

ANNUAL REPORT
of Open Joint-Stock Company
Sistema Joint-Stock Financial Corporation
for 2012

This report has been compiled pursuant to the requirements of the Federal Law "On the stock market". Financial information set out in this annual report is based on the accounting data compiled pursuant to the Russian laws, and contains elements of consolidated financial reports compiled under international standards.



Moscow 2013

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1. SISTEMA'S POSITION IN THE SECTOR.

1.1. Profile of Sistema JSFC.

Overview

Sistema JSFC (hereinafter – “Sistema”, “Corporation” or “Company”) is Russia's largest publicly listed financial corporation. Incorporated in 1993, Sistema is now one of Russia's top 10 companies by revenue, and is one of the largest public investment holding companies in the world. The investment portfolio of the Company comprises stakes in predominantly Russian businesses in a range of sectors, including telecommunications, oil, electric power, consumer, high tech and other industries. Sistema is a controlling shareholder in most of its portfolio companies.

Sistema's global depository receipts are listed under the symbol "SSA" on the London Stock Exchange (1 GDR is equal to 20 ordinary shares). The Company's ordinary shares are listed under the symbol "AFKS" on the MICEX-RTS Stock Exchange.

Business concept

Sistema invests in a range of private and public companies which meet its investment criteria, the main one being return on invested capital. Investments are managed by Sistema's portfolio managers. Assets are distributed among investment portfolios depending on the relevant sector experience of each portfolio manager. Investment portfolio managers work on continuous improvement of the portfolios' key business indicators through the corporate governance procedures of portfolio companies. Effective use of key competences and Corporate Centre's financial resources lies at the basis of successful realisation of Sistema assets' potential.

Sector	% of 2012 revenue
Bashneft	50.2
MTS	37.4
RTI	6.4
MTS Bank	1.7
SSTL	0.8
Corporate Centre	0.2
Other	3.3

1.2. Shareholders' equity structure.

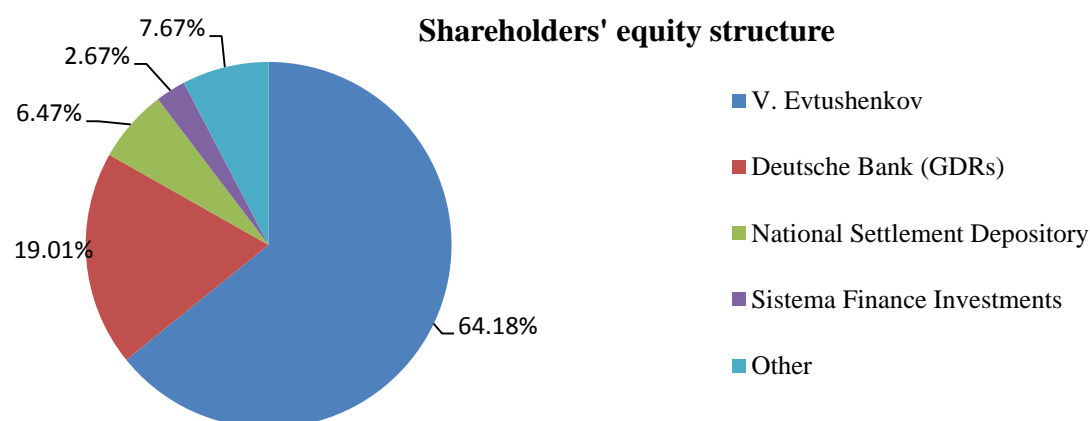
Sistema has 9,650,000,000 ordinary shares outstanding, with the par value of RUB 0.09 each. The Company's shareholders' equity amounts to RUB 868,500,000.

In February 2005, Sistema conducted an initial public offering and listed its shares in the form of Global Depository Receipts on the London Stock Exchange under the symbol SSA. One GDR represents 20 ordinary shares. The company's ordinary shares are traded under the symbol AFKS on the MICEX-RTS Stock Exchange. Approximately 19% of Sistema's shares are traded on the London Stock Exchange as GDRs and 5.2% of shares are traded on MICEX-RTS.

The portfolio of Sistema includes two public companies: MTS ADRs are traded on the New York Stock Exchange (ticker: MBT) and MTS ordinary shares are traded on the MICEX-RTS Stock Exchange (ticker: MTSS), Bashneft ordinary and preference shares are traded on the MICEX-RTS Stock Exchange (ticker: BANE, BANEP).

The Chairman of the Board of Directors Vladimir Evtushenkov is the principal shareholder of Sistema (64.18% of shares).

Chart 1:



*GDR Holders - Top 10 Institutional Investors**

# Institutional investor	% of total GDRs	% of authorised share capital
1 UBS AG	25.1	4.77
2 SKAGEN AS	15.1	2.87
3 J.P. Morgan Asset Management	6.0	1.14
4 The Vanguard Group	5.4	1.03
5 GIC Asset Management Pte.	4.4	0.84
6 Baring Asset Management	3.7	0.70
7 TKB BNP Paribas Investment Partners	3.1	0.59
8 East Capital Asset Management AB	2.9	0.55
9 HSBC Global Asset Management	2.5	0.48
10 BlackRock Investment Management	2.1	0.40

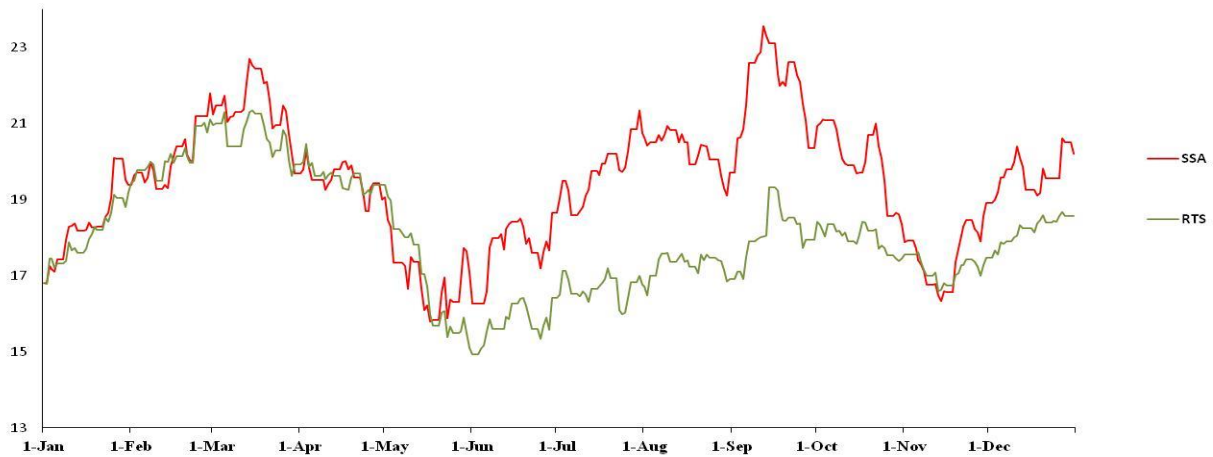
* As of January 30, 2013

Sistema's GDR price performance on the London Stock Exchange

Sistema's GDR price increased by 20.2% in 2012 and outperformed key indices including RTS and MSCI Russia. The closing price of Sistema's GDR on the London Stock Exchange on the first trading day of 2012 was US\$ 16.81 with Sistema's market capitalisation of US\$ 8,111m, while on the last trading day the price reached US\$ 20.2 with the market capitalisation of US\$ 9,745m. The Corporation's GDRs reached a high of US\$ 23.56 on September 12, 2012 and a low of US\$ 15.79 on May 17, 2012. Average daily trading volume on the London Stock Exchange in 2012 amounted to 707,684 GDRs.

Graph 1:

Sistema's GDRs vs RTS Index in 2012*



* Source: Bloomberg

Buyback programme

In May 2012, Sistema launched a buyback programme for its Global Depository Receipts and ordinary shares. In aggregate, Sistema bought back 6,452,619 GDRs at an average price of US\$ 19.96 per GDR, and 19,784,700 ordinary shares at an average price of RUB 25.96 per share within the period from the start of the buyback programme on June 6, 2012 to its completion on October 15, 2012.

2. PRIORITY BUSINESS AREAS AND DEVELOPMENT STRATEGY.

2.1. Mission and strategy of Sistema JSFC.

Mission

Long-term growth of shareholder value through effective management of asset portfolio and achievement of high returns on investments.

Value creation model

The investment portfolio of Sistema is composed of predominantly Russian businesses, which include mature companies with stable cash flows and developing companies with significant growth potential. Since the mature assets comprise the largest part of the portfolio, Sistema has significant resources for investing in developing assets and taking new opportunities available in the market.

Investment strategy

Criteria and process

- The Corporation acquires assets mainly in complementary sectors making it possible to use the expertise of the Corporation and to realise synergies with the existing portfolio. The Corporation also invests in new economically attractive industries, such as agriculture, infrastructure, transportation and logistics, as well as chemicals and petrochemicals.
- Sistema JSFC concentrates its efforts on large-scale assets and projects worth at least US\$ 300m, which enables the company to take a leading position in the sector by means of achieving synergy effects, taking industry consolidation opportunities and ensuring successful implementation of its investment and operational strategy.
- The Corporation makes investments in accordance with the adopted internal investment criteria aimed at increasing economic efficiency:
 - generation of returns on investments above the long-term cost of capital ($IRR > WACC$) with a 5-7 year payback period;
 - focus on projects generating positive income within 3 years.

Asset management

- Sistema JSFC creates its value due to effective portfolio management, including the restructuring of existing assets, selling to strategic investors or an IPO.
- The Corporation aims to maintain a balanced portfolio that includes large cash-generating core assets and companies at the stage of active business development.
- The assets are split into portfolios based on the sector expertise of the portfolio manager. The key indicator of investment performance (KPI) for the management is the TSR (total shareholder return), which is set for each asset.
- The Corporation is pursuing a progressive dividend policy. The amount of dividends is determined on the basis of the performance results of previous financial periods and equals at least 10% of the Group's net income under US GAAP and a minimum of 10% of net gain from transactions, such as sale of assets.

Financial discipline

- To ensure financial stability, Sistema seeks to maintain an optimum level of debt both at the Corporate Centre and portfolio company level.
- The key indicator of financial stability used by the Corporate Centre is the dividend flow / debt ratio, which will be kept at the level of 1 in the long-term perspective.
- The Corporation also aims to acquire assets with an acceptable debt level (Debt/OIBDA of the acquired asset $< 3.0x$) in order to maintain a stable financial position for the Group as a whole.

Cooperation with partners and professionals with relevant sector expertise

- The Corporation aims to set up and to develop partnerships with leading international and Russian companies, to exchange experience and industry-specific expertise, and to diversify financial risks.
- Sistema JSFC oversees the implementation of portfolio companies' investment strategy by participating in the work of their governance bodies and by engaging industry experts for the work on the boards of directors.

2.2. Sistema JSFC portfolio.

In November 2012, the Board of Directors of Sistema approved a new organisational structure, with assets to be split into portfolios.

With the introduction of a new organisational structure the capital management principles were revised to ensure competition for project funding based on NAV and IRR. The incentive system of the management was also improved and tied primarily to the returns generated by investment projects.

Portfolio companies of Sistema JSFC:

	MTS, a leading telecommunications operator in Russia, Central and Eastern Europe.
	Bashneft, one of the largest oil companies in Russia.
	Bashkirian Power Grid Company (BPGC), one of Russia's largest regional power grid companies.
	Sistema Mass-Media (SMM), one of the leading media holding companies in Russia.
	MTS Bank, one of the biggest commercial banks in Russia.
	Detskiy Mir Centre, the largest retailer of children's goods in Russia and the CIS.
	VAO Intourist, one of the major companies operating in the tourism market in Russia.
	Medsi Group (Medsi), Russia's largest federal chain of commercial healthcare facilities.
	RTI, the largest Russian company operating in the field of defence, comprehensive security systems, system integration and microelectronics.
	Binnopharm, a biopharmaceutical company that operates Russia's largest full-cycle manufacturing facility.
	Navigation-Information Systems (NIS), one of the leading companies in the Russian navigation market.
	Russkaya Zemlya (RZ Agro Holding Ltd), a major grain producer.
	SG-trans, one of Russia's largest independent operators in liquefied gas transportation.
	RusNeft, one of Russia's leading oil companies.
	Sistema Shyam TeleServices Limited (MTS India), a mobile operator in India.

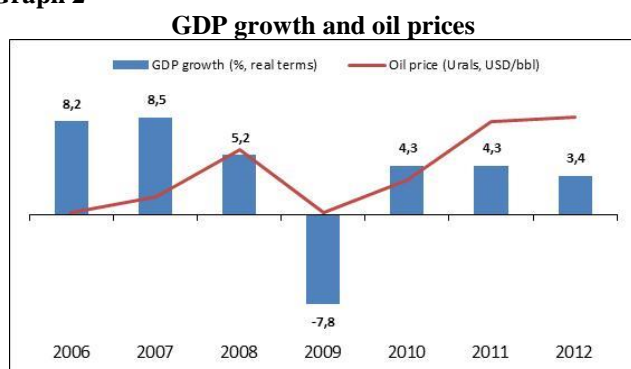
3. REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S PERFORMANCE RESULTS IN PRIORITY AREAS.

3.1. Key Events in 2012.

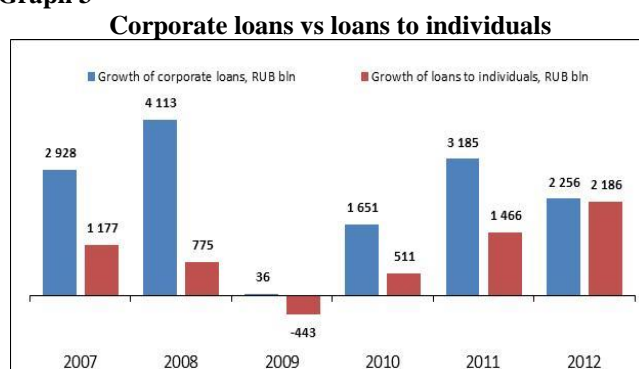
Macroeconomic review of 2012

In 2012, the key indicators of the Russian economy showed volatile performance. The rapid growth of GDP early in the year slowed towards the middle, and the final growth rate turned out to be the lowest over the entire post-crisis period. Nevertheless, the external environment was mostly favourable for the country and for the Group's businesses throughout the year. Average Urals oil prices remained at the level of 2011, which was US\$ 111 per barrel. The rouble strengthened against the dollar and against the euro by 7.2% in real terms. The rise of the rouble's value had a generally positive impact on domestic demand figures, and supported Sistema's businesses focused on the Russian market.

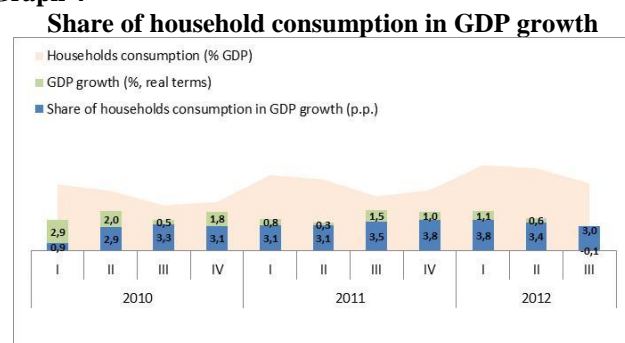
Graph 2



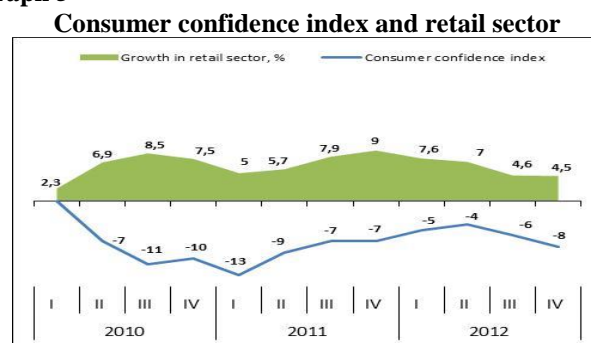
Graph 3



Graph 4



Graph 5



Key 2012 events of the Corporation:

- US\$ 885 million dividend from portfolio companies
- US\$ 370 million from the successful exit from power generation
- 20.2% growth in share price
- New organisational structure
- High Tech assets restructuring
- New projects in agriculture
- Partnership in healthcare business and new opportunities for growth
- Increased transparency of Bashneft's shareholder structure
- New projects in transportation sector
- Eurobonds issue
- 61% of the Board are independent directors
- Buyback programme
- New development strategy in the banking business
- Developments around SSTL

M&A transactions

New projects in agriculture

Objective: to create a leading company in the sector; secure an experienced partner in agriculture to expand scale.

In April 2012, Sistema announced a joint venture with RZ Agro Ltd in the agricultural sector. RZ Agro Ltd was established in 2009 and is affiliated with the Sierentz Group, both controlled by several members of the Louis-Dreyfus family. Sistema contributed 46,000 hectares of farm land to the JV, and the total acreage of the JV is now 87,500 hectares.

Partnership in the healthcare business and new opportunities for growth

Objective: to establish a leading full-cycle healthcare provider.

In April 2012, Medsi commenced a merger of assets with the State Unitary Enterprise (SUE) Medical Centre under the Administration of the Mayor of Moscow and the Moscow Government, a large group of healthcare facilities in Moscow. SUE gained a 25.02% stake in the combined entity in exchange for contributing its property with the market value of RUB 6.043bn.

Exit from the power generation business

Objective: to monetise power generation assets due to regulatory uncertainty; maintain an upside in distribution in the event of privatisation opportunities.

In July 2012, the Board of Directors of Bashkirenergo approved the company's reorganisation in the form of a spin-off resulting in the establishment of two companies: generating company OJSC Bashenergoactiv, and OJSC Bashkirian Power Grid Company. Sistema obtained a 92.48% voting stake in Bashkirian Power Grid Company and received RUB 11.2bn in cash and promissory notes from INTER RAO. Sistema no longer has any interest in the power generation assets.

New projects in the transportation sector

Objective: to enter into a new, growing sector; to build synergies with existing railcar fleet; ability to unlock hidden value within SG-trans; opportunity to create the biggest player in the sector.

In August 2012, Bashneft acquired a 50% equity stake in Financial Alliance LLC, a professional railcar operator, by transferring its fleet of approximately 4,500 railcars to it.

In November 2012, Sistema acquired a 100% stake in SG-trans, Russia's largest independent provider of specialised railcars for transporting liquefied petroleum gas for RUB 22.77bn.

In December 2012, Sistema acquired a 50% equity stake of Financial Alliance LLC from Bashneft for RUB 3.41bn (approximately US\$ 110m). As a result, Sistema increased its rolling stock to 34,500 railcars.

Corporate Highlights

Bond issue

In May 2012, Sistema issued a US\$ 500m Eurobond with an annual interest rate of 6.95% and a maturity date in May 2019.

61% of directors on the Board are independent

In June 2012, three new members to the Board of Directors were elected - Brian Dickie, Jeannot Krecké and Marc Holtzman, increasing the number of Independent Directors on the Board to 8 out of 13 members.

Buyback programme

In May 2012, Sistema launched a buyback programme for Sistema's Global Depository Receipts and ordinary shares. In aggregate Sistema bought back 6,452,619 of GDRs at an average price of US\$ 19.96 per GDR and 19,784,700 of ordinary shares at an average price of RUB 25.96 per share from the start of the buyback programme on June 6, 2012 to its completion on October 15, 2012.

New organisational structure

In November 2012, the Board of Directors of Sistema approved a new organisational structure where assets are distributed by portfolios depending on the industrial expertise of the respective portfolio manager.

Portfolio Highlights

New development strategy in the banking business

Objective: to unlock synergies between financial and mobile services and benefit from the growth of consumer finance.

In February 2012, MBRD changed its name to MTS Bank, and chose the MTS brand name for its further development.

In October 2012, Sistema, MTS and MTS Bank signed a non-binding offer for MTS acquiring a 25.095% stake in MTS Bank in the course of a new share issue. In March 2013, the transaction was concluded on the agreed terms.

Development of SSSL

The licence crisis in India was successfully resolved; licences were acquired on more favourable terms, cashburn was reduced.

In February 2012, the Supreme Court of India issued a judgment revoking 122 telecom licences of 8 telecom operators, including 21 of the 22 licences held by SSSL.

In May 2012, in an attempt to reverse the judgment SSSL filed a curative petition to the Supreme Court.

In October 2012, Indian mobile operators were due to submit their bids to the country's upcoming 2G spectrum auction. SSSL did not submit an application due to an unjustifiably steep recommended reserve price of INR 182bn (US\$ 3.3bn) for a 5MHz spectrum.

In February 2013, the Supreme Court of India dismissed SSSL's curative petition. In the meantime, SSSL informed the Ministry of Telecommunications of India that it was discontinuing its operations in the following ten circles: Assam, Andhra Pradesh, Bihar, Himachal Pradesh, Haryana, Jammu & Kashmir, Madhya Pradesh, North East, Orissa and Punjab.

In March 2013, SSSL won a spectrum in the 800 MHz band in eight circles following its participation in the second round of the licence auction. The circles won by SSSL include Delhi, Kolkata, Gujarat, Karnataka, Tamil Nadu, Kerala, Uttar Pradesh (West) and West Bengal. The company's operational footprint will also include the Rajasthan circle, which was not affected by the Supreme Court's decision of February 2, 2012. SSSL decided not to bid for spectrum in Mumbai, Maharashtra and Uttar Pradesh (East), and will close its operations in those circles. As a result, SSSL will be able to provide services to 10.45m customers in 9 circles using 3 carriers of 1.25 MHz each.

Assets restructuring

High Tech assets restructuring

Objective: to expand the systems integration division.

In September 2012, RTI and NVision Group Managing Company LLC completed the transaction aimed at strategic integration of RTI's and NVision Group's information and communication technology assets. As a result of the deal, RTI (including the assets of SITRONICS) became the owner of 50%+0.5 shares in NVision Group. As part of the transaction RTI contributed cash in the amount of RUB 3bn and some of its assets.

Increasing the transparency of Bashneft's shareholder structure

Objective: to improve ownership structure and corporate governance.

In April 2012, the EGM of Bashneft approved the consolidation of its downstream assets through a merger of its subsidiaries – OJSC Bashkirnefteprodukt, OJSC Ufaneftekhim, OJSC Orenburgnefteprodukt, OJSC Ufa refinery plant and OJSC Novoil – with Bashneft. In October 2012, Bashneft completed the reorganisation.

3.2. Russian Accounting Standards (RAS) financial results of Sistema JSFC

	2012	2011
Revenue, RUB K	26, 460, 099	29,208,979
Income from sales, RUB K	20, 114, 968	20,345,902
Net income (loss) in the reporting period RUB K	88, 026, 615	(13,605,646)

Revenue structure:

	2012	2011
--	------	------

Shareholdings: dividends receivable	26, 104, 253	28,658,070
Other income (rental, agent services, guarantees)	355 846	550,909
TOTAL:	26, 460, 099	29,208,979

The issuer's core business is managing stakes and shareholdings in commercial organisations.

Structure of other earnings and expenses:

	<i>RUB K</i>	
	2012	2011
Interest receivable	2, 774, 833	2,799,878
Interest payable	(4, 575, 040)	(5,698,818)
Other income	168, 304, 649	116,447,056
Other expenses	(100, 274, 901)	(149,036,660)
TOTAL:	66, 229, 541	(35,488,544)

Efficiency indicators

	2012	2011
Productivity of labour, RUB K per employee	135, 692.8	129,817
Debt to equity ratio	0.179	0.131
Long-term debt to the sum of long-term debt and equity	0.076	0.086
Coverage of debt with current income (profit) ratio	2.41	0.65
Level of overdue debt, %	0	0

Analysis of the financial solvency and the level of the credit risk of the issuer shows that in general the issuer has both considerable own funds and borrowing capabilities, with no risk of defaulting on its debt repayment obligations.

Long-term liabilities account for a minor part in the structure of borrowings (46%). Accounts receivable and payable are recurring.

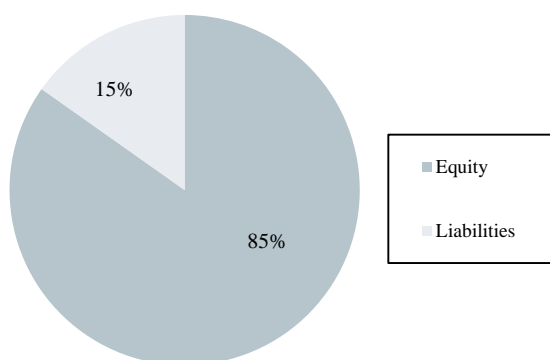
Financial stability indicators

	2012	2011
Net working capital, RUB K	(2, 940, 356)	68,720,564
Current ratio	0.94	5.33
Quick ratio	0.90	5.32

Current assets of the Corporation as of December 31, 2012 were RUB 46, 966, 530K, the volume of its short-term liabilities as of the specified date amounted to RUB 49, 906, 886K, production costs in 2012 amounted to RUB 110, 645K.

Chart 2:

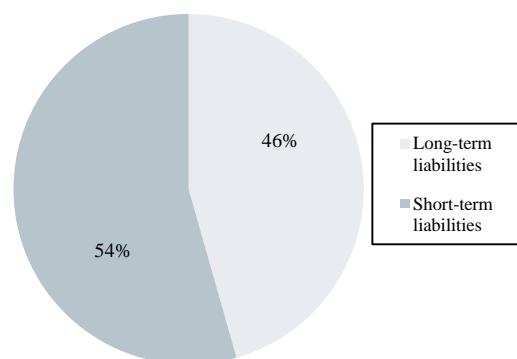
Liabilities & shareholder equity



The share of equity in the structure of the Company's liabilities amounts to 85%.

Chart 3:

Structure of borrowings



The share of long-term debt in the total amount of the Company's liabilities is 46%.

Data on fuel, energy and water consumption

<i>Type of resource</i>	<i>UoM</i>	<i>Consumed in 2012</i>	<i>For reference: consumed in 2011</i>
Boiler fuel	tons of fuel equivalent	0	0
Heat energy	G cal	5,745.48	2,136.325
Electric energy	thousand kW*h	7,328.48	6,953.139
Water	cubic meters	32,255.33	26,582.0

3.3. US GAAP consolidated financial results of Sistema JSFC.

In 2012, Sistema's consolidated revenues increased by 3.9% and 9.9% year-on-year in US dollar and rouble terms respectively, as a result of organic growth at MTS, higher sales at Bashneft, RTI's consolidation of NVision Group, as well as strong performance at Detsky Mir and MTS Bank. In the fourth quarter of 2012, the Group's revenues were up 13.0% year-on-year.

In 2012, selling, general and administrative expenses (SG&A) decreased by 1.6% to US\$ 3,855.8m year-on-year mainly due to the cost efficiency measures taken at MTS, as well as lower costs at the Corporate Centre's level. Depreciation, depletion and amortisation expenses decreased by 3.4% to US\$ 3,159.4m year-on-year.

The Group's adjusted OIBDA increased by 3.3% year-on-year in 2012, largely as a result of MTS' growing profitability, as well as improved OIBDA in Detsky Mir and MTS Bank. Year-on-year decline in adjusted OIBDA by 1.9% in the fourth quarter was mainly due to higher tax expenses at Bashneft. The Group's adjusted OIBDA margin was 21.9% in the fourth quarter and 25.0% in 2012.

Adjusted consolidated net income attributable to Sistema grew by 80.0% year-on-year in 2012, reflecting excellent underlying results across most portfolio companies. The Group reported a 36.9% year-on-year increase in adjusted net income in the fourth quarter of 2012.

Key financial indicators

<i>(US\$m, except for per share amounts)</i>	2012	2011	Year on year change
Revenues	34,240.7	32,940.9	3.9%
Adjusted OIBDA	8,543.1	8,268.5	3.3%
Operating income	3,718.7	3,942.2	(5.7%)
<i>Adjusted operating income</i>	5,383.6	4,999.2	7.7%
Net income/(loss) attributable to Sistema	946.8	218.0	334.3%
<i>Adjusted net income attributable to Sistema</i>	1,794.5	996.8	80.0%
Basic and diluted earnings per share (US cents)	10.2	2.3	333.4%

*Operating review*¹**MTS**

<i>(US\$m)</i>	2012	2011	Year on year change
Revenues	12, 435.7	12, 318.7	0.9%
OIBDA	4, 275.7	5, 187.0	(17.6%)
Operating income	2, 000.8	2, 851.8	(29.8%)
Net income attributable to Sistema	533.9	769.5	(30.6%)

Despite the weakening of the Russian rouble against the US dollar and the mid-year suspension of the company's operations in Uzbekistan, MTS' revenues increased by 0.9% year-on-year in 2012 primarily due to the growth in sales of handsets and data products. The total subscriber base (including Belarus subscribers) decreased to 101 million customers as of December 31, 2012, following the suspension of MTS' operations in Uzbekistan. Excluding customers in Uzbekistan, the company's subscriber base grew by 4.4% year-on-year due to resumed operations in Turkmenistan, as well as the growing subscriber base in Russia and Ukraine.

In 2012, MTS' OIBDA decreased year-on-year due to recognised loss relating to impairments and provisions in Uzbekistan. MTS' adjusted OIBDA increased slightly year-on-year in 2012 as a result of growing income from data services and a reduction in marketing expenses.

The average monthly service revenue per subscriber (ARPU) in Russia increased to RUB 306 in the fourth quarter of 2012, compared to RUB 284 in the corresponding period of 2011, as a result of MTS' on-going efforts to stimulate voice and data usage. Russian subscribers' monthly minutes of use (MOU) increased by 35.7% to 323 minutes in the fourth quarter of 2012, compared to 283 minutes in the fourth quarter of 2011, as MTS continued to focus on increasing voice usage to drive loyalty and customer value.

In the fixed broadband business, the number of households covered increased by 3.0% year-on-year to 11.7 million at the end of the fourth quarter of 2012. The Pay-TV customer base totalled 2.9 million subscribers at the end of the reporting quarter. The number of broadband Internet subscribers increased to 2.3 million year-on-year.

In November 2012, MTS announced a strategic initiative with Microsoft, the global IT leader, to promote innovative mobile solutions by launching Windows 8 "Ecosystem Demo Zones" in MTS retail stores.

In October 2012, Sistema, MTS and MTS Bank signed a non-binding indicative offer received from MTS to acquire 25.095% in MTS Bank in the course of an additional share issue of MTS Bank. In March 2013, the transaction was closed on the agreed terms.

¹ Here and hereinafter the comparison of period to period revenues is presented on an aggregate basis, excluding revenues from intra-segment (between entities in the same segment) transactions, but before inter-segment (between entities in different segments) eliminations, unless accompanied by the word "consolidated". Amounts attributable to individual companies, where appropriate, are shown prior to both intra-segment and inter-segment eliminations and may differ from respective standalone results due to certain reclassifications and adjustments.

Bashneft

<i>(US\$m)</i>	2012	2011	Year on year change
Revenues	17, 125.2	16, 549.1	3.5%
OIBDA	3, 150.1	3, 390.7	(7.1%)
Operating income	2, 557.7	2, 778.8	(8.0%)
Net income attributable to Sistema	1, 279.5	1, 220.7	4.8%

Bashneft's revenue increased by 3.5% year-on-year in 2012 due to an increase in export volumes, as a result of higher exports of oil products, particularly to non-CIS countries.

Bashneft's OIBDA decreased by 7.1% year-on-year in 2012, primarily due to higher tax expenses.

In 2012, Bashneft's oil production increased by 2.2% year-on-year to 15.4 million tonnes. The company sold 4.9 million tonnes of oil products in the fourth quarter of 2012, a 2.1% year-on-year increase, with exports amounting to 1.1 million tonnes of crude oil and 2.2 million tonnes of oil products.

The output of the company's refineries in 2012 decreased slightly down to 20.8 million tonnes of crude oil due to the performance of regular repair works at the Ufa refinery plant. In 2012, the average refining depth was 84.9% and light-product yield amounted to 59.7%, while the Nelson complexity index increased from 8.3 to 8.55 as a result of increasing the capacity of a delayed coking unit at Bashneft Ufaneftekhim from 1.2 million to 1.6 million tonnes per year.

As of December 31, 2012, Bashneft owned and operated a total of 488 petrol stations.

In December 2012, Bashneft acquired LLC Garsar and LLC Mobil-Neft holding licences for oilfields and promising subsoil areas in the Ermekeyevsky district in the west of the Republic of Bashkortostan.

In November 2012, the Consortium comprising Bashneft (70%) and Premier Oil (30%) signed an exploration, development and production service contract (EDPSC) with South Oil Company acting on behalf of the Republic of Iraq for Block 12 in Baghdad. In accordance with the signed contract, the Consortium will conduct an obligatory geological exploration programme at Block 12 for the 2D seismic survey totalling 2,000 linear kilometres and drilling one exploration well. In addition, the Consortium will invest US\$ 120 million in geological exploration over a five-year period.

In October 2012, Bashneft completed its reorganisation through the consolidation of its subsidiaries (OJSC Ufa refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt), resulting in the transition to a single share.

Bashkirian Power Grid Company (BPGC)²

<i>(US\$m)</i>	2012	2011	Year on year change
Revenues	373.1	387.7	(3.8%)
OIBDA	129.0	99.3	29.9%
Operating income	84.2	57.7	45.9%
Net income attributable to Sistema	24.4	20.4	19.7%

Bashkirian Power Grid Company's revenues decreased by 3.8% year-on-year in 2012, mainly due to changes in the payment procedure for power transmission services effective from July 1, 2012, as well as rouble depreciation against the US dollar.

The company's OIBDA increased by 29.9% year-on-year in 2012, mainly due to the optimisation of the company's organisational structure and decreased operating expenses. The OIBDA margin reached 34.6% in 2012, compared to 25.6% in 2011.

In 2012, distribution grid losses decreased by 0.6 p.p. year-on-year as a result of the reduced commercial losses, an increased number of installed electricity meters, and tests conducted to detect non-contractual and non-metered consumption and control over electricity meter readings. Transmission grid losses increased in 2012 mainly due to a decline in consumer demand and operational factors.

In Q4 2012 the effective output of transmission grids remained virtually at the level of Q4 2011, while the effective output of distribution grids increased by 2.6% year-on-year.

In November 2012, the reorganisation of Bashkirenergo was completed. Pursuant to the agreement signed between Sistema and INTER RAO UES in May 2012 Bashkirenergo was split into two companies: generating company Bashenergoaktiv and Bashkirian Power Grid Company. Following the completion of the reorganisation process Sistema obtained a 92.48% voting stake in Bashkirian Power Grid Company and received RUB 11.2bn in cash and promissory notes from INTER RAO UES, payable in installments by September 29, 2013. Sistema no longer has any interest in the power generation assets.

Sistema Shyam TeleServices Ltd.

