



## SISTEMA ANNOUNCES FINANCIAL RESULTS FOR THE THIRD QUARTER 2018

**Moscow, Russia** – 27 November 2018 – Sistema PJSFC (“Sistema” or the “Company”, together with its subsidiaries, “the Group”) (LSE: SSA, MOEX: AFKS), a publicly-traded diversified Russian holding company, today announces its unaudited consolidated financial results in accordance with International Financial Reporting Standards (IFRS) for the third quarter ended 30 September 2018.

### SUCCESSFUL DELIVERY ON STRATEGIC AND OPERATIONAL GOALS

- Continued robust revenue growth due to strong results from the majority of portfolio companies
- MTS, Detsky Mir, Segezha Group, Medsi, Agroholding Steppe, the hospitality and real estate assets delivered double-digit increases in OIBDA due to strong revenue growth, cost discipline. The introduction of IFRS 15 and 16 also had a positive impact on OIBDA
- SG&A/revenue ratio down from 20.6% to 16.5%. Excluding the impact of the new IFRS standards, successful cost control initiatives at portfolio companies and the Corporate Centre drove SG&A/revenue ratio down to 19.4%

### THIRD QUARTER 2018 FINANCIAL RESULTS

- Group revenue<sup>1</sup> up 13.9% year-on-year to RUB 204.6 billion
- Excluding the effect of the new IFRS standards<sup>2</sup>, Group revenue up 13.6% year-on-year to RUB 204.1 billion
- Adjusted OIBDA<sup>3</sup> up 29.7% year-on-year to RUB 73.6 billion, with an adjusted OIBDA margin of 36.0%
- Excluding the effect of the new IFRS standards, adjusted OIBDA up 10.9% year-on-year to RUB 62.9 billion, with an adjusted OIBDA margin of 30.8%
- Adjusted net profit attributable to Sistema<sup>3</sup> down 69.4% to RUB 1.6 billion
- Excluding the effect of the new IFRS standards, adjusted net profit attributable to Sistema<sup>3</sup> down 72.7% to RUB 1.4 billion

### CASH POSITION AND FUNDING

- In July 2018, Sistema refinanced three loans from Sberbank maturing in 2019-2020 and totalling RUB 24 billion with a new three-year unsecured line of credit from Sberbank
- In July 2018, Sistema completed repayment of the RUB 40 billion loan arranged by the Russian Direct Investment Fund (RDIF) and financed by Gazprombank in February 2018 for the fulfilment of Sistema’s obligations under the settlement agreement with PJSOC Bashneft, Rosneft and the Republic of Bashkortostan
- The loan from Gazprombank was repaid using RUB 5 billion of the Corporation’s own funds and a new three-year RUB 15 billion unsecured loan from Otkritie Bank, and removed the pledge from Sistema’s shareholding in Detsky Mir
- At the end of the reporting period, cash position at the Corporate Centre level strengthened thanks to dividends from portfolio companies, while net financial liabilities declined due to repayment of the bridging loan from Gazprombank, partially using the Company’s own funds, and payment under the liability to the Federal Agency for State Property Management (Rosimushchestvo)

Andrey Dubovskov, President and Chief Executive Officer of Sistema, said:

*“Sistema’s financial and operational results for the third quarter of 2018 grew at a significantly faster pace than during the same period last year. Impressive revenue and adjusted OIBDA growth of 14% and 30%, respectively, was driven by rapid growth both at our publicly traded assets and at key privately held portfolio companies. MTS, Detsky Mir, Segezha Group, Agroholding Steppe and Medsi are not only leaders in their respective markets – they are on many measures growing faster than the market, all while entering new regions and business segments.*”

<sup>1</sup> Here and hereafter in this press release Sistema’s consolidated results and results of its subsidiaries for 3Q 2018 and 9M 2018 are presented in accordance with new accounting standards IFRS 9, 15 and 16 unless specified otherwise. Results for Binnopharm are not presented excluding the impact of the new standards. However, Sistema estimates that the impact on the consolidated Group results of this subsidiary’s transition to the new IFRS standards is not material. The results for 3Q 2017 and 9M 2017 are presented without the impact of new IFRS standards 9, 15 and 16. Here and hereafter in this press release Sistema’s consolidated results for 3Q 2017 and 9M 2017 are restated to reflect deconsolidation of SG-Trading JSC and disposal of operating business of Sistema Shyam TeleServices Ltd. (SSTL).

<sup>2</sup> Here and hereafter mentions of new IFRS standards refer to IFRS 9, 15 and 16.

<sup>3</sup> See Attachment A for definitions of adjusted OIBDA, adjusted operating income, adjusted profit attributable to Sistema, consolidated total debt and consolidated net debt and their reconciliation to IFRS financial measures.

*“MTS continues to deliver robust top line and OIBDA growth and roll out its digital strategy, as can be seen from its investments in recent months – increasing its stake in the high-tech MTS Bank; the acquisition of Avantage, one of Russia’s biggest data processing centres; and investing in Youdo.com, a leading online marketplace for freelance work in Russia.*

*“Detsky Mir maintained its high growth rate and is successfully executing on its strategy despite a challenging market. The company continues to roll out new stores in Russia and Kazakhstan at a fast clip, and intends to enter the children’s goods market in Belarus.*

*“Similarly, Segezha Group has not only increased its output and sales of paper, paper sacks and timber, but is entering new business segments and sales markets. In September, Segezha’s Sokol Plant launched production of pellets with capacity of 10-12 thousand tons per year, while at Lesosibirsk a 70 thousand ton per year pellet facility that will export its products to Europe is being constructed. In October, Segezha also introduced a new product line with the launch of paper bag production for the high-growth consumer packaging segment.*

*“Agroholding Steppe increased revenue by 125% in the reporting period and for the first time became one of Russia’s 10 biggest grain exporters thanks to growth of grain output, continued favourable market conditions and aggressive build-out of the Agrotrading division. Steppe also continues to expand its high-margin Dairy division. Having achieved milk yields at existing farms that are twice the national average, Steppe has begun construction of a major farm in the Rostov region with a projected capacity of 33 thousand tons of milk per year.*

*“Medsi is now the undisputed leader in the Russian private healthcare market based on its results for the first half of the year, and has strengthened its position based on results for nine months of 2018. In January - September 2018, Medsi generated RUB 12.2 billion in revenue, up nearly 50% year on year, several times faster than growth of the healthcare market overall. This rapid growth was achieved as a result of higher utilisation rates at Moscow clinics and in-patient facilities due to growth in both patient traffic and the average check in the MHI, VHI and individual segments, as well as the successful integration of regional clinics acquired in 2017. These results underscore that Medsi’s business model can be successfully scaled, and the company is planning to continue expanding apace both through organic growth and via M&A in the regions.*

*“Increasing shareholder value is our overriding long term priority. We believe that the optimal strategy to achieve this goal is to focus on developing our key portfolio companies and reducing Sistema’s debt. As a result the corporation has decided not to pay an interim dividend for 2018 and rather to use cash resources to pay down debt. We understand the importance of the dividend for shareholders and will consider the payment of a full year dividend for 2018 based on the results for the full year.”*

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### **Conference call information**

Sistema’s management will host a conference call today at 9:00 am (New York time) / 2:00 pm (London time) / 3:00 pm (CET) / 5:00 pm (Moscow time) to present and discuss the third quarter 2018 results.

