



JOINT-STOCK FINANCIAL CORPORATION

**SISTEMA**

# **Sistema PJSFC Financial Results 2Q 2017**

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Certain statements in this presentation may contain assumptions or forecasts in respect to forthcoming events within Sistema PJSC. 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.



## Overview of performance



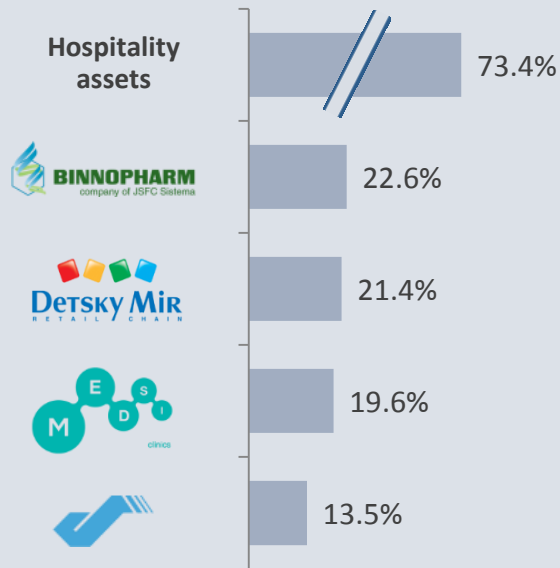
IFRS, RUB bln

# KEY HIGHLIGHTS

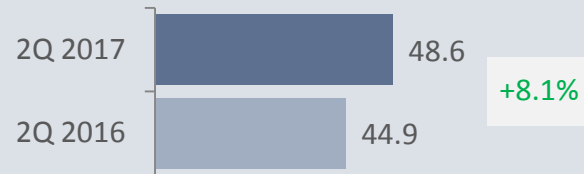
## CONSOLIDATED REVENUE



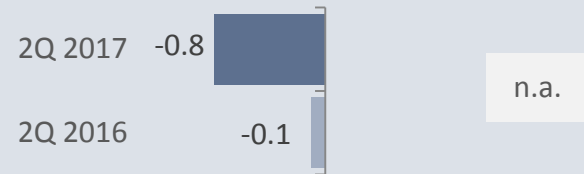
## FASTEST GROWING ASSETS<sup>1</sup>



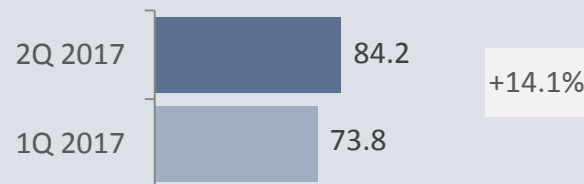
## ADJUSTED OIBDA



## ADJUSTED LOSS



## NET DEBT AT CORPORATE CENTRE<sup>2</sup>



- Revenues largely flat YoY. Strong revenue performance posted by Detsky Mir, Medsi, pharma and hospitality assets
- Russian portfolio companies increased their consolidated revenues by 1% YoY
- Robust OIBDA growth driven by MTS and non-telecom businesses, as well as lower SG&A costs at Corporate Centre. Nearly all assets posted positive OIBDA
- Detsky Mir share price up 16% since its IPO<sup>3</sup> compared to the Russian market decline of 8% for the same period
- Cash position strengthened and financial liabilities optimised, as Sistema raised RUB 15 bln via a local bond issue and a total of RUB 25 bln from Russian state banks
- RUB 7.8 bln dividends for 2016 declared in 2Q and paid in 3Q 2017

<sup>1</sup>By year-on-year revenue growth in 2Q 2017

<sup>2</sup>Excluding other financial liabilities at Corporate Centre

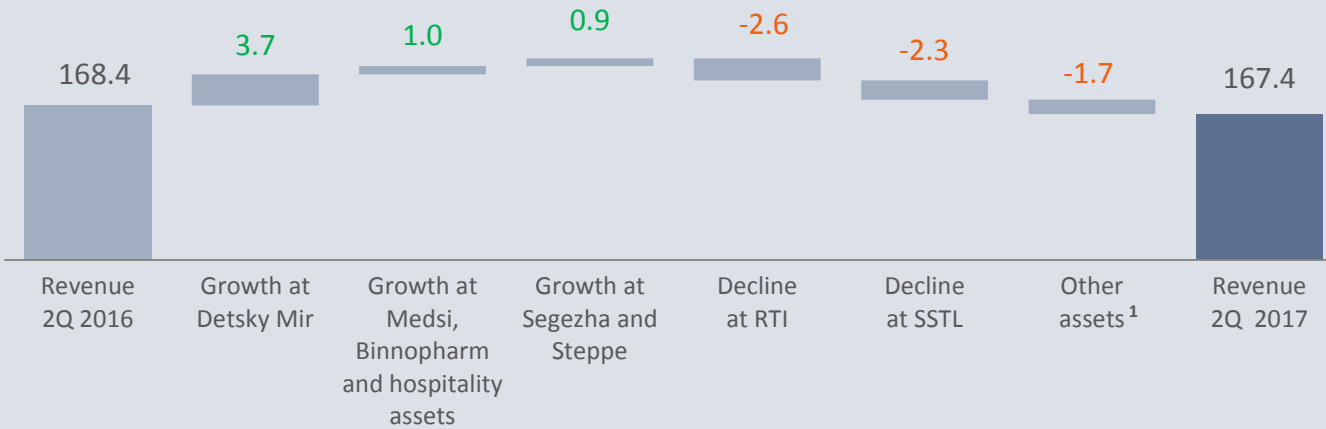
<sup>3</sup>As of close of trading on Moscow Exchange on 29 June 2017



IFRS, RUB bln

# FINANCIAL REVIEW

## CONSOLIDATED REVENUE ANALYSIS



- **Detsky Mir:** 10.7% traffic growth resulting in 4.8% growth in like-for-like sales
- **Segezha Group:** robust operating performance supporting growth despite RUB appreciation
- **RTI:** shift in revenue recognition for a number of defence contracts
- **SSTL:** freeze of client acquisition and marketing ahead of a potential telecoms business merger with RCom

<sup>1</sup>Decline at other assets mainly related to deconsolidation of Moscapstroy since 3Q 2016











## ADJ. OIBDA ANALYSIS



- **MTS:** revenue growth, improved efficiency in the retail business, positive YoY contribution from Ukraine
- **Agroholding Steppe:** growth of area under cultivation and revaluation of biological assets
- **MTS Bank:** lower provision charges thanks to successful strategy execution
- **SSTL:** maintenance costs remain, as the company awaits potential merger with RCom



# KEY HIGHLIGHTS IN 2Q 2017 AND BEYOND

<p><b>Growth across key assets</b></p>	   	<ul style="list-style-type: none"> <li>✓ Revenue increase of 0.7% YoY and solid OIBDA margin improvement by 3 p.p. to 41.0% supported by improved efficiency in retail and a positive YoY contribution from Ukraine</li> <li>✓ Market Cap grew 16% since the IPO<sup>1</sup>. Successful expansion and focus on operating efficiencies resulted in revenues and adjusted OIBDA growth of 21.4% and 41.2%, respectively</li> <li>✓ Revenue increased by 27.5% YoY in EUR terms and 7.6% in RUB terms in 2Q 2017. A massive investment program and a plan to reduce operational costs are underway</li> <li>✓ Revenue up 19.6% YoY due to increased number of patient visits and new modern facility launch in 2016 driving increases. Adjusted OIBDA grew 3x YoY in 2Q 2017.</li> </ul>
<p><b>Strategic projects across the portfolio</b></p>	  	<ul style="list-style-type: none"> <li>✓ Investments into land bank expansion continued with acquisition of further 20 thsd hectares in the Stavropol region. Since the start of the year the land bank grew by 17% to 370 thsd hectares</li> <li>✓ Sistema and Ruselectronics (a division of Rostec) continue to work to establish a JV in microelectronics. The transaction is expected to be completed by the end of 1Q 2018.</li> <li>✓ MEDEM, one of the largest medical centres in St Petersburg (with 6,800 m<sup>2</sup> of space), acquired in 3Q 2017 as part of Medsi's strategy to establish a presence in major Russian cities</li> </ul>
<p><b>Developments at the Corporate Centre</b></p>	  	<ul style="list-style-type: none"> <li>✓ <b>Shareholder returns:</b> RUB 7.8 bln dividends for 2016 declared in 2Q and paid in 3Q 2017 (which together with an interim dividend results in a 6% yield vs. 2016 share average price)</li> <li>✓ <b>Financing:</b> RUB 15 bln via raised a local bond issue and a total of RUB 25 bln from Russian state banks in April and June 2017. Sistema continues to service all its obligations in full</li> <li>✓ <b>Rosneft's claim:</b> On 23 August, the Republic of Bashkortostan Arbitration Court partially satisfied the claim of Rosneft/Bashneft/Bashkortostan ordering Sistema and Sistema-Invest to pay alleged damages of RUB 136.3 bln. Sistema disagrees with the decision and will file an appeal</li> </ul>

