

Annual Report 2017



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To get more information, please visit our corporate web site:
www.sistema.com



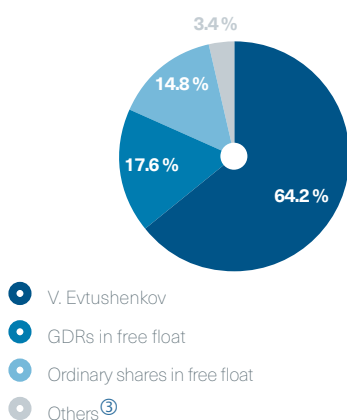
Apis Cor

is a developer and manufacturer of unique 3D construction printers. The Apis Cor printer can build a house of up to 130 sq m in 24 hours. The technology has no peers anywhere in the world. This 3D printer can compete with conventional technologies on cost and significantly outperforms them on speed and ease of construction. Applications to patent the technology have been filed in 146 countries. The business model is based on provision of wall-construction services in partnership with local companies to reduce printer replication risks and control the construction process.

PROFILE OF SISTEMA

Sistema is one of the largest private investors in Russia's real economy. Sistema's investment portfolio is dominated by Russian companies in various sectors including telecommunications, consumer retail, paper and packaging, agriculture, high-tech, real estate, healthcare, financials and hospitality. Sistema holds controlling interests in most of its portfolio companies.

Sistema's shareholding structure^②



Overview

Sistema's strategic goal is to create long-term growth of shareholder value by boosting returns on investments in existing assets and reinvesting available cash in new investment projects to diversify its portfolio and increase overall return on investment.

Sistema specialises in improving the operational efficiency of the assets it acquires by restructuring and by working with industrial partners to enhance expertise and mitigate financial risks.

The Corporation's shares trade on Moscow Exchange (ticker: AFKS) and on the London Stock Exchange in the form of global depository receipts (ticker: SSA). One GDR represents 20 ordinary shares.

Structure of shareholders' equity

Sistema has 9,650,000,000 ordinary shares outstanding with a nominal value of RUB 0.09 each. Its authorised capital is RUB 868,500,000.

Sistema held an initial public offering in 2005. Its shares trade on the London Stock Exchange in the form of global depository receipts (GDRs) under the ticker SSA. One GDR represents 20 ordinary shares. The Corporation's ordinary shares are also listed on Moscow Exchange in the first listing level under the ticker AFKS. The GDRs traded on the London Stock Exchange represent about 17.6% of Sistema's equity, while the shares traded on Moscow Exchange represent 14.8%.

Key indicators for 2017



Revenue
RUB **704.6** bn



Investments
RUB **130.5** bn



Cash inflows from investments
RUB **68.1** bn^①



Adjusted OIBDA
RUB **199.5** bn



Adjusted OIBDA margin
28.3%

① Investments of the Corporate Centre (management reports).

② As of 31 March 2018.

③ Ordinary shares and GDRs owned by Sistema Group companies, members of the Board of Directors and the management of Sistema.

Sistema's fastest growing assets^①



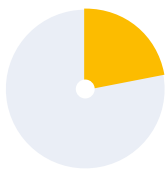
HOSPITALITY ASSETS

54.5%



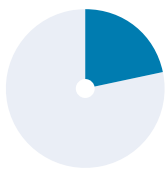
MEDSI

24.0%



STEPPE AGROHOLDING

22.2%



DETSKY MIR GROUP

21.9%



BINNOPHARM

21.8%

Sistema's shares are included in Moscow Exchange's two key indices, the MOEX Russia Index (formerly MICEX) and RTS, as well as its Broad Market Indices .

Shares of MTS, a Sistema subsidiary, trade on Moscow Exchange under the ticker MTSS and on the New York Stock Exchange (NYSE) in the form of ADRs under the ticker MBT.

Shares of Detsky Mir, a Sistema subsidiary, began trading on Moscow Exchange in February 2017 under the ticker DSKY in the first listing level.

Sistema's principal shareholder is its Chairman Vladimir Evtushenkov, who owns 64.2% of the Corporation's equity.

Changes in Sistema's GDR and ordinary share prices^③

In 2017, Sistema's share price fell by 47.8% and the price of its GDRs by 53.7%, mainly due to investors' reaction to claims made by Rosneft, Bashneft and the Republic of Bashkortostan against the Corporation throughout the year (the claims were settled in December 2017).

On the first trading day of 2017, the closing price of one GDR on the London Stock Exchange was USD 9.0, corresponding to Sistema's total market capitalisation of USD 4,342.5m. On the last trading day of the year, the closing price was USD 4.8,

with Sistema's total market capitalisation standing at USD 2,012.0 m.

The closing price of GDRs reached a record high of USD 10.0 on 24 January 2017, and the ordinary shares peaked at RUB 25.1 on 20 January 2017. The lowest closing GDR and ordinary share prices were recorded on 18 December 2017 at USD 3.0 and RUB 9.0, respectively. Average daily trading volume on the London Stock Exchange in 2017 was 775,715 GDRs, and on Moscow Exchange 21,592,735 ordinary shares.



● GDRs of Sistema

● Ordinary shares of Sistema

● RTS Index

① Revenue growth in 2017 YoY.

② Broad Market Indices of the Moscow Exchange include top 100 securities selected based on the criteria of liquidity, capitalisation and the number of shares in free float and form the bases for calculation of the Moscow Exchange's other indices. The calculation bases include the shares whose free float coefficient is at least 5%.

③ Source: Bloomberg.

MISSION AND STRATEGY

Sistema's mission is to build an investment company with multi-industry expertise and a strong track record in managing shareholder and third-party funds. Investments focus primarily on new and innovative industries, with no restrictions on geography or industry.

Value creation model

Sistema's investment company model envisages monetisation of the portfolio through incoming dividends and asset sales, as well as:

- 1 investment in new, high-potential investment projects capable of generating high returns on invested capital;
- 2 distribution of profit to Sistema's shareholders through dividends;
- 3 investment in the development of existing assets to increase their value.

Sistema's strategic focus



Maximising total shareholder return (TSR) and reducing the discount to net asset value (NAV)



Raising and managing outside capital to expand available resources for investment, and receiving income from management of assets



Reducing the Corporate Centre's debt to acceptable levels within

1-2 years



Focusing on investments in high-potential technologies

Basic principles of the investment strategy

Direct investments from Sistema's Corporate Centre



Investments in controlling stakes of large assets, including distressed/undervalued businesses, or in large tech companies



Value creation via active management of acquired assets with potential engagement of a financial partner



Asset type: mainly mature businesses



Geography: mainly Russia



Industries: no restrictions, but in order of priority: consumer segment, B2B segment with export potential, and real estate



Deal size: starting from USD 100 m;

stake: starting from 50%+1;
required IRR: more than 25% in rubles



Acquisition of assets with acceptable debt levels (Debt/OIBDA of the acquired asset less than 3.0), or higher debt levels if there is a plan for reduction to the acceptable level within two years

Direct investment through own funds (PE/VC)



Investments in promising future technologies, e.g., companies developing technologies and solutions that create new industries or disrupt existing sectors



Investments will be made through own funds with mandatory participation of outside investors as financial partners (share of outside partners: at least 20%)



Geography: no restrictions



Target fund size: starting from USD 100^m;

required IRR: more than 20% in USD



Deal sizes, stakes and stages of financing will be determined in the funds' investment theses



Market principles of income distribution and incentives for the team

Investments of portfolio companies that require investment from Sistema



Investments in portfolio companies to increase their market share or enter adjacent/synergistic business segments



Involvement of strategic and financial partners as needed



Geography: in accordance with the approved strategy for portfolio companies



Industries: companies' industries and adjacent/synergetic industries



Required IRR: higher than weighted average cost of capital (WACC) with discounted payback period (DPBP) of

3-10 years

(WACC and DPBP are approved for each asset annually)

Principles of managing Sistema's assets

Introduction of a partnership management model that allows key executives of the Corporation to share the risks and returns from investment activities with the shareholders

Managing of assets across sector verticals led by Managing Partners

Managing Partners have responsibility for implementing the investment strategies of portfolio companies

Boards of Directors of portfolio companies provide control, coordination and support for management in decision-making in key functional areas (strategy, key deals, budget planning, HR and internal audit)

Engagement of industrial experts as members of the Boards of Directors of portfolio companies

Incentives of Managing Partners is designed to:

- 1 increase Sistema's capitalisation;
- 2 maximise the value of assets under management and monetise this value;
- 3 raise outside capital for management.

CEO'S STATEMENT

Dear shareholders,

Today Sistema continues its transformation as a leading investment company operating in the Russian and global markets and I'm excited to be appointed as President of Sistema at such an important time for the company.

In 2017 Sistema overcame a number of serious challenges, most notably the legal dispute with Rosneft, Bashneft and the Republic of Bashkortostan. In December all parties reached a settlement agreement to resolve all litigation related to Sistema's ownership of Bashneft. In the first quarter of 2018, we fulfilled all of Sistema's obligations under the agreement, securing the necessary financing and completing payments to Bashneft totalling RUB 100 billion. All legal claims related to this case are now withdrawn, and all of Sistema's assets are free of the injunctions imposed as part of the previously filed claims.

Despite 2017's difficulties, which put significant pressure on our share price, Sistema was able not only to retain its assets but also to support their dynamic growth and improvements to efficiency. This was reflected in the strong financial results of the Corporation's and of our portfolio companies. Sistema's consolidated revenue grew by 3.5% in 2017, while adjusted OIBDA increased by 8.0%. All of our core assets were profitable at the adjusted OIBDA level.

Our publicly traded assets, MTS and Detsky Mir, strengthened their leadership in their respective markets. MTS benefited from an improved operating environment, increasing revenue by 1.7% and delivering solid OIBDA growth and a strong free cash flow. The company made good progress on its digital strategy in 2017 as it continues its transformation into a multi-service, data-focused integrated telecommunications firm.

Detsky Mir continued to consolidate the Russian children's goods market and maintained strong growth rates, with revenue increasing by 21.9% despite a more challenging market environment. The company opened 104 new stores and increased its share of the Russian children's goods market from 17% to about 20%. Online was the fastest-growing sales channel, with the Internet store's sales up by approximately 70% during the year, thanks also to its strong synergies with Detsky Mir's chain of over 620 stores.

Our healthcare operator, Medsi, significantly improved its performance, increasing revenues by 24.0% and growing adjusted OIBDA more than three-fold. These strong results were achieved by increasing utilisation rates at key facilities thanks to stronger vertical integration, as well as by building new clinics and through acquisitions. The market for high-quality private healthcare is one of the most dynamic sectors of the Russian economy, and Medsi will continue to grow capacity by launching new clinics and making further acquisitions in 2018.

Our paper and packaging holding, Segezha Group, was also able to achieve revenue growth despite strong exchange-

rate pressure due to the path of the rouble rate. Throughout the year, the company continued to implement its investment and modernisation program and to optimise production and SG&A costs. We are excited that Segezha is now led by Mikhail Shamolin, my predecessor as President of Sistema and one of Russia's strongest senior managers. Mikhail's skills and experience will undoubtedly take Segezha Group to a new strategic level.

Agroholding Steppe brought in a record harvest in 2017 thanks to the expansion of its asset base and strong yields. The aggregated OIBDA of our agricultural assets reached RUB 5 billion, while the total land bank reached 380 thousand hectares.

We were also pleased with the results of MTS Bank, which returned to profitability thanks to lower provision charges as well as good strategic progress in its cooperation with MTS.

In recent years Sistema has made good progress in developing venture capital and private equity investment vehicles. Our VC funds – Sistema Venture Capital, Sistema Asia Fund and Rusnano Sistema SICAR, as well as our investment platforms Sistema Finance and Sistema Capital – now give the Corporation and other investors access to a unique asset base and successful investment strategies.

The strong results of our portfolio companies were one of the key drivers of cash flow at the Corporate Centre. We received around RUB 34 billion in dividends and regular returns of cash from portfolio companies in 2017, and generated approximately the same amount through monetisations of our investments. The largest and most significant of these transactions was the IPO of Detsky Mir in February 2017, which raised a total of around RUB 19.2 billion.

The signing of the settlement agreement in the Bashneft case led to a significant increase in our levels of debt. As of the end of 2017, net debt at the Corporate Centre level had increased by 78.1% to RUB 213.4 billion. Despite this, Sistema's financial position and liquidity remain stable,

in part thanks to the financing provided by Sberbank, the Russian Direct Investment Fund and Gazprombank, and also to Sistema's successful return to the public debt markets in the first quarter of 2018.

The Corporation is continuing its sure-footed development as a leading investment company creating value for shareholders by making investments in high-potential projects, developing portfolio companies and effectively monetising its assets.

Our main goal is to increase Sistema's market capitalisation, and our strategic priorities for 2018-19 are:

- 1 Diversifying our sources of investment resources and remodelling our investment processes, including by creating new investment funds;
- 2 Optimising the Corporation's structure and administrative costs;
- 3 Strengthening our focus on future technologies;
- 4 Reducing our debt burden.

In 2018 we started optimising Sistema's management system. Today the Corporation manages its assets through sector-based verticals headed by Managing Partners, each of whom bears full responsibility for the financial results of the companies under their management and who as a shareholder in these companies will be highly interested in increasing their value. Our senior managers will also continue to invest a significant portion of their earnings in shares of Sistema, thereby further strengthening the alignment of the interests of management and all of the Corporation's shareholders.

I would like to thank all of our investors and partners and the employees of Sistema Group companies, and also all those who have helped and continue to help the Corporation to grow. I believe that we are on track to deliver an effective strategy that will drive further increases in the Corporation's value to the benefit of all shareholders.



Andrey Dubovskov

President of Sistema PJSC

A handwritten signature in blue ink, appearing to be 'A. Dubovskov', written in a cursive style.

INVESTMENT PORTFOLIO



MTS

50%
SISTEMA'S STAKE

Leading telecom operator
in Russia and the CIS

>106.5^m
mobile subscribers

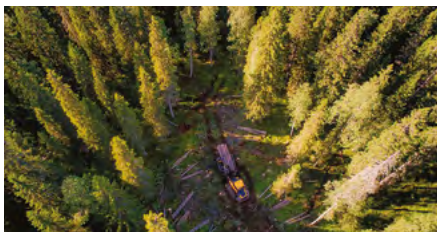


Detsky Mir

52%

The largest children's goods
retailer in Russia

>650
stores



Segezha Group

100%

A major forest holding that performs
a full cycle of logging and advanced
wood processing operations

Nº1 in Russia
Nº2 in Europe
**in paper sacks
manufacturing**



Agroholding "STEPPE"

91%

Highly efficient agricultural enterprises
operating in the crop farming,
animal breeding, fruit and vegetable
growing segments

380,000^{ha}
of land



Medsi

100%

A leading national chain of healthcare
facilities, offering a full range
of medical services

≈ 8^m
visitors annually



RTI

87%

Russia's largest high-tech company
in the radio-technical systems,
microelectronics and comprehensive
communication industries

> RUB 50^{bn}
revenue



MTS Bank

87%

A universal financial organisation
that provides banking services

RUB 142.4^{bn}
total assets



Real estate assets **100%**

SISTEMA'S STAKE

Moscow development full cycle company and rental assets with a unique pool of properties

≈ 3^m sq m
in 45 development projects



Hospitality assets **100%**

Cosmos Group is one of Russia's leading hotel management companies

>3,700 rooms –
under management



Binnopharm **74%**

One of Russia's largest full-cycle biopharmaceutical companies

2 state-of-the-art pharmaceutical plants under management



BPGC **91%**

A large Russian regional power grid company

≈ 88,000 km
length of power lines



Kronstadt Group **96%**

One of Russia's leading developers and manufacturers of high-tech products

High-tech products



Concept Group **63%**

One of the largest players in lingerie wholesale and childrenswear monobrand stores

Women's and children's clothes and underwear



Investment funds **74%**

Private equity and asset management funds

A strong focus on technology-driven industries

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Mikron

is among Europe's five largest full-cycle microelectronics producers, and the largest in the CIS. Mikron launches serial production of more than 20 new products annually, each of which forms the basis for new digital solutions and services. One of the key areas for new product development is the RFID segment, in which Mikron produces more than 480 items a year.



KEY EVENTS OF 2017

Legal dispute and settlement agreement with Rosneft and Bashneft

In May 2017, Rosneft and Bashneft filed a legal claim with the Arbitration Court of the Republic of Bashkortostan against the Corporation and its 100% subsidiary Sistema-Invest seeking damages in the amount of RUB 106.6bn allegedly incurred by Bashneft as a result of its reorganisation in 2014. Later, the Ministry of Land and Property Relations of the Republic of Bashkortostan joined the claim, which was increased to RUB 170.6bn.

At the beginning of December 2017, Rosneft and Bashneft filed a second lawsuit against Sistema and Sistema-Invest seeking damages in the amount of RUB 131.6bn allegedly suffered by Bashneft due to payment of dividends to its shareholders.

On 22 December 2017, Sistema signed an amicable settlement agreement with Rosneft, Bashneft and the Republic of Bashkortostan under which the parties were to drop their lawsuits and withdraw all mutual claims. Sistema undertook to pay Bashneft RUB 100bn before 30 March 2018.

In 1Q 2018, Sistema fully fulfilled its liabilities under the agreement by making payments totalling RUB 100bn to Bashneft. The parties withdrew all legal claims against each other, and all interim restrictive measures imposed on Sistema's assets were lifted. The settlement agreement was therefore executed in full.

Detsky Mir's IPO

In February 2017, Detsky Mir listed its shares on Moscow Exchange. The company's market capitalisation at the start of trading was about RUB 62.8bn. Following the IPO, Sistema's stake in Detsky Mir amounted to 52.1% + 1 share.



Completion of merger between SSTL and RCom

In October 2017, Sistema completed the merger of the telecoms business of Sistema Shyam TeleServices (SSTL) with Reliance Communications (RCom). SSTL received a 10% equity stake in RCom following a new share issue by the Indian operator. If the Department of Telecommunications and the courts of India confirm that SSTL's spectrum can be used to deploy 4G networks without any additional payments, SSTL may be entitled to an earn-out payment from RCom.



Appointment of new president and election of new Management Board

In March 2018, Sistema's Board of Directors approved the appointment as President of Sistema of Andrey Dubovskov, the former president of MTS. Andrey Dubovskov took office on 13 March 2018.

Also in March 2018, the Board of Directors elected a new Management Board effective from 2 April 2018.



Launch and successful implementation of MTS's share repurchase programme

In 3Q 2017, MTS launched a share repurchase programme totalling up to RUB 20bn to create additional returns for shareholders. As of the end of March 2018, MTS had repurchased RUB 19.8bn worth of shares from its shareholders, including Sistema.



Events at portfolio companies

MTS and MTS Bank: launch of MTS Money Wallet

At the beginning of 2017, MTS in cooperation with MTS Bank launched a new service, MTS Money Wallet, which offers quick and convenient access to financial services offered by MTS. The new service brings together several payment tools, including the MTS e-wallet account, subscribers' personal accounts and bank cards. The service is available to both individuals and corporate customers.



Segezha Group: commissioning of a new paper-making machine at Segezha PPM

In 4Q 2017, Segezha Pulp and Paper Mill launched paper-making machine No 11 with capacity of 110,000 tons. It is a unique machine with a high level of automation. Investments in the project amounted to EUR 80 m. The machine was built by an international team of engineers and technologists from Germany, Russia, China, Finland, Brazil, Croatia and the Czech Republic. Following its launch, Segezha PPM became the world's biggest producer of unbleached sack paper.



Agroholding Steppe: successful expansion of land holdings

In 2017, Agroholding Steppe expanded its land holdings by 67,000 ha to 380,000 ha by acquiring new assets with high growth potential in the Stavropol and Rostov regions.



Detsky Mir: opening of a new distribution centre in the Urals

Detsky Mir opened a new distribution centre in the Urals to ensure more efficient deliveries in the Urals, Siberia, the Volga region and Kazakhstan. **In September 2017**, the company signed a lease agreement for a class A distribution centre with an area of 46,000 sq m at the Yuzhnouralsky transportation and logistics centre in the Chelyabinsk region. Under the agreement, which was signed for 10 years, the leased area may be expanded to 82,000 sq m. The company will start using the new centre in 2Q 2018.



OZON: appointment of a new CEO

In December 2017, Alexander Shulgin was appointed CEO of online retailer Ozon. Before joining Ozon, Alexander Shulgin worked for seven years at Yandex – from 2010 as CFO involved in preparing the company's listing on the NASDAQ stock exchange and from 2014 as CEO. Alexander Shulgin replaced Danny Perekalsky, who had been Ozon's CEO since 2014.



Medsi: new acquisitions in regions

Medsi continues investing in the expansion of its business in Moscow and other regions. **In August 2017**, it acquired the Medem clinic to enter the St Petersburg market. The 6,800 sq m clinic consists of 28 departments. **In September 2017**, Medsi acquired Medlife, a leading healthcare chain in Perm, consisting of five clinics and a sports and recreation centre with a total area of over 6,400 sq m.



FINANCIAL RESULTS

In 2017, Sistema's consolidated revenues increased by 3.5%, mainly due to strong like-for-like sales growth and the ramp-up of new stores at Detsky Mir, solid mobile revenue growth from MTS's Russia business as well as successful expansion and higher capacity utilisation at Medsi.



The adjusted OIBDA margin

28.3%

Financial results

(RUB millions)	FY 2017	FY 2016	Change
Revenues	704,551	680,864	3.5%
Adjusted OIBDA	199,549	184,800	8.0%
Operating income	91,223	82,169	11.0%
Loss attributable to Sistema	(94,602)	(11,759)	-
Adjusted profit attributable to Sistema	4,119	1,481	178.1%

Group selling, general and administrative expenses (SG&A) for the full year 2017 remained under control, increasing by 1.6% year-on-year to RUB 154.5 billion. Growth of SG&A expenses at Detsky Mir driven by the company's robust and cost-efficient expansion in Russia (with 104 new stores opened during the year) was largely offset by a decline of SG&A expenses at the Corporate Centre due to lower management incentive payments.

Group adjusted OIBDA increased by 8.0% in 2017, reflecting stronger operating performance at MTS, MTS Bank's return to profitability due to lower provision charges, as well as improved efficiency at Detsky Mir and Medsi and lower SG&A costs at the Corporate Centre. The adjusted OIBDA margin 28.3% for the full year, a year-on-year increase of 1.1 percentage points.

The adjusted profit attributable to Sistema was RUB 4.1 billion in 2017, up 2.8 times against the result for 2016, thanks to solid bottom-line performance at MTS and the turnaround at MTS Bank.



The adjusted profit attributable to Sistema was

RUB **4.1**^{bn}

SISTEMA'S CREDIT RATINGS

Rating agency	Date of most recent rating update	Long-term credit rating	Outlook
Standard & Poor's	04 April 2018	B+	Stable
Fitch	19 January 2018	BB-	Negative
Expert RA	01 March 2018	ruBBB+	Stable

REPORT ON DIVIDENDS DECLARED (ACCRUED) ON SISTEMA SHARES

Dividend policy

In April 2017, the Board of Directors of Sistema approved a revised dividend policy. In accordance with the policy the amount of dividends recommended by the Board for each reporting year will be the higher of either an amount equivalent to a dividend yield of at least 6% or RUB 1.19 per ordinary share.

The Corporation has set itself the goal of paying dividends twice a year, based on the results for the first nine months of a reporting year and for a full reporting year.

After the end of the reporting period, the Board of Directors, taking into account the priority of the strategic goal to reduce the Corporation's debt, decided to pay dividends for 2017 in the amount of RUB 0.11 per share, agreeing with the Corporation's deviation from the current dividend policy. In order to maintain a balance between the rights and interests of all shareholders and the Corporation's ability to pay dividends, the Board of Directors, when determining the amount of dividends, will take into account the acceptable rate of Sistema's debt reduction

and the proportionality of dividends to the current cash flow of the Corporation. Sistema plans to continue to pay dividends in accordance with the current dividend policy after achieving the goal of debt reduction.

Dividends distributed for the first nine months of 2017

On 3 November 2017, an Extraordinary General Meeting of Sistema's shareholders (Minutes No.2-17) approved a distribution in the form of interim dividends of 6,562,000,000.00 (six billion five hundred and sixty-two million) rubles, or 0.68 (zero point sixty-eight) rubles per ordinary share in Sistema.

As of 31 December 2017, the total amount of interim dividends for 9M 2017 paid was 2,121,721,383.40 rubles (the total amount of dividends paid to nominee shareholders and custodians being professional participants of the securities market who are registered in the shareholders register).

As of 31 December 2017, dividends payable to persons included in the shareholders register, with the exception of nominee

shareholders and custodians being professional participants of the securities market, were not due for payment.

Omitted dividends

As of 31 December 2017, the total amount of outstanding dividends due for payment was RUB 1,032,976.28, including:

- > dividends payable in 2017 – RUB 149,006.16;
- > dividends payable for previous years – RUB 883,970.02;

The reason for non-payment of the declared dividends due as of 31 December 2017 was the absence of information required for making payments due to shareholders entitled to dividends.

After 31 December 2017, the amount of unpaid dividends increased by RUB 4,213,003,660.24. Reasons for non-payment of the indicated amount of dividends include a written application of a shareholder and absence of information required for paying dividends in the shareholders register.

	Total amount of declared dividends, RUB	Dividend per share, RUB	Declaration date	Payment date
2012	2,702,000,000	0.28	30/06/2012	24/08/2012
2013	9,264,000,000	0.96	29/06/2013	26/08/2013
2014	19,879,000,000	2.06	28/06/2014	31/07/2014
2015	4,535,500,000	0.47	27/06/2015	29/07/2015
2016 (for the full year 2015)	6,465,500,000	0.67	25/06/2016	27/07/2016
2016 (for 1H 2016)	3,667,000,000	0.38	23/09/2016	20/10/2016
2017 (for the full year 2016)	7,816,500,000	0.81	24/06/2017	28/11/2017
2017 (for 9M 2017)	6,562,000,000	0.68	28/11/2017	22/12/2017 ^①

① Date of payment of dividends to the nominee shareholders and custodians being professional participants of the securities market who are included in the shareholders register.

MTS

PJSC Mobile TeleSystems is a leading telecom operator in Russia and the CIS. MTS Group has more than 106.5m mobile subscribers in Russia, Armenia, Ukraine and Belarus.



Sistema's stake^①

50.25%

The company also provides fixed-line telephony, broadband Internet, cable and satellite television, digital, mobile application and e-commerce services in Russia, as well as additional GPON-based services in Moscow (MGTS).

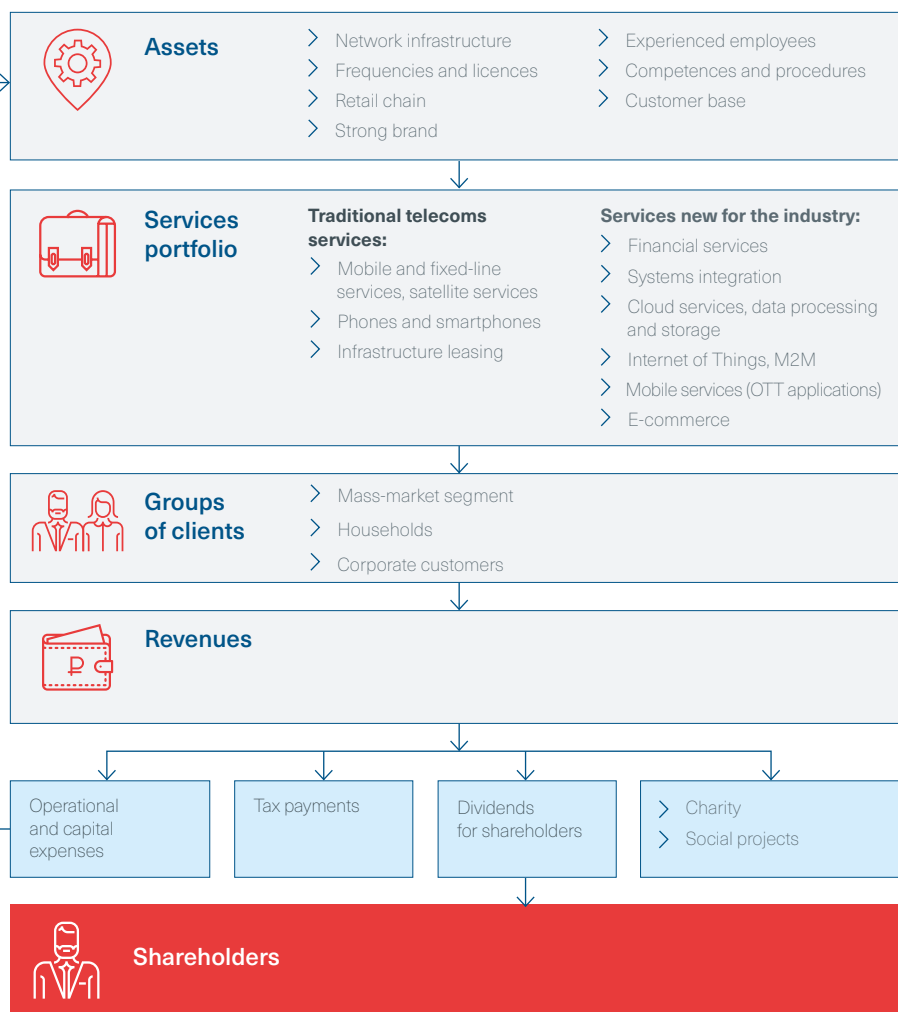


MTS has about

5.7th.

retail outlets in Russia

MTS business model



Alexey Kornya^②
President,
Chairman
of the Management
Board



Ron Sommer
Chairman
of the Board
of Directors

① As of 31 December 2017.

② As of 31 December 2017 and until 13 March 2018: Andrey Dubovskov.

2017 financial performance

(RUB m)	2017	2016	Change
Revenue	442,910	435,692	1.7%
Adjusted OIBDA ^①	178,358	167,647	6.4%
Operating income	94,671	86,065	10.0%
Adjusted net income attributable to Sistema	29,926	25,377	17.9%

Business development in 2017

As the leading Big 3 operator in terms of revenue and OIBDA, in 2017, MTS continued developing its networks, optimising costs, increasing operational efficiency and implementing its digital transformation strategy. In 2017, MTS Russia extended its lead over its competitors in terms of income from mobile business and OIBDA and ensured the smallest outflow of subscribers (10% per quarter on average).

In 2017, MTS continued constructing networks in all spectrums, mainly 4G, and tested a 5G network in partnership with Ericsson in Q3 2017. In addition, MTS is implementing projects for joint use of infrastructure and spectrum with Veon and Megafon. Joint use reduces capital expenses per base station by half.

MTS is the leader in the Russian M2M/IoT^② market. In December 2017, MTS

opened the first permanent Internet of Things laboratory in Russia under the aegis of the GSMA international association, presenting to its customers and partners pilot solutions based on Narrow Band IoT (NB-IoT) technology that can be used at home, in security systems, in city infrastructure and utility services.

In September 2017, MTS started providing services for cloud processing of big data – Big Data as a Service (BDaaS) – using its own data centres. First Cargo Company, Sberbank and BAT Russia became the first users of the virtual data centre.

Acquisition of LiteBox, a cloud retail software developer, gave MTS an opportunity to expand its ecosystem of financial products and strengthen its B2B platform.

In early 2018, MTS acquired e-sports club Gambit Esports, which has one of the top teams in the world, thus entering the e-sports market.

Business development strategy

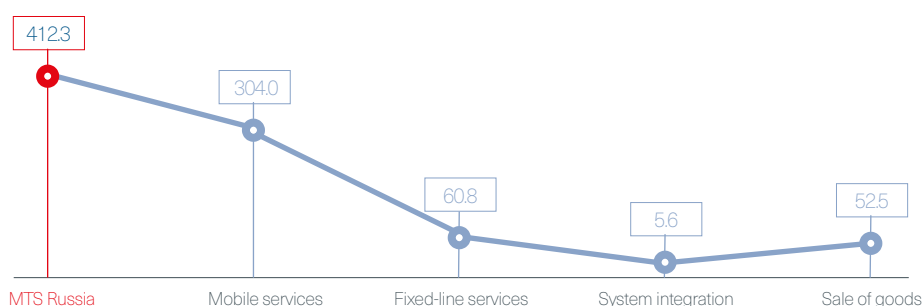
“3D: Data. Differentiation. Dividends” strategy was transformed into “3D: Data. Digital. Dividends”. The Digital segment envisages introduction of digital technologies into the company's main operations and active development of digital products.

MTS's operational strategy focuses on development of basic mobile and package services, fixed-line services and digital products. MTS will strengthen the convergence of services and expand its multiservice portfolio.

The 2018-2020 investment programme envisages implementing digital services and VoLTE (Voice over LTE) projects, increasing the capacity of optic fibre lines for new services and products, and preparing networks for commercial use of the 5G spectrum in Russia.

In April 2016, the Board of Directors of MTS approved a new dividend policy for 2016-2018, under which MTS intends to pay dividends in the amount of RUB 25-26 per ordinary share and RUB 50-52 per ADR with a guaranteed minimum payout of RUB 20 per ordinary share and RUB 40 per ADR per calendar year. To ensure additional shareholder returns, the Board of Directors of MTS also approved a programme to buy back MTS's own shares and ADRs in the amount of up to RUB 30bn within 3 years. As a result of the first (4Q 2016) and second (1Q 2017) tender offers MTS purchased 35,121,665 ordinary shares worth RUB 10bn in total. In 3Q 2017, MTS launched a share buyback programme for up to RUB 20bn. As of the end of March 2018, MTS purchased shares worth RUB 19.8 from Sistema and minority shareholders.

MTS's revenue structure in Russia^③, RUB bn



① Including share in MTS Bank's net income / (loss).

② Internet of Things.

③ Revenue from the businesses of MTS Russia is shown excluding intra-group operations.

Industry overview for 2017

According to analytical agencies^①, in 2017 the telecoms market grew by +1.3% year-on-year, vs a decline of -0.6% in 2016. The market size was RUB 1.6tn, of which mobile communications accounted for RUB 0.9tn (growth by +1.5%). The number of mobile subscribers was down by 180,000, from 255.6m in 2016 to 255.4m in 2017. All Big 3 operators experienced this drop as they shifted focus from increasing the number of new connections to attracting and retaining high quality subscribers, as well as due to changes in their retail strategies and a reduction in price competition.

Markets for fixed-line telephony and inter-operator services continued falling year-on-year, by 9% and 7% respectively.

In 2017, the market for fixed-line broadband Internet continued growing both in terms of income (+3.7%) and subscriber numbers (+4.3%).

Markets for additional services increased at a faster pace. The Russian Internet of Things market in 2017 grew by 22% to RUB 9.3bn^②.

Significant changes were made to communications legislation in 2017. Two bills on cancelling internal roaming in Russia were submitted to the State Duma. MTS already has tariff plans and tariff options that allow its subscribers to use communications services at home-region prices while travelling within the country.

The anti-terrorism package on storage of information (text, images, audio and video) transmitted via communication networks signed by the President of Russia in July 2016 (to enter into force on 1 July 2018) was widely discussed by all market players in 2016-2017. The final document is expected to be approved in 1H 2018. In order to comply with the law, MTS has already started construction of module data processing centres in Nizhny Novgorod and other Russian regions.

Income of the mobile business, RUB bn

	2014	2015	2016	2017
MTS	290.4	296.2	295.0	304.0
Vimpelcom (Veon)	221.4	219.0	218.5	224.2
Megafon	265.5	265.1	259.0	260.0
Big 3 in total	777.3	780.3	772.5	788.2



The market size was
RUB **1.6** tn.

① TMT Consulting (www.tmt-consulting.ru, December 2017, February 2018), AC&M Consulting (ComNews.ru 2 April 2018).
② According to preliminary data from AC&M Consulting.

MTS business model

MTS creates and offers various groups of customers both traditional telecoms services and solutions that are new for the industry. The fees paid for these services and solutions form MTS's revenue, which is used for operational and capital expenses, tax payments and dividend payments to shareholders.

MTS has been gradually expanding its business by adding new areas that have high growth potential and synergies with the traditional telecoms industry. Digital transformation helps to increase the efficiency of the company's business processes and successfully integrate and develop new segments, products and services.

2017 financial performance

In 2017, MTS achieved strong results and continued to deliver on its digital strategy. Amid an improved operating environment and higher usage of data services, the company posted 1.7% growth in revenues.

Adjusted OIBDA increased by 6.4% in 2017, while the adjusted OIBDA margin rose by 1.8 percentage points for the full year. In addition to revenue growth, factors positively affecting OIBDA and the OIBDA margin included a decline in SIM-card sales in Russia, higher gross margins on handset sales and a 12.4% decrease of MTS's retail network during the year to 5,696 stores at year-end 2017.



Detsky Mir

Detsky Mir Group is the largest children's goods retailer in Russia, comprising the Detsky Mir and ELC chains^①. It offers toys, apparel and footwear, stationery, arts and crafts kits, sporting goods, and baby and pregnancy products.

Detsky Mir
RETAIL CHAIN



Sistema's stake^②

52%

The Detsky Mir chain has 578 stores in 207 cities and towns in Russia and 12 cities and towns in Kazakhstan, while the ELC chain has 44 stores in Russia^④. The total selling space of the Group's stores is 688,000 sq m.



Vladimir Chirakhov
CEO



Christopher Baxter
Chairman of the Board of Directors

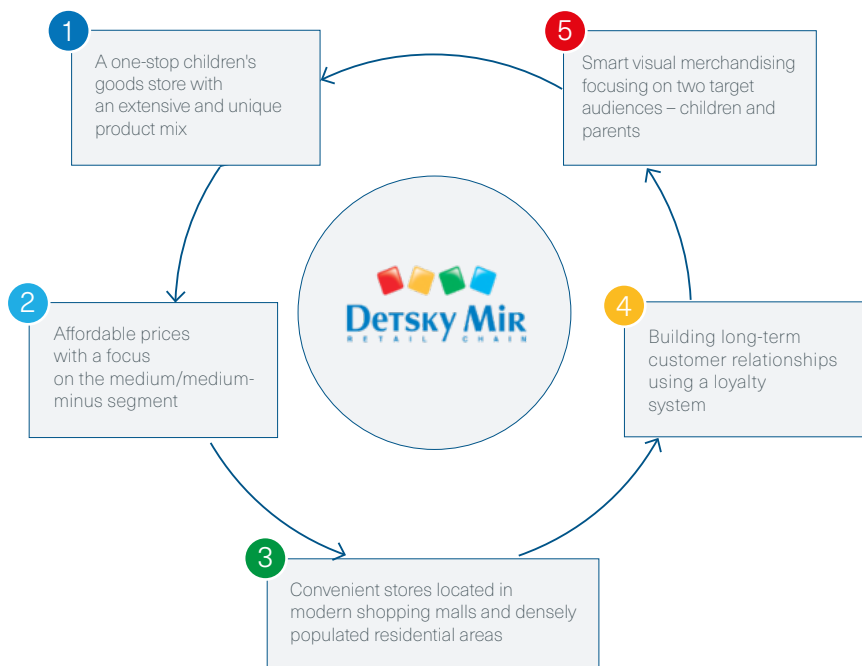


Detsky Mir's share in the Russian children's goods market^③

20%

Business model

Detsky Mir's retail concept combines five key components:



① Detsky Mir Group consists of PJSC Detsky Mir, LLP Detsky Mir Kazakhstan and LLC Kub-Market (ELC brand).

② As of 31 December 2017.

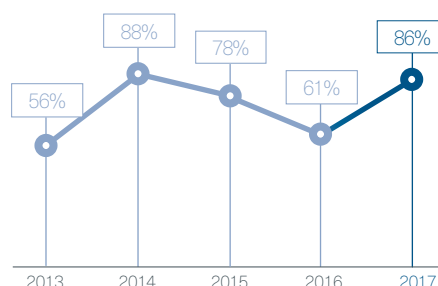
③ By revenue in 2017.

④ According to Ipsos Comcon.

2017 financial performance

(RUB m)	2017	2016	Change
Revenue	97,003	79,547	21.9%
Adjusted OIBDA	10,664	8,203	30.0%
Operating income	8,024	6,620	21.2%
Adjusted net income attributable to Sistema	2,871	2,775	3.5%

Growth of return on invested capital (ROIC), %



Business development in 2017

In 2017, Detsky Mir continued its robust development by opening 104 new stores. The company opened a record 62 new stores in the fourth quarter of 2017. Detsky Mir continued its expansion in Kazakhstan by opening 10 new supermarkets, almost doubling its retail chain in the country to 22 stores in 12 cities. In 2017, like-for-like sales in tenge increased by 25%.

In addition to retail stores, Detsky Mir Group offers all of its products for purchase online. Since its launch in 2011, the online segment has been the company's fastest growing sales channel (CAGR in 2011-2017 of 121%). One of the key drivers of turnover growth in this segment in 2017 was the launch of in-store pick-up.

A unique feature of Detsky Mir's e-commerce is using sources of free traffic. The company has no significant expenses on promoting its online store, but remains profitable, and thereby more operationally efficient than its competitors.

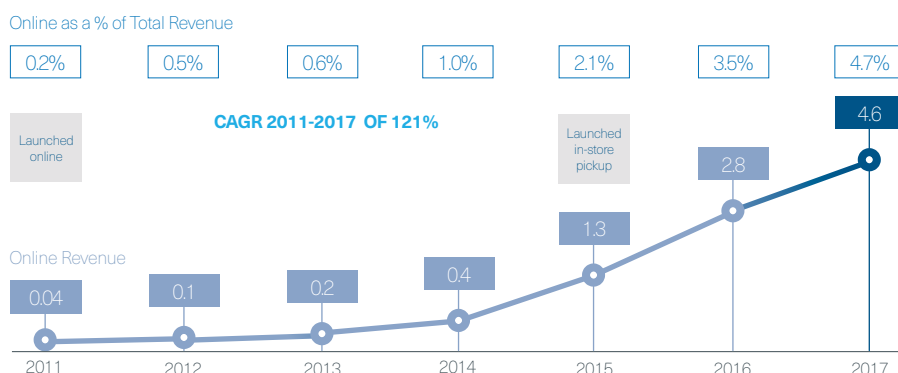
A strategic area for Detsky Mir is the development of private labels. On average, private labels accounted for 26.7% of Detsky Mir's entire product mix in 2017.

In 2017, Detsky Mir continued to improve its operating efficiency by reducing operating costs, primarily rental and personnel costs, and by optimising labour

productivity and improving commercial terms with lessors.

Automation of business processes and introduction of new software helped cut transaction times and reduce the labour intensity of business processes. As a result, the average number of employees per store decreased from 26 in 2013 to 18 in 2017.

Growth of online revenue after the launch of in-store pick-up across the chain



Visits to the online store

>133^m



Online orders

>2.4^m



Online as a share of total revenue

4.7%

A key element of the company's strategy is the development of its logistics infrastructure. To optimise logistics costs, the company introduced a comprehensive transport management system in 2017.

In March 2017, Detsky Mir updated its loyalty programme, adding competitive advantages. Now bonuses can be used to pay for up to 100% of the purchase; the only exceptions are gift cards and services. As of the end of 2017, the loyalty programme had 18m participants.

In February 2017, Detsky Mir held an IPO on the Moscow Exchange. Trading commenced on 10 February 2017 under the ticker symbol DSKY. The placement price was RUB 85 per share, giving a market cap of RUB 62.8bn. The company attracted bids for 2.1x the number of shares offered. The EV/EBITDA multiple was 9x. The successful IPO confirmed Detsky Mir's status as a highly attractive asset.

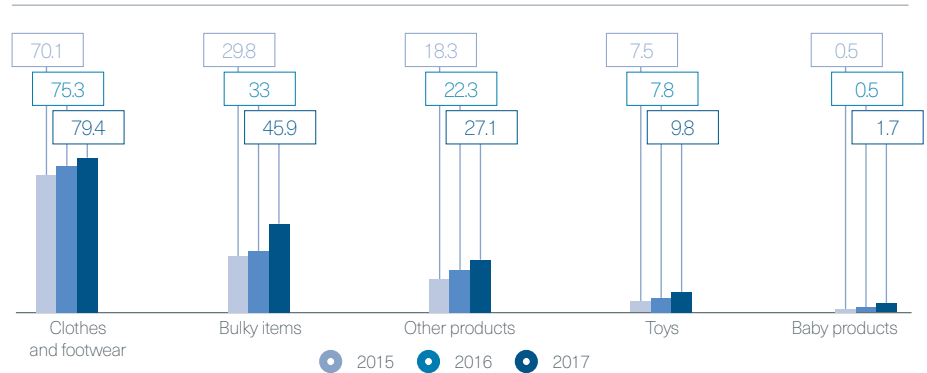
- > The first IPO of a Russian non-food retailer over the last 10 years
- > The IPO book was 2x oversubscribed; more than 90% of the final offering went to foreign investors
- > Since the IPO, the price has risen by 13% (as of the end of March 2018)

IPO results

"We are delighted by the strong market interest in our offering, and are pleased now to move forward with a high-quality and geographically diverse shareholder base. The IPO caps off an extremely successful year for Detsky Mir."

Vladimir Chirakhov, CEO of Detsky Mir

Share of private labels in turnover by categories, %



Business development strategy

The company plans to further consolidate the children's goods market through its unique and highly diversified product mix, affordable prices and digitalisation of sales. Detsky Mir sees additional potential to expand in Russia and Kazakhstan and plans to open at least 250 stores in the medium term.

Detsky Mir continues to develop omni-channel sales, in which buyers are not tied to any channels but can choose whichever is most convenient. The same prices, the same product mix and the opportunity to pick up an order in a retail store create synergy.

The level of service in 2018 will improve in-store pick-ups. The project "Perfect In-Store" sets an ambitious target: 90% of orders must be ready within 1 hour. After making an order online, the customer will be able to pick it up in the nearest store in just one hour.



Industry overview for 2017

The Russian children's goods market can be divided into five categories: toys, clothes, footwear, baby products, and stationery and other products for children aged 0 to 12. The size of the children's goods market in Russia^① in 2017 amounted to RUB 525bn, compared with RUB 396bn in 2011. The market's CAGR over the past 7 years was 4.8%. Analysts project that the market will grow by an average of about 1% per year and will reach RUB 547bn by 2021.