To participate in the conference call, please dial:

#### **Russia**

+7 495 213 1767

8 800 500 9283 (toll free)

#### **United Kingdom**

+44 330 336 9127

0800 358 6377 (toll free)

#### **United States**

+1 323 794 2093

866 548 4713 (toll free)

#### **Conference ID: 6113453**

Or quote the conference call title: “Sistema Third Quarter 2018 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>3Q 2018</b>	<b>3Q 2017</b>	<b>Change</b>	<b>9M 2018</b>	<b>9M 2017</b>	<b>Change</b>	<i>Excluding impact of new IFRS standards</i>			
							<b>3Q 2018</b>	<b>Change</b>	<b>9M 2018</b>	<b>Change</b>
Revenue	<b>204,634</b>	179,665	13.9%	557,637	505,957	10.2%	204,084	13.6%	555,699	9.8%
Adjusted OIBDA	<b>73,572</b>	56,727	29.7%	199,929	152,959	30.7%	62,930	10.9%	168,238	10.0%
Operating income	<b>37,301</b>	30,726	21.4%	96,465	77,304	24.8%	35 221	14.6%	89,405	15.7%
(Loss)/profit attributable to Sistema	<b>(27,765)</b>	4,275	-	(30,684)	4,288	-	(27,928)	-	(29,325)	-
Adjusted profit attributable to Sistema	<b>1,552</b>	5,080	(69.4%)	780	6,286	(87.6%)	1,389	(72.7%)	2,139	(66.0%)

In the third quarter of 2018, Sistema's consolidated revenues increased by 13.9% year-on-year, supported by growth across key assets: MTS, driven by an increase in revenue from Russian mobile services and sales of higher-end phones; Agroholding Steppe, thanks to aggressive expansion of its Agrot trading division, a recovery in wheat prices and production increases at the Dairy and Vegetable divisions; Detsky Mir, driven by robust like-for-like sales growth, increased customer flow at stores and strong results in the online segment; Segezha Group, thanks to growth in both sales volumes and prices for paper, sawn timber and paper sacks, as well as the weakening of the rouble; and Medsi, as a result of growth in revenue from the mandatory health insurance segment (MHI), increased capacity utilisation at medical facilities and the impact of acquisitions.

Group selling, general and administrative expenses (SG&A) for the reporting quarter decreased by 8.7% year-on-year to RUB 33.8 billion, mainly as a result of the adoption of new IFRS standards. Excluding this effect, Group SG&A increased by 7.1% to RUB 39.7 billion. The SG&A/revenue ratio declined year-on-year from 20.6% to 16.5%; excluding the impact of the accounting changes, the SG&A/revenue ratio declined to 19.4%, reflecting the continuing trend of improved operating efficiency. SG&A at the Corporate Centre level declined by 52.0% year-on-year to RUB 1.0 billion as a result of lower costs related to management compensation and reduction of other expenses.

Group adjusted OIBDA increased by 29.7% year-on-year, reflecting strong results at MTS thanks to higher revenue, cost control and the introduction of new reporting standards; Detsky Mir, as a result of revenue growth and operational efficiency, as well as the impact of the new IFRS standards; Segezha, as a result of revenue dynamics. Excluding the impact of the new accounting standards, Group adjusted OIBDA rose by 10.9% year-on-year, mainly due to improvement at MTS, Detsky Mir and Segezha. The Group's adjusted OIBDA margin grew by 4.4 percentage points year-on-year to 36.0%, mainly as a result of the new accounting standards. Excluding this effect, the adjusted OIBDA margin stood at 30.8%.

Adjusted net profit attributable to Sistema for the reporting period was RUB 1.6 billion. Excluding the effect of the new IFRS standards, the Group's adjusted net profit for the quarter declined 72.7% to RUB 1.4 billion under the impact of increased interest expenses, foreign exchange losses as well as higher amortisation charges.

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

### MTS

Leading telecommunications operator and digital services provider in Russia

(RUB millions)							Excluding impact of new IFRS standards			
	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change	3Q 2018	Change	9M 2018	Change
Revenue	127,957	114,566	11.7%	350,228	326,087	7.4%	128,474	12.1%	351,903	7.9%
Adjusted OIBDA	58,396	48,737	19.8%	163,863	134,046	22.2%	51,405	5.5%	141,621	5.7%
Operating income	31,941	27,542	16.0%	85,800	72,605	18.2%	30,561	11.0%	80,905	11.4%
Adjusted profit attributable to Sistema	9,368	9,555	(2.0%)	24,220	23,169	4.5%	8,822	(7.7%)	24,599	6.2%

In the third quarter of 2018, revenue at MTS increased by 11.7% year-on-year to RUB 128.0 billion thanks to revenue growth in the core Russian business, as well as an increase in sales of telephones at rates significantly above the market average. MTS sold 13.9% more handsets than the same period a year earlier, resulting in a 52.4% increase in handset revenue. The Russian smartphone market as a whole increased 1.6% in volume terms over the same period, while revenue growth was about 21%. Thanks to strong positive dynamics for the nine months of 2018, MTS updated its guidance for revenue in 2018 to an increase of 4-6%.

Adjusted OIBDA increased by 19.8% as a result of higher revenue and the introduction of new accounting standards. At the same time, a hike in frequency spectrum fees and the abolition of charges for domestic roaming had a negative impact on OIBDA.

Excluding the effect of new IFRS standards, revenue and adjusted OIBDA increased by 12.1% and 5.5% year-on-year, respectively. MTS Bank's results also had a positive impact on the company's results. Excluding the bank's impact and the effect of the new IFRS standards, revenue and adjusted OIBDA grew by 8.7% and 4.9% year-on-year, respectively.

In September 2018, an Extraordinary General Meeting of Shareholders approved an interim dividend for the first half of 2018 of RUB 2.6 per ordinary share (RUB 5.2 per ADR).

In September 2018, MTS purchased 100% of the share capital in LLC Avantage, which owns one of the largest data processing centres in Russia, from a group of private investors for a consideration of RUB 8.9 billion. The Avantage data processing centre is a high-tech platform with a total capacity of 20 MW. The centre became the 10th in MTS's nationwide network of data centres located in large Russian cities.