<i>(US\$m)</i>	2012	2011	Year on year change
Revenues	303.0	262.3	15.5%
OIBDA	(546.5)	(730.0)	-
Operating income (loss)	(621.2)	(828.1)	-

² On November 07, 2012 Bashkirenergo was split into 2 companies: Bashkirian Power Grid Company OJSC (power grid assets) and Bashenergoaktiv OJSC (generating assets). Sistema- Invest got 92.48% of the voting shares of BPGC OJSC. In accordance with the US GAAP standards all generating segment's operations were excluded from the results.

Net income (loss) attributable to Sistema	(462.9)	(636.1)	-
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In 2012, SSTL's revenues increased by 15.5% year-on-year in US dollar terms and by 31.0% in local currency terms mainly due to the growth in the revenue share from non-voice and mobile value-added services (VAS).

SSTL's total wireless (voice and data) subscriber base reached 15 million customers as of December 31, 2012. Blended mobile ARPU in Q4 and full-year 2012 amounted to US\$ 1.48 and US\$ 1.52 respectively.

The data card subscriber base increased by 36.9% year-on-year in 2012 and amounted to 1.78 million subscribers.

Non-voice revenues from both data and VAS in 2012 increased to US\$ 109 million. The share of non-voice revenue as a percentage of total revenue stood at 36%.

In February 2012, the Supreme Court of India revoked 122 licences issued to eight Indian operators in 2008, including 21 out of 22 licences held by SSTL.

In October 2012, Indian mobile operators were due to submit their applications to bid in the country's upcoming 2G spectrum auction. SSTL did not submit its application.

In March 2013, SSTL participated in new spectrum auctions, acquiring licences in eight circles, resulting in a nine circle footprint, including the Rajasthan circle.

Sistema Mass-media³

<i>(US\$m)</i>	2012	2011	Year on year change
Revenues	81.8	101.9	(19.8%)
OIBDA	20.5	(32.0)	-
Operating income (loss)	(14.7)	(73.7)	-
Net income (loss) attributable to Sistema	(11.1)	(63.9)	-

Sistema Mass Media's revenues decreased by 19.8% year-on-year in 2012 largely due to the closure of the studio in Moscow as a result of business restructuring, changes in the accounting methods for revenue from the advertising segment and the rouble depreciation against the US dollar.

Sistema Mass Media's OIBDA stabilised in 2012 due to the cost optimisation programme, business restructuring and organic growth in key high-margin segments.

The Stream-TV subscriber base increased by 21.0% in 2012 to 7.5 million subscribers, while the share of revenue from advertising on Stream-TV as a percentage of total revenue grew by 0.6 p.p. year-on-year to 15.4%. In 2012, the RWS content library grew by 7.3% to 1,600 hours. RWS produced 109 hours of content in-house and sold 140 hours of content in the reporting year.

³ The financial results of Stream.ru are consolidated in the SMM financial results for all the periods presented.

In the third quarter of 2012, SMM continued its business restructuring and closed its film studio in Moscow. The studio production business was divided into OJSC ORK (studios) and RWS (production).

In June 2012, SMM began managing the multimedia content portal Stream.ru (formerly Omlet.ru).

RTI⁴

<i>(US\$m)</i>	2012	2011	Year on year change
Revenues	2, 376.3	2, 093.0	13.5%
OIBDA	12.5	154.4	(91.9%)
Operating income (loss)	(83.2)	50.4	-
Net income (loss) attributable to Sistema	(129.9)	(18.3)	-

RTI consolidates SITRONICS, NVision Group and RTI Systems and is comprised of four principal business units (“BU”) – Defence Solutions BU, Comprehensive Security Systems BU, Microelectronics Solutions BU and System Integration BU.

RTI revenues were up 13.5% year-on-year in 2012 due to the consolidation of NVision Group in the third quarter of 2012 and growing revenue in Defence Solutions BU.

The OIBDA loss in 2012 is the result of recognised loss from the impairment of investments in INTRACOM in Greece, as well as higher operating expenses following the restructuring.

In December 2012, RTI, X5 Retail Group N.V. and RUSNANO launched the trial operation of Perekrestok Store of the Future. The project benefited from the interaction of NVision Group, and NIIME⁵ and Mikron.

In November 2012, RTI and its subsidiaries acquired 83.54% of the voting shares in OJSC NIIDAR. Following the transaction, RTI made a mandatory offer to acquire up to 100% of NIIDAR's ordinary shares.

In September 2012, RTI completed the strategic integration of the assets of RTI Group and NVision Group for IT and communication technologies. Following the transaction, RTI became the owner of 50%+0.5 shares of NVision Group.

In August 2012, after a mandatory buyout process, RTI became the owner of 100% of the shares of SITRONICS. Following the buyout, SITRONICS was delisted from the London Stock Exchange, and the depositary receipts and Depositary Agreements were terminated.

In June 2012, RTI was included in the Defence News TOP 100 list of the largest defence companies in the world.

In February 2012, RUSNANO and SITRONICS launched the production of microchips on the basis of the 90 nm technology. The project is budgeted at RUB 16.5 billion, including co-financing from RUSNANO in the amount of RUB 6.5bn.

⁴ Financial results of RTI Systems and SITRONICS are consolidated in RTI financial results for all the periods presented.

⁵ Molecular Electronics Research Institute

Binnopharm

<i>(US\$m)</i>	2012	2011	Year on year change
Revenues	73.8	38.5	91.5%
OIBDA	16.0	1.3	1,103.2%
Operating income (loss)	6.1	(3.6)	-
Net income (loss) attributable to Sistema	2.1	(4.4)	-

Binnopharm's revenues nearly doubled in 2012, reflecting the higher sales of Binnopharm's own products, and the expansion of its distribution volumes.

Binnopharm's OIBDA demonstrated significant growth in 2012, mainly due to improvements in operating efficiency, and as a result of completing the government contract for delivering the Hepatitis B vaccine ahead of schedule.

During the reporting year, a new bio-technology product Erythropoietin β 2000 ME was added to the company's product portfolio. In 2012, Binnopharm also restarted the production lines for tablets and aerosols.

In 2012, Binnopharm agreed on a merger with Alium, a leading pharmaceutical company. As part of the agreement Sistema's shareholding in Binnopharm decreased from 100% to 74%, while 26% is currently held by Zenitco Finance Management Ltd. The integration was completed in April 2013.

MTS-Bank⁶

<i>(US\$m)</i>	2012	2011	Year on year change
Revenues	712.3	560.8	27.0%
OIBDA	50.7	(6.2)	-
Operating income (loss)	32.3	(23.5)	-
Net income (loss) attributable to Sistema	15.7	(19.9)	-

MTS Bank's revenues increased by 27.0% year-on-year in 2012. MTS Bank reported significant OIBDA growth year-on-year in 2012, largely due to the increased interest and commission income from its retail business.

MTS Bank's loan portfolio, excluding leases, increased by 11.8% to US\$ 5,593 million in 2012, compared to US\$ 5,004 million in 2011. Despite the relatively small increase in the loan portfolio before provisions, the structure of the portfolio changed significantly in 2012 with a higher volume of retail loans, including mortgages, consumer loans and credit cards. The volume of mortgage loans grew by 38% to US\$ 623 million, while the consumer loans

⁶ In February 2012 Joint-Stock Commercial Bank MBRD changed its name to MTS-Bank OJSC.

portfolio more than doubled to US\$ 558 million. In 2012, interest income grew by 20.3% year-on-year to US\$ 575.2 million.

In October 2012, Sistema, MTS and MTS Bank signed a non-binding indicative offer. Under the terms of the indicative offer, MTS would acquire up to 25.095% in MTS Bank through an additional share issue by MTS Bank worth up to RUB 5.09 billion. The proceeds from the transaction would be contributed to MTS Bank's authorised capital. In March 2013, the transaction was concluded on the terms announced earlier.

In April 2012, the EGM of MTS Bank's shareholders initiated the reorganisation of MTS Bank through a merger with Dalcombank.

Detsky Mir

<i>(US\$m)</i>	2012	2011	Year on year change
Revenues	892.5	782.9	14.0%
OIBDA	54.3	27.4	97.9%
Operating income	35.6	9.8	264.5%
Net income (loss) attributable to Sistema	11.1	(5.6)	-

Detsky Mir's revenues increased by 14.0% in 2012 as a result of regional store expansion and higher like-for-like sales. OIBDA increased by 97.9% in 2012, which was primarily driven by higher revenues and the cost optimisation programme.

The network of retail outlets amounted to 216 stores, including 20 Early Learning Centre's (ELC) franchised stores acquired in the third quarter of 2012, located in 96 cities across Russia and Kazakhstan. The aggregate retail space was 291,000 m² as of December 31, 2012. In the fourth quarter of 2012, Detsky Mir opened 23 new stores. The online store's delivery network expanded to all the cities covered by the Detsky Mir retail chain, with revenues more than tripling to US\$ 4.1 million.

In October 2012, the Board of Directors appointed Vladimir Chirakhov as the CEO of Detsky Mir.

Intourist

<i>(\$USm)</i>	2012	2011	Year on year change
Revenues	87.5	276.6	(68.4%)
OIBDA	(13.5)	43.8	-
Operating income (loss)	(23.2)	34.5	-
Net income (loss) attributable to Sistema	(24.7)	8.9	-

Intourist reported a decrease in revenues for the full year of 2012, as a result of the change in the accounting method for the company's tour operating and retail sales businesses following the transaction with Thomas Cook.

Intourist reported an OIBDA loss in 2012 due to the recognised losses from the tour operating business in its JV with Thomas Cook.

The termination of a management contract with the owners of Oktyabrskaya Hotel (Nizhniy Novgorod) and Severnaya Hotel (Petrozavodsk) led to a decrease in the number of rooms owned, managed and rented in 2012. The number of tourists travelling through the Thomas Cook JV fell by 19.4% in 2012, mainly due to a decrease in package sales to travel agencies as a result of the growing trend of tourists making their travel arrangements independently.

Medsi

<i>(US\$m)</i>	2012	2011	Year on year change
Revenue	223.9	199.0	12.5%
OIBDA	29.1	31.1	(6.4%)
Operating income	12.0	19.6	(38.8%)
Net income (loss) attributable to Sistema	0.6	6.7	(90.1%)

Medsi revenues increased by 12.5% in 2012, reflecting the wider range of services provided and the growth in patients' visits.

Medsi's OIBDA declined year-on-year for 2012, due to increased expenses relating to the integration with the assets of State Unitary Enterprise Medical Centre, and consultancy services expenses.

In 2012, the number of patient visits and services provided increased by 20.9% and by 47.6% year-on-year, respectively, while the average cheque amounted to RUB 1,400. In the fourth quarter of 2012, the number of services provided increased by 77.0% year-on-year, while the number of patient visits were up 25.5%, and the average cheque grew by 28.6% to RUB 1,800. This is mainly due to an increase in the range of services and an expansion in the number of hospitals, clinics and rehabilitation centres operated by Medsi.

In April 2012, Medsi agreed on a merger of its assets with State Unitary Enterprise Medical Centre, a large group of healthcare institutions in Moscow, which now holds a 25% share in the united company. Following the completion of the merger in the fourth quarter of 2012, Medsi manages 22 medical clinics in Moscow and 11 clinics in the regions, 3 in-patient clinics with a total bed count of 1,160, more than 80 first aid stations across Russia, an ambulance service, 3 wellness centres in Moscow and 3 sanatoriums in Moscow and Crimea. As of December 31, 2012, the total floor space of healthcare facilities was over 230,000 sq.m.

Corporate Centre

(US\$m)	2012	2011	Year on year change
OIBDA ⁷	(240.7)	(219.0)	-
Net loss	(251.7)	(380.6)	-
Debt	1,646.8	1,246.8	32.1%

The Corporate segment comprises the companies that control and manage the Company's stakes in its subsidiaries.

The dividends declared by subsidiaries to Sistema's Corporate Centre segment in the second quarter of 2012 amounted to US\$ 842.0 million.

In 2012, the Corporate Centre's SG&A decreased by 18.1% to US\$ 225.7 million.

In October 2012, Sistema replaced Deutsche Bank Trust Company Americas with Deutsche Bank Aktiengesellschaft as the depositary for its GDR programme, effective from October 22, 2012.

In September 2012, the Board of Directors approved a new composition of Sistema's Management Board. The Board also approved a decision to place a new bond issue by public subscription, comprising series 01, 02 and 03 three-year unconvertible interest-bearing bonds. Each series will consist of 10 million bonds with a face value of RUB 1,000 per bond. The EGM later approved the amendments to the Company's Charter in order to allow the Company to increase share capital by issuing additional 386 million ordinary shares with a par value of RUB 0.09 per share.

In August 2012, Sistema paid its annual dividends of RUB 0.28 per ordinary share for 2011, amounting to a total of RUB 2.7 billion.

Financial review

Net cash provided by operations slightly increased by 4.9% year-on-year in 2012 to US\$ 5,844.3 million.

Net cash used in investing activities totalled US\$ 4,672.3 million in 2012, compared to US\$ 5,185.9 million in 2011.

The Group spent US\$ 4,209.6 million on capital expenditure in the reporting year, compared to US\$ 4,132.1 million spent in 2011, as a result of MTS' planned investment in further deploying its networks, as it develops its LTE network. In 2012 the Group paid US\$ 889.4 million for the acquisition of businesses, net of cash received, including the purchase of SG-trans by Sistema, the cash consideration for the completion of the transaction with NVision paid by RTI, the acquisition of the Russian franchise of Early Learning Centre by Detsky Mir and purchases made by MTS and Bashneft. The Group also used US\$ 367.3 million to increase its banking assets and US\$ 3,438.4 million to increase short-term and long-term investments.

Net cash outflow from financing activities amounted to US\$ 3,098.6 million in 2012, compared to US\$ 481.9 million in 2011. The Group's proceeds from borrowings in 2012 totalled US\$ 3,057.4 million, whereas the principal payments on long-term and short-term borrowings amounted to US\$ 4,444.2 million. Cash outflow from financial activities in 2012 resulted from payments to the shareholders of subsidiaries totalling US\$ 575.8 million compared to US\$ 871.0 million in 2011, and dividends paid by Sistema of US\$ 82.3 million compared to US\$ 89.4 million in 2011.

⁷ Hereinafter OIBDA and net profit (loss) of Corporate Centre are indicated excluding intra Group dividends.

The Group's cash balance from continuing operations stood at US\$ 1,872.7 million as of December 31, 2012 (excluding an amount of US\$ 769.4 million which comprises the Group's banking activities and cash and cash equivalents from discontinued operations worth US\$ 0.9 million) compared to US\$ 2,919.2 million as of December 31, 2011 (excluding an amount of US\$ 1,315.1 million which comprises the Group's banking activities and cash and cash equivalents from discontinued operations worth US\$ 88.4 million). The Group's net debt (short-term and long-term debt less cash and cash equivalents and highly liquid deposits) amounted to US\$ 13,509.0 million as of December 31, 2012, compared to US\$ 12,454.5 million as of December 31, 2011.

Non-GAAP financial indicators

The present section includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial indicators referred to as non-GAAP. The non-GAAP financial indicators should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

Operating Income Before Depreciation and Amortisation (OIBDA) and OIBDA margin

OIBDA represents operating income before depreciation and amortisation. OIBDA margin is an OIBDA indicator that equals a percentage of net revenues. The interpretation of OIBDA may differ from the OIBDA indicators of other companies; it is not a US GAAP indicator and should be considered in addition to, but not as a substitute for, the information contained in our consolidated US GAAP accounts. The Corporation believes that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund capital expenditures, acquisitions of businesses and other investments and our ability to raise and service debt. While depreciation and amortisation are considered operating costs under US GAAP, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our OIBDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the current and future operating performance and value of companies. Adjusted OIBDA can be reconciled to our consolidated operating results as follows:

Operating income and OIBDA

	4Q 2012	4Q 2011	2012	2011
Operating income	967.5	299.1	3,718.7	3,942.2
<i>One-off items</i>	372.6	1,014.8	1,664.9	1,057.0
Adjusted operating income	1,340.1	1,313.9	5,383.6	4,999.2
<i>Depreciation, depletion and amortisation</i>	(733.4)	(800.4)	(3,159.4)	(3,269.4)
Adjusted OIBDA	2,073.5	2,114.2	8,543.1	8,268.5

Net income

	4Q 2012	4Q 2011	2012	2011
Net income	200.9	(530.2)	946.8	218.0
<i>One off items</i>	157.1	791.6	847.7	778.8
Adjusted operating income	357.9	261.4	1,794.5	996.8

3.4. Credit ratings of Sistema JSFC

	<i>Rating agency</i>	<i>Date of most recent update of the rating</i>	<i>Long-term credit rating</i>	<i>Forecast</i>
Sistema JSFC	Standard & Poor's	13.02.2013	BB	Stable
	Fitch	04.12.2012	BB-	Stable
	Moody's	01.11.2012	Ba3	Stable

3.5. Report on payment of announced (accrued) dividends on the shares of Sistema JSFC.

Sistema's dividend policy aims to provide a regular and sizeable dividend flow, while allowing the company to maintain the financial flexibility to take advantage of attractive investment opportunities in the future.

Dividends are declared on the basis of results from the previous financial period, and equal at least 10% of the corporation's consolidated net income under US GAAP (net of any special dividends paid). In addition, in the event of a large asset sale for cash, special dividends will be declared in an amount of at least 10% of the net gain from such a transaction, as determined by the Board of Directors. Under Russian law, the total amount of dividends with respect to any year may not exceed the company's annual unconsolidated net income determined in accordance with Russian Accounting Standards (RAS).

On June 30, 2012 the Annual General Meeting of Shareholders (Minutes No. 2-12) approved the total amount of dividend payment on Sistema's shares for 2011 at RUB2,702,000,000.00, representing a payment of RUB 0.28 per ordinary share (RUB 5.6 per GDR). The total proposed dividend payment has been determined on the basis of Sistema's full year 2012 US GAAP net income and the corporate centre's net gain from the sale of CJSC Sistema-Inventure to OJSC MTS in December 2011.

As of December 31, 2012 the total amount of dividends paid amounted to RUB 2, 701, 785, 762.96. Dividend tax on dividends paid to foreign entities and individuals totaled RUB 102, 430, 413.00.

At present unpaid dividends amount to RUB 214, 237.04. As of December 31, 2012 unpaid dividends amounted to RUB 490, 793.66. The reasons for non-payment of the announced dividends: absence of required information on dividend recipients.

4. OUTLOOK AND STRATEGY OF SISTEMA GROUP COMPANIES.

4.1. Mobile TeleSystems (MTS)

Mobile TeleSystems (MTS) is the leading telecommunications group in Russia, Eastern Europe and Central Asia. It offers mobile and fixed-line, broadband, and pay TV, as well as content and entertainment services, in one of the world's fastest-growing regions.

Ownership and management

Company	Effective ownership
MTS	53%

The President of MTS is Andrey Dubovskov, and the Chairman of the Board of Directors is Ron Sommer.

Sector

The Russian mobile telecommunications market is one of the most developed in the world, with the service penetration rate still growing, reaching 161% in 2012. The marketing efforts of mobile operators continue to focus on increasing the loyalty of existing customers by improving quality of service, stimulating consumption and enhancing the attractiveness of the product range. The operators' transition to a profit sharing scheme with dealers has improved the quality of the subscribers attracted.

In 2012, the volume of mobile data business in Russia increased by 32% in revenue. The 'Big 3'⁸ operators have seen mobile internet traffic rise by 36%, while revenues from their data businesses increased by 112%. The broadband market in Russia grew by 15% and reached 22m households, while the penetration rate of broadband services reached 50.1%. MTS is one of the top-5 broadband operators by subscriber numbers.

At the end of 2012, the pay TV market in Russia passed 41.24m households, with 11.46m households having access only to satellite TV. The pay TV market grew by 17.9% in 2012.

Outlook

Revenue growth in the Russian telecom market is projected at 3.4% annually until 2015. Data services will be the main driver for this, while mobile and fixed internet traffic will continue to grow rapidly, and will increase 1.5 to 2 times every year due to the greater penetration of smartphones and the considerable potential for development in the fixed broadband segment. In the next three years, the fixed broadband and pay TV markets are expected to increase by 20% in monetary terms.

The market for mobile payments and convergent products created at the interface of the telecom and financial services markets is projected to grow significantly. The consolidated annual growth rate in the world market of mobile payments will amount to 102% in 2012-2014, while the Russian market for mobile billing services will grow 15% each year and the Russian retail lending market will grow by 8%.

Steady growth in 2012

In 2012, MTS focused on developing mobile data services based on innovative communication technology. Over the year, MTS expanded its 3G network in Russia by 24.9%, increasing the number of base stations to more than 27,000, and launched 4G networks in the Moscow region and in Kazan.

In October 2012, MTS completed its mobile network modernisation project in Moscow, creating the infrastructure required for explosive growth of data traffic and large-scale development of LTE networks.

Thanks to the GPON project implemented in 2012, the broadband networks based on fibre-optic cables, with a speed of up to 200 Mb/sec, became available to 1m Moscow households. Further development of convergent services based on GPON in Moscow will focus on selling off-the-shelf products, cloud services and security systems.

⁸ MTS, Megafon, Beeline

Operating strategy

MTS aims to strengthen its position as a leading national mobile operator in Russia and the wider CIS, both in subscriber numbers and revenue. MTS will invest in expansion of its 3G networks and preparations for a major roll-out of 4G networks, including searching for new sites, connecting base stations to fibre-optic lines and developing the GPON project in Moscow.

MTS prioritizes the development of new products. MTS's pay TV will continue expanding due to the launch of digital TV in various Russian regions in September 2012, and in 2013, the implementation of a hybrid TV platform which will consolidate TV broadcasting on three screens (TV, mobile device and computer), and a CDN network.

MTS is becoming an important player in the Russian retail lending market due to its joint project with MTS Bank. The main strategic areas of the MTS Money project are expanding mobile commerce, enhancing mobile payment opportunities, promoting new financial products to the non-banking market, and stimulating the sales of smartphones and data-generating devices.

Investment strategy

Sistema sees MTS as a promising core asset capable of maintaining good growth rates and increasing shareholder value by implementing its operating strategy. This includes the sectors bordering the traditional telecom business, which have significant growth potential: retail sales, M2M, content sales on the internet, mobile banking through MTS Bank, services based on NFC technology, cloud computing and others. The investment strategy for MTS is aimed at delivering a gradual increase in dividend pay-out.

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	12,436	12,319	0.9
OIBDA	4,276	5,187	(17.6)
Net income, stake of Sistema	534	770	(30.6)
Debt	7,631	8,700	(12.3)

Operating results

Indicator	2012	2011	%
Mobile subscribers (million)	101.0	106.1	(4.7%)
ARPU (RUB)	297	273	9.2%
MOU (minutes)	304	269	13.0%

Key events of 2012

In October 2012, Sistema, MTS and MTS Bank signed a non-binding indicative offer regarding an acquisition of an up to 25.095% stake in MTS Bank by MTS in a follow-on offering. In March 2013, the transaction was concluded in line with the terms announced on October 25, 2012.

In September 2012, MTS launched Russia's first TDD (time division duplexing) LTE network in Moscow and the Moscow region.

In August 2012, the Tashkent Commercial Court granted a petition by the State Agency for Communications and Information of Uzbekistan (SACI) to withdraw all operating licences of Uzdunrobita FE LLC, MTS' wholly owned subsidiary in Uzbekistan.

In July 2012, the Federal Service for Supervision in the Sphere of Communications, Information Technologies and Mass Media (Roskomnadzor) allocated MTS the necessary licence and frequencies to provide LTE telecommunication services in Russia.

In August 2012, MTS resumed its operations in Turkmenistan, having received the licences it required to operate in the country, and satisfied legal and technical conditions.

In June 2012, MTS and Sistema agreed to join forces in developing and managing the multimedia content portal Stream.ru (formerly Omlet.ru).

In June 2012, the AGM of MTS shareholders approved an annual dividend payment of RUB 14.71 per ordinary MTS share for the 2011 fiscal year, amounting to a total of RUB 30.4bn.

In May 2012, MTS acquired a 100% stake in CJSC Tascom through its subsidiary MGTS.

In May 2012, MTS signed a memorandum of understanding with OJSC VimpelCom, OJSC MegaFon and OJSC Rostelecom to jointly lay and operate an underwater fibre-optic cable joining the Russian Far East with Sakhalin Island.

In February 2012, MTS received the first licence in Russia to provide wireless communication services in the LTE TDD (time-division duplexing) standard in 2,595-2,620 MHz range in Moscow and the Moscow region.

4.2. Bashneft

Bashneft is a vertically integrated oil company set up on the basis of the largest fuel and energy producers of the Republic of Bashkortostan. The Company ranks among the top-ten Russian oil producers and the top-five oil refining companies. Oil production in 2012 reached 15.4m tonnes, oil resources at the end of 2012 equalled 2,006.8m barrels.

Ownership and management

Company	Voting stake	Effective ownership
Bashneft	89%	75%

The President of Bashneft is Alexander Korsik, and the Chairman of the Board of Directors is Felix Evtushenkov.

Sector

In 2012, the economic situation in the Russian oil sector was determined by a fluctuation of world oil prices, where the Brent oil price per barrel grew on average by 0.6%, up to US\$ 111.4, and in March 2012 the price reached US\$ 126.2, its maximum over the period. The fluctuation of prices in the external market has an impact on the export duties for crude oil and oil products and the Mineral Extraction Tax, which on average went down by 1.1%, to US\$ 404.3 per ton.

Oil production in Russia in 2012 increased by 1.3%, up to 518m tonnes. Despite the new tax regime 60-66 introduced in 2011 and having a negative effect on the economics of refining, the total refining volume grew by 4.6%, reaching 265.9m tonnes. The growth of refining volumes was also reflected in the reduction of oil export by 1.7% to 238.9m tonnes (including CIS and non-CIS countries). The gasoline prices for 2012 grew on a par with the inflation – by 6.8%.

Auctions were held in December 2012 for three subsoil blocks, including Shpielmann, Imilorskoye, Zapadno-Imilorskoye and Istochnoye deposits in the Khanty-Mansiisk autonomous district, and Lodochnoye deposit in the Krasnoyarsk region.

In 2012, the trend for consolidation in the industry grew stronger, as the largest Russian oil company Rosneft acquired TNK-BP for US\$ 61bn.

Outlook

According to industry experts, oil production in Russia is not expected to grow in Russia in 2013, while stabilisation, or a slight volume reduction, is anticipated. Leading vertically integrated oil companies will increase their investments in upgrading refineries, aiming to comply with technical regulations. They may make other significant investments to achieve a bigger refining depth and reduce the yields of heavy fractions, for which protective duties are expected to be introduced.

In accordance with the Energy Strategy of Russia for the period up to 2030 approved by Russia's government, the main oil deposits of West Siberia are petering out, which will soon make it necessary to explore oil resources of the continental shelf of the Arctic and Far-Eastern seas, East Siberia and the Far East. The share of hard-to-recover oil resources is expected to grow, and exploitation of oil & gas multi-component deposits will be extended.

Oil recovery in the European part of the country will continue to grow, primarily through exploration of resources in the Timan-Pechora province, on the continental shelf of the Arctic Sea, and in the Russian sector of the Caspian Sea, while upstream production in the Volga region and in the Urals may decrease.

Steady growth in 2012

By applying the latest technology, and with the increased efficiency of geological and technical measures, Bashneft's 2012 production volumes grew by 2.2%, reaching 15.4m tonnes. Refining volumes dropped by 1.4% to 20.8m tonnes due to

scheduled maintenance at a number of units. In 2012, Bashneft retained its absolute leadership among Russian oil companies in refining depth, which was 84.9%.

Aiming to increase the raw material supply base, the company has been searching for and exploring new oil deposits in recent years, both in Bashkortostan and in the Nenets Autonomous District, the new strategic region for exploration and production. During late 2011 and early 2012, Bashneft acquired five licenced blocks in the Nenets Autonomous District, with a total area of 6,209 sq. m. The company is also undertaking a large new project in the north of Timano-Pechora, developing the Trebs and Titov deposits, with aggregate recoverable resources of 140.1m tonnes according to the Russian classification (C1+C2). A 3D seismic acquisition on Trebs and Titov deposits was completed in 2012.

To extend its capabilities in exploring and producing hydrocarbons, in 2012, Bashneft joined an international project in Iraq. The Services Agreement for the exploration, development and production of Block 12 (Iraq) was signed in November by Bashneft, Premier Oil, and the South Oil Company of Iraq's Ministry of Oil.

PRMS audit results confirmed Bashneft's oil resources equalled 2,006.8m barrels at the end of 2012, while probable reserves went up by 25.7% and reached 528.3m barrels, and possible reserves increased by 12.9%, up to 657.4m barrels. The recovery efficiency of proved oil reserves in 2012 equalled 123.4%.

In 2012, Bashneft completed reorganisation through merger with its downstream subsidiaries – the Ufa Oil Refinery, Novoil, Ufaneftekhim, Bashkirnefteproduct, and Orenburgnefteproduct. The reorganisation increased the company's transparency and the quality of corporate governance, and provided for centralised management of investment decisions, while consolidating the cash flows.

Operating strategy

In the upstream segment, Bashneft aims to stabilise production at existing oil fields at 15m tonnes a year, and to start production at the Trebs and Titov fields. Bashneft also aims to increase its reserves by executing M&A transactions and buying new licences.

In the downstream segment, the company intends to achieve a refining depth of 94.4% and increase the light product yield to 73.4%, while focusing on cost control, improving the product quality, and securing capacities to produce 100% of engine fuels under the Bashneft brand. The company's strategic plans also include developing export logistics and controlled distribution channels to the end consumer.

Investment strategy

Having restructured the oil business and streamlined the corporate structure in 2012, Bashneft represents significant growth potential for Sistema, both through implementing the operational strategy and development of key assets, and through strategic partnership and M&A transactions. The oil business possesses sufficient resources to provide a stable dividend flow.

Key financial and operating results 2012

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	17, 125	16, 549	3.5%
OIBDA	3, 150	3, 391	(7.1%)
Net income attributable to Sistema	1, 279	1, 221	4.8%
Debt	3, 601	3, 393	6.1%

Operating results

Indicator	2012	2011	%
Crude production (m tonnes)	15.4	15.1	2.2%
Refining (m tonnes)	20.8	21.1	(1.4%)
Light product yield (%)	59.7%	59.9%	-0.2 p.p.
Depth of refining (%)	84.9%	85.9%	-1.0 p.p.

Key events of 2012

In November 2012, the consortium comprising Bashneft (70%) and Premier Oil (30%) signed the exploration, development and production service contract (EDPSC) with South Oil Company acting on behalf of the Republic of Iraq, for Block 12 in

Baghdad. Under the contract, the consortium will conduct an obligatory geological exploration programme at Block 12, for 2D seismic survey totalling 2,000 linear kilometres and drilling one exploration well. In addition, the consortium will invest US\$ 120m in geological exploration within a five-year period.

In October 2012, Bashneft completed a reorganisation started in March 2012 through consolidation of its subsidiaries (the Ufa refinery plant, Novoil, Ufaneftekhim, Bashkirnefteprodukt and Orenburgnefteprodukt), resulting in the transition to a single share. Later, the Bashneft Board of Directors also approved the results of the additional share placements, which were exchanged for the common and preferred shares of Bashneft's subsidiaries as part of the reorganisation process.

In July 2012, Bashneft's retail network completed its transition to full compliance with the Euro-5 standard for sales of petrol and diesel fuel.

In June 2012, the AGM of Bashneft approved annual dividend payments of RUB 99 for each ordinary and each preferred share for 2011, as well as a new composition of the Board of Directors comprising more independent directors.

In June 2012, as part of a reorganisation, Bashneft and its subsidiaries (the Ufa refinery plant, Novoil, Ufaneftekhim, Bashkirnefteprodukt and Orenburgnefteprodukt) completed the share buyout process.

4.3. Bashkirian Power Grid Company (BPGC)

Bashkirian Power Grid Company (BPGC) was founded in November 2012 as a result of the reorganisation of OJSC Bashkirenergo, one of Russia's largest regional energy companies, and incorporated power grid assets in the Republic of Bashkortostan: transmission grids (LLC Bashkirian Grid Company), distribution grids (LLC Bashkirenergo), and a service company (LLC Bashenergouchet).

Ownership and management

Company	Effective ownership	Voting stake
BPGC	79.2%	92.5%

The CEO of BPGC is Andrey Makarov, and the Chairman of the Board of Directors is Felix Evtushenkov.

Sector

Government control and regulation mechanisms play a defining role in the development of Russia's power industry. A government decree issued in May 2012 simplified the procedures of customer transition from guaranteed supply companies to utility companies, and direct access to the wholesale power market. These changes may have a negative effect on the financial performance of Russian utility companies and restrain end-user power prices.

Other factors that had a substantial effect on the industry in 2012 included a government resolution on limiting tariffs of power enterprises, and rescheduling of the introduction of new tariffs from January 1 to July 1, along with a 'reset' of the RAB system for power grid companies and review of the parameters for certain interregional distribution grid companies (IDGCs), effective from July 1.

Another key development in the industry was the incorporation of OJSC Russian Grids, a single management company for the Russian electric power grid system, based on OJSC IDGC Holding. This is expected to ensure further centralised growth of the electric grid system and manage the growth of end-user tariffs.

Russian power grid companies are benefiting from the growth of nationwide power consumption by 1.7% year-on-year. The consumption in Bashkortostan has grown by 3.1% on the back of the low-height housing programme implemented in the region during recent years.

Outlook

Growth in the investment potential of the power grids sector comes from the government preparations currently underway for privatising distribution grid companies, as well as the implementation of pilot IDGC privatisation projects.

The industry is waiting for a finalized regulatory framework for controlling power grid company tariffs, including those migrating to RAB. Appraisal standards for grid company activity within the new framework are expected to include benchmarking mechanisms, which will provide an incentive for all grid companies to increase their operating efficiency and ensure growing profitability for the industry leaders.

According to the forecast by the Federal Tariff Service, power consumption in Russia in 2013 is expected to increase by 2.1%. The growth rate in Bashkortostan for 2013-2014 is projected at 1%.

Steady growth in 2012

The reorganisation of OJSC Bashkirenergo resulting in the establishment of generating company OJSC Bashenergoactiv, and OJSC Bashkirian Power Grid Company was a key event in 2012. Sistema no longer has any interest in the power generation assets.

In 2012, BPGC initiated and executed a number of projects aimed at organisational development, internal optimisation and ensuring the company's competitiveness. Important goals for 2012 included cutting commercial losses during power transmission. The newly implemented programme enabled the company to reduce losses in distribution grids from 9.2% in 2011 to 8.6% in 2012.

