

CREATING BUSINESSES OF THE FUTURE



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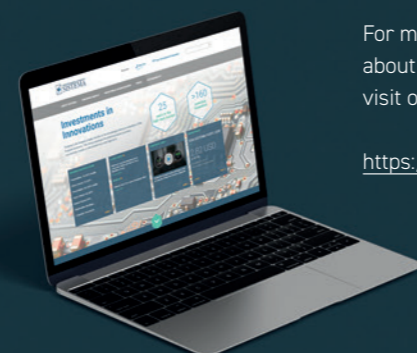
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SISTEMA

ONE OF THE LARGEST
PRIVATE INVESTORS
INTO RUSSIA'S
CONTEMPORARY
ECONOMY



For more information
about Sistema
visit our website:

<https://sistema.com>

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ABOUT THE COMPANY

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Profile of Sistema

Sistema is one of the **largest private investors in the real sector of the Russian economy**. Sistema's investment portfolio comprises **Russian companies** in sectors including telecommunications, consumer retail, paper and packaging, agriculture, high-tech, real estate, healthcare and hospitality. Sistema holds controlling interests in most of its portfolio companies.

Sistema's strategic goal is to create long-term growth of shareholder value by boosting returns on investments in existing assets and reinvesting available cash in new investment projects to diversify its portfolio and increase overall returns on investment.

Sistema focuses on improving the operational efficiency of the assets it acquires by restructuring and by working with relevant partners to enhance expertise and mitigate financial risks.

The Corporation's shares trade on Moscow Exchange (ticker: AFKS) and on the London Stock Exchange in the form of global depository receipts (ticker: SSA). One GDR represents 20 ordinary shares.

RUSSIA'S BIGGEST PRIVATE NON-RESOURCES CORPORATION

ONE OF RUSSIA'S

20

LARGEST PRIVATE COMPANIES IN THE FORBES GLOBAL 2000

INVESTS MORE THAN

RUB 100 billion

IN THE RUSSIAN ECONOMY EVERY YEAR

Top-15

RUSSIA'S LARGEST COMPANIES BY REVENUE

GDRS ON LSE

SSA

MOSCOW EXCHANGE TICKER

AFKS

¹ In accordance with IFRS.

² Here and hereinafter, consolidated results of Sistema and its subsidiaries for 2018 are presented in accordance with new accounting standards IFRS 9, 15 and 16 unless specified otherwise. Results for 2017 are presented without the impact of the new standards.

³ Sistema acquired a 25% stake in Etalon Group Plc in February 2019.

INVESTMENTS AND COMPETENCES

>150 000 000

CONSUMERS

KEY HIGHLIGHTS 2018¹

REVENUE

777.4

RUB billion²

UNIQUE PORTFOLIO OF ASSETS IN HIGH-POTENTIAL SECTORS OF THE RUSSIAN ECONOMY

Public assets:

MTS, DETSKY MIR, ETALON GROUP³

>15

SECTORS

ASSETS

1,465.4

RUB billion

CREDIT RATINGS FROM INTERNATIONAL AND RUSSIAN RATING AGENCIES

FITCH

BB-

S&P

B+

RAEX

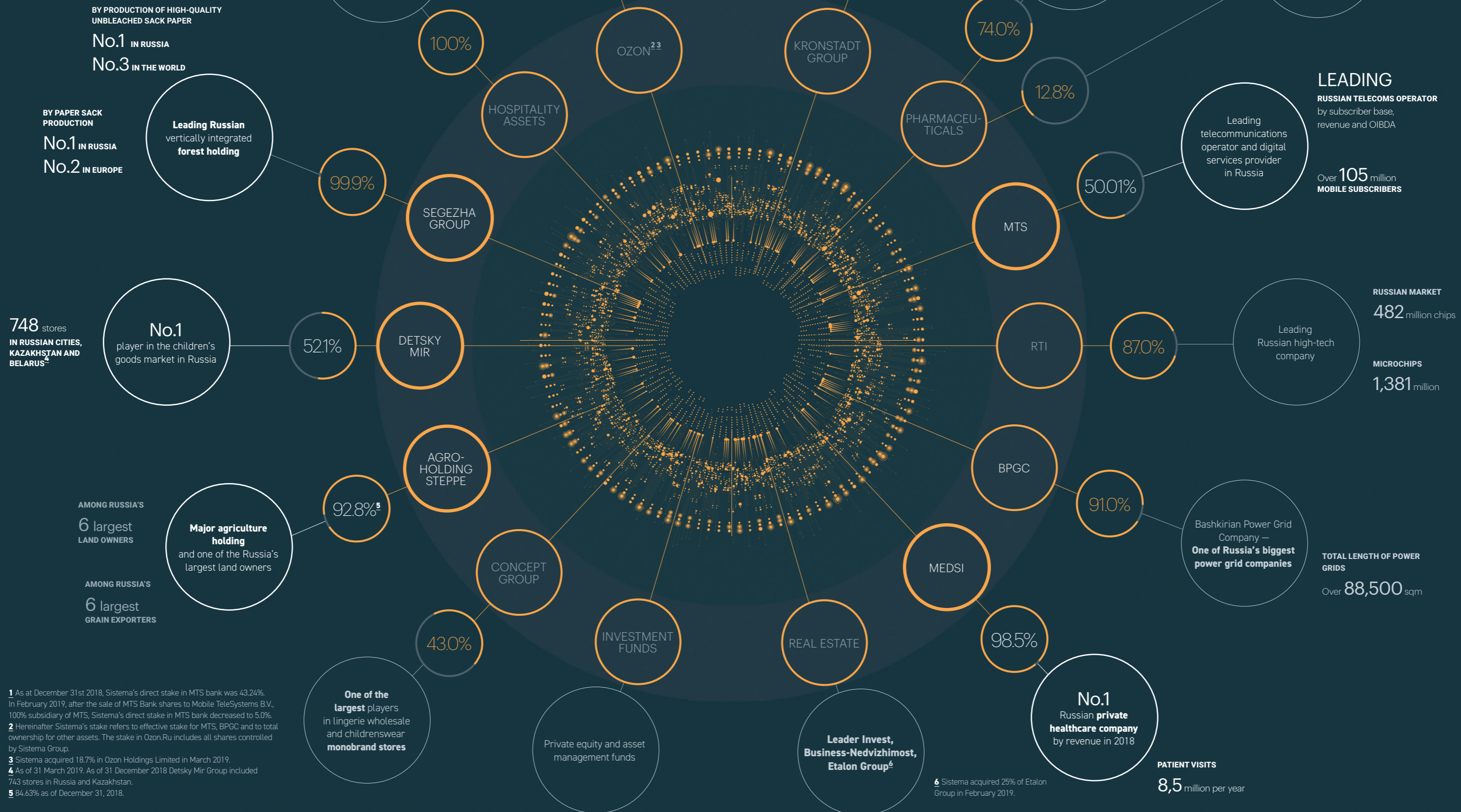
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ONE OF RUSSIA'S

50

MOST VALUABLE BRANDS

Investment Portfolio¹



¹ As at December 31st 2018, Sistema's direct stake in MTS bank was 43.24%. In February 2019, after the sale of MTS Bank shares to Mobile TeleSystems B.V., 100% subsidiary of MTS, Sistema's direct stake in MTS bank decreased to 5.0%.
² Hereinafter Sistema's stake refers to effective stake for MTS, BPGC and to total ownership for other assets. The stake in Ozon.Ru includes all shares controlled by Sistema Group.
³ Sistema acquired 18.7% in Ozon Holdings Limited in March 2019.
⁴ As of 31 March 2019. As of 31 December 2018 Detsky Mir Group included 743 stores in Russia and Kazakhstan.
⁵ 84.63% as of December 31, 2018.
⁶ Sistema acquired 25% of Etalon Group in February 2019.

CEO's Statement

DEAR SHAREHOLDERS,

Sistema delivered impressive growth of both revenue (up 12%) and OIBDA (up 34%) in the full year 2018, as our portfolio companies continued to consolidate their respective markets and expand into new business segments.

Our publicly traded assets delivered sustained growth in revenue and OIBDA as both MTS and Detsky Mir continue to lead their respective sectors. In both the retail and telecoms sectors, the operating environment presents its own challenges. However, both management teams have shown the ability to successfully monetise their customer bases.

MTS posted full year revenue growth of 8% year-on-year, despite a 0.4% year-on-year decrease in subscribers. Detsky Mir, meanwhile, saw revenue increase by 14% in the full year on the back of the strong like-for-like sales. During the year Detsky Mir also managed to improve profitability as a result of economies of scale and cost discipline.

Both companies have successfully ventured into new markets and developed new revenue streams. At MTS, the contribution from IT and systems integration business is growing steadily. The company is also scaling up in the data centre/cloud business, and saw revenue from cloud services triple in 2018.

**REVENUE
GROWTH**

12%

**OIBDA
GROWTH**

34%

Detsky Mir continues to open new stores in new regions of Russia and Kazakhstan. It has also launched operations in Belarus and in the promising pet supplies segment. And online sales almost doubled during the year, reaching almost 8% of sales.

Our key non-public assets, both exporters and domestic players, strengthened their market positions.

At Segezha Group, where the top line grew by 32% for the full year, growth was driven by the paper and packaging segment, which accounted for 70% of total revenue. Adjusted OIBDA was up 83% for 2018. Growth was driven by:

- ▷ increased prices for key Segezha's products;
- ▷ greater capacity due to a new papermaking machine;
- ▷ currency factors.

Our agriculture business, Steppe, continues to grow both organically and through the launch of new business lines. Steppe's revenue increased by 137% in the full year as a result of:

- ▷ strong growth of the field crop division;
- ▷ acceleration of the grain trading business as Steppe become one of Russia's top six grain exporters;
- ▷ solid operating results in the dairy segment;
- ▷ the launch of sales of sugar and produce under the Steppe brand.

Steppe's OIBDA was up 22% in 2018 due to improved efficiency in the grain segment and the development of agrot trading.

Medsi's revenue for the year (+52%) affirmed its position as Russia's leading private healthcare provider. Adjusted OIBDA rose 83% in the full year 2018, primarily driven by higher utilisation rates and an increase in revenue per square metre of medical facilities.

Over recent months, Sistema has completed transactions that crystallise the value of our assets in real estate and the pharmaceuticals sector.

In February 2019, we sold a 51% stake in our Moscow real estate development business, Leader Invest, to London-listed development and construction company Etalon Group. Subsequently, Sistema acquired 25% of Etalon from the company's founder and his family. As a result, Sistema has become the largest shareholder in a significantly strengthened, publicly-traded real estate business. The combined company, a top-three player in Russia's largest markets – Moscow and St. Petersburg – boasts an excellent portfolio of projects. And it has an opportunity to take advantage of significant synergies through optimisation of construction costs and administrative expenses. Etalon's in-house construction capacities and design bureau will accelerate the development of Leader Invest's projects. As the market undergoes transformation with new regulation and changing consumer preferences, we believe consolidation is the key trend. And we are eager to embrace it and benefit from it.

In pharma, Sistema partnered with VTB to acquire a 95% stake in OBL Pharm, which we plan to merge with our pharmaceutical business, Binnopharm, in the coming months. The two companies possess complementary assets and we have set a medium-term goal of building out a top-five Russian player in the fast-growing commercial segment of the pharma industry. In April 2019, the Russian Direct Investment Fund, the Russia-China Investment Fund and the largest Middle Eastern funds agreed to join the project, which is a solid confirmation of the project's investment appeal and its importance for the development of the industry.

Additionally, we have made a strategic bet on Russian e-commerce, increasing our holding in market leader Ozon by buying out MTS's stake and acquiring stakes of some minority shareholders. As of April 2019, Sistema directly holds 21.9% of Ozon, and another 16.3% stake via venture capital fund Sistema_VC. The potential in Russian e-commerce is huge. The market is forecast to grow from RUB 1tn to RUB 3.5tn in 2023 with CAGR of 24%. And Ozon, with its aggressive strategy to conquer the market with a focus on technological development, a strong team, a wide range of products, its own logistics infrastructure, a recognisable brand and a developing marketplace, is well positioned to consolidate this highly fragmented industry and benefit from its growth.

Looking ahead, we will continue to deliver against the strategy adopted in 2018 that centres on three strategic goals:

- ▷ maximising shareholder returns and reducing the discount between market capitalisation and NAV;
- ▷ attracting third-party capital to enhance our investment resources.

Our strategic focus is on building out four businesses – Steppe, Segezha Group, Medsi and Ozon – with a target enterprise value per business of USD 1–2bn. Our ambition is to eventually take them to the public markets, opening up whole new sectors of the Russian economy to equity investors through fast-growing companies that become leaders in their respective sectors.



ANDREY DUBOVSKOV
President of Sistema



Key Events of 2018

CORPORATION



ANDREY DUBOVSKOV
President

NEW PRESIDENT AND VICE PRESIDENT FOR FINANCE AND INVESTMENTS APPOINTED

In March 2018, Sistema's Board of Directors approved the appointment as President of Sistema of Andrey Dubovskov, the former president of MTS. Andrey Dubovskov took office on 13 March 2018.

In April 2018, Vladimir Travkov was appointed as Vice-President, Chief of Financial and Investment Department (CFO). Since 2003 he has held management positions in MTS Group, including as director of the Functional Control Department since 2016.



VLADIMIR TRAVKOV
Vice-President, Chief of Financial and Investment Department (CFO)

STRENGTHENED POSITION IN THE FTSE4GOOD INDEX

Sistema received a high score for its environmental activities and social responsibility practices. FTSE Russell, an analytical agency of the London Stock Exchange, upgraded Sistema's sustainable development rating and confirmed its status of a participant of the FTSE4Good¹ index following a revision in June 2018. The high rating and participation in the index confirm the Corporation's commitment to responsible investment and asset management.



SETTLEMENT AGREEMENT WITH ROSNEFT AND BASHNEFT

In 2018 Sistema fulfilled in full all of its financial obligations under the Settlement Agreement that settled all litigation involving Sistema and Sistema-Invest relating to the ownership and or management of Bashneft and or its affiliated entities by Sistema and Sistema-Invest.

ACTIVE PRESENCE IN DEBT MARKETS

In February and March 2018, Sistema successfully placed exchange-traded bonds of series 001P-07 and 001P-08 with the total nominal value of RUB 10bn and RUB 15bn, respectively. The rates for coupons 1-2 were set at 9.80% p.a. for series 001P-07 bonds and at 9.25% for series 001P-08 bonds. The bonds mature in 10 years with put options exercisable 1 year and 1.5 years after the dates of placement, respectively.

INCREASED SCALE AND CRYSTALIZED VALUE OF PHARMACEUTICALS BUSINESS

In December 2018, Sistema acquired a stake in a leading pharmaceutical company, OBL Pharm, for RUB 1.83 billion. Sistema made the acquisition as a member of a consortium of investors that also included VTB Bank and members of the OBL Pharm management team. The strategic aim of the transaction is the merger of OBL Pharm with Sistema's pharmaceutical holding, Binnopharm, and utilisation of synergies in marketing and sales, combining R&D functions and reducing administrative costs. The medium-term goal of the combined company is to become one of Russia's five largest pharmaceuticals producer in the non-state segment, the fastest-growing segment in the Russian pharma market.

EVENTS AT PORTFOLIO COMPANIES AND SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

MTS:

UNLOCKING SYNERGIES WITH THE BANKING BUSINESS AND DEVELOPING NEW REVENUE STREAMS

In February 2018, MTS acquired Ticketland.ru and Ponominalu.ru, two major Russian e-ticketing operators.

In April 2018, MTS partnered up with Ericsson to open a research centre in Tatarstan that will develop innovative products and solutions based on 5G, IoT and Big Data.

In May 2018, MTS placed Russia's first commercial bonds using smart contracts based on blockchain. The total nominal value of the issue was RUB 750m.

In July 2018, MTS increased its equity holding in MTS Bank to 55.2%, which will help unlock further synergies between the telecom and banking businesses, simplify management and reduce the time-to-market of new fintech products. In February 2019, Sistema's direct ownership interest in MTS Bank was reduced to 5.0%, while MTS's stake increased from 55.2% to 94.7%.

In August 2018, MTS used the expertise of its subsidiary, system integrator NVision Group, and its 5,000+ IT specialists across the country to enter the outsourced IT services market.

DETSKY MIR:

CHAIN EXPANSION AND NEW MARKETS

In 2018, Detsky Mir entered a new market – pet products – in accordance with its expansion strategy. The management estimates the size of the pet products segment in Russia at RUB 200bn. In December 2018, the company opened four pilot pet stores under the Zoozavr brand.

THE TOTAL SELLING SPACE OF ALL THE STORES OF THE GROUP IS ▲ 11.6%

768 sq m

Detsky Mir intends to enter a new geography – Belarus – and become a key player there in the medium term. The first store in Belarus was opened in Minsk (Evroopt shopping mall) in February 2019. Its total area is 1,690 sq m. Detsky Mir will develop in Belarus under the DetMir brand.

THE TOTAL AREA OF THE FIRST STORE IN BELARUS

1,690 sq m

¹ The FTSE4Good indices were created by FTSE Russell to assess companies' effectiveness in environmental, social and governance practices (ESG).

EVENTS AT PORTFOLIO COMPANIES AND SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

MEDSI:

TELEMEDICINE AND PATIENT CARE CENTRE



In April 2018, Medsi and MTS launched a telemedicine platform, SmartMed, which will be used for developing digital healthcare products and services.



In July 2018, the company established a patient care centre, the main mission of which is to study customers' satisfaction and preferences with regard to healthcare and other services provided at Medsi, implement best global practices of patient-centric medicine, and develop internal processes and culture aimed at meeting customers' needs.

SEGEZHA GROUP:

INCREASING OUTPUT AND ENHANCING EFFICIENCY



In March 2018, Mikhail Shamolin, former president of Sistema, was appointed president of Segezha Group.

In July 2018, the company launched the second line at the Vyatka Plywood Mill, which will enable it to increase its plywood output to 192,000 cu m and expand the range of high-margin products, including large-size long-grain plywood.



In December 2018, a pellet plant with an annual capacity of 70,000 t of pellets was opened at the Lesosibirsk Woodworking Plant. Pellets are produced from waste (sawdust) generated at the woodworking facility.



In the fourth quarter of 2018, Segezha Pulp and Paper Mill commissioned a multi-fuel boiler that runs on bark waste, which will increase heat generation at the mill by 25% and reduce use of expensive fuel oil.

STEPPE AGROHOLDING:

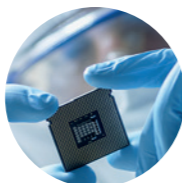
CAPACITY INCREASE



Steppe AgroHolding is actively increasing its capacity in the dairy farming segment. In March 2018, the company commissioned its fifth dairy farm for 1,800 cows. The new farm is expected to reach its design capacity of 20,000 t of milk per year in 2021. At the end of 2018, Agroholding announced its plans to build another dairy farm in the Rostov region. Together with the farm launched in March 2018 in the Krasnodar region and another new enterprise under construction there, it will more than triple production, from 40,000 tonnes in 2017 to over 120,000 tonnes in 2023, making Steppe Agroholding one of the **top three** players in the Russian market.

RTI:

CREATION OF A COMBINED MICROELECTRONICS COMPONENTS COMPANY



In February 2019, RTI Microelectronics, an RTI Group company, signed a legally binding agreement with State Corporation Rostec and JSC Roselectronica to create a combined microelectronics components company. The parties will combine under the new company controlling stakes in 19 microelectronics component development, production and design companies.

THE PARTIES WILL COMBINE UNDER THE NEW COMPANY CONTROLLING STAKES IN

19 microelectronics component development, production and design companies

NEW FUNDS' INVESTMENTS AND EXITS

SISTEMA ASIA FUND



In May 2018, Sistema's venture fund Sistema Asia Fund added HealthifyMe, an Indian mobile health and fitness application, to their portfolio.



In March 2019, Sistema Asia Fund, a Sistema venture capital fund, sold its holding of Qwikilver, an Indian technology company specialising in gift cards and stored-value solutions. The transaction is the first exit for the Sistema Asia Fund. Sistema Asia Fund invested in Qwikilver in 2016 and after three years exited, having achieved a high return on invested capital.

SISTEMA VENTURE CAPITAL



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



STRATEGIC TRANSACTIONS

OZON



In February 2019, Sistema acquired 18.7% of Russia's leading multi-category online retailer, Ozon Holdings, from MTS for RUB 7.9 billion. The decision to increase the stake is based on Sistema's strategic bet on growth prospects for e-commerce and market consolidation through investments in the market leader.

OZON.RU GMV GROWTH IN 2018

73% y-o-y

ETALON



In February 2019, Sistema sold 51% of JSC Leader Invest to Etalon Group, while retaining a 49% stake in the company. Following this transaction, Sistema acquired 25% of Etalon Group for USD 226.6 million. The transactions create a top-three player in the Moscow and St Petersburg markets, bring together complementary development portfolios, allow Leader Invest's projects to leverage Etalon's general contracting capacity and regional sales network to accelerate construction and sales, and realise significant synergies in construction as well as reduction of administrative expenses.

SISTEMA ACQUIRED

25% of Etalon Group

Mission and Strategy

MISSION

Sistema's mission is to build Russia's **leading** investment company, with **diversified expertise** and a **strong track record**, which will become an **investment platform** for managing both Sistema's and third-party capital while providing access to **unique investment opportunities** in the most attractive sectors of the Russian economy and high-potential technologies, and oriented towards **long-term growth of equity value**.

SISTEMA'S STRATEGIC GOALS

1. Maximising total shareholder return (TSR) and reducing the discount of market capitalisation to net asset value (NAV);
2. Raising and managing outside capital to expand available investment resources;

STRATEGIC FOCUS (COMPONENTS OF THE STRATEGY)

- ▷ Growing existing assets in high-potential segments (private healthcare, agriculture, pulp & paper) into businesses with a valuation between h USD 1–2 billion
- ▷ Taking advantage of unique investment opportunities in traditional sectors in Russia;
- ▷ Focusing on investments in the high-potential technology sector;
- ▷ Ongoing generation of value in existing assets, including through adoption of advanced technologies and digital solutions;
- ▷ Ongoing improvement of management structures and corporate governance.

PARTNERSHIP MANAGEMENT MODEL

The Corporation has adopted a partnership management model that allows key executives of the Corporation (Managing Partners) to share the risks and returns from investment activities with shareholders:

1. MANAGING PARTNERS ARE RESPONSIBLE FOR IMPLEMENTATION OF PORTFOLIO COMPANIES' INVESTMENT STRATEGIES. This means they:

- ▷ organise asset management (mostly via the Board of Directors) and take full responsibility for the asset's KPIs and financial performance;
- ▷ in most cases, the chair of the asset's Board of Directors, bear responsibility for its composition and work, and recruit and appoint the CEO and senior management.

2. INCENTIVES OF THE MANAGING PARTNERS ARE AIMED AT:

- ▷ increasing Sistema's capitalisation;
- ▷ maximising the value of assets under management and monetising this value;
- ▷ raising outside capital for management. Managing Partners co-invest in assets under their management.

ASSET MANAGEMENT PRINCIPLES

Investing in the development of existing portfolio assets to increase their value is one of the key stages of Sistema's value creation model. Value creation includes a number of mandatory steps, starting from active management of a newly acquired asset.

VALUE CREATION AT ASSETS:

A Board of Directors is formed at companies controlled by Sistema, and must have independent members with recognised industry and/or functional expertise.

The boards supervise, coordinate and support the activities of portfolio companies' management in decision-making in key functional areas: strategy and key transactions, budget planning, HR policy, internal audit;

- ▷ effective managers are recruited; an incentive system is established that is aimed at creating shareholder value;
- ▷ strategic and financial planning cycles are introduced based on best international practices of corporate governance;
- ▷ new technologies are identified, with testing and adoption to increase efficiency, streamline processes, develop innovative products and services for customers, and expand current markets of portfolio companies.

BASIC PRINCIPLES OF THE INVESTMENT STRATEGY

CURRENT INVESTMENTS

Focus: INVESTMENTS IN SISTEMA'S HIGH-POTENTIAL PORTFOLIO COMPANIES that can develop be grown into businesses worth over USD 1 billion in the medium term and require investments from Sistema.

Investment strategy:

Investments in portfolio companies to increase their market share and or enter adjacent/synergetic business segments

Geography of investments: in accordance with the approved strategy for portfolio companies

Industries: companies' industries and adjacent/synergetic industries

Discounted payback period (DPBP) of 3–10 years

NEW INVESTMENTS

Focus: DIRECT INVESTMENTS BY SISTEMA'S CORPORATE CENTRE IN UNIQUE OPPORTUNITIES IN TRADITIONAL SECTORS IN RUSSIA

Mature undervalued assets

Investment strategy:

investments in significant and controlling stakes of large assets in attractive markets in Russia. Acquisition at a significant discount to the market value and with the possibility of quickly reducing the discount and selling within 2-3 years

Growing assets

Investment strategy:

buy and consolidate players. Generating value by ousting competitors, consolidating the industry, using economies of scale and market growth. Exit in 4-5 years through sale to a strategic investor/IPO

Geography of investments: predominantly Russia

Sectors: sectors with large markets (at least USD 1 billion), high growth rates, import substitution potential and export prospects

Focus: INVESTMENTS IN FUTURE TECHNOLOGIES

Investments in large technology companies

Investment strategy:

direct investment by Sistema's Corporate Centre in big stakes in technology companies that do not meet the investment criteria of Sistema's funds, with an opportunity to build businesses worth over USD 1 billion and monetisation prospects in 5-7 years

Venture projects

Investment strategy:

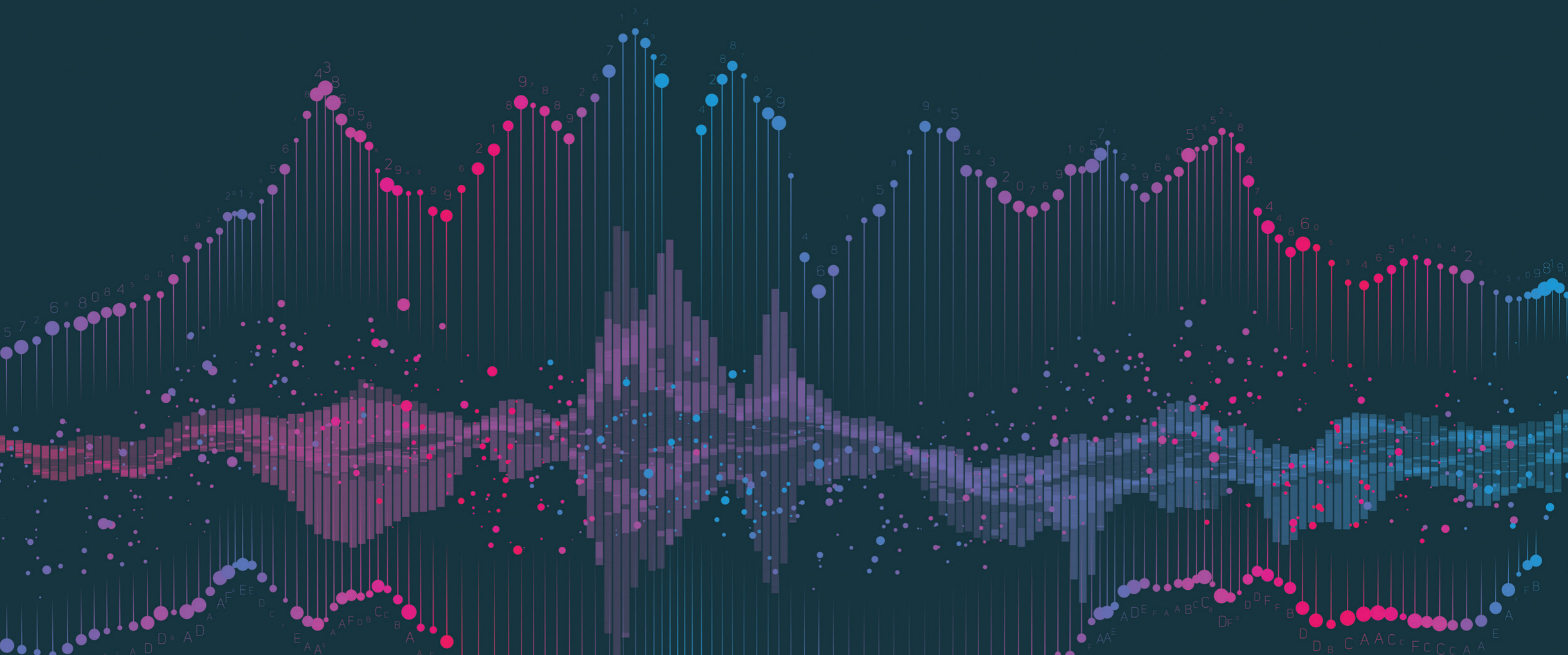
investments within existing and new venture funds under Sistema's management, monetisation of investments via closing of funds. Mandatory participation of outside investors as financial partners (share of outside partners: at least 20%)

Geography of investments: no restrictions

Sectors: Software development, e-commerce, e-businesses, IoT, virtual assistants, machine learning and neural networks, cybersecurity, medtech, AR/VR and others.

FINANCIAL PERFORMANCE

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Financial Performance in 2018

(RUB million)	2018	2017	Изм.	Excluding impact of new IFRS standards ¹	
				2018	Change
Revenue	777,405	693,424	12.1%	770,196	11.1%
Adj. OIBDA	265,273	197,558	34.3%	219,829	11.3%
Operating income	128,600	90,290	42.4%	114,003	26.3%
Loss attributable to Sistema	(45,898)	(94,602)	—	(46,952)	—
Adjusted profit/ attributable to Sistema	1,114	4,119	(73.0%)	60	(98.5%)

PERCENTAGE OF BPGC'S SMART GRID PROJECT COMPLETED



MTS'S NEW DIVIDEND POLICY AT LEAST



MEDSI BECAME THE LEADER BY REVENUE AMONG PRIVATE HEALTHCARE COMPANIES IN RUSSIA



GROWTH IN ADJUSTED OIBDA AT SEGEZHA IN 2018, Y-O-Y



AGROHOLDING STEPPE BECAME ONE OF RUSSIA'S TOP-6 GRAIN EXPORTERS



ADJUSTED OIBDA MARGIN AT DETSKY MIR IN 2018



GROWTH IN ETALON'S REVENUE IN 2018



AVERAGE OCCUPANCY RATE AT COSMOS GROUP IN 2018

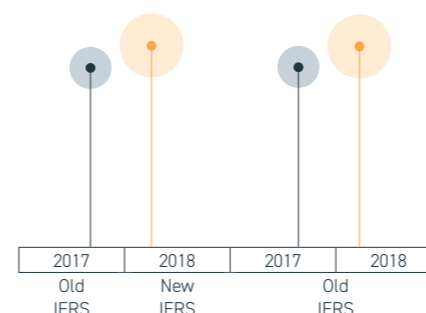


REVENUE, RUB BN



693.4	777.4	693.4	770.2
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▲ 12.1% ▲ 11.1%

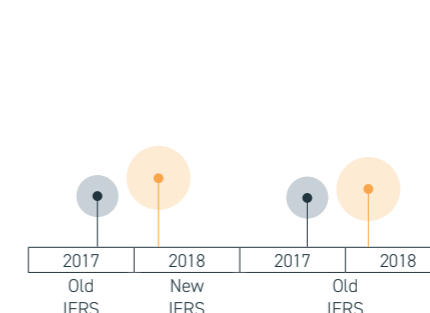


ADJUSTED OIBDA, RUB BN



197.6	265.3	197.6	219.8
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▲ 34.3% ▲ 11.3%



GROWTH OF ADJUSTED OIBDA



ADJUSTED OIBDA MARGIN



▲ 5.6 p.p.

In 2018, Sistema's consolidated revenue increased by 12.1% year-on-year as a result of increased revenue from key assets: MTS, as the core telecoms business benefitted substantially from a better pricing environment in Russia, data usage increased, revenue from new business lines accelerated rapidly and smartphone sales were strong; Detsky Mir, on the back of new store openings, growth in like-for-like sales, growth in the e-commerce segment and increased traffic at previously opened stores; Segezha Group, as a result of increased sales volumes of paper and packaging, higher prices for paper and sawn timber, and weakening of the rouble; Agroholding Steppe, due to growth of the field crop segment as wheat prices have increased, strong growth of the agrotrading division

and increased milk production; Medsi, due to increased capacity utilisation and as a result in-patient revenue, higher revenue from the CDC at Krasnaya Presnya and expansion of the chain of clinics; and real estate assets, driven by sales growth and earlier revenue recognition due to the adoption of the IFRS 15 standard.

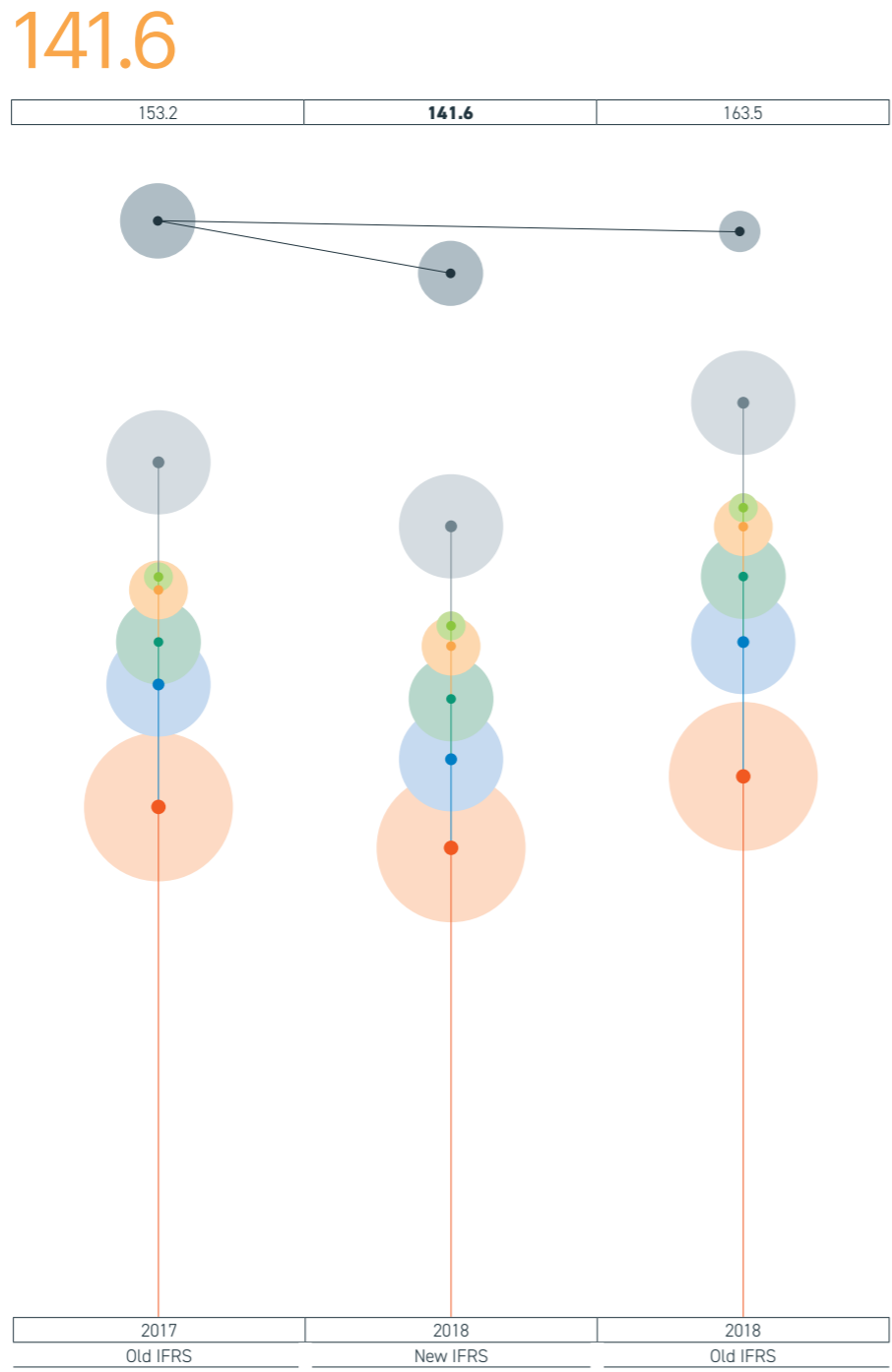
Group adjusted OIBDA increased by 34.3% on the year, reflecting strong results at MTS, primarily due to the new accounting standards, increased revenue and strong performance of the Ukrainian business; Detsky Mir as a result of the new IFRS standards, optimisation of buying prices, efficient management of the product assortment and increased operational efficiency; Segezha Group, as a result of increased prices on most key products as well as the commissioning

of a new papermaking machine in late 2017; Agroholding Steppe, due to increased operational efficiency in the field crop segment and increased contributions from the agrotrading segment; Medsi, as capacity utilisation of key assets ramped up and revenue per square metre of medical facilities rose. Excluding the effect of the new accounting standards, Group adjusted OIBDA increased by 11.3% versus 2017 primarily as a result of growth at MTS, Detsky Mir, Segezha, Agroholding Steppe and Medsi. The adjusted OIBDA margin increased by 5.6 p.p. to 34.1%, principally as a result of the new accounting standards. Without taking into account the new standards, the adjusted OIBDA margin was unchanged at 28.5%.

¹ Here and hereinafter, new standards refer to IFRS 9, 15 and 16.

Group selling, general and administrative expenses (SG&A) for the full year 2018 **decreased by 7.5%** versus 2017 to RUB 141.6 billion, mainly due to the new IFRS standards. Without this effect, Group SG&A increased by 6.8% to RUB 163.5 billion. The SG&A/revenue ratio declined year-on-year from 22.1% to 18.2%; excluding the impact of new IFRS standards the SG&A/revenue ratio declined to 21.2%, reflecting Sistema's continued success in improving operational efficiency.

