



FOR IMMEDIATE RELEASE

## SISTEMA ANNOUNCES FINANCIAL RESULTS FOR THE SECOND QUARTER 2017

**Moscow, Russia** – 30 August 2017 – Sistema PJSC (“Sistema” or the “Company”, together with its subsidiaries, “the Group”) (LSE: SSA, MOEX: AFKS), a publicly-traded diversified holding company operating primarily in Russia and the CIS, today announces its unaudited consolidated financial results in accordance with International Financial Reporting Standards (IFRS) for the quarter ended 30 June 2017.

### COURT CASE

- RUB 106.6 billion claim against the Company and its subsidiary Sistema-Invest filed in the Republic of Bashkortostan Arbitration Court in May 2017 by Rosneft and Bashneft, and joined later by the Republic of Bashkortostan (together – “the Claimants”) to recover damages allegedly incurred by Bashneft during its reorganisation in 2013-2014. The size of the claim was subsequently increased to RUB 170.6 billion
- The Bashkortostan Arbitration Court partially satisfied the claim, determining the size of the damages allegedly incurred by Bashneft at RUB 136.3 billion
- Sistema believes the claim and the court’s decision to be entirely baseless and unlawful and intends to appeal
- Further information on the case and Sistema’s position is available on the Company’s website at <http://www.sistema.com/investoram-i-akcioneram/informacija-ob-iske-k-afk-sistema/>

### OPERATIONAL AND STRATEGIC PROGRESS

- Continued strong operating performance by portfolio companies
- Robust revenue and OIBDA growth at Detsky Mir, Medsi, pharmaceutical and hospitality assets
- Nearly all assets posted positive OIBDA in the reporting quarter, with particularly strong performance at public assets (MTS and Detsky Mir)
- Good cost control across the portfolio and at the Corporate Centre, with consolidated SG&A flat YoY
- Liabilities optimised and cash position strengthened by raising RUB 15 billion via a local bond issue in April and a total of RUB 25 billion from Russian state banks in April and June 2017
- RUB 7.8 billion paid out to shareholders in FY 2016 dividends

### SECOND QUARTER FINANCIAL RESULTS

- Group revenues amounted to RUB 167.4 billion. Russian assets increased their consolidated revenues by 1% YoY
- Adjusted OIBDA<sup>1</sup> up 8.1% YoY to RUB 48.6 billion with an adjusted OIBDA margin of 29.0%
- Adjusted loss attributable to Sistema of RUB 799 million, mainly reflecting non-cash foreign exchange losses
- Net debt<sup>2</sup> at the Corporate Centre level amounted to RUB 84.2 billion as of 30 June 2017
- Cash position<sup>3</sup> at the Corporate Centre level amounted to RUB 36.2 billion as of 30 June 2017

Mikhail Shamolin, President and Chief Executive Officer of Sistema, said:

*“On 23 August 2017, the Republic of Bashkortostan Arbitration Court ordered Sistema and its subsidiary Sistema-Invest to pay damages of RUB 136.3 billion allegedly incurred by Bashneft due its reorganisation.*

*“We consider both the claim and the court’s decision to be baseless and unlawful. We are confident in our position, which has been affirmed by leading experts and legal practitioners, and will continue to vigorously defend our interests through the courts, in particular by filing an appeal. We are also appealing against the unfounded arrest of Sistema and Sistema-Invest assets that was ordered by the court as part of the case.*

*“Sistema maintains full transparency around the case and will do everything in its power to contribute to a fair court decision and minimise any negative consequences of the claim for the Company and all its stakeholders.*

<sup>1</sup> See Attachment A for definitions and reconciliation of OIBDA to IFRS financial measures.

<sup>2</sup> Including highly liquid deposits and liquid financial investments, based on management accounts. See Attachment A for reconciliation to IFRS financial measures.

<sup>3</sup> Including highly liquid deposits and liquid financial investments, based on management accounts. See Attachment A for reconciliation to IFRS financial measures.

*“At the same time, we continue to execute on our strategy. The operating performance of our assets has not been affected and they remain completely focused on delivering on their respective strategies. This is confirmed by Sistema’s strong results for the second quarter.*

*“Consolidated revenue across our Russian assets increased by 1% year-on-year, while their adjusted OIBDA grew by 9% on the back of strong performance by our largest holding, MTS, as well as our non-telecommunications assets. Most of Sistema’s assets posted positive OIBDA for the quarter.*

*“MTS returned to top-line growth, and significantly improved OIBDA amid a more favourable market environment. Detsky Mir, now also a publicly traded company, continued to expand through consolidation of the market for children’s goods in Russia, while at the same time improving margins by focusing on operational efficiency. Pulp and paper holding Segezha Group’s results began to improve, despite exchange rate pressure still seen during the second quarter. Agroholding Steppe continues to expand its land bank, and its growing business is now making a notable contribution to the Group’s results.”*

Vsevolod Rozanov, Senior Vice President and Chief Financial Officer of Sistema, added:

*“In the third quarter of 2017, the arrest of Sistema and Sistema-Invest’s stakes in MTS, Medsi and BPGC as part of the Rosneft case triggered a technical default on some of Sistema’s debt obligations. As previously announced, the non-compliance with certain conditions of credit facilities, which led to the technical default, is purely formal in nature. Sistema is servicing its credit and financial obligations on time and in full, and plans to continue doing so in the future.*

*“We are continuing discussions with our lenders and have requested waivers in connection with the breach of the conditions due to the asset arrest. At this stage we have no reason to believe that any creditor will demand accelerated payments under Sistema’s credit agreements.*

*“I would like to stress that Sistema’s financial position remains solid. During the second quarter, we successfully optimised our liabilities and strengthened our cash position at the Corporate Centre, in large measure by borrowing a total of RUB 40 billion in the public market and from state banks, which underscores Sistema’s creditworthiness and the high level of trust that financial institutions have in the Company.*

*“In the third quarter, our liquidity remained strong, as we continued to receive dividends from portfolio companies and to monetise our investments.”*

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### **Conference call information**

Sistema’s management will host a conference call today at 10:00 am (New York time)/ 3:00 pm (London time) / 4:00 pm (CET)/ 5:00 pm (Moscow time) to present and discuss the second quarter 2017 results.

