

# 2021



SISTEMA PUBLIC  
JOINT STOCK  
FINANCIAL  
CORPORATION  
Annual Report



## About the report

This annual report contains information about the activities of Sistema Public Joint Stock Financial Corporation and its portfolio companies (hereinafter, "Sistema", "Sistema PJSFC" "the Corporation" or, together with its subsidiaries and affiliates, "the Group" or "Sistema Group") in 2021.

The annual report of Sistema PJSFC for the year 2021 has been prepared in compliance with Federal Law on Joint Stock Companies, Federal Law on Securities Market, Bank of Russia Regulation on Disclosure by Issuers as amended.

Unless otherwise stated, the financial results presented in this annual report are based on IFRS consolidated financial statements. The audit of Sistema's 2021 consolidated financial statements in accordance with IFRS was performed by CJSC Deloitte and Touche CIS. The report also provides information about the Corporation's environmental, social and governance effectiveness.

The annual report may contain minor inaccuracies in the estimation of shares, percentages and amounts due to the rounding of numbers. There may be insignificant discrepancies between the data contained in this annual report and the data disclosed earlier due to the rounding differences.

For other annual reports of the Corporation please go to Investors and Shareholders sections on the company's website ([www.sistema.ru](http://www.sistema.ru)).

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## Disclaimer

Some of the statements in this annual report may contain assumptions or forecasts concerning the forthcoming or expected events at Sistema or its portfolio companies. Such forward-looking statements contain phrases like "expected", "estimated", "intended", "will", "could", negatives of such statements and other similar expressions. Such statements are assumptions only and the actual course of events and their results may differ significantly from those implied in the forward-looking statements. Sistema expressly disclaims any obligation to revise any forward-looking statements whether as a result of new events and circumstances that may arise in the future or to reflect any events that are not expected at the time of compiling this report. The actual results of Sistema and its portfolio companies could differ materially from those expressed in the assumptions and forecasts of this annual report due to a number of factors.

Such factors may include general economic conditions, competitive environment, risks associated with the deterioration of the geopolitical situation and business operations in Russia, fast technological and market changes in the segments where Sistema and its portfolio companies operate, the impact of various unforeseen events on the macroeconomic situation in the markets where Sistema and its portfolio companies operate and on their financial results, as well as many other risks that are directly related to Sistema or its activities.

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# COMPANY OVERVIEW

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# SISTEMA TODAY

Sistema Public Joint Stock Financial Corporation is Russia's largest public investment company and one of the country's systemically important companies. Founded in 1993, Sistema is today represented across over 20 high-potential sectors of the Russian economy, including telecommunications, forestry, agriculture, pharmaceuticals, healthcare, real estate and e-commerce. The Corporation's investment portfolio is made up mostly of Russian companies operating across Russia and in more than 25 other countries.

## SISTEMA'S STRATEGIC GOAL

Is to ensure long-term growth of shareholder value by boosting return on investments in the existing assets and reinvesting available cash in new investment projects to diversify its portfolio and increase return on investments.

## SISTEMA'S SUSTAINABILITY GOAL

Is to build competitive businesses with high added value that meet the principles of social and environmental responsibility and contribute to the sustainable development of industries and regions of operations and to the steady growth of socioeconomic and technological potential, human capital, quality of life and social well-being.

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



<b>251.9</b> BN RUB ADJUSTED OIBDA	<b>1.8</b> TN RUB ASSETS
<b>1.4</b> BN RUB SOCIAL INVESTMENTS	<b>134.1</b> THSD PEOPLE HEADCOUNT

<b>BB</b> FITCH CREDIT RATING <sup>1</sup>	<b>BB</b> S&P CREDIT RATING <sup>1</sup>	<b>RUAA-</b> RAEX CREDIT RATING <sup>1</sup>
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<sup>1</sup> As of the end of 2021.



**TOP 25**  
LARGEST RUSSIAN COMPANIES BY REVENUE (RBC)

**TOP 20**  
PUBLIC RUSSIAN COMPANIES IN FORBES GLOBAL 2000 RATING

**0.6%**  
CONTRIBUTION TO RUSSIA'S GROSS DOMESTIC PRODUCT

## INVESTMENT PORTFOLIO

Public assets

**MTS**  
NYSE: MBT, MOEX: MTSS

**OZON**  
NASDAQ and MOEX: OZON

**SEGEZHA GROUP**  
MOEX: SGZH

**ETALON GROUP**  
LSE and MOEX: ETLN



**12.1**  
LOW ESG RISK  
Sustainalytics

Sustainability management **BB**  
MSCI ESG

**50%**  
INDEPENDENT DIRECTORS

**TOP 5**  
INTERNATIONAL INVESTMENT COMPANIES  
ESG Reporting Award

> **25** COUNTRIES

> **20** SECTORS

> **25** COMPANIES

<sup>1</sup> As of the end of 2021.

# INVESTMENT PORTFOLIO

## Venture capital funds

Sistema Venture Capital — 80%  
Sistema Asia Fund — 66%

62.2%  
FORESTRY INDUSTRY

## Segezha Group

Largest vertically integrated forestry holding in Russia

29.8%  
REAL ESTATE DEVELOPMENT  
**Etalon Group**

One of the Russia's largest public development and construction companies

100%  
COMMERCIAL PROPERTIES  
**Business Nedvizhimost**

One of the largest real estate owners in Moscow

100%  
HOSPITALITY  
**Cosmos Hotel Group**

One of the largest hotel management companies in the Russian market

91%  
UTILITIES  
**BPGC**

One of Russia's largest power grid companies

100%  
INFORMATION TECHNOLOGY  
**Sitronics Group**

Leading vertically integrated ICT holding in Russia

95.5%  
HEALTHCARE  
**Medsi**

Russia's largest national healthcare chain

31.8%  
E-COMMERCE  
**Ozon<sup>2</sup>**

Leading multi-category online sales platform in Russia

49.9%  
TELECOMMUNICATIONS  
**MTS<sup>1</sup>**

Leading public telecommunications operator in Russia

91.3%  
AGRICULTURE

## Steppe AgroHolding

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

75.3%  
PHARMA  
**Binnopharm Group**

Leading Russian pharmaceutical producer

- ▶ PUBLIC ASSETS
- ▶ KEY NON-PUBLIC ASSETS
- ▶ OTHER CONSOLIDATED ASSETS

<sup>1</sup> In March 2022, as part of the long-term incentive programme, Vyacheslav Nikolaev acquired 19,983,816 ordinary shares of MTS owned by Bastion LLC, a wholly owned subsidiary of MTS. With the transfer of shares to Mr Nikolaev, his stake in MTS increased to above 1%. Sistema's effective ownership stake in MTS decreased to 49.9%.

<sup>2</sup> 12.2 m shares were issued to be used in the Ozon's management incentive programme, considering exercise of all options under the programme, the effective share of Sistema, including Sistema VC, would amount to 31.8%.

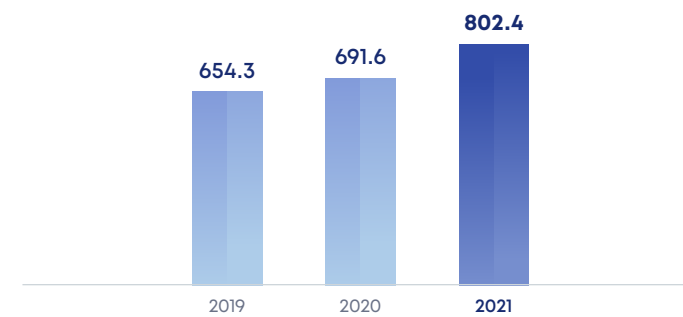


# KEY HIGHLIGHTS

## Group's performance

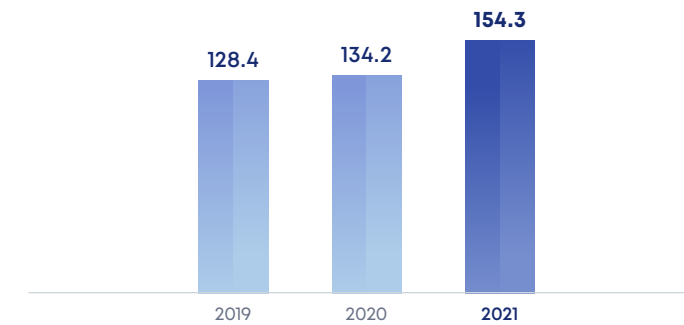
Revenue, RUB bn

**+10.7%**  
CAGR 2019–2021



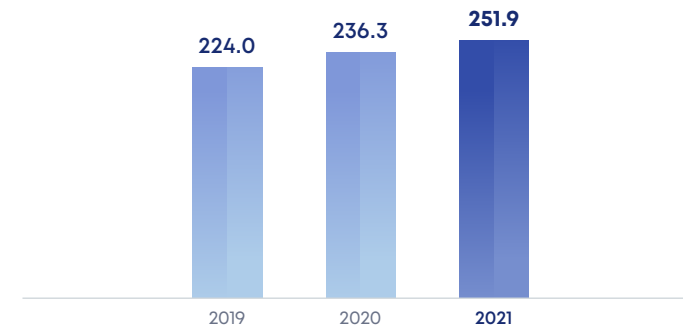
Selling, general and administrative expenses (SG&A), RUB bn

**+9.6%**  
CAGR 2019–2021



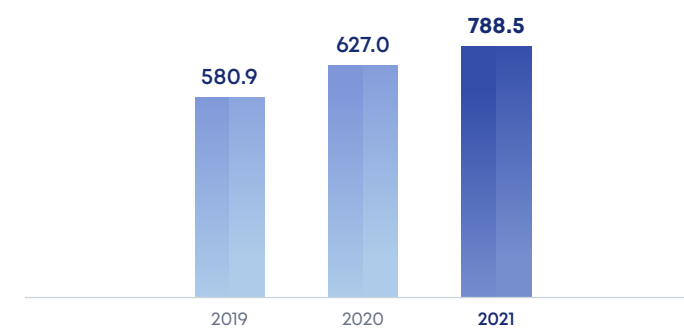
Adjusted OIBDA<sup>1</sup>, RUB bn

**+6.0%**  
CAGR 2019–2021



Net debt<sup>2</sup>, RUB bn

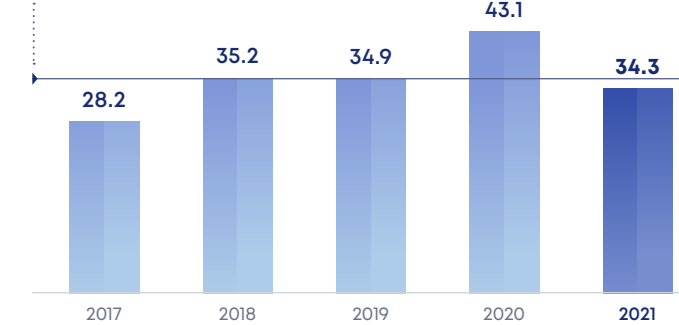
**+16.5%**  
CAGR 2019–2021



## Corporate Centre's performance<sup>3</sup>

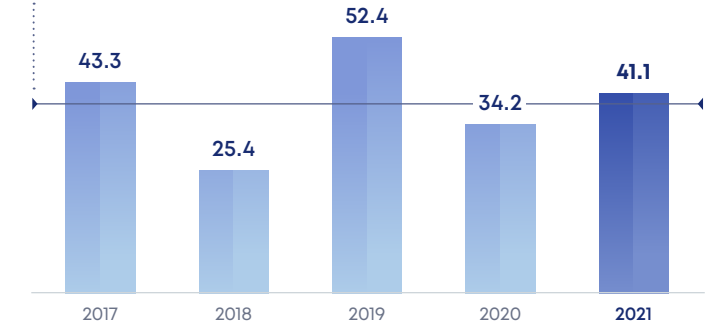
Dividends from assets, RUB bn

**35.1**  
AVERAGE 2017–2021



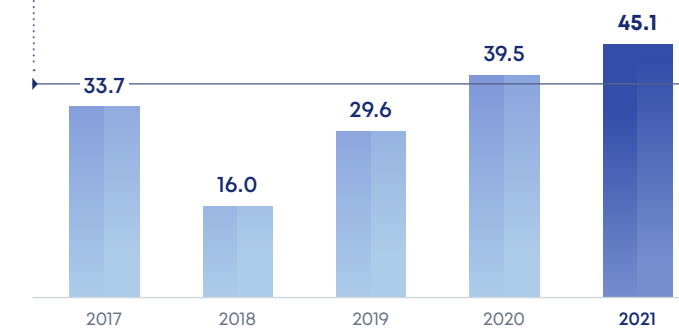
Monetisations, RUB bn

**39.3**  
AVERAGE 2017–2021



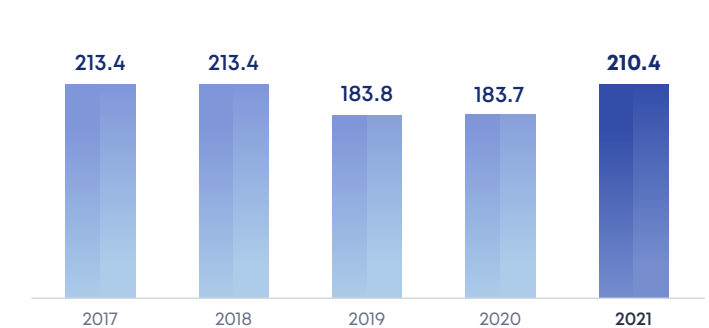
Investments, RUB bn

**32.8**  
AVERAGE 2017–2021



Net debt, RUB bn

**-0.4%**  
CAGR 2017–2021



<sup>1</sup> In this Annual Report, adjusted OIBDA is used to assess the operational success of the Corporation and Sistema Group companies and as such do not include one-off incomes or losses that are not related to business operations. The reconciliation of these indicators is provided in "Financial overview" section.

<sup>2</sup> Consolidated net debt is defined as consolidated total debt less cash, cash equivalents and deposits in banks. Consolidated total debt is defined as total borrowings plus finance lease. The total borrowings are defined as long-term and short-term borrowings.

<sup>3</sup> According to management accounts.

# AWARDS & RECOGNITION



SISTEMA PUBLIC  
JOINT STOCK  
FINANCIAL  
CORPORATION

## TOP 25

RUSSIAN COMPANIES  
BY REVENUE  
RBC 500

## TOP 20

PUBLIC RUSSIAN  
COMPANIES  
in Forbes Global 2000

## TOP 20

RUSSIAN COMPANIES  
BY REVENUE  
in RAEX 600

## TOP 20

COMMERCIAL REAL  
ESTATE OWNERS  
Forbes

## CBONDS AWARDS 2021

Issuer of the Year

## RUSSIA IPO AWARDS

Segezha Group –  
The Best placement  
in 2021



### TOP 1000

GLOBALY AND TOP 15 IN RUSSIA  
BY TOTAL SHAREHOLDER RETURNS (TSR)  
in Value Creators Ranking 2021  
by Boston Consulting Group (BCG)

MTS IS THE WORLD'S SECOND  
STRONGEST TELECOM BRAND  
and the only Russian telecom  
brand in Brand Finance  
Telecoms 150

### TOP 10

OF RUSSIA'S MOST  
VALUABLE BRANDS  
in Brand Finance Russia 50

### TOP 10

IN THE ESG RANKING  
OF RUSSIAN COMPANIES  
RAEX Europe

### TOP 15

PRIVATE COMPANIES &  
TOP 10 RUSSIAN EMPLOYERS  
in the Forbes ranking

### TOP 10

BEST MOBILE BANKS  
FOR DAILY BANKING  
in mobile banking rank 2021  
(Markswebb)



### TOP 3

MOST VALUABLE INTERNET  
COMPANIES IN RUSSIA  
Forbes

### TOP 5

FASTEST GROWING  
PRIVATE RUSSIAN COMPANIES  
Forbes

### TOP 200

RUSSIAN EMPLOYERS AND  
#1 IN THE IT AND INTERNET CATEGORY  
HeadHunter's ranking



### TOP 200

PRIVATE RUSSIAN  
COMPANIES  
Forbes

### No. 1

IN THE TIMBER INDUSTRY  
IN THE ESG RANKING OF RUSSIAN  
COMPANIES  
RAEX Europe

### TOP 30

ENVIRONMENTALLY FRIENDLY  
COMPANIES IN RUSSIA  
Forbes

### TOP 3

IN THE RANKING OF RUSSIA'S  
TIMBER COMPANIES  
Sbo-paper

SEGEZHA GROUP'S EUROPEAN PAPER  
PACKAGING ASSETS WERE AWARDED

**GOLD LEVEL**  
from the international  
platform EcoVadis

**RUSSIA M&A AWARDS**  
BEST DEAL OF 2021



### TOP 200

PRIVATE RUSSIAN  
COMPANIES  
Forbes

### TOP 10

DEVELOPERS IN THE MASS  
HOUSING CATEGORY  
Forbes

### TOP 10

RUSSIAN DEVELOPERS  
BY REVENUE  
RBC 500

### URBAN AWARDS 2021

Developer of the year  
and digital developer

### EUROPEAN

**PROPERTY AWARDS**  
nominations for residential development  
and residential renovation



### TOP 5

RUSSIAN  
LAND OWNERS  
Forbes

### No. 1

ESG RANKING OF RUSSIAN  
COMPANIES RAEX EUROPE  
Agricultural sector

### TOP 50

AGRICULTURAL COMPANIES  
OF RUSSIA  
Expert

### No. 1

RUSSIA'S MOST EFFICIENT  
DAIRY FARMS  
Soyuzmoloko

### AGRICULTURAL INVESTOR 2021

Innovation of the year, Top manager of  
the year, Socially responsible initiative  
(during pandemic) and Reliable grain  
supplier



### TOP 10

VENOTONICS IN THE RUSSIAN  
PHARMA MARKET

### TOP 10

PRODUCERS OF GENERICS  
IN THE RUSSIAN MARKET  
IQVIA

### TOP 10

PRODUCERS OF NUTRITIONAL  
SUPPLEMENTS IN RUSSIA BY  
SALES VALUE  
DSM Group

### PHARMA COMPANY OF THE YEAR 2021

Award from the Green cross  
pharmacies association



### No. 1

RUSSIA'S TOP 20 PRIVATE CLINICS  
AND #1 RUSSIA'S TOP 200 PRIVATE  
MULTI-SPECIALTY CLINICS  
Forbes and Vademec

### TOP 3

IN THE RANKING OF MULTI-SPECIALTY  
CLINICS BY NUMBER OF DOCTORS  
BusinessStat / RBC

### TOP 5

IN THE 2021 RANKING OF  
ST. PETERSBURG FASTEST  
GROWING MEDICAL CENTRES

### PATIENTS' CHOICE 2021

BEST CLINICS OF MOSCOW





# PERFORMANCE OF THE CORPORATION

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# STRATEGY AND GOVERNANCE MODEL

## Mission

Sistema's mission is to build Russia's leading investment company with diverse expertise and a strong track record, which will become an investment platform for managing both its own and third-party capital, while also providing access to unique investment opportunities in the most attractive sectors and high-potential technologies and fueling long-term growth in shareholder value.

## Strategic goals and development areas

### LONG-TERM GOALS

- ▶ Steady growth of the Corporation's shareholder value
- ▶ Maximising net asset value
- ▶ Building profitable and growing companies that are leaders in their sectors
- ▶ Paying dividends to the Corporation's shareholders

### FOCUS AREAS

#### 01

Building and continuously developing businesses worth over USD 1 billion

#### 02

Embracing unique investment opportunities in traditional and new sectors

#### 03

Creating value in assets through team strengthening, strategic development, business transformation, operational improvements, equity structure optimisation, digitalisation, etc

#### 04

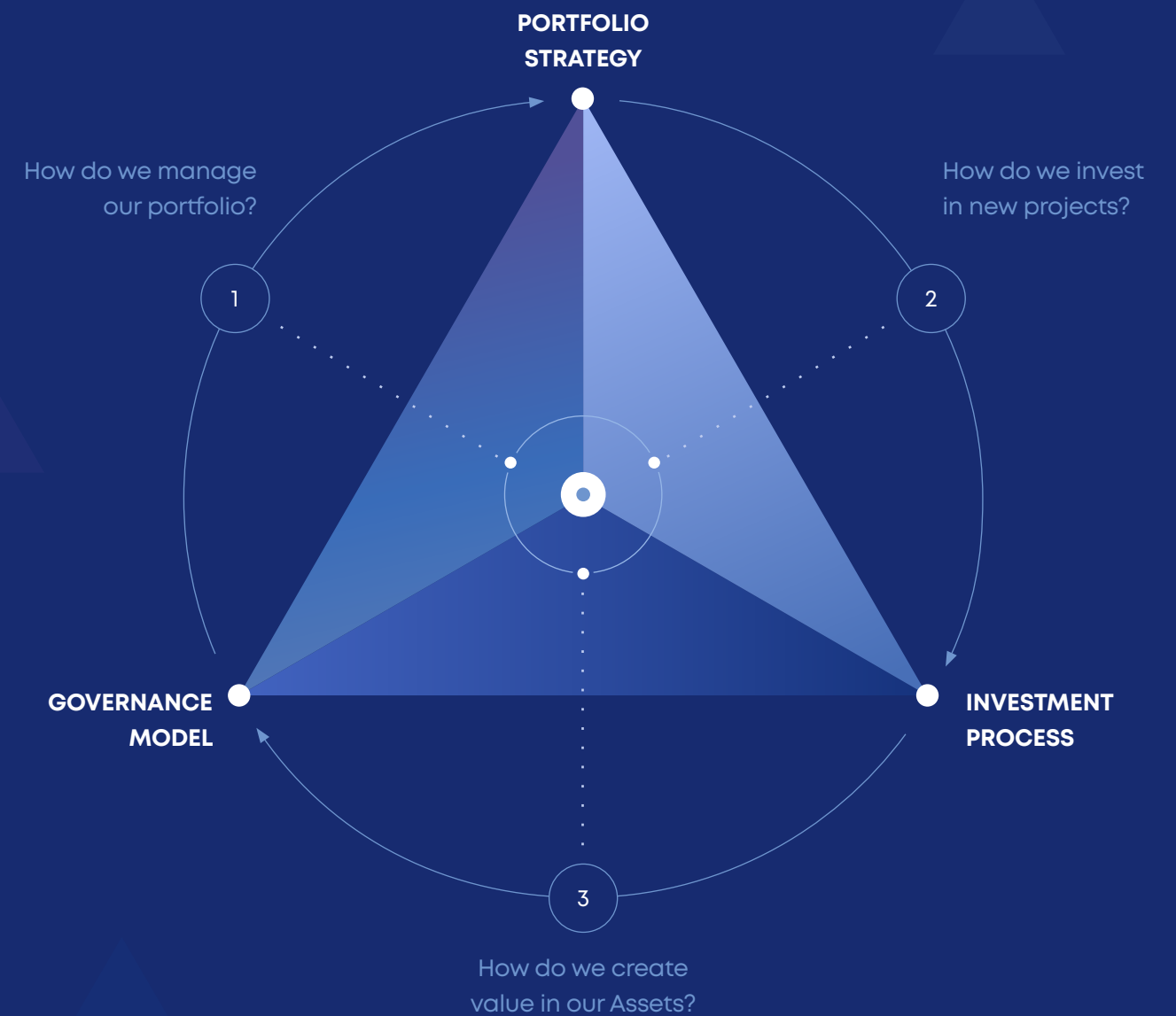
Continuous enhancement of corporate governance



## Strategy

The Corporation's goals are matched with the elements of business model, which are inter-related

Our goals can be achieved by answering 3 key questions underpinning the Corporation's strategy



## Portfolio strategy: current assets and new opportunities

Investments in existing assets: investments in own portfolio companies with potential to become businesses worth **over USD 1 bn**:

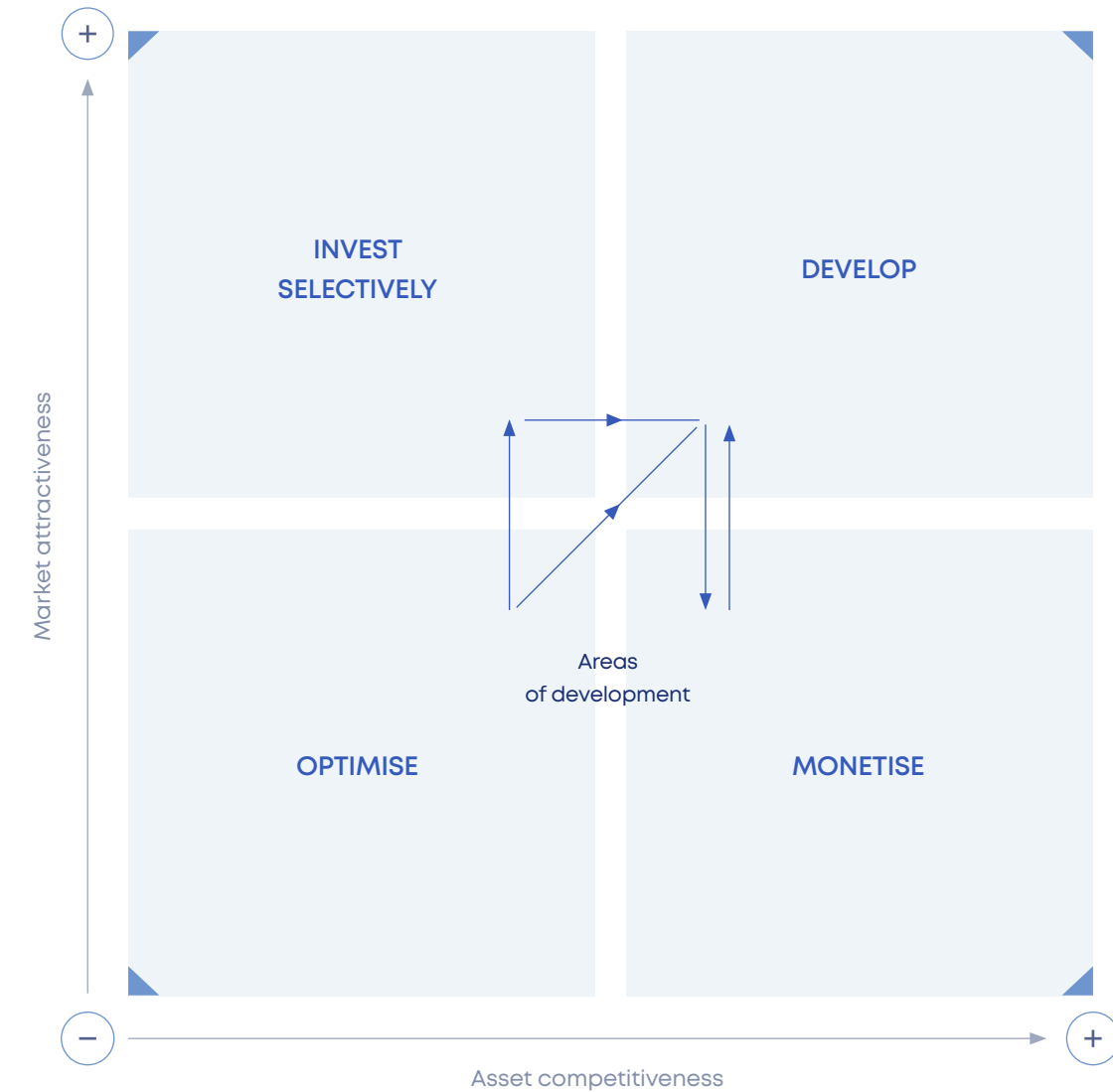


The portfolio strategy is based on classification of assets depending on market appeal, the competitiveness of the team and the company as a whole.



Depending on the final score, there are four basic development options for assets in Sistema's portfolio.

The asset's position in the matrix determines shareholder decisions for the asset: active investment, testing of hypotheses with selected financing of projects, relaunching the asset's business model.



### Idea and implementation

Sistema's strategy is based on the idea of gradual movement of assets from the left to the right side of the matrix as assets become more mature and grow in size.

As part of its strategy Sistema aims to look for new points of growth that may become the core of the company's portfolio in 5 years.

**NEW INVESTMENTS: UNIQUE OPPORTUNITIES IN TRADITIONAL INDUSTRIES**

**MATURE UNDERVALUED ASSETS**

**Investment strategy:** acquisition of substantial or controlling stakes in large assets in attractive markets with a possibility of increasing equity value, getting a premium in valuation and selling within 2-3 years.

**GROWING ASSETS**

**Investment strategy:** acquiring and consolidating players in certain industries or market segments, enhancing the asset's competitive advantages, leveraging economies of scale and entering new market segments; exit in 4-5 years through a sale to a strategic investor or IPO.

**Investment geography:** mostly in Russia.

**Industries and business segments:** sectors with large markets, high growth or transformation rates, and significant potential for growing efficiency, digitalisation, import substitution or exports.

**NEW INVESTMENTS IN TECH SECTOR AND TECHNOLOGIES OF THE FUTURE**

**TECHNOLOGY ASSETS**

**Investment strategy:** Direct investments in large stakes in technology companies that do not meet the requirements of investment theses of Sistema's own funds, with an opportunity to create new fast-growing businesses, make a breakthrough in the development of key technologies of the future and monetise them in 5-7 years.

**VC FUNDS**

**Investment strategy:** investments by Sistema's existing and new VC funds; investment monetisation. Mandatory engagement of external investors as financial partners (the share of outside partners in new funds is at least 50%).

**Investment geography:** no restrictions.

**Industries and business segments:** e-commerce, internet of things, artificial intelligence, cloud and edge computing, machine learning and neural networks, autonomous vehicles, robotics, augmented and virtual reality (AR/VR), blockchain, etc.



**FAST-GROWING SEGMENTS**

**MINERAL RESOURCES** used in electronics, batteries, conductors

**TECHNOLOGIES**

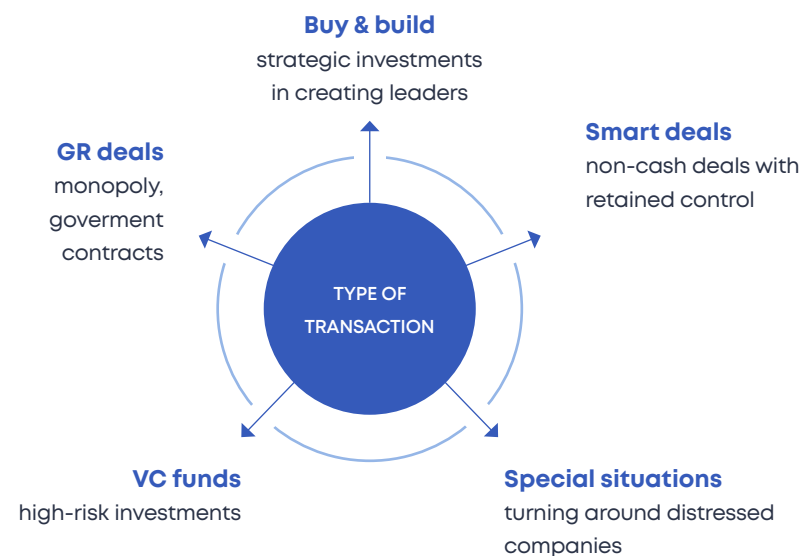
**INVESTMENTS IN ASSETS IN SPECIAL SITUATIONS** (distressed assets)



**Investment process: taking investment decisions**

Sistema relies on its practical experience and focuses on the following types of transactions when entering new assets:

Our investment thesis: key criteria for selecting new investment projects and assets.



TRANSACTION AMOUNT	STAKE IN THE BUSINESS
>1 BN RUB	>25%
TARGET RETURNS	over 4-5 years
IRR >30%	>2x CASH-ON-CASH
ESG CRITERIA	
1	Rubbing out toxic investments (alcohol, tobacco, casinos, etc)
2	Priority investments for companies with ESG rating

## Management model: how the Corporation manages assets and creates value

Sistema has adopted a partnership management model that allows the Managing Partners to share the risks and returns from investment activities with the shareholders.

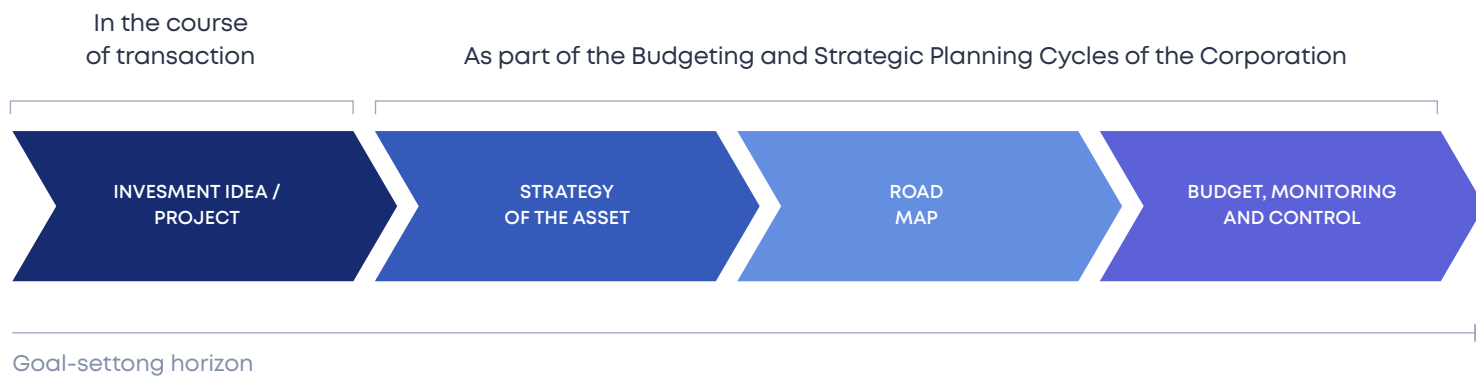
Sistema has adopted a partnership management model that allows the Managing Partners to share the risks and returns from investment activities with the shareholders. Managing Partners are responsible for implementing the investment strategies of portfolio companies. In most cases, Managing Partners chair the boards of directors of portfolio companies and are in charge of forming the board and organising its work. They also bear responsibility for the recruitment and appointment of top management.

The Corporation's functions and departments actively advise respective departments of portfolio companies as part of forming development strategies, preparing key investment projects for assets, raising debt and equity financing, developing long-term incentive plans, forming optimum legal and tax structures, implementing corporate governance standards and improving security systems, thereby contributing to long-term value creation.

### ASSET MANAGEMENT PRINCIPLES

The key element of Sistema's management model is the idea of transformation and creation of industry champions.

At the transaction stage, the investment idea has a planning horizon of more than 5 years. The Corporation has an efficient process that makes it possible to implement the original investment idea by developing the asset's strategy for 3-5 years, making a road map with an action plan for 2 years and setting budget and financial targets for the calendar year.



Investing in the development of existing portfolio assets in order to increase their value is one of the key stages of Sistema's value creation model.

The governance model is based on the elements that are the same for all the Group members:

1. Strategic planning
2. Finance: budget, monitoring, control
3. Approval of important projects
4. Corporate governance standards
5. HR management



# Value creation in assets



## Implemented by assets must have

- HR**
  - ▶ Management Incentive System
  - ▶ Organisational structure + standard agreements
- FINANCE**
  - ▶ Budgeting cycle
  - ▶ Financial planning and control
- STRATEGY**
  - ▶ Strategic cycle
  - ▶ Investment process
- CORPORATE GOVERNANCE**
  - ▶ Corporate governance system
  - ▶ Board of Directors
- IT**
  - ▶ Management dashboard
- GR**
  - ▶ If necessary
- SUSTAINABILITY**
  - Management system, including governance and policies
    - ▶ Risk management
    - ▶ Disclosure

## Assistants provided to assets if necessary

- + Personnel recruitment
- + Debt portfolio, taxes, reporting
- + Investment analysis
- + Support on legal matters, support for M&A deals
- + IT audit, development of IT strategy, increasing digitalisation, etc.
- + Contracts, organisation of meetings with federal and local governments
- + Self-assessment Sustainability strategy development

## Responsible investment and ESG principles

# 12.1

LOW ESG RISK  
Sustainalytics

# 1.4

BN  
RUB

DIRECT SOCIAL INVESTMENTS  
OF THE GROUP

# B

MANAGEMENT LEVEL  
CDP

Responsible investment is an integral element of Sistema's investment strategy and long-term success. It means that at all stages of its investment activities and asset ownership the Corporation takes into account not only financial and operating aspects but also significant environmental, social and governance (ESG) factors to create long-term value for shareholders and other stakeholders.

In 2020, the Board of Directors approved updated investment criteria as part of the Corporation's investment strategy. Among other things, the investment process for the first time involved the consideration of ESG factors reflecting the Corporation's guiding principles on responsible business conduct and international ESG standards, which solidified Sistema's strategic approach to responsible investment.

At the portfolio building stage, Sistema excludes "sin stocks", which is consistent with the Corporation's established investment culture, and also considers the ESG profiles of acquisition targets in other industries when making investment decisions.

Sistema's indirect ESG impact through its portfolio assets is more significant than the direct one. Therefore, at the stage of asset management the Corporation makes efforts to promote the following principles in Sistema Group companies through their governance bodies using established corporate procedures:

- ▶ Compliance with high standards of corporate governance and principles of responsible business conduct
- ▶ Improvement of their sustainability management approaches and performance indicators
- ▶ Minimisation of negative and maximisation of positive impact through innovation, services, products and investments in local communities



To learn more about responsible investment and sustainability management, please refer to the section "Sustainability management".



# KEY EVENTS OF 2021 AND AFTER THE REPORTING DATE

## Corporation

### CORPORATE GOVERNANCE

**In May 2021**, the Board of Directors approved a new dividend policy, which stipulates that the Corporation will aim to pay annual dividends in the amount of at least RUB 0.31 per share in 2021, RUB 0.41 per share in 2022 and RUB 0.52 per share in 2023. Starting from 2022, in addition to the basic dividend amount, the Board of Directors recommends distributing in dividends to shareholders 10% of absolute increase of adjusted OIBDA for the previous year, if it grew by more than 5% and Net Debt/OIBDA at the end of the previous year did not exceed 3.0x.

### DIVIDENDS AND SHAREHOLDER RETURN

#### Dividend payout for 2020

**In August 2021**, in accordance with the approved dividend policy, Sistema paid dividends for 2020 in the amount of RUB 2,991.5 m, or RUB 0.31 per ordinary share.

#### Buyback programme

**In June 2021**, Sistema announced an increase in the volume of its share buyback programme launched on 17 September 2019 to RUB 7.0 bn, with the programme extended until 17 September 2022. In January 2022, the Corporation completed the programme, having bought a total of 315,195,371 ordinary shares.

### MONETISATIONS AND INVESTMENTS

#### IPO Segezha Group

**In April 2021**, Segezha Group held an initial public offering on the Moscow Exchange. The company raised RUB 30 bn to finance its investment activities and optimise debt. After the IPO, Segezha Group's capitalisation amounted to RUB 125.5 bn; Sistema's share in Segezha Group decreased to 72.0%<sup>1</sup>, with the share of free float being 23.9%.

#### Sale of a minority stake in Segezha Group

**In December 2021**, Sistema sold an 8.7% stake in Segezha Group to Bonum Capital for USD 150 m. After the deal, the Corporation's shareholding in Segezha Group decreased to 62.2%.

<sup>1</sup> Taking into account the partial exercise of the over-allotment option as part of the stabilisation procedure post-IPO and exercise of the option of Segezha Group's president M. Shamolin.



### MONETISATIONS AND INVESTMENTS



### Development of the pharma business

**In February 2021**, Sistema and its financial partner VTB contributed 56.2% of shares in OJSC Sintez to Binnopharm Group as part of the project to create a combined pharmaceutical holding company. Sistema, VTB, and a consortium of investors comprising the Russian Direct Investment Fund (RDIF), the Russia-China Investment Fund (RCIF) established by the RDIF and China Investment Corporation, and leading Middle Eastern funds contributed an 85.6% stake in JSC Alium to the equity of Binnopharm Group.

**In March 2021**, Sistema acquired 32.4% of Sintez from JSC National Immunobiological Company controlled by Rostec and in May 2021, it contributed this stake to the equity of Binnopharm Group.

**In June 2021**, Sistema sold 11.2% in Ristango Holding Limited, the owner of 100% of Binnopharm Group, to Nevsky Property Investments Limited, controlled by VTB Capital, for RUB 7 bn. As a result, the effective stake of Sistema and VTB Group in Binnopharm Group amounted to 75.3%.

**In July and December 2021**, Sistema exercised its right and bought the stakes in Sinocom Investments Limited and Ristango Holding Limited held by VTB for a total of RUB 15.76 bn. After the deal, Sistema's effective equity holding in Binnopharm Group increased to 75.3%.

The share of the consortium of investors including the Russian Direct Investment Fund (RDIF), the Russia-China Investment Fund (established by the RDIF and China Investment Corporation), and major Middle Eastern funds equaled 12.5%, and VTB Capital held 11.2% through Nevsky Property Investments Limited. The remaining 1% of shares in Ristango Holding Limited is owned by a minority shareholder (an individual).

### Acquisition of Nearmedic Group

**In September 2021**, New Investment Holding JSC, jointly controlled by Sistema and Sberbank, acquired Nearmedic Group for RUB 1. The net debt of the group, which operates in the pharma and healthcare sectors, on the closing date was RUB 5.9 bn.

### Sistema SmartTech

**In April 2021**, Sistema SmartTech invested RUB 200 m in Urent, which develops one of the largest scooter-sharing services in Russia.

**In May 2021**, Sistema SmartTech invested USD 300,000 in The Mashina, which develops a car subscription platform.

**In July 2021**, Sistema SmartTech closed two deals: (1) it invested RUB 200 m in Checkbox, a last-mile delivery platform; and (2) invested RUB 130 m in LLC Profilum, a career guidance service for school-aged children.

**In December 2021**, Sistema SmartTech invested in LLC Directual, a developer of an eponymous low-code platform. The money will go towards platform enhancements and expansion into new markets.



## MONETISATIONS AND INVESTMENTS



### Sistema SmartTech

**In January 2022** Sistema, Sistema SmartTech invested RUB 50 m in MyGig Invest Ltd, a developer of a platform for finding one-time or regular side jobs. Sistema SmartTech led the funding round for a total of RUB 120 m, which also included Altus Capital and shareholders of the Brayne family office.

### Sistema Asia Fund

**In March 2021**, Sistema Asia Fund took part in the series D investment round of Uniphore, a global leader in automation of speech interaction. As a result, Uniphore raised USD 140 m from Sistema Asia Fund and other investors from Europe and the Middle East.

**In May 2021**, Sistema Asia Fund and other investors participated in the series B investment round of ANSR, which offers leading international companies services of accelerating their digital transformation on the basis of global service centres. The round size totaled USD 15 m.

**In July 2021**, Sistema Asia Fund and other investors participated in the series C investment round of the startup HealthifyMe, the developer of India's most popular wellness and fitness application, to a total amount of USD 75 m.

**In September 2021**, Sistema Asia Fund and other investors participated in the series C investment round of Exotel, the developer of India's most popular CPaaS platform, to a total amount of USD 35 m.

**In February 2022**, Sistema Asia Fund participated in the series B investment round of Airmeet, a comprehensive new generation platform for virtual interactions between companies and their customers or other audiences. As a result, Airmeet raised USD 35 m from Sistema Asia Fund and other investors.

### Sistema Venture Capital

**In February 2021**, Sistema Venture Capital sold its stake in the agricultural startup Observe Technologies, in which it had invested in 2017. The returns on investment exceeded 300%.

**In August 2021**, Sistema Venture Capital exited Datasine, a Russian-British service for personalisation of marketing campaigns.

**In February 2022**, Sistema Venture Capital exited VisionLabs, one of the global leaders in computer vision and machine learning.



## STRENGTHENING OF FINANCIAL POSITION

### Expert

## ENHANCING SUSTAINABILITY



### Comfortable debt levels

**As of 31 December 2021**, the Corporate Centre's net financial liabilities equaled RUB 210.4 bn (+14.5% YoY). The Corporate Centre's entire debt is denominated in Russian roubles.

### Active participation in debt capital markets

Sistema was active in the debt capital markets on the back of a significant demand for its debt securities in 2021.

In the reporting year, the Corporation issued six bond series to a total amount of RUB 62.5 bn (001P-18, coupon rate 6.90%; 001P-19, coupon rate 7.35%; 001P-20, coupon rate 8.20%; 001P-21, coupon rate 8.40%, 001P-22, coupon rate 8.20%, 001P-23, coupon rate 9.95%) and also completed a secondary placement of series 001P-07 registration-exempt bonds in the amount of RUB 2.8 bn at 99.55% of the nominal price.

### Upgrade in credit ratings

**In May 2021**, S&P confirmed Sistema's credit rating at BB, with outlook upgraded to "positive."

**In June 2021**, Fitch upgraded Sistema's credit rating from BB- to BB, with a "stable" outlook.

**In September 2021**, Expert RA upgraded the outlook for the Corporation's credit rating from "stable" to "positive", with the rating confirmed at ruAA-.

**In May 2021**, Sistema's Board of Directors approved the Environmental Policy and the Human Rights Policy of Sistema. These documents complement the ESG management system and elaborate the provisions of Sistema's Sustainability Policy. They set an example for portfolio companies in part related to enhancing the efficiency of environmental protection management and human rights protection, thus reducing the investment portfolio's exposure to environmental and social risks.

**In October 2021**, Sistema was named among the three leaders of the ESG ranking of public financial companies compiled by the National Rating Agency (NRA). The ranking includes 30 leading banks, financial and infrastructure institutions and insurance companies; Sistema was put in the first group, which means an advanced level of introduction of sustainability principles in the core business.

**In December 2021**, Sistema joined the National ESG Alliance. The Alliance was designed as a permanent platform for dialogue and engagement of all stakeholders, exchange of knowledge and experience between various business segments, the government and society, and development and promotion of new ESG norms and standards.

## Portfolio assets

# MTS



### Dividend payouts

In August 2021, MTS completed payment of dividends for 2020 in the amount of RUB 26.51 per ordinary MTS share (RUB 53.02 per ADR). In November 2021, MTS completed payment of dividends for 1H 2021 in the amount of RUB 10.55 per ordinary share (RUB 21.1 per ADR).

### Buyback programme

In July 2021, MTS completed its share buyback programme announced in March, having bought 45,401,921 ordinary shares (including American depository receipts) to a total amount of about RUB 15 bn, which equals 2.27% of outstanding MTS shares.

### Spin-off of infrastructure and tower assets

In September 2021, the extraordinary general meeting of shareholders approved the company's reorganisation through spin-off of tower infrastructure in a 100% subsidiary, LLC BIK, and a part of active and digital infrastructure in another 100% subsidiary, JSC MVS.

### Consolidation of 100% of Sistema Capital

In September 2021, MTS completed acquisition of 70% in LLC Sistema Capital MC, thus increasing its stake in the management company to 100%. The deal will enable MTS to accelerate the launch of new products for retail investors and HNWI and will expand the range of financial services offered by the company.

### Acquisition of VisionLabs

In February 2022, MTS acquired VisionLabs B.V., a global leader in computer vision and machine learning products, for RUB 6.5 bn. VisionLabs software is used in more than 1.7 m cameras worldwide. VisionLabs' revenue in 2020 exceeded RUB 1.1 bn.

### Upgrade in credit ratings

In February 2021, NCR set MTS's credit rating at AAA.ru (the highest score on the agency's scale) with a "stable" outlook.

In March 2021, Expert RA upgraded MTS Bank's credit rating to ruA- with a "stable" outlook, considering the bank's growing role in the MTS digital ecosystem.

In June 2021, Fitch confirmed MTS's ratings, changing the outlook from "stable" to "positive."

# OZON



## Enhancing sustainability

In March 2021, MTS announced it was establishing an ESG Committee (Committee for Corporate Governance, Environmental and Social Responsibility) of the Board of Directors.

In March 2021, MTS placed social registration-exempt bonds of series 001P-18 to a total amount of RUB 4.5 bn on the Moscow Exchange. The funds raised will be used to finance the operator's project to provide communication services (internet access) to about 5,000 socially important facilities in eight regions of Russia.

## Infrastructure development and foreign expansion

In 1Q 2021, fulfilment centres were opened in Novosibirsk and Khabarovsk. The fulfilment centre in Khabarovsk will help Ozon with pursuing its strategic goal of expansion in the Far East.

In May 2021, Ozon announced start of foreign expansion of its logistical infrastructure and operations. The company is upscaling business in Belarus, where it opened a logistics centre in October 2021. In addition, as part of its expansion into the CIS countries, the company signed partner agreements with national postal operators of Belarus and Kazakhstan, ensuring countrywide coverage by last mile deliveries.

## Development of ecosystem of financial services

In May 2021, Ozon acquired 100% of Oney Bank from Sovcombank for the purpose of integrating it into its fintech vertical. The bank licence will give Ozon additional flexibility in supporting existing and launching new financial products for customers and sellers, and will also help it to optimise acquiring expenses.