In September 2018, MTS acquired a 13.7% stake in Youdo Web Technologies for RUB 0.8 billion<sup>5</sup>. Youdo.com occupies a leading position in the online marketplace matching labour demand and supply in the C2C and B2B segments. The service has 5 million registered users, and about 30% of orders are virtual: they can be placed and carried out anywhere in the world.

In September 2018, MTS announced that its infrastructure was ready to launch the first nationwide network in Russia for services and Internet of Things devices using the LTE standard based on NB-IoT (Narrowband Internet of Things) technology. This new infrastructure ensures fast, cost-effective and secure connections, as well as the integration, management and maintenance of all kinds of devices, including transmitters, sensors and meters. In October 2018, MTS launched pilot projects based on NB-IoT technology in 16 Russian cities, offering NB-IoT SIM cards to companies from various industries.

When reporting financial results under IFRS for 3Q 2018, MTS recorded a provision of RUB 55.8 billion as the potential liability with respect to an on-going investigation being conducted by the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) in relation to the company's former operations in Uzbekistan.

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

MTS continued its share and ADR repurchase programme totalling RUB 30 billion and running through July 2020. Some 55.85 million shares worth RUB 14.825 billion were repurchased from July to October 2018, including shares repurchased from Sistema in October.

In November 2018, MTS began selling subscriptions to its SmartMed telemedicine service package, which was developed by MTS together with Medsi. The package includes 24-hour online consultations with on-call general practitioners and cardiologists. Users can also sign up for online or face-to-face consultations with additional specialists.

<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> USD 12 million based on the exchange rate as of 18.09.2018

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

The largest children's goods retailer in Russia

(RUB millions)							Excluding impact of new IFRS standards			
	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change	3Q 2018	Change	9M 2018	Change
Revenue	<b>28,449</b>	24,554	15.9%	76,566	66,649	14.9%	28,449	15.9%	76,566	14.9%
Adjusted OIBDA	<b>6,260</b>	3,045	105.6%	14,743	6,373	131.3%	3,609	18.5%	8,032	26.0%
Operating income	<b>2,926</b>	2,229	31.3%	6,419	4,342	47.9%	2,938	31.8%	6,038	39.1%
Adjusted profit attributable to Sistema	<b>695</b>	986	(29.6%)	1,355	1,502	(9.8%)	1,159	17.5%	2,276	51.6%

In the third quarter of 2018, revenue at Detsky Mir increased by 15.9% year-on-year due to a 3.7% increase in like-for-like sales, the ramp-up of stores opened in 2017 and strong results in the online segment. E-commerce remained the company's fastest-growing sales channel, with revenue more than doubling year-on-year in the third quarter of 2018 to RUB 2.1 billion. Online sales accounted for 7.2% of total revenue, an increase of 3.7 percentage points.

Adjusted OIBDA increased by 105.6% as a result of revenue growth and improved operational efficiency, as well as the introduction of the new IFRS 16 standard. Excluding the impact of the IFRS 16 standard, adjusted OIBDA rose by 18.5%.

The adjusted OIBDA margin improved by 9.6 percentage points year-on-year to 22.0%. Excluding the effect of the accounting change, the adjusted OIBDA margin improved by 0.3 percentage points to 12.7% as revenue growth outpaced cost increases. The adjusted SG&A/revenue ratio declined by 10.0 percentage points to 11.3%. Excluding the effect of the accounting change, the adjusted SG&A/revenue ratio decreased by 0.7 percentage points to 20.6%.

The decrease in adjusted net profit was due to the impact of the IFRS 16 Lease accounting standard. Excluding the impact of the new standard, Detsky Mir's adjusted net profit increased in the third quarter of 2018 by 17.5% year-on-year thanks to the optimisation of debt financing and an increase in operating leverage.

Detsky Mir opened 16 new stores in the third quarter of 2018, bringing the total number of stores to 666 as of 30 September 2018.

Thanks to its stable financial position and high degree of operational efficiency, the company has been able to implement an ambitious expansion programme. Detsky Mir is targeting entry into the high-potential Belarusian market, which is estimated at RUB 40 billion rubles, and aims to become a key player with 20% market share in the long term. The first store is scheduled to open in 2019. The company also plans to continue expanding in Kazakhstan and to increase store numbers from 25 to 70 in the long term.

By the end of 2018, Detsky Mir plans to enter the pet products market in Russia - an estimated RUB 200 billion market - under the Zoozavr ("Zoosaurus") brand. The company also plans to open its second distribution centre in the Moscow region, with an area of 62,000 square metres, which will further increase operational efficiency and enhance competitive advantages. Investment is expected to total up to RUB 2.5 billion.

## Segezha Group

Leading Russian vertically integrated forest holding

(RUB millions)							Excluding impact of new IFRS standards			
	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change	3Q 2018	Change	9M 2018	Change
Revenue	<b>15,405</b>	12,073	27.6%	39,377	32,355	21.7%	15,405	27.6%	39,377	21.7%
Adjusted OIBDA	<b>4,281</b>	2,220	92.8%	9,069	5,024	80.5%	4,014	80.8%	8,418	67.5%
Operating income	<b>2,878</b>	1,348	113.5%	5,402	2,435	121.8%	2,735	103.0%	5,101	109.5%
Adjusted profit/(loss) attributable to Sistema	<b>501</b>	506	(1.0%)	(786)	(229)	-	548	8.4%	(578)	-

In the third quarter of 2018, revenue at Segezha Group increased by 27.6% year-on-year to RUB 15.4 billion due to increased sales volumes and higher sales prices of paper, sawn timber and paper sacks. Paper sales by volume increased by 17.7% year-on-year due to the commissioning of a new paper machine at the end of 2017 at Segezha Pulp & Paper Mill. Sales of paper sacks increased by 1.6% year-on-year in the third quarter of 2018 due to the lengthy construction season this year and sustained demand. Plywood sales increased by 29.9% to 30,200 cubic metres due to the roll-out of new equipment – the second production

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

line at the Vyatsky Plywood Mill; plywood prices decreased slightly. Sales of sawn timber increased by 12.0% due to increased productivity and improved logistical efficiency. The 10.0% weakening of the RUB against the EUR also had a positive impact on revenue for the quarter, given that 43% of Segezha Group's revenue is denominated in EUR.

Adjusted OIBDA increased by 92.8% year-on-year to RUB 4.3 billion and the OIBDA margin improved by 9.4 percentage points to 27.8% as a result of the increase in revenue as well as higher sales prices for a number of key products. Adjusted net profit remained almost unchanged year-on-year due to the impact of the new IFRS standard. Excluding the impact of the new standard, adjusted net profit increased by 12.4% year-on-year in the third quarter of 2018 due to revenue growth.

In September 2018, pellet production was launched at the Sokol Wood Processing Plant. Production capacity is 10,000-12,000 tonnes of pellets per year. As a result of the launch of the pellet line, all dry sawdust and shavings generated during the production process will be used to make pellets – compressed granules that are an efficient and environmentally friendly fuel.