The children's goods market is highly resilient to crises (along with FMCG). In 2016-2017, some specialised players left the market, while other national and regional chains lost traffic and closed stores, with a significant decrease in like-for-like sales. Nevertheless, specialised retailers remain the main sales channel for children's goods, along with hypermarkets and supermarkets (39.8% and 39.7% market share, respectively, in 2017).

E-commerce is an increasingly popular sales channel, with an average annual growth rate in 2011-2017 was 24.5%. Online sales of children's goods in 2017 amounted to RUB 53.1bn.

Clothing and footwear traditionally account for a substantial part of the children's goods market, with total share in 2017 of 38.5% (28.8% and 9.7%, respectively). Baby products and toys have 29.9% and 19.0%, respectively. Baby products are growing at a faster rate: in 2017, this category reached RUB 157bn in money terms compared with RUB 89bn in 2011.

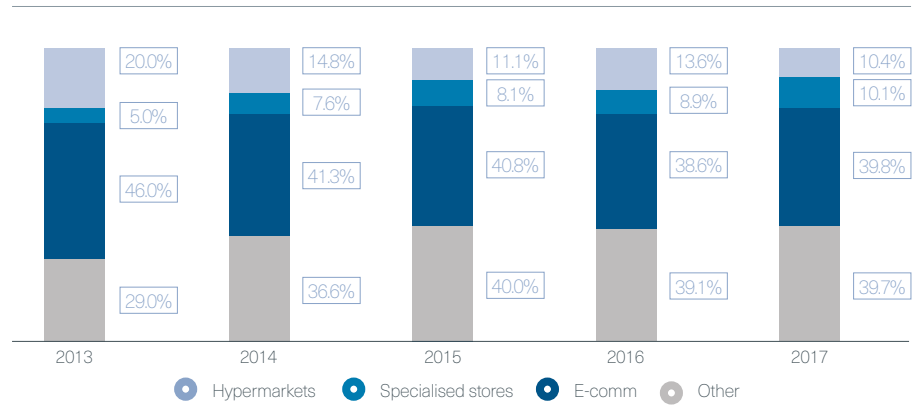
Detsky Mir's awards

- > **Winner of the Debut** category and most transparent retailer in Russia according to **Corporate Transparency of Russian Companies 2017**
- > **32nd** in the list of **50 Fastest Growing Companies** in Russia compiled by RBC
- > **17th (up 5)** in the **INFOLine Retail Russia Top 100** ranking of largest retail chains
- > **Winner** of the **Leader of the Year – Children's Goods** at the **2017 Retail Week Awards**

Share in the online segment

9.6%

Children's goods market: sales channels, %



2017 financial performance

In 2017 revenue at Detsky Mir increased by 21.9% year-on-year, thanks to the roll-out of new stores and the strongest growth in like-for-like sales among Russia's publicly traded retailers (+7.2% for the full year). E-commerce continued to be the fastest-growing sales channel. Online sales accounted for 4.8% of total sales in 2017.

Detsky Mir posted an adjusted OIBDA margin of 11.0% in 2017 as a result of continued improvements to operational efficiency on the back of stronger labour productivity and strict control of rental costs. The adjusted SG&A/revenue ratio declined by 0.9 percentage points year-on-year to 22.8% in 2017.



① According to Ipsos Comcon.

Segezha Group

Segezha Group is a fast-growing Russian forest holding with a vertically integrated structure and a full cycle of logging and advanced wood processing.



Sistema's stake

100%



Segezha's products are sold across

87 countries



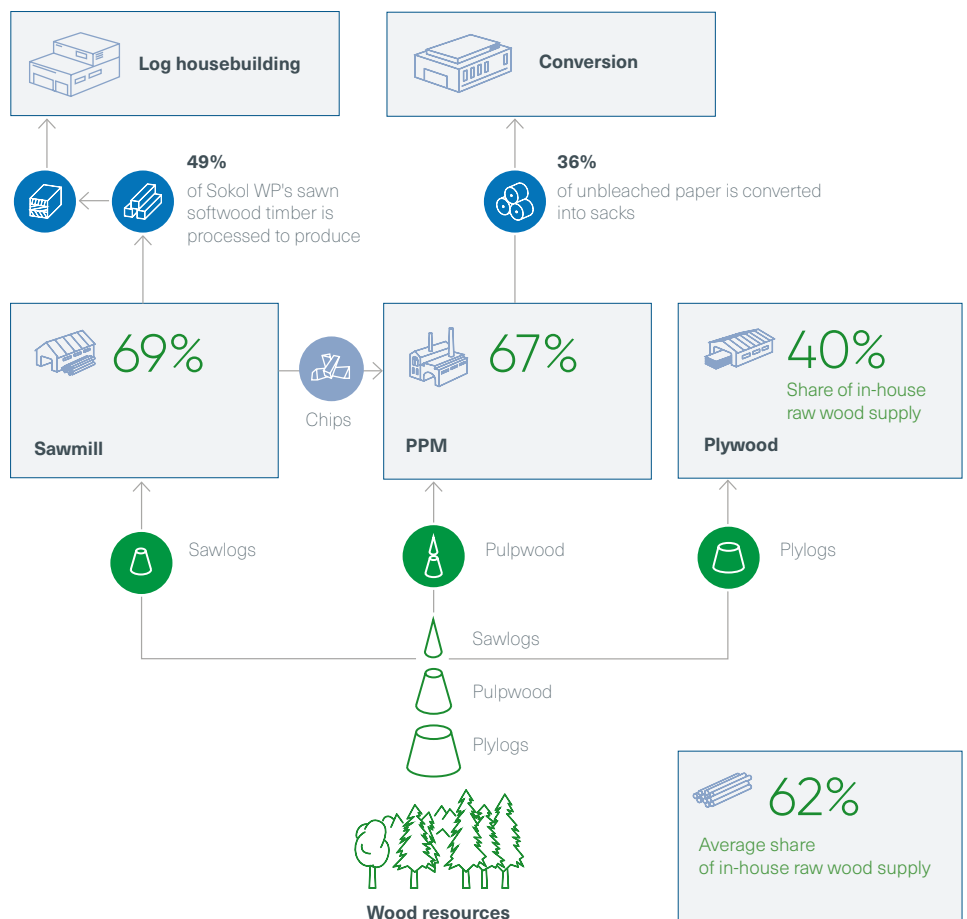
The Group's companies employ

13,000 people

Segezha Group includes Russian and European producers of high-quality unbleached sack paper, paper sacks, birch plywood, sawn timber and pre-fabricated glulam houses.

Segezha Group's business model

Full service production



Mikhail Shamolin^①
President



Ali Uzdenov
Chairman
of the Board
of Directors

① As of 31 December 2017 – K. Zakirov.

Financial results in 2017

(RUB m)	2017	2016	Change
Revenue	43,725	43,018	1.6%
Adjusted OIBDA	7,081	8,655	(18.2%)
Operating income	3,132	5,165	(39.4%)
Adjusted net income attributable to Sistema	81	1,961	(95.9%)

Segezha's awards in 2017:

- > Third place in the ranking of **50 biggest forest companies**
- > Seven senior managers topped **the annual list of best 1,000 Russian managers** in the forest and paper and packaging industry
- > The investment project for modernising Segezha Pulp and Paper Mill took **top prize** at the **annual Lesprom Awards 2017**

Development of the Group's business in 2017

Sack paper

Segezha Group is the world's fourth biggest producer of unbleached sack paper. Segezha Pulp and Paper Mill (Segezha PPM) is a leader in Russia for production and export of unbleached sack paper. Exports account for 92% of Segezha Group's paper sales.

High quality raw materials and low costs enable Segezha Group to increase

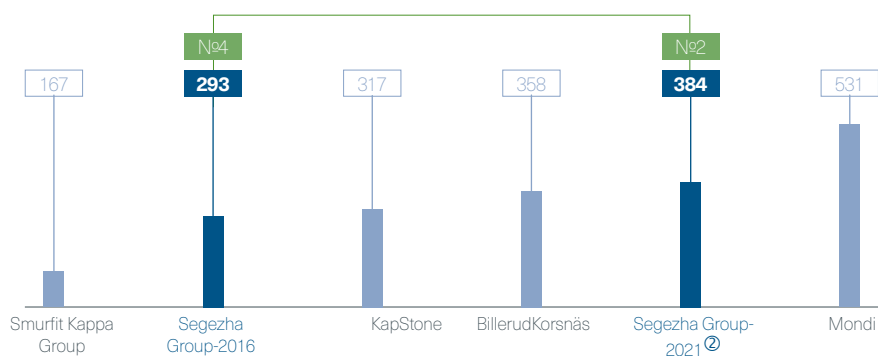
the production output of sack paper by substituting products made by less competitive market players.

In 2017, Segezha PPM's sack paper sales (including intra-group supplies) totalled 298,000 tonnes, increasing by 8% year-on-year due to the launch of a new paper-making machine (No.11) produced

by the Germany's Voith. The new machine is expected to reach full capacity in 2018, making Segezha Group the world's second biggest producer of kraft paper.

Segezha Group's paper is sold in 60 countries and successfully competes with the products of market leaders. Segezha Group is the world No 1 in terms of production cost of kraft paper.

Segezha Group is No 4 in the world for production of unbleached sack paper, thousand t^①



No. 1 in Russia

No. 4 in the world for manufacturing of quality unbleached sack paper

Indicator	2017	2016	%
Sack paper sales, thousand t	204	170	+20,1

① The data for 2021 is a forecast based on analytical models. The actual results may differ from forecast numbers.

② After the capacity expansion.

Paper sacks

The sales of paper sacks decreased in 2017 as sales fell in Russia due to stronger competition and a temporary drop in demand. Segezha Group's share in the Russian paper sacks market did not change significantly, and stood at 51% at the end of 2017. Segezha Group strengthened its leading positions in the European market with sales growing by 9% year-on-year. The Group also substantially increased its export to Africa, the Middle East and the US.

Innovations: Integrated packaging solution

In 2017, Segezha Group developed an integrated packaging solution jointly with Mikron (a Sistema Group company): a smart sack with an embedded RFID tag enabling quick and accurate product identification. The technology makes it possible to improve customers' internal logistical processes and keep track of a product's location and final destination. The first commercial batch of smart packaging was produced in September 2017.



Nº 1 in Russia

Nº2 in Europe for paper sacks manufacturing

Indicator	2017	2016	%
Paper sack sales, m items	1,191	1,270	-6.2%

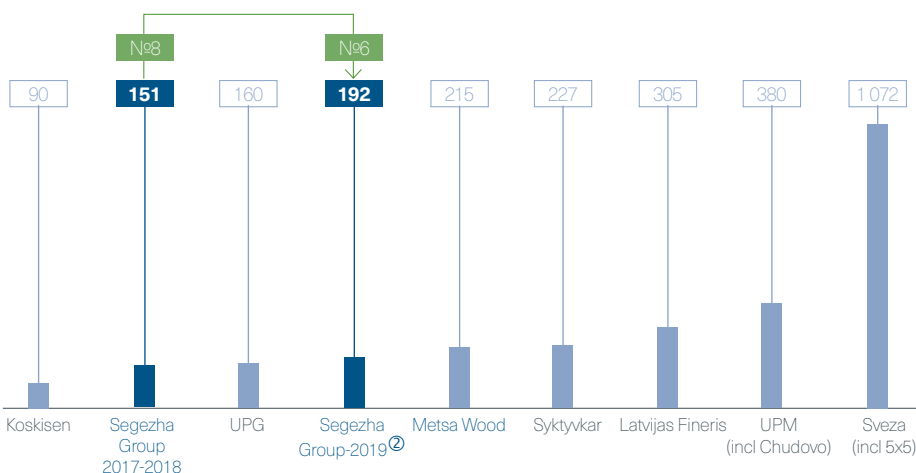
Birch plywood

In 2017, Segezha Group was the world's seventh biggest producer of large-size birch plywood, with output increasing by 4% year-on-year. Exports accounted for 78% of plywood sales, up from 74%. Segezha Group's key strategic markets are Germany,

Benelux, the United States, France, Italy, Finland, South Africa, Spain, the Czech Republic and Denmark. In 2017, the company started deliveries to Algeria. In 2017, Segezha Group sold its plywood to 53 countries in total (compared to 57 in 2016).

In 2017, Segezha Group continued the construction of a new plywood mill in Kirov (at the Vyatka Plywood Mill) with production capacity of 86K cu m. The new production facility will enable Segezha Group to enter new markets with long-grain plywood and expand production of short-grain plywood. The Kirov plywood mill will be commissioned in the first half of 2018.

Segezha Group is No 7 in the world for production of birch plywood, thousand cu m, 2018 forecast^①



Nº 5 in Russia

Nº7 in the world for manufacturing of large-size birch plywood

Indicator	2017	2016	%
Plywood sales, K cu m	95	92	+3.2%

① The data for 2021 is a forecast based on analytical models. The actual results may differ from forecast numbers.

② After the capacity expansion.

Sawn timber

In 2017, Segezha Group accounted for 2.5% of the total sawn timber output in Russia. About 47% of sawn timber produced by Lesosibirsk Woodworking Plant No.1 was sold to China and about 46% to countries in the MENA region: Egypt, Iraq, Lebanon and Syria. Sales to European countries totalled approximately 6%.



Nº 1 in Russia
for production
of sawn timber



Indicator	2017	2016	%
Paper sack sales, thousand cu m	894	912	-2.0%

Prefab houses

According to expert estimates, the total production of prefabricated glulam houses in Russia was about 104,000 cu m. Segezha Group's share in this market is roughly estimated at 20%.

The Sokol Woodworking Plant, part of Segezha Group, continues strengthening its leadership in the Russian market. In 2017, the plant reached record production volumes of laminated beams and prefab glulam houses, at more than 67,000 cu m.

The glulam houses manufactured by Segezha Group meet European standards EN 14081 and FSC, and may be classified as a business-class product.

Segezha Group is planning to increase the production of pre-fabricated glulam houses by 10% and enter new markets in the Baltic region and Scandinavia (Estonia, Sweden and Norway).

Innovations: systems for analysing forest reserves

In cooperation with Kronstadt Group (a Sistema Group company), Segezha Group is developing solutions for the forest industry that ensure more accurate and effective planning of forest resources. The company is planning to use the latest product developed by Kronstadt Group: a scalable cloud service with ready-made desktop solutions for cartographers and geoportal solutions. In future, the company will use drones to monitor forest reserves and produce detailed reports, with no need for field inspections. The first stage of the project will be completed by the end of 2018. This project will make it possible to significantly improve long-term planning for logging, construction of forest roads and management of the logging fleet, and to reduce the cost of logging.



Nº 1 in Russia
for production
of glulam houses



Business development strategy

Key principles of Segezha Group's development:

- > Efficiency
- > Advanced technology
- > Safety

Segezha Group's strategy is aimed at creating an industry leader in terms of production efficiency using a vertically integrated and diversified business model. The Group is developing as a major forest holding with strong competitive advantages in the global market.

Segezha Group produces quality and sought-after solutions and seeks to increase the share of high value-added products.

Investment programme Segezha Group's investment programme focuses on:

- > modernisation;
- > improving efficiency;
- > reducing environmental impact;
- > improving product quality;
- > increasing production output in key segments.

Segezha Group is committed to continuous improvement of efficiency at its production facilities. The Group constantly looks for opportunities to increase its production capacity by increasing the effectiveness of business processes, debottlenecking, automating production, and other methods.



Capacity of the Group's production facilities

	Sack paper	Birch plywood	MDF	Sawn timber	Glued timber and prefab houses
	thousand t	thousand cu m	m sq m	thousand cu m	thousand cu m
Segezha Pulp and Paper Mill (PPM)	360	–	–	–	–
Sokol PPM	20	–	–	–	–
Vyatsky Plywood Mill	–	192	25	–	–
Segezha LDK ^①	–	–	–	297	–
Onega LDK	–	–	–	542	–
Sokol PPM	–	–	–	489	70
Lesosibirsk LDK	–	–	25	1500	–

Industry overview for 2017

Sack paper

In 2017^② the largest producers of sack paper increased their production output by 4.6% amid high demand in most markets and significant growth of prices for paper (up to 10%).

The global paper market is estimated at 6,900 t, while projected global consumption CAGR until 2020 is 2.3%. This growth will mostly be driven by demand in the Asian market.

Paper sacks

According to expert estimates, the size of the European paper sacks market did not change significantly in 2017 year-on-year, at 5.5bn items. There were no substantial year-on-year changes in prices for paper sacks. The annual average growth rate of the market until 2021 is projected at 1%.

In 2017, consumption of paper sacks in Russia decreased to 742m items (-9.6% vs 2016) on the back of the continued fall in real household incomes and

a rainy construction season. As the ruble strengthened against the euro in the first half of 2017, importers managed to partially substitute Russian producers of paper sacks (imports as a share of the market increased by 6% year-on-year and reached 26%). Prices for paper sacks in Russia fell by an average of 5%.

The availability of the Group's own high-quality raw materials allows Segezha to control the production cost of paper sacks and successfully compete with European producers both in Europe and Russia.

① LDK – "Sawmill".

② Source of industry data: Indufor, Poyry.

Birch plywood

The birch plywood market is estimated at 4.8-5m cu m. Russia is the world's largest producer of birch plywood, accounting for 71% of the global market (3.5m cu m). The CAGR of global birch plywood consumption is estimated at 2.5-3%. The world's largest consumers of plywood are Europe and Russia, which together account for 67% of the market.

In 2017, plywood output in Russia was approximately 3.68m cu m. Exports fell by 3% to 2.46m cu m due to decreased demand in the European market.

Exports accounted for 67% of Russian plywood output.

In 2018, production of birch plywood is expected to grow by 4.2% globally and by 4.5% in Russia.

Sawn timber

The global market of sawn softwood timber grew by 1.5% year-on-year in 2017, reaching 337m cu m. Average annual growth of consumption in Segezha Group's key markets is forecast at 1.6% through 2022.



Output of sawn softwood timber in Russia grew by 6% year-on-year in 2017, to

36.5 m cu m

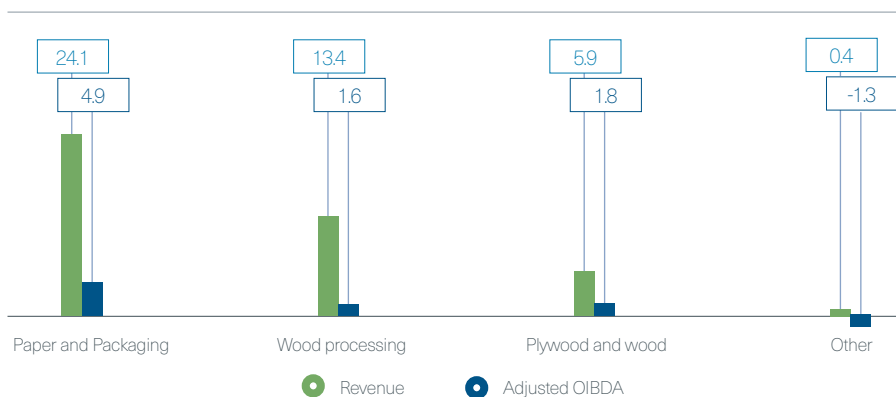
Financial results in 2017

Revenue at Segezha Group increased by 1.6% in 2017, mainly due to higher sales of sack paper (on the back of strong growth of demand globally) and plywood.

During the year revenue was impacted by lower sales of paper sacks in Russia due to increased competition and a temporary decline in demand in the Russian sack market, as well as the strengthening of the RUB versus key currencies (69.6% of Segezha Group's revenues are denominated in foreign currencies).

During 2017, Segezha implemented a plan to reduce the adverse impact of external factors by tightening procurement expense controls, as well as reducing shipping and administrative costs. The decrease in adjusted OIBDA and profit for the year was mainly due to FX-rate pressures as well as inflation of logistics and raw material costs.

Revenue and OIBDA structure in 2017 by segment, RUB bn



Sales

Product type	2017	2016	%
Paper sacks, m	1,191	1,270	-6.2%
Sack paper, thsd tonnes ^①	204	170	20.1%
Sawn timber, thsd m ³	894	912	-2.0%
Plywood, thsd m ³	95	92	3.2%
Own forestry consumption, %	61.7%	63.0%	1.3 p.p.

① Including sales of paper and paper board.

Agroholding Steppe

Agroholding Steppe is a major diversified agricultural player in Russia with a portfolio of assets in four key segments: crop farming, dairy farming, fruit growing and vegetable growing.



Sistema's stake

91%

Located in southern Russia, Agroholding's assets are in the most favourable regions for climate, crop yields and logistics. Agroholding Steppe owns 50% of RZ Agro, a major producer of grain and oil crops in southern Russia jointly controlled by Sistema and the Louis-Dreyfus family.



Strong operating results allowed Steppe to increase revenues by

22.2%

Business model

The business model of Agroholding Steppe focuses on diversification and development of several business segments, each a flagship in its respective agricultural sector.

Target segments for Agroholding Steppe are the highest-potential agricultural segments with high margins and growth rates.

Development of the Group's business in 2017

Crop farming

In 2017, Steppe achieved an all-time high crop yield of 1.35m t (including about 720,000 t of wheat), 30% more than in 2016. This was in part due to the expansion of land assets and introduction of new agricultural technologies. Steppe's land assets totalled 380,000 ha as of the end of 2017, including 106,000 ha of RZ Agro. In 2017, Steppe acquired 65,000 ha of land in the Stavropol and Rostov regions.



Andrey Neduzhko
CEO



Ali Uzdenov
Chairman
of the Board
of Directors

Financial performance in 2017

(RUB m)	2017	2016	Change
Revenue	10,210	8,358	22.2%
Adjusted OIBDA	4,019	2,857	40.6%
Operating (loss) / income	2,647	2,941	(10.0%)
Adjusted net (loss) / income attributable to Sistema	1,130	871	29.7%

Fruit growing

Gross apple output at Steppe's farms grew by 35% in 2017 to 21,500 t. This significant growth is due to new orchards starting to bear fruit and older ones producing bigger yields. The orchard yield also grew by 5% in 2016, to 42.1 t/ha. The area of Steppe's intensive orchards at the end of 2017 was 780 ha.



Vegetable growing

Yuzhny Agricultural Complex, part of Agroholding Steppe, is Russia's biggest producer of protected-ground vegetables, with 144 ha of greenhouses. In 2017, the gross harvest of tomatoes and cucumbers was 44,900 t, and the average yield was 34.4 kg/sq m.

In 2017, Yuzhny Agricultural Complex continued implementation of a programme to increase operational efficiency. The company also focused on promoting its brand and developed a new modern logo and packaging.

Operating results

Indicator	2017	2016	Change, %
Gross grain harvest, m t	1.0	0.7	145%
Milk production, K t	39.4	36.2	109%
Vegetable harvest, K t	44.9	45.8	-2%
- Tomatoes	23.2	2.1	9%
- Cucumbers	21.8	24.5	-11%
Gross apple harvest, K t	21.8	15.9	137%

Steppe's gross harvest (incl. RZ Agro), K t

	2017	2016	Change 2017 / 2016, %
Winter wheat	723.6	485.6	49%
Winter barley	19.2	21.9	-12%
Sugar beet	347.9	339.5	2%
Sunflower	42.7	31.9	34%
Grain corn	68.9	40.5	70%
Other	153	121.8	26%
Total	1,355.31	1,041.0	30%

Dairy farming

As of the end of 2017, milk production grew by 9.0% to about 40,000 t due to an increase in the number of dairy cows, while high levels of milk output were maintained. Steppe remains Russia's leader in terms of milk yield per cow, at over 10,000 l per year.

In 2017, the company started the construction of a new generation dairy farm with 1,800 dairy cows (pilot operation began in March 2018). The new farm is expected to reach its design capacity of 20,000 t of milk per year in 2021. Potential for import substitution, inefficient producers leaving the market and a deficit of high quality raw milk create favourable conditions for developing dairy farming in Russia.



Business development strategy

Steppe's strategic goal is to be the market leader in its key segments of operation. The company plans to continue acquiring new land, increasing the number of dairy cows and commissioning new dairy farms.

To improve the efficiency of its business, Steppe intends to develop related businesses, in particular grain procurement and trading, seed production and irrigation.

By improving operational efficiency, increasing gross yields and developing its own infrastructure for grain storage and handling, Steppe will be able to enter new export markets by being able to produce larger product batches and having control over the entire value creation chain.

Steppe also continues to focus on developing a high-quality corporate governance system. A new Board of Directors was formed in 2017 with independent directors including industry experts.



Industry overview for 2017

Crop farming

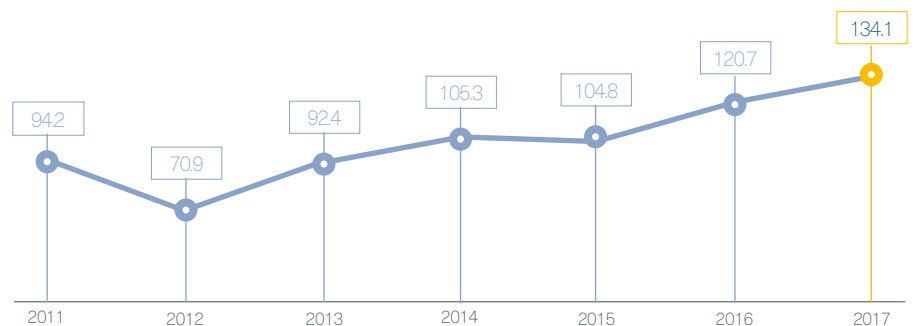
In 2017, grain and grain legume output in Russia was 134.1 m t (+11% vs 2016). The gross wheat harvest increased by 17% to 85.8 m t.

Growth was mainly due to a significant yield increase on the back of production intensification and favourable weather conditions.

High yields continued to have a negative impact on international grain prices, including the price of wheat.

Export of Russian grain and processed grain products reached an all-time high: export shipments in the 2017-2018 season were 47.5 m t, or 10.6 m t more than in the previous year. Russia's leadership in the international grain market is due both to an advantageous price-to-quality ratio and the weakening of the rouble against the US dollar and the euro in recent years, resulting in the US and European wheat becoming less competitive.

Gross grain and grain legume harvest in Russia, m t



Source: Federal State Statistics Service

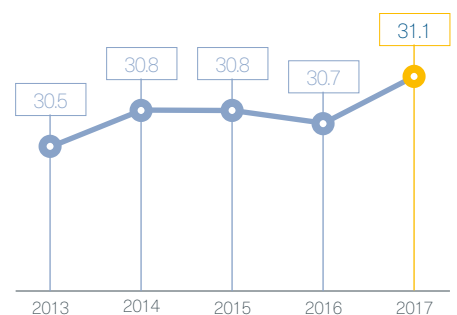
Dairy farming

In 2017, milk production in Russia grew by 1.2% year-on-year to 31.1 m t (the first time growth has been recorded in the past three years).

At the end of 2017, the total number of cattle across all producers' farms was 18.6m head of cattle (0.6% less than in 2016), 8.2 m of which were cows (0.7% less than in 2016).

The decrease in the number of dairy cows (by 8% to 8.2m in the last five years) was offset by the growth of milk yield per cow to 5,600 l in 2017, a 15-year high.

Raw milk output in Russia, m t

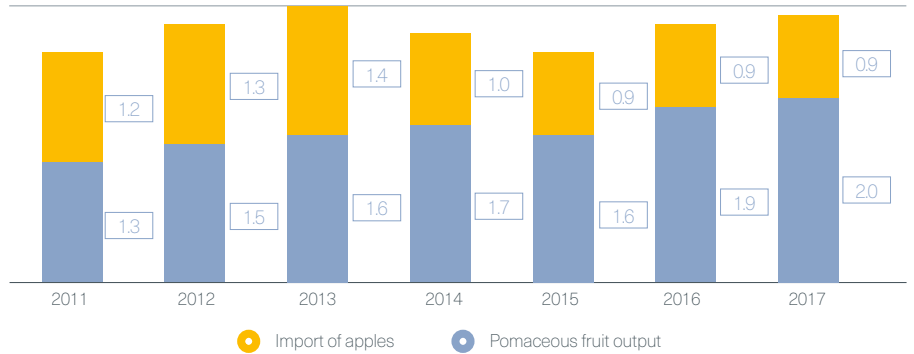


Fruit growing

Russian apple output has continued growing (in 2017, gross pomaceous fruit yield increased by 5% to 2.0m t), but the Russian market still has high dependency on apple imports (which account for about 36% of consumption). In 2017, apple imports remained at the 2016 level of approximately 700,000 t.

The average apple yield of Russian agricultural enterprises is about 11 t/ha, while yields of intensive-type orchards are 40-50 t/ha.

Gross pomaceous fruit harvest and import of apples in Russia, m t



Source: Federal State Statistics Service, Federal Customs Service

Vegetable growing

In 2017, production of protected-ground vegetables in Russia reached 922,000 t (an increase of 13% year-on-year), the highest in the last 20 years. Vegetable yield growth in recent years has been supported by the introduction of a food embargo in 2014 and subsequent ban on imports of tomatoes and cucumbers from Turkey. In 2017, imports of tomatoes and cucumbers increased by 12%.



Financial performance in 2017

Strong operating results allowed Steppe to increase revenues by 22.2% in 2017, despite pressures stemming from lower global wheat prices and the strengthening of the ruble.

Adjusted OIBDA in 2017 amounted to RUB 4.0 billion, a 40.6% increase year-on-year.



Adjusted OIBDA in 2017 amounted to RUB 4.0^{bn}



Real estate assets

This segment is represented by a number of companies, the key ones being Leader Invest (property development) and Business Nedvizhimost (rental assets).



**Sistema's stake
Leader Invest**

100%

Management
Leader Invest



Oleg Mamayev
President



Felix Evtushenkov
Chairman
of the Board
of Directors

Management
Business Nedvizhimost



Vyacheslav Khvan
CEO



Leonid Monosov
Chairman
of the Board
of Directors



**Sistema's stake
Business Nedvizhimost**

100%

Leader Invest

Leader Invest is a development company with a focus on housing and commercial real-estate projects in Moscow. Its portfolio includes 45 projects with a total area of about 3.0m sq m in developed and well-ordered districts of the city with a healthy environment, which the company strives to preserve.

Business Nedvizhimost

Business Nedvizhimost leases out its own real estate assets and other assets under its management. The average area of Business Nedvizhimost's properties is 3,000-5,000 sq m.

Mosdachtrest is a subsidiary of Business Nedvizhimost that focuses primarily on leasing cottages (in Serebryany Bor and Barvikha) and office buildings in Moscow, as well as maintenance services.

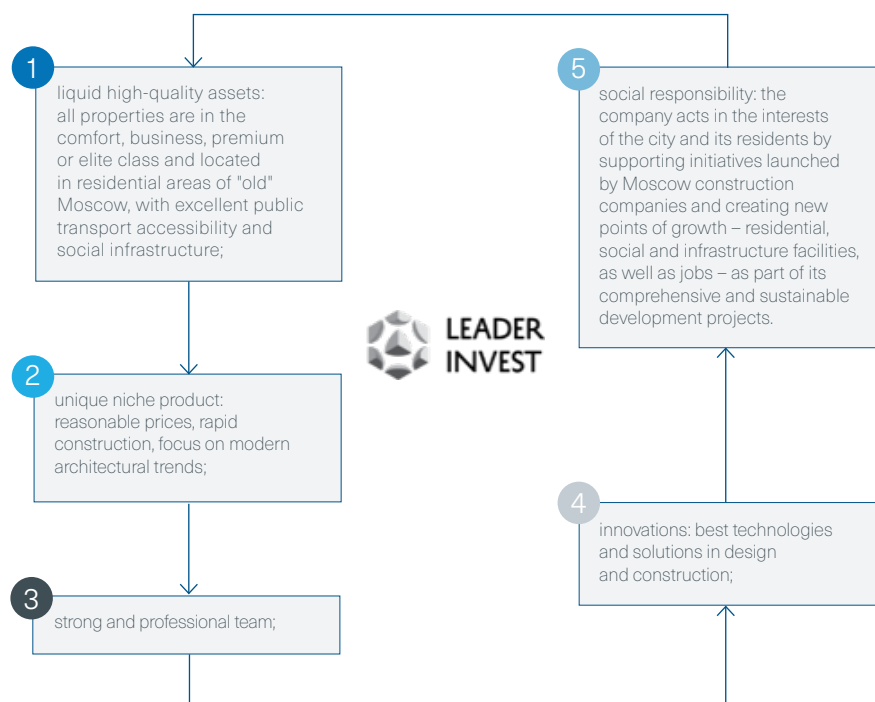
Financial performance in 2017 (Leader Invest and Business Nedvizhimost)

(RUB m)	2017 ^①	2016	Change
Revenue	15,267	12,810	19.2%
Adjusted OIBDA	5,960	5,237	13.8%
Operating income	4,998	7,757	(35.6%)
Adjusted net income attributable to Sistema	2,452	2,877	(14.8%)

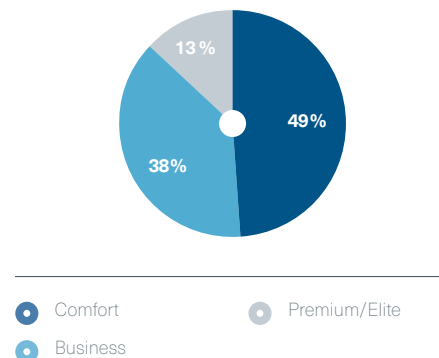
^① Leader Invest's 2017 results are presented in accordance with IFRS 15. The 2016 results are presented in accordance with IFRS 18.

Development model

Leader Invest is a company expanding in those segments of the Moscow real estate market that are most sustainable and have the strongest investment case. The company's development model is based on:



Portfolio structure by class



Business development in 2017

In 2017, Leader Invest focused on streamlining its business processes and improving efficiency at all stages of the project life-cycle. This involved optimising design solutions, introducing new procurement procedures to reduce costs, strengthening the project management function and making the Company's sales team more efficient.

Leader Invest's infill construction activities include 42 projects at various stages with a total area of 520,000 sq m. The average area per project is 12,000 sq m and the implementation period is 2.5 years. During 2017, the company launched 10 new infill construction projects and commissioned a further two. Active sales have already started at 26 infill construction projects.

The company is building three large-scale flagship complexes: ZIL Yug (1,690,000 sq m), Nagatino i-Land (472,000 sq m) and 120 Lobachevskogo St. (273,000 sq m).

Largest completed projects (commissioned in 2017)

Property	Area, thousand sq m	Commissioning permit date
Clubhouse at Sretenka	12.23	8 December 2017
Clubhouse at Serpukhovskiy Val	7.54	27 December 2017

Major projects with construction launched in 2017

Property	Area, thousand sq m
Business-class residential project at 120 Lobachevskogo	273.0
Comfort-class residential project in Tushino	19.1
Comfort-class residential project at Volgogradskiy	18.8
Comfort-class residential project in Sadovniki	11.5
Business-class residential project at Maslovka	11.5
Comfort-class residential project at Chertanovskaya	11.3
Business-class residential project at Leninsky	10.6
Comfort-class residential project at Veshnyakovskaya	10.5
Comfort-class residential project at Dmitrovka	10.3
Business-class residential project in Kuskovo	8.9

In 2017, the site design for the ZIL Yug project was approved, the land survey was started and applications for technical specifications were submitted. P-stage design documents are to be drafted in 2018.

The site design for Nagatino i-Land was approved, the architectural concept developed, the first stage of review by the Moscow City Architecture Committee was

passed and P-stage design documents were drafted. Construction of the first stage of the project is to start in 2018.

Design documentation was developed for 120 Logachevskogo St., a positive opinion obtained from the Moscow State Expert Review Committee, the architectural and urban planning solution was approved and certification received, and a construction

permit was obtained. Sales of apartments in the residential complex started in 2018.

In November 2017, Standard & Poor's assigned Leader Invest a long-term corporate credit rating of B with Stable outlook. The agency cited Leader Invest's margins, which are among the highest of any Russian property developer, as a key factor in assigning the rating.

Business development strategy

Leader Invest's long-term strategic goal is to become one of Moscow's leading residential developers and to create value for Sistema through infill projects and construction of large-scale complexes.

The company's strategy envisages maintaining a portfolio of development projects of 1m sq m. Given the market situation, Leader Invest focuses on residential construction, including both small projects in established neighbourhoods and modern, large-scale

developments. The key target segments of the Moscow residential real estate market are the comfort and business classes. The company aims to increase returns on its project portfolio through higher turnover and by making its design, construction and sales processes more efficient.

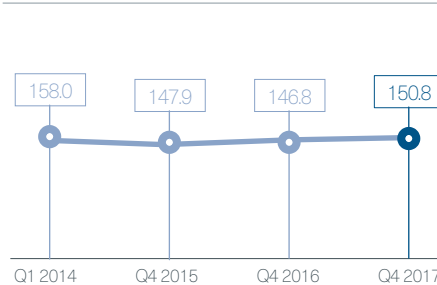
Industry overview for 2017^①

Supply grew substantially in 2017 and the number of deals registered on the new housing market increased, while prices stabilised. The market received some support from a record drop in mortgage interest rates: in November, the average interest rate on loans for purchase of new housing was 9.66% p.a., compared to 11.37% the previous year^②. Mortgage terms are expected to further improve in 2018.

As of the end of 2017, there were 71 properties containing about 19,080 apartments (1.1m sq m in total) for sale in the new mass-market housing segment. During the year, sales started at 23 new projects, up 1.6 times than in 2016.

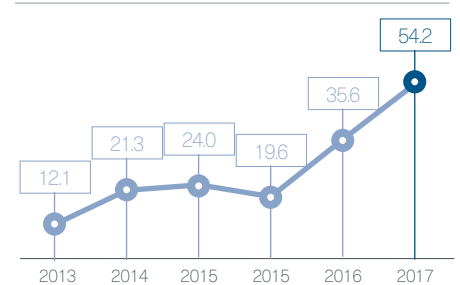
In December 2017, the average price per sq m of new comfort class housing was RUB 150,790, 2.7% more than at the end of the previous year.

Average prices in the business and comfort class segments, RUB/sq m



Source: Metrium Group

Increase in the number of off-plan sales, thousand



Source: Federal Service for State Registration

According to the Federal Service for State Registration, the total number of deals in the new housing market in 2017 was 54,207 (off-plan sales), up 52.2% on 2016.

Legislative amendments to introduce more stringent requirements for developers will enter into force in July 2018, which may prompt developers to launch planned projects in the first half of the year.

① Industry overview based on data from consulting company Metrium Group.

② According to the Central Bank.

Business Nedvizhimost's business model

The company's main activity is leasing properties. Mosdachtrest's assets are residential houses, while Business Nedvizhimost's assets are class C offices, including former automatic telephone systems ("ATS") buildings. Both companies also own assets intended for sale (a number of ATSS and land plots for construction of summer cottages in the Moscow region). There is also a group of assets for development: construction of new cottage villages at Serebryany Bor and conversion of former ATSS into a network of rental properties.

Favourable property locations and geographical diversification are the key advantages of Business Nedvizhimost's assets, which are within walking distance of metro stations in established residential and administrative districts and outside industrial areas.

The average area of Business Nedvizhimost's properties is 3,000-5,000 sq m, which is optimal in terms of leasing.



Business development in 2017

In 2017, Business Nedvizhimost's portfolio decreased by 24% as a result of property sales to Leader Invest and in the open market.

After restructuring its portfolio, Business Nedvizhimost divided its assets into three key groups: for lease, for sale and for development. Two pilot serviced-apartment projects (renovation of ATS buildings) will be launched in 2018.

Mosdachtrest's key assets are land plots in Serebryany Bor and the Moscow region.

In 2017, four buildings at the Serebryany Bor Sanatorium with a total area of 1,578 sq m were renovated, and pre-design works were completed for further development of three sites at Serebryany Bor.

Business Nedvizhimost's assets by groups^①

Group	As of 31 Dec 2017
Leased	181,416.1
For sale outside of Sistema	84,290.3
For renovation	31,593.6
TOTAL	297,300.0



Business Nedvizhimost's operating results in 2017

Total asset portfolio, thousand sq m	Properties generating rental income	Real estate assets, thousand sq m	
		Ownership	Management
297.3	66	297.3	63.7

Mosdachtrest's operating results in 2017

Total asset portfolio, thousand sq m	Properties generating rental income	Land assets, ha	
		Serebryany Bor	Moscow region
58.0	145	19.3	89.1

^① Preliminary distribution at the end of 2017.

Business development strategy

Business Nedvizhimost's operating strategy includes:

- > increasing asset values and improving efficiency
- > developing an efficient rental business with annual returns of more than 10%
- > consolidating rental assets by combining resources and creating expertise in focus areas (ownership, development, service)

Business Nedvizhimost plans to renovate and develop assets (including reconstruction of 80,300 sq m of commercial floorspace) and commission new housing for leasing out, and to refurbish existing housing.



Business Nedvizhimost plans to reconstruction

80,300 sq m
of commercial floorspace

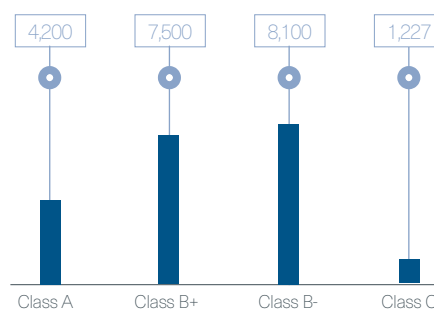


Industry overview for 2017

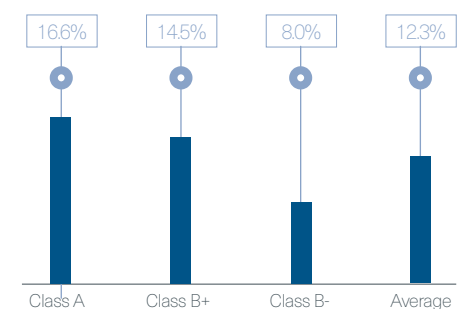
In 2017, 380,000 sq m of new office space came onto the market, up 9% year-on-year. The total size of the Moscow quality office space market reached 20.3m sq m, with class A offices accounting for 22% (4.5m sq m) and class B+ offices accounting for 37% (7.5m sq m), while the remaining 41% (8.3m sq m) are class B- offices.

Service sector companies remain the key customers for renting quality offices. Telecoms companies account for 21% of total rents, manufacturers for 17%, and FMCG companies for 11%.

Total size of the office space market as of Q4 2017, thousand sq m



Increase of vacant floorspace^①



① Change vs the end of Q4 2016

Bashkir Power Grid Company

Bashkir Power Grid Company (BPGC) is a large Russian regional power grid company providing electricity transit between the central part of the country and the Urals, electricity transmission in Bashkortostan and distribution to end users.



Sistema's stake

91%

Bashkir Power Grid Company also designs, builds and upgrades power facilities. BPGC's subsidiaries include Bashkir Grid Company (BGC) (transmission grids), Bashkirenergo (distribution grids) and BPGC Engineering (power engineering).



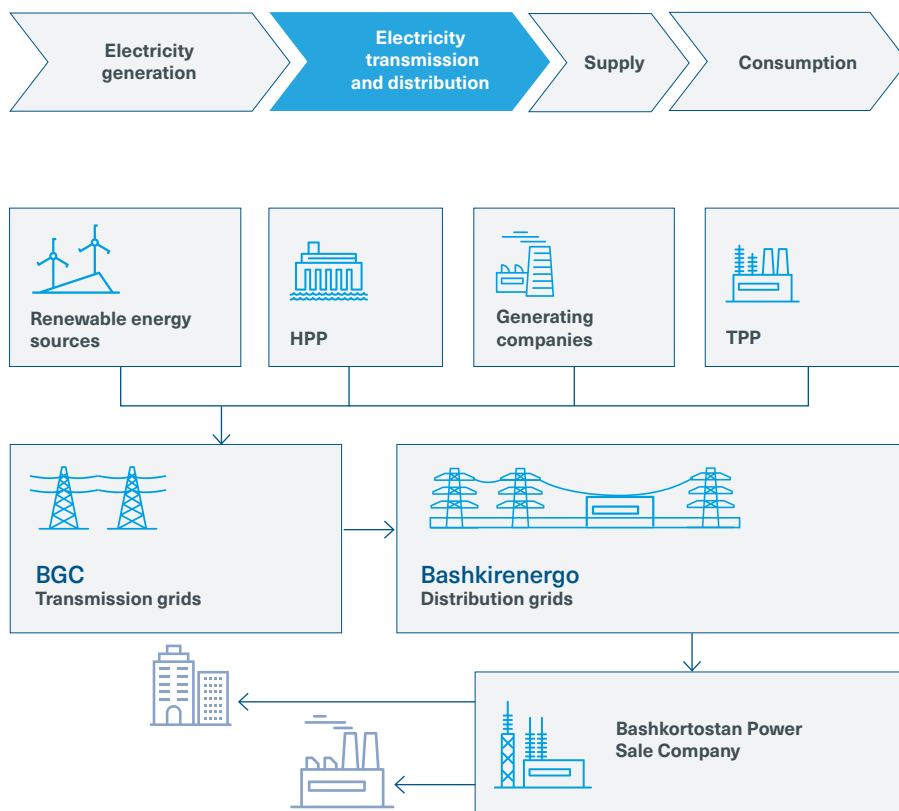
Dmitry Sharovатов
CEO
and Management
Board Chairman



Mikhail Cherny
Chairman
of the Board
of Directors

Business model

The Company's aims to provide a reliable, high-quality and affordable power supply to consumers. In addition to its core operating activities, the company focuses on supporting regional economic growth, sustainable development and mutually beneficial cooperation.



BPGC controls power grids of all voltage levels in Bashkortostan.

① Vadim Pavlus as of 31 December 2017.