In May 2021, the Russian Central Bank included Ozon Credit in the register of microfinancial organisations. Ozon Credit is expected to become a full participant of Ozon.Invest, a lending platform for sellers, which entrepreneurs use to finance their business on the marketplace. As of 31 December 2021, about 2 m Ozon Cards were issued.

## Development of express deliveries

As the popularity of express deliveries grew, Ozon Express continued its regional expansion in 2021. Dark stores emerged in 10 Russian regions. In October, the service launched its own deli production, expanding the range of its private labels with ready-to-eat food.

## Raising funds for development

In February 2021, Ozon placed convertible bonds for USD 750m. The funds will be used for organic growth, expansion into new business verticals and general corporate purposes.



### Dividend payouts

**In April 2021**, the company approved a dividend policy, which envisages payout of up to RUB 5.5 bn per year in 2021-2023 and up to 100% of free cash flow starting from 2024. It also envisages a possible increase of the payout subject to market stability and a safety margin in terms of debt.

**In January 2022**, Segezha Group completed payment of interim dividends for 9M 2021 in the amount of RUB 6.6 bn or RUB 0.42 per share.

### Consolidation and development of production facilities

**In February 2021**, Russia's first CLT plant with an annual capacity of 50,000 cu m was commissioned in Sokol, the Vologda region.

**In September 2021**, Segezha Group completed consolidation of JSC Novoyeniseisky TCC (NTCC). Following the acquisition of NTCC, Segezha Group's allowable cut grew by 2.2 m cu m, while sawn timber production capacity increased by 30% per annum.

**In December 2021**, Segezha Group completed acquisition of LLC Inter Forest Rus (IFR) for USD 515 m. IFR comprises 24 timber assets in the Krasnoyarsk and Irkutsk regions and significant forest resources. The transaction doubled Segezha Group's allowable cut to 23.6 m cu m, making it one of the world's biggest forest users.

### ESG progress

**In March 2021**, Segezha Group joined the UN Global Compact, which unites over 16,000 organisations from more than 160 countries whose strategies meet ESG criteria.

**In April 2021**, the company's Board of Directors approved its sustainability strategy and policy till 2025. The strategy is focused on four key areas: innovative forest business, comfortable living environment in the forest regions of Russia, climate-oriented forest management and production and a responsible supply chain in the forest industry.

**In August 2021**, Segezha Group received its first international ESG rating from Sustainalytics, a leading rating agency in the sphere. The agency assessed the company's risk level as average (21.4, where 0 is the best result), which corresponds to the first quartile for companies in the Paper and Forest Industry sector.



## ETALON



### Dividend payouts

**In December 2021** a new dividend policy was approved. Etalon Group intends to pay dividends in the amount of 40%-70% of net income under IFRS before purchase price allocation (PPA). Payments will be made once a year after release of the financial statements according to IFRS. In order to improve transparency, the Board of Directors will issue its recommendation on dividends on or before 31 May, and payments will be made on or before 31 December of the year following the reporting period.

**In December 2021**, Etalon Group completed payment of final dividends for 2020 in the amount of RUB 3.6 bn or RUB 9.39 per share (global depository receipt), which corresponds to 61% of net income before purchase price allocation.

### Regional expansion and portfolio growth

**In 2021**, Etalon Group grew its portfolio by acquiring new projects in St Petersburg, Moscow and other regions: Novosibirsk, Omsk, Tyumen and Yekaterinburg. The total sellable area of the acquired projects is 3.6 m sq m.

### Raising capita

**In May 2021**, Etalon Group raised over USD 150 m in a secondary public offering (SPO). The company placed almost 88.5 m ordinary shares, including shares in form of GDRs, which represent 30% of its authorised capital, at a price of USD 1.7 per share.

### Credit rating awarded

**In September 2021**, Expert RA awarded Binnopharm Group a credit rating at ruA with a "stable" outlook.

### First-time bond issue

**In November 2021**, the company placed its first issue of registration-exempt bonds to the amount of RUB 3 bn with a coupon rate of 9.90% and a put option in 2 years. The funds will be used to carry out investment projects and refinance the existing debt portfolio.

### Start of international expansion

**In December 2021**, Binnopharm Group registered its official representative office in Kazakhstan and opened offices in five other CIS countries – Belarus, Azerbaijan, Moldova, Armenia and Uzbekistan. This will enable the company to double its export revenue in 2024 and will be the first step in building its international infrastructure.

### Extension of product portfolio

**In January 2022**, Binnopharm Group and Dr. Reddy's signed an agreement on acquisition by Binnopharm Group of two antibacterial drugs from Dr. Reddy's in Russia and the CIS.





### Expansion of the healthcare chain

**In 2021**, Medsi continued developing its chain in the Moscow region, opening a clinicodiagnostic centre in Shchyolkovo and 5 clinics of the local format. Two family clinics were opened in Moscow under a franchise model. As part of its regional development strategy, Medsi opened the first clinic in the South federal district (in Rostov-on-Don) and a third clinic in St Petersburg.

**In November 2021**, Medsi opened its own lab chain, SmartLab, with an area of over 2,000 sq m and an annual capacity of over 20m tests on the basis of the clinical hospital in Otradnoye. Total investments in the project exceeded RUB 400m.

**In November 2021**, Medsi inaugurated a children's hospital (with an area of over 4,000 sq m) on the basis of the clinical hospital in Otradnoye. Total investments in the project exceeded RUB 1 bn. The children's department is based on the concept of 360 degrees medicine, which means that outpatient and in-patient care, rehabilitation and home care are offered at one medical establishment.

**In December 2021**, Medsi opened a multi-specialty medical centre in the Michurinsky avenue with a total area of 33,475 sq m. It comprises a clinicodiagnostic centre for adults and children, a day hospital, an in-patient facility and a centre of high-tech surgery. Total investment in the project exceeded RUB 8 bn.

**In January 2022**, Medsi closed the transaction for acquisition of 100% in the ProMedicina chain in Ufa and the Dialine chain in Volgograd from the owners of the National Healthcare Chain. Medsi acquired 31 clinics (with an aggregate area of 22,585 sq m), becoming a leading healthcare operator in the economically attractive Volgograd and Ufa.

### Development of the telemedicine app SmartMed

The number of installations of the mobile app SmartMed grew by 53,600 year-on-year to 376,000; the number of active users grew by 72.3% year-on-year to 528,000; the number of appointments, including for instrumental and lab diagnostics, grew 3.1-fold to 2.5 m.



### Expansion of land assets

**As of the end of 2021**, Steppe AgroHolding's land assets totaled 578,000 ha, making it one of Russia's top 6 land owners. The company gradually increases its land holdings by consolidating neighbouring assets.

### Record-high harvest and exports

**In August 2021**, Steppe AgroHolding completed harvesting of early grains and grain legumes (wheat, barley and peas). Gross wheat harvest surged by 50% year-on-year to unprecedented 970,000 t.

**In the first half of the 2021/2022 farming season (July-December)**, Steppe AgroHolding exported 200,000 t of niche crops, which was an absolute record among Russian exporters of niche produce. Steppe is the absolute market leader in pea, mustard, and chickpea exports.

### Acquisition of assets

**In July 2021**, Steppe AgroHolding acquired 100% of the PIR Group holding company, Russia's leading producer of pre-packaged cheese and a major distributor of cheese, dairy products and plant-based alternatives.

### ESG progress

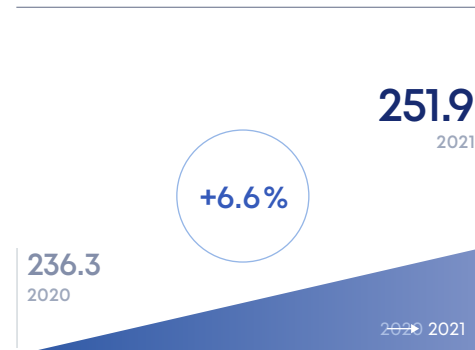
Steppe AgroHolding was included in the ESG ranking RAEX Europe. The ranking has been published since 2018 and is updated monthly. Steppe AgroHolding was the second agricultural company to be added to the list and was ranked 54th. Before that, the only agricultural company in the ranking was Rusagro, ranked 58th.

# FINANCIAL OVERVIEW 2021

## Revenue, RUB bn



## Adjusted OIBDA, RUB bn



## Net profit, RUB bn



RUB m <sup>1</sup>	2021	2020	CHANGE, %
Revenue	802,398	691,626	16.0%
OIBDA	278,128	229,896	21.0%
Adjusted OIBDA	251,927	236,340	6.6%
Operating income	143,968	109,405	31.6%
Net profit attributable to Sistema	17,344	10,217	69.8%
Adjusted net profit /(loss) attributable to Sistema	(8,895)	15,998	-

In 2021, Sistema's consolidated revenue increased by 16.0% year-on-year to RUB 802.4 bn, driven by revenue growth at key assets: at MTS, thanks to higher consumption of telecoms services and internet traffic, increased consumption of ecosystem services and higher sales of handsets and accessories; at Segezha Group, on the back of an increase in production volumes and positive dynamics in prices for key products; at Steppe AgroHolding, thanks to an increased gross harvest in the Field Crops segment and increased milk production in the Dairy segment, as well as the successful development of agrotading and the development of new business lines. The consolidation of Binnopharm Group's results in Sistema's financial statements from 25 June 2021 also had an impact on the Corporation's revenue.

The Group's adjusted OIBDA increased by 6.6% year-on-year to RUB 251.9 bn in 2021 mainly as a result of higher adjusted OIBDA at subsidiaries: at MTS, partly as a result of higher demand for financial services, the recovery in the entertainment industry and changes to the product portfolio; at Segezha Group, due to an increase in prices across all of the Group's product types, and also due to increases in the efficiency of Segezha Group's own logging operations and overall productivity; at Steppe AgroHolding, on the back of improved operational efficiency and higher crop yields, upward price trends for the sale of agricultural products, an increase in the number of high-yield dairy cattle and an increase in gross milk yield, as well as the development of new business lines.

Group SG&A costs increased by 15.0% year-on-year in 2021, mainly on the back of an increase in SG&A at MTS and Segezha Group, as well as the consolidation of Binnopharm Group's results. SG&A at MTS increased as a result of accruals under the updated options programme for management and increased advertising expenses to promote ecosystem products. SG&A at Segezha Group increased primarily driven by bonus payments to management triggered by the company's IPO and the costs associated with conducting M&A transactions.

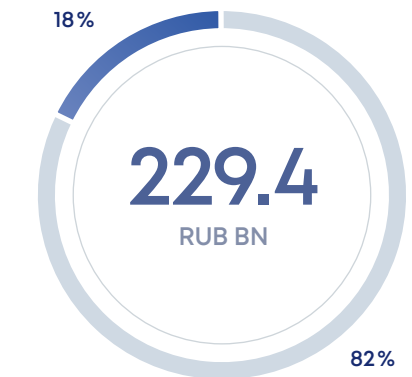
<sup>1</sup> Hereinafter, adjusted OIBDA and adjusted net profit are non IFRS indicators used to evaluate financial performance of the Corporation and Sistema Group companies and represent underlying financial measures adjusted for a number of one-off gains and losses that are not related to business operations. The reconciliation of these indicators is provided in "Alternative performance measures" section below.

Group capex increased by 30.8% to RUB 167.2 bn in 2021 as a result of investments by key assets in promising new business lines and in improving efficiency: at MTS, in network development with a focus on expanding 4G capacity, as well as in new business areas in its digital ecosystem; at Segezha Group, in the modernisation of the Segezha and Sokol PPMs, the expansion of the Vyatka Plywood Mill, the construction of a boiler and pellet plant in Sokol as well as the modernisation of the Onega woodworking plant; at Steppe AgroHolding, in the construction and modernisation of dairy farms and processing facilities, acquisitions of agricultural machinery and the development of logistics infrastructure.

## DEBT PORTFOLIO OVERVIEW

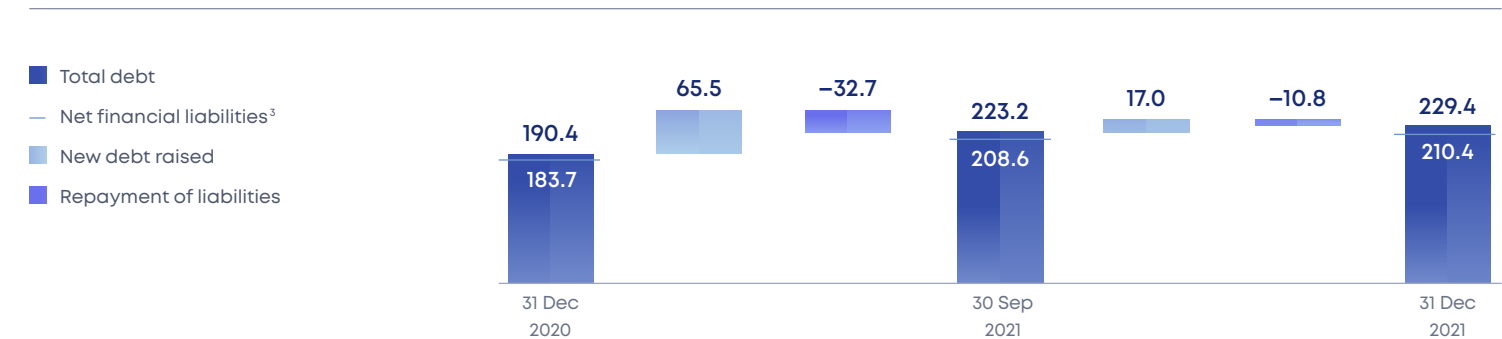
The Corporate Centre's financial liabilities increased by 20.5% year-on-year due to the issue of RUB-denominated bonds. Cash position amounted to RUB 19 bn. As of 31 December 2021, RUB-denominated liabilities accounted for 100% of the Corporate Centre's financial liabilities. Bonds accounted for 82% of the Corporate Centre's debt as of the end of 4Q 2021, up from 66% at the end of 4Q 2020. The weighted average rate on bonds in the debt portfolio was 7.8% at the end of 2021.

## Structural analysis of debt portfolio, RUB bn



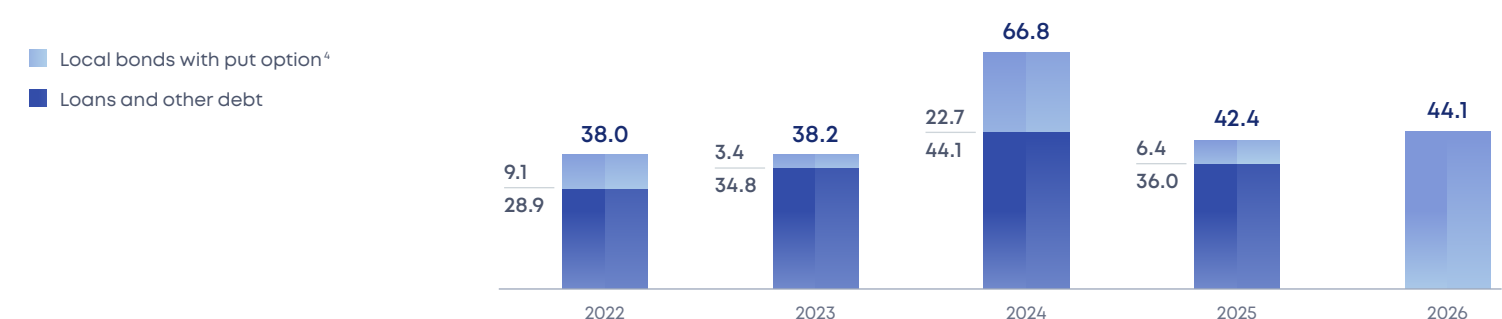
■ RUB bonds  
■ Bank loans and other

## The Corporate Centre's financial liabilities<sup>2</sup>, RUB bn



## Schedule for repayment of financial obligations of the Corporate Centre<sup>2</sup>, RUB bn

As of December 31, 2021



<sup>2</sup> Based on management accounts.

<sup>3</sup> Including the total volume of borrowings with the exception of cash and cash equivalents at the Corporate Centre level.

<sup>4</sup> RUB bond series 001P-01/06/09/10 with a put option in 2022; series 001P-04/11/14/16/18 with a put option in 2023; series 001P-05/08/12/13/15 with a put option in 2024; series 001P-07/17/19 with a put option in 2025; series 001P-20/21/22/23 with put option in 2026.

## ALTERNATIVE PERFORMANCE MEASURES

## Operating Income Before Depreciation and Amortisation (OIBDA) and OIBDA margin.

OIBDA represents operating income before depreciation and amortisation. OIBDA margin is defined as OIBDA as a percentage of our net revenues. Our OIBDA may not be similar to the OIBDA measures of other companies; is not a measurement under accounting principles generally accepted under IFRS and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of profit and loss.

We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of businesses and other investments and our ability to incur and service debt.

While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. OIBDA is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies.

The following table presents a reconciliation of OIBDA to operating income for the periods indicated:

RUB m	2021	2020
Operating income	143,967	109,404
Depreciation and amortisation	(134,160)	(120,492)
OIBDA	278,128	229,896

## Adjusted OIBDA, operating income and profit attributable to Sistema shareholders.

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



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

RUB m	2021	2020
<b>Operating income</b>	<b>143,967</b>	109,405
Accruals related to LTI program at portfolio companies (except for Segezha and MTS LTI)	534	577
Impairment of non-current assets (MTS)	-	2,023
Revaluation of equity investment in the consolidation of pharmaceutical assets	(25,327)	-
Impairment of investment and other property	-	2,789
Other non-recurring loss /(profit), net	(1,409)	1,054
<b>Adjusted operating income</b>	<b>117,767</b>	115,848
Depreciation and amortisation	134,160	120,492
<b>Adjusted OIBDA</b>	<b>251,927</b>	236,340

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

RUB m	2021	2020
<b>Net profit attributable to Sistema</b>	<b>17,343</b>	10,217
Accruals related to LTI program at portfolio companies	496	551
Impairment of non-current assets (MTS)	-	1,011
Revaluation of equity investment in the consolidation of pharmaceutical assets	(25,327)	-
Impairment of investment and other property	-	3,446
Other non-recurring loss /(profit), net	(1,409)	773
<b>Adjusted net profit /(loss) attributable to Sistema</b>	<b>(8,895)</b>	15,998

# SECURITIES AND SHARE CAPITAL

## Shareholders' equity

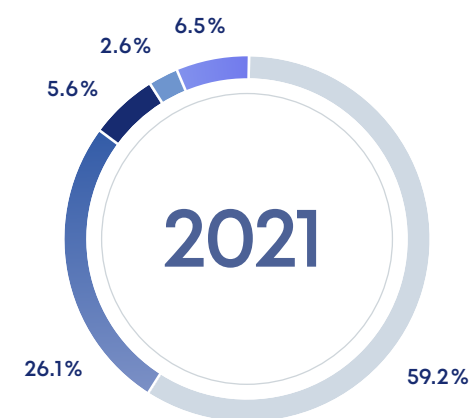
# 868.5<sup>BN</sup> RUB

AUTHORISED CAPITAL  
in 2021

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's principal shareholder is its Board Chairman Vladimir Evtushenkov, who owns 49.2%<sup>1</sup> of the Corporation's equity.

### Shareholding structure as of 2021, %



- V. Evtushenkov
- Ordinary shares in free float
- GDRs in free float
- Ordinary shares and GDRs held by Sistema Group companies
- Ordinary shares and GDRs held by members of the Board of Directors and the Management Board of Sistema



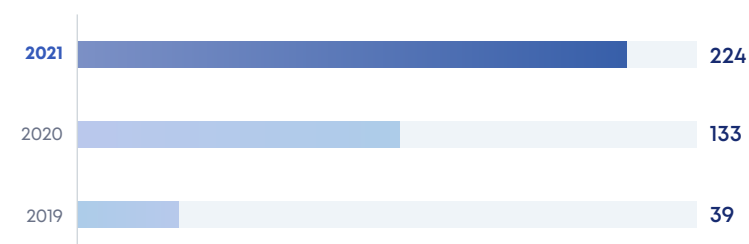
Up-to-date information on Sistema's shareholding structure can be found on the Company's website.

### Shareholding structure at the end of the calendar year, %

SHAREHOLDERS	2021	2019	2020
V. Evtushenkov	59.2%	59.2%	59.2%
Ordinary shares in free float	26.1%	21.2%	25.0%
GDRs in free float	5.6%	10.3%	6.9%
Ordinary shares and GDRs held by Sistema Group companies	2.6%	2.8%	1.4%
Ordinary shares and GDRs held by members of the Board of Directors and the Management Board of Sistema	6.5%	6.5%	7.5%

The list of shareholders with non-zero balances on personal accounts as of 31 December 2021 included:  
**224,174 individuals and 1,963 legal entities**

### Number of shareholders who are individuals, thousand people



<sup>1</sup> In April 2022, Vladimir Evtushenkov has transferred a 10% stake in the share capital of Corporation to Sistema's member of the Board of Directors and Senior managing partner, Felix Evtushenkov. As a result of this transaction, Felix Evtushenkov's stake in the share capital of Sistema has increased to 15.2%, whereas Vladimir Evtushenkov's shareholding in Sistema has decreased to 49.2%.



## Securities

Sistema conducted an initial public offering in 2005. Its shares are traded on the London Stock Exchange in the form of global depository receipts (GDRs) under the ticker symbol "SSA." One GDR represents 20 ordinary shares. The Corporation's ordinary shares are also listed on the Moscow Exchange in the first listing level under the ticker symbol "AFKS." The GDRs traded on the London Stock Exchange represent about 5.6% of Sistema's equity, and the shares traded on the Moscow Exchange, 26.1%. Shares in free float constitute approximately 31.7% of the company's equity.

TYPE OF SECURITIES	SHARES (ORDINARY)	GDR (1 GDR = 20 SHARES)
Registration number	1-05-01669-A	-
ISIN	RU000A0DQZE3	US48122U2042
Ticker	AFKS	SSA
Primary trading platforms	Moscow Exchange	London Stock Exchange

Sistema is also the largest shareholder in four other public companies: MTS PJSC (MTSS ticker symbol on the Moscow Exchange and MBT on the New York Stock Exchange), Segezha Group PJSC (SGZH ticker symbol on the Moscow Exchange), ETALON GROUP PLC (ETLN ticker symbol on the Moscow Exchange and the London Stock Exchange) and Ozon Holdings PLC (OZON ticker symbol on the Moscow Exchange and the NASDAQ).

### Quote Information and transaction prices

- [MOEX.COM](https://www.moex.com)
- [LONDONSTOCKEXCHANGE.COM](https://www.londonstockexchange.com)
- [NYSE.COM](https://www.nyse.com)
- [NASDAQ.COM](https://www.nasdaq.com)

### Free float breakdown, RUB bn



The Moscow Exchange includes Sistema's share prices in the calculation base of its key indices (MOEX Russia and RTS), as well as its Broad Market Index and the Small and Medium Capitalisation Index.

THE MOEX  
RUSSIA INDEX

IMOEX



THE RTS INDEX

RTSI



MOEX BROAD  
MARKET INDEX

MOEXBMI



MOEX SMID  
INDEX

MCXSM



MSCI RUSSIA  
SMALL CAP

MSCI RUSSIA



Results of trading in shares and GDRs on stock exchanges<sup>1</sup>, %

INDICATOR	2021	2020	2019	2018	2017
<b>Sistema shares on the Moscow Exchange</b>					
Year low, RUB	21.8	10.8	8.0	7.7	9.0
Year high, RUB	38.0	33.6	16.2	12.8	25.1
Year-end price, RUB	23.4	28.6	15.2	8.0	12.1
Year-end market cap, RUB bn	226.2	276.4	147.0	77.2	116.7
<b>Sistema GDRs on the London Stock Exchange</b>					
Year low, USD	5.9	2.7	2.3	2.2	3.0
Year high, USD	10.0	8.7	5.0	4.5	10.0
Year-end price, USD	6.2	7.7	4.9	2.3	4.2
Year-end market cap, USD bn	3.0	3.7	2.4	1.1	2.0

In 2021, the price of Sistema ordinary shares and GDRs decreased, respectively, by 18.1% and by 19.0%. The market cap at the end of 2021 was USD 3.0 bn, down from USD 3.7 bn at the end of 2020.

Despite the Group's strong operating and financial performance, Sistema share price was under pressure due to declining share prices of the key public portfolio companies (Ozon, MTS and Etalon Group).

Share prices of Sistema and its publicly traded assets<sup>2</sup>, %



<sup>1</sup> Source: Bloomberg

<sup>2</sup> Source: Bloomberg. The indicator is calculated as appreciation/depreciation of a share/index in relation to the value as of 31 December 2020.

<sup>3</sup> Since 28 April 2021



Share prices of Sistema (GDR) and its publicly traded assets<sup>4</sup>, %



On the first trading day of 2021, the closing price of one ordinary share on the Moscow Exchange was RUB 29.3. Although the share price was growing in the first half of the year, it ended the year in the red, mainly under the influence of increased geopolitical risks. The highest share price in 2021 was on 14 April at RUB 38.0; the lowest price was recorded on 14 December at RUB 21.8. On the last trading day of 2021, the closing price was RUB 23.4.

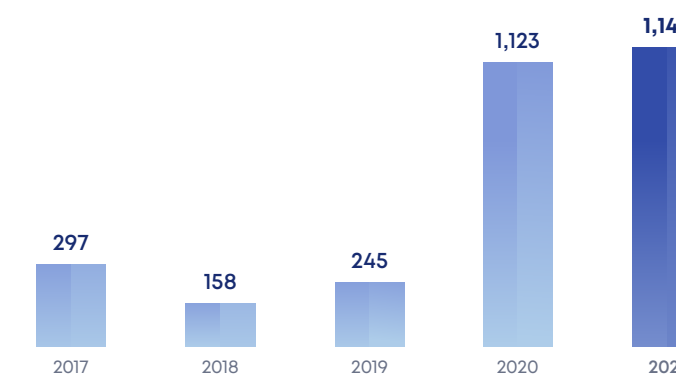
On the first trading day of 2021, the closing price of one GDR on the LSE was USD 7.5. Although the price was growing in the first half of the year, it ended the year in the red, mainly under the influence of increased geopolitical risks. The highest price in 2021 was on 14 April at USD 10.0; the lowest price was recorded on 14 December at USD 5.9. On the last trading day of 2021, the closing price was USD 6.2<sup>5</sup>.

Sistema's average daily trading volume on the Moscow Exchange<sup>6</sup>, RUB m

The liquidity of Sistema's shares increased year-on-year: the average daily trading volume on the Moscow Exchange in monetary terms increased from RUB 1,123 m in 2020 to RUB 1,164 m in 2021.

**+40.7%**

ADTV CAGR 2017-2021



<sup>4</sup> Source: Bloomberg. The indicator is calculated as appreciation/depreciation of a share/index in relation to the value as of 31 December 2020.

<sup>5</sup> VWAP of shares traded on Moscow Exchange for the last 60 trading days of 2020 was RUB 28,987, while their VWAP for the last 60 trading days of 2021 was RUB 25,556.

<sup>6</sup> Source: Moscow Exchange

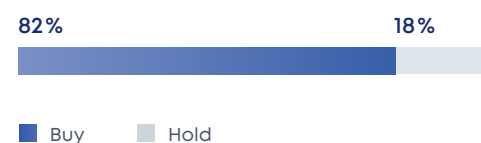


ANALYST RECOMMENDATIONS<sup>1</sup>01.01.2021<sup>3</sup>**22.8**AVERAGE TARGET PRICE<sup>2</sup>, RUB**13.5–30.5**

TARGET PRICE RANGE, RUB

**9**

NUMBER OF ANALYSTS

31.12.2021<sup>4</sup>**46.5**AVERAGE TARGET PRICE<sup>2</sup>, RUB**30.9–61.2**

TARGET PRICE RANGE, RUB

**11**

NUMBER OF ANALYSTS

BANK	BEGINNING OF 2021	END OF 2021
JPMorgan Chase & Co	—	Hold
Goldman Sachs	Buy	Buy
Raiffeisen Bank	Buy	Buy
Gazprombank	Hold	Buy
Sber CIB	Buy	Buy
Sova Capital	Buy	Buy
VTB Capital	Buy	Buy
Aton	Hold	Buy
Renaissance Capital	Buy	Buy
Wood & Company	—	Buy
BCS	—	Buy

<sup>1</sup> Source: Bloomberg

<sup>2</sup> Where analysts only give price targets for global depository receipts (GDRs), the corresponding price of one GDR is multiplied by the USD/RUB exchange rate on the relevant date and divided by 20 (the number of Sistema ordinary shares per one GDR).

<sup>3</sup> USD/RUB exchange rate: 74.41

<sup>4</sup> USD/RUB exchange rate: 74.68



## Dividends and share buyback programme

## DIVIDEND POLICY



The full text of the new dividend policy is available on the Company's website.

In May 2021, the Board of Directors approved a new Dividend Policy that established the recommended dividend amount for 2021-2023. In accordance with the Policy, the recommended dividend amount is at least RUB 0.31 per ordinary share in 2021, at least RUB 0.41 per share in 2022 and at least RUB 0.52 per share in 2023. Thus, based on the current number of the Corporation's ordinary shares, the recommended total dividend payout is at least ~RUB 3 bn in 2021, ~RUB 4 bn in 2022 and ~RUB 5 bn in 2023.

Additionally, starting from 2022, the Policy also recommends increasing dividend payments by an amount equal to 10% of the absolute increase in adjusted OIBDA<sup>5</sup> for the last completed financial year, provided that adjusted OIBDA grew by more than 5% in the last completed financial year and the net debt<sup>6</sup>/adjusted OIBDA ratio does not exceed ×3.

## DIVIDENDS DISTRIBUTED FOR THE FULL YEAR 2020

**0.31** RUB

DIVIDEND PER SHARE in 2021

On 26 June 2021, the Annual General Meeting of shareholders of Sistema resolved (minutes No 1-21) to pay dividends in the amount of RUB 2,991,500,000.00, or RUB 0.31 per ordinary share.

As of 31 December 2021, the total amount of dividends distributed equaled RUB 2,990,719,017.93. Withholding tax on dividends distributed to shareholders totaled RUB 40,203,566.00.

## UNPAID DIVIDENDS

As of 31 December 2021, the total amount of unpaid dividends equaled RUB 2,214,075,392.23, including:

- ▶ RUB 2,213,003,658.88 not paid on the basis of a written request from a shareholder
- ▶ RUB 1,071,733.35 not paid due to the lack of the necessary information about the recipients of dividends to transfer the corresponding amounts

<sup>5</sup> Operating income before depreciation and amortisation.

<sup>6</sup> All financial indicators used to determine the amount of dividends are determined in accordance with the Corporation's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

## DIVIDEND AMOUNTS AND PAYMENT DATES

INDICATOR	TOTAL AMOUNT OF DECLARED DIVIDENDS, RUB	DIVIDEND PER SHARE, RUB	DECLARATION DATE	PAYMENT DATE
<b>2021</b> (for the full year 2020)	2,991,500,000	0.31	26/06/2021	28/07/2021
<b>2020</b> (for the full year 2019)	1,254,500,000	0.13	27/06/2020	29/07/2020
<b>2019</b> (for the full year 2018)	1,061,500,000	0.11	29/06/2019	31/07/2019
<b>2018</b> (for the full year 2017)	1,061,500,000	0.11	30/06/2018	31/07/2018
<b>2017</b> (for 9M 2017)	6,562,000,000	0.68	28/11/2017	22/12/2017 <sup>1</sup> –19/01/2018 <sup>2</sup>
<b>2017</b> (for the full year 2016)	7,816,500,000	0.81	24/06/2017	28/07/2017
<b>2016</b> (for 1H 2016)	3,667,000,000	0.38	23/09/2016	20/10/2016
<b>2016</b> (for the full year 2015)	6,465,500,000	0.67	25/06/2016	27/07/2016

# 2 991 500 000

DIVIDEND AMOUNT  
IN 2021, RUB

### SHARE BUYBACK PROGRAMME

In September 2019, the Corporation launched a share buyback programme for RUB 3 bn. In June 2021, Sistema increased the volume of its share buyback programme to RUB 7.0 bn and extended it until 17 September 2022. The buyback under the programme was carried out by Sistema's subsidiary JSC Sistema Finance. In 2021, Sistema bought back 180.9 m ordinary shares representing 1.87% of its authorised capital for RUB 5,063 m.

At the end of January 2022, the Programme was implemented in full.

Since the announcement of the programme, JSC Sistema Finance acquired 315,195,371 ordinary shares of the Corporation for an aggregate amount of approximately RUB 7 bn, which represents 3.27% of outstanding Sistema shares.

<sup>1</sup> Date of payment of dividends to the nominee shareholders and custodians being professional participants of the securities market, who are included in the shareholders register.

<sup>2</sup> Date of payment of dividends to other persons included in the shareholders register.



## BONDS



Detailed information on debt instruments is available on the Company's website.

Sistema is one of the largest issuers of corporate bonds in Russia. The Company uses bond proceeds to refinance its debt portfolio and implement its investment programme.

DATE OF LISTING	ISIN	BOND ISSUE	VOLUME, RUB BN	COUPON	INTEREST RATE TYPE	MATURITY	PUT OPTION
01/03/2021	RU000A102SV8	Sistema, 1P-18	5	6.90%	Fixed	17/02/2031	30/11/2023
01/03/2021	RU000A102SX4	Sistema, 1P-19	13	7.35%	Fixed	17/02/2031	27/02/2025
12/05/2021	RU000A103372	Sistema, 1P-20	10	8.20%	Fixed	30/04/2031	12/05/2026
05/07/2021	RU000A103C95	Sistema, 1P-21	15	8.40%	Fixed	23/06/2031	02/07/2026
13/09/2021	RU000A103P33	Sistema, 1P-22	15	8.20%	Fixed	01/09/2031	10/12/2026
03/12/2021	RU000A104693	Sistema, 1P-23	5	9.95%	Fixed	21/11/2031	04/03/2026

## Credit ratings

Sistema's financial stability is reflected in its ratings from leading rating agencies. They conduct independent assessment of the Corporation's strategy and competitive position.

Sistema's achievements in growing the value of its diversified portfolio and optimising the debt burden caused several rating agencies to upgrade the company's credit ratings throughout 2021. In May 2021, S&P affirmed Sistema's credit rating at "BB", with outlook upgraded to "positive." In June 2021, Fitch upgraded Sistema's credit rating to "BB," with a "stable" outlook. In September 2021, the Expert RA rating agency upgraded the outlook on the Corporation's credit rating from "stable" to "positive" (the rating was affirmed at "ruAA-").

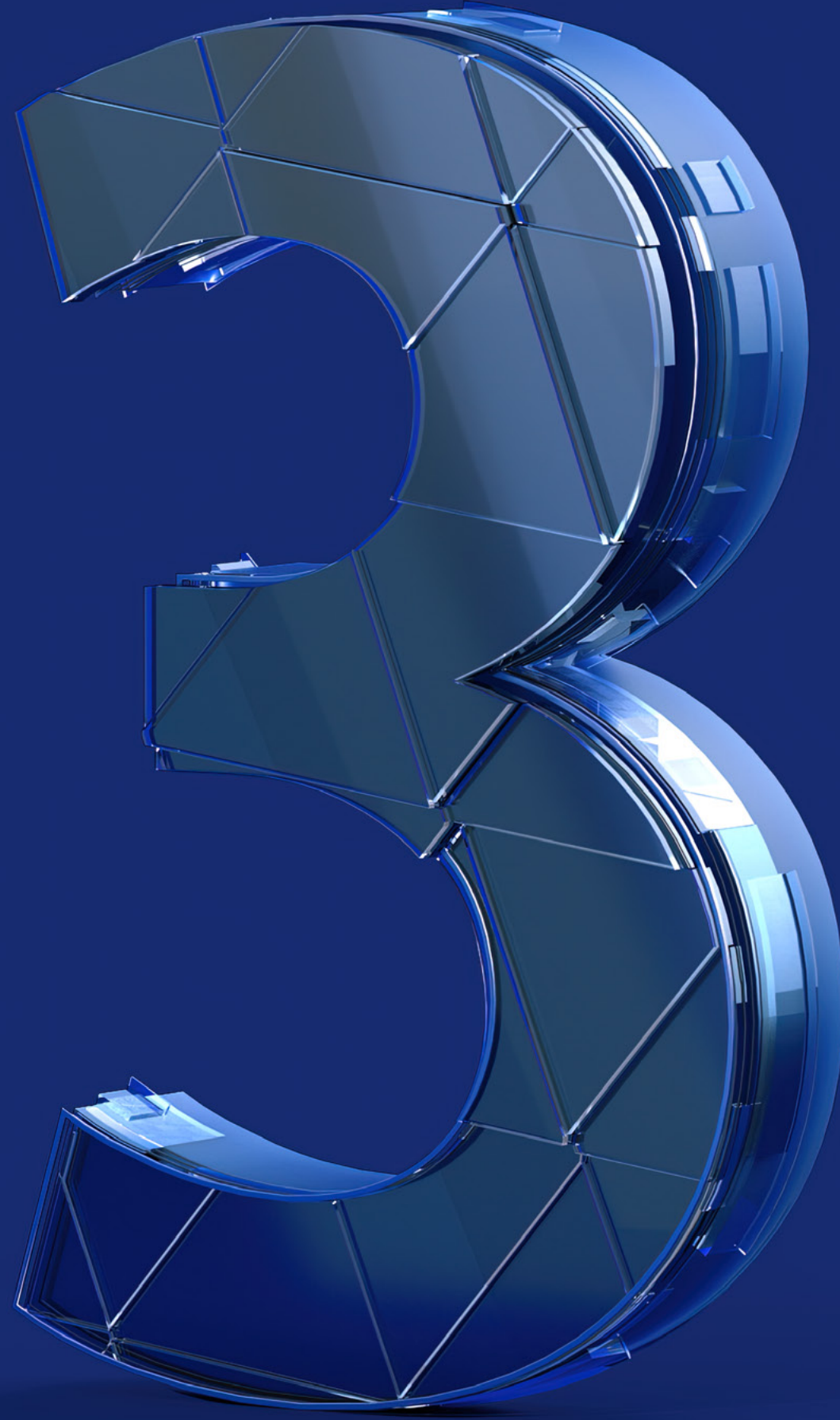
### Sistema's credit ratings<sup>3</sup>

	LONG-TERM CREDIT RATING	OUTLOOK	RATING UPDATES IN 2021
Standard & Poor's	BB	Positive	11/05/2021
Fitch	BB	Stable	25/06/2021
Expert RA	ruAA-	Positive	22/09/2021

<sup>3</sup> Standard & Poor's and Fitch ratings were withdrawn by agencies in 1Q 2022.



Detailed information on credit ratings is available on the Company's website.



# RESULTS OF KEY ASSETS

MTS .....	54
OZON .....	66
SEGEZHA GROUP .....	72
ETALON GROUP .....	90
MEDSI .....	98
STEPPE AGROHOLDING .....	110
BINNOPHARM GROUP .....	120
OTHER CONSOLIDATED ASSETS .....	128
VENTURE CAPITAL FUNDS .....	156



MTS.RU

MTS is a leading telecom operator in Russia and the CIS offering mobile and fixed-line communication services, data transfer and Internet access, cable and satellite TV broadcasting; a provider of digital services, including fintech and media as part of ecosystems and mobile applications; a provider of IT solutions in the area of unified communications, the Internet of Things, monitoring, data processing and cloud computing.



TEAM



**Vyacheslav Nikolayev**  
CEO



**Felix Evtushenkov**  
CHAIRMAN OF THE BOARD OF DIRECTORS

KEY HIGHLIGHTS

> **88 M**  
MOBILE SUBSCRIBERS in Russia, Belarus and Armenia

> **25 M**  
USERS OF MTS MOBILE APPLICATION

**No. 1** AMONG THE STRONGEST TELECOM BRANDS IN RUSSIA

> **26.4 THSD**  
4G BASE STATIONS LAUNCHED

**5.6 THSD**  
RETAIL OUTLETS

<sup>1</sup> In March 2022, as part of the long-term incentive programme, Vyacheslav Nikolayev acquired 19,983,816 ordinary shares of MTS owned by Bastion LLC, a wholly owned subsidiary of MTS. With the transfer of shares to Mr Nikolayev, his stake in MTS increased to above 1%. Sistema's effective ownership stake in MTS decreased to 49.9%.



**1.3 M**  
ANNUAL INCREASE IN THE NUMBER OF ACTIVE USERS OF MY MTS APP

**8.8 M**  
ECOSYSTEM CLIENTS<sup>2</sup>  
+40% annual growth

**+72%**  
GROWTH IN THE NUMBER OF REGISTERED USERS OF THE ECOSYSTEM SERVICE MTS CASHBACK

DIGITAL SOLUTIONS AND CLOUDS

**+95%**

GROWTH IN REVENUE FROM CLOUD TECHNOLOGIES AND DATA CENTRES

**>15**

PROJECTS TO LAUNCH CORPORATE LTE/5G NETWORKS FOR MAJOR RUSSIAN COMPANIES

**14**

DATA CENTRES

**>50%**

CONTRIBUTION OF NON-TELECOM SEGMENTS TO THE GROUP'S REVENUE GROWTH

MEDIA

**8.4 M**

PAY TV SUBSCRIBERS

**4 M**

OTT PLATFORM SUBSCRIBERS

**89.0 BN RUB**

DISTRIBUTED IN DIVIDENDS IN 2021<sup>4</sup>



**3,000,000**

CUSTOMERS OF MTS BANK

**No.1**

RANK OF MTS BANK BY POS LENDING VOLUMES<sup>3</sup>

**No.3**

MTS BANK RANKS BY POS LOAN PORTFOLIO<sup>3</sup>

**+38%**

GROWTH OF MTS BANK'S REVENUE IN 2021

**+75%**

GROWTH OF MTS BANK'S RETAIL LOAN PORTFOLIO

**1.8 M**

ACTIVE USERS OF MTS BANK'S MOBILE APPLICATION

**+47%**

GROWTH OF MTS BANK'S OPERATING INCOME before provisions

<sup>2</sup> Ecosystem customers are the customers who are actively and consciously using two and more products or services provided by MTS.

<sup>3</sup> According to data from MTS Bank based on Frank Research reports.

<sup>4</sup> Including MTS's share buyback programme.

# Business model



## BUSINESS LINES

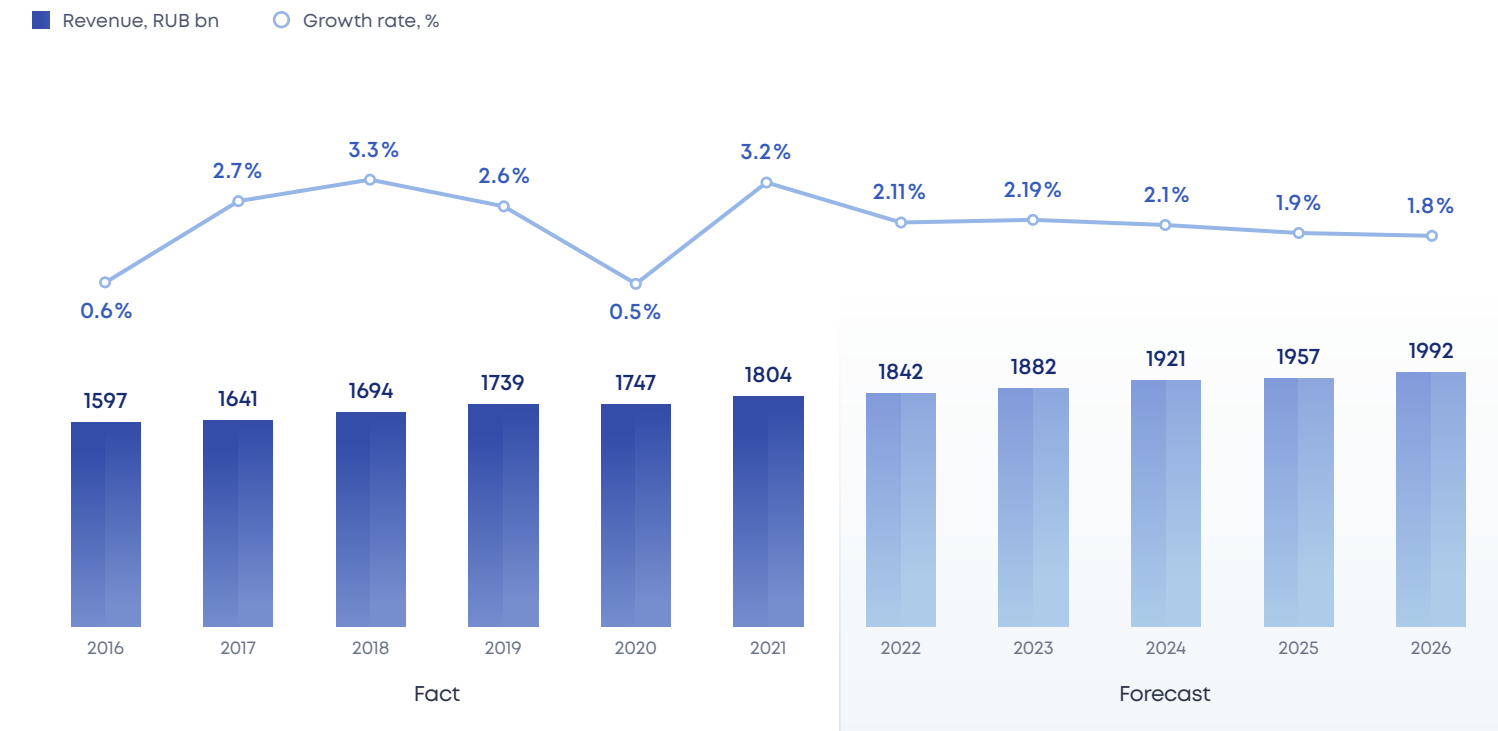
TELECOM	FINTECH	MEDIA	CLOUD AND INFRASTRUCTURE
NEW DIGITAL SERVICES	PARTNERSHIPS	RETAIL CHAIN	

## TOOLS

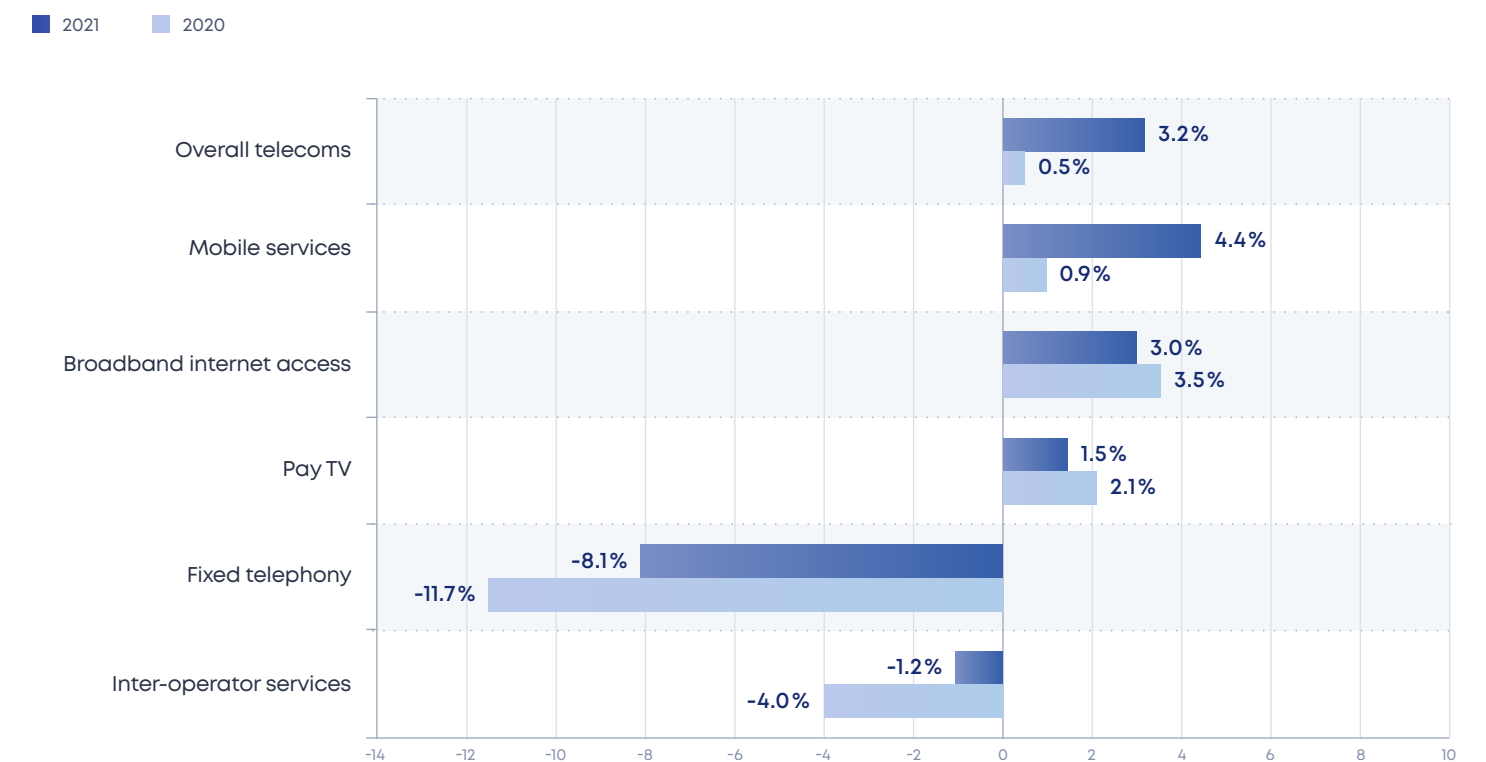
CUSTOMER EXPERIENCE	ONE CUSTOMER ID
LOYALTY PROGRAMME	BIG DATA
ARTIFICIAL INTELLIGENCE	IT

# Industry overview for 2021

## Telecoms market in Russia<sup>1</sup>



## Annual growth of Russian telecoms segments<sup>1</sup>



<sup>1</sup> Source: TMT Consulting

**KEY TRENDS ON THE RUSSIAN TELECOMS MARKET**

*In the mobile segment*

**+8<sub>M</sub>**

**THE SUBSCRIBER BASE INCREASED IN ABSOLUTE NUMBERS IN 2021**

**The highest result over the last 5 years**

*This growth was driven by the easing of lockdown restrictions and the resulting increase in customer traffic in retail outlets, as well as partial recovery in the numbers of migrant workers, who traditionally make up a big share of mobile operators' customer base in Russia.*

In 2021, the Russian telecommunications market was valued at **RUB 1.8 tn<sup>1</sup>**, up by 3.2%, which is the highest level over the recent years. This growth was mainly driven by a recovery in mobile communications (+4.4% in 2021 compared to +0.9% in 2020).

