	43
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Human Capital	91
401-3 Parental leave	Human Capital	177

INDICATOR	SUBSECTION/COMMENT	PAGE
GRI 402: Labour/Management Relations 2016		
GRI 103 Management Approach 2016	Wellbeing	88–161
	Human Capital	90–100
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.	
GRI 403: Health and Safety 2018		
GRI 103 Management Approach 2016	Health and Safety	101–105
403-1 Occupational health and safety management system	Health and Safety	101
403-2 Hazard identification, risk assessment, and incident investigation	Health and Safety	101
403-3 Occupational health services	Health and Safety	101
403-4 Worker participation, consultation, and communication on occupational health and safety	Health and Safety	101
403-5 Worker training on occupational health and safety	Health and Safety	103
403-6 Promotion of worker health	Human Capital	100
	Health and Safety	103
403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Health and Safety	101
403-9 Work-related injuries	Business Overview	19
	Health and Safety	102
403-10 Work-related ill health	Health and Safety	102
GRI 404: Training and Education 2016		
GRI 103 Management Approach 2016	Wellbeing	88–161
	Human Capital	90–100
404-1 Average hours of training per year per employee by gender and by employee category	Business Overview	19
	Key ESG Areas	42
404-2 Programmes for upgrading employee skills and transition assistance programmes	Human Capital	96
404-3 Percentage of employees receiving regular performance and career development reviews	Human Capital	97

INDICATOR	SUBSECTION/COMMENT	PAGE
GRI 405: Diversity and Equal Opportunity 2016		
GRI 103 Management Approach 2016	Human Rights and Stakeholder Engagement	58–63
405-1 Diversity of governance bodies and employees	Business Overview	18
	Corporate Governance	28
	Human Capital	92
405-2 Ratio of basic salary and remuneration of women to men	Key ESG Areas	42
GRI 406: Non-Discrimination 2016		
GRI 103 Management Approach 2016	Human Rights and Stakeholder Engagement	58–63
406-1 Incidents of discrimination and corrective actions taken	No incidents of discrimination were registered in 2020	
GRI 407: Freedom of Association and Collective Bargaining 2016		
GRI 103 Management Approach 2016	Human Rights and Stakeholder Engagement	58–63
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	
GRI 412: Human Rights Assessment 2016		
GRI 103 Management Approach 2016	Human Rights and Stakeholder Engagement	58–63
412-1 Operations that have been subject to human rights reviews or impact assessments	Human Rights and Stakeholder Engagement	59
GRI 413: Local Communities 2016		
GRI 103 Management Approach 2016	Support to Regions and Social and Charity Projects	142–155
413-1 Operations with local community engagement, impact assessments, and development programmes	Support to Regions and Social and Charity Projects	143
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	
GRI 414: Supplier Social Assessment 2016		
GRI 103 Management Approach 2016	Sustainable Supply Chain	78–85
414-2 Negative social impacts in the supply chain and actions taken	In case of a conflict, negotiations with suppliers are initiated, but if regulatory requirements are violated, Sistema cancels cooperation or imposes a fine	
GRI 415: Public Policy 2016		
GRI 103 Management Approach 2016	Strategy and Responsible Investment Approaches	20–25
415-1 Political contributions	The Corporation does not finance political parties, organisations and movements (the Code of Ethics)	

INDICATOR	SUBSECTION/COMMENT	PAGE
GRI 416: Customer Health and Safety 2016		
GRI 103 Management Approach 2016	Access to Products, Services and Information	110–112
	Customer experience	112–114
	Accessibility and quality	108–115
416-1 Assessment of the health and safety impacts of product and service categories	Product stewardship	114
416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	No incidents of non-compliance have been identified	
GRI 418: Customer Privacy 2016		
GRI 103 Management Approach 2016	Human Rights and Stakeholder Engagement	58–63
	Data Privacy and Security	105–107
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Data Privacy and Security	106
GRI 419: Socioeconomic Compliance 2016		
GRI 103 Management Approach 2016	Ethics and Anti-corruption Efforts	64–71
419-1 Non-compliance with laws and regulations in the social and economic area	Ethics and Anti-corruption Efforts	70