GROUP SG&A EXPENSES, IFRS, RUB BILLION



GROUP SG&A EXPENSES, RUB BILLION	2017 Old IFRS	2018 New IFRS	2018 Old IFRS
MTS	91.3	83.9	96.7
Detsky mir	22.1	15.7	24.1
Segezha Group	6.7	11.4	11.6
Corporate centre	10.0	9.0	9.0
STEPPE Agroholding	2.2	3.5	3.5
Other	20.9	18.1	18.6
Total	153.2	141.6	163.5
Group SG&A/Group revenue	22.1%	18.2%	21.2%

GROUP SG&A EXPENSES IN 2018

7.5% y-o-y

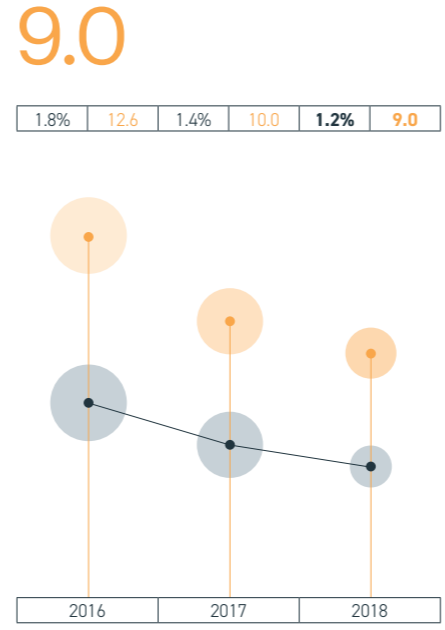
GROUP SG&A/GROUP REVENUE

18.2% y-o-y

SG&A at the Corporate Centre declined year-on-year by 10.3% to RUB 9.0 billion as a result of cuts in headcount, lower compensation expense and reduced administrative expenses.

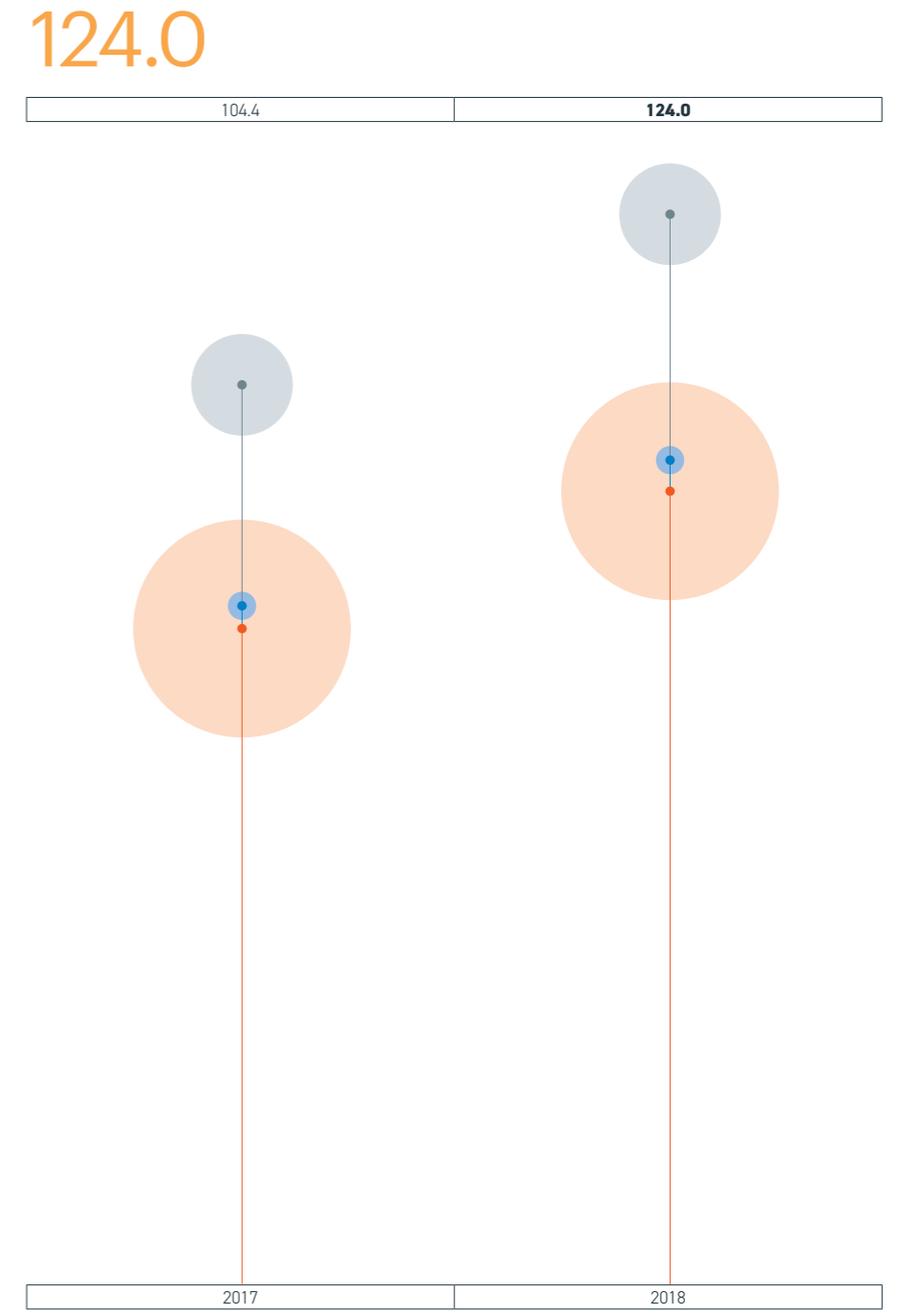
Group capital expenditures increased by 18.8% year-on-year to RUB 124.0 billion in 2018, mainly in connection with increased capex at MTS as a consequence of increased investments in network development in Russia and a focus on providing the best LTE coverage in line with the company's strategy; and Detsky Mir, as the company executed on its expansion strategy.

CORPORATE CENTRE SG&A EXPENSES, RUB BILLION



Corporate centre SG&A	1.8%
Corporate centre SG&A/Group revenue	1.2%

GROUP CAPEX, IFRS, RUB BN



GROUP CAPEX, IFRS, RUB BN	2017	2018
MTS	76.4	92.0
Detsky mir	2.5	3.8
Other	25.5	28.2
Total	104.4	124.0

Shareholders' Equity

SHAREHOLDERS' EQUITY

Sistema has 9,650,000,000 ordinary shares outstanding with a nominal value of RUB 0.09 each. Its authorised capital is RUB 868,500,000.

Sistema held an initial public offering in 2005. Its shares trade on the London Stock Exchange in the form of global depository receipts (GDRs) under the ticker SSA. One GDR represents 20 ordinary shares. The Corporation's ordinary shares are also listed on Moscow Exchange in the first listing level under the ticker AFKS. The GDRs traded on the London Stock Exchange represent about 15.9% of Sistema's equity, while the shares traded on Moscow Exchange represent 16.5%¹.

Sistema's shares are included in Moscow Exchange's two key indices, the MOEX Russia Index (formerly MICEX) and RTS, as well as its Broad Market Indices².

Shares of MTS, a Sistema subsidiary, trade on Moscow Exchange under the ticker MTSS and on the New York Stock Exchange (NYSE) in the form of ADRs under the ticker MBT.

Shares of Detsky Mir, a Sistema subsidiary, began trading on Moscow Exchange in February 2017 under the ticker DSKY in the first listing level.

In February 2019, Sistema acquired 25% of Etalon Group. Etalon's GDRs listed on London Stock Exchange under the ticker ETLN since 2011.

Sistema's principal shareholder is its Chairman Vladimir Evtushenkov, who owns 59.2% of the Corporation's equity.

ORDINARY SHARES OUTSTANDING

9,650 million

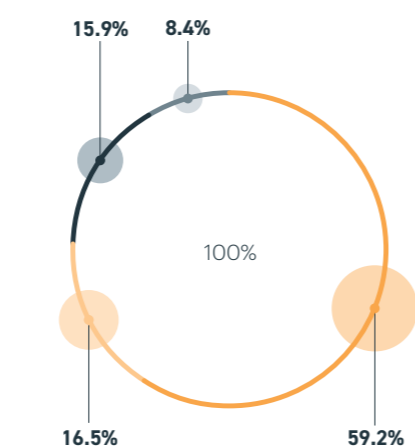
SISTEMA TICKER ON MOSCOW EXCHANGE

AFKS

MTS TICKER ON MOSCOW EXCHANGE

MTSS

SISTEMA'S SHAREHOLDING STRUCTURE³



Vladimir Evtushenkov
Free-float (shares)
Free-float (GDRs)
Other ⁴

SISTEMA GDRS TICKER ON LSE

SSA

DETSKY MIR TICKER ON MOSCOW EXCHANGE

DSKY

CHANGES IN SISTEMA'S GDR AND ORDINARY SHARE PRICES⁵

In 2018, Sistema's share price fell by 35.2% and the price of its GDRs by 47.8%. Despite the strong operational and financial performance of Sistema's portfolio companies, its share price was under pressure due to the absence of substantial monetisations.

On the first trading day of 2018, the closing price of one GDR on the London Stock Exchange was USD 4.4, for a total market capitalisation of USD 2,145.2 mn. On the last trading day of the year, the closing price was USD 2.3, with Sistema's total market capitalisation standing at USD 1,119.4 mn.

On the first trading day of 2018, the closing price of one ordinary share on the Moscow Exchange was RUB 12.4, for a total market capitalisation of RUB 119.2 bn. On the last trading day of the year, the closing price was RUB 8.0, with Sistema's total market capitalisation standing at RUB 77.2 bn.

The closing price of GDRs reached a record high of USD 4.5 on 26 February 2018, and the ordinary shares peaked at RUB 12.8 on 15 January 2018. The lowest closing GDR and ordinary share prices were recorded on 27 December 2018 at USD 2.2 and on 26 October 2018 at RUB 7.7, respectively. Average daily trading volume on the London Stock Exchange in 2018 was 327,489 GDRs, and on Moscow Exchange 15,646,315 ordinary shares.



Sistema's ordinary shares
Sistema's GDR's
RTSI\$ Index
IMOEX Index

¹ As of December 31, 2018.
² Broad Market Indices of the Moscow Exchange include top 100 securities selected based on the criteria of liquidity, capitalisation and the number of shares in free float and form the bases for calculation of the Moscow Exchange's other indices. The calculation bases include the shares whose free float coefficient is at least 5%.
³ As of December 31, 2018.
⁴ Ordinary shares and GDRs owned by Sistema Group companies, members of the Board of Directors and the management of Sistema.
⁵ Source: Bloomberg.

Report on dividends declared (accrued) on Sistema shares¹

DIVIDEND POLICY

In April 2017, Sistema's Board of Directors approved a revised dividend policy. In accordance with the new policy, the amount of dividends recommended by the Board for each reporting year will be the higher of either an amount equivalent to a dividend yield of at least 6% or RUB 1.19 per ordinary share. The Corporation determines the final amount of dividends payable with due regard to its financial results, current cash flow and investment needs.

When determining dividends for 2017, the Board of Directors took into account the priority of the strategic goal to reduce the Corporation's debt and recommended paying dividends for 2017 in the amount of RUB 0.11 per share, supporting the Corporation's deviation from the current dividend policy.

To maintain a balance between the rights and interests of all shareholders and the Corporation's ability to pay dividends, the Board of Directors, when determining the amount of dividends, will take into account the acceptable rate of Sistema's debt reduction and the proportionality of dividends to the current cash flow of the Corporation. Sistema plans to continue to pay dividends in accordance with the current dividend policy after achieving the goal of debt reduction.

DIVIDENDS DISTRIBUTED FOR THE FIRST NINE MONTHS OF 2017

On 03 November 2017, an Extraordinary General Meeting of shareholders (Minutes No 2-17) approved the distribution of RUB 6,562,000,000.00, or RUB 0.68 per ordinary share in Sistema, as dividends.

As of 31 December 2017, the total amount of dividends distributed equalled RUB 2,121,721,383.40 (the total amount of dividends to nominee shareholders and custodians who are professional participants of the securities market and who are included in the shareholders register).

As of 31 December 2017, dividends payable to persons included in the shareholders register, with the exception of nominee shareholders and custodians who are professional participants of the securities market, were not due for payment. These dividends were paid in 2018.

As of 31 December 2018, the total amount of dividends distributed for 9 months of 2017 equalled RUB 2,348,863,483.40. Withholding tax on dividends distributed to foreign shareholders totalled RUB 2,798,048.00.

DIVIDENDS DISTRIBUTED FOR THE FULL YEAR 2017

On 30 June 2018, the Extraordinary General Meeting of Sistema's shareholders (Minutes No 1-18) approved the distribution of RUB 1,061,500,000.00, or RUB 0.11 per ordinary share in Sistema, as dividends.

As of 31 December 2018, the total amount of dividends distributed equalled RUB 1,061,461,415.52. Withholding tax on dividends distributed to foreign shareholders totalled RUB 429,305.00.

UNPAID DIVIDENDS

As of 31 December 2018, the total amount of unpaid dividends equalled RUB 4,213,722,383.52, including:

- RUB 4,213,003,658.88 not paid in accordance with a written request from a shareholder;
- RUB 718,724.64 not paid due to absence of information about dividend recipients necessary to transfer the due amounts.

TOTAL AMOUNT OF DECLARED DIVIDENDS IN 2018

1,061.5 RUB mn

	Total amount of declared dividends, RUB	Dividend per share, RUB	Declaration date	Payment date
2013 (for the full year 2012)	9,264,000,000	0.96	29/06/2013	26/08/2013
2014 (for the full year 2013)	19,879,000,000	2.06	28/06/2014	31/07/2014
2015 (for the full year 2014)	4,535,500,000	0.47	27/06/2015	29/07/2015
2016 (for the full year 2015)	6,465,500,000	0.67	25/06/2016	27/07/2016
2016 (for H1 2016)	3,667,000,000	0.38	23/09/2016	20/10/2016
2017 (for the full year 2016)	7,816,500,000	0.81	24/06/2017	28/11/2017
2017 (for 9M 2017)	6,562,000,000	0.68	28/11/2017	22/12/2017 ² – 19/01/2018 ³
2018 (for the full year 2017)	1,061,500,000	0.11	30/06/2018	31.07.2018

Sistema's Credit Ratings

Rating agency	Date of most recent rating update	Long-term credit rating	Outlook
Standard & Poor's	30 July 2018	B+	Positive
Fitch	19 January 2018	BB-	Negative
Expert RA	08 October 2018	ruA-	Stable

¹ As of December 31, 2018.

² Date of payment of dividends to nominee shareholders and custodians who are professional participants of the securities market and who are included in the shareholders register.

³ Date of payment of dividends to other persons included in the shareholders register.

KEY ASSET RESULTS

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HOSPITALITY ASSETS	66
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PJSC Mobile TeleSystems



PJSC Mobile TeleSystems ("MTS") is a leading Russian company

offering mobile and fixed-line services, Internet access, cable and satellite TV, digital services and mobile apps, financial and e-commerce services, and convergent IT solutions in system integration, Internet of things, monitoring, data processing and cloud computing.

MTS is a leader in the Russian telecom market **in terms of key mobile business indicators:** subscriber base, revenue and OIBDA.

MTS GROUP HAS

~105 million

mobile subscribers in Russia, Armenia, Ukraine and Belarus



ALEXEY KORNYA
President,
Chairman of the Management Board



RON SOMMER
Chairman of the Board of Directors

LTE-ADVANCED AND LTE ADVANCED PRO NETWORKS WITH PEAK DATA SPEEDS UP TO

1 Gbit/s

NUMBER OF GPON USERS

1.95 mn

SUBSCRIBERS OF CABLE, SATELLITE AND IP TV

3 mn

MTS RETAIL OUTLETS

5.88 thsd

FIBER-OPTIC LINES LENGTH

>220 thsd km

PENETRATION OF SMARTPHONES IN MTS NETWORK

>70%

ONLINE SALES VOLUME

~7 RUB bn

EMPLOYEES

>65 thsd

SISTEMA'S EFFECTIVE STAKE¹:

50.01%

INDUSTRY OVERVIEW FOR 2018²

In 2018, the telecommunications market was worth RUB 1.7 trillion. Revenue growth rate reached a five-year high of 3.4%. Growth was mostly driven by revenue from fixed telephony, with broadband and pay TV networks also enjoying stable growth. The fixed telephony and inter-operator services segments continued to shrink, though at a slower pace.

The mobile telecommunications market benefited from an initiative launched by mobile operators in 2017 to «stabilise the market». The initiative provided for scrapping price competition and unlimited tariff plans, and expanding the offer of core and extra services. Revision of tariff plans was caused by changes in legislation, in particular, amendments to the Law on Communications that provided for abolition of roaming charges within Russia and required mobile operators

to introduce a single tariff for all domestic calls. The federal law will come into force on 1 June 2019.

On 1 October 2018, a new law on storage of the information transmitted via communication networks took effect. According to the law, Russian mobile operators have to store user Internet traffic for 30 days and increase storage capacity by 15% annually for the next five years.

The 5G standard is expected to be introduced in Russia in 2022 and is currently being actively discussed by the Ministry of Communications, the Federal Anti-Monopoly Service and mobile operators. The Union of LTE Operators, which comprises MTS, MegaFon, Vimpelcom and Tele2, is against market monopolisation and the creation of a single infrastructure operator. However, the Union supports setting up a consortium for joint use of 5G frequencies in the 3.4–3.8GHz spectrum.

In 2019, operators will face a number of challenges related to the saturation of some market segments. However, 2017–2018 showed that, despite the unfavourable environment, the market may be expected to grow at 2–3% p.a. in the medium term.

BUSINESS DEVELOPMENT IN 2018

In 2018, MTS achieved strong operating and financial results on the back of healthy market growth in Russia and increasing penetration of digital services in all the regions where the company operates. Growth of revenue in the mobile business enabled the company to post record OIBDA in 2018. The main events of 2018 are related to entering new markets and business segments. For example, MTS acquired Russia's two leading ticket distributors, Ticketland.ru and Ponominalu.ru; bought a stake in YouDo, Russia's biggest online service connecting customers with service providers for household and business

tasks; and launched the Smart University educational platform and the MTS Marketing Expert digital platform.

MTS and Medsi Group started strategic cooperation in the area of digital healthcare with the launch of the SmartMed telemedicine platform. On the basis of this platform the companies will develop a range of digital healthcare products and services. At the end of 2018, MTS started selling SmartMed services to retail customers in Moscow and the Moscow region.

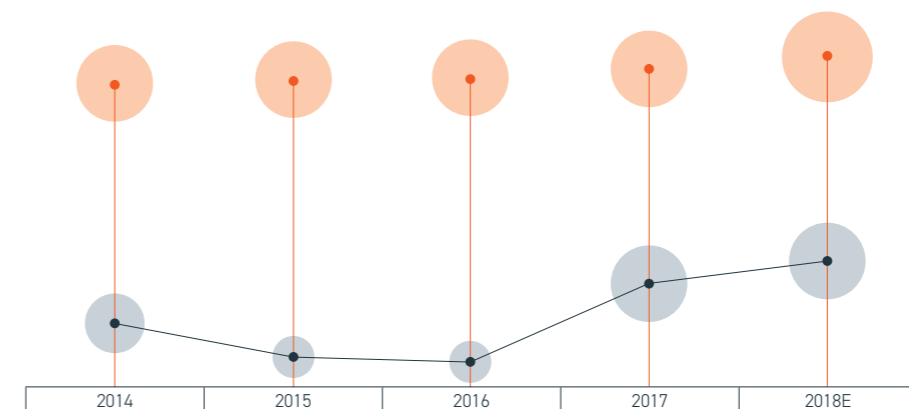
In Q3 2018, MTS acquired LLC Avantage, one of the largest data processing centres in Russia, which will significantly bolster the operator's position in the fast-growing market for cloud services. This is the tenth data centre in MTS's federal network.

In July 2018, MTS acquired a 28.63% stake in PJSC MTS Bank for RUB 8.27 billion from Sistema. As a result of the transaction, MTS's shareholding in the bank increased from 26.61% to 55.24%. The acquisition enabled MTS to consolidate its fintech business in Russia and to simplify operational management, making it possible to launch new products faster and to utilise MTS's retail network more effectively in order to expand the bank's footprint. In Q3 2018, MTS started consolidating the results of MTS Bank, which had a positive impact on revenue.

MTS continued active development of digital products in the retail and corporate markets and launched a number of strategic initiatives in the area of digital businesses. In March 2018, MTS launched an in-house accelerator, StartUp Hub, that enables technology startups to integrate their solutions and products with the company's business.

RUSSIA TELECOM MARKET DYNAMICS², RUB TRILLION

1.7%	1.57	0.8%	1.59	0.6%	1.60	2.8%	1.64	3.4%	1.70
------	------	------	------	------	------	------	------	------	------



Income, RUB trillion

Rates of growth, %

¹ MTS's stake in MTS Bank was increased to 94.72% in February 2019.
² According to TMT Consulting report "Russian telecommunications market in 2018-2023".

<https://mts.ru>



PJSC
MTS

MTS's strategy also envisages the development of **new business segments** such as fintech, entertainment and B2B/ IoT, both organically and through M&A.



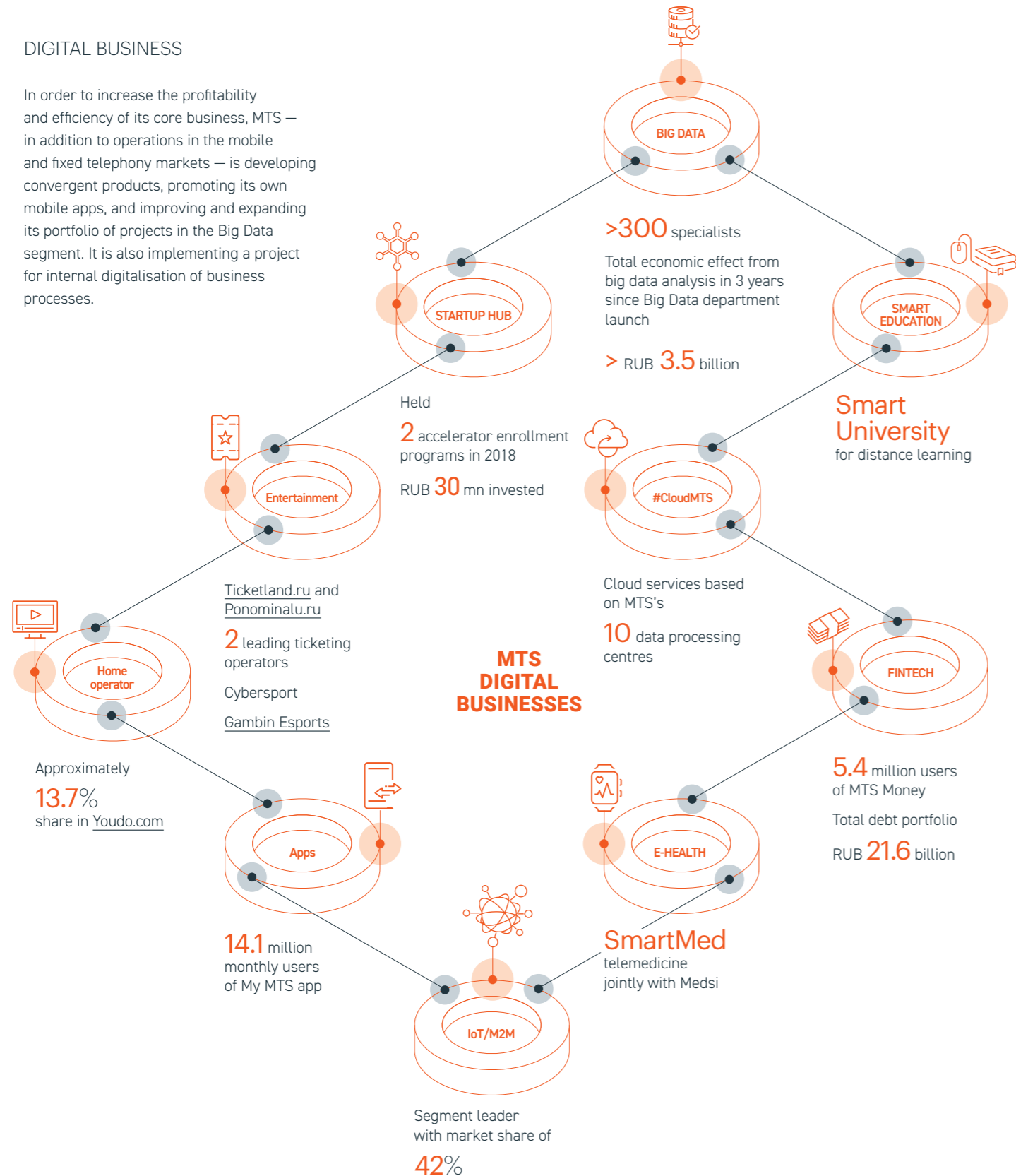
MTS was granted permission to use 900 MHz frequencies and announced that it was ready for **commercial operation of the Narrowband Internet of Things (NB-IoT) network.**

IN 2018, MTS COMMISSIONED NB-IOT NETWORKS IN

50 cities of Russia

DIGITAL BUSINESS

In order to increase the profitability and efficiency of its core business, MTS – in addition to operations in the mobile and fixed telephony markets – is developing convergent products, promoting its own mobile apps, and improving and expanding its portfolio of projects in the Big Data segment. It is also implementing a project for internal digitalisation of business processes.



MTS continued implementing its strategy of ensuring attractive returns to shareholders. In April 2018, the Board of Directors of MTS approved dividends payable for 2017 in the total amount of RUB 46.762 billion, or RUB 23.4 per share. In October 2018, the Board of Directors of MTS approved dividends for the first half of 2018 in the total amount of RUB 5.196 billion, or RUB 2.6 per share. The total amount of MTS's dividends in 2018 reached RUB 51.958 billion, which is in line with the payments made in the previous year.

BUSINESS DEVELOPMENT STRATEGY

Since 2016 MTS has been implementing its 3D strategy (Data, Digital and Dividends). In 2018, the board of directors of MTS approved an updated strategy for 2019-2021, according to which the company will offer its subscribers services united into one ecosystem. **The new 3D strategy is focused on digital transformation and development of new business segments:**

- 1. Data**
 - Retention of core mobile revenue via increased penetration of services, data transfer and V&D tariffs, competitive development of 4G networks, optimal use of the spectrum and a competitive 5G spectrum;
 - Growth of revenue from fixed telephony through expansion of the BB and TV subscriber base in Moscow and Russia's regions, increasing ARPU by selling additional services and developing B2B products and IT as a service;

- 2. Digital**
 - New digital businesses: IoT, system integration, e-commerce, fintech, applications, Big Data, e-ticketing, etc.;
 - Internal transformations: emphasis on interaction with customers, innovations in corporate culture, atomisation of product and business management;
- 3. Dividends**
 - High shareholder returns;
 - Investment and operational efficiency;
 - Maintaining optimal amount of debt.

MTS's investment programme includes nationwide projects aimed at improving the quality of communications, expanding coverage and rolling out the LTE network, increasing the capacity of intra-area and trunk networks to enable data traffic growth, developing new priority business segments (Big Data, Cloud, IoT, OTT, financial technologies) and B2B projects for customers, and preparing communication networks for the commercial operation of 5G in Russia.

2018 FINANCIAL PERFORMANCE

In 2018 revenue at MTS rose by 8.4% year-on-year, driven by robust performance of Russian operations as the core telecoms business benefitted substantially from a better pricing environment in Russia, and as data usage increased, revenue from new business lines accelerated rapidly, smartphone sales were strong, and as a result of the consolidation of MTS Bank. The new IFRS standards had a non-material negative effect on revenue.

Adjusted OIBDA grew by 22.7% in 2018, due to the effect of new accounting standards, revenue growth, the consolidation of MTS Bank and strong performance of the Ukrainian business. The abolition of roaming charges within Russia and increased payments for frequency spectrum in Russia had a negative impact on OIBDA. Excluding the effect of the new standards, adjusted OIBDA increased by 5.9% in 2018. The adjusted OIBDA margin strengthened by 5.3 p.p. to 45.6%.

In 3Q 2018 MTS recorded a provision of RUB 55.8 billion as the potential liability in respect of an investigation by the US Securities and Exchange Commission (SEC) and the US Department of Justice (DOJ). On 7 March 2019 MTS announced a settlement with the SEC and DOJ under which MTS agreed to pay USD 850 million.

Including the provision, MTS's net profit attributable to Sistema for FY 2018 was RUB 3.4 billion. Excluding the effect of this one-time factor, adjusted profit for FY 2018 was RUB 33.0 billion.

During calendar year 2018 MTS paid dividends totalling RUB 52 billion, or RUB 26.0 per ordinary share, in line with the company's dividend policy for 2016-2018.

FINANCIAL INDICATORS (RUB million)				Excluding impact of new IFRS standards	
	FY 2018	FY 2017	Change	FY 2018	Change
Revenue	480,292	442,910	8.4%	482,469	8.9%
Operating income	114,245	94,671	20.7%	106,817	12.8%
Adj. OIBDA	218,833	178,358	22.7%	188,795	5.9%
Profit attributable to Sistema	3,424	28,038	(87.8%)	4,591	(83.6%)
Adj. profit attributable to Sistema	32,951	29,926	10.1%	34,118	14.0%

¹ V&D – Voice and Data.

Detsky Mir



Detsky Mir Group¹ is a **multi-format retail operator** and a **leader in the children's goods segment** in Russia and Kazakhstan. It comprises the nation-wide retail chain Detsky Mir, the ELC and ABC stores, and the Zouzavr chain of pet stores.



VLADIMIR CHIRAKHOV
CEO



ALEXEY KATKOV
Chairman of the Board of Directors

DETSKY MIR'S BUSINESS MODEL

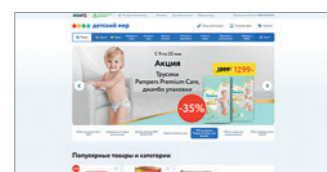
Detsky Mir's retail concept combines five key components:



SISTEMA'S EFFECTIVE STAKE:

52.1%

<https://detmir.ru>



INDUSTRY OVERVIEW FOR 2018²

Detsky Mir Group operates mainly in Russia and Kazakhstan, and since February 2019 also in Belarus. At the end of 2018, the Company had a 23% share of the Russian market of children's goods by revenue and a 15% share of the e-commerce segment.

The Russian children's goods market grew by 0.1% YoY in 2018 to RUB 522.1 billion. The market's CAGR over the last actual four years was 0.4%.

¹ As of 31 December 2018, the Group included PJSC Detsky Mir, LLC Kub-Market (ELC and ABC), LLP Detsky Mir Kazakhstan, JSC Detsky Mir Orel, LLC DM NORTH-WEST, LLC Detmir BEL and LLC DM Capital.

² According to the research agency Ipsos Comcon.

THE TOTAL SELLING SPACE IS

768,000 sq m

Analysts project that it will grow by an average of about 2% per year and will reach RUB 570 billion by 2023.

Clothing and footwear traditionally account for a substantial part of the children's goods market, and in 2018 accounted for 38.5% of the total (29.6% and 9.0%, respectively). Baby products and toys account for 31.0% and 17.9%, respectively.

AT THE END OF 2018, DETSKY MIR GROUP HAD

743 stores

The highest growth rate was registered in the baby products category, which reached RUB 162 billion in money terms in 2018, up from RUB 158 billion in 2017. The CAGR of this category over the last 4 years was 9.5%.

In 2018, some specialised retailers left the market or shut down most of their stores, and the remaining national and regional chains lost traffic and closed stores following a significant decrease in like-for-like sales. Nevertheless, specialised retailers remain the main sales channel for children's goods, along with hypermarkets and supermarkets (39.1% and 38.9% market share, respectively, in 2018).

The share of e-commerce in the children's goods market is growing steadily, reaching 12.6% in 2018 compared to 10.1% in 2017. The CAGR of e-commerce channels in 2010–2018 was 27%. In money terms, sales of children's goods through specialised stores increased from RUB 119 billion in 2010 to RUB 204 billion in 2018. Online sales of children's goods in 2018 amounted to RUB 66 billion.

The Company's share of the children's goods market among specialised retailers increased from 14% in 2011 to 59% in 2018, driven by the opening of a large number of stores during this period and the attraction of consumer traffic from competing retail chains. Toys and baby goods were the key drivers of the Company's market share growth in 2018; Detsky Mir's market share in these categories increased from 38.9% to 45.6% and from 24.3% to 26.8%, respectively. The Company's market share increased in all categories of children's goods in 2018.

DETSKY MIR STORES

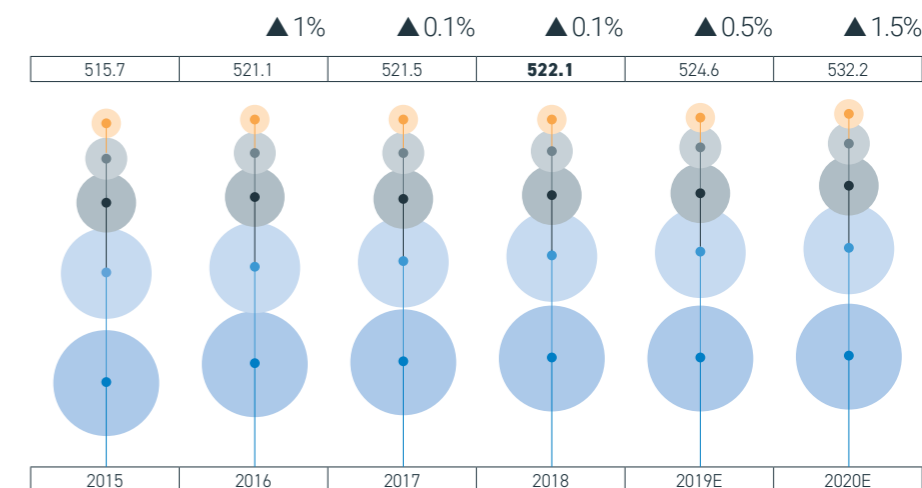
673 stores

in 252 cities and towns across Russia and Kazakhstan

ELC AND ABC STORES

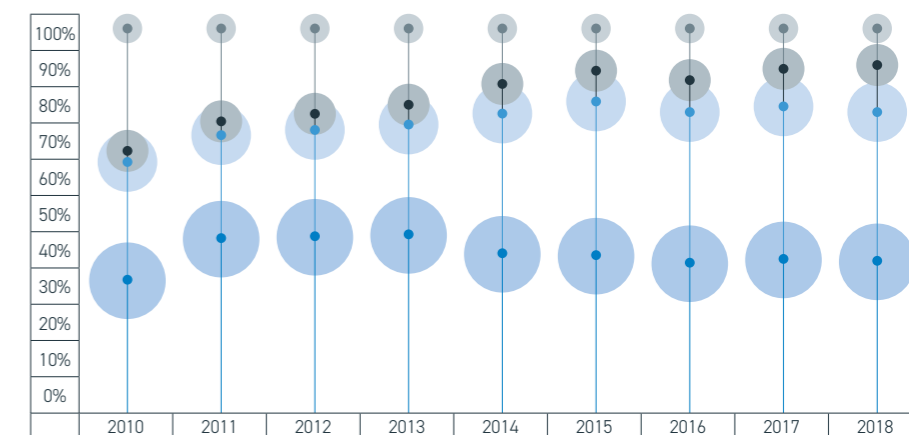
66 stores

ANNUAL VOLUME OF CHILDREN'S GOODS MARKET IN RUSSIA BY CATEGORY³, RUB BILLION



	2015	2016	2017	2018	2019E	2020E
Baby Products	123	153	157	162	163	165
Clothing	165	147	151	154	157	163
Toys	110	104	96	93	93	94
Stationery	65	66	66	66	66	66
Footwear	52	51	51	47	45	45

CHILDREN'S GOODS MARKET STRUCTURE BY SALES CHANNEL³, %



	2010	2011	2012	2013	2014	2015	2016	2017	2018
Specialised stores	34.3	45.2	45.6	46.0	41.3	40.8	38.6	39.8	39.1
Grocery retail chains	30.7	26.9	27.8	29.0	36.3	40.0	39.1	39.7	38.9
Online channel	2.9	3.6	4.3	5.0	7.6	8.1	8.9	10.1	12.6
Other	32.2	24.3	22.4	20.0	14.8	11.1	13.5	10.4	9.4

³ Source: Ipsos Comcon.

DETSKY MIR

Group

ONLINE BUSINESS AS A SHARE OF DETSKY MIR'S TOTAL REVENUE

7.9%

ONLINE ORDERS

5.1m+

ONLINE STORE VISITS

178m+



DETSKY MIR AWARDS AND RANKINGS

FORBES' RANKING OF RUSSIA'S ▲ 12 TOP 200 LARGEST PRIVATE SECTOR COMPANIES

88th place

INFOLINE RETAIL RUSSIA ▲ 3 TOP-100 RANKING OF LARGEST RETAIL CHAINS

13th place

RANKING OF RUSSIA'S TOP 100 MOST VALUABLE PUBLICLY TRADED COMPANIES (BY RIA RATING)

61st place

RBC'S LIST OF RUSSIA'S 50 FASTEST GROWING COMPANIES

37th place

LIST OF RUSSIA'S TOP 100 LARGEST COMPANIES BY MARKET CAP

59th place

DETSKY MIR'S BUSINESS DEVELOPMENT IN 2018

In 2018, Detsky Mir achieved impressive results in terms of business growth. Group revenue increased 14.3% in 2018 to RUB 110.9 billion, from RUB 97.0 billion in 2017. One hundred new stores were opened. In addition, Detsky Mir continued active regional and international expansion. In 2018, 33 debut stores opened in cities of Russia and Kazakhstan that are new for the Company. Detsky Mir entered a new region — the Far East — with stores opened in Blagoveshchensk, Vladivostok and Khabarovsk.

Kazakhstan remains a promising market for the international expansion of the Detsky Mir retail chain. In 2018, the Company expanded its retail chain in Kazakhstan by eight supermarkets and almost doubled revenue, while growth of like-for-like sales in tenge was 30%. Detsky Mir has a total of 30 stores in 15 biggest cities of the Republic of Kazakhstan.

In addition to retail stores, Detsky Mir Group offers the full range of its products for purchase online. The e-commerce business segment was launched in 2011 and still remains the fastest growing sales channel. The online store had more than 178m visits and fulfilled over 5.1m online orders in 2018. The online channel's revenue doubled in 2018 and amounted to RUB 8.8 billion.

One of the key drivers of revenue growth in 2018 was the promotion and expansion of the In-Store Pickup service. Now customers can pick up orders at a Detsky Mir store within 60 minutes of placing the order.