At the same time, a slowdown was recorded in such important segments as fixed-line broadband Internet (+3% in 2021 vs +3.5% in 2020) and pay TV (+1.5% in 2021 vs +2.1% in 2020): subscriber base growth rates fell after a rise in new connections during the lockdown period of 2020, which could not be offset by one-off increases in tariffs.

The number of subscribers (active SIM cards) in the mobile segment in Russia rose by 3.3% in 2021, up to 259 m, approaching the level of 2019 (260 m), with mobile penetration at 178%.

Mobile revenue in 2021 grew by 4.4% compared to 0.9% in the previous year. This growth was prompted by subscriber base expansion and higher roaming revenues due to a rise in outbound tourism. Another factor was a considerable increase in revenue from additional services in the B2B segment.



**259<sub>M</sub>**

**THE NUMBER OF SUBSCRIBERS IN THE MOBILE SEGMENT**  
+3.3% growth YoY in 2021

<sup>1</sup> Source: TMT Consulting



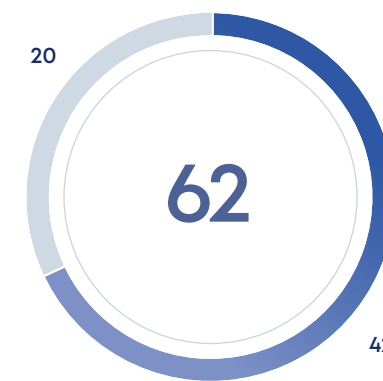
**LEGAL FRAMEWORK & REGULATORY CHANGE**

**In 2021, the company continued its efforts to address the issue of 5G frequencies. Mobile operators are actively implementing pilot projects in the available frequency bands and developing mechanisms for freeing up more radio frequencies.**

In November 2021, the Ministry of Digital Development and the representatives of the telecom industry developed 10 initiatives, which will be included in the first package of measures for supporting the industry. The main objective of the support measures is to decrease the operators' investment burden related to growing data traffic in conditions of stable subscriber numbers.

The Russian government has approved an action plan to create additional incentives for the development of the information technology industry. The road map includes 62 measures, of which 20 will be sector-wide. The remaining 42 actions are aimed at stimulating the development and adoption of Russian technologies in specific segments.

**Measures included in the road map**



■ Sector-wide actions  
■ Stimulating actions

In March 2022, the government's measures aimed at addressing sanctions and supporting the telecom and IT industries took effect. On 2 March 2022, the Russian President issued an order exempting IT companies from income tax until 31 December 2024. At the end of March 2022, the Russian government also approved measures aimed at supporting the telecom sector, including a moratorium on implementation of the "Yarovaya" law by telecom operators, introduction of a mechanism for phased indexation of tariffs by operators to match inflation rates, shared use of communication infrastructure by operators as part of inter-network roaming, one-year suspension of regulations requiring operators to ensure LTE coverage on federal highways and in small residential communities. Moreover, the Ministry of Digital Development has taken steps aimed at retaining software developers and creating favourable conditions for IT companies.

**MACROECONOMIC FACTORS THAT INFLUENCED THE COMPANY'S BUSINESS IN 2021**

Inflationary pressures in Russia are negatively affecting capital spending on acquisition of telecom equipment. Acceleration of inflation is also having a negative impact on labour costs; however, this situation is easier to control. In particular, MTS continues implementing its cost-cutting initiatives, making it possible to partially mitigate inflation risks.



## Business development in 2021

### TELECOM

In 2021, MTS revenue from communication services in Russia increased by 5.1% up to **RUB 416.5 bn**, which was driven by high consumption of services, both in mobile and fixed-line segments. In particular, positive trends in the mobile segment reflect growth in the number of subscribers (+2.5%) and consumption of Internet traffic, as well as partial recovery in roaming revenues amid revival of international travel in the second half of 2021 as opposed to the same period of 2020, when more rigid Covid restrictions were in place. Growth in the fixed-line communications segment in Russia was prompted by the consolidation of new assets acquired by the company.

### MEDIA

In 2021, revenue in the Media segment rose by 30%, up to **RUB 13.7 bn**, due to an increase in the number of users of convergent services that combine TV and communication services, as well as a rise in the number of users of streaming platform KION. OIBDA in the Media segment went up by 34%, up to **RUB 5.7 bn**, on the back of revenue growth. The total number of pay TV subscribers grew by 27% year-on-year, up to 8.4 m users. The subscriber base of the OTT platform gained 58%, growing up to 4 million users.

In April 2021, MTS launched a new streaming platform called KION, with a catalogue that offers more than 200 TV channels, thousands of films, series, cartoons and documentaries. Own production of original films and a new type of content – cinema stories – constitute an important part of the streaming service. KION's library has been supplemented with content from MTS's partner, Channel 1.

### DEVELOPMENT OF THE 5G NETWORK

In February 2021, MTS announced the construction of three private LTE networks:

1. commercial 5G-ready network for the steel manufacturing and mining company EVRAZ
2. pilot underground LTE network to support the mining operations of Uralkali, one of the world's leading potash producers
3. networks on the premises of the Kochubeevskaya wind farm (JSC NovaWind) combining Rosatom's wind energy assets

In September 2021, MTS completed the construction and launched the pilot operations of Russia's first commercial dedicated LTE/5G-ready network for Polymetal, one of the world's leading gold and silver producers.

In October 2021, MTS signed an agreement for building a dedicated LTE/5G-ready network for Karelsky Okatysh, an iron ore producing and processing plant that is part of Severstal, the world's largest steel and mining company. MTS has more than **15 projects** to launch corporate LTE/5G networks for major Russian companies.

In June 2021, MTS and its partners rolled out a pilot 5G network in the Innopolis special economic zone in the Republic of Tatarstan.

In November 2021, MTS successfully tested Russia's first OpenRAN-based 5G telecom solution using Russian-made software developed by the Skolkovo Institute of Science and Technology (Skoltech).

In 2021, MTS launched Russia's first 5G user pilot network in the 4.9 GHz range in fourteen popular locations of Moscow and sixteen popular places of St. Petersburg and Kronstadt.

In January 2022, MTS launched the world's first uplink aggregation tests in a pilot 5G network built on the basis of network functions virtualisation in a vRAN network.

### FINTECH

MTS Bank's revenue for 2021 rose by 37.9% year-on-year, up to **RUB 48.3 bn**, which reflects the ongoing fast growth of consumer banking and lending services. MTS Bank's operating income (before provisions) increased by **47%**. Net income reached RUB 5 bn, which significantly exceeds RUB 1.1 bn in 2020, when the results were hit by the Covid-19 pandemic. MTS Bank's retail loan portfolio before provisions grew by 75% in 2021, up to **RUB 206 bn**. The number of users of MTS Bank mobile app totaled **1.8 m** by the end of the year.

In July 2021, MTS acquired a 51% stake in LLC Factorin for **RUB 867 m**, including a RUB 350 m investment to support the company's development. Factorin is the developer and owner of an innovative blockchain-based platform for trade financing. The purpose of the transaction is to expand the financial services ecosystem of MTS Group for the corporate market.

In September, MTS completed the acquisition of 70% of shares in LLC Sistema Capital for **RUB 3.5 bn** as part of an agreement with JSC Sistema Finance and LLC Sistema Telecom Assets, the wholly-owned subsidiaries of Sistema. As a result of the transaction, MTS increased its shareholding in JSC Sistema Capital up to 100%. The transaction aims to strengthen MTS Group's positions in the fast-growing market of investment services.

### INTERNET OF THINGS (IOT)

In June 2021, MTS launched an **IoT Hub**. The service allows developers, startups and large companies to create their own products and IoT solutions based on a ready-made set of tools.

In January 2022, MTS launched "**Digital Water Service**", an IoT solution for collecting and analysing data from pressure sensors and meters in water supply systems.

### RETAIL

Revenue in MTS's retail chain in 2021 rose by 8.7% year-on-year, up to **RUB 86.4 bn**, while OIBDA increased by 24.6%, up to **RUB 6.2 bn**, amid growing sales of mobile phones and accessories and increased efficiency of MTS's retail chain.

### DIGITAL SOLUTIONS AND CLOUDS

In January 2021, the cloud provider **#CloudMTS** launched a service of cloud project solutions for businesses.

In June 2021, MTS launched **MTS GROM**, the third most powerful supercomputer in Russia able to perform computing operations at a speed of up to 2.26 petaflops.

In January 2022, MTS launched **Cloud CDN**, a fast content delivery service for the corporate customers of #CloudMTS. The service can be used for live streaming, game streaming and video-on-demand services.

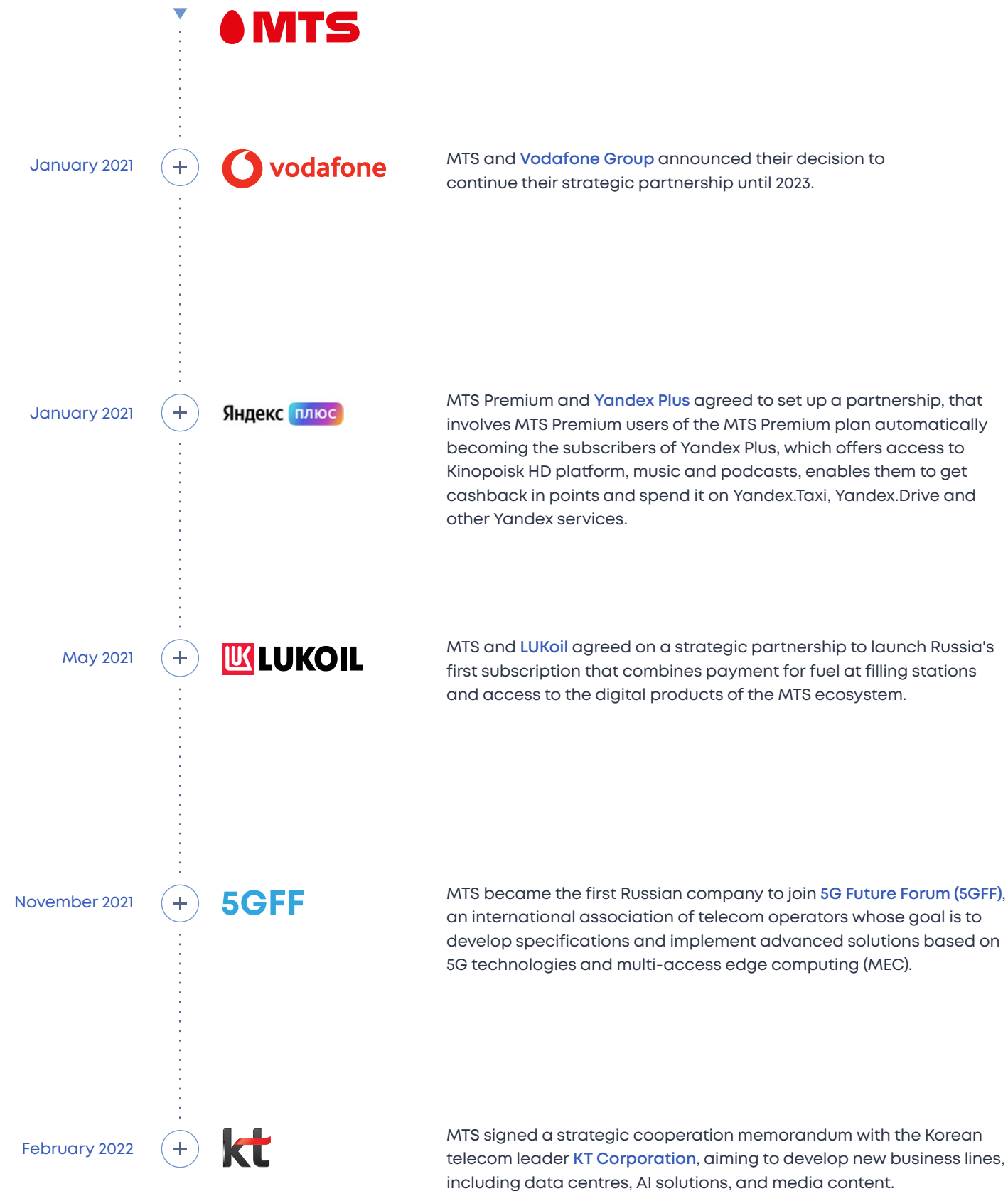
In February 2022, MTS's Board of Directors established a dedicated committee for development of cloud technologies and infrastructure under the chairmanship of independent director Nadia Shouraboura.

### ARTIFICIAL INTELLIGENCE (AI)

In March 2021, MTS's subsidiary LLC Artificial Intelligence Centre of MTS (MTS AI) invested about USD 10m in **Kneron**, a producer of AI chips. The investment will allow MTS AI to become the exclusive distributor of Kneron chips and technologies in Russia and create its own line of AI-ready products using Kneron technologies.

In February 2022, **Intema**, a subsidiary of MTS AI, bought **VisionLabs B.V.** for **RUB 6.5 bn**. VisionLabs is one of the world's leaders in computer vision and machine learning. VisionLabs has become the biggest portfolio company of Intema, which was established by MTS AI as a new brand aimed at developing marketable AI products and operating on international markets.

## PARTNERSHIPS



## AWARDS

*Award in the area of customer experience*

**CX WORLD AWARDS 2021**

April 2021

MTS won in the category "Best corporate customer experience B2B. Telecom services" by submitting a case on improvement of CJM and EJM during the pandemic in 2020.

**IOT AWARDS 2021**

November 2021

MTS became the winner in the category "IoT Company of the Year in Russia".

*National award*

**RUNET AWARD 2021**

December 2021

MTS won in the category "SME Development in Russian Internet Domain" for its project "Know in Person."

*Professional award*

**"DIGITAL HEIGHTS 2021"**

January 2022

MTS won in the category "Best IT Solution for the Energy Industry".

## SUSTAINABLE DEVELOPMENT

In March 2021, MTS announced it was establishing an ESG Committee (Committee for Corporate Governance, Environmental and Social Responsibility) of the Board of Directors to ensure more focus on the implementation of sustainability principles and develop a general strategy on corporate governance, environmental and social responsibility. The ESG Committee of MTS's Board of Directors is chaired by independent director Regina von Flemming.

In October 2021, Russian agency AK&M granted MTS the highest score in the rating of ESG reporting (RESG1) based on its assessment of the fullness of disclosed information on corporate sustainability and ESG reporting.

In June 2021, Generation M, MTS's charitable project promoting creativity, was included in the UN's official list of SDG Good Practices.

In December 2021, MTS obtained a "B" score (management level) in the CDP rating, the world's leading platform for disclosing information about the impact of companies on the environment.

In December 2021, MTS was assigned the highest A+ category in the annual Leaders of Corporate Charity rating that is sponsored by the Donors Forum (an association of Russia's largest charity organisations) with the aim of identifying best practices in the area of corporate social investments and charity and promoting them in the business community and among the general public.





## Development strategy and results of CLV 2.0 strategy

### CUSTOMER LIFETIME VALUE 2.0

The main goal of the Customer Lifetime Value 2.0 (CLV 2.0) strategy is to maximise Value that MTS gets from the Customer throughout entire Lifetime (a period during which the customer uses MTS's services). The key marketing tool that is used for achieving this goal is an integrated and deeply customised ecosystem including a range of proprietary and partner digital services with the highest value for the customer that meets the customer's needs in various areas of life.

Development of services is the responsibility of business segments that may be significantly different in scale, development trends and nature of activities. They work independently in close mutually beneficial cooperation with partners within the ecosystem (joint use of technologies, customer data, shared marketing and branding, etc).

After achieving considerable scale, the business segments will be spun off as stand-alone companies with prospects for an IPO at multiples exceeding those of the core communications business, making it possible to maximise MTS's value based on the sum-of-the-parts valuation approach.

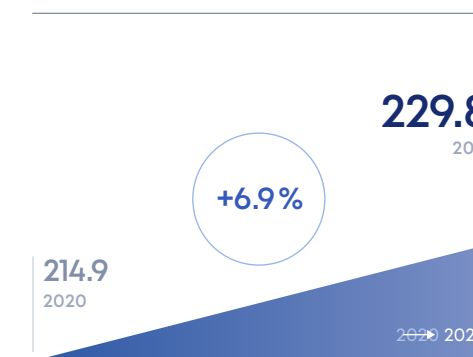
MTS's CAPEX in 2021 reached RUB 111 bn, of which RUB 109 bn was spent in Russia, with the enhancement of network capacity, coverage and quality remaining the main investment focus. Over the course of 2021, MTS built 27,300 base stations across Russia, of which 26,400 are 4G towers. Smartphone data usage was up 22% year-on-year, with the smartphone penetration rate within the MTS network up from 78.1% in 4Q 2020 to 80.2% at the end of 2021.

## Financial performance in 2021

### Revenue, RUB m



### Adjusted OIBDA, RUB m



RUB m	2021	2020	CHANGE, %
Revenue	534,403	494,926	8.0%
Adjusted OIBDA	229,780	214,895	6.9%
Operating income	118,692	112,638	5.4%
Adjusted net income attributable to Sistema	31,840	31,753	0.3%

In 2021, MTS's revenue increased by 8% year-on-year, up to RUB 534.4 bn due to growing consumption of communication services, data traffic and ecosystem services (including fintech and media) and a surge in sales of mobile phones and accessories.

By the end of 2021, adjusted OIBDA rose by 6.9% reaching RUB 229.8 bn on the back of increased demand for financial services, revival of the entertainment industry and renewal of the product portfolio.

Adjusted net income for 2021 remained at the level of 2020 due to higher amortisation charges caused by an increase in capital spending and M&A deals, growth of interest expenses on the back of the rise in the key rate and greater foreign exchange differences and derivative transactions.

In the calendar year 2021, the total amount of dividends stood at RUB 74 bn.

In July 2021, MTS completed a share buyback programme totally worth RUB 15 bn (2.27% of the total number of listed MTS shares).

# 74.0 BN RUB

THE TOTAL AMOUNT OF DIVIDENDS PAID  
In the calendar year 2021

# 15.0 BN RUB

A SHARE BUYBACK PROGRAMME TOTALLY WORTH  
Completed in July 2021

# OZON

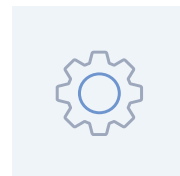
 OZON.RU

Ozon is a leading multi-category online marketplace in Russia's e-commerce market with a broad product mix and extensive logistical infrastructure enabling the company to make one of the best offers to its customers.

SISTEMA'S EFFECTIVE STAKE<sup>1</sup>

## 31.8%

### TEAM



Management Board



**Elena Ivashentseva**  
CHAIRMAN OF THE BOARD OF DIRECTORS

### KEY HIGHLIGHTS

> **445** BN RUB  
GMV IN 2021 including services

+ **125%**  
GMV GROWTH IN 2021

**No. 2** RETAILER IN RUSSIA BY GMV gross merchandise value

**178.2** BN RUB  
REVENUE

> **90** THSD  
ACTIVE SELLERS

<sup>1</sup> 12.2 m shares were issued to be used in the Ozon's management incentive programme, considering exercise of all options under the programme, the effective share of Sistema, including Sistema VC, would amount to 31.8%



> **3x**

INCREASE IN NUMBER OF ORDERS compared to 2020

+ **200%**  
GROWTH IN THE NUMBER OF ORDERS (2021)

> **200** M  
ORDERS DELIVERED IN 2021

> **25** M  
ACTIVE CUSTOMERS

> **80** M  
UNIQUE SKUs

As of 31 December 2021, Ozon was a leading logistical operator in Russia

## 1,000,000

SQ M OF TOTAL WAREHOUSE SPACE



# Business model



# Key e-commerce trends in Russia in 2021

In 2021, the Russian e-commerce market grew by 41% year-on-year, reaching a total value of RUB 4.1 tn, with the overall retail market gaining 15%, up to RUB 39 tn, according to INFOLine. Despite the growing penetration of e-commerce, the Russian market is at an initial stage of development. E-commerce penetration in 2021 stood at 10.5%, which is significantly lower than in other countries (21.0% in the USA, 25.5% in the UK and 27.4 in China).

The key factors hindering the development of e-commerce in Russia included limitations of logistical infrastructure due to the lack of investments and perception of online shopping as complicated and unsafe by the customers.

Covid-19 restrictions in 2020 and 2021 had a significant impact on the development of the e-commerce sector in Russia. The limited mobility of customers resulted in a considerable growth in the number of Internet users and active buyers, boosting the frequency of orders and improving customers' trust in online shopping in general and in Ozon in particular.

The Russian e-commerce market has strong potential for fast growth on the back of investments in logistical and fulfilment infrastructure by online players, considerable improvement in the accessibility of financial technologies and active development of online trade in Russia's regions and small towns.

The Russian retail market is the 4th largest in Europe, and its total value may reach RUB 54.3 tn by 2026. According to analysts' estimates, the penetration of e-commerce may reach 24.5% by 2026, creating vast potential for the company's growth.

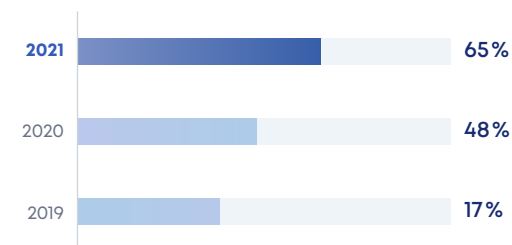
Multi-category retailers, such as Ozon, are the leading players in the Russian e-commerce market. Through a perfect combination of product mix, prices and services, multi-category players continue actively expanding their market share. According to analysts' findings, the share of multi-category marketplaces may go up from 35% in 2021 to 72% in 2026.

Developed e-commerce markets have been mostly consolidated by major players, while the Russian market remains very fragmented. Consolidation trends in the e-commerce market open up significant opportunities for major players in the fragmented Russian market



## Business development in 2021

### Ozon marketplace's share in GMV, %



In 2021, Ozon significantly expanded its logistical and fulfilment infrastructure, including warehouses, distribution centres and a network of dark stores. As a result, the storage capacity of the company almost tripled compared to 2020. As of 31 December 2021, the company was a leading logistical operator in Russia: it operated about **1 m sq m** of warehousing and logistical capacity.

Accelerated growth of the marketplace in 2021: Ozon marketplace's share in GMV reached 65% compared to 48% in 2020 and 17% in 2019. The marketplace's product range has grown more than 7-fold year-on-year, exceeding **80 million SKUs** as of 31 December 2021.

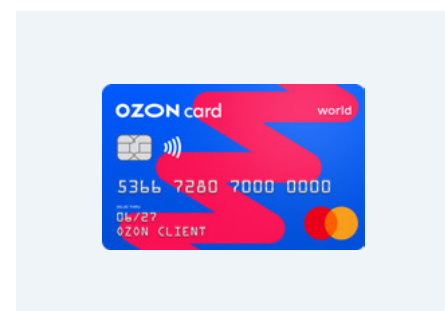
In 2021, Ozon successfully launched a number of fintech products, including the acquisition of a banking licence, as well as development of such products as Ozon.Card (a debit card), Ozon.Account (an e-wallet) and lending products. These products improve customer experience, increase the flexibility of payments and enhance customer loyalty, resulting in a greater frequency of purchases on the marketplace.

In 2021, the e-grocery service Ozon fresh successfully launched regional development, expanding beyond the Moscow region. To enhance its perception as a service of quick delivery of fresh products the business unit was rebranded as Ozon Fresh in March 2022.

Ozon fresh product range includes both food and non-food items. The service also offers its customers an express 1-hour delivery and a super express 15-minute delivery in Moscow.

Ozon fresh continues developing its private label goods including coffee, milk, snacks and other products, as well as in-house production of ready meals under the Ozon brand.

In 4Q 2021, Ozon fresh started scaling up its operations outside Moscow and St. Petersburg and launched dark stores in Tver, Krasnodar, Rostov-on-Don, Kazan, Sochi and Volgograd, offering its customers across regions the benefits of fast delivery.



Ozon.Card remains one of the most popular payment tools on Ozon's marketplace. In 4Q 2021, the company launched Ozon.Account based on the acquired banking licence.

## Strategic goals

# >80%

EXPECTED GMV GROWTH IN 2022 compared to 2021

The key priorities of the company include further improvement of customer loyalty by expanding the product range and offering quality customer service; attraction of vendors by enhancing existing and creating new vendor solutions; development in other regions, including further expansion of operations in Belarus and Kazakhstan; development of promising business streams and enhancement of efficiency.

The company expects its GMV to grow by 80% or more in 2022 compared to 2021 and aims to improve unit economics.

## Financial performance in 2021

### GMV, including services, RUB bn



### Revenue, RUB bn



### Financial results, RUB bn<sup>1</sup>

RUB bn	2021	2020	CHANGE, %
GMV, including services <sup>2</sup>	448.3	197.4	127%
Revenue	178.2	104.4	71%
Adjusted EBITDA <sup>3</sup>	(41.2)	(11.7)	-
Cash flow from operations	(13.6)	6.6	-

In 2021, GMV including services grew by 127% year-on-year to RUB 448.3 bn.

Key growth drivers:

- ▶ the number of orders increased by more than **3.0 times year-on-year**, exceeding 220 m in 2021 on the back of increased customer loyalty and engagement
- ▶ the frequency of orders per customer rose by about 60% year-on-year, up to 8.7x

In 2021, the company conducted a successful seasonal sales campaign, Megasales, which included Bachelor's Day and Back Friday and achieved record day turnovers of RUB 6 bn and RUB 5 bn respectively.

The ratio of adjusted EBITDA to GMV (including services) was (9.2%) compared to (5.9%) in 2020 due to investments in infrastructure and the low base effect related to the 2020 Covid-19 pandemic. The Company demonstrated an improvement in profit margins in 4Q vs. 3Q that was driven by greater utilisation of infrastructure due to economies of scale, as well as by operating leverage effect and optimization in marketing expenses. In 2021, the Company's cash flow from operations totaled RUB (13.6 bn) compared to RUB 6.6 bn in 2020.

<sup>1</sup> Ozon's financial results are not consolidated within Sistema's financial statements. Investments in Ozon are reflected in Sistema's financial reporting using the equity method. The share of Ozon's profit/loss attributable to Sistema is included in Sistema's operating results. Investments are reflected at book value adjusted for attributable share of profit/loss for the period and are not marked to market.

<sup>2</sup> GMV incl. services is the value of goods sold on Ozon together with revenue from other services provided to buyers and sellers, inclusive of VAT minus discounts, cost of returns and cancelled orders. This figure does not take into account sales from Ozon.Travel.

<sup>3</sup> Adjusted EBITDA is not an IFRS metric. Adj. EBITDA is treated as a pre-tax loss, prior to the deduction of non-operating income (expenses), depreciation and option programme expenses.



SEGEZHA-GROUP.COM

Segezha Group is one of Russia's largest vertically integrated holding companies 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.

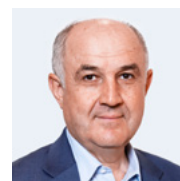
SISTEMA'S EFFECTIVE STAKE

62.2%

TEAM



Mikhail Shamolin  
CEO



Ali Uzdenov  
CHAIRMAN OF THE BOARD OF DIRECTORS

KEY HIGHLIGHTS

12

REGIONS OF OPERATIONS in Russia

15

THSD EMPLOYEES

26

PRODUCTION SITES

>100

COUNTRIES OF SALES

5

COUNTRIES WITH REPRESENTATIVE OFFICES

74%

OF REVENUE IS IN FOREIGN CURRENCY

Business model

Segezha Group operates a vertically integrated business model with presence in all the key value segments – from in-house logging at leased forest plots to sale of high-margin products in the most attractive markets, both in Russia and abroad.

The business model's vertical integration is meant to create added value and ensure high business stability. 84% of Segezha Group's demand for raw wood is met by its own forest resources. It allows Segezha Group to have leading positions in terms of production costs in all its business segments.



FOREST RESOURCES

PRODUCTION

MAIN PRODUCTS

BY-PRODUCTS

Pulp wood  
30-40%

Pulp and paper mills

Paper

Forest chemicals

Converting plants

Paper packaging

Softwood saw logs  
40-60%

Sawmills

Sawn timber

CLT panels

Glulam

Pellets

Chips

Pre-fabricated house kits

Fiberboard

Birch veneer logs

Plywood mills

Plywood

Fiberboard

Briquettes

Firewood, bark and low-quality pulwood

Multyfuel boiler

Heat

Stumps

Remain in the ground to ensure preservation of the roots and futher regeneration



Segezha Pulp and Paper Mill is Russia's only manufacturer of high-porosity and high-strength unbleached sack paper.

8<sup>1</sup>%

IS SEGEZHA GROUP'S SHARE IN THE GLOBAL OUTPUT OF PAPER FOR INDUSTRIAL MULTILAYER SACKS

77%

IS THE SHARE OF SEGEZHA GROUP IN THE RUSSIAN OUTPUT OF SACK PAPER

60<sup>2</sup>%

OF SEGEZHA GROUP'S SACK PAPER IS EXPORTED

- <sup>1</sup> Fisher International estimate.  
<sup>2</sup> The share of paper sold for export to a third party, excluding the Company's in-house converting facilities.

## Industry overview for 2021

### Sack paper

#### GLOBAL MARKET

In 2021, there was a strong price increase in the sack paper market due to a shortage of supply. This market environment was caused by the energy crisis in Europe and by decreased output of a number of global players due to scheduled repairs, adverse weather conditions and a reorientation to the production of cardboard due to increased demand for packaging.

Against this backdrop, European manufacturers announced an increase in prices for their products, introducing the so-called "energy surcharges." In the fourth quarter of 2021, unbleached sack paper prices in the European market increased by more than 30% year-on-year. As a result of shortages and government restrictions on electricity consumption in China, massive production cuts in the pulp and paper sector were announced at the end of the third quarter of 2021, which negatively affected the supply volume and aided the rising price trend. Product inventories throughout the supply chain were kept low.

In Segezha Group's target segment (paper for industrial multilayer sacks), paper consumption grew by 1.9% vs 2020 to 4.2 m tonnes, due to the recovery of markets in China, Europe and the Americas.

4.2<sup>M</sup> TONNES

PAPER CONSUMPTION<sup>3</sup> in 2021

1.9%

PAPER CONSUMPTION GROWTH 2021 vs 2020

<sup>3</sup> Source: Fisher International, Segezha Group estimate.



### Paper sacks

#### EUROPEAN MARKET

In the European market, Germany, Turkey, Italy, France, Poland and Spain accounted for about 62% of demand for paper sacks in 2021.

63% of demand came from the construction industry (cement and dry construction mixes)<sup>4</sup>. The share of paper sack manufacturers integrated into the production of sack paper was 66%. The largest suppliers include Segezha Group, Mondi and Gascogne Papier.

The key factor in the growth of prices for paper sacks in the European market was the increase in the cost of raw materials (kraft paper). The growth of demand in Europe was driven by the construction industry and the chemical industry.

Paper sack consumption in Europe totaled 6.03 bn items in 2021, an increase of 4.5% compared to the previous year. The highest growth in demand was in Italy, Czechia, Germany, Spain and Turkey.

In the reporting year, along with the growth in demand in traditional segments, Segezha Group increased its share in the construction segment (dry construction mixes)<sup>5</sup>, as well as in the production of packaging for chemical products.

6.03<sup>BN</sup> ITEMS

TOTAL PAPER SACK CONSUMPTION in Europe in 2021

4.5%

INCREASING DEMAND OF CONSUMPTION OF PAPER SACKS 2021 vs 2020

- <sup>4</sup> EUROSAC, Fisher International.  
<sup>5</sup> EUROSAC, Fisher International.  
<sup>6</sup> Segezha Group internal research, EUROSAC data.

#### RUSSIAN MARKET

The construction industry accounts for the largest share (87%) of paper sacks consumption in Russia, just as in the European market. At the same time, demand exceeds domestic production, and the deficit is compensated with imports, the share of which in 2021 was 20%.

In 2021, consumption of paper sacks in Russia totaled 826 m<sup>6</sup> items, up 8.6% from the previous year. The growth of consumption was mainly driven by business activity in the construction sector (extension of the subsidised mortgage programme, commissioning of new housing and lifting of restrictions related to COVID-19). Segezha Group's output of industrial paper sacks increased by 11% compared to 2020 due to the launch of two new industrial lines in the town of Segezha.

8%

IS SEGEZHA GROUP'S SHARE in the European paper sack market

65%

IS SEGEZHA GROUP'S SHARE in the Russian paper sack market



## Plywood

### GLOBAL MARKET

In 2021, the birch plywood market was characterised by roaring demand due to the recovery of a number of sectors after the pandemic. The total market volume increased by 4% year-on-year to 4.8 m cu m<sup>1</sup>. Demand exceeded supply, leading to unprecedented growth in birch plywood prices. Segezha Group's price for plywood rose to peak values in 2021 reaching 678 euro per cu m (+67% year on year)

Europe and Russia remained the biggest global consumers of plywood in 2021, accounting for 69% of total consumption. Moreover, anti-dumping duties on birch plywood were introduced by the European Union for Russian producers in the reporting year, which was an additional growth driver for prices in the EU market.

1 Estimate by Vision Hunters.  
 2 Estimate by Vision Hunters.  
 3 Estimate by Vision Hunters.  
 4 According to Segezha Group's internal research in 2021, Whatwood.

### RUSSIAN MARKET

Russia continues to be the undisputed global leader in the production of birch plywood, with a 76% share of the global market in 2021<sup>2</sup>. In the reporting year, Russia's plywood output increased by 8% compared to 2020, to 4.1 m cu m.

**No. 5** GLOBALLY IS SEGEZHA GROUP'S RANKING in terms of large-size birch plywood output<sup>3</sup>

**4.4%** SEGEZHA GROUP'S SHARE in the Russian birch plywood market

**79%** RUSSIA'S SHARE in the global output of birch plywood



## Sawn timber

### GLOBAL MARKET

The global market of softwood sawn timber was estimated at 350 m cu m in 2021.

The United States and China were the biggest consumers of sawn timber, mostly in the construction sector and furniture production. Sawn timber consumption is estimated to have increased in 2021 by 6% year-on-year<sup>5</sup>.

Growth in demand and prices in 2021 was mainly driven by government support measures, lower mortgage rates, high demand growth in DIY channels and deferred demand for new housing from 2019 to 2020. In 2021, all markets where Segezha Group operates were characterised by low inventories of sawn timber and a shortage of supply.

Sawn timber prices peaked in 2021 reaching 239 euro per cu m or +73% year on year. The development of trade was significantly impeded by growing transport costs, shortage of containers and port restrictions.

5 Source: ISC 2021 (industry conference), estimate by Segezha Group  
 6 Source: Rosstat, FAOSTAT, estimate by Segezha Group  
 7 Source: FAOSTAT, ISC 2021 (industry conference), estimate by Segezha Group  
 8 Source: Woodstat, estimate by Segezha Group

### RUSSIAN MARKET

The output of softwood sawn timber in Russia is estimated at 41 m cu m in 2021, an increase of 4%<sup>6</sup> vs 2020. Russia is the world's No 5 producer of softwood sawn timber after Europe, the US, China and Canada with a market share of 11%<sup>7</sup>. Russian products compete with European products in Europe, China and MENA countries.

Russia's exports of softwood sawn timber fell by 5% to 29 m cu m<sup>8</sup>, mainly due to China, which remains the biggest consumer of Russian softwood sawn timber.

**No. 5** RUSSIA IS THE WORLD'S No. 5 PRODUCER of softwood sawn timber

**98%** SEGEZHA GROUP'S SHARE of exported sawn timber

**11%** RUSSIA'S SHARE in the global sawn timber market<sup>7</sup>



## Glulam

In 2021, the size of Russia's housing construction market using laminated beams amounted to 157,000 cu m (+20% year-on-year)<sup>1</sup>.

According to expert estimates, the wooden housing construction grew by 15%-17% in 2021 year-on-year. The market for wooden housing construction in Russia is relatively small. However, the share of housing built using timber has more than doubled in the last 15 years<sup>2</sup>. The key regions consuming prefab houses are still the Central, Northwest and Volga federal districts.

**13%**  
SEGEZHA GROUP'S SHARE  
in the Russian prefab  
houses market<sup>3</sup>

**157 THSD  
CU M**  
SIZE OF RUSSIA'S HOUSING  
CONSTRUCTION MARKET  
+20% y-o-y

- 1 Source: Estimate by Segezha Group
- 2 Source: analytical article by Okna Media posted on the website of the Association of Wooden Housing Construction.
- 3 Source: analytical article by Okna Media posted on the website of the Association of Wooden Housing Construction.

## Laminated beams

European countries and Japan remain the biggest consumers of laminated beams.

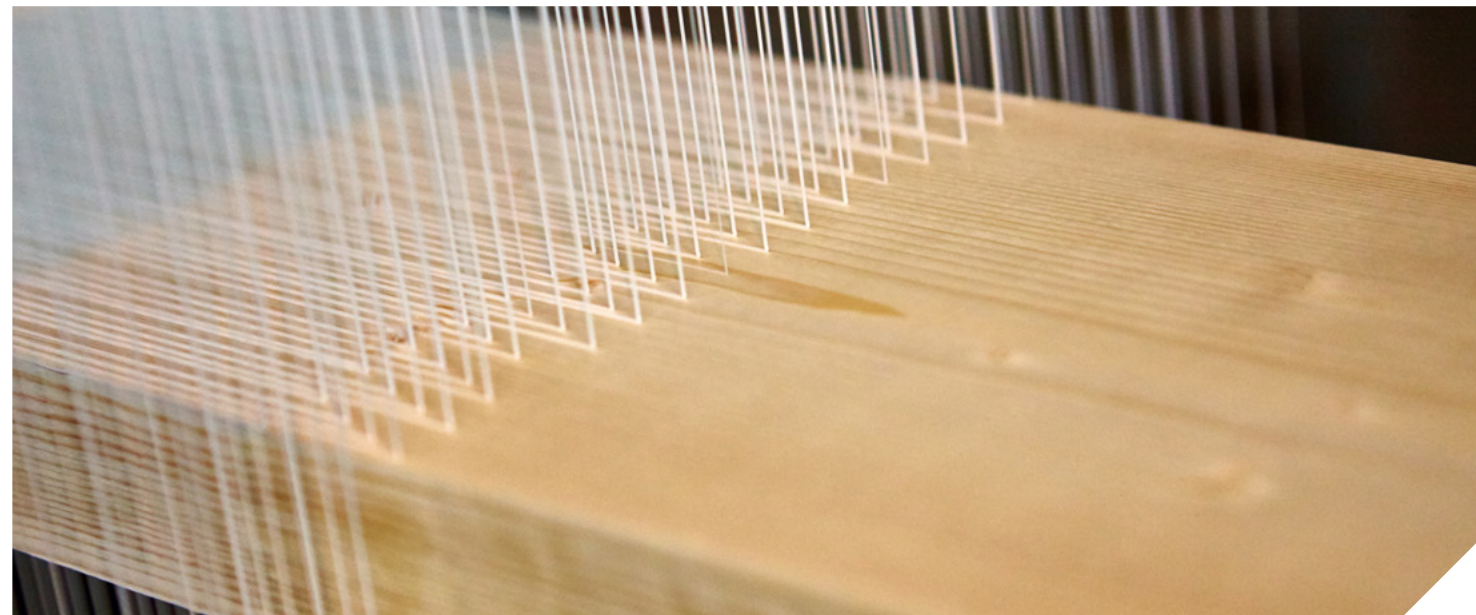
The key markets in Europe are Italy, Germany and Austria. The largest producers of laminated beams in Europe are located in Austria and Germany (about 90% of production). European manufacturers are usually local players supplying products to regional markets. In 2021, the European output of laminated beams totaled 3.7 m cu m<sup>4</sup>, growing 5% year-on-year, mostly thanks to production growth in Germany and Austria.

<sup>4</sup> Source: Forecast: [https://www.timber-online.net/wood\\_products/2021/05/over-3-million-m--for-the-first-time---record-years-for-glulam.html](https://www.timber-online.net/wood_products/2021/05/over-3-million-m--for-the-first-time---record-years-for-glulam.html), estimate by Segezha Group

## CLT panels

In 2021, the CLT market in Europe continued its rapid growth, with the key demand driver being the trend towards the construction of environmentally friendly and safe housing, including multi-storey buildings.

In the first half of 2021, there was a rapid increase in consumption and market prices; output was estimated at 1.2 m cu m (+20% year-on-year) with capacities of 1.6 m cu m.



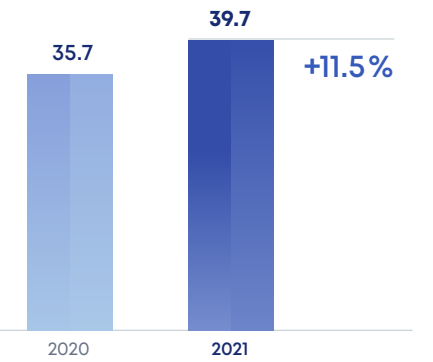
## Business development in 2021

### Paper & Packaging

**No. 1** BY PAPER OUTPUT  
in Russia<sup>1</sup>

**No. 3** BY OUTPUT OF HIGH-QUALITY  
UNBLEACHED SACK PAPER  
globally<sup>1</sup>

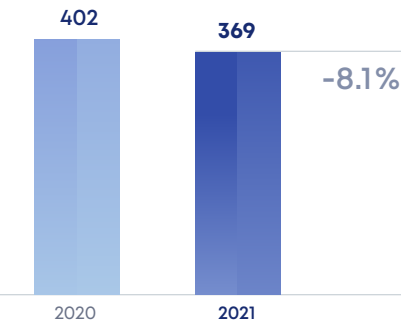
Revenue, RUB bn



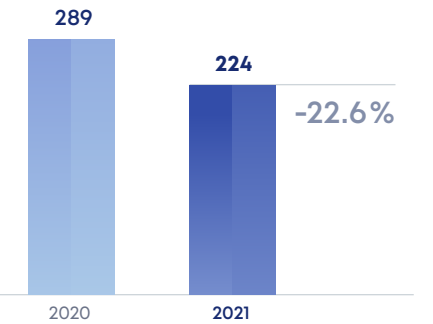
### PAPER

Segezha Group produces over 77% of sack paper in Russia. About 40% of paper produced is supplied to Segezha Group's own facilities in Russia and Europe for the production of paper sacks and bags. The remaining 30% of paper is sold in export markets and in Russia. The share of exports in sales to external customers nears 90%, and geography of supply is more than 78 countries. The main export markets for Segezha Group are China, Latin America, Southeast Asia, North Africa, the Middle East, and also Europe.

Paper output, thsd t

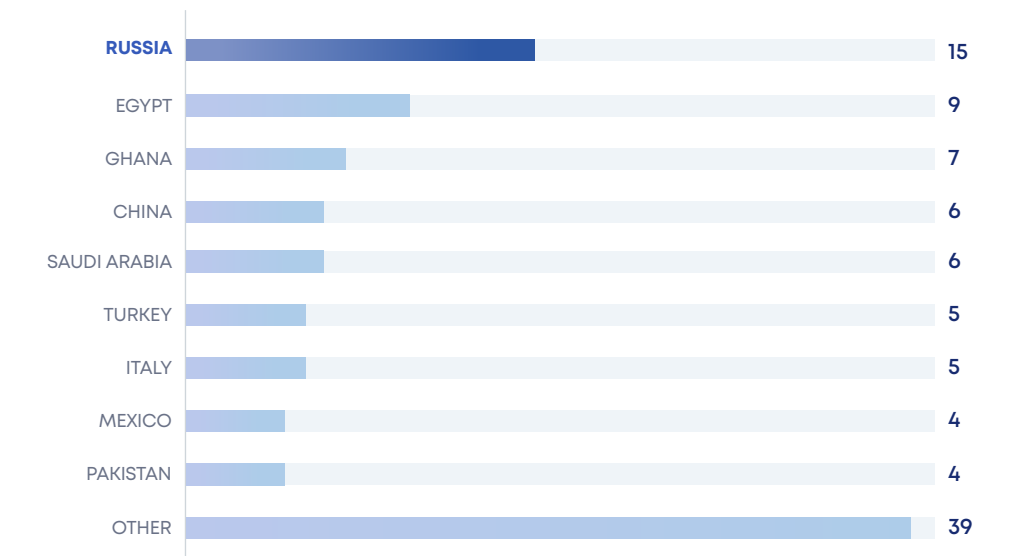


Paper sales, thsd t



In 2021, Segezha Group's paper output decreased by 8.1% year-on-year to 369,400 t, primarily due to shutdowns for the planned modernisation of Segezha Pulp and Paper Mill (continuation of the approved programme). Paper sales decreased by 22.6% in the reporting period, to 223,700 t, as a larger volume of paper was used by Segezha Group's own converting facilities.

Structure of paper sales in 2021 by country, %



<sup>1</sup> According to Segezha Group's internal research as of 31 December 2021.

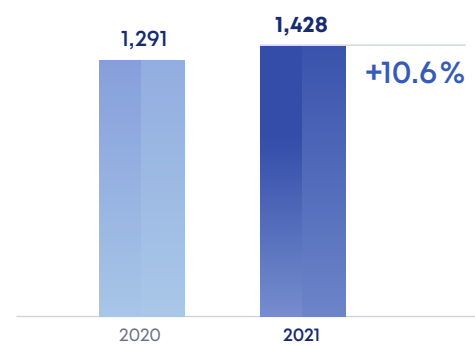


PAPER SACKS

**No. 1** BY OUTPUT OF PAPER SACKS in Russia<sup>1</sup>

**No. 2** BY OUTPUT OF PAPER SACKS in Europe

Paper sacks output, m t

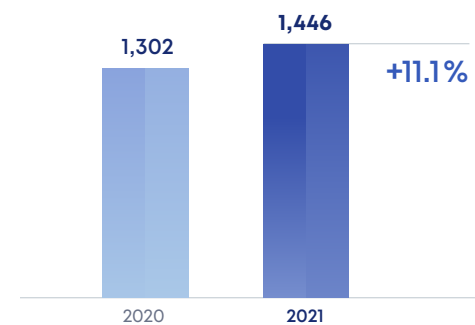


Packaging products of Segezha Group's enterprises in Europe and Turkey are sold mostly in the European, Middle Eastern and African markets, while the needs of the Russian and CIS market are met by its Russian facilities located in the Republic of Karelia, the Moscow region and the Rostov region. About 40% of Segezha Group's sack paper is converted into paper packaging at its own plants. Segezha Group is actively increasing the production capacity in the segment of consumer packaging, investing into acquisition of new production lines.