<sup>1</sup>As of close of trading on Moscow Exchange on 29 June 2017



# ROSNEFT/BASHNEFT LAWSUIT: SISTEMA'S POSITION

## Key points of Sistema's position

Sistema is not a seller and not a shareholder of Bashneft since Dec 2014

Reorganisation did not result in any damages for Bashneft

No legal or economic basis for the claim

Sistema planned Bashneft's IPO with a support from leading investment banks: acted with due diligence and care

## Sistema's legal position and key arguments

- Rosneft **acquired Bashneft from the Russian government (Rosimuschestvo) in Oct 2016**. Sistema did not sell Bashneft to Rosneft and has not been a shareholder of Bashneft since Dec 2014. **The Russian government did not contest any decisions of Sistema as Bashneft's shareholder. Rosimushchestvo approved the results of the Reorganisation**, which it described exclusively in positive terms
- Rosimuschestvo voted for cancellation of 2,724,173 shares of Bashneft in March 2015, in the same way as Sistema voted for the cancellation of Bashneft shares in 2014. Hence, **Rosimuschestvo should be co-defendant in the legal proceedings**
- The claimants missed the three-year limitation period
- Based on **book value**: assets before Reorganisation: Sistema-Invest shares worth RUB 24.8 bln (book value), Sistema-Invest debt worth RUB 36.9 bln. **Total: RUB 62 bln**. Assets after Reorganisation: Bashneft shares worth **RUB 81 bln**
- Based on **market value**: assets before Reorganisation: Sistema-Invest shares worth RUB 43 bln (market valuation), Sistema-Invest debt worth RUB 36.9 bln. **Total: RUB 80 bln**. Assets after Reorganisation: Bashneft shares worth **RUB 81 bln**
- Cancellation of shares is a civil law concept in Russia that cannot violate the rights of Bashneft in any way. **If there is no violation of rights, there are no damages**
- Financial accounting rules: a company does not incur any damages in the event of cancellation of shares (IAS 32, Financial instruments: Presentation)
- Purchasing and cancelling own shares is a **standard and normal corporate practice** (undertaken, inter alia, by Rosneft, Sberbank, Gazprom, VTB Bank, Inter RAO, Uralkali, Norilsk Nickel, Moscow Exchange, etc.)
- Bashneft's **net income grew by 21.5% YoY and by 8.5% QoQ** in 2Q 2014 after the Reorganisation, Bashneft's **market cap grew by 17.6%** between 18 Dec 2013 (Reorganisation announced) and 6 May 2014 (completion of reorganisation)
- 17 Dec 2013: Bashneft's BoD announces plan to issue new shares following the Reorganisation to replace the cancelled shares
  - "The cancellation of these shares will subsequently allow Bashneft to **place additional shares through subscription at a market price** and thereby raise additional capital; the number of additional shares will be the same as the number of cancelled shares" (resolution of the Board of Directors dated 17 Dec 2013)
- 03 July 2014: Bashneft's BoD **approves the issue of new shares** to replace the cancelled shares
- 05 Sept 2014: **The Central Bank of Russia** permits placing abroad 45 mln Bashneft shares



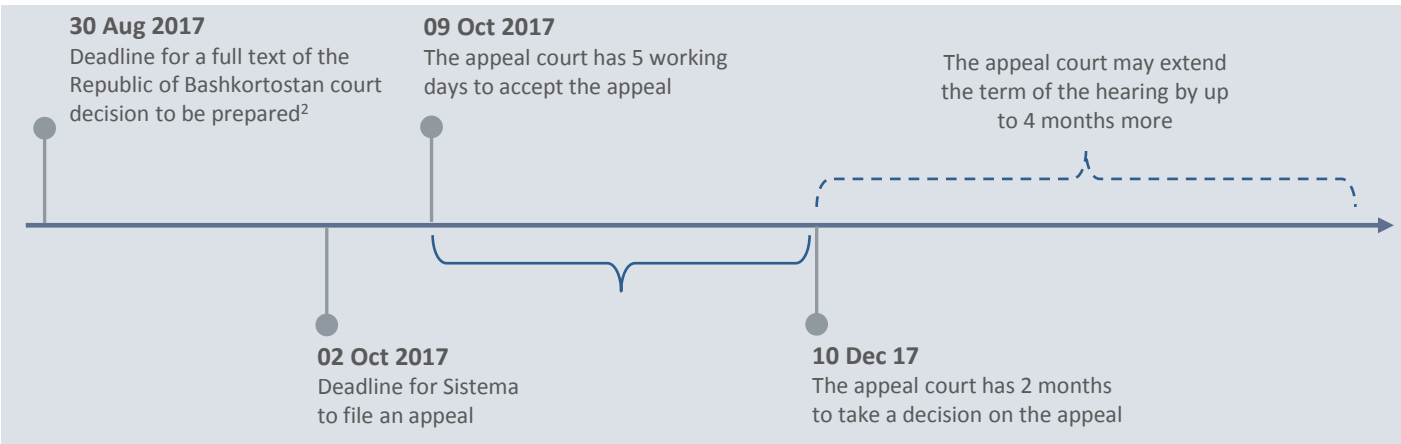
# ROSNEFT/BASHNEFT COURT CASE: THE REPUBLIC OF BASHKORTOSTAN COURT DECISION AND APPEAL TIMELINE

## DECISION TAKEN BY THE BASHKORTOSTAN ARBITRATION COURT ON 23 AUG 2017

Claim components	Claim w/o FX	Alleged damages incl. FX	Amount awarded
1. Damages due to loss of indirect holding in assets that were exchanged for Bashneft shares	RUB 57.2 bln	RUB 91.5 bln	RUB 57.2 bln
2. Loans issued by Bashneft to Sistema-Invest	RUB 36.9 bln	RUB 59.0 bln	RUB 59.0 bln
3. Value of Bashneft's shares bought back from shareholders	RUB 12.5 bln	RUB 20.0 bln	RUB 20.0 bln
<b>Total</b>	<b>RUB 106.6 bln</b>	<b>RUB 170.6 bln</b>	<b>RUB 136.3 bln<sup>1</sup></b>

<sup>1</sup>Numbers may not sum up to totals due to rounding

## THE BASHKORTOSTAN ARBITRATION COURT'S DECISION HAS NOT COME INTO EFFECT



<sup>2</sup>Schedule subject to change in the event of the court's non-compliance with procedural deadlines

- The court partially satisfied the claim, determining the amount of damages allegedly incurred by Bashneft to be RUB 136.3 bln, incl. RUB 29.7 bln due to stronger US\$ exchange rate and a drop in the RUB purchasing power
- Sistema will appeal the court's decision with the 18<sup>th</sup> Arbitration Court of Appeal (Chelyabinsk)
- The decision of the Republic of Bashkortostan Arbitration Court will not come into effect until such time as the appeal court makes its decision
- Sistema is confident in its position and believes there is no basis for satisfying any component of the claim
- Sistema's position has been supported by leading experts, legal practitioners and organisations, including the Institute of Economics of the Russian Academy of Sciences, Clifford Chance and others.