The development of logistics infrastructure is a key element of the Company's strategy. In 2018, the Company launched a second distribution centre (DC) in the class A+ industrial park PNK Bekasovo in the Naro-Fominsk district of the Moscow region. The Company now owns the Bekasovo-1 and Bekasovo-2 DCs, with a total area of 132,500 sq m, and leases the Krekshino DC with an area of 20,000 sq m.

The Company seeks to optimise purchase prices, maintain an efficient product mix and improve quality assurance by signing direct contracts with major specialist manufacturers or their representatives in Russia, and by reducing the share of distributors. This helps Detsky Mir get attractive prices and minimise currency risks, and also provides direct access to goods.

At the end of 2018, the Company opened four pilot stores of the Zozzavr chain — a new business line for Detsky Mir. The market of pet products is promising because of its volumes, expected growth rates and high level of fragmentation, as well as the opportunities it offers for the management to leverage their experience gained in the children's goods market. The Company expects to open six more stores by the end of 2019. The decision regarding further development of this chain will be based on the results of the pilot stores.

OPERATING AND INVESTMENT BUSINESS DEVELOPMENT STRATEGIES

The key strategic goal of Detsky Mir is consolidation of the children's goods market in Russia and Kazakhstan. This will be achieved by expanding the chain, developing omni-channel sales and offering affordable and diverse products, including private labels.

STRATEGIC DEVELOPMENT AREAS OF DETSKY MIR GROUP

1. Expansion across Russia and internationally
2. Development of omni-channel sales
3. Development of private labels
4. Enhancement of operational efficiency

There are opportunities in the markets of Russia and Kazakhstan to open at least 265 new stores in the next 3-4 years, including at least 80 stores in 2019.

As part of its geographical expansion strategy, Detsky Mir made a decision to enter the Belarusian market. The Company's goal in the medium term is to open at least 35 stores in Belarus, including at least 10 stores in 2019.

Detsky Mir's growth potential, including regional and international expansion, is thus 300 stores over the next 3-4 years.

KEY INITIATIVES IN 2019:

1. Become a **number one player in the Kazakh market** by the end of 2019, with 35 stores of the Detsky Mir chain.
2. Enter **Belarus — a market of more than RUB 40 billion** — and open at least 10 stores in 2019.
3. Enter the **pet products market — worth approximately RUB 212 billion** — and open up to 10 pilot Zozzavr stores by the end of 2019.
4. Retain the **number one position in the online children's goods market**, and increase the share of Group revenue from the online segment to double digits in 2019 by improving service quality ("Ideal In-Store" and "Last Mile" projects).
5. **Increase the share of private labels and direct imports** in toys to 25% and in diapers to 15% in 2019.

2018 FINANCIAL PERFORMANCE

In FY 2018 Detsky Mir's revenue grew by 14.3% year-on-year. Growth was driven by new store openings, an increase in like-for-like¹ (LFL) sales and online sales, as well as the continued ramp-up of stores opened in 2017. LFL sales in Russia increased by 4.3% for FY 2018. Growth of LFL sales in Kazakhstan increased by 30% year-on-year in KZT terms. The online segment² remained the fastest-growing channel, with revenue almost doubling for FY 2018 to RUB 8.8 billion. The online store accounted for 7.9% of total sales in FY 2018, compared to 4.8% in 2017.

Adjusted OIBDA increased by 98.0% year-on-year to RUB 21.1 billion. Excluding the impact of new accounting standards, Adjusted OIBDA increased by 18.8% to RUB 12.7 billion, due in large part to optimisation of purchasing costs, effective management of the assortment and increased operational efficiency.

Adjusted profit attributable to Sistema increased substantially in FY 2018 due to increased operational efficiency and a reduction in SG&A to RUB 15.7 billion. Excluding the effect of the new accounting standards, profit increased by 31.1% in 2018.

FINANCIAL INDICATORS (RUB million)				Excluding impact of new IFRS standards	
	FY 2018	FY 2017	Change	FY 2018	Change
Revenue	110,874	97,003	14.3%	110,874	14.3%
Operating income	11,232	8,024	40.0%	9,770	21.8%
Adj. OIBDA	21,115	10,664	98.0%	12,666	18.8%
Adj. profit attributable to Sistema	3,292	2,871	14.6%	3,765	31.1%

¹ Like-for-life sales (LFL) growth was calculated based on the results of the Detsky Mir retail chain in Russia, which were in operation for at least 12 full calendar months preceding the reporting date.

² The segment includes online orders on the site www.detsky-mir.ru including orders for collection at Detsky Mir stores.



Segezha Group is a **leading** vertically integrated **Russian forest products holding** with a **full cycle of logging and advanced wood processing**.



Segezha Group comprises **forest, wood processing and pulp and paper assets** in Russia and Europe. The main production facilities are located in the European part of Russia and EU nations.

REPRESENTATIVE OFFICES IN

12 countries

SEGEZHA GROUP'S ENTERPRISES EMPLOY OVER

13,000 people



MIKHAIL SHAMOLIN
President

OUTPUT OF BROWN SACK PAPER

No 1 in Russia
No 3 globally



ALI UZDENOV
Chairman of the Board of Directors

OUTPUT OF PAPER SACKS

No 1 in Russia
No 2 in Europe

OUTPUT OF HIGH-QUALITY LARGE-SIZE BIRCH PLYWOOD

No 5 globally

OUTPUT OF SAWN TIMBER

No 1 in Russia

BY OUTPUT OF PREFAB GLULAM HOUSES

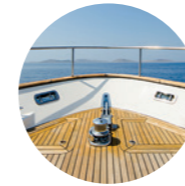
No 1 in Russia

New products of Segezha Group



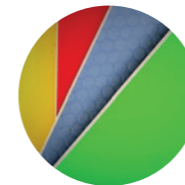
Ironbirch plywood

Ironbirch plywood has unique anti-slip properties. The product was designed for flooring in high-capacity trailer trucks. Special particles in the coating ensure high wear resistance and anti-slip properties.



Honeycomb coating

Plywood with Honeycomb coating is used for flooring in light commercial vehicles, warehouses, children's and sports grounds, boats and yachts. This type of plywood has an attractive appearance, high wear resistance and anti-slip properties.



Coloured plywood

Laminated plywood of various colours (white, yellow, green, blue and red) is used for indoor and outdoor works, including creation of decorative elements for furniture, interior design, interior decoration of commercial vehicles, and construction of children's and sports grounds.

paper are Southeast Asia, Africa, and Central and South America. The anti-dumping duties introduced by China for most producers from Europe, North America and Japan have created advantages for sack paper producers from Russia and Canada.

The key event in 2018 was the completion of a three-year programme of upgrades at Segezha PPM. At the end of the year, a new multi-fuel boiler was installed with a capacity of 120 t of steam per hour. To reduce the environmental footprint, it was equipped with an electrostatic precipitator with purification efficiency of 99.7%.

In 2018, Segezha Group increased paper output by 18% to 375,400 t. The growth was mainly due to the launch and full ramp-up of the new paper-making machine. Sack paper sales increased by 20%, to 244,000 t, mainly due to increased shipment volumes under current contracts and expansion of the client portfolio.

SISTEMA'S EFFECTIVE STAKE:

99.9%

SEGEZHA GROUP'S BUSINESS MODEL

Segezha Group's business model is based on maximum vertical integration, with the aim of creating added value and ensuring business sustainability by diversifying risks amid a changing macro environment.

High levels of operational efficiency and a presence in all key stages of value creation — from in-house logging at leased forest plots to selling high-margin products to consumers — allow Segezha Group to maintain market leadership in terms of cost of finished products in all business segments.

SEGEZHA GROUP'S BUSINESS DEVELOPMENT IN 2018

BIRCH PLYWOOD

In 2018, Segezha Group was the world's fifth biggest producer of large-size birch plywood. Segezha Group's key strategic markets are Germany, the UK, US, Benelux and South Asia.

In 2018, plywood output increased by 36% year-on-year to 135,700 cu m. Production growth was driven by the launch of a new plywood production line in the Kirov region in July 2018, which doubled the capacity of Vyatka Plywood Mill to 192,000 cu m and allowed the company to enter new markets with a new product — long-grained plywood. The share of plywood exports rose from 78% to 80% in 2018.

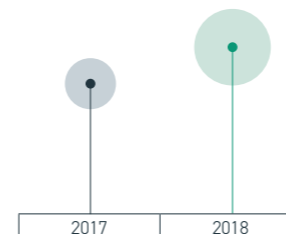
SACK PAPER

In 2018, Segezha Group retained its position as the number one producer of unbleached sack paper in Russia and climbed to number three globally (from number four in 2017). Segezha Group's main sack paper plant — Segezha Pulp and Paper Mill (PPM) — reached its design capacity in 2018 after the launch of the new paper-making machine at the end of 2017 and produced 355,000 t of high-quality paper.

Segezha Group exports 95% of marketable sack paper (37% of produced paper goes to the company's converting facilities to produce paper packaging). The key export markets for Segezha Group's sack

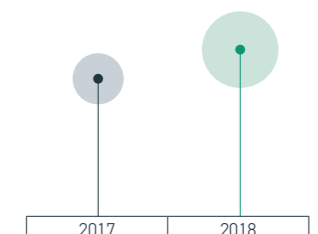
PLYWOOD SALES, THOUSAND CU M

▲ 36%



SACK PAPER SALES, THOUSAND T

▲ 20%



<https://segezha-group.com>



SEGEZHA GROUP

THE GROUP EXPORTS

99%

of its sawn timber
to more than 30 countries

In 2018, Segezha Group, in cooperation with the Ministry of Industry and Trade, actively participated in the development of the Russian Forest Sector Development Strategy Until 2030, which was approved in September 2018. The strategy of Russia's timber industry is aimed at improving the long-term competitiveness of the sector and increasing its contribution to the country's socio-economic development, as well as at effective use, protection and reproduction of forests through sustainable forest management.

PAPER SACKS

In 2018, Segezha Group's paper packaging output increased by 6% to 1,286m bags. Growth was driven by the launch of the second bag-making line (Triumph 5 QT SK) in Salsk, Rostov region, with a capacity of 25 million bags per year. The year-on-year increase was also driven by improvements to the order planning system and a consequent increase in productivity.

In 2018, Segezha Packaging accounted for 64% of sales in the Russian market. Products for the construction industry account for more than 82% of this. During the year, the company continued to work on increasing the share of high-margin products in its sales portfolio.

In 2018, Segezha Packaging implemented priority plans to retain market share in the key European countries such as Italy, France, Germany and Spain.

In 2018 the group planned to increase the output of its Russian enterprises to 560 million sacks.

The company exceeded this target and produced a record number of sacks (590 million), mainly due to increased planning efficiency regarding utilisation of converting capacities, as well as expansion of the client portfolio.

Launch of the second production line for consumer paper packaging at LLC Segezha Packaging's plant in Salsk



One of the key events in 2018 was the launch of the new Triumph 5 QT SK bag-making line supplied by Germany's GARANT Maschinenhandel. The new high-tech equipment can produce single-layer paper bags and bags with twisted handles with a capacity of 25 million items per year. Products are certified in accordance with FSC®C-100540, EAC, ISO 9001, ISO 14001 and OHSAS 18001.

Segezha Packaging's plants in the Republic of Karelia and the Rostov Region have a capacity of 800 million sacks per year, while the total capacity including Western converting assets is 1.6 billion bags per year.

SAWN TIMBER

Segezha Group exports 99% of its sawn timber to more than 30 countries, with more than 95% exported to China, Egypt and the EU. The Group's products are mainly consumed by construction and furniture manufacturing industries.

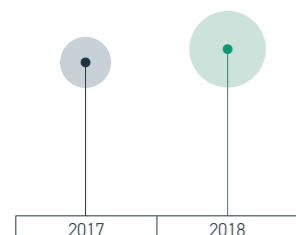
In 2018, Segezha Group's enterprises increased output of sawn timber by 3% year-on-year, to 924,000 cu m, due to increased production efficiency at Lesosibirsk Woodworking Plant (WP). Sales increased by 4% following the increase in output, as well as due to debottlenecking in shipment of products by rail and launching of new shipment channels.

In 2018, Segezha Group took a number of steps to ensure that its specifications and internal requirements for sawn timber quality meet market requirements. The company worked closely with customers and expanded its product range during the year.

In October 2018, Lesosibirsk WP launched a pellet production line with a capacity of 70,000 t of finished products, which will provide additional income from waste processing.

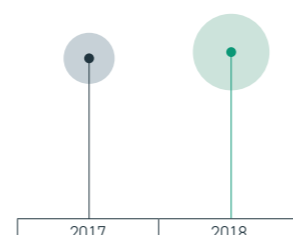
PAPER SACK SALES, MILLION ITEMS

▲ 8%



SAWN TIMBER SALES, THOUSAND CU M

▲ 4%



LAMINATED BEAMS AND PREFAB HOUSES

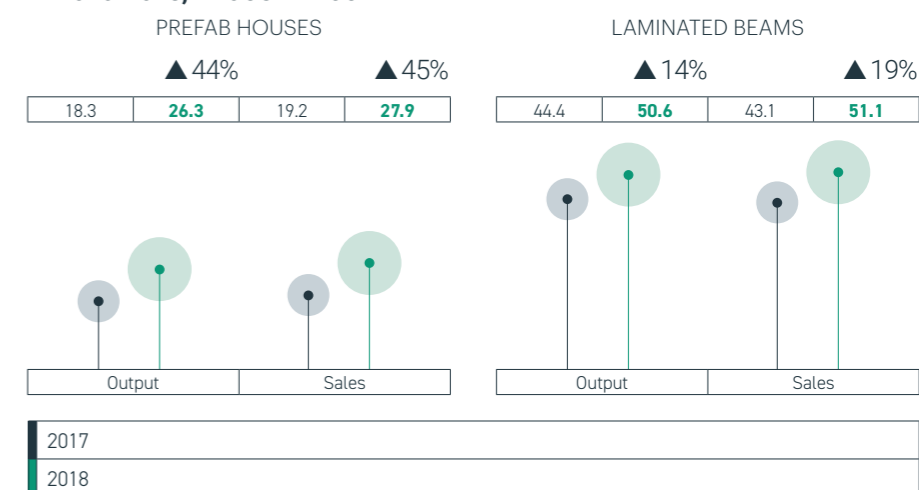
In 2018, Segezha Group increased sales of prefab houses by 45% through working closely with construction dealers, product promotion, the launch of a new premium product (prefab glulam houses with a height of 280 mm or more) and improved product quality. Sokol WP, the leader in its segment, supplies prefab houses mainly to the Russian market.

Sales of laminated beams in 2018 grew 26% year-on-year. Growth was driven by increased productivity due to optimisation of the production process. A significant contribution to the increase in sales was Sokol WP's entry to new markets such as Spain, Turkey and Israel. Most of laminated beams are exported.

BUSINESS DEVELOPMENT STRATEGY

Segezha Group's development strategy was updated in 2018, taking into account the Russian Forest Sector Development Strategy Until 2030, and is aimed at **creating an industry leader** in terms of operational efficiency using a vertically integrated and diversified business model.

OUTPUT AND SALES OF PREFAB HOUSES AND LAMINATED BEAMS IN 2016-2018, THOUSAND CU M



SEGEZHA GROUP'S STRATEGIC PRIORITIES



- ▷ Increasing the share of own wood supply at all of the Group's enterprises by expanding allowable cut and increasing utilisation of existing allowable cut
- ▷ High-quality reproduction of forests



- ▷ Modernisation of existing production facilities
- ▷ Construction of new energy efficient facilities to meet growing demand for forest products in global markets



- ▷ Employee safety and health
- ▷ Reduction of environmental impact
- ▷ Striving for zero waste production
- ▷ Development of the regions of operations



- ▷ R&D within the Company
- ▷ Creation of new products, manufacturing processes and future solutions

SEGEZHA GROUP

REVENUE ▲ 32.4%
57,889 RUB million

OPERATING INCOME ▲ 161.1%
8,178 RUB million

INDUSTRY OVERVIEW FOR 2018¹

PAPER SACKS

Products made by Segezha Packaging's seven enterprises located in Europe are sold mainly in the European market, while its enterprises in the Karelia and Rostov regions sell to Russia and other CIS markets.

European market

The European paper sacks market is highly consolidated. About 50% of demand comes from Germany, Italy, France and Spain.

The European paper packaging market in 2018 remained at the same volume as 2017 – about 5.4 billion items. Prices for paper packaging grew about 5% year-on-year, following a sharp increase in paper prices during the year. Experts expect that the main drivers of market growth until 2021 will be the food industry and the animal feed and chemicals segments. In 2018, the construction industry remained the main consumer of paper sacks with a share of about 60%.

IN 2018, SEGEZHA GROUP'S SHARE IN OUTPUT OF PAPER SACKS IN EUROPE WAS

12%

Russian market

Consumption of paper sacks in the Russian market in 2018 remained at the same level as 2017 – 766 million units – amid a slowdown in construction, which as in the previous year accounted for the bulk of demand (88% in 2018). Prices for paper packaging grew about 4% year-on-year, which was driven mainly by an increase in global kraft paper prices. Russia maintains a balance of production and consumption of industrial paper sacks, and this is expected to continue until 2023.

SACK PAPER

Segezha Group produces more than 60% of all sack paper in Russia. The Company uses 37% of produced paper to make sacks at its own enterprises in Russia and Europe. The remaining 63% of products are sold in international markets (approximately 60 countries in 2018). Key export markets are the Middle East and Southeast Asia. Significant volumes are also exported to the EU, Africa, and Central and South America.

In 2018, the global market for sack paper was estimated at 7.2 million t (vs 6.9 million t in 2017). In 2018, there was a huge shortage of paper in the global market, caused by high demand and limited supply. The demand was driven mostly by a construction boom in Asia, the Middle East and Africa.

SAWN TIMBER

The global market of sawn softwood timber reached 350 million cu m in 2018. Over the past five years, global sawn timber consumption has grown by an average of 2.5% per year due to growth in the construction and furniture markets in the US and China, which are the largest consumers of sawn timber in the world. Russia is the fourth largest producer of sawn softwood timber in the world after Europe, the US and Canada, with a market share of 11%.

Russia's output of sawn softwood timber in 2018 grew 3.6% year-on-year to 39 million cu m, while exports increased 7% to 30 million cu m, mainly due to high demand in China, which is the largest consumer of Russian sawn softwood timber.

PLYWOOD

Exports accounted for 88% of Segezha Group's plywood sales in 2018. The main importers are European countries, primarily Germany, the Netherlands, Belgium, France, Italy, Norway, Finland and Czechia.

Global consumption of birch plywood has been steadily growing in recent years at an average rate of 2.0%-2.7% per year. In 2018, the global market for birch plywood was estimated at 4.9 million cu m, with Russian birch plywood accounting for 75%-80% of the total. In 2018, Russia's plywood exports grew by 8.7% to 2.68 million cu m, or 67% of total output. The bulk of demand comes from the construction, furniture manufacturing, transport, shipbuilding and packaging industries. Consumption growth in 2019 is projected at 3% in Russia and 2%-4% globally.

LAMINATED BEAMS AND PREFAB HOUSES

Laminated beams



Segezha Group's production of laminated beams at Sokol WP is export-oriented, primarily for the European market. In 2018, Italy, Germany, Austria and Spain accounted for 92% of the Group's sales. Europe and Japan remain the main global consumers of laminated beams, which are mainly used in the construction industry.

In 2018, global consumption of laminated beams did not change significantly and remained at about 4.1 million cu m. In 2019, demand for laminated beams is expected at the same level amid increasing competition.

SEGEZHA GROUP SHARE IN PREFAB GLULAM HOUSES MARKET IN RUSSIA

18%

TOTAL VOLUME OF 2018 PREFAB GLULAM HOUSES MARKET IN RUSSIA

155 thsd cu m

Prefab houses



Segezha Group supplies prefab houses mainly (~98%) to the Russian market and is the market leader with a share of 18% in 2018. The Russian market for prefab glulam houses in 2018 was estimated at 155,000 cu m. Key regions for prefab houses in Russia are the Central, North-West and Volga federal districts.

GLOBAL CONSUMPTION OF PREFAB GLULAM HOUSES

4.1 mn cu m

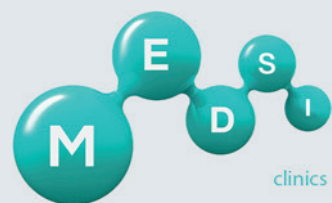
2018 FINANCIAL PERFORMANCE

Segezha Group's revenue grew by 32.4% in 2018. The main growth driver was revenue from the Paper and Packaging division, which accounted for 70% of total revenue. Revenue growth was driven by increased sales volumes and higher prices for paper. Revenue for the year was also positively affected by growth of prices for sawn timber through the first nine months of the year and the depreciation of the rouble. In 2018 the average rouble rate decreased by 7.5% against the dollar and by 12.2% against the euro.

Adjusted OIBDA increased year-on-year by 83.4% for 2018. Growth was driven by increased prices for most of Segezha's key products, as well as the commissioning of a new paper-making machine at the end of 2017, which added RUB 2.6 billion at the OIBDA level. The adjusted OIBDA margin increased by 6.2 p.p. for 2018 to 22.4%, due to price increases. The introduction of the new IFRS 16 standard had a positive effect on adjusted OIBDA of RUB 894 million in FY 2018.

FINANCIAL INDICATORS (RUB million)	FY 2018	FY 2017	Change	Excluding impact of new IFRS standards	
				FY 2018	Change
Revenue	57,889	43,725	32.4%	57,889	32.4%
Operating income	8,178	3,132	161.1%	7,703	145.9%
Adj. OIBDA	12,984	7,081	83.4%	12,090	70.8%
(Loss)/Profit attributable to Sistema	(77)	(591)	-	193	132.6%
Adj. profit attributable to Sistema	54	81	(33.9%)	323	297.2%

MEDSI



Medsi Group is **Russia's largest** national healthcare chain, offering a full range of preventive, diagnostic, treatment, and rehabilitation services for children and adults.

NUMBER OF FACILITIES¹

42

NUMBER OF DOCTORS

3.3 thsd



ELENA BRUSILOVA
President



ARTYOM SIRAZUTDINOV
Chairman of the Board of Directors

NUMBER OF FACILITIES

CLINICAL DIAGNOSTIC CENTRES (CDCS)

4	Moscow	3
	CDC Krasnaya Presnya	
	CDC Belorusskaya	
	CDC Grokholsky	
	St. Petersburg	1

REGIONAL CLINICS

11	Perm	6
	Barnaul	1
	Bryansk	1
	Volgograd	1
	Nizhnevartovsk	1
	Nyagan	1

PRIMARY CARE CLINICS

19

WELLNESS CENTRES AND SANATORIUMS

4

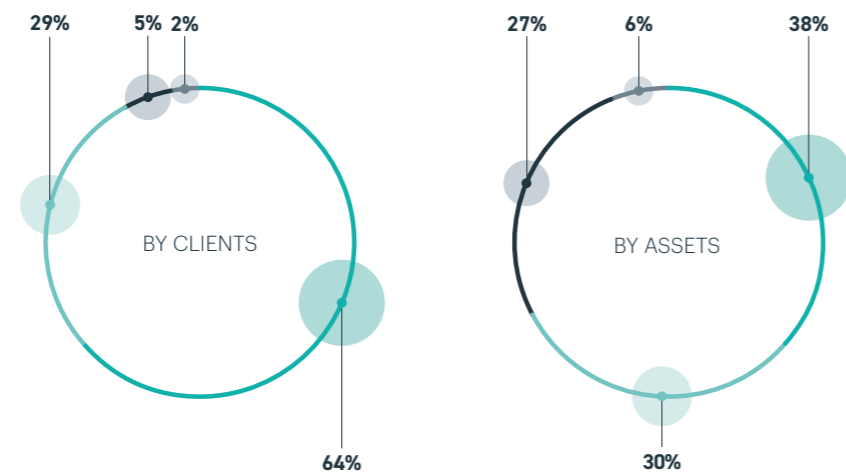
CHILDREN'S CLINICS

2

HOSPITALS

2

REVENUE 2018



Insurance
Individuals
Corporate
Other

Clinics
Hospitals
CDC
Other

SISTEMA'S EFFECTIVE STAKE:

99%

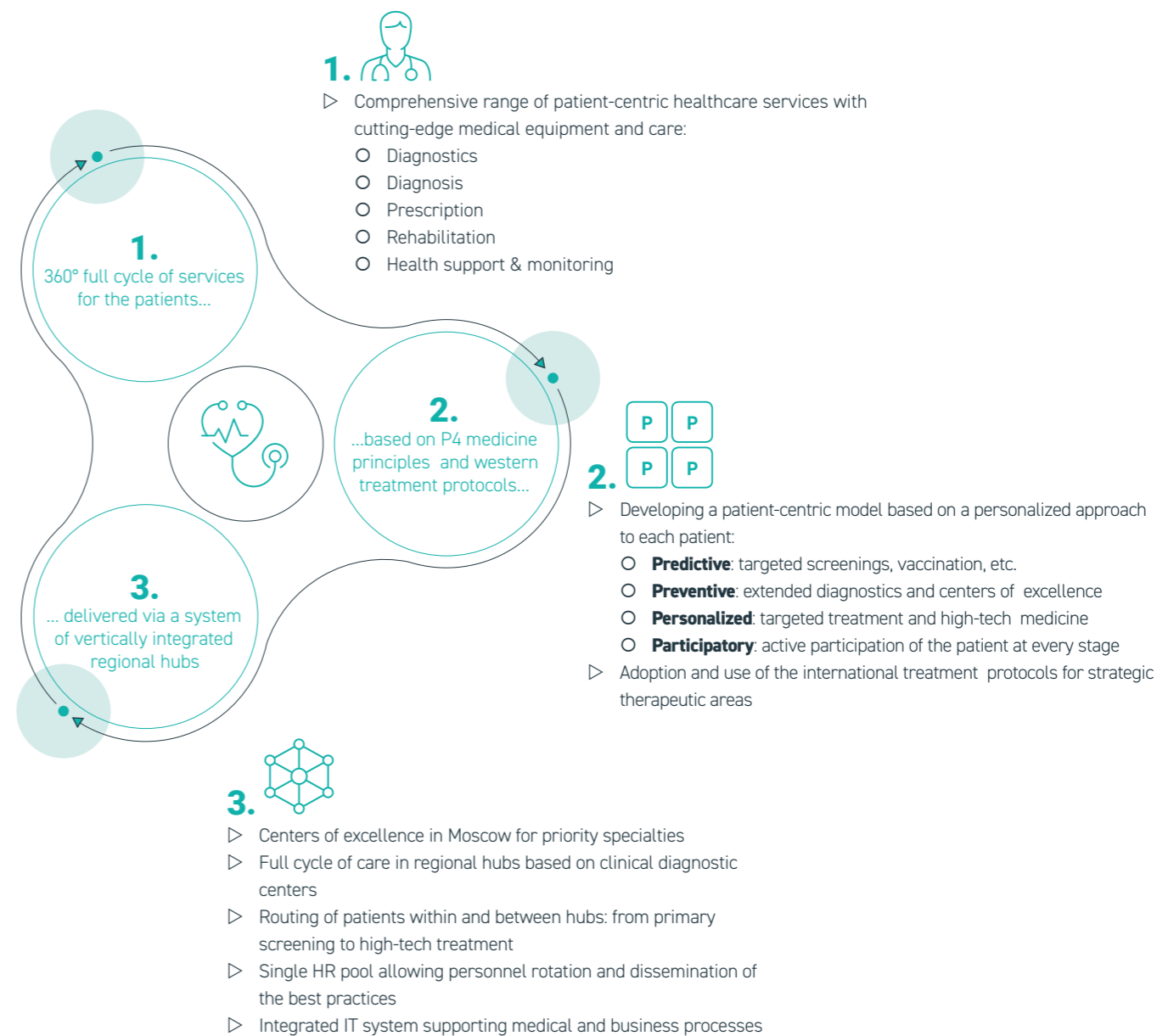
<https://medsi.ru>



BUSINESS MODEL

A VERTICALLY INTEGRATED HUB-BASED BUSINESS MODEL

An innovative medical platform with a vertically integrated system of patient service built on the principles of **P4 medicine** with **exceptional scalability potential** and unique market position with no direct competition.



¹ As of 31 December 2018.

MEDSI

Group

PATIENT VISITS¹

8.5 mn

SERVICES PROVIDED¹

17.9 mn

In January 2018, Medsi **first launched its telemedicine platform** developed in conjunction with MTS. In 2019, the company plans to further evolve the solution through new services and a special mobile app. In addition to telemedicine, Medsi is looking to start a «third opinion» project that would rely on neural decision support systems.



MEDSI'S BUSINESS DEVELOPMENT IN 2018

FLOOR SPACE, THSD SQ M

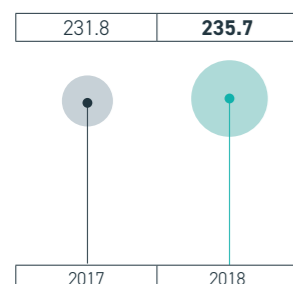
▲ 1.7%

AVERAGE CHEQUE, RUB THSD

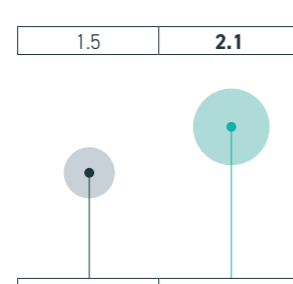
▲ 43.4%

THE AVERAGE CHEQUE increased by 43.4% to RUB 2.1 thsd, primarily due to the increased proportion of complex procedures in the in-patient segment and the diagnostic segment, and also due to the effect of higher prices in line with market trends.

235.7



2.1



UTILISATION, HOSPITALS, %

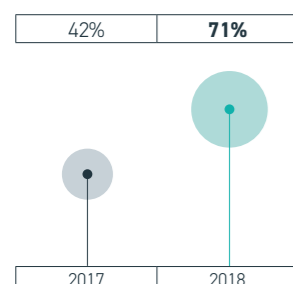
▲ 28 p.p.

UTILISATION, CLINICS, %

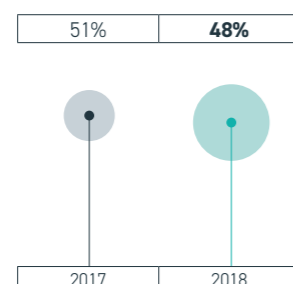
▼ 3 p.p.

CLINIC UTILISATION is presented on a LFL basis. Including new clinic openings and M&A, clinic utilisation was 48% in 2018, and 51% in 2017. The decrease was the result of refurbishment of part of the CDC at Belorusskaya.

71



48



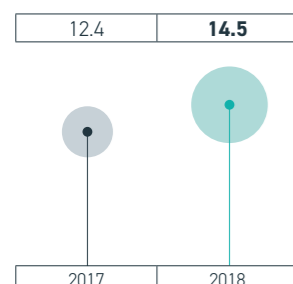
SERVICES PROVIDED, MN

▲ 17.6%

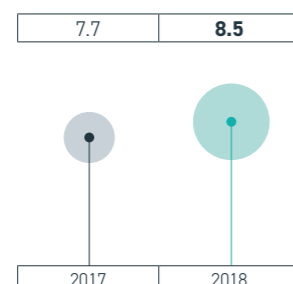
PATIENT VISITS, MN

▲ 6.0%

14.5



8.5



¹ Metrics are for 2018, where capacity is calculated as the number of possible out-patient visits by patients at Medsi facilities, and visits as the actual number of patient visits for the period, all including new clinic openings and M&A. LFL out-patient capacity in 2018 was 14.7 mn. Visits were 7.4 mn, Utilisation was 50%.

EXISTING ASSETS

New high-precision diagnostic equipment and modern surgical technology brought about a significant increase in the quantity, quality and volumes of medical services, with a 6% rise in visits and an almost 18% increase in the volume of services. Continuing the trend started in 2017, the company drove up MMI revenues (+269% from 2017) and became a stronger player in the market of specialised and hi-tech hospital care, notably in cardiovascular surgery, oncology, injury treatment and rehabilitation of patients after surgical operations, injuries and strokes.

In 2018 Medsi became the absolute leader among private clinics across the Moscow region in terms of volume of services provided to patients with cancer, servicing more than 11 thousand people. The Botkinsky Proezd clinical hospital in Moscow became the seat of a specialised cancer centre, attracting a vast flow of patients and driving up the hospital's occupancy rates, with more than 8,000 patients treated in 2018 alone.

With a view to building strong partnerships with leading global vendors of diagnostic and surgical equipment, in 2018 Medsi signed new memorandums of cooperation with Siemens and Olympus.

In 2018 Medsi started preparing for international JCI accreditation as attestation of the high standards of quality and safety of healthcare services provided across the chain.

Moreover, Medsi became Russia's first private medical company to launch patient experience centres, family support centres and a fundraising centre. The centres are expected to boost patient participation and loyalty, and serve as an important component of the new «P4 medicine» strategy.

Flagship assets

Medsi's largest clinical & diagnostic centre – CDC Krasnaya Presnya, with a floorspace of over 20,000 square metres and a successful track record since its opening in late 2015 – is steadily evolving in terms of both occupancy rates (9% increase on 2017) and financials (revenue more than doubled from 2017). New centres of excellence launched here in 2018 use state-of-the-art equipment and best-in-class experts. Starting from Q1 2018, CDC Krasnaya Presnya has been using the trail-blazing hi-tech robotic da Vinci surgical system to operate on patients with gynaecological, urological and endocrine pathologies.

NEW ASSETS

Organic growth

In 2018 Medsi embarked on the construction of a flagship CDC for children and adults on Michurinsky Prospekt in Moscow. The new multi-specialty medical centre (MSMC) with a floor area of over 28,000 sq m is scheduled to open in 2020.

Inorganic growth

The large medical centre in St. Petersburg acquired in 2017 (formerly Medem) combines 28 departments, a first-rate diagnostic centre, and a hi-tech surgery block, occupying a total area of 6,800 sq m. The asset is by now fully integrated in Medsi's business processes.

In Q3 2018 Medsi became the sole owner of LLC Medlife Health Clinics (the initial 60% stake was acquired in 2017), the largest multi-specialty medical chain in the city of Perm (comprising seven specialised clinics and a customer service centre).

In the next few years, Medsi is planning to further strengthen its role in the private healthcare markets of both St. Petersburg and Perm by actively developing its local assets.

PLANS FOR 2019

Medsi's priorities in 2019 are expanding the capacity and spectrum of services offered at CDC Krasnaya Presnya and launching the final construction stage at MSMC Michurinsky. In parallel, the company is renovating two family clinics in residential neighbourhoods of Moscow and the Moscow region (to be opened by the end of the year) and planning to launch new facilities in another two regions of Russia (also by the end of 2019).

Another priority item on the company's agenda is inclusion in the Ministry of Health's Hi-Tech Healthcare Providers List, which would open up access to federal financing and so bring hi-tech care to Medsi's hospitals from 2020 onwards. At the moment, Medsi only provides hi-tech services to residents of the Moscow region, financed by OMI funds in Moscow and the Moscow region.

In January 2018, Medsi first launched its telemedicine platform developed in conjunction with MTS. In 2019, the company plans to further evolve the solution through new services and a special mobile app. In addition to telemedicine, Medsi is looking to start a «third opinion» project that would rely on neural decision support systems.

MEDSI
Group



RUSSIAN PRIVATE HEALTHCARE MARKET ▲7.6%

594 RUB bn

MEDSI'S 2018 REVENUE GROWTH IN PRIVATE SECTOR, MOSCOW REGION

20.6%

BUSINESS DEVELOPMENT STRATEGY: OPERATIONS AND INVESTMENT

Medsi's strategy aims to build Russia's **first multi-functional national-scale medical operator**, providing a full spectrum of services.

THIS LONG-TERM GOAL REQUIRES SPECIFIC STEPS:

- 1.** Expansion of the company's geographical footprint across the country.
- 2.** Evolving existing large local facilities into regional vertically integrated hubs (to cover the full spectrum of services, from outpatient to hospital care) while referring the most challenging medical cases to the flagship assets in Moscow.
- 3.** Increasing market shares in Moscow and the Moscow region through new outpatient and diagnostic clinics in residential neighbourhoods.
- 4.** Launching a third flagship hospital on Michurinsky Prospekt in Moscow to widen the range of services (including a children's hospital).
- 5.** As a matter of medical strategy, establishing a Chief Specialists Department charged with implementation of unified quality & safety standards across all specialties and of the new patient routing strategy, preparation and introduction of innovative treatment methods, and education of medical staff.
- 6.** Developing and implementing unified quality and safety standards to guarantee high quality of treatment in compliance with JCI standards.
- 7.** Enhancing on-the-job education and training programmes provided by the Medical Academy, and launching international education programmes.
- 8.** Transferring auxiliary back functions from the management company to a single service centre, while automating and/or partly outsourcing routine day-to-day functions in order to optimise the management company's costs.
- 9.** To progress the IT strategy, enhancing existing online solutions for patients (e.g., by introducing new options in personal accounts and upgrading the telemedicine app) and for staff (e.g., by providing reliable decision support systems, case conferences, etc.) and upgrading the ERP system to ensure effective management and prompt decision-making.

INDUSTRY OVERVIEW FOR 2018¹

In 2018, the Russian private healthcare market reached RUB 594² billion (+7.6% from 2017). The market growth of recent years is fuelled by rising demand from individuals for quality healthcare, which benefits private operators.

The trend is expected to grow even stronger in the next few years, as the general socio-economic situation in Russia stabilizes and household earnings go up and more foreigners seek medical care in Russia.

Medsi has also made visible progress in the voluntary medical insurance market (VMI), with revenue growth in the segment that is 4-5 times greater than the average market rate, both in Moscow and in Russia more broadly.

The company's 2018 revenue growth in the private sector of the market (self-pay patients) in Moscow and the Moscow region outpaced the market by almost 4 times (7.7% in Moscow and 20.6% in the Moscow region). This strong growth enabled Medsi to boost its share of the Moscow region market to 2.92% (from 2.6% in 2017).

Medsi has also become a stronger player in the mandatory medical insurance space (MMI), with market share in Moscow and the Moscow region increasing by over 2.6 times (to 1.8% from 0.5% in 2017). This dynamic growth is in large part a result of Medsi becoming a provider of some of the most sought-after and attractively priced hospital services. MMI has become one of the main sources of customers for Medsi's in-patient assets.