The dial-in numbers for the conference call are:

#### **Russia**

+7 495 213 1767  
8 800 500 9283 (toll free)

#### **United Kingdom**

+44 330 336 9105  
0800 358 6377 (toll free)

#### **United States**

+1 719-457-1036 (toll)  
+1 866 564 7439 (toll free)

#### **Conference ID: 4392010**

Alternatively, you can quote the conference call title: “Sistema Second Quarter 2017 Financial Results”.

A replay of the conference call will be available on Sistema’s website [www.sistema.com](http://www.sistema.com) for at least seven days after the event.

**For further information, please visit [www.sistema.com](http://www.sistema.com) or contact:**

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## FINANCIAL SUMMARY AND GROUP OPERATING REVIEW

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>167,442</b>	168,440	<i>(0.6%)</i>	330,792	332,705	<i>(0.6%)</i>
Adjusted OIBDA	<b>48,573</b>	44,913	<i>8.1%</i>	93,253	87,914	<i>6.0%</i>
Operating income	<b>23,452</b>	22,125	<i>6.0%</i>	43,721	41,841	<i>4.5%</i>
(Loss)/profit attributable to Sistema	<b>(1,321)</b>	1,072	-	258	3,066	<i>(91.6%)</i>
<i>Adjusted (loss)/profit attributable to Sistema</i>	<b>(799)</b>	<i>(103)</i>	-	922	2,132	<i>(56.7%)</i>

In the second quarter of 2017, Sistema's consolidated revenues decreased by 0.6% year-on-year. Robust revenue growth at Detsky Mir, as the company delivered on its strategy to consolidate the Russian children's goods market, was offset by lower revenues at RTI and the contraction of SSTL's business in line with the Group's plans.

Group selling, general and administrative expenses (SG&A) were essentially flat (-0.2%) year-on-year at RUB 38.0 billion, reflecting higher SG&A at Detsky Mir due to the company's expansion and lower SG&A at MTS, SSTL, Segezha Group and the Corporate Centre. SG&A at the Corporate Centre declined by 25.0% year-on-year in the second quarter to RUB 1.5 billion. Depreciation and amortisation expenses increased by 1.2% year-on-year to RUB 24.2 billion.

Group adjusted OIBDA increased by 8.1% year-on-year in the second quarter to RUB 48.6 billion. This was driven by strong OIBDA growth at MTS thanks to increased revenue and improved efficiency in the retail business; a revaluation of biological assets (grain crops, vegetables and fruit from the upcoming harvest, and livestock) at Agroholding Steppe; and lower provision charges at MTS Bank. The Group's adjusted OIBDA margin was 29.0%, compared to 26.7% a year earlier.

The adjusted loss attributable to Sistema was RUB 799 million in the reporting quarter, mainly reflecting non-cash foreign exchange losses at the Corporate Centre and Segezha Group, due to revaluation of liabilities denominated in foreign currencies. These losses were partially offset by the improvement of the bottom line at MTS and turnarounds at Medsi and MTS Bank.

## OPERATING REVIEW<sup>4</sup>

### MTS

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>106,837</b>	106,055	0.7%	211,521	211,919	(0.2%)
OIBDA <sup>5</sup>	<b>43,769</b>	40,345	8.5%	85,309	80,664	5.8%
Operating income	<b>23,654</b>	20,180	17.2%	45,063	41,011	9.9%
Profit attributable to Sistema	<b>7,369</b>	4,842	52.2%	13,614	12,598	8.1%

MTS's revenues grew by 0.7% year-on-year, driven by higher usage of voice and data services. Revenue from the mobile business in Russia grew by 3.2% year-on-year.

MTS continues to actively stimulate use of data services by introducing new attractively priced tariffs targeting mobile internet users. As a result, smartphone penetration among MTS subscribers exceeded 60% during the quarter, while 51% of subscribers are mobile internet users.

Robust OIBDA growth of 8.5% year-on-year and the strengthening of the OIBDA margin in the second quarter to 41.0% (versus 38.0% a year earlier) were driven by revenue dynamics, improved efficiency in the retail business and a positive year-on-year contribution from Ukraine.

Following its reduction in the first quarter of 2017, the size of the retail network was largely flat during the second quarter, with approximately 5,700 stores as of 30 June 2017.

Profit attributable to Sistema increased by 52.2% year-on-year to RUB 7.4 billion, driven primarily by OIBDA growth.

Capital expenditures declined by 28.1% year-on-year to RUB 15.3 billion in the second quarter, mainly due to lower spending on network development.

#### *Significant events after the end of the reporting period*

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.

In July, MTS became the first company in Russia to successfully test LAA/LBT technology, which will increase data speeds for users of 5G networks.

Due to improved sentiment and a stable macroeconomic environment, MTS has raised its OIBDA growth outlook to over 4% and reduced its CAPEX forecast to RUB 75 billion for 2017. The revenue forecast remains unchanged at +/- 2%.