SASB Index

TOPIC	ACCOUNTING METRIC	CODE	SUBSECTION	PAGE
Employee Diversity & Inclusion	Percentage of gender and racial/ethnic group representation for executive management, non-executive management, professionals, and all other employees	FN-AC-330a.1	Corporate Governance	28
			Human Capital	91, 92
Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory	Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment and/or wealth management processes and strategies	FN-AC-410a.2	Strategy and Responsible Investment Approaches	22
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations	FN-AC-510a.1	Ethics and Anti-corruption Efforts	70

Compliance with the UN Global Compact

AREAS	UN GLOBAL COMPACT PRINCIPLES	GRI DISCLOSURE	SUBSECTION	PAGE
Human rights	Businesses should support and respect the protection of internationally proclaimed human rights	102-12 102-13	Participation in International and Industry Initiatives	32–35
	Businesses should make sure that they are not complicit in human rights abuses		Human Rights and Stakeholder engagement Wellbeing	58–63 88–161
Labour relations	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	102-41 407-1	Human Rights and Stakeholder Engagement	58–63
	Businesses should uphold the elimination of all forms of forced and compulsory labour	412-1	Human Capital	90–100
	Businesses should uphold the effective abolition of child labour	412-1		
	Businesses should uphold the elimination of discrimination in respect of employment and occupation	406-1		
Environment	Businesses should support a precautionary approach to environmental challenges	102-11	Risk Management Operational Environmental Efficiency Energy Management and Climate change	52–57 127–137 137–141
	Businesses should undertake initiatives to promote greater environmental responsibility	102-12 102-13	Participation in International and Industry Initiatives Energy Management and Climate change	32–35 137–141
	Businesses should encourage the development and diffusion of environmentally friendly technologies	302-4 307-1	Key ESG Areas Energy Management and Climate Change Operational Environmental Efficiency	39–45 137–141 127–137
	Businesses should work against corruption in all its forms, including extortion and bribery	205-2 205-3 419-1	Ethics and Anti-corruption Efforts	64–71



ABOUT THE CORPORATION

APPROACH TO SUSTAINABILITY MANAGEMENT

ROLL-OUT OF KEY SUSTAINABILITY AREAS IN ACTIVITIES OF SISTEMA GROUP COMPANIES

ANNEX



Compliance with UNCTAD¹

INDICATOR	SUBSECTION/COMMENT	PAGE
Economic area		
A.1.1: Revenue	Business Overview	9
A.2.1: Taxes and other payments to the Government	Support to Regions and Social and Charity Projects	144
A.3.1: Green investment	Key ESG Areas	45
	Operational Environmental Efficiency	129
A.3.2: Community investment	Key ESG Areas	44
	Support to Regions and Social and Charity Projects	149
A.3.3: Total expenditures on research and development	Innovation Management. Digitalisation	74
A.4.1: Percentage of local procurement	Sustainable Supply Chain	80
	Support to Regions and Social and Charity Projects	146
Environmental area		
B.1.3: Water stress	Operational Environmental Efficiency	130
B.2.3: Hazardous waste	Operational Environmental Efficiency	133
B.3.1: Greenhouse gas emissions (scope 1)	Energy Management and Climate Change	140
	The indicator is calculated due to revenue	
B.5.1: Renewable energy	Energy Management and Climate Change	138
B.5.2: Energy efficiency	Energy Management and Climate Change	138
	The indicator is calculated due to revenue	
Social area		
C.1.1: Proportion of women in managerial positions	Human Capital	92
C.2.1: Average hours of training per year per employee	Key ESG Areas	42
C.4.1: Percentage of employees covered by collective agreements	Human Capital	96
Institutional area		
D.1.1: Number of board meetings and attendance rate	Corporate Governance	28
D.1.2: Number and percentage of women board members	Key ESG Areas	42
	Corporate Governance	28
	Human Capital	92
D.1.3: Board members by age range	Sistema's Annual Report for 2020	
D.1.4: Number of meetings of audit committee and attendance rate	Sistema's Annual Report for 2020	
D.1.5: Compensation: total compensation per board member (both executive and non-executive directors)	Sistema's Annual Report for 2020	
D.2.1: Amount of fines paid or payable due to settlements	Ethics and Anti-corruption Efforts	70