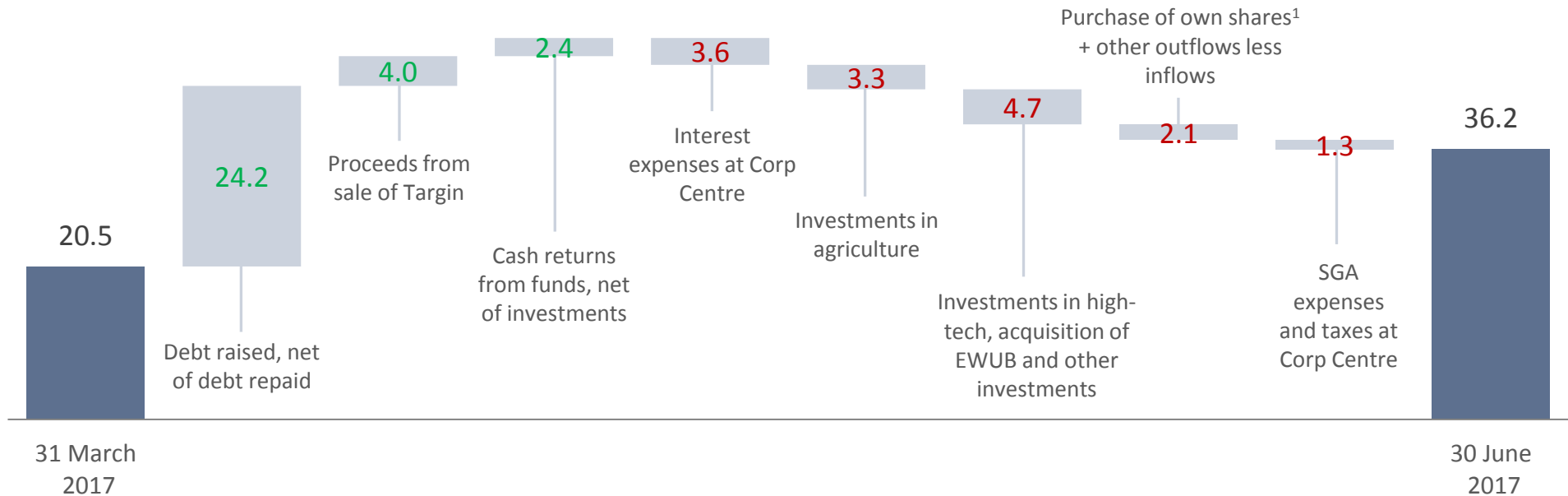
**Sistema believes the claim and the Republic of Bashkortostan Arbitration court's decision to be baseless and unlawful and intends to file an appeal**





# CASH FLOWS AT THE CORPORATE CENTRE

Management accounts, RUB bln



- ✓ Cash position at the Corporate Center further strengthened by:
  - issuance of RUB 15.0 bln local bonds and raising a total of RUB 25.0 bln from two Russian state banks in April and June 2017
  - proceeds from sale of Targin, successful exits from a number of European real estate projects by Sistema Capital Partners
- ✓ Key investments in 2Q 2017 include acquisition of land in southern Russia, UAV development by Kronstadt and fund investments
- ✓ In 3Q 2017 Sistema repaid US\$ 97 mln<sup>2</sup> under the liability to the Russian Government for SSTL shares and paid RUB 7.8 bln of dividends to shareholders

<sup>1</sup>In April 2017 Sistema Finance acquired 71.4 mln of Sistema's ordinary shares for an equivalent of approximately RUB 1.6 bln. The shares were purchased for general corporate purposes, including incentive programmes for employees and top management.

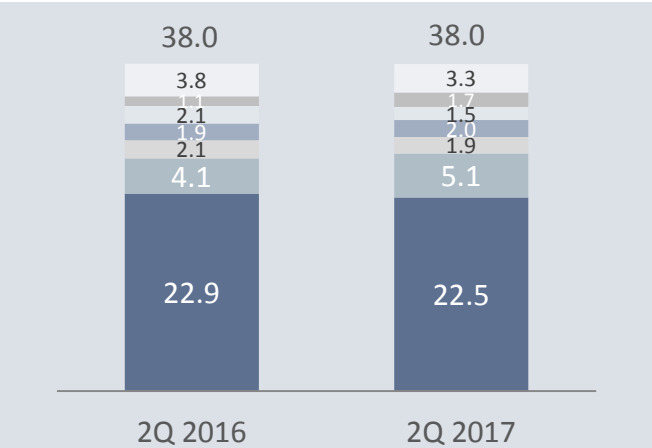
<sup>2</sup>Net of interest paid



IFRS, RUB bln

# SG&A AND CAPEX

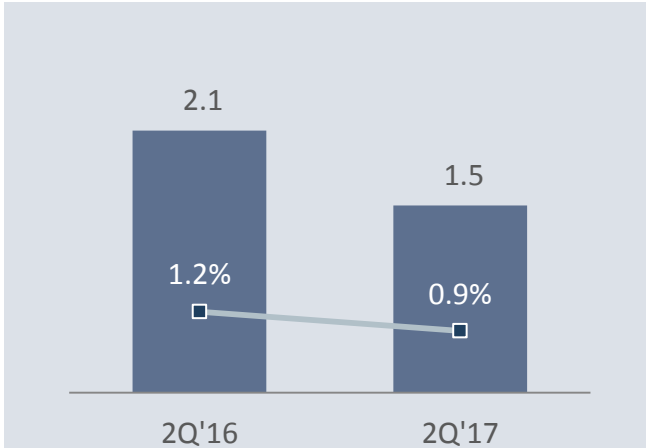
## GROUP'S SG&A



- MTS
- Detsky Mir
- Segezha
- RTI
- Corporate Centre
- MTS Bank
- Other

- Group SG&A costs stable YoY due to lower costs at MTS, RTI, SSTL, Segezha and Corporate Centre
- Growth at Detsky Mir largely driven by the company's expansion strategy
- YoY improvements of SGA/Revenue ratio at:
  - MTS: down to 21.0% from 21.6%
  - Segezha Group: down to 17.7% from 21.1%
  - Hospitality assets: down to 24.6% from 30.2%
  - BPGC: down to 6.1% from 10.6%

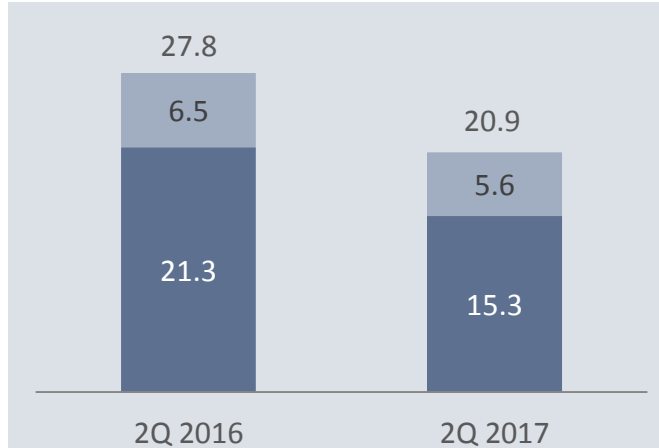
## CORPORATE CENTRE'S SG&A



- SG&A at Corporate Centre
- Corporate SG&A/Group's revenue

- Corporate Centre's SG&A down 25.0% YoY, as the 2Q 2016 number includes accruals for the long-term incentive program for both 2016 and 2015
- Corporate SG&A/Revenue ratio decreased from 1.2% in 2Q 2016 to 0.9% in 2Q 2017

## GROUP'S CAPEX



- MTS
- Other assets

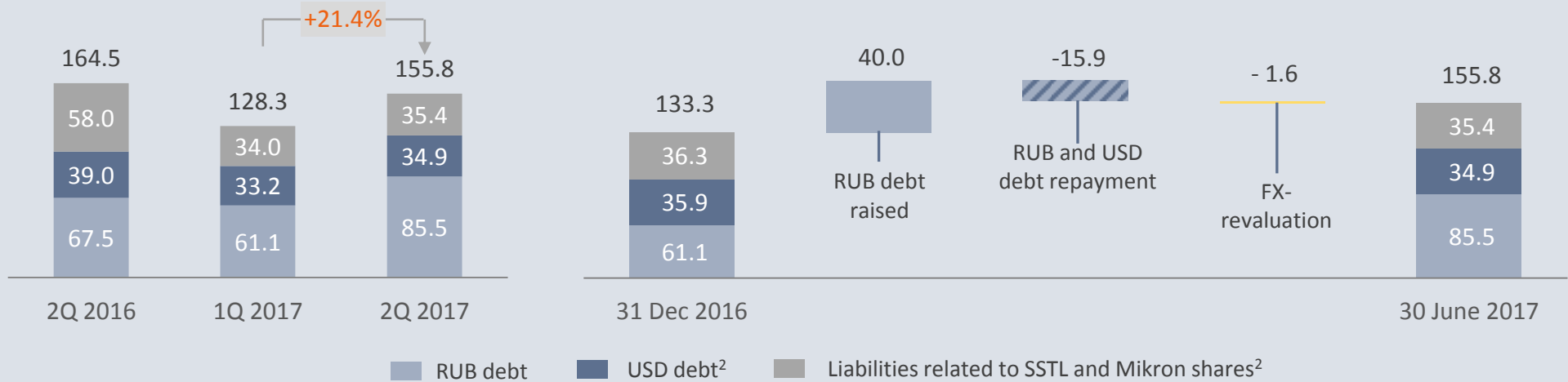
- The Group's CAPEX decreased YoY by 24.8%
- MTS decreased CAPEX to RUB 15.3 bln (-28.2% YoY)