### Detsky Mir<sup>6</sup>

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>21,034</b>	17,322	21.4%	42,096	33,736	24.8%
Adjusted OIBDA	<b>2,219</b>	1,572	41.2%	3,328	2,378	39.9%
Operating income	<b>1,713</b>	1,204	42.2%	2,113	1,640	28.9%
Adjusted profit attributable to Sistema	<b>438</b>	374	17.1%	515	451	14.3%

Detsky Mir continued to deliver on its strategy to consolidate the Russian children's goods market while leveraging its pricing power and market share to achieve superior operating efficiency.

Revenue rose by 21.4% year-on-year to RUB 21.0 billion mainly due to 4.8% growth in like-for-like sales driven by a higher number of checks. Increased traffic at previously opened stores also contributed to the revenue growth in the second quarter. 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.

Sales in the e-commerce increased 1.5 times year-on-year to RUB 0.8 billion on the back of an improved conversion rate.

Adjusted OIBDA grew by 41.2% year-on-year and the OIBDA margin ticked up by 1.2 percentage point to 10.3%. This was the

<sup>4</sup> Here and from hereon, revenues are presented on an aggregated basis, excluding revenues from intra-segment (between entities in the same segment) transactions, but before inter-segment (between entities in different segments) eliminations, unless accompanied by the word "consolidated". Amounts attributable to individual companies, where appropriate, are shown prior to both intra-segment and inter-segment eliminations and may differ from respective standalone results due to certain reclassifications and adjustments.

<sup>5</sup> Including share in results of MTS Bank

<sup>6</sup> Results have been adjusted for additional accruals under the LTI program (including related tax effects).

result of an increase in recognition of large bonuses paid by suppliers to Detsky Mir as a result of stronger turnover in toys.

In the first six months of 2017 Detsky Mir opened 12 new stores, including four in the Moscow region and one in Kazakhstan. As of 30 June 2017, Detsky Mir operated a network of 528 stores.

#### *Significant events after the end of the reporting period*

Detsky Mir paid out FY 2016 dividends totalling RUB 2.6 billion.

In August, Detsky Mir's Board of Directors approved a long-term incentive programme for more than 20 company executives covering a three-year period through February 2020. The programme consists of both stock and cash components.

### **Segezha Group**

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>10,795</b>	10,028	7.6%	20,282	21,405	(5.2%)
Adjusted OIBDA	<b>1,556</b>	2,317	(32.8%)	2,829	4,473	(36.7%)
Operating income	<b>705</b>	1,529	(53.9%)	1,092	2,932	(62.7%)
Adjusted (loss)/profit attributable to Sistema	<b>(790)</b>	451	-	(731)	1,493	-

Revenues at Segezha Group grew by 7.6% year-on-year 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.

The strengthening of the rouble against the euro put substantial pressure on revenue, given that more than two-thirds of Segezha's revenues are denominated in euros. Revenues in euro terms increased by 27.5% year-on-year.

Adjusted OIBDA decreased 32.8% year-on-year, primarily as a consequence of the strengthening of the rouble against the euro and the dollar, 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.

The adjusted loss 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 cubic metres per year in Kirov. First production at both facilities is expected in the third quarter of 2017.

#### *Significant events after the end of the reporting period*

In July, Segezha Group and Chinese engineering company CAMC signed a strategic cooperation agreement to implement joint projects in added-value wood conversion and to ramp up pulp and paper output in Russia.

### **Agroholding Steppe**

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>1,956</b>	1,776	10.1%	3,160	2,873	10.0%
Adjusted OIBDA	<b>2,061</b>	523	294.0%	2,173	703	209.0%
Operating income	<b>1,871</b>	1,408	32.9%	1,804	1,338	34.9%
Adjusted profit/(loss) attributable to Sistema	<b>1,331</b>	(122)	-	1,056	(330)	-

Agroholding Steppe's results in the second quarter of 2017 reflect the seasonal nature of the agricultural business, with most revenue recognised in the second half of the year. Revenue grew by 10.1% year-on-year in the second quarter, supported by increased sales of stockpiled crops and growth of revenue from milk sales.

Adjusted OIBDA increased four-fold year-on-year in the second quarter driven by expansion of the area under cultivation and revaluation of biological assets (grain crops, vegetables and fruit from the upcoming harvest, and livestock).

In the 2017 harvest season, the gross crop of wheat<sup>7</sup> increased by 48.6% to 721,000 tonnes which will be reflected in revenues for the second half of the year.

<sup>7</sup> Includes results of JV RZ Agro, in which Agroholding Steppe owns 50%

The land bank increased by 20,000 hectares in the reporting quarter with the acquisition of new assets in Stavropol region. During the first half of 2017 Steppe grew its land bank by a total of 55,000 hectares, or 17%, to approximately 370,000 hectares.

The dairy division increased revenue in the second quarter by 32.2% year-on-year driven by growth of the herd to approximately 4,000 dairy cows (an increase of 10% year-on-year), and also an increase in milk prices (Steppe's milk sale price increased by 30% year-on-year to RUB 28.8 per litre).

Steppe's main capex items included equipment purchases and upgrades due to the increased area under cultivation, as well as construction of a new dairy farm for 1,800 cows.

## RTI

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>8,828</b>	11,418	<i>(22.7%)</i>	16,872	20,140	<i>(16.2%)</i>
OIBDA	<b>27</b>	856	<i>(96.8%)</i>	248	1,663	<i>(85.1%)</i>
Operating (loss)/income	<b>(563)</b>	247	-	(985)	481	-
Loss attributable to Sistema	<b>(1,583)</b>	(590)	-	(3,015)	(1,115)	-

RTI's revenue declined due to greater seasonality in the Defence Solutions business unit and rescheduling of revenue recognition for a number of projects to the last quarter of 2017. Revenue for the Microelectronics business unit rose by 4% year-on-year in the second quarter, as a result of increased government orders.