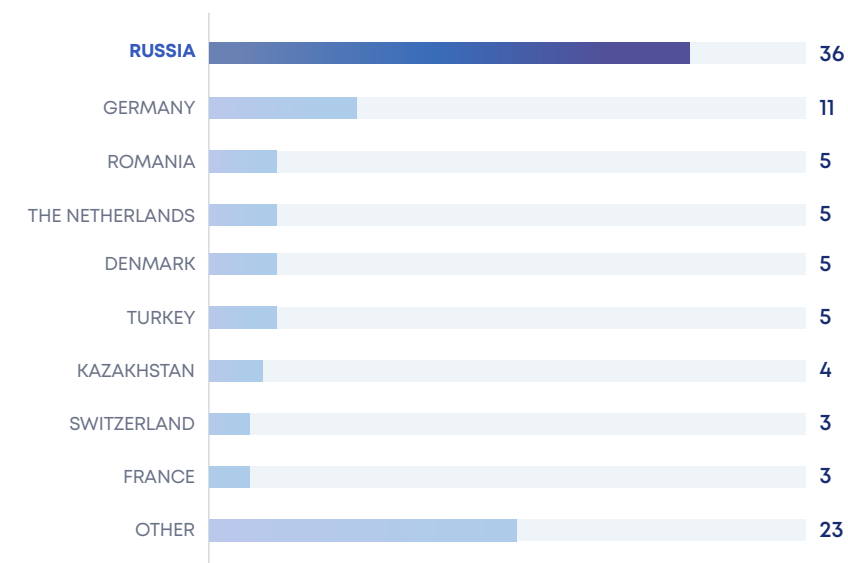
In 2021, Segezha Group sold 1,445.6 m paper sacks, up 11.0% from the previous year, due to the development of the consumer packaging segment.

In 2021, output increased by 10.6% year-on-year to 1,428.0m units thanks to the implementation of the investment programme to expand capacities.

Paper sacks sales, m t



Structure of paper sack sales in 2021 by country, %



**40%** OF SEGEZHA GROUP'S SACK PAPER IS CONVERTED INTO PAPER PACKAGING AT ITS OWN FACILITIES

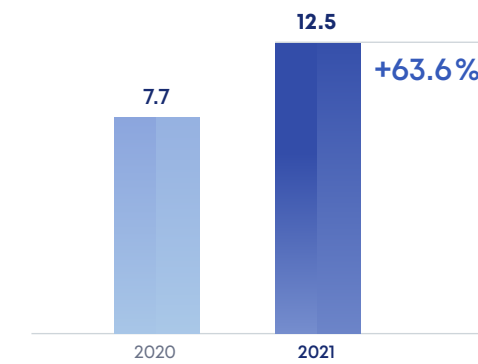
<sup>1</sup> According to Segezha Group's internal research as of 31 December 2021.

Plywood Boards

**No. 5** BY OUTPUT OF LARGE-SIZE BIRCH PLYWOOD globally

**80%** THE SHARE OF EXPORTS IN SEGEZHA GROUP'S PLYWOOD SALES IN 2021

Revenue, RUB bn

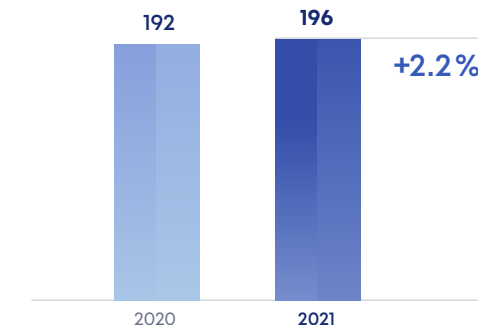


Revenue of the Plywood & Wood Boards segment totaled RUB 12.5 bn in 2021, an increase of 63.6% from 2020. This growth was driven mainly by rising prices, which hit record highs in the third quarter of 2021, as well as an increasing share of high-margin products.

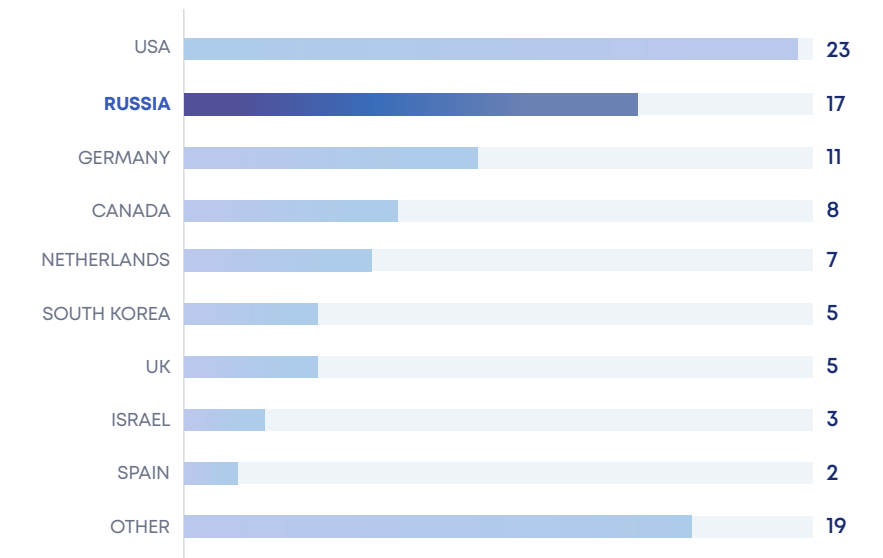
Most of the plywood produced by Segezha Group is made for exports (80% of the output in 2021). Plywood is supplied to more than 50 countries. The key export markets are Europe, the United States, Canada and Asia Pacific, including China, South Korea and India.

In 2021, Segezha Group's plywood output increased by 2.2%, to 196,300 cu m. Sales of plywood decreased slightly by 4.0%, to 178,200 cu m, due to continued high demand. The Group also saw a positive effect from the development of special products and promotion of its brand in North America, South Korea and China.

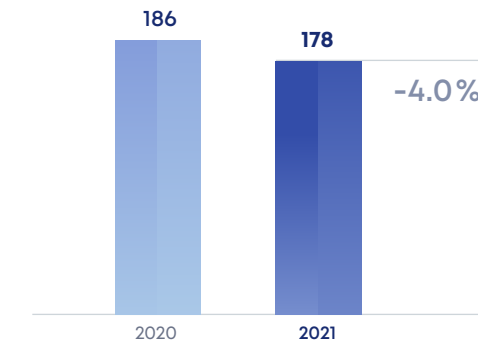
Plywood output, thsd cu m



Structure of Segezha Group's plywood sales in 2021 by country, %



Plywood sales, thsd cu m



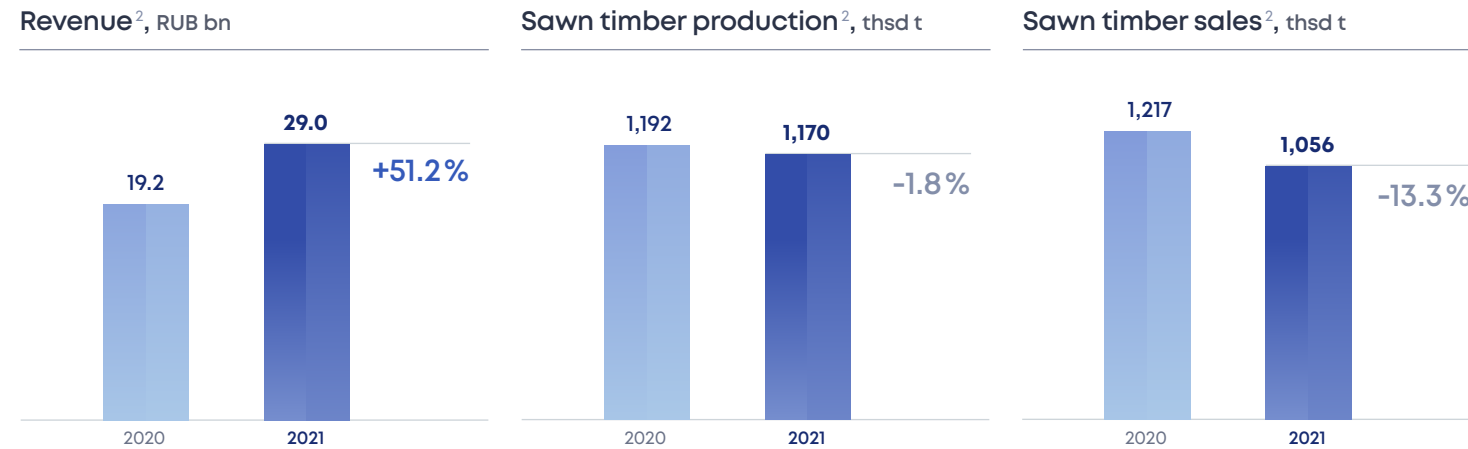
<sup>1</sup> According to Segezha Group's internal research as of 31 December 2021.

## Forestry management and woodworking

**No. 3** BY CAPACITY OF SOFTWOOD SAWN TIMBER in Europe<sup>1</sup>

**> 20** NUMBER OF COUNTRIES THAT PURCHASE SAWN TIMBER FROM SEGEZHA GROUP

Revenue of the Forestry management and woodworking segment totaled RUB 29.0 bn in 2021, an increase of 30.4% from 2020. This growth was driven by higher sawn timber prices compared to 2020 (on the back of strong demand due to the post-Covid-19 global economic recovery), low inventory levels across the entire sales chain and challenges in supply chains.

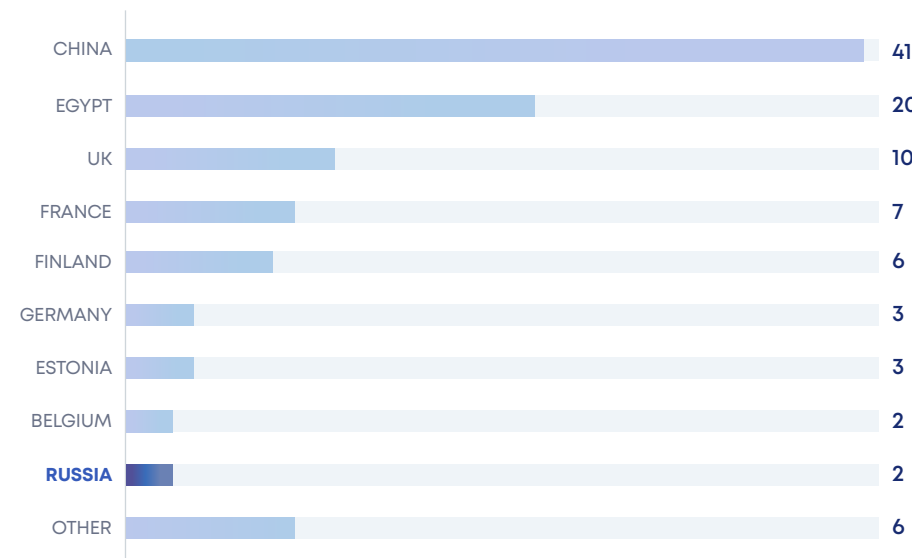


### SAWN TIMBER

Segezha Group exports ~100% of its sawn timber to dozens of countries, with most volumes consumed by construction companies and producers of furniture and packaging. The main markets for the company's sawn timber are China, Europe and MENA<sup>3</sup>.

In 2021, sawn timber output decreased slightly by 1.8% year-on-year, to 1,2 m cu m, as a result of increased output of laminated beams at Sokol Woodworking Plant (SDOK) due to the installation of a new press line. Sawn timber sales decreased by 13.3% in 2021, to 1,1 m cu m, against the backdrop of a seasonal price decline in winter, as a result of which Segezha Group ended the year with high inventories, predicting a recovery in prices in 2022.

Structure of Segezha Group's sawn timber sales in 2021 by country, %



<sup>1</sup> According to Segezha Group's internal research as of 31 December 2021.  
<sup>2</sup> The indicators take into account sawn timber produced by Sokol WP and are included in the results of the Laminated wood products segment.  
<sup>3</sup> MENA (Middle East and North Africa) is a geographic region with an aggregate population of 335 m people.

## Prefabricated Houses

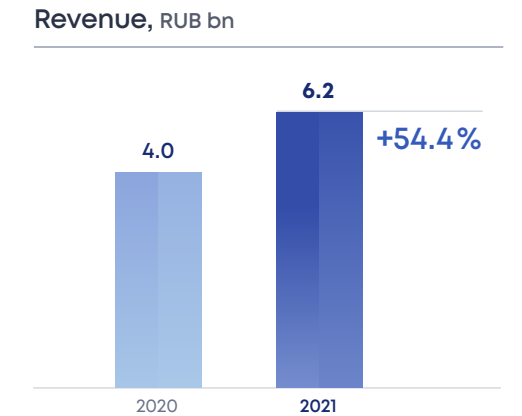
Revenue of the Prefabricated Houses segment totaled RUB 6.2 bn in 2021, an increase of 54.4% from 2020. This growth was driven by higher output and sales, in particular due to the start of production and sales of CLT panels, as well as higher product prices on the back of a recovery in construction.

**6.2** BN RUB

TOTAL REVENUE OF THE LAMINATED WOOD PRODUCTS SEGMENT in 2021

**54.4 %**

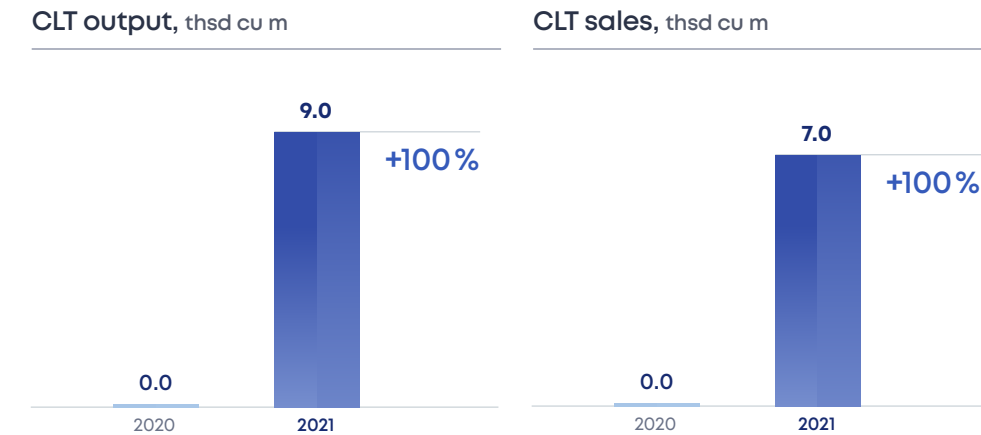
REVENUE OF THE LAMINATED WOOD PRODUCTS SEGMENT GREW BY 54.4% 2021 vs 2020



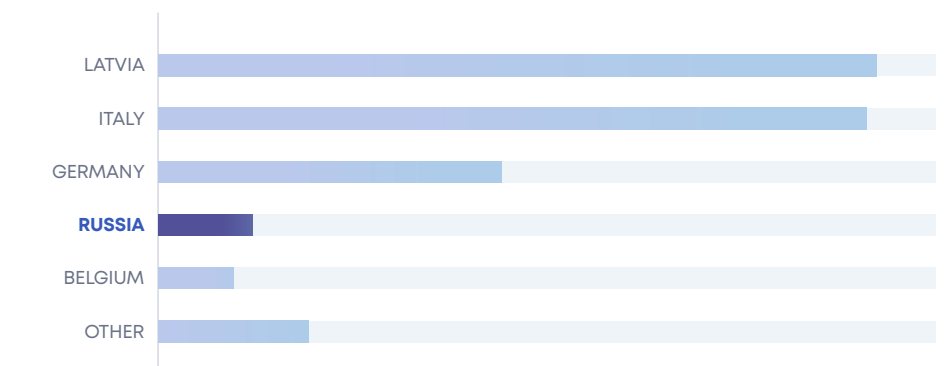
### CLT PANELS

**No. 1** SEGEZHA GROUP IS THE LARGEST MANUFACTURER OF CLT PANELS in Russia

In 2021, Segezha Group started the production of CLT panels; ~9,000 cu m were produced in the reporting period. Sales totaled ~7,000 cu m.



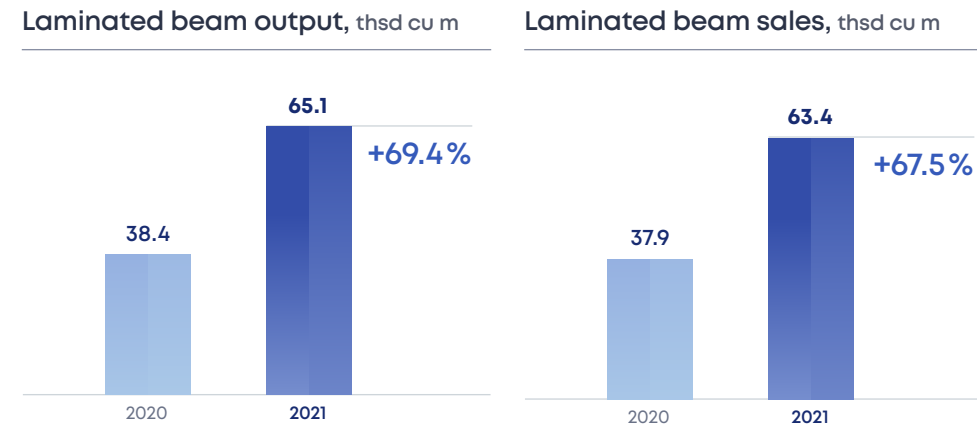
Structure of Segezha Group's CLT sales in 2021 by country, %



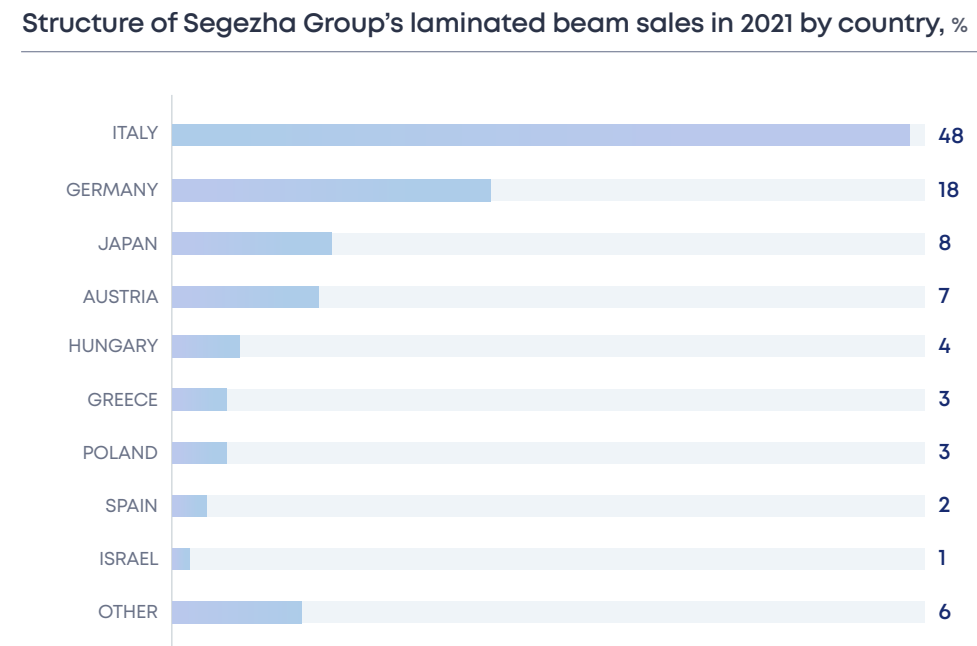
LAMINATED BEAMS

No.1

SEGEZHA GROUP IS NO.1 PRODUCER OF LAMINATED BEAMS<sup>1</sup> in Russia



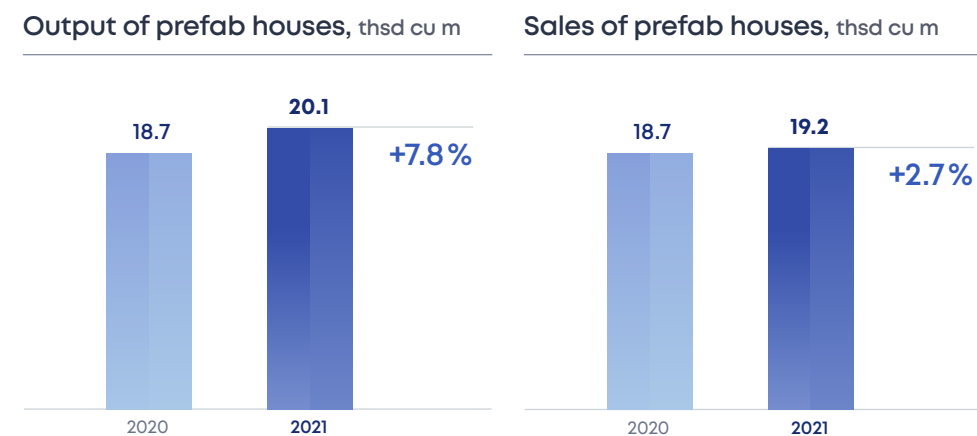
In 2021, output of laminated beams increased by 67.5% year-on-year, to 63,400 cu m, as a result of increased output of laminated beams at Sokol Woodworking Plant (SDOK) due to the installation of a new press line. Sales of laminated beams increased by 75.2% in 2021, to 66,300 cu m.



PREFABRICATED HOUSES

80%

IS SEGEZHA GROUP'S SHARE IN PREFAB HOUSES MARKET<sup>1</sup> in Russia



<sup>1</sup> According to Segezha Group's internal research as of 31 December 2021.



In 2021, output of prefab houses increased by 7.8% year-on-year, to 20,100 cu m, as a result of increased output due to the installation of a new press line. Sales of prefab houses slightly increased by 2.7% in 2021, to 19,200 cu m.

Structure of Segezha Group's prefab house sales in 2021 by country, %



NEW TECHNOLOGIES

- ▶ The first plant in Russia for the large-scale industrial production of CLT panels with a capacity of 50,000 cu m per year was put into operation.
- ▶ Segezha Forest, an automated system for timber shipment accounting and control, was put into full-scale operation.
- ▶ An R&D Centre was opened in the Republic of Karelia, the first of its kind in the Russian pulp and paper industry.
- ▶ Segezha Packaging's paper sack plant in Denmark (Aalborg) completely transitioned to wind power.

KEY ACHIEVEMENTS

- ▶ In April 2021, Segezha Group had an initial public offering on the Moscow Exchange. The company raised RUB 30 bn, which will be used to finance the investment programme and optimise the debt portfolio. The shares are included in the Level 1 Quotation List of the Moscow Exchange under the ticker SGZH.
- ▶ Segezha Group acquired a 100% stake in LLC Inter Forest Rus, which combines a number of timber assets in the Krasnoyarsk region and the Irkutsk region with substantial volumes of wood resources, for USD 528 m (estimate). As a result of the transaction, Segezha Group strengthened its leading position in Russia and Europe in terms of sawn timber output and became a top 3 European manufacturer in this segment.
- ▶ Segezha Group acquired the assets of CJSC Novoyeniseysky Timber Chemical Complex. Production capacities: up to 500,000 cu m of sawn timber, 60,000 t of pellets and 20 m reference sq m of fibreboard. The company also has 2.2 m cu m of annual allowable cut. The assets are located in the town of Lesosibirsk, the Krasnoyarsk region.
- ▶ The Expert RA rating agency upgraded the credit rating of Segezha Group to "ruA+" and changed the outlook to "positive."
- ▶ Segezha Group was named one of the top 30 environmentally friendly companies in Russia by Forbes.
- ▶ Segezha Group joined the UN Global Compact.
- ▶ Segezha Group received an ESG rating from Sustainalytics and was included among the top 25 companies in the Paper and Timber industry and among the top 20 companies in the Paper and Pulp subindustry.
- ▶ Segezha Group Packaging assets in Europe were awarded a Gold level from the international platform EcoVadis.

# Operations & investment development strategy



Segezha Group's strategy is aimed at creating an industry leader in production efficiency on the basis of a vertically integrated and diversified business model.



## WOOD RESOURCES

INCREASE OF THE SHARE OF OWN WOOD RESOURCES BY EXPANSION OF ALLOWABLE CUT AND INCREASE OF ITS UTILISATION RATE.

HIGH-QUALITY REFORESTATION

CONSTRUCTION OF HAULAGE ROADS



## MANUFACTURING ASSETS

CONSTRUCTION OF A PLYWOOD MILL IN GALICH.

INCREASE OF SACK PAPER OUTPUT AT SOKOL PPM.

UPGRADE OF THE SEGEZHA GROUP PPM TO INCREASE CAPACITY AND REDUCE PRODUCTION COSTS.

EXPANSION OF PLYWOOD PRODUCTION AT VYATKA PLYWOOD MILL BY 64,000 CU M.

MODERNISATION OF ONEGA WOODWORKING PLANT WITH EXPANSION OF PRODUCTION CAPACITY BY 48,000 CU M OF SAWN TIMBER AND BY 30,000 T OF PELLETS.

MODERNISATION OF LESOSIBIRSK WOODWORKING PLANT WITH EXPANSION OF PRODUCTION CAPACITY BY 50,000 CU M OF SAWN TIMBER AND BY 100,000 T OF PELLETS.



## SUSTAINABLE DEVELOPMENT

HEALTH AND SAFETY OF EMPLOYEES.

UMBRELLA CHARITY PROJECTS: CITY INFRASTRUCTURE, SPORTS, EDUCATION AND ENVIRONMENT.

REDUCTION OF THE ENVIRONMENTAL IMPACT AND USE OF STATE-OF-THE-ART PRODUCTION TECHNOLOGIES.

THE FOREST SEED CENTRE IN THE KOSTROMA REGION WILL GROW THE FIRST 4 M SEEDLINGS AS PART OF THE COMPANY'S POLICY OF SUSTAINABLE FOREST MANAGEMENT BY 2023.



## INNOVATION

FULL IMPLEMENTATION OF SAP S/4HANA AT ALL DIVISIONS.

TRANSITION TO CREATIO CRM SYSTEM AT RUSSIAN AND FOREIGN ASSETS OF SEGEZHA GROUP.

INCREASED NUMBER OF AUTOMATED DATA SOURCES AND DEPLOYMENT OF A SINGLE DATA LAKE TO STORE AND PROCESS PRODUCTION DATA.

CREATING AND DEVELOPING R&D CENTRES AT SEGEZHA GROUP.

AUTOMATION AND INTRODUCTION OF STATE-OF-THE-ART IT SOLUTIONS.

## Financial performance in 2021

### Financial results, RUB m

	2021	2020	CHANGE, %
Revenue	92,442	68,987	34.0%
OIBDA	29,253	17,457	67.6%
Operating income	22,351	11,185	99.8%
Net income attributable to Sistema	12,041	(1,324)	n/a

**92.4** BN RUB  
REVENUE IN 2021  
34.0% y-o-y

**29.3** BN RUB  
OIBDA  
67.6% y-o-y

In 2021, revenue increased by 34.0% year-on-year to RUB 92.4 bn due to increased production volumes and favourable prices for key products.

Revenue growth was also supported by the increased average exchange rates of foreign currencies against the rouble year-on-year. The rouble's exchange rate decreased by 6% against the euro and by 2% against the US dollar in 2021. The share of foreign currency revenue grew by 2.5 p.p. year-on-year, to 74.5%.

In 2021, adjusted OIBDA increased by 67.6% year-on-year, to RUB 29.3 bn, mainly due to higher prices for all types of the company's products and improved productivity and efficiency of its own logging.

In 2021, adjusted net profit attributable to Sistema amounted to RUB 12.0 bn compared to a net loss of RUB 1.3 bn in 2020. Segezha Group's shareholders decided to pay dividends for the nine months of 2021 in the amount of RUB 6.6 bn. The payment was completed in January 2022.



# ETALON

[ETALONGROUP.COM](https://etalongroup.com)

Etalon Group is one of the largest and oldest real estate development companies in Russia specialising in mid-market housing construction projects. A leading player in St. Petersburg and Moscow, it is now actively expanding into other regions of Russia.

The company is on Forbes's Top-10 list of major Russian property developers<sup>1</sup>, enjoys the highest reliability rating<sup>2</sup> in the industry and belongs to the nation's top 3 construction companies present in 6+ Russian regions<sup>3</sup>.

SISTEMA'S EFFECTIVE STAKE

**29.8%**

## TEAM



**Gennady Shcherbina**  
CEO



**Sergey Egorov**  
CHAIRMAN OF THE BOARD OF DIRECTORS

## KEY HIGHLIGHTS

**6 M** SQ M  
IN NSA<sup>4</sup>

**270** BN RUB  
IN ASSET MARKET VALUE

**27** PROJECTS IN DESIGN AND CONSTRUCTION PHASES<sup>5</sup>

**446** THSD SQ M  
SOLD in 2021

**84.4** BN RUB  
SALES in 2021

<sup>1</sup> Position in the 2021 Russian mass housing developers ranking.  
<sup>2</sup> Developer timing discipline rating by ERZRF.RU.  
<sup>3</sup> Ranking of developers present in 6+ regions of Russia as of 01.01.2022 (in terms of sq m under construction) according to data collected from nash.dom.rf and official company websites  
<sup>4</sup> Net Saleable Area  
<sup>5</sup> As of 31.12.2021, according to Colliers International.



**421** THSD SQ M  
COMMISSIONED IN 2021  
ACROSS 9 PROJECTS

**84.1** BN RUB  
CASH COLLECTIONS in 2021

**+34%**  
IN AVERAGE HOME PRICES in 2021

## Industry overview for 2021

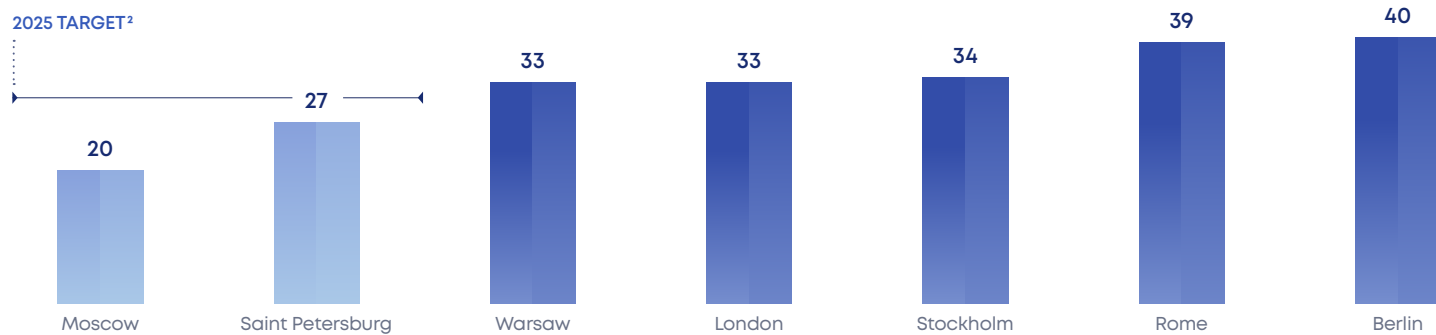
The national real estate market performed strongly throughout 2021 despite the persisting pandemic-related threats, with developers increasingly competing for attractive urban land.

The top 20 players further solidified their market standing by virtue of strong demand, governmental programmes to subsidise mortgage loans, and geographic expansion.

Strong demand for urban housing throughout 2021 was fueled both by people needing new homes and by a rising appeal of real estate as an investment vehicle.

Although per-capita housing area in Russia is just 27 sq m (far behind European figures), the numbers grew in 2021 in Russia's most affluent cities of Moscow and St. Petersburg.

### Housing area per capita<sup>1</sup>, sq m



# 3.5 TN RUB

REVENUE OF RESIDENTIAL DEVELOPERS FROM UNITS BEING SOLD

while construction is still in progress

High inflation led to negative effective returns on bank deposits, pushing people to look for alternative vehicles to invest in. While retail bank deposits in Russia are up just 6% (RUB 1.9 tn) year-on-year, with the growth rate 1 p.p. lower than in 2020<sup>3</sup>, funds on the escrow accounts of off-plan homebuyers (i.e. revenue of residential developers from units being sold while construction is still in progress) tripled year-on-year, reaching a staggering RUB 3.1 tn. The trend is especially pronounced in St. Petersburg, where escrow-account figures quadrupled, while Moscow statistics dovetail with the national average.

The persistent threat of Covid-19 puts the squeeze on demand for office space, driving the category's share in the overall real estate investment structure from 32% in 2020 to 19% in 2021<sup>4</sup>, while investment in land plots for development projects went up from 50% to 64%<sup>5</sup>. According to Knight Frank, developers continue vying for land in Saint Petersburg where housing demand is strongest. That said, as Moscow runs out of commercially sound empty space and competition among top market players intensifies, demand for land will increasingly follow a decentralisation trajectory.

By 2025, the national top 20 developers are projected to generate a record high 60% of supply in Moscow and St Petersburg, while the number of small and medium-sized players will continue shrinking as the Central Bank's interest rate grows.

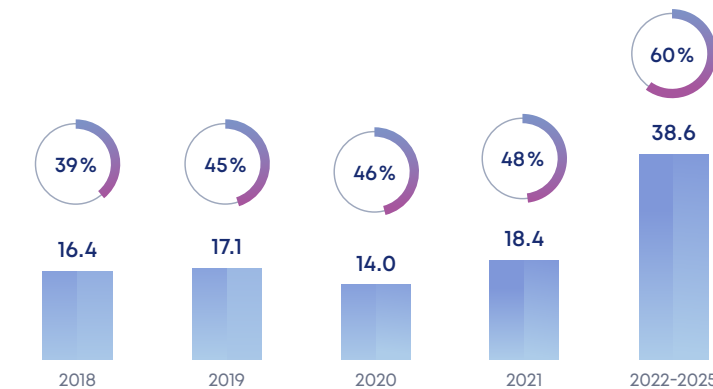
1 Source: Rosstat, national statistics agencies, Statistik Berlin-Brandenburg, Centre for cities, ISTAT, SOW  
 2 The target used here is 30 sq m per capita, as specified in the national Housing Development Strategy Through 2025.  
 3 Source: the Central Bank of Russia.  
 4 According to CBRE's Recovery of the Russian real estate investment market due to the country's GDP growth in 2021.  
 5 Source: Knight Frank.



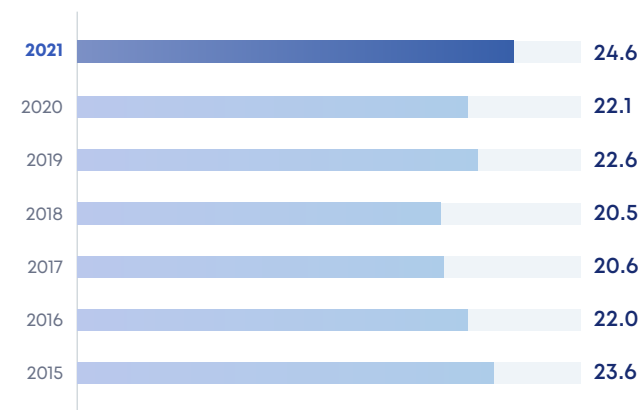
### Top-20 developers continue building up portfolios<sup>6</sup>

While Moscow and St Petersburg remain Russia's key regions for real estate development, the top 20 national players are looking to enter new geographies, which influences housing construction and commissioning trends. New housing supply in Russia's biggest metropolitan areas reached an all-time high of 25 m sq m in 2021.

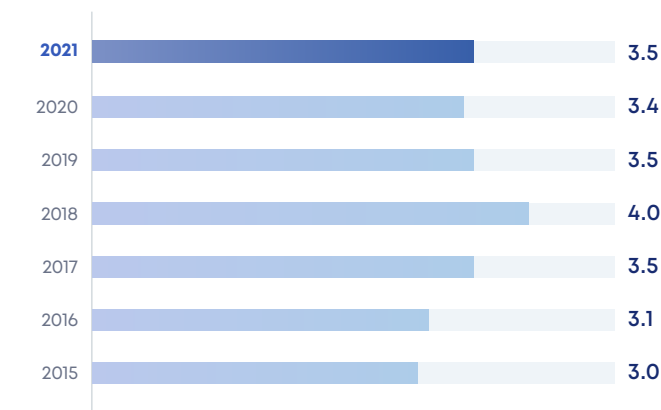
Delivered in total, m sq m  
 Aggregate market share of Top-20 players



### Home floorspace delivered in cities with 1m+ populations<sup>7</sup>, m sq m

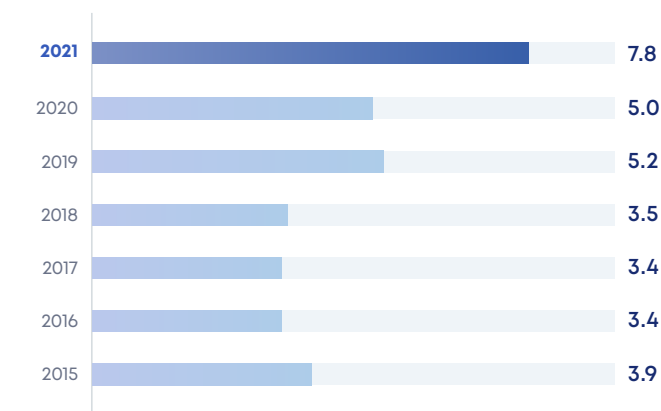


### Home floorspace delivered in Saint Petersburg<sup>7</sup>, m sq m



### Home floorspace delivered in Moscow<sup>7</sup>, m sq m

The governmental programme Housing is progressing with strong momentum. While deliveries in 2021 reached 93 m sq m (up 13% year-on-year), the programme targets a much more ambitious 120 m sq m a year, which, though feasible, requires a highly favourable construction environment and a sound national economy overall.



6 Sources: Etalon Group's analysis of data available at nash.dom.rf and from ERZ  
 7 Source: UISIS, nash.dom.rf

## Business development in 2021

Etalon Group's development efforts in 2021 centred on the main goals and targets declared in its recently adopted development strategy through 2024.

### PROJECT PORTFOLIO EXPANSION

In a bid to upscale business, in May of 2021 Etalon Group launched a sweeping land acquisition programme targeting both current and new regions across Russia. By February 2022, Etalon Group had more than doubled its land assets, having acquired 3.7 m sq m, including parcels in four new regions: Omsk, Novosibirsk, Tyumen and Yekaterinburg. The acquisitions were partially funded with proceeds from a secondary public offering organised in May of 2021, an initiative that brought the company over **150 m US dollars**.

### STEADY SALES GROWTH AND STRONGER FINANCIAL POSITION

In 2021, the company set a new record in rouble-denominated sales and cash collections. The growth was driven by sales launches for a number of "upmarket" housing projects, such as Zil-Yug, Nagatino i-Land and Voxhall, and an overall strong price growth across the portfolio. With new land parcels under the belt, the company plans to at least triple sales launches in 2022, which in turn will support its operating performance in the next few years.

Growing revenue and efficient cost management made Etalon one of the leading Russian public developers in terms of pre-PPA gross profit margin, which reached **36%**. With net debt reduced to **RUB 2.6 bn** and Net Debt/pre-PPA LTM EBITDA<sup>1</sup> to **0.12x**, the company is prepared to go forward with its ambitious strategic programme.

### ADVANCING NEW TECHNOLOGIES

Etalon's key R&D areas are the development of seamless digital architecture for the entire value chain, product standardisation and the introduction of new housing construction technologies. The company's technological transformation aims to increase its operating efficiency and profit margins. At the time of the report<sup>2</sup>, Etalon Group is working on:

- ▶ a pilot "digital districts" project in partnership with MTS
- ▶ first construction projects using prefabricated elements
- ▶ rolling out a dynamic pricing system and an automated land plot analysis system that's now being tested
- ▶ implementing a set of standard designing solutions for Phase 1 of Project Green River in Omsk
- ▶ launching of pilot production of modules, a recently acquired housing construction technology (to be completed by the end of 2022)

### INCREASING FOCUS ON SUSTAINABLE DEVELOPMENT (ESG)

Among corporate policies and standards adopted and updated by Etalon Group in 2022 (such as the Policy on Insider Information, the Policy on Information Disclosure and the Code of Transactions in Securities) is a new ESG Policy designed to systematise the company's approach to sustainable development. Among other things, the company sets out specific steps to be taken across the Group for more profound ESG practices.

<sup>1</sup> EBITDA for the past twelve months before purchase price allocation (PPA).  
<sup>2</sup> February 2022.



## Development strategy

Etalon Group's **strategic goal for 2022-2024 is to become the national No.1 by square metres under construction, the area of land owned, and business efficiency.**

The industry's highest return rates coupled with ongoing effort to cut costs, speed up construction and develop complementary businesses enable a higher efficiency of land development in Moscow, Saint Petersburg and elsewhere, whether in the highly lucrative central locations (where efficiency excellence is driven by superior cost control, standardisation and prefabrication) or in urban fringe areas.

## Strategy implementation





## Progress made so far towards 2024 strategic targets

PARAMETER	2024 TARGET	CURRENT STATUS <sup>1</sup>
Portfolio growth	Increase portfolio by 6 m+ sq m	3.7 m sq m acquired since programme launch, including 3.3 m sq m in regions other than Moscow and St Petersburg. Currently considering M&A deals in St Petersburg
	Start projects in 5+ new regions in Russia	Projects started in 4 new geographies (Omsk, Novosibirsk, Yekaterinburg and Tyumen)
Increase new sales in rouble terms	Double-digit growth	With sales up 5.6% in 2021, the company expects a further increase in new contract sales throughout 2022–2024 as the portfolio grows and more properties are launched for sale
Gross profit margin before purchase price allocation (PPA)	35%	36% in 2021
Net debt/pre-PPA LTM EBITDA	2x–3x	0.12x as of 31/12/2021
Customer experience	Best in class	CJM <sup>2</sup> enhancement project completed in 2021.  Currently piloting a raft of standard solutions in Omsk (targeting a finalised product proposition by the end of 2022) and preparing to launch the production of prefab construction elements (also being piloted in several projects) later this year

## Financial performance in 2021

### Financial results<sup>3</sup>, RUB m

	2021	2020	CHANGE <sup>4</sup> , %
Revenue	87,138	78,655	10.8%
Pre PPA EBITDA <sup>5</sup>	21,139	16,482	28.3%
EBITDA	17,880	12,601	41.9%
Pre-PPA net income	6,536	5,875	11.3%
Net corporate debt	2,581	19,580	(86.8%)

For Etalon, 2021 became a year of a record-high revenue of RUB 87 bn, up 11% year-on-year. An efficient system of selling drove gross profit up 27% year-on-year, to RUB 28 bn. The Company also maintains focus on trimming SG&A costs, which are down from 12.5% in 2020 to 12% in 2021.

As a result of efficiency enhancements, pre-PPA EBITDA increased by 28%, to RUB 21 bn. Pre-PPA net income is up 11%, from RUB 5.9 bn in 2020 to RUB 6.5 bn in 2021.

Despite a record-high increase in land acquisitions, the company generated a positive operating cash flow adjusted for receipts on escrow accounts, standing at RUB 19 bn and free cash flow (adjusted for cash receipts on escrow accounts) at RUB 15 bln. Etalon's shareholders received RUB 3.6 bn distributed in 2021 dividends (or RUB 9.4 per ADR).

<sup>1</sup> As of February 2022, if not stated otherwise

<sup>2</sup> Customer Journey Map, or a history of a customer's interactions with the company from first becoming aware of a need for its product to repeat communications.

<sup>3</sup> The results are presented in line with Etalon's financial statements. Alternative performance measures reconciliation is provided in Etalon's disclosure materials. The results of Etalon Group are not consolidated in the financial statements of Sistema PJSC.

<sup>4</sup> W/o regard to rounding.

<sup>5</sup> EBITDA before purchase price allocation (PPA).

## Operating performance in 2021

	2021	2020	CHANGE, % <sup>4</sup>
Sales, RUB m	84,388	79,922	5.6%
Sales, thsd sq m	446	538	(17.0%)
Average price, RUB thsd / sq m	189	149	27.3%
Average home price, RUB thsd / sq m	239	179	33.6%
Cash collections, RUB m	84,094	81,985	2.6%

In 2021, Etalon Group demonstrated a strong operational performance, coming very close to the previously projected figures. The company reached record highs in new contract sales (RUB 84.4 bn) and cash collections (RUB 84.1 bn), with the portfolio-average selling price up 27% and the average home price up 34%. To drive further growth of the business, the company more than doubled its land holdings in 2021, from 2.8 m sq m at the end of 2020 to 6.0 m sq m as of 31 December 2021. With sales to start from 2022 on, the new land parcels will translate into yet higher financial performance figures, also buoyed by strategic initiatives, cost control, and technological advancement.

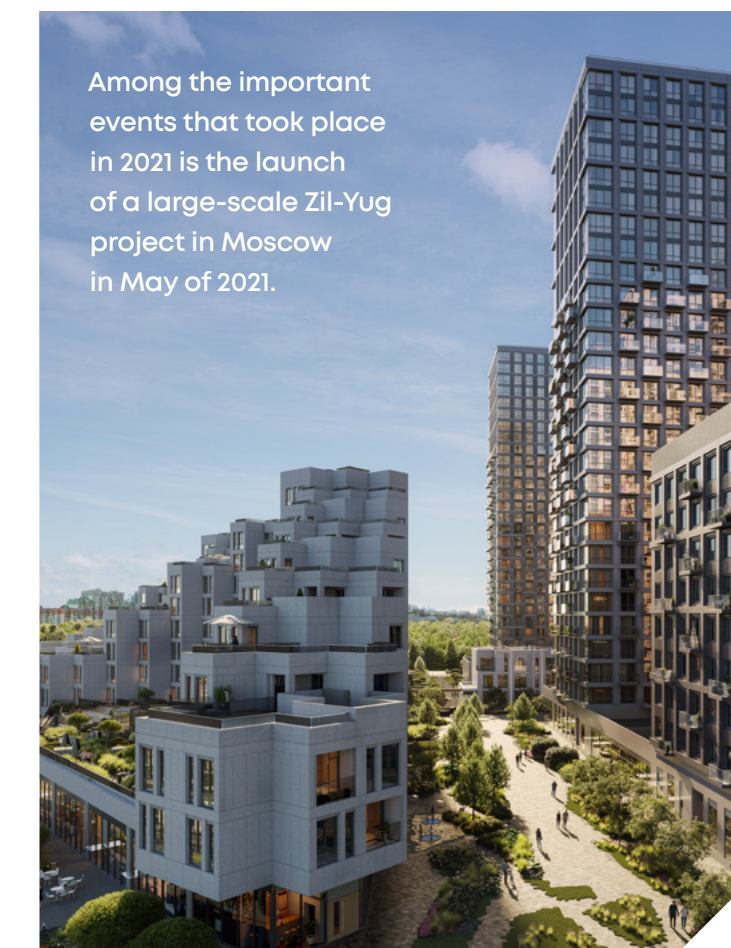
## Progress on specific projects

By the end of the year, the company had sold nearly 30 thsd sq m here, with the average price up from RUB 282 thsd to RUB 337 thsd per sq m. The company also started sales on Project Voxhall in central Moscow and on new properties in the previously launched Nagatino i-Land.

In a move to expand geographically, the company acquired land in the Siberian cities of Omsk and Novosibirsk in 2021 and in Yekaterinburg and Tyumen in 2022. With first construction permits in Omsk received in late 2021, the company is launched sales at the project in April 2022.

### Largest completed projects

PROJECT	LOCATION	AREA, THSD SQ M
Summer Garden, Phase 3	Moscow	87
Galaktika, buildings 4.13 and 4.15	St Petersburg	78
Etalon on the Neva	St Petersburg	76
Petrovskiy Landmark	St Petersburg	74
Silver Fountain, building 4	Moscow	38
Normandy, Phase 2	Moscow	36



Among the important events that took place in 2021 is the launch of a large-scale Zil-Yug project in Moscow in May of 2021.



MEDSI.RU

Medsi is Russia's biggest national private healthcare platform offering a full range of medical services, from primary and ambulance care to high-tech diagnostics, complex surgeries and rehabilitation programmes, as well as a broad range of services aimed at improving the quality of life.

SISTEMA'S EFFECTIVE STAKE

95.5%

TEAM



Elena Brusilova  
CEO



Tagir Sitdekov  
CHAIRMAN OF THE BOARD OF DIRECTORS

KEY HIGHLIGHTS

12  
REGIONS IN RUSSIA

>90  
FACILITIES

No. 1 AMONG RUSSIA'S TOP 20 PRIVATE CLINICS IN 2021 ACCORDING TO FORBES

24%  
OIBDA MARGIN

71%  
BRAND RECOGNITION IN MOSCOW



3.3%  
SHARE ON RUSSIAN PRIVATE HEALTHCARE MARKET

279 THSD SQ M  
OF FLOORSPACE

3 THSD RUB  
AVERAGE CHEQUE

>10,000,000  
VISITS

269 THSD  
BED-DAYS

## Business model

Medsi is a three-tier medical platform that provides an array of care services, from preventive health improvement programmes to complex high-tech surgeries and rehabilitation.