In September 2018, Karelia DSP resumed production of laminated chipboard following a fire in December 2017. During the course of repair work, new equipment and modern software were installed that will improve the operability of all technological processes at the facility, and in future will enable expansion of the range of chipboard produced. Segezha plans to produce and ship to customers 36,500 cubic metres of chipboard and laminated chipboard by the end of 2018.

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

In October 2018, a new production line was launched in Salsk with a capacity of 25 million paper sacks per year. The facility will be used to launch a new product line for Segezha Group in the consumer packaging segment, namely single-layer paper bags for retailers.

### **Agroholding Steppe**

*Major agriculture holding and one of the Russia's largest land owners*

<i>(RUB millions)</i>							<i>Excluding impact of new IFRS standards</i>			
	<b>3Q 2018</b>	<b>3Q 2017</b>	<b>Change</b>	<b>9M 2018</b>	<b>9M 2017</b>	<b>Change</b>	<b>3Q 2018</b>	<b>Change</b>	<b>9M 2018</b>	<b>Change</b>
Revenue	<b>8,241</b>	3,665	124.9%	14,550	6,825	113.2%	8,241	124.9%	14,550	113.2%
OIBDA	<b>1,940</b>	1,718	12.9%	4,730	3,891	21.6%	1,766	2.8%	4,545	16.8%
Operating income	<b>1,554</b>	1,231	26.3%	3,672	3,034	21.0%	1,350	9.7%	3,585	18.1%
Profit attributable to Sistema	<b>716</b>	755	(5.2%)	2,132	1,811	17.8%	614	(18.7%)	2,167	19.7%

Agroholding Steppe's revenue in the third quarter of 2018 increased by 124.9% year-on-year to RUB 8.2 billion due to aggressive growth of the Agrotrading division, a recovery in global wheat prices and an increase in production in the Dairy and Vegetable divisions. These factors also supported OIBDA growth of 13.0% year-on-year.

The robust growth of the Agrotrading division drove a fourfold increase in crop exports to 648,000 tonnes in the first nine months of 2018, which enabled Agroholding Steppe to become one of the 10 largest Russian grain exporters since the beginning of the season. Agroholding Steppe's average export price for wheat increased in the third quarter of 2018 by 15% compared with the previous year due to a more favourable price environment and the high quality of the wheat harvest. This offset a modest decrease in the harvest caused by a delay to the sugar-beet harvest and a drought in grain-producing regions of Russia in 2018.

Growth in the Dairy division in the third quarter was the result of increases in productivity and in the number of cows by 9.0% and 14.6% year-on-year, respectively.

The Vegetable division also recorded positive results in the reporting quarter, with production of 14,600 tonnes, a 5% increase over the same period in the previous year.

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

In October 2018, Agroholding Steppe and the Government of the Rostov region signed a memorandum of cooperation with the aim of building the region's largest dairy farm. The construction of a farm with a herd of 7,000 head of cattle, including 3,000 forage-fed cows for milk production meeting European standards, will begin in the Salsk district before the end of 2018. Planned capacity is expected to be reached in 2022. Upon reaching production capacity, the gross milk yield will be 33,000 tonnes per year with average productivity of about 11,000 litres of milk per year. An investment of about RUB 2 billion will be provided through project financing from Alfa-Bank for a period of 10 years.

### **Medsi<sup>7</sup>**

<sup>7</sup> Results for 3Q 2018 and 9M 2018 have been adjusted for additional accruals under the LTI programme (including related tax effects).

## Leading private healthcare operator in Russia

(RUB millions)							Excluding impact of new IFRS standards			
	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change	3Q 2018	Change	9M 2018	Change
Revenue	4,554	2,902	56.9%	12,176	8,195	48.6%	4,566	57.3%	12,176	48.6%
Adjusted OIBDA	837	486	72.3%	1,872	1,610	16.3%	723	48.8%	1,534	(4.7%)
Operating income/ (loss)	131	135	(2.8%)	(143)	1,418	-	105	(22.6%)	(242)	-
Adjusted profit attributable to Sistema	208	152	36.6%	63	499	(87.3%)	254	66.9%	176	(64.8%)

In the third quarter of 2018, revenue at Medsi increased by 56.9% year-on-year to RUB 4.6 billion primarily as a result of revenue growth in the MHI segment, which drove an increase in utilisation of in-patient facilities to 72% in the third quarter of 2018 versus 41% in the third quarter of 2017. Payments by insurance companies accounted for 64.9% of revenue. In addition, revenue growth was impacted by higher patient traffic at new clinics (on Leninsky Avenue, 3rd Khoroshevsky Passage and Leninskaya Village), as well as regional acquisitions in 2017 of clinics in St. Petersburg and Perm.

Growth of adjusted OIBDA by 72.3% to RUB 0.8 billion and of the adjusted OIBDA margin by 1.7 percentage points to 18.4% was the result of a significant increase in revenue and the introduction of new IFRS standards. The new IFRS standards had a positive impact of RUB 114 million. In the nine months of 2018, adjusted OIBDA declined by 4.7% year-on-year to RUB 1.5 billion excluding the impact of the new IFRS standards primarily due to an increased proportion of revenue coming from material-intensive high-tech treatments.

Adjusted net profit increased by 36.6% year-on-year in the third quarter of 2018 on the back of revenue growth despite an increase in depreciation due to the opening of new clinics and an increase in interest costs. The new IFRS standards had a negative impact in the amount of RUB 46 million.

Revenue from the CDC at Belorusskaya increased by 8.9% year-on-year in the third quarter of 2018 to RUB 553 million, while there was no significant change in its OIBDA margin, at 44.2%. The CDC on Krasnaya Presnya increased capacity utilisation by 8.2 percentage points to 31.1%, and revenue by 124% to RUB 418 million, while the OIBDA margin improved by 5 percentage points to 30.2%.

The multidisciplinary Michurinsky Medical Centre is currently under construction. With an area of 28,000 square metres, the Centre will include a CDC for adults and children, a in-patient daycare facility, a 24-hour in-patient facility with a centre for high-tech surgery, as well as a maternity hospital. The Centre will open in 2021.

In September 2018, Sistema, Medsi, the Russian Direct Investment Fund and the Korean company Green Cross Cell signed an agreement on the development of biotechnology in the Russian Federation. Green Cross Cell, one of the leading biotechnology companies in South Korea, specialises in research, production and sale of anti-cancer drugs based on cell therapy.

