



## SISTEMA ANNOUNCES FINANCIAL RESULTS FOR THE SECOND QUARTER 2018

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

### SUCCESSFUL DELIVERY ON STRATEGIC AND OPERATIONAL GOALS

- Continued revenue growth due to strong execution across all key portfolio companies
- MTS, Detsky Mir, Segezha Group, Medsi, hospitality and real estate assets delivered at minimum double-digit OIBDA growth due to strong operating results, cost discipline and the impact of new IFRS standards 15 and 16
- 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 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 execution of obligations under the settlement agreement with PJSC Bashneft, Rosneft and the Republic of Bashkortostan
- The repayment removing the pledge from Sistema’s shareholding in PJSC Detsky Mir (52.099%) was completed using RUB 5 billion of the Corporation’s own funds and a new 3-year RUB 15 billion unsecured loan from Otkritie Bank

### SECOND QUARTER 2018 FINANCIAL RESULTS

- Group revenue<sup>1</sup> up 10.1% YoY to RUB 182.1 billion
- Excluding the effect of the new IFRS standards<sup>2</sup>, Group revenue up 9.4% YoY to RUB 180.9 billion
- Adjusted OIBDA<sup>3</sup> up 32.3% YoY to RUB 66.0 billion, with an adjusted OIBDA margin of 36.2%
- Excluding the effect of the new IFRS standards, adjusted OIBDA up 10.8% YoY to RUB 55.2 billion, with an adjusted OIBDA margin of 30.5%
- Adjusted net loss attributable to Sistema<sup>3</sup> of RUB 1.3 billion
- Excluding the effect of the new IFRS standards, adjusted net loss attributable to Sistema<sup>3</sup> of RUB 0.6 billion

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

*“Sistema continues to deliver strong financial and operating results. In the second quarter of 2018, Group revenue increased by 10% due to excellent growth across key portfolio companies. Notably, MTS, Detsky Mir, Segezha Group, Agroholding Steppe and Medsi again confirmed leadership in their respective industries and posted impressive revenue growth. Additionally, Russia hosted the FIFA World Cup in June and early July 2018 and as a result our subsidiary companies welcomed new customers. Our hospitality business, Cosmos Group, took full advantage of the additional tourist traffic and saw average occupancy at its hotels increase to 61.9% in the quarter (a year-on-year increase of 8.3 percentage points), while MTS saw a slight boost in revenue from guest roaming charges.*

*“Adjusted Group OIBDA increased by 32% thanks to double-digit OIBDA growth rates at MTS, Segezha Group, Medsi and our hospitality and real estate assets, as well as triple-digit OIBDA growth at Detsky Mir. The new IFRS standards had a meaningful impact on the results of MTS and Detsky Mir, though excluding the effect of the new standards OIBDA at our two publicly traded assets still grew significantly and Detsky Mir improved its OIBDA margin thanks to increased operational efficiency.*

*“Sistema portfolio companies are implementing major investment programmes that will expand capacity and facilitate entry into attractive business segments. MTS continues to build out its network in Russia and Ukraine and break into new markets in line with its digital strategy. Leveraging the expertise of its system integrator subsidiary NVision Group, MTS entered the IT*

<sup>1</sup>Here and hereafter in this press release Sistema’s consolidated results and results of its subsidiaries for 2Q 2018 and 6M 2018 are presented in accordance with new accounting standards IFRS 9, 15 and 16 unless specified otherwise. Results for MTS Bank and Binnopharm are not presented excluding the impact of the new standards. However, Sistema estimates that the impact on the consolidated Group results of these subsidiaries’ transition to the new IFRS standards is not material. The results for 2Q 2017 and 6M 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 2Q 2017 and 6M 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.

*outsourcing market to offer its corporate customers systems integration solutions, network infrastructure maintenance, and business applications management. In July, Segezha officially launched the second production line of the Vyatsky Plywood Mill, growing the facility's capacity and expanding the line of high-margin products to include extra large long-grain plywood. In August 2018, RTI commissioned a new modular payload assembly workshop at the Yaroslavl Radio Factory, thereby making the company one of the key players in the area of advanced spacecraft development.*

*"We are actively developing our investment funds, sourcing unique investment opportunities globally. As part of this strategy, in August, Sistema Asia Fund invested in Faaso's, an Indian food preparation and delivery service that owns a large-scale network of kitchens in 15 cities in India.*

*"Sistema is working to optimise its debt load, and has now extended the tenure of the loan portfolio, established a more manageable repayment schedule, reduced the average interest rate and overall debt load and removed pledge from assets. In July, the Company refinanced RUB 24 billion in loans from Sberbank and completed repayment of the RUB 40 billion RDIF/Gazprombank loan using the Company's own funds and a new unsecured loan from Otkritie Bank.*

*"Our manageable debt repayment schedule, growing dividends from our portfolio companies and success in asset monetisations allow us to fully focus on our core competency – increasing shareholder value by growing high-potential companies and transforming them into market leaders."*

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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 2018 results.

To participate in the conference call, please dial:

#### **Russia**

+7 495 646 9190

8 10 8002 8675011 (toll free)

#### **United Kingdom**

+44 330 336 9411

0800 279 7204 (toll free)

#### **United States**

+1 323 994 2093

888 599 8686 (toll free)

**Conference ID: 7348147**

Or quote the conference call title: "Sistema Second 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>	2Q	2Q	Change	6M	6M	Change	<i>Excluding impact of new IFRS standards</i>			
	2018	2017		2018	2017		2Q 2018	Change	6M 2018	Change
Revenue	<b>182,077</b>	165,393	10.1%	353,003	326,292	8.2%	180,914	9.4%	351,615	7.8%
Adjusted OIBDA	<b>65,994</b>	49,869	32.3%	125,472	95,625	31.2%	55,231	10.8%	104,424	9.2%
Operating income	<b>32,711</b>	24,962	31.0%	59,164	46,578	27.0%	30,139	20.7%	54,184	16.3%
(Loss)/profit attributable to Sistema	<b>(1,676)</b>	(1,443)	-	(2,919)	12	-	(980)	-	(1,396)	
Adjusted (loss)/profit attributable to Sistema	<b>(1,328)</b>	(921)	-	(1,542)	677	-	(632)	-	(20)	

In the second quarter of 2018, Sistema's consolidated revenues increased by 10.1% year-on-year, supported by top-line growth across key assets: MTS, driven by Russian mobile service revenue improvement; Detsky Mir, due to expanded retail space and robust like-for-like sales growth; Segezha Group, thanks to increased volumes of sales and higher prices across most products; Agroholding Steppe, thanks to increased sales of carryover inventory, strong results of the Dairy division and launch of the Agrot trading division; Medsi, on the back of increased capacity utilisations at in-patient facilities, stronger patient traffic and the impact of acquisitions; and MTS Bank, as a result of increased retail lending.