An effective patient routing system and vertically integrated centres of excellence enable a continuous care cycle relying on uniform corporate standards and superior efficiency.

2021 marked the establishment of Medsi's very own laboratory business, a major step towards yet higher quality of clinical and diagnostic service. Increasing focus has been placed on developing the digital platform that is both a means of communication and a backbone on which to add ecosystem products both for patient and doctor use.



### ASSETS OVERVIEW

	2020		2021
CLINICAL DIAGNOSTIC CENTRES (CDCS), TOTAL	5	CDC Krasnaya Presnya CDC Belorusskaya CDC Grokholsky CDC Maryino CDC Solyanka	+2 7 +CDC Michurinsky +CDC Shchelkovo
PAEDIATRIC CLINICS	2		2
PRIMARY CARE CLINICS	20		+7 27
HOSPITALS	2		2
WELLNESS CENTRES AND RETREATS	3		3
HOME CARE	1		1
CLINICS OUTSIDE MOSCOW, TOTAL	16	5 Perm 1 Nizhnevartovsk 1 Nyagan 1 Volgograd 1 Bryansk 1 Barnaul 4 Izhevsk 3 St Petersburg	+33 49 +1 St Petersburg +1 Rostov-on-Don +8 Ufa +23 Volgograd
TOTAL FACILITIES	49		+42 91

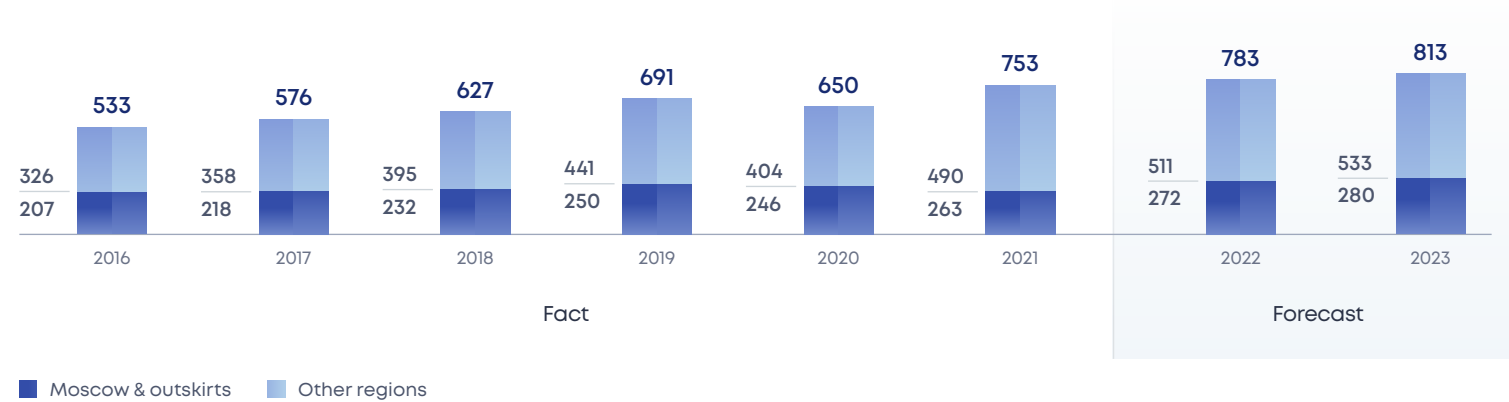
## Industry overview for 2021

In 2021, Russia's market of commercial medical services grew by 15.8%, to RUB 753 bn, out of which RUB 263 bn (34.9%) was recorded in and around Moscow.

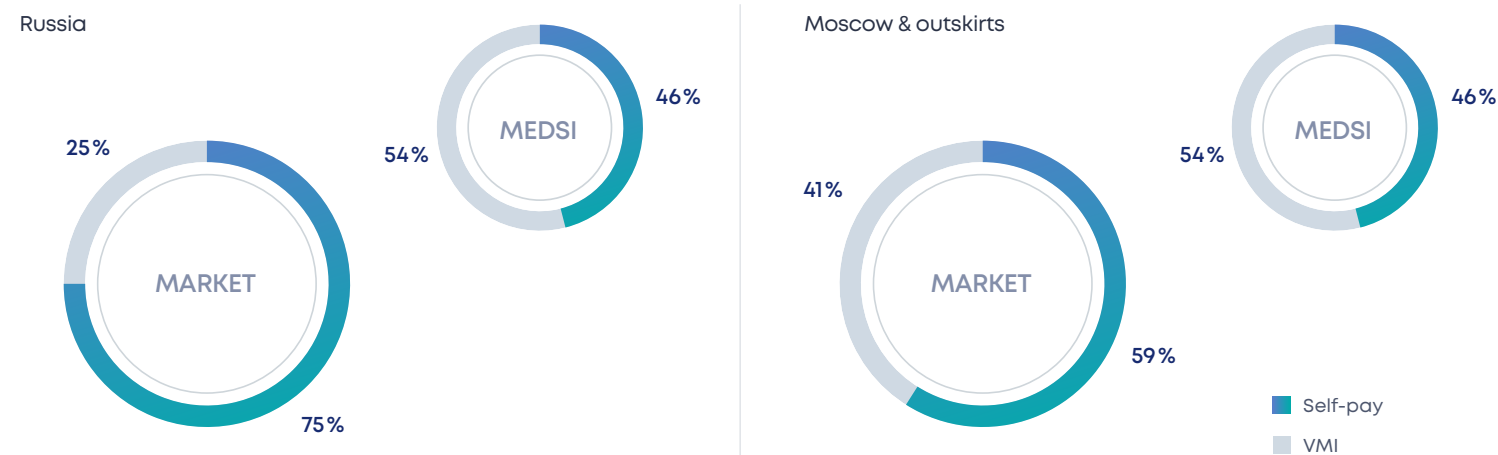
The retail segment (self-pay patients) remains the main source of commercial revenue, up 19.8% year-on-year, to RUB 567.5 bn. Self-pay patients generate 58.9% of proceeds in Moscow and 75.3% in other regions of Russia. Revenue from voluntary medical insurance (VMI) is up 5% year-on-year, to RUB 185.9 bn, despite a 2.2% decrease in visits. The increase in VMI revenue results from (1) growing prices of medical services; (2) pandemic effects; (3) limited access to free medical services (obligatory medical insurance, or OMI).

Covid-19 continued influencing the healthcare industry throughout 2021, with new pandemic waves and shelter-in-place restrictions driving demand for telemedicine, home care services, PCR testing, and paid vaccination.

Commercial healthcare market by geography<sup>1</sup>, bn RUB



Commercial healthcare market structure (2021)<sup>1</sup>, %



<sup>1</sup> Source: BusinesStat



## MEDSI'S MARKET POSITION

**30.1** BN RUB

MEDSI'S REVENUE IS UP 20.2% driven by higher occupancy rates

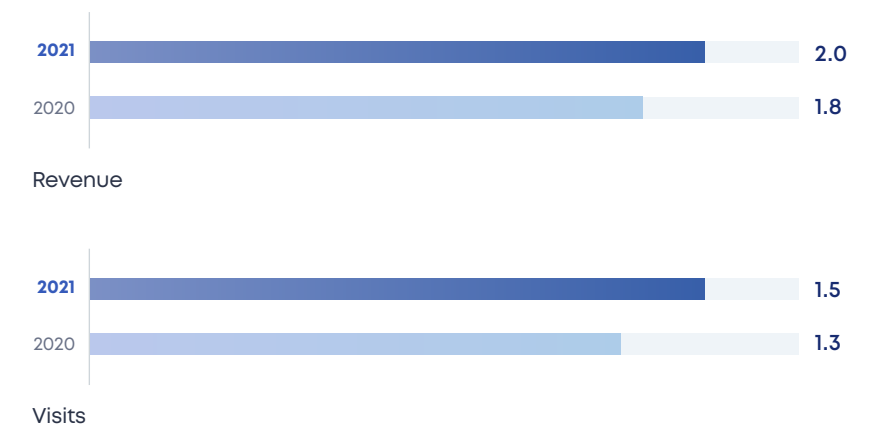
For Medsi, 2021 was a year of strong growth across operational and financial performance metrics. Medsi's revenue is up 20.2%, to RUB 30.1 bn, driven by higher occupancy rates, sustained demand for Covid-related services, new openings in Moscow and other regions, the development of telemedicine and home care services and the launch of the brand-new SmartLab business.

Cancer care, Covid-19, surgeries and injury care dominated the company's hospital business throughout the year, with total visits up 29%, to 10.1 m. The average cheque, however, is down 5.9%, to RUB 2,954, largely due to statutory price restrictions imposed on a range of state-subsidised (OMI) services.

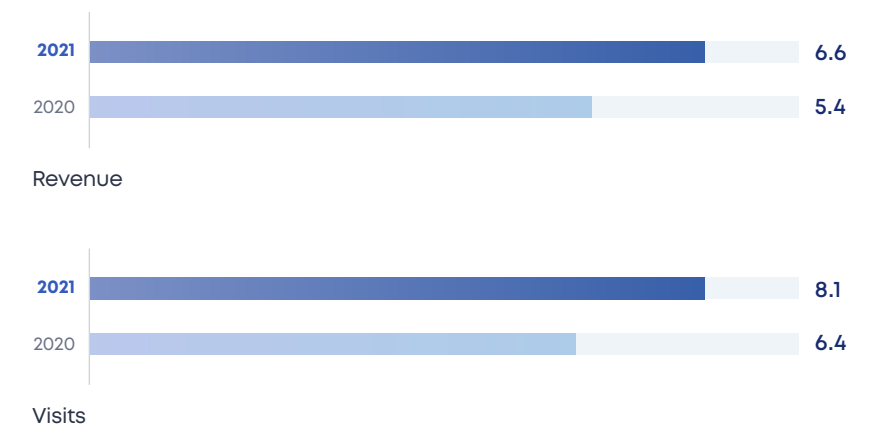
## SELF-PAY PATIENTS

The self-pay business segment demonstrated strong performance in 2021 in terms of both revenue and visits. Medsi's self-pay revenue is up 32.0%, well ahead of the market average 19.8%. As of the year-end, Medsi's share on the retail healthcare market was estimated at 2.0% nationally and 6.6% in and around Moscow.

Medsi's share of the Russian market<sup>2</sup>, %



Medsi's market share in Moscow and its outskirts<sup>2</sup>, %



**32%**

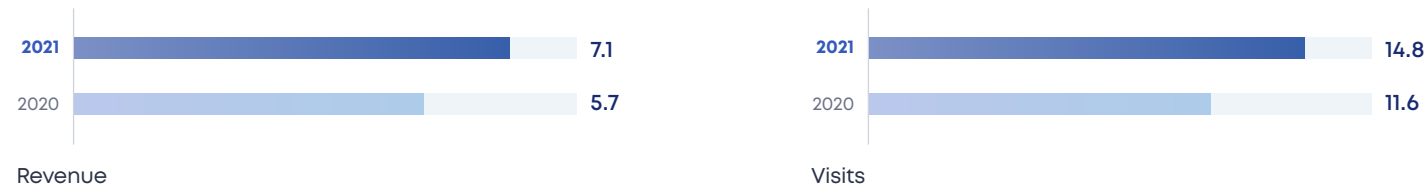
MEDSI'S SELF-PAY REVENUE GROWTH IN 2021 well ahead of the market average growth (+19.8%)

<sup>2</sup> Source: BusinesStat, company data

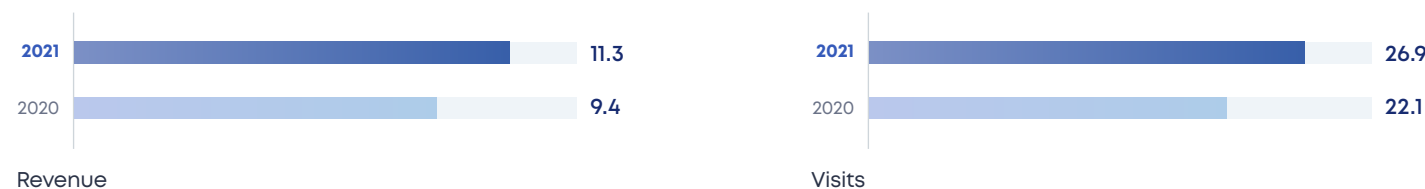
VMI SEGMENT

Medsi's VMI revenue in 2021 went up 5.0% year-on-year, despite a 30.5% slump in visits. Medsi's share on the VMI market as of year-end 2021 is pegged at 7.1% nationwide and 11.3% in Moscow.

Medsi's share of the Russian market<sup>1</sup>, %



Medsi's market share in Moscow and its outskirts<sup>1</sup>, %



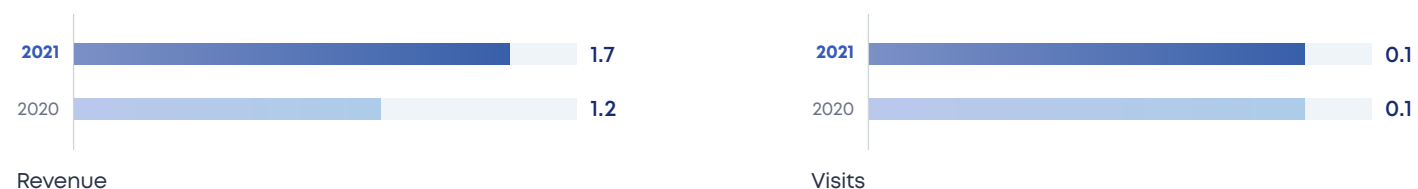
OMI SEGMENT

Medsi's OMI revenue in 2021 is down 9.8%, with visits down 2.5% year-on-year. At the end of the year, Medsi's market share in the OMI segment was estimated at 0.2% in Russia and 1.2% in Moscow.

Medsi's share of the Russian market<sup>1</sup>, %



Medsi's market share in Moscow and its outskirts<sup>1</sup>, %



<sup>1</sup> Source: BusinesStat, company data



Business development in 2021

The 2021 floorspace increase primarily results from the inauguration of a new Michurinsky multi-specialty medical centre and the acquisition of National Medical Chain clinics in Ufa and Vologda.

Although the average cheque amount decreased under the pressure of government-imposed price restrictions in the OMI segment, the negative effect was offset by rising visits and brand-new laboratory services.

Whereas the uptick in clinic occupancy is primarily owing to a low-base effect (with patient activity notoriously feeble throughout 2020), the decrease in hospital occupancy is associated with a decline in volume of services of the day hospital for chemotherapy due to the limited volume of OMI.

Visits and services provided are also up YoY due to the 2020 low-base effect, new openings and high service quality. Service categories that commanded the highest demand in 2021 are laboratory tests and imaging studies.

Despite expectations, 2021 brought no decrease in Covid-19 sales, with lab-test revenue at 99% of what it was in 2020 and PCR testing a regular routine for many. Revenue from hospital admissions remained on par with 2020, with a particular upswing in Covid-19 related hospitalisations observed in 4Q. Although CT scanning revenue went down 25% as patients gained more access to free services in state-run clinics, vaccination revenue offset the effect for Medsi.

99%

COVID-19 LABORATORY TEST REVENUE comparing with the previous year

<sup>2</sup> Source: company data

Operating performance

MEDSI'S OPERATING PERFORMANCE	2021	2020	CHANGE, %
Total floorspace, thsd sq m	279.2	215.7	29.4%
Medical floorspace, thsd sq m	127.7	105.6	20.9%
Average cheque, RUB thsd	3.0	3.2	-6.9%
Hospital occupancy	87%	97%	15.8%
Clinic occupancy	55%	37%	35.4%
Services provided, m	21.2	13.9	36.0%
Total visits, m	10.1	7.9	29.1%
Hospital bed-days, thsd	268.8	275.9	-2.6%
Avg. hospital cheque, RUB thsd	32.2	30.4	5.9%
Visits to clinics, m	9.7	7.4	31.1%
Avg. clinic cheque, RUB thsd	2.0	2.0	-

Revenue by channel<sup>2</sup>, %

	2021	2020
<b>Revenue</b>	<b>30 087</b>	<b>25 041</b>
Insurance	54%	59%
Individuals	38%	35%
Corporate	5%	5%
Other	3%	1%

Revenue by asset type<sup>2</sup>, %

	2021	2020
<b>Revenue</b>	<b>30 087</b>	<b>25 041</b>
Clinics	33%	32%
Hospitals	30%	35%
CDC	31%	27%
Other	6%	6%

## Key events in 2021

### CHAIN EXPANSION

**Acquisition of 100% of shares in ProMedicina** in Ufa and Dialine in Volgograd, previously owned by National Medical Chain. Medsi received 31 clinics (with an aggregate floorspace of 22,585 sq m), becoming a leading healthcare provider in two economically attractive cities.

**Opening of CDC Shchyolkovo**, five "local clinics" and two franchise "family clinics" in Moscow, a clinic in Rostov-on-Don, and another one in St. Petersburg (where Medsi now has three facilities).

**Opening of Michurinsky Multi-Specialty Medical Centre in Moscow.** The new 33,475 sq m facility comprises a clinicodiagnostic centre for adults and children, a hospital and a high-tech surgical centre. The company's investment in the project exceeded RUB 8 bn.

**Launch of SmartLab**, a laboratory chain in Otradnoye (Moscow) with 2,000+ sq m in testing floorspace and a capacity to process 20m+ tests a year. Medsi's total investment in the project exceeded RUB 400 m.

**Opening of a children's hospital** (with an area of 4,000+ sq m) in Otradnoye, offering a full range of paediatric services. Medsi's total investment in the project exceeded RUB 1 bn. The hospital relies on a "360-degree medicine" principle, where outpatient, inpatient, rehabilitation and home care services are centralised under one roof.

### NEW SERVICES

**A fertility preservation programme for cancer patients** launched at Medsi's Centre for Assisted Reproductive Technology in Moscow makes Medsi one of three healthcare providers in Russia possessing relevant expertise.

**The new Eye Surgery Centre** in Moscow offers a full range of high-tech ophthalmological care.

**A new centre of excellence** in St. Petersburg specialises in the treatment of giant melanocytic nevi in children.

**A new cancer check-up programme QuickHelpClinic** helps detect malignant growth early on.

### DIGITAL TRANSFORMATION

**Launch of a SAP S/4HANA Cloud Private Edition process flow harmonisation project.** The plan is to consolidate all business processes in one intelligent ERP system to reduce human error and increase the flexibility of planning and the quality of services provided. The company's implementation partner in the project is the Russian IT company Novardis.



### OPENING OF OUTPATIENT CANCER CENTRES

**A new outpatient cancer centre** in Shchyolkovo (Moscow) has capacity to receive 180 visits per shift and incorporates a 3-bed day-care hospital.

**New cancer centres** in Perm and Izhevsk offer diagnostic, treatment and supportive care services.

### ECOSYSTEM DEVELOPMENT

**In 2021**, like in the years before, Medsi continued developing its digital platform SmartMed, adding new online services for patients. The app showed strong performance over the year, with downloads reaching 376 k (up 53.6 k YoY), active users 528 k (up 72.3%), and appointments through the app up 3.1x, to 2.5 m.

**In September 2021**, Medsi launched a remote psychological counseling programme in partnership with the online therapy startup YouTalk (available through SmartMed). The company also joined Sber Unity, an online VC platform bringing together startups, corporations and investors.

**In December 2021**, Medsi partnered up with the AI developer Third Opinion to implement a brand-new chest imaging analysis software designed to dramatically enhance the quality of radiography readings



## Strategic goals

Medsi's multi-pronged strategy is aimed at creating Russia's first nationwide healthcare provider offering a full range of medical services.

### INCREASING MARKET SHARE IN MOSCOW AND OTHER REGIONS

- ▶ Complete 11 investment projects launched, with clinics to open in 2022.
- ▶ Pursue M&A projects as the priority avenue of regional expansion<sup>1</sup>.
- ▶ Launch a 5 thsd sq m radiology centre in Otradnoye (Moscow).
- ▶ Launch a 6 thsd sq m infectious disease hospital in Otradnoye.
- ▶ Develop laboratory facilities, add lab services and open SmartLab offices in every region where Medsi is by now present (all in 2022).

### VERTICAL INTEGRATION

- ▶ Create a centralised clinical diagnostic lab and a nationwide chain of medical offices.
- ▶ Develop reference centres for radiology, sonography and imaging studies.
- ▶ Create referral centres of excellence specialising in cardiovascular disease, oncology, traumatology, orthopaedics, neurology, paediatrics and other sought-after fields

### IMPROVED OPERATING EFFICIENCY

- ▶ Streamline clinic/hospital referral procedures.
- ▶ Introduce additional workflow standards and enhance business manageability.
- ▶ Adopt healthcare BI analytics.
- ▶ Introduce standard algorithms for new openings and integrations.

### ECOSYSTEM DEVELOPMENT AND R&D<sup>2</sup>

- ▶ Continue SmartMed upgrades, add new telehealth services.
- ▶ Develop a digital interface for doctors to ergonomically optimise workflow (with decision support and otherwise) and enhance personalisation
- ▶ Introduce biotech and genetic products
- ▶ Develop industrial healthcare (in-house health services for large industrial players)
- ▶ Adopt a P5-Medicine model and add biohacking & predictive products

<sup>1</sup> Mergers and Acquisitions.  
<sup>2</sup> Research and Development.

## Financial performance in 2021

### Revenue, RUB bn



### Adjusted OIBDA, RUB bn



### Financial results<sup>1</sup>, RUB m

RUB M	2021	2020	CHANGE, %
Revenue	30,087	25,040	20.2%
Adjusted OIBDA	7,255	6,888	5.3%
Operating income	3,978	3,704	7.4%
Adjusted net income attributable to Sistema	3,721	3,464	7.4%

Medsi's revenue growth by **20.2%** year-on-year, to **RUB 30.1 bn**, was primarily driven by higher occupancy rates, sustained demand for Covid-19 related services, new openings in Moscow and other regions, the development of telemedicine and home care services and the launch of the brand-new SmartLab business.

Adjusted OIBDA increased by **5.3%**, to **RUB 7.3 bn**, on the back of growing revenue and proceeds from the Nebo Residence housing project (JV with Capital Group), which alone brought the company RUB 1.4 bn in OIBDA in 2021 (and RUB 1.6 bn a year before).

Adjusted net income is up **7.4%**, to **RUB 3.7 bn**, on the back of the OIBDA increase.

**3.7** BN  
RUB

ADJUSTED NET INCOME

is up **7.4%** on the back of the OIBDA increase

**4.0** BN  
RUB

OPERATING INCOME

**+7.4%** year-on-year



Steppe AgroHolding is one of Russia's largest vertically integrated agricultural players with 578 thsd ha of land and a diversified asset portfolio.

Steppe AgroHolding is among Russia's Top-6 land owners, with assets located in the uniquely attractive Krasnodar, Rostov and Stavropol regions in the Russian south.

A long-standing operational efficiency leader in crop and dairy farming, Steppe AgroHolding also engages in international trading in grain and niche crops, relying on production sites in close proximity to major export ports in southern Russia as a major competitive advantage.

SISTEMA'S EFFECTIVE STAKE

91.3%

TEAM



**Andrey Neduzhko**  
CEO



**Ali Uzdenov**  
CHAIRMAN OF THE BOARD OF DIRECTORS

KEY HIGHLIGHTS

**No. 1** IN RUSSIA IN TERMS OF MILK YIELD PER COW

**No. 1** IN TERMS OF NICHE CROP EXPORTS

**No. 6<sup>1</sup>** IN RUSSIA BY LAND AREA

**87 THSD T** OF MILK PRODUCED IN 2021

**45 THSD T** OF PACKAGED CHEESES AND DAIRY PRODUCTS PRODUCED AND DISTRIBUTED IN 2021

**23.2 THSD** COWS as of the end of 2021

**10.4 THSD** LACTATING COWS as of the end of 2021

**1.8 M T** OF CROPS HARVESTED IN 2021<sup>2</sup>

<sup>1</sup> BEFL.  
<sup>2</sup> Steppe AgroHolding plus RZ Agro.

Business model

Steppe AgroHolding uses a vertically integrated diversified business model, where crop farming as the central business is closely integrated with logistics and international and domestic trading in grain, niche crops, sugar and groceries.

High-quality assets in dairy farming make it possible to process raw milk and produce pre-packaged cheeses, ingredients and dairy products. Steppe also processes its crops to produce plant-based confectionery, eco products, plant proteins and dairy alternatives.

100% STEPPE vs 50% RZ AGRO



Base segment

MARKET POSITION No. 6

100% STEPPE



MARKET POSITION TOP-10 No. 1 No. 1 BY PER-COW YIELD No. 1



## Industry overview for 2021

### CROP FARMING

Russia's gross harvest of grain and grain legumes in 2021 is pegged at 121.4 m t, down 9% from 2020. The decrease was due to lower harvest numbers in central Russia and the Volga region, while the southern-Russia figures continued to rise. Total grain and grain legume field areas went down 1.9%, from 47.9 m ha in 2020 to 47.0 m ha in 2021.

An important landmark of the 2021/2022 crop season was the introduction of floating export duties on wheat, barley and corn, a governmental move aiming to establish a "grain buffer", with export duty proceeds to be redistributed back to farmers in subsidies.

### GRAIN TRADING

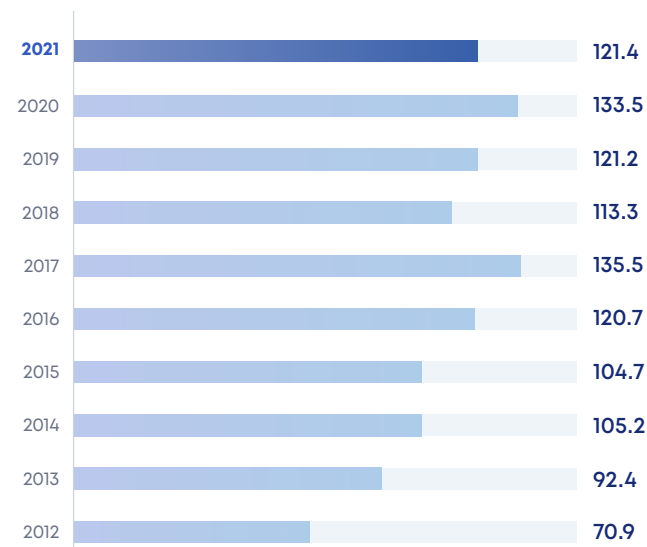
Russian grain exports in the 2020/2021 crop season (including exports to the Eurasian Economic Union, or EAEU) reached 51.5 m t, up 12.8% year-on-year.

A global leader in wheat exports, Russia exported 39.2 m t in the 2020/2021 crop season (EAEU included), which exceeds 20% of the global grain exports. In the first half of the new 2021/2022 crop season, Russia exported 27.2 m t of grain, including 21.8 m t of wheat, down 17% year-on-year. The key importers of Russian grain are Egypt, Turkey, Bangladesh, Iran, Saudi Arabia and other countries in the Middle East and Southeast Asia.

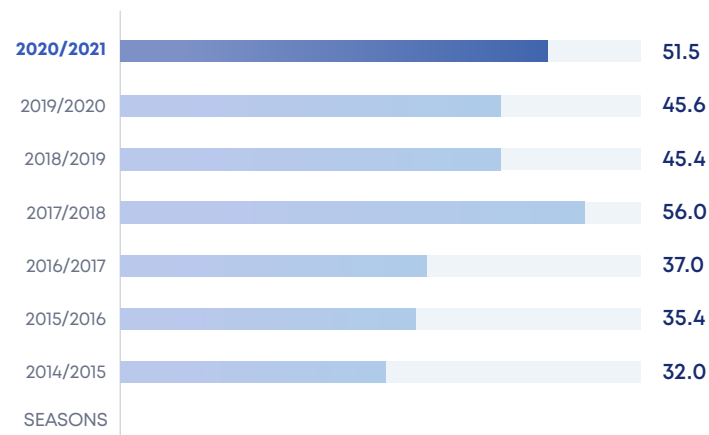
Land prices in Russia are generally on the rise, with investors increasingly looking to acquire farmland. The trend will likely continue in the long term due to the ongoing implementation of advanced agricultural technologies, growing food consumption, land shortages and an overall high investment appeal of land assets, with local farmland prices potentially on track to reach a par with other countries.



Gross grain and grain legume harvest in Russia<sup>2</sup>, m t



Grain exports (EAEU included)<sup>3</sup>, m t



1 Preliminary estimate.  
2 Source: RosStat, UISIS.  
3 Source: RusAgroTrans.

### DAIRY FARMING

Russia's raw milk output in 2021 reached 32.3 m t, up 0.2% year-on-year. The raw milk output of agricultural companies increased by 1.5%, to 18.1 m t.

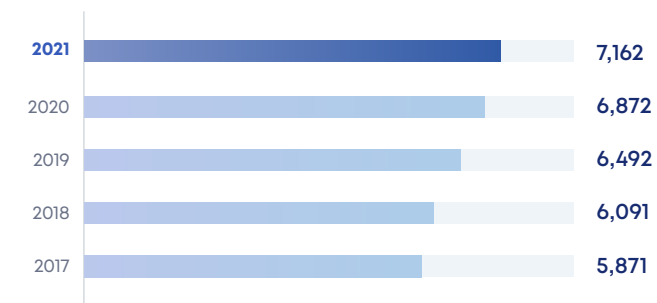
The increase is primarily due to the inauguration of new dairy farms and gradual productivity advancements. However, the rate of such output growth decreased year-on-year due to the shutdowns of multiple inefficient farms, resulting in an accelerated reduction in the number of lactating cows used in the industry.

Agricultural companies produce 56% of all Russian milk, the rest coming from private households.

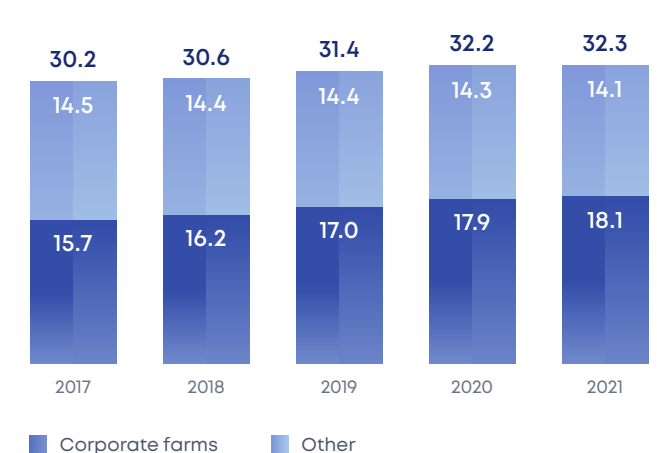
The 2021 output of market-grade milk in Russia is estimated at 23.7 m t, or 73% of all milk produced nationally. The figure will likely grow further going forward as more dairy farms appear and embrace high standards of raw milk production.



Per-cow milk yield in the corporate sector<sup>4</sup>, kg per year

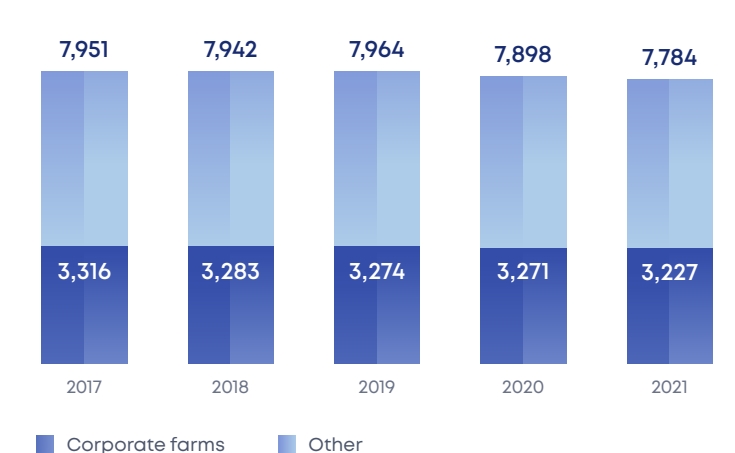


Milk output<sup>5</sup>, m t



4 Source: UISIS.  
5 Source: RosStat, UISIS.  
6 Source: UISIS, SoyuzMoloko.

Total lactating cows across farm categories<sup>6</sup>, thsd



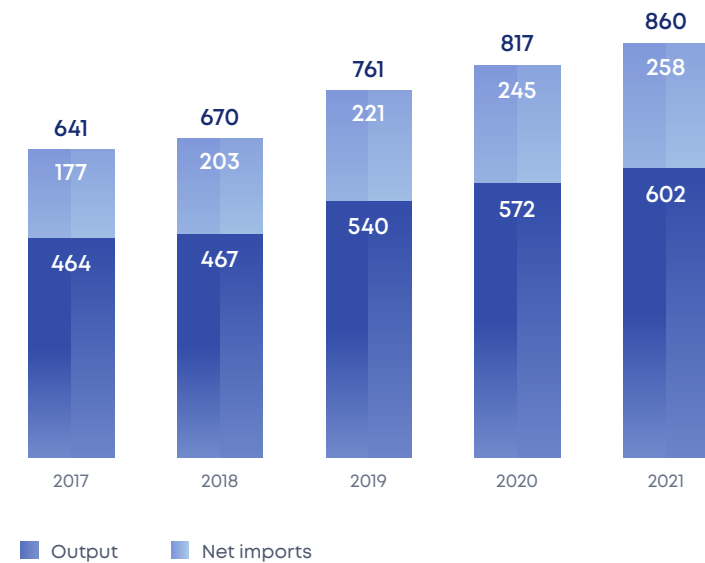
**CHEESE MARKET**

The Russian cheese market continues growing, with output in 2021 going up 5.4%, to 602 thsd t. The industry remains highly dependent on imports, which account for up to 30% of the market. That said, the potential for import substitution and further enhancement of domestic output is strong. Cheese consumption in 2021 totaled **860 thsd t**, up 5.3% from the previous year.

The development of the Russian cheese market is helped along by imports substitution, an increased production of pre-packaged cheeses and a consumption structure shift towards greater prevalence of pre-packaged products, on track to reach a par with other national markets.

Another source of market growth is the rising per-capita consumption of cheese. Between 2014 and 2021, this parameter went from 5.9 to 6.9 kg, in stark contrast to 20.4 kg in Europe, 17.9 kg in the US and 11.8 kg in Australia. Further enhancement to a par with global values, the cultivation of a consumer culture and the growing prevalence of food services where cheese is an essential ingredient will drive future cheese market evolution.

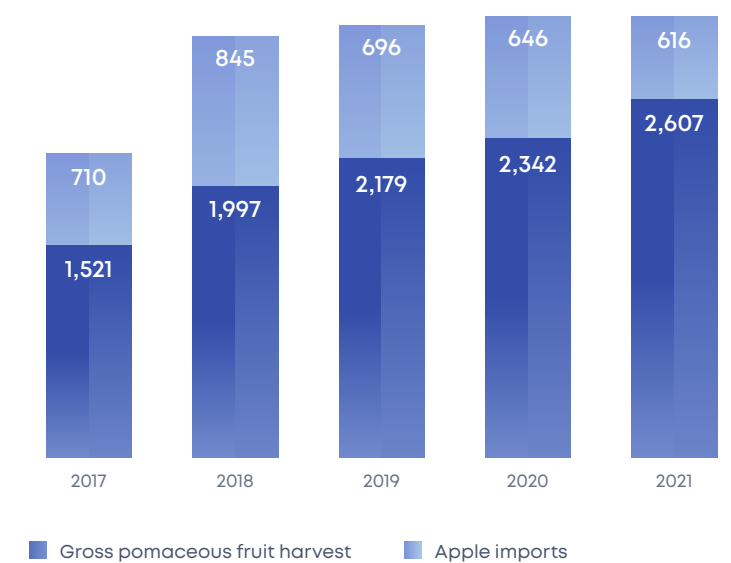
**Cheese consumption in Russia<sup>1</sup>, thsd t**



**FRUIT GROWING**

Russia's gross pomaceous fruit harvest in 2021 went up 11%, to 2.6 m t, the result of recently planted orchards edging towards design capacity and new intensive-type facilities bringing their first fruit. That said, the area of perennial pomaceous fruit plantings is down 5.6 thsd ha, to 226.2 thsd ha. The national pomaceous fruit market is still heavily dependent on imports, with 19% of fruit consumed coming from outside Russia.

**Russia's gross pomaceous fruit harvest and apple imports<sup>2</sup>, thsd t**



**2.6 MT**  
GROSS POMACEOUS  
FRUIT HARVEST  
in 2021



**32.3 M T**  
RUSSIA'S RAW  
MILK OUTPUT  
in 2021



<sup>1</sup> Source: Rosstat, SoyuzMoloko.

<sup>2</sup> Source: RosStat, UISIS.



## Business development in 2021

### STEPPE AGROHOLDING'S MARKET POSITIONS IN KEY SEGMENTS

For Steppe AgroHolding, 2021 was a year of improvements across the entire spectrum of business lines. In addition to a gross harvest of 1.8 m t+, the company yet again established itself as the national No.1 dairy farm by efficiency, while also taking steps on its ambitious plan to launch and develop new dairy production facilities.

Steppe also established itself as a stronger grain trader with a vibrant business, growing sales, and a brand-new niche crop trading business, a market the company ventured into in 2021, swiftly rising to the national No.1 status.

### CROP FARMING

Steppe AgroHolding's land assets as of YE 2021 stood at **578 thsd ha**. The national No.6 by land area, the company owns farmland in the Russian regions that are most attractive in terms of climate, crop yield, and logistical accessibility. A significant share of Steppe AgroHolding's assets are owned or leased for a long term.

In 2021, the company harvested a record-high **1.8 m t** of agricultural crops (including ~1 m t of wheat), up 45% from 2020. The achievement is in large part due to efficient management and the adoption of the latest agricultural technologies, IT solutions (AI-driven and otherwise) and machinery (including autonomous vehicles).

### DAIRY FARMING

As one of the leaders in dairy farming, Steppe operates seven state-of-the-art farms with smart online control systems. Out of a total of 23,240 cows, 10,405 are lactating, up 56% (or 3,718 head) year-on-year. The total milk output in 2021 went up 22% year-on-year, to **87.1 thsd t**.

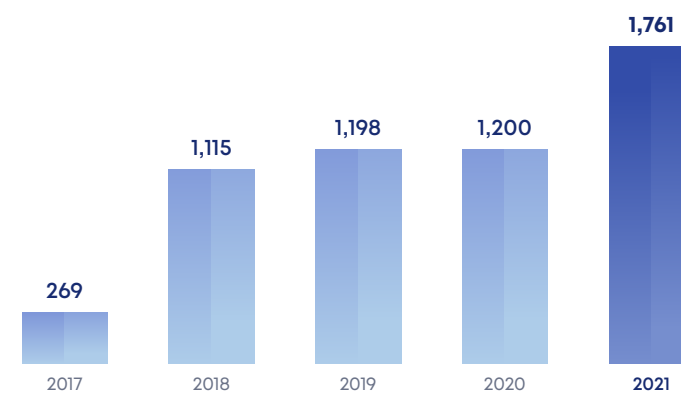
Among initiatives implemented in 2021 is a new dairy farm in the Krasnodar region designed for 3,000 lactating cows, scheduled to reach design capacity in 2022. A mega-farm in the Stavropol region designed to accommodate as many as 9 thsd lactating cows is now in the works, with new animals arriving as we speak.

### GRAIN TRADING AND LOGISTICS

Steppe's grain trading sales in 2021 totaled 1.76 m t, up 47% from a year before.

The main efforts here went towards developing international trading capabilities, which involves a partnership closed with the Black Sea's leading broker Actava Trading and first landmark import/export transactions. Progress made in 2021 alone increased the company's international grain trading revenue by a factor of 3.

Steppe AgroHolding's grain sales, thsd t



### TRADING IN NICHE CROPS

In 2021, Steppe AgroHolding instituted a brand-new niche crop trading business. In the first year of operation, the business sold **208 thsd t** of niche crops, an absolute record high among Russian peers. In the first half of the new crop season 2021/2022, Steppe AgroHolding re-established itself as Russia's biggest exporter of peas and one of the top exporters of mustard and chickpeas.

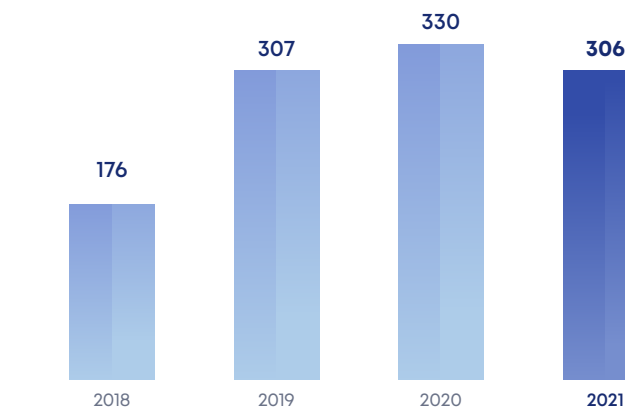
Niche crop trading is part of the company's strategy to diversify its product and shipment portfolio amid swiftly changing market conditions.

### TRADING IN SUGAR AND GROCERIES

Sugar and grocery trading is a logical extension of the crop farming business, where Steppe AgroHolding -grown beets are processed into Steppe AgroHolding -traded sugar and staple ingredients for Steppe AgroHolding -made processed products.

In 2021 alone, the company sold **306 thsd t** of sugar and groceries. A priority business line here is pre-packaged groceries, branded and otherwise, a category that went up 27% year-on-year, reaching 23.2 thsd t.

Steppe AgroHolding's sales of sugar and groceries, thsd t



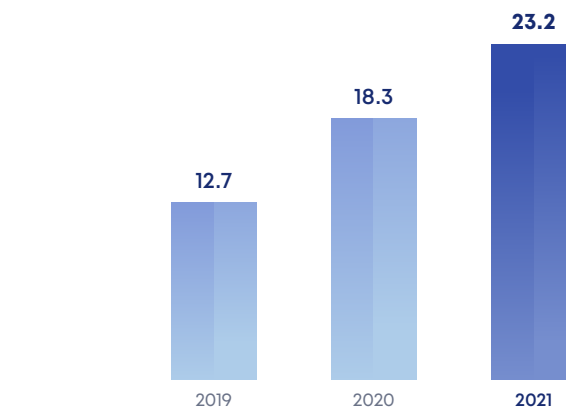
### PRODUCTION OF PRE-PACKAGED CHEESE AND DISTRIBUTION OF DAIRY PRODUCTS AND DAIRY ALTERNATIVES

Consistent with its strategy's thrust towards enhancing processing capacities, in 2021 Steppe AgroHolding acquired the industrial assets of PiR Group, a major Russian producer of pre-packaged cheeses and slice-on-slice cheese for the HoReCa sector and a leading distributor of dairy products and plant-based alternatives, selling up to 45,000 t of products a year.

The business acquired comes with quality production facilities and profound industrial expertise, becoming a harmonious link in the process chain from raw milk to processing to distribution. The dairy processing plant in Vologda region is also among Russia's seven businesses certified to produce the uniquely delicious "Vologda Butter".

PiR's yet another business line is the production and distribution of plant-based dairy alternatives, a food category coming on strong both nationally and worldwide. PiR Group has been a distributor of plant-based since the national market first came into being in 2009.

Steppe AgroHolding's sales of packaged groceries, thsd t



## Development strategy

Steppe AgroHolding's development strategy aims to further the evolution of the company's key business lines, which involves:

- Developing the international grain trading business, aiming at 50%+ of revenue to come from abroad
- Building and commissioning new dairy farms and increasing livestock numbers and high-quality milk output
- Acquiring more high-quality land in southern and central Russia, increasing operating efficiency and adopting new technologies, including AI and autonomous vehicles
- Further enhancing the company's standing as a sugar and grocery trader by boosting sales (including branded pre-packaged products) and broadening product portfolio
- Increasing the output of pre-packaged and slice-on-slice cheese for the HoReCa sector and the sales of both dairy products and plant-based alternatives
- Driving projects to process milk and produce plant-based proteins and alternatives from Steppe AgroHolding -grown raw materials

## Financial and operational performance in 2021

### Revenue, RUB bn



### Adjusted OIBDA, RUB bn



### Steppe AgroHolding's gross harvest (RZ Agro included), thsd t

THSD T	2021	2020	CHANGE, %
Wheat	965.1	647.8	49.0%
Sunflower	96.3	68.7	40.2%
Peas	88.1	59.1	49.0%
Corn	51.4	22.0	133.7%
Sugar beet	338.7	206.8	63.8%
Barley	45.3	56.8	-20.2%
Other	236.0	192.0	22.9%
<b>Total</b>	<b>1,820.8</b>	<b>1,253.4</b>	<b>45.3%</b>

RUB M	2021	2020	CHANGE, %
Revenue	57,150	32,824	74.1%
Adjusted OIBDA	14,368	9,321	54.1%
Operating income	11,234	7,368	52.5%
Adjusted net income attributable to Sistema	7,505	3,909	92.0%

In 2021, revenue grew by 74.1% year-on-year, to RUB 57.2 bn, mainly due to higher crop-farming and grain-trading revenues, which in turn resulted from a higher gross harvest, rising prices for agricultural produce, an efficient sales strategy, strong effort being invested in international trading in grain and niche crops, the launch of new business segments (such as the production of pre-packaged cheese and the distribution of dairy products and plant-based alternatives) and growth in dairy farming performance.

Adjusted OIBDA went up 54.1% year-on-year as a result of higher operational efficiency, increased crop yields, rising prices for agricultural produce, better performance in the international trading business, a successful development of trading in niche crops as a brand-new business line, the production of pre-packaged cheese and the distribution of dairy products and plant-based alternatives.

CAPEX totaled RUB 4.2 bn, primarily spent on the construction and upgrades of dairy farms, the acquisition of agricultural equipment and the development of logistics infrastructure.

### Steppe AgroHolding: Production

THSD T	2021	2020	CHANGE, %
Milk production	87.1	71.4	22.0%
Grain trading sales	1,761.4	1,200.0	46.8%
Sugar and grocery trading sales	306.1	330.0	-7.2%
Pre-packaged product sales (sugar & groceries)	23.2	18.3	26.6%
Niche crop trading sales	207.8	47.0	341.8%



Binnopharm Group is Russia's leading pharmaceutical company specialising in the development, manufacturing, promotion and sales of drugs and medical products in the markets of Russia and the CIS.

SISTEMA'S EFFECTIVE STAKE

75.3%

TEAM



Rustem Muratov  
CEO



Dmitry Zubov  
CHAIRMAN OF THE BOARD OF DIRECTORS

KEY HIGHLIGHTS

>450

MARKETING AUTHORISATIONS FOR DRUGS IN RUSSIA

370 MN

NEW MARKETING AUTHORISATIONS PER YEAR IN 2021

13

EXPORT SEGMENTS

6

REPRESENTATIVE OFFICES IN THE CIS

5

PRODUCTION FACILITIES

20%

PRODUCTS ARE MANUFACTURED FROM IN-HOUSE PRODUCED APIs

57

UNITS PRODUCED IN 2021



Business model

PRODUCTION

Binnopharm Group comprises production facilities across Russia: JSC ALIUM (formerly OBL Pharm in the Serpukhov district of the Moscow region), Binnopharm JSC (with its two sites in Zelenograd and Krasnogorsk near Moscow), SINTEZ PJSC (in the Urals city of Kurgan) and "Biocom" JSC (in Stavropol in Russia's south). In aggregate, these production facilities manufacture products in more than 200 pharmaceutical groups in various dosage forms (tablets, capsules, gels, suppositories, infusion solutions, etc).

PRODUCT PORTFOLIO

The Group's diversified portfolio comprises more than 450 marketing authorisations for drugs in the following major medical areas: gastroenterology, cardiovascular diseases, respiratory diseases, infectious diseases, neurology, musculoskeletal disorders and dermatology. Each of the 450 drugs accounts for 7% of revenue or less. More than 100 drugs from Binnopharm Group's portfolio are included in the list of vital and essential drugs.

PROMOTION

Binnopharm Group's key advantage is the combination of a diversified portfolio of drugs and an effective system of promotion through media tools, contracts with pharmacy chains and medical and pharmaceutical representatives.

RESEARCH AND DEVELOPMENT

Binnopharm Group is doing continuous research aimed at developing new drugs and expanding its product portfolio.

The company has started construction of a modern R&D centre in the Krasnogorsk district of the Moscow region with a total floor area of 12,000 sq m.