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

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

(RUB millions)							Excluding impact of new IFRS standards			
	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change	3Q 2018	Change	9M 2018	Change
Revenue	3,803	1,490	155.3%	9,646	7,390	30.5%	2,672	79.4%	5,879	(20.4%)
OIBDA	850	256	232.3%	2,404	1,834	31.1%	399	55.8%	962	(47.5%)
Operating income	742	122	505.8%	2,077	1,427	45.6%	290	137.2%	641	(55.0%)
Profit/(loss) attributable to Sistema	162	(54)	-	325	421	(22.7%)	(52)	-	(282)	-

Leader Invest's sales volumes in Moscow grew by 48.9% year-on-year to 13,100 square metres in the third quarter of 2018, and cash collections from sales reached RUB 2.7 billion due to efficiency gains in the sales and marketing department. As of 30 September 2018, Leader Invest's sales portfolio amounted to approximately 170,000 square metres of real estate.

Revenue for Leader Invest in the third quarter of 2018 increased by 281.6% year-on-year to RUB 2.5 billion, primarily from sales at Comfort class projects in Moscow on Fabritsius Street, Kavkazskiy Boulevard, Yan Rainis Boulevard, Chertanovskaya Street and Abramtsevskaya Street; at Business class projects on Mishina Street and Lobachevskogo Street; and from leases of commercial property. The increase in revenue and OIBDA was the result of increased sales and of earlier recognition of revenue under IFRS 15. Excluding the effect of IFRS 15, revenues for Leader Invest increased by 107.2% to RUB 1.3 billion, while OIBDA remained unchanged year-on-year.

In September 2018, the umbrella brand Schastye (“Happiness”) was launched for all of Leader Invest’s urban infill projects, which will allow the company to position projects more effectively and reduce promotional costs by using a common website and a single advertising campaign.

In the third quarter of 2018, revenue for Sistema’s rental assets (which include Business-Nedvizhimost and its subsidiary Mosdachrest) increased by 57.9% year-on-year to RUB 1.3 billion mainly due to the increase in revenues from sales of an automated switching station. OIBDA increased by 24.9% to RUB 0.5 billion on the back of the revenue growth. At the same time, the decrease in the OIBDA margin year-on-year was due to a change in the structure of property sales. Net profit was flat year-on-year.

## RTI

*Leading Russian high-tech company*

<i>(RUB millions)</i>				<i>Excluding impact of new IFRS standards</i>						
	<b>3Q 2018</b>	<b>3Q 2017</b>	<b>Change</b>	<b>9M 2018</b>	<b>9M 2017</b>	<b>Change</b>	<b>3Q 2018</b>	<b>Change</b>	<b>9M 2018</b>	<b>Change</b>
Revenue	<b>7,580</b>	9,280	<i>(18.3%)</i>	22,177	26,153	<i>(15.2%)</i>	7,580	<i>(18.3%)</i>	22,177	<i>(15.2%)</i>
Adjusted OIBDA	<b>1,016</b>	1,426	<i>(28.8%)</i>	2,961	2,282	<i>29.7%</i>	939	<i>(34.2%)</i>	2,729	<i>19.6%</i>
Operating income/(loss)	<b>(84)</b>	621	-	(461)	(364)	-	(88)	-	(531)	-
Adjusted (loss) attributable to Sistema	<b>(796)</b>	(775)	-	(2,273)	(3,261)	-	(780)	-	(2,287)	-

RTI’s revenue declined in the third quarter of 2018 due to work schedules for 2019 being shifted across a number of state contracts in various business segments. In the first nine months of 2018, this factor was partially offset by revenue growth in the Microelectronics segment thanks to an increase in the volume of design and development work carried out by the Molecular Electronics Research Institute (MERI), a leading research centre for molecular electronics.

The decrease in adjusted OIBDA in the third quarter of 2018 compared to the third quarter of 2017 was due to changes in performance indicators during the reporting period. In particular, a decrease in the margin in the Microelectronics segment had a negative impact on adjusted OIBDA. The decrease is expected to be offset in the fourth quarter 2018. At the same time, margins increased in the first nine months of 2018 due to a decrease in SG&A expenses and an increase in the share of work activities conducted in-house in the costs structure.

RTI’s net debt decreased by 6.0% year-on-year in the third quarter of 2018 as a result of the Defence Ministry completely ending credit financing for defence procurements. RTI also has on its accounts additional funds earmarked for state defence orders amounting to RUB 11.6 billion that are not included in the net debt calculation.

In September 2018, RTI and the Russian Navy signed off on the technical specifications for the creation of an automated communications system at the Yaroslavl Radio Factory.

## Bashkirian Power Grid Company (BPGC)

*One of Russia’s biggest power grid companies*

<i>(RUB millions)</i>				<i>Excluding impact of new IFRS standards</i>						
	<b>3Q 2018</b>	<b>3Q 2017</b>	<b>Change</b>	<b>9M 2018</b>	<b>9M 2017</b>	<b>Change</b>	<b>3Q 2018</b>	<b>Change</b>	<b>9M 2018</b>	<b>Change</b>
Revenue	<b>4,497</b>	4,091	<i>9.9%</i>	13,801	12,604	<i>9.5%</i>	4,562	<i>11.5%</i>	13,956	<i>10.7%</i>
OIBDA	<b>1,188</b>	1,296	<i>(8.3%)</i>	4,183	4,152	<i>0.7%</i>	1,336	<i>3.0%</i>	4,390	<i>5.7%</i>
Operating income	<b>560</b>	721	<i>(22.3%)</i>	2,312	2,425	<i>(4.6%)</i>	714	<i>(0.9%)</i>	2,542	<i>4.8%</i>
Profit attributable to Sistema	<b>403</b>	637	<i>(36.7%)</i>	1,803	1,985	<i>(9.2%)</i>	533	<i>(16.2%)</i>	2,016	<i>1.5%</i>

BPGC’s revenue increased by 9.9% to RUB 4.5 billion in the third quarter of 2018 due to indexation of tariffs for electricity transmission services that came into effect on 1 July 2018.

OIBDA decreased by 8.3% year-on-year mainly due to higher costs for services provided by PJSC Federal Grid Company of Unified Energy System, as well as increased labour costs. The OIBDA margin decreased slightly due to the impact of the new IFRS standards and faster growth of operating expenses compared to revenues, though it remained significantly above the sector average, reaching 26.4%. To support high levels of profitability, BPGC will continue to implement measures to improve operational efficiency. As a result of measures to improve efficiency, losses in distribution networks decreased by 0.3 percentage points year-on-year in the third quarter of 2018, and losses in main transmission lines decreased by 0.2 percentage points.

Net profit fell to RUB 0.4 billion on the back of the decrease in OIBDA and a decrease in income from the placement of free cash.



BPGC continues the overhaul of distribution networks in Ufa using Smart Grid technology, as well as the reconstruction of substations by introducing higher-capacity transformers to support more connections of new consumers.