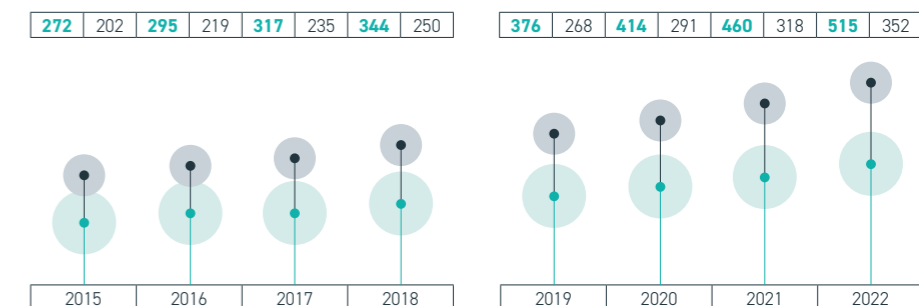
¹ Source: BusinesStat.

² Total revenue received from both insured and self-pay patients.

³ Voluntary medical insurance (VMI) market and paid services at the expense of individuals.

RUSSIAN PRIVATE HEALTHCARE MARKET³, RUB BILLION

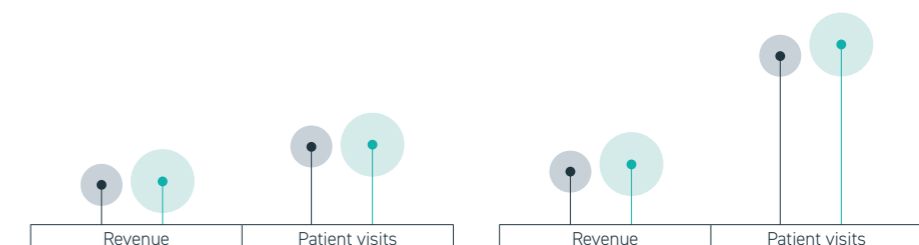
ACTUAL PERFORMANCE CAGR ▲6% PROJECTED CAGR ▲8%



Regions
Moscow and Moscow region

MEDSI'S MARKET SHARE DYNAMICS (VMI SEGMENT)

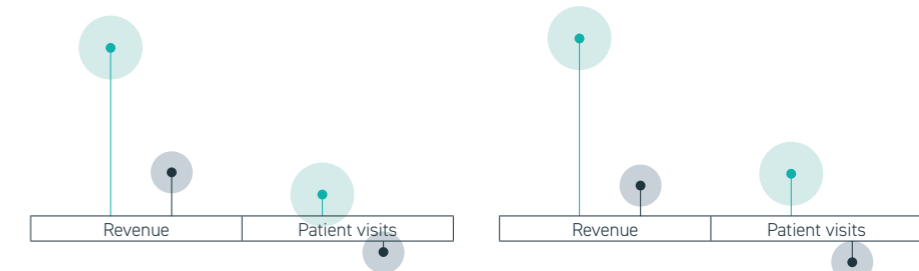
Region	2017	2018
Russia	4.35%	7.83%
Moscow and Moscow region	5.79%	19.95%



Year
2017
2018

MEDSI'S AND MARKET'S GROWTH RATES (VMI SEGMENT)

Year	2018	2017
Medsi Revenue	20.26%	21.58%
Market Revenue	5.49%	4.08%
Medsi Patient visits	2.55%	4.98%
Market Patient visits	-0.98%	-2.32%

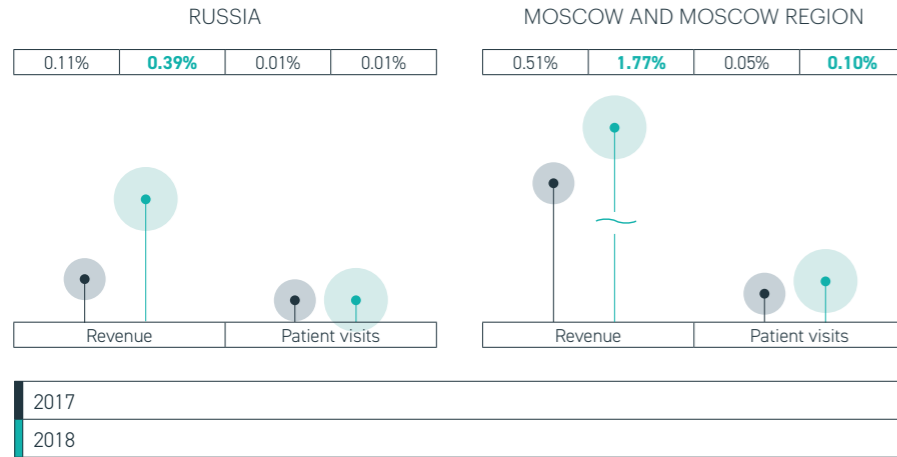


Entity
Medsi
Market

MEDSI Group

Medsi remains the private market's largest player in terms of geographical footprint and an undisputed leader in the VMI segment, which benefits both occupancy figures and revenue at specific assets. In the first half of 2018, Medsi had already **outperformed** the 2017 **national leader by revenue**, Mother and Child, **by more than 7%**.

MEDSI'S MARKET SHARE DYNAMICS (MMI SEGMENT)



2018 FINANCIAL PERFORMANCE

Medsi's revenue for 2018 increased by 52.1% to RUB 17.7 billion due to increased capacity utilisation and, as a result, an increase in revenue from in-patient services of 27.7% to RUB 5.4 billion, higher revenue from the CDC at Krasnaya Presnya in Moscow as well as the expansion of the clinic network following acquisitions of clinics in St Petersburg and Perm and the opening of three new clinics in Moscow.

Adjusted OIBDA increased by 82.9% in 2018, due to the continued ramp-up of facilities and increase in revenue per sq m of medical space. The new IFRS standards had an impact of RUB 449 million in 2018.

The adjusted OIBDA margin grew by 3.4 p.p. to 20.3% thanks to growth in capacity utilisation and an increase in efficiency per sq m.

Adjusted profit attributable to Sistema increased by 26.7% in 2018. Excluding the effect of new accounting standards, adjusted profit increased by 42.1%.

FINANCIAL INDICATORS (RUB million)				Excluding impact of new IFRS standards	
	FY 2018	FY 2017	Change	FY 2018	Change
Revenue	17,747	11,670	52.1%	17,747	52.1%
Operating income	693	1,142	(39.3%)	557	(51.2%)
Adj. OIBDA	3,600	1,968	82.9%	3,151	60.1%
Adj. profit attributable to Sistema	1,061	837	26.7%	1,189	42.1%

REVENUE ▲ 52.1%

17,747 RUB mn

ADJUSTED OIBDA ▲ 82.9%

3,600 RUB mn

ADJUSTED NET PROFIT ▲ 26.7%

1,061 RUB mn

Steppe AgroHolding



JSC Steppe AgroHolding ("Steppe") is one of the **biggest agricultural companies** in southern Russia with a diversified asset portfolio including crop farming (TOP-6 of land owners in Russia), dairy farming, grain trading and logistics, sugar and cereals trading, and fruit and vegetable growing.



ANDREY NEDUZHKO
CEO



ALI UZDENOV
Chairman of the Board of Directors

STEPPE'S BUSINESS MODEL

The company's business model is designed to build a vertically integrated diversified agricultural player with a focus on crop farming, grain trading and logistics, sugar and cereals trading and dairy farming, and having leading positions in each segment of operations.

BUSINESS DEVELOPMENT IN 2018

The main focus areas for Steppe AgroHolding's development in 2018 were crop farming, dairy farming, and grain trading and logistics. In 2018, the company improved its operating and financial performance through both its organic growth strategy and M&A deals.

CROP FARMING

Steppe AgroHolding's land assets as of the end of 2018 totalled 401,000 hectares (after an acquisition of land in the Rostov region in the second half of the year).

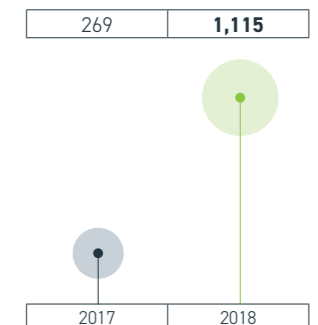
Yields of the main crops remained high in 2018, exceeding average regional yields despite a drought in Russia's grain-producing regions.

Global grain consumption grew faster than production, which combined with an expected decrease in carry-over grain supported a recovery in global grain prices. The average export price of Steppe AgroHolding's wheat in 2018 grew by 15% year-on-year; together with the high share of quality grain and increased export amounts, this made up for a slight decrease in the gross harvest.

GRAIN TRADING & LOGISTICS

In 2018, Steppe AgroHolding began actively developing the grain trading segment and established a full-fledged trading structure. Grain exports by the trading business exceeded 1.1 million tonnes in 2018 (up more than four-fold year-on-year), making Steppe AgroHolding one of Russia's top six grain exporters in the first half of the crop year 2018.

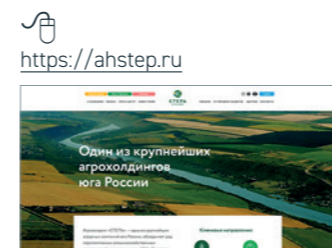
GRAIN EXPORTS, THOUSAND TONNES ▲ 314%



STEPPE AGROHOLDING'S GROSS HARVEST (INCL. RZ AGRO), THOUSAND TONNES

	2018	2017	Change, %
Beetroot	251,811	347,900	-28%
Wheat	685,943	723,600	-5%
Corn	40,113	68,900	-42%
Winter barley	24,982	19,200	30%
Sunflower	49,362	42,700	16%
Other	102,374	153,000	-33%
Total	1,154,585	1,355,300	-15%

1 84.63% as of December 31, 2018.



STEPPE

AgroHolding

Steppe's assets are located in the most favourable regions of Southern Russia in terms of climate, crop yields and logistics. Steppe also **owns 50% of RZ Agro**, a major producer of grain and oil crops jointly controlled by Sistema and the Louis-Dreyfus family.



IN 2018, STEPPE COMMISSIONED A NEW DAIRY FARM

FOR **1,800** COWS



DAIRY FARMING

In 2018, Steppe AgroHolding commissioned a new dairy farm for 1,800 cows. The total number of milk cows as of the end of 2018 was 4,800. In the second half of 2018, the company started construction of two dairy farms: one for 3,000 cows in the Krasnodar region and one for 3,100 cows in the Rostov region.

Steppe AgroHolding is the leading dairy farmer in Russia in terms of milk yield per cow. High milk yields are achieved through having highly productive cattle and using state-of-the-art agricultural technologies.

The operating performance of the dairy farming segment demonstrated a steady growth: gross milk yield in 2018 exceeded 46,500 tonnes, and milk yield per cow was over 10,500 litres per year.

FRUIT AND VEGETABLE GROWING

Vegetable output in 2018 amounted to 46,300 tonnes (up 3% year-on-year), which is an all-time high for Steppe AgroHolding.

In 2018, the company optimised its vegetable and fruit sales, developing a single brand, Steppe AgroHolding, for all produce sold to retail chains. Sales of produce under a single brand increases brand recognition, enables the company to get a price premium due to a broader product range, and strengthens its investment case as its products are carried by retail chains.

BUSINESS DEVELOPMENT STRATEGY

Today, Steppe AgroHolding is a big player in the Russian agricultural industry with substantial land assets (401,000 hectares, making it the sixth-largest in Russia). The key goal of further development is to create a major agricultural company in Russia, a leader in all its key segments in terms of both business size and operating efficiency, with favourable conditions for an IPO or attracting a strategic investor.

Steppe AgroHolding's development strategy envisages further increase of its land assets, intensive development of grain trading and logistics, achieving a leading position in sugar and cereals trading, construction of new dairy farms, and organic growth in the fruit and vegetable growing segments.

INDUSTRY OVERVIEW FOR 2018

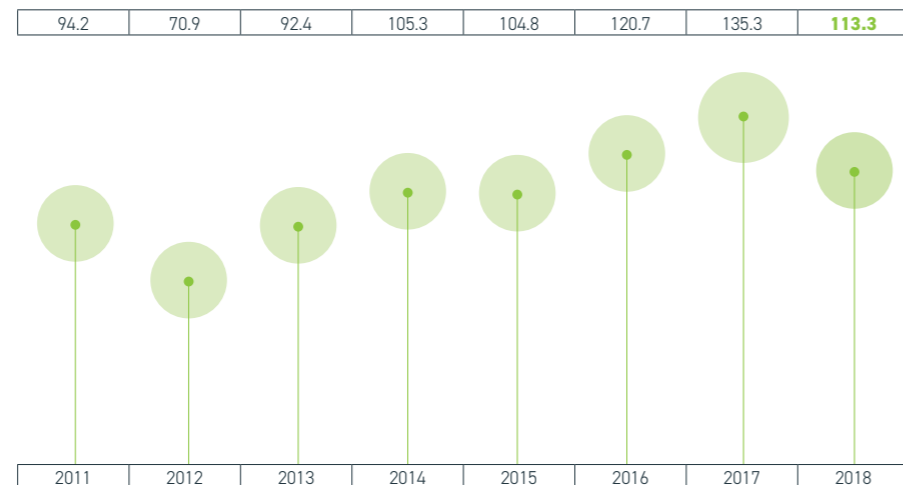
CROP FARMING

The output of grain and leguminous crops in Russia in 2018 totalled 113.3 million tonnes (vs 135.5 million tonnes in 2017, down 16% year-on-year), with wheat output equalling 72.1 million tonnes (vs 86.0 million tonnes in 2017, down 16% year-on-year).

The 16% decrease in gross grain harvest compared to the unprecedented harvest of 2017 was due to a reduction in the crop area and lower crop yields in some regions of Russia caused by unfavourable weather conditions.

GROSS GRAIN AND GRAIN LEGUME HARVEST IN RUSSIA, M T

113.3



The expected reduction in global carry-over grain crops in the 2018/2019 season and grain consumption outpacing production had a positive effect on global grain prices, which enabled Russian agricultural producers to make up for the slight decrease in the gross harvest.

Today, Russia remains one of the world's leading grain exporters, having exported some 29.0 million tonnes of grain in July-December 2018, an increase of 4% from the same period of 2017 (27.8 million tonnes).

In the medium term, prices for land assets in Russia are expected to continue rising, since land is a limited natural resource and global grain consumption is on the rise.

DAIRY FARMING

Russia's milk output demonstrated positive trends in 2018: total milk yield grew by 1.5% vs 2017 to 30.6 million tonnes, while milk yield per cow in the private sector exceeded 6,000 l (+4% vs 2017), which compensated for a gradual decrease in livestock numbers.

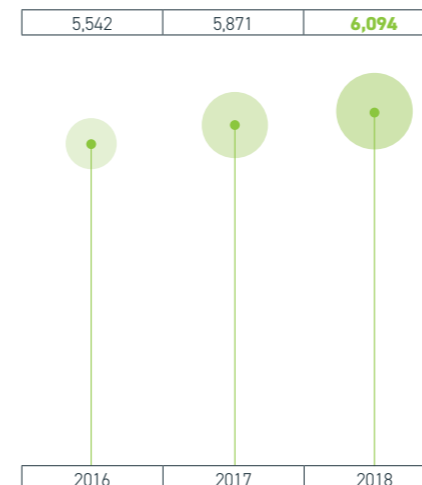
In Russia, raw milk competes with dairy products made of milk fat substitutes, but the government is taking steps to reduce the share of counterfeit products in the market, including the introduction of the Mercury programme, which makes it possible to control movement of dairy products and their history from the field to the store counter.

In the region where Steppe operates, raw milk processing capacity is gradually growing, which has a positive effect on producers of high-quality raw milk able to supply it in large batches.

The milk output of Steppe's dairy farms has grown due to the increase both in the number of milk cows and milk yield per cow.

MILK YIELD PER COW,¹ KG

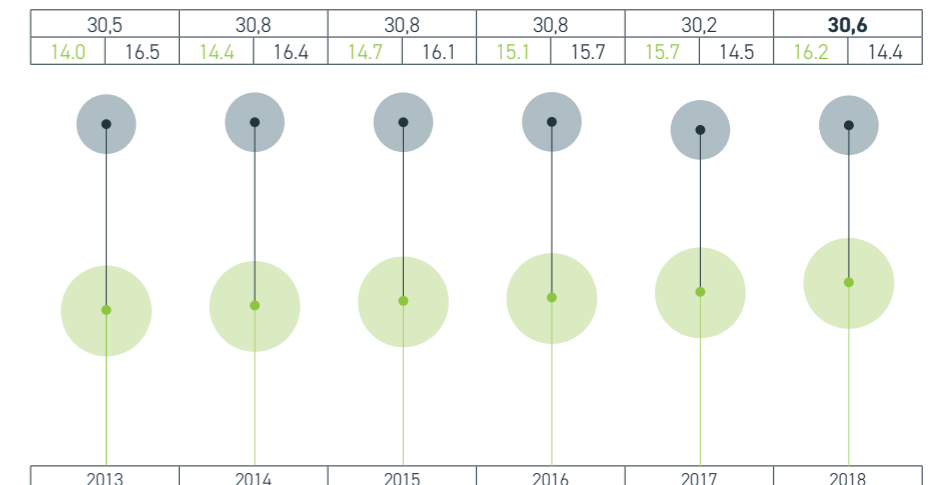
6,094



¹ Milk yield per cow at agro enterprises.

TOTAL MILK YIELD, M T

30.6



Agro enterprises

Farmsteads of all categories

STEPPE

AgroHolding

FRUIT GROWING

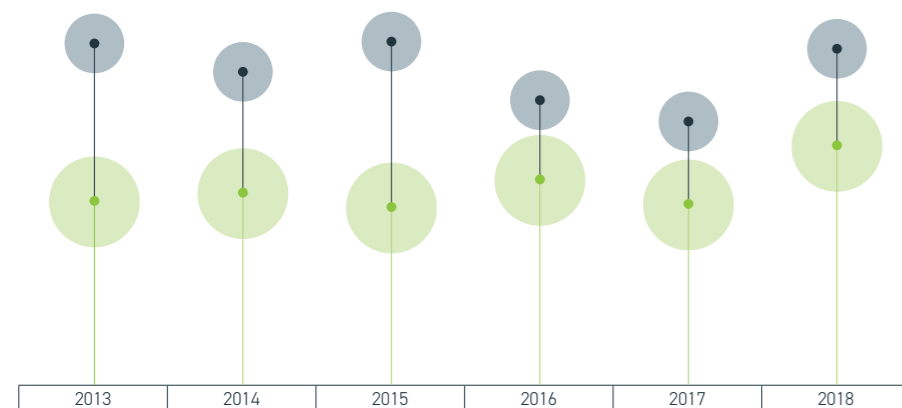
The fruit growing segment in Russia has been demonstrating a gradual increase of the output: gross pomaceous fruit harvest in 2018 amounted to 1.9 million tonnes, according to preliminary estimates (up 31% vs 2017). Growth drivers included the planting of new orchards: the area under pomaceous fruit crops reached 229,000 ha in 2018 (+3,800 ha vs 2017).

Despite the increase of domestic production, imports of pomaceous fruits remained high, totalling 843,000 tonnes in 2018 (+18.7% vs 2017).

GROSS HARVEST OF POMACEOUS FRUIT CROPS AND APPLES IMPORT IN RUSSIA, M T

2.84

1.53 1.35 1.60 1.05 1.50 0.89 1.73 0.68 1.52 0.71 2.00 0.84



Production of seed crops
Import of apples

VEGETABLE GROWING

In 2018, production of protected-ground vegetables continued to rise due to commissioning of new greenhouses. The total area of greenhouses now stands at 2,500 ha, an increase of 8% from 2017.

Total output of protected-ground vegetables in 2018 exceeded 1 million tonnes (+17% vs 2017), while imports of tomatoes and cucumbers reached 701,000 tonnes (+7% vs 2017).

OUTPUT POMACEOUS FRUIT CROPS ▲ 31%

1.9

m t

AREA UNDER POMACEOUS FRUIT CROPS

229

thsd ha

POMACEOUS FRUIT CROPS IMPORTS ▲ 18.7%

843

thsd t

TOTAL GREENHOUSE AREA ▲ 8%

2.5

thsd ha

OUTPUT OF PROTECTED-GROUND VEGETABLES ▲ 17%

>1

m t

IMPORTS OF TOMATOES AND CUCUMBERS ▲ 7%

701

thsd t

OPERATIONAL RESULTS

STEPPE AGROHOLDING

(thsd tonnes)	2018	2017	Change, %
Gross harvest, total (crop farming)	814.1	973.2	-16%
Milk production	46.7	39.4	18%
Vegetable harvest	46.3	44.9	3%
Tomatoes	25.1	23.2	8%
Cucumbers	21.2	21.8	-3%
Gross apple harvest	18.5	21.8	-15%

OUTPUT OF STEPPE AGROHOLDING (WITH RZ AGRO)

(thsd tonnes)	2018	2017	Change, %
Beetroot	251.8	347.9	-28%
Wheat	685.9	723.6	-5%
Corn	40.1	68.9	-42%
Winter barley	25.0	19.2	30%
Sunflower	49.4	42.7	16%
Other	102.4	153.0	-33%
Total	1,154.6	1,355.3	-15%

STEPPE AGROHOLDING: CROP YIELDS

(t/ha)	2018	2017	Change, %
Beetroot	45.1	54.2	-17%
Wheat	4.2	4.9	-14%
Corn	3.7	5.3	-30%
Barley	6.4	6.1	5%
Sunflower	1.5	2.6	-43%

FINANCIAL INDICATORS

(RUB million)	FY 2018	FY 2017	Change	Excluding impact of new IFRS standards FY 2018	Change
Revenue	24,161	10,210	136.6%	24,161	136.6%
OIBDA	4,909	4,019	22.1%	4,617	14.9%
Operating profit	3,261	2,647	23.2%	3,147	18.9%
Net profit attributable to Sistema	1,095	1,130	(3.1%)	1,243	10.0%

2018 FINANCIAL PERFORMANCE

Agroholding Steppe delivered significant revenue growth of 136.6% year-on-year in 2018, to RUB 24.2 billion. The revenue increase was driven by growth in the field crop segment, the intensive development of agrotrading and entering the sugar and groceries trading segments, as well as increased production volumes in the Dairy segment.

OIBDA grew by 22.2% year-on-year to RUB 4.9 billion for FY 2018 as a result of higher operational efficiency in the field crop segment and the impact of growth in the Agrotrading segment.

Capex increased by 18.8% to RUB 1.9 billion for 2018 due to the launch of new projects in the Dairy segment and logistics to support increased production and vertical integration of the business.

The increase in net debt was due to purchases of grain from third parties as part of Steppe's agrotrading activities, as well as the start of financing of new investment projects in line with the capex programme.

Real estate assets:



JSC Leader Invest ("Leader Invest") is a **development company** carrying out housing and commercial real estate projects in Moscow.



The company both builds residential complexes in a range of classes from Comfort+ to Premium and carries out **large-scale housing estate projects**.

PORTFOLIO COMPRISES

>40 projects
in developed areas
with good ecological conditions

PORTFOLIO VOLUME

~3.0 million sq m



MAXIM BERLOVICH¹
President



GENNADY SHCHERBINA²
Chairman of the Board of Directors

CONSTRUCTION IN PROGRESS

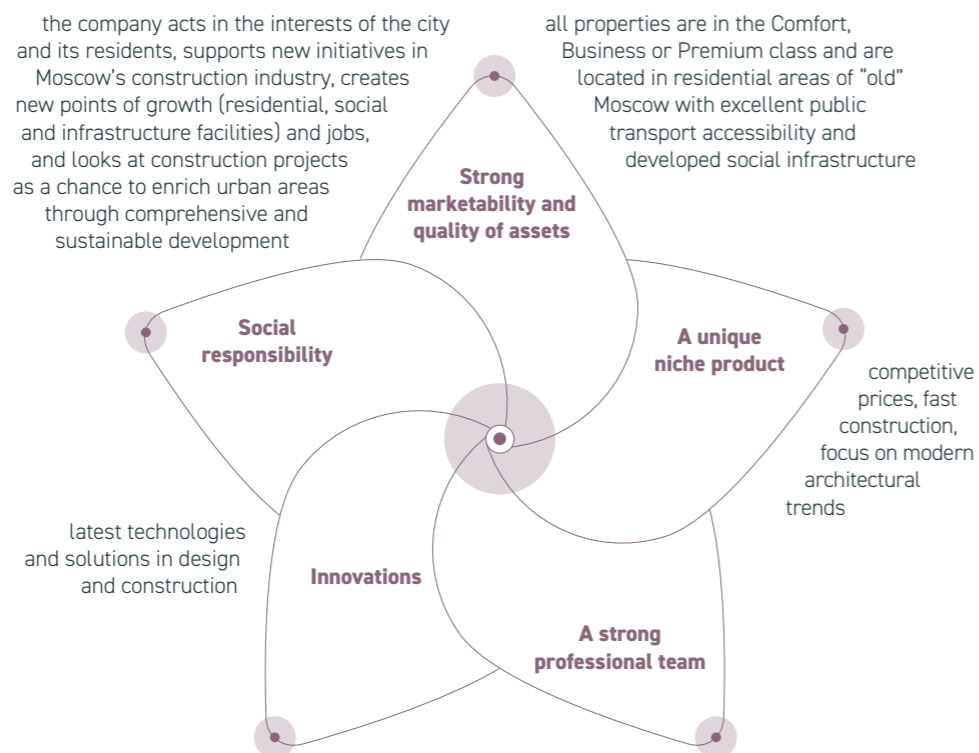
19 projects

NOW SELLING

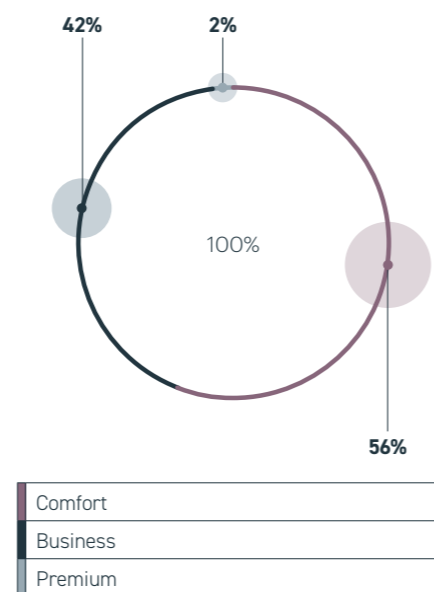
23 projects

BUSINESS MODEL

Leader Invest is growing in the segments of the Moscow real estate market that are most stable and attractive in terms of investment. **The company's development model is based on the following pillars:**



MARKET SEGMENTS WHERE LEADER INVEST OPERATES



LEADER INVEST'S BUSINESS DEVELOPMENT IN 2018

In 2018, Leader Invest focused primarily on streamlining of business processes and improving efficiency, specifically optimising project solutions, introducing new cost-effective procurement procedures, strengthening project management and increasing salesforce efficiency.

Leader Invest's portfolio comprises over 40 projects at various stages, the most on the "old Moscow" market. In 2018, it launched the Happiness brand to sell small-footprint infill properties in residential neighbourhoods while heavily developing its landmark Wings project at 120 Lobachevskogo Street and the large-scale Central Park housing estate in Moscow's gentrified Nagatino district. The company also made progress on the development of its other housing estate, ZIL-Yug, and commissioned a residential building at 15 Demyana Bednogo St.

The team worked hard throughout 2018 to finalise ZIL-Yug's marketing concept, phasing and cash inflow calendar; to speed up the launch of sales for the Wings after an expansive redesigning (with an upgraded master plan and optimised apartment layouts and façade solutions); and to start active construction of Central Park, a unique business-class housing estate occupying over 450,000 square metres and using a concept prepared by British architecture firm AHR. The Phase 1 construction permit for Wings was granted in 2018.

Leader Invest welcomes digitalisation as yet another avenue to leadership and uses it in its day-to-day operations. The recently adopted BIM system significantly enhances the quality of designing and makes cost control much easier.

In November 2018, S&P Global Ratings affirmed Leader Invest's long-term and short-term user credit ratings at B/B and revised its outlook to Stable.

Today, Leader Invest is among Moscow's three highest-rated developers, and it shares the top position with a major mass-segment operator. The high international expert rating is primarily due to an exceptional new management team, a broad portfolio of projects, and healthy liquidity and leverage ratios. In April 2019, S&P upgraded the outlook to Positive, reflecting expert consensus that the ongoing integration with Etalon Group will improve the company's operating and financial performance, strengthen its market standing and fuel revenue growth in 2019-2020.

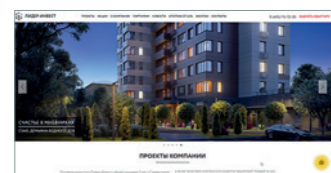
MOSCOW DEVELOPERS BASED ON RATING

Top-3

SISTEMA'S EFFECTIVE STAKE³:

49%

<http://l-invest.ru>



¹ As of 31 December 2018 – Oleg Mamayev.
² As of 31 December 2018 – Oleg Mubarakshin.
³ По состоянию на 31 декабря 2018 года: 100%.

LARGEST PROJECTS COMMISSIONED IN 2018

Schastye Mnevniki
13 Demyana Bednogo St.

AREA

13.5 thsd sq m



Real estate assets:

LEADER INVEST

THE NUMBER OF OFF-PLAN SALES CONTRACTS SIGNED IN MOSCOW IN 2018 ▲47%

80,000

INDUSTRY OVERVIEW FOR 2018

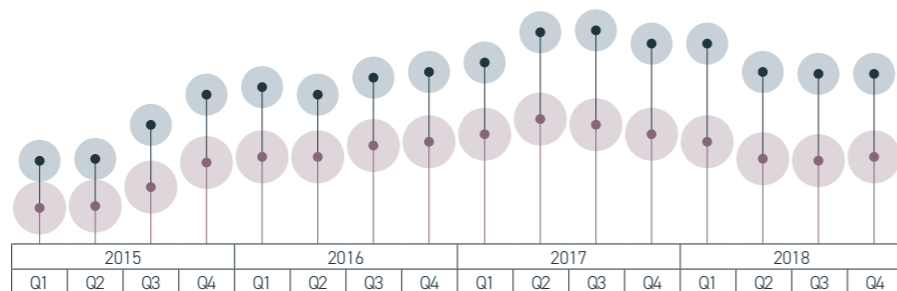
2018 was a year of unprecedented buoyancy in the Moscow market for business-class residential properties. As in the mass segment, the spending spike here was primarily driven by a reduction in mortgage rates. 40% of all of sales in the segment in 2018 involved mortgage contracts, which is quite untypical for the business class space (cf. 50+% in the mass segment). To put it in perspective, in 2017 mortgage penetration in the segment was 30%, and in 2016 just 27%. The recent trend, in turn, is driven by two factors: all-time low mortgage rates and an abundance of new, highly attractively priced properties. By the end of the year, the average Moscow home price in the primary mass-segment residential market peaked at RUB 162,090 per square metre.

By the end of the year, the primary business-class market was represented by 94 residential complexes with some 14,550 apartments (or 1.07 million square metres in total), with six projects entering the sales phase in Q4. The average price in the segment at the year-end was RUB 228,525 per square metre, 2.3% up from 2017.

Like the mass market, the residential business class segment in 2019 will be affected by a number of factors, primarily recent legislative changes (amendments to Federal Law 214-FZ governing off-plan property development projects) that come into effect on 11 July 2019 and require that buyers' money be held in escrow accounts until commissioning, which means that project financing will become the only source of funding available to developers. According to experts, the move will toughen competition and put smaller developers out of business, while larger professional players with broad expertise will consolidate their market shares.

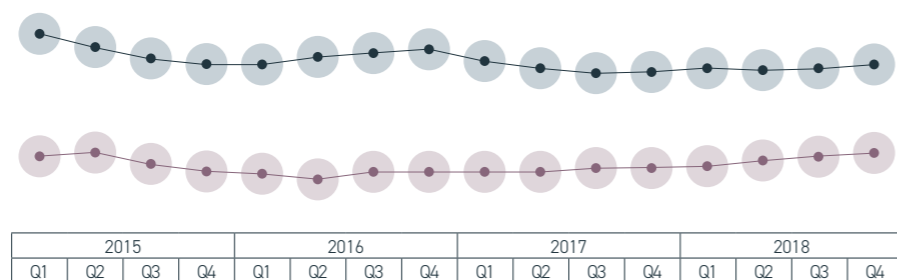
SUPPLY OF NEW HOUSING IN MOSCOW IN 2015-2018¹, THSD APARTMENTS

8.5	8.2	10.8	12.0	12.1	11.0	11.9	12.1	12.5	15.2	16.5	15.8	17.1	15.2	14.9	14.6
6.3	6.5	9.7	14.0	15.1	15.1	17.2	17.8	19.1	21.6	20.7	19.1	17.8	14.8	14.6	15.0



AVERAGE PRICES IN BUSINESS- AND COMFORT-CLASS RESIDENTIAL SEGMENTS¹, RUB

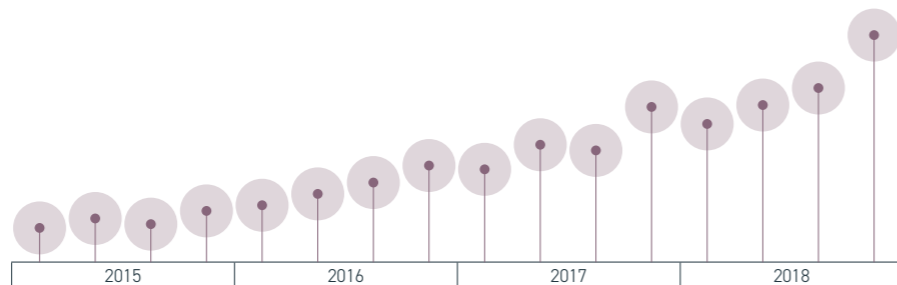
252	242	234	230	229	235	238	242	232	227	223	223	226	226	225	229
158	161	153	148	145	142	147	147	148	148	150	151	152	155	158	162



Year	Q1	Q2	Q3	Q4
2015	4.3	5.1	4.5	5.8
2016	6.6	7.7	9.2	11.0
2017	10.5	13.4	12.8	17.6
2018	15.9	18.0	20.0	25.8

NUMBER OF HOUSING TRANSACTIONS IN MOSCOW, 2015-2018, THSD

4.3	5.1	4.5	5.8	6.6	7.7	9.2	11.0	10.5	13.4	12.8	17.6	15.9	18.0	20.0	25.8
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¹ All statistics provided in this market review are according to Metrium.

² Source: Federal Service for State Registration.

The **combined assets and expertise** of Etalon Group and Leader Invest will create a **leader on the residential market.**

COMBINED PORTFOLIO WITH A TOTAL AREA OF

4 million sq m

BUSINESS DEVELOPMENT STRATEGY

In February 2019, Sistema sold a 51% stake in Leader Invest to Etalon Group for RUB 15.2 billion, and in a separate transaction purchased 25% in Etalon Group from its founder and largest shareholder Viacheslav Zarenkov (and his family) for USD 226.6 million.

Two Sistema representatives received seats on Etalon's board of directors. Sistema signed an agreement supporting its commitment to high standards of information disclosure and transparency and confirming that any and all transactions (if any) between Sistema and Leader Invest in the future should be carried out on an arm's length basis, including a guarantee that Sistema's representatives will abstain from voting on any such matters.

Etalon Group is among Russia's largest and oldest residential developers, a solid leader in St Petersburg and a growing presence in the Moscow metropolitan area. Etalon Group's shares have been listed on the London Stock Exchange since 2011, under the ticker "ETLN".

The company's portfolio is represented by 39 projects at various stages, mostly in the high-margin Comfort and Business class segments. The total net sellable area is 2.73 million square metres, with a total portfolio value (according to Knight Frank) exceeding RUB 132 billion as of 30 June 2018. In 2018 alone, Etalon Group sold 628,000 square metres of floorspace for RUB 68.7 billion. In 2017, the company's revenue was RUB 70.6 billion, with EBITDA of RUB 13.2 billion.

2018 FINANCIAL PERFORMANCE

Leader Invest's revenue grew by 100.9% year-on-year to RUB 12.7 billion in 2018. The main sources of revenue recognition were the Vsevolozhsky, Pokrovsky, Chertanovskaya and Michurinsky developments, as well as Daev, Demyana Bednogo, Kavkazky Plyus, Yana Rainisa and Fabritsiusa.

As of the end of 2018 the sales portfolio including commercial real-estate and parking spaces totalled 209.3 thousand square metres.

Revenue in 2018 was driven primarily by an increased level of completion of projects under construction and higher volumes of NSA available for sale, primarily due to 120 Lobachevsky, as well as previously recognised revenue due to the introduction of the IFRS 15 standard.

Excluding the effect of new accounting standards, revenue decreased in 2018 due to the decrease in deliveries of new developments – in 2017 the premium class Daev and Serpukhovskiy projects were delivered, while in 2018 one business class project was delivered, Schastye v Mnevnikakh residential complex at 15 Ul. Demyana Bednogo.

Positive trends in OIBDA and the OIBDA margin in 2018 were due to higher sales volumes and supply dynamics, as well as the impact of new IFRS standards. Factors driving the net loss for FY 2018 excluding the effect of new standards were the decrease in revenue due to a lower number of project deliveries, and also increased advertising spend.

BUILDING VALUE THROUGH SYNERGIES



REVENUE

▲ 100.9%

12,676 RUB million

FINANCIAL INDICATORS (RUB million)				Excluding impact of new IFRS standards	
	FY 2018	FY 2017	Change	FY 2018	Change
Revenue	12,676	6,308	100.9%	2,978	(52.8%)
OIBDA	3,129	415	654.6%	(1,038)	—
Operating income	2,990	221	1,253.3%	(1,178)	—
Profit attributable to Sistema	772	164	372.2%	(2,104)	—

Real estate assets:



Business Nedvizhimost Group is one of the **largest property owners in Moscow**. The company's main assets are JSC Business Nedvizhimost (lease and sale of commercial real estate) and JSC Mosdachtrest (lease of cottages/sale of land plots).