Successful implementation of the RUB 2.4bn investment programme made it possible to complete Phase II Akberdino substation, the reconstruction of the substation, and installation of an underground section of the Zaton-Krasnodonskaya overhead cable line, with the total length of the overhead section exceeding 6 km. In December 2012, the company commenced a large-scale project in the south-east of Bashkiria, involving reconstruction of the republic's last 110 kV high-voltage line on timber supports. Relocation of the Glumilino-Krasnodonskaya high-voltage line to an underground cable line is in progress. The schematics of power allocation for the PGU Power Plant 5 under construction in Ufa are complete. In 2012, BPGC provided power connections totaling 178.4 MW for new consumers.

Operating strategy

The organic growth strategy of BPGC for 2012-2016 provides for a higher operational efficiency in all segments, and will be implemented in close collaboration with the local authorities and major consumers. The company is planning to equip consumers with metering units and transfer to a 'smart' metering system, to upgrade, partly replace, and increase the efficiency of existing equipment. The Smart Grid pilot project has started, and large-scale work is in the pipeline.

The electrical grid assets currently have sufficient potential for value growth due to the introduction of the RAB long-term tariff-making system by the electrical grid companies, combined with the elaboration of the regulatory framework and availability of significant reserves to improve the operating efficiency of the assets.

Investment strategy

The investment strategy of Sistema mainly focuses on the consolidation of business in distribution grids both through organic growth and M&A transactions, aiming to create a major inter-regional distribution grid company. Sistema will consider the possibility of participating in the IDGC privatisation programme. In addition Sistema may consider monetisation opportunities for transmission grids.

Key financial and operating results 2012

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	373	388	(3.8%)
OIBDA	129	99	29.9%
Net income attributable to Sistema	24	20	19.7%

Operating results

Indicator	2012	2011	%
Transmission grid, effective output (m kW)	20, 192	21, 296	-5.2%
Transmission grid, losses (m kW)	305	315	-3.2%
Distribution grid, effective output (m kW)	18, 514	17, 962	3.1%
Distribution grid, losses (m kW)	1, 741	1, 815	-4.1%

Key events of 2012

In July 2012, the EGM of Bashkirenergo's shareholders approved the decision on the company's reorganisation in the form of a spin-off resulting in two companies: generating company Bashenergoactiv and Bashkirian Power Grid Company. Upon completion of the reorganisation process in November, Sistema-Invest obtained a 92.48% voting stake in Bashkirian Power Grid Company and received RUB 11.2bn in cash and promissory notes from INTER RAO, payable in installments by September 29, 2013. Sistema no longer has any interest in the power generation assets.

4.4. Sistema Mass-Media (SMM)

Sistema Mass-Media (SMM) is one of the leading media holding companies in Russia, managing assets in pay TV, premium movie and TV content production, and advertising. SMM owns and manages CJSC TV Company STREAM (Stream), CJSC Russian Worldwide Studios (RWS), Maxima Advertising Agency (Maxima), CJSC TsTV (TsTV), and the web portal Stream.ru.

Ownership and management

Company	Effective ownership
Sistema Mass-Media	75%-1

The President of SMM is Peter Gerwe, and the Chairman of the Board of Directors is Evgeniy Savostyanov.

Sector

According to PriceWaterhouseCoopers, the media market in Russia in 2012 grew by 10.3% to US\$ 26.6bn. At the end of 2012, according to J'son&Partners Consulting, the Russian pay TV market was 31.9m households subscribing to cable, satellite and IPTV, 30.3m of which were active users of the TV services. At the same time, the Russian market's revenues still lag behind global trends: ARPU (average revenue per user) in Russia is around US\$ 4.4, whereas the US figures reach US\$ 86.

Production of feature films in Russia is decreasing due to low distribution monetisation and high competition from world leaders in motion picture production. On the other hand, the TV series production rate was stable at 1,800 hours per year.

Growth in the Russian advertising market is outstripping other markets, with an annual growth rate in 2012 of 13%. Internet and cable/satellite TV remain the most promising advertising market segments. Russia belongs to the world's top 10 countries by internet users, and is still showing the highest growth rates in user figures (38% in 2012). Russia's advertising market is highly concentrated, with 50 companies accounting for over 70% of the market. Internal market integration is also significant, with over 80% of budgets attributable to network agencies (19 companies or seven groups).

Outlook

The Russian media market will keep growing in 2013-2015, with the internet remaining its basic platform. A major event in the internet content market in 2012 was the launch of the international iTunes and Google Play services. These will heighten competition in the Video On Demand segment but will drive content consumption upwards, due to the popularity of the brands and their high compatibility with existing devices. The industry development in 2013 will be aided by alliances of TV content producers and OTT (over-the-top) service operators, as well as the growing penetration of Smart TV with internet access.

The advertising segment will consolidate around the major network agencies shaping the media advertising landscape. Growth in competition from global market players is also anticipated due to the established preferences of major Russian advertising clients. Still, the solid growth dynamics according to ZenithOptimedia's forecast are expected to make Russia one of the top seven world powers by advertising expenses in 2015.

The studio production segment is expected to enjoy continued demand for TV series in 2013, although a decrease of purchase prices is anticipated owing to growing competition, including that from Western producers.

Steady growth is projected for the Russian pay TV service sector: according to IKS-Consulting, 64% of all Russian families will use pay TV in 2016.

Steady growth in 2012

In line with market demand, RWS's studio business ramped up production of mini-TV series in 2012, which enabled it to get a higher number of TV channels interested in RWS' products. Its content library increased to 1,600 hours. In 2012, it decided to spin off the production studios into a separate business, OJSC ORK, unrelated to RWS's producing activity. This will make it possible to decrease the administrative load on the producer centre, develop the assets independently, and centralise professional expertise. As a result of the restructuring, the studio in Moscow was closed, and production transferred to St Petersburg.

In May 2012, SMM re-branded its Stream.ru service. It launched applications for all popular devices and platforms, and by the end of 2012 had created one of the largest high-quality content libraries in Russia.

Stream TV strengthened its market position and became a leader by average monthly reach in every niche group. Stream's channel distribution network includes over 1350 cable, satellite and IPTV operators in more than 800 Russian cities and towns. The subscriber base grew by 21%, to 7.5m unique subscribers, while the audience increased to 19.5m viewers.

Operating strategy

The company's film production plans for 2013 include increasing the market share of TV series through enhancing the number of projects and monetising the library. The main goal of the film production business is to achieve net profit, particularly as a result of transferring film production to St Petersburg, and by expanding the company's customer base.

The company's goals for 2013 include increasing Stream.ru's market share by both audience and income, and developing its functionality and accessibility from all mainstream devices.

The advertising business will develop the key segment of outdoor advertising by bringing in new high-margin mid-range advertising customers, as well as competing for the advertising budgets of the major customers.

SMM will look into opportunities to strengthen its position in the advertising market significantly through M&A deals and partnerships with other market players.

In the TV segment, SMM is focused on enhancing its telecom operator and subscriber base, growing incomes and monetising additional content.

Investment strategy

SMM's investment strategy is aimed at the company's stabilisation and building core assets using TV and digital resources. The company is set to develop these areas both organically and through M&A, with a view to creating an effective leader in the new media and pay TV sectors.

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	82	102	(19.8%)
OIBDA	21	(32)	-
Net loss attributable to Sistema	(11)	(64)	-
Debt	33	46	(28.8%)

Operating results

Indicator	2012	2011	%
Stream TV subscriber base, m	7.5	6.2	21.0%
Library, hours	1,600	1,491	7.3%

Key events of 2012

In June 2012, SMM started managing the multimedia content portal Stream.ru (formerly Omlet.ru) within the agreement signed by MTS and Sistema regarding the management of LLC Stream.

In the third quarter of 2012, SMM continued its business restructuring, closed its film studio in Moscow, and divided its studio production business into two entities, OJSC ORK (studios) and RWS (producing).

4.5. MTS Bank

MTS Bank is a universal commercial bank of federal scale and is among Russia's biggest banks by equity and net assets.

Ownership and management

Company	Effective ownership
MTS Bank	94%

The Chairman of the Management Board is Mikhail Chaikin (before February 2013 - Andrey Shlyakhovoy), and the Chairman of the Board of Directors is Alexey Buyanov.

Sector

A liquidity shortage in the banking market at the beginning of 2012 caused banks to depend heavily on private money. Active engagement of all banks with private individuals brought significant growth in private deposits rates in the market, which increased by 21.5% over the year.

Despite the liquidity shortage, at the end of 2012 Russia's banking system enjoyed peak post-crisis growth rates, retail lending becoming the most active banking segment. The growth of private debt to banks exceeded 40%, outperforming the Central Bank's forecast by 20%.

The credit card market grew drastically, by over 80%, compared to the 70% rate recorded in 2011. The total number of loans in 2012 was up 44.5%, while the number of loans provided through credit cards increased by 74.8%.

The share of state-run banks in the country's total banking sector in 2012 exceeded 60%. Banking regulations continued toughening: the H1 capital adequacy ratio increased and Russian banks took measures to implement Basel II and Basel III standards.

Outlook

Resources being scarce, banks are cutting back on corporate lending. They are giving preference to the retail sector, with its associated higher margins, while tightening terms of lending to major corporate customers. Corporate lending rates will continue to slow down in 2013.

The banking industry is becoming increasingly interested in the fastest-growing markets - telecommunications and consumer electronics - for providing financial services to individuals. A significant growth in the number of bank card holders and an evolution of related services in the retail banking sector is projected for the near future.

Credit card penetration in Russia is much lower than in developed economies, which creates a favourable environment for aggressive growth. The share of credit cards in the total private debt to bank is expected to grow from 6.5% to 16.1% by 2016. Thanks to the explosive growth of retail card lending, the average annual increase in lending in the retail sector over 2011-2015 is estimated at 36%.

Steady growth in 2012

The key driver of the bank's development in 2012 was a joint project with MTS, integrating telecom and banking platforms. In February 2012, the bank changed its name to OJSC MTS Bank (previous name: JSCB MBRD) and began to re-brand. In September 2012, the reorganisation of OJSC Dalcombank through a merger with MTS Bank was completed; as a result, MTS Bank received a branch network encompassing the whole of Russia.

In mid-2012, MTS Bank, MTS and MasterCard presented Russia's first NFC shopping solution (the MasterCard PayPass payment service). The segment's development forecasts as well as pilot project results testify to solid prospects for these fast-growing new payment instruments. In November 2012, the bank issued its millionth MTS Money card.

In 2012, MTS Bank's retail loan portfolio almost doubled, exceeding RUB 40bn. It plans to increase private debt to the bank more than six-fold in the next five years.

Operating strategy

The bank's operating goals include optimising internal business processes, cutting costs and improving customer service quality. Investment in re-branding of the Banking Group is an important part of the strategy, designed to create a uniform concept for promoting financial products and services under the MTS Bank brand. MTS Bank also aims to increase the share of high-margin products in the loan portfolio, as well as grow its non-interest income.

Investment strategy

To increase value of its banking assets, Sistema aims to utilize synergies between the mobile communication and banking markets.

As part of the joint project, in October 2012 MTS decided to buy up to 25% of the bank's shares for an amount of up to RUB 5.09bn. A blocking stake in MTS Bank enables MTS to influence the bank's development strategy, and develop its retail segment and the services with the greatest potential for synergies throughout the Group's entire business: credit cards, e-commerce, and distance payments.

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	712	561	27.0
OIBDA	51	(6)	-
Net income/(loss) attributable to Sistema	16	(20)	-

Operating results

Indicator	2012	2011	%
Assets, US\$ m	6,977	6,958	0.3%
Loan portfolio, US\$ m	5,596	5,097	9.8%
- Loan portfolio attributable to the joint project with MTS, US\$ m	234	14	1,571.4%

Key events of 2012

In February 2012, MBRD changed its name to OJSC MTS Bank and chose the MTS brand name as the basis for its further development.

In April 2012, the EGM of MTS Bank's shareholders initiated the reorganisation of MTS Bank by merging with Dalcombank.

In October 2012, Sistema, MTS and MTS Bank signed a non-binding indicative offer regarding the issuance of up to a 25.095% stake in MTS Bank to MTS through an additional share issue by MTS Bank. In March 2013, the transaction was concluded in line with the terms announced on October 25, 2012.

4.6. Detsky Mir Group

Detsky Mir Group is the largest retailer of children's goods in Russia and the CIS. Today the group incorporates the Detsky Mir retail store chain in Russia and Kazakhstan, the ELC chain of early development centres in Russia, the luxury centre Yakimanka Children's Gallery, and the online stores detmir.ru and elc-russia.ru.

Ownership and management

Company	Effective ownership
Detsky Mir - Centre	75%-1

The CEO of Detsky Mir is Vladimir Chirakhov (before November 2012 – Gennady Levkin), and the Chairman of the Board of Directors is Christopher Baxter.

Sector

According to Detsky Mir Group, the children's goods market in Russia in 2012 grew by 10.5% and totaled US\$ 14bn. Considering Renaissance Capital forecast for the 4.6% growth of Russia's total consumer market, children's goods account for one of its most promising and fast-growing segments. At the same time, Detsky Mir's growth rate is almost the double of that of Russia's overall children's goods market, while the company's market share increased from 5.8% in 2011 to 6.4% in 2012.

An especially important pre-requisite for the development of the Russian children's goods market is legislation aimed at reducing unorganized retail, sales of counterfeit products and low-quality goods. Although there were no significant changes to the legal framework along these lines in 2012, there is a strong trend towards tightening the responsibility for violating trade regulations and toughening judicial practices, especially after Russia's WTO accession in August 2012.

Outlook

The trend for regional expansion will continue in the Russian children's goods market over the next few years, projected development of the high-quality retail property market being one of the growth factors. Quality retail facilities available at significantly lower lease rates than those in Moscow and the Moscow region make the Russian regions especially attractive for retail chain development.

Further development of retail chains will cause the share of unorganised retail in the children's goods market to continue shrinking. Another factor promoting this trend is the change in consumption patterns. According to RBC's research, growing incomes in Russia not only increase consumption generally, but also encourage sales of higher-quality, safer products.

The most promising market segments remain infant products, children's clothes, and toys, which account for 80% of the entire segment.

Steady growth in 2012

In 2012, the number of Detsky Mir stores increased by 44% to 216 (including ELC franchise stores), while the chain expanded into 22 new cities in three Russian and three Kazakhstan regions.

In 2012, Detsky Mir acquired the Early Learning Centre (ELC) chain, enabling it to enter the early development children's product niche, broaden its product range by adding new concepts, and also to adopt Western technologies and successful practices in the segment.

The company is active in the fast-growing online sales market. The geography of deliveries from the online store www.detmir.ru expanded from 13 to 66 cities in 2012.

Operating strategy

The company's development strategy is aimed at increasing the operating efficiency of the business, on the back of growing revenue per square meter, reducing operational spending and improving purchasing conditions.

The company is focusing on further developing its own-brand products, a highly profitable business segment that also improves customer loyalty. Further promotion of online sales also remains one of the company's priority development areas.

Other operating objectives include optimising business processes, delivery chain management, and improving the IT infrastructure.

Investment strategy

Sistema's investment strategy is to strengthen Detsky Mir's leading position in the market and further expand the chain, with a focus on organic growth in the Russian regions. There is also potential for M&A transactions, subject to favourable purchasing conditions and synergies with other companies within the Group.

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	893	783	14.0%
OIBDA	54	27	97.9%
Net income/(loss) attributable to Sistema	11	(6)	-
Debt	99	125	(21.3%)

Operating results

Indicator	2012	2011	%
Retail floor space, thousand sq.m	291	236	23.3%
Number of outlets	216	150	44.0%

Key events of 2012

In July 2012, Detsky Mir acquired the British chain of children's early learning goods, Early Learning Centre (ELC) franchise in Russia. ELC is a fast-growing company - as of the end of 2012, it included twenty stand-alone outlets, a number of corners in Detsky Mir stores, and an online store.

4.7. VAO Intourist

VAO Intourist is the largest tourism holding in Russia. It comprises VAO Intourist Managing Company, which has successfully operated and developed in the hotel business for many years, and a tour-operating and retail business managed jointly with Thomas Cook. Intourist owns a 49.9% stake in the joint venture with Thomas Cook.

Ownership and management

Company	Effective ownership
Intourist	66%

The President of VAO Intourist is I. Maydanov (before March 2013 – D. Bass, before May 2012 - Alexander Arutyunov). The Chairman of the Board of Directors is Arnold Spivakovsky (before January 2013 - Raphael Nagapetyants).

Sector

In 2012, the outbound tourism market was under pressure due to the force majeure events of 2011 (revolutions and armed conflicts in a number of countries of North Africa and the Middle East). Consumer demand shifted towards the countries of Europe and South-East Asia. The average price of package tours remained at the level of the previous year, except for the countries with strong price competition (Greece and Spain), where the average tour price dropped by 10-15%. Despite positive trends in tourist traffic and the average tour price, the financial indicators of the industry's operators did not improve, as the tough pricing competition exerted a downward pressure on business profitability.

About 70% of tourist traffic is concentrated in Moscow and St. Petersburg. According to the results of monitoring conducted by STR-Global, the occupancy and profitability rates of hotels in Moscow in 2012 increased by 5% and 7%, respectively. According to the State Statistics Service, there were 285 hotels in Moscow in 2012, with a total of 35,000 rooms. The 3-star hotel segment accounts for about 30% of the entire hospitality market. Non-Russian hotel operators are mostly represented in the 4- and 5-star hotel segment, with a market share of about 29%. During the low season, there is strong pricing competition among Moscow hotels of different categories.

Outlook

According to the forecast for 2013, the demand structure in the tourist market will remain the same in terms of the distribution of price segments and concentration in the lower price segments. It is projected that average prices will grow, except in segments experiencing strong competition, and that the influence of global European players will strengthen and further structuring of the market will continue. According to the forecast of UNWTO – the World Tourist Organisation – tourist traffic in Russia will grow at 3-5% a year on average over the next few years.

The hotel market will see positive trends in the key operating indicators - profitability and occupancy. International hotel operators, such as Accor, Rezidor Hotel Group, Hilton and Starwood Hotels, continue their expansion in the Russian regions.

One of the most important trends that will continue to influence the tourist and hotel markets is the increase in the number of customers booking their accommodation independently on the internet. Direct customer bookings have a positive impact on hotel operators, while in the tour-operating business this trend leads to a decrease in sales.

Steady growth in 2012

The main goal of Intourist in 2012 was to retain its position in the hotel market and to increase the operating efficiency of its hotel chain. Most of the company's efforts were aimed at increasing occupancy rates and improving quality. Active sales development, including sales on the internet, made it possible to increase the

ADR (average price per room/night) and RevPar (Revenue per room) indicators by 20% and 22% respectively, and to reduce the managing company's and hotels' costs.

Operating strategy

The 2013 operating strategy in the hotel business is focused on increasing business efficiency through cost optimisation. Thomas Cook is in charge of developing and implementing the operating strategy of the tour-operating and retail businesses and the main goal of the joint venture is to reach a net income break-even point.

Investment strategy

The investment strategy of Sistema for 2013-2017 is to strengthen Intourist's positions in the hotel and tour-operating markets. The tour-operating business will be developed jointly with Thomas Cook by introducing the best management practices. The hotel business will be reorganized and split into two units: City Hotels 3* and Medical SPA. The creation of the City Hotels 3* chain implies bringing in an international brand (franchise) and renovating the operating facilities to ensure they meet the brand standards; another objective is to build new facilities in Moscow.

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	88	277	(68.4)
OIBDA	(14)	44	-
Net (loss)/income attributable to Sistema	(23)	35	-
Debt	81	102	-21.1%

Operating results

Indicator	2012	2011	%
Rooms	2,610	2,866	-8.9%
Number of tourists, thousands	584	725	-19.4%

Key events of 2012

In April 2012, the management contract with the owners of Severnaya Hotel (Petrozavodsk) was terminated.

In October 2012, the management contract with the owners of Oktyabrskaya Hotel (Nizhniy Novgorod) was terminated.

4.8. Medsi Group (Medsi)

Medsi Group (Medsi) is Russia's largest federal chain of commercial prevention and treatment facilities, providing a full range of medical services. The Group includes three inpatient facilities, 18 clinics, three clinical-diagnostic centres, two rehabilitation centres, and three health centres in Moscow and the Moscow Region, as well as ten primary clinics and over 80 medical stations in other Russian cities, and a rehabilitation centre in Ukraine.

Ownership and management

Company	Effective ownership
Medsi Group	75%-1

The President of Medsi Group is Khawar Mann (before February 2013 - Tatiana Sergeeva). The Chairman of the Board of Directors is Mikhail Shamolin (before February 2013 - Khawar Mann).

Sector

According to BusinessStat, the Russian paid-healthcare services market grew by 9% in 2012 to RUB 417.8bn. This was caused by the rising price of healthcare services, due in part to promoting service packages, as well as the overall growth in the personal incomes of Russians.

Russian medical centres have lately been actively pursuing their own service contract programmes, while cutting back on their voluntary health insurance plans. They have therefore been claiming a potential extra profit of 15-20% of a policy value, which is normally charged by insurers as a markup.

The growth of the commercial healthcare services market was also supported by a decline in shadow medicine, which resulted from doctors transferring from state-run institutions to private clinics. An overall increase in the demands Russians place on the quality of healthcare services was another factor encouraging this growth.

A significant 2012 event was MD Medical Group's IPO on the London Stock Exchange which testified to the high appeal of the industry to financial investors, and to positive expectations of the future development of the sector. A number of other major private healthcare services players also have IPO plans for the near future.

Outlook

According to analyst forecasts, the growth rate of the paid-healthcare services sector will be around 12% per year until 2017, with the increasing costs of services and the commercialisation of state-run medical institutions remaining the key growth factors.

The volume of commercial medicine is expected to grow in 2013 on the back of new legislation dividing all medical services into either paid or free ones. The new law rigorously limits the list of free services covered by mandatory health policies.

The inpatient treatment segment is today's most promising segment of commercial healthcare services. There were no private inpatient facilities in Russia until recently, as they were normally provided on the premises of state-run medical institutions or by minor inpatient departments of commercial clinical and diagnostic centres. An agreement entered into by the State Unitary Enterprise (SUE) and Medsi Group virtually laid the foundations for the private inpatient facilities sector in Russia, with a commercial bed count exceeding 1,000.

Steady growth in 2012

In 2012, Medsi continued to expand, and remained the number-one provider of paid healthcare in Russia. An expansion of its range of services, as well as the acquisition of SUE healthcare assets in 2012, enabled the company to achieve significant revenue increase. The company attained high financial results due to an increase in the total number of patients, growth of the average check indicators and increased overall patient traffic.

Through an agreement signed with SUE in early 2012, Medsi became the owner of three inpatient treatment facilities with a total bed count over 1,000, as well as four adult and one pediatric clinic, two rehabilitation centres in Moscow and a centre in Ukraine, giving it the capacity to provide a full range of medical services. The Group's product range has been enhanced through the inpatient and rehabilitation care segment – a unique feature of Russia's commercial healthcare market.

In 2012, the company focused heavily on optimising its organisational structure and business processes. It launched a project to unify its IT infrastructure and create a shared information space, and drafted a new programme to adopt world-class healthcare service standards.

Operating strategy

Medsi's key strategic goals include business expansion, increasing efficiency and profitability through a presence in all its target markets, strengthening its position in diseases attracting increasing attention, and developing high-tech assistance. The company is planning to use its newly acquired infrastructure to create an integrated healthcare services platform, encompassing a wide range of services from initial consultations and outpatient diagnostics to inpatient and rehabilitation care.

The new inpatient care segment is one of the Group's priority areas, and Medsi's strategy envisages modernising its inpatient facilities and upgrading them in line with the latest international healthcare standards.

The company also plans to continue developing its regional network in Russia and the CIS, and to open up to three new clinics every year, including the possible acquisition of operational regional clinics with solid market positions.

Investment strategy

Sistema plans to develop its healthcare assets and tap into new market segments through efficient mergers and partnerships. To improve Medsi's corporate governance, and increase its investment attractiveness and recognition in international markets, we plan to sell a 25% stake to an international partner with extensive experience in healthcare management. Our investment goal is to prepare Medsi for entering capital markets by 2016.

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	224	199	12.5%
OIBDA	29	31	(6.4%)
Net income attributable to Sistema	1	7	(90.1%)
Debt	84	69	21.7%

Operating results

Indicator	2012	2011	%
Patient visits, ths.	4, 979	4, 118	20.9%
Services provided, ths.	11, 055	7, 491	47.6%

Key events of 2012

In April 2012, Medsi commenced a merger of assets with the State Unitary Enterprise (SUE) Medical Centre under the Administration of the Mayor of Moscow and the Moscow Government, a large group of healthcare institutions in Moscow. SUE gained a 25% stake in the combined entity in exchange for contributing its property, which has a market value of RUB 6.043bn.

In February 2013, Khawar Mann was appointed new President of Medsi Group.

4.9. RTI

RTI is the largest holding in the field of defence, comprehensive security systems, system integration and microelectronics. It has its own R&D infrastructure, and implements projects in radio and space technologies, navigation and microelectronic products, which are unique in scale and complexity. RTI comprises RTI Systems Concern (97%), SITRONICS (100%), and NVision Group (50% + 0.5 share).

Ownership and management

Company	Effective ownership
RTI	84.6%

The CEO of RTI is Sergey Boev. The Chairman of the Board of Directors is Evgeny Primakov.

Sector

RTI operates in the defence industry, focusing mainly on the IT segment for the airspace defence market, a total market of approximately US\$ 1bn. There is hardly any direct product competition in the high-tech segments of state defence contracts, due to unique competencies that differentiate each player. In the mass production of weapons and military equipment, the competitive position is determined by the company's ability to reduce the cost of production.

According to a security systems market survey by AMICO, the Russian security systems market grew by 12% in 2012 and had an estimated value of approximately US\$ 7bn. The narrower segment of comprehensive security and control systems for the regions of Russia is on the threshold of exceptional growth. It is under the strict control of the Russian Government, because demand is growing in more and more regions as they see the possibility of creating intellectual transportation systems and 'Safe City/Region' systems.

According to Frost & Sullivan, the total value of the Russian microelectronics market in 2012 was estimated at US\$ 2bn. Advanced semiconductor products are currently in high demand, which, considering the government's goal to find import substitutes, should provide a maximum load on the Russian production facilities for microelectronics.

Based on analytical data, the Russian information technologies market went up by 10% in 2012 and reached US\$ 30bn. According to IDC, around 67% of IT expenses in Russia are still allocated to hardware, and only 19% to services. Major IT projects are executed as part of federal regional and municipal programmes.

Outlook

According to the state programme, government defence expenses in 2013 may reach US\$ 70bn. RTI considers the defence market to be stable, with long-term government funding. The airspace defence segment RTI operates in is among the Russian state's priority defence areas.

At present, security systems is one of the fastest growing and most promising segments. According to RTI, the expected rate of market growth in the medium term is 15-20%. In the opinion of RTI's management, the key trends are: demand growth related to the need for security provision at the major world sports events to be held in Russia in 2013, 2014, and 2018; a growing need among security agencies for intellectual analytical systems; the development of cognitive information processing and situation analysis centres.

In 2013-2015, the market for microchips for RFID cards and tags is expected to grow by 10-15% annually, as is the market for chips for documents with electronic information carriers. The Russian Government has started forming a regulatory base for developing microelectronics, implementing government projects, and increasing major companies' interest in RFID-based solutions. The key competitive advantage for companies in this segment will be achieving optimal use of production capacities and vertical integration of the supply chain.

According to analysts, the growth of the IT market in 2013, especially in the services segment, is expected to be 10%.

Steady growth in 2012

The key factors behind the successful development of RTI in 2012 are expansion of the company's presence in the system integration market through consolidation of NVision Group and the growth of revenues in defence solutions.

The merger of RTI-based assets was completed in 2012 with the integration of Concern RTI-Systems and SITRONICS, and of SITRONICS and NVision Group assets. The purpose of this consolidation was to create the right conditions for developing the CIS's largest system integrator capable of implementing major IT projects and having the broadest regional presence among Russian IT companies.

Major projects successfully completed in 2012 include hardware and software video surveillance facilities for the presidential elections in Russia, a video surveillance system for the parliamentary elections in Ukraine, and a number of large-scale projects to develop Russia's missile approach warning system.

In the field of integrated security systems in 2012, RTI continued working on the Intellectual Transportation System of Moscow, and commissioned the Resource Management Centre in Tyumen.

The microelectronics segment began manufacturing and supplying products using the 90 nm technology.

In 2012, NVision Group expanded its chain of affiliates and implemented a number of innovative projects for outsourcing networks, telemedicine, and building GPON networks. It also completed the construction of the IT centre for the Sochi Olympics.

Operating strategy

The company will achieve a leading position in the government defence contracts market by developing land-based early-warning intelligence systems and information support for the airspace defence system. It will also do this by planning to develop modern radar stations for internal and export purposes, participating in the

development of satellite communication systems and forming its own R&D centres for communication equipment.

Investment strategy

Sistema's investment strategy aims to improve the efficiency of its assets and to capture leading positions in the high-tech sector in Russia. To achieve this, Sistema intends to develop three standalone businesses focused on defence, systems integration and navigation services. RTI is expected to focus on defence projects and microelectronics, SITRONICS will merge with NIS and oversee development of the navigation segment, while NVision will retain its focus on systems integration.

Key financial and operating results 2012

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	2,376	2,093	13.5%
OIBDA	13	154	(91.9%)
Net loss attributable to Sistema	(130)	(18)	-
Debt	1,338	1,126	18.8%

Key events of 2012

In February 2012, the Military Industrial Committee of the Russian Government appointed Sergey Boev, CEO of RTI, as the General Designer for the Missile Approach Warning System.

In February 2012, RUSNANO and SITRONICS began producing microchips using the 90 nm technology. Launching this new line will double the plant's capacity, making it possible to produce 36,000 plates a year with a diameter of 200 mm. The total budget for the project is RUB 16.5bn, including co-financing from RUSNANO of RUB 6.5bn.

In April 2012, SITRONICS completed the sale of a 3% stake in Intracom Telecom to Rydra Trading Company. As a consequence, SITRONICS' share in Intracom Telecom shrank from 51% to 48%.

In June 2012, RTI was listed among 2011's Top-100 world's largest defense companies according to the annual international ranking, Defense News Top 100.

In August 2012, after a mandatory buyout, RTI became the owner of 100% of SITRONICS' shares. Following the buyout, SITRONICS was delisted from the London Stock Exchange, and the depositary receipts and depositary agreements were terminated.

In September 2012, RTI completed the strategic integration of the assets of RTI Group and NVision Group for IT and communication technologies. Following the transaction, RTI became the owner of 50%+0.5 shares of NVision Group. The RTI Group made the payment under the transaction partly in cash, and partly by transferring to NVision Group the assets currently under the management of SITRONICS Information Technologies and SITRONICS Telecom Solutions (except for Intracom Telecom).

In November 2012, RTI and its affiliates became the holders of 83.54% of voting shares in OJSC NIIDAR. Following the transaction, RTI declared a mandatory offer to acquire up to 100% of NIIDAR's ordinary shares.

In December 2012, RTI, X5 Retail Group N.V. and RUSNANO launched the trial operation of Perekrestok Store of the Future. The project benefited from the interaction of NVision Group, Russia's largest integrator, and NIIME and Micron, with its full chain of development and production facilities for RFID semi-conductor products.

4.10. Binnopharm

Binnopharm is a pharmaceuticals company that operates Russia's largest full-cycle GMP-compliant manufacturing facility, producing bio-technology drugs. The company is focused on developing and producing treatments for such serious conditions as cancer, blood disorders, and infectious and respiratory diseases. It also develops genetically engineered medicines, vaccines and cell technology products for use in regenerative therapy.

Ownership and management

Company	Effective ownership
Binnopharm	74%

The CEO of Binnopharm is Pavel Medvedev (before April 2013 - Alexey Chupin). The Chairman of the Board of Directors is Dmitry Zubov.

Sector

The Russian pharmaceutical market continues to be one of the fastest-growing pharmaceutical markets in the world. In 2012, the finished pharma products sector grew by 16.4%, mainly as a result of retail price rises.

In volume, Russian manufacturers account for almost two-thirds of the market, but are still behind international players in monetary terms. In 2012, the market share occupied by Russian manufacturers increased by 1 p.p. in monetary terms and reached 26.3%, despite a slight reduction in volumes.

Medicines that are not classified as vital and essential are still the most promising part of the industry, as they dominate the current growth rates and are not under pressure from government regulation.

Outlook

Most experts share a positive view on the prospects of the Russian pharmaceuticals market. According to the latest forecast by the Pharmexpert Market Research Centre, the growth in market volumes in 2013-2014 is expected to remain at 13-14% annually. Among growth factors are the programme of healthcare modernisation, the government programme Pharma-2020, the continuing increase in income per capita, and increasing individual health and disease prevention awareness.

Steady growth in 2012

In 2012, Binnopharm's sales doubled as a result of the increase in sales of its own products, as well as the extension of distribution volumes.

The company fulfilled the RUB 500m government contract for delivering the Hepatitis B vaccine ahead of schedule. It complemented its product portfolio with a new bio-technology product – Erythropoietin β 2000 ME, and commissioned its production lines for tablets and aerosols.

It also continued a successful partnership with GlaxoSmithKline, and its subsidiary ViiV Healthcare, on the localisation of antiretroviral drugs through manual repackaging of Kivex. In cooperation with ViiV Healthcare, Binnopharm also started the distribution of Combivir.

In 2012, Binnopharm started a full-scale operation for the Group's distribution division, with representative offices in Moscow, Ekaterinburg, Rostov-on-Don and Krasnodar.

The integration of Binnopharm and Alium, a producer of infusion solutions and blood substitutes, also started in 2012. The deal was structured as an additional share issuance, with Sistema contributing cash and LLC Zenitko Finance Management, Alium's assets. The combined entity will operate under the Binnopharm name. After combining Binnopharm's and Alium's assets, Binnopharm represents a group consisting of two large production facilities that meet high European standards in pharmaceutical production and several distribution companies. The additional share issuance totalled approximately RUB 1.749bn. As a result of the deal, Sistema has decreased its shareholding in Binnopharm from 100% to 74%. LLC Zenitko Finance Management holds a 26% stake in Binnopharm.

Operating strategy

Binnopharm has a goal to become one of the largest Russian developers and manufacturers of pharmaceuticals, and to capture 50% of the Russian market of biotech drugs.

As part of the first stage of biotech production development, the company is expanding its vaccine product mix and launching its own manufacturing facilities for erythropoietin β , interferon α , and filgrastim.

Developing its own distribution chain in the Russian regions will enable it to continue increasing sales volumes.

Investment strategy

Creating strategic alliances and joint ventures with major foreign producers of pharmaceuticals is an important part of Sistema's investment strategy. We are considering a number of companies that have complementary product portfolios or businesses for acquisition.

Key financial and operating results 2012

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	74	39	91.5%
OIBDA	16	1	1,103.2%
Net income/(loss) attributable to Sistema	2	(4)	-
Debt	21	7	206.0%

Operating results

Indicator	2012	2011	%
Capacity utilisation, ampules	44.0%	16.0%	28 p.p.
Capacity utilisation, tablets	1.2%	0.1%	1.1 p.p.
Capacity utilisation, aerosols	3.6%	3.5%	0.1 p.p.