## Binnopharm<sup>8</sup>

*One of Russia's largest full-cycle biopharmaceutical companies*

<i>(RUB millions)</i>	<b>3Q 2018</b>	<b>3Q 2017</b>	<b>Change</b>	<b>9M 2018</b>	<b>9M 2017</b>	<b>Change</b>
Revenue	<b>448</b>	405	10.5%	1,182	1,344	(12.0%)
OIBDA	<b>103</b>	(30)	-	272	152	78.5%
Operating income/(loss)	<b>62</b>	(72)	-	161	31	415.5%
(Loss) attributable to Sistema	<b>(16)</b>	(86)	-	(57)	(103)	-

In the third quarter of 2018, revenue at Binnopharm increased by 10.5% year-on-year to RUB 0.4 billion. The increase in revenue was due to increased sales of Binnopharm's own products.

The share of revenue accounted for by the company's own products in the third quarter of 2018 increased to 99%, compared to 75% a year earlier, due to the cessation of sales of third-party products, which contributed to improved sales margins year-on-year.

OIBDA amounted to RUB 0.1 billion in the third quarter of 2018, compared to a loss a year earlier, as a result of changes in the sales mix. The OIBDA margin was 23.0%.

The company received registration certificates for five new drugs in the third quarter of 2018 and plans to register three more drugs in the fourth quarter.

## Hospitality assets

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

<i>(RUB millions)</i>	<b>3Q 2018</b>	<b>3Q 2017</b>	<b>Change</b>	<b>9M 2018</b>	<b>9M 2017</b>	<b>Change</b>	<i>Excluding impact of new IFRS standards</i>			
							<b>3Q 2018</b>	<b>Change</b>	<b>9M 2018</b>	<b>Change</b>
Revenue	<b>1,631</b>	1,330	22.7%	4,097	3,225	27.1%	1,631	22.7%	4,097	27.1%
OIBDA	<b>668</b>	472	41.4%	1,304	861	51.5%	645	36.4%	1,273	47.8%
Operating income	<b>473</b>	309	53.3%	735	387	89.7%	454	46.8%	715	84.7%
Profit/(loss) attributable to Sistema	<b>306</b>	87	250.2%	16	(146)	-	304	248.4%	21	-

In the third quarter of 2018, revenue at Sistema's hospitality assets increased by 22.7% year-on-year, which was mainly due to an increase in revenue from hotels in World Cup host cities as a result of higher average daily rates (ADR) and higher occupancy rates. Park Inn Kazan, Hotel Cosmos and Park Inn Volgograd saw the highest increases in revenue year-on-year, with gains of 36%, 28% and 17%, respectively.

Revenue from hotels outside Russia increased year-on-year due to a higher occupancy rate at the Savoy Westend Hotel in the Czech Republic, an increase in ADR at the Principe Forte dei Marmi hotel in Italy and a weaker RUB-EUR exchange rate. Due to the higher growth rate of revenues from Russian hotels, the share of third-quarter revenue in RUB terms accounted for by foreign hotels decreased by 1 percentage point to 29%.

The average occupancy rate in the third quarter of 2018 was 72%, which was 9 percentage points higher than the same period a year earlier. The biggest increase was seen at Hotel Cosmos, where the occupancy rate increased by 12 percentage points year-on-year to 79% in the third quarter of 2018.

The significant increase in OIBDA of 41.4% and increase in the OIBDA margin to a record 41.0% were due to the 5% year-on-year increase in ADR to RUB 4,400 in the third quarter of 2018 and an increase in the share of additional high-margin revenue.

Sistema's hospitality assets posted a net profit of RUB 0.3 billion in the third quarter of 2018 compared with RUB 0.1 billion a year earlier mainly due to revenue growth as well as reduction in the debt load.

## Corporate

<sup>8</sup> 3Q 2018 and 9M 2018 results for Binnopharm are not presented excluding the impact of the new IFRS standards.

(RUB millions)				Excluding impact of new IFRS standards						
	3Q 2018	3Q 2017	Change	9M 2018	9M 2017	Change	3Q 2018	Change	9M 2018	Change
Adjusted OIBDA	(820)	(2,271)	-	(4,031)	(5,791)	-	(822)		(4,037)	-
Adjusted loss	(8,096)	(4,941)	-	(22,180)	(13,547)	-	(8,096)		(22,180)	-
Corporate Centre's financial liabilities <sup>9</sup>	228,094	149,113	53,0%	228,094	149,113	53,0%				

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

In the third quarter of 2018, SG&A expenses at the Corporate Centre declined by 52.0% year-on-year to RUB 1.0 billion. The SG&A/revenue margin at the Corporate Centre declined from 1.2% to 0.5%.

Corporate Centre's financial liabilities amounted to RUB 228.1 billion as of 30 September 2018.

### **KEY GROUP HIGHLIGHTS IN 3Q 2018 AND AFTER THE REPORTING PERIOD**

When reporting financial results under IFRS for 3Q 2018, MTS recorded a provision of RUB 55.8 billion as the potential liability with respect to an on-going investigation being conducted by the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) in relation to the company's former operations in Uzbekistan.

In October 2018, the RAEX rating agency (Expert RA) raised Sistema's credit rating from ruBBB + to ruA-, with a Stable outlook. The rating was removed from Rating Watch status.

From early August to late October 2018, Sistema subsidiary Sistema Finance SA sold 27,929,870 ordinary shares of MTS to MTS subsidiary LLC Bastion for a total consideration of RUB 7.4 billion as part of MTS's share repurchase programme.

In July 2018, Sistema attracted a RUB 15 billion unsecured credit facility maturing in July 2021 from Otkritie Bank. Sistema used the proceeds from this loan as well as RUB 5 billion of its own funds to repay in full the RUB 40 billion loan arranged by the RDIF and financed by Gazprombank in February 2018.

In July 2018, Sistema refinanced three loans from Sberbank maturing in 2019-2020 totalling RUB 24 billion with a new three-year unsecured line of credit from Sberbank.

In July 2018, Sistema sold a 28.63% stake in MTS Bank to Mobile TeleSystems B.V., a 100% subsidiary of MTS. As a result of the transaction, Sistema's direct ownership in the Bank was reduced to 43.24%, while the stake owned by MTS increased from 26.61% to 55.24%.

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**Sistema PJSC is a publicly-traded diversified Russian holding company serving over 150 million customers in the sectors of telecommunications, children's goods retail, paper and packaging, healthcare services, agriculture, high technology, banking, real estate, pharmaceuticals and hospitality. The company was founded in 1993. Its revenue in 2017 was RUB 704.6 bn; its total assets equalled RUB 1.1 trn as of 31 December 2017. 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 the 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*

<sup>9</sup> Including liability to Rosimushchestvo, liability to Rusnano (repaid in 4Q 2017) and finance lease.