Business Nedvizhimost's
operating results in 2018



PROPERTIES GENERATING RENTAL INCOME

50 units

TOTAL PROPERTY PORTFOLIO

246.7 thsd sq m



VYACHESLAV KHVAN
CEO



SERGEY SHISHKIN
Chairman of the Board of Directors

INDUSTRY OVERVIEW FOR 2018

A total of 114,000 sq m of new office space was commissioned in Moscow in 2018. The Moscow quality office space market reached 20.5m sq m, with class A offices accounting for 4.94m sq m, class B+ offices 7.43m sq m, and class B- offices 8.43m sq m.

Companies operating in the consumer sector accounted for about 17% of real estate market demand. Demand from the IT sector also increased, reaching 15% of the total. Trading companies continue to generate steady demand and account for 14% of the total number of bids.

At the end of 2018, average rental rates grew across all property classes. Class A properties saw the highest growth. Overall, the average rental rate for class A space rose by 9%, reaching 26,160 RUB/sq m per annum (excluding VAT) by the end of 2018. The average weighted rental rate in class B+/B properties also increased and reached 15,180 RUB/sq m per annum (excluding VAT). In class C the rental rate amounted to 11,160 RUB/sq m per annum, having increased by 1.1% year-on-year.

BUSINESS DEVELOPMENT IN 2018

Business Nedvizhimost has a unique pool of properties: mansions in the centre of Moscow, office and commercial buildings, manufacturing and storage facilities, high-end cottages and land plots. In 2018, the company continued to **implement its strategy in two core areas:**

1. effective management of property portfolio under ownership,
2. providing professional and effective management services and operation of commercial real estate, including third-party properties.

In terms of designated use Business Nedvizhimost's assets are divided into three key groups: leasing, development monetisation as part of the M&A programme. The objectives of the company for 2019 include creation of an IT platform for commercial real estate management, renovation of own properties jointly with partners and launching a programme for replacing existing assets, redevelopment of own high-potential properties and acquisition of investment-grade assets from the market.

MOSDACHTREST is a subsidiary of Business Nedvizhimost whose operations are mostly related to the lease of cottages and office buildings in Moscow. Mosdachtrest's key assets are land plots in Serebryany Bor and the Moscow region. In 2018, Mosdachtrest completed the renovation of 50 properties in Serebryany Bor.

MOSDACHTREST
TOTAL PROPERTY PORTFOLIO

52.3 thsd sq m

BUSINESS DEVELOPMENT STRATEGY

The development strategy of Business Nedvizhimost includes three key areas:

1. Maximising the value of assets through renovation;
2. Rotation of tenants to maintain rental income at a minimum of 10% per annum;
3. Replacement of assets at their peak value by assets from the market with potential for improvements and value growth of at least 30%.

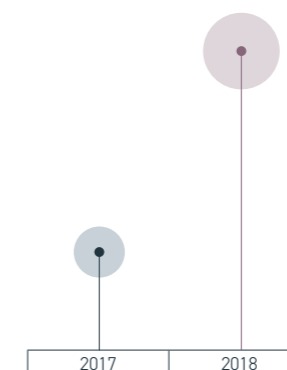
According to its strategy for 2019–22, Business Nedvizhimost will conduct rotation of its commercial property portfolio in order to replace assets that have reached their peak value by investment-grade assets with growth potential, and expand the area of residential rental real estate in ownership by building new residential properties.

¹ Source: ILM, Becar.
² As of 31 December 2018.

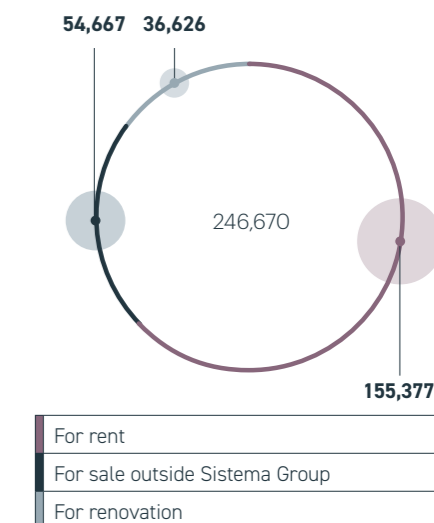
COMMERCIAL REAL ESTATE SALES
THSD SQ M

69.3

22.3 | **69.3**



ASSETS OF BUSINESS NEDVIZHIMOST
AS OF 31 DECEMBER 2018, SQ M



2018 OPERATING RESULTS²

Indicator	UoM	2018	2017	%
Area of commercial real estate in Moscow, of which for sale	thsd m ²	248.7	302.9	- 18%
Land area (Serebryany Bor)	ha	19.3	19.3	x
Land area (Moscow region)	ha	82.7	87.2	- 5%
Cottages for rent, (Serebryany Bor, Barvikha and Trudovaya)	thsd m ²	46.7	48.3	- 3%

2018 FINANCIAL PERFORMANCE

In 2018 revenue from Sistema's rental assets (Business Nedvizhimost and its Mosdachtrest subsidiary) increased by 31.0% year-on-year to RUB 7.9 billion, primarily due to sales of real estate. In FY 2018 69.3 thousand sq m was sold.

OIBDA increased by 59.3% year-on-year to RUB 4.6 billion, in line with revenue and due to optimisation of a number of costs.

FINANCIAL INDICATORS (RUB million)				Excluding impact of new IFRS standards	
	FY 2018	FY 2017	Change	FY 2018	Change
Revenue	7,887	6,019	31.0%	7,887	31.0%
Operating income	4,184	2,629	60.9%	4,229	59.1%
OIBDA	4,598	2,887	59.3%	4,553	57.7%
Profit attributable to Sistema	3,147	1,655	90.1%	3,163	91.1%

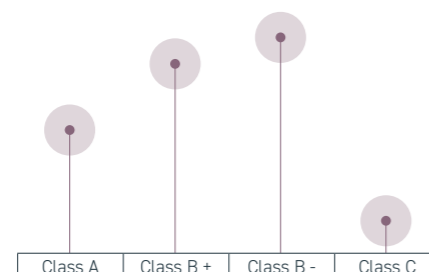
SISTEMA'S STAKE:

100%

OFFICE PROPERTY MARKET¹

AS OF THE END OF Q4 2018,
THOUSAND SQ M

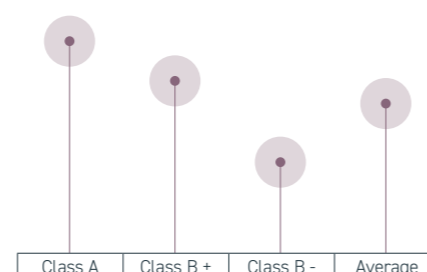
4,963 | 7,433 | 8,430 | 1,227



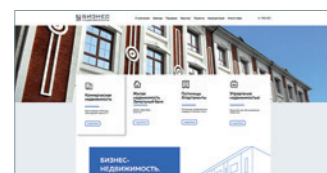
CHANGES IN VACANT SPACE¹

AS OF THE END OF Q4 2018, %

14.5% | 11.9% | 6.6% | 10.3%



<http://sistema-bn.ru>



JSC RTI



JSC RTI ("RTI") is a **major research and production company** that develops, produces and supplies radars, comprehensive automated control systems, command centres, communications equipment, electronic devices and microelectronics.



MAXIM KUZYUK
CEO



OLEG MUBARAKSHIN
Chairman of the Board of Directors

BUSINESS DEVELOPMENT IN 2018

RTI is a major research and production holding company for more than 10 enterprises spanning segments from microelectronics to radars and communications. JSC Mintz Radio Technology Institute, one of RTI Group's leading research and production enterprises, was commissioned by Roscosmos to develop prototypes of on-board radars and fulfilled export orders for on-board broadband communication systems in 2018. The company has developed a new method of real-time functional control of complex radio systems, including early warning radar systems. Its algorithms can reduce the time required to identify and resolve problems and prevent the risk of incorrect operations of radar systems.

PJSC Yaroslavl Radio Factory, a leading Russian manufacturer of professional radio communications equipment, conducted technical upgrades and launched an advanced assembly shop for spacecraft payload and drastically increased the volume of work on space programmes (including GLONASS). Following the commissioning of this production facility Yaroslavl Radio Factory became one of the key links in the production chain for new spacecraft. The enterprise will increase its competitive advantages by obtaining a certificate of compliance from its foreign partner, Thales Alenia Space, which will allow it to export products for foreign satellites.

The company actively worked on its quality management system in 2018 to increase the level of process stability and the traceability of order execution.

Yaroslavl Radio Factory and JSC Russian Space Systems also signed an agreement on cooperation in the development and production of on-board space equipment. Yaroslavl Radio Factory will become a centre of excellence in navigation and space communications.

ADVANCES IN MICROELECTRONICS

For more than 30 years, Mikron has been the undisputed leader of the Russian microelectronics market. In 2018, the company continued to capitalise on growth opportunities in new markets, consistently updating its product portfolio and developing its customer base. Projects implemented include expansion of the client and distribution network, with 54 new clients and 38 distributors, dealers and integrators.

Automotive electronics and IoT components are among new segments that the company plans to enter in the future. In 2018, Mikron produced chip samples for automotive electronics and received a letter of conformance with the international IATF standard for its quality management system, which is necessary to enter the exports market.

RTI's products ensure border protection, security of air and maritime traffic, and safety in all areas of life.

1,381 million
microchips

7 million
chip modules

892 million
export chips

482 million
chips for the Russian market

In 2018, Mikron began supplies of microcontrollers protecting transmitted data of IoT devices for municipal services. It is expected that after pilot applications in 2018, supplies will grow 5x-7x in 2019.

CJSC RTI Microelectronics, a member of RTI Group, signed a legally binding agreement with Rostec and JSC Ruselectronics (part of Rostec) in February 2019 to establish a joint venture in microelectronic components. The parties will contribute controlling stakes in 19 enterprises that develop, produce and design microelectronics components to the JV.

INDUSTRY OVERVIEW FOR 2018^{1,2}

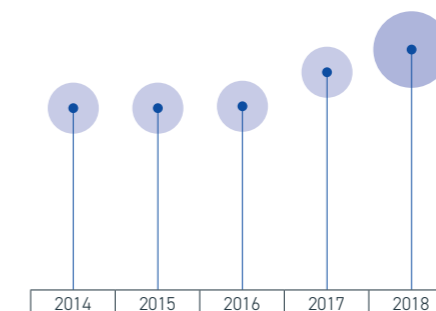
2018 was marked by diverse trends in RTI's areas of operations. In the surveillance and reporting systems market, total spending on armaments declined in 2018 by 6.3% year-on-year. Spending in 2019-2021 is expected to remain at the same level as 2018. In the Russian market for automated control systems, high growth rates (10%-15%) in 2019 are expected in the segment of service solutions (geoinformation platforms; business intelligence) and control systems for executive authorities. Global trends include an increasing role for automation and smartification (including artificial intelligence) in control and security systems.

The global microelectronics market in 2018 grew by 12% year-on-year to USD 462 billion. Production of 200 mm wafers (the segment in which Mikron operates) grew by 14%.

GLOBAL MICROELECTRONICS MARKET¹ USD BILLION

463

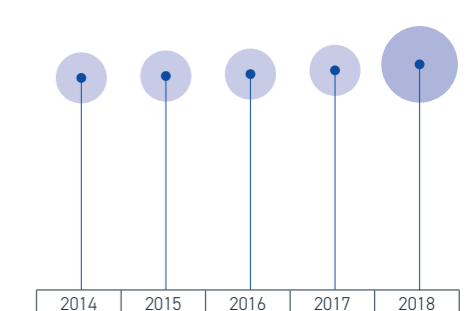
336 335 339 412 **463**



RUSSIAN MICROELECTRONICS MARKET² RUB BILLION

134

126 128 129 131 **134**



SISTEMA'S EFFECTIVE STAKE:

87%

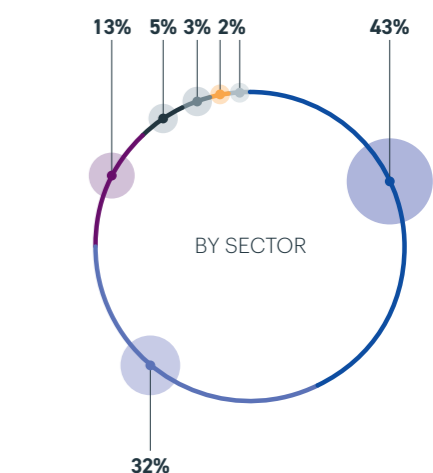
<http://aorti.ru>



Demand was driven by industrial electronics, automotive electronics and the Internet of things.

The Russian microelectronics market in 2018 grew by 3% to RUB 135 billion. The largest segment is still production of microcircuits for the defence industry and aerospace equipment, including for the medical and industrial sectors. Increasing digitalisation of business processes and automation of production facilities and infrastructure generate demand for microcontrollers, representing an additional driver of demand for Mikron's products.

RUSSIAN MICROELECTRONICS MARKET



¹ Source: company data; World Semiconductor Trade Statistics.

² Source: company data.



BUSINESS DEVELOPMENT STRATEGY

RTI's strategy is aimed at strengthening its market position, pursuing organic growth in segments in which the company operates, entering adjacent market segments and civilian markets, boosting exports in all segments and increasing operating efficiency.

In the government contracts segment, RTI is focused on maintaining leading positions in radio, surveillance and communication systems, as well as information systems for managing and supporting decision-making. In addition to its traditional segment of very long-range radars, RTI is planning to develop sales in adjacent segments, increase exports and enter civilian markets.

The company's plans in the microelectronics segment include consolidation of production and customer bases, development of export sales through expansion of the product offering to meet the needs of the digital economy, and partnerships with manufacturers of electronic equipment and systems integrators. The industry's key growth drivers in the near future will be IoT and AI, which require a huge number of various microchips, most of which are produced using technologies available at Mikron's facilities.

FINANCIAL RESULTS IN 2018

In 2018 RTI's revenue decreased year-on-year due to the high-base effect: In 2017 a large volume of work was done as part of long-term contracts under government contracts.

For the full year adjusted OIBDA increased by 168.1% as SG&A expenses declined by 31.5% year-on-year to RUB 3.7 billion.

In 2018 the OIBDA margin rose by 15.5 p.p. to 21.5% due to a decrease in SG&A expenses and the increased share of work done in-house in the cost of sales structure.

As of 31 December 2018 net debt was RUB 29.0 billion.¹ RTI also has on its accounts additional funds earmarked for government contracts amounting to RUB 8.6 billion that are not included in the net debt calculation.

REVENUE ▼ 25.7%

22,886 RUB mn

ADJ. OIBDA ▲ 168.1%

4,919 RUB mn

SG&A ▼ 31.5%

3.7 RUB bn

FINANCIAL INDICATORS (RUB million)				Excluding impact of new IFRS standards	
	FY 2018	FY 2017	Change	FY 2018	Change
Revenue	22,886	30,793	(25.7%)	22,886	(25.7%)
Adj. OIBDA	4,919	1,835	168.1%	4,611	151.3%
Operating income / (loss)	921	(5,772)	—	825	—
Adjusted loss attributable to Sistema	(531)	(4,178)	—	(546)	—

¹ Net debt includes financial leasing.

JSC Bashkir Power Grid Company



JSC Bashkir Power Grid Company ("BPGC") is one of Russia's **largest regional energy companies.**

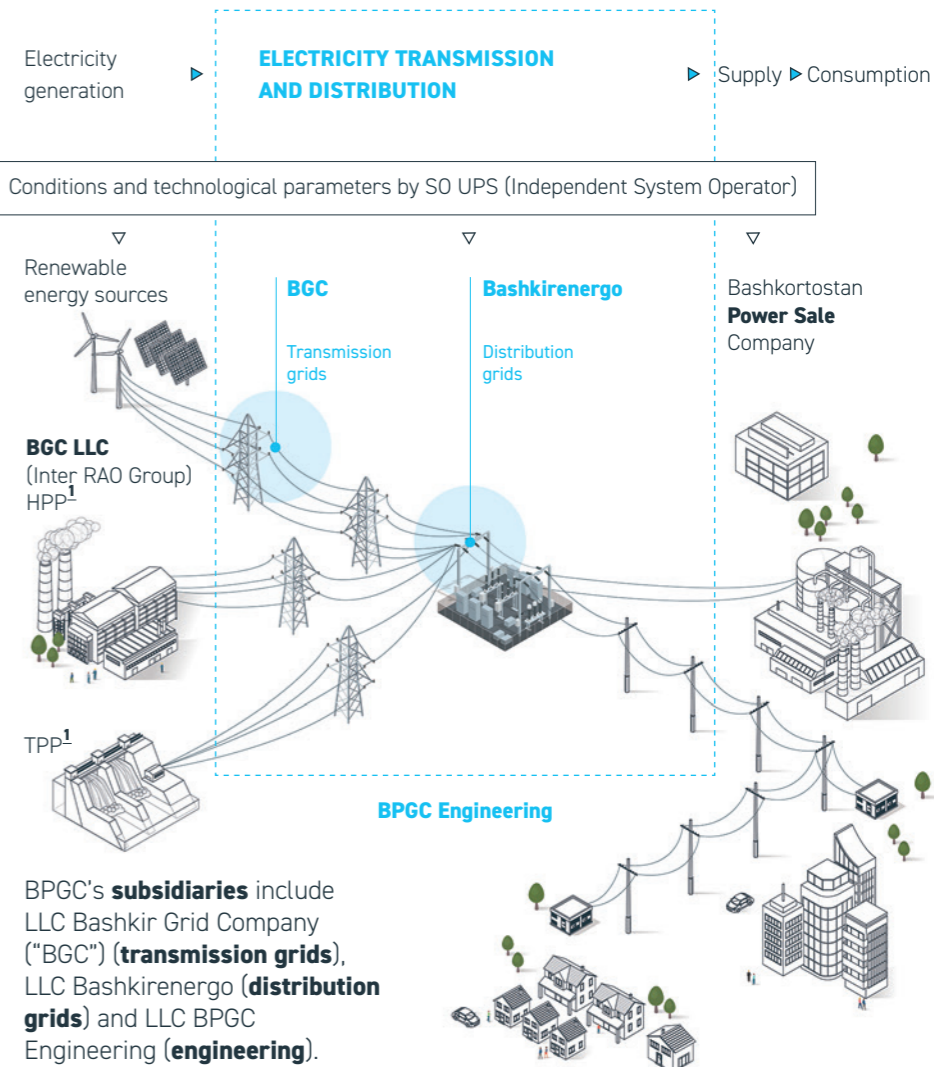


DMITRY SHAROVTOV
CEO



OLEG MUBARAKSHIN
Chairman of the Board of Directors

BUSINESS MODEL



SISTEMA'S EFFECTIVE STAKE:

91%

BPGC's **subsidiaries** include LLC Bashkir Grid Company ("BGC") (**transmission grids**), LLC Bashkirenergo (**distribution grids**) and LLC BPGC Engineering (**engineering**).

BPGC's activities are aimed at ensuring reliable, high-quality and affordable power supply to consumers. In addition to its core operating activities, the company pays close attention to its role in driving local economic growth, sustainable development and cooperation.

Most of the company's revenue is generated by its transmission business, which is a natural monopoly and therefore has its prices closely regulated by the government. Other businesses of the group include utility hookup services, engineering and construction of power lines and electrical substations, as well as lease, IT and communication services.

<https://bash.ru>



¹ Hydro Power Plant, Thermal Power Plant.

JSC
BPGC

BPGC runs a chain of **holding companies** that **transmit electricity** between central Russia and the Urals, **distribute power** to end users in Bashkortostan (a constituent region of Russia and home of the company), and perform **engineering, construction** and **refurbishment** works at power lines and electrical substations.

ELECTRIC METERS

220 thsd

GRID LENGTH

>88.5 thsd km



INDUSTRY OVERVIEW FOR 2018

Power generation in Russia in 2018 increased by 1.7%, to 1,091.6 billion kWh, while new connections grew to 4.5 GW, with more than 400,000 new users hooked up to power grids. Total consumption of electrical power in Russia in the reporting year rose 1.6%, to 1,076.1 billion kWh.¹

According to a recent forecast by the Ministry of Economic Development, by 2020 power generation volumes in Russia will have grown by 2.2%, and power consumption by 2.4%. To phase out cross-subsidisation, the government has scheduled 5% p.a. growth of electricity rates for residential customers and 3% p.a. growth for all other users throughout 2018-2020.

The electric grid services market is naturally monopolistic. All regional distribution grid companies operate under similar market conditions and abide by the same tariff policy. A leader in operational efficiency among Russia's power grid companies, Bashkirenergo achieves high profit margins despite below-average prices. In 2018, the average straight-line "common pot" electricity rate in Bashkortostan reached RUB 1 per kilowatt hour, up 7.5% from 2017. The indexation of straight-line electricity rates effective from July 2018 averaged 9.4% for all voltages, while the electrical grid maintenance rate grew by an average of 5.7% and the power loss coverage rate by 19.0%. Relatively high growth of the latest electricity rates was driven by a number of nationwide factors: growth of wholesale electricity prices in the past few years, statutory adoption of cost standards for default suppliers of electrical power, and a 20x growth of prices charged by PJSC FGC UES (Russia's largest transmission-grid company, serving about half of the country's energy consumption).

¹ Source: AK&M Information Agency.

BUSINESS DEVELOPMENT IN 2018

With a view to enhancing operating efficiency, BPGC continued its long-term programmes:

1. energy conservation and improvement of energy efficiency;
2. overhaul of distribution grids in Ufa (Bashkortostan's capital) and implementation of Smart Grid solutions;
3. automation of business processes through the use of information technology and ERP systems;
4. migration to a two-tier system of operational and technological management at LLC Bashkirenergo as an optimisation move.

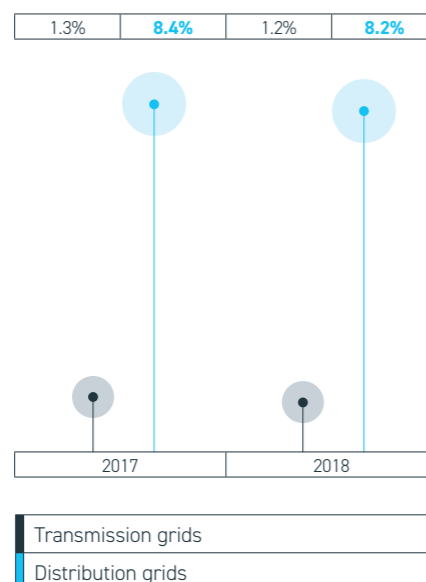
DISTRIBUTION GRIDS

In 2018, LLC Bashkirenergo installed more than 50,000 meters designed specifically for state-of-the-art automated power control and metering systems. As a result, the company now operates some 220,000 meters and 286,000 metering channels across the region. Power losses in distribution grids decreased from 8.36% to 8.23% year-on-year as a result of a comprehensive programme of technological solutions.

To improve the reliability and quality of power supply to Ufa's consumers, BPGC refurbished over a hundred distribution and transformer substations across the city and laid 15 kilometres of cable as part of a long-term project aimed at comprehensive renovation of Ufa's distribution grids. In 2019, the company will refurbish another 87 distribution substations, lay another 8 kilometres of cable, and install another 17,000 meters.

At the end of 2018, BPGC opened a new subdivision near Ufa ("Novoufimsky Distribution Zone") to meet growing demand for electrical power connections in the suburbs around the city. A product of a long multi-stage process, the facility includes a 110 kV substation ("Zubovo") and a standalone distribution grid with a staff of 72 people.

LOSSES ON GRIDS, %



The new facility will **improve the reliability of power transmission**, reduce power outages, speed up connections of new users, and **provide employment** to Bashkortostan's people.

DEVELOPMENT STRATEGY

BPGC's key long-term goals include:

1. Maintaining leadership in operational efficiency among Russian power grid assets

2. Generating stable cash flows for shareholders and maintaining dividends at the current level, while maximising shareholder value both organically and through M&A

OPERATING RESULTS

Parameter	Units	2018		2017		%	
		Bashkirenergo	BGC	Bashkirenergo	BGC	Bashkirenergo	BGC
Power in	m kWh	22,512	27,327	22,152	26,138	1.6%	4.5%
Power losses	m kWh	1,854	326	1,853	333	0.04%	- 2.3%
	%	8.2	1.2	8.4	1.3	- 0.13 p.p.	- 0.09 p.p.
New connections	connections	19,321	1	19,547	1	- 1.16%	0%
Connected capacity	MW	380.2	4	334	2.4	13.8%	69.5%

POWER IN INCREASE

1.6%

POWER OUT INCREASE

1.8%

FINANCIAL PERFORMANCE IN 2018

In Q4 2018 BPGC's revenue grew by 8.3% to RUB 19.1 billion. Revenue growth in 2018 was also driven by tariff indexation and an increase in electricity consumption and capacity as consumers switched to two-part tariffs.

OIBDA growth of 21.1% for 2018 followed revenue and was also due to reduced expenses on network losses and the introduction of new accounting standards.

The OIBDA margin for 2018 increased by 3.5 p.p. versus 2017 to 33.3% as a result of the new IFRS standards. Excluding the effect of the new accounting standards, the OIBDA margin for 2018 decreased by 0.3 p.p. as a result of an increase in costs for services provided by PJSC Federal Grid Company of Unified Energy System due to an increase in paid-for capacity. The net profit increased following OIBDA.

In 2018 BPGC paid RUB 2 billion in dividends.

FINANCIAL INDICATORS (RUB million)	FY 2018	FY 2017	Change	Excluding impact of new IFRS standards	
				FY 2018	Change
Revenue	19,130	17,671	8.3%	19,569	10.7%
OIBDA	6,369	5,259	21.1%	5,741	9.2%
Operating income	3,872	2,926	32.3%	3,273	11.8%
Profit attributable to Sistema	2,930	2,369	23.7%	2,492	5.2%

Hospitality assets



Cosmos Group is one of **Russia's leading hotel management companies**, providing a full range of hotel development services from project consulting and preparing hotels for opening to cost cutting and increasing asset capitalisation.



ALEXANDER SHWEIN
President



ARTYOM SIRAZUTDINOV
Chairman of the Board of Directors

BUSINESS MODEL

Cosmos Group provides a broad range of services, from hotel concept development and design and construction support to brand selection and hotel management.

Cosmos Group specialises in managing existing hotels, including implementation of service standards, introduction of quality assurance systems, recruitment, training and regular assessment of personnel, administrative and business operations, adoption of security standards, improvement of sales, income management and centralised procurement systems.

BUSINESS DEVELOPMENT IN 2018

The main event of 2018 was the FIFA World Cup, which attracted more than 2.7 million tourists to 11 Russian cities. Sistema's hotels located in host cities showed substantial growth of operating indicators.¹

In 2018, to increase business efficiency Cosmos Group separated its hotel ownership and management functions: Cosmos Group is in charge of operational management, while Sistema Hotel Management is responsible for ownership.

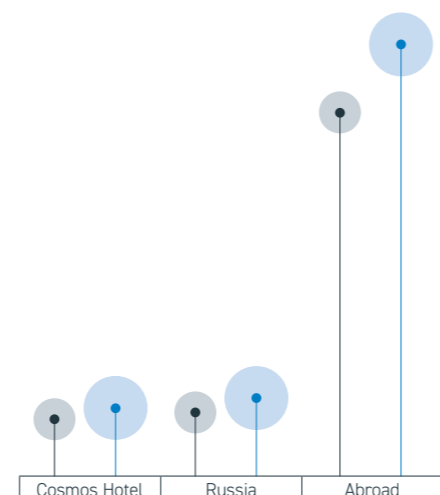
As part of its strategy for its hotel assets Sistema will conduct a rebranding of Russian hotels. The Group's hotels will start operating under the Cosmos Hotels & More brand, with the exception of Holiday Inn Express and Park Inn hotels, which will continue operating under international brands. The chain will comprise four brands: My Cosmos for economy-class city hotels, Cosmos for classical business hotels, Cosmos Collection for premium hotels and CosmosStay for serviced apartments.

In 2019, Cosmos Group aims to **actively increase its presence in the key region** (Russia) by taking new hotels under management.

Parameter, RUB mn	2018	2017	%
HOTELS			
RevPAR, incl.	2,415	1,849	31%
Russia	2,019	1,516	33%
hotels abroad	12,640	9,734	30%
Occupancy rate, incl.	65%	56%	9 p.p.
Russia	65%	56%	9 p.p.
hotels abroad	60%	53%	8 p.p.
Rooms	4,049	4,049	0%

REVPAR² RUB THSD

1.3	1.8	1.5	2.1	9.7	12.6
-----	-----	-----	-----	-----	------



2017
2018

¹ Cosmos, HIEX Paveletskaya and Courtyard by Marriott in Moscow, Park Inn Sochi City Centre, Park Inn Volgograd, Park Inn Kazan, and Intourist Kolomenskoye in Moscow, which is owned by a third party and managed by Cosmos Group.
² Revenue per available room per day.

Cosmos Group has more than 4,000 rooms under management in 3-5 star hotels in tourist and business centres: **city business hotels** and **luxury resorts** in Russia, Italy, Namibia and the Czech Republic.

COSMOS GROUP MANAGES

4 thsd rooms
in hotels of various price segments



INDUSTRY OVERVIEW FOR 2018³

In 2018, seven hotels operating under international brands were opened in Moscow (including the airports of the Moscow aviation hub) with total accommodation capacity of 1,728 rooms, leading to an 8.9% increase in the hotel room supply in Moscow. In 2018, the supply of quality hotel rooms grew at the same rate as in 2017. It is expected that 19 new hotels will be built in Moscow in 2019, including five hotels operating under international brands, with the total of 1,105 rooms.

The average occupancy rate of Moscow hotels in 2018 was 75%, which is 1.8 p.p.

higher than in 2017. At the beginning of 2019, for the first time in many years occupancy of Moscow hotels during the New Year holidays reached 90%,⁴ which is comparable with occupancy during the FIFA World Cup in 2018.

Hotel accommodation prices increased by 34% year-on-year on average in all segments, mostly due to the Football World Cup. The fastest growth of 50.3% was recorded at the luxury Moscow hotels.

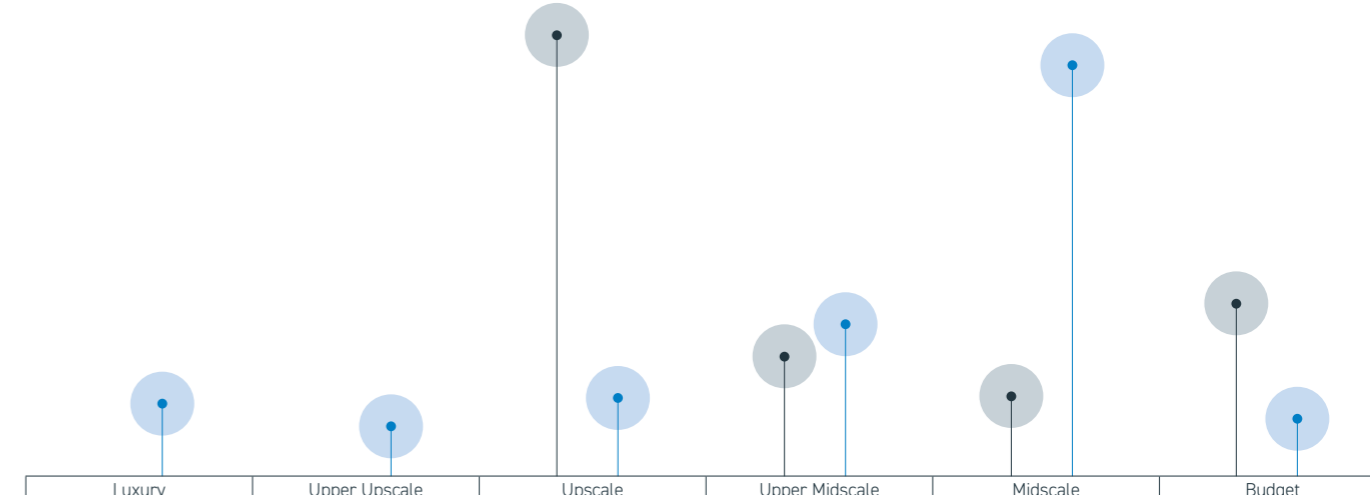
Steady growth of demand resulted not only in increased occupancy rates but also enabled hotels to increase revenue per room after the FIFA World Cup.

Following a slump in demand for hotel services in 2014-2015, the Moscow hotel market is now highly competitive. Hotels mostly compete for low-budget tourist groups. In these conditions Sistema's hotel assets are diversifying their services, expanding sales channels and improving internal business processes.

Cosmos Group's market share in terms of accommodation capacity in the medium price category is more than 5%. This is one of the key drivers of the company's competitiveness, enabling it to regulate prices in accordance with supply.

2018 RESULTS: NEW BRAND HOTELS BY SCALE SEGMENT

0%	8%	0%	5%	56%	9%	14%	18%	9%	52%	21%	6%
----	----	----	----	-----	----	-----	-----	----	-----	-----	----



Moscow and Moscow region	
Upscale	56%
Upper Midscale	14%
Midscale	9%
Budget	21%

³ Source: JLL Hotels.

⁴ Source: the Tourism Committee of Moscow.

SISTEMA'S EFFECTIVE STAKE:

100%

<http://cosmosgroup.ru>





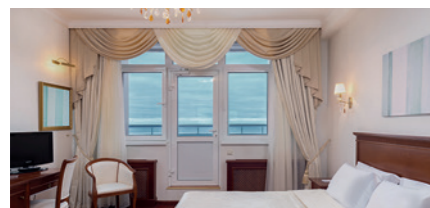
Hospitality assets
COSMOS GROUP

BUSINESS DEVELOPMENT STRATEGY

Sistema's development strategy in the hospitality business envisages growing the "asset light" business segment (a model based on hotel management as opposed to hotel ownership) through expansion of the portfolio of assets under management by adding hotels owned by third parties. Cosmos Group's expertise enables the management company to win contracts for managing both independent and international branded hotels.



The company intends to focus primarily on developing the segment of 3-4 star business hotels. Hotels in this segment enjoy the highest demand in Russia, which makes it possible to increase the speed of business expansion and its further capitalisation.



The main strategy for developing the 5-star Altay Resort and Izumrudny Les recreational hotels aims to improve their operating results. These hotels have been rebranded as Cosmos Collection (a premium brand of the Cosmos Hotels and More brand line). The overall social and economic situation in Russia is expected to have a favourable effect on implementation of this strategy.



2018 FINANCIAL PERFORMANCE

Revenue growth from hospital assets of 22.8% year-on-year was driven by higher occupancy rates and an increase in the average daily rate (ADR), as well as by the World Cup.

Revenue from hotels outside Russia accounted for 20.7% of the total in 2018, down by 2.1 p.p., due to the faster pace of revenue growth at Russian assets.

OIBDA in the hospitality segment in 2018 increased by 54.7% compared to 2017 on the back of revenue growth and due to effective cost control. The OIBDA margin for the year increased by 5.1 p.p. to 24.8%. The hospitality assets achieved profitability at the OIBDA level in 2018 compared with a loss in 2017.

The average occupancy rate in 2018 was 62.5%, an increase of 6.3 p.p. on the previous year. The leader in terms of growth was the Cosmos hotel, where the rate increased by 11.1 p.p to 69.8%.

REVENUE ▲ 22.8%
5,301 RUB mn

SHARE OF HOTELS OUTSIDE RUSSIA ▼ 2.1 p.p.
20.7%

OIBDA ▲ 54.7%
1,314 RUB mn

INCREASE IN AVERAGE OCCUPANCY RATE AT COSMOS HOTEL ▲ 69.8%
11.1 p.p.

FINANCIAL INDICATORS (RUB million)			Excluding impact of new IFRS standards		
	FY 2018	FY 2017	Change	FY 2018	Change
Revenue	5,301	4,318	22.8%	5,301	22.8%
OIBDA	1,314	849	54.7%	1,272	49.7%
Operating profit	555	198	180.3%	530	167.7%
Loss attributable to Sistema	(532)	(517)	—	(524)	—



JSC Binnopharm ("Binnopharm") is one of the **largest Russian full-cycle biopharmaceutical complexes** with an in-house R&D division.



ANDREY MLADENTSEV¹
CEO



DMITRY ZUBOV
Chairman of the Board of Directors

BUSINESS MODEL

Binnopharm is a full-cycle company from development and registration of drugs and production of finished products to marketing and promotion of drugs and sales to distributors and pharmacy chains.

The company is focused on expansion in the commercial segment of the market, while maintaining limited sales of hospital products. An in-house sales service has been established to promote commercial prescription (Rx) and over-the-counter (OTC) drugs.

The target segments of Binnopharm's portfolio are pulmonology, neurology, and antiviral and immunomodulating drugs. Modern production facilities allow the company to produce a wide range of dosage forms, including tablets, capsules, ampoules, suppositories, syringes and solutions.

INDUSTRY OVERVIEW FOR 2018

The Russian pharmaceuticals market in 2018 grew by 6.1% to RUB 1,329 billion.² The share of the commercial segment – the core of Binnopharm's business – increased to 73%. At the same time, the commercial segment's CAGR (8%) is faster than the market as a whole (7%). The growth forecast for 2019 is 1.8% for the pharmaceutical market and 3.5% for the commercial segment.

The continuing trend in the market is growing demand for cheaper generic drugs³ preferred by consumers over more expensive original drugs. The share of generics in total commercial market volumes increased by 1 p.p. in 2018 compared with 2017 and amounted to 62% in monetary terms and 84% in physical terms⁴.

In money terms, imported drugs continue to lose market share, and account for less than 70% of the total.

SISTEMA'S EFFECTIVE STAKE:

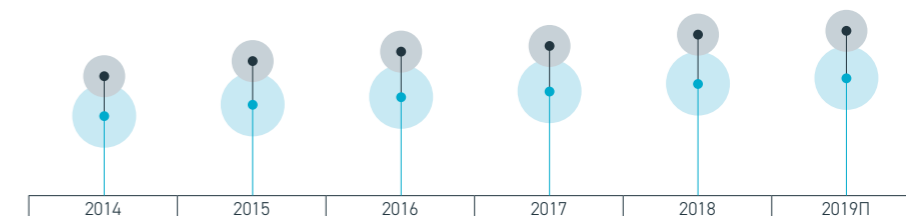
74%

<https://binnopharm.ru/>



RUSSIAN PHARMACEUTICALS MARKET DEVELOPMENT, RUB BILLION ▲ 6.1%

2014		2015		2016		2017		2018		2019П	
715	307	786	337	855	352	907	345	964	365	998	356



Commercial segment
Hospitals segment

¹ Since 5 February 2019. As of 31 December 2018 – Alexey Chupin.
² According to the analytical agency AlphaRM.
³ Generic drugs are drugs that are equivalent to brand-name products in composition and effect. Generic drugs may differ from brand-name products in presentation and trade name, and they generally have a lower price.
⁴ According to the analytical agency DSM Group.