Financial performance in 2017

(RUB m)	2017	2016	Change
Revenue	17,671	16,052	10.1%
OIBDA	5,259	5,636	(6.7%)
Operating income	2,926	3,404	(14.0%)
Net income attributable to Sistema	2,369	2,706	(12.5%)

BPGC won the **Socially Responsible Power Grid Company** and **Most Transparent Power Grid Company** categories at the 7th Russia's Best Power Grids national awards

BPGC's business development in 2017

2017 was the third year of large-scale construction of power facilities in Bashkortostan. BPGC is continuing to roll out its comprehensive equipment modernisation programme and to implement innovative solutions that enhance the reliability of power supplies and reduce power losses.

In 2017, electricity consumption in Bashkortostan grew by 1.1%. The "single pot" net supply increased by 1.5% in 2017.

In 2017, the number of new connections to power grids decreased (-19% compared to 2016), primarily because most developing districts have already been covered by Bashkirenergo in previous years.

As part of its programme to improve operating efficiency, BPGC implemented the following major projects in 2017:

- energy saving and energy efficiency programme for 2014-2023 (automatic power control and metering system);

- creation of a two-level model to optimise operational and technological management at Bashkirenergo;
- implementation of solutions for automation of power grids in Ufa by using Smart Grid technologies to enhance the quality and reliability of power supply to consumers.

The company continues the gradual automation of its business processes using IT and ERP systems.

In 2017, BPGC completed the construction of the 110 kV Kustarevskaya substation in Ufa. The company also put into operation the 110kV Spartak substation in Sterlitamak and the 110 kV Alekseevka substation in Belebey.

The number of accidents at BPGC facilities decreased in 2017 by 0.97% (-64 accidents).



In 2017, electricity consumption in Bashkortostan grew by

1.1%



Operating results of distribution grids (Bashkirenergo) and transmission grids (BGC)

Indicator	Units	2017		2016		%	
		Bashkirenergo	BGC	Bashkirenergo	BGC	Bashkirenergo	BGC
Power losses	%	8.36%	1.29%	8.23%	1.3%	+0.13 p.p.	-0.01 p.p.
Power in	m kWh	22,151.6	26,137.5	22,285.8	24,978.7	-0.6%	4.6%
Net supply from distribution grids	m kWh	20,298.8	25,804.1	20,451.6	24,657.9	-0.7%	4.6%
Number of new connections	connections	19,547	1	24,232	2	-19.3	-50%
Connected capacity	MW	334	2.36	393.9	4	-15.2	-41%

Development strategy

BPGC's key focuses are maximisation of free cash flow and increasing the value of the business.

Drivers for maximisation of free cash flow:

- > Limiting growth of spending and implementing efficiency enhancement projects;
- > Implementing an organic development programme, including Smart Grid and automatic power control and metering system projects;
- > Maximising best use of free internal resources (monetisation);
- > Actively negotiating tariffs and optimising the investment programme

The value of the business will be increased by growing the non-regulated business (telecom, IT, engineering, etc.) and by inorganic growth (acquisition of power grid and infrastructure assets in line with the company's strategy).

Industry overview for 2017

Electricity consumption in Russia in 2017 totalled 1,059.5bn kWh, up 0.5% YoY. Electricity production totalled 1,073.6bn kWh, up 0.2% YoY.

In 2017, the average one-part "single pot" tariff for electricity transmission increased by 6.3% compared to 2016. Indexation of single-rate tariffs since July 2017 averaged 109.6% for all voltage levels, while the rate for the maintenance of electrical grids grew by 103.0% and the payment rate for technological losses grew by 105.7%.

Electricity grid services constitute a natural monopoly. All regional distribution grid companies operate under similar market conditions and a common tariff policy. The main trend in the Russian power industry is a moderate increase in demand for electricity (up to 2% per year). Demand is forecast to reach over 11.5tn kWh^① by 2029.

Bashkirenergo has one of the highest levels of operational efficiency of any Russian grid companies. With tariffs below market average, it also achieves high profit margins.

Financial performance in 2017

BPGC's revenue increased in 2017 by 10.1% YoY mainly due to growth of tariffs for electricity transmission services from 1 July 2017. OIBDA and net profit decreased in 2017 by 6.7% and 12.5% YoY, respectively. Factors affecting OIBDA included an increase in payments for power losses in grids as a result of rising market prices for electricity.

In 2017, as part of the modernisation of Ufa's distribution grids using Smart Grid technology, BPGC upgraded 87 distribution and transformer substations, laid 20.3 km of cable and installed about 8,700 power metering units.



BPGC's revenue increased in 2017 by

10.1%



In 2017 BPGC upgraded

87

distribution and transformer substations



In 2017 laid

20.3 km

of cable



① According to forecasts from the Russian Ministry of Energy.

Medsi

Medsi is a leading national chain of healthcare facilities, offering a full range of medical services for children and adults (prevention, diagnosis, treatment of diseases and rehabilitation services).



Sistema's stake

100%

Facilities

	Quantity
Clinical diagnostic centres (CDCs), total	4
> CDC Krasnaya Presnya	1
> CDC Belorusskaya	1
> CDC Grokholsky	1
> St Petersburg (Medem)	1
Children's clinics	3
Primary care clinics	20
Hospitals	2
Wellness centres and sanatoriums	4
Regional clinics, total	12



Elena Brusilova
President



Artyom Sirazutdinov
Chairman of the Board of Directors

Medsi's business model

Medsi is a vertically integrated chain of medical clinics offering a full range of medical services for children and adults.

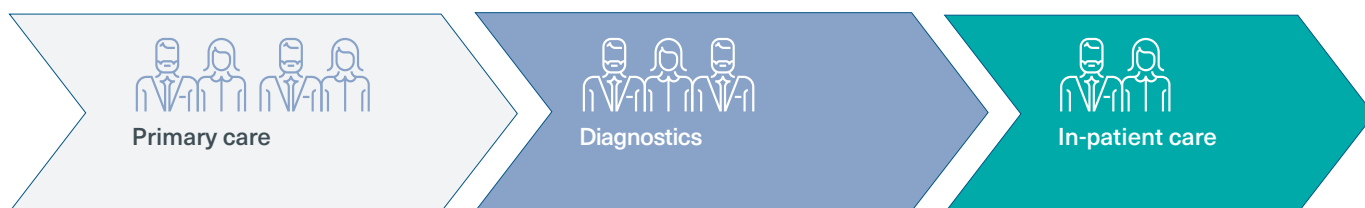
Vertical integration maximises synergies and income per client:

- Optimised management**
 Management is based on clusters including all three types of in-patient and out-patient facilities and clustered around teams with best expertise.
- Full range of services**
 Patients transferred from primary screening to more advanced check-ups or in-patient treatment if required.
- Maximising cross sales**
 Larger number of clients retained for advance diagnostics and hospitalisation.
- Talent management and rotation**
 Unified HR resource and rotation of doctors improves expertise, cross-sales and quality of service.

Financial results in 2017

(RUB m)	2017	2016	Change
Revenue	11,670	9,409	24.0%
Adjusted OIBDA	1,968	592	232.7%
Operating (loss)/ income	1,142	(432)	-
Adjusted net income / (loss) attributable to Sistema	837	(720)	-

Client flow



Primary care

Focus on growing the share of preventive check-ups in clinics

Advanced out-patient facilities

Focus on strengthening diagnostic capabilities and check-up programs at CDCs or clinics

Hospital or CDC

In-patient care, diagnostics, coordination of operating processes within relevant range of specialties

- > Vertical integration means Medsi can offer a full cycle of medical care, with patients transferred from primary screening to in-patient treatment if required
- > Results include better management and maximisation of synergies, cross sales and income

Business development in 2017

Medsia improved key operating indicators in 2017: number of visits rose by 7% and average check by 15%. Revenue from the MMI channel significantly increased (+377% YoY) due to Medsia's integration into the MMI system in specialised and high-tech care. The MMI channel is becoming a major source of customers for Medsi's in-patient facilities.

The flagship facilities of the outpatient diagnostic segment are the clinical diagnostic centres (CDCs) at Belorusskaya and Krasnaya Presnya. These are multi-disciplinary centres with a total area of more than 30,000 sq m using world-class innovative technologies. CDC Belorusskaya is Medsi's leading facility by volume of medical services provided (+5% YoY). Opened at the end of 2015, CDC Krasnaya Presnya reached full capacity in 2017, including the launch of a children's department, dentistry and in-patient care. The number of medical services provided increased by 2.7x.

In 2017, Medsi implemented a number of projects as part of its investment programme. In September 2017, a modern multi-disciplinary medical

Medsia's operating results

Indicator	2017	2016	%
Patient visits	7,901	7,314	+8.0%
Services provided	12,359	11,483	+7.6%
Area	233	221	+5.8%
Average cheque	1.5	1.3	+14.8%
Revenue per sq m	50.00	42.55	+17.5%

centre for children and adults with an area of more than 4,000 sq m opened on 3rd Khoroshevsky Proezd in Moscow. In August 2017, Medsi acquired Medem clinic, thus entering the St Petersburg market. The clinic, with an area of 6,800 sq m, offers a full range of medical services for children and adults, from primary and sophisticated diagnosis to surgery and post-operative rehabilitation.

In January 2018, Medsi opened a family clinic on Leninsky Prospekt in Moscow and a clinic for adults in Leninskaya Sloboda after completing repairs, equipping and licencing in 2017.



In 2018, Medsi plans to open at least three new clinics with an expanded diagnostic and therapeutic base in Moscow and the regions, and to start construction of a flagship multifunctional medical centre on Michurinsky Prospekt with an area of more than 28,000 sq m.

A priority area in 2017 was the formation of full-cycle medical care to provide patients with a full range of services. To this end, Medsi hired teams of highly qualified physicians led by outstanding specialists Konstantin Lyadov and Anatoly Makhson. In early 2018, Medsi's team was strengthened by the outstanding oncologists Mikhail Davydov and Georgy Manikhas.

In 2017, Medsi and MTS jointly developed a telemedicine service for online consultations to increase access to medical services. The pilot launch of the platform took place in January 2018; the service is planned to be expanded to most of Russian regions by the end of 2018.

Medsì continues to transform its management system: the company has formed vertically integrated business units at the level of clinics and prepared a programme to improve the efficiency of operational and business processes.

When the reorganisation is completed in 2018, Medsi's management system will be in line with best practices in the management of medical companies.

Medsì is actively strengthening its relationships with leading international medical companies and research organisations to gain expertise and bring the latest medical technologies to Russia. In 2018, Medsi's clinical Hospital in Otradnoe is expected to be included in the International Medical Cluster being implemented under Federal Law No 160-FZ.



The number of medical services provided increased by

2.7^x



Business development strategy

Medsì's strategy aims to build Russia's largest nationwide medical chain, combining three main components: healthcare, education and research. The main goal is to create an innovative medical platform based on a vertically integrated system of medical care.

One of Medsi's priorities is continuous improvement of the operating efficiency of its business processes. A key area is to increase security and the quality of customer service, including logistics

and patient care in clinics (the "patient experience"). Medsi plans to increase customer comfort by improving its administrative and support functions, eliminating delays and queues, introducing advanced electronic and mobile services, etc.

Medsì's five-year investment programme aims to increase the company's market share by opening new clinics and/or acquiring existing players, as well as at providing key assets with advanced high-tech equipment.



Industry overview for 2017

In 2017, the market for paid healthcare services^① in Russia grew by 5.2% to RUB 542bn due to the ongoing transformation of the healthcare system and a strengthening of the role of private sector companies.

The largest and fastest growing segment of the market was the commercial segment (direct payments by individuals), which exceeded RUB 399bn in 2017.

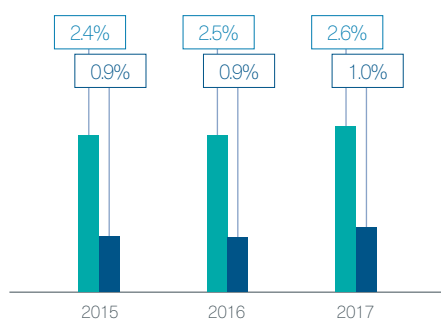
This segment is expected to continue to grow due to recovered growth of real incomes, adoption of the law on co-financing of medical services (so-called Mandatory Medical Insurance Plus, or MMI+), pressure on the shadow market from regulators and growth of medical tourism.

Medsi's share in the market of paid medical services in 2017 was 2.2% across Russia

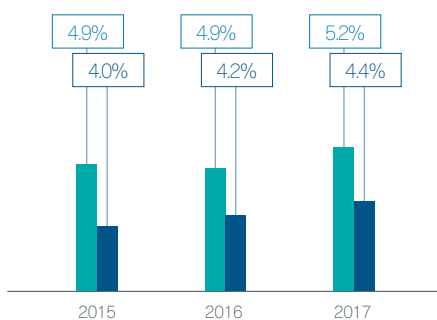
(1.8% in 2016) and 4.1% in Moscow (3.8% in 2016). Medsi's revenue growth rate in 2017 was almost double the market average in all segments, strengthening Medsi's position as a leading private healthcare operator in VMI channels and significantly increasing the share of revenue received as cash from individuals (+22% YoY).

Medsi's market share in key customer segments

Commercial segment



VMI



● Moscow and Moscow region ● Russia



The voluntary medical insurance (VMI) segment has grown more than 1.5x to

RUB 142^{bn}

over the past seven years.

Financial results in 2017

Medsi increased revenue by 24.0% for the full year 2017. Revenue growth was driven by an increase in patient visits and a higher average check as Medsi delivered a broader array of integrated services and high-tech surgeries. Revenue from the mandatory medical insurance segment, derived primarily from high-tech services, increased more than five-fold in 2017 to RUB 1.2 billion.

The Clinical Diagnostic Centre at Krasnaya Presnya, which opened in December 2015, increased capacity utilisation to 23% in 2017 and delivered 8% of Medsi's total revenue.



Adjusted profit attributable to Sistema was

RUB 838^m

versus a loss in 2016



For the full year 2017, the OIBDA margin was

16.9%

versus 6.3% in 2016

① Including the commercial segment (direct payments by individuals) and VMI.

Binnopharm

Binnopharm is one of Russia's largest full-cycle biopharmaceutical companies with its own in-house R&D division.



Sistema's stake

74%

The company produces biotechnological drugs, including a hepatitis B vaccine, pulmonology and neurology drugs, infusion solutions, and anti-viral and immunomodulating drugs. Binnopharm operates two state-of-the-art pharmaceutical plants in the Moscow region.



Alexey Chupin
CEO



Dmitry Zubov
Chairman
of the Board
of Directors

Business model

Binnopharm is a full-cycle pharmaceuticals company, from developing and registering drugs and producing substances and finished products to marketing and promotion of drugs and sales to distributors and pharmacy chains.

The company focuses on expanding commercial sales while continuing supplies

to hospitals. An in-house sales service was formed to promote commercially available prescription-based (Rx) and over-the-counter (OTC) drugs.

Binnopharm's portfolio targets the neurology, pulmonology, cardiology and gastroenterology segments.

Financial performance in 2017

(RUB m)	2017	2016	Change
Revenue	2,363	1,939	21.8%
OIBDA	482	415	16.3%
Operating income	323	219	47.7%
Net income attributable to Sistema	14	11	31.8%

In 2017 Binnopharm successfully delivered on its strategy to grow the commercial segment, with commercial sales accounting for 63% of total revenue, versus 34% in 2016. Revenue increased by 21.8% to RUB 2.4 billion on the back of an increase in sales of its own products and an increase in commercial distribution sales. The company reduced reliance on sales of Regevac, with the vaccine's share in revenue falling to 13% vs 24% in 2016.

In 2017 the OIBDA margin declined by 1.0 percentage point, as state-sector sales of higher-margin drugs fell, though this trend was partially offset by an increase in OIBDA from sales of the company's own products as well as distribution of products in the commercial segment.

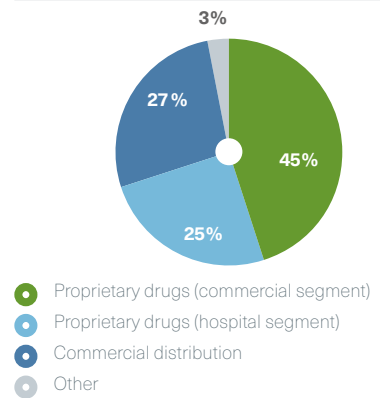
Binnopharm's business development in 2017

In 2017, Binnopharm continued to pursue a strategy of portfolio expansion. The company completed the registration of three generic drugs – Ringer's solution, Neurocholine and Moxifloxacin – and launched production and sales in 2018. Ten more generic drugs are being registered. In 2017, five original combinations were developed and submitted for registration. The company continued work on the last stage of clinical trials of two biotechnological products.

Binnopharm's sales service in 2017 continued to actively promote proprietary commercial drugs and products of partner companies. Secondary sales of drugs promoted by the company in 2017 increased by 68% YoY (by number of packs).

In 2018, the company will continue development of its portfolio of proprietary products: launches of four new drugs are planned, while the company plans to register more than 10 new drugs and finalise a number of new products.

Revenue structure



Business development strategy

Binnopharm's operational strategy focuses on further growing on the commercial segment and reducing the importance of the state segment to the company's business. Binnopharm continues to develop its proprietary portfolio of commercial brands, with a focus

on neurology, pulmonology, cardiology and gastroenterology. An important element of this strategy is to increase capacity utilisation, and thus to increase profitability. The company plans to launch about 30 drugs in 2018-2020, including new combinations.

Binnopharm's investment strategy envisages acquisition of individual portfolios of drugs and brands that are complementary to its existing business.

Industry overview for 2017

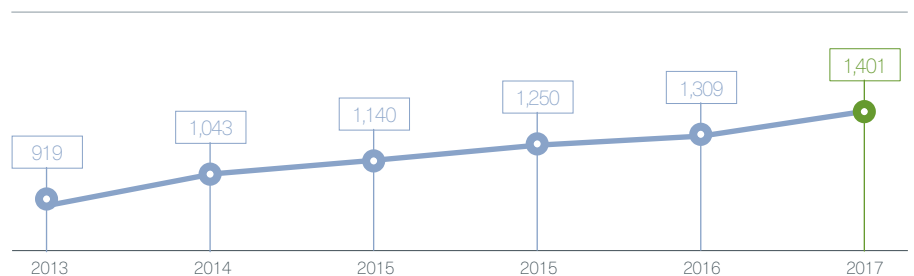
The commercial pharma segment is the main growth driver and remains the largest and most attractive segment for investment, accounting for 75%^① of the market.

An important trend is the ongoing transition to cheaper generic drugs^②, which consumers prefer to more expensive brand-name products.

In money terms, imported medicines account for more than 70% of the Russian market, highlighting the significant potential for domestic producers to grow due to import substitution.

Legislative initiatives and a number of bills that have already been passed aim to support Russian medicine producers.

Growth of the Russian pharma market, RUB bn



These include limitations on foreign companies' participation in government medicine procurement tenders in which two or more domestic producers are involved, and also new rules that simplify registration and clinical trials for Russian drugs.



The Russian pharma market in 2017 grew at

7%
in ruble terms

① Source: DSM Group.

② Generic drugs are drugs that are equivalent to brand-name products in composition and effect. Generic drugs may differ from brand-name products in presentation and trade name, and generally have a lower price.

RTI

RTI is a major Russian research and production company that develops, produces and supplies technological solutions including radars, automated control systems and situation centres, communications systems, and electronic and microelectronic devices.



Sistema's stake

87%

RTI has a robust R&D infrastructure and well-equipped serial production facilities employing more than 15,000 researchers, designers, engineers and highly qualified personnel. Thanks to this, the company is able to implement major and uniquely complex projects on a national scale, and create high-tech innovative products.



Maxim Kuzyuk
CEO



Sergey Boev
Chairman
of the Board
of Directors

Financial results in 2017

(RUB m)	2017	2016	Change
Revenue	50,579	52,628	(3.9%)
Adjusted OIBDA	6,626	5,809	14.1%
Adjusted operating income	3,708	3,014	23.0%
Adjusted net income (loss) attributable to Sistema	(2,563)	(4,730)	–

Business development in 2017

RTI continues developing new products in the radar segment. In 2017, the company commissioned three radar stations making it possible to close the radar defence loop around Russia. New very long-range radars produced by RTI using prefabrication technology significantly increased the reliability and quality of radar surveillance across Russia.

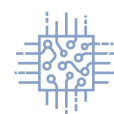
As part of the programme for developing automated control systems, RTI developed the Region 2020 experimental automation system. The system is designed to optimise the work of control bodies of regional and municipal sub-systems of the Russian Unified System for Prevention and Response to Emergency Situations.

A joint project between RTI subsidiary Yaroslavl Radio Factory and Thales Alenia Space to produce communications equipment entered the final phase of implementation. The companies developed and approved a road map and production schedules for joint manufacturing of equipment for the space industry.

RTI maintained its leadership of the microelectronics segment. Mikron is among Europe's five largest full-cycle

microelectronics producers, and the largest in the CIS. Mikron launches serial production of more than 20 new products annually, each of which forms the basis for new digital solutions and services. One of the key areas for new product development is the RFID segment, in which Mikron produces more than 480 items a year.

Among key new products tested and now ready for serial production are eight new RFID tags for various purposes, including tags for animals and for marking wood and metal goods. The results of such R&D work are noticeable at the lab testing stage: following a pilot project for tagging transportation documents for raw wood in Irkutsk region, volumes of illegal logging fell by 53% in just three months year-on-year.



Mikron launches serial production of more than

20

new products annually

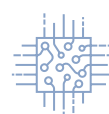
Mikron's operational achievements in 2017:

- > **launching a new-generation driving licence and vehicle registration certificate**
- > **manufacturing Mir-Maestro national bank cards jointly with MTS Bank**
- > **supplying 2m chip modules for bank cards of the Mir national payment system**
- > **launching electronic mandatory medical insurance policies using Mikron's microchips and Russian software**
- > **serial production of contactless transport cards and tickets for entertainment events**
- > **export of 919 million microchips**

Operating results

	2017	2016	%
Total microchips produced, m, of which:	900	860	5%
transport cards, m	230	230	0%
export chips, m	360	330	9%

Mikron's product portfolio contains about 700 types of microchips, cards and tags, with 15-25 new products tested and certified every year, including standard and customised chips. Most of Mikron's microchips were given the status of Category 1 domestically produced integrated microchips by the Industry and Trade Ministry.



Mikron is Russia's biggest exporter of microchips, accounting for

53%

of the national total.

Business development strategy

RTI's strategy aims to strengthen the company's market position and pursue organic growth in those segments in which the company already operates, to enter adjacent market segments and boost exports in all segments.

In the public procurement segment RTI focuses on maintaining leadership in radio, surveillance and communication systems, as well as information systems for managing

and supporting decision-making. In addition to very long-range radars, RTI is planning to develop sales in adjacent segments and increase exports.

In the microelectronics segment RTI focuses on aggressive market growth to meet the needs of the digital economy. Key industry drivers in the near future will include the Internet of Things and Artificial Intelligence, which require a large number

of different microchips, 70% of which Mikron produces using its own technologies.

In 2018, RTI Group will continue building a sustainable business model to meet its obligations to government and external investors. RTI will continue implementing a programme launched in 2017 to boost business efficiency with a focus on creating added value at the operating level and growing cash flows to ensure financial stability.

Industry overview for 2017

Despite a decrease in defence spending in 2017, the industry is expected to grow in the medium term. Prevailing market trends include increased automation and intelligence of security systems. Russia is following global trends, which will result in increased spending on civilian and military information and control systems. Other trends in the Russian

defence sector include consolidation and vertical integration involving other major holdings.

In 2017, the Russian microelectronics market was valued at RUB 131 bn. Traditionally the biggest segment, worth RUB 58bn, is production of equipment for the defence, aerospace and nuclear energy sectors.



This segment is currently migrating to microcircuits with higher levels of integration, as they have a lower weight and size, which is crucial for most of specialised applications.

RFID tags and smart cards (worth RUB 6bn) are mostly used in transport tickets and chip modules for bank cards. The market is growing by 5%-7% per annum in physical terms, but volumes remain flat in money terms due to falling prices. Growth in the segment will be driven by introduction of RFID tagging for individual inventory items and continued migration of personal identification documents to protected chip carriers.

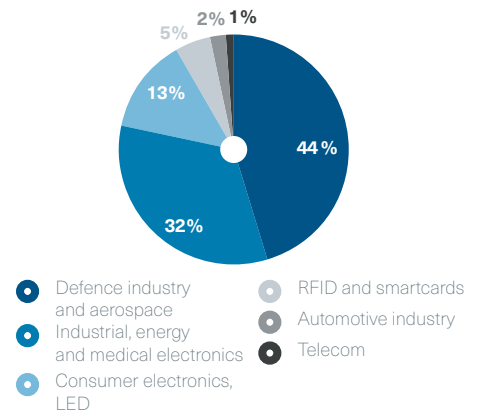
The total value of the Russian microelectronics market is RUB 32bn. Mikron accounts for 31% of this, remaining the undisputed leader by revenue, production output and level of technology.



The total value of the Russian microelectronics market is

RUB **32** bn

Russian microelectronics market by sector



Financial results in 2017^①

RTI saw a moderate decline in revenue in 2017 due to a 6.8% year-on-year decrease in revenue from the Radio-technical Systems business unit^②, as well revenue volatility in relation to a major government contract. This was partially mitigated by a 15.7% year-on-year revenue growth in the Microelectronics business unit as a result of increased import

substitution of electronic components and heightened demand for Mikron's products.

Adjusted OIBDA for 2017 improved by 14.1% largely due to strong OIBDA dynamics in the Microelectronics business unit.

The net result for the year improved thanks to reduced financial expenses.



Adjusted OIBDA for 2017 improved by

14.1%



① RTI's financial results in this press release are presented in accordance with IFRS 15 standards. In the consolidated accounts of Sistema Group, RTI's financial results are presented in accordance with IAS 18 standard.
 ② Former Defence Solutions business unit.

MTS Bank

MTS Bank is a universal financial organisation that provides banking services to individuals and corporate customers.



Sistema's stake

87%

MTS Bank operates in Russia and services clients across the entire chain of MTS outlets. Corporate customers are serviced in seven branches and 80 bank offices in Russia's key regions.



Ilya Filatov
Chairman of the Management Board



Vsevolod Rozanov
Chairman of the Board of Directors



The bank also ranked

30th

by net income under Russian Accounting Standards

MTS Bank's business model

A universal banking model: a substantial part of the Bank's income is generated by lending to individuals and corporate clients; the main source of liabilities is customer funds (individuals and corporates).

Financial results in 2017

(RUB m)	2017	2016	Change
Revenue	18,106	18,268	(0.9%)
OIBDA	923	(2,345)	-
Operating (loss) / income	370	(3,034)	-
Net (loss)/ income attributable to Sistema	169	(2,616)	-

Development of MTS Bank in 2017

As of the end of 2017, MTS Bank ranked 48th among Russian banks by assets, 36th by individual deposits and 44th by capital. The bank also ranked 30th by net income under Russian Accounting Standards.

In 2017, the Bank's focused on implementing a digital transformation programme by upgrading its range of cards, introducing agile management of product development processes, and launching product sales through its own remote channels and those of mobile operator MTS.

The number of active customers increased by 36% in 2017, reaching 1.5m people. The use of digital products (online and mobile banking services) increased, with penetration of these services within the customer base reaching 24.3% (above the market average) mostly as a result of the Bank's cooperation with MTS. In 2017, MTS Bank successfully integrated some of its services with the mobile operator's key product, MTS E-Wallet.

The bank is actively developing digital services for its customers, including online lending. Sales of credit cards through digital channels in 2017 rose from 0.1% to 14% of the total. Digital sales accounted for 7% of total sales in 2017. In the corporate segment MTS Bank pursues a conservative risk policy by focusing on high-quality borrowers. During the year MTS Bank increased the appeal of its offer for corporate customers by developing payment processing services.

MTS Bank continues to expand its cooperation with MTS and other Sistema portfolio companies. In October 2017, the Bank signed an agreement for provision of Internet acquiring services with Ozon, a leading multi-category online retailer in Russia.

The Bank's main goal for 2018 is to continue aggressive growth of the retail customer base by developing a digital banking business model and transaction banking services for small and micro businesses.



The number of active customers increased by

36%

reaching 1.5m people

Business development strategy

MTS Bank's strategy aims to build a digital bank in cooperation with MTS and other Sistema Group companies.

Key elements of the strategy are:

- > Aggressive growth of the retail business through participation in MTS's eco-system and development of own partnership network to build a 5m customer base and become a top-10 bank by credit cards and a top-5 bank by point-of-sale loans.
- > Conservative growth of corporate business on a par with the market, and optimisation of cross sales and operating model.
- > Relaunching work with small and micro businesses using a direct banking model with a focus on transactions in remote channels.

Financial results in 2017

In 2017 MTS Bank successfully delivered on its plan to return to profitability by pursuing a strategy of partnering with MTS and other Sistema portfolio companies.

For the full year, interest income decreased by 5.4% as a result of lower interest rates in Russia and a smaller loan book following the deconsolidation of East-West United Bank. This was partially mitigated by an 8.3% increase in higher-margin retail lending, with retail loans accounting for 59% of the total loan book at the end of the reporting period, versus 53% a year earlier.



The Bank recorded a net profit for the year of

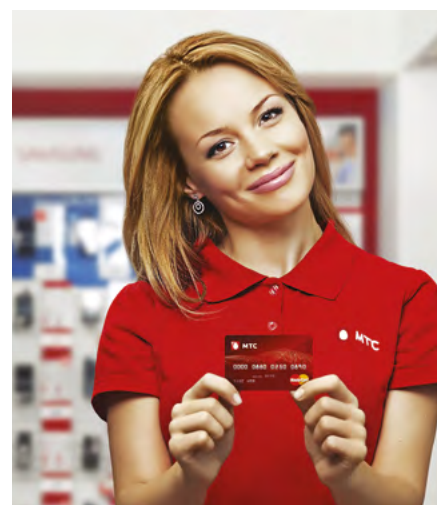
RUB 169^m



In line with the Bank's strategy of building a leading digital bank, MTS Bank grew fee and commission income by

31.6%

for the full year



Hospitality assets

Cosmos Group is one of Russia's leading hotel management companies, providing a full range of hotel development services from project consulting and pre-opening preparations to cost optimisation and increasing asset capitalisation.



Sistema's stake^①

100%

Cosmos Group's portfolio includes 17 hotels in 14 locations across Russia and the world. Some of the hotels operate under well-known international brands (Park Inn by Radisson and Holiday Inn Express), and some are stand-alone hotels.

Cosmos Group has more than 3,700 rooms under management in 3-5 star hotels located in tourist and business centres

including city business hotels and luxury resorts in Russia, Italy, Namibia and the Czech Republic.

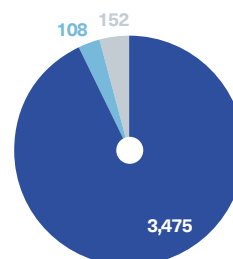
Business model

Cosmos Group provides a broad range of services from hotel concept development and design and construction support to brand selection and hotel management.

The company's diversified portfolio comprises hotels of various types and in different locations, with the main focus being on 3-4 star city business hotels. Cosmos Group also develops its own hotel brands, which were created in 2017.

The majority of Cosmos Group's income (about 70%) is generated by hotel management fees.

Number of hotel rooms by types



- City business hotels
- Recreation services
- Hotels outside Russia



Christian Mayer^②
President



Artem Sirazutdinov
Chairman
of the Board
of Directors

Financial performance in 2017

(RUB m)	2017	2016	Change
Revenue	4,318	2,794	54.5%
OIBDA	849	487	74.5%
Operating (loss) / income	198	182	8.7%
Net loss attributable to Sistema	(517)	(252)	-

① In Cosmos Group

② Christian Mayer was appointed President on 08 February 2018, before 07 February 2018 - Maxim Khoroshenkov

Business development in 2017

Cosmos Group was founded in April 2017 as a result of the separation of Sistema's hotel asset ownership and management functions.

At the end of 2016, Sistema acquired Regional Hotel Chain (RHC) assets, increasing the accommodation capacity of Sistema's hotel business by 1,379 rooms.

In 2017, revenue at RHC hotels increased by 18% and amounted to RUB 1,567m. Revenue of other hotels in the chain increased by 8% in 2017, and totalled RUB 2,761m.

In 2017, the company also actively developed and extended its eco-hotels Izumrudny Les (in Klin, Moscow region) and Altay Resort (in Gorno-Altaysk).

In November 2017, the 243-room Holiday Inn Express Moscow-Paveletskaya hotel was officially opened in the centre of Moscow. Due to its favourable location

Operating results (hotels under management)

Indicator	2017	2016	%
RevPAR, RUB	1,909	1,891	1%
Occupancy rate	56%	49%	7 p.p.
Number of rooms	4,040	3,771	59%

and well-known international brand, the hotel's occupancy rate is expected to exceed 50% in 2018.

In 2018, Cosmos Group is planning to take more hotels under management, including Sistema Group assets: two new economy-class hotels under Ibis Budget brand and two apartment hotels under its own CosmosStay brand in Moscow, as well as the Don Plaza hotel in Rostov-on-Don. The hotels have total capacity of 804 rooms. In addition, a new 134-room hotel will be taken under management in the Alabuga special economic zone under the Ramada brand.



Business development strategy

Cosmos Group's main strategic goal is to become a leading Russian hotel operator and to expand into the European hospitality market.

The company's key focus is boosting operational efficiency and service quality at its hotels. In 2018 the company aims to increase the gross operating income GOP of Cosmos Group hotels by 17% compared to 2017, primarily by implementing profit and cost management programmes developed on an individual basis for each hotel.

Cosmos Group will also continue developing its proprietary hotel brand line. In 2017, the root brand name Cosmos Hotels and More was used to create four new brands: My Cosmos for modern city hotels, Cosmos for classical business hotels, Cosmos Collection for premium hotels and CosmosStay for apartments.

In addition to organic growth, Cosmos Group is planning to attract independent hotels in order to double the number of rooms under management.

Financial performance in 2017

During 2017, Sistema's hospitality business continued to successfully integrate the RHC hotels acquired in 4Q 2016. Revenue for 2017 increased by 54.5% driven by consolidation of RHC, as well as by a higher occupancy rate at Hotel Cosmos, the largest of Sistema's hospitality assets.

For the full year 2017 OIBDA increased by 74.5% and the OIBDA margin added 2.2 percentage points thanks to the consolidation of the RHC properties and improved efficiency at Hotel Cosmos.

Other investments

Kronstadt Group



Sistema's effective shareholding

96%



Kronstadt Group is a Russian high-tech company that engineers and manufactures knowledge-intensive products. The company is one of Russia's leading producers of unmanned aerial vehicles (UAVs), with deep experience of designing and manufacturing UAVs and on-board equipment.

In 2017, Kronstadt Group successfully completed work under several key government contracts, including supply of 76 simulators to state educational institutions and training centres. The company also continued work on the development and production of Orion, a medium-altitude, long-endurance UAV – the biggest market segment in monetary terms, accounting for 53% of the global market. The Orion project is now at the flight-testing stage, and was successfully presented at a number of major exhibitions

where potential customers from over 15 countries expressed interest in the product.

The company completed the next stage of the e-Navigation project, providing additional equipment for a test area covering the Russian part of the Gulf of Finland, the Neva and Svir Rivers and Lake Ladoga. Correcting stations of the differential sub-system of GLONASS/GPS were supplied.

Besides major government contracts, Kronstadt Group successfully completed its part of the work on creating and reconstructing a number of museums and education centres, including the Road of Life museum at Lake Ladoga, the CSKA museum and the Cultural Centre of the Russian Federal Security Service. The company also provided multimedia installations for the Military World Games in Sochi as part of the CISM-2017 project.

Concept Group



Sistema's effective shareholding

63%



Concept Group is one of Russia's leading retailers of children's and women's clothes and underwear. The company is successfully developing retail chains under the Acoola and Concept Club brands with more than 410 stores in total, many of them franchised.

The company's portfolio includes the following brands:

- > Acoola (clothes for children aged 0-14);
- > Concept Club (clothes for women, men and children, home textiles).
- > Infinity Lingerie (underwear)

The company operates in Russia (120+ cities), Belarus, Kazakhstan, Armenia and Azerbaijan both through its own retail

chain and in partnership with franchise and wholesale partners. In August 2017, it entered the Indian market under the Acoola children's clothing brand, opening its first retail store with an Indian partner.

In 2017, supply volumes grew by 6% year-on-year to 20.1m items. The share of orders from Russian suppliers doubled vs 2016 and reached 2%. 20.8m items were sold in 2017, an increase of 3% year-on-year. Overall revenue across the company grew by 1.3% to RUB 11.0bn.

Concept Group continues active market expansion. It intends to open at least 35 of its own retail stores per year and find more than 30 franchise partners. The company's plans also include active development of online sales and an omni-channel customer relationship system as a key goal for 2018.

SISTEMA'S FUNDS AND OTHER INVESTMENT ACTIVITIES

Sistema is continuing to develop a range of funds specialising in venture and PE investments. Sistema's funds and investment companies offer investors access to a unique portfolio of high-tech assets, as well as assets in real estate, industrial manufacturing and healthcare.



Sistema Venture Capital

Sistema Venture Capital (Sistema VC) is a venture fund focusing on investment in growth-stage tech companies.



Sistema's stake in the fund

80%

Fund's target size	RUB 10bn
Year of establishment	2016
Geography	Russia, US, Europe, Israel
Industry focus	Internet projects and technology
Life	No fixed term, investment phase Q2 2016 to Q2 2019
Target returns	25-30% (in RUB)

Investment targets and investment focus

Sistema VC invests in internet projects at the growth stage that have strong unit economics, are growing fast and have the potential to become an industry leader. The fund also invests in deep tech projects at an earlier stage.

The key focus of the fund is finding projects in deep tech, such as:

- > artificial intelligence, machine learning;
- > next-generation network technology (SDN, NFV);
- > cognitive technologies;
- > virtual/augmented reality projects (VR/AR).

The fund also invests in high-potential projects in communitainment, Internet of Things (IoT), etc.

In 2017, Sistema VC maintained its strong position in the Russian market and won the Discovery of the Year category at the National Venture Investor 2017 Award. The fund's team reviewed over 700 projects and successfully completed eight transactions (including follow-on investments).

The fund is actively implementing its strategy of entering the international market: it opened an office in San Francisco and expanded its search for new projects to Europe and the United States.

The fund's team reviewed over

> 700

projects and successfully completed eight transactions

STRATEGIC PROGRESS

Individual assets



VisionLabs is one of the world's leaders in computer vision and machine learning. Its flagship product is a face recognition platform, VisionLabs LUNA, which can analyse vast amounts of photo and video data in real-time mode to detect people's faces and run them against multi-million databases. The company's technological partners are Intel, Cisco, Facebook and Google.



Ozon is Russia's oldest and biggest multi-category online store with more than 4m SKUs. It has more than 18m customers, with 750,000 people visiting its website daily. The company features in the annual Forbes ranking of Russia's most valuable internet companies.



MEL Science is an international company offering scientific and educational products based on VR/AR technologies. Its flagship product is a chemistry self-study course, MEL Chemistry, which comprises 38 kits for chemical experiments, a learning app and VR glasses that allow students to see chemical substances and crystals "from the inside". MEL Science kits are sold under a paid subscription model and delivered by post. At the end of 2017, Sistema VC and its partners invested USD 2.2m in the project.



Sistema VC and its partners invested

USD **2.2**^m

in MEL Science

New investments of 2017



NFWare is a developer of solutions for virtualisation of (information) network functions. NFWare develops network software for popular x86 servers that processes traffic as quickly as expensive specialised network equipment produced by leading manufacturers. The solutions are based on NFV/SDN technologies, which allow some functions of network infrastructure to be virtualised.



FinalPrice is a subscription mobile app that enables users to book flights and hotels and rent cars at the lowest price available. For just USD 99 a year, users get access to the floor prices of over 800 airlines, 1m hotels and the world's top 40 car rental companies. The application is available only to US users and targets frequent travellers.



Gosu.AI is a training platform for cyber-athletes and players of multi-player online games Dota 2, League of Legend, CS:GO, World of Tanks and Overwatch. The project is AI-based.



DataSine is a platform for analysing information about personal financial transactions to understand a user's psychological profile and life circumstances. This information helps financial institutions to determine the best communication channels and products for a particular customer.

Sistema Asia Fund

Sistema Asia Fund is Sistema's venture fund. It is an active and recognisable player in the Indian venture investment market, and has become integrated into the country's entrepreneurial eco system. The fund's goal is to efficiently invest investors' money into high-potential projects in the fast-growing Indian tech market

Investment targets and investment focus

Sistema Asia Fund invests in tech startups in India (predominantly) and South-East Asia (in exceptional cases) that meet the following criteria:

- > a proven business model and/or loyal audience;
- > solutions specific for the Indian market;
- > founders are involved in management of the business;
- > co-investors.

The fund is managed by a professional team with a strong investment expertise. It has an expert council comprising professionals who are integrated into the Indian business community and have a unique track record and a broad network of contacts.

In 2017, the team of Sistema Asia Fund reviewed over 200 projects, thoroughly studied over 100 companies and successfully completed four investment transactions.



Sistema's stake in the fund

100%

Fund's target size	USD 50m, with potential increase to USD 120m
Year of establishment	2015
Geography	India, South-East Asia
Industry focus	Consumer tech (e-commerce, healthcare, transport, media, finance, education), enterprise tech (IoT, VR/AR, platform solutions, big data, artificial intelligence, machine learning)
Life	10 years, with an investment stage of four years
Target returns	3x cash-on-cash

Individual assets

SECLORE

Seclore is the developer of an EDRM (Enterprise Digital Rights Management) system that enables corporations to control use of files within and outside the company. It has more than 5m users from 600 companies in 29 countries. Advanced and reliable EDRM solutions and innovations related to access to protected documents via browsers gained Seclore an award for successful growth from Frost & Sullivan, saw the company included in Deloitte's list of top 50 fast-growing tech companies and won it Gartner's Cool Vendor title. The company has representative offices in the US, India, the Netherlands, UAE, Saudi Arabia and Singapore.

Qwikilver

Qwikilver is a supplier of corporate cloud software in the segment of gift cards and loyalty programmes. The company's product enables customers to use pre-paid physical and virtual gift cards at over 10,000 premium branded stores, on e-commerce portals and in mobile apps. Qwikilver has a licence from the Reserve Bank of India for using prepaid payment instruments. At the end of financial year 2016, the company reached a stable positive net income, with a gross merchandise value of about USD 300m, and is set to continue doubling its results every year.



STRATEGIC PROGRESS

New investments in 2017

LENDINGKART

Lendingkart is a company that fundamentally changes traditional lending by using its own data-based lending mechanism to provide loans to small and medium-sized businesses. To acquire customers and repay loans, the company uses a model with a small headcount, and has already provided loans to customers in 600 cities and towns.



Mobikon

Mobikon is a marketing platform for restaurants to attract customers. Restaurants receive tools to manage customer loyalty by monitoring profiles and transactions on various digital platforms and payment systems. The in-built database includes 8.5m profiles from all over the world.



The in-built database includes

8.5^m

profiles from all over the world

HealthifyMe

This transaction was approved in 2017 and closed at the beginning of 2018.

HealthifyMe is India's biggest digital fitness platform (4m users and over 200 sports instructors and nutritionists) that allows users to control calories consumed, set personal fitness goals and monitor progress. Efficiency is achieved through access to online consultations with nutritionists and instructors. At the end of 2017, the company launched a new service, Ria, which is the world's first virtual AI-based nutritionist. The biggest corporate customers are P&G, Unilever, Accenture, Cognizant, Shell, and Philips.



4^m
users and over 200 sports instructors and nutritionists

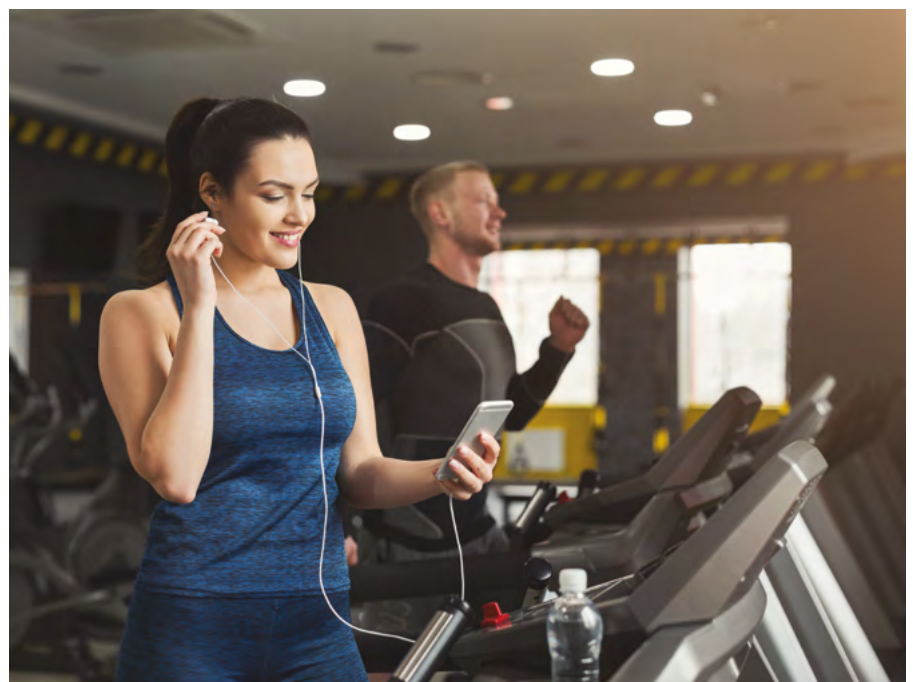
netmeds.com
India Ki Pharmacy

Netmeds.com is India's biggest online pharmacy, with a nationwide presence. The founder used the opportunities offered by his family's pharma distribution company established more than one hundred years ago to create a profitable business with high gross margins.



Pharma distribution company established more than

100 years ago



Rusnano Sistema SICAR



Rusnano Sistema SICAR is a private equity fund established by Sistema and RUSNANO in August 2016. The fund has a professional team with a strong track record in the venture industry. It focuses on investing in initial-stage high-tech projects and in growing and established companies in Russia, the CIS, Europe and Israel. The fund is open to outside investors.

