

Social Responsibility

The philosophy of corporate social responsibility (CSR) of Sistema JSFC is based on the aspiration to the long-term and sustainable development of the Corporation that would allow for a harmonic combination of successful business with basic human values and national development priorities.

Corporate social responsibility of Sistema JSFC is a comprehensive system that comprises all of its activities. While adhering to the fundamental documents and standards in CSR, like the GRI, the UN Global Compact and the Social Charter of the Russian Business, the Corporation also focuses on the following four key areas:

1. **Responsibility of a corporate citizen** as contribution to the development of the society and the state in general.
2. **Responsibility of an employer** towards employees and their families, ensuring good working conditions necessary for building a high quality of life.
3. **Responsibility of a business partner** implying adherence to business ethics, application of best practices in corporate governance and information disclosure, which makes it possible to provide sufficient protection and respect for the rights of partners and shareholders, including minority shareholders.
4. **Responsibility of a party to social relations** which allocates funding for science and education, culture and sports, as well as for support of social initiatives and projects.

Corporate social responsibility matters are annually reviewed by the Board of Directors of the Corporation and the Corporate Governance and Ethics Committee. Importantly, the core CSR principles approved at the Corporation's level are being implemented and applied at all of its subsidiaries and affiliates. The Corporation has designed a system for cascading the CSR functions that includes forming standards, building the management structure, training personnel, and controlling implementation via a system of indicators.

Below there is a brief description of the last year's CSR performance results and achievements of Sistema JSFC:

Responsibility of a corporate citizen.

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

Companies of Sistema JSFC produce material influence on the development of the national intellectual potential and growth in areas related to innovations and state-of-the-art technologies. For instance, in 2011 SITRONICS alone invested ca US\$ 55 million in advanced research and development and almost US\$ 69 million more in the development of knowledge-intensive manufacturing facilities.

Being a participant to the GLONASS target program, the E-Government and the Multi-Service Information Educational Environment projects and other large-scale federal programs, the Corporation plays a key role in developing the high-tech industry, as it creates high quality jobs, develops the entrepreneurial environment, and participates in forming the national intellectual elite.

The Corporation rigorously abides by the ecology principles, and participation in environmental programs is set out in the Ethics Code of Sistema JSFC. Being participants of the hydrocarbon market, the Corporation's companies invest substantial funds in environmental measures. For instance, in 2011 Bashneft alone spent RUB 2.1 billion on these purposes. In the reporting period the company adopted a strategy in the area of health, safety and environment (HSE). Besides other matters, it provides for the construction of a unit for oil sludge processing, upgrade of the waste treatment facilities and other actions aimed at minimizing the technological environmental impact.

Responsibility of an employer

Sistema JSFC, together with its subsidiaries and affiliates, is also one of the largest employers in Russia. In 2011, the headcount of the subsidiaries and affiliates of the Corporation exceeded 143 thousand people. With the family members of the employees taken into account, the Corporation is responsible for the welfare of about half a million citizens of the Russian Federation. Provision of good working conditions necessary for building a high quality of life is an unquestionable priority and the corner stone of the Company's CSR policy.

We believe that the quality of a workplace comprises a number of components, such as the compensation level, the motivation system, conditions of labor, social guarantees, professional development and growth opportunities.

For instance, employees' salaries are differentiated according to a grade system designed by Hay Group, a leading international consultancy, on the basis of monitoring salaries across various reference groups in the labor market. Total annual compensation of the employees is aligned with the advanced motivation system adopted in the Corporation.

Besides the social guarantees stipulated in the Labor Code of the Russian Federation, each of the Corporation's companies offers additional guarantees and benefits to its employees in line with its Social Policy fixed in the

bylaws. In particular, the employees of Sistema JSFC and its subsidiaries can use the services of one of the best private healthcare networks, CJSC Medsi, at a discount or free of charge.

The Corporation is the founder of the Sistema non-state pension fund that offers a range of pension programs to portfolio companies. Such programs make it possible for their participants to accumulate pensions on much better terms than those offered by the governmental pension system.