Key events of 2012

In March 2012, Binnopharm launched the first stage of the strategic project with ViiV Healthcare to package the Kivex vaccine.

In July 2012, the company launched the production of aerosols and set up the commercial manufacturing of the Salbutamol inhaler for asthma and bronchitis.

Also in July 2012, Binnopharm completed preparations for the transaction with Panacea Biotech Ltd (India), aimed at transferring the technology for producing a vaccine against haemophilus influenza and a combined quintavalent vaccine against tetanus, diphtheria, whooping cough, hepatitis B and haemophilus influenza.

4.11. NIS

Navigation-Information Systems (NIS) is a leader in the Russian navigation market, carrying out the major technological projects of GLONASS and the Russian satellite navigation system.

Ownership and management

Company	Effective ownership
OJSC NIS	60%

The CEO of NIS is Alexander Chub (before September 2012 – Alexander Gurko). The Chairman of the Board of Directors is Alexey Shavrov.

Sector

The total volume of the Russian navigation and information market in 2012 reached RUB 18-19bn, approximately RUB 12bn of which was allocated to navigation systems and vehicle services, transport safety

projects, and cargo and passenger transportation control systems. The Russian navigation and information systems market comprises over 300 players, and is characterized by a high concentration rate: the 10 major players account for around 80% of the market. The service market focuses mainly on security and navigation services for vehicle owners.

Major state transport safety projects were completed in the world navigation and information market in 2012. The market also showed significant growth in mobile subscribers' requirements, including seamless navigation technologies and a tendency to use multisystem GLONASS/GPS equipment. GLONASS technologies became the standard for the global mass market.

The main drivers for the development of the Russian market are the major state initiatives: the ERA-GLONASS project, road toll systems for heavy vehicles, intellectual city transport systems, cartographic control, as well as a growing demand for telematics and navigation services among private clients.

Outlook

The Russian navigation market is expected to grow by 20% in 2013. The biggest growth is expected in 2014, with the launch of the ERA GLONASS projects, digital tachographs, a toll-collection system for heavy trucks, and regional implementation of the GLONASS technology.

The services segment is expected to outstrip and dominate the market in the future, due largely to the development of the Connected Car concept. The demand for telematics and navigation services will grow among private clients and other categories of users, owing to new opportunities for using satellite navigation technologies to provide comfort and safety, both on the road and inside the car.

Steady growth in 2012

In 2012, NIS proceeded with the two largest state projects – ERA GLONASS and the Intellectual Transport System (Moscow). With the introduction of monitoring and dispatcher control systems, over 30,000 vehicles were equipped with GLONASS/GPS equipment in 2012. The largest clients included OJSC Transneft, FSUE Post of Russia, Olympic Games Transport Directorate, the Russian Ministry of Internal Affairs, the Russian Ministry of Emergencies, and the Government of Moscow.

In 2012, NIS undertook the strategic government initiative to promote GLONASS technologies in the various regions of Russia. Under this programme, regional companies were set up in 19 constituent entities of Russia, and they will be future operators of regional navigation and information GLONASS systems.

Operating strategy

In 2013, NIS intends to create regional navigation and information systems and roll out these services to federal agencies, regional and city authorities, commercial enterprises, and private clients. The full implementation of the regional programme will enable NIS to create a federal network in 58 regions, becoming the only provider of a broad range of navigation and information and telematics services for all categories of clients in each region.

Investment strategy

The investment strategy for NIS focuses on forming the key competencies of the operator business, including the development of a centralized technological operator's infrastructure and a fast market entry with a set of the most-needed navigation and information services. The company will pursue this strategy through organic growth, strategic partnership, and the acquisition of key players in the security and search systems market.

Key financial and operating results 2012

2012 results

Financial results

Indicator, \$ m	2012	2011	%
Revenue	90	112	(19.7%)
OIBDA	(21)	(3)	-
Net loss attributable to Sistema	(19)	(5)	-
Debt	45	-	-

Operating results

Indicator	2012	2011	%
Equipped transport (thous. vehicles)*	180	150	20.0%

*Jointly with regional partners

Key events of 2012

In September 2012, the NIS Board of Directors confirmed the appointment of Alexander Chub as the CEO. Alexander has experience of managing the representative offices of major IT vendors: 3Com, Bull and HP.

4.12. RZ Agro Holding Ltd

Russkaya Zemlya (RZ Agro Holding Ltd) is a major grain producer in the South of Russia, with a land pool of 89,000 hectares, jointly controlled by Sistema and certain members of the Louis-Dreyfus family. At present, Russkaya Zemlya comprises five farm units, forming two regional clusters in the Rostov region – Rostov-East and Rostov-South, with 42,000 hectares and 47,000 hectares, respectively.

Ownership and management

Company	Effective ownership
RZ Agro Holding Ltd.	47%

The President of RZ Agro Holding is Stéphane MacFarlane. The Chairman of the Board of Directors is Thomas Schultz.

Sector

Global factors will create a growth in demand for agricultural products in the future, and for wheat in particular. Russia is one of the major exporters of wheat, with competitive advantages such as low production costs, the potential for profitability improvement, and plenty of arable land.

The land and water resources of Russia make it a unique place for grain farming: Russia is privileged to have 10% of all arable land, 55% of all black soil, and 20% of all fresh water on the planet. Grain farming (mainly for wheat) is Russia's most successful agricultural activity; the country continuously maintains its second or third position in the world wheat export market.

The 2012 drought harmed many major agricultural producers including Russia, Australia and Brazil. The drought in the US was the worst in 56 years. This considerably reduced the production and reserves of major grains, which caused world prices to rise by 50-80%.

Outlook

Wheat production in Russia is expected to grow and reach 54m tonnes by 2018. According to the Russian Ministry of Agriculture, productivity growth will outperform current rates, which will provide for vast wheat production and export. Experts believe the agricultural sector will become one of the main factors supporting the Russian economy, due to modernisation and innovation in agriculture. Emerging markets are expected to increase their import share in the overall consumption from 24-26% to 30%, due to the growing demand for wheat in livestock farming.

Steady growth in 2012

In 2012, Sistema established RZ Agro Holding Ltd jointly with members of the Louis-Dreyfus family, to enter the agricultural sector. The joint venture's land pool in the South of Russia was 89,000 hectares. RZ Agro focuses on wheat production and other traditional crops.

The company's main achievement in 2012 was improved financial performance in spite of drought conditions, through efficient budget management and adapted agronomic practices. RZ Agro also received compensation from the insurance company for areas affected by the drought.

In 2012, the Rostov-South cluster was established on the basis of Donskoye and Horse Farm of the First Cavalry Army. It was integrated into the company.

Operating strategy

The operating strategy of RZ Agro Holding sees growth coming from the creation of self-sufficient clusters, each with 30,000-50,000 hectares of closely located arable land. The close locations will allow us to reduce operational and investment costs significantly, and to improve the clusters' management.

Investment strategy

Sistema's strategy for the joint venture is to establish Russia's leading agricultural company and to focus on increasing its pool of arable land through organic growth and strategic acquisitions. The joint venture will continuously monitor M&A opportunities in the key grain-producing regions – in the South of Russia and in the Central Black Earth Region.

Key events of 2012

In April 2012, Sistema, along with RZ Agro Ltd, established an agricultural joint venture to be named RZ Agro Holding Ltd. RZ Agro Ltd was created in 2009 and is affiliated with the Sierentz Group, and both are controlled by certain members of the Louis-Dreyfus family. Earlier, Sistema acquired two grain and oilseed farms in the Rostov Region of Russia, with a total area of 46,000 hectares. These farms became part of the joint venture, along with the existing agricultural holdings of RZ Agro Ltd, which consist of the management company LLC Russkaya Zemlya and three grain and oilseed farms in the Rostov Region with a total area of 41,500 hectares.

4.13. SG-trans

SG-trans OJSC is Russia's largest independent operator in liquefied gas (LG) transportation. SG-trans operates 15,000 rail cars, including tank cars especially equipped to transport LG and LG-based products.

LLC Financial Alliance is a joint venture set up by Sistema and a group representing the company's management. As of year-end 2012, Financial Alliance owns, leases and rents 12,000 tank and open cars.

Ownership and management

Company	Effective ownership
OJSC SG-trans	100%
LLC Financial Alliance	50%

SG-trans' management

The President of SG-trans is Alexey Taicher, and the Chairman of the Board of Directors is Mikhail Kurbatov.

Financial Alliance's management

The CEO and Chairman of the Board of Directors of Financial Alliance is Alexey Taicher.

Sector

The Russian railway freight market is growing at a steady pace, and in 2012 grew by 2.4%. There was practically no market downturn during the crisis of 2008-2009, with oil shipments enjoying strong growth. According to OJSC Russian Railways (RZD), transportation of oil and mineral oil products in 2012 increased by 3.3% to 258.2 m tonnes. In 2012, transportation of gasoline grew by 5.4% to 38.2m tonnes, diesel fuel by 9.3% to 54.4m tonnes, and transportation of masut by 0.4% to 68.6m tonnes. At the same time, the number of companies operating specialised tank cars remains low, with more than half the segment serviced by Sibur-Trans, Gazpromtrans, Lukoil-Trans and SG-trans.

A key factor in the growing demand for LPG transportation is new legislation passed by the Russian Government, which requires oil companies to ensure utilisation of up to 95% of associated petroleum gas starting from 2012. Among other factors influencing the sector are an increasing oil conversion ratio, growth in exports of natural gas and escalating volume of liquefied petroleum gas production, with natural gas as a by-product.

Outlook

According to a forecast by RZD, railway transportation in 2013 is expected to grow by 3.3%. Strengthening of prices in the global oil market is expected to have a positive effect on the exports of oil and oil products.

In general, industry consolidation is expected in the railway transportation market, through M&A transactions accompanied by a redistribution of transport volumes.

Freight car manufacturers are mostly opposing a ban on extending the operation of cars beyond their standard service lives. As FCC, Russia's largest petroleum cargo operator, operates the oldest tank car fleet in the market, adoption of these measures by the government may lead to increased demand for the services of other operators during peak periods.

Steady growth in 2012

In 2012, Sistema entered the transportation sector with the goal of creating a top-three player in the industry. In November 2012, Sistema acquired a 100% stake in SG-trans, Russia's largest independent provider of specialised railcars for transporting liquefied petroleum gas (LPG), with a railcar fleet of 15,000, for RUB 22.77bn. SG-trans' railcar fleet in 2012 accounted for 47% of the total fleet in Russia, with a 37% share of all volumes in the LPG transportation segment.

In December 2012, Sistema acquired a 50% stake in Financial Alliance from Bashneft for RUB 3.41bn (approximately US\$ 110m). Financial Alliance's main client in 2012 was Bashneft, which expanded its pool of trading counterparties and needed additional transportation capacity, using Financial Alliance's fleet. In 2012, Financial Alliance started a business optimisation programme aiming to increase the company's competitiveness and stimulate organic growth, which led to a significant improvement in its financial indicators.

The total fleet managed by Sistema thus totals 34,500 rail cars (15,000 in SG-trans, 13,000 in Financial Alliance, and around 7,000 under management in TLC), which makes Sistema Russia's top-5/6 player in the railway transportation segment.

Operating strategy

One of the mid-term strategic missions for Financial Alliance is to expand the geography of freight operations using the company's rolling stock, into the CIS and other countries. The rail transportation markets of Ukraine, Kazakhstan, Belarus and the Baltic states hold the most potential for regional expansion.

One of SG-trans' main development lines is the spin-off and sale of non-core assets, as well as the development of its freight business. In particular, the company has been assigned a goal to substantially raise its OIBDA by increasing its market exposure, revising tariffs and improving utilisation of capacity.

Investment strategy

Sistema's investment strategy in transport includes participating in the consolidation of the industry, and creating of one of the country's biggest players, capable of ensuring high return on investment, stable cash flows and dividends. Sistema is contemplating consolidating all of its transport assets under Financial Alliance, and will seek potential M&A targets in the sector.

Key events of 2012

In March 2012, Financial Alliance leased 3,485 tank cars.

In August 2012, Bashneft acquired 50% of the authorised capital of Financial Alliance LLC, a professional railcar operator, by transferring its fleet of approximately 4,500 railcars to it.

In September 2012, Financial Alliance acquired 3,923 cars using Bashneft's equity contribution.

In November 2012, Sistema acquired a 100% stake in SG-trans OJSC, Russia's largest independent provider of specialised railcars for transporting liquefied petroleum gas, with a railcar fleet of 15,000, for RUB 22.77 bn.

In December 2012, Sistema acquired a 50% stake in LLC Financial Alliance from Bashneft for RUB 3.41bn (approximately US\$ 110m).

4.14. Russneft

Russneft is a vertically integrated oil company, one of Russia's top ten oil & gas companies by production. Russneft includes 24 production enterprises in 11 Russian regions, CIS and North Africa.

Ownership and management

Company	Effective ownership
Russneft	49%

The President of Russneft is Mikhail Gutseriev, and the Chairman of the Board of Directors is Mikhail Shamolin.

Sector

In 2012, the economic situation in the Russian oil sector was determined by a fluctuation of world oil prices, where the Brent oil price per barrel grew on average by 0.6% up to US\$ 111.4, and in March 2012 reached US\$ 126.2, its maximum over the period. The fluctuation of prices in the external market has an impact on the export duties for crude oil and oil products, and the Mineral Extraction Tax, that on average went down 1.1%, to US\$ 404.3 per ton.

Oil production in Russia in 2012 increased by 1.3%, to 518m tonnes. The new 60-66 oil tax reform caused capital investment in oil production to soar by 14.8%, to RUB 836.9bn. This growth was due to an increase in production drilling volumes, which led to a stabilisation of production in the traditional oil extraction regions.

Auctions were held in December 2012 for three subsoil blocks, including Shpielmann, Imilorskoye, Zapadno-Imilorskoye and Istochnoye deposits in the Khanty-Mansi autonomous district, and Lodochnoye deposit in the Krasnoyarsk region.

Outlook

According to expert opinions, oil production is not expected to grow in Russia in 2013. On the contrary, experts anticipate a stabilisation in production or a slight volume reduction. Leading vertically integrated oil companies will increase their investments in upgrading refineries, aiming to comply with technical regulations. They should make other significant investments to achieve a bigger refining depth and reduce the yields of heavy fractions, for which protective duties are expected to be introduced.

In accordance with the Energy Strategy of Russia for the period up to 2030 approved by the Russia's government, the main oil deposits of West Siberia are petering out, which will soon make it necessary to explore oil resources in the continental shelf of the Arctic and Far-Eastern seas, East Siberia and the Far East. The share of hard-to-recover oil resources is expected to grow, and exploitation of oil & gas multi-component deposits will be extended.

Oil recovery in the European part of the country will continue to grow, primarily through exploration of resources in the Timan-Pechora province, on the continental shelf of the Arctic Sea and in the Russian sector of the Caspian Sea, while upstream production in the Volga region and on the Urals will go down.

Steady growth in 2012

In 2012, Russneft increased its oil production by 4.0%, to 13.1m tonnes. The company became one of the oil & gas leaders by growth rates, which were well ahead of the industry-average indicators. The Novo-Aganskoye and Poselkovoye oilfields were commissioned in 2012.

In 2012, Russneft increased the efficient use of associated gas by 19%, on the back of steady financing and timely construction of facilities.

In 2012, the company restructured its debt to Sberbank and Glencore: the maturity of Sberbank's loan was extended until May 2019, the loan interest was reduced to 7%, and the repayment plan was changed. Russneft met all its repayment obligations in due time. The operating and management achievements made it possible to reduce the debt burden by US\$ 5.03bn as of the end of 2012.

Operating strategy

Russneft's operating strategy is aimed at maintaining the average annual growth rates of oil production and is focused on production drilling and infrastructure building. The total investment for 2012-2017 is estimated at US\$ 3.2bn. Besides, an intensification of oil production at the existing oil fields is envisaged. The company's financial goals include further deleveraging, diversification of sources of financing, and gaining access to the international capital markets.

Investment strategy

Sistema believes Russneft has significant potential to grow value by implementing its operational and financial strategy. This foresees a near term increase in production and further reduction of the company's debt, as well as growth of its reserve and resources base.

Key financial and operating results 2012

2012 results

Financial results*

Indicator, \$ m	2012	2011	%
Revenue	5,384	5,507	(2.2%)
OIBDA	1,652	1,662	(0.6%)
Net income attributable to Sistema	203	378	(46.3%)
Debt	5,031	5,403	(6.9%)

Operating results

Indicator	2012	2011	%
Oil production (m tonnes)	13.1	12.6	4.0%
Oil reserves (2P), m barrels	2,191	2,165	1.2%
Gas reserves, m cub.f.	1,380,728	1,313,212	5.1%

*In accordance with IFRS

** Financial results of LLC ZMB were excluded from 2011 and 2012 consolidated results due to sale of LLC ZMB in December 2012.

Key events of 2012

In August 2012, Russneft obtained a certificate to carry out exploration works in Algeria as an onshore operator-investor. Russneft's long-term development strategy determines the company's active position in the world mineral markets, and plans to enter new regions and expand its geographic footprint internationally. Russneft's area of interest includes raw hydrocarbon deposits in Africa and CIS.

In October 2012, Russneft signed an agreement establishing new loan terms with its key creditors: Sberbank and Glencore. The new agreement provides for a reduction of the loan interest rate to 7%. The effective interest rate of the Glencore loan was also reduced by 1%.

In December 2012, Russneft sold LLC Zapadno-Malobalykskoye, following its early loan repayment strategy, and used the proceeds for early repayment of its loan to Sberbank.

4.15. SSTL (MTS India)

Sistema Shyam TeleServices Ltd (SSTL) is a mobile operator in India.

Ownership and management

Company	Effective ownership
SSTL Ltd	56.7%

The President of SSTL is Vsevolod Rozanov. The Chairman of the Board of Directors is Ron Sommer.

Sector

In February 2012, the Supreme Court of India revoked 122 licences from eight telecom operators in India, including 21 licences from SSTL. The order was issued on the grounds that these licences had been granted in violation of procedures and requirement of India's Department of Telecommunications.

As a result, two operators (STel and Etisalat DB) decided to leave the Indian market, and five operators considerably scaled down their operations and the size of their businesses. For the first time, the industry experienced a significant decline in mobile subscribers.

Another factor causing reductions in subscriber bases was the introduction of new rules for accounting for the number of active subscribers, according to which all Indian operators had to write off part of their subscriber bases.

The outcome of the regulatory crisis was that in 2012 the mobile subscriber base in India fell by 3% from 894m to 865m, while the penetration of cellular communication services dropped from 74% to 71%.

In November 2012, the Indian Government organised an auction to sell the frequencies that had been revoked earlier. Due to the unjustifiably steep reserve prices, only five operators submitted their bids for the 1,800 MHz auction and only 57% of the offered frequencies were sold, mainly at starting prices. In three major circles (Delhi, Mumbai and Karnataka), the frequencies failed to sell due to a lack of bidders. The auction for the 800 MHz spectrum, where SSTL operates, did not take place, because no applications from bidders were received.

Outlook

The broadband access market is still in its initial development stage, and considerable growth is expected in the mobile data market due to the roll-out of 3G and EVDO networks, as well as the launch of 4G (LTE) networks.

At the end of 2012, the Indian Government took steps to stabilise the situation and stimulate the development of the industry. After the failure of the November auction in 2012, the reserve prices for GSM frequencies in the 1,800 MHz spectrum in the most expensive licence circles (Delhi, Mumbai, Karnataka) were reduced by 30%, the reserve prices for CDMA frequencies in the 800 MHz spectrum were cut by half, and a new auction was scheduled for the remaining undistributed frequencies on March 2013. The frequencies awarded at the auction are liberalised (technologically neutral), which will create the necessary conditions for the accelerated implementation of advanced technologies and high-speed 3G data services (UMTS, EVDO) and 4G (LTE).

Anti-crisis development in 2012

As a result of the regulatory crisis caused by the decision of the Supreme Court of India, SSTL had to virtually suspend its investment programme. Since March 2012, the company has been implementing an anti-crisis strategy, aimed at retaining the business and ensuring its differentiated development.

This strategy provided for: developing the business in priority licence circles with the most favourable economic environments; reducing capital expenses in the second half of 2012 down to almost zero; focusing on data services; supporting and developing the broadband subscriber base; reducing all operating costs to the minimum level.

As a result of these activities in 2012, the company maintained its presence in all 22 of India's circles, and deployed the high-speed data network in more than 150 major Indian cities. The total number of Indian cities covered by broadband services exceeded 450.

Despite a slight reduction in the total subscriber base from 15.1m to 15.0m, the most promising and profitable broadband base increased by 33%, to 1.8m. The company's annual revenue increased by 15.5% to US\$ 303.0m despite the crisis, while the actual revenue in local currency went up by 31%.

Post Reporting Period

In March 2013, SSTL won a spectrum in the 800 MHz band in eight circles following its participation in the second round licence auction. The circles won by SSTL include Delhi, Kolkata, Gujarat, Karnataka, Tamil Nadu, Kerala, Uttar Pradesh (West) and West Bengal. The company's operational footprint will also include the Rajasthan circle, which was not affected by the Supreme Court's decision, the other circles were closed. The final footprint covers 40% of the country's population, addresses over 60% of data potential and safeguards 75% of SSTL's current revenues. Finally SSTL's footprint will include 3 carrier slots of 1.25MHz each in 9 circles, servicing 10.45 million of its customers. The spectrum in 8 circles is technologically neutral and is valid for 20 years.

The total cost of licences received amounted to US\$ 678m. Payments for the spectrum will be made in the following order: 25% advance payment, 75% by deferred payments during 10 years at 9.75% per annum (cumulative) starting from 2016. SSTL made no actual payments in 2013 because of the offset of licence costs paid in 2008 in the amount of US\$ 296m. Deferred payments since 2016 will amount up to US\$ 73m per year during 10 years.

Operating strategy

SSTL will develop the most economically attractive circles and customer segments with a focus on garnering the data opportunity and development of assets that can be transferred to LTE.

To capture data growth opportunities SSTL will focus on Tier 2/3 cities, where there is a low variety of choice handsets, and low cost voice as a dominant product used on smartphones. SSTL can successfully compete in this segment by offering value low cost voice services along with data. A sharper focus on the circles with the greatest data potential plays to MTS brand positioning.

The availability of 5 MHz spectrum provides an opportunity for SSTL to migrate to LTE and to provide users with much better experience than in 3G. LTE roll out expenditures are estimated at US\$ 200m with potential synergies of US\$ 100m. With the new strategy SSTL is expected to achieve OIBDA breakeven from the end of 2014 till mid of 2015.

Investment strategy

Sistema continues to consider India as a promising telecom market and will focus on implementation of SSTL's operating strategy in the most attractive circles with future plans for LTE roll-out. Sistema will also concentrate on substantially reducing the operating losses and the debt of its Indian subsidiary, with total cash requirements in 2014-2015 to fall further to less than US\$ 250m per year.

Key financial and operating results 2012

2012 results

Financial results

Indicator, \$ m	2012	2011*	%
Revenue	303	262	15.5%
OIBDA	(547)	(730)	-
Net loss attributable to Sistema	(463)	(636)	-
Debt	1, 047	1, 574	(33.5%)

Operating results

Indicator	2012	2011	%
Mobile voice subscribers (m)	13.2	13.7	(4)
Data subscribers (m)	1.8	1.3	33

Key events of 2012

In February 2012, the Supreme Court of India issued a judgment revoking 122 telecom licences of 8 telecom operators, including 21 of the 22 licences held by SSTL.

In May 2012, Sistema Shyam Teleservices filed a curative petition in the Supreme Court seeking re-examination of its judgment.

In October 2012, Indian mobile operators were due to submit their applications to bid in the country's upcoming 2G spectrum auction. SSTL did not submit an application due to an unjustifiably steep recommended reserve price of INR 18,200 crores (US\$ 3.3bn).

In February 2013, the Supreme Court of India dismissed SSTL's curative petition. In the meantime SSTL informed the Ministry of Telecommunications of India about the closure of services in the following ten circles: Assam, Andhra Pradesh, Bihar, Himachal Pradesh, Haryana, Jammu & Kashmir, Madhya Pradesh, North East, Orissa and Punjab.

In March 2013, SSTL won a spectrum in the 800 Mhz band in eight circles following its participation in the second round licence auction. The circles won by SSTL include Delhi, Kolkata, Gujarat, Karnataka, Tamil Nadu, Kerala, Uttar Pradesh (West) and West Bengal. The company's operational footprint will also include the Rajasthan circle, which was not affected by the Supreme Court's decision. SSTL decided not to bid for Mumbai, Maharashtra and Uttar Pradesh (East), and will close its operations in those circles. As a result, SSTL's final footprint will include three carrier slots of 1.25 Mhz each in nine circles.

5. DESCRIPTION OF CORE RISK FACTORS.

The risks that the corporation may face are diverse, and many of these arise from the processes and factors on which Sistema has limited, or no influence. However, the Corporation can mitigate the negative effect, should a risk occur. Hence, effective assessment and management of risks remains an important component of our strategy.

We have introduced an integrated enterprise risk management (ERM) system, designed to enable us to achieve our strategic goals while keeping the level of risk within limits that are acceptable to our shareholders and senior management. Our ERM system was established in compliance with international standards, recommendations and best practices in risk management.

5.1. External risks

The risks related to changes in the political and economic situation in Russia are significant to Sistema, since the bulk of our business is carried out in the Russian Federation (RF). Moreover, many of our subsidiaries maintain operations in other emerging markets, including Ukraine, Uzbekistan, Armenia, Belarus and India, which also pose many external risks.

Economic risks

- Sistema's business is substantially affected by the state of the global economy and financial markets, and depends significantly on fluctuation of prices on oil, gas and other commodities exported by the Russian Federation.
- Weak macroeconomic conditions in many of the countries where we operate could make it necessary to reassess the value of goodwill on some of our assets.
- An increase in inflation could increase some of our costs, exerting downward pressure on our profit margins and perhaps also having a negative impact on domestic demand for the products of our subsidiaries.
- Depreciation of the rouble against the US dollar and Euro could increase our costs and reduce our revenues, or make it more difficult for us to comply with financial ratios and repay our debts.
- Exchange controls and repatriation restrictions could adversely affect our ability to transact business, and may lower the value of our investments in the Russian Federation.
- The poor condition or further deterioration of the Russian Federation's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business there, and interrupt business operations - all of which may have a material adverse effect on our business, results of operations, financial condition or prospects.

Political and social risks

- Future political and governmental instability, and any significant struggle over the direction of future political developments, could lead to increased capital flight and an overall deterioration in the Russian Federation's investment climate.
- Unlawful, selective or arbitrary government action could create a difficult business climate in the Russian Federation.
- Terrorist attacks or the involvement of the Russian Federation in any future economic and military conflicts could lead to instability and hinder our planning ability.
- Organised crime, fraud, corruption and social instability could create an uncertain operating environment for us, and make it more costly to conduct business.
- Conflicts between Russian federal and regional authorities and legislation could create an uncertain operating environment for us.

Legal risks and uncertainties

- Risks associated with the Russian legal system include, to varying degrees:
 - inconsistencies among, and ambiguities and anomalies regarding, (i) federal laws, (ii) decrees, orders and regulations issued by the President, the Government and federal ministers, (iii) regional and local laws, rules and regulations

- the relative unavailability of Russian legislation and court and administrative decisions in an organised manner that supports understanding of such legislation and court decisions
 - substantial gaps in the legal framework, due to the delay or absence of implementing regulations for certain legislation
 - a lack of judicial independence from political, social and commercial forces, and the difficulty of enforcing court decisions and foreign arbitral awards
 - alleged corruption within the judiciary and governmental authorities
 - ambiguous and inconsistent court practices relating to interlocutory remedies that may disrupt our ordinary business activities.
- The lack of developed corporate and securities laws and regulations in the Russian Federation may limit our ability to attract future investment.
 - It is not yet clear how the Strategic Foreign Investment Law and the new customs code among the Russian Federation, Belarus and Kazakhstan will affect us and our foreign shareholders.
 - The accession of the Russian Federation into the World Trade Organisation may lead to uncertainty.

Legislative and other changes in our operating environment

- Shareholder liability under Russian corporate law could result in us becoming liable for the obligations of our subsidiaries.
- If the minority shareholders of our subsidiaries were to challenge successfully past or future interested-party transactions or other transactions, or were not to approve interested-party transactions or other transactions in the future, we could be limited in our operational flexibility.
- If the FAS was to conclude that Sistema, or any of its significant subsidiaries, had acquired or created a new company in contravention of antimonopoly legislation, or otherwise violated competition rules, it could impose administrative sanctions.
- Our Russian legal entities may be forced into liquidation, their ownership structure may be challenged or their subsidiaries' indebtedness may be accelerated on the basis of formal non-compliance with certain requirements of Russian law.

The Russian taxation system

- Russian tax laws, regulations and practice are complex, uncertain, often not well developed, and subject to frequent changes and various interpretations, which could have an adverse effect on us.
- Russian transfer pricing legislation may require pricing adjustments and impose additional tax liabilities relating to controlled transactions.

Stock markets

- There is a risk that the shares of Russian companies will grow more slowly than those of their counterparts in other emerging markets. The key reason for this may be a substantial outflow of capital from the Russian market, caused by political and economic factors inside the country and by the situation on world stock exchanges.

Risks relating to Sistema's operations

There can be no assurance that we will be able to achieve the targets set out in our strategy.

In early 2011, our management team took the decision to transition Sistema into an investment company, and we are continuing to implement this strategy. The key elements of the strategy are to develop a balanced and a diversified asset portfolio, to focus on sectors and geographies where Sistema has a competitive advantage, to pursue an active portfolio management approach and to attract leading international and local companies as partners in portfolio companies. There can be no assurance, however, that we will be able to achieve the targets set out in the strategy, or that current portfolio companies will be managed effectively, while at the same time new investment opportunities are identified.

There are risks of untimely or incomplete transformation of the organisational structure and the respective human resources. Furthermore, even if our initiatives of transformation into an investment holding can be implemented,

we cannot assure you that these initiatives will allow Sistema to increase revenues from existing services or products of its subsidiaries.

The success of our new strategy depends on many factors, including, but not limited to, receipt of necessary government approvals, proper identification of customer needs, successful development of technology, the ability to manage costs and expenses, timely completion and introduction of new services and products by our subsidiaries, differentiation from offerings of our subsidiaries' competitors and market acceptance.

We may experience problems in identifying profitable opportunities for acquisitions and disposals, and in integrating acquisitions and implementing restructurings in our business.

Sistema has, in the past, expanded operations through acquisitions or changing its asset portfolio through acquisitions and disposals, and we may do this in the future. The process of identifying and implementing acquisitions entails certain risks, including: failing to identify and approach suitable new acquisition targets; failing to conduct adequate due diligence on a target's operations or financial condition; overvaluing the target and thus overpaying for it; incurring significantly higher than anticipated financing-related risks and operating expenses; discovering larger than anticipated or previously undisclosed liabilities.

Acquiring additional businesses could also place increased pressures on our cash flows, especially if we pay for an acquisition in cash. Furthermore, if an acquisition is not completed, or is not completed in a timely manner, this may adversely affect our strategic growth objectives or have a material adverse effect on our current business, results of operations, financial condition or prospects.

In addition, we may experience problems with integrating acquisitions into our current business and managing them optimally, or in implementing necessary restructurings. These risks include: failing to assimilate and integrate effectively the operations and personnel of an acquired company into our business; failing to install and integrate all necessary systems and controls, including logistics and distribution facilities and arrangements; conflicts between majority and minority shareholders; hostility or lack of cooperation from the acquisition's management; the potential loss of the acquisition's customers.

We may also dispose of some of our operations. Such disposals entail certain risks, including: potential failure in execution; potential undervaluation of the disposed asset; contingent liabilities relating to the sold assets; delays in disposal; potential loss of synergies with the remaining assets. Furthermore, completion of the pending or contemplated transactions - including restructurings, business combinations and financing - is, in each case, subject to a number of conditions, including corporate and governmental approvals. No assurance can be given that these pending or contemplated transactions will be completed on the terms and conditions described, or at all.

Our ability to maintain our competitive position and to implement our business strategy depends to a large degree on the services of our senior management team and other key personnel.

Our senior management team and its organisation are essential to the implementation of our business strategy. Furthermore, the continued success of our investment portfolios and their ability to execute our overall strategy effectively - including our growth and expansion plans - will depend, in large part, on the organisational efforts of our separate management teams supervising each asset within our portfolios.

Our ability to meet our financial obligations depends, to a large extent, on receiving sufficient funds from our subsidiaries.

Sistema depends in part on dividends from subsidiaries to generate the funds necessary to meet our financial obligations, including the payment of principal and interest on our present debt and on any of our borrowings incurred in the future. Our subsidiaries may from time to time be subject to regulatory, fiscal or other restrictions on their ability to make such payments. For example, certain loans to our subsidiaries are subject to restrictive covenants, including, but not limited to, compliance with certain financial ratios, limitations on dispositions of assets, and limitations on transactions within our portfolio companies. There can be no assurance that such restrictions will not have a material adverse effect on our ability to service our borrowings or to meet any other costs we may incur.

We depend to a material extent on the success of MTS and Bashneft.

Sistema's financial results depend to a material extent on the financial results of MTS and Bashneft. The inability of these businesses to generate necessary earnings may adversely affect our ability to service our debt obligations, and to sustain our growth and expansion through restructurings and acquisitions. As a consequence, risks and events that have a material adverse effect on MTS' and Bashneft's business, results of operations, financial condition or prospects could, in turn, have a material adverse effect on Sistema's business, results of operations, financial condition or prospects.

If we are unable to obtain adequate capital or financing, we may have to limit our operations substantially. Future financing and cash flow from Sistema's operations may not be sufficient to meet planned needs in the event of various unanticipated potential developments, including the following:

- lack of external financing sources;
- changes in the terms of existing financing arrangements
- pursuit of new business opportunities or investing in existing businesses that require significant investment
- slower than anticipated revenue growth
- regulatory developments
- changes in existing interconnect arrangements
- deterioration in the economies of the countries where Sistema operates

Restrictive covenants may limit our ability to incur debt, finance capital expenditures and to engage in various activities.

Sistema's bank loans, as well as bank loans and notes of certain subsidiaries contain restrictive covenants.

These covenants impose restrictions with respect to, inter alia, incurrence of indebtedness, creation of liens on the properties, disposal of assets and transactions with affiliates. Such restrictive covenants may limit our operations, including the financing of capital expenditures, or impede our ability to pay off our indebtedness on a timely basis, or at all. Should the operations of our subsidiaries be limited, the earnings of our subsidiaries may fall, which, in turn, may limit our ability to use such earnings to service indebtedness or finance operations. Further, mergers and reorganisations of our subsidiaries could, under certain circumstances, trigger the restrictive covenants under their credit agreements, which may lead to acceleration of debt repayment under such credit facilities. Any invocation of these cross-acceleration or cross-default clauses could cause some or all of the other debt to accelerate, creating liquidity pressures and affecting our business and operations.