Reduced OIBDA was a result of lower revenues at Defence Solutions, as well as a loss on impairments of inventory in the Microelectronics business unit. Excluding the impairment loss, the OIBDA margin at Microelectronics was 23.5%.

In June 2017, Sistema and Ruselectronics (a subsidiary 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 the end of the first quarter of 2018.

In June 2017, the Moscow Arbitration Court accepted a lawsuit by the Ministry of Defence ("MoD" or "the Claimant") seeking penalties of RUB 4.97 billion from RTI JSC. A court hearing for this case has been set for 26 September 2017. 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.

## Medsi

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>2,758</b>	2,307	<i>19.6%</i>	5,293	4,560	<i>16.1%</i>
Adjusted OIBDA	<b>398</b>	129	<i>209.1%</i>	1,124	171	<i>555.3%</i>
Operating income/(loss)	<b>875</b>	(177)	-	1,282	(440)	-
Adjusted profit/(loss) attributable to Sistema	<b>59</b>	(238)	-	347	(482)	-

Medsi's revenue increased by 19.6% year-on-year in the second quarter, driven by a 6.3% increase in the number of visits and a 12.4% increase in the average check.

Adjusted OIBDA grew three-fold due to improved OIBDA at the Clinical Diagnostic Centre (CDC) at Krasnaya Presnya as well as control of direct costs (cost of sales increased by 6.1% year-on-year) and clinic rental and operational costs, and a reduction in spending on costs for commercial staff of 38.8% year-on-year. In the first half of 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 by 5.6% year-on-year in the reporting quarter, with an 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 in the second quarter, with an OIBDA margin of 20.1%.

### *Significant events after the end of the reporting period*

In the third quarter, 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, trailing only Moscow. The acquired clinic has more than 6,800 square metres of space and will be Medsi's flagship asset in Russia's North-West region.

## Bashkirian Power Grid Company (BPGC)

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>3,927</b>	3,461	13.5%	8,513	7,550	12.8%
OIBDA	<b>1,240</b>	1,104	12.3%	2,845	2,580	10.3%
Operating income	<b>668</b>	560	19.3%	1,693	1,419	19.4%
Profit attributable to Sistema	<b>554</b>	474	16.9%	1,348	1,167	15.6%

BPGC's revenue grew by 13.5% in the second quarter, in particular on the back of a 4% increase in the productive supply of electricity. Profitability at the OIBDA level remained high thanks to cost control and BPGC's continued strategic focus on increasing operational efficiency. BPGC's profit attributable to Sistema increased by 16.9% year-on-year in the reported quarter.

The majority of capital expenditures were connected to the construction of the 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.

#### *Significant events after the end of the reporting period*

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

#### **Sistema Shyam TeleServices Ltd. (SSTL)**

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>1,176</b>	3,440	(65.8%)	2,731	7,404	(63.1%)
OIBDA	<b>(1,397)</b>	(444)	-	(2,592)	(396)	-
Operating loss	<b>(1,591)</b>	(662)	-	(2,982)	(858)	-
Loss attributable to Sistema	<b>(1,723)</b>	(1,468)	-	(2,942)	(2,645)	-

SSTL's results in the second quarter and first half of 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) issued final closing conditions for the potential transaction. Sistema and SSTL believe that both RCom and SSTL have complied with the closing conditions. Completion of the transaction is expected in September-October 2017, subject to final approval by the DoT.

#### **MTS Bank<sup>8</sup>**

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>4,362</b>	4,592	(5.0%)	8,681	9,397	(7.6%)
OIBDA	<b>314</b>	(866)	-	594	(862)	-
Operating income/(loss)	<b>195</b>	(1,056)	-	319	(1,243)	-
Profit/(loss) attributable to Sistema	<b>129</b>	(981)	-	195	(1,169)	-

MTS Bank's revenue declined by 5.0% year-on-year on the back of lower interest income due to a reduction in interest rates in the Russian economy. This was mitigated by the successful development of MTS Bank's retail business and growth of the consumer credit portfolio. Fee and commission income grew by 18.0% to RUB 1.0 billion, in line with the bank's strategy to increase the share of commission-based business in operating income.

The bank generated a profit of RUB 129 million, compared to a loss for the same period a year earlier.

During the second quarter, 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 million 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 a 47% stake in Luxembourg-based East-West United Bank (EWUB) to Sistema. Following the transaction, MTS Bank retains a 19% stake in EWUB.

#### **Real Estate (Leader Invest, Business-Nedvizhimost, Mosdachtrest)**

<sup>8</sup> Excluding results of East-West United Bank (EWUB) and the result of divestment of 47% in EWUB

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>2,816</b>	2,994	<i>(5.9%)</i>	5,900	4,991	<i>18.2%</i>
OIBDA	<b>777</b>	1,424	<i>(45.4%)</i>	1,578	1,923	<i>(17.9%)</i>
Operating income	<b>610</b>	1,292	<i>(52.8%)</i>	1,304	1,666	<i>(21.7%)</i>
Profit attributable to Sistema	<b>141</b>	711	<i>(80.2%)</i>	475	980	<i>(51.5%)</i>

In line with expectations, revenue and OIBDA at Leader Invest for the second quarter declined by 63.3% and 89.2% year-on-year, respectively, due to revenue recognition under IFRS being tied to the operational launch of projects (revenue in the second quarter of 2016 was driven by completion of the Samarinskaya and Lyusinovsky projects).

In the second quarter of 2017, square metres sold grew by 89.0% year-on-year to 7,800 square metres, driven by expansion of the offering in Moscow and an increased in 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 was up 20.9% year-on-year to RUB 2.0 billion as Comfort class projects accounted for a higher share of sales.