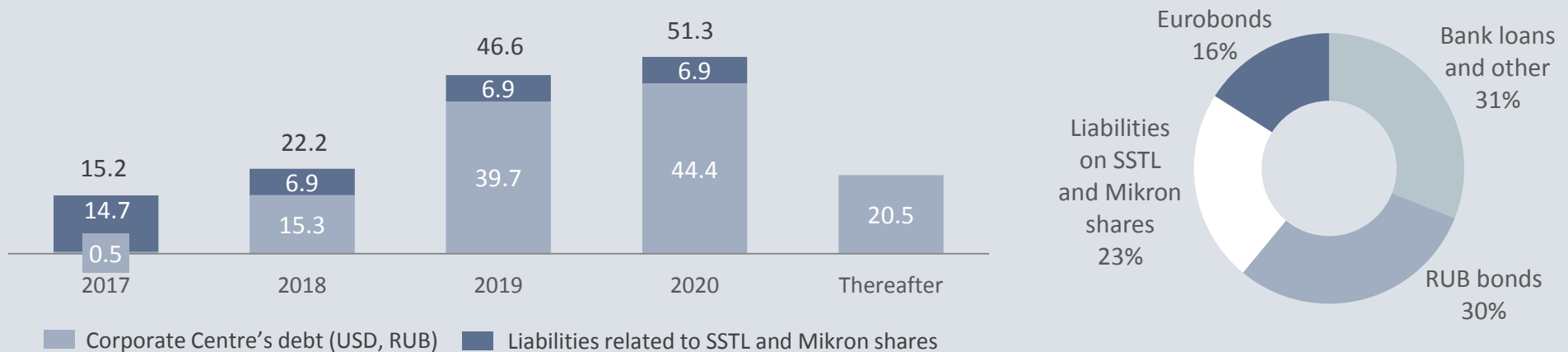
# CORPORATE CENTRE'S FINANCIAL LIABILITIES

## CORPORATE CENTRE'S FINANCIAL LIABILITIES<sup>1</sup> IN 2016-2017

Management accounts, RUB bln



## CORPORATE CENTRE'S FINANCIAL LIABILITIES STRUCTURE AND MATURITY PROFILE



<sup>1</sup>Excluding the amount payable for RTI shares, hedge agreements and swaps not designated as hedges

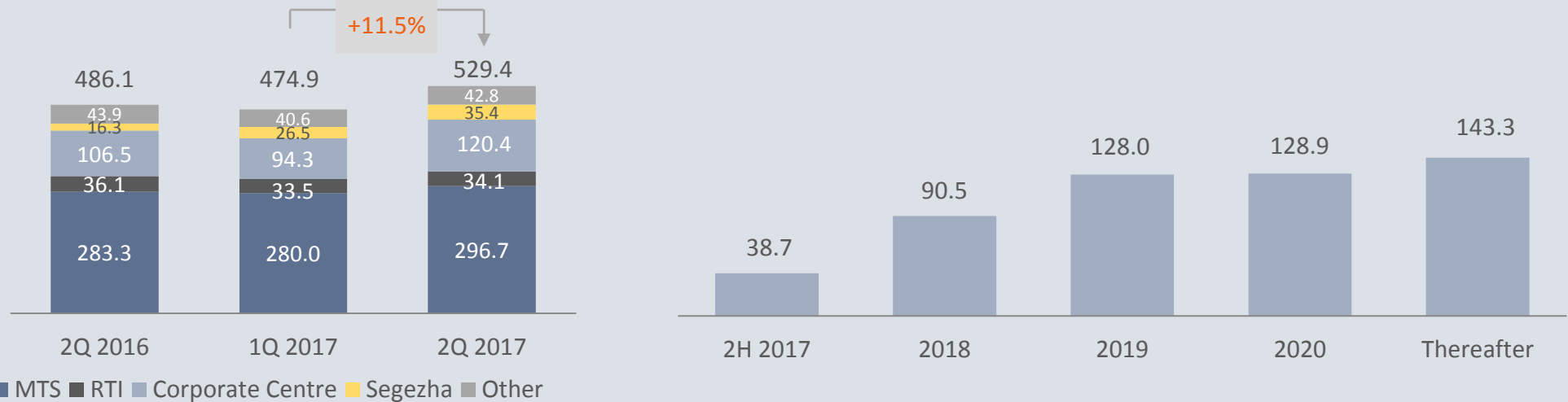
<sup>2</sup>FX-Debt and USD-denominated liability to Rosimuschestvo for SSTL shares are presented at RUB/USD exchange rate as of 30 June 2017