All resolutions are passed unanimously by the fund's board of directors, which consists of three members. The Investment Committee of the fund comprises three directors from Sistema and three from Rusnano.

In 2017, the fund reviewed a number of projects and invested in Apis Cor and GeoSplit. The fund is at the investment stage, and will make investments in another five projects in 2018, meaning it will have invested 40%-45% of its committed capital.



Sistema's stake in the fund

50%

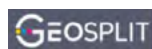
The fund's target size	Up to USD 100m
Year of establishment	2016
Geography	Russia (min. 50% of the fund's investments in monetary terms), CIS, Europe, Israel
Industry focus	Information technology, robotics and onboard equipment, software and cloud technologies, communication equipment and end-to-end solutions, renewable sources of energy and energy-saving technologies (including fuel cells), microelectronics, automated control systems, special communications systems, and software for comprehensive security systems.
Life	Seven years (may be extended by three years if the parties agree)
Target returns	> 6% in USD

Investments of 2017



Apis Cor is a developer and manufacturer of unique 3D construction printers. The Apis Cor printer can build a house of up to 130 sq m in 24 hours. The technology has no peers anywhere in the world. This 3D printer can compete with conventional technologies on cost and significantly outperforms them on speed and ease of construction.

Applications to patent the technology have been filed in 146 countries. The business model is based on provision of wall-construction services in partnership with local companies to reduce printer replication risks and control the construction process.



GeoSplit is a high-tech oilfield services company that offers well diagnostics after multi-stage fracturing. Oil wells are diagnosed through tracer analysis by introducing propping agents marked by reporting markers that are several microns in size. It has a number of competitive advantages in terms of price and accuracy.



Sistema Finance S.A.

Sistema Finance S.A. is Sistema's investment platform focusing on investments in Europe and the US.

One of its subsidiaries, Sistema Capital Partners, has been investing Russian institutional capital in the developed real-estate markets of Europe and the US since December 2015.

Investment targets and investment focus

Sistema Finance invests in three main segments:

- > Private Equity: investments in public and non-public mid-cap companies generating positive cash flow with attractive growth prospects and focus on Germany;
- > Real Estate: investments in rental properties and opportunistic development projects in highly liquid markets of the EU and US;

The average size of Sistema Finance's investment is

EUR **10-50**^m

The average size of Sistema Finance's investment is EUR 10-50m, and investments are held for one to four years.

In June 2017, the company exited two investments: HS IV and HS Prime I. The portfolios of rental properties – a total of 29 assets in several German cities with an aggregate area of over 120,000 sq m – were bought by BVK. IRR of the investments amounted to 28%-36% in EUR.







Sistema's stake in the company

100%

Geography	Large EU countries, US
Industry focus	PE, rental properties, real estate development
Target returns	> 15% in EUR and USD



Individual investment projects

Project	Country / segment	Description
 Gienanth	Germany / industrial production	A leading iron foundry with a 30% global share in the segment of cylinder crankcase castings for engines
 Silbitz Group	Germany / industrial production	A leading European producer of high-tech steel and iron castings, with a focus on wind power generation and transmission mechanisms
 AMBULANTIS <small>Zeit für Pflege</small>	Germany / healthcare	A fast growing operator of home care services
 HS Prime II	Germany / rental properties	Three shopping centres in Flensburg, Lubeck and Bochum

LLC Sistema Capital MC

Sistema Capital is a management company that invests and provides asset management services on global financial markets for individual and corporate customers.

For more than 17 years, the company has offered investment products in Russian and international markets. Products include bonds of Russian and international issuers in various economic segments and geographies, as well as securities across a broad set of geographies and derivative financial instruments.

As of the end of 2017, Sistema Capital had RUB 52bn in assets under management, an increase of 2.2 times from 2016 and 4.9 times from 2014. The company ranks seventh in Russia for the net asset value of its mutual investment funds, with an aggregate NAV of RUB 9.1bn as of the end of 2017.

Mutual rouble bond funds managed by Sistema Capital generate leading yields among similar Russian funds with a NAV of more than RUB 50m. At the end of 2017, the Sistema Capital Mobile.Bonds fund was ranked #1 (with a yield of 15.1%) and Sistema Capital Reserve #3 (14.3%).

Mutual foreign-currency bond funds managed by Sistema Capital rank among Russia's top 10 in yield terms, with NAV of more than RUB 50m. Sistema Capital Mobile.Bonds.FX ranks #3 (with a yield of 5.8%) and Sistema Capital Reserve.FX #6 (5.2%).

The Expert RA rating agency (RAEX) rates Sistema Capital at A+ with a stable outlook. The agency cites the efficiency of the management company's investment process and the high quality of assets under management for its rating.

The company works with three non-government pension funds, including Sberbank's Pension Fund, under trust management agreements.



Sistema's stake in the company

70%

In 2017, Sistema Capital started working with retail customers and offering its products in the mass segment. It now actively cooperates with MTS, and a service for investing in mutual funds is being integrated into the MTS Money Wallet application.

In 2017, Sistema Capital became a full-fledged player on Moscow Exchange and got direct access to the FX and stock markets. This enabled it to expand and improve services to customers.

In 2018, Sistema Capital expects to see growth of its assets under management, driven by a more active flow of assets from bank deposits to management companies due to continued decline in deposit rates.



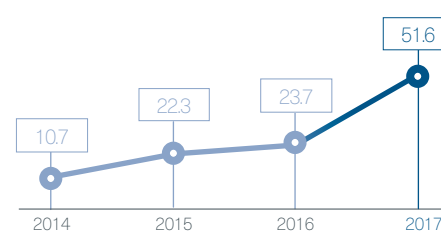
Sistema Capital had

RUB **52** bn

in assets under management

Sistema Capital's strategic goal is to develop a high-quality investment management company targeting private and institutional investors (retail online, HNWI, non-government pension funds), combined with management of Sistema Group's liquidity and investment of the Group's cash in liquid securities with various risk levels.

Assets under management, RUB bn



Yields of mutual investment funds

	2015	2016	2017
SC-Reserve.FX – Eurobond fund, USD			
	+20.4%	+7.2%	+5.2%
SC-Reserve - Bonds fund, RUB			
	+17.3%	+12.1%	+14.3%
SC-Mobile. Bonds. FX- Eurobond fund, USD			
	-	-	+15.1%
SC-Mobile. Bonds - Bond fund, RUB			
	-	-	+5.8%

MAIN RISK FACTORS

Sistema's activities are subject to a number of risks. Effective management of these risks is a fundamental factor contributing to the successful growth of the Corporation.

While risks arise from processes and factors over which Sistema has little or no influence, the Corporation can take measures to reduce the negative consequences in the event that a certain risk event occurs. This makes efficient assessment of existing risks and how likely they are to occur, as well as efficient risk management, an integral part of Sistema Group's strategy.

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

Sistema Group's integrated enterprise risk management (ERM) system

As part of quarterly ERM procedures, Sistema's risk managers compile risk registers for subsidiaries and a consolidated risk register for the Group, prioritise risks and aggregate them into portfolios, develop a risk map and analyse key trends, and use simulation and financial modelling methods to analyse the impact that material risks have on the financial results of specific subsidiaries and Sistema Group as a whole.

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

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

External risks

Risks related to changes in the political and economic situation in Russia are material to Sistema because most of the Corporation's business is conducted in the Russian Federation. Many Sistema Group companies also operate in transitional economies, including Armenia, Belarus, India, Turkmenistan, Uzbekistan and Ukraine, and therefore are also exposed to material external risks. Group companies sell a significant portion of their products in the CIS, Southeast Asia, Eastern Europe and North Africa. In the event of major political turmoil in these regions, the Group's business in the regions may be discontinued or put on hold, potentially leading to material losses.

• Financial risks

Sistema's business is inextricably connected to the state of the global economy and financial markets, and is sensitive in particular to movements in prices of oil, gas and other commodities that Russia exports. A weakening of the rouble against the US dollar and the euro amid a slump in the oil prices, sanctions measures imposed against Russia and increased capital flight from the country may result in a rise in costs and a drop in revenues, or may affect Group companies' ability to achieve financial targets and repay debt. At the same time, a significant appreciation of the rouble against the US dollar and the euro may cause a rise in rouble-denominated costs, resulting in a decline in operating performance of some of Sistema's portfolio companies.

Any potential downturn or slowdown in Russia's economic growth could lead to a decrease in household incomes and consumer demand, which could have significant negative consequences for the operating results and financial position of all of Sistema Group companies.

Rising inflation may result in higher costs, putting pressure on profit margins and affecting domestic demand for products and services provided by Sistema Group companies.

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

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

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

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

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

• Political and social risks

Geopolitical risks exerted a significant influence on the Corporation and its portfolio companies over the reporting year as protectionism and economic sanctions are increasingly used as tools for achieving geopolitical goals.

The risk of international conflict remains substantial, in terms of both probability and potential effect on various areas of Sistema Group's activities. For example, insurance companies may set higher insurance premiums for Sistema Group or refuse to insure against specific risks, which may lead to a deterioration in financial results.

The introduction of sanctions against Russia or Russian companies may result in disruptions to international payment systems or other mechanisms of international cooperation, which in turn may prevent the Corporation and its portfolio companies from making settlements and reduce Sistema's investment appeal.

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

Key risks for the Group's telecommunications business are geopolitical risks entailed by a deterioration of the situation in Ukraine. The political crisis in Ukraine has led to a significant decrease in the growth of the telecommunications market, and continues to adversely affect the exchange rate of the national currency.

• Legal risks

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

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

MAIN RISK FACTORS

Gaps in civil and corporate legislation and securities regulation in the markets where Sistema operates, as well as frequent and not always consistent changes in legislation in these and related areas, may create barriers to raising funds and impair the company's ability to manage, own and oversee the activities of portfolio companies.

A lack of clarity regarding the understanding, interpretation and application of the Federal Law on the Procedure for Foreign Investments in Companies of Strategic Importance for National Defence and State Security and other regulations concerning investment activities in the Russian Federation and other countries where Sistema Group operates, as well as customs and currency regulations, may have a negative impact on the business of Sistema Group, given that the Group's shareholders include non-Russians.

There is a risk of legislative amendments in countries where Sistema Group companies operate, should governments or international organisations amend regulatory frameworks governing international trade and investments.

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

Minority shareholders of Sistema's subsidiaries may contest or vote against the Corporation's transactions, which may limit Sistema's ability to complete investment transactions and restructure businesses, and could also have a negative effect on Sistema's investment case.

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

• Tax risks

Tax legislation, regulation and practices in jurisdictions where Sistema's assets operate are complex and opaque, and prone to frequent modifications and ambiguous interpretations. If the Corporation's actions are interpreted as breach of tax law, this may have an adverse effect on the business of Sistema Group.

Russian legislation on transfer pricing may make it necessary to introduce adjustments to price-setting practices used at Sistema Group companies,

resulting in additional tax liabilities related to some transactions.

As a result of application of rules relating to the taxation in Russia of undistributed profits of controlled foreign companies and profits from the indirect sale of properties in Russia, the concept of a beneficiary owner and new criteria for tax residency of legal entities, the Group's companies may face new tax liabilities that arise due to the uncertainty around interpretation of tax law and the lack of relevant precedents.

• Securities market risks

A deterioration of the geopolitical situation, sanctions imposed on Russian companies, a worsening of the macroeconomic environment and capital and investor flight from the Russian market led to a reduction in valuations of Russian companies in 2014-2017. In these circumstances Sistema's access to investor funding through capital markets may be restricted further in the event that sectoral sanctions are imposed on Russian companies in segments where Sistema operates and/or due to investors taking a cautious approach to Russian companies in general. Sistema's ability to raise funding via bond issues may be limited, which is liable to lead to a lack of working capital and cash available for investment, and thus affect the Corporation's financial performance.

Risks related to Sistema's activities

● Implementation of the business strategy

The Corporation's strategy aims to develop a balanced and diversified asset portfolio in sectors and regions where Sistema has expertise and competitive advantages, while attracting leading international and Russian partners. Despite having a well-formulated strategy, Sistema cannot guarantee the full or partial achievement of its goals, efficient management of portfolio companies, or benefits from new investment opportunities. Sistema's failure to achieve goals set in its strategy may put pressure on the Corporation's consolidated financial indicators.

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

● Liquidity risks

The Corporation may in the short or long term lose the ability to fulfil its obligations due to a lack of funds, as a result either of losses or insufficient monetisation of investments, combined with a high debt burden and no possibilities to raise the necessary financing.

● Acquisition, integration, disposal or restructuring of assets

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

Acquisitions may increase pressure on the cash position and create a need for raising external funding.

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

Sistema may encounter difficulties in creating an efficient system for managing and controlling new assets. The top risks in this area include:

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

If any of the above risks materialise, the relevant asset may lose part of its value and/or worsen Sistema's financial performance.

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

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

If one or more of the specified risks materialise, the Corporation may lose potential profit and thus see poorer financial performance.

● Management and key personnel

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

• Cash flows from subsidiaries and affiliates

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

• Overdependence on MTS»

Sistema's financial results in many respects depend on the success of its core asset, MTS. Any deterioration in the financial performance of MTS may therefore have a negative effect on Sistema's financial results. Any events damaging to the business of MTS may also negatively influence the current state of Sistema's business and its future prospects, and have an impact on financial results.

• Borrowings

Cash flows from portfolio companies may be insufficient to absorb all of the Corporation's investments scheduled for a particular time, making it necessary to borrow funds and thus slowing down strategy implementation.

• Loan covenants

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

• Licences and permits

The operations of Sistema Group's companies are regulated by different government bodies that issue and renew licences, approvals and permits, and also depend on applicable laws and regulations. Regulating authorities to a large extent rely on their own judgement when interpreting and implementing legal requirements, issuing and extending licences, approvals and permits, and monitoring compliance with such licences. There is no guarantee that existing licences and permits, including those issued to the Group's companies, will be extended, that new licences and permits will be issued, or that the companies will

be able to comply with the terms of such licences. There is also no guarantee that existing or future licences or permits will not be suspended or revoked on some grounds. Any of these circumstances can have material negative consequences for Sistema's business.

• Privatised companies

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

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

• Anti-corruption regulations

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

• Competition

All business segments where Sistema operates are open to competition. Telecom, high tech, banking, retail, media, tourism, private healthcare, pharma, property development, forestry and agricultural markets in Russia and elsewhere are highly competitive. The inability of Sistema Group's companies to compete efficiently may have a material negative impact on the Corporation's business, performance, financial situation and development prospects.

• Brand quality and reputation

Developing and maintaining brand awareness for the Group's companies is crucial to shaping public opinion regarding their existing and future products and services. Sistema believes

that the importance of a company's brand is growing steadily in highly competitive markets. Successful development and improvement of brand awareness depends in large part on the efficiency of a company's marketing and its ability to provide quality products and services at competitive prices. Effort and money spent on brand development may prove greater than the resulting income, entailing potential financial losses for Group companies.

Risk appetite

One of the key principles of risk management in Sistema Group is the use of the risk appetite method. This approach implies identifying and monitoring the Corporation's target risk profile in accordance with strategic goals and in the context of integration of these strategic goals into risk management procedures.

Sistema Group's risk appetite determines the level of risks acceptable for shareholders, and includes the following basic provisions:

➤ The amount of potential losses under the risks accepted by Sistema Group should not reach a level that would lead to the termination of the Group's operations, including under stressed conditions;

➤ The structure of cash flows of Sistema Group companies should guarantee the timely fulfilment of obligations to customers in the short and long term;

➤ In its operations, Sistema Group aims to avoid an increased concentration of risk by counterparties, industries and countries/regions;

➤ Sistema Group companies must comply with the requirements of national regulators in countries where they operate, as well as the standards and recommendations of international bodies.

➤ Sistema Group companies should maintain an impeccable business reputation and avoid actions that could undermine it.

➤ Sistema Group companies should maintain and improve their external individual credit ratings issued by international rating agencies.

CORPORATE GOVERNANCE SYSTEM

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Kronstadt Group

is a Russian high-tech company that engineers and manufactures knowledge-intensive products. The company is one of Russia's leading producers of unmanned aerial vehicles (UAVs), with deep experience of designing and manufacturing UAVs and on-board equipment.

CORPORATE GOVERNANCE SYSTEM

High quality corporate governance and transparency are key elements of Sistema's investment strategy. Sistema aims to meet the best international standards of corporate governance and transparency, and to continuously improve its corporate governance practices through timely implementation of any required changes and high efficiency of managerial decision-making.

Corporate governance principles:



clear and effective procedures for taking investment decisions;



reasonable transparency of management processes for investors and partners;



high level of professionalism of the Board of Directors, and active involvement of the Board in strategic planning, management and supervision of business processes;



special Board focus on related-party transactions and potential conflict of interest situations;



a predictable dividend policy taking into account reasonable expectations of investors and Sistema's financial resources;

Sistema is guided by these principles in all of its activities, including strategic and financial management, HR and social policy, preparation of financial statements, control and audit, and risk management. These principles lay the foundations for strengthening the Corporation's investment case.

In its corporate governance practices Sistema abides by applicable legislation, the Moscow Exchange Listing Rules, the recommendations of the Russian Corporate Governance Code^① and the guidelines set out in the UK Corporate Governance Code^{②③}.

In accordance with Russian legislation and international best practice the Corporation's Charter and internal regulations define its corporate governance principles and procedures, as well as the composition, procedures and powers of its governance and control bodies.

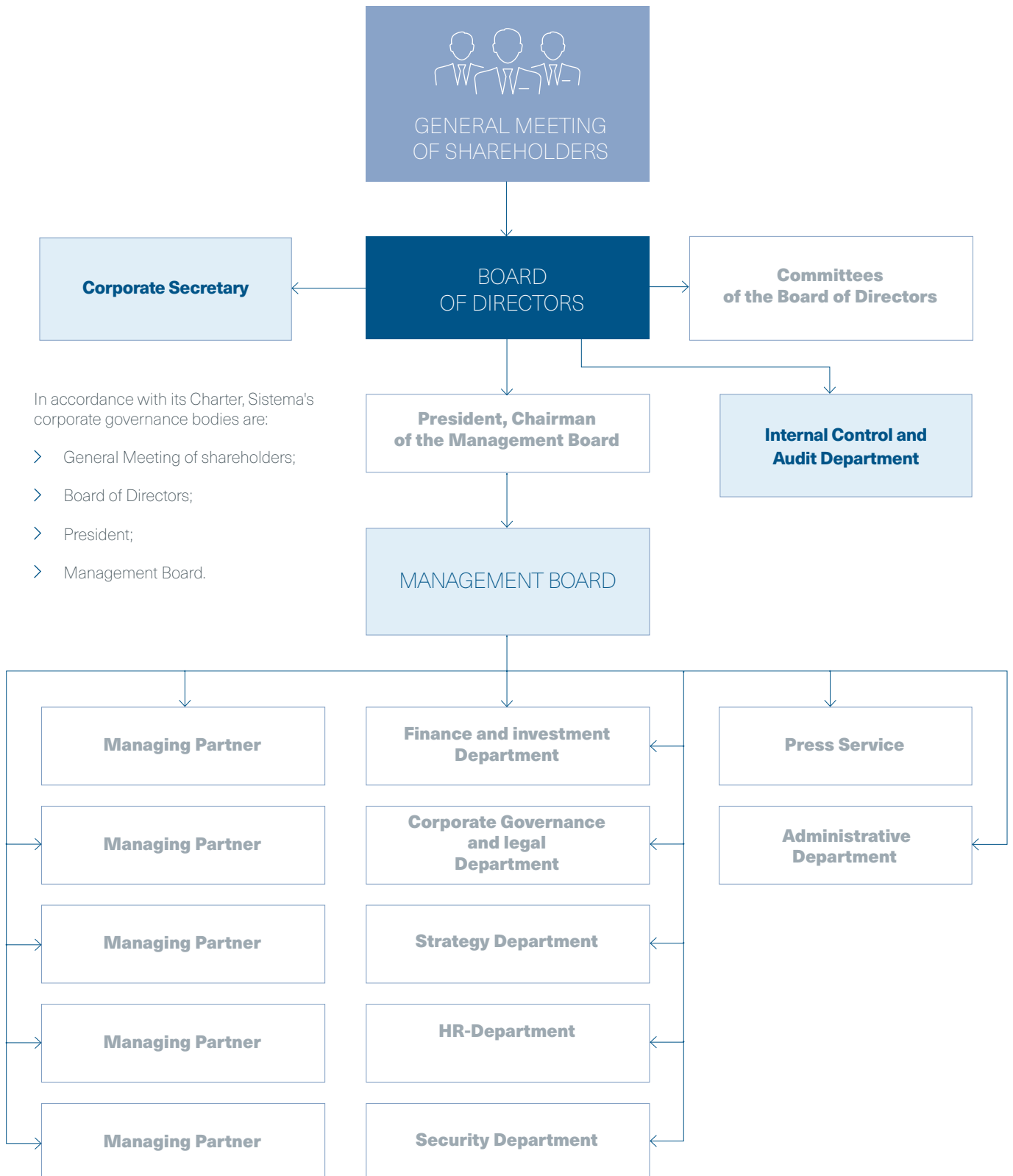
Sistema's Corporate Governance and Ethics Code sets out the Corporation's additional commitments, as well as those of its senior management and employees, in terms of social responsibility, transparency and ethical business principles.

① The text of the **Corporate Governance Code** recommended by the letter of the Bank of Russia No 06-52/2463 dated 10 April 2014.

② The conformity of Sistema's corporate governance practices with the standards set out in the Corporate Governance Code of Russia and the UK Corporate Governance Code is analysed in Annexes 5 and 6 to this report. If Sistema's corporate governance practices diverge from the standards recommended in the above documents, the Corporation provides an explanation of how it ensures that the balance of interests envisaged in the applicable corporate governance standards is observed.

③ The text of the **UK Corporate Governance Code**.

Sistema's corporate governance structure as of 2 April 2018:



General Meeting of shareholders

The General Meeting of shareholders is the supreme governing body of the Corporation. The activities and powers of the Annual General Meeting of shareholders (AGM) are governed by the laws of the Russian Federation, the provisions of Sistema's Charter, and the Terms of Reference of the General Meeting of shareholders.

Sistema aims to encourage shareholders to participate in the AGM. For the last five years (2013-2017) AGMs have therefore been held at the Corporation's head office in Moscow.



All materials for General meetings of shareholders are made available on the website:

www.sistema.ru
www.sistema.com

Observance of shareholders' rights

Proposing agenda items for the General Meeting of shareholders, nominating candidates to the Corporation's governance bodies

Shareholders who own at least 2% of the Corporation's voting shares are entitled to propose items for the agenda of the AGM and to nominate candidates for the Corporation's governance and control bodies. Such proposals should be submitted to the Corporation at least 100 days after the end of the financial year in accordance with the Terms of Reference of the General Meeting of shareholders and other internal regulations of the Corporation^①. Candidates nominated by shareholders to governance and control bodies are provisionally reviewed by the Nomination, Remuneration and Corporate Governance Committee reporting to the Board of Directors.

Participation in General Meetings of shareholders and voting on agenda items

Sistema aims to ensure that shareholders are fully able to exercise their right to participate in managing the Corporation. This includes the right to take part in AGMs and vote on agenda items, as well as the right to receive a share of Sistema's profits in the form of dividends.

To ensure shareholders are fully able to exercise their right to take part in the AGM, all materials regarding agenda items are published on the Corporation's website in Russian and in English (www.sistema.ru and www.sistema.com, respectively) at least 30 days before the meeting. The AGM notice, ballots and all other materials are also sent to registered shareholders by post, and to nominee shareholders in an electronic form.

All shareholders are entitled to take part in General Meetings of shareholders

and to vote on agenda items in person or through a representative (if the AGM is held with in-person voting).

Shareholders may complete ballot papers and send them to Sistema before the AGM. From 2017 shareholders may also use the e-voting system available on the website of the Corporation's registrar, JSC Reyestr. To use this service, shareholders should apply through the Reyestr website for access to a personal shareholder account. If a shareholder has a personal account on the e-government portal, they may access the service without applying to the registrar. More detailed information on how to access the e-voting service is available on Reyestr's website: <http://www.aoreestr.ru/shareholders/e-voting>.

Holders of Sistema's GDRs may vote on AGM agenda items by proxy as per the established procedure via a depositary bank servicing Sistema's GDR programme. In 2017, Sistema's depositary bank was Citibank, N.A. For more information on the depositary bank and voting procedures please go to the bank's website www.citiadr.idmanagedsolutions.com. The depositary bank collects votes of GDR holders about which it has information via clearing systems. These votes are included in the general ballot along with all votes cast for and against the proposed draft resolution, as well as abstentions.

The results of voting on agenda items of General Meetings of shareholders held with in-person voting are announced before the end of the meeting. After the minutes of the AGM are drafted, shareholders may also view the AGM voting results on the Corporation's website.

Dividend policy

The Corporation announces the amount of dividends recommended by the Board of Directors and the record date in advance. Shareholders are thus able to use this information about expected dividends in order to take informed decisions regarding management of their shares.

^① If an Extraordinary General Meeting of shareholders is conducted and its agenda includes the election of the Board of Directors, shareholders who own a sufficient number of shares are entitled to nominate candidates for the Board. Proposals to this effect must be received by the Company at least 30 days before the date of such a meeting.

In determining the recommended amount of dividends for 2016, the Board of Directors was guided by the Dividend Policy^①, which stipulates that dividend distributions to be recommended by the Board for a reporting year shall be based on a target dividend yield of at least 6%, or RUB 1.19 per ordinary share, whichever is greater.

In line with the Corporation's approved dividend policy, Sistema aims to distribute dividends twice a year: based on the results of the first nine months and of the full reporting year. In October 2017, in accordance with the new Dividend Policy, the Board of Directors recommended that the General Meeting of shareholders approve payment of interim dividends for the nine months of 2017.

After the end of the reporting period, the Board of Directors, taking into account the priority of the strategic goal to reduce the Corporation's debt, decided to pay dividends for 2017 in the amount of RUB 0.11 per share, agreeing with the Corporation's deviation from the current dividend policy. In order to maintain a balance between the rights and interests of all shareholders and the Corporation's ability to pay dividends, the Board of Directors, when determining the amount of dividends, will take into account the acceptable rate of Sistema's debt reduction and the proportionality of dividends to the current cash flow of the Corporation. Sistema plans to continue to pay dividends in accordance with the current dividend policy after achieving the goal of debt reduction..

Shareholder access to the Corporation's documentation

An important guarantee of shareholders' right to participate in managing the company is the right to access documents that the Corporation is obliged to provide to shareholders in accordance with article 91 of the Federal Law on Joint-Stock Companies. To exercise this right, shareholders should send a written request for access to the relevant documents to Sistema's Corporate Secretary. After the time for providing the documents is agreed upon, the requested documents will be provided to the shareholder. When a shareholder is granted access to confidential documents, they undertake a written non-disclosure obligation, thus providing a guarantee that the rights of all the Corporation's shareholders are protected. If the shareholder requires copies of documents, the shareholder bears the costs incurred by the Corporation (RUB 10 per page).

Information about General Meetings of shareholders in 2017

Annual General Meeting of shareholders

Date and venue	24 June 2017, 13/1 Mokhovaya St, Moscow
Form of the meeting	Meeting (in-person voting)
Items reviewed and decisions taken	<ul style="list-style-type: none"> > annual report and financial statements for 2016 were approved, > dividends for 2016 were approved in the amount of RUB 7,816,500,000.00, or RUB 0.81 per ordinary share (RUB 16.2 per GDR), > Board of Directors and Audit Review Commission were elected, > auditors were appointed to audit the Corporation's RAS and IFRS accounts for 2017, > decisions were taken to approve the revised Charter and internal documents regulating the work of Sistema's governing bodies.
Attended	Shareholders holding a combined 80.6% of votes
Date and reference number of the minutes	24 June 2017, No1-17

Extraordinary General Meeting of shareholders

Date	28 November 2017
Form of the meeting	Absentee voting
Items reviewed and decisions taken	Interim dividends based on the 9M 2017 results were approved in the amount of RUB 6,562,000,000.00 or RUB 0.68 per ordinary share (RUB 13.6 per GDR)
Attended	Shareholders that together hold 79.8% of votes
Date and reference number of the minutes	01 December 2017, No 2-17

① The revised dividend policy was approved in April 2017.

Board of Directors

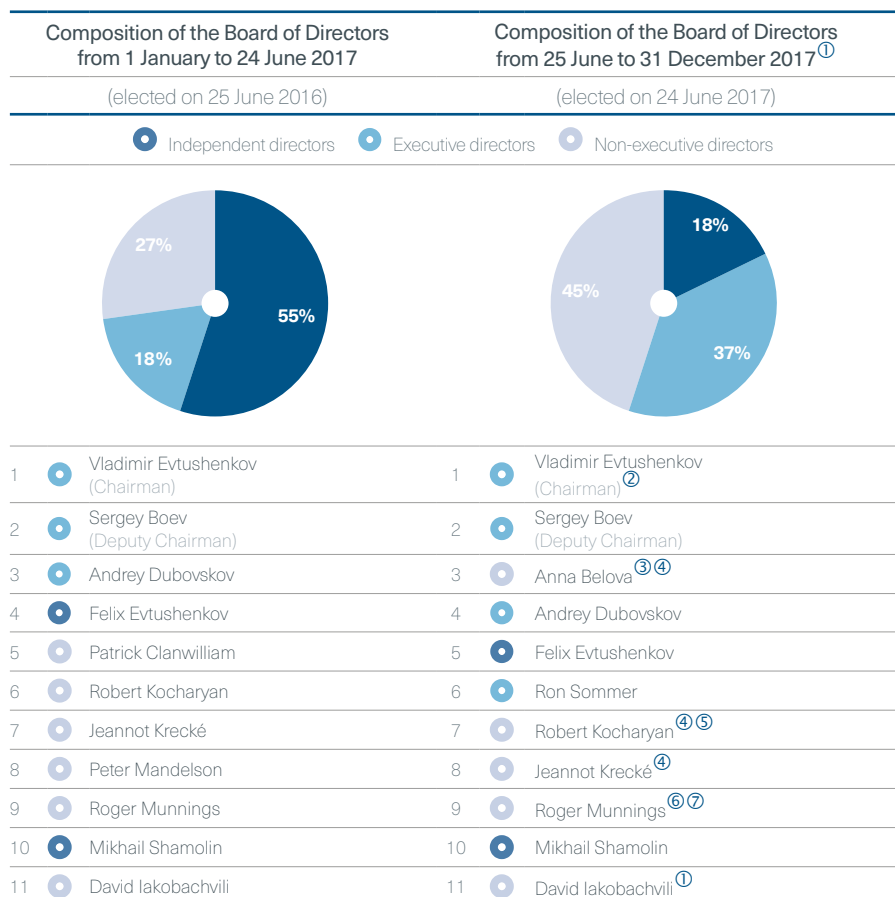
The Board of Directors is a collective governance body in charge of oversight and strategic management of the Corporation.

Under Sistema's Charter the responsibilities of the Board of Directors include:

- > supervising the operations of the Corporation in general;
- > formulating strategic and financial development plans;
- > determining investment principles and criteria;
- > assessing the performance of the management team;
- > defining the principles of Sistema's corporate governance;
- > approving transactions and strategic projects in accordance with applicable legislation and the Corporation's internal regulations

Board composition

The Board of Directors effective as of 31 December 2017 was elected at the Company's AGM, which was held on 24 June 2017. Independent directors account for 45% of the Board of Directors.



V. Evtushenkov



S. Boev



A. Belova



A. Dubovskov



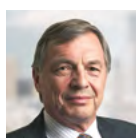
F. Evtushenkov



R. Sommer



R. Kocharyan



J. Krecké



R. Munnings



M. Shamolin



D. Iakobachvili

① Short biographies of the members of the Board of Directors and information about their shareholdings in Sistema are available in Annex 1.

② The Chairman and Deputy Chairman of the Board of Directors were elected at the first Board meeting on 24 June 2017.

③ Anna Belova was nominated to the Board of Directors by a group of minority shareholders.

④ Independent directors that meet the independence criteria set out in the Moscow Exchange Listing Rules.

⑤ Robert Kocharyan was recognised as independent by the Corporation in accordance with the Moscow Exchange Listing Rules. Information on this decision was disclosed on Sistema's website.

⑥ Independent directors that meet the independence criteria set out in the Moscow Exchange Listing Rules.

⑦ Roger Munnings was recognised as independent by the Corporation in accordance with the Moscow Exchange Listing Rules. Information on this decision was disclosed on Sistema's website.

The Board of Directors has 11 members. The main change compared to the 2016-2017 corporate year is that Patrick Clanwilliam and Peter Mandelson left the Board and new members Anna Belova and Ron Sommer were elected.

Since the end of the reporting period the status of two Board members has changed. On 13 March 2018, Andrey Dubovskov lost the status of a non-executive director and became an executive director following his appointment as President and Chairman of Sistema's Management Board, and Mikhail Shamolin became a non-executive director. Felix Evtushenkov (previously an executive director) left the Management Board on 1 April 2018 and became a non-executive director.

Meetings of the Board of Directors

Board meetings are held on a regular basis in accordance with the Board's approved annual work plan, which is drawn up based on Sistema's strategic planning and reporting cycle.

In 2017, the Board of Directors held 15 meetings: eight scheduled in-person meetings and seven unscheduled meetings with absentee voting. The Board of Directors reviewed a total of 81 agenda items in 2017.

Over the reporting period the Board of Directors considered the following key items:

- ① Sistema's development strategy.
- ② Sistema Group's strategic planning cycle.
- ③ Investment policy, strategy of Sistema's investment funds and priority areas for investment in 2017-2018.
- ④ Managing and creating value for Sistema's investments in the following areas:
 - > telecom assets;
 - > consumer (retail) assets including e-commerce assets;
 - > agricultural assets;
 - > timber processing and pulp and paper assets;
 - > banking assets;
 - > high-tech assets and investments;
 - > real-estate assets;
 - > healthcare assets;
 - > pharmaceutical assets;
 - > power-grid assets;
 - > hotel assets.
- ⑤ Sistema's results and performance against budget.
- ⑥ Budget planning, approval of Sistema's consolidated budget and management's key performance indicators for 2017.
- ⑦ Functional strategies (for financial management and financial planning, human resources management, corporate security, etc).

- ⑧ Placement of securities (registration-exempt bonds).
- ⑨ Management of the Corporation's risks.
- ⑩ Report of the Internal Control and Audit Department.
- ⑪ HR matters and employee incentive systems.
- ⑫ Assessment of corporate governance including the results of external assessment of the Board of Directors and Committees of the Board of Directors.
- ⑬ Corporate social responsibility.
- ⑭ Mandatory corporate procedures, including convening the AGM and developing the work plan of the Board of Directors.
- ⑮ Composition of Board Committees and determining the status of Board members.
- ⑯ Approval of internal regulations
- ⑰ Approval of transactions, including acquisition of equity stakes.

Number of in-person meetings



Number of absentee votes



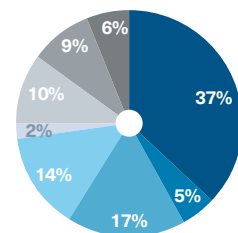
Number of items in accordance with the Board's work plan



Actual number of items reviewed by the Board



Items reviewed by the Board in 2017



- Business strategies, investments, new activities
- Appointments and HR policy
- Corporate governance and securities
- Approval of transactions
- Approval of internal documents
- Holdings in subsidiaries, groups; branches
- Financial reporting, planning and audit
- Functional strategies

Most items on the agenda of Sistema's Board of Directors in 2017 were related to the business strategy of the Corporation and the management of its investments in various industries, approval of transactions (including equity holdings in other companies) and corporate governance. In 2017, the number of items related to Sistema's investment funds and their management structure significantly increased.

Preparation for meetings and quorum of the Board of Directors

Preparatory procedures for Board meetings are designed to ensure maximum use of the experience and expertise of the Board members. Materials on agenda items are published on the Board's electronic portal at least 10 days before the meeting, which gives members sufficient time to form an informed opinion on all agenda items. Most the agenda items (including approval of transactions) undergo a mandatory preliminary review at meetings of the Committees of the Board of Directors.

The Corporation has introduced the procedure of challenging speakers on key agenda items to enable Board members (as a rule, independent members) to conduct an in-depth review of materials and hold discussions with management. This approach makes it possible to increase the involvement of Board members in the development of the Corporation's strategy.

Board meetings usually have a high attendance rate: the average quorum of meetings in 2017 was

99%

Business strategies, investments, new activities



Appointments and HR policy



Corporate governance and securities



Approval of transactions



Approval of internal documents



Holdings in subsidiaries, groups; branches



Financial reporting, planning and audit



Functional strategies



Participation of the Board members in meetings of the Board of Directors and its Committees in 2017

	Board of Directors	Strategy Committee	Audit, Finance and Risk Committee	Nomination, Remuneration and Corporate Governance Committee	Ethics and Control Committee	Investor Relations and Dividend Policy Committee
V. Evtushenkov	14/15 ^①	9/9	-	-	-	-
A. Belova ^②	9/9	-	6/6	-	3/3	3/3
S. Boev	15/15	4/9	-	8/8	6/6	-
A. Dubovskov	15/15	8/9	-	-	-	-
F. Evtushenkov	15/15	5/9	-	-	3/6	-
R. Sommer ^②	8/9	1/4	2/6	2/3	-	-
P. Clanwilliam ^③	6/6	-	6/6	-	-	3/3
R. Kocharyan	15/15	7/9	-	8/8	6/6	-
J. Krecké	15/15	-	12/12	-	-	6/6
P. Mandelson ^③	6/6	-	-	2/5	1/3	-
R. Munnings	15/15	-	12/12	8/8	6/6	6/6
M. Shamolin	15/15	9/9	-	-	-	0/3
D. Iakobachvili	15/15	5/9	10/12	7/8	-	6/6

① The first number shows the number of meetings attended by the Board member, the second number stands for the total number of meetings.

② Member of Sistema's Board of Directors from 24 June 2016.

③ Member of Sistema's Board of Directors until 24 June 2017.

Assessment of the Board of Directors' performance

Assessment of the Board of Directors' performance is an important tool that helps identify the areas where the work of the Board of Directors and its Committees may be improved.

In 2017, Sistema for the first time conducted an external assessment of its Board of Directors by engaging Nestor Advisers, an independent professional advisory firm that specialises in corporate governance.

The goal of the assessment was:

- > to increase the effectiveness of the Board of Directors by identifying areas for improvement in its structure, functions and ability to constructively challenge management;
- > to develop a shared position of the Board of Directors as to how to maximise the contribution of each member to the Board's work;
- > to increase the trust of shareholders and investors in the Corporation's corporate governance practices.

The assessment of the Board of Directors was conducted based on:

- > analysis of the Corporation's public and internal documents (Charter, Terms of Reference of the Board of Directors, Terms of Reference of Committees, 2016 Annual Report, Corporate Governance Code), the work plan of the Board of Directors, agendas and minutes of the Board of Directors and materials on agenda items provided to Board members;
- > Board members completed online questionnaires consisting of 70 questions formulated individually for Board members, the Chairman and the members of the Board's Committees;

The assessment covered the following areas of the Board's work:

Membership and activities of the Board of Directors



Balance of knowledge, skills and industry experience of the Board members



Effectiveness of the procedure for nominating candidates to the Board of Directors



Quality of communication between the Board of Directors and the Corporation's executive management

- > interviews were conducted with members of the Board of Directors, the Corporation's President, Senior Vice President, Head of Finance and Investment Function, Head of Internal Audit Department, and Corporate Secretary.

The assessment found the work of the Board of Directors to be high quality and efficient. Nestor Advisers believes that the Board of Directors provides the required level of governance and control at the company. The external assessment provided an independent professional opinion of the priorities for developing the Corporation's corporate governance system.

Functional areas of the Board's work



Involvement of the Board of Directors in strategy development



Overseeing the operation of the internal audit system








Work of Committees of the Board of Directors



Assessment of management's performance

Committees of the Board of Directors

Sistema PJSC has five committees of the Board of Directors:

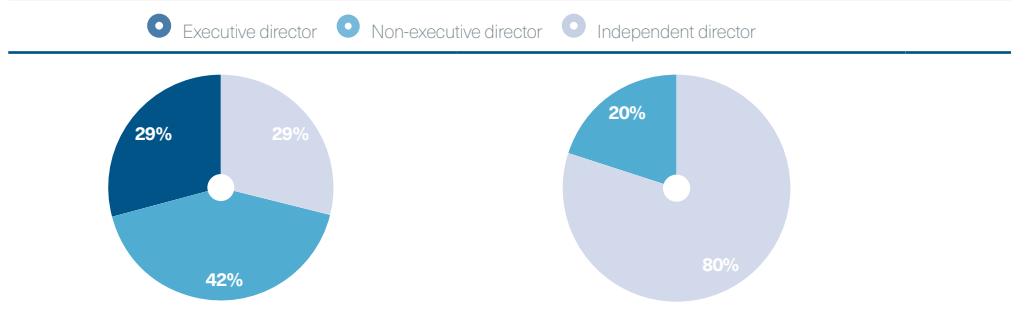
- 
Strategy Committee;
- 
Audit, Finance and Risk Committee;
- 
Nomination, Remuneration and Corporate Governance Committee;
- 
Ethics and Control Committee;
- 
Investor Relations and Dividend Policy Committee;

The main role of the Committees is to provide assistance to the Board in preparing and adopting decisions in specific functional areas, and to ensure prior in-depth scrutiny of matters put forward for consideration by the Board of Directors.

The status, procedures for nominating members, responsibilities and decision-making processes of the Board's Committees are regulated by each committee's Terms of Reference, which are approved by the Board of Directors and published on the Corporate Documents section.

① The President of Sistema attends Committee meetings as a permanent invitee and does not vote on matters submitted for consideration of the Committee.
 ② Felix Evtushenkov was elected Deputy Chairman of the Board of Directors after the reporting period.
 ③ As of 31 December 2017, the Chairman of the Ethics and Control Committee was Sergey Boev. After the reporting period, Felix Evtushenkov was appointed Chairman of the Ethics and Control Committee.

Strategy Committee	Audit, Finance and Risk Committee
Functions	
<ul style="list-style-type: none"> > analysing strategic management issues of Sistema Group; > reviewing strategy planning methodology; > reviewing M&A transactions with a value exceeding USD 100m; > reviewing Sistema Group's investment projects related to entry into new geographies or industries and projects with significant state ownership. 	<ul style="list-style-type: none"> > facilitating and supervising the processes of preparing and auditing the Company's financial statements; > assessing the quality of audit services based on the audit of Sistema's financial statements and making preliminary recommendations to the Board of Directors with respect to selecting RAS and IFRS auditors for the Corporation; > assessing the risk management system and ensuring compliance with applicable legal requirements in financial reporting, audit and planning; > conducting a provisional appraisal of transactions submitted to the Board of Directors; > budgeting and financial modelling.



- V. Evtushenkov** Chairman of the Board of Directors of Sistema;
 - S. Boev** Deputy Chairman of the Board of Directors of Sistema;
 - A. Dubovskov** Until March 2018 – President of MTS; starting from March 2018 – President of Sistema, member of the Board of Directors of Sistema;
 - F. Evtushenkov** Deputy Chairman of the Board of Directors of Sistema ^②;
 - R. Sommer** Member of the Board of Directors of Sistema, Chairman of the Board of Directors of MTS;
 - R. Kocharyan** Independent Director;
 - M. Shamolin** Until March 2018 – President of Sistema; starting from March 2018 – President of Segezha Group, member of the Board of Directors of Sistema;
 - D. Iakobachvili** Independent Director.
- R. Munnings** Independent Director;
 - A. Belova** Independent Director;
 - R. Sommer** Member of the Board of Directors of Sistema, Chairman of the Board of Directors of MTS
 - J. Krecké** Independent Director;
 - D. Iakobachvili** Independent Director.

Number of meetings in 2017	
9 meetings	12 meetings
Topics discussed	
<ul style="list-style-type: none"> > value creation at portfolio companies; > investment projects. 	<ul style="list-style-type: none"> > assessment of the quality of audit services, results of the tender for provision of audit services, recommendations for the Board of Directors on appointing an external auditor; > review and approval of the Corporation's quarterly and annual financial reports, annual report, annual budget and report on performance against the budget; > review of management's reports on risk management at Sistema and the risk map; > preliminary review of transactions submitted to Sistema's Board of Directors.

Nomination, Remuneration and Corporate Governance Committee

Ethics and Control Committee

Investor Relations and Dividend Policy Committee

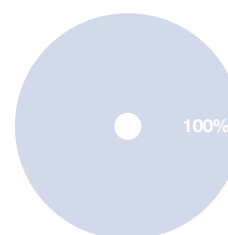
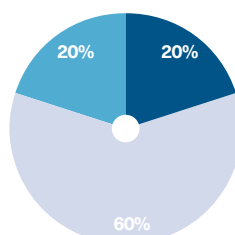
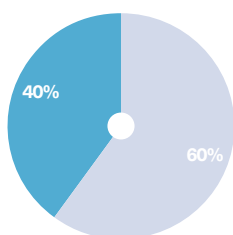
Functions

- > facilitating the development of an efficient corporate governance system that meets international standards at the Corporation and its portfolio companies;
- > conducting a preliminary review of candidates:
 - for the Board of Directors of Sistema;
 - for the boards of directors of portfolio companies;
 - for senior management positions at the Corporation and its portfolio companies;
 - for the position of the Corporation's Corporate Secretary;
- > developing incentive and remuneration policies for the Corporation;
- > organising the procedure of assessment of the Board of Directors' performance.

- > forming an efficient system of economic and corporate security;
- > monitoring compliance with the requirements of the Corporation's Ethics Code;
- > introducing a system for prevention of corruption and fraud and other misconduct related to violations of applicable laws at Sistema Group companies.

- > increasing the investment case for the Corporation's securities;
- > supporting effective relations with the financial community;
- > developing Sistema's dividend policy, including development of recommendations for the Corporation's Board of Directors with respect to the amount of dividends payable;
- > protection of the rights and interests of Sistema's shareholders.