The licences and permits required for our business may be invalidated, suspended or may not be issued or renewed, or may contain onerous terms and conditions that restrict our ability to conduct our operations.

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licences, approvals, authorisations and permits, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences, approvals, authorisations and permits and in monitoring licences' compliance with the terms thereof. No assurances can be made that our existing licences and permits, including those held by our subsidiaries, will be renewed, that any new licences and permits for which we apply will be granted or that we will be able to comply with the terms of all applicable licences. There can also be no assurance that any of our current or future licences or permits will not be suspended or revoked on any ground. Any of these circumstances could have a material adverse effect on our business.

In the event that deficiencies or ambiguities in privatisation legislation are successfully exploited to challenge our ownership in our privatised subsidiaries and we are unable to defeat these challenges, we risk losing our ownership interests in our subsidiaries or their assets.

Our business includes a number of privatised companies, such as MGTS, Bashneft, Intourist, SG-Trans and certain of our energy and technology subsidiaries, and our business strategy will likely involve future acquisitions of companies that have undergone privatisation. To the extent that Russian privatisation legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatisation legislation, many privatisations are vulnerable to challenge, including selective challenges.

In the event that any of our privatised companies are subject to challenge as having been improperly privatised and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially adversely affect our business, financial condition, results of operations and prospects.

We are subject to anti-corruption laws in the jurisdictions where we operate, including the anti-corruption laws of the Russian Federation and the US Foreign Corrupt Practices Act (the "FCPA"), and we may be subject to the UK Bribery Act of 2010 (the "UK Bribery Act"), and our failure to comply with these could result in penalties and reputational harm.

Any investigation of potential violations of the FCPA, the UK Bribery Act, or other anti-corruption laws by US, UK or foreign authorities, could also have an adverse impact on our brand image, business, financial condition and results of operations.

We encounter competition from other companies in all areas of operations.

The operations of our telecommunications and technology, oil and energy, banking, retail, media, tourism, private healthcare and pharmaceuticals businesses, and others can be affected by a variety of economic and other factors. Each business is subject to significant competition from a large number of companies in the Russian Federation and other countries, and competes on the basis of various factors, including, but not limited to, price, performance and service. The inability of our businesses to compete effectively could have a material adverse effect on our business, results of operations, financial condition or prospects.

We depend on our ability to maintain a favourable brand image and reputation.

Developing and maintaining awareness of the brands of our businesses is critical to informing and educating the public about their current and future products and services. We believe the importance of brand recognition is increasing as markets become more competitive. The successful promotion of the brands of our subsidiaries will depend largely on the effectiveness of their marketing efforts and their ability to provide reliable, useful products and services at competitive prices. Brand promotion activities may not yield increased operating revenues, and even if they do, such operating revenues may not offset the expenses our subsidiaries incur in building their brands.

Risks relating to Sistema's portfolio companies

Risks relating to our Technology and Telecommunication Business include, to varying degrees, the following:

- Increased competition among operators for a market share in the conditions of maturing sector;
- Telecommunication companies' dependency on its ability to implement the necessary infrastructure to manage its growth and partnerships, develop its network and avoid service disruptions;
- Inability of mobile operators to effectively implement geographic expansion strategy could hamper its continued growth and profitability;
- Operators' dependency on the proper functioning of its network systems and its ability to avoid disruptions;
- Inability to respond to rapid technological change;
- Inability to develop additional sources of revenue;
- Failure to further develop its distribution network;
- Inability to interconnect cost-effectively with other telecommunications operators to provide services at competitive prices;
- Inability of Russian telecoms to realise the expected benefits from its investments in, and deployment of, 3G and 4G wireless services;
- Dependence on extensive regulation of roaming tariffs, which may negatively impact financial results of the Russian operators;
- Failure to obtain renewals of its frequency allocations and its inability to control its frequencies that may be reassigned to other users;
- Compliance with the new Russian regulations on International Mobile Equipment Identity ("IMEI") numbers;
- Failure to fulfill the terms of MTS' licences, renew and receive renewed or new licences with similar terms to MTS' existing licences;
- Failure to modernise its fixed line infrastructure;
- Changes to the rules and regulations in the Russian Federation (implementation of per-second billing, cancellation of intra-network roaming, and the implementation of principle of number portability);
- High competition in the Indian mobile communications market;
- Unpredictability in India's legislation and court rulings relating to communications and foreign investment protection;
- Incompatibility of LTE technology development with the frequency spectrum used in India;
- Infeasibility of achieving the planned figures of broadband services volume in India.

Risks related to our Oil and Energy Business include, to varying degrees, the following:

- Uncertainties related to the increased influence of the Russian government in the Russian oil and gas sector, including the ability of the Russian government to mandate deliveries of crude oil and refined products, including at less than market prices;
- Increased oil excise tax;

- An increase in export duties on oil products, including the introduction of the proposed “60-66-90” export duty regime;
- Bashneft’s inability to realise its production targets and profits as a result of its development, exploration and production projects;
- Bashneft’s inability to compete in the oil products retail sector, find suitable locations to open new gas stations or encounter moderate costs in remodelling existing gas stations;
- Inability of Bashneft and Bashkirian Power Grid Company to control declines in crude oil, refined products, natural gas, power or petrochemical products prices;
- Unexpectedly long scheduled repair and maintenance shutdowns or unscheduled shutdowns at Bashneft’s production facilities;
- Governmental control of prices for refined products in the Russian market;
- Bashneft’s failure to estimate and achieve its goals relating to its actual reserves, production targets, revenues and expenditures;
- Dependency of Bashneft and Bashkirian Power Grid Company upon the services provided by, and the assets and infrastructure of, third parties;
- Risks relating to the ongoing reform of the Russian wholesale electricity market, price liberalisation and tariff regulation in the heat and electricity;
- Inability of Bashkirian Power Grid Company transmission assets to address daily, seasonal or yearly fluctuations in demand for electricity.

Risks related to our Consumer, High tech, Healthcare and Banking Business include, to varying degrees, the following:

- Decline in demand for consumer goods and services as well as slow development of consumer lending;
- Insufficient purchasing power of the Russian population;
- Underdeveloped transportation and information infrastructure in the Russian regions and, consequently, various barriers to development in the Russian regions;
- Further concentration and consolidation on the consumer market and in the banking sector;
- Tighter regulations in the banking, consumer, high tech and healthcare sectors;
- Stronger competition, including from the world’s leading companies;
- Possible loss, termination or weakening of connections with suppliers and sellers;
- Increased prices for raw materials, spare parts and services;
- Fluctuations in demand due to expected changes of product generations or technological cycles;
- Decreased volumes of government orders due to reduction of budget funds allocated for high-tech products;
- Operational and financial instability of small immature companies, including frequent corrections of strategy as well as difficult working environments due to high competition.

Risks relating to our Railway Transport Business include, to varying degrees, the following:

- Decrease of liquefied petroleum gas (LPG) transport volumes as a result of severe competition from captive operators of vertically integrated companies, the main users of LPG transportation services;
- Market risk associated with selling prices for liquefied petroleum gas established by LPG producers;
- There is no tariff regulation applicable to private transport operators, only the infrastructure and locomotive components of railway service prices being subject to governmental control. At the same time, there is a risk of negative consequences of future legal changes, including various technical regulation systems in railway transport;
- RZhD's railway infrastructure in a number of regions is now stretched to the limit. Decreasing traffic capacity may adversely affect the efficiency of car fleet utilisation.

6. CORPORATE GOVERNANCE.

Maintaining the system of corporate governance and transparency at the level of the world's best practices is one of the elements of the strategy of Sistema as an investment company.

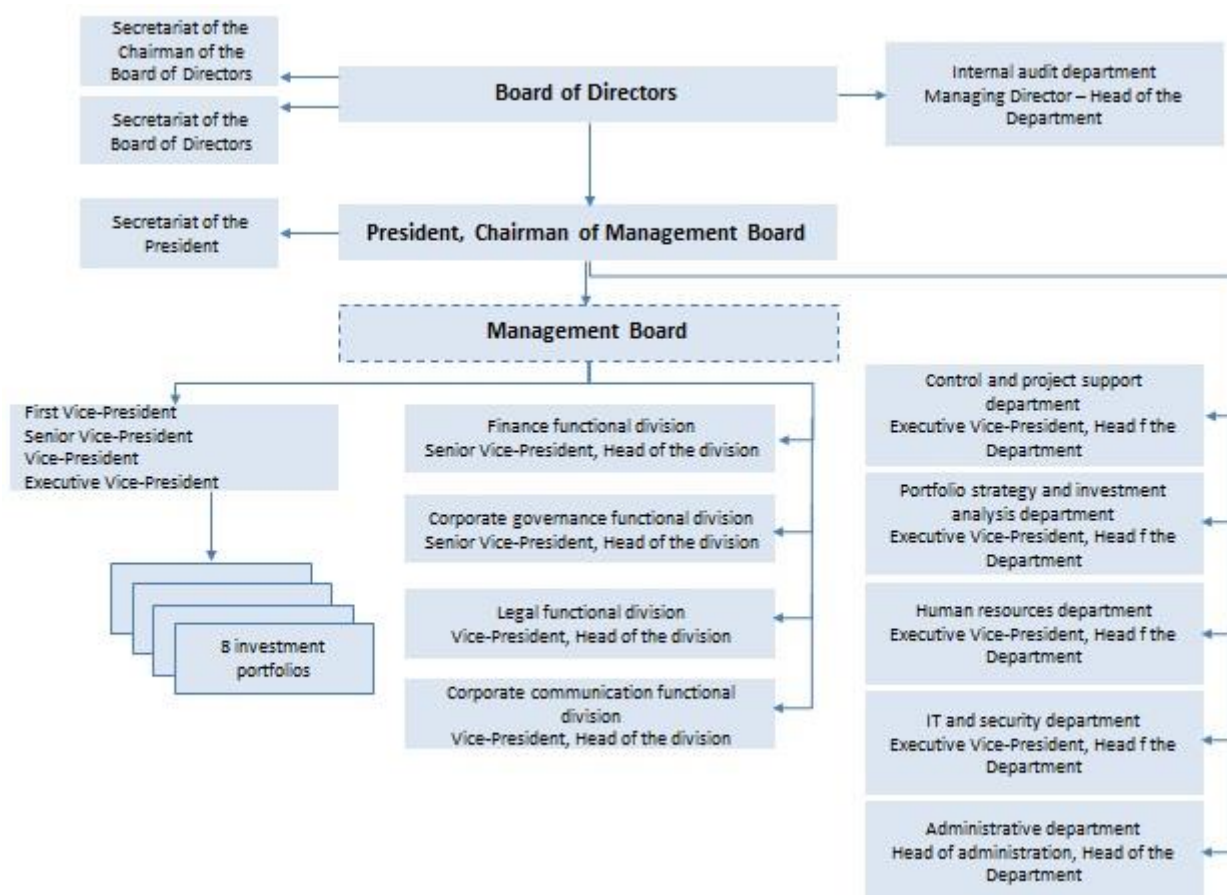
The corporate governance policy is based on the following fundamental principles:

- transparency of all processes for investors and partners
- a proactive and professional Board of Directors
- a consistent and collective approach to decision-making.

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

The principles and procedures of Sistema's corporate governance are set out in its Charter and in a number of publicly available bylaws that, all together, determine the structure and the scope of the corporation's governance and control bodies. The Corporate Conduct Code and the Ethics Code set forth additional commitments for Sistema in the area of transparency, social responsibility, and ethical business principles.

Sistema makes every effort to bring the corporate governance practices in line with the guidelines set out in the Corporate Conduct Code, recommended in the Executive Order of the Federal Commission for the Securities Market of Russia No. 421/r dated 4 April 2002, and in the UK Corporate Governance Code. Should the corporate governance practices of Sistema diverge from the standards recommended above, the company provides an explanation as to how else it makes sure it observes the balance of interests fixed in the applicable corporate governance standards.



Sistema's main governing bodies are: the General Meeting of Shareholders, the Board of Directors, the President and the Management Board. The Board of Directors and the President have committees that develop recommendations for forming Sistema's decisions in the respective areas.

The existing organisational structure of the company was adopted in May 2012, with adjustments and amendments made in September 2012, and reflects Sistema's transition to the investment company model. At the end of 2012 the organisational structure of Sistema comprised four functions, eight investment portfolios and five departments.

6.1. General Meeting of shareholders

Principles of operation

The General Meeting of Shareholders is the supreme governing body of Sistema. Its operation is governed by the laws of the Russian Federation on joint-stock companies, as well as by the provisions of the corporation's Charter and bylaws. The General Meeting procedure aims to ensure that the rights of the shareholders are respected, and all applicable legal requirements, as well as best international practices in corporate governance, are observed.

Information and materials for the meeting are made available to the shareholders in Russian and English, and are published on Sistema's website (www.sistema.ru; www.sistema.com). Together with a notice of a forthcoming meeting, shareholders get voting ballots. The venues of Sistema's General Meetings of Shareholders are always located in the vicinity of the company headquarters.

Observance of shareholders' rights to participate in management

Sistema aims to ensure the maximum protection of shareholders' rights to participate in running the company. The fundamental right of a shareholder in this respect is the right to participate in the work of the General Meeting of shareholders and the right to vote on items on the agenda.

For this right to be secured, notice of the conduct of the General Meetings of Sistema as well as voting ballots is circulated to all the shareholders at least 30 days before the meeting, all materials covering the agenda items are published on the company's website in Russian and English (www.sistema.ru; www.sistema.com). The ballot can be filled out by the shareholder in advance and mailed to Sistema to the address specified in the ballot. In this case the vote of the shareholder will be taken into account when counting the voting results.

Depository receipt holders may vote on the items of Shareholder Meeting agendas by proxy through Deutsche Bank AG, which is used as the depository bank for the GDR programme:

*Global Equity Services,
Trust and Securities Services,
Email: adr@db.com*

The votes are collected by the depository, Deutsche Bank AG, through clearing systems and are included in the general voting ballot of the depository, with all votes cast for the proposed draft resolution, against it, and abstentions specified.

Each shareholder can also attend General Meetings of Shareholders in person (or via a representative) and vote on the agenda items directly at the Meeting.

One of the important rights of a shareholder in relation to participating in running the company is the right to access documents that the company is obliged to retain in line with the provisions of the Federal Law On Joint-Stock Companies. To exercise this right, a shareholder should send a written request to the corporate secretary asking for access to the documents the shareholder wishes to see. After the time for providing the documents is agreed upon, the requested documents will be provided.

Holders of material blocks of shares are entitled to make proposals on the agenda of the General Meeting of Shareholders and nominate candidates to the corporation's governance and control bodies. Holders of 10% and more % of the company's voting shares also have the right to request an Extraordinary General Meeting of Shareholders to be conducted. Proposals on the agenda of the Annual General Meeting of Shareholders of Sistema are accepted in writing, within 100 days after the end of the financial year. In the event an Extraordinary General Meeting of Shareholders is conducted with its agenda containing an item on the election of the Board of Directors, holders of sufficient blocks of shares have the right to nominate candidates to the Board of Directors.

Proposals to this effect must be received by the company no later than 30 days before the date of such a meeting. The Board of Directors studies the received shareholders' proposals and includes them in the agenda, provided they meet the requirements of Russian law with regard to general shareholder meetings.

General Meetings held in 2012 and their results

In 2012, three General Meetings of Shareholders were held at Sistema. An Extraordinary General Meeting of Sistema was held on 30 June 2012. The Annual General Meeting of Shareholders approved the company's annual report and accounts, including the Income Statement for 2011, as well as the amount, procedure, forms and timelines for paying dividends on the company's shares, elected members of the Board of Directors and the Audit Commission, and approved the auditors.

As resolved by the Annual General Meeting of Shareholders and recommended by Sistema's Board of Directors, RUB 2.702bn was allocated to pay out for dividends, or RUB 0.28 per ordinary share. The dividend amount was based on net income under US GAAP for 2011 and net income of the corporate centre from the MTS transaction on selling CJSC Sistema-Inventure in December 2011, which is in line with the dividend policy. The dividend amount gained was 8% higher than in 2010.

The following auditors of Sistema were elected for 2012:

- CJSC BDO - to conduct the RAS audit;
- CJSC Deloitte and Touche CIS - to conduct the US GAAP audit.

The auditors were appointed following an open tender organised by the audit committee of the Board of Directors of Sistema.

Moreover, two Extraordinary General Meetings of Shareholders were held in the form of letter ballots:

14 June 2012	Agenda item considered: Approval of the Bashkirenergo assets swap transaction between the Sistema Group and INTER RAO UES. The transaction was approved by Sistema's General Meeting of Shareholders. Minutes were drawn up on 18 June 2012.
01 November 2012	Agenda item considered: Introduction of amendments to the Charter of Sistema JSFC. The General Meeting of Shareholders approved the amendments to the Charter to issue 386,000,000 new authorised shares. Minutes were drawn up on 02 November 2012.

6.2. Board of Directors.

The Board of Directors of Sistema is responsible for the strategic governance of the company: it determines the strategy, works out strategic and financial development plans, sets investment principles, appraises performance of the management and assesses risks, approves principles for corporate governance procedures, approves transactions and oversees the work of the corporation in general. The terms of reference for the Board of Directors are set out in the Charter of Sistema.

Composition of the Board of Directors

The Board of Directors of Sistema effective at 31 December 2012 was elected at the Annual General Meeting of the Company's Shareholders on 30 June 2012, and it comprises 13 persons:

*Sistema JSFC Board of Directors as elected on 30 June 2012**

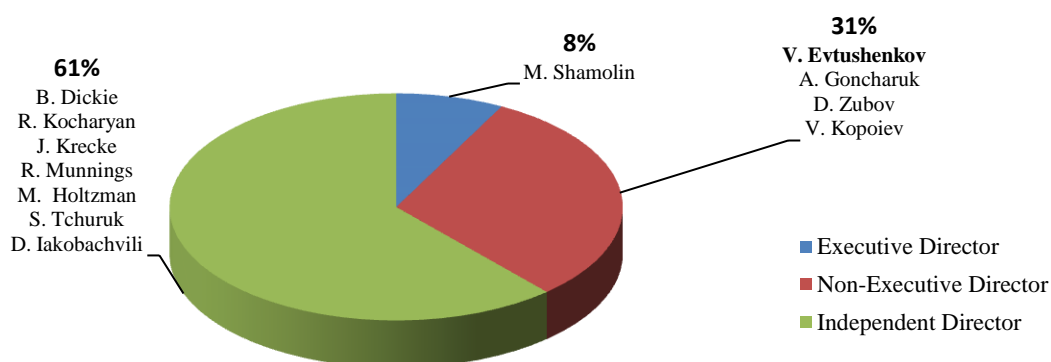
- | | |
|-------------------------|------------------------|
| 1. Vladimir Evtushenkov | <i>Chairman</i> |
| 2. Alexander Goncharuk | <i>Deputy Chairman</i> |
| 3. Brian Dickie | |
| 4. Dmitry Zubov | |

* See Annex for brief biographical notes and information on the equity stakes held by the Board members of Sistema JSFC

5. Vyacheslav Kopiev
6. Robert Kocharyan
7. Jeannot Krecké
8. Roger Munnings
9. Evgeny Novitsky
10. Marc Holtzman
11. Serge Tchuruk
12. Mikhail Shamolin
13. David Iakobachvili

Chart 4:

Composition of the Sistema JSFC Board of Directors



Changes to the composition of the Board of Directors

Former members of the Board of Directors, R. Sommer and L. Melamed, were not re-elected to the Board on 30 June 2012. At the same time, new independent directors were elected to the Board: B. Dickie, J. Krecke, and M. Holtzman, who have a vast practical experience in organising and managing large companies.

Meetings of the Board of Directors

Meetings of the Sistema Board are held regularly, according to an annual calendar, from 1 January to 31 December. The agendas of the Board meetings are set following the logics of the strategic planning and reporting cycle of Sistema. Additional sessions are organised whenever an urgent matter needs to be considered. Forming the work plan of the Board of Directors and including additional items in the plan is within the remit of the Board Chairman.

In 2012, the Board of Directors had ten sessions: eight scheduled meetings and two extraordinary sessions in the form of a letter ballot on urgent matters. In 2012, the Board of Directors considered 89 items in total.

	2012	2011
Number of meetings in person	8	8
Number of letter ballots	2	2
Number of items on the BoD work plan	40	44
Number of items considered by the BoD	89	108

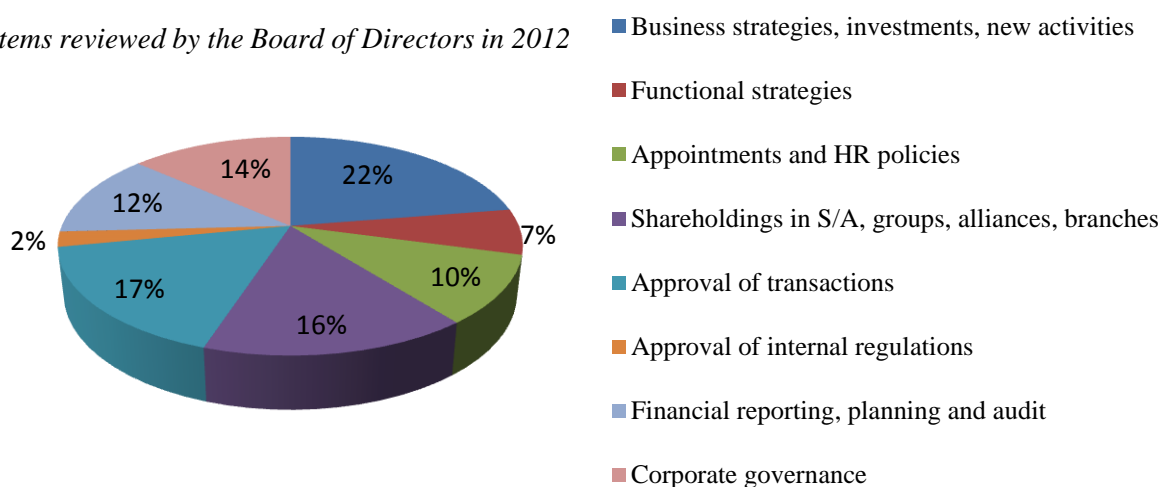
In 2012, the Board of Directors considered the following key items:

- 1) Corporate strategy of Sistema and approval of the high-level indicators for the strategic planning cycle.

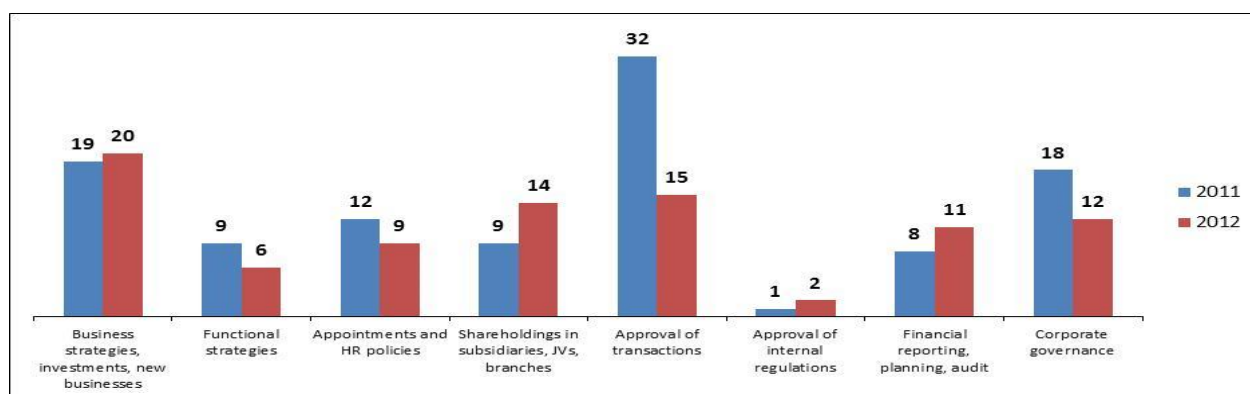
- 2) Investment projects management.
- 3) Concept of the new organisational structure of Sistema for development of the corporate structure, approval of the new organisational structure.
- 4) Development strategies for the core portfolio assets of Sistema:
 - telecom assets;
 - media assets;
 - oil assets;
 - agricultural assets;
 - hotel assets;
 - bank assets;
 - healthcare assets;
 - pharmaceutical assets;
 - retail assets;
 - geonavigation assets;
 - pan-Indian project of Sistema Shyam TeleServices Ltd.;
 - RTI development strategy;
 - MOSDACHTREST development strategy.
- 5) Sistema financial results.
- 6) Approval of the consolidated budget for Sistema and key performance indicators (KPIs) for the management.
- 7) Long-term financial and economic model of the company's development.
- 8) Debt and borrowings management.
- 9) Placement of securities (exchange-traded bonds).
- 10) Report on risk and opportunity management.
- 11) The results of implementing adequate procedures to meet applicable anti-corruption laws.
- 12) Implementing the priority action plan by the Internal Control of Sistema. Results of comprehensive inspections of the corporate centre and subsidiaries and affiliates
- 13) Delivery of the corporate strategy in HR management, improvement of existing personnel incentive systems in Sistema and in the companies of the Sistema Group; incentive systems for the managers and employees of the investment units of the group; approval of documents regulating the implementation of the incentive system after 2012.
- 14) Participation in the national projects and federal target programmes of the government.
- 15) Sistema's strategy in public relations and investor relations.
- 16) Corporate social responsibility of Sistema.
- 17) Approval of a new version of the Code of Corporate Ethics of Sistema.
- 18) Convening the Annual General Meeting of Shareholders and Extraordinary General Meetings of Shareholders.
- 19) Report on the quality of corporate governance in Sistema.
- 20) Approval of transactions.

Chart 5:

Items reviewed by the Board of Directors in 2012



Graph 6:



In addition to approving transactions, most of the items reviewed by the Board in 2012 were related to strategy, corporate governance, shareholdings in subsidiaries and approval of functional strategies aimed at supporting and improving the efficiency of efforts taken by the group's business units.

The high proportion of items related to equity holdings in subsidiaries, groups and joint ventures reviewed by the Board shows that the Board members closely followed the group's investment activities, which represents one of the key characteristics of the new governance model. The reduction in the total number of transactions reviewed by the Board reflects a drop in the number of intra-group transactions.

Preparation for the meetings and quorum of the Board of Directors

Materials on the agenda are provided to the Board members of Sistema ten days before meetings, enabling them to form their voting position. Most of the main agenda items are also discussed by the committees of the Sistema Board of Directors before the Board meeting. The work plan of the Board of Directors determines which committee is to preview each issue.

Members of the Sistema Board of Directors meet the key speakers and the management at a business dinner the evening before the meeting, so they can discuss the items on the agenda of the Board and inquire about the voting positions of the parties in an informal environment.

Meetings of the Board of Directors normally take place with high attendance of the Board members. No meetings of the Board of Directors have ever been postponed due to the absence of quorum.

Participation of the Sistema Board members in meetings of the Board of Directors and its committees in 2012

Board of Directors	Strategy	Audit and Finance	Nomination, Remuneration and Corporate Governance	Ethics and Control	IR and Dividend Policy
Participation in meetings					
V. Evtushenkov	10/10*	16/16			
A. Goncharuk	10/10	14/16		6/7	3/3
B. Dickie	5/6			2/3	
D. Zubov	10/10		10/11	7/7	
V. Kopiev	10/10			6/7	5/5
R. Kocharyan	10/10			6/7	7/7
J. Krecké	6/6				3/3
R. Munnings	10/10		11/11	7/7	7/7
E. Novitsky	10/10	13/16	9/11		
M. Holtzman	6/6		4/6		1/3
S. Tchuruk	9/10	3/16			7/8
M. Shamolin	10/10	16/16		6/7	1/7
D. Iakobachvili	10/10		11/11		8/8

The first number denotes the number of meetings in which the Board member participated, the second number stands for the total number of meetings the member could participate in. The composition of the Board of Directors is valid as of 31 December 2012.

Committees of the Board of Directors⁹

In 2012, after the new Board members were elected, the Board took the decision to update the profiles of the Board committees. To achieve this, the Board specified the procedural powers of the committees and updated the remit of the existing committees of the Board of Directors. These measures were undertaken to ensure high involvement of the Board members in the material aspects of the corporation's activities, and to help with the successful transition to the new investment company model.

Sistema has five committees of the Board of Directors:

- Strategy committee
- Audit and finance committee
- Nomination, remuneration and corporate governance committee
- Ethics and control committee
- Investor relations and dividend policy committee.

Starting with 2011, as a rule, only members of the Board of Directors are elected to the committees. The main role of the committees is to help the Board in preparing and adopting concepts and solutions in the respective functional areas, as well as in ensuring an in-depth scrutiny of the issues submitted for consideration to the Board of Directors. The Board committees have considerable procedural powers, have a right to bring in external experts and use other resources of the corporation.

Strategy committee

The Strategy committee consists of 7 members, of which six are members of the Sistema Board: **V. Evtushenkov** (Chairman), M. Shamolin, A. Goncharuk, B. Dickie, E. Novitsky, S. Tchuruk, and S. Boev.

The strategy committee analyses the strategic management issues of Sistema and provides for the functional cycle of strategic management, which includes the following aspects:

- methodology of strategic planning;
- preliminary approval of strategy and strategic goals;
- review of M&A transactions and major investment projects.

This committee also makes decisions about preliminary development of projects, assesses their risks and sets priorities. The committee recommends projects for a review by the Board of Directors of Sistema and evaluates and adjusts the project work in progress.

In 2012, 16 meetings of the committee were held where 21 items were considered, including:

- 15 items relating to the development strategy of the Sistema Group companies
- 5 M&A projects
- 1 item relating to the development strategy of the corporation in general.

Audit and finance committee

The audit and finance committee includes five Board members: **R. Munnings** (Chairman), D. Zubov, E. Novitsky, M. Holtzman, and D. Iakobachvili.

The audit and finance committee supervises preparation of financial reports and the internal audit of Sistema and its subsidiaries. Moreover, the committee oversees the work of external auditors, makes recommendations for their appointment and the amount of their remuneration, and also performs appraisal for the risk management system and monitors its operation. The committee monitors compliance with the Russian legislation and with corporate finance and reporting requirements. Apart from these tasks, the committee is to assist in the budgeting process: preliminary review of the materials at the budget development stage, preliminary review of the financial model of Sistema and also approval of the valuation of related-party and major transactions submitted for approval to the Board of Directors.

⁹ The information on Committees' work is provided as of December 31, 2012.

In 2012, this committee held 11 meetings at which 66 items were reviewed, including the following:

- 22 items relating to the preparation and audit of financial reports
- 6 items relating to internal audit
- 21 transactions
- 7 items relating to financial planning and risk management
- 10 items relating related to organisational matters.

Nomination, remuneration and corporate governance committee

The nomination, remuneration and corporate governance committee consists of six Board members: **R. Kocharyan** (Chairman), A. Goncharuk, B. Dickie, D. Zubov, R. Munnings, and M. Shamolin.

The nomination, remuneration and corporate governance committee previews the candidates to the top management positions of Sistema and candidates to the Boards of the Directors of the key subsidiaries of the corporation, participates in the development of and previews the draft functional strategies for HR and incentive systems for the company's personnel, and appraises the performance of Sistema's top management for the Board of Directors. The committee also facilitates development of corporate governance practices in Sistema and its subsidiaries and affiliates.

In 2012, the nomination, remuneration and corporate governance committee held seven meetings at which 19 items were reviewed, including the following:

- 7 items on incentive system improvement
- 2 items on approval of the nominees to the key top management positions at Sistema
- 2 items on HR policy and changes to the organisational structure of Sistema
- 4 items related to reviewing the key performance indicators (KPIs)
- 4 items on development of corporate governance.

Ethics and control committee

The ethics and control committee includes five Board members: **A. Goncharuk** (Chairman); V. Kopiev, R. Munnings; R. Kocharyan, M. Shamolin.

The ethics and control committee forms an efficient system of economic security, internal control and prevention of fraud and other misconduct which involves violations of the current legislation. Moreover, the committee monitors compliance with the requirements of the Code of Ethics of Sistema.

In 2012, the ethics and control committee held seven meetings at which 23 items were reviewed, including the following:

- 9 items on functional strategies in internal control and security
- 5 items on compliance with legislation and corporate ethics standards
- 3 items related to the results of internal control, and assessment of the management's efficiency in eliminating the identified weaknesses
- 3 items on the efficiency of corruption prevention system
- 3 items related to organisational matters.

Investor relations and dividend policy committee

The investor relations and dividend policy committee includes six Board members: **D. Iakobachvili** (Chairman), M. Shamolin, J. Krecké, R. Munnings, M. Holtzman, S. Tchuruk.

The investor relations and dividend policy committee aims to increase the capitalisation of the company and protect the rights and interests of its shareholders. In 2012, in addition to day-to-day matters, the committee focused on conducting an in-depth analysis and monitoring of the investment appeal of the company's stock, and assessing investors' perception of the company.

In 2012, the committee held eight meetings at which 12 items were considered, including:

- 10 items related to investor relations and dividend policy
- 1 item on public relations
- 1 item related to organisational matters.

6.3. The President

The President of Sistema is a permanent chief executive officer whose main function is executive management and settlement of relevant matters outside the remit of the General Meeting of Shareholders, Board of Directors and Management Board, for the purposes of ensuring the profitability of the company as well as observing its shareholders' rights and legitimate interests. The President acts within the scope of his powers and reports to the Board of Directors and the General Meeting of the corporation's shareholders.

The President of Sistema JSFC is Mikhail Shamolin appointed by the Board of Directors on 10 March 2011.

Mikhail Shamolin	Was born in 1970 in Moscow.
President of Sistema JSFC, Chairman of Sistema JSFC Management Board.	In 1992 he graduated from the Moscow Automobile and Road Technical Institute.
	In 1993 Mikhail received his second diploma from the Russian Academy of Public Administration under the President of the Russian Federation.
	In 1996-1997 he completed the finance and management course for top managers at the Wharton Business School.
	In 1998-2004 he worked at the international consulting company McKinsey&Co.
	In 2004-2005 - Managing Director for the Ferroalloys Division at Interpipe Corp (Ukraine).
	From 2005 to 2011 - Vice President for Sales and Customer Service; Vice President, Head of the MTS Russia business unit; President of MTS.
	On 10 March 2011 Mikhail Shamolin was appointed President of Sistema JSFC.

6.4. Management Board

Sistema's Management Board determines the methods of implementing the company's development strategy, prepares development plans, establishes and oversees compliance with investment procedures, appraises the performance of personnel, and reviews items that are subsequently submitted to the Board of Directors.