In the reporting quarter, Leader Invest began construction of two Comfort class and one Business class projects, and also launched sales for one Comfort class building. As of the end of the reporting period, Leader Invest's total offering amounted to 103,300 square metres of real estate in Moscow.

The combined revenue of Sistema's rental assets (which include Business Nedvizhimost and its subsidiary Mosdachrest) grew by 115.8% year-on-year to RUB 2.1 billion, primarily due to the sale of a building in Moscow by Business Nedvizhimost. OIBDA of rental assets grew by 1.4% year-on-year to RUB 0.7 billion for the same reason. The rental assets posted a net profit of RUB 0.3 billion.

In the second quarter of 2017, as part of the integration of Sistema's real estate assets, Business Nedvizhimost completed the acquisition of 100% of Mosdachrest, which manages a portfolio of country houses in the Serebryany Bor cottage district.

### **Binnopharm**

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>620</b>	506	<i>22.6%</i>	938	817	<i>14.8%</i>
OIBDA	<b>145</b>	80	<i>81.6%</i>	183	81	<i>124.3%</i>
Operating income/(loss)	<b>101</b>	6	<i>1,476.9%</i>	103	(23)	-
Profit/(loss) attributable to Sistema	<b>17</b>	(31)	-	(17)	(60)	-

Revenues at Binnopharm increased by 22.6% year-on-year due to the 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 by 81.6% on the back of higher revenues. The OIBDA margin improved by 7.6 percentage point year-on-year due to an increase in the share of high-margin sales of Binnopharm's own products, as well as a reduction in SG&A.

Binnopharm was profitable at the bottom line in the reporting quarter.

As part of its strategy to expand its own product line, Binnopharm plans to bring a number of new products to market this year. In the first half of 2017 the company filed for registration of three new products, received a licence to sell Ringer's solution, and began laboratory work on three additional new products.

### **Hospitality assets**

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
Revenues	<b>1,072</b>	618	<i>73.4%</i>	1,895	1,137	<i>66.6%</i>
OIBDA	<b>318</b>	81	<i>292.7%</i>	388	116	<i>235.2%</i>
Operating income/(loss)	<b>163</b>	21	<i>678.0%</i>	82	(9)	-
Loss attributable to Sistema	<b>(68)</b>	(31)	-	(234)	(106)	-

Revenue from hospitality assets grew by 73.4% year-on-year in the second quarter 2017. This was in large part 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 the fourth quarter of 2016 and the opening of the Emerald Forest eco-hotel in November 2016.

The nearly four-fold growth of OIBDA and a 16.6 percentage point increase in the OIBDA margin were 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 to separate ownership from management functions. A management company, Cosmos Group, was established to oversee Sistema's 16 hotel properties and offer a full suite of hospitality management services to external parties.

In September 2017, the opening of one additional hotel owned by Sistema and managed by Cosmos Group, the 243-room Holiday Inn Express Moscow Paveletskaya, is planned.

## Corporate

<i>(RUB millions)</i>	<b>2Q 2017</b>	<b>2Q 2016</b>	<b>Change</b>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Change</b>
OIBDA	<b>(1,412)</b>	(1,807)	-	(3,098)	(4,491)	-
Loss	<b>(5,432)</b>	(2,493)	-	(8,185)	(6,974)	-
Indebtedness	<b>120,376</b>	106,477	<i>13.1%</i>	120,376	106,477	<i>13.1%</i>

The Corporate segment comprises companies that control and manage Sistema's interests in its subsidiaries.

In the second quarter, the Corporate Centre's SG&A decreased by 25.0% year-on-year to RUB 1.5 billion.

Cash position at the Corporate Centre amounted to RUB 36.2 billion as at 30 June 2017 versus RUB 20.5 billion as at 31 March 2017 and RUB 13.5 billion as at 31 December 2016.

## **KEY GROUP HIGHLIGHTS IN 2Q 2017 AND AFTER THE REPORTING PERIOD**

On 23 August 2017, the Republic of Bashkortostan Arbitration Court partially satisfied claims brought by Rosneft, PJSOC Bashneft and the Republic of Bashkortostan and has ordered Sistema and Sistema-Invest to pay damages of RUB 136,273,554,065. Sistema disagrees with the court decision, which it considers to be unlawful and unfounded, and will file an appeal with the Eighteenth Arbitration Court of Appeal in Chelyabinsk within the time limit prescribed by the law. The decision of the Republic of Bashkortostan Arbitration Court will not come into effect until such time as the appeal court makes its decision.

In July and August 2017 a technical default occurred on certain Sistema credit and off-balance sheet obligations with a total amount equivalent to RUB 12.8 billion. The technical default took place due to the ongoing arrest of shares of MTS, Medsi and Bashkirian Power Grid Company owned by Sistema and Sistema-Invest.

In July 2017, Sistema paid out RUB 7.8 billion in dividends for FY 2016, which represents RUB 0.81 per ordinary share (RUB 16.2 per GDR).

On 26 June 2017, the Moscow Directorate of the Federal Bailiffs Service, in accordance with a court order from the Republic of Bashkortostan Arbitration Court, imposed an arrest on the following shares owned by Sistema and Sistema-Invest: 31.76% in the share capital of MTS, 100% in the share capital of Medsi and 90.47% in the share capital of BPGC. Contrary to the court order, the bailiffs imposed extra restrictive measures which, in addition to the arrest of shares, limit the rights of Sistema and Sistema-Invest to receive any income on the arrested shares.

In June 2017, Sistema's annual general meeting of shareholders (AGM) passed a resolution to distribute RUB 7.8 billion in dividends for FY 2016 and set the record date as 13 July 2017. The AGM also elected an 11-member Board of Directors.