● Executive director ● Non-executive director ● Independent director



R. Kocharyan Independent Director;
S. Boev Deputy Chairman of the Board of Directors of Sistema;
R. Sommer Member of the Board of Directors of Sistema, Chairman of the Board of Directors of MTS;
R. Munnings Independent Director;
D. Iakobachvili Independent Director.

V. Evtushenkov Chairman of the Board of Directors of Sistema®;
A. Belova Independent Director;
S. Boev Deputy Chairman of the Board of Directors of Sistema;
R. Kocharyan Independent Director;
R. Munnings Independent Director.

D. Iakobachvili Independent Director;
A. Belova Independent Director;
J. Krecké Independent Director;
R. Munnings Independent Director.

Number of meetings in 2017

8 meetings

6 meetings

6 meetings

Topics discussed

- > development of corporate governance at Sistema and Sistema Group companies, consideration of candidates for Sistema's Board of Directors;
- > incentive system, performance assessment and bonuses for key managers and employees;
- > HR process and preliminary review of candidates for top management positions at Sistema and nominees for the boards of directors of the key portfolio companies.

- > performance of the Internal Control and Audit Department in 2016 and work plan for 2018;
- > results of ethics assessment of the Corporation's employees;
- > system for preventing and curbing fraud and corruption at Sistema.

- > amount of dividends and changes in the Corporation's dividend policy;
- > the Corporation's charity strategy
- > market analysis and monitoring, perception of Sistema by the investment community.

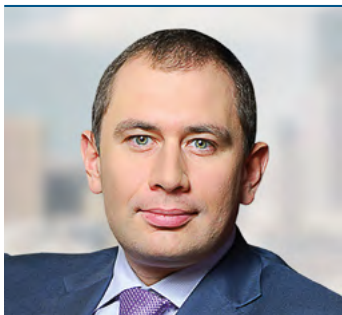
President

The President is a permanent chief executive officer whose main tasks include managing the day-to-day operations of the Corporation and dealing with matters outside the remit of the General Meeting of Shareholders, Board of Directors and Management Board, with the aim of ensuring the Corporation's profitability and safeguarding the rights and legitimate interests of its shareholders.

The President reports to the Board of Directors and General Meeting of shareholders, and performs the functions of chairman of the collective executive body (Management Board).

Mikhail Shamolin was President of Sistema from 10 March 2011 to 12 March 2018. On 13 March 2018, following a decision of the Board of Directors, Andrey Dubovskov was appointed President and Chairman of the Management Board of Sistema for a three-year term.

Biographical information



Mikhail Shamolin

Born in Moscow in **1970**.

In 1992, graduated from the Moscow Automobile and Road Technical Institute, and in 1993 from the Russian Presidential Academy of Public Administration.

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

In 1998-2004, worked for McKinsey & Co.

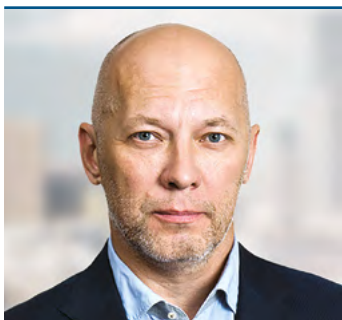
In 2004-2005, Managing Director for Ferroalloys at Interpipe Corp (Ukraine).

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

In 2011-2018, President of Sistema.

Since March 2018, President and Chairman of the Management Board of Segezha Group.

Member of the Board of Directors of Sistema and the Board of Trustees of Sistema Charitable Foundation.



Andrey Dubovskov

Born in Almaty in **1966**.

In 1993, graduated from the Russian State Gerasimov University of Cinematography.

Has extensive experience at telecoms companies: **since 1993**, he has held multiple managerial positions at Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Telecommunications, CJSC 800, and other companies in Moscow, Almaty, Nizhny Novgorod, Yekaterinburg, Perm and Kiev.

In 2002-2004, CEO of Tele2 (Nizhny Novgorod).

In 2004, joined MTS as head of the company's Nizhny Novgorod branch.

In 2006-2007, Director of the MTS Ural Macroregion.

In 2007, became First Deputy CEO of UMS (MTS Ukraine) and in 2008 was appointed head of the MTS Ukraine business unit.

In 2011-2018, President of MTS.

On 13 March 2018, appointed President of Sistema PJSC following a decision of the Board of Directors.

Member of the Board of Directors of Sistema and the Board of Trustees of Sistema Charitable Foundation.

Management Board

The Management Board determines methods for implementing the Corporation's development strategy, formulates development plans, determines and monitors investment processes and previews most matters that are subsequently submitted to the Corporation's Board of Directors.

In 2017, the Management Board conducted **16 meetings** and reviewed **46 agenda** items in the following key areas:

- > Sistema's development strategy.
- > Management strategy and structure of Sistema's investment funds.
- > Sistema Group's strategic planning cycle.
- > Development strategy, value creation and monetisation of Sistema's key portfolio assets.
- > Sistema's functional strategies.
- > Budget execution, budget planning and key performance indicators.
- > Debt and liquidity management.
- > Sistema's corporate social responsibility.
- > Review of specific deals.

In 2015, following the expiry of the term of the previous Management Board, Sistema's Board of Directors approved a new Management Board for another three-year term. As of 31 December 2017, the Corporation's Management Board consisted of 14 members.

Changes to Sistema's Management Board

Members of the Management Board as of 31 December 2017 ^①		Members of the Management Board as of 02 April 2018	
1	Mikhail Shamolin	1	Andrey Dubovskov (Chief Executive Officer (President), Chairman of the Management Board)
2	Alexander Gorbunov	2	Igor Alyoshin (Vice President for Security)
3	Alexey Guryev	3	Alexey Guryev (Vice President for HR)
4	Felix Evtushenkov	4	Artem Zassoursky (Vice President for Strategy)
5	Artem Zassoursky	5	Alexey Katkov (Managing Partner)
6	Leonid Monosov	6	Oleg Mubarakshin (Managing Partner)
7	Oleg Mubarakshin	7	Vsevolod Rozanov (Managing Partner)
8	Vsevolod Rozanov	8	Artem Sirazutdinov (Managing Partner)
9	Artem Sirazutdinov	9	Vladimir Travkov (Vice President for Finance and Investment)
10	Ali Uzdenov	10	Ali Uzdenov (Managing Partner)
11	Mikhail Cherny	11	Sergey Shishkin (Vice President for Corporate Governance and Legal Matters)
12	Evgeny Chuikov		
13	Sergey Shishkin		
14	Vladimir Shukshin		

The following changes were made to the Management Board in 2017:

E. Vitshak	18 February 2017	Membership terminated.
A. Guryev	8 March 2017	Elected to the Management Board, appointed Vice President and Head of the HR Department of Sistema.
V. Korchunov	1 April 2017	Membership terminated.

^① Short biographies of the members and information about their shareholdings in Sistema PJSC are available in Annex 1.

President's Committees

The following committees chaired by the President contribute to the improvement of managerial decision-making:



Finance and Investment Committee;



Tender Committee;



HR Committee;



Security Committee;



Discipline Committee.

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

Finance and Investment Committee

The responsibilities of the Finance and Investment Committee include:

- > review of the Corporation's investment projects at different stages from project idea to completion;
- > approval of financial models, business plans and key performance indicators for investment projects;
- > recommendations regarding feasibility of projects, exit scenarios and sources of financing;
- > review of external financing terms.

The Committee consists of 10 members.

As of 31 December 2017, the Chairman of the Committee was the Corporation's President, Mikhail Shamolin; and the Deputy Chairman was Senior Vice President, Head of the Finance and Investment Function Vsevolod Rozanov.



In 2017, the Committee met

45 times

The Expert Council operates under the Finance and Investment Committee and considers all new investment ideas for the Corporation and potential acquisitions of assets in new and related industries, as well as in industries in which Sistema already has a presence.

The Expert Council consists of 13 members.

As of 31 December 2017, the Chairman of the Expert Council was Vice President, Head of Strategy Function Artem Zassoursky.



In 2017, the Expert Council met

13 times

The Finance and Investment Committee also has a Risk Subcommittee responsible for assessing the risks facing Sistema and Sistema Group companies and for monitoring performance against risk management action plans.

The Risk Subcommittee consists of six members.



In 2017, the Risk Subcommittee met

9 times

Tender Committee

The responsibilities of the Tender Committee include:

- > organising tenders for goods, works, and services;
- > ensuring acquisitions of goods, works, and services and sales of the Corporation's property on the best terms available;
- > ensuring the transparency of purchasing procedures;
- > facilitating prevention of corruption and other wrongdoings in the area of purchasing.

The Committee consists of 11 members.

As of 31 December 2017, the Chairman of the Committee was Senior Vice President, Head of the Finance and Investment Function Vsevolod Rozanov.



In 2017, the Tender Committee met

30 times

HR Committee

The responsibilities of the HR Committee include:

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

The Committee consists of nine members.

As of 31 December 2017, the Chairman of the Committee was President of Sistema Mikhail Shamolin.



In 2017, the Committee met

29 times

Security Committee

The Security Committee reviews matters related to implementation of the adopted security policy across Sistema Group.

The Committee consists of 37 members.

As of 31 December 2017, the Chairman of the Committee was Vice President, Head of the Security Department Vladimir Shukshin.



In 2017, the Committee met

4 times

Discipline Committee

The Discipline Committee reviews matters pertaining to compliance with labour law, internal regulations and instructions of the company's governance bodies, and develops recommendations on whether there are reasons for imposing disciplinary penalties on employees.

The Committee consists of seven members.

As of 31 December 2017, the Chairman of the Committee was President of Sistema Mikhail Shamolin.



In 2017, the Committee met

1 time

Specific characteristics of risk management, internal control and internal audit systems

Risk management

Sistema's risk management system uses a two-level approach, with risks identified at Sistema and at portfolio companies consolidated to assess their impact on Sistema Group as a whole.

The Corporation's integrated risk management system (ERM) addresses the following tasks:

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

Sistema's risk management procedures are carried out by a dedicated risk management unit.

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

Sistema's senior executives make regular reports on risk management in the Corporation to the Audit, Finance and Risk Committee. The annual report is submitted to the Board of Directors.

Internal control system

The Internal Control Policy was approved by the Corporation's Board of Directors and is an internal senior-level document describing the key principles of internal control as a continuous and integrated process that involves all of the Corporation's units and governance bodies of the Corporation.

The key objectives of the internal control system are:

- creating control mechanisms that ensure business processes remain efficient and the Corporation's investment projects are implemented;
- protecting the Corporation's assets and making efficient use of its resources;
- protecting the interests of the Corporation's shareholders, and preventing and resolving conflicts of interest;
- creating conditions for timely preparation and submission of reliable reports and other information that the Corporation is legally required to disclose publicly;
- ensuring that the Corporation complies with applicable legislation and regulatory requirements.

The Corporation maintains "three lines of defence" (in addition to the Board of Directors and the Corporation's senior management) to ensure the effectiveness of its internal control system:

Level 1: Heads of subdivisions and employees are responsible for assessing and managing risks and building an efficient internal control system within their remit;

Level 2: At this level the function is performed by several subdivisions and Committees. For example:

- The risk management function and the Risk Subcommittee are responsible for developing and monitoring the implementation of an effective risk management practice;

- The Finance and Investment Committee approves and monitors implementation of investment projects;
- The Discipline Committee reviews matters related to breaches of the Ethics Code and disciplinary offences;
- The Security Department is responsible inter alia for economic security, prevention of corruption and information security.

Level 3: The Internal Control and Audit Department conducts an independent assessment of the effectiveness of the internal control system, as well as risk-management and corporate-governance procedures.

All employees in charge of various control procedures are responsible for the controls and risk management activities set out in their job descriptions and internal regulations.

Internal audit

The body in charge of internal control at the Corporation and Sisteia Group companies is the Internal Control and Audit Department, which reports to the Board of Directors (functionally) and Sistema's President (administratively). The head of the Department is appointed and dismissed by the President based on resolutions passed by the Board of Directors following preliminary approval by the Board's Ethics and Control Committee.

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

- helping shareholders and management improve the internal control system by performing regular audits of the effectiveness of the Corporation's internal-control, risk-management, and corporate-governance systems;
- supplying management and shareholders with objective information on existing internal risks and the probability that they will occur;

➤ raising awareness among management about the performance of Sistema Group companies;

➤ monitoring the achievement of the goals of shareholders of the Corporation and Sistema Group companies.

To meet these objectives, the Internal Control and Audit Department:

➤ carries out independent audits of individual operations, processes and units;

➤ assesses the effectiveness of the internal-control system;

➤ assesses the effectiveness of the risk-management system;

➤ assesses the effectiveness of the corporate-governance system, prevents legal and regulatory violations, ensures compliance with professional and ethical standards and prepares recommendations to raise these standards;

➤ develops recommendations to remedy identified deficiencies and monitors the execution of any remedial action taken;

➤ examines documents provided regarding investment projects for compliance with current regulations; performs scheduled and unscheduled monitoring of performance against targets;

➤ monitors compliance with procurement procedures;

➤ administers the Hotline, the Discipline Committee and ethics assessments.

The Internal Control and Audit Department has all the resources and powers required to perform these functions.

The Internal Control and Audit Department works closely with independent auditors, coordinates audits and offers consultations while preparing the Department's annual audit plans to assess the effectiveness

of internal controls as applied to financial statements, as well as during discussions and assessment of identified risks.

In 2017, the Internal Control and Audit Department conducted 70 scheduled and unscheduled audits to assess the effectiveness of internal-control, risk-management and corporate-governance systems. These audits did not uncover any weaknesses or risks that could affect the sustainability of the Corporation's business as a whole.

Regular reports on the results of the Internal Control and Audit Department are reviewed by the Board's Audit, Finance and Risk Committee and Ethics and Control Committee, and are also submitted for consideration by the Board of Directors at the end of the year.

Resolution of conflicts of interest

Matters related to conflicts of interest are governed by the Corporation's Code of Ethics. The Corporation has an ethics assessment procedure: all senior managers annually (or as conflicts of interest arise) fill out Ethics and Conflict of Interest Declarations. All new employees must complete a training course and learn the requirements of the Code of Ethics and the procedure to fill out the Declaration.

In 2017, the Corporation held its second ethics assessment. The results were reviewed by the President and the Board's Ethics and Control Committee. In most cases the declared conflicts of interest were not confirmed and did not require any resolution measures. However, action plans on conflict resolution were implemented with respect to several declarants in accordance with best corporate governance practices.

The ethics assessment makes it possible to identify and manage conflicts of interests in a timely manner, thus preventing shareholders' interests from being compromised.

External audit

In compliance with the decision of the Audit, Finance and Risk Committee, the Corporation uses the following procedures to appoint the independent auditors of Sistema's financial statements. The Committee performs annual assessments of the quality of audit services received. If the quality of services provided by the current auditor is deemed insufficient, the Audit Committee organises a tender to hire a new auditor. If the quality is deemed sufficient, Sistema negotiates the price of services with the current auditor for the following period. According to the decision of the Audit, Finance and Risk Committee, a tender for external audit services should be held at least every five years to ensure that the auditor is impartial and objective.

Corporate governance across Sistema Group

The quality of strategic planning and the investment case of Sistema's portfolio companies depends inter alia on the quality of corporate-governance procedures. To increase the value of its investments Sistema focuses on improving the quality of corporate governance at its portfolio companies.

The Corporation aims to execute strategic management of its key portfolio companies through the companies' boards of directors, by bringing in professional independent members with industry expertise, as well as specialists in strategy, finance, audit and corporate governance. Independent directors account for about one-third of members of the boards of key portfolio companies (depending on the company's organisational maturity).

The Corporation continuously improves its corporate-governance system to increase its effectiveness and ensure continued compliance with best practices. Improving the quality of corporate-governance processes at portfolio companies and bringing in competent professionals to their boards of directors is designed to increase the quality of decision-making and shareholder value at Sistema's portfolio assets.

Boards of directors of portfolio companies provide control and coordination, and support management in decision-making in the following functional areas:

- > strategy and key transactions;
- > budget planning;
- > HR policy;
- > internal audit.

The Corporation's key tasks related to improving corporate governance at portfolio companies for the next year are:

- > increasing the responsibility of companies' boards for decisions made in their key focus areas;
- > bringing professional independent directors to the boards of portfolio companies.

Development of the corporate governance system in 2017

Independent directors on the Corporation's Board of Directors

In 2017, 11 members were elected to the Corporation's Board of Directors, five of whom qualify as independent directors or are recognised as independent according to Moscow Exchange's Listing Rules and the Russian Corporate Governance Code.

The current Board includes the following independent directors:

- > Anna Belova;
- > Robert Kocharyan;
- > Jeannot Krecké;
- > Roger Munnings;
- > David Iakobachvili.

All of the Corporation's independent directors have vast experience in managing large organisations and strong professional reputations. This ensures that their judgements are objective and that they remain independent of the influence of the Corporation's management and shareholders when making decisions.

Roger Munnings and Jeannot Krecké, as members of the Audit, Finance and Risk Committee, are experts in the field of finance and audit and have extensive relevant experience.

Independent directors are directly involved in discussing and formulating the strategy of the Corporation and its key assets. For this purpose, working groups headed by independent members of the Board and representatives of the Strategy Function and Finance and Investment Function are established to formulate substantiated positions of the Board of Directors on strategic issues related to development of the Corporation and its key assets.

Changes to the Corporation's Charter and internal regulations

In June 2017, the General Meeting of shareholders approved new versions of Sistema's Charter, the Terms of Reference of the General Meeting of shareholders, the Terms of Reference of the Board of Directors and the Terms of Reference of the Management Board. The changes to the Charter and internal regulations were necessitated by amendments made to the Russian legislation on joint-stock companies with respect to major transactions and related party transactions. Internal regulations were also brought into line with EU legislation in view of the EU Market Abuse Regulation coming into force.

Assessment of the Board of Directors' performance

In 2017, Sistema conducted an external assessment of its Board of Directors for the first time. The assessment found the work of the Board of Directors to be effective and of high quality. In the opinion of the independent professional consultant Nestor Advisors, the Board of Directors provides the required level of governance and control. The assessment provided an independent professional opinion on priorities for the further development of the Corporation's corporate-governance system.

Plans for development of corporate governance

The Board's Nomination, Remuneration and Corporate Governance Committee developed an action plan for improving corporate governance at Sistema in 2018 based on the results of the external assessment. The plan envisages the following activities:

- revising the Corporation's dividend policy with due account of the Corporation's investment needs (in the first half of 2018);
- assessing the performance of the Board's Committees (in the first half of 2018);
- formalising the principles of remuneration payable to the board members of portfolio companies, and approving a standard Policy on remuneration and compensation payable to the board members of portfolio companies (in the second half of 2018);
- revising and formalising a succession plan for key managers of the Corporation (in the second half of 2018).

Remuneration of board members and senior management

Remuneration policy applied to Board members of Sistema PJSC

Remuneration for the work as a member of the Board of Directors is calculated and paid in accordance with the Policy on Remuneration and Compensation Payable to Members of the Board of Directors of Sistema PJSC^①.

Basic remuneration of members of the Board of Directors

Basic remuneration of members of the Board of Directors amounts to RUB 13.7m or RUB 17.8m per year depending on whether a director is a tax resident of Russia. Basic remuneration is paid to Board members in cash in equal quarterly instalments.

Supplementary remuneration of members of the Board of Directors

Supplementary remuneration of members of the Board of Directors is paid once a year in the form of ordinary shares of Sistema, subject to achievement of the Corporation's investment targets in the reporting year:

- the arithmetic mean of TSR and iTSR exceeds or equals CoE^②,
- TSR exceeds or equals the amount of change of the MSCI index (Δ MSCI), provided that iTSR exceeds or equals CoE.

The number of ordinary shares awarded to members of the Board of Directors is calculated as follows:

Remuneration in monetary terms

Weighted average price of one share

To calculate the number of shares to be awarded to members of the Board of Directors, the amount of remuneration in monetary terms is equal to the amount of basic remuneration less applicable taxes, while the weighted average price of one share is calculated based on the price of the Corporation's GDRs during the month preceding the date of the Annual General Meeting of shareholders.

Remuneration for performance of additional duties

Board members who perform additional duties, e.g., the Chairman of the Board of Directors, Deputy Chairman of the Board of Directors and Chairmen of the Board Committees, receive remuneration on a quarterly basis in the amount stipulated by the Policy on Remuneration and Compensation Payable to Members of the Board of Directors of Sistema PJSC.

Compensation and other conditions

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

Sistema insures the liability of members of the Board of Directors.

Sistema does not grant loans to members of the Board of Directors.

Remuneration policy applied to senior management of Sistema

Short-term incentive system

The short-term (up to 1 year) incentive scheme for senior managers of Sistema in 2017 consists of:

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

For the purpose of calculating bonuses, cash income means the increase in the value of an asset (in the event of an asset sale or an IPO) or the amount of dividends (in the event of a dividend payment), net of:

- the hurdle rate determined by the Corporation's Finance and Investment Committee prior to the commencement of a project or the acquisition of an asset;
- investment in an asset and project costs.

Long-term incentive system

The long-term (over 1 year) incentive scheme for senior managers of Sistema in 2017 was part of an incentive programme. The programme aimed to increase Sistema's shareholder value and create additional incentives for maintaining long-term employment and corporate relations between the Corporation and its management. Participants of the programme are assigned a certain number of shares that are transferred to them in instalments upon achievement of targets set by Sistema's shareholders, on condition that they retain ownership of the shares transferred to them under the programme. Transfers of shares take place annually over the course of five years from the launch of the programme. The number of shares allocated to a programme participant was calculated as follows:

Participant's total annual income

Weighted average price of one share during the year

Co-investment programme

In 2016, the Board of Directors approved a Co-Investment Programme enabling Sistema's senior managers to co-invest in subsidiaries and/or Sistema PJSC. The Co-Investment Programme is designed to incentivise senior management to increase the Corporation's capitalisation, and provides for additional incentives linked to achievement of strong financial results through origination and implementation of projects and efficient management of the Corporation's assets, including asset acquisitions, sales, restructurings, capitalisation growth and increased dividend flows.

^① Approved by the General Meeting of shareholders on 27 June 2015.

^② This investment target was not achieved in 2017, since TSR was -41.4% and iTSR was -15.8%, while CoE was 14.6% and Δ MSCI was 0.3%. CoE represents the minimum level of return that a company must provide to its shareholders for the expectation of profit and risk. It is calculated as the sum of risk-free returns (such as government bonds) and the risk premium associated with investing in the stock market, taking into account the capital structure of the asset in question and country risk.

Programme participants are the President and heads of investment portfolios, functions and departments. Starting from 2017, employees at Executive Vice President level may also participate in the Co-Investment Programme.

Participants of the Co-Investment Programme use their own funds to acquire:

- > shares/stakes in Sistema's subsidiaries, and/or
- > ordinary shares in Sistema PJSC.

The amount of co-investment is limited to one year's average annual income of a participant.

Remuneration is paid if:

- > there is a liquidity event in relation to a subsidiary (IPO or sale of a stake);
- > a participant holds Sistema's ordinary shares for two years without interruption.

Remuneration is paid in cash; the amount of remuneration is directly linked to the upside in the value of the shares in the subsidiary and/or ordinary shares in Sistema.

Other terms and conditions

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

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

The Corporation does not grant loans to senior executives.

Remunerations paid to Board members and senior management in 2017^①

Members of Sistema's Board of Directors received the following remuneration in 2017:

	2017	2016
Cash remuneration Remuneration for work as members of the Board of Directors and additional duties, as well as salaries and bonuses for 2017 paid to Board members who were also employees of the Corporation in 2017 ^② .	RUB 320,193,625	RUB 498,400,342
Remuneration in the form of ordinary shares of Sistema PJSC Shares paid to Board members for the 2016-2017 corporate year and remuneration under the long-term incentive programme paid to Board members who were also employees of the Corporation in 2017.	RUB 218,287,983	RUB 422,928,991
Reimbursement of expenses incurred by Board members in connection with their duties	RUB 2,477,710	RUB 3,713,752

Members of Sistema's Management Board^③ received the following remuneration in 2017:

	2017	2016
Cash remuneration Including fixed salaries and bonuses. ^④	RUB 1,768,437,846	RUB 3,148,937,048
Remuneration in the form of ordinary shares of Sistema PJSC Shares transferred under the long-term incentive programme ^⑤ .	RUB 245,821,873	RUB 1,155,134,028

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

② Excluding members of Sistema's Board of Directors who were also members of its Management Board.

③ Including the President of Sistema.

④ Bonuses for 2017 were paid to Sistema's employees in January 2018.

⑤ The amount only includes the shares awarded under the long-term incentive programme for 2016. Shares allocated to employees for 2017 will only be distributed following a resolution of the Board of Directors.

CORPORATE SOCIAL RESPONSIBILITY

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Rusnano Sistema SICAR –

Rusnano Sistema SICAR is a private equity fund established by Sistema and RUSNANO in August 2016. The fund has a professional team with a strong track record in the venture industry. It focuses on investing in initial-stage high-tech projects and in growing and established companies in Russia, the CIS, Europe and Israel. The fund is open to outside investors.



CORPORATE SOCIAL RESPONSIBILITY

Sistema sees corporate social responsibility (CSR) as its sustainable contribution to national social and environmental development in the interests of current and future generations. The Corporation supports social, economic and technological development, modernisation of infrastructure and industry, improvements to the accessibility of essential products and services, job creation, as well as fostering innovation and intellectual and human capital, and running large-scale charitable and volunteer programmes to improve people's quality of life.

In 2017, Sistema Group companies paid into Russia's consolidated budget

> RUB 111 bn



Principles for responsible investment

In its operations, Sistema is guided by the basic principles of socially responsible business practices as set out in the United Nations Global Compact and the Social Charter of Russian Business, including:

- > strict compliance with legislation, fair competition and zero tolerance for corruption;
- > observance of internationally acknowledged human rights in the context of business;
- > prevention of all forms of discrimination and creation of equal opportunities with respect to employment relations;
- > creation of favourable employment conditions precluding child and forced labour and protecting the occupational health and safety of staff at Group companies;
- > reduction of environmental impact, and protection of the environment and climate.

These basic principles are implemented through open and transparent interaction

with key stakeholders including shareholders, investors, employees, consumers, suppliers, government authorities, civil society, non-profits and local communities. The Corporation not only requires its portfolio companies to comply with these business standards; it also expects ethical conduct from its partners across the entire supply and value-creation chain.

Sistema is also guided by the Principles for Responsible Investment supported by the UN Global Compact and Environment Programme Finance Initiative (UNEP FI), and shares the goal of integrating environmental, social and governance (ESG) issues in investment decision-making and asset-management processes. The Corporation's responsible approach to investment is based on comprehensive analysis of not just the financial condition and market potential of the assets it acquires, but also on identifying non-financial aspects that can have a significant impact on the sustainability of the investment portfolio. As a strategic investor interested in the long-term growth of shareholder value, Sistema sees its role in minimising ESG risks and improving business efficiency by introducing best practices in HR, prevention of corruption, procurement, quality management and environmental safety, as well

as by implementing social projects and building trust-based relationships with stakeholders across its portfolio companies.

At the end of 2017, Sistema received the Russian Business Leaders: Dynamics and Responsibility award from the Russian Union of Industrialists and Entrepreneurs (RUIE) for the high quality of its sustainability reports, and was also named among the leading companies in the RUIE's corporate stability, responsibility and transparency indices, which include more than 100 of Russia's largest corporates. The Corporation was named in Group A, which comprises 12 companies with the highest individual scores in the Responsibility and Transparency index, reflecting high standards of information disclosure. Sistema and its subsidiary MTS were also among the top 24 companies based on the consolidated results of the Sustainable Development Vector and Prospects indices, which reflect positive performance dynamics, transparency and the presence of specific SCR and sustainable development goals.

According to the 2017 Corporate Transparency of Largest Russian Companies study by the Russian Regional Network for Integrated Accounting, which covers more than 950 companies that together generate 80% of national income, Sistema ranks among the top three in terms of transparency in private business and the finance and investment sector, and in the top 10 among public and strategic companies. The Corporation demonstrated the highest level of corporate-governance transparency of all the companies included in the rating, and was named in the 15 for sustainable

development and compliance with international standards. MTS and Detsky Mir, Sistema's public assets, were also named among the companies disclosing information in accordance with international requirements. Detsky Mir was the leader in terms of transparency in the retail segment and won the Debut of the Year category.



Sistema ranks among the top three in terms of transparency in private business

TOP-3

Sistema as a responsible investor

Investments in fixed assets	Investment in human capital and new technologies	Social investments and partnerships	High standards of governance and transparency
Modernisation of production facilities and creation of state-of-the-art infrastructure.	Training and development programmes for staff of Sistema and portfolio companies.	Creation of a favourable social environment in regions of operation.	Uniform principles of corporate governance across the Group in line with Russian and global best practices.
Use of the best hardware and modern equipment at Group enterprises.	Training of the next generation of highly qualified young specialists and managers.	Agreements on social and economic cooperation with regions.	Introduction of quality-management systems in line with international standards.
Introduction of the best available technologies, including in resource and energy efficiency.	Own R&D centres and venture investments in technological start-ups.	One of Russia's biggest corporate charitable foundations.	Public non-financial reporting in accordance with Global Reporting Initiative (GRI) standards.
Digitalisation and automation of production and business processes.		Synergies among portfolio companies for social and charitable projects.	
Creation of shared value for the business and society.			

Following the principles of responsible investment, Sistema ensures that its business strategy is consistent with national priorities and the UN Sustainable Development Goals (SDGs), increases the investment case, profitability and competitiveness of important economic segments, creates jobs, and ensures

sustainable payments of taxes and social contributions to budgets of all levels.

In 2017, Sistema Group companies paid over RUB 111bn into Russia's consolidated budget, 22% of which went into pension, medical and social security funds. The Corporation's total tax payments over the

past three years total almost RUB 300bn. Sistema Group accounted for more than 1% of all private investments in fixed assets in Russia, about 22% of capital investments in the telecommunications sector, and 8% of capital investments in the forestry and pulp and paper industry in 2017.

Contribution to sustainable development

Sistema's contribution to achievement of the Sustainable Development Goals

Key focus areas and projects	Main impact
ECONOMY	
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>2 ZERO HUNGER</p> </div> <div style="text-align: center;">  <p>7 AFFORDABLE AND CLEAN ENERGY</p> </div> <div style="text-align: center;">  <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> </div> <div style="text-align: center;">  <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> </div> </div>	

Expansion of land area used for operations. Introduction of state-of-the-art agricultural technologies and automated management systems, R&D in agriculture, including to increase soil fertility and improve the seed pool, in partnership with industry institutions and agricultural companies.

> Increase of crop yields and productivity, reduction of import dependency by providing Russian-produced health and organic food products.

Modernisation of forest industry enterprises and creation of high-tech production lines, including installation of a new paper-making machine in Karelia.

> Development of modern industry with high value-added products. .

Installation of next-generation telecommunications networks across the country, including in small towns and villages. Fundamental and applied research in microelectronics and radio engineering. Development of RFID solutions and microchips for the Internet of Things.

> Reduction of digital inequality, improved access to e-services for individuals and businesses. Creation of infrastructure for the digital economy and qualitative growth in various industries.



Reconstruction of power grid infrastructure using Smart Grid technology and introduction of smart power control and metering system in Bashkortostan.

> Improvement of energy efficiency and reliability of energy supply to consumers, and reduction of losses in power grids.

Comprehensive urban development in Moscow, development and promotion of new technologies for construction of wooden apartment buildings, and investments in alternative construction technologies, including 3D printing.

> Higher speed of housing construction, and creation of a more comfortable, eco-friendly and safe urban environment.

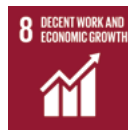
Safe City and Intelligent Transport System projects, smart city lighting system (Sitronics), acoustic surveillance system (Sistema Sarov), smart house services and the Window on a Nursery School video surveillance project in Moscow (MGTS).

> Improvement of road traffic flows, strengthening of public safety.

Establishment of an innovative eco-system for tech businesses and R&D, including at Sarov Technopark (Nizhny Novgorod region).

> Creation of an ecosystem for innovations and encouragement of development.

SOCIETY



Social, volunteer and charitable projects aimed at helping children, the elderly and people with special needs, including the Taking Care of Veterans programme in Moscow and Medsi's partnership with the Starost V Radost foundation, the Solony regional festival, the Generation M project (development of children's creative abilities and help for seriously ill children), the Participate! campaign to collect goods for children from orphanages, public boarding schools and large families across the Detsky Mir chain, etc.

> Promotion of social stability in regions of operation, support for less privileged groups.

Creation of a vertically integrated system to provide comprehensive high-tech medical services: emergency aid, outpatient and inpatient care, hospital substitution services and rehabilitation. Construction of clinics and provision of advanced equipment, introduction of new medical technologies and treatment methods, training programmes for doctors (Medsi's Medical Academy), promotion of healthy lifestyles ("Be Healthy with Medsi!") and early diagnosis of dangerous diseases (oncology, cardiology, etc.).

> Introduction of the outcome-based 4P healthcare model: prevention, prediction, personalisation and participation.



Production of vaccines and new "convenient" drugs with improved characteristics, increasing knowledge levels among general practitioners and pulmonologists at the Medical Academy (Binnopharm).

> Reduction of sickness rates, higher efficiency of detection, prevention and treatment of diseases.

Career guidance programmes for young people and development of engineering and technology education, including youth contests and schools organised by the Sistema Charitable Foundation, MTS's telecom laboratories in universities, RTI's and Mikron's departments at the Moscow Institute of Physics and Technology, conferences for young scientists (the Mintz Readings), etc. The Higher School of Management and Innovation – a faculty established jointly with the Lomonosov Moscow State University.

> Training of a new generation of developers, engineering and technical experts and managers for high-tech and knowledge-intensive industries.

Creation of a network of regional "virtual branches" and multimedia resources for the Russian Museum, MTS's social and educational projects for children ("Children on the Internet") and the older population ("Mobile Academy"), the "Safe Childhood" educational project on power safety (BPGC).

> Improvement of levels of digital literacy, safety and culture, and introduction of new education technologies.

ENVIRONMENT



Segezha Group's transition to zero-waste production by processing bark and wood waste into biofuel for its own needs and for external consumers.

> Promotion of resource-saving technologies, creation of a foundation for the cyclical economy and development of the green market.

Production of eco-friendly paper packaging for major retail chains, including Detsky Mir. MTS's switch to eco-friendly packaging for SIM cards. Joint project of MGTS and WWF Russia for switching subscribers to electronic bills.

> Reduction of greenhouse gas emissions and combatting climate change.

Portfolio companies' projects to collect and dispose of waste, including batteries and paper. Reduction of paper consumption.

> Reduction of the environmental footprint.

Introduction of alternative power supply sources for MTS's base stations, use of cell towers for monitoring and prevention of forest fires.

> Introduction of power saving technologies, use of renewable sources.

Reforestation on leased sites, 96% of which are certified in accordance with the international responsible forest management standards of the Forest Stewardship Council (FSC). Introduction of the intensive forest management model.

> Maintaining a constant balance between economic growth and environmental sustainability.

Support for the Far Eastern Leopards NGO and the Russian Geographical Society, environmental volunteering and awareness-raising programmes.

> Preservation of biodiversity, and raising levels of environmental knowledge and awareness.

Social investments and partnerships

The Corporation's main vehicle for social investment is the Sistema Charitable Foundation, which manages portfolio of corporate programmes in three strategic focus areas:



in 2015-2017 was allocated for Sistema Charitable Foundation

> RUB 1.4 bn

Flagship programme Lift to the Future

Support for human capital development in knowledge-intensive and high-tech industries.



Social projects and volunteering

Help for people and non-profit organisations in healthcare, social security and promotion of patriotism.



Culture and arts

Creation of an accessible cultural environment, promotion of the national cultural and historical legacy, awareness-raising.



Projects and events to develop engineering and technology education and the knowledge base; support for research and invention projects by young people in the field of new technologies.

The key focus is support for Second World War veterans and similar categories of citizens, as well as development of volunteering.

Projects to support culture and museums, introduction of new awareness-raising technologies.

The Sistema Charitable Foundation established a corporate volunteer centre through which all employees of Sistema Group can volunteer to tackle social tasks and participate in charitable events organised by the Foundation and its social partners.

The Russian Museum is the key target for long-term investment, with a total of about RUB 0.5bn allocated to finance restoration work, exhibitions, and multimedia and other cultural projects until 2023.

In 2017, over 5,000 Russian schoolchildren participated in qualifying competitions, including the nationwide System of Priorities competition.

Since 2015, about 1,600 veterans have received free rehabilitation treatment at Medsi's Otradnoye sanatorium in the Moscow region.

Over 200 information and education centres known as "virtual branches" of the Russian Museum have been opened in culture and education institutions in the Russian regions and abroad, and are attended by more than 500,000 people annually.

330 students attended inter-regional engineering and design schools in Gorno-Altai, Tomsk, Yekaterinburg and Petrozavodsk, and 150 finalists went on to the Orlyonok youth camp, where they developed eight potential technology start-ups.

In 2017, almost 600 veterans in Moscow and another five regions (Karelia, Krasnoyarsk, Vologda, Arkhangelsk and Kirov) were given pharmacy gift certificates to purchase medical supplies.

More than 300,000 people visited an exhibition at the Russian Museum to celebrate the 200th anniversary of the painter Ivan Aivazovsky's birth.

SOCIAL RESPONSIBILITY

In 2016-2017, more than 80 of the best school-leavers received additional points for their Unified State Exam scores for admission to the top seven universities in Russia.

Six Russian universities were awarded grants of up to RUB 900,000 (RUB 5m in total) to prepare graduates for the requirements of the labour market.

32 STEM (science, technology, engineering and mathematics) supplementary education institutions in 22 regions of Russia received grants of up to RUB 500,000 (RUB 15m in total).

16 student projects developed for the Group's companies were supported by grants of up to RUB 500,000 (RUB 8m in total) to finalise concept solutions and produce prototypes.

Over 15,000 children from more than 20 communities in Altay and Karelia participated in events at the Solony charitable festival.

Sistema Charitable Foundation with support from MTS, Segezha Group, Cosmos Group, RTI, Steppe AgroHolding, Detsky Mir and Medsi organised nine charitable New Year parties for over 6,000 orphans, disabled children, children from large and low-income families in Moscow, Vologda, Yaroslavl, Volgograd, Kazan, Onega (Arkhangelsk region), Kemerovo, Ulyanovsk and Rostov-on-Don. In the five years since its establishment, the Corporation has organised New Year performances for over 20,000 children across Russia.

About 700 volunteers from Sistema Group companies participated in corporate initiatives

Over 4,000 people visited exhibitions at the Mikhailovsky castle free of charge as part of a new outreach campaign called Cultural Weekend; as a result, the number of visitors to the museum surged five-fold from usual levels.

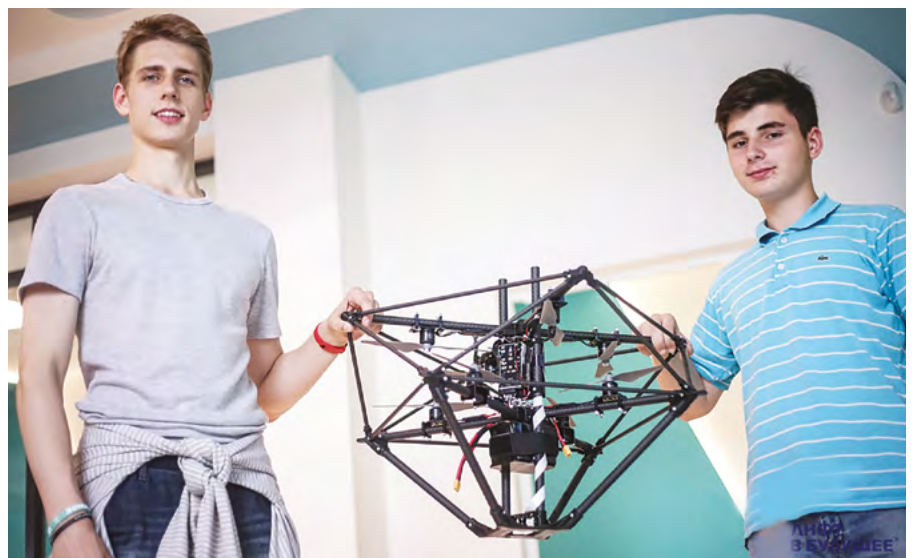
More than 50,000 people attended the Imperial Gardens of Russia international festival of garden art in St Petersburg, where the central theme was the Russian avant-garde.

Over 30,000 visitors came to see the People's Revolution exhibition about Russian scientific and industrial achievements since 1917 at the Lumière Brothers Centre for Photography.

More than 1,000 people watched the 19 best films about the lives of people with disabilities at the Breaking Down Barriers film festival held as part of the 6th St Petersburg International Cultural Forum, which the SCF joined as a partner for the first time.

The Sistema Charitable Foundation provided about RUB 3m for the creation of the Artillery permanent exposition at the Lenino-Snegiri military history museum in the Moscow region.

Because of its focus on high-tech sectors and introducing new technologies into traditional industries, Sistema actively invests in human capital and training the next generation of leaders for the country's innovative development. In 2015-2017, over RUB 735m was allocated to support education through the Sistema Charitable Foundation alone. The majority of investments are made under the Corporation's flagship programme, which aims to raise the level of engineering and technical education by bringing together schools, universities and high-tech businesses, and by developing and implementing efficient ways of identifying and training youth-led technology teams for knowledge-intensive industries.



Sistema was named among Russia's top five companies for corporate charity in 2017, while its flagship social programme, Lift to the Future, was named among the top three initiatives promoting educational development in Russia (based on the results of the annual contest of charity projects organised by the Donors Forum, the Vedomosti newspaper and PwC).

Sistema and its portfolio companies run investment and social programmes via mutually beneficial inter-sector partnerships with government authorities, research and education institutions and non-profit organisations. As well as providing financial support for joint projects, the Corporation also contributes its expertise and other resources, thereby creating a systemic effect. For example, having been an anchor investor for several years not just in the Karelian economy but also in the region's social sphere, the Corporation, under its General Agreement with the region's Government, invests in the development of the forest industry, social infrastructure (the Sports Palace in Segezha and other facilities), culture (support for the Musical Theatre in Petrozavodsk), sports (hockey and boxing competitions for children and young people) and education (work with Petrozavodsk State University). Agreements on social and economic cooperation to implement joint initiatives and projects to foster a healthy economic, investment and social environment have also been signed with the Arkhangelsk, Vologda, Kirov, Irkutsk, Kostroma, Samara and Krasnodar regions.

A vivid example of social cooperation is the long-term programme for supporting Second World War veterans that Sistema runs under its agreement with the Moscow Government and the Moscow City Council of veterans. One of the programme's key elements is free medical care and rehabilitation for veterans and home-front workers, as well as volunteer initiatives and promotion of patriotism among young people.



Under the social partnership agreement with the Government of the Altay region, the first Solony charitable festival was held in 2016 for more than 5,000 young people from the region who participated in educational and cultural events organised by Sistema Charitable Foundation with support from regional and local authorities and with the participation of a number of the Group's companies (MTS, Detsky Mir, Medsi, Segezha Group, Binnopharm, Altay Resort, etc.) In 2017, two such festivals devoted to the Russian Year of Ecology were held in Altay and Karelia, and participant numbers tripled.

The partnership model tested by Sistema combines the resources, social interests and capacities of businesses, local communities, regional non-profits and government authorities to ensure maximum efficiency of the joint initiatives. Such events have a positive effect on social development.

Sistema Group companies also make active use of various social partnership mechanisms.



Sistema was named among Russia's top five companies for corporate charity in 2017,

TOP-5



>5 000

young people in the region who participated in the charity festival Solony

Environmental responsibility

The Corporation encourages its portfolio companies' initiatives to promote greater responsibility for the environment and climate, conservation of natural resources, development of the green market, popular awareness of environmental issues and sustainable production and consumption patterns. Sistema Group companies try to maintain a high level of compliance with Russian and international environmental standards.

In 2017, major environmental projects run by Sistema portfolio companies included:

- > improvement of business processes and practices at Mikron in accordance with the new revision of ISO 14001:2015 Environmental Management Systems;
- > successful recertification audit for compliance with quality and environmental management standards (ISO 9001 and ISO 14001) at BPGC;

- > development of biotechnological fuel production and a waste-recycling project using biofuel at Segezha Group;
- > training for employees of Leader Invest in energy efficiency and environmental safety at real-estate facilities, and participation in a working group on developing GREEN ZOOM City regulations for comprehensive and sustainable site development;
- > launch of production of an injury-proof covering with improved characteristics from reprocessed car tyres at Technopark Sarov;
- > campaigns to promote preservation of forest resources and reforestation in regions of operation at Segezha Group and other Sistema Group companies.

Responsibility towards employees

Sistema Group companies employ more than 130,000 people in Russia. In its relations with employees, the Corporation is guided by standards that are in line with both Russian labour legislation and the generally accepted principles of the World Labour Organisation. HR management at Sistema is based on observance of employees' fundamental rights, including freedom of association and the right to collective bargaining.

In 2017, new collective-bargaining agreements regulating employer-workforce relations were signed at Segezha PPM, Sokol PPM and Vologda Paper Mill (all part of Segezha Group). As well as preserving all existing social guarantees and compensations, the agreements introduced additional staff benefits covering provision of financial aid, working conditions, etc. The collective agreement at Saransk TV Factory (part of RTI Group) was recognised as the best in the Mordovia region.

Aside from competitive salaries and welfare benefits, an important element in the protection of employees' social and labour rights is occupational health and safety. For example, Lesosibirsk Woodworking Plant No 1, a major woodworking enterprise in the Krasnoyarsk region, opened a training centre with simulators of potential emergencies to help staff learn the proper procedures to avoid injuries.

With teams in various regions and industries, Sistema supports diversity and employment of local populations, helps unlock employees' professional and personal potential, and creates opportunities for professional and career development. Management focuses in particular on the quality of internal communications and the creation of a uniform corporate culture and opportunities for growth in order to significantly improve levels of engagement and as a result the operational efficiency of the business.



In order to strengthen intra-corporate relationships and to provide non-financial incentives for employees and stimulate innovations, in 2017 the Corporation announced its first Idea of the Year contest, which was open to any employee of Sistema and its portfolio companies.