*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 NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
*(Amounts in millions of Russian roubles, except for per share amounts)*

	Nine months ended September 30		Three months ended September 30	
	2018	2017	2018	2017
Revenue	557,637	505,957	204,634	179,665
Cost of sales	(259,526)	(236,847)	(98,038)	(83,497)
Selling, general and administrative expenses	(98,406)	(110,831)	(33,794)	(37,026)
Depreciation and amortisation <sup>10</sup>	(99,356)	(72,287)	(34,597)	(24,401)
Impairment of long-lived assets	(879)	(1,735)	(500)	(1,412)
Impairment of financial assets	(3,250)	(3,247)	(724)	(1,005)
Taxes other than income tax	(4,841)	(4,334)	(1,695)	(1,355)
Share of the profit or loss of associates and joint ventures	2,343	2,310	576	1,168
Other income	6,784	5,130	2,448	1,557
Other expenses	(4,040)	(6,811)	(1,009)	(2,968)
<b>OPERATING INCOME</b>	<b>96,466</b>	<b>77,304</b>	<b>37,301</b>	<b>30,725</b>
Finance income	5,503	5,749	1,808	2,086
Finance costs <sup>11</sup>	(49,501)	(36,128)	(16,222)	(11,656)
Currency exchange (loss)/gain	(12,637)	(622)	(5,429)	(863)
<b>PROFIT BEFORE TAX</b>	<b>39,831</b>	<b>46,304</b>	<b>17,458</b>	<b>20,293</b>
Income tax expense	(16,215)	(14,845)	(6,961)	(5,890)
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>23,616</b>	<b>31,459</b>	<b>10,497</b>	<b>14,403</b>
Loss from discontinued operations	(56,140)	(4,869)	(55,752)	(639)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>(32,524)</b>	<b>26,590</b>	<b>(45,255)</b>	<b>13,764</b>
<b>Profit/(loss) attributable to:</b>				
Shareholders of Sistema PJSFC	(30,684)	4,288	(27,765)	4,276
Non-controlling interests	(1,840)	22,302	(17,490)	9,488
	<b>(32,524)</b>	<b>26,590</b>	<b>(45,255)</b>	<b>13,764</b>
<b>Earnings per share (basic and diluted), Russian Rubles:</b>				
From continuing and discontinued operations	(3.24)	0.45	(2.93)	0.45

<sup>10</sup> Including 22,103 of lease rights amortization for 9 months 2018 in accordance with IFRS 16 out of which 21,507 relate to lease that would have been classified as operating under previous IAS 17 standards

<sup>11</sup> Including 13,993 of lease interest expense for 9 months 2018 in accordance with IFRS 16 out of which 12,942 relate to lease that would have been classified as operating under previous IAS 17 standards

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017**  
*(Amounts in millions of Russian roubles)*

	<b>September 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
NON-CURRENT ASSETS:		
Property, plant and equipment	418,112	411,467
Investment property	29,527	24,664
Goodwill	57,041	54,081
Right-of-use-asset	203,858	-
Other intangible assets	108,584	97,666
Investments in associates and joint ventures	28,151	20,783
Deferred tax assets	43,202	35,809
Loans receivable and other financial assets	81,424	104,395
Deposits in banks	113	-
Other assets	13,045	18,169
	<u>983,057</u>	<u>767,034</u>
CURRENT ASSETS:		
Inventories	105,477	81,401
Contract asset	9,443	-
Accounts receivable	57,034	54,836
Advances paid and prepaid expenses	18,229	15,324
Current income tax assets	2,849	3,274
Other taxes receivable	20,992	17,190
Loans receivable and other financial assets	105,013	99,798
Deposits in banks	13,261	28,068
Restricted cash	11,734	8,591
Cash and cash equivalents	138,174	59,959
Other assets	3,206	2,174
	<u>485,412</u>	<u>370,615</u>
<b>TOTAL ASSETS</b>	<b><u>1,468,469</u></b>	<b><u>1,137,649</u></b>

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 (CONTINUED)**  
*(Amounts in millions of Russian roubles)*

	<b>September 30</b>	<b>December 31</b>
	<b>2018</b>	<b>2017</b>
<b>LIABILITIES AND EQUITY</b>		
SHAREHOLDERS' EQUITY:		
Share capital	869	869
Treasury shares	(4,759)	(5,816)
Additional paid-in capital	69,479	67,856
Accumulated loss	(46,846)	(17,375)
Accumulated other comprehensive income	6,513	2,332
Equity attributable to shareholders of Sistema	25,256	47,866
Non-controlling interests	41,562	74,957
<b>TOTAL EQUITY</b>	<b>66,818</b>	<b>122,823</b>
NON-CURRENT LIABILITIES:		
Borrowings	582,612	381,561
Lease liabilities	188,577	12,090
Bank deposits and liabilities	12,208	33,419
Deferred tax liabilities	40,983	38,160
Provisions	2,458	3,399
Liability to Rosimushchestvo	11,467	13,427
Other financial liabilities	2,605	6,514
Other liabilities	8,003	7,537
Total non-current liabilities	848,913	496,107
CURRENT LIABILITIES:		
Borrowings	122,968	139,403
Lease liabilities	29,332	2,765
Liability under Settlement agreement		80,000
Accounts payable	116,007	114,402
Bank deposits and liabilities	116,325	83,873
Contract liabilities and other non-financial liabilities	58,829	48,789
Income tax payable	1,463	1,833
Other taxes payable	16,424	14,378
Dividends payable	6,903	4,578
Provisions	68,859	13,038
Liability to Rosimushchestvo	7,760	9,601
Other financial liabilities	7,868	6,059
Total current liabilities	552,738	518,719
<b>TOTAL LIABILITIES</b>	<b>1,401,651</b>	<b>1,014,826</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,468,469</b>	<b>1,137,649</b>

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
*(Amounts in millions of Russian roubles)*

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
(Loss)/profit for the period	(32,524)	26,590
Adjustments to reconcile net income to net cash provided by operations (including discontinued operations):		
Depreciation and amortization	99,356	72,882
Share of the profit or loss of associates and joint ventures, net	(2,343)	(2,310)
Finance income	(5,503)	(5,904)
Finance costs	49,501	38,481
Income tax expense	16,215	14,845
Currency exchange loss/(gain)	12,637	123
Loss/(gain) from discontinued operations	56,140	(1,201)
Profit on disposal of property, plant and equipment	(2,392)	(262)
Amortization of connection fees	(1,769)	(615)
Impairment loss on loans receivable	2,162	177
Dividends received from associates and joint ventures	2,522	2,592
Non-cash compensation to employees	559	1,444
Impairment of long-lived assets	879	1,735
Impairment of financial assets	3,251	3,257
Other non-cash items	2,206	3,638
	<b>200,897</b>	<b>155,472</b>
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	3,719	(3,670)
Bank deposits and liabilities	11,284	7,421
Restricted cash	(3,143)	3,618
Financial assets/liabilities at fair value through profit or loss	1,617	(1,808)
Accounts receivable and contract assets	(2,022)	(5,027)
Advances paid and prepaid expenses	(2,397)	(165)
Other taxes receivable	(4,433)	(1,524)
Inventories	(29,676)	(13,977)
Accounts payable	(4,605)	(2,729)
Subscriber prepayments	721	(940)
Other taxes payable	2,045	(3,989)
Advances received and other liabilities	6,420	3,885
Payment in accordance with the Settlement agreement	(80,000)	-
Interest paid <sup>12</sup>	(50,076)	(35,755)
Income tax paid	(21,161)	(16,748)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>29,190</b>	<b>84,064</b>