In June 2017, Sistema and JSC Ruselectronics, a subsidiary of the state corporation Rostec, signed a memorandum of understanding on establishing a microelectronics joint venture to which both parties will contribute assets that design, manufacture and certify electronic components. It is planned that Sistema will receive a controlling stake in the JV, which is expected to close before the end of the first quarter of 2018.

In May 2017, Sistema subsidiary Sistema Finance JSC acquired from a non-affiliated seller 71,433,524 of Sistema ordinary shares, representing 0.74% of Sistema's share capital, for a total consideration of approximately USD 27.86 million. The shares were purchased for general corporate purposes, including incentive programmes for employees and senior management. As a result of this transaction, Sistema Group owns 2.3% of the Company's total share capital.

In May 2017, Sistema received a legal claim filed by Rosneft and PJSOC Bashneft against the Company and its subsidiary Sistema-Invest JSC for the recovery of damages in the amount of RUB 106,629,934,819 allegedly incurred by PJSOC Bashneft due to the its reorganisation. Later in May 2017, the Claimants increased the amount of alleged damages under their claim to RUB 170,619,477,257.91.

In April 2017, Sistema's Board of Directors approved amendments to the Company's dividend policy. In line with the updated dividend policy, total dividends recommended for each reporting year will be, at a minimum, the higher of either an amount equivalent to a dividend yield of 6% per Sistema ordinary share or RUB 1.19 per Sistema ordinary share.

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**For further information, please visit [www.sistema.com](http://www.sistema.com) or contact:**

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**Sistema PJSC is a publicly-traded diversified Russian holding company serving over 150 million customers in the sectors of telecommunications, high technology, banking, retail, timber processing, agriculture, real estate, pharmaceuticals, tourism and healthcare services. The company was founded in 1993. Its revenue in 2016 reached RUB 697.7 bln; its total assets equaled RUB 1.1 trln as of 31 December 2016. Sistema's global depositary receipts are listed under the "SSA" ticker on the London Stock Exchange. Sistema's ordinary shares are listed under the "AFKS" ticker on Moscow Exchange. Website: [www.sistema.com](http://www.sistema.com).**

*The Company is not an investment company, and is not and will not be registered as such, under the U.S. Investment Company Act of 1940.*

*Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Sistema. You can identify forward looking statements by terms such as "expect," "believe," "anticipate," "estimate," "intend," "will," "could," "may" or "might" the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. In addition, there is no assurance that the new contracts entered into by our subsidiaries referenced above will be completed on the terms contained therein or at all. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic 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.*

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2017 AND 2016**  
*(Amounts in millions of Russian roubles, except for per share amounts)*

	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Revenue	330,792	332,705	167,442	168,440
Cost of sales	(157,960)	(165,867)	(78,572)	(84,602)
Selling, general and administrative expenses	(75,277)	(75,034)	(37,976)	(38,041)
Depreciation and amortisation	(48,372)	(47,007)	(24,243)	(23,963)
Impairment of long-lived assets	(312)	(163)	(155)	20
Impairment of financial assets	(2,242)	(1,844)	(1,261)	(986)
Taxes other than income tax	(3,172)	(2,699)	(1,691)	(733)
Share of the profit or loss of associates and joint ventures	1,142	2,258	416	1,396
Gain on acquisition	-	1,175	-	1,175
Other income	3,234	890	2,795	593
Other expenses	(4,112)	(2,573)	(3,303)	(1,174)
<b>OPERATING INCOME</b>	<b>43,721</b>	<b>41,841</b>	<b>23,452</b>	<b>22,125</b>
Finance income	3,790	5,790	2,230	2,445
Finance costs	(26,128)	(31,638)	(11,777)	(16,680)
Currency exchange gain/(loss)	735	6,512	(3,768)	1,167
<b>PROFIT BEFORE TAX</b>	<b>22,118</b>	<b>22,505</b>	<b>10,137</b>	<b>9,057</b>
Income tax expense	(8,922)	(8,977)	(4,238)	(4,146)
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>13,196</b>	<b>13,528</b>	<b>5,899</b>	<b>4,911</b>
Loss from discontinued operations	(125)	(1,031)	-	(491)
<b>PROFIT FOR THE PERIOD</b>	<b>13,071</b>	<b>12,497</b>	<b>5,899</b>	<b>4,420</b>
<b>Profit/(loss) attributable to:</b>				
Shareholders of Sistema PJSFC	258	3,066	(1,321)	1,072
Non-controlling interests	12,813	9,431	7,220	3,348
	<b>13,071</b>	<b>12,497</b>	<b>5,899</b>	<b>4,420</b>
<b>Earnings per share (basic and diluted), Russian Rubles:</b>				
From continuing operations	0.04	0.34	(0.14)	0.13
From continuing and discontinued operations	0.03	0.32	(0.14)	0.11

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2017 AND DECEMBER 31, 2016**  
*(Amounts in millions of Russian roubles)*

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
NON-CURRENT ASSETS:		
Property, plant and equipment	399,592	408,131
Investment property	23,590	22,647
Goodwill	52,119	52,224
Other intangible assets	105,570	107,716
Investments in associates and joint ventures	20,134	19,537
Deferred tax assets	24,120	24,185
Loans receivable and other financial assets	94,533	100,023
Deposits in banks	81	27,274
Other assets	16,641	14,387
Total non-current assets	736,380	776,124
CURRENT ASSETS:		
Inventories	90,755	82,690
Accounts receivable	55,992	60,888
Advances paid and prepaid expenses	20,109	19,389
Current income tax assets	3,127	2,580
Other taxes receivable	18,232	18,176
Loans receivable and other financial assets	86,952	62,588
Deposits in banks	48,220	9,173
Restricted cash	10,052	10,098
Cash and cash equivalents	97,943	60,190
Other assets	2,588	2,195
Total current assets	433,970	327,967
<b>TOTAL ASSETS</b>	<b>1,170,350</b>	<b>1,104,091</b>