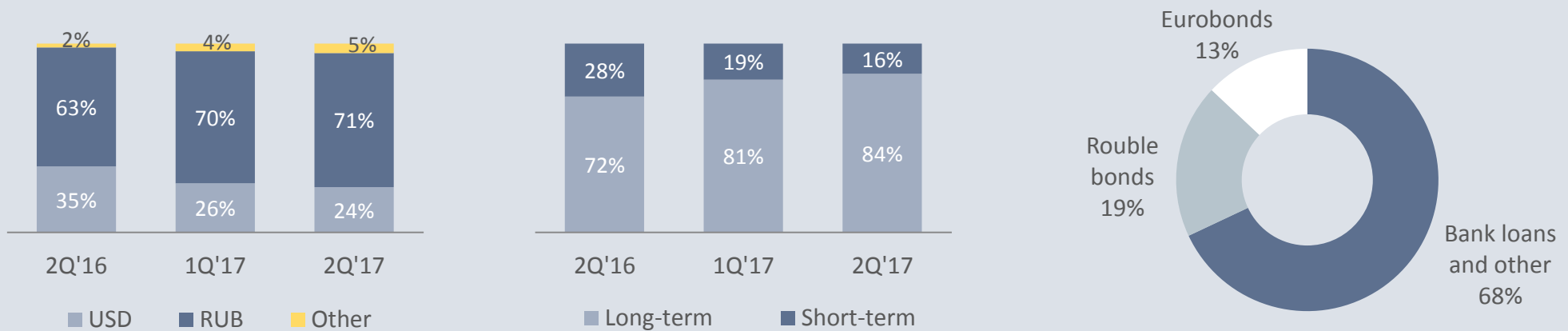
# CONSOLIDATED DEBT

## CONSOLIDATED DEBT AND MATURITY PROFILE<sup>1</sup>

Management accounts, RUB bln



## CONSOLIDATED DEBT STRUCTURE



<sup>1</sup>Excluding other financial liabilities

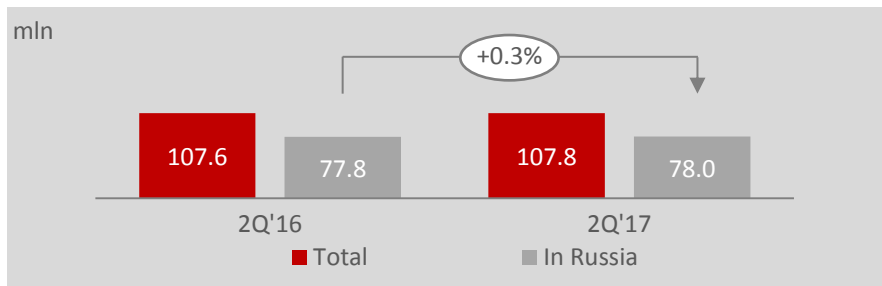


## Assets Overview

# MTS: PROFITABILITY GROWTH ON IMPROVED CUSTOMER SENTIMENT AND MACRO ENVIRONMENT



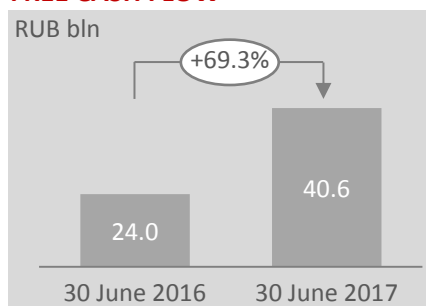
## SUBSCRIBER BASE\*\*



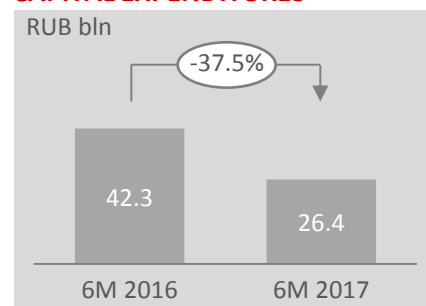
## REVENUE BREAKDOWN



## FREE CASH FLOW



## CAPITAL EXPENDITURES



RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	106.8	106.1	0.7%	211.5	211.9	(0.2%)
OIBDA	43.8	40.3	8.5%	85.3	80.7	5.8%
OIBDA margin	41.0%	38.0%	3.0 p.p.	40.3%	38.1%	2.2 p.p.
Profit*	7.4	4.8	52.2%	13.6	12.6	8.1%
Net debt	262.5	258.3	1.6%	262.5	258.3	1.6%
CAPEX	15.3	21.3	(28.2%)	26.4	42.3	(37.5%)

- > MTS's revenues grew YoY, driven by higher usage of voice and data products. Revenue from mobile business in Russia grew by 3.2% YoY.
- > MTS continues to stimulate use of data services by introducing attractively priced tariffs targeting mobile internet users. Smartphone penetration among MTS subscribers exceeded 60%, while 51% of subscribers are mobile internet users.
- > Robust OIBDA growth and the strengthening of OIBDA margin in 2Q 2017 were driven by revenue dynamics, improved efficiencies in the retail business and a positive year-on-year contribution from Ukraine.
- > The size of the retail network, following reduction in 1Q 2017, remained largely flat during 2Q 2017 at ≈5,700 stores at 30 June 2017.
- > Profit attributable to Sistema increased by 52.2% YoY to RUB 7.4 bln, driven primarily by OIBDA growth.
- > CAPEX declined year-on-year, mainly due to lower spending on network development.
- > In July, the Board of Directors of MTS recommended that shareholders approve an interim dividend of RUB 10.4 per share (RUB 20.8 per ADR) for the first half of 2017.
- > MTS has raised its OIBDA growth outlook to over 4% and reduced its CAPEX forecast to RUB 75 bln for 2017. The group revenue forecast remains unchanged at +/- 2%.

\*Here and thereafter profit is presented in Sistema's share

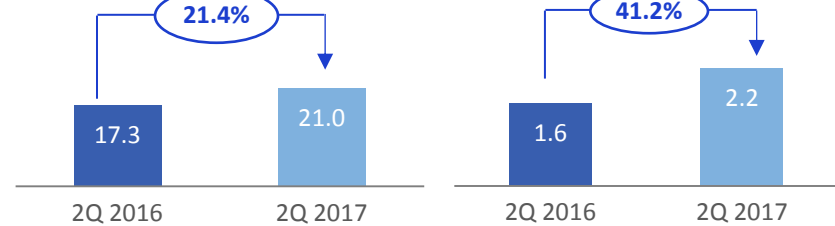
\*\*Including subscribers of a mobile operator in Belarus, which is not consolidated

# TOP RETAILER IN RUSSIA AND CIS: CONTINUED GROWTH ALONG WITH HIGH EFFICIENCY



## REVENUE

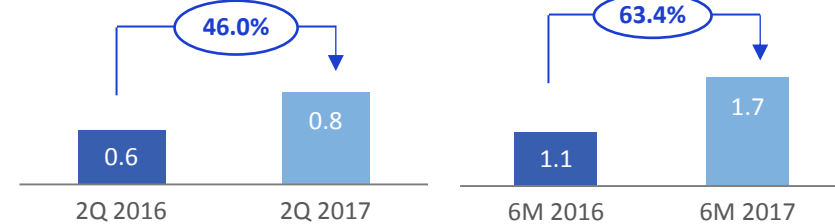
RUB bln



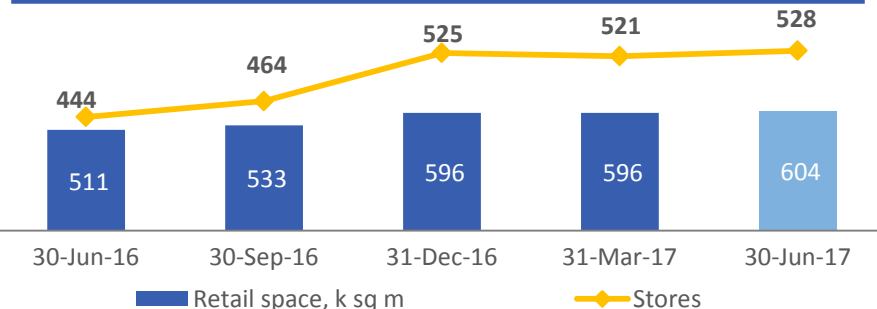
## ADJ. OIBDA

## E-COMMERCE SALES<sup>2</sup>

RUB bln



## SELLING SPACE (THSD M<sup>2</sup>) AND NUMBER OF STORES<sup>3</sup>



RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	21.0	17.3	21.4%	42.1	33.7	24.8%
Adj. OIBDA	2.2	1.6	41.2%	3.3	2.4	39.9%
Adj. OIBDA margin	10.5%	9.1%	1.4 p.p.	7.9%	7.1%	0.8 p.p.
Adj. profit	0.44	0.37	17.1%	0.52	0.45	14.3%
Net debt	15.1	13.0	16.6%	15.1	13.0	16.6%
SGA/revenue	24.3%	23.7%	0.6%	24.8%	26.0%	(1.2%)
Like-for-like growth <sup>1</sup>	4.8%	14.1%	(9.3 p.p.)	7.9%	13.8%	(5.9 p.p.)
Traffic growth	10.7%	10.2%	0.5 p.p.	12.0%	2.4%	9.6 p.p.
Average check dynamics	(5.4%)	3.5%	(8.9 p.p.)	(3.7%)	11.1%	(14.8 p.p.)
CAPEX	0.31	0.28	11.9%	0.6	0.6	0.0%

> Revenues rose YoY due to a 4.8% growth in like-for-like sales driven by higher number of checks. Increased traffic at previously opened stores also contributed to the revenue growth in 2Q 2017.

> An unseasonably cold April and May in Russia negatively affected sales of clothes, putting pressure on the average check and like-for-like sales growth.

> The e-commerce segment posted a 1.5 times increase in sales YoY in 2Q 2017 on the back of an improved conversion rate (the ratio of number of site visitors that made orders to total traffic).

> Adj. OIBDA and adj. OIBDA margin grew YoY in 2Q 2017 due to increase in recognition of large bonuses paid by suppliers to Detsky Mir as a result of stronger turnover in toys.

> SG&A/revenue ratio increased in 2Q 2017 mainly due to the impact of subnormal temperature in Russia on sales and revenues.

> In 6M 2017 Detsky Mir opened 12 new stores, incl. 4 in the Moscow region and 1 in Kazakhstan. As of 30 June 2017, Detsky Mir operated a network of 528 stores.

> Detsky Mir paid out dividends totalling RUB 2.6 bln in 3Q 2017.

<sup>1</sup> LfL growth in RUB terms. LfL growth includes only DM stores in Russia that have been in operations for at least 12 full calendar months.

<sup>2</sup> All online-orders on detmir.com, including orders with delivery and in-store pick-ups

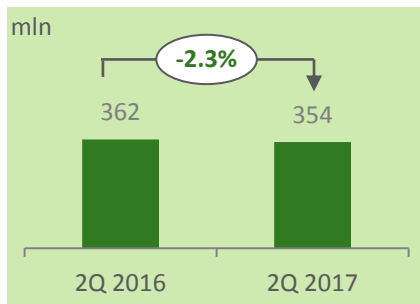
<sup>3</sup> In 1H 2017, Detsky Mir closed 4 stores to reallocate them.