<sup>12</sup> Including 13,597 of lease interest paid in accordance with IFRS 16 out of which 12,547 relate to payments of lease interest that would have been classified as operating under previous IAS 17 standards

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 (CONTINUED)**  
*(Amounts in millions of Russian roubles)*

	Nine months ended September, 30	
	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for purchases of property, plant and equipment and investment property	(64,118)	(55,756)
Payments for purchase of Avantage	(7,559)	-
Proceeds from sale of property, plant and equipment	4,312	6,457
Payments to obtain and fulfill contracts	(4,030)	-
Payments for purchases of intangible assets	(17,963)	(14,394)
Payments for businesses, net of cash acquired	(3,353)	(3,003)
Payments for investments in associates and joint ventures	(6,844)	(4,967)
Proceeds from disposal of investments in affiliated companies	-	3,846
Payments for purchases of financial assets, long-term	(15,037)	(21,145)
Proceeds from sale of financial assets, long-term	8,635	8,501
Payments for financial assets, short-term	(19,464)	(42,796)
Proceeds from disposal of subsidiaries, net of cash disposed	-	811
Proceeds from sale of financial assets, short-term	42,016	27,867
Interest received	8,575	5,857
Other	(950)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(75,780)</b>	<b>(88,722)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	344,420	160,875
Principal payments on borrowings	(165,430)	(112,810)
Lease liabilities payments <sup>13</sup>	(15,325)	(29)
Acquisition of non-controlling interests in existing subsidiaries	(13,920)	(13,350)
Payments to purchase treasury stock	-	(1,601)
Proceeds from capital transactions with non-controlling interests	-	13,544
Dividends paid	(25,856)	(24,301)
Debt issuance costs	(619)	-
Cash outflow under credit guarantee agreement related to foreign-currency hedge	(981)	(1,766)
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>122,289</b>	<b>20,562</b>
Effect of foreign currency translation on cash and cash equivalents	2,516	(7,218)
<b>Net decrease in cash and cash equivalents</b>	<b>78,215</b>	<b>8,686</b>
Cash and cash equivalents at the beginning of the period	59,959	60,190
Cash and cash equivalents at the end of the period	138,174	68,871

<sup>13</sup> Including 14,992 of payments under lease that would have been classified as operating in accordance with previous IAS 17 standards



## 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 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>3Q 2018</i>	<i>3Q 2017</i>	<i>9M 2018</i>	<i>9M 2017</i>	<i>Excluding impact of new IFRS standards</i>	
					<i>3Q 2018</i>	<i>9M 2018</i>
<b>Operating income</b>	<b>37,301</b>	<b>30,726</b>	<b>96,465</b>	<b>77,304</b>	<b>35,221</b>	<b>89,405</b>
Impairment of long-lived assets in Turkmenistan (MTS)	-	1,146	-	1,146	-	-
(Gain) on investments at Medsi	-	-	-	(785)	-	-
Accruals related to LTI program at portfolio companies	417	359	1,043	700	417	1,043
Impairment of inventory	-	-	-	1,605	-	-
Provisions for litigation and amounts due under contracts with clients at RTI	360	94	1,245	702	360	1,245
Other non-recurring (gains) / losses, net	898	-	1,821	-	898	1,821
<b>Adjusted operating income</b>	<b>38,976</b>	<b>32,325</b>	<b>100,574</b>	<b>80,672</b>	<b>36,896</b>	<b>93,514</b>
Depreciation and amortisation	34,596	24,402	99,355	72,287	26,034	74,724
<b>Adjusted OIBDA</b>	<b>73,572</b>	<b>56,727</b>	<b>199,929</b>	<b>152,959</b>	<b>62,930</b>	<b>168,238</b>

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

<i>RUB millions</i>	<i>3Q 2018</i>	<i>3Q 2017</i>	<i>9M 2018</i>	<i>9M 2017</i>	<i>Excluding impact of new IFRS standards</i>	
					<i>3Q 2018</i>	<i>9M 2018</i>
<b>(Loss)/profit attributable to Sistema</b>	<b>(27,765)</b>	<b>4,275</b>	<b>(30,684)</b>	<b>4,288</b>	<b>(27,928)</b>	<b>(29,325)</b>
Impairment of long-lived assets in Turkmenistan (MTS)	-	573	-	573	-	-
Provision (MTS) <sup>14</sup>	27,878	-	27,878	-	27,878	27,878
Gain on investments at Medsi	-	-	-	(785)	-	-
Accruals related to LTI program at portfolio companies	345	149	799	315	345	799
Impairment of inventory	-	-	-	1,283	-	-
Provisions for litigation and amounts due under contracts with clients at RTI	313	83	1,083	612	313	1,083
Other non-recurring (gains) / losses, net	781	-	1,704	-	781	1,704
<b>Adjusted profit attributable to Sistema</b>	<b>1,552</b>	<b>5,080</b>	<b>780</b>	<b>6,286</b>	<b>1,389</b>	<b>2,139</b>

<sup>14</sup>In its report on financial results under IFRS for 3Q 2018, MTS recorded RUB 55.8bn as the potential liability with respect to the investigation being conducted by the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) in relation to the Company's former operations in Uzbekistan.

*Consolidated net debt.* We define consolidated net debt as consolidated total debt less cash, cash equivalents and liquid financial instruments. Consolidated total debt is defined as total borrowings plus finance lease. The total borrowings is defined as long-term borrowings and short-term borrowings. We believe that the presentation of consolidated net debt provides useful information to investors because we use this measure in our management of consolidated liquidity, financial flexibility, capital structure and leverage.

Consolidated net debt can be reconciled to the borrowings as follows:

<i>RUB millions</i>	<i>As of September 30, 2018</i>	<i>As of June 30, 2018</i>
Long-term borrowings	582,612	466,838
Short-term borrowings	122,968	176,458
<b>Total borrowings</b>	<b>705,580</b>	<b>643,296</b>
Consolidated finance lease <sup>15</sup>	17,378	16,862
<b>Consolidated total debt</b>	<b>722,958</b>	<b>660,158</b>
Cash and cash equivalents	(138,174)	(97,541)
Liquid financial instruments	-	(30,071)
<b>Consolidated net debt</b>	<b>584,784</b>	<b>532,546</b>

<sup>15</sup> In accordance to the standard IAS 17.