In 2012 the Management Board held 31 meetings and considered 81 agenda items dealing with all the areas of the Corporation's business activity. In 2012 the Management Board reviewed agenda items in the following key areas:

- 1) preliminary consideration of items put forward to the Board of Directors; the strategies of the Corporate Centre and investment portfolios;
- 2) financial activities, forecasts and performance on the quarterly, half-year and annual budgets of Sistema JSFC; risk management and a risk map; internal control; financial and economic model of the Corporation's development;

- 3) procedures for investment projects management;
- 4) analysis of the organisational maturity of subsidiaries and affiliates;
- 5) HR and social policies; training and development of the employees of Sistema JSFC; charity work;
- 6) consideration and preliminary approval of transactions;
- 7) analytical reviews of the media's and investment community's perception of the performance results of the Corporation.

Sistema JSFC Management Board composition as of December 31, 2012¹⁰

1. **Mikhail Shamolin**
2. Anton Abugov
3. Christopher Baxter
4. Alexey Buyanov
5. Elena Vitshak
6. Anna Goldin
7. Sergey Drozdov
8. Felix Evtushenkov
9. Leonid Monosov
10. Andrey Terebenin
11. Kirill Tyurdenev
12. Ali Uzdenov
13. Alexey Shavrov

Chairman of the Management Board, President of Sistema JSFC

Changes in top management in 2012

A number of changes in the top management of the company took place in 2012:

<i>A. Abugov</i>	24 September 2012	was transferred from his position of First Vice President, Head of the Strategy and Development Function, to the position of First Vice President.
<i>C. Baxter</i>	16 November 2012	was appointed Senior Vice President
<i>E. Vitshak</i>	03 September 2012	was appointed Executive Vice President, Head of HR Department
<i>F. Evtushenkov</i>	24 September 2012	was transferred from his position of First Vice President, Head of the Core Assets Business Unit, to the position of First Vice President
<i>L. Monosov</i>	24 September 2012	was appointed Executive Vice President
<i>R. Nagapetyants</i>	28 September 2012	was relieved of his duties as Senior Vice President, Head of the Developing Assets Business Unit
<i>K. Tyurdenev</i>	24 September 2012	was appointed Executive Vice President
<i>A. Uzdenov</i>	01 October 2012	was appointed Vice President
<i>A. Shavrov</i>	24 September 2012	was appointed Executive Vice President

6.5. Risk management, internal control and audit system

The risk management system of Sistema JSFC is based on a two-tier approach to the management of the risks and opportunities of the Corporation, namely, on identifying the risks of S\As and Corporate Centre with their further integration, so that their impact on the Corporation as a whole could be assessed.

¹⁰ See Annex for brief biographies and the equity holdings of the Management Board members.

The integrated risk management system (ERM) of the Corporation includes the following basic principles:

- identification of risks at all levels of management (from top to line management), which includes finding the risk owner and making a risk passport;
- assessment and analysis of the identified risks (based on VaR methodology);
- ranging the risks by management level;
- evaluation of the cumulative effect of material risks on the key financial indicators of the Company (Monte Carlo modelling);
- development of risk mitigation plans on all management levels;
- a system of control over the implementation of mitigation plans and evaluation of their effectiveness;
- risk monitoring, quarterly reporting on the risks of the Company.

The risk management procedures of Sistema JSFC are carried out by the Risk Management Group, which was specially set up for this purpose.

The risk and opportunity management system of the Corporation is monitored on a quarterly basis by the Management Board and the Risk Management Sub-Committee of Sistema JSFC, which review the effects of the mitigation and response measures taken and reassess the identified and/or new risks.

The President of Sistema JSFC presents a regular report on risk management in the Corporation to the Audit and Finance Committee of the Board of Directors of Sistema JSFC. Annual risk report is presented to the members of the Board of Directors.

In 2011 the Board of Directors took the decision to separate the functions of internal control and internal audit of the Corporation.

The Internal Control Service reports to the President and the Ethics and Control Committee of the Sistema JSFC Board of Directors. The Internal Control Service is responsible for:

- targeted actions for control of business processes and financial activities;
- control over the elimination of systemic deficiencies in business processes;
- control over compliance with internal procedures and legal requirements;
- control over reports on performance and fulfillment of functional KPIs;
- operation of a Hot Line as a tool for timely detection and efficient prevention of different types of fraud.

The main tools of the Internal Control Service are audits and analysis of the data received as a result of such audits. The results obtained by the Internal Control Service are reported to the President of Sistema JSFC and the Ethics and Control Committee to ensure that decisions are taken to eliminate the identified deficiencies.

The Internal Audit Service reports to the Audit and Finance Committee of the Sistema JSFC Board of Directors. The Internal Audit Service is responsible for:

- assessing the efficiency of the risk management system and preparing recommendations on improving it;
- auditing the quality of the management business processes;
- assessing the efficiency of the internal control system.

The main tools of the Internal Audit Service include obtaining information on the above processes, analysing the received information and preparing recommendations and assessments for the Sistema JSFC management. The results obtained by the Internal Audit Service are reported to the Audit and Finance Committee and the Board of Directors to enable decision-making on the improvement of the internal control system and the quality of risk management and corporate governance.

The Internal Audit Service submits a quarterly report on its performance to the Audit and Finance Committee of the Sistema JSFC Board of Directors.

Pursuant to the decision of the Audit and Finance Committee, Sistema JSFC has developed procedures for purchasing external audit services for the purpose of auditing the financial/ accounting statements of Sistema JSFC. The Audit and Finance Committee performs annual assessment of the quality of audit services. If the quality of services provided by the current auditor is recognised as unsatisfactory, the Audit and Finance

Committee holds a tender and selects a new auditor. If the quality of services of the current auditor is recognised as satisfactory, negotiations are conducted on the price of audit services for the next period. In the meantime, to ensure the impartiality and objectivity of the auditor, the Audit Committee of Sistema JSFC took the decision that a tender for the audit of the RAS and US GAAP financial statements should be conducted at least once every five years.

6.6. Development of corporate governance system in 2012

In 2012, Sistema took a number of measures to further develop its corporate governance system.

After electing new members, the Board of Directors took the decision to renew the terms of references of the Board's committees as part of completing the company's transition to the investment company model. It was also necessary to increase the engagement of the Board of Directors in the important aspects of the company's work according to the new model. To achieve this, the procedural powers of the committees were specified and the remit of the existing committees of the Board of Directors updated.

As a rule, only members of the Board of Directors are elected to committees. The committees of the Board of Directors have extended procedural powers and the right to use external expertise and other company resources. Every committee is responsible for a particular activity, which is closely monitored by every member of a committee.

These changes are designed to ensure that Board members are closely involved in the material aspects of the company's activities, and to help with a successful transition to the new investment company model.

In June 2012, a number of new members were introduced to the Board of Directors. Brian Dickie, Jeannot Krecké and Mark Holtzman were elected as independent directors of the Board for the first time. Their vast practical investment experience and track record on successful management of big companies will make it possible to significantly strengthen the business competencies of the Sistema Board of Directors.

7. SOCIAL RESPONSIBILITY.

Corporate Social Responsibility (CSR) is a comprehensive system that pervades all the activities of the company and influences its key strategic business decisions and their day-to-day implementation. Sistema's CSR strategy is aimed at achieving practical results in various spheres of public life: improving social climate, developing Russian culture, increasing the intellectual potential of the country and strengthening its national identity. Thus, the CSR policy of Sistema is a long-term investment in the future of the whole of Russia, as well as the company itself.

The main document governing the CSR activities of the company and its subsidiaries is the *Policy on Corporate Social Responsibility of Sistema*. It establishes the basic principles and priorities for cooperation with all the stakeholders of the CSR process. The document is also used as a tool for the strategic management of the social factors affecting the company's sustainable development, and for the optimisation of our contribution to the social and economic development of the country and the regions where we operate, as well as for enhancing our reputation.

Another internal document is *the Code of Corporate Conduct* which reflects the company's voluntary commitments made on top of the requirements of the applicable corporate legislation, and *the Code of Ethics* governing corporate relationships with stakeholders.

Sistema's social responsibility approach to business includes a commitment to the following principles:

- Improving living standards through business development
- Safeguarding occupational health and safety and developing human potential
- Protecting the environment
- Contributing to the development of local communities
- Showing consideration for social expectations and opinions
- Being open and transparent

The key CSR principles approved at Sistema Group level are consistently implemented in all portfolio companies. We have designed a system for implementing social responsibility that includes forming standards, building the management structure, training personnel, and controlling implementation through a system of indicators.

When implementing the key CSR principles, we take into account global experience and adhere to best international practices. Sistema became one of the first Russian companies to join the United Nations Global Compact (in 2002) and to abide strictly by the ten principles of sustainable development enshrined in it. We fully embrace the social responsibility concept outlined by the Russian Union of Industrialists and Entrepreneurs in the Social Charter of Russian Business, and seek to make our contribution to sustainable development permanent, consistent and socially understandable.

Key stakeholders

Sistema's policy in the sphere of Corporate Social Responsibility is indivisible from achieving sustainable growth and hitting the company's strategic targets. Responsible behaviour and taking into account the interests of all stakeholders, which includes shareholders, investments, employees, suppliers, partners, public organisations and local communities, as well as the state, is essential for business development.

Sistema JSFC is one of the largest national taxpayers, and its portfolio companies are often notable contributors to the budgets of the regions of their presence.

The corporation operates in strict compliance with the ecological requirements. Participation in environmental programmes is part of the Code of Ethics of Sistema.

Being participants of the hydrocarbon market, the Corporation's companies invest substantial funds in environmental measures. For instance, in 2012 Bashneft alone spent RUB1.4bn on these purposes.

In the reporting period the company implemented the strategy of health, safety and environmental protection (HSE) designed for a span of 5 years. According to the plan of actions until the end of 2016, the expenses on the five-year Functional Strategy should total RUB16.44bn.

Bashneft's priorities in reducing the negative footprint on the environment are: recycling the oil sludge, including that from the Soviet period, building effluent treatment systems, and switching to more environmentally-friendly

types of fuel. In 2012 the company moved 100% to selling EURO-5 petrol.

A significant project in 2012 was the launch of the programme increasing the reliability of pipelines covering the period of 2013-2017. Its goal is to minimise the negative impact of oil extraction on the environment, along with reducing product losses by reducing equipment failures and pipeline leak rate.

Under this programme in 5 years' time the company is planning to remodel over 1,258km of pipeline, including pipe replacement, and to do a major overhaul of nearly 250km of pipeline.

Bashneft is planning to allocate RUB11.1bn to the pipeline reliability programme over the span of 2013-2017.

Responsibility to the community

Another key focus area of Sistema's Corporate Social Responsibility programme is investing in the social sphere, which aims to enhance the educational, scientific and cultural potential of the country.

Sistema, together with its portfolio companies, is one of the largest employers in Russia. The total headcount of the Corporation exceeds 140 thousand employees. With the family members of the employees taken into account, the Corporation is responsible for the welfare of about half a million citizens of the Russian Federation.

Provision of good working conditions necessary for building a high quality of life is an unquestionable priority and the corner stone of the Company's CSR policy.

The Corporation is one of the major philanthropists and investors in the Russian social sphere. Social investments were mostly made in the following areas:

- Science and education
- Culture
- Sports
- Direct support to social initiatives and projects

Sistema supports unique, innovative projects, often in the spheres that were, until then, not in the sight of sponsors and charity organisations.

In 2012 the Corporation's aggregate investments in the social sphere exceeded 2 million roubles.

Science and education

Education and science programmes have a special place in Sistema's social investment structure.

In addition to supporting young professionals and scientists the company also invests in its business and thus provides its enterprises with qualified personnel. By enabling its current and future customers to have access to the most advanced technologies at the stage of training Sistema JSFC simulates the formation of strong demand for high-tech products and services for years to come.

The company is engaged in a step-by-step programme encompassing: youth talent search; support for young people's academic and creative initiatives; provision of grants and scholarships to students and highly proficient teachers and promising research workers; joint educational projects with academic and scientific institutions; helping students and young scientists develop their ideas and put them into industrial production.

Lift to the Future

Since 2011 Sistema has been developing a large-scale *Lift to the Future* project, with the mission to help talented Russian young people fully unlock their academic and creative potential and to provide them with the opportunity of making an independent educational and occupational choice.

Our key partner in the *Lift to the Future* project is Lomonosov Moscow State University, which acted as a co-founder of the Research and Education Centre *Institute for Developing the Intellectual Potential of the Youth*. Other project participants include Bauman Moscow State Technical University, the Russian Rectors' Union, the Russian Union of School Academic Contests, leading scientific teams, and Russian high-tech companies.

All Russian universities, research centres, vocational institutions, regional intellectual contest centres, centres for talented children, orphanages etc. have been invited to take part in the Lift to the Future programme. Thus we create an all-Russian talent bank integrated in a new-type of educational environment. Every year at least 100 students take part in the *Lift to the Future* scholarship programme.

As part of the project, we have already set up a unique *Lift to the Future* web portal. This portal consolidates information on the academic programmes of all the Russian academic institutions, and the projects of the key federal and regional research centres, vocational education institutions and businesses - and tailors it for a young audience.

An important part of the project is a supervision programme, where accomplished professionals mentor young people and help them choose the right field for their further education. Today the portal has over 100,000 registered participants and over 200 supervisors.

Results

Such innovative approaches taken by Sistema help achieve tangible results making the company a leader in CSR in Russia.

- ***We are recognised as the best company in the area of CSR in Russia:*** Sistema was ranked first in the biggest annual ranking *Leaders of Corporate Charity* set up by the Vedomosti business daily, PriceWaterhouseCoopers and Donors Forum, a non-profit partnership of grant awarding organisations.
- ***Lift to the Future is the best CSR project:*** in the same ranking, the project has been recognised as one of the best charitable programmes aimed at engaging young people in social and economic development.
- ***Lift to the Future was approved by the Agency of Strategic Initiatives in the Young Professionals category:*** the meeting of the Supervisory Board chaired by the Russian President Vladimir Putin took place on 22 November 2012.

Other companies of the Group

BASHNEFT is implementing the Group's largest social action programme in Bashkortostan:

- The social action report of Bashneft for 2011 was awarded as the best in the category of *Best Report on Sustainable Growth and Social Responsibility* at the 15th annual contest of annual reports and corporate websites hosted by the Securities Market magazine and the Investor.ru social network, in partnership with the Russian Federal Financial Markets Service. Through the Ufa branch of Sistema's Charity Fund, Bashneft is participating in the programme focusing on providing potable water to the Bashkortostan people, which is part of funding the social infrastructure in Bashkortostan under and agreement with the government of the Republic.
- The Corporate Volunteer Programme among the employees of Bashneft was launched in 2012.

MTS:

- The company received IX National Award for its contribution to the development of the Russian segment of the Internet (RuNet awards of 2012) in a special nomination "Safe RuNet" (such MTS projects as Federal Programme "Children in the Internet", the web portal "Safety is Simple" (safety.mts.ru)).
- MTS received a Leaders of Corporate Charity-2012 award in the category Best Programme Promoting Volunteering in Russia, and became a top-10 charitable company in Russia.
- The Reputation Rating Agency granted to MTS the first national rating in corporate social responsibility – AA(s).
- MTS launched a unique for Russia project under the title of "All Ages are to Net Submissive" which aims to provide Internet training for elderly people.

- Jointly with the Lift to the Future project and Cisco, the company launched an IT Fitness test where any Russian can test his or her IT skills, and a contest "IT for Equal Opportunities".
- MTS projects in the CSR sphere (All Ages are to Net Submissive, CSR+Marketing, Telecom Idea) are taken into account in all business processes of the company and are also implemented in the other portfolio companies of the Sistema Group.

DETSKY MIR

- The company received an award from the national programme "Best Social Projects in Russia".
- Detsky Mir won the Little Golden Bear national award for goods and services for children, in the category "Year's Best Social Project".
- The "Contribute!" campaign organised by the company provided support to the disadvantaged Russian citizens totaling 100 million roubles.
- In 2012, to aid the victims of the natural disaster in Krymsk, the company organised the gathering and delivery of a relief consignment for babies under 3 years of age worth RUB500k, set up a hot line for insulin-dependent children, etc.

RTI

- MIC Sistema-Sarov won the award in Best Project Promoting Innovations (Time of Innovations 2012) – an independent award set up by the Social Projects and Programmes Foundation with support from the RF Economic Development Ministry and the RF Ministry for Telecom and Mass Communications, for achievements in the field of innovative work.

8. CRITERIA FOR AND AMOUNTS OF REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND TOP EXECUTIVES OF THE COMPANY.

The remuneration of the members of Sistema's Board of Directors is calculated on the basis of the Policy on remuneration and compensations payable to the Company Board members, approved by a resolution of the General Meeting of Shareholders of Sistema on 30 June 2006 (Minutes #1-06) as amended by the resolution of the General Meeting of the Shareholders of Sistema on 16 February 2009 (Minutes #1-09). The Policy provides for the payment of the following to the Board members:

- fixed amounts for participation in meetings of the Board of Directors and its committees;
- fixed amounts for acting in the capacity of Chairman or Deputy Chairman of the Board of Directors, and for chairmanship in the committees under the Board;
- based on the performance in the year, members of the Board of Directors receive additional performance-related remuneration in the form of a fixed amount, half of which is payable in shares (US\$ 250,000 - 325,000);
- given the capitalisation of the company has grown over the year, members of the Board of Directors receive additional remuneration amounting to 0.1% of the incremental capitalisation.

The short-term (up to 1 year) incentive scheme for the top managers of Sistema in 2012 consisted of the following elements:

- fixed monthly salary determined in line with the internal system of job categories (grades);
- an annual bonus paid for achievement of investment key performance indicators set for the entire company over a respective reporting period; the investment KPIs of Sistema in 2012 include: iTSR, TSR, revenue of Sistema - dividends and funds from the sale of businesses, SG&A / NAV, net Income of Sistema, debt of Sistema);
- additional remuneration for generating cash income for the company over the year, payable subject to achievement of the year's investment KPIs, or additional bonus payable exclusively at the discretion of the Board of Directors.

The long-term (over 1 year) incentive scheme for the top managers of Sistema in 2012 consisted of the following elements:

- a three-year long-term incentive programme (2012-2014) aimed at building the shareholder value of Sistema and at creating additional preconditions for maintaining long-term relations of employment and corporate relations between the company and its management;
- an option programme for initiating and developing M&A projects aimed at strengthening the interest of the management towards searching for, acquiring and developing new assets that increase the shareholder value and the market capitalisation of Sistema.

No remuneration is paid for the executive work of the managers sitting on the Management Board of Sistema.

In 2012, the top executives of the company received an aggregate remuneration of RUB 996,076,264. Remuneration paid to the Board of Directors members of Sistema in 2012 totalled RUB 122,402,181.

9. ANNEX.

9.1. SUMMARY BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THEIR SHAREHOLDINGS IN SISTEMA JSFC

<i>Full name, Title</i>	<i>Brief Professional Background</i>
<p>Vladimir Evtushenkov</p> <p>Chairman of the Board of Directors. Non-executive director.</p>	<p>Vladimir Evtushenkov was born in 1948 in the Smolensk region.</p> <p>In 1973 he graduated from the Moscow Mendeleyev Chemical-Engineering Institute, in 1980 – Economic Faculty of the Moscow State University n.a. M. Lomonosov. Doctor of Science in Economics.</p> <p>1975-1982 - Machine Shop Manager; Deputy Director; Chief Engineer of the Karacharovo Factory of Plastics. 1982 to 1987 – Chief Engineer, First Deputy Director General of Polymer Scientific and Production Association. 1987-1988 - Head of Technical Department; Head of the Chief Department of Science and Technology of the Moscow City Executive Committee. 1990 – Chairman of the Moscow Municipal Committee for Science and Technology.</p> <p>In 1993 together with a group of associates Mr. Evtushenkov formed Sistema Joint-Stock Financial Corporation. At present he is the principal shareholder, the Chairman of the Sistema JSFC Board of Directors and the Chairman of the Strategy Committee of the Board of Directors.</p> <p>Mr. Evtushenkov is an active member of a number of government commissions for improvement of the competitiveness of the Russian industry, development of high technologies and innovations, science and culture; a member of the National Council for corporate governance, member of the management boards of the main associations of entrepreneurs in Russia: the Russian Union of Industrialists and Entrepreneurs, the Russian Chamber of Industry and Commerce, Chairman of the Russian side of the Russian-Arab Business Council.</p> <p>Mr. Evtushenkov is the Chairman of the Council of Trustees of the Fund for Development of the State Russian Museum “Friends of the Russian Museum”. He also heads the Board of Trustees of the Sistema Charitable Foundation.</p> <p>Share in the authorized capital of Sistema JSFC – 64.1843%.</p>
<p>Alexander Goncharuk</p> <p>Deputy Chairman of the Board of Directors. Non-executive Director.</p>	<p>Alexander Goncharuk was born in 1956 in Sevastopol.</p> <p>In 1978 he graduated from the Sevastopol Higher Navy and Engineering School, and in 1987 – the Grechko Navy Academy.</p> <p>1995-1998 – Vice-President of Sistema JSFC. Mr. Goncharuk headed Sistema Telecom from 1998 to 2003, SITRONICS from 2003 to 2006, Sistema JSFC from 2006 to 2008.</p> <p>1998 and 2002-2003 – Chairman of the Board of Directors of MTS.</p> <p>Mr. Goncharuk is Chairman of the Board of Directors of SITRONICS, member of the Board of Directors of Bashneft, RussNeft and some other companies, member of the Board of Trustees of the Sistema Charitable Foundation.</p>

	<p>Alexander Goncharuk has been a member of the Board of Directors of Sistema JSFC since 1996. Chairman of the Ethics and Control Committee, member of the Strategy Committee, member of the Nomination, Remuneration and Corporate Governance Committee of the Sistema Board of Directors.</p> <p>Share in the authorized capital of Sistema JSFC – 1.0032%.</p>
<p>Brian Dickie</p> <p>Independent Director.</p>	<p>Brian Dickie was born in 1955 in Belfast, the United Kingdom.</p> <p>Graduated from the Oxford University with a Master of Arts degree in English literature, obtained an MBA degree in Harvard Business School.</p> <p>In 1981-1998 Brian worked for BOOZ, ALLEN & HAMILTON INC, an international management consulting company.</p> <p>From 1993 to 1998 - President, Chairman of the Management Board of the company's branch in New-York; previously Brian was a managing partner of the company in the Asia-Pacific region (Singapore); provided strategic and operational consulting to major corporations and government agencies in North America, Europe and Asia-Pacific region.</p> <p>In 1999-2003 Mr. Dickie was President of TXU ENERGY, USA, where he headed Retail, Generation (32 nuclear, gas-fired and coal-fired power stations) and Trading divisions; simultaneously he oversaw the new businesses of the Group including telecoms (USA) and international utilities businesses (Australia, Asia, Latin America).</p> <p>From 2003 to 2012 Brian worked with INVESTCORP, a Bahrain-based alternative investment company. Prior to 2010 he was Managing Director of the European private equity division (London). At present Mr. Dickie is a senior advisor, member of the Investment Committee of Gulf Opportunity Fund, one of the divisions of INVESTCORP; and also a Chairman/Board member of a number of companies in Europe and the Middle East.</p> <p>Mr. Dickie has been a member of the Board of Directors of Sistema JSFC from 2012. He is a member of the Nomination, Remuneration and Corporate Governance Committee of the Sistema Board of Directors.</p> <p>Share in the authorized capital of Sistema JSFC – 0.00%.</p>
<p>Dmitry Zubov</p> <p>Non-executive Director.</p>	<p>Dmitry Zubov was born in 1954 in the Gorkiy region.</p> <p>In 1977 he graduated from the Moscow Automobile and Road Technical Institute. Doctor of Science in Economics.</p> <p>1992-1999 - Director General of Alon Close-Type JSC, later he held senior positions in MosEximBank, IBN Sistema and PromChemInvest.</p> <p>In 1999 Mr. Zubov was elected member of the Board of Directors of Sistema JSFC, in 2000 – Deputy Chairman of the Board of Directors. At present he is the member of the Nomination, Remuneration and Corporate Governance Committee, member of the Audit and Finance Committee. Member of the Board of Trustees of the Sistema Charitable Foundation.</p> <p>Share in the authorized capital of Sistema JSFC - 0.9764%.</p>
<p>Vyacheslav Kopiev</p> <p>Non-executive Director.</p>	<p>Vyacheslav Kopiev was born in 1954 in Moscow.</p> <p>In 1977 graduated from the Cybernetics Department of the Moscow Institute of Engineering and Physics, in 1993 - from the Law Department of the Russian</p>

Academy of Management, in 1994 - from the Economics Department of the International Marketing and Management Academy. PhD in Technical Sciences, PhD in Legal Sciences. Author of more than 70 scientific works.

In 1989-1997 Mr. Kopiev occupied leading positions at the Administrative Board of the Union of Engineering Societies, including Director for International Relations and Innovation. He also served as Chairman of the Board of Directors of JSC Sputnik from 1990 to 1997. From 1995 – Deputy Chairman of the Executive Committee of the Russian-British Chamber of Commerce and Industry.

In 1997 Mr. Kopiev was appointed Vice-President of Sistema JSFC, from 2000 to 2003 – Senior Vice-President, Head of the External Business Environment Complex. From 2003 to 2010 – Deputy Chairman of the Sistema JSFC Board of Directors. President of the Sistema Charitable Foundation.

Member of the Presidential Council of the Russian Federation for development of physical education and sports, professional sports, preparations for the XXII Olympic Games and XI Paralympic Games in 2014 in Sochi, President of the Russian Rugby Union.

Member of the Sistema JSFC Board of Directors since 1997. Member of the Ethics and Control Committee.

Share in the authorized capital of Sistema JSFC – 0.0569%.

Robert Kocharyan

Independent Director.

Robert Kocharyan was born in 1954 in Stepanakert, the Nagorno-Karabakh autonomous district.

In 1982 he graduated from the Yerevan Polytechnic Institute.

1991-1994 – Deputy of the first Supreme Council of the Nagorny-Karabakh Republic (NKR), Chairman of the State Defense Committee of NKR and Prime Minister of NKR.

1994-1997 – President of NKR.

1997-1998 - the Prime Minister of the Republic of Armenia.

1998–2008 – the President of the Republic of Armenia.

Member of the Sistema JSFC Board of Directors since 2009.

Chairman of the Nomination, Remuneration and Corporate Governance Committee, member of Ethics and Control Committee of the Sistema Board of Directors.

Share in the authorized capital of Sistema JSFC – 0.0032%.

Jeannot Krecké

Independent Director.

Jeannot Krecké was born in 1950 in Luxembourg.

Graduated from the Free University of Brussels. Later when studying in the USA he specialized in economics, accounting and taxation. He co-authored an annually published manual on taxation in Luxembourg, as well as books on tax control and tax fraud.

2004-Minister of Sport of Luxembourg.

2004-2011 - Minister for Economy and External Trade of Luxembourg, representative of the Luxembourg Government in the Council of Ministers of the European Union.

Co-founded the Alzheimer Association Luxembourg and became its President (1987-

1997). President of the Alzheimer Fund since 1997.

In 1970-1977 played for the Luxembourg national football team; participated in transatlantic and polar expeditions (Greenland, Svalbard).

Member of the Sistema JSFC Board of Directors since 2012.

Member of IR and Dividend Policy Committee of the Sistema Board of Directors.

Share in the authorized capital of Sistema JSFC – 0.0004%.

Roger Munnings

Roger Munnings was born in 1950 in the United Kingdom.

Independent Director.

He graduated from the Oxford University with a degree of Master of Arts in politics, philosophy, and economics.

At present Mr. Munnings is a member of the UK Government's working group on trade and investments between Great Britain and Russia, as well as Chairman of the Institute of Audit Committees in Russia.

Since 1974 Roger Munnings has had a long and successful career in international auditor KPMG, especially during his time in the office of the President and Managing Partner of KPMG in Russia and the CIS (1996-2008), as well as Chairman of the world energy and natural resources committee of KPMG (1993-2008). Mr. Munnings is Deputy Chairman of the management board of the Association of European Business (AEB) and member of the Institute of certified accountants of England and Wales.

Roger Munnings is actively involved in the social activities in Russia being a member of the Russian National Council on Corporate Governance, the Russian Union of Industrials and Entrepreneurs, the Russian institute of directors, the management board of the American-Russian business council, the management board of the Russian-British chamber of commerce etc.

Mr. Munnings is a member of the Board of Directors of Sistema JSFC from 2010. He is also Chairman of the Audit and Finance Committee, member of the Nomination, Remuneration and Corporate Governance Committee, IR and Dividend Policy Committee and the Ethics and Control Committee of the Board of Directors.

Share in the authorized capital of Sistema JSFC – 0.0022%.

Evgeny Novitsky

Evgeny Novitsky was born in 1957 in the Tomsk region.

Independent Director.

In 1985 he graduated from the Moscow Bauman Higher Technical School. In 1989-90 he studied management at the Moscow State University of International Relations and the University of Manchester, UK; Candidate of Technical Sciences.

1985-1987 - engineer and mathematician at the Moscow Bauman Higher Technical School.

1987-1990 - completed a post-graduate course.

1991-1995 he was in charge of developing and producing a series of Russian-made computers, as well as of organising IBM computers assemblage at Quantum Factory (in Zelenograd), was the Chairman of the Board of Directors of the Russian IT company IVK (Information and Innovation Company). Author of a monograph and a number of publications, member of the Board of Trustees of the Bauman Moscow State Technical University.

Since 1995 Mr. Novitsky worked at Sistema JSFC as the President of the Company

and from January 2005 to February 2006 he was the Chairman of the Corporation's Board of Directors. Since 2006 – non-executive director and since 2010 – independent director of the Sistema JSFC Board of Directors. Currently he is also a member of the Strategy Committee, the Audit and Finance Committee, member of the Board of Trustees of the Sistema Charitable Foundation.

Share in the authorized capital of Sistema JSFC – 1.9925%.

Marc Holtzman

Independent Director

Marc Holtzman was born in 1960 in the USA. He holds a Bachelor of Arts degree in economics from Lehigh University. In addition, Mr. Holtzman is Vice President at BarclaysCapital, and serves as non-executive Chairman of the Board of Directors of Indus, a leading oil company listed on the London AIM, with market capitalization of about USD 2bn. He is member of the Board of Directors of Prospect Global Resources and Bank of Kigali, a leading commercial bank in Rwanda. Mr. Holtzman also serves as a member of the Board of Directors of the United States Space Foundation and as a member of the Board of Trustees of the Colorado Animal Rescue Shelter. Drawing on almost two decades of political and public service, Mr. Holtzman has developed close relationships with governmental and political leaders around the world. He was on the Board of Trustees of the Almaty Regional Financial Center. Mr. Holtzman co-founded and served as a member of the Board of Directors of a non-partisan, non-profit group "Poland for Europe". In 1989-1998 he lived and worked in Eastern Europe and Russia as a guest lecturer of the World Economic Development Congress and Harvard University's John F. Kennedy School of Government. 2003–2005 – President of the University of Denver. The University has approximately 10,000 students and includes the Daniels College of Business which, during Holtzman's tenure, was ranked by The Wall Street Journal as being among the world's top fifty MBA programs. Before 2003 Mr. Holtzman served as Secretary of Technology of the Colorado government. In addition, he was Chairman of Colorado's Information Management Commission and Co-Chairman of the Commission on Science and Technology. Mr. Holtzman helped guide Colorado's economic transformation into a fully diversified technology hub.

Member of the Sistema JSFC Board of Directors since 2012. Member of the Audit and Finance Committee and IR and Dividend Policy Committee of the Sistema Board of Directors.

Share in the authorized capital of Sistema JSFC – 0.00%.

Serge Tchuruk

Independent Director.

Serge Tchuruk was born in 1937 in France.

Serge graduated from Ecole Polytechnique.

1964-1979 - Mobil Corporation (France and USA); Chief Executive Officer of Mobil Benelux.

1980-1986 he worked at Rhone-Poulenc, an international chemical and pharmaceutical company, where he had various managerial jobs, and in 1983 he was appointed Managing Director of the company.

1986-1990 - Chairman and the CEO of Orkem (earlier known as CDF-Chimie).

1990-1995 - the Chairman and the CEO of Total, one of the largest oil and gas

companies globally.

In 1995 Serge Tchuruk became CEO of Alcatel.

Member of the Board of Directors of Sistema JSFC from 2011, member of the Strategy Committee, member of the Investor Relations and Dividend Policy Committee.

Share in the authorized capital of Sistema JSFC – 0.0013%.

Mikhail Shamolin

President, Chairman of the Management Board.
Executive Director.

Mikhail Shamolin was born in 1970.

In 1992 he graduated from the Moscow Automobile and Road Technical Institute. In 1993 Mikhail received his second diploma from the Russian Academy of Public Administration under the President of the Russian Federation.

In 1996-97 he completed the finance and management course for top managers at the Wharton Business School.

1998-2004 - worked at the international consulting company McKinsey&Co.

2004-2005 - Managing Director for the Ferroalloys Division at Interpipe Corp. (Ukraine).

2005-2011 - Vice President for Sales and Customer Service; Head of the MTS Russia business; President of MTS OJSC.

On 10 March 2011 Mikhail Shamolin was appointed President and Chairman of the Management Board of Sistema JSFC.

Member of the Strategy Committee; Ethics and Control Committee; Nomination, Remuneration and Corporate Governance Committee; IR and Dividend Policy Committee of the Sistema Board of Directors; member of the Board of Trustees of the Sistema Charitable Foundation.

Share in the authorized capital of Sistema JSFC – 0.0339%.

David Iakobachvili

Independent Director.

David Iakobachvili was born in 1957 in Georgia.

Studied at Civil and Industrial Engineering Department of the Georgian Technical University in Tbilisi.

1986-2000 – private entrepreneur involved in various projects: official dealership of General Motors cars, tourism and hotel business, timber processing, management of furniture supplies, retail management, communications and banking.

In 1992 became one of the founders of a famous food company, Wimm-Bill-Dann.

1992-2001 – served as member of the Board of Directors, later the Chairman of the Board of Directors of Wimm-Bill-Dann Foods OJSC.

At present serves on the Boards of Directors of a number of companies: CJSC Gorki-2 Agro-Complex, Airport Financial Services Limited, OJSC Melnichniy kombinat No.4 (grain mill), LLC Kolmogorovskaya-2 mine, LLC Promuglesbyt Managing Company and some other companies.

Since 2000 – member of the Management Board of the Russian Union of Industrialists and Entrepreneurs (employers), since June 2004 – member of the Management Board's Bureau of the Union.

Serves on the Board of Directors of Sistema JSFC since 2011. He is also the

Chairman of Investor Relations and Dividend Policy Committee and member of the Audit and Finance Committee of the Board of Directors of Sistema JSFC.

Share in the authorized capital of Sistema JSFC – 0.0031 %.