# PAPER AND PACKAGING HOLDING SEGEZHA GROUP: CONTINUED GROWTH DESPITE EXTERNAL CHALLENGE

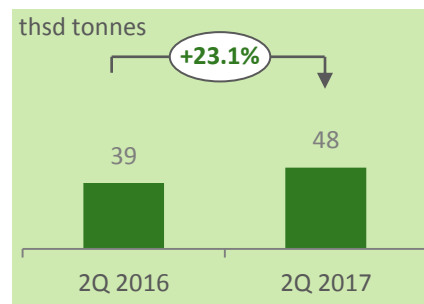


## Main operating performance: sales

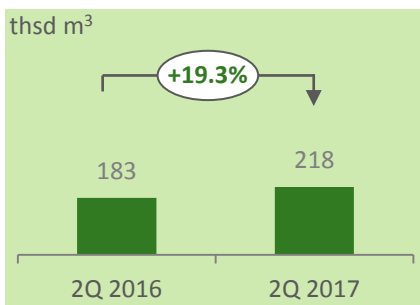
### PAPER SACKS



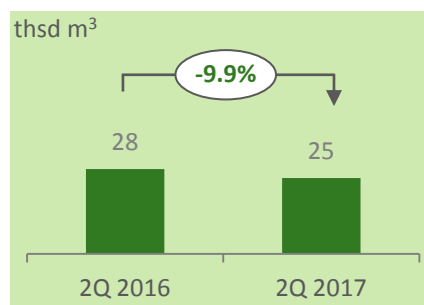
### SACK PAPER\*



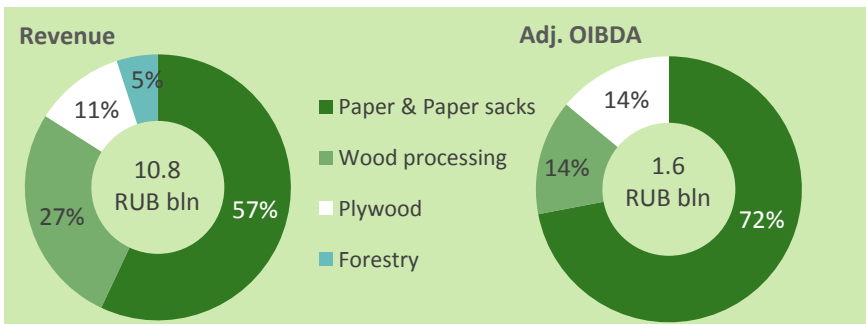
### SAWN TIMBER



### PLYWOOD



## REVENUE AND ADJUSTED OIBDA BY BUSINESS SEGMENTS IN 2Q 2017



\*Includes sales of paper and paper board

RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	10.8	10.0	7.6%	20.3	21.4	(5.2%)
Adj. OIBDA	1.6	2.3	(32.8%)	2.8	4.5	(36.7%)
Adj. OIBDA margin	14.4%	23.1%	(8.7 p.p.)	13.9%	20.9%	(7.0 p.p.)
Adj. (Loss)/Profit	(0.8)	0.5	n/a	(0.7)	1.5	n/a
Net debt	28.1	14.8	89.5%	28.1	14.8	89.5%
CAPEX	1.9	2.0	(5.6%)	4.0	4.4	(8.0%)
Share of FX-denominated revenues	67.0%	73.0%	(6.0 p.p.)	66.3%	71.0%	(4.7 p.p.)
Own forestry consumption	68.1%	56.0%	12.1 p.p.	63.1%	58.0%	5.1 p.p.
Total forestry, '000 m <sup>3</sup>	647.8	730.9	(11.4%)	1,992.8	1,801.1	10.6%

- > Revenues at Segezha Group grew in 2Q 2017 YoY mainly as a result of a 19.3% increase in sales of sawn timber and a 23.1% rise in sack paper sales as well as higher FX-denominated sales prices for sawn timber and paper.
- > RUB appreciation against EUR by 16% YoY put substantial pressure on revenue in 2Q 2017, given that more than 66% of Segezha's revenues are denominated in EUR. Revenues in EUR terms increased by 27.5% YoY.
- > Adj. OIBDA decreased YoY, primarily as a consequence of stronger RUB, combined with higher logistics and raw materials costs.
- > Segezha has been implementing a plan to reduce operational costs by capping prices for chemicals and other resources, as well as reducing shipment and administrative costs.
- > Adj. loss in 2Q 2017 was due primarily to non-cash losses from currency revaluations.
- > In line with its strategy to increase output of high-margin products, Segezha is continuing to invest in the installation of new paper-production equipment with capacity of 110,000 tonnes of sack paper per year at the Segezha Pulp & Paper Plant, and the construction of a plywood facility with capacity of 86,000 m<sup>3</sup> per year in Kirov. First production at both facilities is expected in 3Q 2017.



# AGROHOLDING STEPPE: STRONG RESULTS DESPITE SEASONALITY

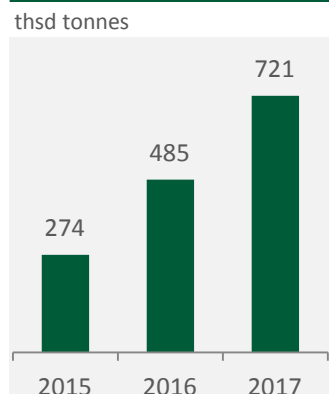
Land crops production	Apple orchards
<ul style="list-style-type: none"> <li>Land bank :                             <ul style="list-style-type: none"> <li>- Steppe: 264 thsd hectares</li> <li>- RZ Agro: 106 thsd hectares</li> </ul> </li> <li>Advanced technologies and high business standards</li> </ul>	<ul style="list-style-type: none"> <li>Land bank: 1,771 hectares</li> <li>Planted orchard land: 780 hectares</li> <li>Fruit storage of 21,000 tonnes</li> </ul>
Dairy farming	Vegetable farming
<ul style="list-style-type: none"> <li>4 dairy farms</li> <li>Livestock: ≈9 500 (incl. ≈4 000 dairy cows)</li> </ul>	<ul style="list-style-type: none"> <li>Greenhouses with total area of 144 ha</li> <li>Infrastructure:                             <ul style="list-style-type: none"> <li>- bio-laboratory</li> <li>- agro-chemical laboratory</li> <li>- boiler-house, etc.</li> </ul> </li> </ul>

## Agroholding Steppe

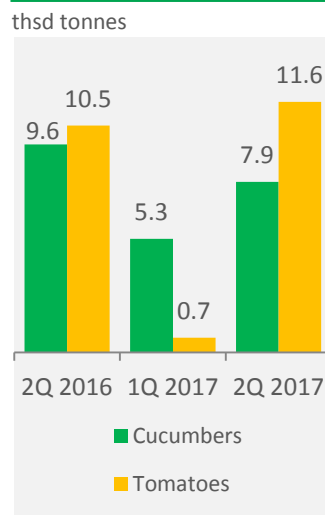
RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	2.0	1.8	10.1%	3.2	2.9	10.0%
Adj. OIBDA	2.1	0.5	3.9x	2.2	0.7	3.1x
Adj. OIBDA margin	105.4%	29.5%	75.9 p.p.	68.8%	24.5%	44.3 p.p.
Adj. Profit/(loss)	1.3	(0.1)	n/a	1.1	(0.3)	n/a
Net debt	11.8	1.1	10.3x	11.8	1.1	10.3x
CAPEX	0.7	0.3	125.6%	1.0	0.4	143.2%

- > Steppe's results 2Q 2017 reflect the seasonal nature of the agricultural business, with most revenue recognised in the second half of the year.
- > Revenue growth in 2Q 2017 was supported by increased sales of stockpiled crops and growth of revenue from milk sales.
- > Adj. OIBDA increased YoY driven by expansion of the area under cultivation and growth of revaluation of biological asset (grain crops, vegetables and fruit from the upcoming harvest, and livestock).
- > In the 2017 harvest season, the gross crop of wheat increased by 48.6% to 721,000 tonnes which will be reflected in revenues for 2H 2017.
- > The land bank increased by 20,000 ha 2Q 2017 with the acquisition of new assets in the Stavropol region. In 1H 2017 Steppe grew its land bank by a total of 55,000 ha, or 17%, to 370,000 ha.
- > The dairy division increased revenue by 32.2% YoY in 2Q 2017 due to growth of the herd to c. 4,000 dairy cows (up 10% YoY) and an increase in milk prices.
- > Steppe's main capex items included equipment purchases and upgrades due to increased area under cultivation, as well as construction of a new dairy farm for 1,800 cows.