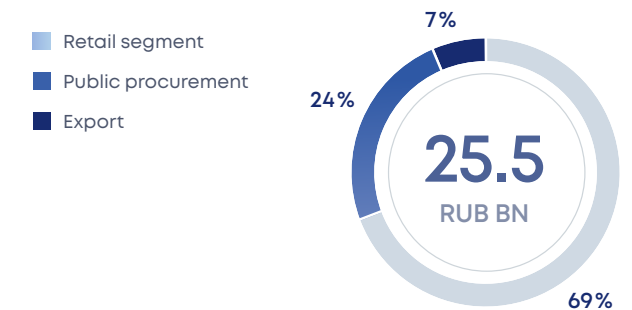
The R&D centre will comprise two research units:

- ▶ centre for development of synthetic drugs
- ▶ centre for development of biotech drugs

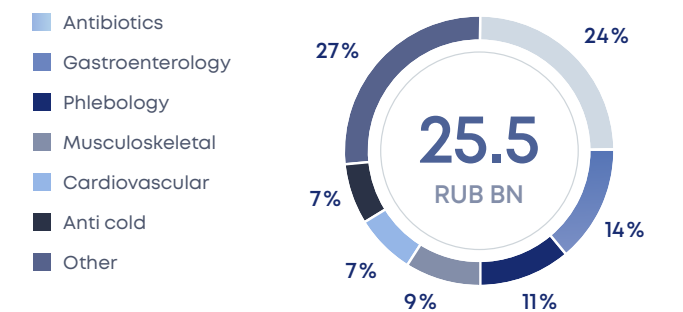
The new R&D centre will employ 450 people. By 2025, Binnopharm Group expects to launch more than 100 new products (dermatology, neurology, gynaecology, pediatrics, etc).

KEY FIGURES

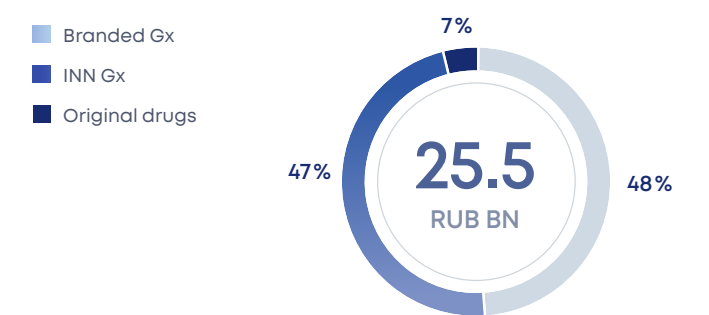
Revenue breakdown by distribution, 2021



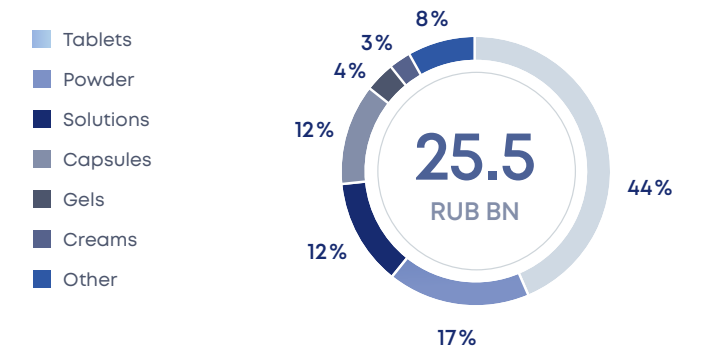
Revenue breakdown by product type, 2021



Retail portfolio breakdown, 2021



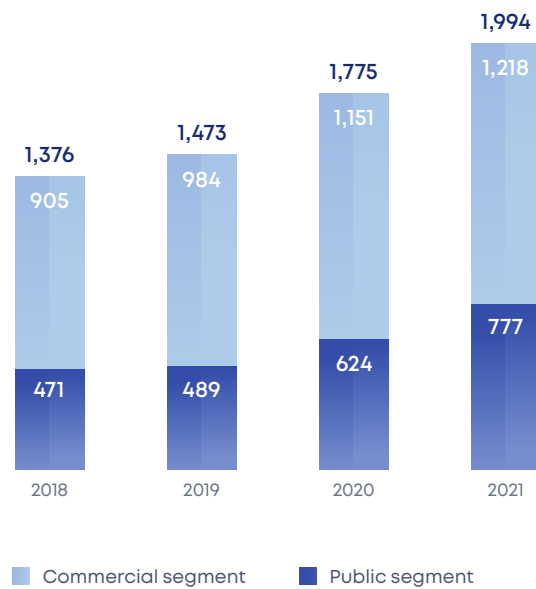
Full range of dosage forms, 2021



## Industry overview for 2021

In 2021, the pharma market in Russia, including drugs sold by pharmacy chains to the government sector, grew by 12% year-on-year in monetary terms, up to RUB 1,994 bn, and decreased by 9% in volume terms, down to 5.9 bn packages. At the same time, drug sales in the retail segment increased by 6% year-on-year in monetary terms, reaching RUB 1,218 bn, and dropped by 8% in volume terms, down to 5.1 bn packages. Drug supplies in the public segment in 2021 totaled 828 m packages worth RUB 777 bn. The public pharma segment grew by 24% in monetary terms and went down by 11% in volume terms.

Development of the Russian pharmaceutical market<sup>1</sup>, RUB bn



The rouble weakened amid changes in the macroeconomic environment, driving growth in the production cost of drugs with a high share of imported ingredients. In 2021, the pharmaceutical market slowed down, as real household incomes decreased.

At the beginning of 2021, sales of life-improving drugs (mostly over-the-counter) were on the decrease, while the demand for essential drugs rose. In 1Q 2021, the situation stabilised, and the second half of the year saw a rise in consumer demand for life-improving drugs. A new wave of Covid-19 in the autumn of 2021 prompted a rise in demand for antiviral drugs, while the consumption of antibiotics didn't grow as fast as during the initial waves of the Covid-19 pandemic in 2020.

The priorities of the government's policy in the pharmaceutical industry until 2030 include:

- ▶ import substitution (including substances; drugs from the list of strategically important products; low-margin drugs and medications that are in high demand in the domestic healthcare segment, etc) to ensure sustainability of drug supplies in Russia
- ▶ ensuring the required growth of production capacity in the pharmaceutical and medical segments to achieve the goals of the government's policy, including with the help of targeted financing of major construction projects from the federal budget
- ▶ developing a mechanism for securing the high quality of drugs and medical products for the national healthcare system
- ▶ creating and improving conditions for developing innovative drugs and medical products

<sup>1</sup> Source: AIPharm, audit of retail and public pharmaceutical market, 2018-2021



The main goal of the government's Pharma-2030 programme is to increase the output of domestically manufactured drugs and medical products twofold in monetary terms by 2030 vs 2021: up to RUB 1.5 tn. This goal can be achieved by means of building scientific, technological and manufacturing capabilities in the pharmaceutical and medical industries. The government is also planning to stimulate the exports of drugs and medical products, which are expected to reach RUB 311 bn by 2030.

Another focus area of the government's programme is organising the production of pharmaceutical ingredients. By the end of 2030, the government expects to increase the share of strategically important drugs that are fully manufactured in Russia up to 90%.

> **1.5** TN RUB

EXPECTED OUTPUT OF DOMESTICALLY MANUFACTURED DRUGS AND MEDICAL PRODUCTS

By the end of 2030

**311** BN RUB

EXPECTED EXPORT OF DRUGS AND MEDICAL PRODUCTS

By the end of 2030





## Business development in 2021

### FORMATION OF BINNOPHARM GROUP AND CHANGES IN SHAREHOLDING STRUCTURE

In February 2021, Sistema and VTB Bank (Europe) SE via Sinocom Investments Limited contributed their 56.2% stake in PJSC Sintez (formerly known as OJSC Sintez) to the equity of Binnopharm Group. At the same time Sistema, VTB, and a consortium of investors comprising the Russia-China Investment Fund (established by the Russian Direct Investment Fund and China Investment Corporation) and leading Middle Eastern funds (RCIF consortium) contributed an 85.6% stake in JSC Alium to the equity of Binnopharm Group. Following the transaction, Sistema's effective interest collectively owned with VTB Group stood at 79.0%, with another 15.8% held by RCIF consortium and remaining 5.2% held by the minority shareholders-individuals (minority shareholdings were partially acquired by Sistema in April 2021).

In March 2021, Sistema Group acquired 32.4% stake in PJSC Sintez from JSC National Immunobiological Company. In May 2021, Sistema contributed this stake to the equity of Binnopharm Group, increasing Binnopharm Group's interest in Sintez to 88.6%. Following the transaction, Sistema's effective interest collectively owned with VTB Group in Binnopharm Group increased to 86.5%, with another 12.5% held by RCIF consortium and remaining 1.0% held by the minority shareholder-individual.

In June 2021, Sistema's wholly-owned subsidiary LLC Sistema Telecom Assets sold an 11.2% stake in Ristango Holding Limited, which owns 100% of the authorised capital of Binnopharm Group to Nevsky Property Investments Limited (controlled by VTB Capital). The total price tag of the transaction was **RUB 7 bn**.

In July 2021, Sistema exercised its right and bought the stakes in Ristango Holding Limited (which owns 100% of the equity of Binnopharm Group) held by VTB for a total of **RUB 6.7 bn**. In December 2021, Sistema exercised its right to acquire **RUB 9.06 bn** worth of shares of Sinocom Investments Limited from VTB Bank (Europe) SE through its subsidiary LLC Sistema Telecom Assets. Sinocom held a 28.4% stake in Ristango Holding Limited. Following the transaction, Sistema's effective interest in Ristango Holding Limited stood at 75.3%, with another 12.5% held by the consortium, 11.2% held by Nevsky Property Investments and remaining 1.0% held by the minority shareholder-individual.

### PRODUCT PORTFOLIO EXPANSION

In 2021, Binnopharm obtained 27 marketing authorisations in Russia and registered more than 30 drugs abroad. At the beginning of 2021, Binnopharm Group and Glenmark Pharmaceuticals Limited agreed to localise the production of the antiviral drug favipiravir (which is used for the treatment of Covid-19, among other deceases) at Alium plant in Obolensk, the Moscow region, and at Biocom plant in Stavropol.

In February 2022, Binnopharm Group signed an agreement to purchase a manufacturer licence for antibacterial drugs under the brands of Ciprolet and Levolet in Russia, Uzbekistan and Belarus from the international pharmaceutical company Dr. Reddy's.

Acquisition of these drugs will strengthen Binnopharm Group's leadership in the antibiotics market, which is a priority market for the company.

### MODERNISATION PROJECTS AND CONSTRUCTION OF NEW PRODUCTION FACILITIES

In February 2021, Binnopharm Group tripled its capsule production capacity at Alium plant located in Obolensk, the Moscow region, up to 15 m packages a year.

In August 2021, Binnopharm Group completed an investment project for upgrading Biocom plant in Stavropol. The total amount of investment in the development of the production facility reached approximately **RUB 1 bn**.

In December 2021, the company completed modernisation of a sachet production line at Alium (in Obolensk, the Moscow region), increasing its capacity to 50 m sachets per annum. The company plans to gradually relocate production of all medications in sachet form to Alium. Total investments in the project amounted to **RUB 100 m**.

In February 2022, the company completed renovation of Sintez plant in Kurgan that produces drugs in the form of syrups and suspensions, driving overall production capacity to RUB 6 m bottles a year, or three times the pre-upgrade output.

In February 2022, Binnopharm Group launched design works at the Sintez plant in Kurgan to build a modern GMP/GDP pharmaceutical warehouse facility that will store raw materials and finished products. The facility will be divided into five areas with different temperature regimes, it will also have a temporary warehouse for customs clearance that will significantly optimise the logistics for delivering imported materials to the plant.

### R&D DEVELOPMENT

In September 2021, the company announced its plans for creating a modern R&D centre in the Krasnogorsk district of the Moscow region that will combine the research units of all enterprises. The centre will develop synthetic and biotech drugs.

### INTERNATIONAL EXPANSION

In December 2021, the company announced its plans for international expansion and opening of offices in the CIS: Kazakhstan, Belarus, Azerbaijan, Moldova, Armenia and Uzbekistan. The company has long been operating in the CIS markets through partners, being a leader in the sales of medical products among Russian companies. Opening of representative offices abroad will make it possible to create an in-house promotion service to speed up development in these markets. The company expects its export revenue to double by 2024.

# Operations & investment development strategy

Binnopharm ambition is to build a leading pharma company in the Eastern Europe and CIS markets

**CLEAR STRATEGY WITH MULTIPLE LEVERS SUPPORTING FUTURE GROWTH**

▶ Continue to organically gain market share in fast growing Russian Gx and OTC markets

▶ Actively enhance product portfolio: different mixes, new launches, category brands, biopharma investments

▶ Successful promotion strategy increasing salesforce effectiveness via pharma and medical representatives

▶ Maintain focus on cost competitiveness and operational efficiency (new launches of in house API, R&D efficiencies)

▶ Expansion in foreign markets, to increase presence in the CIS countries

▶ Inorganic growth via value accretive M&As



# Financial performance in 2021

Revenue, RUB bn



OIBDA, RUB bn



RUB M	2021	2020	CHANGE, %
Revenue	25,496	21,372	19.3%
OIBDA	8,113	5,456	48.7%
Operating income	5,691	4,081	39.5%
Net income	3,354	1,939	73.0%

In 2021, revenue rose by 19.3% year-on-year due to increased penetration of Binnopharm Group's products in various segments of the pharmaceuticals market. Sales increased across all segments: retail, export and inpatient. The inpatient segment was up 27% year-on-year, with export sales rising by 15%. Sales in the retail segment increased by 20% year-on-year, the main growth drivers being the products aimed at improving the quality of life of consumers: vein tonic **Angiorus**, synbiotic **Maxilac**, antimicrobial and anti-inflammatory agent **Oflomelid** and antispasmodic **Neobutin**.

In 2021, OIBDA jumped by 48.7% year-on-year amid growing revenue, tighter control over administrative and selling expenses and optimisation of product portfolio. OIBDA margin grew by 6.3 p.p. year-on-year, up to 31.8%. Net income soared by 73.0% year-on-year on the back of OIBDA growth.

By the end of 2021, net debt decreased by 16.9% year-on-year, down to RUB 7.6 bn. Net debt /OIBDA went down from 1.7x in 2020 to 0.9x in 2021.



**73.0%**  
NET INCOME GROWTH  
FY 2021

**7.6 BN RUB**  
NET DEBT  
By the end of 2021





BASHES.RU

Bashkir Power Grid Company (BPGC) is a dominant power grid company in the Republic of Bashkortostan, transiting of electricity energy between the center of the country and the Urals and a provider of power facility engineering and construction services.

SISTEMA'S EFFECTIVE STAKE

91%

TEAM



Sergey Gurin  
CEO



Dmitry Sharovатов  
CHAIRMAN OF THE BOARD OF DIRECTORS

KEY HIGHLIGHTS

360.8 THS C.U.  
AMOUNT OF MAINTENANCE

89.4 THSD KM  
LENGTH OF GRIDS

14,706 PCS  
NEW CONNECTIONS

100%  
IMPLEMENTATION OF SMART GRID TECHNOLOGY IN UFA

41%  
SHARE OF SAEM

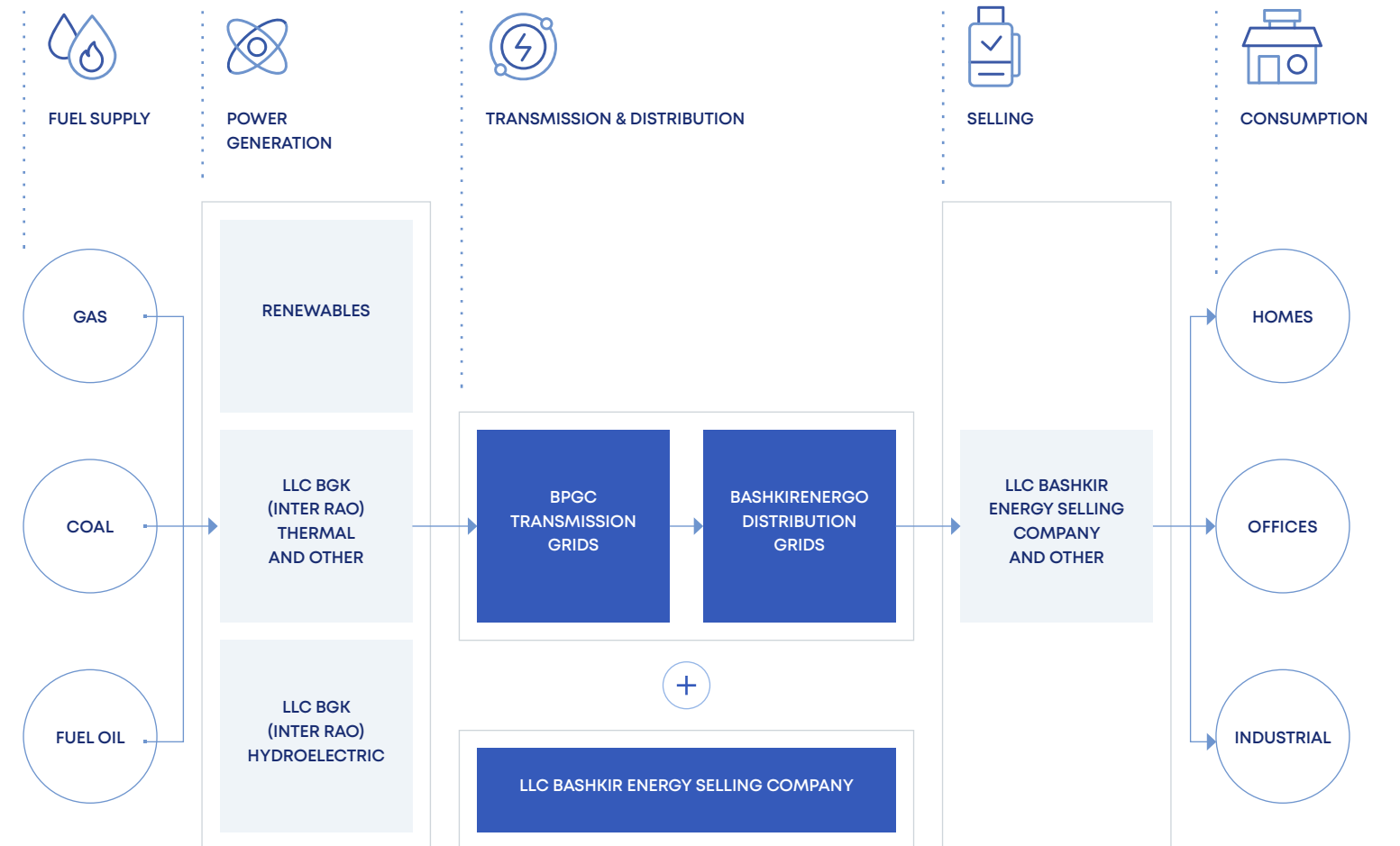
78%<sup>1</sup>  
SHARE ON BASHKORTOSTAN'S POWER TRANSMISSION MARKET

7.8 THSD FTEs  
HEADCOUNT

<sup>1</sup> In terms of revenue.



Business model



## Industry overview for 2021

In 2021, electricity consumption in Russia grew 5.4% year-on-year, to 1,107 tn kWh, with electricity generation up 6.3%, to a new all-time high of 1,131 tn kWh, primarily due to significant rises in both domestic and international demand. Although electricity consumption by oil producers and refineries had been decreasing throughout 1H 2021 under pressure from the OPEC+ agreement to reduce oil production, the trend reversed in 2H, with net supply and power consumption back on the rise.

Domestic demand for electricity climbed up as economy started emerging from a lockdown, a trend further buoyed by the cold weather of 1Q and heat waves of the summer of 2021. All types of power generation facilities ramped up their output, with renewable energy generation growing fastest and nuclear and hydropower plants hitting fresh highs in electricity output.

Russia's electricity exports in 2021 increased YoY by a factor of 2.2, to 25 bn kWh. The Russian government approved a one-off 5% increase in retail electricity tariffs for households and an annual 3.0% increase in those for industrial users throughout 2021–2023 (effective from 01 July 2021).

In Bashkortostan, net electricity supply is projected to grow by 0.95 bn kWh, or 6.3% year-on-year, including: (1) an additional 1.1 bn kWh for oil producers (up 47%); and (2) an additional 0.15 bn kWh for oil refineries (up 8.2%).

## Business development in 2021

**BPGC leads the Russian electricity grids market by operating efficiency, maintaining high quality and reliability of services despite lower average prices and unit operating costs.**

Bashkortostan's largest grid company, BPGC is also the biggest investor in local market infrastructure. In 2021, BPGC's investment in the republic's infrastructure totaled RUB 3.68 bn (net of VAT), out of which RUB 2.1 bn was applied toward new connections.

### GROWTH IN OUTPUT & EFFECT OF PRICE INCREASES

The overall supply of electricity to consumers and territorial grid operators (TGOs) in 2021 went up 3.5%. While the increase was primarily driven by the tapering of the OPEC+ production cuts, consumption in the retail (household) segment also went up 4.1% year-on-year, to 3,117.8 m kWh.

As Bashkortostan exceeded its designated cross-subsidisation volume ceiling in 2021, the federal government decided to impose a freeze on certain categories of local transmission rates. This resulted in zero (0%) annual indexation of the grid maintenance component of two-part rates and of one-part rates for high and medium-1 voltage levels, while the power loss component of two-part rates was adjusted by +5.6%, effective from July of 2021.



### NEW CONNECTIONS

The company recorded

# 14,706

CONNECTIONS TO POWER GRIDS IN 2021  
up 7.1% year-on-year

as economic activity picked up



### KEY PROJECTS

#### Distribution grid upgrades

In 2021, the company spent RUB 917 m on grid overhauls and upgrades aimed to modernise the partly worn infrastructure and eliminate failure threats:

- ▶ replacements of outdated switchgear with latest low-maintenance remote-controlled solutions (3 sets in the 35-110 kV grid and 24 sets in the 0.4-10 kV grid)
- ▶ microchip installations in the relay protection and automation systems of 14 substations
- ▶ overhauls of DC control power systems at 5 substations for greater survivability and a better functioning of protection, automation and remote-control systems
- ▶ upgrades of telecontrol systems at 26 substations and installations of fibre optic communication lines

To enhance the reliability of power supply to consumers in the republic's Beloretsky district, BPGC continued the construction of the Uzyan-Bainazarovo 110 kV overhead power transmission line, a project that will cost the company a total of RUB 325 m, including RUB 60.4 m invested in 2021 in transmission towers.



### OPTIMISATION AND AUTOMATION OF WORKFLOW AND OPERATIONS

BPGC spent 2021 working on the enhancement of operating efficiency, which involved:

- ▶ the implementation of a pilot automated workflow management system SK11
- ▶ the launch of a call centre voice assistant for customers
- ▶ steps to optimise and automate connection costs

2021 marked the completion of the following automation projects:

- ▶ business intelligence data collection & reporting tools for corporate use
- ▶ compromised meter identification system (a collaboration with MTS)

### SMART METER DEPLOYMENT: PLANS, RESULTS, AND POTENTIAL GAINS

In the vein of technological modernisation, the company installed 25.4 thsd meters at the consumers' end and at main substations, reaching a total of 327 thsd smart meters at the end of 2021. This makes 41% of the total number of meters (802 thsd) used by BPGC for the commercial and technical metering of power consumption.

## Strategic goals

BPGC's mid-term strategic plans are aimed at greater operating efficiency and the following specific goals:

#### Improved operating efficiency

- ▶ Installation of smart electricity meters
- ▶ Reduction of technical losses through newer and more efficient technology and equipment

#### Digital transformation

- ▶ Extensive programme to upgrade grid infrastructure with advanced technology
- ▶ Production of power grid equipment for digitalisation projects
- ▶ Comprehensive digitalisation in technological and managerial workflows

#### Business upscaling

- ▶ Consolidation of grid assets in Bashkortostan, including ones managed by territorial grid operators
- ▶ Development of non-regulated business lines leveraging expertise gained in grid assets (IT services, power facility designing, outdoor lighting, etc.)

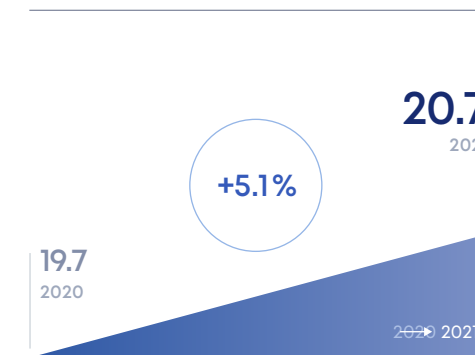
# 327,000

TOTAL NUMBER OF SMART METERS

By the end of 2021

## Financial performance in 2021

### Revenue, RUB bn



### OIBDA, RUB bn



RUB M	2021	2020	CHANGE, %
Revenue	20,740	19,733	5.1%
OIBDA	5,443	4,382	24.2%
Operating income	2,581	1,575	63.9%
Net income attributable to Sistema	1,804	1,174	53.7%

Revenue is up 5.1% year-on-year, mainly due to electricity consumption rising as business activity started picking up in the wake of the pandemic and specifically as oil companies resumed active oil production in 2H 2021. Part of the growth was also supplied by grid connection and engineering revenue streams.

OIBDA is up 24.2% on the back of growing revenue along with a reduction in provisions for receivables to RUB 5.4 bn. Net income is up 53.6%, to RUB 1.8 bn. RUB 0.3 bn was distributed in dividends in 2021.

**2.5 BN RUB**  
OPERATING INCOME  
FY 2021

**1.8 BN RUB**  
NET INCOME  
By the end of 2021

### Financial results, RUB m

RUB M	UOM	2021		2020		DEVIATION	
		Bashkirenergo	BGC	Bashkirenergo	BGC	Bashkirenergo	BGC
Power losses	%	7.4	1.2	7.7	1.3	0.3 p.p.	0.1 p.p.
Power losses	m kWh	1,588	313	1,582	308	0.4%	1.5%
Power in	m kWh	21,327	25,926	20,662	23,441	3.2%	10.6%
Power out	m kWh	19,739	25,613	19,080	23,133	3.5%	10.7%
New connections	connections	14,706	1	13,727	-	7.1%	-
Connected capacity	MW	349	7.5	344	-	1.5%	-



SISTEMA-BN.RU

Business Nedvizhimost is one of the key players in Moscow's commercial real estate market, with a portfolio of 79 properties. The company owns and manages a unique real estate portfolio in Moscow and St Petersburg, including mansions in central Moscow and class B and C office and retail premises located in almost every administrative district of Moscow.

SISTEMA'S EFFECTIVE STAKE

100%

TEAM



Denis Beer  
CEO



Sergey Egorov  
CHAIRMAN OF THE BOARD OF DIRECTORS

KEY HIGHLIGHTS<sup>1</sup>

~400 THSD SQ M  
TOTAL AREA OF COMMERCIAL REAL ESTATE

rUBBB+  
CREDIT RATING Expert RA

79  
COMMERCIAL PROPERTIES in Moscow and St Petersburg

100%  
OF PROPERTIES IN OWNERSHIP

<sup>1</sup> The areas of commercial real estate are presented for JSC Business Nedvizhimost excluding areas Mosdachtrest.



Business model

Main focus areas



ASSET MANAGEMENT

ASSET MANAGEMENT TO INCREASE CAPITALISATION AND LIQUIDITY OF ASSETS AND TO OPTIMISE THE ENTIRE PORTFOLIO OF OWNED AND MANAGED COMMERCIAL REAL ESTATE



PROPERTY MANAGEMENT

PROPERTY MANAGEMENT TO IMPROVE THE EFFICIENCY OF ITS USE AND MAXIMISE NET OPERATING INCOME



FACILITY MANAGEMENT

OPERATION AND MAINTENANCE OF COMMERCIAL AND RESIDENTIAL REAL ESTATE TO ENSURE GOOD CONDITION AND AVOID ACCIDENTS



FLEXIBLE SPACE CHAIN OFFICELESS

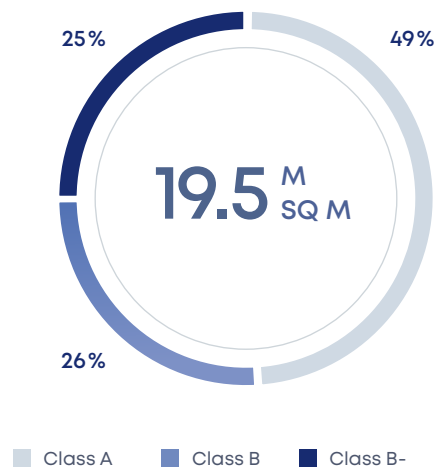
READY-MADE OFFICES THAT MEET TODAY'S BUSINESS REQUIREMENTS: THE ABILITY TO QUICKLY ACCOMMODATE EMPLOYEES WITHOUT CAPITAL EXPENDITURES FOR REPAIRS AND FURNITURE, FLEXIBLE TERMS OF RENT AND A FULL RANGE OF SERVICES

THE COMPANY ALSO DEVELOPS THE OLYMPIC STAR FITNESS CLUB IN MOSCOW

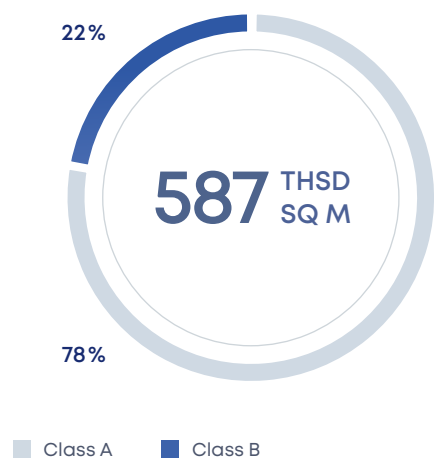
## Industry overview for 2021

After a period of market uncertainty and reduced activity of developers, with only 224,400 sq m of office space commissioned in 2020, commissioning of office space increased 2.6x in 2021, to 587,000 sq m. This figure exceeds the results in 2016–2020.

### Total supply<sup>1</sup>



### New supply<sup>1</sup>



Since the beginning of the year, the vacancy rate in class A decreased by 2.3 percentage points to 9.5%. Thus, less than 480,000 sq m of offices remain vacant at the moment. In class B, the vacancy rate is around 5.6%, 0.5 percentage points lower than in 2020. The total vacant space in class B is 704,000 sq m. At the same time, the vacancy rate in class A within the Moscow Ring Road already reached 6.5% (-1.7 percentage points year-on-year).

**480 THSD SQ M**

THE TOTAL SPACE OF OFFICES REMAIN VACANT decreased by 2.3% year-on-year

**704 THSD SQ M**

THE TOTAL VACANT SPACE IN CLASS B in 2021

Office space absorption – a key indicator of demand demonstrating for a certain period the difference between all the space that became occupied and all the space that entered the market vacant – increased significantly in 2021, to 701,500 sq m, vs 262,100 sq m in 2020. Increased absorption rate is driven by both increased activity of office users, who not only change office location but also increase the occupied area, and new built-to-suit buildings, which are created for a specific user and enter the market occupied.

Office rental rates increased in both classes in 2021. In class A, the asking rental rate for offices increased by 1.2% compared to the beginning of the year and is now at the level of RUB 25,827 sq m a year (excluding operating expenses and VAT). In class B, the rental rate also increased by 2.5% compared to the beginning of the year, to RUB 17,556 sq m a year (excluding operating expenses and VAT). There is an interesting trend regarding class A properties within the Moscow Ring Road: the indicator has been steadily growing over the past years, and over the past year the weighted average rate increased by almost RUB 2,000 (+6.3% year-on-year), to RUB 32,988 sq m a year (excluding operating expenses and VAT).

**701.5 THSD SQ M**

OFFICE SPACE ABSORPTION IN 2021 vs 262,100 sq m in 2020



<sup>1</sup> Source: Knight Frank

## Business development in 2021

In 2021, Business Nedvizhimost adopted its medium-term development strategy. According to the strategy, the company's management will focus its efforts on optimising the commercial real estate portfolio to increase its liquidity and capitalisation. In 2021, a non-core asset Mosdachrest was spun off from Business Nedvizhimost.

The company managed to lease out about 40,000 sq m in 2021. One of the key deals was the lease of buildings at 11 Tushinskaya St in Moscow with an area of more than 8,000 sq m to the Moscow Metro.

### 3 FLEXIBLE OFFICE SPACES

JSC BUSINESS NEDVIZHIMOST PLANS TO LAUNCH UP IN 2022

### 20 OFFICELES LOCATIONS

IS PLANNED TO OPEN UP IN MOSCOW AND ST PETERSBURG BY THE END OF 2025

#### IN 2022, JSC BUSINESS NEDVIZHIMOST PLANS TO IMPLEMENT THE FOLLOWING TASKS:

- ▶ launch up to 3 flexible office spaces under the Officeless project in Moscow with 1,800 workstations
- ▶ maintain net operating income in the classic rental segment at 50%, given temporary downtime during renovation and transfer of the most high-margin properties to the Officeless project
- ▶ increase the efficiency of using space freed up by MGTS and maximise operating income
- ▶ sell non-core assets
- ▶ develop a project of self-storage facilities at the company's portfolio properties

The development potential in the traditional rental offices segment is limited. The most attractive segment for the company's development is flexible workspaces.

According to JLL, flexible office formats will take up to 30% of the office market in Europe by 2030. The segment of flexible office spaces in Russia is expected to grow at the rate of 22% per year. Rental rates for flexible spaces exceed the rates for traditional formats (RUB 35 k/sq m a year vs RUB 25 k/sq m a year). JSC Business Nedvizhimost plans to capture up to 30% of the flexible office space market and become a leader in this market.

Global trends show that decentralised locations are in demand among companies that have switched to a hybrid format of work, because they provide convenient access for employees close to their homes, while the location of properties allows maintaining communication and mobility of employees. Flexible office spaces will be in demand among clients in the enterprise sector, while the possibility of built-to-suit format will be relevant for companies seeking to diversify their portfolio of leased office properties.

At the moment, there is a shortage of high-quality flexible work spaces due to excess demand from large Russian and international businesses, as well as a declining vacancy rate in the office space market due to insufficient new supply in 2021.

As part of the Officeless project, JSC Business Nedvizhimost plans to create a unique ecosystem for business and professional growth – both an internal platform for residents and an external platform for integration with the chain's partners. Networking and informal communication with the help of the Officeless team will form a business community of a new format.

By the end of 2025, it is planned to open up to 20 Officeless locations in Moscow and St Petersburg with 14,000 workstations.



## Financial performance in 2021

#### Financial results, RUB m

	2021	2020	CHANGE, %
Revenue	4,164	6,296	-33.9%
Operating income	473	1,904	-75.1%
OIBDA	1,001	2,423	-58.7%
Net income	-355	1,378	-

In 2021, the decline in financial performance is mainly due to the absence of significant commercial real estate sales. The reorganization of Business-Nedvizhimost in the form of the spin-off of the suburban real estate segment Mosdachrest was completed in November 2021. Financial results for 2021-2020 include consolidated data on the group of companies Business-Nedvizhimost and Mosdachrest for the entire reporting period.

#### Structure of assets by region

INDICATOR	2021	2020	CHANGE, %
Area of commercial real estate in Moscow, k sq m	371	380	-2.4
Area of commercial real estate in St Petersburg, k sq m	26	26	-
TOTAL	397	406	-2.2

The area of commercial real estate in Moscow decreased as a result of the sale of the Zarya recreation centre. Commercial real estate area at the end of 2020-2021 is presented for Business-Nedvizhimost without taking into account the areas of the companies Mosdachrest.





[COSMOSGROUP.RU/EN](https://cosmosgroup.ru/en)

Cosmos Hotel Group owns and manages a portfolio of 20 hotels in 15 cities of Russia and abroad, with a total of approximately 4,600 rooms. Cosmos Hotel Group is one of the largest hotel companies in Russia.

SISTEMA'S EFFECTIVE STAKE

100%

TEAM



**Alexey Akindinov**  
CEO<sup>1</sup>



**Andrey Kolokolnikov**  
CHAIRMAN OF THE BOARD OF DIRECTORS

KEY HIGHLIGHTS

20

HOTELS UNDER MANAGEMENT in Russia

4,653

ROOMS UNDER MANAGEMENT

>1.2 M

+ GUESTS IN COSMOS HOTEL GROUP HOTELS in 2021

51%

AVERAGE OCCUPANCY RATE OF COSMOS HOTEL GROUP HOTELS

4,302 RUB

AVERAGE ADR<sup>2</sup> OF COSMOS HOTEL GROUP HOTELS

83.1%

OF COSMOS HOTEL GROUP'S REVENUE IS GENERATED in Russia

Business model

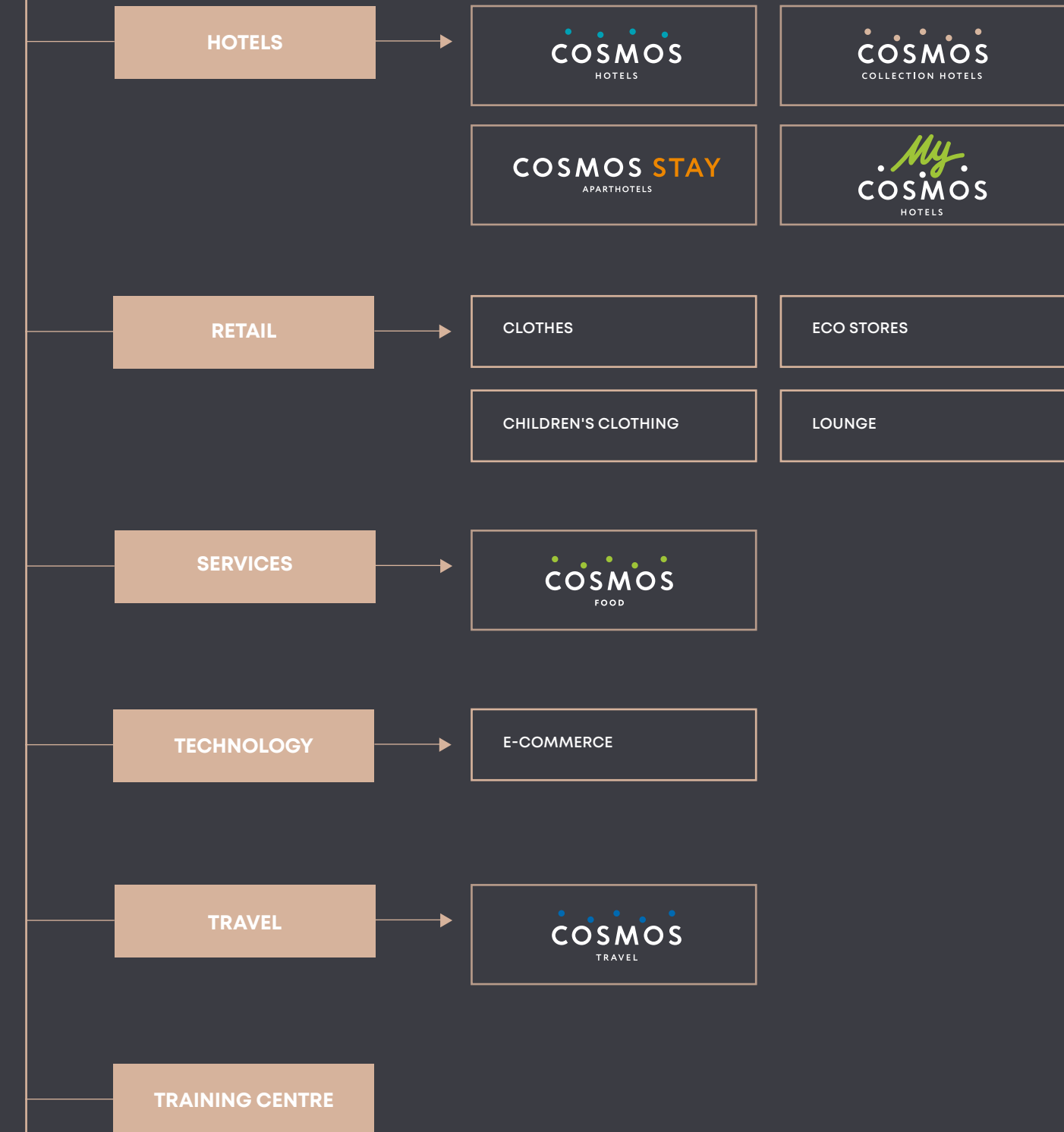
Cosmos Hotel Group operates its own hotels and third-party hotels. The company is developing rapidly through the construction of new hotels under its own brand and the execution of contracts for external management.

The company has expertise in managing hotels and creating new hotels, as well as a single centre of excellence (marketing, sales, procurement and accounting).

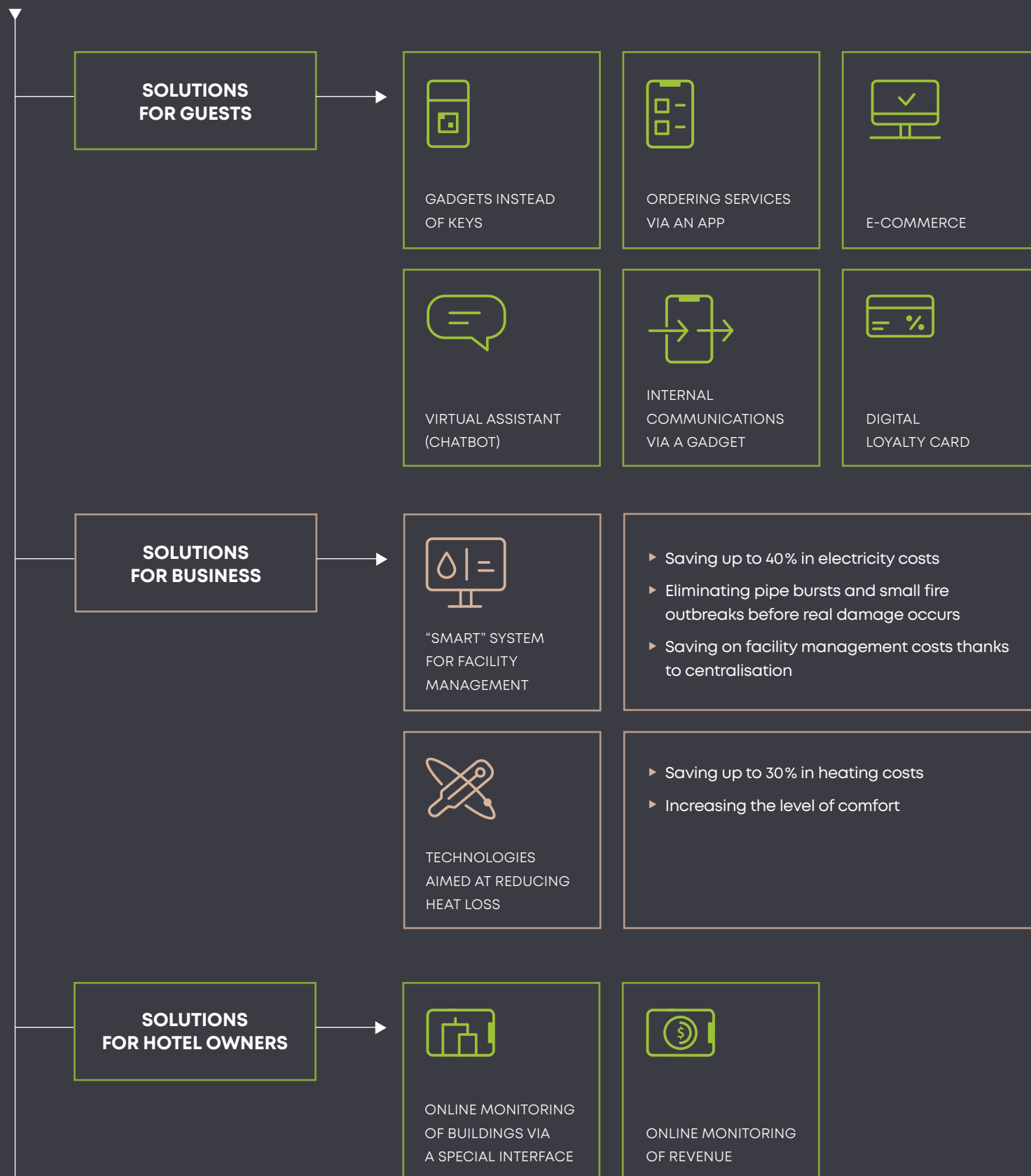
Cosmos Hotel Group offers a full range of value creation and management services for hotel assets, from project consulting and preparation of hotels for opening to cost-cutting and capitalisation enhancement.

- ▶ Cosmos Collection – unique luxury hotels and resorts.
- ▶ Cosmos – modern urban hotels with developed infrastructure and excellent service.
- ▶ Cosmos Smart Hotels – bright ideas for budget urban hotels.
- ▶ Cosmos Stay – modern aparthotels for extended stays and a range of additional services.

<sup>1</sup> As of 31 December 2021, Alexander Shvein.  
<sup>2</sup> Average daily rate



## Innovative solutions for hotel guests, management and owners



## Industry overview for 2021

In 2021, the hospitality industry demonstrated its ability to adapt to the new reality caused by the coronavirus pandemic, with key operating indicators generally stabilising.

The hotel occupancy rate in Moscow did not fall below 50% amid a significant increase in domestic demand. The ADR in 2021 in Moscow was 22% higher than in 2020 and only 6.2% lower than in 2019. The St Petersburg market also performed better compared to 2020: the ADR increased by 5%, while the occupancy rate rose by 16 p.p.

The ADR of quality hotels averaged RUB 6,483 in Moscow and RUB 4,480 in St Petersburg. The weighted average occupancy rate of hotels was 60.5% in Moscow and 51% in St Petersburg.

The fourth wave of COVID-19 in October-November 2021 once again postponed the recovery of the usual demand structure: the activity of the MICE industry in large cities decreased by an average of 40%-60%, while the average booking window decreased to 2-3 weeks. As a result, the seasonality of business changed and it became more difficult for hotels to forecast revenues and service loans.

**22%**

THE INCREASE OF ADR IN MOSCOW  
year-on-year

**5%**

THE INCREASE OF ADR IN ST PETERSBURG  
year-on-year

### Hotel rooms in Moscow

■ Rooms available at the start of the year  
■ Rooms added during the year

**2.4%**

THE INCREASE OF ROOMS IN MOSCOW HOTEL ROOMS 2021 vs 2020





Due to the ongoing pandemic, the opening dates of new hotels get postponed: about 40% of projects were delayed for a period of 6 to 12 months. Nevertheless, three new quality hotels in Moscow (Hampton by Hilton Rogozhskiy Val with 83 rooms, Vertical Boutique BW with 152 rooms and Marriott Imperial Plaza with 268 rooms) and four in St Petersburg (Wavelberg with 79 rooms, Holiday Inn St. Petersburg with 158 rooms, Kravt Nevsky Hotel & Spa with 95 rooms and MARIA with 87 rooms) opened in 2021.

As of the end of 2021, there were 21,000 quality rooms in Moscow and 26,000 rooms in St Petersburg. The most attractive markets for hoteliers in 2021 were St. Petersburg, Moscow, Sochi, Rostov-on-Don, Krasnodar, Yekaterinburg and Kazan.

The key national players in the Russian hotel market are Azimut (over 10,000 rooms under management), Amaks (6,500 rooms) and Cosmos Hotel Group (4,600 rooms).

The leading international hotel chains operating in Russia are Radisson (10,000 rooms), Accor (9,000 rooms), IHG (7,000 rooms), Marriott International (6,500 rooms) and Hilton (4,800 rooms).

Cosmos Hotel Group's share in the supply of quality rooms in Russia is more than 8%.

Most of the factors affecting the business of Cosmos Hotel Group in 2021 were in one way or another related to the ongoing COVID-19 pandemic, with the key factor being the almost complete absence of inbound tourist flow.

The revival of the industry in 2021 was mainly caused by the redistribution of tourist flows with domestic tourism becoming the key driver of hotel occupancy. For instance, the Moscow Aviation Hub's passenger traffic from domestic commercial flights in 2021 increased by 8% compared to the peak year of 2019. International passenger traffic also increased compared to 2020 but remains 65% below pre-pandemic levels.

In general, 2022 is expected to be similar to 2021, as inbound tourism remains scarce, vaccination rates in Russia are relatively low, and agreements with other countries on mutual recognition of vaccines have not yet been reached. The market is expected to recover to 2019 levels no earlier than the second half of 2023, with a full recovery of business tourism by 2025.

The growth of domestic tourism will have a positive impact on the hospitality industry and will help restore the performance of mid-price hotels.



## Business development in 2021

In 2021, a large-scale programme was launched to create new hotels under the company's own brand Cosmos: the construction of 12 urban hotels and 8 resort hotels in different regions of Russia with a total of 4,000 rooms is in progress at various stages with a total budget of about RUB 50 bn. The first hotels will open as early as 2022: a 3-star hotel in Segezha (Republic of Karelia) and a 4-star hotel in Omsk.

Agreements in principle on joint implementation of new projects were reached with strategic partners: JSC Corporation Tourism.RF, PJSC Promsvyazbank and Baltros Group.