JSC BINNOPHARM

The company produces **biotechnological drugs**, including a hepatitis B vaccine, a line of pulmonology and neurology drugs, infusion solutions, and anti-viral and immunomodulating drugs.

Legislative initiatives aim to further clear the market of poor-quality and illegal products and to simplify and speed up procedures for registering new drugs. For example, the Ministry of Education and Science has developed a bill allowing the federal government to make decisions on issuing compulsory licences for the release of generics while patents on original drugs are still valid. When the bill is passed, it will be easier for Russian companies to bring generics to the market, while the level of localisation of foreign drugs may decrease.

BUSINESS DEVELOPMENT IN 2018

In 2018, Binnopharm continued to implement the strategy of strengthening its positions in the commercial segment and diversifying its proprietary drug portfolio. The company set its own record by completing the registration of 14 new drugs, including Hydroxyethyl Starch, Moxifloxacin, Levofloxacin, Inspirax in two dosage forms and a combination of Lidocaine and Tolperisone. A total of over 30 drugs are in development and are expected to be released in 2019-2021, further strengthening the company's market presence.

The company continued to develop direct partnerships with pharmacy chains, as this promotion channel has the highest efficiency. Several low-margin projects in commercial distribution of third-party products were terminated.

The merger with OBL Pharm under an agreement reached at the end of 2018 will be a logical step in implementing the strategy to increase capacity utilisation and business profitability.

BINNOPHARM MANAGES

2

 modern pharmaceuticals facilities in Moscow region


NEW DRUGS

14

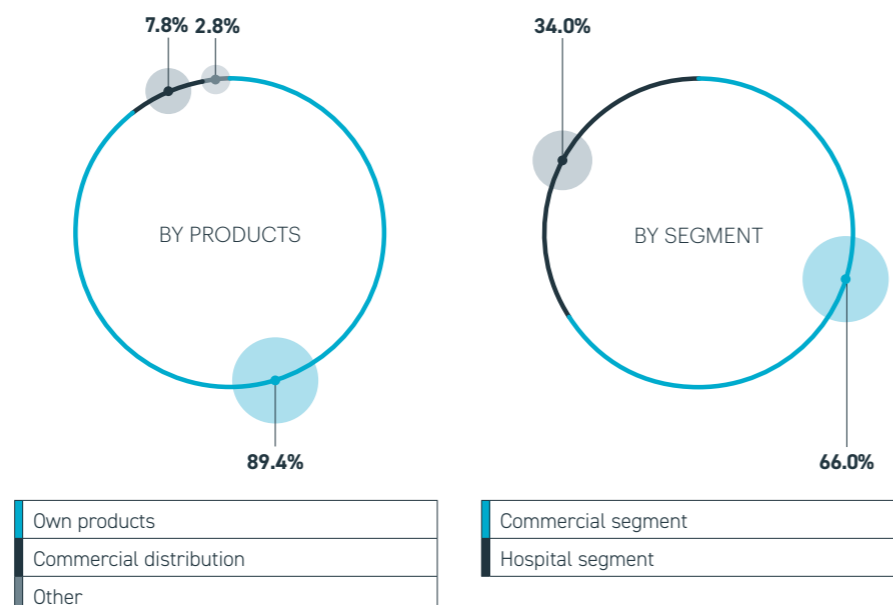
 items

UNDER DEVELOPMENT

>30

 items

BINNOPHARM'S REVENUE STRUCTURE IN 2018



BUSINESS DEVELOPMENT STRATEGY

At the end of 2018, Sistema announced a deal that significantly strengthens its position in the Russian pharmaceutical market with the acquisition of a stake in JSC Obolenskoye Pharmaceutical Enterprise ("OBL Pharm"), one of the leading Russian pharmaceutical companies.

The transaction aims to create a leading pharmaceutical group and a top-10 player in the Russian market by merging OBL Pharm and Binnopharm. The combined diversified product portfolio currently includes about 200 drugs. Leaders in their segments are Venarus (venotonic drugs), Maxilac (probiotic supplements) and Urdoxa (hepatoprotective drugs). The combined company's production facilities will include four pharmaceutical plants in Moscow and the Moscow region. The establishment of the combined company is expected to be completed in 2019.

OBL Pharm acquisition

In December 2018, Sistema, in partnership with VTB Bank and the management of OBL Pharm, acquired a stake in the leading pharmaceuticals company, OBL Pharm through Ristango Holding Limited.

JOINT INTEREST IN OBL PHARM

95.14%

SISTEMA INVESTMENT

1.83

 RUB bn

Sistema and VTB signed an agreement whereby Sistema will acquire VTB's stake in Ristango Holding Limited within three years of the initial transaction.

OBL Pharm and Binnopharm development strategy

Complementary business models, assets:

PHARMA FACILITIES IN MOSCOW AND MOSCOW REGION

4

 facilities

PRODUCT PORTFOLIOS

~200

 items

Effective utilisation of Binnopharm's capacities for production of OBL Pharm drugs.

Substantial synergies in sales and marketing, combined R&D competencies, cost saving.

2018 FINANCIAL PERFORMANCE

Revenue in 2018 declined by 10.2% year-on-year to RUB 2.1 billion, after Binnopharm ceased commercial distribution of some low-margin third-party products. Sales of Binnopharm's own products grew by 18.5% in 2018. Binnopharm is continuing to pursue its strategy to reduce the share of the hospital segment in revenue.

OIBDA growth in 2018 of 5.3% was driven by the launch of sales of new products, as well as savings on commercial expenses. This was reflected in OIBDA margin growth of 3.5 p.p. to 23.9%.

FINANCIAL INDICATORS (RUB million)	FY 2018	FY 2017	Change
Revenue	2,122	2,363	(10.2%)
OIBDA	508	482	5.3%
Operating income	342	323	5.8%
Profit/(loss) attributable to Sistema	(10)	14	—

OIBDA

▲ 5.3%

508

 RUB million

OPERATING INCOME

▲ 5.8%

342

 RUB million

Other assets

CONCEPT

GROUP.

LLC Concept Group is one of the **leaders in the Russian market for children's and women's clothes** and underwear.



ELENA BOGOMOLOVA
CEO

The company has successfully developed retail chains under the Acoola and Concept Club brands with an aggregate of over 380 stores, many of which are franchised.

Concept Group's portfolio includes such brands as Acoola (clothes for children aged 0-14), Concept Club (clothes for women, men and children, home textiles!) and Infinity Lingerie (underwear). Concept Group's business is based on a multi-brand and multi-channel model that allows the company to diversify its revenue. A significant portion of revenues is generated by the nationwide retail chain.

The company operates in Russia (in more than 130 cities), Belarus, Kazakhstan, Armenia, Azerbaijan and India both through its own retail chain and in partnership with franchise and wholesale partners.

In 2018, the company signed an agreement with key lenders on restructuring the Group's loan portfolio. The shareholding structure improved after Sberbank became one of its shareholders. In 2018, the company appointed Elena Bogomolova, who has strong expertise in the clothing retail segment, as its new CEO.

The key objectives of Concept Group for 2019 include active development of online sales and enhancement of the company's operational efficiency. Another important goal is development of a new strategy that will enable Concept Group to become one of the top five market players by opening new-format retail outlets, strengthening its design expertise and changing the marketing policy for its brands.

SISTEMA'S EFFECTIVE STAKE:

43%

 <https://conceptgroup.ru>



1 All lines except for women's clothing were introduced in 2018.

Other assets

KKT

KRONSTADT
GROUP

LLC Kronstadt Group is a Russian **high-tech** company that engineers and manufactures **knowledge-intensive products** and **solutions** for the production, deployment and safe use of sophisticated air-, sea-, and land-based systems.



SERGEY BOGATIKOV
CEO

The Group's substantial intellectual and engineering potential, its portfolio of key technologies and competences and state-of-the-art manufacturing resources enable it to create high-tech products and solutions that are in demand in Russia and are also able to successfully compete on international markets.

In 2018, Kronstadt Group continued to fulfil a government contract for development of an unmanned aerial vehicle (UAV) – the Orion project. The company also started developing a new business segment: provision of commercial services using drones. It also conducted active operations in the maritime solutions segment and provision of modern equipment for museums.

In 2018, Kronstadt created and updated electronic navigation maps for 10,000 kilometres of internal water routes in Russia, signed three contracts with the government for supplying state-of-the-art hydrographic on-board equipment for Rosmorrechflot (the Russian Federal Agency for Maritime and River Transport), supplied seven sets of equipment for correcting stations ordered by Rosmorrechflot, and obtained a patent for the development of a unique

automated hydrographic trawling system. Moreover, the company carried out work on implementation of hardware and software designed to generate and update digital terrain data, and supplied four sets of interactive shooting ranges.

Kronstadt Group continued making a substantial contribution to the development of culture and provision of cutting-edge equipment to museums. In 2018, the company supplied an interactive 5D unit for the Memorial Museum of Space (Moscow), equipment for the Space and Aviation Pavilion at VDNKh (Moscow), and started providing high-tech equipment for the largest car museum in Russia (Yekaterinburg).

Kronstadt continued pursuing its CSR policy by participating in national Donor's Days, enhancing cooperation with cancer charitable foundations, and organising volunteer work.

The priority area of the company's business is development of high-tech services using UAV systems as a platform for additional monetisation of existing technological competences.

SISTEMA'S EFFECTIVE STAKE:

96%

 <http://kronshtadt.ru>



Sistema's investment funds

SISTEMA VENTURE CAPITAL

Sistema continues to develop a range of funds specialising in **venture** and **PE investments**. Sistema's funds and investment companies offer investors exposure to a **unique portfolio of hi-tech assets**, as well as assets in **real estate**, **manufacturing** and **healthcare**.



Sistema Venture Capital (Sistema_VC) focuses on **investments in tech companies**.

SISTEMA'S STAKE

80%

TARGET SIZE

10 RUB billion

YEAR ESTABLISHED

2016

GEOGRAPHY

Russia, US,
Europe, Israel

INDUSTRY FOCUS

Growth-stage Internet projects
and technology

LIFE

No fixed term

TARGET RETURNS

25–30% (in RUB)

INVESTMENT TARGETS AND FOCUS

Sistema VC invests in fast-growing Internet projects with potential to become industry leaders, as well as in early-stage deep tech projects.

Priority investment areas include:

- Projects leveraging AI and machine learning technologies;
- Computer vision;
- Next-generation infrastructure solutions (SDN, NFV);
- Software as a Service (SaaS), Platform as a Service (PaaS) and marketplace solutions, including advertising technologies, fintech and e-commerce.

In 2018, the fund continued to pursue its dynamic strategy by investing in three new companies:

- ▷ TraceAir (Russia/USA)
- ▷ Connecterra (Netherlands)
- ▷ SQream (Israel)

It also supported new financing rounds by existing portfolio companies including Ozon, VisionLabs, YouDo, Web Technologies, MEL Science, DataSine and GOSU, bringing in new partners including French fund Ventech (a co-investor in GOSU), UK fund

Pentech and US fund Propel Venture Partners (in Datasine), as well as Alibaba Group (in SQream).

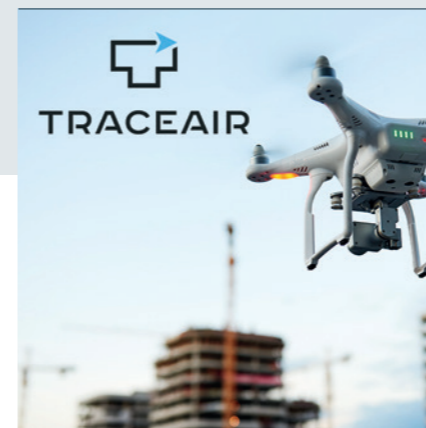
Some of the transactions closed in the reporting year (YouDo, Gosu.ai, TraceAir) were among the top venture capital deals of 2018 in a ranking published by Inc. Russia.

Sistema_VC also organised a number of events involving both large corporations and startups from the fund's own portfolio, such as a big data conference dubbed Big Data, Meet Big Brother!, the international computer vision and machine learning summit Machines Can See (co-hosted with VisionLabs), and #public_tech, a series of open discussions of modern technology's role in various industries.

**AS AT THE END OF 2018,
THE FUND WAS**

85% INVESTED

NEW INVESTMENTS MADE IN 2018



TraceAir (USA) is a startup that helps construction companies reduce errors through automation. It uses data collected with drones and other sensors (including GPS receivers) to create accurate cloud copies of actual construction sites. The platform greatly speeds up design work and reduces contracting costs. The product has already attracted some large development companies in the USA, such as ENGEO (geotechnical engineering) and Independent Construction (construction), which are now co-investors in TraceAir along with some business angels.



SQream (Israel) is a developer of a leading GPU-accelerated database for massive data. The company's core product is a data warehouse that relies on machine learning algorithms and makes it possible to process terabytes of data 100 times faster and 10 times cheaper than CPU-based solutions. The product is already used by some major companies in telecom, advertising, media, and other industries (Orange, Cellcom, Amdocs, PubMatic). The company received the prestigious Big Data Excellence Award 2018 for providing the technology for a large-scale cancer research programme.



Connecterra (Netherlands), founded by the former Microsoft executive Yasir Khokhar, specialises in AI solutions for the food industry and agriculture. The technology uses artificial intelligence to increase the productivity of dairy farms, and relies on wearable tracking devices that monitor cow health. The company's core product is the Connecterra IDA platform, which analyses and predicts behavioural patterns based on data collected from neck sensors. IDA informs farmers about behavioural changes, provides early diagnosis, gives recommendations about optimising fertility cycles of cattle, etc. The solution is already used by Danone and ZLTO (a large farm chain in the Netherlands).

KEY INVESTMENTS MADE IN 2016-2017



VisionLabs, is a developer of computer vision and machine learning solutions;



YouDo, is an online marketplace for personal services;



MEL Science, is an international company offering scientific and educational products based on VR/AR technologies;



Luden.io, is a developer of educational games;



Segmento, is a platform that uses machine learning technologies for target advertising.

Sistema's investment funds

SISTEMA ASIA FUND

Sistema Asia Fund is a venture capital fund, and an active and recognisable player in the **Indian VC market** that has become integrated into the country's entrepreneurial ecosystem.



SISTEMA'S STAKE

100%

TARGET SIZE

USD **120** million
with potential increase to USD 150 million

YEAR ESTABLISHED

2015

GEOGRAPHY

India, Southeast Asia

INDUSTRY FOCUS

Consumer tech (e-commerce, healthcare, transport, media, finance and education) and enterprise tech (IoT, VR/AR, platform solutions, big data, AI and machine learning)

LIFE

8 years mandatory
+ 2 years optional,
with an investment stage of 4 years

TARGET RETURNS

3X

 cash-on-cash

The fund's goal is to efficiently place investors' money in **promising projects** in the **fast-growing Indian tech market**.

INVESTMENT TARGETS AND INVESTMENT FOCUS

Sistema Asia Fund invests in tech startups in India (predominantly) and Southeast Asia (in exceptional cases) that meet the following criteria:

1. a proven business model and/or loyal audience;
2. solutions specific for the Indian market;
3. startup founders heavily involved in business management;
4. co-investors..

In 2018, Sistema Asia Fund team reviewed over 150 projects, thoroughly studied over 70 companies, made three new successful investments, and participated in follow-on investments in portfolio companies. The investment rounds were done at valuations exceeding the pre-money valuation, which testifies to the strong quality of the fund's investments.

LendingKart, one of the fund's earliest projects, maintains a presence in the Fintech 100 – a collaboration between fintech investment firm H2 Ventures and KPMG Fintech – for a third consecutive year, and is the only Indian lender in the list.

The new Sistema Business Scalerator, a product of cooperation between Sistema Asia Fund and MTS India, is a business scale-up platform solution designed for organising sales for retail and B2B companies and streamlining operations in marketing, brand management and customer service. In March 2018, the platform joined forces with LendingKart Finance, a non-bank finance arm of LendingKart.

FIRST EXIT



In March 2019, SAF completed its first monetisation by selling a stake in Qwikilver, an Indian end-to-end service provider of gift card and prepaid solutions. Sistema Asia Fund invested in Qwikilver in 2016 and exited three years after with solid returns on the invested capital. With the first exit in the bag, Sistema Asia Fund remains an investor in nine businesses.

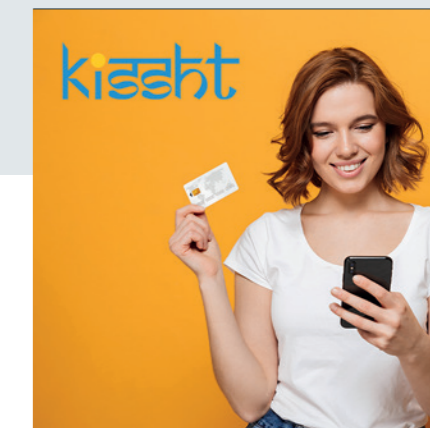
NEW INVESTMENTS MADE IN 2018



HealthifyMe is India's biggest digital fitness platform (4 million users and over 200 sports instructors and nutritionists) that allows users to monitor calorie consumption, set personal fitness goals and monitor their progress. What makes it really effective is access to online consultations with nutritionists and instructors. At the end of 2017, the company launched a new service, Ria, which is the world's first virtual AI-based nutritionist. The company's biggest corporate customers include P&G, Unilever, Accenture, Cognizant, Shell, and Philips.



Faasos – is India's biggest "food on demand" company, using cloud kitchen technology. It is also the world's biggest company operating in this format. It currently manages five brands and aims to further diversify its products.



Kissht – is an online consumer lending platform based on a proprietary algorithm for assessing creditworthiness with AI elements.

INVESTMENTS MADE IN 2016-2017



Wooplr – is a web platform for online communication and sales of women's clothes



Licious – is a brand operating in the meat-selling business and leveraging a full value chain, from sourcing supplierstopping to processing to delivering to customers



Lendingkart – is a fintech lender that has created its very own data-based lending algorithm to provide loans to SMEs

Mobikon – is a marketing platform for restaurants to attract customers



Netmeds.com – is India's biggest online pharmacy, present all over the country



Seclore – is a developer of an EDRM (Enterprise Digital Rights Management) system that enables corporations to control the usage of electronic files both within and outside the company

Investment platform
SCP/
SISTEMA
FINANCE

Sistema Finance S.A. (SF) is an **investment platform** focusing on **Europe and the United States**.

Sistema Capital Partners (SCP) is an arm of SF that invests Russian institutional capital in developed real estate markets in Europe and the United States.

LLC
SISTEMA
CAPITAL MC

Sistema Capital is a **leading Russian asset manager**, with more than 17 years of experience in **asset management** on **global financial markets** for individual and corporate customers.



SISTEMA'S STAKE

100%

GEOGRAPHY

Mature economies

INDUSTRY FOCUS

Residential, retail and hotel rental properties, etc.

IRR

>15%

In 2018 SCP and SF were restructured to improve the efficiency of both businesses. Starting in 2019, the funds operate under a single brand, **The SCP Group**. SCP's strategic goal is to build an **integrated and diversified investment company** focusing on **scalable investments in capital-intensive assets in mature markets**.

INVESTMENT TARGETS AND FOCUS

- Industries that benefit from restructuring or rapid growth
- Assets that acutely need capital but are often beyond the scope of interest of institutional investors due to the relatively investment required (typical transaction amount from EUR 10 million to EUR 100 million)

Since 2015, SCP has created a strong track record both in Europe and in Russia. It completed a full round of deals involving German properties – Highstreet IV and HS Prime I, comprising a total of 29 assets in various towns in Germany with a total area of 120,000 sq m – which were sold to the Bayerische Versorgungskammer (BVK), Germany's largest pension fund, bringing an IRR of 28-36% in EUR.

29 assets

ACQUIRED BY BVK IN GERMANY

ASSET AREA

>120 thsd sq m

IRR

28–36% in EUR

The company offers investment products in both Russian and foreign markets. These include bonds of Russian and foreign issuers in various segments and geographies, shares of companies from various countries, and derivatives.

As of the end of 2018, the company's assets under management (AUM) stood at RUB 68.3 billion, 1.3 times higher than in 2017 and an increase of 6.4 times on 2014. The company ranks ninth in Russia by the net asset value (NAV) of its mutual investment funds (MIFs), with an aggregate NAV of RUB 11 billion as of the end of 2018.

Sistema Capital's MIFs were among the highest yielding in the Investfunds 2018 ranking of open-end mutual bond funds with NAVs of over RUB 50 million.

In 2018, ratings agency RAEX (Expert RA) confirmed Sistema Capital's rating at A+, with a Stable outlook. The agency praised the company's high-quality IT system, strong investment process, reliability of counterparties and sound quality of AUM.

The company acts as a trust manager for three non-government pension funds, including Sberbank's Pension Fund.

At the same time, Sistema Capital remains an active player in the personal wealth management market. In cooperation with MTS, the company has already launched MTS Investments, a "mass-market" app, with another collaborative B2C project – integration of an option to purchase investment fund units in the widely popular MTS Money Wallet app – also underway.

In 2019, Sistema Capital expects to see growth in its assets under management, driven by a general trend for investors to favour managed investments over bank deposits with ever-decreasing interest rates.

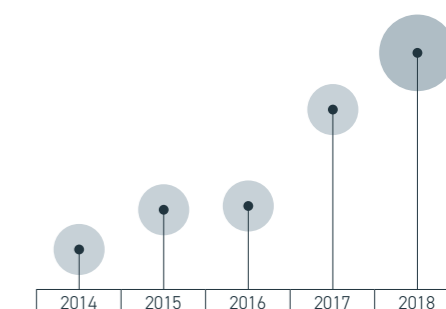
The strategic goal of Sistema Capital is to develop as a leading asset management company oriented towards private and institutional investors (retail online, HNWI, non-government pension funds) while continuing as a manager of Sistema Group's liquidity and the vehicle for investment of Sistema's funds in marketable securities with varied risk levels.

AUM,¹
RUB BN

▲ 6.4X

68.3

10.7 22.3 23.7 51.7 68.3



SISTEMA'S EFFECTIVE STAKE:

70%

RATED

A+

«Very high level of reliability»²

Top-10

RUSSIA'S LARGEST
ASSET MANAGERS

YIELDS OF MUTUAL INVESTMENT FUNDS

	Currency	Yield/year, in specified currency			
		2015	2016	2017	2018
SC Rezervny. Foreign currencies (Eurobonds)	USD	+20.4%	+7.2%	+5.2%	+2.0%
SC Mobile. Bonds. Foreign currencies (Eurobonds)	USD	n/a	n/a	+5.8%	+0.8%
SC Rezervny (bonds)	RUB	+17.3%	+12.1%	+14.3%	+7.4%
SC Mobile. Bonds (bonds)	RUB	n/a	n/a	+15.1%	+7.5%
SC Mobile. Equity (equity shares)	RUB	+56.3%	+23.4%	+4.2%	+13.9%

¹ AUM means Assets Under Management.

² By the RAEX (Expert RA) rating agency.

Online retailer

OZON

Ozon is a **leading Russian multi-category online sales platform**, ranked **fourth by revenue** in the **E-Commerce Index Top 100** for 2018 and among the **top five** most valuable Russian Internet companies according to Forbes.

RECORD NUMBER OF PROCESSED ORDERS

138 thsd per day



SISTEMA'S DIRECT STAKE:¹

21.9%

In March 2019, Sistema acquired 18.7% of equity shares in Ozon Holdings Limited from PJSC MTS for RUB 7.9 billion, bringing Sistema's total stake in Ozon's equity to 19.3%. In April 2019, Sistema further increased its stake in Ozon to 21.9% following the acquisition of shares from a number of Ozon minority shareholders.

In addition, Sistema_VC, a venture capital fund that is part of Sistema Group and invests in growth-stage tech companies, also holds 16.3% in Ozon.

E-commerce is among Russia's most promising markets. Even though online orders in Russia have more than doubled in the last 5 years³, the market has yet to reach its full potential. The world's seventh largest country by number of Internet users, Russia still lags far behind leading economies in terms of e-commerce penetration, at just 5% of total retail revenue in Russia, compared to 10-15% in mature economies and more than 20% in China and South Korea. By 2023, e-commerce penetration in Russia is expected to reach 10%, with the market growing from RUB 1.1tn in 2018 to RUB 3.5tn, which corresponds to a CAGR of 24% p.a.⁴

Russia's e-commerce market is heavily fragmented, there is clear potential for achieving leadership through consolidation, which Sistema believes Ozon has every chance of doing.

In 2018, the company grew at a faster pace than at any point during the past 10 years. Its GMV² growth in the reporting year reached 73% YoY, with GMV totalling 42.5 billion roubles including VAT. In some categories, such as clothing and groceries, the growth rate exceeded 100%.

As of the end of 2018, the company operated eight fulfilment centres with a total floor area of around 100,000 sq m, enabling next-day deliveries to 40% of the Russia's population. In December 2018, Ozon hit an all-time high by number of processed orders (138,000 per day).

4

 player

IN THE RUSSIAN E-COMMERCE MARKET BY SALES TURNOVER

1.5

 m

UNIQUE CUSTOMERS DAILY

1.6

 m

SKUS OFFERED, ACROSS 24 CATEGORIES

15.5

 m orders

IN 2018 (29 ORDERS PER MINUTE)

1

 st

E-COMMERCE BRAND BY AWARENESS

40%

OF RUSSIA'S POPULATION HAVE ACCESS TO NEXT-DAY DELIVERY

73%

OZON.RU GMV² GROWTH IN 2018 Y-O-Y

115%

GROWTH OF WAREHOUSE AREAS EXPECTED IN 2019

(new fulfilment centre in the Moscow region and in Tver)

8

 fulfilment centres

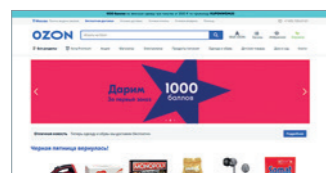
In 2019, the company plans to stick to its aggressive strategy, aiming to conquer the wider market. Immediate initiatives include **large-scale investments in logistics infrastructure**, the **expansion of a distribution centre** in Tver, and the **launch of a new fulfilment centre** near Moscow with a total floorspace of over 100,000 sq m.

NEW FULFILLMENT CENTRE AREA

>100

 thsd sq m


<https://ozon.ru>



¹ Since April of 2019.

² Gross Merchandise Value, or total revenue (including marketplace) net of loyalty programme effects.

³ Source: Russian Association for Electronic Communications (RAEC)

⁴ Source: Morgan Stanley

CORPORATE GOVERNANCE SYSTEM

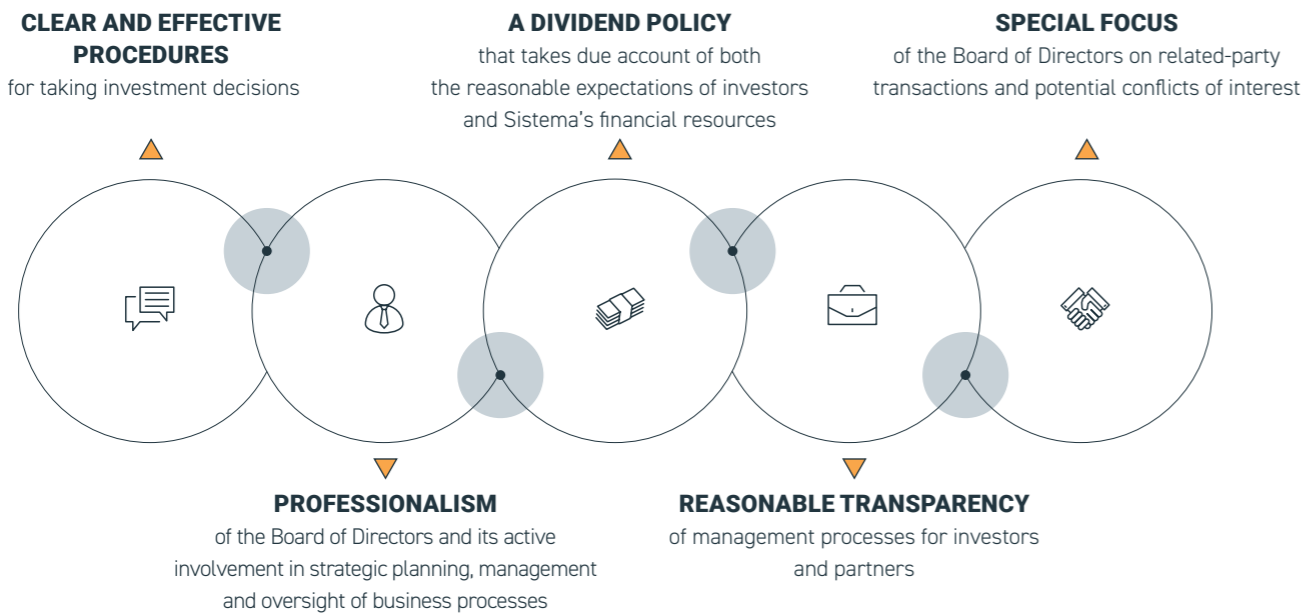
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Corporate Governance System

Sistema believes that **high-quality corporate governance** and **information transparency** are important elements of the Corporation's strategy as an investment company.

Sistema aims to meet **best international standards** of corporate governance and transparency, and improve its corporate governance practices on an ongoing basis through timely implementation of required changes and high efficiency of managerial decision-making.

SISTEMA'S CORPORATE GOVERNANCE PRINCIPLES



Sistema is guided by these principles in all of its activities, including strategic and financial management, HR and social policy, preparation of financial statements, control and audit, and risk management. These principles form the foundation for strengthening the Corporation's investment case.

In its corporate governance practices Sistema abides by applicable legislation, the Listing Rules of Moscow Exchange, the recommendations of the Russian Corporate Governance Code¹ and the guidelines set out in the UK Corporate Governance Code^{2,3}.

In accordance with Russian legislation and best international practice, the Corporation's Charter and internal regulations define its corporate governance principles and procedures, as well as the composition, procedures and powers of its governance and control bodies.

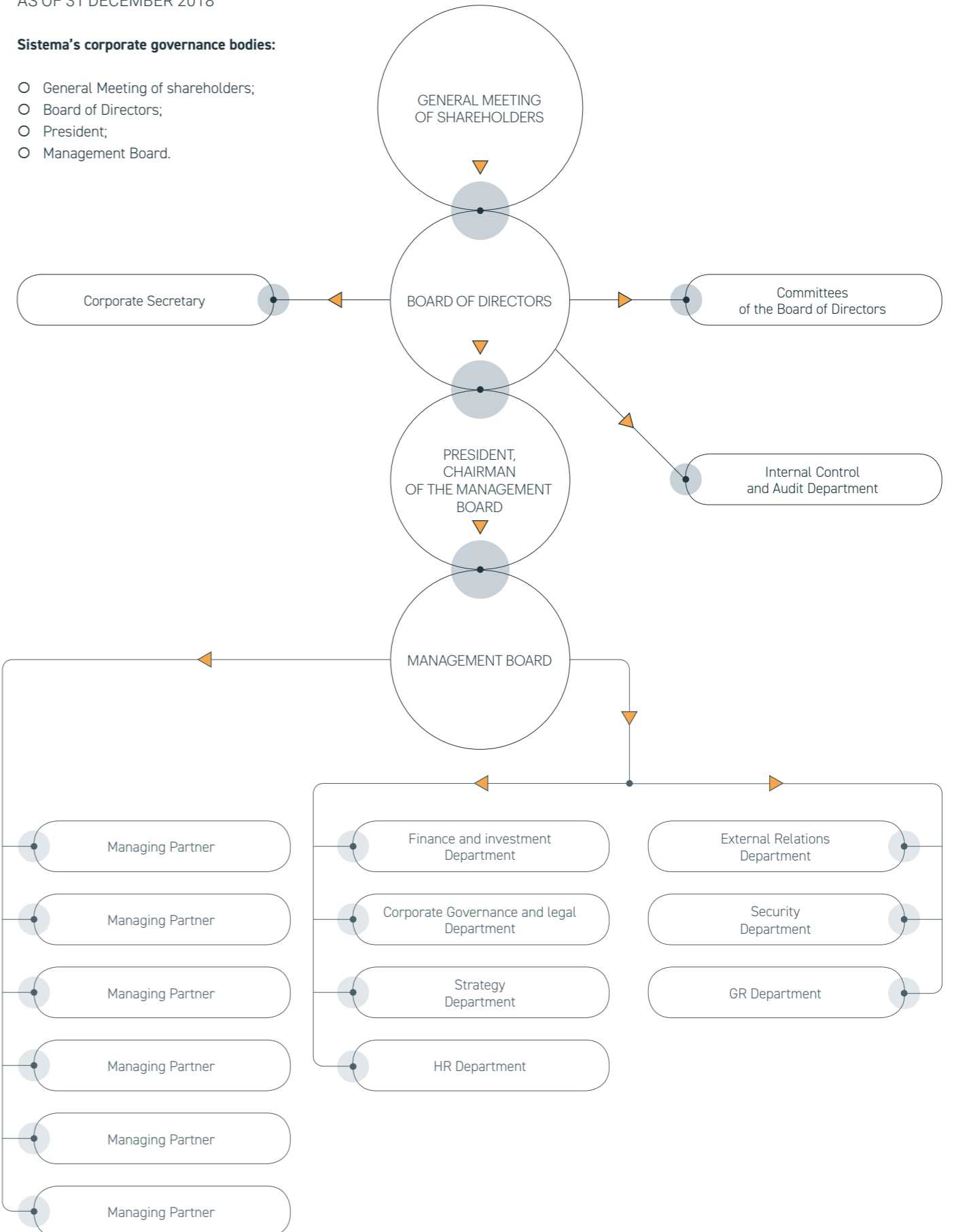
The Corporate Governance and Ethics Code of Sistema sets out the additional commitments of the Corporation, its top management and employees in terms of social responsibility, transparency and ethical business principles.

¹ The text of the Corporate Governance Code recommended by the letter of the Bank of Russia No 06-52/2463 dated 10 April 2014 is available at: <http://www.cbr.ru/Queries/XstBlock/File/48285?hlid=1&scope=1518> (in Russian).
² The conformity of Sistema's corporate governance practices with the standards set out in the Corporate Governance Code of Russia and the UK Corporate Governance Code is analysed in Annexes 5 and 6 to this report. If Sistema's corporate governance practices diverge from the standards recommended in the above documents, the Corporation provides an explanation of how it ensures that the balance of interests envisaged in applicable corporate governance standards is observed.
³ The text of the UK Corporate Governance Code is available at: <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>.

SISTEMA'S CORPORATE GOVERNANCE STRUCTURE AS OF 31 DECEMBER 2018

Sistema's corporate governance bodies:

- General Meeting of shareholders;
- Board of Directors;
- President;
- Management Board.



GENERAL MEETING OF SHAREHOLDERS

The General Meeting of shareholders is the **supreme governing body** of the Corporation. The activities and powers of the General Meeting of shareholders are **governed by Russian legislation, the provisions of Sistema's Charter and the Terms of Reference of the General Meeting of shareholders**. The Corporation seeks to create the **most favourable conditions for shareholders to participate** in the General Meeting.



All materials relating to the General Meeting's agenda items are published on the Corporation's website in Russian and in English (www.sistema.ru and www.sistema.com, respectively)

OBSERVANCE OF SHAREHOLDERS' RIGHTS

Proposing agenda items for the General Meeting of shareholders and nominating candidates to the Corporation's governance bodies

Shareholders who own at least 2% of the Corporation's voting shares are entitled to propose items for the agenda of the Annual General Meeting of shareholders (AGM) and nominate candidates to the Corporation's governance and control bodies. Such proposals should be submitted to the Corporation no later than 100 days after the end of the reporting year, in accordance with the Terms of Reference of the General Meeting of shareholders and other internal regulations of the Corporation.¹ Candidates nominated by shareholders to the governance and control bodies of the Corporation are provisionally reviewed by the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors.

Participation in General Meetings of shareholders and voting on agenda items

Sistema aims to ensure maximum protection of the right of shareholders to take part in the governance of the Corporation by participating in the General Meetings of shareholders, voting on agenda items and receiving income in the form of dividends.

To ensure shareholders have the right to take part in the General Meeting, all materials relating to the General Meeting's agenda items are published on the Corporation's website in Russian and in English (www.sistema.ru and www.sistema.com, respectively) at least 30 days before the date of the meeting. The notice of the General Meeting of shareholders, ballots and all other materials are also sent by mail to shareholders whose rights to the shares of the Corporation are recorded in the shareholder register, and to nominee shareholders in electronic form.

Each shareholder is entitled to take part in General Meetings of shareholders and to vote on agenda items either in person or through a representative (if the General Meeting is held as an in-person meeting of shareholders).

Shareholders may complete ballot papers and send them to Sistema ahead of the General Meeting. Sistema's shareholders may also use the e-voting system available on the website of the Corporation's registrar, JSC Reestr. To use this service, shareholders should apply for access to a personal shareholder account on the website of JSC Reestr. If a shareholder has a personal account on the e-government portal, they may get access to the service without applying to the registrar.



More detailed information on the procedure for connecting to the e-voting service is available on the website of the Corporation's registrar <http://www.aoreestr.ru/shareholders/e-voting>.

Holders of Sistema's global depository receipts (GDRs) may vote on General Meeting agenda items by a proxy vote in line with the established procedure via a depository bank servicing Sistema's GDR programme. In 2018, Sistema's depository bank was Citibank, N.A.



For more information on the depository bank and voting procedures please visit the bank's website www.citiadr.idmanagedsolutions.com.

¹ If an Extraordinary General Meeting of shareholders is conducted and its agenda contains an item on election of the Board of Directors, shareholders who own a sufficient number of shares are entitled to nominate candidates to the Board of Directors. Proposals to this effect must be received by the Company no later than 30 days before the date of such a meeting.

Votes of GDR holders about whom information has been disclosed to the depository are collected by the depository bank via clearing systems and are included in the general ballot along with all votes cast for and against proposed draft resolutions, as well as abstentions.