¹ https://unctad.org/system/files/official-document/diae2019d1_en.pdf

Climate-Related Financial Disclosures (TCFD)

INDICATOR	SUBSECTION/COMMENT	PAGE
Governance		
a) The board's oversight of climate-related risks and opportunities	Energy Management and Climate Change	141
b) Management's role in assessing and managing climate-related risks and opportunities	Energy Management and Climate Change	141
Strategy		
b) The impact of climate-related risks and opportunities on the organization's business, strategy and financial planning	Energy Management and Climate Change	141
Risk management		
a) The organization's processes for identifying and assessing climate-related risks	Risk Management	53
b) The organization's processes for managing climate-related risks	Risk Management	53
Targets and indicators		
b) Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Energy Management and Climate Change	140

Annex 3. Links to Additional Information

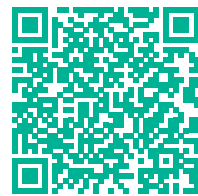
Sistema's official website



Sistema's Annual Report for 2020

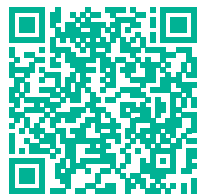


Sistema's Sustainability Report for 2019

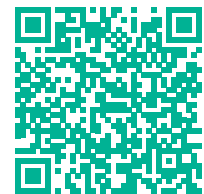


Key Documents

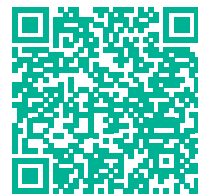
Code of Ethics



Corporate Governance Code



Sustainability Policy



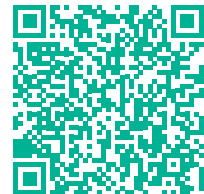
Corporate Social Responsibility Policy



Anticorruption Policy



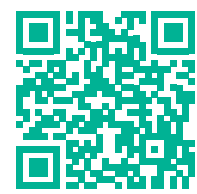
Environmental Policy



Human Rights Policy



Other corporate documents



Contact Details

Victoria Blatova

Executive Vice President for Sustainability

+7 (495) 228-15-00 (#50496)

v.blatova@sistema.ru

Dmitry Kolchugin

Director for External Communications

+7 (495) 228-15-00 (#50729)

kolchugin@sistema.ru

Sistema Charitable Foundation

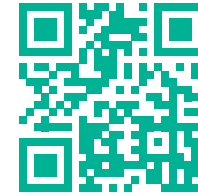
+7 (495) 737-44-19

info@bf.sistema.ru

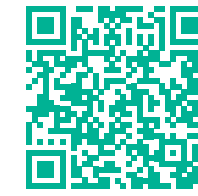
Documents of Portfolio Companies

MTS

Official website



Sustainability Reports



Segezha Group

Official website



Sustainability Reports



Etalon Group

Official website



Annual Reports



Medsi

Official website



Annual Reports



BPGC

Official website

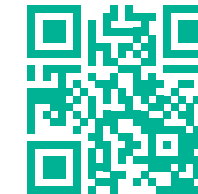


Annual Reports

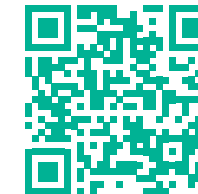


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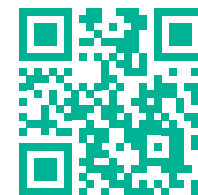
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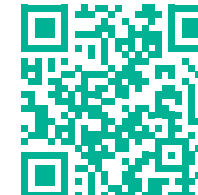
Annual Reports



Ozon



Steppe AgroHolding



Binnopharm Group



Sitronics Group