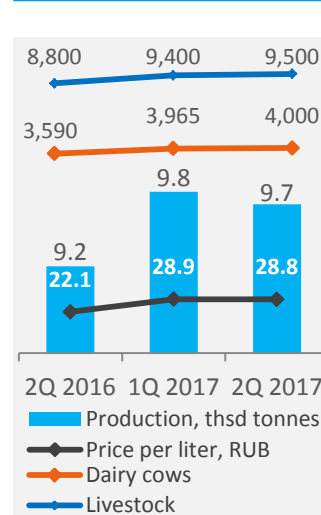
### Wheat production\*



### Vegetables production



### Milk production and price



\*Including Steppe and RZ Agro

\*\*Excluding the results of the RZ Agro joint venture, where Steppe owns 50%. RZ Agro's revenues, OIBDA loss and loss in 2Q 2017 were RUB 0.2 bln, RUB 0.06 bln and RUB 0.15 bln, respectively

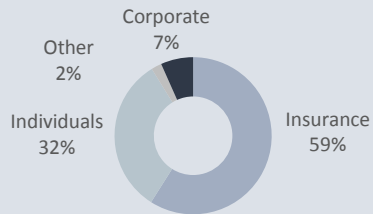


# HEALTHCARE (MEDSI) AND PHARMACEUTICALS (BINNOPHARM)

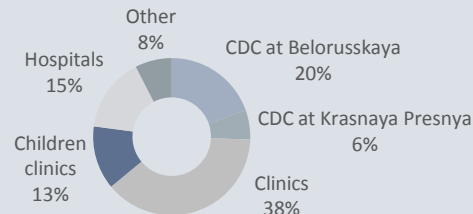
## MEDSI

RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	2.8	2.3	19.6%	5.3	4.6	16.1%
Adj. OIBDA	0.4	0.1	3.1x	1.1	0.2	6.6x
Adj. OIBDA margin	14.4%	5.6%	8.8 p.p.	21.2%	3.8%	17.5 p.p.
Adj. Profit/(Loss)	0.1	(0.2)	n/a	0.3	(0.5)	n/a
Net cash	1.0	0.6	58.1%	1.0	0.6	58.1%
Patient visits, '000	1,960	1,843	6.3%	3,813	3,609	5.6%
Services provided, '000	3,104	2,942	5.5%	6,030	5,741	5.0%

Revenue by clients in 2Q 2017



Revenue by assets in 2Q 2017

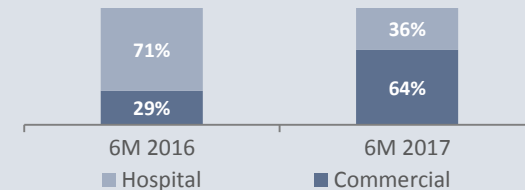


- > Medsi's revenue increased in 2Q 2017, driven by a 6.3% increase in the number of visits and a 12.4% increase in the average check.
- > Adj. OIBDA strong growth in 2Q 2017 due to improved OIBDA at the Clinical Diagnostic Centre (CDC) at Krasnaya Presnya, as well as control of direct costs (cost of sales up 6.1% YoY) and clinic rental and operational costs, and a reduction in spending on costs for commercial staff of 38.8% YoY. In 1H 2017, Medsi continued to optimise the number of managerial staff and its management incentive system.
- > Revenue from Medsi's key asset, the CDC at Belorusskaya, increased in 2Q 2017 by 5.6% YoY, with OIBDA margin of 43.1%. The CDC at Krasnaya Presnya, which opened at the end of 2015, grew revenue by more than 2.5 times, with OIBDA margin of 20.1%.
- > In 3Q 2017, Medsi acquired MEDEM, one of the largest medical centres in St. Petersburg, as part of the company's strategy to establish a presence in major Russian cities. St. Petersburg is Russia's second-biggest market for private medical care. The acquired clinic has more than 6,800 m<sup>2</sup> of space and will be Medsi's flagship asset in Russia's North-West region.

## Binnopharm

RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	0.6	0.5	22.6%	0.9	0.8	14.8%
OIBDA	0.15	0.08	81.6%	0.2	0.1	124.3%
OIBDA margin	23.4%	15.8%	7.6 p.p.	19.5%	10.0%	9.5 p.p.
Profit/(Loss)	0.02	(0.03)	n/a	(0.02)	(0.06)	n/a
Net debt	1.7	0.9	84.6%	1.7	0.9	84.6%

Growth of commercial segment in revenue



- > Revenues at Binnopharm increased in 2Q 2017 YoY thanks to expansion of the company's product portfolio, notably products acquired in late 2016 from Alpharm (Kipferon and Prostopin), as well as increased sales in the commercial distribution segment.
- > OIBDA increased significantly in 2Q 2017 on the back of higher revenues. OIBDA margin improved due to an increase in the share of high-margin sales of Binnopharm's own products, as well as a reduction in SG&A costs.
- > Binnopharm was profitable at the bottom-line level in 2Q 2017.
- > As part of its strategy to expand its own product line, Binnopharm this year plans to bring a number of new products to market. In 1H 2017 Binnopharm filed for registration of 3 new products, received market authorisation to sell Ringer's solution, and began laboratory work on 3 additional new products.

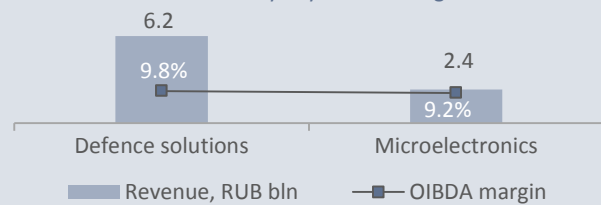


# HIGH-TECH (RTI) AND ELECTRIC POWER GRIDS (BPGC)

## RTI

RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	8.8	11.4	(22.7%)	16.9	20.1	(16.2%)
OIBDA	0.03	0.86	(96.8%)	0.2	1.7	(85.1%)
OIBDA margin	0.3%	7.5%	(7.2 p.p.)	1.5%	8.3%	(6.8 p.p.)
Loss	(1.6)	(0.6)	n/a	(3.0)	(1.1)	n/a
Net debt	30.2	29.3	3.0%	30.2	29.3	3.0%
Share of debt related to state defence contracts*	12.8%	31.8%	(19 p.p.)	-	-	-

Results by key business segments



> Revenue declined in 2Q 2017 due to greater seasonality in the Defence Solutions business unit (“DSBU”) and rescheduling of revenue recognition for a number of projects to the last quarter of 2017. Revenue for the Microelectronics (“MBU”) rose by 4% YoY as a result of increased government orders. Reduced OIBDA resulted from lower revenues at DSBU as well as a loss on impairments of inventory in MBU. Excluding this loss, OIBDA margin at MBU was 23.5% in 2Q 2017.

> The share of debt related to state defence contracts declined YoY due to the Defence Ministry’s gradual transition from credit financing for defence procurements. RTI also has on its accounts additional funds earmarked for state defence orders amounting to RUB 10.1 bln that are not included in the net debt calculation.

> In June 2017, Sistema and Ruselectronics (a division of state corporation Rostec) signed a memorandum of understanding to establish a joint venture (JV) in microelectronics. The parties will contribute assets that design, manufacture and certify electronic components to the JV. The transaction is expected to be completed by 1Q 2018.

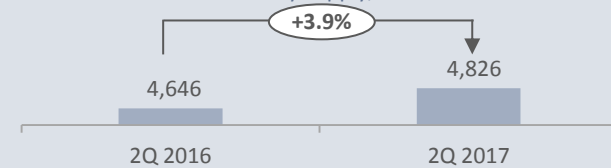
> In June, the Moscow Arbitration Court accepted a lawsuit by the Russian Ministry of Defence (“MoD” or “the Claimant”) seeking penalties in of RUB 4.97 billion from RTI JSC. A court hearing for the case has been set for 26 September. RTI JSC believes that there is no legal basis for satisfying the Claimant’s claims. RTI JSC continues to work with the MoD on a number of projects.

\*Share of debt related to state defence contracts (with effectively zero interest rate).