The company entered into new contracts for 750 rooms owned by third parties. Third-party hotels under management operate under Cosmos Hotel Group's own brands, under international brands and under a co-branding arrangement. As a result, the number of rooms managed by the Company increased by 12% compared to 2020.

In 2021, Cosmos Hotel Group was accredited to operate hotels under the international brands Radisson, Hilton,

# 4 THSD

TOTAL NUMBER OF NEW ROOMS CONSTRUCTED in 2021

# 50 BN RUB

TOTAL BUDGET OF LARGE-SCALE PROGRAMME in 2021

Intercontinental Hotel Group and Wyndham. The company rebranded seven regional Park Inn hotels, which now operate under the brand of Cosmos. A Member of Radisson Individuals.

For the construction of new hotels, Cosmos Hotel Group raises debt financing from leading Russian banks with participation in the interest rate subsidising programme of the Federal Agency for Tourism.

The company is implementing high-tech solutions at the Cosmos Collection Izumrudny Les Hotel, including unmanned taxi and food delivery to rooms using rovers with the technical support from Yandex.

## Strategic goals

Cosmos Hotel Group's strategy is aimed at becoming a leader in the Russian hotel market by the number of rooms and by brand strength/recognition.

The strategy's priorities are to vigorously expand the portfolio of hotel assets (owned and operated), improve operational efficiency and develop Cosmos Hotel Group's umbrella brand (Cosmos Smart, Cosmos, Cosmos Collection, Cosmos Stay, Cosmos Food, Cosmos Travel).

The company's investment programme includes the creation of 20 new urban and resort hotels under the Cosmos brand with a total of more than 4,000 rooms. Cosmos Hotel Group will continue its active expansion in the market of third-party hotel management.

The company will continue to take measures to improve its operational efficiency and strengthen the single centre of excellence.

Cosmos Hotel Group implements high-tech solutions at all stages of value creation: from planning and implementing new projects to interacting with guests and owners of hotels under management.

### PLANS FOR 2022:

- ▶ open two new own hotels in Segezha and Omsk and two hotels owned by third parties (Hilton Garden Inn in Moscow and PSB Patriot by Cosmos in the Moscow region)
- ▶ start construction of new own hotels in Sheremetyevo, Yekaterinburg, Sheregesh and near Lake Baikal
- ▶ attract under management over 1,000 rooms owned by third parties.

In the next three years, the company plans to create 12 urban hotels and 8 resort hotels in various regions of Russia with a total of 4,000 rooms and a combined budget of about RUB 50 bn.

## Financial performance in 2021

### Financial results, RUB m

	2021	2020	CHANGE, %
Revenue	4,013	2,516	+ 59.5%
Adjusted OIBDA	296	(85)	-
Operating loss	(369)	(1,893)	-
Net loss	(614)	(1,167)	-

In 2021, Cosmos Hotel Group's financial performance recovered compared to 2020. The company's revenue grew by 59.5% year-on-year to RUB 4.0 bn due to the fact that most of the pandemic-related restrictions imposed on hotels were lifted, whereas in 2020 hotel operations did not fully recover. The growing exchange rates also had a positive effect on revenue. Following a partial recovery in revenue, adjusted OIBDA amounted to RUB 0.3 bn in 2021 compared to minus RUB 0.1 bn a year earlier. Adjusted OIBDA margin was 7.4%. Adjusted net loss amounted to RUB 0.6 bn.

### Operating results

	2021	2020	CHANGE, %
<b>NUMBER OF ROOMS</b>	<b>4,653</b>	<b>4,162</b>	<b>+12%</b>
Hotels in Russia	4,512	4,021	+12%
Hotels abroad	141	141	-
<b>OCCUPANCY RATE OF THE CHAIN'S HOTELS, INCL.</b>	<b>51.1%</b>	<b>36.6%</b>	<b>+14.5 p.p.</b>
Hotels in Russia	52.2%	37.2%	+15.0 p.p.
Hotels abroad	22.5%	20.7%	+1.8 p.p.
<b>ADR OF THE CHAIN'S HOTELS (RUB), INCL.</b>	<b>4,302</b>	<b>3,639</b>	<b>+18%</b>
Hotels in Russia	3,667	3,136	+17%
Hotels abroad	42,119	27,979	+51%
<b>REVPAR OF THE CHAIN'S HOTELS (RUB), INCL.</b>	<b>2,197</b>	<b>1,331</b>	<b>+65%</b>
Hotels in Russia	1,913	1,166	+64%
Hotels abroad	9,458	5,783	+64%

The average occupancy rate of Cosmos Hotel Group hotels in 2021 was 51.1%, which is 14.5 p.p. higher than in 2020 and 15.5 p.p. lower than in the pre-pandemic year of 2019.

The chain's ADR in 2021 increased compared to the level of 2019-2020 and amounted to RUB 4,302 both due to rising prices in foreign hotels caused by the euro's appreciation and due to higher ADR in Russian hotels, which confirms the trend towards growing domestic tourism.

In the reporting period, the chain's RevPAR amounted to RUB 2,197, which is 65% higher than in 2020 and only 8% lower than in 2019. The growth was driven by market recovery and increased demand.

Cosmos Hotel Group increased the number of rooms in 2021 by signing contracts for 750 rooms owned by third parties.

**51.1%** **2,197** RUB

AVERAGE OCCUPANCY RATE OF COSMOS HOTEL GROUP HOTELS IN 2021

which is 14.5 p.p. higher than in 2020

AMOUNT OF THE CHAIN'S REVPAR IN THE REPORTING PERIOD

which is 65% higher than in 2020





SITRONICS.COM

Sitronics Group is a vertically integrated IT holding company offering a broad range of digital transformation solutions for B2B and B2G customers.

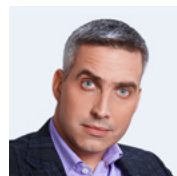
SISTEMA'S EFFECTIVE STAKE

100%

TEAM



**Nikolay Pozhidayev**  
CEO



**Alexey Katkov**  
CHAIRMAN OF THE BOARD OF DIRECTORS

KEY HIGHLIGHTS

>400  
PARTNERS

>1,500  
EMPLOYEES

**No. 2** MICROSOFT PARTNER IN CORPORATE LICENSING (LSP) IN RUSSIA

79%  
CAGR REVENUE IN 2018-2021

2.5 BN RUB  
ADJUSTED OIBDA IN 2021



SITRONICS GROUP'S KEY BUSINESS LINES ARE:

IT SERVICES FOR B2B AND B2G CUSTOMERS

COMPREHENSIVE SMART CITY PROJECTS

DEVELOPMENT OF ELECTRIC VEHICLE CHARGING INFRASTRUCTURE

DEVELOPMENT OF INTELLIGENT MARINE SOLUTIONS AND HIGH-TECH NAVIGATION PRODUCTS

MANUFACTURING OF INFORMATION, COMPUTER AND TELECOM (ICT) EQUIPMENT

MANUFACTURING OF INFORMATION, COMPUTER AND TELECOM (ICT) EQUIPMENT

29 200 000 000

REVENUE IN 2021, RUB

## Business model

Sitronics Group uses a business model that is standard for the IT industry and employs traditional tools for communicating its value proposition, including implementation advice, system integration, the installation and maintenance of hard- and software and the development and implementation of comprehensive projects.

The company also possesses unique know-how in the spheres of marine navigation and the manufacturing of small-size spacecraft, which can serve as independent sources of information for further services and solutions.

### INDUSTRIES

- ▶ Space industry
- ▶ Oil and gas industry
- ▶ Telecommunications
- ▶ Retail
- ▶ Timber industry
- ▶ Transport and logistics
- ▶ Banks and insurance companies
- ▶ State organizations and law enforcement agencies
- ▶ Machine engineering
- ▶ Healthcare
- ▶ Construction

### TECHNOLOGIES

- ▶ Design and manufacture of satellite spacecraft weighing from 1 to 200 kg
- ▶ Computer vision
- ▶ Infrastructure for electric vehicles
- ▶ Big Data
- ▶ Industrial Internet of Things
- ▶ Autonomous unmanned air system
- ▶ In-house production of server hardware
- ▶ Intelligent transport systems
- ▶ Automated production complexes
- ▶ Digital complexes for maritime navigation

### COMPETENCES

- ▶ Software development and implementation
- ▶ Design and implementation of computing complexes and data storage systems
- ▶ System integration, support, IT outsourcing
- ▶ Information security
- ▶ Design and construction of communication networks
- ▶ Design and construction of data centers
- ▶ Development and production of radioelectronics
- ▶ Providing digital services for shipping traffic
- ▶ Development and production of microsatellite and nanosatellite systems
- ▶ Providing services based on the Earth Observation data



## Industry overview for 2021

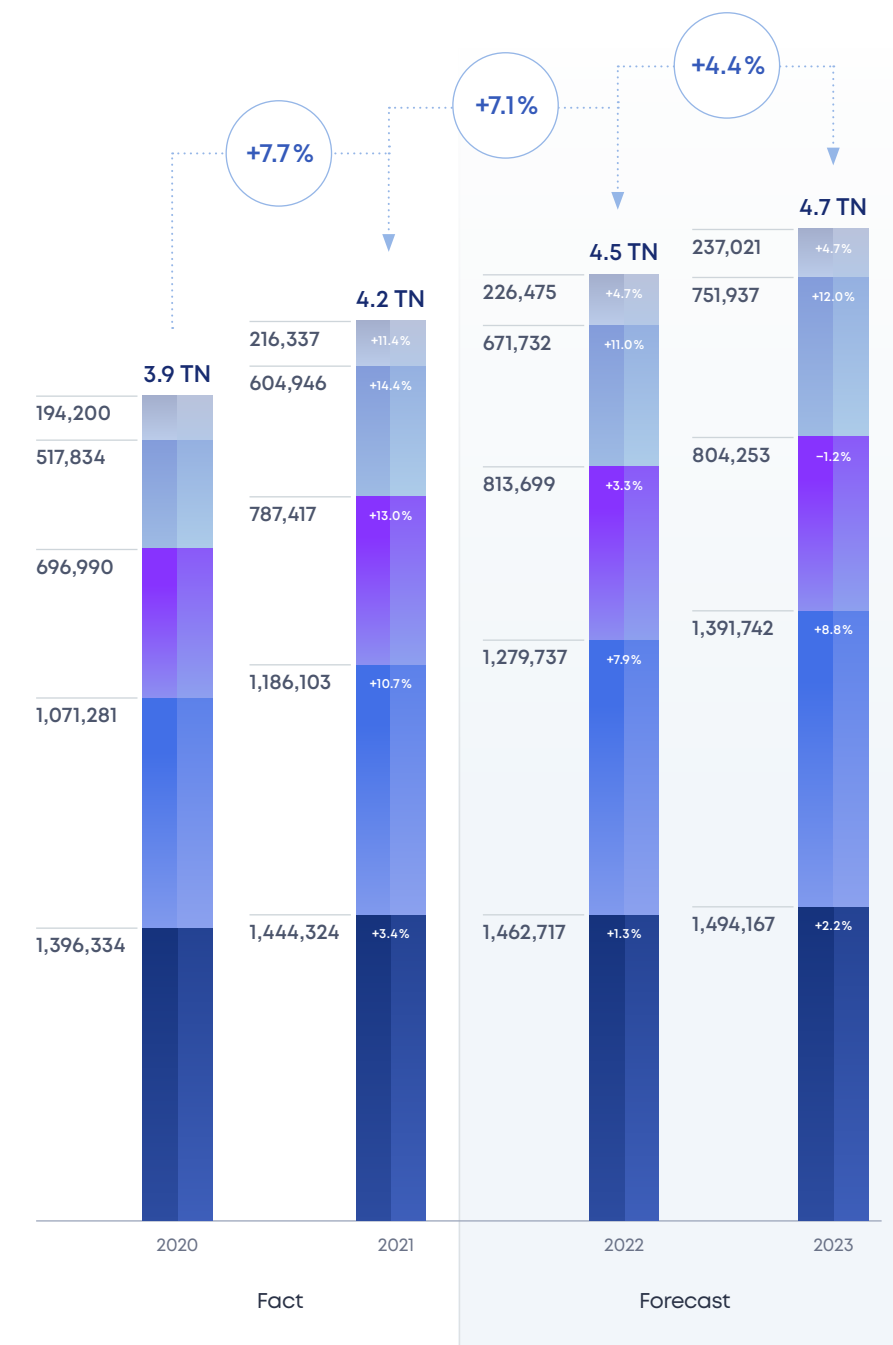
The IT research agency Gartner estimates the global ICT market at year-end 2021 at USD 4.2 tn, up 7.7% from 2020, with the strongest growth observed in enterprise software sales (up 14.4% year-on-year).

The global IT market is characterised by a deep penetration of IT services, with hardware generating an increasingly small share of total revenue.

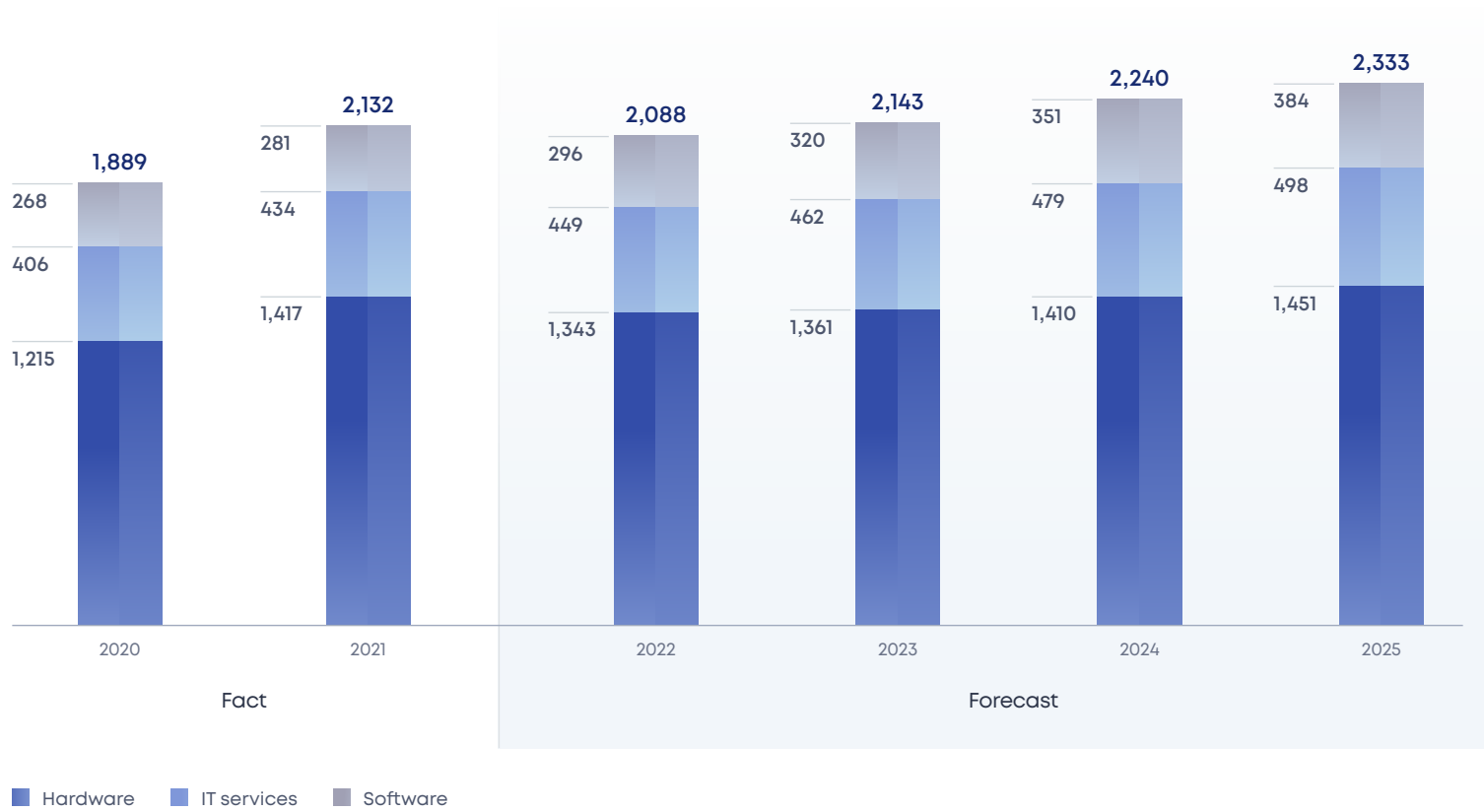
### Global IT market, USD m

Although Russia's share in different segments of the global IT market varies within the modest range of 0.6% to 2%, its annual growth rate in 2021 (preliminary estimated at 10-15%) is almost the double of that of the global market.

According to the market intelligence firm IDC, the Russian IT market in 2020 totaled RUB 1.8 tn, with hardware generating 65% of total revenue.



Russian IT market, RUB bn



**+30%**  
GROWTH OF THE  
RUSSIAN GOVERNMENT  
DIGITALISATION MARKET  
year-on-year

Industry players estimate the Russian government digitalisation market to have grown 30% year-on-year, with government's effort to automate public administration effectively driving digital transformation across multiple spheres of life, and government projects responsible for roughly one-third of all software development contracts signed nationwide.

In the mid-term, the Russian IT-market evolution will continue to be driven by accelerating import substitution initiatives in both software and hardware space as well as a growing digitalisation of public administration and strategic industries. The national programme Russia's Digital Economy requires that the percentage of domestically developed software being procured from 2024 on reach a least 90% for government agencies and 70% for state-owned businesses.

**BARRIERS AND RISKS PREDICTED TO CONTAIN IT MARKET GROWTH IN THE MID-TERM**

- ▶ global shortages of electronic components and limited access to foreign-made electronics
- ▶ limited access to foreign software, with domestic solutions dependent on foreign open-source products
- ▶ strong demand for IT talents globally and shortage of skilled professionals

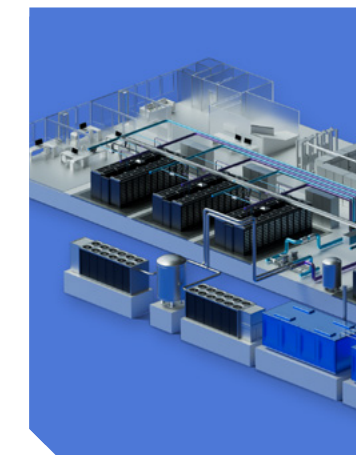
1 Source: IDC, preliminary estimates of industry players in 2021.



## Business development in 2021

A lack of visible advancements in Sitronics's operating performance in 2021 is primarily due to a recent revision of the group's strategy and the establishment of new business segments whose first economic effects will only come to fruition in 2022–2025.

### KEY BUSINESS INITIATIVES IN 2021



- ◆ Three trials of a new autonomous marine navigation system on commercial vessels.
- ◆ Three launches of CubeSat satellites to support scientific research and refine on platform capabilities.
- ◆ Establishment of a brand-new charging-stations business line and the launch of a related user app Sitronics Electro for e-vehicle owners (currently available in Moscow and Nizhny Novgorod).
- ◆ Launch of the production of Sitronics-designed servers as part of the national import substitution programme.
- ◆ 2021 was a transformative year for Sitronics Group, with corporate development strategy taking a swing from a niche telecom integrator to a vertically integrated ICT holding company possessing a broad array of unique expertise. As part of the process, the company established new business lines and conducted several M&A deals:
  - ◆ In February, JSC Sitronics acquired 100% of shares in JSC Kronstadt Technologies (Sitronics KT), enriching its product portfolio with high-tech marine navigation and logistical management solutions.
  - ◆ In May, Sitronics KT presented its unmanned marine navigation technology to the International Maritime Organisation (IMO). The technology is being tested as we speak on three commercial vessels.
  - ◆ Sitronics KT also received an order from the shipbuilding industry department of the Russian Ministry of Industry and Commerce to develop e-navigation services (geoinformation etc.) to be integrated in shore- and ship-based systems.
  - ◆ In April a rebranding carried out, gave all entities within the group a common Sitronics name.

**KEY BUSINESS INITIATIVES IN 2021**

In November, the company launched the production of computer servers in Novosibirsk as part of the national import substitution programme. The first product line uses x86 architecture, and the facility has capacity to produce 30K+ servers a year.

In 2021, Sitronics Group acquired a 75.0% equity stake in the private Russian space company Sputnix. In the future, the company plans to provide digital services to a broad range of customers using data from low-orbit satellites.

The company also started an e-vehicle charging business, with pilot infrastructure successfully deployed in multiple Russian regions (including Moscow).

In May 2021, Sitronics Group's president Nikolay Pozhidayev joined the supervisory board of the non-profit Telecom Technologies consortium, established to support the national telecom hardware manufacturing industry.

In December 2021, Sitronics Group joined the AI Ethics Code prepared by the national AI Alliance where Russia's leading tech companies make concerted effort to develop and implement AI solutions for educational, research and business applications.

**SITRONICS GROUP IS AN ACTIVE MEMBER OF A NUMBER OF PROFESSIONAL ASSOCIATIONS**

**Strategic goals**

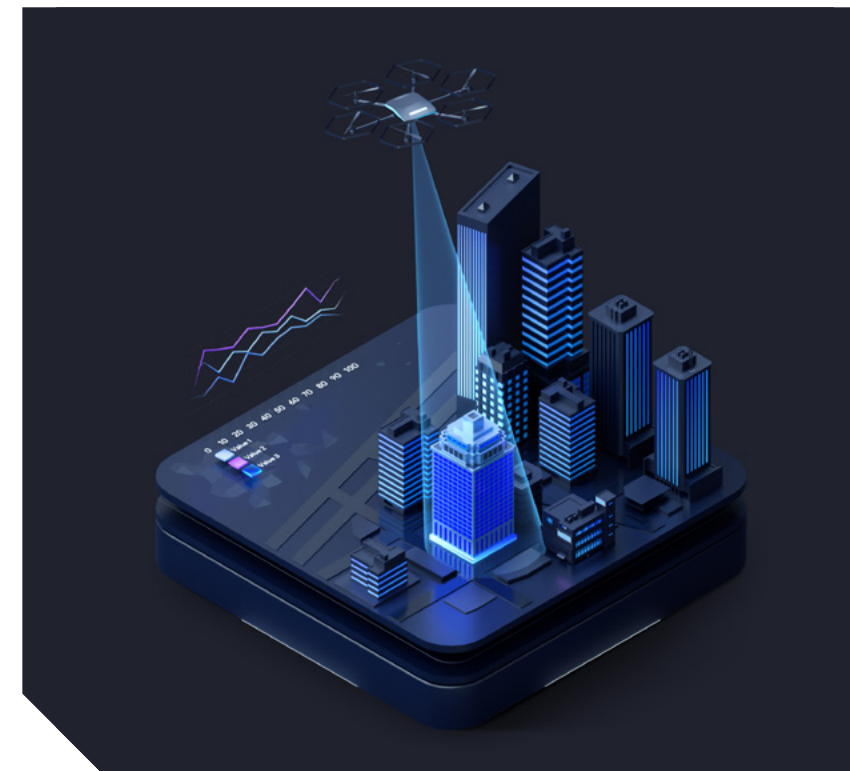
Sitronics's new development strategy aims to build a leading ICT holding company possessing unique expertise across an array of IT domains. That involves a corporate transformation from a niche telecom integrator into a provider of a broad range of products and services (including proprietary Sitronics solutions) for attractive markets.

**STRATEGIC FOCUS AREAS**

- ▶ development of a portfolio of proprietary products for industrial and urban digitalisation
- ▶ growth acceleration via new IT products and services
- ▶ active involvement in the national Northern Sea Route development project with autonomous navigation solutions
- ▶ formulation and implementation of ESG principles across the product portfolio

**SITRONICS GROUP'S INVESTMENT PROGRAMME PROVIDES FOR**

- ▶ acquiring assets complementary to the Group's existing businesses
- ▶ investing in proprietary product developments



# VENTURE CAPITAL FUNDS



Sistema Venture Capital is a venture capital fund investing in growth-stage high-tech companies capable of transforming conservative industries with tech solutions or creating new market niches.

SISTEMA'S EFFECTIVE STAKE

80%

## TEAM



**Dmitry Filatov**  
CEO

## INVESTMENT FOCUS

Deep tech projects:

- ▶ Projects using AI-based computer vision solutions for face and object recognition tasks in cybersecurity, agriculture, construction, real estate and other industries
- ▶ Projects using machine learning to process data and improve the efficiency of data use
- ▶ Projects with data transmission and processing technologies (SDN, NFV and SQL GPU Database)
- ▶ Projects in the segments of education, e-commerce and C2C services.
- ▶ Priority investment stages: Late seed, Series A, Series B.

## KEY HIGHLIGHTS

TARGET FUND SIZE

10<sup>BN</sup>  
RUB

YEAR ESTABLISHED

2016

INDUSTRIES

GROWTH-STAGE  
TECH COMPANIES

FUND LIFE

NO FIXED TERM

TARGET RETURNS

20-25%



## Overview of the VC market in 2021

### EUROPE

In 2021, VC funding to European startups<sup>1</sup> basically doubled and amounted to EUR 100 bn vs EUR 46 bn in 2020. With this impressive growth, the European VC ecosystem entered a mature stage, just like the US and China. The share of late-stage rounds in the total volume of VC investments was 70%, which also indicates the maturity of the market. The UK, France and Germany remain Europe's largest venture capital markets and systematically produce unicorns, which have tripled in number since 2018.

### RUSSIA

In 2021, the Russian venture capital market generally followed the global trends and grew to RUB 80 bn. As in the previous year, this growth was mainly due to foreign investments in companies with founders from Russia. Such deals accounted for more than 50% of the market. Following the reform of development institutions announced by the Russian Government in 2020, the activity of funds with state participation decreased considerably. In 2021, investments representing the state segment amounted to only RUB 2.3 bn vs RUB 3.9 bn a year earlier<sup>2</sup>.

<sup>1</sup> According to PitchBook.  
<sup>2</sup> Source: RBC.

### EXITS

The first fund of Sistema Venture Capital completed the investment phase and began active sales of its portfolio companies in the reporting year.

> 40,000,000 USD  
PORTFOLIO COMPANIES RAISED IN 2021

#### PORTFOLIO COMPANY

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#### BUYER

--	--	--	--

AKVA Group (Norway) acquired the stakes of financial investors in Observe Technologies, a company specialising in computer vision technologies for industrial fish farms.

The transaction was closed in February 2021.

Sberbank acquired a 100% stake in GOSU Data Lab, an AI-based training platform for competitive gamers.

The transaction was closed in July 2021

Shutterstock (USA) acquired UK-based DataSine to strengthen its artificial intelligence (AI) division. DataSine uses AI to build a user's psychological profile.

The transaction was closed in July 2021.

MTS signed a definitive agreement to acquire a 100% stake in VisionLabs, a leading Russian developer of facial recognition technologies.

The transaction was closed in February 2022.



## Overview of the fund's assets



**A PLATFORM THAT USES MACHINE LEARNING TECHNOLOGIES TO TARGET DIGITAL ADVERTISING**

71<sub>M</sub>  
MOBILE DEVICES AUDIENCE

200<sub>M</sub>  
USER PROFILE COVERAGE

- ▶ The most accurate targeting because of combination of online and offline data.
- ▶ One of the largest programmatic advertising platforms in Russia.
- ▶ Unique position in the market due to access to data of MTS and Sberbank

**PARTNERS:**  
Sberbank, MTS, Lukoil, Toyota, Huawei, Acer, IVI, HP, Kaspersky.



**MARKETPLACE OF DOMESTIC AND BUSINESS SERVICES**

>1.5<sub>M</sub>  
CONTRACTORS

>1<sub>M</sub>  
REVIEWS ON THE QUALITY OF SERVICES

- ▶ YouDo is an active participant in the formation of a culture of the self-employed in Russia
- ▶ One the top 20 most valuable Internet companies in Russia in 2019 according to Forbes

**PARTNERS:**  
Ozon, IKEA, hh.ru



**AN INTERNATIONAL COMPANY CREATING SCIENTIFIC AND EDUCATIONAL PRODUCTS FOR CHILDREN:**

- ▶ MEL Science kits are used by families and schools in 40 countries
- ▶ The bulk of the company's sales come from the US
- ▶ Chemistry and physics experiment kits are suitable for children aged 5 to 14 years



**ULTRA-FAST PROCESSING OF BIG DATA TO IDENTIFY TRENDS IN TELECOM, RETAIL AND FINANCE.**

**PARTNERS:**  
Alibaba Group, Mangrove Capital, Hanaco Ventures.



**A PLATFORM FOR THE DEVELOPMENT AND TESTING OF TECH SOLUTIONS FOR SELF-DRIVING CARS.**

**PARTNERS:**  
Lakestar, Notion, Trustbridge, Kindred, Amadeus Capital Partners.



**ARTIFICIAL INTELLIGENCE TO OPTIMISE THE SUPPLY OF GRAIN CROPS.**

**PARTNERS:**  
ABInBev, Notion, IQ Capital, University of Cambridge (Judge Business School).




**CONSTRUCTION AUTOMATION POWERED BY DRONE DATA.**

**PARTNERS:**  
Engeo, Independent Construction, Fivepoint, Lennar, Sibur, Morton, Norilsk Nickel.



**AN INDEPENDENT DEVELOPER OF GAMES FOR EDUCATION.**

Luden.io games are played by over 4.7 m users.



**A FREE GAME-BASED COURSE FOR AUTISTIC CHILDREN THAT PROVIDES ACCESS TO DISTANCE LEARNING AND DOING HOMEWORK.**

Developed with and for autism professionals.



**AI ASSISTANT FOR FARMERS AND ANALYTICS FOR THE DAIRY INDUSTRY.**

Increasing productivity and product quality by reducing the use of antibiotics. Growth in annual farm profits by an average of EUR 30,000.

**PARTNERS:**  
Danone, Monsanto-Bayer and Rabobank.



**DIGITAL TWINS OF INFRASTRUCTURE FACILITIES: PRECISE SOLUTIONS BASED ON DATA FROM MULTIPLE SOURCES, NOT ASSUMPTIONS OR PERSONAL EXPERIENCE**

The company's core product is Mapp, a cloud-based platform. SenSat operates on a SaaS model, with customers paying to interact with digital copies using Mapp.

**PARTNERS:**  
Tencent, Heathrow, Murphy, National Grid, Highways England.



**SOLUTIONS THAT HELP COMPANIES BUILD NETWORKS WITH THE FLEXIBILITY AND SCALABILITY THAT THEY NEED TO BE READY FOR 5G, THE IOT AND THE FUTURE OF THE DIGITAL WORLD.**

**PARTNERS:**  
Intel, Mail.ru Group, Telefonica, Lenovo, Hewlett Packard.



**CLOUD SOLUTIONS FOR MANAGING MULTI-VENDOR WI-FI NETWORKS.**

A solution for managing access points from different vendors. Customers retain the ability to independently plan, configure and administer multi-vendor networks from a single centre, save on network deployment and make money on Wi-Fi services.

**PARTNERS:**  
Beeline, MegaFon, MGTS, QTech.



**A SIMULATOR OF A MACHINE LEARNING SPECIALIST WHO USES VISUAL PROGRAMMING TO MAKE HIS AND HIS CAT'S LIVING.**

The game is actively used by schools and universities for educational purposes. All tasks in the game correspond to the logic of real-life machine learning development. WTL was included in Apple's list of the best mobile games for players stuck at home.



**THE BEST HOTEL DEALS WORLDWIDE BY SUBSCRIPTION.**

FinalPrice invites users to subscribe and book hotels at the best prices. Customers can save from hundreds to thousands of dollars compared with a regular buyer at Expedia, Priceline, Booking.com, etc.

## AWARDS

The annual ceremony of Russia PE&VC Awards took place during the 13th Russian Congress of Private Equity and the 9th Forum of Venture Investors in Moscow.

This is one of the main events dedicated to the PE and VC industry in Russia and the CIS. The team of Sistema Venture Capital was awarded as the best team in Russia's VC market, while its successful exit from GOSU, an AI-based training platform for esports athletes, was named the Exit of the Year.

## KEY PARTNERSHIPS

HeadHunter Group invested USD 5 m in YouDo, a portfolio company of Sistema Venture Capital, to jointly develop the YouDo for Business platform. This platform helps legal entities enter into contractual relations with self-employed individuals.





Sistema Asia Fund (SAF) is Sistema's venture fund which invests in high-tech companies in India and Southeast Asia.



KEY HIGHLIGHTS

TARGET FUND SIZE	GEOGRAPHY	INDUSTRIES
120 M USD	<ul style="list-style-type: none"> <li>INDIA</li> <li>SOUTHEAST ASIA</li> </ul>	<ul style="list-style-type: none"> <li>CONSUMER TECH</li> <li>ENTERPRISE TECH</li> <li>SAAS</li> </ul>
FUND LIFE	42,000,000 USD RAISED FROM PRIVATE AND INSTITUTIONAL INVESTORS IN 2021	
8+2 YEARS AS DECIDED BY SHAREHOLDERS		
YEAR ESTABLISHED	TARGET FUNDING ROUNDS	CASH-ON-CASH TARGET RETURNS
2015	B/C	3x



UNICORNS<sup>2</sup>



AGGREGATE VALUATION OF 4 UNICORNS IN THE PORTFOLIO



GROSS MULTIPLE OF INVESTED CAPITAL (MOIC)<sup>1</sup>

Business model

Sistema Asia Fund invests in companies at various growth stages in the markets of India and Southeast Asia. SAF is focused on investments in high-tech companies that operate in the sector of technology products and services and also invests in other types of businesses and consumer brands that use technologies as their key competitive advantage and operate in India and/or have significant presence in the Indian market.

Overview of venture capital market in India and China

In 2021, investors began to invest more in Indian startups, with more than 30 IPOs of companies from this country.

The long-running competition between the Chinese and Indian venture capital industries for the attention of foreign investors entered a new stage in the summer of 2021, when investments in Chinese startups fell from USD 17.3 bn in June to USD 4.8 bn in July, but investments in Indian startups rose from USD 1.6 bn to USD 8 bn over the same period.

In the third quarter of 2021, India had 10 new unicorns, second only to the US. In 2021, the total number of unicorns in India increased to 44.

India is also keeping up with international VC trend for "decacorns" (privately held startups valued at USD 10 bn or more), with Byju's (an EdTech startup) valued at USD 18 bn and Paytm (a payment gateway and e-commerce platform) valued at USD 16 bn. According to Pitchbook, Indian tech startups raised USD 23.5 bn in 2021, nearly double the amount collected in the previous two years.

The top three invested sectors in 2021: FinTech (Pine Labs, OfBusiness, BharatPe and CRED), EdTech (Byju's, Eruditus and Unacademy) and SaaS (Gupshup, Postman and BrowserStack). India's technology sector that is being created now can make the country's economy No 2 or No 3 in the world in 20-25 years. This sector will allow the country to repeat the success of China in a shorter time.

<sup>1</sup> MOIC (multiple of invested capital) allows investors to measure how much value an investment has generated.  
<sup>2</sup> Unicorns are private companies valued at USD 1 bn or more. Data as of the end of 2021.



## Key portfolio companies

**1.0** BN  
USD

MOIC OF OVER  
6.0x



NO. 1 BRAND IN INDIA FOR  
ONLINE SALES OF MEAT AND  
MEAT PRODUCTS

The company is creating a complex brand selling meat and seafood in the market where over 90% of players represent unorganised retail with poor quality and low sanitary standards. The company manages the entire value creation chain, from supply to processing and delivery to customers, using uninterrupted cold chain.

[Investment in March 2017](#)

**1.4** BN  
USD

MOIC OF OVER  
3.0x



NO. 1 "CLOUD KITCHEN" IN  
INDIA AND GLOBALLY

The company is the world's largest chain of internet restaurants with a single infrastructure for preparing and delivering food to customers in India and other countries under several brands, including Faasos, Behrouz Biryani, Oven Story and Mandarin Oak.

[Investment in August 2018](#)

**2.5** BN  
USD

MOIC OF OVER  
5.3x



SPEECH RECOGNITION, VOICE  
BIOMETRICS AND VIRTUAL  
ASSISTANTS

Uniphore is the leader in the Indian market of conversational AI. Uniphore was founded in 2008 and aims to bridge the communication gap between man and machine using voice and speech. The company develops and sells software solutions for conversational analytics, conversational assistance and conversational security. Uniphore products are used by more than 4 m people in 80 companies globally. The company has offices in the US, India and Singapore. Its headcount exceeds 150.

[Investment in July 2019](#)

**2.5** BN  
USD

MOIC OF OVER  
8.4x



COMPREHENSIVE  
MARKETPLACE FOR BUILDING  
MATERIALS

The company specialises in serial production under its own brands and solves the local market's issues like lack of price transparency, quality, fragmented vendor base, and inefficient logistics and delivery in the unorganised market.

[Investment in December 2020](#)

## Business development in 2021

IN 2021, SAF INVESTED IN THE FOLLOWING COMPANIES:

▶ In February 2022, Sistema Asia Fund participated in the series B investment round of Airmeet, a comprehensive new generation platform for virtual interactions between companies and their customers or other audiences.

▶ In March 2021, Sistema Asia Fund took part in the series D investment round of Uniphore, a global leader in automation of speech interaction.

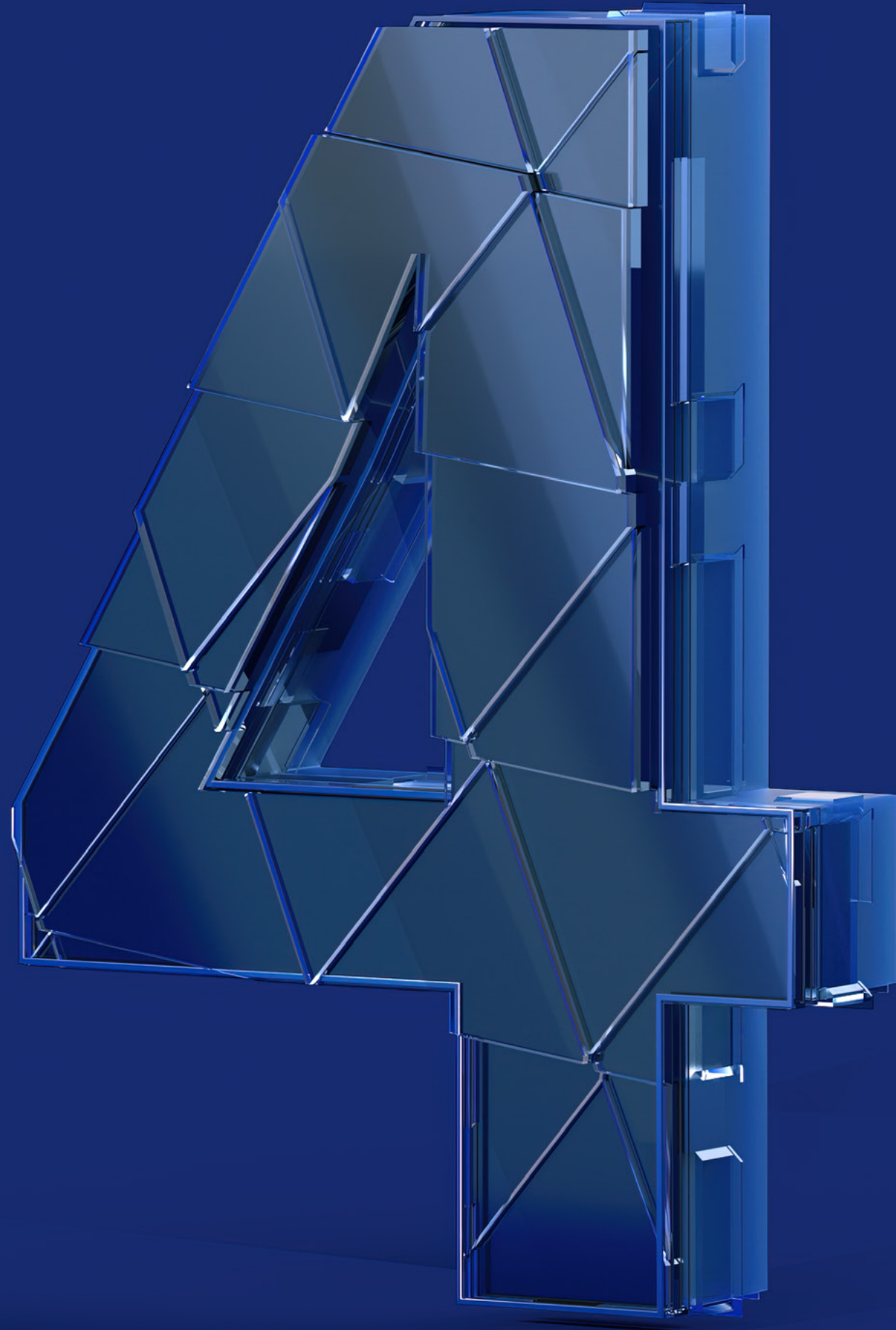
▶ In May 2021, Sistema Asia Fund made a series B investment in ANSR, which offers leading international companies services of accelerating their digital transformation on the basis of Global Capability Centres (GCCs).

▶ In July 2021, Sistema Asia Fund participated in the Series C funding round of HealthifyMe, a developer of a health and fitness app that helps its users eat healthy and track exercise with real coaches or a smart bot.

▶ In September 2021, Sistema Asia Fund participated in the series C funding round of Exotel, India's most popular CPaaS platform.

▶ It is planned to launch a new venture capital fund specialising in investments in tech companies in India and Southeast Asia – Sistema Asia Fund-2 (SAF-2).

The goal of SAF-2 will be to build a scalable and high-quality base of investors acting as long-term partners. SAF's team is also preparing a "harvest" strategy (exit strategy for SAF-1) that ensures the portfolio value growth and a full exit from investments within the predetermined time frame.



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# CORPORATE GOVERNANCE SYSTEM

## Corporate governance principles

A crucial element of the strategy of Sistema as an investment company is maintaining a high level of corporate governance and information transparency. The Corporation strives to meet the best international standards in these areas and consistently enhances its corporate governance practices.

### SISTEMA'S CORPORATE GOVERNANCE PRINCIPLES

#### 01

Clear and effective procedures for taking investment decisions

#### 02

Reasonable transparency of management processes for investors, counterparties, employees and other stakeholders

#### 03

A dividend policy that takes due account of both reasonable expectations of investors and Sistema's financial resources

#### 04

Professionalism of the Board of Directors and its active involvement in strategic planning and the management and oversight of business processes

#### 05

Special focus of the Board of Directors on related-party transactions and potential conflicts of interest of corporate governance

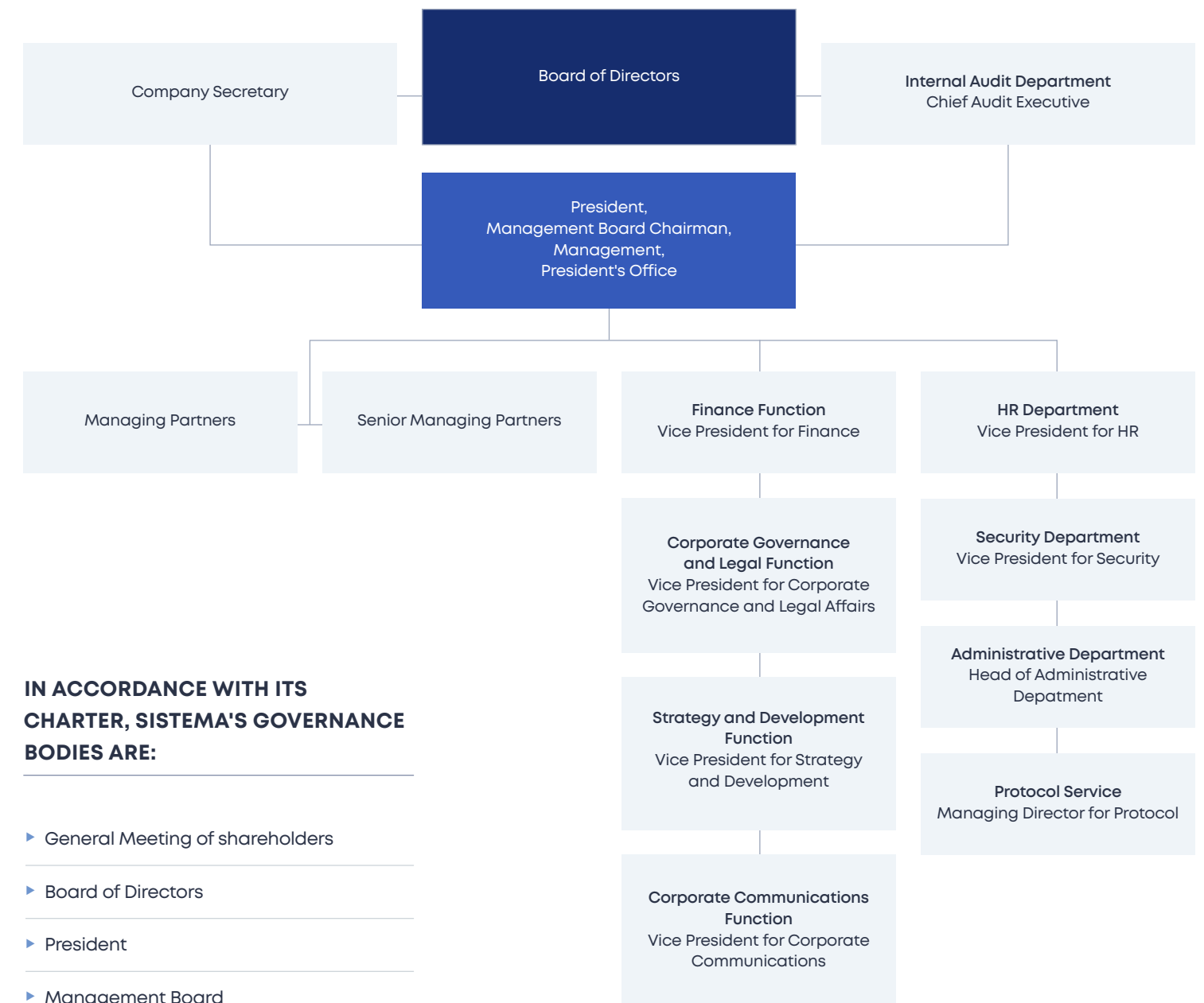
Sistema is guided by these principles in all of its activities, including strategic and financial management, HR policy, reporting, control and audit, and risk management. In its corporate governance practices Sistema abides by applicable legislation, the Listing Rules of Moscow Exchange, the recommendations of the Russian Corporate Governance Code<sup>1</sup> and the guidelines set out in the UK Corporate Governance Code<sup>2</sup>. Sistema'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 Code and the Ethics Code of Sistema set out the additional commitments of the Corporation, its top management and employees in terms of transparency and ethical conduct of business.

<sup>1</sup> The Corporate Governance Code recommended by the Russian Central Bank's letter No 06-52/2463 dated 10 April 2014 is available at [https://www.cbr.ru/statichnml/file/59420/inf\\_apr\\_1014.pdf](https://www.cbr.ru/statichnml/file/59420/inf_apr_1014.pdf).  
<sup>2</sup> 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 2021



### IN ACCORDANCE WITH ITS CHARTER, SISTEMA'S GOVERNANCE BODIES ARE:

- ▶ 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 are governed by the laws of the Russian Federation, 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 its shareholders to participate in the General Meeting.

### OBSERVANCE OF SHAREHOLDERS' RIGHTS

Shareholders who own at least 2% of the Corporation's voting shares are entitled to propose items for the agenda of the General Meeting of shareholders and nominate candidates for election to the Corporation's Board of Directors. Such proposals, including any attachments thereto, 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<sup>1</sup>. Candidates nominated by shareholders to the Board of Directors 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 AGM, voting on agenda items and receiving income in the form of dividends. To ensure that shareholders can exercise their right to take part in the General Meeting, the Corporation actively uses electronic means of communication. 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](http://www.sistema.ru) / [www.sistema.com](http://www.sistema.com)) at least 30 days before the date of the meeting and are then sent to nominee shareholders in electronic form<sup>2</sup>.

Sistema's shareholders may use the e-voting option available on the website of the Corporation's registrar, JSC Reyestr. To use this service, shareholders should contact the office of JSC Reyestr for access to their personal

shareholder accounts on the registrar's website. 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 at <http://www.aoreestr.ru/shareholders/e-voting>.

Each shareholder is also entitled 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). The shareholders whose title to the shares is recorded in the shareholder register may complete ballot papers and send them to Sistema by mail ahead of the General Meeting.

The owners of Sistema's global depository receipts (GDR) may vote on the agenda items of the General Meeting by means of a proxy vote in line with the established procedure via a depository bank servicing the GDR programme of Sistema. In 2021, Sistema's depository bank was Citibank, N.A. For information about the depository bank and voting, please visit the bank's website at <https://depositoryreceipts.citi.com/>. The votes of the GDR holders registered with the depository are collected by the depository bank via clearing systems and are included in the general ballot along with information about the number of votes cast for and against the proposed draft resolutions, as well as abstentions.