In September 2017, Sistema held its third annual Knowledge Week. More than 600 employees participated in workshops, training sessions and interactive lectures given by leading experts. This year, the programme included Leadership Saturday, a series of meetings with experts on leadership. At the end of the event, it was decided to hold Knowledge Days on a regular basis to foster personal and professional development. The Corporation has also established discussion platforms that bring together experts from various industries who want to improve their skills, learn something new, share their practical experience and find business solutions by thinking "outside the box".

For more than a year, Sistema has organised corporate discussion clubs. Twenty meetings have been held in total, with more than 530 experts from 20 portfolio companies participating. Participants shared their experience in business-process automation,

analysed coaching methods that can be used at work meetings, expressed opinions on the theory of generations from an incentives point of view, and discussed various scenarios for use of robot software across Sistema. The experts were especially interested in the new element of MTS's training programmes called Development of Digital Skills, which involves preparation of a year-long DIGITAL_MTS programme including a series of webinars on various topics and an interactive training course. Sistema's Corporate University holds professional club meetings every month. Any employee of the Corporation can participate free of charge by submitting an application.

For many years, a key event uniting employees of all Sistema companies has been the corporate Games. Held in 2017 for the 15th time, they brought together several thousand employees and their family members. More than 700 athletes from 17 teams competed in 14 disciplines.

In 2017, Sistema Group strengthened its position in the annual rating of Russia's best managers published by the Managers' Association and Kommersant Publishing House: 83 senior executives were included in the list, up from 66 the previous year.

Three Sistema Group companies operating in the of microelectronics, pharmaceuticals and hospitality segments were named as winners and runners-up in the Best Moscow Employer contest organised by the Moscow Social Security Department, the Moscow Federation of Trade Unions and the Moscow Confederation of Industrialists and Entrepreneurs (Employers). The capital's largest hotel complex, Cosmos, managed by Cosmos Group, won in the Further Professional Training of Employees category, rising from second place in 2016, while Binnopharm and Mikron took second place in the Ensuring Work/Family Balance for Employees with Children and Providing Temporary Employment and Organising Public Work for Young People categories, respectively.



>700 athletes
from 17 teams competed in 14 disciplines



Annex 1.

Brief biographies of Sistema's Board members, President, Management Board members, and Corporate Secretary. Their shareholding in Sistema PJSC. ^①

Name and position	Brief biography
Members of the Board of Directors	
Vladimir Evtushenkov Chairman of the Board of Directors Non-executive director	<p>Born in 1948 in the Smolensk region.</p> <p>He graduated from the Mendeleev Moscow Institute of Chemical Technology in 1973 and from the Economics Department of the Lomonosov Moscow State University in 1980. Holds a PhD degree in Economics.</p> <p>1975-1982 – Shop manager; deputy director; chief engineer, the Karacharovo Plastics Factory.</p> <p>1982-1987 – Chief engineer, first deputy CEO, the Polymerbyt Research and Manufacturing Association.</p> <p>1987-1988 – Head of the Technical Department, then head of the Main Department of Science and Technology, the Moscow City Executive Committee.</p> <p>1990 – Chairman of the Moscow Municipal Committee for Science and Technology.</p> <p>1993 – Founded Sistema Joint-Stock Financial Corporation together with a group of associates.</p> <p>Principal shareholder, Chairman of the Board of Directors and Chairman of the Strategy Committee of the Board of Directors of Sistema PJSC.</p> <p>Member of a number of government commissions, actively involved in decision-making for improvement of competitiveness of the Russian industry, development of high technologies and innovations, science and culture; chairman of the Russian-Arab Business Council, member of the management boards of the main associations of entrepreneurs in Russia – the Russian Union of Industrialists and Entrepreneurs and the Russian Chamber of Commerce and Industry.</p> <p>Chairman of the Council of Trustees of the Fund for Development of the State Russian Museum "Friends of the Russian Museum". Member of the Board of Trustees of Sistema Charitable Foundation.</p> <p>Share in the authorised capital of Sistema PJSC: 64.2030%.</p>
Anna Belova Independent director	<p>Born in 1961 in Aleksandrovsk, the Sakhalin region.</p> <p>In 1984, graduated from the Moscow Engineering Physics Institute. PhD (economics), professor of the Higher School of Economics.</p> <p>2001-2003 – Deputy Railway Minister of Russia.</p> <p>2004-2005 – deputy chair of the Management Board, vice president for corporate governance, reform and computerisation, OJSC Russian Railways.</p> <p>2005-2007 – advisor to the head of the Federal Nuclear Energy Agency.</p> <p>2005-2007 – first deputy CEO, OJSC TekhSnabExport.</p> <p>2007-2011 – member of the Management Board, deputy CEO, director for strategy, corporate development and integration, OJSC SUEK.</p> <p>2008-2016 – member of the Board of Directors (independent director), OJSC Sheremetyevo International Airport.</p> <p>Author of over 50 articles and academic papers on economics, entrepreneurship, management strategy and business transformation.</p> <p>Holder of various public and government awards:</p> <p>2010 – winner of the Russian national competition organised by the Russian Union of Industrialists and Entrepreneurs and the Association of Independent Directors in the category "Independent Director of the Year".</p> <p>2014 – winner of the award "Best Corporate Director Among Companies Partially Owned by Government" in the category "Best Board Chairperson" established by the National Association of Corporate Directors and Top Managers.</p> <p>2014 – winner of ARISTOS, the Russian national award in the area of management, in the category "Best Independent Director".</p> <p>Member of the boards of directors of PJSC Unipro, JSC High-Speed Rail Lines and Tiscali S.p.A. Over the past 10 years, she has been a member of the boards of directors of more than 25 Russian and international companies.</p> <p>Member of the Board of Directors of Sistema PJSC since 2017. Member of the Audit, Finance and Risks Committee, the Investor Relations and Dividend Policy Committee, and the Ethics and Control Committee of Sistema's Board.</p> <p>Share in the authorised capital of Sistema PJSC: 0%.</p>
Sergey Boev Deputy Chairman of the Board of Directors Non-executive director	<p>Born in Moscow in 1953.</p> <p>In 1978, graduated from the All-Union Correspondence Law Institute, in 1984, from the Moscow Ordzhonikidze Institute of Management. Holds PhD degrees in Economics and Engineering. Professor.</p> <p>Winner of the State Prize of the Russian Federation in science and technologies. Awarded the Order of Honour. Awarded the titles of the honoured economist of Russia and the honoured radio engineer of Russia.</p>

^① As of 31 March 2018.

Name and position	Brief biography
Sergey Boev (Continue)	<p>Member of the Russian President's Council for Economic Modernisation and Innovative Development of Russia, the Working Group for Technological Development of the Russian President's Economic Council, the Federation Council's council on legislative support for the defence industry and military technical cooperation, the Science and Technology Council of the Military and Industrial Commission of the Russian Government, and the Academic Board of the Russian Security Council; co-chairman of the working group for innovations of the EU-Russia Industrialists' Round Table; full member of the Academy of Military Science; head of the Intelligent Information and Radiophysical Systems Department of the Moscow Institute of Physics and Technology; professor of the Radio Engineering Department of the Ogarev Mordovia State University.</p> <p>1971-1999 – Worked at the Mintz Radio Technology Institute where he made a career from fitter's apprentice to CEO.</p> <p>2000-2008 – CEO, OJSC RTI Concern.</p> <p>2008-2011 – Vice President, Head of the High Technology and Industry Business Unit, Sistema PJSC.</p> <p>2011-2016 – CEO, OJSC RTI.</p> <p>Since 2016 – Chief Designer, OJSC RTI.</p> <p>2012 – Appointed Chief Designer of the National Missile Warning System.</p> <p>Chairman of the Board of Directors of OJSC RTI, OJSC Mintz Radio Technology Institute, OJSC Research Institute of Long-Range Radio Communications, member of the Board of Directors of Almaz-Antey Concern and a number of other companies.</p> <p>Member of the Boards of Trustees of Sistema Charitable Foundation, the Russian Admirals' Club and the Suvorov Military School in Tver.</p> <p>Member of the Board of Directors of Sistema PJSC since 2013. Deputy Chairman of the Board of Directors, Chairman of the Ethics and Control Committee, member of the Strategy Committee and the Nomination, Remuneration and Corporate Governance Committee of the Board.</p> <p>Share in the authorised capital of Sistema PJSC: 0.0929%.</p>
Andrey Dubovskov Executive Director ^①	<p>Born in Alma-Ata in 1966.</p> <p>In 1993, graduated from the Gerasimov Institute of Cinematography.</p> <p>Mr Dubovskov has extensive experience in telecommunication companies: since 1993, he has held multiple managerial positions at Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Telecommunications, CJSC 800, and other companies in Moscow, Almaty, Nizhny Novgorod, Yekaterinburg, Perm and Kiev.</p> <p>In 2002-2004, CEO of Tele2 (Nizhny Novgorod).</p> <p>In 2004, joined OJSC MTS as head of the company's Nizhny Novgorod branch.</p> <p>In 2006-2007, Director of the MTS Ural Macroregion.</p> <p>In 2007, became First Deputy CEO of CJSC UMS (MTS Ukraine) and in 2008 was appointed head of the MTS Ukraine business unit.</p> <p>In 2011-2018, President of PJSC MTS.</p> <p>On 13 March 2018, was appointed President of Sistema PJSC upon decision of the Board of Directors.</p> <p>Member of the Board of Directors of Sistema PJSC since 2015. Member of the Strategy Committee of the Board. Member of the Board of Trustees of Sistema Charitable Foundation.</p> <p>Share in the authorised capital of Sistema PJSC: 0.0140%.</p>
Felix Evtushenkov Non-executive director ^②	<p>Born in Moscow in 1978.</p> <p>In 2000, graduated from the Griboyedov Institute of International Law and Economics with a degree in law.</p> <p>1999-2000 – Assistant to President of CJSC Sistema Invest, Executive Director of Industry Department at Sistema PJSC.</p> <p>2000-2006 – Deputy CEO, CEO at CJSC Sistema Hals.</p> <p>2006-2008 – President of OJSC Sistema Hals.</p> <p>2008-2011 – Vice President, Head of Consumer Assets Business Unit at Sistema PJSC.</p> <p>2011-2012 – First Vice President, Head of Core Assets Business Unit at Sistema PJSC.</p> <p>2012-2018 – First Vice President of Sistema PJSC.</p> <p>Member of the Board of Directors of Sistema PJSC since 2015 and Deputy Chairman of the Board of Directors of Sistema PJSC since April 2018. Member of the Ethics and Control Committee (and its Chairman since April 2018) and the Strategy Committee of the Board of Directors of Sistema PJSC.</p> <p>Share in the authorised capital of Sistema PJSC: 0.1817%.</p>

① Andrey Dubovskov became an executive director after the end of the reporting period following his appointment as President and Management Board Chairman of Sistema PJSC.

② Felix Evtushenkov became a non-executive director after the end of the reporting period as he left the Management Board of Sistema PJSC.

Annex 1. (Continue)

Name and position	Brief biography
<p>Ron Sommer Non-executive director</p>	<p>Born in 1949. In 1971, obtained a doctoral degree in mathematics from the University of Vienna. 1980-1986 – managing director, German branch, Sony Group. 1986-1990 – chairman of the Management Board, Sony Deutschland. 1990-1995 – president and CEO, Sony Corporation USA, from 1993 – Sony Europe. 1995-2002 – chairman of the Management Board, Deutsche Telekom AG. 1998-2018 – member of the Supervisory Board of Munich Reinsurance. 2004-2009 – member of the Board of Directors, Motorola Inc., USA. 2005-2011 – member of the Board of Directors (independent director) of Sistema PJSC, chairman of the Investor Relations Committee of the Board. 2009-2011 – first vice president, head of the Telecom Assets Business Unit, Sistema PJSC. Since June 2009 – chairman of the Board of Directors of PJSC MTS and chairman of the Strategy Committee of the Board of Directors of PJSC MTS. Mr Sommer is very active in the area of corporate governance; he is chairman of the Supervisory Board of MTS Ukraine and member of the Board of Directors of Tata Consultancy Services, India. Member of the Board of Directors of Sistema PJSC since 2017. Member of the Strategy Committee, the Audit, Finance and Risk Committee, and the Nomination, Remuneration and Corporate Governance Committee of Sistema's Board of Directors. Share in the authorised capital of Sistema PJSC: 0%.</p>
<p>Robert Kocharyan Independent director</p>	<p>Born in 1954 in Stepanakert, Nagorno-Karabakh Autonomous Region. In 1982, graduated from the Yerevan Polytechnic Institute. 1991-1994 – Deputy of the first Supreme Council of the Nagorno-Karabakh Republic (NKR), Chairman of the State Defence Committee of the NKR and Prime Minister of the NKR. 1994-1997 – President of the NKR. 1997-1998 – Prime Minister of the Republic of Armenia. 1998-2008 – President of the Republic of Armenia. Member of the Board of Directors of Sistema PJSC since 2009. Chairman of the Nomination, Remuneration and Corporate Governance Committee, member of the Strategy Committee and the Ethics and Control Committee of the Board. Share in the authorised capital of Sistema PJSC: 0.0228%.</p>
<p>Jeannot Krecké Independent director</p>	<p>Born in 1950 in Luxembourg. Graduated from the Free University of Brussels. Further education in economics, accounting and taxation. Co-author of the annual manual on taxation in Luxembourg and of books on tax control and tax fraud monitoring. 2004 – Minister of Sport, Luxembourg. 2004-2011 – Minister of Economics and Foreign Trade, Luxembourg, representative of the Luxembourg Government in the Council of Ministers of the European Union. Member of the board of directors of East-West United Bank S.A. since 2013 and its chairman since 2015. Co-founded the Alzheimer Association Luxembourg and became its President (1987-1997). Since 1997 – President of the Alzheimer Foundation. 1970-1977 – Played for the Luxembourg national football team; participated in transatlantic and polar expeditions (Greenland, Svalbard). Member of the Board of Directors of Sistema PJSC since 2012. Member of the Audit, Finance and Risks Committee and the Investor Relations and Dividend Policy Committee of the Board. Share in the authorised capital of Sistema PJSC: 0.0201%.</p>
<p>Roger Munnings Independent director</p>	<p>Born in 1950 in the United Kingdom. Graduated from the Oxford University with a degree of Master of Arts in Politics, Philosophy, Economics. Member of the UK Government's working group on trade and investments between Great Britain and Russia, Chairman of the Institute of Audit Committees of Russia. Roger has had a long and successful career with the international auditor KPMG (1974-2008), including during his time as the President and Managing Partner of KPMG in Russia and the CIS (1996-2008), as well as Chairman of the world energy and natural resources committee of KPMG (1993-2008). Member of the Institute of Certified Accountants of England and Wales. Member of the Board of Directors of Sistema PJSC since 2010. Chairman of the Audit, Finance and Risks Committee, member of the Investor Relations and Dividend Policy Committee, the Nomination, Remuneration and Corporate Governance Committee and the Ethics and Control Committee of the Board. Share in the authorised capital of Sistema PJSC: 0.0219%.</p>

Name and position	Brief biography
Mikhail Shamolin Non-executive director ^①	<p>Born in Moscow in 1970.</p> <p>He graduated from the Moscow Automobile and Road Technical Institute in 1992 and from the Russian Presidential Academy of Public Administration in 1993.</p> <p>In 1996-1997, completed a finance and management course for senior executives at the Wharton School of Business.</p> <p>In 1998-2004, worked for McKinsey&Co, an international consultancy firm.</p> <p>2004-2005 – Managing Director for the Ferroalloys Division, Interpipe Corp (Ukraine).</p> <p>2005-2011 – Vice President for Sales and Customer Service, then Vice President, Head of Business Unit, President of OJSC MTS Russia.</p> <p>2011-2018 – President and Management Board Chairman of Sistema PJSC.</p> <p>Since 2018 – President of LLC Segezha Group MC.</p> <p>Member of the Strategy Committee of Sistema PJSC. Member of the Board of Trustees of Sistema Charitable Foundation.</p> <p>Share in the authorised capital of Sistema PJSC: 0.3541%.</p>
David Iakobachvili Independent director	<p>Born in 1957 in Georgia.</p> <p>Graduated from the Civil and Industrial Engineering Department of the Georgian Technical University in Tbilisi.</p> <p>1986-2000 – Private entrepreneur involved in various projects: official dealership of General Motors cars, tourism and hotel business, timber processing, retail, communications and banking.</p> <p>1992 – One of the founders of a food producing company, Wimm-Bill-Dann.</p> <p>1992-2011 – Member and later Chairman of the Board of Directors of Wimm-Bill-Dann.</p> <p>President of LLC Orion Naslediye. Member of the boards of directors of a number of companies.</p> <p>Member of managing bodies of various Russian and international organisations: Vice President and member of the Management Bureau of the Russian Union of Industrialists and Entrepreneurs (RSPP), head of the RSPP Committee for Corporate Social Responsibility and Demographic Policy, chairman of the RSPP United Ethics Committee, chairman of the board of RusBrand, president of the Russian-American Business Council, member of the board of the Russian Chamber of Commerce and Industry, the General Council of LLC Business Russia, the World Economic Forum in Davos, of the President's Global Council at New York University, the Public Council of the Russian Culture Ministry, the Coordination Council for Intellectual Property Protection.</p> <p>Member of the Board of Directors of Sistema PJSC since 2011. Chairman of the Investor Relations and Dividend Policy Committee, member of the Strategy Committee, the Nomination, Remuneration and Corporate Governance Committee, and the Audit, Finance and Risk Committee of the Board.</p> <p>Share in the authorised capital of Sistema PJSC: 0.0267%.</p>

^① Mikhail Shamolin became a non-executive director after the end of the reporting period following the termination of his powers as President and Chairman of the Management Board of Sistema PJSC.

Name and position	Brief biography
President and Board members	
<p>Andrey Dubovskov^① President and Management Board Chairman of Sistema PJSC since 13 March 2018</p>	<p>Born in Alma-Ata in 1966. In 1993, graduated from the Gerasimov Institute of Cinematography. Mr Dubovskov has extensive experience in telecommunication companies: since 1993, he has held multiple managerial positions at Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Telecommunications, CJSC 800, and other companies in Moscow, Almaty, Nizhny Novgorod, Yekaterinburg, Perm and Kiev. In 2002-2004, CEO of Tele2 (Nizhny Novgorod). In 2004, joined OJSC MTS as head of the company's Nizhny Novgorod branch. In 2006-2007, Director of the MTS Ural Macroregion. In 2007, became First Deputy CEO of CJSC UMS (MTS Ukraine) and in 2008 was appointed head of the MTS Ukraine business unit. In 2011-2018, President of PJSC MTS. On 13 March 2018, was appointed President of Sistema PJSC upon decision of the Board of Directors. Member of the Board of Directors of Sistema PJSC since 2015. Member of the Strategy Committee of the Board. Member of the Board of Trustees of Sistema Charitable Foundation. Share in the authorised capital of Sistema PJSC: 0.0140%.</p>
<p>Mikhail Shamolin^② President and Management Board Chairman of Sistema PJSC until 12 March 2018</p>	<p>Born in Moscow in 1970. He graduated from the Moscow Automobile and Road Technical Institute in 1992 and from the Russian Presidential Academy of Public Administration in 1993. In 1996-1997, completed a finance and management course for senior executives at the Wharton School of Business. In 1998-2004, worked for McKinsey&Co, an international consultancy firm. 2004-2005 – Managing Director for the Ferroalloys Division, Interpipe Corp (Ukraine). 2005-2011 – Vice President for Sales and Customer Service, then Vice President, Head of Business Unit, President of OJSC MTS Russia. 2011-2018 – President and Management Board Chairman of Sistema PJSC. Since 2018 – President of LLC Segezha Group MC. Member of the Strategy Committee of Sistema PJSC. Member of the Board of Trustees of Sistema Charitable Foundation. Share in the authorised capital of Sistema PJSC: 0.3541%.</p>
<p>Igor Alyoshin^③ Vice President for Security at Sistema PJSC</p>	<p>Born in 1965 in Kurgan. In 1987, he graduated from the Omsk Higher School of Police of the USSR Ministry of Internal Affairs with a degree in Law. 1983-2012 – Service with law enforcement. 2012-2013 – Management Board member, Vice President for Security and Assets Protection, Medsi Group. 2013-2014 – Vice President for Security, MTS Group Corporate Centre, Security Unit, MTS. 2014-2018 – Senior Vice President, Head of Security Service, MTS Bank. From April 2018 – Vice President for Security, Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0%.</p>
<p>Alexander Gorbunov^④</p>	<p>Born in Moscow in 1967. In 1992, graduated from the Moscow Engineering and Physics Institute with a degree in experimental nuclear and plasma physics. In 1999, received an MBA degree from Harvard University. 2002-2003 – Deputy CEO, Intellect Telecom. 2003-2005 – Head of Strategic Analysis Department, Director for Strategy at the Strategic Analysis Department, OJSC MTS. 2005-2006 – Head of the Corporate Development Department, Acting First Vice President, Head of the Strategy and Development Function, Sistema PJSC. 2006-2010 – Vice President for Strategy and Development, OJSC Comstar United TeleSystems. September-December 2010 – Advisor to the president of OJSC Sitronics. 2010-2012 – Executive Vice President of the Telecom Assets Business Unit, Executive Vice President for Telecom Assets Development at the Core Assets Business Unit, Sistema PJSC. 2012-2015 – Executive Vice President of an Investment Portfolio of Sistema PJSC. 2015-2018 – Vice President, Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.0137%.</p>

① Andrey Dubovskov was appointed President and Management Board Chairman of Sistema PJSC after the end of the reporting period.

② His powers were terminated after the end of the reporting period.

③ Elected as Management Board member after the end of the reporting period.

④ His powers were terminated after the end of the reporting period.

Name and position	Brief biography
Alexey Guryev Vice President for HR at Sistema PJSC	Born in Moscow in 1976. In 1998 , graduated from the Finance Academy under the Government of the Russian Federation with a degree in finance and credit. In 2013, obtained an MBA degree from the University of Chicago Booth School of Business. From 1999 to 2009 held top management positions at Yukos and Severstal. From 2009 to 2013 was Chief Auditor at TNK BP. 2013-2017 – Vice President, Head of the Internal Control and Audit Department of Sistema PJSC. 2017-2018 – Vice President, Head of the HR Department of Sistema PJSC; since April 2018 – Vice President for HR at Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.0663%.
Felix Evtushenkov ^①	Born in Moscow in 1978. In 2000 , graduated from the Griboyedov Institute of International Law and Economics with a degree in law. 1999-2000 – Assistant to President of CJSC Sistema Invest, Executive Director of Industry Department at Sistema PJSC. 2000-2006 – Deputy CEO, CEO at CJSC Sistema Hals. 2006-2008 – President of OJSC Sistema Hals. 2008-2011 – Vice President, Head of Consumer Assets Business Unit at Sistema PJSC. 2011-2012 – First Vice President, Head of Core Assets Business Unit at Sistema PJSC. 2012-2018 – First Vice President of Sistema PJSC. Since April 2018 – Deputy Chairman of the Board of Directors of Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.1817%.
Artyom Zasursky Vice President, Head of Strategy Function	Born in 1979 in Moscow. In 2005 , he completed postgraduate studies at the Journalism Department of the Lomonosov Moscow State University. In 2001 , he graduated from the Lomonosov Moscow State University with a degree in Foreign Social and Economic Geography and Translation. 2002-2003 – Head of Department at LLC Crossmedia Solutions. 2005-2006 – Executive Director at LLC Territoriya Igr. 2007-2009 – CEO at LLC Dragonara. 2011 – Director for Development at LLC Stream. 2012-2013 – Vice President for Development at OJSC SMM. 2013-2016 – CEO at LLC Stream. 2017-2018 – Vice President, Head of the Strategy Department of Sistema PJSC; since April 2018 – Vice President for Strategy at Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.0120%.
Alexey Katkov ^② Managing Partner at Sistema PJSC	Born in 1977 in Moscow. In 1999 , he graduated from the Russian Presidential Academy of National Economy with a degree in Management. 2000-2015 – Advertising Manager, Sales Director, Commercial Director (since 2007) at LLC Mail.Ru. 2015-2017 – Member of Management Board, First Vice President, COO at JSC SMM; then President of JSC Sistema Venture Capital. 2017-2018 – CEO and then President of LLC SVC Fund. Since April 2018 – Managing Partner at Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.0560%.
Leonid Monosov ^③	Born in 1958 in Mozyr, Belarus. In 1980 , graduated from the Moscow Institute of Railway Engineers with a degree in industrial and civil construction. Recipient of various awards and the title of Honoured Builder of the Russian Federation. 1999-2007 – CEO of OJSC Moskapstroy. 2007-2010 – Head of the Moscow City Contract Repairs Department. 2010-2012 – Vice President, the state-owned corporation Olympstroy. 2012-2013 – Executive Vice President of the Developing Assets Business Unit, Executive Vice President, Sistema PJSC. 2013-2018 – Vice President, Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.0965%.

① His powers were terminated after the end of the reporting period.

② Elected as Management Board member after the end of the reporting period.

③ His powers were terminated after the end of the reporting period.

Annex 1. (Continue)

Name and position	Brief biography
<p>Oleg Mubarakshin Managing Partner at Sistema PJSC</p>	<p>Born in 1968 in the Saratov region.</p> <p>He graduated from the Moscow State Academy of Law with a degree in Law in 2000 and from the Finance Academy of the Government of the Russian Federation with a degree in Finance in 2002.</p> <p>In 1991, he graduated from the Defence Ministry's Military Institute.</p> <p>1996-1998 – Deputy CEO for legal matters, the oil and gas company Belye Nochi (Russia).</p> <p>1998-2007 – Vice President for Corporate and Legal Affairs for Central and Eastern Europe, InBev FMCG Group (Russia).</p> <p>2008-2009 – Vice President for Legal Affairs for Western Europe, InBev FMCG Group (Belgium).</p> <p>2009-2013 – Member of the Management Board, Head of Legal, EastOne Investment and Consulting Group (Ukraine, United Kingdom).</p> <p>2013-2015 – Vice President, Head of the Legal Function, Sistema PJSC.</p> <p>2015-2018 – Senior Vice President, Head of the Legal Function of Sistema PJSC; since April 2018 – Managing Partner at Sistema PJSC.</p> <p>Share in the authorised capital of Sistema PJSC: 0.2444%.</p>
<p>Vsevolod Rozanov Managing Partner at Sistema PJSC</p>	<p>Born in Moscow in 1971.</p> <p>Graduated from the Economics Department of the Lomonosov Moscow State University with a degree in Economics.</p> <p>1993-2001 – Held various positions at the consultancy Bain & Company Inc. in Moscow, London and Stockholm.</p> <p>2002-2004 – Deputy CEO for Economics and Finance, CJSC MTU-Inform.</p> <p>2004-2006 – Vice President for Economics and Finance, OJSC Comstar United Telesystems.</p> <p>2006-2008 – Vice President for Finance and Investment, member of the Management Board, OJSC MTS.</p> <p>2008-2013 – CEO of Sistema Shyam TeleServices Limited. Board member of SSTL and OJSC MTS.</p> <p>2013-2018 – Senior Vice President, Head of the Finance and Investment Function of Sistema PJSC; since April 2018 – Managing Partner at Sistema PJSC.</p> <p>Share in the authorised capital of Sistema PJSC: 0.1599%.</p>
<p>Artyom Sirazutdinov Managing Partner at Sistema PJSC</p>	<p>Born in 1969 in Novokuznetsk.</p> <p>In 1993, he graduated from the Siberian University of Metallurgy with a degree in Aluminium Production Engineering.</p> <p>In 1996, he received an MBA degree from Virginia Commonwealth University.</p> <p>1996-2005 – Vice President at Russia Partners Managing Company.</p> <p>2005-2007 – Managing Director at Sputnik Investment Group.</p> <p>2007-2010 – Member of Management Board, Chief Investment Officer at EastOne.</p> <p>2010-2016 – Deputy Management Board Chairman at OJSC International Financial Club Bank.</p> <p>2016-2018 – Vice President at Sistema PJSC; since April 2018 – Managing Partner at Sistema PJSC.</p> <p>Share in the authorised capital of Sistema PJSC: 0.0051%.</p>
<p>Vladimir Travkov^① Vice President for Finance and Investment at Sistema PJSC</p>	<p>Born in 1979 in Tashkent, the Republic of Uzbekistan.</p> <p>He received a degree in Economics from the Lomonosov Moscow State University in 2000 and a degree in Management from the same university in 2002.</p> <p>2003-2004 – Specialist of the strategic analysis service at MTS.</p> <p>2004-2007 – Chief economist, head of the planning and analysis department at Comstar United TeleSystems.</p> <p>2007-2010 – Head of the consolidation and planning methodology department at MTS.</p> <p>2010-2011 – Head of the planning and management reporting department at Comstar United TeleSystems.</p> <p>2011-2018 – Head of the functional controlling department at MTS.</p> <p>From April 2018 – Vice President for Finance and Investment at Sistema PJSC.</p> <p>Share in the authorised capital of Sistema PJSC: 0%.</p>

① Elected as Management Board member after the end of the reporting period.

Name and position	Brief biography
Ali Uzdenov Managing Partner at Sistema PJSC	Born in 1962 in Kislovodsk, the Stavropol territory. In 1985 , he graduated from the Rostov Institute of Railway Engineers with a degree in Automation, Telemechanics and Communications. In 1990 , he continued his education at the International Survival School (Italy). 1994-1997 – Head of the Rostov Commodity Exchange. 1997-1998 – CEO of LLC Ayaks. 1998-2001 – CEO of the Rostov branch, OJSC Bashneft. 2001-2007 – Chairman of the Board of Directors, OJSC Kormmash. 2007-2009 – CEO of LLC Rostovregiongaz. 2009-2012 – First Vice President for Refining and Sales, OJSC Bashneft. 2012-2018 – Vice President, Senior Vice President of Sistema PJSC; since April 2018 – Managing Partner at Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.1400%.
Mikhail Cherny ^①	Born in 1971 in Saratov. In 1994 , he graduated from the Moscow State University of International Relations of Russia's Ministry of Foreign Affairs (MGIMO) with a degree in International Economics with the knowledge of a foreign language. In 2004, obtained an MBA degree from Washington University. 2006-2009 – Vice President, head of the division for work with energy companies at LLC Morgan Stanley Bank. 2009-2011 – Deputy CEO for Strategy and Energy Markets at OJSC Bashkirenerg. 2011-2015 – Executive Vice President of an Investment Portfolio at Sistema PJSC. 2015-2018 – Vice President at Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.0398%.
Evgeny Chuikov ^②	Born in 1984 in Kiev. In 2005 , received a BA degree from Courtauld Institute of Art. 2008-2009 – Anti-crisis manager at Imperial Energy (an independent oil company) and Ferrexpo (one of the world's leading producers of iron ore). 2009-2010 – Co-Director of Pelham Bell Pottinger, a financial PR Agency in the UK. 2010-2015 – Managing Director for Investor Relations of the Corporate Communications Function at Sistema PJSC. 2015-2018 – Vice President, Head of the Corporate Communications Function at Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.0519%.
Sergey Shishkin Vice President for Corporate Governance and Legal Affairs at Sistema PJSC	Born in Moscow in 1970 . In 1992 , he graduated with honours from the Lomonosov Moscow State University with a degree in Law. In 1996 , he received a PhD in Law. 1998-2000 – Director at the Foundation of International Institute for Development of Legal Economy. 2001-2003 – Member of the bar association of Moscow. 2005-2011 – Head of the Property Department, Director of the Department of Property Projects, Sistema PJSC. 2011-2015 – Executive Vice President for Corporate Projects at Sistema PJSC; October 2014 – December 2015 – Acting Senior Vice President, Head of the Corporate Governance Function at Sistema PJSC. 2015-2018 – Vice President, Head of the Corporate Governance Function of Sistema PJSC; since April 2018 – Vice President for Corporate Governance and Legal Affairs at Sistema PJSC. Share in the authorised capital of Sistema PJSC: 0.0470%.

① His powers were terminated after the end of the reporting period.

② His powers were terminated after the end of the reporting period.

Annex 1. (Continue)

Name and position	Brief biography
Vladimir Shukshin ^①	<p>Born in 1959 in the Kovylinkinsky district of Mordovia, Russia. He graduated from the State Institute of Physical Training in 1991, from the Academy of the Federal Security Service with a degree in Law in 1999, and from the Russian Presidential Academy of National Economy and Public Administration with a degree in State and Municipal Administration in 2003. PhD degree in Political Science.</p> <p>1998-2005 – Advisor to the Mayor of Moscow.</p> <p>2005-2010 – Deputy head of staff of the Moscow city administration.</p> <p>2010-2011 – Deputy Mayor of Moscow for coordination with law-enforcement agencies.</p> <p>January 2012 – June 2012 – Deputy CEO for Security, IDGC Holding.</p> <p>2012-2013 – Deputy Chairman of the Management Board, Federal Grid Company of United Energy System (part-time).</p> <p>2013-2014 – Deputy CEO for Security, OJSC Russian Grids.</p> <p>2014-2015 – Executive Vice President, Head of the Security and IT Department, Sistema PJSC.</p> <p>2015-2015 – Executive Vice President, Head of the Security and IT Department, Sistema PJSC.</p> <p>Share in the authorised capital of Sistema PJSC: 0%.</p>
Corporate Secretary	
Igor Petrov Corporate Secretary of Sistema	<p>Born in 1978 in Leningrad.</p> <p>In 1999, graduated from the St Petersburg State University with a degree in Oriental and African studies.</p> <p>In 2000, obtained a degree in Philology from the same university.</p> <p>In 2004, graduated from the Utrecht University (the Netherlands) with a degree in International Law.</p> <p>In 2009, obtained a degree in Corporate Finance and Financial Analysis from the Russian Academy of National Economy, Moscow.</p> <p>2005 – Lawyer, Freshfields Bruckhaus Deringer, Amsterdam.</p> <p>2005-2006 – Lawyer, ICICI Bank Eurasia.</p> <p>Corporate Secretary of Sistema PJSC since 2006.</p> <p>Share in the authorised capital of Sistema PJSC: 0.0101%.</p>

^① His powers were terminated after the end of the reporting period.

Annex 2.

Financial results of Sistema PJSFC

in accordance with Russian accounting standards (RAS) in 2017

Revenue structure

(RUB K)	2017	2016
Equity holdings in other companies	19,078,345	36,635,669
Other operating income (property rent, agency services and sureties)	17,688	29,914
TOTAL	19,096,033	36,665,582

The core business of Sistema PJSFC (hereinafter, "the Corporation", "Sistema") is management of interests and stakes in companies.

Key financial indicators

(RUB K)	2017	2016
Revenue from sale of products, goods, works and services (net of VAT)	19,096,033	36,665,582
Administrative expenses	(7,063,287)	(11,460,300)
Profit from sales	12,032,746	25,205,282
Interest income	3,804,765	5,285,355
Interest expense	(10,221,884)	(11,362,516)
Other income	87,004,418	81,398,676
Other expenses	(132,928,216)	(138,572,228)
(Loss)/Income before tax	(40,308,171)	(38,045,431)
Current income tax	(32,187)	(1,477)
Net (loss)/income	(31,509,403)	(37,372,722)
Retained earnings (uncovered loss)	161,805,075	207,692,978

Annex 2. (Continue)

Performance indicators

	2017	2016
Productivity, RUB K/FTE	59,489	124,290
Debt to equity ratio	1.236	0.610
Long-term debt to the sum of long-term debt and equity	0.389	0.335
Debt service coverage ratio	9.55	0.97
Overdue debt, %	0	0

Financial stability

	2017	2016
Net working capital, RUB K	-70,816,504	16,241,154
Current ratio	0.41	1.61
Quick ratio	0.41	1.61

Information about fuel and energy consumption

Type of resources	2017		2016	
	Amount	Cost with VAT, RUB K	Amount	Cost with VAT, RUB K
Heat, Gcal	1,530.26	2,596.82	1,625.73	2,611.88
Electric power, thous. kWh	2,300.23	8,878.07	2,311.04	8,487.74
Water, cu m	8,079.77	279.59	7,118	238.57
Petrol, l	236,009.89	8,846.23	235,141.12	8,440.20
TOTAL:	-	20,600.70	-	19,778.38

Annex 3.

Transactions involving shares of Sistema PJSC performed by members of the Board of Directors, President and members of the Management Board of Sistema PJSC during 01 January-31 December 2017.^①

Name	Number of Sistema shares
Sistema shares received by members of Sistema's Board of Directors on 07 July 2017 as remuneration for serving on Sistema's Board	
S. Boev	878,334
A. Dubovskov	878,334
V. Evtushenkov	878,334
F. Evtushenkov	878,334
P. Clanwilliam	918,201
R. Kocharyan	918,201
J. Krecké	918,201
P. Mandelson	918,201
R. Munnings	918,201
M. Shamolin	878,334
D. Iakobachvili	918,201
Sistema shares received by members of Sistema's Board of Directors and Management Board on 18 January 2017 under the long-term incentive programme	
S. Boev	2,958,823
E. Vitchak	2,115,808
A. Gorbunov	1,331,174
F. Evtushenkov	5,077,940
A. Zasursky	394,904
V. Korchunov	1,361,036
L. Monosov	2,821,078
O. Mubarakshin	3,878,982
V. Rozanov	5,077,940
A. Uzdenov	4,993,951
M. Cherny	1,774,899
E. Chuikov	1,504,299
M. Shamolin	7,447,645
S. Shishkin	1,673,990

^① Information provided herein coincides with the information included in the notices of transactions with the Corporation's securities sent to Sistema PJSC by the Board members, President and Management Board members.

Annex 3. (Continue)

Name	Number of Sistema shares	Dates of transactions
Divestment of Sistema shares by members of the Board of Directors, President and members of the Management Board of Sistema PJSC		
A. Gorbunov	900,000	02 October 2017
Acquisition of Sistema shares by members of the Board of Directors, President and members of the Management Board of Sistema PJSC		
O. Mubarakshin	1,820,075	20 April 2017
A. Guryev	850,000	21 April 2017
E. Chuikov	480,000	27 April 2017
A. Zasursky	137,677	28 April 2017

Annex 4.

List of transactions carried out by Sistema PJSC in the reporting year, which are recognised as major transactions in accordance with the Federal Law On Joint-Stock Companies, and other transactions which are covered by the procedure for approval of major transactions in accordance with the Company's Charter.

During 2017 Sistema PJSC did not perform any transactions which are recognised as major transactions in accordance with the Federal Law On Joint-Stock Companies, or other transactions which are covered by the procedure for approval of major transactions in accordance with the Company's Charter.

Annex 5.

List of transactions carried out by Sistema PJSC in the reporting year, which are recognised as related party transactions in accordance with the Federal Law On Joint-Stock Companies.

All the transactions closed by Sistema PJSC in 2017 which are recognised as related party transactions in accordance with the Federal Law On Joint-Stock Companies were approved by the Board of Directors of the Corporation.

The decisions on consent to or subsequent approval of the transactions closed by Sistema PJSC in 2017 which are recognised as related party transactions in accordance with the Federal Law On Joint-Stock Companies were made by the Board of Directors of the Corporation.

No	No of the BoD minutes and decision date	Description	Counterparties	Transaction value	Related parties
1	02-16, 12 March 2016	Acquisition of additionally issued ordinary registered shares in JSC Leader Invest and transfer of ordinary registered shares in JSC Lobachevskogo 120 to JSC Leader Invest	JSC Leader Invest	RUB 1,527,821,460.00	V. Evtushenkov, F. Evtushenkov, V. Rozanov, S. Shishkin
2	13-16, 09 December 2016	Signing of the agreements providing for indemnification of members of Sistema's Board of Directors against legal and other expenses and losses	Sistema Finance S.A., A. Dubovskov, F. Evtushenkov, P. Clanwilliam	RUB 1,557,400,000.00	V. Evtushenkov, A. Dubovskov, F. Evtushenkov, P. Clanwilliam, M. Shamolin, V. Rozanov
3	13-16, 09 December 2016	Signing of the indemnity agreement with Sistema Finance S.A.	Sistema Finance S.A.	RUB 1,557,400,000.00	V. Evtushenkov, F. Evtushenkov, M. Shamolin, V. Rozanov
4	12-16, 29 October 2016	Sale of shares in JSC Leader Invest to F. Evtushenkov	F. Evtushenkov	RUB 32,692,738.00	V. Evtushenkov, F. Evtushenkov
5	12-16, 29 October 2016	Sale of shares in JSC Intellect Telecom to F. Evtushenkov	F. Evtushenkov	RUB 2,655,010.00	V. Evtushenkov, F. Evtushenkov
6	12-16, 29 October 2016	Sale of shares in JSC Business Nedvizhimost to L. Monosov	L. Monosov	RUB 7,396,754.00	L. Monosov
7	12-16, 29 October 2016	Sale of shares in JSC Mosdachtrest to L. Monosov	L. Monosov	RUB 14,949,437.00	L. Monosov
8	12-16, 29 October 2016	Sale of shares in JSC Steppe AgroHolding to A. Uzdenov	A. Uzdenov	RUB 14,000,000.00	A. Uzdenov
9	12-16, 29 October 2016	Sale of a stake in LLC Segezha Group to A. Uzdenov	A. Uzdenov	RUB 21,619,552.00	A. Uzdenov
10	12-16, 29 October 2016	Sale of shares in JSC Binnopharm to M. Cherny	M. Cherny	RUB 4,549,317.00	M. Cherny
11	12-16, 29 October 2016	Sale of a stake in LLC Kronstadt Group to M. Cherny	M. Cherny	RUB 6,975,620.00	M. Cherny
12	13-16, 09 December 2016	Provision of a loan to LLC Kronstadt Group and an additional contribution to the authorised capital of LLC Kronstadt Group	LLC Kronstadt Group	RUB 4,251,928,408.00	V. Evtushenkov, S. Boev, F. Evtushenkov, M. Shamolin, M. Cherny, S. Shishkin

Annex 5. (Continue)

No	No of the BoD minutes and decision date	Description	Counterparties	Transaction value	Related parties
13	01-17, 11 January 2017	Signing of the Underwriting Agreement	PJSC Detsky Mir, EXARZO HOLDINGS LIMITED, FLOETTE HOLDINGS LIMITED, Credit Suisse Securities (Europe) Limited, Goldman Sachs International, Morgan Stanley & Co. International plc, UBS Limited, JSC Sberbank CIB, SIB (Cyprus) Limited	RUB 251,574,410.00	V. Evtushenkov, F. Evtushenkov, V. Korchunov, O. Mubarakshin
14	01-17, 11 January 2017	Signing of the Engagement Letter	PJSC Detsky Mir, Credit Suisse Securities (Europe) Limited, Goldman Sachs International, Morgan Stanley & Co. International plc, UBS Limited, JSC Sberbank CIB, SIB (Cyprus) Limited and/or their affiliates or other persons that may be specified in the Engagement Letter or annexes thereto as underwriters or managers	RUB 0	V. Evtushenkov, F. Evtushenkov, V. Korchunov, O. Mubarakshin
15	03-15, 18 April 2015	Transfer of shares in JSC Mosdachtrest to JSC Business Nedvizhimost and acquisition of additionally issued shares in JSC Business Nedvizhimost	JSC Business Nedvizhimost	RUB 24,000,000,000.00	V. Evtushenkov ^① , F. Evtushenkov ^② , A. Zasursky ^③ , L. Monosov ^④ , S. Shishkin ^⑤ , V. Shukshin ^⑥
16	10-16, 10 September 2016	Acquisition of shares in East-West United Bank S.A. from PJSC MTS Bank	PJSC MTS Bank	RUB 2,600,000,000.00	V. Evtushenkov, F. Evtushenkov, V. Rozanov
17	02-17, 18 February 2017	Acquisition of additionally issued shares in JSC Business Nedvizhimost, and transfer of shares in OJSC VAO Intourist and JSC Mosdachtrest and an equity stake in LLC Altay Resort to JSC Business Nedvizhimost	JSC Business Nedvizhimost	RUB 1,050,360,800.00	V. Evtushenkov, F. Evtushenkov, A. Zasursky, L. Monosov, S. Shishkin, V. Shukshin

① The grounds for recognising the person a related party: controlling person of the Corporation and JSC Business Nedvizhimost. Stake in the Corporation: 64.2030%. Stake in JSC Business Nedvizhimost: 0%.

② The grounds for recognising the person a related party: close relative of the controlling person of the Corporation and JSC Business Nedvizhimost. Stake in the Corporation: 0.1817%. Stake in JSC Business Nedvizhimost: 0%.

③ The grounds for recognising the person a related party: member of the governance bodies of the Corporation and JSC Business Nedvizhimost. Stake in the Corporation: 0.0120%. Stake in JSC Business Nedvizhimost: 0%.

④ The grounds for recognising the person a related party: member of the governance bodies of the Corporation and JSC Business Nedvizhimost. Stake in the Corporation: 0.0965%. Stake in JSC Business Nedvizhimost: 0.06%.

⑤ The grounds for recognising the person a related party: member of the governance bodies of the Corporation and JSC Business Nedvizhimost. Stake in the Corporation: 0.0470%. Stake in JSC Business Nedvizhimost: 0%.

⑥ The grounds for recognising the person a related party: member of the governance bodies of the Corporation and JSC Business Nedvizhimost. Stake in the Corporation: 0%. Stake in JSC Business Nedvizhimost: 0%.