The results of voting on agenda items of General Meetings of shareholders held as in-person meetings are announced before the close of the meeting. After the minutes of the meeting are drafted, shareholders may also view the voting results on the Corporation's website.

Dividend policy

The Corporation announces the amount of dividends recommended by the Board of Directors and the record date in advance. Shareholders are thus able to take informed decisions with respect to disposing of their shares.

In determining the recommended amount of dividends for 2017, the Board of Directors took due account of the priority of the strategic goal of reducing the Corporation's debt, and recommended that the General Meeting of shareholders approve dividends totalling RUB 1,061,500,000, or RUB 0.11 per share, thus supporting the Corporation's deviation from the current dividend policy².

After the end of the reporting period, the Board of Directors, taking into account the need to maintain a balance between reducing debt, continuing investment activities and ensuring returns for shareholders, recommended that the General Meeting of shareholders approve dividends for 2018 in the amount of RUB 0.11 per share.

To maintain a balance between the rights and interests of all shareholders and the Corporation's ability to pay dividends, the Board of Directors, when determining the amount of dividends, will take into account the acceptable rate of debt reduction and the proportionality of dividends to the Corporation's current cash flows. After achieving the goal of reducing the debt burden, the Board of Directors plans to return to consideration of dividend payments as a means of strengthening Sistema's equity investment case.

Shareholders' access to the Corporation's documentation

An important guarantee of the right of shareholders to participate in managing the company is the right to access documents that the Corporation is obliged to provide to shareholders in accordance with article 91 of the Federal Law on Joint-Stock Companies. To exercise this right, shareholders should send a written request for access to the relevant documents to Sistema's Corporate Secretary. After the time for providing the documents is agreed upon, the requested documents will be provided to the shareholder. When shareholders are granted access to confidential documents, they sign a written non-disclosure obligation, thereby guaranteeing the rights of all the Corporation's shareholders are protected. If shareholders require any copies of documents, the shareholders bear the costs incurred by the Corporation (RUB 10 per page).

INFORMATION ABOUT GENERAL MEETINGS OF SHAREHOLDERS IN 2018

ANNUAL GENERAL MEETING OF SHAREHOLDERS

Date and venue	30 June 2018, Moscow, 13/1 Mokhovaya St
Form of the meeting	Meeting (in-person)
Items reviewed and decisions taken	<ul style="list-style-type: none"> ○ Annual report and financial statements for 2017 were approved; ○ Dividend for 2017 of RUB 1,061,500,000, or RUB 0.11 per ordinary share (RUB 2.2 per GDR), was approved; ○ The Board of Directors and the Audit Review Commission were elected; ○ Auditors were appointed for RAS and IFRS audits for 2018.
Attended	Shareholders holding a combined 78.5% of votes
Date and reference number of the minutes	4 July 2018, No 1-18

² The current version of the Dividend Policy was adopted in April 2017.

BOARD OF DIRECTORS

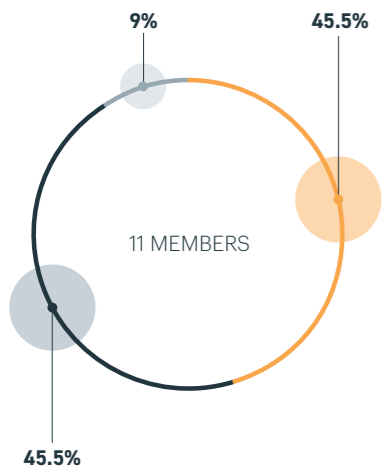
The Board of Directors is a collective governance body in charge of oversight and strategic management of the Corporation.

Under Sistema's Charter the responsibilities of the Board of Directors include:

- Supervising the operations of the Corporation in general;
- Formulating strategic and financial development plans;
- Determining investment principles and criteria;
- Assessing management's performance;
- Defining corporate governance principles;
- Approving transactions and strategic projects in accordance with applicable legislation and the Corporation's internal regulations.

THE COMPOSITION OF THE BOARD

The Board of Directors effective as of 31 December 2018 was elected at the AGM held on 30 June 2018. Independent directors account for 45% of the Board of Directors.



Independent directors
Non-Executive directors
Executive directors

Composition of the Board of Directors of Sistema PJSC in 2018 (re-elected on 30 June 2018)¹



VLADIMIR EVTUSHENKOV
Board Chairman²



ANNA BELOVA³



SERGEY BOEV
Deputy Chairman of the Board of Directors until 31 March 2018



ANDREY DUBOVSKOV



FELIX EVTUSHENKOV
Deputy Chairman of the Board of Directors until 12 October 2018



RON SOMMER



ROBERT KOCHARYAN⁴



JEANNOT KRECKE⁵



ROGER MUNNINGS⁵



MIKHAIL SHAMOLIN



DAVID IAKOBACHVILI⁶

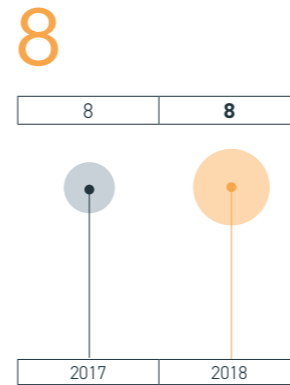
¹ Short bios and information on Members' stakes in Sistema's authorized capital is available in [Appendix 1](#).
² Chairman of the Board and the Deputies were elected at the first Meeting of the Board on June 30th 2018.
³ A. Belova was elected to the Board of Directors based on the proposal of minority shareholders.
⁴ In line with Moscow Exchange listing rules, R. Kocharyan was deemed independent by Sistema. Information pertaining to the decision is available on Sistema's website.
⁵ In line with Moscow Exchange listing rules, R. Munnings was deemed independent by Sistema. Information pertaining to the decision is available on Sistema's website.
⁶ In line with Moscow Exchange listing rules, D. Iakobachvili was deemed independent by Sistema. Information pertaining to the decision is available on Sistema's website.

MEETINGS OF THE BOARD OF DIRECTORS

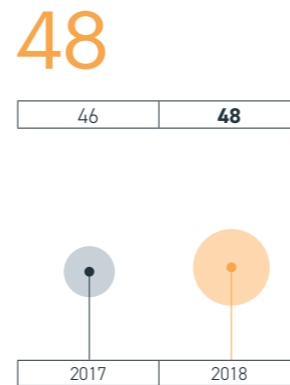
Sistema's Board meetings are held on a regular basis in accordance with the approved annual work plan of the Board of Directors, which is made based on Sistema's strategic planning and reporting cycle.

In 2018, the Board of Directors held 12 meetings: eight scheduled in-person meetings and four unscheduled meetings with absentee voting. The Board of Directors reviewed a total of 74 agenda items in 2018.

NUMBER OF IN-PERSON MEETINGS



NUMBER OF ITEMS IN ACCORDANCE WITH THE BOARD'S WORK PLAN



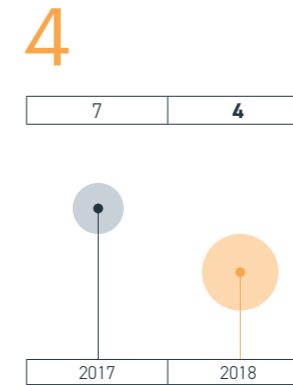
THE BOARD OF DIRECTORS HELD

12 meetings

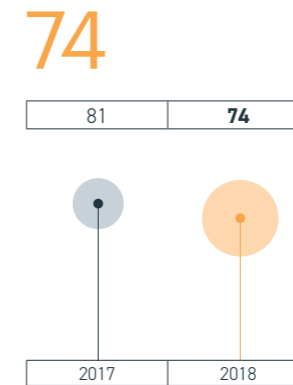
Over the reporting period the Board of Directors considered the following key items:

1. Sistema's development strategy;
2. Sistema Group's strategic planning cycle;
3. Investment policy, strategy of Sistema's investment funds and priority areas for investment in 2018-2019;

NUMBER OF ABSENTEE VOTES



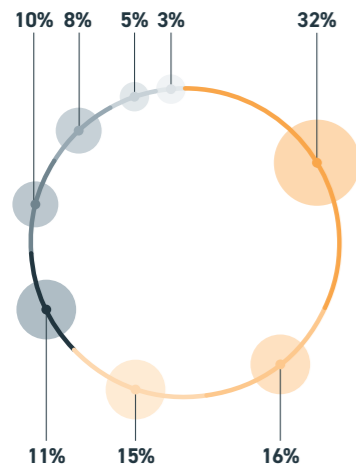
ACTUAL NUMBER OF ITEMS REVIEWED BY THE BOARD



4. Managing and creating value for Sistema's investments in the following areas:
 - ▷ Telecom assets;
 - ▷ Consumer (retail) assets, including e-commerce assets;
 - ▷ Agricultural assets;
 - ▷ Timber processing and pulp and paper assets;
 - ▷ Banking assets;
 - ▷ Assets in financial services and investment management in capital markets;
 - ▷ High-tech assets;
 - ▷ Real estate assets;
 - ▷ Healthcare assets;
 - ▷ Power grid assets;
 - ▷ Hotel assets.
5. Sistema's results and performance against budget;
6. Budget planning, approval of the consolidated budget of Sistema PJSC and management's KPIs for 2018-2019;
7. Functional strategies (for financial management and financial planning, human resources management, corporate security, etc);
8. Management of the Corporation's risks;
9. Report of the Internal Control and Audit Department;
10. HR matters and employee incentive systems;
11. Assessment of corporate governance including the results of assessment of the Board of Directors and Committees of the Board of Directors of Sistema PJSC;
12. Corporate Social Responsibility;
13. Mandatory corporate procedures, including calling the AGM and developing the work plan of the Board of Directors;
14. Composition of Board Committees and determining the status of Board members;
15. Approval of internal regulations;
16. Approval of transactions, including acquisition of equity stakes.

SUBJECTS OF THE ITEMS

CONSIDERED BY THE BOARD OF DIRECTORS IN 2018



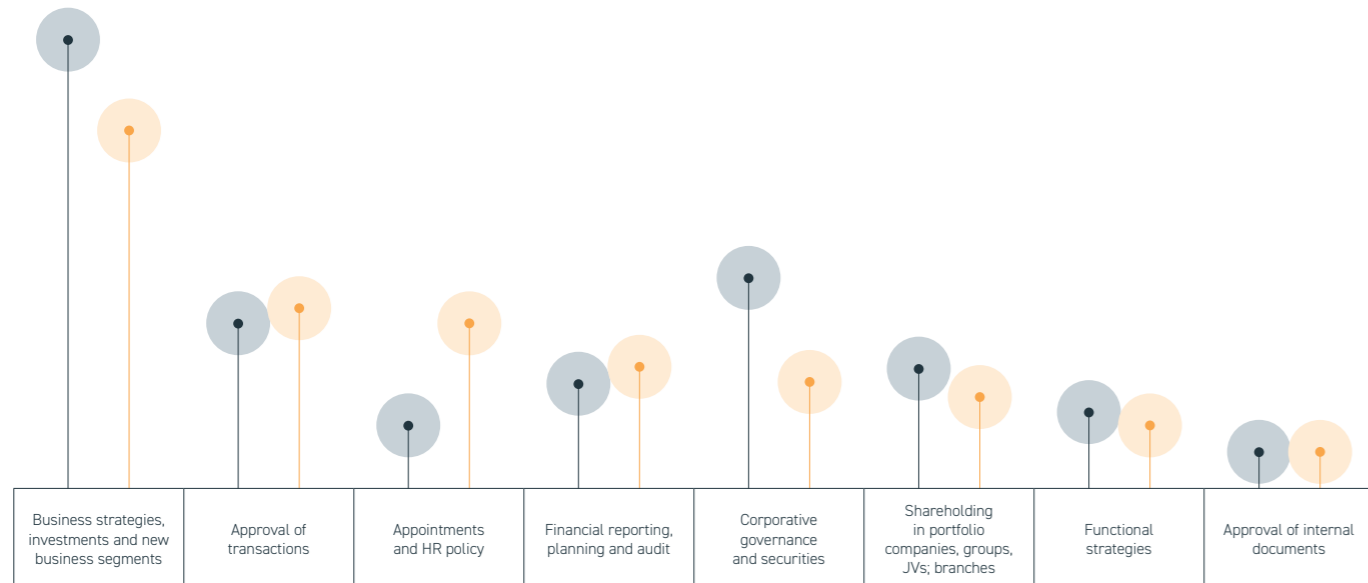
Most of the items considered by the Board of Directors in 2018 related to the Corporation's **business strategy, value creation by its investments** in various industries, **HR policy** and **approval of transactions** (including shareholdings in companies). In light of the goals of the Corporation for strategic and structural optimisation, a substantial proportion of items regarding business strategy and HR policy also focused on corporate governance at Sistema Group.

THE BOARD OF DIRECTORS REVIEWED A TOTAL OF

74 agenda items

Business strategies, investments and new business segments
Approval of transactions
Appointments and HR policy
Financial reporting, planning and audit
Corporative governance and securities
Shareholding in portfolio companies, groups, JVs; branches
Functional strategies
Approval of internal documents

30	24	11	12	4	11	7	8	14	7	8	6	5	4	2	2
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PREPARATION FOR MEETINGS AND QUORUM OF THE BOARD OF DIRECTORS

Current preparation procedures for Board meetings are designed to ensure best use of the experience and expertise of Board members. Materials on the agenda items are published on the Board's electronic portal at least 10 days before the meeting, which gives members sufficient time to form an informed opinion on all agenda items. Most agenda items (including approval of transactions) undergo a mandatory preliminary review at meetings of the Board's Committees.

The Corporation has introduced a procedure of challenging speakers on key items of the Board's agenda to enable Board members (as a rule, independent members) to conduct an in-depth review of materials and hold discussions with management. This makes it possible to increase the involvement of Board members in the development of the Corporation's strategy.

Meetings of Sistema's Board of Directors usually have a high attendance rate: the average quorum of meetings in 2018 was 95.5%.

ASSESSMENT OF THE WORK OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Assessment of the Board of Directors' performance is an important tool that helps identify areas where the work of the Board of Directors may be improved.

In 2018, Sistema continued the practice of an annual comprehensive assessment of the work of the Board of Directors and all its Committees. The assessment was carried out in the form of a survey of members of the Board covering the following areas:

- **Composition and structure** of the Board of Directors: number of Board members and balance of their knowledge, skills and industry experience;

- **Organisation of the work** of the Board of Directors: content of agendas of the meetings, quality and timeliness of submission of materials, and quality of discussion at the meetings.

- **Functional areas of the Board's work**, including strategic management, finance and internal control, HR policy and corporate governance.

As a result of the analysis of the Board's performance the total score on a 5-point scale was 4.33 an improvement compared to 4.16 score in 2016¹). Further increase in the quality of work with proposals and initiatives from the executive management team was indicated as an area for improvement.

THE AVERAGE QUORUM OF MEETINGS

95.5%

PARTICIPATION OF BOARD MEMBERS

IN MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2018

	Board of Directors	Strategy Committee	Audit, Finance and Risk Committee	Nomination, Remuneration and Corporate Governance Committee	Ethics and Control Committee	Investor Relations and Dividend Policy Committee
Attendance						
V. Evtushenkov	12/12 ²	12/12				
A. Belova	12/12		13/14		7/8	5/5
S. Boev	11/12	8/12		10/10	8/8	
A. Dubovskov	12/12	10/12				
F. Evtushenkov	9/12	9/12			6/8	
R. Sommer	12/12	5/12	14/14	10/10		
R. Kocharyan	11/12	6/12		9/10	7/8	
J. Krecké	12/12		14/14			5/5
R. Munnings	12/12		14/14	10/10	8/8	5/5
M. Shamolin	11/12	10/12				
D. Iakobachvili	12/12	5/12	13/14	8/10		5/5

¹ In 2016 and 2018, the Board of Directors was assessed according to the same methodology, which makes it possible to compare the results of analysis.
² The first number shows the number of meetings attended by the Board member, the second number is the total number of meetings.

COMMITTEES OF THE BOARD OF DIRECTORS

SISTEMA HAS

5 committees of the Board of Directors:

- Strategy Committee;
- Audit, Finance and Risk Committee;
- Nomination, Remuneration and Corporate Governance Committee;
- Ethics and Control Committee;
- Investor Relations and Dividend Policy Committee.

The main role of the Committees is to assist the Board in preparation and adoption of decisions in specific functional areas, as well as to ensure prior in-depth scrutiny of matters put forward for consideration by the Board of Directors.



The status, procedures for nominating members, responsibilities and decision-making processes of the Board's Committees are regulated by the Terms of Reference of the relevant committees as approved by the Board of Directors and published on the Corporation's website in the Corporate Documents section <http://www.sistema.ru/o-kompanii/korporativnoe-upravlenie/korporativnye-dokumenty/>.

¹ R. Munnings and J. Krecke, both part of the Committee, are experts in finance and audit with many years of experience in the sector.

²

Independent
Non-Executive
Executive

Strategy Committee	Audit, Finance and Risk Committee	Nomination, Remuneration and Corporate Governance Committee ³	Ethics and Control Committee	Investor Relations and Dividend Policy Committee
Functions		Functions		
<ul style="list-style-type: none"> ▷ Analysis of strategic management issues of Sistema Group; ▷ Reviewing the strategy planning methodology; ▷ Reviewing M&A transactions with a value exceeding USD 100m; ▷ Reviewing Sistema Group's investment projects related to entry into new geographies or industries and projects with significant state ownership. 	<ul style="list-style-type: none"> ▷ Facilitating and supervising the processes of preparing and auditing the Company's financial statements; ▷ Assessing the quality of audit services based on the audit of Sistema's financial statements and making preliminary recommendations to the Board of Directors with respect to the selection of RAS and IFRS auditors; ▷ Assessing the risk management system and ensuring compliance with applicable legal requirements in financial reporting, audit and planning; ▷ Provisional appraisal of transactions submitted to the Board of Directors; ▷ Budgeting and financial modelling. 	<ul style="list-style-type: none"> ▷ Facilitating the development of an efficient corporate governance system meeting international standards at the Corporation and its portfolio companies; ▷ Preliminary review of candidates: <ul style="list-style-type: none"> ○ for the Board of Directors of Sistema PJSFC; ○ for the boards of directors of portfolio companies; ○ for senior management positions at the Corporation and its portfolio companies; ○ for the position of the Corporation's Corporate Secretary; ▷ Development of the Corporation's incentive and remuneration policies; ▷ Organising the assessment of the performance of the Board of Directors. 	<ul style="list-style-type: none"> ▷ Forming an efficient system of economic and corporate security; ▷ Monitoring compliance with the requirements of the Ethics Code of the Corporation; ▷ Introducing a system for preventing corruption and fraud and other misconduct related to violations of applicable legislation at Sistema Group companies. 	<ul style="list-style-type: none"> ▷ Strengthening the Corporation's investment case; ▷ Supporting effective relations with the financial community; ▷ Developing Sistema's dividend policy, including recommendations for the Corporation's Board of Directors with respect to the amount of payable dividends; ▷ Protection of the rights and interests of Sistema's shareholders.
Composition		Composition		
V. Evtushenkov (Committee Chairman) S. Boev A. Dubovskov F. Evtushenkov R. Sommer R. Kocharyan M. Shamolin D. Iakobachvili	R. Munnings (Committee Chairman) ¹ A. Belova R. Sommer J. Krecké ¹ D. Iakobachvili	R. Kocharyan (Committee Chairman) S. Boev R. Sommer R. Munnings D. Iakobachvili	F. Evtushenkov (Committee Chairman) A. Belova S. Boev R. Kocharyan R. Munnings	A. Belova (Committee Chairwoman) J. Krecké R. Munnings D. Iakobachvili
Director participation ²		Director participation ²		
Number of meetings in 2018		Number of meetings in 2018		
12		14		10
Topics discussed		Topics discussed		
<ul style="list-style-type: none"> ▷ Value creation by the Corporation's investments in various industries; ▷ Investment projects; ▷ Strategic management and planning system. 	<ul style="list-style-type: none"> ▷ Assessment of the quality of audit services, results of the tender for provision of audit services, recommendations for the Board of Directors on appointing an external auditor; ▷ Review and approval of the Corporation's quarterly and annual financial reports, the annual report, annual budget and report on performance against the Corporation's budget; ▷ Review of management's reports on risk management at Sistema, risk maps and mitigation plans; ▷ Preliminary review and evaluation of transactions to be submitted to the Board of Directors. 	<ul style="list-style-type: none"> ▷ Development of corporate governance at Sistema Group, including the structural transformation of the Corporate Centre; ▷ Incentive system and key parameters, performance assessment and bonuses for the key managers and employees of Sistema; ▷ HR process and preview of candidates to top management positions at Sistema and nominees to the boards of directors of the key portfolio companies. 	<ul style="list-style-type: none"> ▷ Performance of the Internal Control and Audit Department in 2017 and work plan for 2019; ▷ Results of ethics assessment of the Corporation's employees; ▷ Compliance system at Sistema; ▷ System for preventing fraud and corruption at Sistema. 	<ul style="list-style-type: none"> ▷ Communications and interaction with minority shareholders; ▷ Amount of dividends and dividend policy of the Corporation; ▷ The Corporation's charity strategy ▷ Market analysis and monitoring, perception of Sistema by the investment community.

³ The President of Sistema PJSFC attends Committee meetings in the capacity of a permanent invitee and does not vote on the matters submitted for consideration of the Committee.

PRESIDENT

The President is a permanent chief executive officer whose main tasks include managing the current operations of the Corporation and dealing with matters outside the remit of the General Meeting of shareholders, the Board of Directors and the Management Board, with the aim of ensuring the Corporation's profitability and safeguarding the rights and legitimate interests of its shareholders. The President reports to the Board of Directors and General Meeting of shareholders of Sistema PJSFC. The President performs the functions of chairman of the collective executive body (Management Board).

On 13 March 2018, the Board of Directors approved Andrey Dubovskov's appointment as President and Chairman of the Management Board of Sistema PJSFC for a three-year term.



Andrey Dubovskov
 Born in Alma-Ata (now Almaty) in 1966.
 In 1993, graduated from the Gerasimov Institute of Cinematography.
Has extensive experience in telecoms companies: since 1993, held multiple managerial positions at Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Telecommunications, CJSC 800, and other companies in Moscow, Alma-Ata, Nizhny Novgorod, Yekaterinburg, Perm and Kiev.
2002-2004 – CEO, Tele2 (Nizhny Novgorod).
In 2004, joined OJSC MTS as head of the company's Nizhny Novgorod branch.
2006-2007 – Director of the MTS Ural Macroregion.
In 2007, became First Deputy CEO of CJSC UMS (MTS Ukraine); in 2008, appointed head of the MTS Ukraine business unit.
2011-2018 – President of PJSC MTS.
On 13 March 2018, appointed President of Sistema PJSFC following approval by the Board of Directors.
 Member of the Board of Directors of Sistema PJSFC and the Board of Trustees of Sistema Charitable Foundation.

MANAGEMENT BOARD

The Management Board of Sistema PJSFC determines methods for implementation of the Corporation's development strategy, formulates development plans, determines and monitors investment processes and previews most matters subsequently submitted to the Corporation's Board of Directors.

MANAGEMENT BOARD CONSISTED OF

14 members

In 2018, the Management Board held 11 meetings and reviewed 43 agenda items in the following key areas:

1. Sistema's development strategy;
2. Management strategy and structure of Sistema's investment funds;
3. Sistema Group's strategic planning cycle;
4. Development strategy, value creation and monetisation of Sistema's investments in various industries;

MEMBERS OF THE MANAGEMENT BOARD OF SISTEMA PJSFC AS OF 31 DECEMBER 2018

1.	Andrey Dubovskov	President, Chairman of the Management Board
2.	Igor Alyoshin	Vice President for Security
3.	Alexey Guryev	Vice President for HR
4.	Artyom Zasursky	Vice President for Strategy
5.	Alexey Katkov	Managing Partner
6.	Oleg Mubarakshin	Managing Partner
7.	Andrey Pilipenko	Vice President for Government Relations
8.	Vsevolod Rozanov	Managing Partner
9.	Artyom Sirazutdinov	Managing Partner
10.	Joshua Tulgan	Vice President for External Relations
11.	Vladimir Travkov	Vice President for Finance and Investment
12.	Ali Uzdenov	Managing Partner
13.	Sergey Shishkin	Vice President for Corporate Governance and Legal Matters
14.	Maxim Yanpolsky	Managing Partner

5. Sistema's functional strategies;
6. Budget execution, budget planning and key performance indicators;
7. Debt and liquidity management;
8. Sistema's corporate social responsibility;
9. Review of specific transactions.

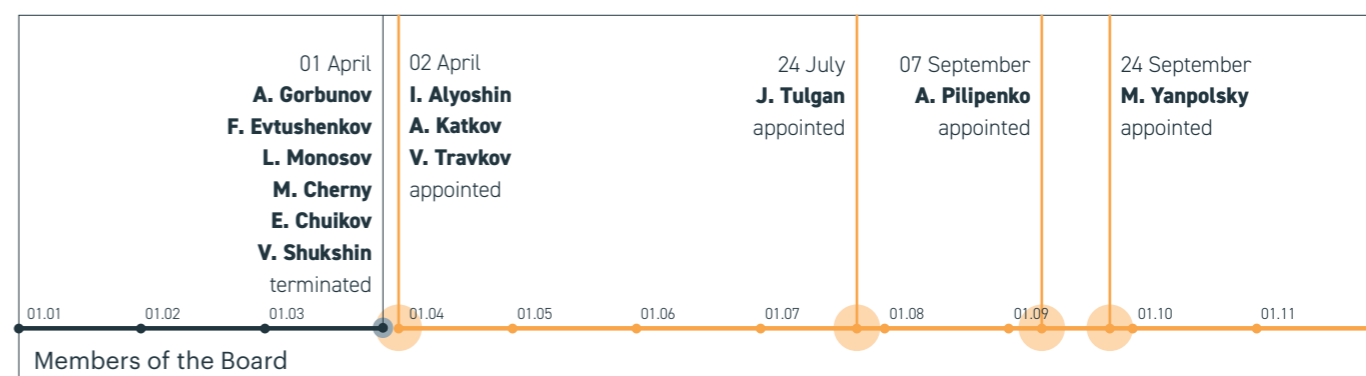
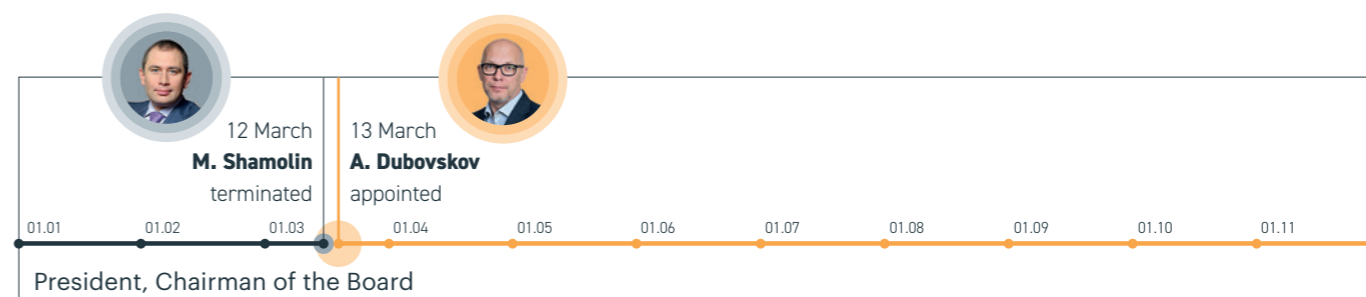
In April 2018, the powers of the previously elected Management Board were terminated, and the Board of Directors approved a new Management Board for a three-year term.

THE MANAGEMENT BOARD HELD

11 meetings

and reviewed 43 agenda items

CHANGES TO SISTEMA'S MANAGEMENT BOARD IN 2018



COMMITTEES REPORTING TO THE PRESIDENT AND THE MANAGEMENT BOARD

To improve management decision-making, Sistema has committees that report to the President and the Management Board, namely the Finance and Investment Committee, the Risk Committee and the Tender Committee.

These committees are **permanent consultative collective bodies** tasked with detailed analysis of current affairs and processes within their remit and with **assisting** the President and the Management Board **in decision-making**.



FINANCE AND INVESTMENT COMMITTEE

The responsibilities of the Finance and Investment Committee include:

- ▷ Review of the Corporation's investment projects at different stages from conception to completion;
- ▷ Approval of financial models, business plans and key performance indicators of investment projects;
- ▷ Recommendations regarding feasibility of projects, exit scenarios and sources of financing;
- ▷ Review of external financing terms.

Expert Council

An Expert Council reports to the Finance and Investment Committee and considers all of the Corporation's new investment ideas and projects for acquisitions of assets in new and related industries, as well as in industries where Sistema already has a presence.



RISK COMMITTEE

The Risk Committee's responsibilities include:

- ▷ Assessment of risks facing the Corporation and its portfolio companies;
- ▷ Ensuring preparation of a risk register and a generalised risk map of Sistema;
- ▷ Preparation of proposals regarding acceptable risk level for Sistema (Sistema's risk appetite);
- ▷ Coordination of risk management action plans and monitoring of their implementation.



TENDER COMMITTEE

The responsibilities of the Tender Committee include:

- ▷ Organising tenders for goods, works, and services;
- ▷ Ensuring acquisition of goods, works, and services and sale of the Corporation's property on the best terms available;
- ▷ Ensuring transparency of purchasing procedures;
- ▷ Facilitating prevention of corruption and other wrongdoing in purchasing.



THE COMMITTEE CONSISTS OF

10 members



As of 31 December 2018, the **Chairman of the Committee** was the Corporation's President **ANDREY DUBOVSKOV**



The **Deputy Chairman** was **VLADIMIR TRAVKOV**, Vice President for Finance and Investment



THE EXPERT COUNCIL CONSISTS OF

13 members



As of 31 December 2018, the **Chairman of the Expert Council** was **ARTYOM ZASURSKY**, Vice President for Strategy.



THE COMMITTEE CONSISTS OF

10 members



As of 31 December 2018, the **Chairman of the Committee** was **VLADIMIR TRAVKOV**, Vice President for Finance and Investment.



THE COMMITTEE CONSISTS OF

7 members



As of 31 December 2018, the **Chairman of the Committee** was chaired by **VLADIMIR TRAVKOV**, Vice President for Finance and Investment.



IN 2018, THE COMMITTEE HELD

30 meetings



IN 2018, THE EXPERT COUNCIL HELD

12 meetings



IN 2018, THE COMMITTEE HELD

5 meetings



IN 2018, THE COMMITTEE HELD

24 meetings

SPECIFIC CHARACTERISTICS OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT SYSTEMS

RISK MANAGEMENT

Sistema's risk management system employs a two-level approach, under which the risks identified at Sistema and its portfolio companies are consolidated to assess their impact on Sistema Group as a whole.

The enterprise risk management system (ERM) used in the Corporation addresses the following tasks:

- ▷ Identification of risks at all levels of the management (from the top to line management), which includes identifying risk owners and making risk passports;
- ▷ Primary assessment of the materiality of identified risks and their analysis (VaR methodology);
- ▷ Ranging risks by management levels;
- ▷ Assessment of the aggregate influence of material risks on the Corporation's key financial indicators (Monte Carlo modelling);
- ▷ Development of plans to mitigate identified risks at all management levels;
- ▷ Regular monitoring of performance against mitigation plans and assessment of their effectiveness;
- ▷ Risk monitoring, quarterly reports on risks facing the Corporation.

Sistema's risk management procedures are carried out by a dedicated risk management unit.

The Corporation's risks are monitored on a quarterly basis by Sistema's Management Board and Risk Subcommittee, which review the effects of mitigation and response measures taken and reassess persisting and/or new risks.

Sistema's senior executives make regular reports on risk management at the Corporation to the Audit, Finance and Risk Committee. The annual report is submitted to the Board of Directors of Sistema PJSFC.

INTERNAL CONTROL SYSTEM

The Internal Control Policy was approved by the Corporation's Board of Directors and is an internal top level document describing the key principles of internal control as a continuous and integrated process that involves all units and governance bodies of the Corporation.

The key objectives of the internal control system are:

1. Creating control mechanisms that will ensure efficient business processes and the implementation of the Corporation's investment projects;
2. Ensuring the safety of the Corporation's assets and efficient use of its resources;
3. Protecting the interests of the Corporation's shareholders and preventing and resolving conflicts of interest;
4. Creating conditions for timely preparation and submission of reliable reports and other information that is legally required to be publicly disclosed;
5. Ensuring the Corporation's compliance with applicable laws and requirements of regulators.

In accordance with the «three lines of defence» principle, the efficiency of the Corporation's internal control system is ensured at three levels (in addition to the Board of Directors and the Corporation's senior management):

▷ **Level 1:**
Heads of subdivisions and employees of the Corporation are responsible for assessing and managing risks and building an efficient internal control system within their remit;

▷ **Level 2:**
At this level, the function is performed by several subdivisions and Committees of the Corporation. For example:
○ The risk management function and the Risk Subcommittee are responsible for developing and monitoring the implementation of an effective risk management practice;

- The Finance and Investment Committee of the Corporation approves and monitors the implementation of investment projects;
- The Discipline Committee reviews matters related to breaches of the Ethics Code and disciplinary offences;
- The Security Department is responsible inter alia for economic security, prevention of corruption, and information security.

▷ **Level 3:**

The Internal Control and Audit Department conducts independent assessments of the efficiency of the internal control system, as well as risk management and the corporate governance procedures.

All of the Corporation's employees in charge of various control procedures bear responsibility for the efficiency of such controls and risk management activities as prescribed in their job descriptions and internal regulations.

INTERNAL AUDIT

The body in charge of internal control at the Corporation and the companies of Sistema Group is the Internal Control and Audit Department, which reports to the Board of Directors (functionally) and Sistema's President (administratively). The head of the Department is appointed and dismissed by the President based on resolutions passed by the Corporation's Board of Directors following preliminary approval by the Board's Ethics and Control Committee.

The main objectives of the Internal Control and Audit Department are:

1. Helping shareholders and management improve the internal control system by performing regular audits of the efficiency of the Corporation's internal control, risk management and corporate governance systems;
2. Supplying management and shareholders with objective information on existing internal risks and their probability;

3. Enhancing awareness among the Corporation's management team about the performance of Sistema Group companies;
4. Monitoring achievement of the goals of shareholders of the Corporation and Sistema Group companies.

To meet these objectives, the Internal Control and Audit Department carries out the following functions:

- ▷ Performing independent audits of individual operations, processes and units;
- ▷ Assessing the effectiveness of the internal control system;
- ▷ Assessing the effectiveness of the risk management system;
- ▷ Assessing the effectiveness of the corporate governance system, preventing violations of legislation and the Corporation's regulations, ensuring observance of professional and ethical standards and preparing recommendations for improving them;
- ▷ Developing recommendations to remedy deficiencies identified and monitoring execution of remedial actions;
- ▷ Monitoring compliance with procurement procedures;
- ▷ Administering the Hotline and ethics assessment.

The Internal Control and Audit Department has all the resources and powers required to perform the above functions.

The Internal Control and Audit Department works closely with independent auditors, coordinates audits and offers consultations in the course of preparing the Department's annual audit plans with regard to assessment of the efficiency of internal controls applied to financial statements, as well as during discussions and assessment of identified risks.

In 2018, the Internal Control and Audit Department conducted 49 audits to assess the effectiveness of the Corporation's internal control, risk management and corporate governance systems. Audits performed by the Internal Control and Audit Department did not uncover any weaknesses or risks that could affect the sustainability of the Corporation's business as a whole.

Regular reports on the results of the work of the Internal Control and Audit Department are reviewed by the Audit, Finance and Risk Committee and Ethics and Control Committee of the Board of Directors, and are also submitted for consideration by the Board of Directors at the end of the year.

RESOLUTION OF CONFLICTS OF INTEREST

Matters related to conflicts of interest are governed by the Corporation's Code of Ethics. The Corporation has an ethics assessment procedure: all top managers of the Corporation annually (or as conflicts of interest arise) fill out Ethics and Conflict of Interest Declarations. All new employees must complete the training course and learn the requirements of the Code of Ethics and the procedure to fill out the Declaration.

In 2018, the Corporation held its ethics assessment for the third time. The results were reviewed by the President and the Ethics and Control Committee of Sistema's Board of Directors. In most cases, declared conflicts of interest were not confirmed and did not require any resolution measures. However, action plans on conflict resolution were implemented with respect to several declarants in accordance with best corporate governance practice.

Ethics assessment makes it possible to identify and manage conflicts of interests in a timely manner, thus preventing shareholders' interests from being compromised.

EXTERNAL AUDIT

In compliance with the decision of the Audit, Finance and Risk Committee, the Corporation uses the following procedures to appoint the independent auditors of Sistema's financial statements. The Committee performs an annual assessment of the quality of audit services received. If the quality of services provided by the current auditor is deemed insufficient, the Audit Committee organises a tender to hire a new auditor. If the quality is deemed sufficient, Sistema negotiates the price of services with the current auditor for the following period. According to the decision of the Audit, Finance and Risk Committee, a tender for external audit services should be held at least every five years to ensure the auditor's impartiality and objectivity.

CORPORATE GOVERNANCE ACROSS SISTEMA GROUP

The quality of strategic planning and investment appeal of Sistema's portfolio companies depends, inter alia, on the quality of the corporate governance procedures. To increase the value of its investments Sistema pays special attention to improving the quality of corporate governance at its portfolio companies.

The Corporation aims to carry out strategic management of its key portfolio companies through their boards of directors by including professional independent members with expertise in the companies' industries, as well as in strategy, finance, audit and corporate governance. Independent directors account for about one-third of members of the boards of key portfolio companies (depending on the level of the company's organisational maturity).

The Corporation continuously improves its corporate governance system in order to increase efficiency and remain in line with best practice. Improving the quality of corporate governance processes at portfolio companies and attracting competent professionals to their boards of directors is designed to increase the quality of decision-making and the shareholder value of Sistema's portfolio assets.

Boards of directors of portfolio companies ensure control and coordination, and support management in decision-making in the following functional areas:

- ▷ Strategy and key transactions;
- ▷ Budget planning;
- ▷ HR policy;
- ▷ Internal audit.

DEVELOPMENT OF THE CORPORATE GOVERNANCE SYSTEM IN 2018

INDEPENDENT DIRECTORS ON THE CORPORATION'S BOARD OF DIRECTORS

In 2018, 11 members were elected to the Corporation's Board of Directors. Five of them qualify as independent directors or are recognised as independent according to Moscow Exchange's Listing Rules and the Russian Corporate Governance Code.