Group selling, general and administrative expenses (SG&A) for the reporting quarter declined by 11.0% year-on-year to RUB 33.2 billion, mainly as a result of the adoption of new IFRS standards. Excluding this effect, Group SG&A increased by 3.4% year-on-year to RUB 38.6 billion. The SG&A/revenue ratio declined year-on-year from 22.5% to 18.2%; without the impact of the accounting changes the SG&A/revenue ratio declined to 21.3%. SG&A at the Corporate Centre declined by 20.1% year-on-year to RUB 1.3 billion as a result of lower management compensation costs.

Group adjusted OIBDA increased by 32.3% year-on-year, reflecting stronger results at MTS thanks to increased revenue and the positive impact of the new IFRS standards; Detsky Mir, as a result of the new accounting standards, strong revenue growth and decreased marketing expenses; Segezha, as a result of revenue dynamics and the reduction of administrative and logistics expenses; and RTI, thanks to a significant reduction in SG&A costs. Excluding the impact of the new accounting standards, Group adjusted OIBDA rose by 10.8% year-on-year as a result of growth at MTS, Detsky Mir, Segezha and RTI. The Group's adjusted OIBDA margin improved by 6.0 percentage points year-on-year to 36.2%, mainly as a result of the new accounting standards. Excluding this effect, the adjusted OIBDA margin stood at 30.5%, a year-on-year increase of 0.3 percentage points as a result of higher business efficiency.

The adjusted loss attributable to Sistema for the reporting period was RUB 1.3 billion, primarily as a result of the new accounting standards. Excluding the effect of the new standards, the Group posted an adjusted net loss of RUB 0.6 billion for the quarter.

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

### MTS

Leading telecommunications operator and digital service provider in Russia

(RUB millions)	2Q	2Q	Change	6M	6M	Change	Excluding impact of new IFRS standards			
	2018	2017		2018	2017		2Q	Change	6M	Change
	2018	2017		2018	2017		2018		2018	
Revenue	<b>114,346</b>	106,837	7.0%	222,272	211,521	5.1%	114,916	7.6%	223,429	5.6%
OIBDA	<b>53,391</b>	43,769	22.0%	105,467	85,309	23.6%	45,717	4.5%	90,216	5.8%
Operating income	<b>27,105</b>	23,654	14.6%	53,859	45,063	19.5%	25,381	7.3%	50,343	11.7%
Profit attributable to Sistema	<b>7,141</b>	7,369	(3.1%)	14,852	13,614	9.1%	7,531	2.2%	15,776	15.9%

In the second quarter of 2018, revenue at MTS increased by 7.0% year-on-year to RUB 114.3 billion thanks to a 7.4% increase in Russian mobile service revenue as a result of higher data usage and digital services. Revenue was also positively impacted by strong smartphone sales and contributions from foreign subsidiaries.

OIBDA increased by 22.0% as a result of the adoption of new accounting standards, higher revenue and strict costs control.

Excluding the effect of new IFRS standards, revenue and OIBDA increased by 7.6% and 4.5% year-on-year, respectively.

In June 2018, MTS's Annual General Meeting of Shareholders approved a 2017 dividend in the amount of RUB 23.4 per ordinary share (RUB 46.8 per ADR), payment of which was completed as of 13 August 2018.

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

In August 2018, MTS entered the IT outsourcing market, leveraging the expertise of its subsidiary NVision Group as well as MTS's staff of more than 5,000 IT specialists across Russia.

In July 2018, MTS increased its stake in MTS Bank to 55.2% to boost synergies between the telecommunications and banking businesses, streamline decision-making and accelerate launch of the new fintech products.

Maintaining its focus on shareholder returns, in July 2018, MTS announced the launch of a share and ADR repurchase programme totalling RUB 30 billion and running through July 2020. In August 2018, MTS's Board of Directors recommended that shareholders approve an interim dividend in the amount of RUB 2.6 per share (RUB 5.2 per ADR) for the first half of 2018.

In August 2018, MTS upgraded its FY2018 forecast to 2-4% revenue growth and ~ 2% increase in Group OIBDA excluding the impact of the new IFRS standards. MTS estimated that the adoption of the new IFRS standards will increase OIBDA by at least RUB 25 billion.

### Detsky Mir<sup>5</sup>

The largest children's goods retailer in Russia

(RUB millions)	2Q	2Q	Change	6M	6M	Change	Excluding impact of new IFRS standards			
	2018	2017		2018	2017		2Q	Change	6M	Change
	2018	2017		2018	2017		2018		2018	
Revenue	<b>24,096</b>	21,034	14.6%	48,116	42,096	14.3%	24,096	14.6%	48,116	14.3%
Adjusted OIBDA	<b>4,994</b>	2,219	125.1%	8,483	3,328	154.9%	2,982	34.4%	4,423	32.9%
Operating income	<b>2,414</b>	1,713	41.0%	3,493	2,113	65.3%	2,314	35.1%	3,100	46.7%
Adjusted profit attributable to Sistema	<b>477</b>	438	8.9%	660	515	28.1%	881	101.0%	1,118	116.9%

In the second quarter of 2018, revenue at Detsky Mir increased by 14.6% year-on-year due to the roll-out of new retail space and a 1.3 percentage point year-on-year increase in like-for-like sales, driven by a competitive pricing policy and improved product range. E-commerce remained the company's fastest-growing sales channel, with revenue rising by 93.1% year-on-year in the second quarter of 2018. Online sales accounted for 6.6% of total sales. Developing the e-commerce platform remains one of management's top priorities for 2018.

Adjusted OIBDA increased by 125.1% as a result of the adoption of the new IFRS 16 standard. Excluding this effect, adjusted OIBDA increased by 34.4%.

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

The adjusted OIBDA margin improved by 10.2 percentage points year-on-year to 20.7%. Excluding the effect of the accounting change, the adjusted OIBDA margin increased by 1.9 percentage points year-on-year to 12.4%, driven by improvements to operational efficiency including reductions in marketing expenses. The adjusted SG&A/revenue ratio declined by 9.9 percentage points to 14.2%. Excluding the effect of the accounting change, the adjusted SG&A/revenue ratio declined by 1.5 p.p. to 22.6%.

Adjusted net profit attributable to Sistema was affected by a reduction in the cost of borrowing and optimisation of working capital. Without the effect of the IFRS 16 Lease accounting standard, adjusted net profit more than doubled year-on-year.