No	No of the BoD minutes and decision date	Description	Counterparties	Transaction value	Related parties
18	04-17, 01 April 2017	Pledge of shares in JSC RTI as security for JSC RTI's liabilities to PJSC VTB Bank	VTB Bank (Public Joint-Stock Company), JSC RTI	RUB 22,944,442,363.54	V. Evtushenkov ^① , S. Boev ^② , F. Evtushenkov ^③ , S. Shishkin ^④
19	05-17, 12 April 2017	Provision of an interest-bearing loan to JSC Steppe AgroHolding	JSC Steppe AgroHolding	RUB 1,153,000,000.00	V. Evtushenkov, F. Evtushenkov, A. Zasursky, A. Uzdenov, S. Shishkin
20	06-17, 20 May 2017	Provision of an interest-bearing loan to JSC Steppe AgroHolding	JSC Steppe AgroHolding	RUB 1,840,000,000.00	V. Evtushenkov, F. Evtushenkov, A. Zasursky, A. Uzdenov, S. Shishkin
21	03-15, 18 April 2015	Transfer to the trust management of LLC Sistema Capital MC of the cash intended for transactions with securities and other transactions allowed by the Russian law	LLC Sistema Capital MC	RUB 2,985,500,000.00	V. Evtushenkov, F. Evtushenkov, V. Rozanov
22	07-17, 24 June 2017	Acquisition of units in real estate CEIF Sistema Rental Real Estate 1 managed by LLC LandProfit MC	LLC LandProfit MC	RUB 1,034,400,000.00	V. Evtushenkov, F. Evtushenkov
23	10-17, 14 October 2017	Change in the terms of the loans provided to JSC Steppe AgroHolding	JSC Steppe AgroHolding	RUB 770,000,000.00	V. Evtushenkov, F. Evtushenkov, A. Uzdenov, S. Shishkin
24	11-17, 18 November 2017	Extension and adjustment of the terms of the letter of credit issued by ING Bank (Eurasia)	Joint-Stock Company ING Bank (Eurasia), SISTEMA SHYAM TELESERVICES LIMITED	RUB 2,124,000,000	V. Evtushenkov, F. Evtushenkov, A. Gorbunov, V. Rozanov
25	13-17, 16 December 2017	Signing of the agreements providing for indemnification of members of Sistema's Board of Directors against legal and other expenses and losses	Sistema Finance S.A., A. Belova, R. Sommer	Q4 2017 – RUB 1,498,380,000.00	V. Evtushenkov, F. Evtushenkov, A. Belova, R. Sommer
26	15-17, 27 December 2017	Provision of an interest-bearing loan to JSC Sistema Invest	JSC Sistema Invest	RUB 20,000,000,000.00	V. Evtushenkov ^⑤ , F. Evtushenkov ^⑥ , S. Shishkin ^⑦

① The grounds for recognising the person a related party: controlling person of the Corporation and JSC RTI. Stake in the Corporation: 64.2030%. Stake in JSC RTI: 0%.

② The grounds for recognising the person a related party: member of the governance bodies of the Corporation and JSC RTI. Stake in the Corporation: 0.0929%. Stake in JSC RTI: 3%.

③ The grounds for recognising the person a related party: close relative of the controlling person of the Corporation and JSC RTI; member of the governance bodies of the Corporation and JSC RTI. Stake in the Corporation: 0.1817%. Stake in JSC RTI: 0%.

④ The grounds for recognising the person a related party: member of the governance bodies of the Corporation and JSC RTI. Stake in the Corporation: 0.0470%. Stake in JSC RTI: 0%.

⑤ The grounds for recognising the person a related party: the controlling person of the Corporation and JSC Sistema Invest Stake in the Corporation: 64.2030%. Stake in JSC Sistema Invest: 0%.

⑥ The grounds for recognising the person a related party: close relative of the controlling person of the Corporation and JSC Sistema Invest Stake in the Corporation: 0.1817%. Stake in JSC Sistema Invest: 0%.

⑦ The grounds for recognising the person a related party: member of the governance bodies of the Corporation and JSC Sistema Invest. Stake in the Corporation: 0.0470%. Stake in JSC Sistema Invest: 0%.

Annex 6.

Report on compliance with the Corporate Governance Code recommended by the Bank of Russia

In the opinion of Sistema's Board of Directors, the Corporation complies with the principles and the guidelines of the Corporate Governance Code recommended by the Bank of Russia (hereinafter, "the Code") with the reservations mentioned herein below.

When assessing compliance of Sistema's corporate governance practices with the Code's recommendations, the Board assessed both formal and actual adherence to the principles and recommendations of the Code by the Corporation and its officers, including achievement of the general level of corporate governance standards stipulated by the Code, even through alternative mechanisms.

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
I. Shareholder rights and equality for exercise of their rights				
1.1.	The company should ensure equal and fair treatment of all shareholders for exercise of their rights to participate in the company's governance.			
1.1.1.	The company should create for its shareholders the most favourable conditions for participation in the general meeting, for developing a substantiated position on the general meeting's agenda items, coordinating their actions, and expressing their opinions on the items under consideration.	<p>1. An internal document of the company approved by the general meeting of shareholders and regulating procedures of the general meeting is publicly disclosed.</p> <p>2. The company offers an available means of communication with the company, such as a hotline, e-mail or a web forum, that allows shareholders to express their opinions and submit queries about the agenda during preparations for the general meeting. These actions were taken by the company ahead of each general meeting held in the reporting period.</p>	Observed.	<p>The procedure for convening, preparing and conducting the General Meeting of the shareholders of the Corporation is regulated by the Terms of Reference of the General Meeting of shareholders that was approved by the General Meeting of shareholders of Sistema PJSC (Minutes No. 1-17 dd 28 June 2017) and is freely available on the Corporation's website.</p> <p>When holding each General Meeting of shareholders, the Corporation communicates to its shareholders an e-mail address to which they may send their opinions or questions with regard to the General Meeting, including its agenda.</p>
1.1.2.	The procedure for notification of the general meeting and provision of materials for the general meeting should enable the shareholders to prepare for the meeting as appropriate.	<p>1. A notice of the general meeting of shareholders is published on the website at least 30 days before the date of the meeting.</p> <p>2. The notice specifies the venue and documents needed for admission to the meeting.</p> <p>3. The shareholders are provided access to information about persons that proposed agenda items and nominated candidates to the board of directors and the auditing commission of the company.</p>	Observed.	<p>In accordance with Sistema's Charter, a notice of the General Meeting of shareholders, including the date, time and venue of the meeting and documents needed for admission, is published in both Russian and English on the Company's website (www.sistema.ru/www.sistema.com) at least 30 days before the meeting.</p> <p>The information about who proposed each item to the agenda of the General Meeting and about each candidate nominated for election to the Corporation's governance bodies and who nominated them shall be provided in explanatory notes or other relevant materials.</p>
1.1.3.	During preparation and conducting of the general meeting, the shareholders should be able to receive information about the meeting and the relevant materials in a timely manner and without any hindrance, put questions to executive bodies and members of the company's board of directors and to communicate with each other.	<p>1. In the reporting period, the shareholders had an opportunity to ask members of the Company's governance bodies and board of directors questions ahead of the general meeting or during the meeting.</p> <p>2. The stance of the board of directors (including dissenting opinions included in the minutes) on each agenda item of the general meetings held in the reporting period was included in materials for the general meetings.</p>	Observed.	<p>During preparations for a General Meeting, the shareholders are entitled to receive answers to their questions sent to a special email address (osa@sistema.ru), which is included in the notice of the General Meeting. Shareholders participating in the General Meeting may put questions to members of the governance bodies, of the board of directors and the management board and the President who are also present at the meeting.</p> <p>The stance of the Board of Directors on the agenda items of the General Meeting is included in the explanatory note for each agenda item.</p>

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
1.1.3. (Continue)		3. The company provided to eligible shareholders access to the list of persons that have the right to participate in the general meeting from the date it was obtained by the company, in all instances of holding general meetings in the reporting period.		In accordance with the Terms of Reference of the General Meeting of shareholders, the shareholders are entitled to see the list of persons that have a right to participate in the General Meeting by contacting Sistema's corporate secretary.
1.1.4.	Exercise of a shareholder's right to request convention of the general meeting, nominate candidates to the company's governance bodies and make proposals for the general meeting's agenda should not be fraught with needless complexities.	<p>1. In the reporting period, shareholders had the opportunity within at least 60 days after the end of the respective calendar year to propose items for the agenda of the annual general meeting.</p> <p>2. In the reporting period, the company did not refuse to accept items proposed for the agenda or nominees to the company's governance bodies for reasons of typos or other insignificant deficiencies in a shareholder's proposal.</p>	Observed.	<p>The Charter of Sistema PJSC sets a deadline for submission of shareholders' proposals for the general meeting's agenda to 100 days after the end of the financial year.</p> <p>Should a shareholder's proposals contain material deficiencies, the Corporation informs the shareholder accordingly in advance, so that such deficiencies could be eliminated before the Board of Directors has approved the General Meeting's agenda and the list of candidates for election to the governance and control bodies.</p>
1.1.5.	Each shareholder should be able to exercise their voting right in the easiest and most convenient way for the shareholder, without any hindrances.	The company's internal regulations (internal policy) include provisions that entitle each participant of the general meeting to request a copy of his/her filled-in voting ballot certified by the teller committee before the end of the general meeting.	Observed.	The provision that a person filling in the voting ballot is entitled to have a copy of his/her filled-in voting ballot certified by the teller committee before the end of the general meeting is included in the Terms of Reference of the Annual General Meeting of shareholders.
1.1.6.	The procedure of general meetings adopted by the company should ensure equal opportunities for all the persons present at the meeting to express their opinions and to ask their questions.	<p>1. General meetings of shareholders held in the format of a meeting (joint presence of shareholders) in the reporting period allocated sufficient time for reports on agenda items and discussions.</p> <p>2. Candidates to the company's governance and control bodies were available for answering shareholders' questions at the meeting at which their nominations were to be voted on.</p> <p>3. When making decisions related to preparation and conduct of general meetings of shareholders, the board of directors considered use of telecom technologies to give shareholders remote access to general meetings in the reporting period.</p>	Observed.	<p>In the reporting year, the General Meeting of shareholders held in the format of joint presence allocated up to 20 minutes for a report on each agenda item and time for discussion of such items.</p> <p>The candidates nominated to the Board of Directors and the Auditing Commission are present at the respective general meeting.</p> <p>Participants of the General Meeting have the possibility to consult with each other on the agenda items.</p> <p>From 2017 Sistema's shareholders, during preparation for the General Meeting, may also use the e-voting system available on the website of the Corporation's registrar JSC Reyestr. Shareholders could also vote remotely provided that the relevant depository ensured the technical conditions necessary for such voting.</p> <p>The Corporation provides a sufficiently big room that accommodates all the persons willing to participate in the General Meeting.</p>

Annex 6. (Continue)

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
1.2.	The shareholders should be given equal and fair opportunities to share in the company's net income via dividends.			
1.2.1.	The company should develop and implement a transparent and clear mechanism for determining the amount or dividends and their distribution.	<p>1. The company has developed a dividend policy, which has been approved by the board of directors and publicly disclosed.</p> <p>2. If the company's dividend policy uses the indicators in the company's financial statements to determine the dividend amount, the relevant provisions of the dividend policy are based on consolidated financial statements.</p>	Observed.	<p>The Corporation's Board of Directors has approved the Dividend Policy (Minutes of the Board of Directors of Sistema PJSFC No.04-17 dd 03 April 2017).</p> <p>The Corporation seeks to distribute dividends twice a year. In accordance with the revised Dividend Policy, the recommended amount of dividend distributions for a reporting year is based on a target dividend yield of at least 6%, or RUB 1.19 per ordinary share, whichever is greater. The Dividend Policy of Sistema PJSFC is published on its corporate website.</p> <p>In case the amount and/or frequency of dividend payments deviate from those recommended in the Dividend Policy, the Corporation discloses the reasons for such deviation.</p>
1.2.2.	It is not recommended for companies to take a decision to distribute dividends if such decision, while formally being within the restrictions imposed by the government, is economically unreasonable and can lead to misrepresentation of the company's business.	The company's dividend policy clearly specifies financial/economic circumstances under which it should not pay dividends.	Partially observed.	<p>According to the Dividend Policy, dividends to the Company's shareholders shall only be paid if there are sources and grounds for their payment, as defined by the laws of the Russian Federation.</p> <p>The Corporation does not declare dividends if net income or cash flow are insufficient (liquidity shortage) or if it is economically unreasonable.</p>
1.2.3.	Companies should not allow the dividend entitlements of existing shareholders to be downgraded.	The company did not take actions that would downgrade the dividend entitlements of existing shareholders in the reporting period.	Observed.	<p>The Corporation has issued only one type of ordinary shares. Holders of global depository receipts are entitled to dividends on a par with holders of ordinary shares.</p> <p>In the reporting period, the Corporation did not take actions that would downgrade dividend entitlements of holders of ordinary shares and/or global depository receipts.</p>
1.2.4.	Companies should strive to avoid situations where shareholders receive from the company any types of profit (income) other than dividends or disposal value.	In order to rule out situations when shareholders receive any types of profit (income) from the company other than dividends or disposal value, the company's internal regulations envisage control mechanisms that ensure timely identification and approval procedures for transactions with persons affiliated with material shareholders (persons entitled to dispose of votes allocated to voting shares) in cases when such transactions are not formally recognised as related party transactions by law.	Observed.	The Corporation has the Ethics Code approved by the Board of Directors (Minutes No.08-15 dd 02 November 2015), which stipulates that officers responsible for transactions shall timely report any conflicts of interest related to a transaction to the Board of Directors.

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
1.3.	Corporate governance system and practices should ensure equal footing for all shareholders that hold shares of the same category (type), including minority and foreign shareholders, and equal treatment of them by the company.			
1.3.1.	Companies should create conditions for fair treatment of each shareholder by the governance bodies and the controlling persons of the company, including prevention of abuse of power by major shareholders in respect of minority shareholders.	In the reporting period, the procedures for managing major shareholders' potential conflicts of interest were efficient, and the board of directors paid sufficient attention to conflicts between shareholders, if there were any.	Observed.	The Corporation has created all the conditions necessary to prevent shareholders' actions that are intended to harm other shareholders or the Corporation as well as other abuse of shareholder rights. There were no recorded conflicts between the Corporation's shareholders in the reporting period.
1.3.2.	Companies should not take actions that will or may lead to artificial redistribution of corporate control.	Quasi-treasury shares are absent or do not participate in voting in the reporting period.	Partially observed.	The internal regulations of the Corporation do not contain any prohibition on voting with the shares of the Corporation held by legal entities under the Corporation's control, however, starting from 2018, the shares owned by the organisations controlled by the Corporation will not actually participate in the voting at the General Meeting of shareholders.
1.4.	Shareholders should be provided with reliable and efficient ways to register rights to the shares, and the ability to dispose of their shares freely and easily.			
1.4.	Shareholders should be provided with reliable and efficient ways to register rights to the shares, and the ability to dispose of their shares freely and easily.	The quality and reliability of services provided by the company's registrar to keep the shareholder register meet the needs of the company and its shareholders.	Observed.	The Registrar of the Corporation is one of the largest special registrars in Russia, which has proven and reliable technologies that provide the most efficient way to ensure registration of proprietary rights and exercise of shareholder rights. Jointly with the Registrar, the Corporation is undertaking measures aimed at updating information about the shareholders recorded in the shareholder register.
II. Board of Directors				
2.1	The board of directors is in charge of strategic management of the company, determines the main principles and approaches to organising the company's risk control and internal control systems, controls the work of its executive bodies and performs other key functions.			
2.1.1.	The board of directors should bear responsibility for decisions relating to appointment and dismissal of executive bodies, including cases of dismissal due to improper performance of their duties. The board of directors should also control that the company's executive bodies act in compliance with the approved development strategy and the core areas of the company's business.	<p>1. The powers of the board of directors to appoint and dismiss members of executive bodies and determine the terms of their employment agreements are set out in the charter.</p> <p>2. The board of directors reviewed a report (reports) of the sole executive body and members of the collective executive body on implementation of the company's strategy.</p>	Observed.	<p>The Charter of Sistema PJSC stipulates that the authority of the Board of Directors includes appointment of the President of the Corporation, election of members of the Management Board and early termination of the President's and Management Board members' employment, as well as the terms of agreements with the President and members of the Management Board.</p> <p>The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors approves candidates to the positions of sole executive bodies of subsidiaries and approves nomination of candidates to boards of directors of subsidiaries.</p> <p>The Board of Directors monitors implementation of the Corporation's strategy and business plans by its executive bodies on a regular basis.</p>

Annex 6. (Continue)

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
2.1.2.	The board of directors should set the key long-term priorities for the company's business, assess and approve key performance indicators and key business goals of the company, evaluate and approve strategies and business plans for the core businesses of the company.	In the reporting period, the board of directors reviewed items on implementation status and update of the strategy, approval of the company's financial plan (budget) and criteria and indicators (including interim ones) of implementation of the company's strategy and business plans.	Observed.	<p>The Board of Directors controls and supports each stage of the process of strategy development and execution at the Corporation, evaluates its execution status and feasibility, and makes adjustments, if necessary.</p> <p>The strategy and business plans of the Corporation approved by the Board of Directors contain clear criteria, most of which are expressed in quantitative indicators, with interim control indicators.</p> <p>The Board of Directors approves the budget of the Corporation on an annual basis.</p> <p>At least once a year, the Board of Directors reviews the Corporation's strategy and assesses its implementation status and need for updating. In the reporting year, the Board of Directors reviewed the Corporation's strategy at its meetings on 18 February 2017 and 20 May 2017.</p>
2.1.3.	The board of directors should determine the principles of and approaches to organising the risk management and internal control systems at the company.	<p>1. The board of directors determined the principles of and approaches to organising the risk management and internal control systems at the company.</p> <p>2. The board of directors assessed the risk management and internal control systems of the company in the reporting period.</p>	Observed.	<p>The Charter of Sistema PJSC includes approval of risk management principles in the remit of the Board of Directors. The Corporation also adopted the Risk Code.</p> <p>The Board of Directors reviews a risk management report and a report on the work of the internal control system at the Corporation at least once a year and issues its opinion. In the reporting year, this item was reviewed by the Board of Directors on 01 April 2017.</p>
2.1.4.	The board of directors should determine the company's policy with regard to remuneration and (or) reimbursement of expenses to board members, executive bodies and other key executives of the company.	<p>1. The company developed and introduced a policy (policies), approved by the board of directors, on remuneration and compensation of expenses of members of the board of directors, executive bodies of the company and other senior executives.</p> <p>2. The board of directors reviewed items pertaining to this policy (policies) in the reporting period.</p>	Observed.	<p>The General Meeting of shareholders of the Corporation approved the Policy on remuneration and compensations payable to members of the Corporation's Board of Directors (Minutes No. 2-15 dd 01 July 2015).</p> <p>The Board of Directors of the Corporation approved the HR policy and policies on remuneration payable to the employees of Sistema PJSC. Employees' remuneration includes a fixed part, a bonus for execution of projects and generation of cash income, and long-term incentives.</p> <p>The Board of Directors also approved the rules for reimbursement of expenses to the top executives of the Corporation.</p>
2.1.5.	The board of directors should play a key role in preventing, identifying and settling internal conflicts between the company's governance bodies, shareholders and employees.	<p>1. The board of directors plays a key role in preventing, identifying and settling internal conflicts.</p> <p>2. The company has created a system for identifying transactions related to conflicts of interest and measures aimed at resolving such conflicts.</p>	Observed.	<p>The Board of Directors takes all the measures necessary to prevent and settle internal conflicts.</p> <p>The Corporation regularly collects information about related and affiliated persons of the members of its Board of Directors and executive bodies. In accordance with the Code of Ethics, ethics assessment is performed during which senior managers responsible</p>

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
2.1.5. (Continue)				<p>for the transactions submit ethics and conflict of interest declarations. The Internal Control and Audit Department analyses the information received about the signs of the management responsible for the transactions having conflicts of interest</p> <p>Resolutions on related party transactions are made by persons that are not involved in the relevant conflict of interest.</p> <p>Employees' compliance with the regulations for resolution of conflicts of interests is secured with disciplinary measures.</p>
2.1.6.	The board of directors should play a key role in securing transparency of the company, timely and full disclosure of the company's information, unhindered access of shareholders to the company's documents.	<p>1. The board of directors adopted a regulation on the information policy.</p> <p>2. The company has designated persons responsible for implementation of the information policy.</p>	Observed.	<p>The Board of Directors of the Corporation approved the Regulation on the Information Policy (Minutes No. 04-10 dd 21 April 2010).</p> <p>The responsibility to control compliance with the Information Policy lies with the Corporate Secretary reporting to the Board of Directors of the Corporation.</p>
2.1.7.	The board of directors should control the corporate governance practices at the company and play a key role in material corporate events of the company.	In the reporting period, the board of directors reviewed an item on corporate governance practices at the company.	Observed.	Based on the results of annual appraisal of the Corporation's corporate governance practices, the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors formulates proposals aimed at improving corporate governance practices for review and approval by the Board of Directors.
2.2. The board of directors should be accountable to the company's shareholders.				
2.2.1.	Information about the work of the board of directors shall be disclosed and provided to shareholders.	<p>1. The company's annual report for the reporting period includes information about directors' attendance of the meetings of the board and board committees.</p> <p>2. The annual report includes information about the key results of appraisal of the board's work conducted in the reporting period.</p>	Observed.	<p>The Annual Report and the Corporation's website (www.sistema.ru/www.sistema.com) disclose information about the number of meetings of the Board of Directors and its Committees held in the past year, specifying the forms of meetings and Board members' attendance.</p> <p>The main results of the Board's performance assessment and that of its executive bodies are disclosed in the Annual Report of the Corporation.</p>
2.2.2.	Chairman of the board of directors should be available for communication with the company's shareholders.	The company has a transparent procedure that gives shareholders a possibility to put questions to the board chairman and to communicate their stance on such matters.	Observed.	Shareholders can put questions to the Chairman of the Board of Directors regarding issues within the remit of the Board of Directors, and inform him about their opinions (positions) on such matters via the Corporate Secretary.

Annex 6. (Continue)

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
2.3.	The board of directors should be an efficient and professional governance body of the company, capable of passing objective independent judgements and taking decisions aligned with the interests of the company and its shareholders.			
2.3.1.	It is recommended to elect to the board of directors persons that have an impeccable business and personal reputation and possess the knowledge, skills and experience necessary for making decisions on the matters falling within the remit of the Board of Directors and required for efficient discharge of its functions.	<p>1. The procedure for assessing the board's efficiency adopted by the company includes assessment of the professional skills of the board members.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) assessed candidates to the board in terms of their possessing relevant experience, knowledge, business reputation, absence of a conflict of interest, etc.</p>	Observed.	<p>The annual assessment of the Board of Directors includes assessment of the Board's competences.</p> <p>The Board's Nomination, Remuneration and Corporate Governance Committee assesses all candidates nominated to the Board of Directors regarding their independence and potential contribution to the work of the Board of Directors.</p> <p>Sufficient professional experience, business reputation and absence of a conflict of interest are important criteria during the assessment of candidates to the Board of Directors.</p>
2.3.2.	Members of the board of directors should be elected in a transparent procedure enabling shareholders to receive information about the candidates that is sufficient to form an opinion of their personal and professional qualities.	In all instances in the reporting period when the agenda included items on election of board members, the company provided the shareholders with biographies of all candidates to the board, results of such candidates' assessment by the board (or its nomination committee), information on whether such candidates meet the independence criteria, in accordance with recommendations 102-107 of the Code, and the candidates' written consent to be elected to the board of directors.	Observed.	<p>The biographies of candidates to the Board of Directors and recommendations of the Board's Nomination, Remuneration and Corporate Governance Committee with regard to voting on such candidates, as well as information about their meeting the independence criteria are included in materials for General Meetings of shareholders whose agendas include an item on election of the Board of Directors.</p> <p>The status of newly elected members of the Board of Directors and their independence are confirmed at the first meeting of the Board after election.</p>
2.3.3.	The composition of the board of directors should be well balanced, in terms of qualification, experience, expertise and business qualities, and board members should enjoy the confidence of shareholders.	As part of the assessment of the board's work in the reporting period, the board of directors analysed its needs in terms of professional and business skills and experience.	Observed.	The annual assessment of the Board of Directors includes assessment of the Board's competences and how they match the Corporation's needs.
2.3.4.	The number of members on the company's board of directors should make it possible to organise the work of the board of directors in the most efficient manner, allowing for formation of board committees and giving the opportunity to material minority shareholders of the company to elect candidates they vote for to the board of directors.	As part of the assessment of the board of directors conducted in the reporting period, the board of directors considered whether the number of the board members met the company's needs and shareholders' interests.	Observed.	The annual assessment of the Board of Directors includes assessment of the number of the Board members.

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
2.4.	The board of directors should have a sufficient number of independent directors.			
2.4.1.	It is recommended to acknowledge as independent directors the persons that have sufficient expertise, competence, experience, and independence for formulation of their own positions; that are capable of making objective and conscientious judgements; and that are independent from the company's governance bodies, particular groups of shareholders, or other interested parties. It should be noted that a candidate is not normally considered to be independent if he/she is affiliated with the company, its material shareholder, material counterparty or competitor or with the state.	In the reporting period, all independent board members met all the independence criteria set out in recommendations 102-107 of the Code or were recognised as independent by resolution of the board of directors.	Observed.	The criteria of independence of members of the Corporation's Board of Directors are aligned with the criteria recommended by the Corporate Governance Code and the Listing Rules of Moscow Stock Exchange.
2.4.2.	It is recommended to assess compliance of candidates to the board of directors with the independence criteria and to analyse compliance of independent directors on the board with the independence criteria on a regular basis. In such assessment, contents should prevail over form.	<p>1. In the reporting period, the board of directors (or its nomination committee) formed an opinion about the independence of each candidate to the board and presented it to shareholders.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) reviewed the independence of incumbent board members specified as independent in the company's annual report at least once.</p> <p>3. The company has procedures in place that provide for actions a board member has to take if he/she stops being an independent director, including timely notifying the board.</p>	Observed.	<p>The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter, "the Committee") issues an opinion on the independence of candidates to the Board of Directors.</p> <p>At the first meeting of the Board of Directors following the General Meeting of shareholders where such new Board of Directors was elected, the Board of Directors determines the status of independent members of the Board of Directors.</p> <p>The Committee analyses compliance of the independent directors on the Board with the independence criteria on a regular basis.</p> <p>When elected to the Board, Board members undertake in writing to notify the Corporation of any circumstances that may affect their ability to have independent judgement on items reviewed by the Board of Directors.</p>
2.4.3.	It is recommended that independent directors constitute at least one third of elected board of directors.	Independent directors constitute at least one third of the board of directors.	Observed.	About half (5 out of 11) of the members of the Board of Directors are independent.
2.4.4.	Independent directors should play a key role in preventing internal conflicts in the company and in the performance of significant corporate actions by the company.	Independent directors (not having a conflict of interest) give preliminary assessment to material corporate actions related to a potential conflict of interest, the results of which are submitted to the board.	Observed.	<p>Independent directors perform a preliminary assessment of potential actions and draft resolutions of the Corporation that may lead to a conflict as they prepare for meetings of the Board or Board Committees. Notably, the Audit, Finance and Risk Committee pre-approves all related party transactions.</p> <p>Opinions of Board members are incorporated in the meeting materials.</p>

Annex 6. (Continue)

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
2.5.	Chairman of the board of directors should facilitate the most efficient discharge of functions that fall within the remit of the board of directors.			
2.5.1.	It is recommended to elect an independent director as chairman, or to select a senior independent director among the elected independent directors who would coordinate the work of independent directors and interact with the chairman of the board of directors.	<p>The board chairman is an independent director or a senior independent director is elected among independent directors.</p> <p>The role, rights and duties of the board chairman (and, if applicable, of the senior independent director) are duly set out in the company's internal regulations.</p>	Partially observed.	<p>The role of the Board Chairman is set out in the Terms of Reference of the Board of Directors of Sistema PJSC approved by the General Meeting of shareholders on 24 June 2017 (Minutes No. 1-17 dd 28 June 2017).</p> <p>The Terms of Reference also define the role of the Deputy Chairman of the Board, who, together with the Corporate Secretary, ensures interaction between independent directors and the Board Chairman.</p> <p>Each independent director can communicate his or her position on any agenda item to the Board Chairman. In view of the above, neither the Corporation in general nor the Board of Directors reached a consensus on the need for creating the position of senior independent director. The Corporation continues discussing this issue with its independent directors and intends to take the decision within two years.</p>
2.5.2.	The board chairman should ensure a constructive atmosphere of the meetings, free discussions of the matters on the meeting agenda, and control over execution of resolutions passed by the board of directors.	Performance of the board chairman is assessed during assessment of the performance of the board as a whole in the reporting period.	Observed.	The annual assessment of the Board of Directors includes assessment of the efficiency of interaction between Board members and the Board Chairman.
2.5.3.	The board chairman should take necessary measures to provide board members with information required for making decisions on the agenda items in a timely manner.	The duty of the board chairman to procure timely provision of materials on agenda items for board members is stipulated by the company's internal regulations.	Observed.	<p>In accordance with the Procedure of the Board of Directors, the Board Chairman takes necessary measures to provide Board members with information required for making decisions on the agenda items in a timely manner.</p> <p>The Board Chairman maintains regular contacts with other governance bodies and executives of the Corporation.</p>
2.6.	Members of the board of directors should act in good faith and reasonably, in the best interests of the company and its shareholders proceeding from sufficient amount of information, with due care and diligence.			
2.6.1.	Reasonable and bona fide actions of the board members imply that decisions are made with due consideration of all available information, without conflicts of interest, with equal treatment of the company's shareholders, within usual entrepreneurial risks.	<p>The company's internal regulations stipulate that a board member shall notify the board of directors if he/she is in the situation of a conflict of interest in respect of any item on the agenda of a board or committee meeting before the start of discussion of the respective agenda item.</p> <p>The company's internal regulations stipulate that a board member shall not vote on any agenda item where he/she has a conflict of interest.</p>	Observed.	<p>The Terms of Reference of the Board of Directors and the Ethics Code of the Corporation stipulate that Board members shall timely notify the Corporation if a conflict of interest arises and shall not make decisions on any matter where they have a conflict of interest.</p> <p>The Board of Directors is entitled to engage external independent experts for examination of draft resolutions at the Corporation's expense.</p>

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
2.6.1. (Continue)		The company has a procedure in place that allows the board of directors to receive professional advice on matters within its remit at the expense of the company.		
2.6.2.	The rights and obligations of board members should be clearly formulated and recorded in the internal regulations of the company.	The company has an internal document in place that clearly defines the rights and obligations of board members.	Observed.	Rights and obligations of Board members are recorded in the Charter of Sistema PJSC, the Terms of Reference of the Board of Directors of Sistema PJSC, and the Procedure on the Board of Directors.
2.6.3.	Board members should have enough time to perform their duties.	Individual attendance of board and committee meetings and the time spent preparing for the meetings is taken into account during the board's assessment procedure in the reporting period. In accordance with the company's internal regulations, board members are obligated to notify the board of their intention to join governance bodies of other entities (except for the company's subsidiaries and affiliates) and of the fact of such appointment.	Observed.	The annual assessment of the Board of Directors includes assessment of the organisation and attendance of the Board meetings. When elected to the Board, Board members fill in questionnaires envisaged by the Terms of Reference of the Board of Directors, where they must specify companies where they are members of governance bodies or where they intend to be elected.
2.6.4.	All members of the board of directors should have equal possibilities to access the company's documents and information. Newly elected members of the board of directors should be provided with sufficient information about the company and the work of the board of directors as soon as possible.	The company's internal documents stipulate the right of board members to get access to documents and make inquiries related to the company and organisations controlled by the company, and the obligation of the company's executive bodies to provide them with such information and documents. The company has a formal induction programme for newly elected board members.	Observed.	Sistema's Board members are able to promptly receive answers to their queries and any information they may require from the executive management directly or via the Corporate Secretary. The employees' obligation to provide such information is recorded in the internal regulations of the Corporation. The Corporate Secretary familiarises newly elected Board members with the activities of the Board in accordance with the Terms of Reference of the Board of Directors.
2.7.	Meetings of the board of directors, preparation therefor, and participation of board members therein should provide for efficient work of the board of directors.			
2.7.1.	It is recommended to hold meetings of the board of directors as necessary, taking into account the scale of business and the company's objectives in a certain period of time.	The board of directors held at least six meetings in the reporting year.	Observed.	Meetings of the Board of Directors are held at least six times a year in accordance with the approved work plan of the Board of Directors. 15 meetings of the Board of Directors were held in 2017.
2.7.2.	It is recommended to develop and include in the company's internal regulations the procedure for preparing and conducting meetings of the board of directors that would give the board members the possibility to prepare for the meeting.	The company adopted an internal document that regulates the procedure for preparing and holding board meetings, which, among other things, stipulates that the notice of a meeting shall, as a rule, be sent at least 5 days before the meeting.	Observed.	The Procedure of the Board of Directors determines the procedure and the time of sending a voting ballot to each member of the Board of Directors and for obtaining the filled-in ballot in case the meeting is held in absentia.

Annex 6. (Continue)

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
2.7.2. (Continue)				Board members have permanent access to the work plan of the Board of Directors. All information for Board meetings is available in Russian and English on the portal of the Board of Directors (to which all Board members are connected) at least 10 days before the Board meeting.
2.7.3.	The form of board meetings should be determined with consideration of the importance of agenda items. The most important items should be discussed at meetings in presentia.	The company's charter or internal regulations stipulate that the most important items (according to the list set out in recommendation 168 of the Code) shall be reviewed at meetings in presentia.	Observed.	All scheduled meetings of the Board of Directors are held in presentia. Meetings in absentia are held when some urgent issues arise. The Procedure of the Board of Directors stipulates that the most important items shall be reviewed at meetings in presentia.
2.7.4.	It is recommended that decisions on the most essential aspects of the company's business are made by a qualified majority or a simple majority of votes of all the elected Board members.	The company's charter stipulates that resolutions on the most important items, which are set out in recommendation 170 of the Code, shall be adopted at board meetings by a qualified majority of at least three fourths of votes or by a simple majority of all the elected Board members.	Partially observed.	According to the Charter of Sistema PJSC, decisions on items relating to increase of authorised capital, placement of certain types of securities, approval of material and related party transactions are made in compliance with special voting rules. Decisions on other agenda items are made by simple majority of votes of the Board members. Independent directors who regularly attend the meetings comprise almost half of the Board of Directors of Sistema PJSC. Considering how the work is organised, it is rather difficult to justify the necessity of introducing any special voting rules for specific agenda items, and the Corporation does not intend to establish them in the near future.
2.8.	The board of directors should form committees for preview of the most important matters pertaining to the company's business.			
2.8.1.	For provisional review of matters pertaining to the company's financial activities, it is recommended to form an audit committee consisting of independent directors.	The board of directors set up an audit committee consisting only of independent directors. The company's internal regulations determine the objectives of the audit committee, including objectives set out in recommendation 172 of the Code. At least one member of the audit committee, who is an independent director, has experience and expertise in preparation, analysis, evaluation and audit of statutory (financial) accounts. The audit committee met at least once per quarter in the reporting period.	Observed.	The Corporation has formed the Audit, Finance and Risk Committee of the Board of Directors (hereinafter, "the Committee") and approved the Terms of Reference of the Committee. The objectives of the Committee as recorded in the Terms of Reference are aligned with the recommendations of the Corporate Governance Code. Independent directors constitute the majority of the Committee members (4 out of 5). The Committee is chaired by an independent director, R. Munnings, who has a vast experience and expertise in preparation, analysis, evaluation and audit of statutory (financial) accounts. 12 meetings of the Committee were held in 2017.

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
2.8.2.	For provisional review of issues relating to development of efficient and transparent practices in the sphere of remuneration, it is recommended to form a remuneration committee consisting of independent directors and chaired by an independent director who is not the chairman of the board of directors.	<p>The board of directors set up a remuneration committee consisting only of independent directors.</p> <p>The remuneration committee is chaired by an independent director who is not board chairman.</p> <p>The company's internal regulations determine the objectives of the remuneration committee, including objectives set out in recommendation 180 of the Code.</p>	Observed.	<p>The Corporation has formed the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter, "the Committee") and approved the Terms of Reference of the Committee. The objectives of the Committee as recorded in the Terms of Reference are aligned with the recommendations of the Corporate Governance Code.</p> <p>Independent directors constitute the majority of the Committee members (3 out of 5). The Committee is chaired by an independent director, R. Kocharyan, who is not the Board Chairman.</p>
2.8.3.	It is recommended to form a nomination (HR) committee to preview issues relating to HR (continuity) planning, professional composition and efficiency of the board of directors. Most of the members of such committee should be independent directors.	<p>The board of directors set up a nomination committee (or its objectives set out in recommendation 186 of the Code are pursued by another committee) consisting mostly of independent directors.</p> <p>The company's internal regulations determine the objectives of the nomination committee (or another committee that carries out its functions), including objectives set out in recommendation 186 of the Code.</p>	Observed.	<p>The Corporation has formed the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter, "the Committee") and approved the Terms of Reference of the Committee. The objectives of the Committee as recorded in the Terms of Reference are aligned with the recommendations of the Corporate Governance Code.</p> <p>Independent directors constitute the majority of the Committee members (3 out of 5).</p>
2.8.4.	Depending on the scale of business and the level of risks the company is exposed to, it is recommended to form other committees of the board of directors (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, EH&S committee, etc.)	In the reporting period, the company's board of directors reviewed an item on whether the composition of the board committees is aligned with the objectives of the board and the company's goals. Additional committees either were set up or were found not needed.	Observed.	The Corporation's Board annually, at the first meeting after its election, forms Board Committees in accordance with the Corporation's goals and objectives.
2.8.5.	It is recommended to determine the composition of committees so as to allow for a thorough discussion of the items under preliminary consideration, taking into account various opinions.	<p>Board committees are chaired by independent directors.</p> <p>The company's internal regulations (policies) include provisions that stipulate that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only if invited by the chairman of the respective committee.</p>	Observed.	<p>Each Committee of the Board of Directors consists of at least 4 members of the Board of Directors.</p> <p>The Audit, Finance and Risk Committee, the Nomination, Remuneration and Corporate Governance Committee and the Investor Relations and Dividend Policy Committee are chaired by independent directors. Two of the Board Committees are chaired by non-executive directors (the Strategy Committee and the Ethics and Control Committee).</p> <p>The maximum number of committees in which a member of the Corporation's Board of Directors can take part is not determined, however, Board members are usually involved in the work of three committees at the most.</p>

Annex 6. (Continue)

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
2.8.5. (Continue)				Persons who are not members of the Audit, Finance and Risk Committee or the Nomination, Remuneration and Corporate Governance Committee may attend meetings of such Committees only upon invitation from their respective Chairmen.
2.8.6.	Committee chairmen should inform the board of directors and its chairman about the work of their committees on a regular basis.	In the reporting period, committee chairmen regularly reported to the board about the work of their committees.	Observed.	Chairmen of the Committees inform the Chairman of the Corporation's Board of Directors about the work of their Committees on a regular basis. The Committees present regular reports on their work to the Board of Directors.
2.9.	The board of directors should ensure performance review of the board of directors, its committees and members of the board of directors.			
2.9.1.	Performance review of the board of directors should be aimed at determining the efficiency of the board of directors, its committees and members of the board of directors, adequacy of their performance for the needs of the company's development, activation of the board's work or identifying areas for improvement.	Self-appraisal or external assessment of the board of directors conducted in the reporting period included assessment of the committees, individual board members and the board as a whole. The results of the self-appraisal or external assessment conducted in the reporting period were reviewed at a board meeting in presentia.	Observed.	Performance review of the Board of Directors is provided for in the Terms of Reference of the Board of Directors of Sistema PJSC. The Corporation's assessment procedure for the Board of Directors is based on extensive experience and includes appraisal of the Board's performance, including organisation of its work, and the performance of its Committees. The criteria used to assess the performance of the Board of Directors provide for assessment of the professional and personal qualities of members of the Board of Directors, their independence, teamwork and personal contribution, as well as other factors that have an impact on the performance of the Board of Directors. The assessment results are reviewed at the in-person meeting of the Board of Directors preceding the Annual General Meeting of shareholders. On the basis of these results, the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors formulates suggestions for improvement of the performance of the Board of Directors and its Committees.
2.9.2.	Performance review of the board of directors, its committees and members should be conducted on a regular basis at least once a year. It is recommended to engage a third party (consultant) to perform an independent assessment of the board's performance on a regular basis, not less than once every three years.	The company engaged a third party (consultant) to conduct independent assessment of the work of the board of directors at least once in the last three reporting periods.	Observed.	Performance review of the Board of Directors and its Committees is performed annually. In 2017, independent professional advisory firm Nestor Advisors Ltd. was engaged to conduct the performance review.