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2017 AND DECEMBER 31, 2016 (CONTINUED)**  
*(Amounts in millions of Russian roubles)*

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
<b>LIABILITIES AND EQUITY</b>		
SHAREHOLDERS' EQUITY:		
Share capital	869	869
Treasury shares	(6,032)	(6,575)
Additional paid-in capital	97,213	87,369
Retained earnings	83,914	91,290
Accumulated other comprehensive loss	(11,611)	(13,752)
Equity attributable to shareholders of Sistema	164,353	159,201
Non-controlling interests	47,676	57,770
<b>TOTAL EQUITY</b>	<b>212,029</b>	<b>216,971</b>
NON-CURRENT LIABILITIES:		
Borrowings	441,361	395,017
Liabilities under put option agreements	2,474	2,243
Bank deposits and liabilities	8,124	6,432
Deferred tax liabilities	41,566	40,753
Provisions	3,523	3,411
Liability to Rosimushchestvo	20,659	21,282
Other financial liabilities	20,508	23,337
Other liabilities	10,477	8,742
Total non-current liabilities	548,692	501,217
CURRENT LIABILITIES:		
Borrowings	88,017	83,109
Accounts payable	105,251	110,879
Bank deposits and liabilities	97,990	99,888
Advances received	31,091	26,069
Subscriber prepayments	16,190	17,900
Income tax payable	688	962
Other taxes payable	14,279	16,391
Dividends payable	25,715	249
Provisions	9,884	10,752
Liability to Rosimushchestvo	12,125	11,783
Other financial liabilities	8,399	7,921
Total current liabilities	409,629	385,903
<b>TOTAL LIABILITIES</b>	<b>958,319</b>	<b>887,120</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,170,350</b>	<b>1,104,091</b>

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016**  
*(Amounts in millions of Russian roubles)*

	Six months ended June 30,	
	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit for the period	13,071	12,497
Adjustments to reconcile net income to net cash provided by operations (including discontinued operations):		
Depreciation and amortization	48,372	49,573
Share of the profit or loss of associates and joint ventures	(1,142)	(2,258)
Finance income	(3,790)	(5,836)
Finance costs	26,128	32,257
Income tax expense	8,922	8,879
Currency transaction gain	(735)	(6,504)
Loss from discontinued operations	125	-
Loss from fair value adjustment of financial instruments through profit or loss	275	425
(Profit)/loss on disposal of property, plant and equipment	(283)	55
Amortization of connection fees	(446)	(491)
Impairment loss on loans receivable	98	3,207
Dividends received from associates and joint ventures	1,486	1,181
Non-cash compensation to employees	502	1,105
Impairment of long-lived assets	312	295
Impairment of financial assets	2,242	1,844
Other non-cash items	1,416	2,428
	<u>96,553</u>	<u>98,657</u>
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	930	7,387
Bank deposits and liabilities	(207)	(7,081)
Restricted cash	46	(9,009)
Financial assets at fair value through profit or loss	(775)	(836)
Accounts receivable	3,043	(3,070)
Advances paid and prepaid expenses	(720)	(1,289)
Other taxes receivable	(911)	3,190
Inventories	(6,480)	(4,727)
Accounts payable	(9,517)	(4,285)
Subscriber prepayments	(1,264)	(3,763)
Other taxes payable	(2,184)	1,485
Advances received and other liabilities	4,281	988
Interest paid	(25,147)	(31,804)
Income tax paid	(12,052)	(6,383)
	<u>45,596</u>	<u>39,460</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>45,596</u>	<u>39,460</u>

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016 (CONTINUED)**  
*(Amounts in millions of Russian roubles)*

	<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for purchases of property, plant and equipment	(29,418)	(37,414)
Proceeds from sale of property, plant and equipment	2,854	1,365
Payments for purchases of intangible assets	(7,542)	(17,278)
Payments for businesses, net of cash acquired	(2,391)	(5,432)
Payments for investments in associates and joint ventures	(3,167)	(1,980)
Proceeds from sale of investments in affiliated companies	3,846	-
Payments for purchases of financial assets, long-term	(14,578)	(11,763)
Proceeds from sale of financial assets, long-term	6,295	3,971
Payments for financial assets, short-term	(34,007)	(11,681)
Proceeds from sale of financial assets, short-term	9,796	53,588
Interest received	3,801	5,808
Other	-	1,504
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(64,511)</b>	<b>(19,312)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	140,499	31,857
Principal payments on borrowings	(88,402)	(80,220)
Debt issuance costs	(29)	-
Acquisition of non-controlling interests in existing subsidiaries	(4,819)	(2,078)
Payments to purchase treasury stock	(1,601)	(2,082)
Proceeds from capital transactions with non-controlling interests	13,544	8,789
Cash outflow under credit guarantee agreement related to foreign-currency hedge	(901)	(1,034)
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>58,291</b>	<b>(44,768)</b>
Effect of foreign currency translation on cash and cash equivalents	(1,623)	(8,695)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>37,753</b>	<b>(33,315)</b>
Cash and cash equivalents at the beginning of the period	60,190	122,775
Cash and cash equivalents at the end of the period	97,943	89,460

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED SEGMENTAL BREAKDOWN FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016**  
*(Amounts in millions of Russian roubles)*