The Company's strong growth and solid financial position allowed it to accelerate the pace of expansion to new geographies and adjust previously announced plans to grow the retail network in the short and medium term. The company now plans to open at least 300 new Detsky Mir stores in 2018-2021, including approximately 100 new stores in 2018, with a targeted internal rate of return of approximately 40%. In the second quarter of 2018 the company opened 20 new stores, and as of 30 June 2018 there were a total of 650 Detsky Mir Group stores.

Detsky Mir is targeting entry into the Belorussian market with the aim of becoming a key market player in the medium term. The company plans to open its first store in Belarus in 2019.

In May 2018, Detsky Mir paid a final dividend for 2017 of RUB 2.9 billion (RUB 3.88 per ordinary share). Dividends paid for the nine months and full year 2017 totalled RUB 5.1 billion, representing a dividend yield of 7.2%.<sup>6</sup>

In the second quarter of 2018 Detsky Mir repurchased 438,130 ordinary shares from the market for the purposes of its long-term management incentive programme.

## Segezha Group

*Leading Russian vertically-integrated forest holding*

<i>(RUB millions)</i>							<i>Excluding impact of new IFRS standards</i>			
	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>Change</b>	<b>6M 2018</b>	<b>6M 2017</b>	<b>Change</b>	<b>2Q 2018</b>	<b>Change</b>	<b>6M 2018</b>	<b>Change</b>
Revenue	<b>12,429</b>	10,795	15.1%	23,971	20,282	18.2%	12,429	15.1%	23,971	18.2%
OIBDA	<b>2,613</b>	1,556	67.9%	4,789	2,829	69.3%	2,448	57.3%	4,404	55.7%
Operating income	<b>1,465</b>	705	107.6%	2,524	1,092	131.1%	1,412	100.2%	2,365	116.5%
(Loss) attributable to Sistema	<b>(759)</b>	(790)	-	(1,297)	(731)	-	(669)	-	(1,126)	-

In the second quarter of 2018, revenue at Segezha Group increased by 15.1% year-on-year to RUB 12.4 billion due to increased sales volumes, as well as higher prices across most key products. The 17.5% weakening of the RUB against the EUR also had a positive impact on revenue, given that approximately 60% of Segezha Group's revenue is denominated in EUR.

OIBDA increased by 67.9% year-on-year to RUB 2.6 billion and the OIBDA margin improved by 6.6 percentage points to 21.0% as a result of the revenue increase as well as strict cost control including reduction of logistics and administrative expenses. The positive impact on OIBDA from the adoption of the new IFRS 16 standard amounted to RUB 165 million. The net loss in the reporting period was mainly due to changes in exchange rates.

Paper production volumes increased by 4.7% year-on-year due to the launch in the fourth quarter of 2017 of a new paper machine at Segezha Pulp & Paper Mill. The volume of paper sacks produced in the second quarter increased by 1.0% thanks to increased sales efficiency. Plywood production increased by 11.7% year-on-year to 29,100 cubic metres due to the roll-out of new equipment – the second production line at the Vyatsky Plywood Mill.

Sawn timber production decreased by 5.8% year-on-year to 213,200 cubic metres in the reporting quarter, which was driven by the reallocation of capacity at the Sokol Wood Processing Plant from sawn timber to higher-margin laminated products and pre-fabricated homes, the production of which increased by 34.5% and 52.1%, respectively.

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

In July 2018, Segezha officially launched the second production line at the Vyatsky Plywood Mill, which will increase plywood production capacity to 192,000 cubic metres and expand the product range to include extra large long-grain plywood.

## Agroholding Steppe

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

<sup>6</sup> Based on the average share price over the 12 months starting June 30<sup>th</sup> 2018.

<i>(RUB millions)</i>							<i>Excluding impact of new IFRS standards</i>			
	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>Change</b>	<b>6M 2018</b>	<b>6M 2017</b>	<b>Change</b>	<b>2Q 2018</b>	<b>Change</b>	<b>6M 2018</b>	<b>Change</b>
Revenue	<b>3,773</b>	1,956	92.9%	6,309	3,160	99.6%	3,773	92.9%	6,309	99.6%
OIBDA	<b>2,101</b>	2,061	1.9%	2,790	2,173	28.4%	2,095	1.6%	2,779	27.9%
Operating income	<b>1,782</b>	1,871	(4.8%)	2,118	1,804	17.4%	1,842	(1.5%)	2,235	23.9%
Profit attributable to Sistema	<b>1,481</b>	1,331	11.2%	1,417	1,056	34.2%	1,548	16.3%	1,553	47.1%

Agroholding Steppe's results in the second quarter of 2018 reflect the seasonal nature of the agriculture industry, where the majority of revenues are generated in the second half of the year. In the reporting quarter, revenue increased by 92.9% year-on-year to RUB 3.8 billion on the back of increased sales of carryover inventory from 2017, strong growth in the Dairy division and the launch of the Agrot trading division. These factors drove significant growth in OIBDA in the first half of the year, which increased by 28.4% year-on-year. Robust development of the Agrot trading division in the reporting period drove a 14x increase in crop exports in the second quarter of the 2018 to 201,000 tonnes. The Dairy division grew on the back of increased milk production per cow (+6.7% year-on-year) and expansion of the herd (+11.4% year-on-year). The new dairy farm opened in the first quarter 2018, which will accommodate 1,800 cows, is posting strong operating results: average milk production per cow exceeds 35 litres per day, more than double the average production in Russia.

The Field Crop division was affected by a drought during formation and filling of the grain crop, resulting in a modest decline in the 2018 wheat harvest. This effect was fully offset by higher sales prices and the high quality of the harvest. A shift in world wheat prices is currently underway: current contract prices for delivery in the second half of 2018 are more than 20% above equivalent contracts in 2017.

The Vegetable division demonstrated stable results, with production of 19,400 tonnes of vegetables in the second quarter of 2018, in line with the result during the same period in 2017.

Agroholding Steppe's net profit in the second quarter of 2018 increase by 11.2% year-on-year to RUB 1.5 billion. Without the effect of the new IFRS standards, net profit increased by 16.3% to RUB 1.5 billion.