The Corporation pays special attention to the development of each employee's intellectual potential. The Group cooperates with major national higher educational establishments and finances its own Corporate University. Around 90 thousand employees of Sistema JSFC companies are trained annually. The Corporation also creates all the necessary conditions for professional and career development. Managers of Sistema JSFC and its portfolio companies are regularly included in the Russia's Top-1000 Best Managers annual rating of the Association of Managers of Russia and the Kommersant newspaper.

Responsibility of a business partner

In its Corporate Ethics Code the Corporation has set a number of principles that reflect responsibility in business relations, and follows them rigorously.

These principles include: sound business practice, adherence to professional, legal and ethical standards of doing business, adherence to corporate governance standards, and respect for the rights of minority shareholders, transparency and high quality of disclosure.

Sistema JSFC was one of the first companies in Russia to join the UN Global Compact, and it has recently confirmed its membership as it submitted a report that was approved by a special UN commission. Today Sistema JSFC is a member of the Steering Committee of the Global Compact Network Russia.

The Corporation and its subsidiaries have adopted an Ethics Code and a Corporate Conduct Code.

Sistema JSFC plays an active role in fighting corruption, which is reflected in its procedures and bylaws. In 2011 the Board of Directors of Sistema JSFC adopted the Anti-corruption Policy which sets rules and restrictions in the following areas: getting presents and business entertainment expenses, participation in charitable and sponsorship activities, participation in political activities, and interaction with civil servants.

Sistema JSFC and its subsidiaries use transparent mechanisms and procedures for purchasing and tenders. In 2011 the company designed and enacted the Tender Procedures and Purchasing Code in order to improve efficiency of procurement procedures. Besides, in the reporting period Sistema JSFC aggressively increased the share of purchasing from electronic trading floors.

Business relations practices of Sistema JSFC are highly appreciated by the market. In 2011 the Expert Rating Agency rated the corporate governance of Sistema JSFC as 7+ ("Developed corporate governance practice") on the national scale. Besides, the Corporation was the 2011 winner in the nomination "Best level of disclosure on the corporate governance practice (RID nomination)" among non-financial sector companies. In 2011 MTS was granted the GAMMA-7 rating in "Analysis and assessment of efficiency in corporate governance, accountability and management". This is the highest rating among companies of Russia and the CIS.

Responsibility of a party to social relations

The Corporation is one of the major philanthropists and investors in the Russian social sphere. Such investments totaled RUB 2,000 million in 2011. Social investments were mostly made in the following areas:

- Science and education;
- Culture;
- Sport;
- Direct support to social initiatives and projects.

Sistema JSFC considers it important to render substantial and consistent support to talented, intellectually gifted and proactive young people. In 2011 the Corporation started the all-Russian program for forming and developing the national talent pool entitled "Lift to the Future". The project will be implemented as an organized Russian national social network for the young whose purpose is to search for, support and develop talented young people.

Being aware of the importance of supporting education and science, the Corporation is a patron of the Higher School of Management of the Saint-Petersburg State University, the European University, the Russian Geographical Society, and many other educational and scientific institutions and projects. The most gifted students of a number of technical higher educational establishments are covered by a scholarship program.

Sistema JSFC is a major sponsor of numerous Russian cultural events. Since 2003 the Corporation has been the main sponsor of the State Russian Museum, a sponsor of the Mariinsky Theatre festivals, the annual Musical

Kremlin concerts, and the international ballet contest Benois de la Danse. Sistema JSFC also sponsors the Sovremennik Theater.

The Corporation traditionally provides support to Russian sports: the Russian Olympians Foundation, the Russian Rugby Union, the Federation of Cycling Sport of Russia, the Sports Federation of the Russian Ministry of the Interior, and a number of junior sport schools.

Projects in the social sphere are an important component of our charitable activities: Sistema JSFC finances a number of orphanages and shelters, and is in close cooperation with several charitable foundations that support the disabled and veterans.

Social projects are implemented via the Sistema Charitable Foundation that was established in 2003 to ensure effective management of the Corporation and its subsidiaries' social investments.

In 2011 the Corporation became a laureate of the Corporate Social Responsibility Leaders contest run by PricewaterhouseCoopers and the Vedomosti.