	<b>External revenues</b>		<b>Inter-segment revenue</b>		<b>Segment operating income</b>	
	<b>6m2017</b>	<b>6m2016</b>	<b>6m2017</b>	<b>6m2016</b>	<b>6m2017</b>	<b>6m2016</b>
MTS	210,543	211,552	978	367	44,887	41,314
Detsky mir	42,096	33,735	-	-	2,113	1,640
RTI	16,855	20,117	17	22	(985)	481
MTS Bank	7,953	9,262	728	135	319	(1,243)
Corporate	840	920	446	511	(3,401)	(4,773)
Total reportable segments	<b>278,287</b>	<b>275,586</b>	<b>2,169</b>	<b>1,035</b>	<b>42,933</b>	<b>37,419</b>
Other	52,505	57,119	745	679	784	4,325
	<b>330,792</b>	<b>332,705</b>	<b>2,914</b>	<b>1,714</b>	<b>43,717</b>	<b>41,744</b>
Inter-segment eliminations					4	97
<b>Operating income</b>					<b>43,721</b>	<b>41,841</b>
Finance income					3,790	5,790
Finance costs					(26,128)	(31,638)
Foreign currency exchange gain					735	6,512
<b>Profit before tax</b>					<b>22,118</b>	<b>22,505</b>

	<b>Capital expenditures</b>		<b>Depreciation and amortisation</b>	
	<b>6m2017</b>	<b>6m2016</b>	<b>6m2017</b>	<b>6m2016</b>
MTS	26,428	42,270	40,245	39,653
Detsky mir	563	577	874	771
RTI	946	1,506	1,233	1,183
MTS Bank	183	73	275	380
Corporate	397	-	303	282
Other	8,443	10,266	5,442	4,738
	<b>36,960</b>	<b>54,692</b>	<b>48,372</b>	<b>47,007</b>



## Attachment A

*Operating Income Before Depreciation and Amortisation (OIBDA) and OIBDA margin.* OIBDA represents operating income before depreciation and amortisation. OIBDA margin is defined as OIBDA as a percentage of our net revenues. Our OIBDA may not be similar to OIBDA measures of other companies; is not a measurement under accounting principles generally accepted under IFRS and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of profit and loss. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of businesses and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. OIBDA is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies.

*Adjusted OIBDA, operating income and profit/(loss) attributable to Sistema shareholders.* The Company uses adjusted OIBDA, adjusted operating income and adjusted profit/(loss) attributable to Sistema shareholders to evaluate financial performance of the Group. These represent underlying financial measures adjusted for a number of one-off gains and losses. We believe that adjusted measures provide investors with additional useful information to measure our underlying financial performance, particularly from period to period, because these measures are exclusive of certain one-off gains and losses.

Adjusted operating income and adjusted OIBDA can be reconciled to our consolidated statements of profit and loss as follows:

<i>RUB millions</i>	<i>2Q 2017</i>	<i>2Q 2016</i>	<i>6M 2017</i>	<i>6M 2016</i>
<b>Operating income</b>	<b>23,452</b>	<b>22,125</b>	<b>43,721</b>	<b>41,841</b>
Impairment of inventory	1,601	-	1,601	-
Gain on acquisitions at Agroholding Steppe	-	-1,175	-	-1,175
Gain on investments at Medsi	-785	-	-785	-
Impairment of goodwill (subsidiary of Segezha Group)	-	-	-	241
Accruals related to LTI program at Detsky Mir	59	-	341	-
<b>Adjusted operating income</b>	<b>24,330</b>	<b>20,950</b>	<b>44,881</b>	<b>40,907</b>
Depreciation and amortisation	24,243	23,963	48,372	47,007
<b>Adjusted OIBDA</b>	<b>48,573</b>	<b>44,913</b>	<b>93,253</b>	<b>87,914</b>

Adjusted profit / (loss) attributable to Sistema shareholders can be reconciled to our consolidated statements of profit and loss as follows:

<i>RUB millions</i>	<i>2Q 2017</i>	<i>2Q 2016</i>	<i>6M 2017</i>	<i>6M 2016</i>
<b>(Loss)/profit attributable to Sistema</b>	<b>-1,321</b>	<b>1,072</b>	<b>258</b>	<b>3,066</b>
Impairment of inventory	1,283	-	1,283	-
Gain on acquisitions at Agroholding Steppe	-	-1,175	-	-1,175
Gain on investments at Medsi	-785	-	-785	-
Impairment of goodwill (subsidiary of Segezha Group)	-	-	-	241
Accruals related to LTI program at Detsky Mir	24	-	166	-
<b>Adjusted (loss)/profit attributable to Sistema</b>	<b>-799</b>	<b>-103</b>	<b>922</b>	<b>2,132</b>

*Net debt at the Corporate Centre level.* We define net debt as indebtedness less cash, cash equivalents and other liquid deposits and financial instruments. The indebtedness is defined as long-term debt, including its current portion, and short-term debt. We believe that the presentation of net debt at the Corporate Centre level provides useful information to investors because we use this measure in our management of the Corporate Centre's liquidity, financial flexibility, capital structure and leverage. The IFRS financial measure most directly comparable to net debt at the Corporate Centre level is the indebtedness of our Corporate segment as reported in our segment disclosures. Net debt at the Corporate Centre level can be reconciled to the indebtedness of our Corporate segment as follows:

<i>RUB millions</i>	<i>2Q 2017</i>	<i>2Q 2016</i>
<b>Indebtedness of the Corporate segment</b>	<b>120,376</b>	<b>106,477</b>
Cash and cash equivalents	(30,098)	(17,874)
Liquid deposits and financial instruments	(6,094)	(20,905)
<b>Net debt at the Corporate Centre level</b>	<b>84,184</b>	<b>67,697</b>