The current Board includes the following **independent directors**:

- Anna Belova;
- Robert Kocharyan;
- Jeannot Krecké;
- Roger Munnings;
- David Iakobachvili.

All of the Corporation's independent directors have extensive experience in managing large organisations and strong professional reputations. They are therefore able to exercise independence in their judgements and freedom from the influence of the Corporation's management and shareholders when making decisions.

Roger Munnings and Jeannot Krecké, as members of the Audit, Finance and Risk Committee, are experts in finance and audit with extensive relevant experience.

Independent directors are directly involved in discussing and formulating the strategy of the Corporation. For this purpose, working groups headed by independent members of the Board and including representatives of the Strategy Function and the Finance and Investment Function are established to formulate substantiated positions of the Board of Directors on strategic issues related to development of the Corporation.

MANAGING PARTNERS

In 2018, Sistema adopted a partnership management model that allows key executives (Managing Partners) to share the risks and returns from investment activities with shareholders. Managing Partners are fully responsible for implementation of the investment strategies of their portfolio companies, including the creation and maintenance of effective corporate governance systems. In most cases, Sistema's Managing Partners chair the boards of directors of their respective portfolio companies.

Incentives offered to Managing Partners are linked to increasing Sistema's market capitalisation, maximising the value of assets under management and monetisation, and raising outside capital under management. Managing Partners co-invest in their portfolio assets, thereby sharing risks with the Corporation.

RELATIONS WITH MINORITY SHAREHOLDERS

A page for shareholders' questions has been created on the Corporation's website in the Investors & Shareholders section. Any shareholder or potential investor interested in information about the Corporation can submit questions using the electronic form and get answers. That page also provides answers to frequently asked questions.

INCENTIVE SYSTEM

In 2018, a new long-term incentive programme (over one year) for the Corporation's employees was developed and approved — the Option Plan. The main focus of the Option Plan is increasing the Corporation's market capitalisation, and the remuneration of key employees is linked to this.

Participants in the Option Plan are granted the right to receive a certain share of the amount of any increase in market capitalisation. The programme is designed for four years and represents a mechanism that directly links the goals of Sistema's shareholders and managers.

A new version of the Policy on Remuneration and Compensations for Members of the Board of Directors will be submitted for consideration by the General Meeting of shareholders in 2019, and will link the amount of additional remuneration of members of the Board of Directors to any increase in Sistema's market capitalisation in the reporting year.

PLANS FOR DEVELOPMENT OF CORPORATE GOVERNANCE

The Nomination, Remuneration and Corporate Governance Committee of Sistema's Board of Directors each year develops and approves an action plan for improving corporate governance at Sistema in the following year. The plan for 2019 envisages the following activities:

1. Introducing changes to the system of remuneration payable to members of the Board of Directors in order to harmonise it with the incentive system for senior management (in the first half of 2019);
2. Introducing changes to the Corporation's internal documents regulating the activities of its governing bodies in order to integrate new provisions of corporate law (in the first half of 2019);
3. Improving the management structure of the Corporation's investment funds and determining the remuneration policy for the funds' management (during 2019);
4. Formalising a succession plan for key managers of the Corporation (during 2019).

REMUNERATION POLICY APPLIED TO BOARD MEMBERS OF SISTEMA PJSFC

Remuneration for the work of members of the Board of Directors is calculated and paid in accordance with the Policy on Remuneration and Compensations Payable to Members of the Board of Directors of Sistema PJSFC¹.

BASIC REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

Basic remuneration of members of the Board of Directors amounts to RUB 13.7m or RUB 17.8m per year depending on whether a director is a tax resident of Russia. Basic remuneration is paid to Board members in cash in equal quarterly instalments.

SUPPLEMENTARY REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

In accordance with the Policy on Remuneration and Compensations Payable to Members of the Board of Directors of Sistema PJSFC effective in 2018, additional remuneration of members of the Board of Directors is paid once a year in the form of ordinary shares of Sistema PJSFC subject to achievement of the Corporation's investment targets in the reporting year: (i) the arithmetic mean of TSR and iTSR exceeds or equals CoE², or (ii) TSR exceeds or equals the amount of change of the MSCI index (ΔMSCI), provided that iTSR exceeds or equals CoE. The number of ordinary shares to be provided to members of the Board of Directors is calculated using the following formula:

$$\frac{\text{Amount of remuneration in monetary terms}}{\text{Weighted average price of one share}}$$

For the purpose of calculating the number of shares to be transferred to members of the Board of Directors, the amount of remuneration in monetary terms is equal to the amount of basic remuneration less applicable taxes, and the weighted average price of one share is calculated based on the price of the Corporation's global depositary receipts during the month preceding the date of the Annual General Meeting of shareholders.

In 2019, the General Meeting of shareholders of the Corporation will be asked to approve a new version of the Policy on Remuneration and Compensations Payable to Members of the Board of Directors of Sistema PJSFC in which the terms of payment and the amount of additional remuneration are harmonised with the long-term management incentive scheme. Additional remuneration will be payable only subject to growth of Sistema's market capitalisation in the relevant financial year. The amount of additional remuneration is set as a variable amount equal to 0.1% or 0.125% (depending on tax residency) of the increase in capitalisation for the financial year, but in any case not higher than the amount of basic remuneration less applicable taxes.

REMUNERATION FOR PERFORMANCE OF ADDITIONAL DUTIES

Board members who perform additional duties, i.e., the Chairman of the Board, Deputy Chairman of the Board and Chairmen of the Board Committees, receive remuneration on a quarterly basis in the amount stipulated by the Policy on remuneration and compensations payable to members of the Board of Directors of Sistema PJSFC.

COMPENSATIONS AND OTHER CONDITIONS

Members of the Board of Directors are reimbursed for expenses incurred during performance of their duties, including participation in meetings of the Board of Directors and Board Committees.

Sistema PJSFC insures the liability of members of the Board of Directors.

Sistema PJSFC does not provide loans to members of the Board of Directors.

REMUNERATION POLICY APPLIED TO SENIOR MANAGEMENT OF SISTEMA PJSFC

SHORT-TERM INCENTIVE SYSTEM

The short-term (up to 1 year) incentive scheme for the top managers of Sistema PJSFC in 2018 consisted of:

- A fixed monthly salary determined in line with the internal system of job categories (grades);
- Bonuses paid for project implementation and generating cash income. Remuneration is paid based on employees' individual performance and positive cash flow generated by projects implemented by the teams of Managing Partners and Departments of Sistema. Payments may amount to up to 20% of cash income.

For the purpose of calculating bonuses, cash income means the increase in the value of an asset (in case of an asset sale or an IPO) or the amount of dividends (in case of dividend payment), net of the following amounts:

- A hurdle rate determined by the Finance and Investment Committee of the Corporation prior to the commencement of a project or the acquisition of an asset;
- Investment in an asset and project costs.

LONG-TERM INCENTIVE SYSTEM

In 2018, a new long-term (more than 1 year) incentive programme for Sistema's employees was developed and approved – the Option Plan. The main focus of the Option Plan is increasing the Corporation's market capitalisation. Participants of the Option Plan are granted the right to receive a share of the amount of increase in market capitalisation. The programme is designed for four years and represents a mechanism that directly links the goals of Sistema's shareholders and managers.

Co-investment programme

In 2016, the Board of Directors approved a programme enabling Sistema's senior managers to co-invest in the Corporation and/or its portfolio companies ("the Co-Investment Programme"). The Co Investment Programme is designed to align the interests

of the Corporation's shareholders and senior executives in terms of long-term management and development of portfolio companies by granting rights to acquire participation interests in the Corporation's privately held portfolio companies with growth prospects.

The Co-Investment Programme is designed for the President, heads of departments, as well as employees of the Corporation who hold positions not lower than Executive Director or Senior/Chief Investment Director.

Participants of the Co-Investment Programme use their own funds to acquire:

- Shares/interests in Sistema's portfolio companies; and/or
- Ordinary shares in Sistema PJSFC.

The amount of co-investment is limited by one average annual income of a participant.

Other terms and conditions

No extra compensation above the level stipulated by Russian labour legislation is paid to the President or other senior executives in case of termination of employment.

Sistema does not pay remuneration to executive management for serving on the Management Board.

The Corporation does not provide loans to senior executives.

REMUNERATIONS PAID TO SISTEMA'S BOARD MEMBERS AND SENIOR MANAGEMENT IN 2018³

Members of Sistema's Board of Directors received the following remuneration in 2018:

	2018	2017
Cash remuneration Remuneration for work on the Board of Directors and fulfillment of additional duties, as well as salary and bonus following the results of 2018 for those members of the Board of Directors who were also Sistema employees in 2018. ⁴	RUB 432,497,258	RUB 320,193,625
Remuneration in the form of ordinary shares of Sistema PJSFC Remuneration to members of the Board of Directors based on the results of work in the 2017-2018 corporate year, as well as remuneration under the long-term incentive program for those members of the Board of Directors who were also Sistema employees in 2018. ⁴	— ⁵	RUB 218,287,983
Reimbursement of expenses incurred by Board members in connection with their duties	RUB 1,191,028	RUB 2,477,710

Members of Sistema's Management Board⁶ received the following remuneration in 2018:

	2018	2017
Cash remuneration The amount includes fixed salaries and bonuses. ⁷	RUB 1,705,947,927 ⁸	RUB 1,768,437,846
Remuneration in the form of ordinary shares of Sistema PJSFC The shares transferred under the long-term incentive programme.	— ⁹	RUB 245,821,873

³ All figures in this section are given before the applicable income tax.

⁴ Excluding members of Sistema's Board of Directors who were members of its Management Board.

⁵ Additional remuneration in the form of shares was not paid to members of the Board of Directors in 2018 due to non-compliance with the conditions for its payment established by the Policy on Remuneration and Compensations Payable to Members of the Board of Directors of Sistema PJSFC.

⁶ Including the President of Sistema PJSFC.

⁷ Bonuses for 2018 were paid to Sistema's employees in February 2019.

⁸ In February 2019, members of the Management Board spent part of their cash bonuses for 2018 to purchase ordinary shares of the Corporation, which is consistent with Sistema's strategy to increase the shareholding of its employees in the Corporation. Members of the Management Board and other employees of Sistema PJSFC purchased a total of 19,669,389 shares in the Corporation.

⁹ Remuneration in the form of shares was not paid to members of the Management Board in 2018 due to non-compliance with the conditions for its payment established by the Corporation internal regulations.

¹ Approved by the General Meeting of shareholders on 27 June 2015.

² This investment target was not achieved in 2018, since TSR was -32.9% and iTSR was -7%, while CoE was 17% and ΔMSCI was -5.5%. CoE represents the minimum level of return that a company must provide to its shareholders for the expectation of profit and risk. CoE is calculated as the sum of risk-free returns (such as government bonds) and the risk premium associated with investing in the stock market, taking into account the capital structure of the asset in question and country risk.

Risks

ENTERPRISE RISK MANAGEMENT AND RISK APPETITE

Sistema defines risks as adverse processes and factors over which it has little or no influence. However, the Corporation can take measures to reduce the negative consequences of such factors should a certain risk occur. This makes efficient assessment of existing risks and the probability of their occurrence, as well as efficient risk management, an important part of Sistema's strategy.

Risk management is part of all processes at Sistema, and is integrated into strategy planning and execution, the investment process, budgeting, procurement and day-to-day operations. The enterprise risk management (ERM) system operating at Sistema was built in compliance with international standards and recommendations, as well as best risk management practices. It is designed to keep risks at a level acceptable to Sistema's shareholders and management.

As part of quarterly ERM procedures, the risk managers of Sistema Group:

- compile risk registers for subsidiaries and a consolidated risk register for the Group;
- prioritise risks and aggregate them into portfolios;
- assess the probability and materiality of all risks;
- study the impact that material risks have on the financial results of specific subsidiaries and Sistema Group as a whole, using simulation and financial modelling methods.

One of the key principles of risk management in Sistema Group is to take proper account of risk appetite. This approach implies identifying and monitoring the Corporation's target risk profile in accordance with its strategic goals and in the context of their integration into risk management procedures.

Sistema Group's risk appetite determines the level of risk that is acceptable for shareholders, and includes the following basic provisions:

- the amount of potential losses under the risks accepted by Sistema Group must not reach a level leading to the termination of the Group's operations, including under stressed conditions;
- the cash flows of Sistema Group companies must be sufficient to guarantee timely fulfilment of obligations to counterparties in the short and long term;
- in its operations, the Group aims to avoid any increased concentration of risk by counterparty, industry and region;
- the Group must be able to support sustainable growth and economic efficiency in the long term;
- all members of the Group must comply with the requirements of national regulators in countries where they operate, as well as the standards and recommendations of international authorities;
- the Group must maintain an impeccable reputation;

- the Group must maintain high credit ratings as assigned by international rating agencies.

Risk management reports are submitted for review to the relevant collective governance bodies of the Corporation at least once a quarter. Each risk management report contains a reevaluation of risks and their impact on the Corporation's financials, an assessment of the effectiveness of risk mitigation and response plans, and potential risk areas (areas of concern) identified for future periods.

The Corporation's long-established common compliance system serves to mitigate anti-corruption, anti-monopoly, stock exchange and sanctions compliance risk, as well as risks relating to security of personal data, confidential information, and prevention of money laundering and financing of terrorism.

Below is provided a description of key risks covered in Sistema's ERM system.

GLOBAL AND COUNTRY RISKS

These are risks associated with changes in Russia's political and economic environment. Although most of Sistema's business is carried out in Russia, some companies are also present in other countries of the CIS, as well as the EU, Turkey and India. Many of their products are sold in other CIS markets, Southeast Asia, Eastern Europe and North Africa. In the event of any major political turmoil in these regions, the Group's business may be discontinued or put on hold, which may lead to material losses. The company's businesses may also potentially suffer from the imposition of additional sanctions, a full freeze on imports and/or exports in the event of political changes, and military conflicts involving Russia.

Recent developments in Ukraine have caused Western countries to impose sanctions on several Russian individuals and companies. The potential remains for the sanctions list to be extended to include more names or introduce new categories of sanctions, which could affect some companies of the Group or their management. Any further increase in tensions between Russia and other countries, as well as any escalation of related conflicts, potential new sanctions, or continuing uncertainty as to the scale of any such sanctions, may adversely impact Russia's economy, the financial status of the Group's partners and suppliers, the Group's ability to undertake commercial and financial activities and obtain funding on commercially reasonable terms, and the volatility of Sistema's securities.

INDUSTRY RISKS

These are risks related to Sistema's involvement in various industries. The most material risks in this category are those associated with the telecoms business, power generation, retail, hospitality, healthcare, pharma, the forest products industry, agriculture and real estate.

SISTEMA'S EXTERNAL RISKS

FINANCIAL RISKS

Sistema's business is inextricably connected to the global economy and financial markets, and is sensitive in particular to movements in prices for oil, gas, and other commodities that Russia exports. Further weakening of the rouble against the US dollar and the euro amid a slump in the oil prices and sanctions being imposed on Russia may result in a rise in costs and a drop in revenues or impede the achievement of financial targets and repayment of debt by Sistema Group companies.

An exodus of foreign investors from Russia, as well as restrictions introduced on foreign companies in Russia as a result of sanctions, may have a negative impact on Sistema Group's joint ventures (partnerships) and new investment projects.

A rise in inflation may result in higher expenses and therefore put pressure on profit margins, and also affect demand in Russia for products and services of Sistema Group companies.

Servicing of the Corporation's current and future debt may require substantial amounts of cash. If sanctions are maintained over the medium term and Russian banks and businesses continue to have restricted access to foreign debt, this may significantly increase the current liquidity deficit in the market and result in a further increase in interest rates, making it difficult for Sistema Group to raise funding for its operations and to refinance the debt of the Corporation and its portfolio companies. Should the Corporation prove unable to obtain sufficient funding when and how required, it may face significant barriers to business development as well as to its operating and investment activities.

An unfavourable macroeconomic environment in many countries where Sistema's assets operate may make it necessary to re-evaluate goodwill at some of the assets.

Currency control and restrictions on capital repatriation may adversely affect Sistema's business by posing barriers to capital flows, and reduce the value of Sistema's investments in Russia.

The bankruptcy of any of the Russian banks with which Sistema routinely cooperates may result in a reduction in sources of borrowing for the Corporation and portfolio companies, and may lead to direct losses of funds deposited in the accounts of such banks.

POLITICAL, SOCIAL, AND ENVIRONMENTAL RISKS

The influence of geopolitical risks on the Corporation and its portfolio companies remains strong, as protectionism and economic sanctions are increasingly being used as a tool for achieving geopolitical goals.

The imposition of sanctions against Russia as a state or against individual Russian companies and Russian citizens may result in disruptions to international payment systems, which in turn may prevent the Corporation and its portfolio companies from properly making payments and reduce Sistema's investment appeal.

Decreasing living standards and a potential rise in social unrest in the regions where Sistema Group companies operate may threaten the Corporation's profits.

The operational activities of a number of Sistema's portfolio companies involve potential threats to employees' health and safety.

Emergencies and incidents at Sistema Group's production sites may have a significant impact on the environment, such as pollution of land and water, emissions above allowable limits, discharge of waste waters or leaks of hazardous substances.

Irrational use of natural resources (land, forest) by Sistema's portfolio companies may deplete their raw materials/production base and compromise economic performance.

In view of the increased threat of global and regional terrorist attacks, any such incidents at the Group's enterprises and infrastructure facilities may cause significant economic damage and affect health and life.

LEGAL RISKS

There is a risk of unpredictable court rulings and administrative decisions with respect to Sistema Group's business. Such rulings or decisions may have an adverse effect on the Group's business as a result of numerous factors including:

- possible discrepancies and ambiguities in: (i) federal and other laws; (ii) bylaws issued by executive authorities in states where Sistema Group operates; (iii) regional and local laws, rules and requirements;
- gaps in legislation and a lack of court and administrative guidelines regarding the interpretation of some laws, as well as conflicts between some court guidelines and rulings;
- influence of political, social and commercial factors on the judicial system;
- potential selective or arbitrary actions of government authorities.

Gaps in Russia's existing corporate and securities legislation may create barriers to raising funds in the future.

A lack of clarity about the applicability to Sistema's business of the Federal Act on the Procedure for Foreign Investment in Companies of Strategic Importance to the National Defence and State Security and the regulations of the Eurasian Customs Union (EACU) may have a negative impact on Sistema Group's business, as the Group has foreign shareholders.

There is a risk of legislative amendments being adopted in countries where Sistema Group companies operate, due to potential changes in laws and regulations governing

international trade and investments that may be introduced by foreign states or international organisations.

Since Russian corporate law makes shareholders liable for the obligations of a company's affiliates, Sistema may incur financial losses related to the liabilities of its portfolio companies.

Minority shareholders of Sistema's subsidiaries may contest or vote against related-party or other transactions, which may limit Sistema's ability to close investment deals and restructures businesses.

If the Russian Federal Anti-Monopoly Service concludes that Sistema PJSFC or one of its material subsidiaries has violated existing anti-monopoly legislation, this may result in serious administrative sanctions involving losses for the Corporation. The Federal Anti-Monopoly Service may also prevent the Corporation and its portfolio companies from closing and/or undertaking certain transactions, which may also limit Sistema's capacity to do investment deals and restructure businesses.

TAX RISKS

Tax laws, regulations and practices of jurisdictions where Sistema's assets operate are intricate, opaque and prone to frequent modifications and ambiguous interpretations. If the Corporation's actions are interpreted as being in breach of tax law, this may have an adverse effect on the business of Sistema Group.

Russian law on transfer pricing may make it necessary to introduce adjustments to price-setting practices used at Sistema Group's companies and result in additional tax liabilities related to some transactions.

On 1 January 2015, new rules were introduced relating to the taxation of retained profits of controlled foreign companies and gains on indirect sales of Russian real estate properties, along with a new concept of beneficiary owners and tax residency for foreign companies in Russia. These rules have undergone a series of revisions, with all the amendments having retroactive effect. As a result of the need to apply new taxation rules, the Group's companies may face new tax liabilities arising due to uncertainty around interpretation of tax law and a lack of relevant precedents.

CAPITAL MARKET RISKS

A deterioration of the geopolitical situation, the imposition of sanctions on Russian companies, a worsening of the macroeconomic environment, and capital and investor flight from the Russian market led to a reduction in market valuations of Russian companies in 2014-2018. In view of these circumstances Sistema's access to investor funding through capital markets may be restricted further as a result of the introduction of sectoral sanctions against Russian companies in business segments where Sistema operates and/or due to a cautious approach among investors to Russian companies in general. In particular, Sistema's ability to raise funding via bond issues may be limited, potentially leading to a lack of working capital and cash available for investment and affecting the Corporation's financial performance.

RISKS RELATED TO ACTIVITIES OF SISTEMA PJSFC

IMPLEMENTATION OF THE BUSINESS STRATEGY

The Corporation's strategy aims to develop a balanced and diversified asset portfolio in sectors and regions where Sistema PJSFC has expertise and competitive advantages, and to attract leading international and Russian partners. Despite having a clearly formulated strategy, Sistema PJSFC cannot guarantee the achievement of its stated goals, efficient management of portfolio companies, or benefits from new investment opportunities. This is due to a variety of reasons, including a high level of debt and a constrained investment budget. Sistema's failure to achieve goals set out in its strategy may undermine its financial results.

The development of Sistema Group companies depends on numerous factors, including receipt of necessary permits from state authorities, sufficient demand from consumers, successful development of technologies, efficient risk and cost management, timely completion of R&D and the introduction of new products and services. Weaknesses in any of these areas may have a detrimental effect on the development of Sistema Group companies and on the Corporation's financial performance.

ACQUISITION, INTEGRATION, DISPOSAL OR RESTRUCTURING OF ASSETS

Sistema PJSFC implements its strategy via acquisitions, disposals, and restructuring of assets. New investment opportunities come with certain risks, including failure to find relevant targets or their not being available for acquisition, inadequate due diligence of the target company's operations and/or financial situation, and potential overvaluation of assets. These risks can also affect Sistema's financial performance.

Acquisition of assets may increase pressure on the Corporation's cash position and create a need to raise external funding.

Delays to the completion of investment deals or failure to close them may obstruct the achievement of Sistema's strategic goals and affect its performance, financial position and investment case.

Sistema may struggle to construct an efficient system for managing and controlling new assets. The top risks in this area include:

- inability to efficiently integrate operating assets and personnel of an acquired company;
- inability to establish and integrate necessary control mechanisms, including those related to logistics and distribution;
- conflicts among shareholders;
- hostility and/or unwillingness to cooperate on the part of the management and staff of an acquired asset;
- loss of customers by the acquired asset.

If one or several of the above risks materialise, the relevant asset may lose part of its value and/or experience in deterioration in its financial performance.

When disposing of its assets the Corporation may face the following risks:

- delays or failure to close the transaction due to an inability to obtain corporate or state approvals;
- mistakes in asset valuation;
- assumption of excessive obligations towards the buyer;
- loss of synergies with other assets remaining in the portfolio.

If one or several of the above risks materialise, the Corporation may lose potential profit and thus see poorer financial performance.

MANAGEMENT AND KEY PERSONNEL

The implementation of Sistema's strategy in many respects depends on the efforts and professionalism of the management team. Failure to hire a sufficiently competent and motivated management team can jeopardise Sistema's business, performance, financial position and development prospects.

CASH FLOW FROM SISTEMA GROUP COMPANIES

The Corporation's financial performance depends on the ability of Sistema Group companies to generate the cash flows needed to service the Corporation's financial liabilities, including repayment of debt and interest, and to make other investment activities in the future. This cash-generation capacity may be restricted due to regulatory, tax or any other barriers, which may have an adverse effect on the financial position and liquidity of the Corporation.

BORROWINGS

Cash flows from portfolio companies may be insufficient to absorb all of the Corporation's expenses scheduled for a particular time. This can make it necessary to borrow more funds, increasing the Corporation's debt burden, which in turn can compromise the credit ratings of Sistema and its portfolio companies. A downgrading of a credit rating can lead to a rise in the cost of servicing of existing loans, higher interest rates, barriers to borrowing, and in some cases even demands for early repayment of credit facilities. The risk of downgrades or withdrawals of credit ratings correlates with reputational and liquidity risks.

LOAN COVENANTS

Loan and debt securities agreements signed by Sistema and its portfolio companies contain certain restrictive covenants. These covenants restrict further borrowings, encumbrance of property with pledges, sale of assets, and transactions with affiliates. They may also restrict certain aspects of Sistema's operations, such as financing of capital expenses, or limit its capacity to repay debts and service other liabilities. Breach of covenants, however inadvertent, may entitle creditors of the Corporation and/or its portfolio companies to demand early repayment of loans, which represents a threat to the Corporation's financial performance.

LICENCES AND PERMITS

The operations of Sistema Group's companies are regulated by different government bodies and agencies that issue and renew licences, approvals and permits, and also depend on applicable laws, regulations, and standards. Regulating authorities to a large extent rely on their own judgment when interpreting and implementing legal requirements, issuing and extending licences, approvals and permits, and monitoring compliance with such licences. There is no guarantee that the existing licences and permits, including those issued to the Group's companies, will be extended, that new licences and permits will be issued, or that the companies will be able to comply with the terms of such licences. Any of these circumstances can have material negative consequences for the business of Sistema PJSFC.

PRIVATISED COMPANIES

Sistema's portfolio contains several privatised assets. It is also probable that the Corporation will take part in privatisations in the future. Since Russia's privatisation-related legislation remains somewhat unclear and inconsistent, and contradicts some other legal provisions, the privatisation of many companies can potentially be contested, however selectively, which may have a material adverse effect on the Corporation's business, financial status, performance and development prospects.

ANTI-CORRUPTION RULES

Sistema's operations are regulated by anti-corruption law of relevant jurisdictions, including Russian legislation, the UK Bribery Act and/or the US Foreign Corrupt Practices Act (FCPA). Any investigation into potential violations of the FCPA, Bribery Act or other anti-corruption laws of the US, UK or other jurisdictions may affect the reputation, business, financial position and performance of Sistema PJSFC.

COMPETITION

All business segments in which Sistema PJSFC operates are open to competition. The telecom, retail, media, tourism, private healthcare, pharma, property development, forestry and agricultural markets in Russia and elsewhere are highly competitive. Any inability of Sistema Group's companies to compete efficiently may have a material negative impact on the business, performance, financial situation and development prospects of the Corporation.

BRAND QUALITY AND REPUTATION

Developing and maintaining brand awareness for the Group's companies is crucial to shaping public opinion around their existing and future products and services. Sistema believes that company brand is becoming increasingly vital in highly competitive markets.

Successful development and improvement of brand awareness depends in large part on the efficiency of marketing and ability to provide quality products and services at competitive prices. Effort and money spent on brand development may prove greater than the income yielded, which means potential financial losses for the Group's companies.

Sistema's reputation may be damaged in the event of unethical business conduct, professional errors (including medical), gross negligence, abuse of human rights, leakage of inside information and corrupt practices at Sistema and/or its portfolio companies.

CORPORATE SOCIAL RESPONSIBILITY

ESG AND CORPORATE RESPONSIBILITY
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Responsible Investment

Sistema's responsibility as a strategic investor in Russia's socio-economic, innovative and technological development is in efficiently managing portfolio assets and funds with a view to **growing their value, contributing to the sustainable development of industries and regions** where Sistema operates, and **building shared value** for the state, business, society and the environment.

ESG AND CORPORATE RESPONSIBILITY PRINCIPLES

Sistema shares the international financial community's commitment to integrating principles for responsible investment in asset valuation and decision-making practices. The Corporation does business in conformity with the UN Global Compact and the Social Charter of Russian Business, taking due account of environmental, social, and governance (ESG) factors when choosing industries and assets to invest in and interacting with all stakeholders: shareholders, investors, employees, partners, suppliers, consumers, the government, nonprofits and local communities. When making investments or carrying out social programmes, Sistema draws upon its versatile expertise and synergistic partnerships with the government, academia, and civic and nonprofit organisations.



Sistema sees its primary responsibility in creating and maintaining a level of strategic planning, corporate governance and controls conducive to a reasonable balance of the financial and non-financial (environmental, social, technological, etc.) risks and opportunities required to support the sustainable development of the Corporation's investment portfolio in terms of its impact on the economy, society and the environment.

SISTEMA IMPLEMENTS ESG AND RESPONSIBLE BUSINESS PRINCIPLES THROUGH:

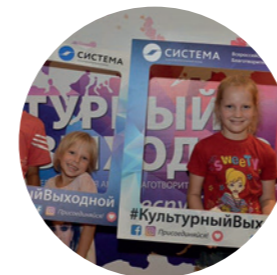
1. Choosing industries and assets for investment in accordance with the UN Sustainable Development Goals as well as national and regional priorities;
2. Fair competition, non-discrimination, strict adherence to business ethics and human rights, and compliance with shareholder, antitrust, anti-corruption, employment, and environmental law;
3. A multi-level system of selection and examination of investment projects based on both financial and non-financial parameters and involving a collective transaction approval mechanism;
4. Assessment of the potential effect of key industrial, regional and other ESG risks on the financial stability of certain assets and Sistema's investment portfolio as a whole;

5. Promotion of transparency and implementation of uniform corporate governance standards, best practices, advanced digital technologies, and certified management systems across the entire Sistema Group;
6. Helping portfolio companies and funds in raising funds, finding partners, structuring deals and developing businesses;
7. Enhancement of operating efficiency and financial performance by refining critical business processes (procurement, supply chain management, prevention of corruption, risk management, corporate communications and CSR initiatives);
8. Building synergies between assets and funds across the group via joint business and social projects, with and without outside partners;
9. Consolidated management of the social investment portfolio through the corporate charitable foundation and by means of general corporate initiatives in CSR¹;
10. Monitoring compliance with sustainable development requirements put forward by shareholders and investors by regular publication of corporate non-financial reports.

CONTRIBUTION TO SOCIO-ECONOMIC DEVELOPMENT

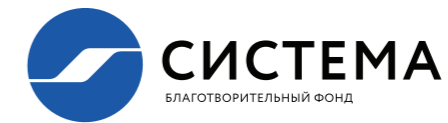
Sistema and its portfolio companies make a significant contribution to forming a competitive labour market and procurement market (including purchases from small and medium-sized businesses); modernising infrastructure, industry and agriculture; increasing the affordability of housing and essential products, goods and services; improving technological, social, food and drug security; developing the healthcare and education systems; and ensuring regional social and environmental well-being through large-scale investment programmes, digitalisation of businesses and support for innovative projects, as well as social, charitable, educational and volunteer programmes that contribute to building up intellectual capital, adapting and humanising new technologies, and increasing digital literacy, social activity and quality of life.

To learn more, please refer to the table **"Contribution to Socio-Economic Development"** in the Annex.



SOCIAL INVESTMENT IN TECHNOLOGY AND HUMAN CAPITAL

In the past three years, the Corporation has made approximately RUB 4 billion in social investments. Of this, about a third was spent by **Sistema Charitable Foundation** ("SCF"), which accumulates funds from Sistema Group companies for the Corporation's infrastructure programmes.



In 2018, Sistema Charitable Foundation thoroughly revised its strategy of charitable activities in accordance with the general development strategy of the Corporation, shifting the focus to technology-related projects, i.e., development and adoption of modern digital tools that can improve the efficiency of social sector practices. The foundation's activities were aimed at achieving two global objectives at once: development of human capital and creation of technologies that improve quality of life. Over RUB 200 million was allocated for the implementation of three key programmes: **Lift to the Future**, **Culture and Arts**, and **Social Projects and Volunteering**. Meanwhile, Sistema Group companies spent more than RUB 840 million on charity in 2018, including 30% as contributions to SCF and 70% to implement their own social programmes..

IN 2018, SISTEMA GROUP SPENT OVER

RUB **1.1** billion on charitable and social programmes, including social programmes of individual companies and their donations to the corporate charitable foundation



The flagship corporate programme **Lift to the Future**, created seven years ago to support modern engineering education in Russia, has been transformed into a whole range of technological and educational initiatives. For instance, in partnership with Sistema Group's Mikron, the largest Russian microelectronics enterprise, SCF established its own supplementary education programme for student teams from Russia's nine leading technology universities.



Publishing and literary projects in the field of technology have become a logical step for Lift to the Future. Almost 2,000 authors from 32 countries took part in the new project **Future Time**, which supports talented science fiction writers. The best sci-fi stories selected in this contest with a prize fund of RUB 1 million were published as an anthology, and part of the proceeds will be used towards SCF's new literary projects. Also in 2018, the foundation, in partnership with the publishing house Delo, translated into Russian and published three foreign bestsellers about the way technology affects our lives. Educational and cultural institutions can get books from SCF's collection for free.

NUMBER OF AUTHORS THAT TOOK PART IN FUTURE TIME PROJECT

~2 thsd FROM 32 COUNTRIES

¹ Corporate Social Responsibility.



In the Year of Volunteers in Russia, Sistema started a project to help volunteer search and rescue teams. A lack of effective technologies to search for missing people in the natural environment prompted SCF to launch a large-scale research initiative, **Odyssey**, in the charitable sector's first attempt to engage the tech community in solving social problems. Contestants with the best technical solutions to find a person lost in a forest without any means of communication in less than 10 hours — rain or shine, day or night — will be able to receive funding of up to RUB 75 million. More than 120 engineering teams from 40 cities of Russia are already willing to offer their ideas to complete this socially significant task.

Support for volunteering also forms part of the **Social Projects and Volunteering** programme. SCF launched two national contests with a total grant pool of RUB 3 million: **Search Trajectory** for volunteer rescuers across the country and **Good Cause System** for corporate volunteers to support the most relevant and socially important projects initiated by the Corporation's volunteer movement, which has been in development for several years.



SCF received an award from the Russian national contest Good Cause Champions for its contribution to the development of corporate volunteering, while Medsi won in the Competence Volunteering category with its Volunteer Ambulance project, in which its doctors provided volunteer ambulance services to the elderly, supported by the Ageing Gracefully Foundation. In two years of cooperation between Medsi and the foundation, volunteers performed off-site medical examinations of over 300 people and organised several corporate charitable events around the International Day for Older Persons, during which Medsi employees collected over 400 kilograms of humanitarian supplies for nursing homes.



In 2018, **SCF** and **Medsi** continued to **provide high-tech medical aid to war veterans** under a programme developed in conjunction with the Moscow city government and the Moscow City Council of Veterans. Since 2015, over 2,000 WWII veterans and similar categories of citizens have received free outpatient care and rehabilitation services. **Segezha Group** annually gives drugstore certificates to war and labour veterans: in 2016-2018, almost 1,000 people received financial support from the company to buy medicines.



SCF has been supporting development in the key areas of the country's cultural life for many years. Last year, one-third of the total funds allocated for charity (or 2% of all investments in culture, sports and entertainment in the country) went to the **Culture and Art** programme, which includes support for the Russian State Museum and the new **Cultural Weekend** outreach project. As part of the long-term partnership programme with a budget of up to RUB 500 million to be disbursed through 2023, Sistema assisted the museum with organising large-scale exhibitions, which were visited by more than 220,000 people last year. The Cultural Weekend national project, which seeks to make museums more affordable and promote culture and art, gathered an unprecedented amount of visitors, with 70,000 people in 10 Russian cities.

PARTICIPANTS OF COUNTRY-WIDE OUTREACH PROJECT CULTURAL WEEKEND

>70^{thsd}

IN 10 CITIES

EXTERNAL ASSESSMENT OF SUSTAINABLE DEVELOPMENT



Information openness and a continuous dialogue with stakeholders are the basic principles of Sistema's operations as a public company, reducing potential reputational risks and increasing the Corporation's attractiveness for investors and partners, with due consideration of sustainable development efforts and independent ESG assessments.

Sistema views public non-financial reporting under GRI standards as an important component of its CSR and sustainable development management system. Since 2015, it has annually received public assurance of its consolidated reports on sustainable development from the Russian Union of Industrialists and Entrepreneurs (RUIE). In accordance with the best practices of responsible asset management, Sistema encourages its key portfolio companies and funds to disclose significant non-financial information. As of 2018, reports on CSR and sustainable development have been issued by MTS, Detsky Mir, Segezha Group, BPGC and Sistema Charitable Foundation.

In June 2018, FTSE Russell, an analytical agency of the London Stock Exchange, upgraded Sistema's ESG rating and confirmed its status as a constituent of the FTSE4GOOD Index Series, which measures the ESG performance of public companies across more than 110 criteria, including labour relations, adherence to human rights, impact on local communities, anti-corruption practices, responsible supply chain management, and climate and environmental impact.

Since 2016, Sistema has invariably been among leaders of RUIE indices related to sustainable development, which became stock market indices in 2019. In 2018, the Corporation was one of the top five companies in the national corporate transparency ranking¹ of private and strategic Russian companies, getting maximum scores for disclosure of information on anti-corruption efforts and procurement and high scores for corporate and strategic governance and sustainable development practices. The AK&M rating agency included Sistema in the first-ever social efficiency ranking of major Russian companies judged to be of highest value to society per unit of ecosystem load. The Corporation was also ranked among the top 20 companies for information openness. In addition, Sistema was declared Leader in Corporate Charity 2018².

Sistema was the **only private listed Russian company** to be included in the list of 250 best regarded international companies among the Forbes Global 2000 for **reliability, work ethics, socially responsible conduct, quality of products and services, and as an employer**. The list is compiled based on assessments of 15,000 respondents from 60 countries³.

Top-5

NATIONAL CORPORATE TRANSPARENCY RANKING¹

№ 1

LEADERS IN CORPORATE CHARITY RANKING, 2018²

¹ According to the annual survey conducted by the Russian Regional Network for Integrated Reporting.
² According to the Russian national ranking of the Donors' Forum, PwC and the Vedomosti newspaper.
³ Global 2000: Best Regarded Companies 2018.

DISCLAIMER

Certain statements in this report may contain assumptions or forecasts in respect to forthcoming events within Sistema. The words "expect", "estimate", "intend", "will", "could" and similar expressions identify forward-looking statements. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the above-mentioned date or to reflect the occurrence of unanticipated events. Many factors could cause Sistema's actual results to differ materially from those contained in our projections or forwardlooking statements, including, among others, deteriorating economic and credit conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.

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