## Medsi<sup>7</sup>

*Leading private healthcare operator*

<i>(RUB millions)</i>							<i>Excluding impact of new IFRS standards</i>			
	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>Change</b>	<b>6M 2018</b>	<b>6M 2017</b>	<b>Change</b>	<b>2Q 2018</b>	<b>Change</b>	<b>6M 2018</b>	<b>Change</b>
Revenue	<b>4,111</b>	2,758	49.0%	7,622	5,293	44.0%	4,111	49.0%	7,622	44.0%
Adjusted OIBDA	<b>572</b>	398	43.7%	1 035	1,124	(7.9%)	463	23.5%	811	(27.9%)
Operating (loss)/income	<b>(259)</b>	875	-	(275)	1,282	-	(295)	-	(346)	-
Adjusted (loss)/profit attributable to Sistema	<b>(41)</b>	59	-	(144)	347	-	(13)	-	(78)	-

Revenue at Medsi increased by 49.0% to RUB 4.1 billion in the second quarter of 2018 on the back of increased capacity utilisation at in-patient facilities, higher patient traffic at the Clinical-Diagnostic Centre (CDC) at Krasnaya Presnya and new clinics on Leninsky Avenue, 3rd Khoroshevsky Passage and Leninskaya Village. Regional facilities acquired in 2017 also contributed 8.6% to the overall Group revenue growth. Payments by insurance companies accounted for 61.9% of revenue, with 20.4% of sales coming from the mandatory health insurance programme (MHI) and 41.5% coming from voluntary health insurance (VHI). In the reporting quarter, Medsi continued to grow the volume of services delivered under MHI, which drove 209% year-on-year revenue growth in that segment.

Growth of adjusted OIBDA by 43.7% to RUB 0.6 billion primarily resulted from the transition to the new IFRS standards as well as increased capacity utilisation and a higher average check at the CDC on Krasnaya Presnya and at Moscow in-patient and out-patient facilities. The adjusted OIBDA margin declined by 0.6 percentage points to 13.9% primarily due to an increased proportion of revenue coming from material-intensive high-tech treatments as well as an increase in marketing expenses.

Medsi's adjusted net loss for the second quarter of 2018 was due to increased amortisation charges as a result of new clinic openings in 2017-2018, as well as higher interest payments.

<sup>7</sup> Results for 2Q 2018 and 6M 2018 have been adjusted for additional accruals under the LTI program (including related tax effects).

Revenue from the CDC on Belorusskaya increased by 10% and its OIBDA margin increased by 0.6 percentage points year-on-year to 43.7%. The CDC on Krasnaya Presnya increased capacity utilisation by 7.2 percentage points to 30.1%, which drove revenue 2.3x higher while the OIBDA margin improved by 13 percentage points to 33.1%.

*Significant events of the second quarter of 2018 and after the end of the reporting period*

In June 2018, Medsi and South Korea's Severance Hospital, in partnership with Sistema and the Russian Direct Investment Fund (RDIF), signed a cooperation agreement aimed at creating a multidisciplinary diagnostic centre in Moscow that will use the most advanced global practices in the diagnosis and treatment of patients.

In July 2018, Medsi established the Centre for Patient Support. The Centre is dedicated to systematic study of the satisfaction and preferences of patients when they receive medical or other services from Medsi, implementation of best international practices in patient-centred medicine and the development of internal processes and cultures oriented to patient preferences.

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

*One of the 50 largest banks in Russia*

<i>(RUB millions)</i>	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>Change</b>	<b>6M 2018</b>	<b>6M 2017</b>	<b>Change</b>
Revenue	<b>5,439</b>	4,362	24.7%	10,668	8,681	22.9%
OIBDA	<b>200</b>	314	(36.3%)	723	594	21.8%
Operating income	<b>67</b>	195	(65.8%)	453	319	42.0%
Profit attributable to Sistema	<b>5</b>	129	(96.2%)	294	195	50.8%

In the second quarter of 2018, MTS Bank's revenue increased by 24.7% year-on-year to RUB 5.4 billion, mainly due to 19.2% year-on-year growth in interest income on the back of continued rapid growth in consumer lending. The bank's cost of risk remained at a comfortable level of 3-4%. Fee and commission income also contributed to revenue growth, increasing by 42.9% year-on-year as the higher number of active cards and the launch of a new mobile banking app have supported an increase in the number of commission transactions undertaken by clients.

The decline in net income in the second quarter of 2018 was due to the creation of additional loan loss provisions following refining of the calculation methodology in relation to the transition to IFRS 9. At the same time, the bank's net income for the first half of 2018 rose by more than 50% year-on-year.

*Significant events after the end of the reporting period*

In July 2018, Sistema sold a 28.63% stake in MTS Bank, which brought Sistema's stake in the Bank down to 43.24%, while the stake owned by MTS increased from 26.61% to 55.24%. This transaction allows MTS Bank to continue its development and its digital transformation, while enabling MTS to more effectively leverage the synergies between the banking and telecommunications businesses.

In July 2018, the rating agency Expert RA raised MTS Bank's credit rating to ruBBB- with a Stable outlook.

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

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

<i>(RUB millions)</i>				<i>Excluding impact of new IFRS standards</i>						
	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>Change</b>	<b>6M 2018</b>	<b>6M 2017</b>	<b>Change</b>	<b>2Q 2018</b>	<b>Change</b>	<b>6M 2018</b>	<b>Change</b>
Revenue	<b>3,495</b>	2,816	24.1%	5,842	5,900	(1.0%)	1,717	(39.0%)	3,207	(45.6%)
OIBDA	<b>1,198</b>	777	54.1%	1,554	1,578	(1.6%)	551	(29.1%)	594	(62.4%)
Operating income	<b>1,095</b>	610	79.4%	1,335	1,304	2.4%	448	(26.5%)	378	(71.0%)
Profit/(loss) attributable to Sistema	<b>427</b>	141	203.1%	163	475	(65.6%)	95	(32.4%)	(219)	-

Leader Invest's sales volumes in Moscow grew by 82.1% year-on-year to 14,200 square metres in the second quarter of 2018, and cash collections from sales reached RUB 3.2 billion. The significant growth in sales was driven by on-going measures to strengthen the company's sales function, accurate targeting of customer groups, an increase in the number of projects at sales stages, as well as marketing innovations like the development of online sales channel and the integration of end-to-end analysis systems. As of 30 June 2018, Leader Invest's sales portfolio amounted to approximately 122,000 square metres of real estate.

<sup>8</sup> Excluding results of East-West United Bank (EWUB) and the result of the divestment of a 47% stake in EWUB; 2Q 2018 and 6M 2018 results for MTS Bank are not presented excluding the impact of the new IFRS standards.

Revenue for Leader Invest in the second quarter of 2018 was RUB 2.3 billion, primarily from sales at comfort-class projects in Moscow on Yan Rainis Street, Kavkazskiy Boulevard, Krasnogvardeyskiy Boulevard and Chertanovskaya Street, as well as business-class projects on Demyana Bednogo Street, Mishina Street and Lobachevskogo Street. Leasing of commercial premises also contributed to revenue. The increase in revenue and OIBDA resulted from earlier recognition of revenue under IFRS 15. Without the effect of IFRS 15, decline in revenue and OIBDA for the period was driven by the high base effect – results of the first half of 2017 were impacted by the commissioning at the end of 2016 of two houses (Rogozhsky and Nagatinsky) with total saleable area of 25,000 square meters.