9.2. INFORMATION ON TRANSACTIONS PERFORMED BY MEMBERS OF THE BOARD OF DIRECTORS OF SISTEMA JSFC WITH THE SHARES THEY HOLD IN THE COMPANY OVER THE PERIOD 1 JANUARY - 31 DECEMBER 2012

<i>Board member</i>	<i>Date of the transaction</i>	<i>Transaction</i>	<i>Subject of the transaction</i>
V. Evtushenkov	09.07.2012	crediting securities to the holder's account	122,191 ordinary registered shares
A. Goncharuk	16.01.2012	crediting securities to the holder's account	102,897 ordinary registered shares
	24.05.2012	Debiting securities from the holder's account, crediting securities to the account of a nominal holder – DCC	48,250,000 ordinary registered shares
	09.07.2012	crediting securities to the holder's account	122,191 ordinary registered shares
D. Zubov	16.01.2012	crediting securities to the holder's account	9,114,968 ordinary registered shares
	09.07.2012	crediting securities to the holder's account	122,191 ordinary registered shares
V. Kopiev	16.01.2012	crediting securities to the holder's account	1,997,144 ordinary registered shares
	09.07.2012	crediting securities to the holder's account	122,191 ordinary registered shares
	08.08.2012	Debiting securities from the holder's account, crediting securities to the account of a nominal holder – BANK CREDIT SWISS	2,000,000 ordinary registered shares
R. Kocharyan	09.07.2012	crediting securities to the holder's account	127,808 ordinary registered shares
J. Krecké	09.07.2012	crediting securities to the holder's account	1,950 global depositary receipts
R. Sommer	16.01.2012	crediting securities to the holder's account	1,577,378 ordinary registered shares
R. Munnings	09.07.2012	crediting securities to the holder's account	127,808 ordinary registered shares
L. Melamed	16.01.2012	crediting securities to the holder's account	7,810,741 ordinary registered shares
	09.07.2012	crediting securities to the holder's account	122,191 ordinary registered shares
E. Novitsky	09.07.2012	crediting securities to the holder's account	122,191 ordinary registered shares

S. Tchuruk	09.07.2012	crediting securities holder's account	to	the	127,808 registered shares	ordinary
M. Shamolin	16.01.2012	crediting securities holder's account	to	the	3,147,750 registered shares	ordinary
	09.07.2012	crediting securities holder's account	to	the	122,191 registered shares	ordinary
D. Iakobachvili	09.07.2012	crediting securities holder's account	to	the	122,191 registered shares	ordinary

9.3. SUMMARY BIOGRAPHIES OF THE PRESIDENT OF SISTEMA JSFC AND THE MEMBERS OF THE MANAGEMENT BOARD

<i>Full name, Title</i>	<i>Brief Professional Background</i>
<p>Mikhail Shamolin President of Sistema JSFC. Chairman of the Sistema JSFC Management Board.</p>	<p>Was born in Moscow in 1970.</p> <p>In 1992 he graduated from the Moscow Automobile and Road Technical Institute. In 1993 received his second diploma from the Russian Academy of Public Administration under the President of the Russian Federation.</p> <p>In 1996-1997 he completed the finance and management course for top managers at the Wharton Business School.</p> <p>1998-2004 he worked at the international consulting company McKinsey&Co.</p> <p>•2004-2005 - Managing Director for the Ferroalloys Division at Interpipe Corp (Ukraine).</p> <p>2005-2011 - Vice President for Sales and Customer Service; Vice President, Head of the MTS Russia business unit; President of MTS OJSC.</p> <p>On 10 March 2011 Mikhail Shamolin was appointed President and Chairman of the Management Board of Sistema JSFC. Holds positions of Executive Director, member of the Strategy Committee, member of the Ethics and Control Committee, member of Nomination, Remuneration and Corporate Governance Committee, member of IR Committee of the Sistema Board of Directors, member of the Board of Trustees of the Sistema Charitable Foundation.</p>

Members of the Management Board:

<i>Full name, Title</i>	<i>Brief Professional Background</i>
<p>Anton Abugov First Vice President of Sistema JSFC. Member of the Sistema JSFC Management Board.</p>	<p>Was born in 1976 in Mytishchi, the Moscow Region.</p> <p>In 1998 he graduated from the Academy of the National Economy under the Government of the Russian Federation with a degree in management.</p> <p>1995-1999 – Deputy Executive Officer of the Department of Transactions with Securities, Trader of Closed-Type Joint-Stock Company United Financial Group.</p> <p>1999-2002 – Head of the Corporate Finance Department of Closed Joint-Stock Company United Financial Group.</p> <p>2003-2006 – Managing Director, Head of the Corporate Finance Division of JSCB ROSBANK.</p> <p>2006-2012 – First Vice President, Head of the Strategy and Development Function of Sistema JSFC.</p> <p>Since September 2012 - First Vice President of Sistema JSFC.</p>

<p>Christopher Baxter</p> <p>Senior Vice President of Sistema JSFC.</p> <p>Member of the Sistema JSFC Management Board.</p>	<p>Was born in England in 1963.</p> <p>Graduated from Imperial College London in 1987 with First Class honours as a Master of Engineering and was made a Fellow of the Royal Society of Arts Manufactures and Commerce in recognition of exemplary academic performance.</p> <p>1987-1995 held various positions at Chase Manhattan Bank (now part of JPMorgan), incl. position of Vice President.</p> <p>1995-2002 – Energy and Power investment banking consultant, Merrill Lynch.</p> <p>2002-2012 – Head of Investment Banking Department of Renaissance Group, member of the Renaissance Credit (Group’s consumer bank) Board of Directors.</p> <p>Since November 2012 – Senior Vice President of Sistema JSFC.</p>
<p>Alexey Buyanov</p> <p>Senior Vice President, Head of the Finance and Investment Function of Sistema JSFC.</p> <p>Member of the Sistema JSFC Management Board.</p>	<p>Was born in 1969 in Moscow.</p> <p>In 1992 he graduated from the Moscow Physics and Technology Institute with a degree in Applied Mathematics and Physics.</p> <p>1995-1998 – Head of Division, Vice President, First Vice President of Sistema Invest.</p> <p>1998-2002 – Vice President of Mobile TeleSystems (MTS).</p> <p>2002 –Vice President, Head of the Financial Restructuring Department of Sistema JSFC.</p> <p>2002-2005 – First Vice President of Sistema JSFC.</p> <p>From 2005 – Senior Vice President, Head of Finance and Investment Function of Sistema JSFC.</p> <p>Chairman of the Board of Directors of MTS-Bank OJSC, member of the Board of Directors of MTS OJSC, Bashneft OJSC, Sistema Shyam TeleServices Limited (SSTL) and some other companies.</p>
<p>Elena Vitchak</p> <p>Executive Vice President, HR Department Head of Sistema JSFC.</p> <p>Member of the Sistema JSFC Management Board.</p>	<p>Was born in 1971 in Moscow.</p> <p>In 1992 graduated from the Rostov State University (Linguistics Department); in 2005 received a diploma in Human Resources Management from the State Academy of Investment Specialists.</p> <p>Member of the National Union of HR Specialists of Russia. Member of the HR Committee of the Association of Russian Banks.</p> <p>2002-2008 - HR Department Director at the Capital Insurance Group (IFD Capital).</p> <p>2008-2010 - HR Department Director, member of the Management Board at Sistema Hals OJSC.</p> <p>2010-2012 - Senior Vice President, Director of the HR Department at OJSC</p>

MTS-Bank.

Since September 2012 – Executive Vice President, HR Department Head, Sistema JSFC.

Anna Goldin	Was born in 1963 in Leningrad.
Vice President, Head of the Sistema JSFC Legal Function.	Graduated from the University of California in Berkeley, Boalt Hall, Doctor of Law.
Member of the Sistema JSFC Management Board.	1988-1989 – Lawyer/Trainee at Baker & McKenzie, Gibson, Dunn & Crutcher, Morrison & Foerster. 1990-2007 – Lawyer, Partner, Managing Partner at Latham & Watkins. Since June 2007 – Vice President, Head of the Legal Function of Sistema JSFC.

Sergey Drozdov	Was born in 1970 in Arkhangelsk.
Senior Vice President, Head of the Corporate Governance Function of Sistema JSFC	In 1993 graduated from the Ordzhonikidze State Academy of Management with a degree in Engineering and Economy. Candidate of Economic Sciences.
Member of the Sistema JSFC Management Board	1994-1995 – Head of the Financial Innovations and Marketing Department of Moscow Property Fund. 1995-1998 – Executive Director, Deputy Head of the Department of Development and Investments of Sistema JSFC. 1998-2002 – Vice President, First Vice President of Sistema Invest. 2002 – Acting First Vice President, Head of the Corporate Property Department of Sistema JSFC. 2002-2011 – First Vice President; Senior Vice President, Head of the Property Function of Sistema JSFC. Since April 2011 – Senior Vice President, Head of the Corporate Governance Function of Sistema JSFC.

Felix Evtushenkov	Was born in 1978 in Moscow.
First Vice President of Sistema JSFC.	In 2000 graduated from the Griboyedov Institute of International Law and Economy with a degree in law.
Member of the Sistema JSFC Management Board.	1999-2000 – Assistant to the President; Executive Director of the Industry Department of Sistema Invest. 2000-2008 – Deputy Director General; Director General; President of Sistema-Hals. 2008-2011 – Vice President, Head of the Consumer Assets Business Unit of Sistema JSFC. 2011-2012 – First Vice President, Head of the Core Assets Business Unit of Sistema JSFC. Since 2012 - First Vice President of Sistema JSFC.
	Chairman of the Board of Directors of Bashneft OJSC, BEGC OJSC; Member of the Board of Directors of RussNeft OJSC, United Petrochemical Company OJSC and some other companies.

Leonid Monosov	Was born in 1958 in Mozyr' (Belarus).
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Executive Vice President of Sistema JSFC.

Member of the Sistema JSFC Management Board.

In 1980 graduated from the Moscow Institute of Railroad Transport with a degree in industrial and civil construction.

For his services and many years of work in construction received awards and the title of Honored Construction Worker of the Russian Federation.

1999-2007 - General Director of Moskapstroy OJSC.

2007-2010 - Head of Municipal Capital Development Contracts Department of Moscow Government.

2010-2012 - Vice President of Olympstroy State Corporation.

Since March 2012 - Executive Vice President of Developing Assets Business Unit; Executive Vice President of Sistema JSFC.

Andrey Terebenin

Vice President, Head of the Corporate Communications Function of Sistema JSFC.

Member of the Sistema JSFC Management Board.

Was born in 1962 in Moscow.

In 1985 graduated from the Moscow State Institute of International Relations with a degree in international relations and Arabic.

Held a number of management positions at the Publishing House Economicheskaya Gazeta, Dun&Bradstreet CIS and AIG Russia.

1999-2006 - Partner at the Triangle Porter Novelli Communications Agency; Director General and Partner at the R.I.M. Porter Novelli Communications Holding.

2006-2011 – Vice President for Corporate Communications of MTS OJSC.

Since May 2011 - Vice President, Head of the Sistema JSFC Corporate Communications Function.

Kirill Tyurdenev

Executive Vice President of Sistema JSFC.

Member of the Sistema JSFC Management Board.

Was born in 1977 in Moscow.

In 1999 graduated from the Moscow State Institute of International Relations; the same year got law degree (LL.M) in Manchester University.

1999-2000 - Unilever.

2000-2004 – A.T.Kearney (management consulting).

2004-2007 – McKinsey & Co.

2007-2012 – Deputy Director General on strategy and corporate development of SIBUR-Fertilizers OJSC.

Since April 2012 held the positions of Executive Vice President of Developing Assets Business Unit; Executive Vice President of Sistema JSFC.

Ali Uzdenov

Vice President of Sistema JSFC

Member of the Sistema JSFC Management Board

Was born in 1962 in Kislovodsk (Stavropol region).

In 1985 graduated from the Rostov Institute of Railroad Engineers with the degree Automatics, Telematics and Intercom at Railway Transport.

In 1990 he continued his education at the International Survival School (Italy).

1994-1997 - Head of the Rostov Commodity Exchange.

1997-1998 - Director of Ayaks LLC.

1998-2001 - Director of the Rostov office of Bashneft OJSC.

2001-2007 - Chairman of the Kormmash OJSC Board of Directors.

2007-2009 - General Director of Rostovregiongas LLC.

2009-2012 - First Vice President for Refining and Sales of Bashneft OJSC.

Alexey Shavrov

Executive Vice President of
Sistema JSFC

Member of the Sistema JSFC
Management Board

Was born in 1971 in Leningrad.

Graduated from the Moscow State Institute of International Relations with a degree in international relations.

1992-1996 – Cargill Enterprises.

1996-2000 – General Director (Russia and CIS) of Oleina (Switzerland) and Cereol Group (France-Italy).

2000-2002 – General Director (Russia and CIS) of Unibrasco (UBC Group branch, Switzerland).

2002-2004 – Deputy General Director, member of the Management Board of United Engineering Factories OJSC.

2004-2005 – General Director of Istok Group of Companies.

2005-2006 – General Director, member of the Board of Directors of Cascol Group of Companies.

2006-2010 – Managing Director, member of the Management Board of A-1 Group Investment Company (Alpha-Group).

Since March 2012 held the position of Executive Vice President of Developing Assets Business Unit of Sistema JSFC.

9.4. INFORMATION ON THE NUMBER OF SHARES OF SISTEMA JSFC HELD BY THE PRESIDENT AND THE MANAGEMENT BOARD MEMBERS

<i>Management Board members</i>	<i>Number of owned shares</i>
Mikhail Shamolin	3, 269, 941 shares of Sistema JSFC
Anton Abugov	5, 029, 243 shares of Sistema JSFC
Christopher Baxter	0 shares of Sistema JSFC
Alexey Buyanov	4, 596, 627 shares of Sistema JSFC
Elena Vitchak	0 shares of Sistema JSFC
Anna Goldin	11, 027, 030 shares of Sistema JSFC
Sergey Drozdov	23, 545, 381 shares of Sistema JSFC
Felix Evtushenkov	739, 688 shares of Sistema JSFC
Leonid Monosov	0 shares of Sistema JSFC
Andrey Terebenin	400, 160 shares of Sistema JSFC
Kirill Tyurdenev	0 shares of Sistema JSFC
Ali Uzdenov	0 shares of Sistema JSFC
Alexey Shavrov	0 shares of Sistema JSFC

9.5. LIST OF TRANSACTIONS PERFORMED BY THE COMPANY IN THE REPORTING YEAR THAT ARE RECOGNIZED AS MAJOR TRANSACTIONS UNDER THE FEDERAL LAW "ON JOINT-STOCK COMPANIES", AND OTHER TRANSACTIONS COVERED BY THE MAJOR TRANSACTIONS APPROVAL PROCEDURE PURSUANT TO THE COMPANY'S CHARTER

<i>No. of the Minutes of the body that approved the transaction and date of taking the decision</i>	<i>Subject of the transaction</i>	<i>Transaction counterparties</i>	<i>Amount of the transaction</i>	<i>Persons that are considered as related parties to the transaction</i>
01-12 14.06.2012 Item 1	Granting to Sistema OJSC regulated by GB legislation the Guarantee in provision of performance of guarantee and other obligations, imposed on Sistema Invest and ECU GEST HOLDING S.A. in accordance with the Agreement concluded between INTER RAO EES OJSC, Sistema Invest, ECU GEST HOLDING S.A. and Sistema JSFC	INTER RAO UES OJSC, Sistema Invest, ECU GEST HOLDING S.A. and Sistema JSFC	22, 500, 000 000.00 (twenty two billion five hundred million) RUB	Shareholder holding jointly with his affiliates over 20 (twenty) % of Sistema JSFC voting shares.

9.6. LIST OF TRANSACTIONS PERFORMED BY THE COMPANY IN THE REPORTING YEAR THAT ARE RECOGNIZED AS RELATED - PARTY TRANSACTIONS UNDER THE FEDERAL LAW "ON JOINT-STOCK COMPANIES"

<i>No. of the Minutes of the body that approved the transaction and date of taking the decision</i>	<i>Subject of the transaction</i>	<i>Transaction counterparties</i>	<i>Amount of the transaction</i>	<i>Persons that are considered as related parties to the transaction</i>
01-12 04.02.2012 Item 7.2.1.	The Guarantee Agreements on the liabilities of Sistema Shyam TeleServices Limited being signed with Bank of China Limited (Shenzhen Branch)	Sistema JSFC Bank of China Limited (Shenzhen Branch) Sistema Shyam Teleservices Limited	Credit amount: up to 50,000,000.00 (fifty million) USD; the Credit may be granted in tranches	V. Evtushenkov R. Sommer M. Shamolin A. Buyanov F. Evtushenkov
02-12 17.03.2012 Item 6.5.2.	The Agreement with Raiffeisen Bank on the letter of credit guaranteed by Sistema JSFC signed for the purposes of securing the credit liabilities of Sistema Shyam TeleServices Limited	Sistema JSFC Sistema Shyam TeleServices Limited Raiffeisen Bank	Up to INR 10,000,000,000.00 (ten billion) which equals ca 198 million USD at the rate of INR 50.3130 per 1 USD set as of the date of taking the decision	V. Evtushenkov R. Sommer M. Shamolin A. Buyanov F. Evtushenkov
03-12 21.04.2012 Item 2.9.	Sistema's JSFC contribution to the charter capital of Stream LLC	Sistema JSFC Stream LLC	496,112,222.00 (four hundred and ninety-six million one hundred and twelve thousand two hundred and twenty two) RUB	Shareholder holding jointly with his affiliates over 20 (twenty) % of Sistema JSFC voting shares. R. Sommer M. Shamolin R. Nagapetyanz
03-12 21.04.2012 Item 6.2.	Making changes and amendments to the Letter of credit facility agreement as of December 29, 2011, as amended on March 21, 2012 ("Letters of credit	Sistema JSFC The Royal Bank of Scotland N.V. Sistema Shyam TeleServices Limited	Up to 300m USD (an equivalent amount in Indian rupees)	V. Evtushenkov R. Sommer M. Shamolin A. Buyanov F. Evtushenkov

	agreement”), regarding the letters of credit granted by The Royal Bank of Scotland N.V. in the amount of up to 300m. USD (an equivalent amount in Indian rupees) to secure the obligations of Sistema Shyam TeleServices Limited			
03-12 21.04.2012 Item 6.3.3.	Conclusion of Guarantee Agreement between Sistema JSFC and Gazprombank OJSC on securing the liabilities of Sistema Shyam TeleServices Limited	Sistema JSFC Gazprombank OJSC	Equivalent of 200, 000, 000.00 (two hundred million) of USD in Indian rupees	V. Evtushenkov R. Sommer M. Shamolin A. Buyanov F. Evtushenkov
03-12 21.04.2012 Item 6.4.2.	Granting a guarantee by Sistema JSFC on credit liabilities of Sistema Shyam TeleServices Limited to Central Bank of India for the amount of INR 5bn.	Sistema JSFC Sistema Shyam TeleServices Limited Central Bank of India	5, 000, 000, 000.00 (five billion Indian rupees)	V. Evtushenkov R. Sommer M. Shamolin A. Buyanov F. Evtushenkov
03-12 21.04.2012 Item 6.5.5.	Sistema’s JSFC contribution to the charter capital of Altai Resort LLC	Sistema JSFC Altai Resort LLC OAO	Up to 1, 009, 000, 000.00 (one billion nine million) RUB	Shareholder holding jointly with his affiliates over 20 (twenty) % of Sistema JSFC voting shares.
08-12 03.10.2012 Item 1.4.	Acquiring by Sistema JSFC of UNPZ OJSC preferred registered shares	Sistema JSFC UNPZ OJSC	471, 765, 130.00 (four hundred and seventy-one million seven hundred and sixty-five thousand one hundred and thirty) RUB	Sistema JSFC shareholder
08-12 03.10.2012 Item 1.8.	Acquiring by Sistema JSFC of Ufaneftekhim	Sistema JSFC Ufaneftekhim	861, 153, 990.00 (eight hundred and sixty-one	Sistema JSFC shareholder

	OJSC preferred registered shares		million one hundred and fifty-three thousand nine hundred and ninety) RUB	
08-12 03.10.2012 Item 1.11.	Acquiring by Sistema JSFC of Novoil OJSC preferred registered shares	Sistema JSFC Novoil OJSC	584, 417, 820.00 (five hundred and eighty-four million four hundred and seventeen thousand eight hundred and twenty) RUB	Sistema JSFC shareholder
08-12 03.10.2012 Item 1.14.	Acquiring by Sistema JSFC of Bashneft OJSC preferred registered shares	Sistema JSFC Bashneft OJSC	Up to 7, 970, 000, 000.00 (seven billion nine hundred and seventy million) RUB	Sistema JSFC shareholder, member of the Board of Directors and members of the Management Board of Sistema JSFC
09-12 27.10.2012 Item 6.3.4.	Reduction of Sistema's stake (ordinary registered book-entry shares) of NIS OJSC in favour of Sistema Telecom Assets LLC	Sistema JSFC Sistema Telecom Assets LLC	Not less than 229, 500, 000.00 (two hundred and twenty-nine million five hundred thousand) RUB	Shareholder holding jointly with his affiliates over 20 (twenty) % of Sistema JSFC voting shares.
10-12 14.12.2012 Item 8.4.4.	Acquiring by Sistema JSFC a 50% equity stake of Financial Alliance LLC	Sistema JSFC Bashneft OJSC	Up to 3, 410, 000, 000.00 (three billion four hundred and ten million) RUB	Shareholder holding jointly with his affiliates over 20 (twenty) % of Sistema JSFC voting shares. A. Goncharuk A. Buyanov S. Drozdov F. Evtushenkov
10-12 14.12.2012 Item 8.6.4.	Granting by Sistema JSFC the credit to Sistema Shyam TeleServices Limited for the purpose of further refinancing of Gazprombank (Switzerland) Limited loan	Sistema JSFC Sistema Shyam TeleServices Limited	230, 000, 000.00 (two hundred and thirty million) USD	Shareholder holding jointly with his affiliates over 20 (twenty) % of Sistema JSFC voting shares. V. Evtushenkov M. Shamolin A. Buyanov
10-12 14.12.2012 Item 8.7.2.	Granting guarantee on Sistema Shyam TeleServices	Sistema JSFC Sistema Shyam TeleServices Limited	74 (seventy-four) % of the total cost of the extended	Shareholder holding jointly with his affiliates over 20 (twenty) % of

	<p>Limited liabilities to ICICI Bank Limited under Guarantee Facility Agreement, based on which ICICI Bank Limited provided and prolonged the bank guarantees (FBG) in favour of the Department of Telecommunications of the Indian Ministry of Communications that secure the fulfillment of the terms and conditions of the licence agreements by Sistema Shyam TeleServices Limited</p>		<p>Guarantees, which amounts up to 1, 110, 000, 000.00 (one billion one hundred and ten million) of Indian rupees, which is equivalent to 20, 408, 914.00 (twenty million four hundred eight thousand nine hundred fourteen) USD (at the rate of 54.388 Indian rupees per 1 US dollar), as well as interest payments, payment of fees and other payments stipulated by the Guarantee Facility Agreement</p>	<p>Sistema JSFC voting shares. V. Evtushenkov M. Shamolin A. Buyanov</p>
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9.7. INFORMATION ABOUT THE COMPANY'S COMPLIANCE WITH THE REQUIREMENTS OF THE CODE OF CORPORATE CONDUCT OF THE FEDERAL SERVICE FOR FINANCIAL MARKETS

<i>Provisions of the Corporate Conduct Code</i>	<i>Observed / not observed</i>	<i>Comment</i>
General Meeting of Shareholders		
1 A notice of the forthcoming Annual General Meeting of shareholders shall be distributed not later than 30 days before the day of the Meeting unless a longer term is provided for by legislation.	Observed	This provision was added to the Charter of Sistema JSFC (item 28.9).
2 The procedure of announcement on holding the Annual General Meeting of shareholders shall allow shareholders to properly prepare for participation in the meeting.	Observed	Announcement about the meeting is sent to shareholders by mail and is published on the Company's website (www.sistema.ru/www.sistema.com).
3 Shareholders may familiarise themselves with the list of persons who have the right to attend the Annual General Meeting of shareholders, starting from the date of announcement of holding the General Meeting of Shareholders and till the closure of the Annual General Meeting of shareholders, and in case of holding the meeting in the form of a letter ballot – till the deadline for acceptance of ballot papers.	Observed	In accordance with Sistema JSFC Regulations on Annual General Meeting of Shareholders ("AGM") (approved by the Minutes of Sistema JSFC AGM No. 2-10 as of June 30, 2010) shareholders have the right to familiarise themselves with the list of persons who may attend the Annual General Meeting of shareholders by addressing the Company's Corporate Secretary.
4 Shareholders can familiarise themselves with the information (materials) which is subject to presentation during preparation for the Annual General Meeting of shareholders, through electronic means of communication	Observed	The Company publishes complete information relating to the AGM on the Company's website in the Internet (www.sistema.ru/www.sistema.com).
5 Shareholders may introduce an agenda item for the Annual General Meeting of shareholders or demand convocation of the Annual General Meeting of shareholders without presenting an extract from the register of shareholders if his/her rights for shares are accounted for in the system of keeping the register of shareholders, and in the event when his/her rights for shares are registered in the depo account - an extract from the depo account shall be sufficient for exercising the above-said rights.	Observed	In accordance with Sistema JSFC Regulations on Annual General Meeting of Shareholders ("AGM") (approved by the Minutes of Sistema JSFC AGM No. 2-10 as of June 30, 2010), there is no requirement that shareholders should prove their right with specific documents, with the exception of the extract from the depo account.
6 Joint-Stock Company's internal documents should set out procedures for registering participants of the Annual General Meeting of shareholders.	Observed	Regulated by Sistema JSFC Regulations on General Shareholders' Meeting.
Work of the Board of Directors		
1 The Joint-Stock Company's Charter should define the authority of the Board of Directors regarding annual approval of the Joint-Stock Company's financial and business plan.	Observed	In accordance with the Company's Charter, the competence of the Board of Directors includes: "determining the priority areas of the Company's activity, determining the strategy of the Company's development, approving the Company's annual budgets (financial plans), considering the main areas of activities and development strategy of subsidiaries."

2	The risk management procedure should be approved by the Board of Directors of the Joint-Stock Company.	Observed	Appendix 3 to the Minutes of the Board of Directors No. 03-09 of April 22, 2009. Resolution of the Board of Directors dated March 05, 2011, Minutes No. 03-11.
3	The Board of Directors shall have the right to determine requirements to the qualifications and remuneration of the CEO and heads of the Joint-Stock Company's main structural divisions.	Observed	The competence of the Board of Directors includes: appointment of the President of the Company; determining the number of members of the Management Board, election of its members; approving the terms of the agreement with the President and with members of the Company's Management Board; early termination of authority of the President of the Company and members of the Company's Management Board, approving the principles of performance assessment and the remuneration system, as well as controlling activity of the Company's top officials who are directly reporting to the Company's President.
4	The Joint-Stock Company's Charter of the Board of Directors shall provide for the right of the Board to approve the terms of agreements with the CEO and members of the Management Board.	Observed	In accordance with the Company's Charter, terms of agreements with the President and members of the Company's Management Board shall be approved by the Board of Directors.
5	The Joint-Stock Company's Board of Directors shall include at least 3 independent directors who meet the requirements of the Code of Corporate Conduct.	Observed	As of December 31, 2012, the Board of Directors includes 8 members of the Board of Directors who meet the criteria of the Code of Corporate Conduct for independent directors: B. Dickie, R. Kocharyan, J. Krecke, R. Munnings, E. Novitsky, M. Holtzman, S. Tchuruk, D. Iakobachvili.
6	No members of the Joint-Stock Company's Board of Directors shall have criminal record for economic crimes or crimes against the state, interests of the state and local governments or on whom administrative penalties were imposed for offenses in the areas of entrepreneurial activity, finances, taxes and duties or equity markets.	Observed	The Company has reviewed this issue and does not have any information on such offenses committed by the members of its Board of Directors.
7	In the Board of Directors there are no persons who are shareholders, general directors (managers), members of governing bodies or employees of legal entities competing with the Company.	Observed	According the information available to Sistema JSFC, the Sistema Board of Directors does not include persons being shareholders, general directors (managers), members of a governing body or employees of a legal entity which competes with Sistema JSFC.
8	Joint-Stock Company's internal documents set out the requirement on holding the Board of Directors meetings at least once in six weeks.	Observed	According to the Company's Charter, meetings of the Board of Directors are held as necessary but at least 2 times per quarter.
9	Meetings of the Joint-Stock Company's Board of Directors shall be held at least once in six weeks during the year for which the Joint-Stock Company's Annual Report is compiled.	Observed	In 2012 10 meetings of the Board of Directors were held.
10	Joint-Stock Company's internal documents set out the procedure for holding meetings of the Board of Directors.	Observed	The procedure to hold meetings of the Board of Directors is determined by the Regulations on Board of Directors and

		Working Procedures of the Sistema JSFC Board of Directors.	
11	Joint-Stock Company's internal documents provide for the right of the Board members to get information necessary for performing their functions from executive bodies and heads of the Joint-Stock Company's main structural divisions.	Observed	The right of members of the Board of Directors to get any information on the activities of Sistema JSFC is stipulated by the Sistema JSFC Regulations on the Board of Directors.
12	The company shall establish a committee of the Board of Directors responsible for strategic planning.	Observed	The Company has established the Strategy Committee of the Board of Directors.
13	The company shall establish a committee of the Board of Directors which recommends the auditor to the Board of Directors and interacts with the latter, as well as with the Joint-Stock Company's Auditing Commission.	Observed	The Company has established the Audit and Finance Committee of the Board of Directors.
14	The company shall establish a committee of the Board of Directors responsible for determining the criteria for selecting candidates to be appointed to the Board of Directors and for developing the Joint-Stock Company's remuneration policy.	Observed	The Company has established the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors.
15	The Nomination and Remuneration Committee shall be chaired by an independent director.	Observed	The Committee is chaired by independent director R. Kocharyan.
16	The Joint-Stock Company shall have internal regulations approved by the Board, which set out a procedure for forming the committees of the Board of Directors and their working procedures.	Observed	The Company has approved the Terms of Reference that set out the powers of the Board Committees and the procedure of their establishment and operation.
17	The Joint-Stock Company's Charter sets out a procedure to determine the quorum of the Board of Directors that ensures participation of independent directors in meetings of the Board of Directors.	Not observed	The quorum of the Board of Directors is determined according to the number of members of the Board of Directors attending the sitting regardless of their status of an independent, non-executive or executive director.
18	The issuer's internal documents shall provide for the obligations of the members of the Board of Directors, members of a collective executive governing body, person who carries out functions of the sole executive body, including the governing organisation and its officials, to disclose information on the possession of the issuer's securities as well as sale and (or) purchase of the issuer's securities.	Observed	This requirement is included in the Corporate Conduct Code of Sistema JSFC, the Regulations on the Board of Directors and the Management Board of Sistema JSFC, as well as internal documents that set out liabilities of the Company in implementing requirements of the legislation on preventing illegal use of insider information.
Executive bodies			
1	The Joint-Stock Company shall have a collective executive body (Management Board).	Observed	The Company has formed a collective executive body – the Management Board (provided for by the Charter)
2	Joint-Stock Company's internal documents set out procedures for approval of transactions outside of the Joint-Stock Company's financial and business plan.	Observed	Procedures for approval of transactions outside of the budget are set out in the Corporation's budget policy, the Regulation on contracts approval and the Regulation on mergers and acquisitions. All such transactions are preliminary reviewed by the Audit and Finance Committee. When necessary, resolution of the Board of

		Directors introduces amendments to the budget.
3	Executive bodies shall not include persons who are shareholders, general directors (managers), members of a governing body or employees of a legal entity which competes with the Joint-Stock Company.	Observed According to available information, executive bodies of Sistema JSFC do not include persons being shareholders, directors general (manager), members of a governing body or employees of a legal entity which competes with the Company.
4	The Joint-Stock Company's executive bodies do not include persons with criminal record for economic crimes or crimes against the state, interests of the state and local governments or on whom administrative penalties were imposed for offenses in the area of entrepreneurial activity or finances, taxes and receipts or equity market.	Observed According to the information available to Sistema JSFC, executive bodies of Sistema JSFC do not include such persons.
5	The Joint-Stock Company's Charter or internal documents prohibit the management company (the manager) from performing similar functions in a competing company as well as from having any other property relations with the Joint-Stock Company apart from the provision of services to the management company (the manager).	Observed Provided by the Company's Charter (item 34.10).
6	Joint-Stock Company's internal documents shall set out obligations of executive bodies to refrain from actions which lead or may lead to a conflict between their interests and interests of the Joint-Stock Company, and in case of such conflict of an obligation to inform the Board of Directors of that.	Observed Such requirements are contained in the Regulations on the Board of Directors, Regulations on the Management Board, Regulations on the President and in the contracts with the President and members of the Company's Management Board.
7	The Joint-Stock Company's charter or internal documents shall set out criteria to select the management company (manager).	Not applicable It is not necessary because there is no managing company and there are no plans to engage the same to perform functions of the Company's sole executive body.
8	Joint-Stock Company's executive bodies shall monthly present reports on their work to the Board of Directors.	Observed The Board of Directors quarterly reviews financial results of the Company's activity. The Company's management weekly compiles a report on the most important events and provides it to members of the Board of Directors.
9	Agreements concluded by the Joint-Stock Company with the General Director (management organisation, manager) set out his/her liability for failure to comply with regulations on the use of confidential and insider information.	Observed There is a requirement regarding protection of confidential information in the contracts with the President and members of the Company's Management Board.