## BPGC

RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	3.9	3.5	13.5%	8.5	7.6	12.8%
OIBDA	1.2	1.1	12.3%	2.8	2.6	10.3%
OIBDA margin	31.6%	31.9%	(0.3 p.p.)	33.6%	34.6%	(1.1 p.p.)
Profit	0.6	0.5	16.9%	1.3	1.2	15.6%
CAPEX	0.6	1.4	(54.1%)	1.3	2.0	(38.0%)

Net electricity supply, mln kWh



> BPGC’s revenue rose in 2Q 2017, in particular on the back of a 4% increase in the productive supply of electricity.

> OIBDA margin remained at high level thanks to cost control and BPGC’s continued strategic focus on increasing operational efficiency.

> The majority of CAPEX in 2Q 2017 was connected to the construction of major Kustarevskaya, Spartak and Alekseevka substations in the Bashkortostan region.

> BPGC also continued work on the modernisation of Ufa’s electricity grid using Smart Grid technology, completing reconstruction of 37 transformer substations as well as installation of equipment and new meters in a number of districts of the city.

> In July, BPGC agreed to partner with Sistema high-technology subsidiary Kronstadt Group to create monitoring solutions for the electricity industry, including the use of drones.

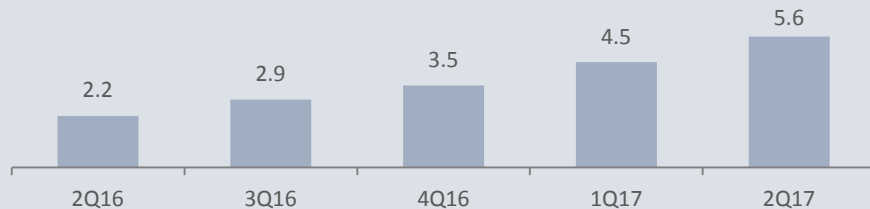


# FINANCIAL SERVICES (MTS BANK) AND HOSPITALITY ASSETS

## MTS Bank\* MTS Bank

RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	4.4	4.6	(5.0%)	8.7	9.4	(7.6%)
Profit/(Loss)	0.1	(1.0)	n/a	0.2	(1.2)	n/a
Interest income	3.4	3.5	(2.8%)	6.7	7.6	(10.8%)
Commission income	1.0	0.8	18.0%	1.9	1.5	22.0%
Net assets*	20.9	12.0	75.0%	20.9	12.0	75.0%
Active retail customers,	1260	900	18.7%	-	-	-

Sales of POS-loans in MTS store, RUB bln/quarter

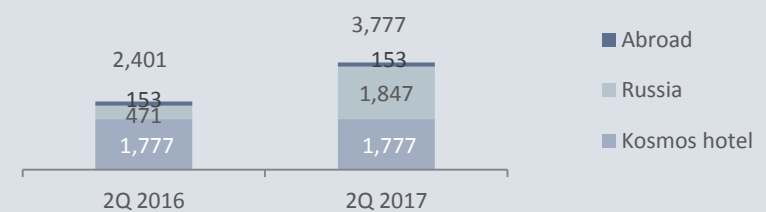


- > MTS Bank saw a minor YoY decline of revenue and interest income due to reduction in interest rates in the Russian economy. This was mitigated by successful development of MTS Bank's retail business and growth of the consumer credit portfolio.
- > Commission income grew in 2Q 2017, in line with the bank's strategy to increase the share of commission-based business in operating income.
- > In 2Q 2017, MTS Bank continued to develop its partnership with MTS, launching a number of card products as part of the My MTS and MTS E-Wallet apps (which have a total of more than 16 mln users). In July, MTS Bank also began lending through MTS's online store. The service allows customers to apply for a loan online and receive a response within minutes.
- > In May 2017, MTS Bank completed the sale of 47% stake in Luxembourg-based East-West United Bank (EWUB) to Sistema. Following the transaction, MTS Bank retains a 19% stake in EWUB.

## HOSPITALITY ASSETS

RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	1.1	0.6	73.4%	1.9	1.1	66.6%
OIBDA	0.3	0.1	3.9x	0.4	0.1	3.4x
OIBDA margin	29.7%	13.1%	16.6 p.p.	20.7%	10.2%	10.5 p.p.
Loss	(0.1)	(0.0)	n/a	(0.2)	(0.1)	n/a
Net debt	3.8	1.2	3.1x	3.8	1.2	3.1x
Room capacity	3,777	2,401	57.3%	-	-	-

Number of hotel rooms by regions of presence



- > Revenue from hospitality assets grew 2Q 2017 YoY largely due to an increase in the number of hotel rooms as a result of Sistema Hotel Management's acquisition of Regional Hotel Chain (RHC) in 4Q 2016 and the opening of the Emerald Forest eco-hotel in November 2016.
- > Growth in OIBDA and OIBDA margin was the result of the consolidation of RHC as well as improved occupancy rates and stronger operating results at the flagship Cosmos Hotel in Moscow.
- > In May 2017, Sistema restructured its hospitality assets, separating ownership from management functions. A management company, Cosmos Group, was established which offers a full suite of hospitality management services to external parties and now oversees Sistema's 16 hotel properties in 14 cities in Russia and abroad. In September 2017, the opening of one additional hotel owned by Sistema and managed by Cosmos Group is planned, a 243-room hotel Holiday Inn Express Moscow Paveletskaya.



# REAL ESTATE ASSETS AND INDIAN TELECOM OPERATOR

## «Leader Invest»



RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	0.7	2.0	(63.3%)	3.1	3.3	(5.5%)
OIBDA	0.1	0.7	(89.2%)	0.8	1.2	(30.3%)
OIBDA margin	10.7%	36.2%	(25.5 p.p.)	26.1%	35.5%	(9.4 p.p.)
(Loss)/Profit	(0.2)	0.5	n/a	0.3	1.0	(65.9%)
Net debt	0.9	0.3	179.1%	0.9	0.3	179.1%

## Rental assets (Business Nedvizhimost, Mosdachtrest)



RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	2.1	1.0	115.8%	2.8	1.7	65.5%
OIBDA	0.7	0.7	1.4%	0.8	0.7	1.7%
OIBDA margin	33.7%	71.6%	(37.9 p.p.)	27.4%	44.6%	(17.2 p.p.)
Profit	0.3	0.2	41.6%	0.1	0.0	1903.9%
Net cash	1.4	2.2	(36.8%)	1.4	2.2	(36.8%)

Lider Invest sales, sq m

Cash generation from Lider Invest real estate sale, RUB mln



- > In 2Q 2017 square meters sold grew by 89.0% YoY, driven by expansion of the offering in Moscow and growth of the number of apartments sold in infill construction projects (revenues related to a significant part of these sales will be recognised in subsequent quarters). Cash inflow from sales up 20.9% YoY as Comfort class projects accounted for a higher share of sales.
- > Planned revenue and OIBDA decline was due to by revenue recognition under IFRS being tied to the operational launch of projects (revenue in 2Q 2016 was driven by completion of two projects – Samarinskaya and Lyusinovsky).
- > In 2Q 2017, Leader Invest began construction of two Comfort class and one Business class projects, and also launched sales for one Comfort class building. As of 30 June 2017, total offering of Leader Invest was 103.3 thsd m2 real estate in Moscow.
- > Revenue and OIBDA growth of rental assets in 2Q 2017 YoY was primarily due to the sale of a building in Moscow by Business Nedvizhimost (BN). In 2Q 2017, as part of the integration of Sistema's real estate assets, BN completed the acquisition of 100% of Mosdachtrest, which manages a portfolio of country houses in the Serebryany Bor cottage district.

## SSTL MTS

RUB bln	2Q 2017	2Q 2016	YoY	6M 2017	6M 2016	YoY
Revenue	1.2	3.4	(65.8%)	2.7	7.4	(63.1%)
OIBDA	(1.4)	(0.4)	n/a	(2.6)	(0.4)	n/a
Loss	(1.7)	(1.5)	n/a	(2.9)	(2.6)	n/a
Net debt	2.4	13.2	(82.1%)	2.4	13.2	(82.1%)

- > SSTL's results in 2Q and 1H 2017 reflect the company's decision to freeze client acquisition and marketing campaigns, as Sistema and Reliance Communications Ltd ("RCom") continue to work towards the merger of SSTL's telecommunications business with RCom.
- > In June 2017, the Department of Telecommunication of India (DoT) has issued final closing conditions for the potential transaction. Sistema and SSTL believe that both RCom and SSTL have complied with the closing conditions. The completion of the transaction is expected in September-October 2017, subject to final approval by DoT.



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