Leader Invest reported net income of RUB 0.1 billion in the reporting quarter, versus a net loss in the same period a year earlier. This was primarily driven by growth in OIBDA and declining interest expense. The company continued to focus on optimisation of its debt portfolio, and reduced its average interest rate from 13.1% as of 31 December 2017 to 11.5% as of 1 July 2018.

In June 2018, two of the company’s projects were crowned in the Records of the Real Estate Market 2018 awards. The Lobachevskogo 120 project won in the “Buyer’s Choice” nomination, while Residence on Vsevolzhskom took the grand prize in an open vote among market professionals and housing buyers.

In the second quarter, revenue for Sistema’s rental assets (which include Business-Nedvizhimost and its subsidiary Mosdachtrest) declined by 44.4% year-on-year to RUB 1.2 billion, primarily as a result of the high base effect from the sale of an automated switching station in the second quarter of 2017. Following the decrease in sales, OIBDA declined by 11.9% to RUB 0.6 billion. Net income increased by 8.7% year-on-year to RUB 0.3 billion, driven by lower interest expense and income tax payments.

## RTI

*Leading Russia’s high-tech company*

<i>(RUB millions)</i>							<i>Excluding impact of new IFRS standards</i>			
	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>Change</b>	<b>6M 2018</b>	<b>6M 2017</b>	<b>Change</b>	<b>2Q 2018</b>	<b>Change</b>	<b>6M 2018</b>	<b>Change</b>
Revenue	<b>7,970</b>	8,828	(9.7%)	14,598	16,872	(13.5%)	7,970	(9.7%)	14,598	(13.5%)
OIBDA	<b>915</b>	27	3,247.9%	1,060	248	327.8%	831	2 941.7%	905	265.2%
Operating income/(loss)	<b>137</b>	(563)	-	(377)	(985)	-	97	-	(443)	-
Loss attributable to Sistema	<b>(898)</b>	(1,583)	-	(2,247)	(3,015)	-	(924)	-	(2,277)	-

RTI’s revenue declined in the second quarter of 2018 due to work schedules being shifted across a number of contracts in the Radar segment, though this was partially offset by revenue growth in the Microelectronics segment.

The significant increase in OIBDA came as a result of effective cost control measures and a reduction of SG&A expenses by 33.9% year-on-year. RTI’s OIBDA margin reached 11.5% as cost of sales decreased by bringing an increasing number of work activities in-house, but also as a result of more high-margin projects in the area of technical and architectural supervision of previously constructed facilities.

The net loss for the second quarter of 2018 narrowed to RUB 0.9 billion compared to a loss of RUB 1.6 billion in the second quarter of 2017.

RTI’s net debt decreased by 8.5% year-on-year in the second quarter of 2018. The share of debt related to state defence contracts declined to zero as a result of the Defence Ministry’s transition away from credit financing for defence procurements. RTI also has on its accounts additional funds earmarked for state defence orders amounting to RUB 12.5 billion that are not included in the net debt calculation.

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

In August 2018, the Yaroslavl Radio Factory opened a new modular payload assembly workshop. The commissioning of this production unit makes the factory a key link in the production chain of advanced spacecraft. In addition, Yaroslavl Radio Factory and Russian Space Systems signed a cooperation agreement concerning the development and production of spaceborne instrumentation. Yaroslavl Radio Factory is positioned to become a centre of excellence in navigation and space communications.



## Bashkirian Power Grid Company (BPGC)

One of the Russia's biggest power grid companies

(RUB millions)	2Q	2Q	Change	6M	6M	Change	Excluding impact of new IFRS standards			
	2018	2017		2018	2017		2Q	Change	6M	Change
	2018	2017		2018	2017		2018		2018	
Revenue	4,280	3,926	9.0%	9,304	8,513	9.3%	4,337	10.5%	9,394	10.4%
OIBDA	1,257	1,240	1.4%	2,995	2,845	5.3%	1,244	0.3%	3,054	7.3%
Operating income	637	668	(4.6%)	1,752	1,693	3.5%	631	(5.6%)	1,828	8.0%
Profit attributable to Sistema	513	554	(7.4%)	1,400	1,348	3.9%	520	(6.2%)	1,482	9.9%

BPGC's revenue increased by 9.0% to RUB 4.3 billion in the second quarter of 2018 due to indexation of tariffs for electricity transmission services that came into effect on 1 July 2017.

In the second quarter of 2018, OIBDA grew by 1.4% on the back of increased revenue and a one-off effect from the resolution of disputes with counterparties. The OIBDA margin declined by 2.2 percentage points year-on-year to 29.4% due to higher costs for services provided by PJSC Federal Grid Company of Unified Energy System, higher tax rates and the abolition of preferential tax treatment for movable property.

Net profit was affected by factors including an increase in amortisation (due to implementation of the investment programme) and a decrease in income from placement of free cash. As a result, net profit declined by 7.4% year-on-year to RUB 0.5 billion.

Capital expenditure rose in the second quarter and the first half of 2018 due to realisation of major projects: construction of the 35 kV Kubiyazy-Karaidel overhead transmission line and construction of the Novoufimsky power distribution zone as well increased work volumes related to technical connections of consumers. Additionally, work continued on the Smart Grid project, which as of the end of July was 60% complete.

In June 2018, BPGC's Annual General Meeting of Shareholders voted to pay 2017 dividends totalling RUB 1.3 billion.

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

In July 2018, a BPGC subsidiary began the formation of a new comprehensive system to monitor overhead power transmission lines using unmanned aerial vehicles, which will reduce the manpower required for diagnostic processes, increase reliability of the electricity supply for consumers and assist in creation of a digital map of power facilities and merge data from a variety of sources to a single landscape with geospatial targeting.

## Binnopharm<sup>9</sup>

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

(RUB millions)	2Q	2Q	Change	6M	6M	Change
	2018	2017		2018	2017	
Revenue	327	620	(47.3%)	734	938	(21.8%)
OIBDA	53	145	(63.5%)	169	183	(7.6%)
Operating income	16	101	(84.2%)	99	103	(3.9%)
(Loss)/profit attributable to Sistema	(42)	17	-	(42)	(17)	-

In the second quarter of 2018, revenue at Binnopharm declined by 47.3% year-on-year to RUB 0.3 billion mainly due to the lack of seasonal growth for antiviral medicines as a result of favourable epidemiologic conditions as well as the termination of several commercial distribution contracts.