Corporate Secretary

1.	The Joint-Stock Company shall have an official (company secretary) whose duty is to ensure compliance of the Joint-Stock Company's bodies and officials with procedural requirements which guarantee implementation of rights and legal interests of the Company's shareholders.	Observed The Company has appointed the Corporate Secretary.
2	Joint-Stock Company's Charter or internal documents shall set out a procedure to appoint (elect) the	Observed The Board of Directors has approved the Regulations on the Corporate Secretary

	secretary of the Company and his/her responsibilities.		which sets out responsibilities of the Corporate Secretary and procedure of his/her appointment.
3	The Joint-Stock Company's Charter shall set out the requirements for the candidate for the position of a Company's secretary.	Partially observed	These requirements are included in the Regulations on the Corporate Secretary.
Material corporate actions			
1	The Joint-Stock Company's charter or internal documents shall include a requirement to approve large transactions prior to performing them.	Partially observed	Regardless of absence of this norm in the Charter, this requirement is always observed in practice.
2	Mandatory engagement of an independent appraiser for assessing the market value of the property which is a subject of a large transaction.	Observed	In the above cases the Sistema Board of Directors engages an independent appraiser.
3	The Joint-Stock Company's charter shall prohibit from undertaking any actions during acquisition of large stakes of the Joint-Stock Company's shares (takeover) which are directed at protection of rights of executive bodies (members of such bodies) and members of the Board of Directors of the Joint-Stock Company and actions which aggravate the shareholders' position (in particular, prohibiting the Board of Directors from adopting, before the end of the period allocated for shares acquisition, resolutions on issuing additional shares, securities convertible shares or securities granting the right to acquire the Company's shares, even if the right to adopt such resolutions is given to the Board of Directors by the Charter).	Not observed	Such actions are hardly probable because there is a controlling shareholder.
4	The Joint-Stock Company's charter or internal documents shall include a requirement regarding mandatory engagement of an independent appraiser to determine the ratio for converting shares during reorganisation.	Not observed	There is no such provision in the Charter, but in case of reorganisation, in accordance with the Regulations on the Board of Directors, the Board of Directors of Sistema JSFC will be taking the decision on defining the ratio for converting shares only if there are substantial grounds for this, for example, the opinion of an independent appraiser.
Disclosure of information			
1	The Joint-Stock Company shall have an approved by the Board internal document which sets out its rules and approach to information disclosure (the Regulations on the Information Policy).	Observed	The Board of Directors has approved the Regulations on the Information Policy of the Corporation.
2	The Joint-Stock Company's internal documents shall contain a list of information, documents and materials which should be provided to shareholders for taking decisions on agenda items presented to the Annual General Meeting of shareholders.	Observed	The list of additionally provided information is contained in the Code of Corporate Conduct, the Regulations on the Information Policy and the Regulations on the General Meeting of shareholders of Sistema JSFC.
3	Disclosure of financial information on the Joint-Stock Company's activities.	Observed	Russian Accounting Standard (RAS) financial statements are disclosed annually. GAAP financial statements are disclosed quarterly.
4	The use of additional forms and methods of information disclosure.	Observed	The Company has established the IR Department. It regularly holds meetings with investors and organizes road shows. The Department maintains the corporate website in the Internet

(www.sistema.ru/www.sistema.com) with extensive information about the Company's activities.

5	The issuer shall disclose information about the remuneration received by members of the Board of Directors, members of the collective executive body and by the person who performs functions of the sole executive body, including the management company and the manager.	Observed	The information about remuneration received by members of the Board of Directors, members of the collective executive body and by the person who performs functions of the sole executive body is disclosed in the Annual report (Section 8) and quarterly reports (Section 5.3).
6	The Joint-Stock Company shall have a website in the Internet and regularly disclose information on its activity.	Observed	The address of the Sistema JSFC website in the Internet: www.sistema.ru/www.sistema.com .
7	The Joint-Stock Company's internal documents shall contain a requirement for disclosure of information on the Company's transactions with persons who, in accordance with the Charter, are considered the Joint-Stock Company's top officials as well as on the Joint-Stock Company's transactions with companies where Joint-Stock Company's top officials directly or indirectly own 20 and more percent of the Joint-Stock Company's authorized capital or on which such persons may otherwise exert substantial influence.	Partially observed	Observed according to the legal requirement regarding related-party transactions.
8	The Joint-Stock Company's internal documents shall include a requirement for disclosure of information on all transactions which may affect the market value of the Joint-Stock Company's shares.	Observed	Observed according to requirements of the Russian legislation on security markets and requirements of the UK security market regulator. Disclosure principles are set out in the Regulations on the Information Policy of Sistema JSFC.
9.	The company shall have an internal document approved by the Board of Directors for the use of material information on the Joint-Stock Company's activities, shares and other securities of the Company and transactions with them when such information is not commonly available and when its disclosure may exert substantial influence on the market value of the Joint-Stock Company's shares and other securities.	Observed	The Board of Directors approved the Regulations on the Information Policy of Sistema JSFC (Minutes No. 04-10 as of April 21, 2010).

Control of financial and business activities

1	The company shall have procedures approved by the board of directors for internal control over the Joint-Stock Company's financial and business activities.	Observed	The internal control procedures are stated in the regulatory documents of Sistema JSFC approved by the Board of Directors and the President of the Corporation.
2.	The Joint-Stock Company shall have a special division which ensures compliance with procedures of internal control (control and audit service).	Observed	The Company has established the following divisions: -Internal Audit Department (functionally reporting to Sistema JSFC Board of Directors through the Audit and Finance Committee of the Board of Directors). Internal Audit Department acts in order to evaluate the reliability and efficiency of the existing internal control system; -Control and Project Support Department (functionally reporting to Sistema JSFC Board of Directors through the Ethics and Control Committee of the Board of Directors; administratively reporting to the

		President of Sistema JSFC). The Control and Project Support Department performs control over compliance with the internal control procedures.
3	The Joint-Stock Company's internal documents shall contain a requirement for the Board of Directors to determine the structure and composition of the Joint-Stock Company's control and audit service.	Observed The Terms of Reference of the Internal Audit Department and the Control and Project Support Department, which set forth the structure and composition of these units, were approved.
4	The Joint-Stock Company's control and audit services do not include persons with criminal record for economic crimes or crimes against the state, interests of the state and local governments or on whom administrative penalties were imposed for offenses in the area of entrepreneurial activity, finances, taxes and duties or equity market.	Observed There are no such employees in the Internal Audit Department and the Control and Project Support Department.
5	The control and audit services do not include any persons being the shareholders, general directors (managers), members of a governing body or employees of a legal entity which competes with the Joint-Stock Company.	Observed There are no such employees in the Internal Audit Department and the Control and Project Support Department.
6	The Joint-Stock Company's internal documents shall set out a deadline for presentation to the control and audit service of documents and materials for assessing financial and business transactions, as well as a liability of the Joint-Stock Company's officials and employees for their failure to present the same by the deadline.	Observed The Internal Audit Department and the Control and Project Support Department of Sistema JSFC have the right to request and receive any required information on financial and business transactions and have the right to independently determine the deadline for presenting such information.
7	The Joint-Stock Company's internal documents shall set out an obligation of the control and audit service to inform the audit committee, and if the latter is not available – the Joint-Stock Company's board of directors, about identified irregularities.	Observed In accordance with item 2.3 of the Terms of Reference of the Audit and Finance Committee of the Board of Directors, within the framework of internal function development and its performance control, the Audit and Finance Committee regularly reviews the performance results of the Internal Audit Department. In accordance with item 2.1 of the Terms of Reference of the Ethics and Control Committee of the Board of Directors, the Committee is supposed to review the results of complete audits of the Corporation performed by the Control and Project Support Department as well as review the remediation plan and its performance control.
8	Internal documents shall contain a requirement for the control and audit service to perform a preliminary assessment of the reasonability of operations which are not included in the Joint-Stock Company's financial and business plans.	Observed A preliminary assessment of the feasibility of operations which are not included in the financial and business plans of the Corporation is performed within the "Tender Procedures and Procurement" Code. The Control and Project Support Department employees are members of procurement commissions.
9	The company shall have an internal document approved by the Board of Directors which determines the procedure for the Auditing Commission to carry	Observed The Board of Directors and the General Shareholders' Meeting approved the Terms of Reference on the Auditing Commission

out audits of the Joint-Stock Company's financial and business activities		of Sistema JSFC (Minutes No. 2-04 as of September 01, 2004).
10 The Audit Committee shall assess the audit report prior to its presentation to shareholders at the Annual General Meeting of shareholders.	Observed	In accordance with item 2.2 of the Terms of Reference of the Audit and Finance Committee as of September 24, 2011, within the framework of interaction with the Corporation's auditors, the Audit and Finance Committee analyses and evaluates the internal auditors' performance and reviews their observations.

Dividends

1 The company shall have an internal document approved by the board of directors which is used as a guideline by the board when making recommendations on the amount of dividends (Regulations on the Dividend Policy).	Observed	The Company has approved the Regulations on the Dividend Policy.
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9.8. INFORMATION ON THE COMPANY'S COMPLIANCE WITH THE REQUIREMENTS OF THE UK CORPORATE GOVERNANCE CODE

<i>Provisions of the Code</i>	<i>Observed / not observed</i>	<i>Comment</i>
A. LEADERSHIP		
A.1. The Role of the Board		
A.1.1. The work of the Board of Directors shall be organised efficiently. The board shall meet regularly enough to discharge its duties effectively.	Observed	The Board of Directors of Sistema JSFC meets at least 8 times per year, and this allows reviewing and taking decisions on issues within the sphere of its competence.
There should be a formal schedule of matters specifically reserved for decision of the Board of Directors.	Observed	The competence of the Board of Directors is set out in the Charter of Sistema JSFC (item 32 of the Charter).
The annual report should include a statement of how the board operates, including a statement of which types of decisions and on which issues were taken by the board of directors and the management board.	Observed	The Annual Report of the Company for 2012 includes a statement on how the Board operates, including the report on key issues, issues on which decisions were taken by the Board of Directors and the Management Board (items 6.2, 6.4 of the Annual Report).
A.1.2 The annual report should identify the chairman, the deputy chairman, the chief executive, the senior independent director and the chairmen and members of the board committees.	Observed	The Annual Report of the Company for 2012 includes information on the election of V. Evtushenkov as Chairman of the Board of Directors of the Company and on the election of Deputy Chairmen of the Board of Directors (item 6.2 of the Annual Report). Besides, the 2012 Annual Report of the Company includes information on the President of the Company, Chairmen and members of the Board Committees (item 6.2 of the Annual Report). Company's statutory documents do not provide for the position of a senior independent director.
The annual report should indicate the number of meetings of the board and its committees and individual attendance by directors.	Observed	The Annual Report of the Company for 2012 includes information on the number of meetings of the Board of Directors and Board Committees, as well as attendance by members (item 6.2.).
A.1.3. The Company shall ensure due indemnification coverage for members of the Board of Directors.	Observed	According to item 2.4.5. of the Terms of Reference of the Board of Directors, the Company insures liability of the Board members from legal actions or claims in relation to business decisions or other actions taken in connection with the performance of his/her functions as a member of the Board of Director of the Company or its affiliates (D&O Policy). Additionally, the members of the Board of Directors signed Indemnification Agreements.
A.2. Division of responsibilities between Chairman and President		
A.2.1 The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.	Observed	Russian legislation and Sistema JSFC Charter stipulates that the individual performing the functions of the sole executive body of Sistema JSFC cannot simultaneously chair the Board of Directors of Sistema JSFC (item 31.1 of the Charter). The responsibilities of the Chairman, the members of the Board of Directors and the President are clearly distinguished by the Charter of Sistema JSFC.
A.3. Chairman of the Board of Directors		
A.3.1. The chairman should on appointment meet the independence criteria set out in B.1.1 below.	Not observed	The Chairman of the Board of Directors of the Company is the main shareholder of the Corporation, V. Evtushenkov, a non-executive

		member of the Board, who does not meet the independence criteria.
A chief executive should not be chairman of the same company. If exceptionally a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report.	Observed	According to the Russian legislation and the Company's Charter, the person carrying out functions of the Company's sole executive body cannot at the same time serve as the Chairman of the Board of Directors. The division of responsibilities between the Board Chairman, Board members and the President is clearly defined in the Charter of the Company.
A.4. Non-executive directors		
A.4.1. The board should appoint one of the independent non-executive directors to be the senior independent director. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate.	Partially observed	Formal meetings of the Sistema Board are not held without the presence of executive directors. At the same time, regular informal meetings of the Sistema Chairman with independent directors are held. The Company's regulations do not provide for the position of a senior independent director.
A.4.2. The chairman should hold meetings with the non-executive directors without the executives present.	Partially observed	Prior to every meeting of the Board of Directors, independent members of the Board hold an informal meeting in the form of a business dinner, which is also attended by the management of the Company, for discussing urgent matters of governing the Company and organising the work of the Board of Directors.
Led by the senior independent director, the non-executive directors should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate.	Not applicable	Chairman's performance appraisal is performed within the framework of Sistema Board of Directors' appraisal as a whole.
A.4.3. Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes.	Observed	The whole course of the meeting of the Board of Directors is recorded in writing in the form of statements from participants and is subsequently analysed to ensure that all elements of decisions that were made are reflected in the minutes. According to the Working Procedures of the Board of Directors of the Company (approved by the Board of Directors on October 27, 2007), directors have an opportunity to express their special opinion within 24 hours after the meeting. All Board members are provided with a copy of minutes of every Board meeting.
B. EFFECTIVENESS.		
B.1. The Composition of the Board		
B.1.1. The board should identify in the annual report each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. The board should state its reasons if it determines that a director is independent notwithstanding the	Observed	Information on every non-executive director that meets independence criteria is included in the 2012 Annual Report (item 6.2.). There are 8 directors who meet independence criteria: B. Dickie, R. Kocharyan, J. Krecke, R. Munnings, E. Novitsky, M. Holtzman, S. Tchuruk, D. Iakobachvili.

existence of relationships or circumstances which may appear relevant to its determination ¹¹ .		
B.1.2. In large companies (according to FTSE 350 list) at least half the board, excluding the chairman, should comprise non-executive directors determined by the board as independent.	Observed	Sistema JSFC is not in FTSE 350 list, however, more than 60% (8 of 12 members) ¹² of the Board members meet independence criteria.
B.2. Appointments to the Board		
B.2.1. There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	Partially observed	The Nomination, Remuneration and Corporate Governance Committee was established and is active. The Terms of Reference of the Committee define the powers of the Nomination, Remuneration and Corporate Governance Committee. One of the key functions of the Committee is provisional review of candidates presented to the Board of Directors for appointment to top positions in the Company. But the Committee does not review appointments to the Board of Directors, as it is in the sphere of competence of shareholders.
A majority of members of the nomination committee should be independent non-executive directors.	Partially observed	Half of the members of the Nomination, Remuneration and Corporate Governance Committee meet independence criteria (B. Dickie, R. Kocharyan, R. Munnings).
The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship.	Observed	R. Kocharyan, non-executive independent director chairs the Nomination, Remuneration and Corporate Governance Committee.
	Not applicable	The Nomination, Remuneration and Corporate Governance Committee is not responsible for selecting candidates to the Board of Directors. This is in the sphere of competence of shareholders.
B.2.2. The nomination committee should evaluate the balance of skills, knowledge and experience on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.	Partially observed	Candidates for members of the Board of Directors are proposed by the Company's shareholders according to items 23, 28 of Sistema JSFC Charter. Requirements to the Company's Board members are set out in the Terms of Reference of the Company's Board of Directors. Among other things, a candidate should have sufficient professional experience, should not be previously convicted of economic crimes, not be under a ban on taking managerial positions. The candidate should not be a member of governance and control bodies of the companies that are competitors of the Company or be an affiliated person of such companies. The Nomination, Remuneration and Corporate Governance Committee does not develop formal requirements to candidates to the Board of Directors, as a candidate proposed to the Board Membership by shareholders must be included in

¹¹ Including if the director: a) has been an employee of the company or group within the last five years; b) has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company; c) has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme; d) has close family ties with any of the company's advisers, directors or senior employees; e) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; f) represents a significant shareholder; or g) has served on the board for more than nine years from the date of their first election.

¹² B. Dickie, R. Kocharyan, J. Krecke, R. Munnings, E. Novitsky, M. Holtzman, S. Tchuruk, D. Iakobachvili.

		the voting list according to the legislation of the Russian Federation.
B.2.3. Non-executive directors should be appointed for a specified term and can be reelected or relieved of their duties subject to the applicable corporate law.	Observed	In accordance with Russian legislation, the Board members are elected at the Sistema AGM for a one-year term (till the next AGM) and can be reelected an unlimited number of times.
Any term beyond six years for a nonexecutive director should be subject to particularly rigorous review, and should take into account the need for progressive renewal of the board composition.	Not applicable	In accordance with the Russian legislation, the Board members are elected at the Sistema AGM for a one-year term (till the next AGM) and can be reelected an unlimited number of times. The information on the performance of the Board of Directors over the past year, including data on the members' attendance, is disclosed annually, and the shareholders make their own conclusions on the quality of work of the Board and its particular members.
B.2.4. A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. This section should include a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director. Where an external search consultancy has been used, it should be identified in the annual report and a statement made as to whether it has any other connection with the company.	Partially observed	The Annual Report (item 6.2) includes the information on the responsibilities and powers of the Nomination, Remuneration and Corporate Governance Committee of the Sistema Board, as well as on the issues reviewed by the Committee. The Committee does not have the powers to directly nominate candidates to the Board of Directors, since it lies within the scope of authority of the shareholders. In 2012 the Nomination, Remuneration and Corporate Governance Committee did not engage any external consultants.
A separate section of the annual report should include a description of the board's policy on diversity.	Partially observed	The Board of Directors consist of (1) ¹³ executive, (4) ¹⁴ non-executive and (8) ¹⁵ independent directors.
A separate section of the annual report should include objectives of the nomination committee and progress on achieving the objectives.	Observed	The section "Board Committees" includes the information on the tasks and objectives of NRCCG Committee, and the list of the issues reviewed.
B.3. Nominations		
B.3.1. For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected.	Observed	The type of work and tasks of the Board Chairman are set out in the Terms of Reference of the Board of Directors of the Company. A Chairman of the Board of Directors is elected by the decision of all the members of the Board of Directors at the first meeting after the Annual General Meeting of shareholders.
A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report.	Observed	Information on all positions held by the Chairman of the Company's Board of Directors is disclosed and included into the 2012 Annual Report (Section 9.1). The Chairman of the Company's Board of Directors V. Evtushenkov does not hold a position of a chairman of other significant companies except Sistema JSFC.
B.3.2. The terms and conditions of appointment of non-executive directors should be made available for inspection to any interested parties	Observed	Terms and conditions of appointment of non-executive directors of the Board of Directors are available on the Company's website

¹³ M. Shamolin

¹⁴ V. Evtushenkov, A. Goncharuk, D. Zubov, V. Kopiev

¹⁵ B. Dickie, R. Kocharyan, J. Krecke, R. Munnings, E. Novitsky, M. Holtzman, S. Tchuruk, D. Iakobashvili

at the company's office and during the Annual General Meeting of shareholders.		(www.sistema.ru/www.sistema.com), at the Company's office and during the Annual General Meeting of shareholders to its participants. According to the Russian legislation all Board members are elected for 1 year and could be re-elected an unlimited number of times.
The letter of appointment should set out the expected time commitment. Elected board members should undertake that they will have sufficient time to meet what is expected of them.	Partially observed	Before candidates are proposed for appointment to the Board they familiarise themselves with the work plan of the Board of Directors for the coming year, the rights and obligations of the Board members and provisional membership in the Board committees. During the induction, a Corporate Secretary of the Company explains to every new member of the Board its procedures and preliminary time commitments for their fulfillment. Before the election, all candidates sign a document confirming their agreement with the proposal that includes, among other issues, an agreement to follow all norms of internal documents of the Company applicable to the Board members. Attendance of meetings and involvement of the Board members in discussion of agenda items is recorded and analysed for subsequently including this information into the report on the quality of corporate governance.
Information on all other positions held by the non-executive Board members in other companies (with the time commitment required) should be disclosed to the Board of Directors. Information on changes to such data should be made available when such changes occur.	Observed	Biographies of candidates to the Company's Board, including information on positions held in other organisations, are presented at the Annual General Meeting of shareholders, and information on acting Board members is included in the Annual Report. All candidates to the Board of Directors fill in the questionnaire for candidates for providing the Company with the necessary information. The obligation to disclose any changes to the information provided by members of the Board of Directors is set out in the Regulations on the Company's Board of Directors (item 2.3).
B.3.3. Executive directors can neither be appointed as non-executive directors nor be a Chairman at more than one major company included in the FTSE 100 list.	Observed	As of December 31, 2012 the Board of Directors includes 13 members, 1 of them is an executive director (M. Shamolin). M. Shamolin is the President of the Company and a board member of some companies of Sistema Group, which are out of the FTSE 100 list. Sitting on the boards of the companies of the Sistema Group is one of the main duties of executive directors, therefore, this does not create any conflict of interests for the work at the Company.
B.4. Professional development		
B.4.1. The chairman should ensure that new directors receive full induction on joining the board. As part of this, the directors should be able to meet the main shareholders of the company.	Observed	Every candidate to the Board of Directors before the election meets the Board Chairman, Board members and the management and receives information on work of the Board of Directors, his/her role in the Board of Directors and the Company's business. The Corporate Secretary gives consultation to new members of the Board on the procedures and organisation of work of the Board and its committees and provides necessary statutory documents, documents describing the company's

		strategy, business, markets of presence and financial reports. The above induction procedure for new Board members is not formalised.
B.4.2 The chairman should regularly review and agree with each director their training and development needs.	Observed	The members of Sistema JSFC Board of Directors with consent of the Chairman of the Board of Directors represent the Company at various international symposiums, conferences, professional seminars etc.
B.5. Information and Support		
B.5.1. The board should ensure that directors have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.	Observed	The Regulations on Sistema JSFC Board of Directors (item 2.2.1) provides for the right of the Board members to engage external expertise of the documents of any issue of the agenda. Independent expertise is arranged by the Board of Directors Administration.
B.5.2. All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with.	Observed	According to the Terms of Reference of the Corporate Secretary of the Company, the last version of which was approved by the Board of Directors (Minutes dated February 14, 2004), one of the functions of the Corporate Secretary is facilitating the work of the Board of Directors, including: providing Board members with requested information and documents regarding Company's work, distribution among Board members of materials for the meetings of the Board, facilitation of the work of the Board Committees.
B.6. Performance assessment		
B.6.1. The Annual Report shall contain the information on procedures for assessing the performance of the Board of Directors, its Committees and every director.	Observed	The process of performance assessment of the Board of Directors is set out in item 6.5 of the 2009 Annual Report of the Company. Since 2009 there is a process of self-appraisal of the Board of Directors work. Board members fill in questionnaires giving their opinion on organisation of work of the Board of Directors: membership, structure, process and organisation of work of the Board of Directors, work of committees of the Board of Directors, quality of decisions of the Board of Directors in relevant areas. The Board of Directors Administration annually surveys all members of the Board, analyses results and provides the final analysis to the Nomination, Remuneration and Corporate Governance Committee, the Board Chairman and the members of the Board of Directors.
B.6.2. Assessment of the performance of the board of FTSE 350 companies should be externally facilitated at least every three years. The external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company.	Not applicable	Sistema JSFC is not on the FTSE 350 list.
B.6.3. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.	Not applicable	Performance assessment of the Board of Directors' Chairman is carried out during the appraisal of the performance of the Board of Directors in general. The Company's regulations do not provide for the position of senior independent director.
B.7. Re-election		

B.7.1. All candidates to the board should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. Non-executive directors who have served longer than nine years should be subject to annual re-election. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.	Observed	According to the Russian legislation Board members are elected at the Annual General Meeting of shareholders for 1 year (for the period till the next Annual General Meeting of shareholders) and could be re-elected unlimited number of times. The Terms of Reference on the Board of Directors (item 2.5.5) provide for Board member independence criteria, stating that the directors who have served longer than nine years should not be defined as independent.
Information about nominees to the Board of Directors shall include biographical data about the nominees and/or any other information to enable shareholders to take an informed decision about electing or re-electing members of the Board of Directors.	Observed	Information on candidates to the Board of Directors including their biographical details is provided among other materials for the Annual General Meeting of shareholders which elects members of the Board of Directors of the Company.
B.7.2. The board of directors should explain to shareholders why they believe an individual should be elected non-executive member of the Board of Directors.	Partially observed	Shareholders are provided with biographical details and professional skills of candidates and shareholders make independent conclusions on their competence and advisability to elect them to the Board.
In the event of reelecting a non-executive director, the chairman should confirm to shareholders that, following formal performance appraisal, the individual's performance continues to be effective.	Partially observed	Every year when new members of the Board are appointed, information on the work of the Board of Directors in the previous year is disclosed, including attendance of meetings by the Board members and the work of Committees where Board members participated. Shareholders take independent decisions on the quality of work of the Board of Directors and their members.
C. ACCOUNTABILITY.		
C.1 Financial reporting		
C.1.1. The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they believe that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.	Partially observed	The Annual Report does not include the respective statement of the Board, however, this provision is observed via reviewing the Annual Report and financial accounts of the Corporation at the Board and Audit & Finance Committee meetings. The results of review and discussion are reflected in the Minutes.
There should be a statement made by the auditors about their responsibilities related to the audit of financial reports.	Observed	Financial reports of the Company are disclosed annually and include the auditor's opinion.
C.1.2. The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company	Partially observed	The Annual Report does not include the respective statement of the Board, however, this provision is observed via reviewing long-term business model and the strategy at the Board and Audit & Finance Committee meetings. The results of review and discussion are reflected in the Minutes.
C.1.3. The directors should report in annual and half-yearly financial statements that the business is a going concern, with supporting assumptions or qualifications as necessary	Partially observed	The Annual Report does not include the respective statement of the Board, however, this provision is observed via reflecting supporting assumptions or qualifications, if necessary, in the report of independent auditor review, which is an integral part of annual and half-annual reporting.
C.2. Risk management and Internal control		
C.2.1. The board should, at least annually, conduct a review of the effectiveness of the	Observed	The Board of Directors annually reviews the report of the Internal Control and Project Support

<p>group's system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.</p>		<p>Department of the Company on results of the year with analysis of existing control systems and detected deficiencies. A report of the Auditing Commission is attached to the materials of every Annual General Meeting of Sistema JSFC.</p>
<p>C.3 The Audit Committee and Auditors</p>		
<p>C.3.1. The board should establish an audit committee of at least three independent non-executive directors (for large companies). At least one member of the audit committee shall have relevant financial experience.</p>	<p>Partially observed</p>	<p>The Audit and Finance Committee of Sistema JSFC has been established and is active. The Committee includes 5 members of the Board of Directors, 4 of whom meet independence criteria - R. Munnings, E. Novitsky, M. Holtzman and D. Iakobachvili. R. Munnings is Chairman of the Audit and Finance Committee of the Board of Directors. He meets independence criteria and has vast experience in financial audit.</p>
<p>C.3.2. The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:</p> <ul style="list-style-type: none"> - to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgments contained in them; - to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems; - to monitor and review the effectiveness of the company's internal audit function; - to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor; - to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; - to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and - to report to the board on how it has discharged its responsibilities. 	<p>Observed in all essential aspects</p>	<p>The remit of the Audit and Finance Committee is determined in the Terms of Reference on the Committee, the last version of which was approved by the Board of Directors on September 24, 2011). The Terms of Reference on the Audit and Finance Committee in general meets Section C.3.2. of UK Corporate Governance Code.</p>
<p>C.3.3. The terms of reference of the audit committee, setting forth the main powers and responsibilities delegated to it by the board, should be in place.</p>	<p>Observed</p>	<p>The powers and responsibilities of the Committee are determined in the Terms of Reference of the Audit and Finance Committee which were approved by the Board of Directors on September 24, 2011.</p>
<p>C.3.4. Where requested by the board, the audit</p>	<p>Observed</p>	<p>This requirement is observed by reviewing the</p>

<p>committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.</p>		<p>Annual Report and financial accounts at the Audit and Finance Committee meetings.</p>
<p>C.3.5. The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.</p>	<p>Observed</p>	<p>The Audit and Finance Committee reviews issues of the functioning of the hot line used by the Company's employees and other interested parties for raising concerns about possible improprieties in the financial sphere on a confidential basis.</p>
<p>C.3.6. The audit committee should monitor and review the effectiveness of the internal audit process. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.</p>	<p>Observed</p>	<p>According to the Terms of Reference of the Audit and Finance Committee of the Company's Board of Directors, one of the key functions of the Committee is monitoring the internal audit system of the Company. The Internal Audit Department carries out internal audit functions. The Audit and Finance Committee together with the head of the above mentioned Department and the Company's management analyses the implemented activities aimed at removing the deficiencies of internal business processes.</p>
<p>C.3.7. The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. FTSE 350 companies should put the external audit contract out to tender at least every ten years. If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.</p>	<p>Observed</p>	<p>According to the Terms of Reference of the Audit and Finance Committee of the Company's Board of Directors, the Committee analyses external auditors' performance, and provides the Board of Directors with recommendations regarding appointment, reappointment or removal of the external auditors.</p>
<p>C.3.8. A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include:</p> <ul style="list-style-type: none"> - the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed; - an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and - if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded. 	<p>Observed</p>	<p>The Annual Report includes the statement on the policy of the auditor's objectivity and independence.</p>

D. REMUNERATION

D.1. The level and components of remuneration

D.1.1. In designing schemes of performance-related remuneration for executive directors, the remuneration committee should follow the provisions in Schedule A to this Code.	Observed	The provisions of Schedule A to the UK Corporate Governance Code, in general, are observed at executive directors' remuneration system development. The items of Schedule A are disclosed below.
D.1.2. Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is.	Partially observed	Members of the Management Board elected as the members of Boards of Directors of subsidiaries do not receive additional remuneration for work in such Boards of Directors. Members of the Management Board (executive directors) who are the members of the Boards of Directors in other companies receive remuneration for work in Boards of Directors of such companies according to their regulations. The information on the size of remuneration received by employees of the Company for acting as a Board member at other companies is not disclosed.
D.1.3. Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors should not include share options or other performance-related elements. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. Holding of share options could be relevant to the determination of a non-executive director's independence (as set out in provision B.1.1).	Observed	Board members of Sistema JSFC receive additional remuneration for serving as Chairman of the Board of Directors, Deputy Chairman and Chairman of any Board Committee. Special remuneration is paid for participation in the Board meetings and meetings of the Board Committees. Share options are not granted for the work on the Board of Directors.
D.1.4. The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.	Observed	According to item 1.6 of the Policy on remuneration and compensations for the Board members of the Company, in the event of early termination of the director's appointment, remuneration is calculated on a pro rata basis.
D.1.5. Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period.	Observed	According to the Russian legislation all Board members of Sistema JSFC are elected by General Shareholders' Meeting for 1 year (till next AGM) and could be re-elected an unlimited number of times.
D.2. Procedure		
D.2.1. The Board of Directors should establish a Remuneration Committee consisting of at least three independent non-executive directors (for large companies).	Observed	The Nomination, Remuneration and Corporate Governance Committee was established and is active. 6 Directors are the members of the Committee, 2 of them are non-executive directors (A. Goncharuk, D. Zubov) and 3 of them meet independence criteria (B. Dickie, R. Kocharyan, R. Munnings)

The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	Observed	The powers and responsibilities of the Nomination, Remuneration and Corporate Governance are determined in the Terms of Reference which were approved by the Board of Directors on September 24, 2011. The Regulations on the Nomination, Remuneration and Corporate Governance Committee is posted on the Company's website (www.sistema.ru / www.sistema.com) and is available on demand from shareholders.
Where remuneration consultants are appointed, they should be identified in the annual report and a statement made as to whether they have any other connection with the company.	Not applicable	In 2012 no external remuneration consultants were engaged in the work of the Company's Board of Directors.
D.2.2.The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments.	Observed	Amount and procedure for paying out remuneration and compensation to the Company's Board member are set out in the Policy on remuneration and compensations, the last version of which was approved by the Annual General Meeting of shareholders as of June 30, 2006 (Minutes No. 1-06), with changes and amendments made by extraordinary General Shareholders' Meeting of Sistema JSFC on February 16, 2009 (Minutes No. 1-09). In case changes/amendments are necessary to be made to the above Policy, the Nomination, Remuneration and Corporate Governance Committee develops necessary changes/amendments.
The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level.	Observed	One of the key functions of the Nomination, Remuneration and Corporate Governance Committee according to the respective Terms of Reference is preliminary review of terms of labor contracts of the President and Board members presented for consideration of the Company's Board of Directors, evaluation of performance of the Company's top management and defining the size of their remuneration.
D.2.3.The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive.	Observed	The Policy on remuneration and compensations, the last version of which was approved by the Annual General Meeting of shareholders as of June 30, 2006 (Minutes No. 1-06), with changes and amendments made by extraordinary General Shareholders' Meeting of Sistema JSFC on February 16, 2009 (Minutes No. 1-09), establishes clear formula for calculating remuneration of the Board members. A special decision of the Nomination, Remuneration and Corporate Governance Committee for such payments is not required.
Shareholders should be invited specifically to approve all new long-term incentive schemes and significant changes to existing schemes.	Observed	Long-term incentive schemes are approved by the Board of Directors and, when needed, by the Annual General Meeting of shareholders, and shareholders discuss such matters both at the level of the Board of Directors and the level of the Annual General Meeting of shareholders.

E. RELATIONS WITH SHAREHOLDERS

E.1 Dialogue with shareholders

E.1.1. Shareholders' opinions on the development	Observed	Representatives of the majority of large
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of the company are communicated to the board. The chairman should regularly discuss strategy with major shareholders. Non-executive directors should be offered the opportunity to attend meetings with major shareholders and should expect to attend them if requested by major shareholders.		shareholders are members of the Board of Directors of the Company. The IR Department of the Company works with the largest institutional investors. Results of its work, including views of main institutional investors of the Company on strategy and development outcomes of the Company, are regularly reviewed by the Board of Directors within the IR strategy of the Company. It is mandatory for all members of the Board of Directors, including non-executive directors, to attend the Annual General Meeting of shareholders.
The senior independent director should hold sufficient meetings with shareholders to discuss development of the company.	Not applicable	The Company's statutory documents do not provide for the position of a senior independent director. Prior to every meeting of the Board of Directors independent members of the Board hold an informal meeting in the form of a business dinner, which is also attended by the management of the Company. Information on independent members of the Board of Directors is available to shareholders via the Company's website. If shareholders have relevant questions they may address any of them.
E.1.2 The annual report should state how the members of the board develop an understanding of the views of major shareholders about development of the company.	Observed	Representatives of the majority of large shareholders are members of the Company's Board of Directors. The IR department of the Company works with the largest institutional investors. The results of its work, including the views of main institutional investors of the Company on development of the Company, are regularly reviewed by the Board of Directors within the IR strategy of the Company. It is mandatory for all members of the Board of Directors, including non-executive directors, to attend the Annual General Meeting.
E.2 Constructive use of the AGM		
E.2.1. The minutes of the meeting should include the number of persons that participated in the voting on every agenda item and the number of votes "for", "against" and "abstained".	Observed	In accordance with Russian legislation and Sistema JSFC Charter, each issue of the agenda include the draft resolution with "for", "against" and "abstained" votes.
E.2.2. The company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted. The AGM minutes should include the number of persons participated on each item of the agenda, as well as proportion of "for", "against" and "abstained" on each item of the agenda.	Observed	All the votes of the shareholders received by Sistema JSFC are registered by Teller Commission and included in the AGM Minutes. The votes "for", "against" and "abstained" are counted separately; and the results on each item of the agenda are disclosed.
E.2.3. All members of the Board of Directors are to attend the general meeting. Committee chairmen should be available for answering questions of shareholders.	Observed	According to item 2.3. of the Terms of Reference on the Board of Directors, all members of the Board of Directors are to attend the General Meeting and to answer questions from the participants of the meeting. Shareholders that participate in the Annual General Meeting may put questions to any member of the Board of Directors attending the meeting.
E.2.4. The company should arrange for a Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.	Observed	According to its Charter, the Company circulates the Notice of the AGM and publishes related materials not later than 30 days before the meeting.