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
III. Corporate secretary of the company				
3.1	The corporate secretary should provide efficient day-to-day interactions with the shareholders, coordination of the company's activities aimed at protecting the shareholders' rights and interests, facilitation of the work of the board of directors.			
3.1.1.	The corporate secretary should have the expertise, experience and qualification sufficient for execution of his/her professional duties, an impeccable reputation, and enjoy the confidence of shareholders.	<p>The company adopted and disclosed an internal document, terms of reference of the corporate secretary.</p> <p>The company's website and annual report include the corporate secretary's biography in as much detail as is given for the biographies of the board members and executive management of the company.</p>	Observed.	<p>The Corporation's Board of Directors approved the Terms of Reference of the Corporate Secretary of the Corporation (Minutes No. 08-17 dd 11 September 2017). The Policy specifies the requirements to the person who may hold the position of the Corporate Secretary, in line with the guidelines of the Corporate Governance Code.</p> <p>Information about the Corporate Secretary is disclosed in the Annual Report.</p>
3.1.2.	The corporate secretary should have sufficient independence from the company's executive bodies and the authority and resources required to fulfil his/her professional duties.	The board of directors approves appointment, dismissal and additional remuneration of the corporate secretary.	Observed.	<p>The Corporate Secretary reports directly to the Board of Directors, and is appointed or dismissed by the Board of Directors.</p> <p>The Corporation's Board of Directors approved the Terms of Reference of the Corporate Secretary of the Corporation setting the requirements to the candidacies to the position of Corporate Secretary, the appointment and dismissal procedures, reporting lines, procedure for the Corporate Secretary's interactions with the governance bodies and the subdivisions, his/her functions, rights and obligations, the terms and procedure of remuneration and the liabilities of the Corporate Secretary.</p>
IV. Remuneration of the board of directors' members, executive bodies and key management of the company.				
4.1.	The level of remuneration paid by the company should be sufficient for engaging, motivating and retaining employees possessing the competencies and qualifications required by the company. The remuneration of the board members, executive bodies and key management shall be paid in accordance with the remuneration policy adopted by the company.			
4.1.1.	It is recommended that the level of remuneration paid by the company to the board members, executive bodies and other key management, should provide sufficient motivation for their efficient work enabling the company to engage and retain competent and highly qualified specialists. At the same time, the company should avoid paying excessive remuneration or having an unjustifiably big gap between the remuneration levels of the persons specified above and other employees.	The company adopted an internal document(s), a policy (policies) on remuneration of members of the board, executive bodies and other key senior executives, which clearly defines approaches to their remuneration.	Observed.	<p>The approaches to remuneration of the Board members are defined in the Policy on Remuneration and Compensations for Members of the Board of Directors of the Corporation (approved by Sistema's General Meeting of shareholders on 27 June 2015, Minutes No. 02-15 dd 01 July 2015). The document is available on the Corporation's website.</p> <p>Remuneration of key executives is regulated by the Corporation's internal documents that stipulate principles and approaches to remuneration of all the employees.</p> <p>The level of remuneration paid to the Board members, executive bodies and other key management of the Corporation corresponds to the remuneration levels at peer companies.</p>

Annex 6. (Continue)

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
4.1.2.	The company's remuneration policy should be developed by the remuneration committee and approved by the company's board of directors. The board of directors with the support of the remuneration committee should ensure oversight over the implementation of the remuneration policy by the company and, if necessary, to revise and amend this policy.	In the reporting period, the remuneration committee reviewed the remuneration policy (policies) and the practice of its (their) implementation and, if necessary, provided recommendations for the board of directors.	Observed.	<p>The Corporation's remuneration policy is developed by the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors and approved by the Board of Directors.</p> <p>The Board of Directors has approved the internal regulations on remuneration and long-term incentives of the members of executive bodies and other key management.</p> <p>The Nomination, Remuneration and Corporate Governance Committee annually reviews the results of implementation of the Corporation's remuneration policy and, if necessary, makes recommendations for the Board of Directors.</p>
4.1.3.	The company's remuneration policy should contain transparent mechanisms for determining the amount of remuneration payable to the board members, executive bodies and other key management of the company, as well as regulate all types of payments, benefits and compensation granted to the specified persons.	The company's remuneration policy envisages transparent mechanisms for determining the amount of remuneration payable to the board members, executive bodies and other key management of the company, as well as regulates all types of payments, benefits and compensation granted to the specified persons.	Observed.	<p>The Corporation's internal regulations provide detailed guidelines on the procedure for determining the amount of remuneration and for making the respective payments of all remuneration components, as well as any other compensation.</p> <p>Decisions on the amount of remuneration payable to specific employees are taken without the participation of the respective employee and are not discussed with him or her.</p>
4.1.4.	It is recommended that the company should develop a policy for expenses compensation, specifying the list of costs to be reimbursed and the level of services to which the board members, executive bodies and other key management of the company may be entitled. Such policy may be an integral part of the company's remuneration policy.	The remuneration policy (policies) or other internal documents of the company stipulate the rules for compensating the board members, executive bodies and other key management of the company for their expenses.	Observed.	<p>According to the Corporation's internal regulations compensation is due only for the expenses incurred by the members of corporate governance bodies and other employees of the Corporation that are directly related to activities performed in the interests of the Corporation. There are strict regulations on the level of services to which the Board members, the President, the Management Board members and other key executives are entitled.</p> <p>The travel expenses of such persons related to the need to attend the Corporation's meetings and make any other business trips as part of performing their job duties are reimbursed.</p>
4.2.	The remuneration system of board members should ensure that the financial interests of the directors are closely correlated with the long-term financial interests of the shareholders.			
4.2.1.	Fixed annual remuneration is a preferable form of cash remuneration payable to board members. It is inadvisable to pay remuneration for participation in isolated meetings of the board or its committees. It is not recommended applying any forms of short-term incentives and additional financial motivation to board members.	Fixed annual remuneration was the only form of monetary remuneration of board members for serving on the board of directors in the reporting period.	Observed.	<p>In accordance with the Policy on remuneration and compensations payable to members of the Board of Directors of the Corporation, the main form of remuneration of the Board members is fixed remuneration.</p> <p>The Company also pays additional remuneration to the Board members for achievement of the Corporation's investment goals. The amount of such additional remuneration is also fixed.</p>

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
4.2.2.	Long-term ownership of the company's shares is the best tool facilitating the proximity of the financial interests of board members and the long-term interests of shareholders. At the same time, it is not recommended that the right to sell shares be linked to the achievement of specific operating targets of the company, nor is the participation of board members in stock option schemes recommended.	If the company's internal document(s) – remuneration policy (policies) – envisage payment of the company's shares to board members, the company shall adopt and disclose clear rules for board members' ownership of its shares, aimed at encouraging long-term ownership of such shares.	Partially observed.	<p>A portion of the remuneration of the Board members (additional remuneration) is paid in shares. Board members' long-term ownership of the shares is encouraged, and, in accordance with the existing practice, members of the Board of Directors retain their shares at least until their membership is terminated. Information on the transactions involving Sistema's shares performed by the Board members is disclosed by the Corporation immediately, which also stimulates long-term ownership.</p> <p>The Board members have no obligation to refrain from using hedging mechanisms.</p>
4.2.3.	It is inadvisable to allow paying any additional remuneration or compensation to board members in the event of early termination of their contract due to a change of the controlling shareholder or other circumstances.	The company does not envisage payment of any additional remuneration or compensation to board members in the event of early termination of their contract due to a change of the controlling shareholder or other circumstances.	Observed.	There are no provisions on the Board members' entitlement to any additional remuneration or compensation (severance payments) in the event of early termination of their contract due to a change of the controlling shareholder or other circumstances.
4.3.	The remuneration system of the executive bodies and key management of the company should ensure correlation of their remuneration and the results of the company, as well as their personal contribution to the achievement of this result.			
4.3.1.	Remuneration of the executive bodies and other key management of the company should be determined in such a way as to ensure a reasonable and justifiable ratio of the fixed and variable parts of the remuneration linked to the results of the company and personal (individual) contribution of the employee in the final result.	<p>In the reporting period, the annual performance indicators approved by the board of directors were used for determining the amount of the variable part of remuneration of members of executive bodies and other key managers of the company.</p> <p>During the latest conducted assessment of the remuneration system of members of executive bodies and other key managers of the company, the board of directors (the remuneration committee) was satisfied that the company uses an efficacious ratio of the fixed and variable parts of remuneration.</p> <p>The company has a procedure in place that ensures that bonuses wrongly received by members of executive bodies and other key managers of the company are repaid to the company.</p>	Observed.	<p>The Corporation has a short-term and long-term incentive system for the members of the executive bodies and other key managers, approved by the Board of Directors. The Board of Directors approves key performance indicators as an element of the incentive system.</p> <p>The Nomination, Remuneration and Corporate Governance Committee is involved in the development of key indicators used as the basis for the short-term and long-term incentive systems and analyses the ratio of the fixed and variable parts of remuneration.</p> <p>According to the provisions of the short-term incentive system the results of the employees are assessed at the end of the year.</p> <p>The assessment of the Corporation's year-end performance as part of the short-term and long-term incentive systems takes into account the risks carried by the Corporation.</p> <p>In the event of discovering any instances of manipulation with accounting figures or any other types of wrongdoing committed by employees that jeopardise the interests of the shareholders, the respective employees shall be penalised and shall have to compensate the Corporation for its losses in compliance with the current laws.</p>

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
4.3.2.	It is recommended that the companies whose shares are traded on a stock exchange should implement a long-term incentive scheme for the executive bodies of the company and other key managers based on the shares of the company (stock options or other derivative financial instruments whose underlying asset is the company's shares).	<p>The company adopted a long-term incentive programme for members of executive bodies and other key managers of the company using the company's shares (financial tools based on the company's shares).</p> <p>The long-term incentive programme for members of executive bodies and other key managers of the company stipulates that the right to sell the shares or other financial tools provided under such programme shall not arise until at least three years from the award. This right shall be triggered by the company's achievement of certain performance targets.</p>	Observed.	<p>The Corporation has a long-term incentive scheme for the top management and other key employees based on the shares of the Corporation.</p> <p>Under the long-term incentive scheme the shares are awarded during a five-year period with annual deferral, depending on the results achieved over the previous years. There are no further restrictions on the sale of shares.</p> <p>In view of the fact that under the long-term incentive scheme shares are granted with a deferral, the scheme does not provide for any additional restrictions on the sale of shares in the event of early termination of powers and (or) termination of the employment contract.</p>
4.3.3.	Severance payments (golden parachutes) paid by the company in the event of early termination of the powers of executive bodies or key managers should not exceed the double amount of their fixed annual remuneration, provided that such early termination was prompted by the company and that the respective employee was not guilty of any wrongdoing.	Severance payments (golden parachutes) paid by the company in the event of early termination of the powers of executive bodies or key managers did not exceed the double amount of their fixed annual remuneration in the reporting period, provided that such early termination was prompted by the company and that the respective employee was not guilty of any wrongdoing.	Observed.	The amount of severance payment made by the Corporation in the event of an early dismissal of members of executive bodies or other key managers prompted by the Corporation does not exceed the mandatory amount set by the law, which is less than the double amount of fixed annual remuneration.
V. Risk management and internal control system				
5.1. The company should have an effective risk management and control system aimed at providing reasonable assurance in the achievement of the goals set for the company.				
5.1.1.	The company's board of directors should determine the principles of and approaches to organising the risk management and internal control systems at the company.	The powers of different governance bodies and divisions of the company in risk management and internal control are clearly determined by internal regulations/a respective policy of the company approved by the board of directors.	Observed.	<p>The Board of Directors approved the Internal Audit Policy and the Internal Control Policy of the Corporation. The Corporation also adopted the Risk Management Code. All the regulations were developed in accordance with the COSO integrated concept on internal control.</p> <p>The risk management and internal control systems function at operational and organisational levels.</p> <p>The roles and objectives of various governance bodies of the Corporation in this process are set out in the above-mentioned documents.</p>
5.1.2.	The company's executive bodies should ensure the establishment and maintenance of effective risk management and internal control systems at the company.	The company's executive bodies ensured distribution of functions and powers with regard to risk management and internal control between heads of divisions and departments that report to them.	Observed.	<p>A dedicated risk management subdivision was set up within the Finance and Investment Function.</p> <p>Heads of the Corporation's subdivisions, in line with their functional duties, are responsible for developing, documenting, implementing, monitoring and upgrading the risk management and internal control systems in their respective functional areas.</p>

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
5.1.3.	The risk management and internal control systems of the company should ensure objective, fair and clear understanding of the current status and prospects of the company, the integrity and transparency of the company's financial reporting, the reasonableness and acceptability of the risks assumed by the company.	<p>The company has adopted an anti-corruption policy.</p> <p>The company provides for a way to inform the board of directors or the board's audit committee about breaches of laws, internal procedures or the company's code of ethics.</p>	Observed.	<p>The internal control and risk management system enables the Corporation to timely respond to the newly emerged risks.</p> <p>The Board of Directors approved the Anticorruption Policy of the Corporation.</p> <p>The Corporation has a single whistleblower hotline enabling any employee of the Corporation to report any offences committed by the Corporation and/or its officers. The purpose of the hotline is to counteract potential instances of abuse during implementation of various projects and business activities, including the procurement of products, works and services, and to prevent potential corrupt practices or fraud. The whistleblowers are protected from any types of pressure (including dismissal, persecution and any forms of discrimination). The key approaches to the operation of the Hotline are outlined in the Sistema's Hotline Whistleblowing Programme published on the Corporation's website.</p>
5.1.4.	It is recommended that the board of directors should take all necessary and sufficient measures to make sure that the existing risk management and internal control system of the company meets the respective principles and approaches approved by the board of directors and is functioning efficiently.	In the reporting period, the board of directors or the board's audit committee assessed the efficiency of the company's risk management and internal control system. Information about the key results of such assessment are included in the company's annual report.	Observed.	The Board of Directors reviews the matters of organisation, functioning and efficiency of the risk management and internal control system and, if necessary, gives recommendations for its improvement on a regular basis (at least once a year). Information on the results of the review held by the Board of Directors on the efficiency of the risk management and internal control system is provided to the shareholders as part of the Annual Report.
5.2.	To ensure a regular and independent assessment of the reliability and efficiency of its risk management and internal control systems and corporate governance practices the company should organise internal audits.			
5.2.1.	It is recommended that internal audits should be organised by means of establishing a dedicated subdivision (internal audit unit) or engaging an independent external auditor. In order to ensure the independence of the internal audit unit its functional and administrative reporting lines should be divided. It is advisable that the internal audit unit should functionally report to the board of directors and administratively – directly to the company's sole executive body.	For the purposes of internal audits, the company established a separate internal audit unit that functionally reports to the board of directors or the audit committee or engaged an independent external company with similar reporting principles.	Observed.	<p>The Corporation has set up the Internal Control and Audit Department operating on the basis of the Terms of References of the Internal Control and Audit Department.</p> <p>The Department functionally reports to the Board of Directors and administratively – to the Corporation's President.</p> <p>Head of the Department is appointed and dismissed by the President based on the resolution of the Board of Directors.</p>

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
5.2.2.	It is recommended that the internal audit function should perform an assessment of the efficiency of the internal control and risk management systems, corporate governance, and conform to the generally accepted standards in internal audit.	<p>In the reporting period, an internal audit was conducted that gave assessment to the efficiency of the internal control and risk management system.</p> <p>The company uses generally accepted approaches to internal control and risk management.</p>	Observed.	<p>The Corporation's internal audit procedures comply with the International Internal Audit Standards of the Institute of Internal Auditors.</p> <p>The Corporation's internal audits include assessment of the efficiency of the internal control and risk management system and assessment of the corporate governance.</p>
VI. Disclosing information about the company, information policy of the company				
6.1.	The company and its operations should be transparent for the shareholders, investors and other interested parties.			
6.1.1.	The company should develop and implement an information policy ensuring efficient interaction between the company, shareholders, investors and other interested parties.	<p>1. The company's board approved an information policy that was developed taking into account the Code's recommendations.</p> <p>2. The board (or a board committee) reviewed the company's compliance with its information policy at least once in the reporting period.</p>	Observed.	<p>The Corporation has developed and implemented the Information Policy approved by the Board of Directors.</p> <p>The executive bodies of the Corporation and its Corporate Secretary are responsible for the implementation of the Information Policy. The Board of Directors oversees compliance with the Information Policy.</p> <p>Members of the executive bodies hold meetings with analysts on a regular basis to accompany the disclosure (publication) of the Corporation's financial statements or to comment on the key investment projects and development plans of the Corporation.</p>
6.1.2.	The company should disclose information on the corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code.	<p>1. The company discloses information about its corporate governance system and general principles of corporate governance used by the company, including on its website.</p> <p>2. The company discloses information about the members of its executive bodies and the board of directors, the independence of board members and their membership in board committees (as defined in the Code).</p> <p>3. If there is an entity controlling the company, the company publishes a memorandum of the controlling entity disclosing its plans with regard to corporate governance at the company.</p>	Observed.	<p>The Corporation publishes information about its governance bodies and their composition, including the biographies of the members of governance bodies, on its website (www.sistema.ru/www.sistema.com).</p> <p>The Corporation has adopted the Corporate Governance Code (hereinafter, "the Code") setting out the key principles of corporate governance and the obligations assumed by the Board of Directors including representatives of the principal shareholder with respect to the Corporation.</p> <p>The Code has been published on the Corporation's website.</p> <p>The Corporation's controlling shareholder is the Board Chairman and his plans with regard to corporate governance at the Corporation are reflected in publicly disclosed documents approved by the Board of Directors and the General Meeting of shareholders of the Corporation.</p>

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
6.2.	The company should timely disclose complete, relevant and reliable information about the company in order to enable its shareholders and investors to take informed decisions.			
6.2.1.	The company should disclose information regularly, consistently and promptly and ensure the accessibility, reliability, completeness and comparability of the disclosed data.	<p>The company's information policy determines approaches and criteria for identifying information that may have a material influence on the valuation of the company and the price of its securities and procedures providing for timely disclosure of such information.</p> <p>If the company's securities are traded on foreign organised markets, disclosure of material information in Russia and on such markets is made simultaneously and equally during the reporting year.</p> <p>If foreign shareholders hold a significant amount of the company's shares, disclosure of information in the reporting year was made both in Russian and in one of the most widely spoken foreign languages.</p>	Observed.	<p>The Corporation's information policy makes it possible to coordinate the work of all units and subdivisions of the Corporation dealing with information disclosures.</p> <p>The Corporation discloses information in the shortest possible time.</p> <p>The Corporation's material information is disclosed for Russian and foreign investors simultaneously and in equal volumes in the Russian and English languages.</p> <p>The Corporation promptly responds to any rumours and/or unreliable information about its activities.</p> <p>The Corporation uses its website (www.sistema.ru/ www.sistema.com) and the Interfax news feed for disclosing information.</p> <p>The Corporation is aiming to make sure that the disclosed information is unambiguous, objective and neutral and does not avoid disclosing negative information.</p>
6.2.2.	It is recommended that the company should avoid adopting a purely technical approach when disclosing information and should disclose all material information about its activities even if the disclosure of such information is not required by the law.	<p>In the reporting period, the company disclosed its annual and semi-annual financial reports prepared in accordance with the IFRS. The company's annual report for the reporting period includes its annual financial statement prepared in accordance with the IFRS, together with the auditors' opinion.</p> <p>The company discloses full information about the structure of the company's capital in accordance with recommendation 290 of the Code in its annual report and on its website.</p>	Observed.	<p>The Corporation discloses all material information not only about itself but also about its controlled legal entities.</p> <p>The Corporation discloses the following additional information:</p> <ul style="list-style-type: none"> • mission, strategy and objectives of the Corporation, • financial operations and financial status of the Corporation, • capital structure of the Corporation, • social responsibility of the Corporation.
6.2.3.	The annual report, being one of the most important tools of informational interaction with shareholders and other interested parties, should contain information making it possible to assess the company's annual results.	<p>The company's annual report includes information about the key aspects of the company's operations and its financial performance.</p> <p>The company's annual report includes information about the environmental and social aspects of the company's operations.</p>	Observed.	<p>The Corporation discloses all material information in the Annual Report in accordance with the recommendations of the Corporate Governance Code.</p> <p>The Annual Report includes all material data from the annual statutory and financial reports, as well as information about the Corporation's CSR efforts.</p>

Annex 6. (Continue)

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
6.3.	The company should ensure that all shareholders have equal and unhindered access to information and documents upon their request.			
6.3.1.	The shareholders should be able to exercise their right to access documents and information without any unjustifiable difficulties.	The company's information policy stipulates an easy procedure for providing shareholders with access to information, including information of the company's controlled legal entities, upon shareholders' request.	Observed.	<p>When giving shareholders access to its documents and information, the Corporation is guided by applicable legislation and seeks to avoid creating unnecessary difficulties. The Corporation's information policy sets out the procedure for granting such access.</p> <p>The Corporation does not overstate the costs related to making and sending the copies of such documents.</p> <p>The matters of providing information about controlled legal entities are not regulated by the Information Policy, since the companies controlled by the Corporation conduct independent operations and Sistema PJSC does not take any operational decisions with respect to such companies.</p>
6.3.2.	It is recommended that when providing information to the shareholders the company should ensure a reasonable balance of interests of specific shareholders and the company itself, which is interested in maintaining confidentiality of crucial commercial information that may have a significant impact on its competitiveness.	<p>In the reporting period, the company did not refuse to accommodate shareholders' requests for information or such refusals were justified.</p> <p>In instances stipulated by the company's information policy, shareholders are notified about the confidential nature of information and assume the obligation to maintain its confidentiality.</p>	Observed.	A shareholder may be granted access to confidential information about the Corporation only provided that the shareholder is aware of the confidential nature of such information and assumes the obligation to maintain its confidentiality in accordance with applicable laws.
VII. Material corporate actions				
7.1.	Actions that have or may have a significant impact on the structure of the shareholders' equity or the financial position of the company and accordingly the position of its shareholders (material corporate actions) should be taken on fair terms providing for the protection of the rights and interests of the shareholders and other interested parties.			
7.1.1.	Material corporate actions include the company's reorganisation, acquisition of 30 or more % of the company's voting shares (takeover), material transactions, increase or decrease of the company's authorised capital, listing of delisting of the company's shares, and other actions that may result in a significant change of shareholder rights or have a detrimental effect on their interests. It is recommended that the company's charter should determine the list (criteria) of transactions or other actions constituting material corporate actions and vest the board of directors of the company with the exclusive powers to take decisions on such matters.	<p>The company's charter sets out a list of transactions and other actions that constitute material corporate actions and criteria for identifying them. Decisions with regard to material corporate actions are within the remit of the board of directors. If law expressly stipulates that such corporate actions shall be within the remit of the general meeting of shareholders, the board of directors gives shareholders appropriate recommendations.</p> <p>The company's charter stipulates that at least the following actions constitute material corporate actions: the company's reorganisation, acquisition of 30 or more % of the company's voting shares (takeover), material transactions, increase or decrease of the company's authorised capital, listing of delisting of the company's shares.</p>	Observed.	In accordance with the legislation, decisions on listing and delisting of shares, as well as decisions on reorganisation and approval of major transactions in accordance with applicable laws are within the remit of the General Meeting of shareholders. In accordance with the Charter of Sistema PJSC, decision-making on all other actions specified in the Corporate Governance Code falls within the remit of the Board of Directors.

No.	Corporate governance principle	Criteria for assessment	Compliance	Notes
7.1.2.	The board of directors should play a key role in taking decisions or developing recommendations on material corporate actions on the basis of the opinions of independent directors of the company.	The company has a procedure in place that allows independent directors to state their position on material corporate actions before their approval.	Observed.	<p>Prior to being considered by the Board of Directors, related party transactions are provisionally reviewed by the Audit, Finance and Risk Committee (hereinafter, "the Committee"), which consists mostly of independent directors. The Committee's opinion is discussed when the transactions are reviewed at a Board meeting.</p> <p>Decisions on approval of related-party transactions are taken by Board members who are not related parties.</p>
7.1.3.	It is recommended that in the course of taking material corporate actions influencing the rights and lawful interests of the shareholders, equal terms should be provided to all the company shareholders, and when the mechanisms provided by the law are insufficient, additional measures should be taken to protect the rights and lawful interests of the company's shareholders. At the same time, the company should be guided not only by formal requirements of the law, but also by the principles of corporate governance set out in the Code.	<p>The company's charter, taking into account the specifics of its business, sets lower minimum criteria for recognising transactions as material corporate actions than those envisaged by applicable laws.</p> <p>In the reporting period, all material corporate actions passed the approval procedure before they were carried out.</p>	Observed.	<p>The Board of Directors reviews all material matters of the Corporation in accordance with procedures envisaged by the Corporation's internal documents. The thresholds for submission of certain transactions for review of the Board of Directors set in the Corporation's Charter are lower than those stipulated by the law.</p> <p>In 2017, all actions that are recognised as material corporate actions in accordance with the Corporate Governance Code were approved by the Board of Directors before they were carried out.</p>
7.2.	The company should establish such procedures for taking material corporate actions that would enable the shareholders to timely receive information on such actions, and provide them with the opportunity to influence such actions and guarantee an adequate level of protection of the shareholders' rights.			
7.2.1.	Disclosures of information on material corporate actions should contain explanations of the reasons, terms and consequences of such actions.	In the reporting period, the company timely and thoroughly disclosed information about its material corporate actions, including the reasons for and the timeframe of such actions.	Observed.	Being a public company, the Corporation discloses the maximum possible amount of information on any corporate actions, including those that may influence the dividend and/or any other rights of the shareholders.
7.2.2.	It is recommended that the rules and procedures related to the company's taking material corporate actions should be set out in the internal regulations of the company.	<p>The company's internal documents stipulate a procedure for engaging an independent appraiser for determining the value of assets to be disposed or acquired in a major transaction or in a related party transaction.</p> <p>The company's internal documents stipulate a procedure for engaging an independent appraiser for determining the price of acquiring and buying back the company's shares.</p> <p>The company's internal documents set out an extensive list of reasons for recognising board members and other persons as stipulated by law as related parties in the company's transactions.</p>	Observed.	<p>To the extent that the rules and procedures related to the Corporation's taking material corporate actions are not provided for by applicable laws, such rules and procedures are set forth in the internal regulations of the Corporation.</p> <p>When reviewing material transactions at Board meetings, an independent appraiser or an investment consultant is engaged to determine the price of such transactions.</p> <p>Only Board members that do not have any conflict of interest and are not related parties vote on approval of related party transactions.</p>

Annex 7.

Report on compliance with key requirements of the UK Corporate Governance Code

Provisions of the Code	Compliance	Note
A. LEADERSHIP		
A.1. Governance bodies		
A.1.1. The board should meet sufficiently regularly to discharge its duties effectively.	Observed.	The Board of Directors of Sistema PJSFC meets at least 8 times a year, which allows reviewing and taking decisions on issues within its remit. 15 meetings of the Board of Directors were held in 2017.
There should be a formal schedule of matters specifically reserved for the board's decision.	Observed.	The powers and responsibilities of the Board of Directors are set out in the Charter of Sistema PJSFC (cl. 32 of the Charter).
The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.	Observed.	The Annual Report of Sistema PJSFC includes information on the procedures of the Board of Directors, including a report on the key items decisions on which were made by the Board of Directors and the Management Board (cl. 6.2, 6.4).
A.1.2. The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees.	Observed.	Sistema's Annual Report includes information on election of V. Evtushenkov as Chairman of the Board of Directors of Sistema PJSFC, and also on elected Deputy Chairmen of the Board. The Annual Report also includes information on the President and Chairmen and members of the Board Committees. The Corporation's statutory documents do not provide for the position of a senior independent director.
The annual report should also set out the number of meetings of the board and the board committees and individual attendance by directors.	Observed.	Sistema's Annual Report includes information on the number of meetings of the Board of Directors and Board Committees, as well as their attendance by members (cl. 6.2).
A.1.3. The company should arrange appropriate insurance cover in respect of legal action against its directors.	Observed.	In accordance with the Terms of Reference of the Board of Directors, the Corporation insures liability of the Board members from legal actions or claims in relation to business decisions or other actions taken in capacity of a member of the Board of Director of Sistema PJSFC or its affiliates (D&O Policy).
A.2. Division of Responsibilities		
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.	The Russian legislation and the Charter of Sistema PJSFC stipulate that a person performing the functions of the sole executive body cannot simultaneously hold the position of the Chairman of the Board of Directors of Sistema PJSFC (cl. 31.1 of the Charter of Sistema PJSFC). The powers of the Board Chairman, Board members and the President are clearly divided in the Charter of Sistema PJSFC.
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 Corporation's main shareholder V. Evtushenkov, who is a non-executive member of the Board of Directors, but does not meet the independence criteria, was elected Chairman of the Board of Directors of Sistema PJSFC since his is the Corporation's majority shareholder.
A chief executive should not go on to 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.	The Russian legislation and the Charter of Sistema PJSFC envisage that a person performing the functions of the sole executive body cannot simultaneously hold the position of the Chairman of the Board of Directors of Sistema PJSFC (cl. 31.3 of the Charter of Sistema PJSFC). The powers of the Board Chairman and the President are clearly divided in the Charter of Sistema PJSFC.

Provisions of the Code	Compliance	Note
A.4. Non-Executive Directors		
<p>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.</p> <p>A.4.2. The chairman should hold meetings with the non-executive directors without the executives present.</p>	Partially observed.	<p>Formal meetings of the Board of Directors of Sistema PJSFC without the executive directors' presence are not held, but there are meetings of the Board Chairman with independent directors.</p> <p>Sistema's internal regulations provide for the position of a Deputy Board Chairman, which is currently held by a non-executive director. The Corporation's regulations do not provide for the position of a senior independent director.</p> <p>Prior to every meeting of the Board of Directors of Sistema PJSFC, independent members of the Board hold a meeting in form of a business dinner, which is also attended by the management of the Corporation, to discuss urgent questions of managing the Company and organising the Board's work.</p>
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.	Performance of the Board of Directors' Chairman is assessed during the assessment of the performance of the Board of Directors as a whole.
<p>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.</p>	Observed.	<p>According to the Procedures of the Board of Directors of the Corporation approved by the Board, directors have an opportunity to express (attach to the minutes of a Board meeting) their dissenting opinion within 24 hours after the meeting.</p> <p>All Board members of Sistema PJSFC are provided with a copy of minutes of every Board meeting.</p>
B. EFFECTIVENESS		
B.1. The Composition of the Board		
<p>B.1.1. The board should identify in the annual report each non-executive director it considers to be independent.</p> <p>The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.</p> <p>The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination.^①</p>	Observed.	<p>Information on each non-executive director that meets the independence criteria is included in Sistema's Annual Report.</p> <p>There are 5 directors among members of the Board of Directors that meet the independence criteria: A. Belova, R. Kocharyan, J. Krecké, R. Munnings, D. Iakobachvili.</p>
<p>B.1.2. Except for smaller companies (a smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year), at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent.</p>	Observed.	Sistema PJSFC is not included in FTSE 350, however, 5 of its Board Members, or almost 50%, meet the independence criteria.

① 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.

Annex 7. (Continue)

Provisions of the Code	Compliance	Note
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.	Observed.	The Nomination, Remuneration and Corporate Governance Committee of Sistema PJSC has been set up and is active. Its scope of authority is defined in the Terms of Reference of the Nomination, Remuneration and Corporate Governance Committee of Sistema PJSC. One of the Committee's main functions is preliminary consideration of nominees to the Corporation's top management positions to be approved by the Board of Directors of Sistema PJSC. The Committee also considers candidates to the Board of Directors as part of preparation for the Annual General Meeting of shareholders.
A majority of members of the nomination committee should be independent non-executive directors.	Observed.	Independent directors constitute a majority of the Nomination, Remuneration and Corporate Governance Committee (R. Kocharyan (Chairman), R. Munnings, D. Iakobachvili)
The chairman or an independent non-executive director should chair the nomination committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship.	Observed.	The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema PJSC is chaired by the independent non-executive director R. Kocharyan.
B.2.2. The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.	Observed.	<p>Candidates to the Board of Directors are nominated by shareholders of Sistema PJSC.</p> <p>Requirements for candidates to the Board are set out in the Terms of Reference of the Board of Directors of Sistema PJSC. In particular, a candidate should have sufficient professional experience and business reputation, and should be able to devote sufficient time and energy to the performance of duties of a Board member.</p> <p>The Nomination, Remuneration and Corporate Governance Committee (hereinafter, "the Committee") annually reviews and decides whether the Corporation's Board of Directors needs additional competences.</p> <p>The Committee also considers candidates nominated for election to the Board of Directors as part of preparation for the Annual General Meeting of shareholders.</p>
B.2.3. Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director.	Observed.	According to the Russian legislation, Board members are elected at the Annual General Meeting of shareholders for 1 year (for the period till the next Annual General Meeting of shareholders) and can be re-elected unlimited number of times.
Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.	Not applicable.	According to the Russian legislation, Board members are elected at the Annual General Meeting of shareholders for 1 year (for the period till the next Annual General Meeting of shareholders) and can be re-elected unlimited number of times.
B.2.4. A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments.	Observed.	Sistema's Annual Report includes information on the powers and scope of authority of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors and on key items considered by the Committee, including the rules it used for selecting and assessing candidates to the Company's Board.
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.		In 2017, the Committee did not use an external search consultancy.
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.		

Provisions of the Code	Compliance	Note
A separate section of the annual report 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.	Observed.	The Board of Directors of Sistema PJSC has a balance of executive ^① , non-executive ^② and independent ^③ directors.
A separate section of the annual report should include goals and objectives for the nomination committee, and progress on achieving the objectives.	Observed.	The Board Committees section includes a description of the goals and objectives of the Nomination, Remuneration and Corporate Governance Committee and topics considered at its meetings.
B.3. Commitment		
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, recognising the need for availability in the event of crises.	Observed.	Type of work and tasks of the Board Chairman are set out in the Terms of Reference of the Board of Directors of Sistema PJSC. The Board Chairman is elected by all Board members 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 Sistema's Board Chairman is disclosed and included in its Annual Report. Chairman of Sistema's Board of Directors V. Evtushenkov does not hold the position of Chairman at any other significant company except Sistema PJSC.
B.3.2. The terms and conditions of appointment of non-executive directors should be made available for inspection by any person at the company's registered office during normal business hours and at the AGM.	Observed.	Information on the terms and conditions of appointment of the non-executive directors of the Board is available on the corporate website of Sistema PJSC (www.sistema.ru / www.sistema.com) and at the office of Sistema PJSC; the information is also available to the participants of the AGM of Sistema PJSC in the course of the meeting. According to the Russian legislation all Board members are elected for 1 year and have the right to be re-elected unlimited number of times.
The letter of appointment should set out the expected time commitment. Non-executive directors should undertake that they will have sufficient time to meet what is expected of them.	Partially observed.	Before nomination, all candidates for election to the Board familiarise themselves with the work plan of the Board of Directors of Sistema PJSC for the coming year, the rights and obligations of the Board members and their potential inclusion in the Board's committees. During the induction procedure, the Company's Corporate Secretary explains to every new member of the Board its procedures and approximate time commitments for their fulfilment. Before the election, all candidates sign a document confirming their consent to the nomination that includes, <i>inter alia</i> , a consent to follow all the requirements of the internal regulations of the Corporation 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.

① As of 31 December 2017: F. Evtushenkov, M. Shamolin; as of 02 April 2018: A. Dubovskov.

② As of 31 December 2017: V. Evtushenkov, S. Boev, A. Dubovskov, R. Sommer; as of 02 April 2018: V. Evtushenkov, S. Boev, F. Evtushenkov, R. Sommer, M. Shamolin.

③ A. Belova, R. Kocharyan, J. Krecké, R. Munnings, D. Iakobachvili.

Annex 7. (Continue)

Provisions of the Code	Compliance	Note
The other significant commitments of non-executive board members should be disclosed to the board, with a broad indication of the time involved and the board should be informed of subsequent changes.	Observed.	<p>The biographies of candidates to the Board of Directors, including information on positions held in other organisations, are included in the materials for the Annual General Meeting of shareholders, and information on the incumbent Board members of Sistema PJSC is included in the Annual Report.</p> <p>All candidates for election to the Board of Directors complete candidate questionnaires thus providing the Company with necessary information.</p> <p>The obligation to disclose any changes in the information provided by the members of the Board of Directors is set out in the Terms of Reference of the Board of Directors of Sistema PJSC.</p>
B.3.3. The board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company.	Observed.	<p>As of 31 December 2017, the Board of Directors of Sistema PJSC consisted of 11 members, 2 of which held the positions of executive directors (F. Evtushenkov and M. Shamolin). Starting from 02 April 2018, the Board of Directors includes 1 executive director (A. Dubovskov).</p> <p>They serve as members on boards of some of Sistema Group's companies that are not included in FTSE 100.</p> <p>Membership in the boards of directors of the subsidiaries of Sistema Group is one of the main duties of executive directors, therefore, this does not create any conflict of interest for work at the Corporation's Board of Directors.</p>
B.4. Development		
B.4.1. The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders.	Observed.	<p>Every candidate for election to the Board of Directors of Sistema PJSC meets the Board Chairman, Board members and the management before the election and receives information on the work of the Board of Directors, his/her role in the Board of Directors and on the Company's business.</p> <p>The Corporate Secretary of Sistema PJSC provides consultations to new members of the Board on the procedures and organisation of the work of the Board and its committees and provides all the necessary regulatory documents describing the Corporation's strategy, business, markets of presence and financial reports.</p>
B.4.2. The chairman should regularly review and agree with each director their training and development needs.	Observed.	<p>Sistema's Board members have the right to prepare and implement an individual professional development plan.</p> <p>The main tool, with consent of the Board Chairman, is their participation in international conferences and professional associations on behalf of the Corporation.</p>
B.5. Information and Support		
B.5.1. The board should ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors.	Observed.	<p>The Terms of Reference of the Board of Directors of the Corporation give Board members the right to engage external independent experts for assessing materials and decisions on any agenda items. Such independent appraisal is organised by the Secretariat of the Board of Directors.</p>
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.	<p>In accordance with the Terms of Reference of the Corporate Secretary of Sistema PJSC, one of the functions of the Corporate Secretary is to provide support to the work of the Board of Directors, including: providing Board members with requested information and documents regarding the Company's business operations, distributing among Board members the materials for the Board meetings, facilitating the work of the Board Committees.</p>

Provisions of the Code	Compliance	Note
B.6. Evaluation		
B.6.1. The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.	Observed.	The procedure for assessing the work of the Board of Directors of Sistema PJSC is described in the Company's Annual Report. The Board of Directors' self-appraisal procedure was introduced in 2009. Board members assess the organisation of work of the Board of Directors using the following parameters: membership and structure of the Board, procedures and organisation of the work of the Board, its Committees, the quality of decisions taken by the Board in different functional areas. The Secretariat of the Board of Directors conducts an annual survey of the Board members, analyses the results and submits the final analysis to the Nomination, Remuneration and Corporate Governance Committee, the Board Chairman and the members of the Board of Directors of Sistema PJSC.
B.6.2. Evaluation 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.	Observed.	Sistema PJSC is not an FTSE 350 company; however, in 2017, it engaged independent advisory firm Nestor Advisors Ltd. not affiliated with the Company for evaluation of its Board of Directors.
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.	The Company's statutory documents do not provide for the position of a senior independent director. Performance evaluation of the Board Chairman is carried out during assessment of performance of the Board of Directors as a whole.
B.7. Re-election		
B.7.1. All board candidates should be subject to approval at the annual general meeting of shareholders and to re-election thereafter at intervals of no more than three years.	Observed.	According to the Russian legislation, Board members are elected at the Annual General Meeting of shareholders for 1 year (for the period till the next Annual General Meeting of shareholders) and can be re-elected unlimited number of times.
Non-executive directors who have served longer than nine years should be subject to annual re-election. If an executive director serves on the board for more than nine years, his/her status should not be defined by the board as independent.	Observed.	According to the Russian legislation, Board members are elected at the Annual General Meeting of shareholders for 1 year (for the period till the next Annual General Meeting of shareholders) and can be re-elected unlimited number of times. The Terms of Reference of the Board of Directors set out independence criteria for Board members.
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.	Information on the Board candidates including their biographies is provided among other materials for the Annual General Meeting of shareholders, which elects members of the Board of Directors.
B.7.2. The board should set out to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected.	Observed.	The shareholders are provided with the candidates' biographies and information about their track record and expertise, along with a recommendation of the Nomination, Remuneration and Corporate Governance Committee, based on which shareholders make an independent decision on voting in election of the Board.

Annex 7. (Continue)

Provisions of the Code	Compliance	Note
The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.	Observed.	<p>Every year, when the new membership of the Board is determined, information on the work of the Board of Directors in the previous year is disclosed, including attendance of meetings by the Board members and the work of the respective Committees.</p> <p>The shareholders are provided with the candidates' biographies and information about their track record and expertise, along with a recommendation of the Nomination, Remuneration and Corporate Governance Committee, based on which shareholders make an independent decision on voting in election of the Board.</p>
C. ACCOUNTABILITY		
C.1. Financial and Business Reporting		
C.1.1. The directors should state in the annual report that they consider 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 position and performance, business model and strategy.	Observed.	The Corporation's Annual Report and accounts are pre-approved at meetings of the Board and the Audit, Finance and Risk Committee of Sistema PJSC.
There should be a statement by the auditor about their reporting responsibilities.	Observed.	The respective statement is contained in the auditor's opinion which is an integral part of the annual financial statements.
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.	Observed.	The Annual Report contains the description of the Corporation's development strategy.
C.1.3. In annual and half-yearly financial statements, the directors should state whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.	Observed.	<p>The Audit, Finance and Risk Committee analyses this when reviewing the accounts.</p> <p>If necessary, respective reservations are included in the opinion/report of the independent auditor, which are integral parts of the annual and semi-annual financial statements approved by the Audit, Finance and Risk Committee.</p>
C.2. Risk Management and Internal Control		
C.2.1. The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated.	Observed.	<p>The Annual Report has a separate section devoted to description of risks for the Corporation's business and of the risk management system.</p> <p>The Board regularly reviews items on risk management at the Corporation.</p>
C.2.2. Taking account of the company's current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.	Observed.	The Annual Report includes a detailed description of the situation and prospects of the Corporation and its portfolio companies, taking into account existing risks.

Provisions of the Code	Compliance	Note
C.2.3. The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report.	Observed.	The Board reviews reports from divisions responsible for risk management and internal control at the Corporation at least once a year. This information is disclosed in the Annual Report.
C.3. Audit Committee and Auditors		
C.3.1. The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.	Observed. in all material aspects.	The Audit, Finance and Risk Committee of Sistema PJSC has been established and is active. The Committee consists of 5 Board members, 4 of which meet the independence criteria: A. Belova, J. Krecké, R. Munnings, D. Iakobachvili. The Chairman of the Audit, Finance and Risk Committee of the Board of Directors of Sistema PJSC is R. Munnings, who has extensive experience in the area of financial audit.
C.3.2. The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:	Observed.	The responsibilities of the Audit, Finance and Risk Committee of the Board of Directors of Sistema PJSC are set out in the Terms of Reference of the Committee approved by the Corporation's Board of Directors. The Terms of Reference of the Audit, Finance and Risk Committee meet the recommendations of section C.3.2 of the UK Corporate Governance Code.
<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 judgements 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. 		
C.3.3. The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available.	Observed.	The responsibilities of the Audit, Finance and Risk Committee of the Board of Directors of Sistema PJSC are set out in the Terms of Reference of the Committee approved by the Corporation's Board of Directors.

Annex 7. (Continue)

Provisions of the Code	Compliance	Note
<p>C.3.4. Where requested by the board, the audit 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 position and performance, business model and strategy.</p>	Observed.	The Audit, Finance and Risk Committee reviews the Annual Report and the financial statements for their reliability and completeness.
<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>	Observed.	The Audit, Finance and Risk Committee reviews issues related to the operation of the hotline used by the Corporation's employees and other interested parties for raising concerns about any potential financial malpractice on a confidential basis.
<p>C.3.6. The audit committee should monitor and review the effectiveness of the internal audit activities.</p> <p>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>	Observed.	In accordance with the Terms of Reference of the Audit, Finance and Risk Committee of the Board of Directors of the Corporation, one of the main functions of this Committee is to oversee the internal audit system of the Corporation as implemented by the Internal Control and Audit Department. The Audit and Finance Committee, together with the head of the above-mentioned Department and the Company's management, analyses implemented activities aimed at removing deficiencies in internal business processes.
<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>	Observed.	<p>According to the Terms of Reference of the Audit, Finance and Risk Committee of the Company's Board of Directors, the Committee analyses the work of external auditors and makes recommendations to the Board of Directors of the Corporation on the appointment and re-appointment of external auditors or rejection of their services.</p> <p>The Committee organises a tender for external auditor's services at least once in five years.</p>
<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 are safeguarded. 	Observed.	Sistema's Annual Report includes information on discharge of its duties by the Audit, Finance and Risk Committee and on the policy for ensuring the impartiality and independence of the Corporation's auditor.

Provisions of the Code	Compliance	Note
D. REMUNERATION		
D.1. The Level and Components of Remuneration		
<p>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. Schemes should include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so.</p>	Observed.	<p>The sections of Schedule A of the UK Corporate Governance Code are in general reflected in the remuneration system developed for the Corporation's Board members.</p> <p>All instances when the Corporation may refuse to pay some part of remuneration are stipulated by its internal documents.</p> <p>Comments on specific sections of Schedule A are provided below.</p>
<p>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.</p>	Partially observed.	<p>The managers of the Corporation elected to the boards of directors of subsidiaries do not receive any additional remuneration for serving on such boards. The managers of the Corporation or executive directors elected to the boards of directors of other companies retain their remuneration for serving on the boards of directors of such companies in accordance with the existing internal regulations of such companies.</p> <p>The information on the size of remuneration received by the employees of Sistema PJSFC for serving on the boards of directors of other companies is not disclosed.</p>
<p>D.1.3. Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role.</p> <p>Remuneration for non-executive directors should not include share options or other performance-related elements. If, exceptionally, such 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.</p> <p>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).</p>	Observed.	<p>The Board members of Sistema PJSFC receive additional remuneration for serving as Chairman of the Board of Directors, Deputy Chairman of the Board of Directors and Chairman of the Board Committee. Special remuneration is also paid for attending the meetings of the Board and its Committees.</p> <p>Stock options are not granted for serving on the Board of Directors.</p>
<p>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. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.</p>	Observed.	<p>Pursuant to cl. 1.6. of the Policy on remuneration and compensations for the Board members of the Corporation, in the event of early termination of the powers of a Board member, the amount of remuneration is calculated in proportion to the actual time of service of the specific member on the Board.</p>
<p>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.</p>	Observed.	<p>According to the Russian legislation, Board Members are elected at the Annual General Meeting of shareholders for a 1-year term (for the period until the next Annual General Meeting of shareholders) and have the right to be re-elected unlimited number of times.</p>
D.2. Procedure		
<p>D.2.1. The board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors.</p>	Observed. in all material aspects.	<p>The Nomination, Remuneration and Corporate Governance Committee of Sistema PJSFC has been set up and is active. The Committee consists of 5 directors, 2 of which (S. Boev, R. Sommer) are non-executive directors and 3 (R. Kocharyan, R. Munnings and D. Iakobachvili) are independent directors (meet the independence criteria).</p>

Annex 7. (Continue)

Provisions of the Code	Compliance	Note
The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	Observed.	The responsibilities of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema PJSC are set out in the Terms of Reference of the Committee approved by the Corporation's Board of Directors on 29 October 2016. The Terms of Reference of the above-mentioned Committee are available on the corporate website of the Corporation (www.sistema.ru/ www.sistema.com) and may be provided to shareholders upon request.
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 2017, no external consultants were hired on the issues of remuneration payable to the Board members.
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.	The amounts of and the procedures for paying remuneration and compensations to the Corporation's Board members are set out in the Policy on remuneration and compensations for the Board members of the Corporation. If amendments should be made to the above-mentioned Policy, the Nomination, Remuneration and Corporate Governance Committee should develop the required 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.	In accordance with the Terms of Reference of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema PJSC, the Committee's functions include: <ul style="list-style-type: none"> • preliminary review of employment agreements to be entered into with the President and members of the Management Board of the Corporation, which are submitted for the Board's approval; • assessment of the top managers' performance and determination of their respective bonuses.
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 payable to members of the Board of Directors of the Corporation stipulates a formula for calculating the remuneration and compensations payable to the Corporation's Board members. A special decision of the Nomination, Remuneration and Corporate Governance Committee for such payments is not required.
D.2.4. Shareholders should be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules.	Observed.	Long-term incentive systems are approved by the Board of Directors and, when needed, by the Annual General Meeting of shareholders of Sistema PJSC, 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. The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders. Non-executive directors should be offered the opportunity to attend scheduled meetings with major shareholders and should expect to attend meetings if requested by major shareholders.	Observed.	Representatives of the main shareholders were elected to the Board of Directors of Sistema PJSC. The IR Department of the Company works with major institutional investors. The results of its work, including the views of major institutional investors on the Company's strategy and development, are reviewed by the Board of Directors on a regular basis as part of the IR strategy of the Company. It is mandatory for all members of the Board of Directors, including non-executive directors, to attend the Annual General Meeting of shareholders of Sistema PJSC.
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Provisions of the Code	Compliance	Note
The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.	Not applicable.	<p>The Company's statutory documents do not provide for the position of a senior independent director.</p> <p>Prior to every Board meeting, independent directors hold a meeting, which is also attended by the Corporation's management.</p> <p>Information on the Board members meeting the independence criteria is available to the shareholders on Sistema's website (www.sistema.ru/ www.sistema.com), so that the shareholders may contact any of them if they have any questions.</p>
E.1.2. The board should state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about the company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.	Observed.	Sistema's Annual Report includes a description of the Corporation's development strategy that reflects the opinion of the Board and the major shareholders.
E.2. Constructive Use of General Meetings		
E.2.1. At any general meeting, the company should propose a separate resolution on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the report and accounts.	Observed.	According to the Russian legislation and the Charter of Sistema PJSC, every agenda item at the AGM is accompanied by a separate draft resolution with "for", "against" and "abstained" voting options.
<p>E.2.2. The company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted.</p> <p>The company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company:</p> <ul style="list-style-type: none"> • the number of shares in respect of which proxy appointments have been validly made; the number of votes for the resolution; • the number of votes against the resolution; and • the number of shares in respect of which the vote was directed to be withheld. <p>When, in the opinion of the board, a significant proportion of votes have been cast against a resolution at any general meeting, the company should explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result.</p>	Observed.	<p>All votes of the shareholders are registered by the Teller Committee and this information is included in the Minutes of the Annual General Meeting of shareholders.</p> <p>All "for", "against" and "abstained" votes on every agenda item are recorded separately, voting results for every item are disclosed publicly.</p> <p>In the reporting year, the number of votes cast against resolutions at the General Meeting of shareholders was not significant.</p>
E.2.3. All members of the board should attend the AGM. Committee chairmen should be available to answer questions at the AGM.	Observed.	<p>In accordance with the Terms of Reference of the Board of Directors of Sistema PJSC, all members of the Board of Directors are obligated to attend the AGM and answer the questions of the participants.</p> <p>The shareholders attending the Annual General Meeting of shareholders of Sistema PJSC may put questions to any member of the Board of Directors attending the meeting.</p>
E.2.4. The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.	Observed.	According to the Charter of Sistema PJSC, the Corporation publishes the materials for the Annual General Meeting of shareholders no later than 30 days before the meeting.

DISCLAIMER

Certain statements in this report may contain assumptions or forecasts in respect to forthcoming events within Sistema. The words “expect”, “estimate”, “intend”, “will”, “could” and similar expressions identify forward-looking statements. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the above-mentioned date or to reflect

the occurrence of unanticipated events. Many factors could cause Sistema's actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, deteriorating economic and credit conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.

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