Binnopharm continues to implement its strategy of reducing the share of revenue accounted for by the hospital segment: the share of revenue generated by the commercial segment increased by 2.8 percentage points year-on-year to 73.0% in the reporting quarter. The share of revenue accounted for by the company's own products increased from 56.7% in the second quarter of 2017 to 89.7% in the second quarter of 2018, in part due to the start of new product sales in 2018.

OIBDA in the second quarter of 2018 decreased as a result of the revenue decline, though over the first half of 2018 OIBDA was broadly in line with first half 2017 results thanks to an increase in the share of high-margin sales of the company's own products.

<sup>9</sup> 2Q 2018 and 6M 2018 results for Binnopharm are not presented excluding the impact of the new IFRS standards

Over the past several months Binnopharm was granted registration for five products – Binnoferon, Ciprofloxacin, Levofloxacin, and solutions of HES and Metronidazole – which will significantly increase the production volume and proportion of sales accounted for by the company’s own products.

## Hospitality assets

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

<i>(RUB millions)</i>				<i>Excluding impact of new IFRS standards</i>						
	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>Change</b>	<b>6M 2018</b>	<b>6M 2017</b>	<b>Change</b>	<b>2Q 2018</b>	<b>Change</b>	<b>6M 2018</b>	<b>Change</b>
Revenue	<b>1,506</b>	1,072	40.6%	2,466	1,895	30.1%	1,506	40.6%	2,466	30.1%
OIBDA	<b>560</b>	318	76.0%	636	388	63.9%	560	76.0%	628	60.5%
Operating income	<b>376</b>	163	130.0%	261	82	220.6%	380	132.4%	262	221.2%
Profit/(loss) attributable to Sistema	<b>51</b>	(68)	-	(289)	(234)	-	68	-	(283)	-

In the second quarter of 2018, revenue at Sistema’s hospitality assets increased by 40.6% year-on-year, mainly due to the opening of the Holiday Inn Express Paveletskaya and higher occupancy rates on the back of Russia hosting the World Cup.

The average occupancy rate in the second quarter of 2018 was 61.9%, an increase of 8.3 percentage points versus the same period in 2017. Hotels in World Cup host cities saw significantly higher sales: the Park Inn properties in Sochi, Kazan and Volgograd as well as Moscow hotels, notably Hotel Cosmos, where occupancy rates in the reporting quarter were 73.4% versus 57.3% in the second quarter of 2017.

The 76.0% growth in OIBDA and 7.5 percentage point improvement in the OIBDA margin were driven by an increase in the average daily rate (ADR) to RUB 6,900 in the second quarter of 2018, an increase of 23.7% versus the same period last year.

Sistema’s hospitality assets posted a net profit in the second quarter of 2018 versus a net loss a year earlier, primarily due to the increase in ADR.

Sistema plans to rebrand its Russian hotel portfolio. With the exception of one Holiday Inn Express and seven Park Inn properties, the company’s Russian hotels will operate under the brand Cosmos Hotels & More. The Cosmos Hotels & More chain will include four sub-brands: urban budget hotels, MyCosmos; business hotels, Cosmos; premium properties, Cosmos Collection; and apartment hotels and apartment complexes, CosmosStay.

## Corporate

<i>(RUB millions)</i>				<i>Excluding impact of new IFRS standards</i>						
	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>Change</b>	<b>6M 2018</b>	<b>6M 2017</b>	<b>Change</b>	<b>2Q 2018</b>	<b>Change</b>	<b>6M 2018</b>	<b>Change</b>
Adjusted OIBDA	<b>(1,559)</b>	(1,535)	-	(3,211)	(3,344)	-	(1,561)	-	(3,215)	-
Adjusted loss	<b>(8,814)</b>	(5,555)	-	(14,085)	(8,431)	-	(8,814)	-	(14,085)	-
Indebtedness	<b>213,618</b>	120,376	77.5%	213,618	120,376	77.5%	214,943	78.6%	214,943	78.6%

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

In the second quarter of 2018, SG&A expenses at the Corporate Centre declined by 20.1% year-on-year to RUB 1.3 billion. In the reporting quarter the SG&A/revenue margin at the Corporate Centre declined from 1.0% to 0.7%.

Total debt at the Corporate Centre level amounted to RUB 213.6 billion as of 30 June 2018.

## **KEY GROUP HIGHLIGHTS IN 2Q 2018 AND AFTER THE REPORTING PERIOD**

In August 2018, Sistema subsidiary Sistema Finance S.A. sold 3,947,262 ordinary shares of MTS to MTS subsidiary LLC Bastion for a total consideration of RUB 1.07 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%.

In June 2018, Sistema's Annual General Meeting of Shareholders (AGM) approved final dividends for 2017 of RUB 1.1 billion.

In May 2018, venture fund Sistema Venture Capital invested in Connecterra, a start-up which deploys AI solutions for dairy farming; TraceAir, a company developing a platform for monitoring construction sites using unmanned aerial vehicles; and SQream, a company that enables enterprises to maximise and leverage their big data analytics by using GPU.

In April 2018, Vladimir Travkov was appointed as Sistema Vice President and CFO. Mr. Travkov has held management positions in MTS Group since 2003, including as director of the Functional Control Department since 2016.

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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 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.*

## **NEW REPORTING STANDARDS**

### **IFRS 9, Financial Instruments.**

IFRS 9 regulates the classification and measurement of financial assets and liabilities and requires certain additional disclosures. The primary changes relate to the assessment of hedging arrangements and provisioning for potential future credit losses on financial assets as well as recognition of modification gain or loss for all revisions of estimated payments or receipts, including changes in cash flows arising from a modification or exchange of a financial liability, that does not result in its derecognition.

### **IFRS 15, Revenue from Contracts with Customers.**

This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaced the existing standards IAS 18, Revenue, and IAS 11, Construction Contracts. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the standard, an entity recognizes revenue when (or as) a performance obligation is satisfied, i. e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios than exists in the current guidance. The main effect of the standard on the Group’s consolidated financial statements related to the deferral of certain incremental costs incurred in acquiring or fulfilling a contract with a customer. Such contract costs are amortized over the period of benefit.

### **IFRS 16, Leases.**

This standard principally requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. The standard also includes new provisions on the definition of a lease and its presentation, on disclosures in the notes, and on sale and leaseback transactions.

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2018 AND 2017**  
*(Amounts in millions of Russian roubles, except for per share amounts)*

	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenue	353,003	326,292	182,077	165,393
Cost of sales	(161,488)	(153,350)	(83,514)	(76,343)
Selling, general and administrative expenses	(64,612)	(73,805)	(33,174)	(37,279)
Depreciation and amortisation <sup>10</sup>	(64,759)	(47,886)	(32,849)	(24,029)
Impairment of long-lived assets	(379)	(323)	(13)	(158)
Impairment of financial assets	(2,526)	(2,242)	(1,150)	(1,259)
Taxes other than income tax	(3,146)	(2,979)	(1,531)	(1,506)
Share of the profit or loss of associates and joint ventures	1,767	1,142	945	416
Other income	4,336	3,573	3,165	2,903
Other expenses	(3,031)	(3,843)	(1,245)	(3,176)
<b>OPERATING INCOME</b>	<b>59,165</b>	<b>46,579</b>	<b>32,711</b>	<b>24,962</b>
Finance income	3,695	3,663	2,042	2,195
Finance costs <sup>11</sup>	(33,279)	(24,472)	(17,480)	(10,953)
Currency exchange (loss)/gain	(7,208)	241	(6,568)	(3,799)
<b>PROFIT BEFORE TAX</b>	<b>22,373</b>	<b>26,011</b>	<b>10,705</b>	<b>12,405</b>
Income tax expense	(9,254)	(8,955)	(4,104)	(4,249)
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>13,119</b>	<b>17,056</b>	<b>6,601</b>	<b>8,156</b>
Loss from discontinued operations	(388)	(4,230)	(388)	(2,377)
<b>PROFIT FOR THE PERIOD</b>	<b>12,731</b>	<b>12,826</b>	<b>6,213</b>	<b>5,779</b>
<b>Profit/(loss) attributable to:</b>				
Shareholders of Sistema PJSFC	(2,919)	12	(1,676)	(1,443)
Non-controlling interests	15,650	12,814	7,889	7,222
	<b>12,731</b>	<b>12,826</b>	<b>6,213</b>	<b>5,779</b>
<b>Earnings per share (basic and diluted), Russian Rubles:</b>				
From continuing operations	(0.28)	0.34	(0.15)	0.03
From continuing and discontinued operations	(0.31)	0.00	(0.18)	(0.15)

<sup>10</sup> Including RUB 14,492 mn of lease rights amortization for 6 months 2018 out of which RUB 14,038 mn relate to lease that would have been classified as operating under old standards (without the impact of new IFRS standards 9, 15 and 16).

<sup>11</sup> Including RUB 8,858 mn of lease interest expense for 6 months 2018 out of which RUB 8,156 mn relate to lease that would have been classified as operating under old standards.

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

	<b>June 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
NON-CURRENT ASSETS:		
Property, plant and equipment	406,428	411,467
Investment property	23,445	24,664
Goodwill	56,688	54,081
Right-of-use-asset	198,861	-
Other intangible assets	112,089	97,666
Investments in associates and joint ventures	25,039	20,783
Deferred tax assets	41,271	35,809
Loans receivable and other financial assets	91,086	104,395
Deposits in banks	108	-
Other assets	13,110	18,169
Total non-current assets	968,125	767,034
CURRENT ASSETS:		
Inventories	98,068	81,401
Contract asset	8,270	-
Accounts receivable	57,318	54,836
Advances paid and prepaid expenses	18,450	15,324
Current income tax assets	3,091	3,274
Other taxes receivable	20,279	17,190
Loans receivable and other financial assets	119,852	99,798
Deposits in banks	1,591	28,068
Restricted cash	12,942	8,591
Cash and cash equivalents	97,541	59,959
Other assets	3,480	2,174
Total current assets	440,882	370,615
<b>TOTAL ASSETS</b>	<b>1,409,007</b>	<b>1,137,649</b>

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

	<b>June 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	68,643	67,856
Retained earnings	(18,340)	(17,375)
Accumulated other comprehensive (loss)/income	3,940	2,332
Equity attributable to shareholders of Sistema	50,353	47,866
Non-controlling interests	66,657	74,957
<b>TOTAL EQUITY</b>	<b>117,010</b>	<b>122,823</b>
NON-CURRENT LIABILITIES:		
Borrowings	466,838	381,561
Lease liabilities	185,604	12,090
Bank deposits and liabilities	11,028	33,419
Deferred tax liabilities	40,749	38,160
Provisions	4,632	3,399
Liability to Rosimushchestvo	14,629	13,427
Other financial liabilities	2,086	6,514
Other liabilities	5,857	7,537
Total non-current liabilities	731,423	496,107
CURRENT LIABILITIES:		
Borrowings	176,458	139,403
Lease liabilities	23,402	2,765
Liability under Settlement agreement		80,000
Accounts payable	111,717	114,402
Bank deposits and liabilities	115,677	83,873
Contract liabilities and other non-financial liabilities	58,648	48,789
Income tax payable	1,853	1,833
Other taxes payable	17,633	14,378
Dividends payable	28,856	4,578
Provisions	11,500	13,038
Liability to Rosimushchestvo	7,725	9,601
Other financial liabilities	7,105	6,059
Total current liabilities	560,574	518,719
<b>TOTAL LIABILITIES</b>	<b>1,291,997</b>	<b>1,014,826</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,409,007</b>	<b>1,137,649</b>

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

**CASH FLOWS FROM OPERATING ACTIVITIES:**

**Six months ended June 30,**

	<b>2018</b>	<b>2017</b>
(Loss)/profit for the period	12,730	12,826
Adjustments to reconcile net income to net cash provided by operations (including discontinued operations):		
Depreciation and amortization	64,759	48,372
Share of the profit or loss of associates and joint ventures, net	(1,767)	(1,142)
Finance income	(3,695)	(3,790)
Finance costs	33,308	26,128
Income tax expense	9,254	8,922
Currency exchange loss/(gain)	7,208	(735)
Loss from discontinued operations	388	125
Change in fair value adjustment of financial instruments through profit or loss	92	275
(Profit)/loss on disposal of property, plant and equipment	(1,247)	(283)
Amortization of connection fees	(1,078)	(446)
Impairment loss on loans receivable	1,728	98
Dividends received from associates and joint ventures	1,551	1,486
Non-cash compensation to employees	287	742
Impairment of long-lived assets	379	323
Impairment of financial assets	2,526	2,231
Other non-cash items	2,274	1,421
	<b>128,698</b>	<b>96,553</b>
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	9,055	930
Bank deposits and liabilities	9,360	(207)
Restricted cash	(4,351)	46
Financial assets/liabilities at fair value through profit or loss	2,561	(775)
Accounts receivable and contract assets	(3,919)	3,043
Advances paid and prepaid expenses	(2,557)	(720)
Other taxes receivable	(3,083)	(911)
Inventories	(19,510)	(6,480)
Accounts payable	(6,142)	(9,517)
Subscriber prepayments	582	(1,264)
Other taxes payable	3,255	(2,184)
Advances received and other liabilities	492	4,281
Payment in accordance with the Settlement agreement	(80,000)	-
Interest paid <sup>12</sup>	(31,460)	(25,147)
Income tax paid	(12,338)	(12,052)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>(9,357)</b>	<b>45,596</b>

<sup>12</sup> Including RUB 8,664 mn of lease interest paid out of which RUB 7,963 mn relate to lease that would have been classified as operating under old standards.



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

	<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for purchases of property, plant and equipment and investment property	(36,576)	(29,418)
Proceeds from sale of property, plant and equipment	2,678	2,854
Payments to obtain and fulfill contracts	(2,104)	-
Payments for purchases of intangible assets	(13,140)	(7,542)
Payments for businesses, net of cash acquired	(2,988)	(2,391)
Payments for investments in associates and joint ventures	(4,348)	(3,167)
Proceeds from disposal of investments in affiliated companies	114	3,846
Payments for purchases of financial assets, long-term	(10,809)	(14,578)
Proceeds from sale of financial assets, long-term	1,895	6,295
Payments for financial assets, short-term	(28,111)	(34,007)
Proceeds from disposal of subsidiaries, net of cash disposed	-	-
Proceeds from sale of financial assets, short-term	31,260	9,796
Interest received	6,905	3,801
Other	(925)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(56,149)</b>	<b>(64,511)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	207,631	140,499
Principal payments on borrowings	(87,637)	(88,402)
Lease liabilities payments <sup>13</sup>	(10,230)	(29)
Acquisition of non-controlling interests in existing subsidiaries	(5,572)	(4,819)
Payments to purchase treasury stock	-	(1,601)
Proceeds from capital transactions with non-controlling interests	-	13,544
Dividends paid	(1,496)	-
Debt issuance costs	(595)	-
Cash outflow under credit guarantee agreement related to foreign-currency hedge	(981)	(901)
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>101,120</b>	<b>58,291</b>
Effect of foreign currency translation on cash and cash equivalents	1,968	(1,623)
<b>Net decrease in cash and cash equivalents</b>	<b>37,582</b>	<b>37,753</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	97,541	97,943

<sup>13</sup> Including RUB 10,015 mn of payments under lease that would have been classified as operating in accordance with old standards.

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED SEGMENTAL BREAKDOWN FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017**  
*(Amounts in millions of Russian roubles)*

	External revenues		Inter-segment revenue		Segment operating income	
	6m2018	6m2017	6m2018	6m2017	6m2018	6m2017
MTS	220,420	210,543	1,851	978	53,522	44,887
Detsky mir	48,115	42,096	1	-	3,493	2,113
RTI	14,486	16,855	111	17	(377)	(985)
MTS Bank	9,486	7,953	1,182	728	453	319
Corporate	996	840	408	446	(3,500)	(3,647)
Total reportable segments	<b>293,503</b>	<b>278,287</b>	<b>3,553</b>	<b>2,169</b>	<b>53,591</b>	<b>42,687</b>
Other	59,500	48,005	934	745	4,975	3,723
	<b>353,003</b>	<b>326,292</b>	<b>4,487</b>	<b>2,914</b>	<b>58,566</b>	<b>46,410</b>
Inter-segment eliminations					599	169
<b>Operating income</b>					<b>59,165</b>	<b>46,579</b>
Finance income					3,695	3,663
Finance costs					(33,279)	(24,472)
Foreign currency exchange gain/(loss)					(7,208)	241
<b>Profit before tax</b>					<b>22,373</b>	<b>26,011</b>

	Additions to non-current assets		Depreciation and amortisation	
	6m2018	6m2017	6m2018	6m2017
MTS	39,764	26,428	51,608	40,245
Detsky mir	708	577	4,695	874
RTI	825	946	1,437	1,233
MTS Bank	761	183	271	275
Corporate	145	397	289	303
Other	7,513	8,429	6,459	4,956
	<b>49,716</b>	<b>36,960</b>	<b>64,759</b>	<b>47,886</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 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 2018</i>	<i>2Q 2017</i>	<i>6M 2018</i>	<i>6M 2017</i>	<i>Excluding impact of new IFRS standards</i>	
					<i>2Q 2018</i>	<i>6M 2018</i>
<b>Operating income</b>	<b>32,711</b>	<b>24,962</b>	<b>59,164</b>	<b>46,578</b>	<b>30,139</b>	<b>54,184</b>
Other non-recurring (profit)/losses	(44)	1,604	923	1,604	(44)	923
Gain on investments at Medsi	-	(785)	-	(785)	-	-
Accruals related to LTI program at Detsky Mir	148	59	295	341	148	295
Accruals related to LTI program at Medsi	331	-	331	-	331	331
<b>Adjusted operating income</b>	<b>33,145</b>	<b>25,840</b>	<b>60,713</b>	<b>47,739</b>	<b>30,573</b>	<b>55,732</b>
Depreciation and amortisation	32,849	24,029	64,759	47,886	24,657	48,691
<b>Adjusted OIBDA</b>	<b>65,994</b>	<b>49,869</b>	<b>125,472</b>	<b>95,625</b>	<b>55,231</b>	<b>104,424</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>2Q 2018</i>	<i>2Q 2017</i>	<i>6M 2018</i>	<i>6M 2017</i>	<i>Excluding impact of new IFRS standards</i>	
					<i>2Q 2018</i>	<i>6M 2018</i>
<b>(Loss)/profit attributable to Sistema</b>	<b>(1,676)</b>	<b>(1,443)</b>	<b>(2,919)</b>	<b>12</b>	<b>(980)</b>	<b>(1,396)</b>
Other non-recurring (profit)/losses	(44)	1,283	923	1,283	(44)	923
Gain on investments at Medsi	-	(785)	-	(785)	-	-
Accruals related to LTI program at Medsi	331	-	331	-	331	331
Accruals related to LTI program at Detsky Mir	61	24	123	166	61	123
<b>Adjusted (loss)/profit attributable to Sistema</b>	<b>(1,328)</b>	<b>(921)</b>	<b>(1,542)</b>	<b>677</b>	<b>(632)</b>	<b>(20)</b>

*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 June 30, 2018</i>	<i>As of March 31, 2018</i>
Long-term borrowings	466,838	458,360
Short-term borrowings	176,458	159,348
<b>Total borrowings</b>	<b>643,296</b>	<b>617,708</b>
Consolidated finance lease	16,862	14,411
<b>Consolidated total debt</b>	<b>660,158</b>	<b>632,120</b>
Cash and cash equivalents	(97,541)	(93,077)
Liquid financial instruments	(30,071)	(10,026)
<b>Consolidated net debt</b>	<b>532,546</b>	<b>529,017</b>