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

### DIVIDENDS

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 May 2021, the Board of Directors approved a new Dividend Policy, setting the recommended amount of dividends for 2021-2023. In accordance with the Policy, the recommended dividend amount is at least RUB 0.31 per

ordinary share in 2021, at least RUB 0.41 per share in 2022 and at least RUB 0.52 per share in 2023. Thus, based on the current number of the Corporation's ordinary shares, the recommended total dividend payout is at least c.RUB 3 bn in 2021, c.RUB 4 bn in 2022 and c.RUB 5 bn in 2023.

Additionally, starting from 2022, the Policy recommends increasing dividend payments by an amount equal to 10% of the absolute increase in adjusted OIBDA for the latest completed financial year, provided that adjusted OIBDA grew by more than 5% that year and the net debt<sup>2</sup> /adjusted

OIBDA<sup>1</sup> ratio does not exceed 3x.

When determining the recommended dividend amount for 2020, Sistema's Board of Directors was guided by the above Dividend Policy and recommended that the AGM allocate RUB 2,991.5 m for dividends, which corresponds to RUB 0.31 per ordinary share or RUB 6.20 per GDR.

## Information about General Meetings of shareholders in 2021

### Annual General Meeting of shareholders

DATE	26 JUNE 2021
Form of the meeting	Absentee voting
Items reviewed and decisions taken	<ul style="list-style-type: none"> <li>▶ Annual report and financial statements for FY 2020 were approved.</li> <li>▶ Dividends for 2020 were distributed in the amount of RUB 2,991.5 m, or RUB 0.31 per ordinary share (RUB 6.20 per GDR).</li> <li>▶ The Board of Directors was elected.</li> <li>▶ Auditors were appointed for RAS and IFRS audits for 2021.</li> <li>▶ A new version of the Policy on Remuneration and Compensations for Members of the Board of Directors of Sistema PJSC was approved.</li> </ul>
Attended	Shareholders that held a total of 76.4% of votes
Date and reference number of the minutes	26 June 2021, No 1-21

In 2021, a new law was passed in Russia allowing joint-stock companies to conduct their annual general meetings of shareholders in the form of absentee voting. In addition to absentee voting, the Corporation organised live streaming for shareholders on the final date of voting, in the course of which the management presented the company's results for 2020 and took questions from shareholders.

<sup>1</sup> Operating income before depreciation and amortisation.

<sup>2</sup> All financial indicators used to determine the amount of dividends are determined in accordance with the Corporation's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

<sup>1</sup> If an extraordinary General Meeting of shareholders is conducted and its agenda contains an item on the election of the Board of Directors, shareholders who own a sufficient number of shares are also entitled to nominate candidates to the Board of Directors. Such proposals should be submitted to the Corporation no later than 30 days prior to such General Meeting.

<sup>2</sup> The notice of the General Meeting of shareholders and ballots are also sent by mail to shareholders whose rights to the shares of the Corporation are recorded in the shareholder register.

## Board of Directors

The Board of Directors is a collective governance body in charge of the 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

### COMPOSITION OF THE BOARD OF DIRECTORS

#### Composition of the Board of Directors as of 31 December 2021

The Board of Directors effective as of 31 December 2021 was elected at the AGM held on 26 June 2021. Independent directors accounted for 50% of the Board of Directors.

- Independent directors
- Non-executive directors
- Executive directors

Number of Board members: 12.

7. Yaroslav Kuzminov<sup>2</sup>
8. Roger Munnings<sup>2,3</sup>
9. Anatoly Chubais<sup>2</sup>
10. Etienne Schneider<sup>2</sup>
11. Alexander Shokhin<sup>2</sup>
12. David Iakobachvili<sup>2,4</sup>



1. Vladimir Evtushenkov (Chairman of the Board of Directors)<sup>1</sup>
2. Anna Belova (Deputy Chair of the Board in 2021)<sup>1</sup>
3. Ron Sommer
4. Mikhail Shamolin

5. Felix Evtushenkov
6. Vladimir Chirakhov

<sup>1</sup> The Chairman and Deputy Chair of the Board of Directors were elected at the first Board meeting on 26 June 2021 (which was held after the AGM).

<sup>2</sup> Independent director.

<sup>3</sup> In line with the Moscow Exchange's Listing Rules, R. Munnings was deemed independent by Sistema. Information pertaining to the decision is available on Sistema's website.

<sup>4</sup> In line with the Moscow Exchange's Listing Rules, D. Iakobachvili was deemed independent by Sistema. Information pertaining to the decision is available on Sistema's website.



## Changes in the membership of the Board of Directors

In 2021, A. Dubovskov and R. Kocharyan resigned from the Board of Directors. New members elected to the Board of Directors at the General Meeting of shareholders on 26 June 2021 were independent directors Y. Kuzminov and A. Shokhin.

### Meetings of the Board of Directors

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

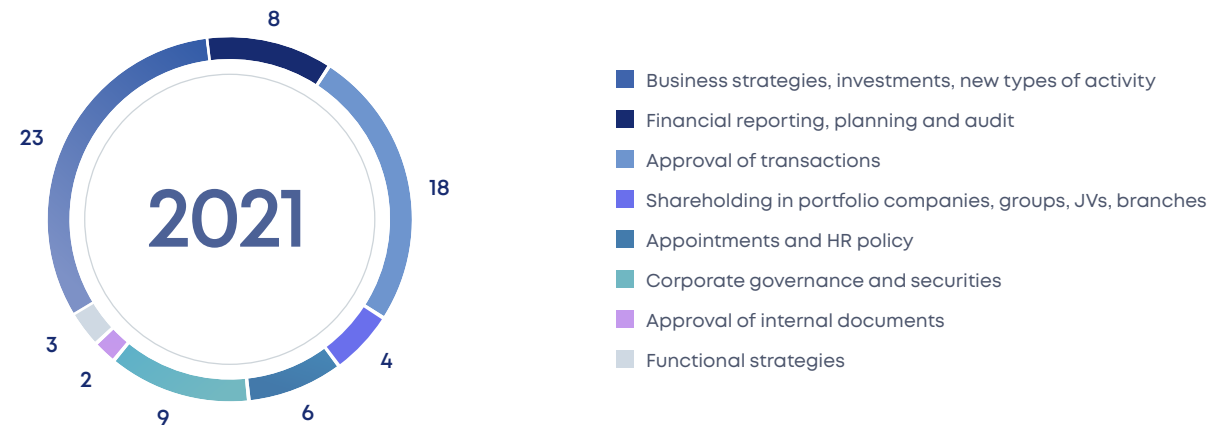
Sistema's Board of Directors held 16 meetings in 2021: eight scheduled in-person meetings and eight extraordinary letter ballot votes. The Board of Directors reviewed a total of 73 agenda items in 2021.

	2021	2020
Number of in-person meetings	8	7
Number of absentee votes	8	5
Number of items according to the Board's work plan	36	40
Actual number of items reviewed by the Board	73	68

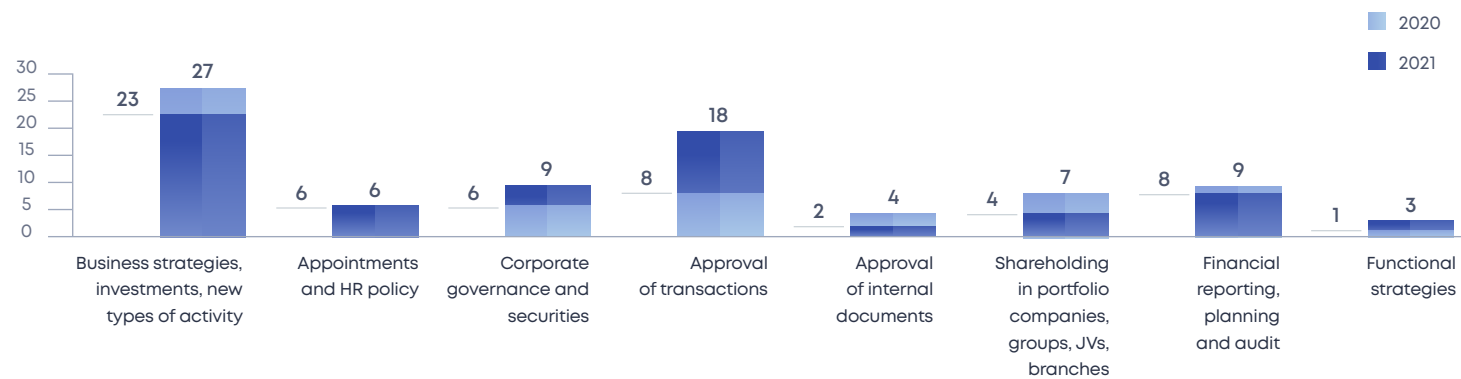
### The Board of Directors considered the following key items in the reporting period:

1. Sistema's development strategy
2. Investment policy, strategy of Sistema's investment funds and priority areas for investment in the short and medium term
3. New investment projects
4. Managing and creating value for Sistema's investments in the following industries:
  - ▶ timber industry assets
  - ▶ agricultural assets
  - ▶ development and construction assets
  - ▶ pharmaceutical assets
  - ▶ banking assets
  - ▶ high-tech assets
  - ▶ electrical assets
  - ▶ rental assets
  - ▶ healthcare assets
5. Sistema's quarterly and annual results and performance against budget
6. Budget planning, approval of the consolidated budget of Sistema and key performance indicators of the management
7. Management of the Corporation's risks
8. Activities of the Internal Audit Department
9. HR matters and employee incentive systems
10. Assessment of the quality of corporate governance
11. ESG strategy of the Corporation
12. Mandatory corporate procedures, including convening the General Meeting and developing the work plan of the Board of Directors
13. Composition of Board Committees and determining the status of Board members
14. Approval of transactions, including acquisition of equity stakes in various companies

Items reviewed by the Board of Directors in 2021 by subject



Distribution of issues considered by the board of directors in 2021 and 2020, by topics



Most of the items reviewed by the Board of Directors in 2021 were related to the Corporation's business strategy and management of its portfolio of investments in various industries, financial planning and approval of transactions (including shareholdings in companies).

Preparation for meetings and quorum of the Board of Directors

The existing procedures of preparation for Board meetings are designed to ensure the 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 the approval of transactions) undergo a mandatory preliminary review at meetings of the Board's Committees.

these meetings, independent directors discuss such items in detail with the Corporation's management. This makes it possible to increase the involvement of the 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 2021 was 97.9%.

The Corporation organises regular meetings of independent Board members for in-depth immersion in materials of strategic items to be reviewed by the Board. At



Participation of Sistema Board members in meetings of the Board of Directors and its committees in 2021

	BOARD OF DIRECTORS	STRATEGY COMMITTEE	AUDIT, FINANCE AND RISK COMMITTEE	NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	ETHICS AND CONTROL COMMITTEE	SUSTAINABILITY AND INVESTOR RELATIONS COMMITTEE <sup>1</sup>
<b>Attendance<sup>2</sup></b>						
V. Evtushenkov	16/16	5/5				
A. Belova	16/16	4/5	20/20	7/7	8/8	9/9
A. Dubovskov <sup>3</sup>	7/7	5/5		6/7	4/4	
F. Evtushenkov	16/16	5/5				
R. Sommer	16/16	3/5	10/10	7/7		9/9
R. Kocharyan <sup>3</sup>	6/7	2/5		6/7	3/4	
Y. Kuzminov <sup>4</sup>	9/9			5/5		
R. Munnings	16/16		20/20	12/12		8/9
V. Chirakhov	16/16	4/5			4/8	
A. Chubais	15/16					3/4
M. Shamolin	16/16	4/5			3/4	2/4
E. Schneider	16/16		18/20	5/5		5/5
A. Shokhin <sup>4</sup>	8/9		9/10	5/5		4/4
D. Iakobachvili	15/16	4/5	20/20	11/12	4/4	4/4

Assessment of the performance of the Board of Directors and its Committees

Assessment of the Board's work is an important tool for preserving and improving its effectiveness. The assessment procedure is designed to identify the strengths and potential areas for improvement in the Board's work. Regular external assessment is part of international best practices and is recommended by the Russian Corporate Governance Code. Sistema introduced this practice in 2017 and consistently implements it.

A regular external assessment of the Board of Directors took place in 2021. It was performed by a consortium of two firms with global footprint and high reputation: Nestor Advisors Ltd., a London consultancy that specialises in corporate governance, and EY, one of the global leaders in professional services that has substantial presence in the Russian market.

<sup>1</sup> Before 26 June 2021 — Investor Relations and Dividend Policy Committee.  
<sup>2</sup> The first number shows the number of meetings attended by the Board member, the second number is the total number of meetings.  
<sup>3</sup> Member of Sistema's Board of Directors until 26 June 2021.  
<sup>4</sup> Member of Sistema's Board of Directors from 26 June 2021.

#### The assessment covered the following areas of the Board's work:

- ▶ key duties of the Board of Directors, including determination of the strategy, oversight over performance indicators, strategic HR issues, internal control and risk management
- ▶ relationship between the Board of Directors and the management, the quality of information flows between them
- ▶ composition of the Board of Directors, the member nomination process
- ▶ the Board's practices and dynamics
- ▶ the role of the Chairman of the Board
- ▶ the structure and work of Board Committees
- ▶ procedures of the Board and organisational support to its activities
- ▶ effectiveness of Board Committees

#### The assessment of the Board of Directors had the following objectives:

- ▶ to increase the effectiveness of the Board of Directors by identifying opportunities for improvement in its structure, procedures, practices, work dynamics and ability to constructively challenge the Corporation's management
- ▶ to help Board members to develop a common vision as to the ways in which the Board can be most instrumental in promoting Sistema's effectiveness
- ▶ to increase trust in Sistema's corporate governance mechanisms among the shareholders and key stakeholders
- ▶ to assist Sistema with remaining a leader in corporate governance practices, including compliance with recommendations of the Russian Corporate Governance Code, and implementing best international practices related to the effectiveness of Board work
- ▶ to assess changes in the Board's work since the previous external assessment in 2017

The assessment of the Board of Directors was conducted using a detailed questionnaire and follow-up interviews with Board members and several executives reporting to the Board of Directors. Key conclusions of the assessment are as follows:

## 01

Sistema's Board of Directors works actively, using advanced corporate governance procedures in its work and the work of its Committees.

## 03

In future, it is advisable for the Board of Directors to concentrate more on matters of long-term portfolio strategy. The Board should also be guided by approaches to determining the independence profile of its members that are used by peer international investment firms and continue paying significant attention to the effectiveness of boards of directors of Sistema's key portfolio companies.

## 02

Board members have a high professional level, significant experience in management decision-making, expertise in strategy and a relevant professional reputation. These qualities enable Board members to complement the Board Chairman who traditionally plays a leading role in the Board's work.

## 04

In order to achieve these goals, it is advisable to better regulate the succession planning process at all levels.

### Committees of the Board of Directors

Sistema has five committees of the Board of Directors:

- ▶ Strategy Committee
- ▶ Audit, Finance and Risk Committee
- ▶ Nomination, Remuneration and Corporate Governance Committee
- ▶ Ethics and Control Committee
- ▶ Sustainability and Investor Relations Committee<sup>1</sup>

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

The status, procedures for nominating members, responsibilities and decision-making procedures 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 at <https://sistema.ru/about/corpmanage/docs>.

### Functions of the Board Committees

NAME OF THE COMMITTEE	KEY FUNCTIONS OF THE COMMITTEE
Strategy Committee	<ul style="list-style-type: none"> <li>▶ Analysing strategic management issues of Sistema Group</li> <li>▶ Reviewing the strategy planning methodology</li> <li>▶ Reviewing M&amp;A transactions with a value exceeding USD 100m</li> <li>▶ Reviewing Sistema Group's investment projects requiring an entry into new geographies or industries and projects with significant state ownership.</li> </ul>
Audit, Finance and Risk Committee	<ul style="list-style-type: none"> <li>▶ Assisting the process of preparation and audit of the Corporation's financial reports and supervising them</li> <li>▶ 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</li> <li>▶ Assessing the risk management system and ensuring compliance with applicable legal requirements in financial reporting, audit and planning</li> <li>▶ Performing a provisional appraisal of transactions submitted to the Board of Directors</li> <li>▶ Budgeting and financial modelling</li> </ul>
Nomination, Remuneration and Corporate Governance Committee	<ul style="list-style-type: none"> <li>▶ Facilitating the development of an effective corporate governance system meeting international standards at the Corporation and its portfolio companies</li> <li>▶ Conducting a preliminary review of candidates:               <ol style="list-style-type: none"> <li>a. for the Board of Directors of Sistema</li> <li>b. for the boards of directors of portfolio companies</li> <li>c. for senior management positions across Sistema Group</li> <li>d. for the position of the Corporation's Company Secretary</li> </ol> </li> <li>▶ Developing the Corporation's incentive and remuneration policies</li> <li>▶ Organising the assessment of the performance of the Board of Directors</li> </ul>



NAME OF THE COMMITTEE	KEY FUNCTIONS OF THE COMMITTEE
Ethics and Control Committee	<ul style="list-style-type: none"> <li>▶ Ensuring an effective system of economic and corporate security</li> <li>▶ Monitoring compliance with the requirements of the Corporation's Code of Ethics</li> <li>▶ Assessing the functioning of the system for preventing corruption and fraud and other misconduct related to violations of applicable legislation at Sistema Group companies</li> </ul>
Sustainability and Investor Relations Committee	<ul style="list-style-type: none"> <li>▶ Supporting the strategy development and transformation of the Corporation's business processes in line with the sustainability and responsible investment principles</li> <li>▶ Strengthening the Corporation's investment case</li> <li>▶ Developing Sistema's dividend policy, including recommendations for the Corporation's Board of Directors with respect to the amount of payable dividends</li> <li>▶ Protecting the rights and interests of Sistema's shareholders</li> </ul>

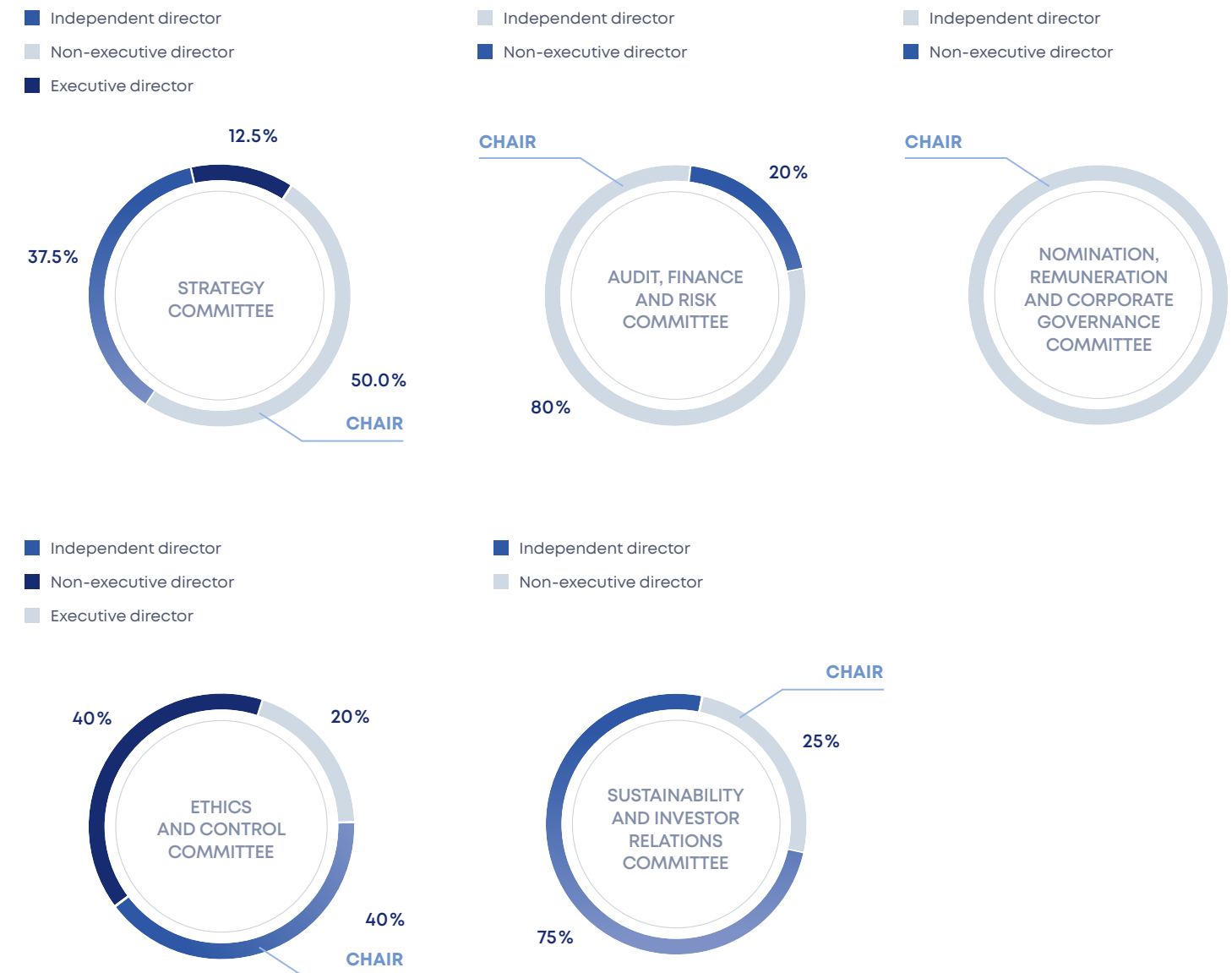
Composition of Sistema's Board Committees as of 31 December 2021

	STRATEGY COMMITTEE	AUDIT, FINANCE AND RISK COMMITTEE	NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE <sup>1</sup>	ETHICS AND CONTROL COMMITTEE	SUSTAINABILITY AND INVESTOR RELATIONS COMMITTEE
V. Evtushenkov	CHAIR				
A. Belova					CHAIR
F. Evtushenkov					
R. Sommer					
Y. Kuzminov			CHAIR		
R. Munnings		CHAIR			
V. Chirakhov					
A. Chubais					
M. Shamolin					
E. Schneider					
A. Shokhin					
D. Iakobachvili				CHAIR	

<sup>1</sup> The President of Sistema PJSC attends Committee meetings in the capacity of a permanent invitee and does not vote on the matters submitted for consideration of the Committee.



Composition of the Committee, %



Subjects of the items considered by the Board Committees in 2021

NAME OF THE COMMITTEE	NUMBER OF MEETINGS IN 2021	SUBJECTS CONSIDERED
Strategy Committee	5	Value creation by the Corporation's investments in various industries Analysis of investment opportunities
Audit, Finance and Risk Committee	20	Appraisal of the auditor's services, development of recommendations for the Board of Directors on appointing an external auditor Review and approval of the Corporation's financial reports, the annual report 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 and investment projects to be submitted to the Board of Directors Review of performance and work plans of internal audit units

NAME OF THE COMMITTEE	NUMBER OF MEETINGS IN 2021	SUBJECTS CONSIDERED
Nomination, Remuneration and Corporate Governance Committee	7	Assessment and development of corporate governance across Sistema Group Incentive system and key parameters, performance assessment and bonuses for the key managers and employees of Sistema HR process and preview of candidates for senior management positions at Sistema and nominees to the boards of directors of the key portfolio companies Succession planning for the Board of Directors and its Committees Corporate culture development
Ethics and Control Committee	8	Performance of the Internal Audit Department in 2020 and its work plan for 2022 Results of the ethics declaration campaign at Sistema Functional strategy in the area of corporate security (including information security)
Sustainability and Investor Relations Committee	9	Amount of dividends and dividend policy of the Corporation ESG strategy of the Corporation and development of ESG culture Analysis and monitoring of Sistema's market and investment base Risks and opportunities for the Corporation's investment strategy Approach to non-financial reporting and potential for applying integrated reporting principles

## PRESIDENT

The President of Sistema 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 achieving the strategic goals set by the Board of Directors, ensuring the Corporation's profitability and safeguarding the rights and legitimate interests of its shareholders. The President reports to the Board of Directors and the General Meeting of shareholders of Sistema. The President chairs the Management Board of Sistema.

In April 2020, the Board of Directors approved the appointment of Vladimir Chirakhov as the President and Chairman of the Management Board of Sistema.

## MANAGEMENT BOARD

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

In 2021, the Management Board held eight meetings and reviewed 33 agenda items in the following key areas:

1. Sistema's development strategy
2. development strategy, value creation and monetisation of Sistema's investments in various industries
3. management of Sistema's investment funds
4. Sistema Group's strategic planning cycle
5. corporate governance practices at the Corporation
6. financial planning and control
7. ESG strategy of Sistema

In May 2020, the Board of Directors approved the composition of the Management Board. As of 31 December 2021, the Corporation's Management Board consisted of eight members.



## Members of the Management Board of Sistema as of 31 December 2021

1. Vladimir Chirakhov	President, Chair of Management Board
2. Felix Evtushenkov	Senior Managing Partner
3. Artyom Zasursky	Vice President for Strategy
4. Igor Kozlov	Vice President for IT
5. Svetlana Matveyeva	Vice President for HR
6. Vladimir Travkov	Vice President for Finance
7. Ali Uzdenov	Senior Managing Partner
8. Sergey Shishkin	Vice President for Corporate Governance and Legal Affairs

## Changes in Sistema's Management Board in 2021

	DATE OF CHANGE	DESCRIPTION
V. Kulubekov	8 February	Elected to the Management Board
A. Sirazutdinov	16 February	Powers terminated
A. Kolokolnikov	20 February	Elected to the Management Board
V. Rozanov	2 April	Powers terminated
T. Sitdekov	14 May	Elected to the Management Board
I. Alyoshin, S. Egorov, A. Katkov, A. Kolokolnikov, V. Kulubekov, L. Monosov, O. Mubarakshin, L. Petukhov, T. Sitdekov	20 December	Powers terminated
F. Evtushenkov	20 December	Elected to the Management Board

## GOVERNANCE BODIES REPORTING TO THE PRESIDENT AND THE MANAGEMENT BOARD

To improve its managerial decision-making processes Sistema has established a number of governance bodies that report to the President and the Management Board, namely the Finance and Investment Committee, the Risk Committee, the Tender Committee and the IT Committee.

These committees are permanent consultative collective bodies tasked with a 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 the financial model, business plan and hurdle rate for each investment project
- ▶ making recommendations regarding viability of projects, exit scenarios, and sources of financing
- ▶ review of external financing terms

The Committee considers the Corporation's investment projects once they are approved by the Expert Council. An approval by the Committee is required for further review of the project by the Board of Directors.

As of 31 December 2021, the Committee consisted of six members. The Corporation's President V. Chirakhov is the chair of the Committee.

In 2021, the Committee met 53 times.

The Finance and Investment Committee oversees the work of the Expert Council, the Budget Subcommittee and the Remuneration Subcommittee.

The Expert Council consists of 16 members and considers all of the Corporation's new investment ideas and projects for acquisition of assets in new and adjacent industries, as well as in industries where Sistema already has a presence. The Expert Council is charged with verification of the conformity of the projects with a series of formal requirements set out in the Corporation's regulatory documents, the scoring of projects, and the preparation of written opinions thereon. Once approved by the Expert Council, projects are submitted to the Finance and Investment Committee.

### Risk Committee

The Risk Committee's responsibilities include:

- ▶ Assessment of the most material risks facing the Corporation and its portfolio companies
- ▶ Ensuring the preparation of a risk register and a generalised risk map of Sistema
- ▶ Preparation and approval of risk assessment reviews
- ▶ Development of proposals regarding acceptable risk levels (risk appetite) for Sistema
- ▶ Coordination of risk management strategies and plans and monitoring of their implementation

As of 31 December 2021, the Committee consisted of 13 members. Vice President for Finance V. Travkov is the chair of the Committee.

In 2021, the Risk Committee held four meetings. The Risk Committee has an Expert Group consisting of eight members that reviews matters pertaining to the approval of counterparty limits (applying to banks, insurers and management companies) and guarantees (including bank guarantees) securing counterparty obligations, the pre-approval of WACC<sup>1</sup> estimates for the evaluation of investment projects of portfolio companies to be further reported to the Finance and Investment Committee, and other operational matters pertaining to risk management across Sistema Group.

The Budget Subcommittee consists of four members and aims to improve budgeting policies, principles and procedures and to develop guidelines in this area for the governance bodies of the Corporation.

The Remuneration Subcommittee consists of seven members and aims to improve policies, principles and procedures related to HR management and to develop guidelines in this area for the governance bodies of the Corporation.

### Tender Committee

The responsibilities of the Tender Committee include:

- ▶ Ensuring the acquisition of goods, works and services on the best terms available
- ▶ Minimising the costs of purchase (ownership, operation) of goods, works and services without compromising their quality
- ▶ Ensuring the sale of Sistema's property and rights as they become irrelevant to the company's operations on the best economic terms available
- ▶ Ensuring the transparency of procurement procedures and impartial decision-making
- ▶ Facilitating the prevention of corruption, fraud and other wrongdoing in procurement

The Committee consists of eight members and is chaired by Vice President for Finance V. Travkov.

In 2021, the Tender Committee held 27 meetings.

<sup>1</sup> Weighted Average Cost of Capital



### Information Technologies Committee

The IT Committee's responsibilities include:

- ▶ Coordinating the work of subdivisions and employees of the Corporation on matters related to information technologies
- ▶ Creating conditions conducive to effective implementation of Sistema's IT projects and initiatives
- ▶ Building and maintaining the integrated IT architecture of the Corporation based on advanced digital technologies

- ▶ Ensuring the uniformity of corporate IT standards and tools at Sistema
- ▶ As of 31 December 2021, the Committee consisted of 12 members. Vice President for IT I. Kozlov is the chair of the Committee.

In 2021, the IT Committee did not hold 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 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 risk owners with the support of risk management professionals from the Finance Function.

The reassessment of identified and/or new risks, the effects of mitigation and response measures and the approval of limits applying to counterparties (banks, management companies and insurers) are monitored at least on a quarterly basis by a special Expert Group of the

Risk Committee, which includes representatives of all of the Corporation's key departments. The risk management system is monitored by Sistema's Risk Committee and Management Board.

Sistema's senior executives make regular reports on risk management at the Corporation to the Audit, Finance and Risk Committee, which translate into further reports to the Board of Directors.

### Internal control system

Sistema's internal control system is based on advanced international and Russian internal control practices and methodologies, covers all the main material decision-making levels and serves the best interests of the Corporation's shareholders, investors and management. The internal control system and the responsibility for implementation of control procedures are formalised in codes, policies, procedures and other internal regulations of the Corporation.

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 Corporation methodically works on the development of a regulatory framework designed to govern all matters relating to internal control by means of cascading them from the level of the Board of Directors to the level of employees.

The key objectives of the internal control system are:

- ▶ Creating new and improving existing control mechanisms that will ensure efficient business processes and the implementation of the Corporation's investment projects

- ▶ Ensuring the safety of the Corporation's assets and efficient use of its resources
- ▶ Protecting the interests of the Corporation's shareholders and preventing and resolving conflicts of interest
- ▶ Creating conditions for the timely preparation and submission of reliable reports and other information that is legally required to be publicly disclosed
- ▶ Ensuring the Corporation's compliance with applicable laws and requirements of regulators

In accordance with advanced practices and approaches in internal control and audit, the effectiveness of the Corporation's internal control system is ensured at three levels (in addition to the Board of Directors and senior management):

- ▶ **Level 1. Heads and employees of the Corporation's subdivisions are responsible for building an effective internal control system and assessing and managing risks within their remit.**
- ▶ **Level 2. Sistema's controlling bodies and Committees perform control functions, e.g.:**
  - ▶ The Risk Committee and the risk management function are responsible for developing and monitoring the implementation of effective risk management practices
  - ▶ The Finance and Investment Committee of the Corporation approves and monitors the implementation of investment projects

## Internal audit

The Internal Audit Department reports to the Board of Directors (functionally) and Sistema's President (administratively). The Audit Department is headed by a Chief Audit Executive who is appointed and dismissed by the President based on the resolutions passed by the Corporation's Board of Directors following a preliminary approval by the Board's Audit, Finance and Risk Committee.

The key objectives of the Internal Audit Department are:

- ▶ to assist with increasing the effectiveness of the internal control, corporate governance and risk management systems of the Corporation and to give recommendations on their improvement to the governance bodies, the relevant committee, the subdivisions and employees of the Corporation
- ▶ to coordinate its activities with the external auditor of the Corporation and other persons providing assurance to the Corporation

- ▶ The Security Department is in charge of comprehensive security at the Corporation, including economic security, prevention of corruption and information security
- ▶ **Level 3. The Internal Audit Department, which conducts independent assessments of the effectiveness of the internal control system, the risk management procedures, and the corporate governance system.**

The Corporation's internal control system includes, among other things, the following:

- ▶ Regulation of processes and procedures
- ▶ Division of roles and responsibilities in decision making
- ▶ Prevention and identification mechanisms of control
- ▶ Notification about irregularities, abuse of office, conflicts of interest
- ▶ Ethical standards of business conduct
- ▶ Awareness of the Corporation's employees about the internal control system

All of the Corporation's employees as persons in charge of control procedures bear responsibility for the effectiveness of such controls and risk management activities as prescribed in their job descriptions, internal regulations and legislation of the Russian Federation and other applicable jurisdictions.

- ▶ to provide consultations to the subdivisions and employees of the Corporations

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

- ▶ provides assurance (audits) by objectively analysing available audit evidence aiming at independent evaluation of the risk management, internal control and corporate governance processes. The contents and scope of the audit assignment for providing assurance are determined by the customer and the Internal Audit Department
- ▶ assesses the reliability and effectiveness of the internal control system and gives recommendations to the governance bodies, the relevant committee, the divisions and employees of the Corporation improving it
- ▶ assesses the level of corporate governance at the Corporation and gives recommendations to the governance bodies, the relevant committee, the divisions and employees of the Corporation on improving it



- ▶ assesses the reliability and effectiveness of the risk management system of the Company and gives recommendations to the governance bodies, the relevant committee, the divisions and employees of the Corporation on improving it
- ▶ provides consultations to the subdivisions and employees of the Corporation. The contents, scope and format of consultations shall be determined by the Chief Audit Executive of the Corporation after consultations with the divisions and/or employees of the Corporation that initiated (requested) the consultations
- ▶ provides consultations to the governance bodies, subdivisions and employees of the Corporation on ensuring effective functioning of the Single Whistleblowing Hotline. Performs selective audits of messages received on the Single Hotline at the discretion of the Chief Audit Executive and subject to availability of the required competences at the Internal Audit Department
- ▶ regularly meets with the external auditor of the Corporation and other persons providing assurance to the Corporation

The Internal Audit Department has all the resources and powers required to perform the above functions and is an independent structural unit. In its work, the Department is guided by applicable laws of the Russian Federation, International Professional Standards of Internal Audit, the Code of Ethics of the Institute of Internal Auditors and the Corporation's Charter and other internal regulations.

## 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 unsatisfactory, the Audit, Finance and Risk Committee organises a tender for engaging a new auditor. If the quality is deemed satisfactory, Sistema negotiates the price of the services with the current auditor for the following period. The Audit, Finance and Risk Committee recommends that a tender for external audit services be held at least every five years to ensure the auditor's impartiality and objectivity.

The Internal Audit Department closely interacts with Sistema's independent auditors, helping them to better coordinate their work and providing consultations to ensure better annual audit planning with respect to evaluation of the effectiveness of the internal control system in the area of financial reporting, and assessing the identified risks.

Regular reports on the performance of the Internal Audit Department are reviewed by the Audit, Finance and Risk Committee and the Ethics and Control Committee of the Board of Directors of Sistema and are also submitted for consideration by the Board of Directors.

In 2021, the Internal Audit Department conducted 24 audits to assess the effectiveness of the Corporation's internal control, risk management and corporate governance systems. The audits performed by the Internal Audit Department did not uncover any weaknesses or risks that could affect the sustainability of the Corporation's business as a whole. Specific comments pertaining to various aspects audited were communicated to stakeholders in a timely manner and followed up by recommendations on how to eliminate them.

Sistema's Internal Audit Department actively develops automation technologies in an effort to improve the effectiveness of audit procedures.

## Resolution of conflicts of interest

Matters related to conflicts of interest are governed by the Corporation's Code of Ethics as well as the laws of applicable jurisdictions. The Corporation has an ethics assessment procedure: all top managers complete Ethics and Conflict of Interest Declarations annually or as conflicts of interests arise. Moreover, all new employees are introduced to the requirements of the Code of Ethics and the procedure for completion of Declarations and are required to report relevant conflicts of interest (if any) before starting to perform their responsibilities.

In 2021, the results of the ethics declaration campaign were reviewed by the Ethics and Control Committee of Sistema's Board of Directors. In most cases, the declared conflicts of interest did not require any resolution measures, as they posed no risks to the Corporation's interests. However, action plans on conflict resolution were implemented with respect to several declarants in accordance with best corporate governance practice.

## CORPORATE GOVERNANCE ACROSS SISTEMA GROUP

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

The Corporation carries out strategic management of its key portfolio companies through the efficient work of boards of directors. The boards of directors of the key portfolio companies include professional independent members with expertise in the relevant 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 keep in line with best practices. 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. With that in mind, the Nomination, Remuneration and Corporate Governance Committee of Sistema's Board of Directors gives priority to the selection of candidates to be nominated to the boards of directors of portfolio companies and is deeply involved in the process, from formulating the skills and expertise requirements for each key asset to making recommendations with regard to specific lists of candidates.

### DEVELOPMENT OF THE CORPORATE GOVERNANCE SYSTEM IN 2021

#### Independent directors on the Corporation's Board of Directors

In 2021, 12 members were elected to the Corporation's Board of Directors, six of whom qualify as independent directors or were recognised as independent according to the Moscow Exchange's Listing Rules and the Russian Corporate Governance Code.

The current Board comprises the following independent directors:

- ▶ Yaroslav Kuzminov
- ▶ Etienne Schneider
- ▶ Roger Munnings
- ▶ Alexander Shokhin
- ▶ Anatoly Chubais
- ▶ David Iakobachvili

The boards of directors of portfolio companies and their committees ensure control and coordination and support the management of their respective companies in decision-making in the following main functional areas, seeking to further enhance the quality of management of portfolio companies:

- ▶ strategy and key transactions
- ▶ budget planning
- ▶ HR policy and incentive system
- ▶ internal audit
- ▶ risk management

The committees of the boards of directors of portfolio companies play a pivotal role in the collective review of relevant matters to be reported to the boards of directors.

All of the Corporation's independent directors have broad recognition in the professional community and vast experience in managing large organisations, which ensures the objectivity of their judgements and independence from the influence of the Corporation's management and shareholders when making decisions.

## Development of ESG strategy

In May 2021, the Corporation's Board of Directors approved two new internal documents detailing Sistema's approach to sustainability management: the Environmental Policy and the Human Rights Policy. In September 2021, the Board of Directors approved an ESG action plan for 2022-2023 and in November, the Corporation's ESG strategy including key targets.

In June 2021, Sistema's Board of Directors approved the Terms of Reference of the Sustainability and Investor Relations Committee, which was established to replace the Investor Relations and Dividend Policy Committee. The new Terms of Reference provide for the Committee's leading role in setting the Corporation's ESG agenda. The ESG activities of the Committee are aimed at the development of the Company's corporate culture based on the ESG principles and the integration of ESG into the Company's strategy in order to increase the sustainability of Sistema's investment portfolio. A. Belova was elected chair of the Committee.

As a responsible investor, Sistema sets itself targets that go beyond financial metrics and aspires to high efficiency of social and environmental impact management throughout the entire value chain. By enhancing management approaches, the Corporation sets the vector for its portfolio companies to go by when pursuing their sustainability agendas and making ESG aspects an integral part of their business strategies.

### Plans for the development of corporate governance

The Nomination, Remuneration and Corporate Governance Committee of Sistema's Board of Directors annually develops and approves the Corporation's action plan for improving corporate governance in the next year and later adjusts it as necessary. The plan for 2022, which was developed taking into account the results of the external assessment of the Board of Directors, among other things, envisages the following steps:

## 01

development and implementation of succession plans for the management and members of the Board and Board Committees based on individual competences (before the end of 2022)

## 02

implementation of ESG measures approved by the Board of Directors, with corresponding elements of the strategy submitted for the Board's review (for 2022-2023)

# REMUNERATION POLICY

## Remuneration policy applied to Sistema's Board members

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 PJSC (hereinafter, "the Policy") approved by the General Meeting of shareholders.

## Supplementary remuneration of members of the Board of Directors

In accordance with the amended Policy being in effect during the reporting period, additional remuneration in the form of ordinary shares is paid to the members of the Board of Directors subject to capitalisation growth in the reporting year<sup>1</sup>. The size of additional remuneration is set as a variable amount equal to a share of the increase in capitalisation achieved in the relevant financial year<sup>2</sup>.

The amount of additional remuneration is at any rate limited by the amount of basic remuneration (not more than RUB 17.8 m a year).

## Reimbursement of expenses and other conditions

Members of the Board of Directors are reimbursed for their expenses associated with performance of their duties, including participation in the meetings of the Board of Directors and Board committees.

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

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

## Basic remuneration of members of the Board of Directors

In 2021, basic remuneration of members of the Board of Directors amounted to RUB 13.7 m or RUB 17.8 m per year depending on whether a director is a tax resident of Russia. Basic remuneration was paid to Board members in cash in equal quarterly instalments.

## Remuneration for performance of additional duties

Members of the Board of Directors performing additional duties, i.e., the Chairman of the Board, Deputy Chair of the Board and Chairs of the Board Committees, receive remuneration on a quarterly basis in the amount stipulated by the Policy.



## REMUNERATION POLICY APPLIED TO SISTEMA'S SENIOR MANAGEMENT

The short-term incentive scheme for the top managers of Sistema PJSC in 2021 consisted of:

- ▶ A fixed monthly salary determined in line with the internal system of job categories (grades)
- ▶ Bonuses paid for implementation of projects, generation of cash income, achievement of KPIs and set objectives. Remuneration is paid based on employees' individual performance and positive cashflow generated by projects implemented by the teams of Managing Partners and Departments of Sistema. Payments may amount to a) up to 20% of cash income from implemented projects, b) fixed percentage of annual income for achievement of KPIs

For the purpose of calculating bonuses, cash income means:

- ▶ an increase in the value of an asset (in the event of an asset sale or an IPO) net of (a) hurdle rate determined by the Finance and Investment Committee chaired by the President of the Corporation prior to the start of a project or the acquisition of an asset, (b) investments made in such an asset and project costs
- ▶ percentage of the project team's annual income

## Miscellaneous

No extra compensation above the level stipulated by labour laws of the Russian Federation 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.

## REMUNERATION PAID TO SISTEMA'S BOARD MEMBERS AND SENIOR MANAGEMENT<sup>1</sup>

### Remuneration and compensation paid to Sistema's Board members, RUB

ITEM	2021	2020
Remuneration for work as member of the Board of Directors	390,957,500	365,497,500
Salaries <sup>2,3</sup>	398,492,500	122,499,000
Bonuses	351,123,200	393,456,200
Remuneration for work as member of the Board's committees	9,380,000	5,820,000
Reimbursement of expenses incurred by Board members in connection with their duties	1,069,500	824,200

### Remuneration paid to Sistema's Management Board members<sup>4</sup>, RUB

ITEM	2021	2020
Salaries <sup>5</sup>	988,800,200	584,901,900
Bonuses	3,982,281,800	4,889,969,300
Other types of remuneration	6,870,000	861,000

<sup>1</sup> All figures in this section are given before the applicable income tax.

<sup>2</sup> Remuneration in the form of salaries and bonuses is the compensation allocated in the reporting period to the non-executive members of the Board of Directors.

<sup>3</sup> This amount includes holiday pay and severance pay. In 2021, holiday pay to the non-executive members of the Board of Directors amounted to RUB 69,452,000, while severance pay totaled RUB 222,154,000. No such payments were made in 2020.

<sup>4</sup> Including Sistema's President and other executive members of the Board of Directors.

<sup>5</sup> This amount includes holiday pay. Holiday pay to the members of the Management Board amounted to RUB 557,404,000 in 2021 and RUB 148,560,000 in 2020.

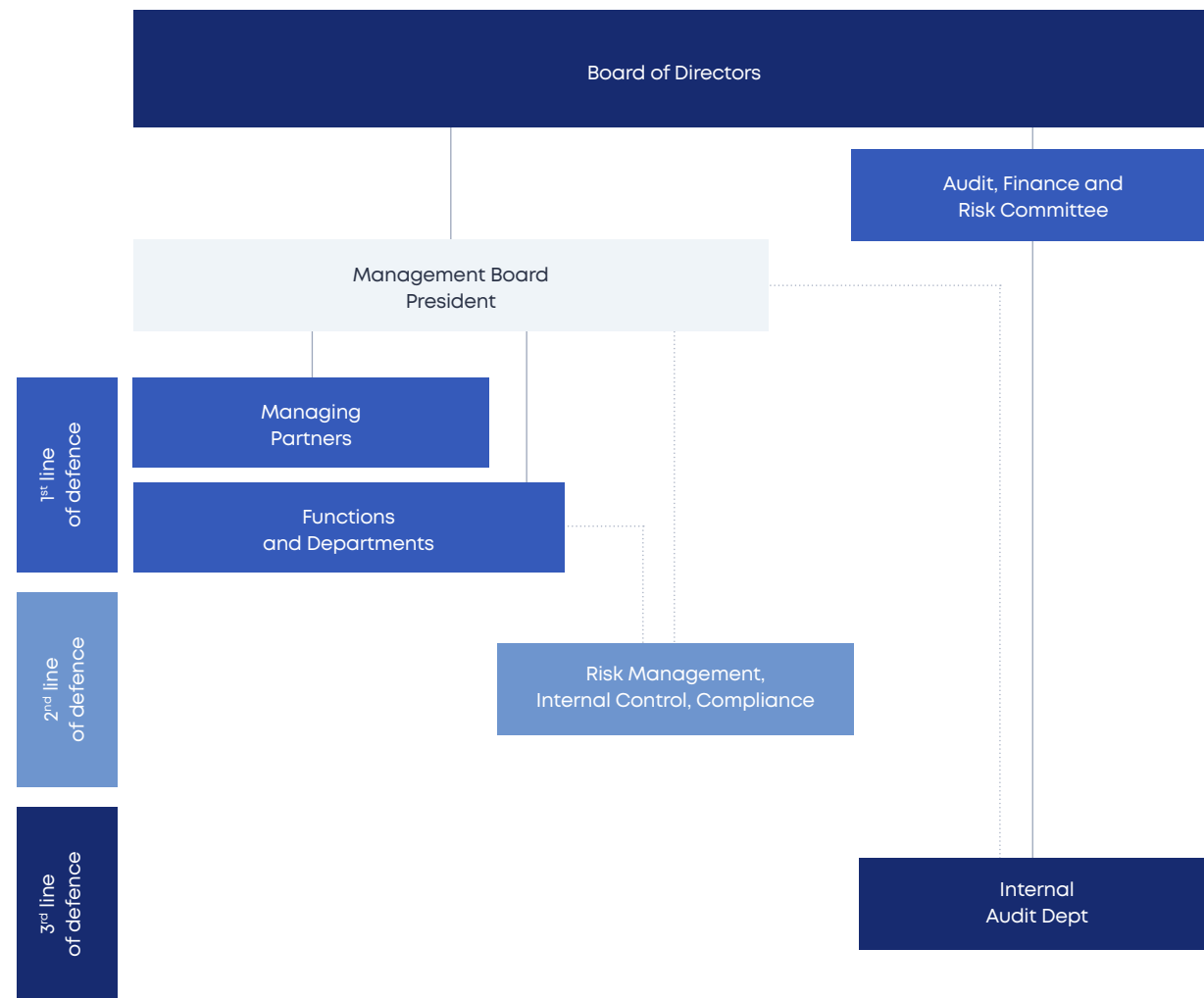
<sup>1</sup> For an increase in capitalisation to be recorded for the purposes of the Policy, the weighted average price of one ordinary share of Sistema on the Moscow Exchange at the end of the reporting year (for 60 preceding trading days) should exceed the weighted average price of one share at the beginning of the reporting year (for 60 preceding trading days).

<sup>2</sup> 0.1% or 0.125% (depending on tax residency) of the increase in capitalisation for the financial year.

# RISK MANAGEMENT

Sistema's potential risks are the manifestations of processes and factors that Sistema has little or no influence on. That said, it is within the Corporation's power to take steps to reduce the negative consequences of such factors should they materialise. This makes the efficient assessment of existing risks and of their occurrence probability, as well as effective risk management, an important part of Sistema's strategy.

Part and parcel of Sistema's each and every business process, risk management is built into strategy planning and implementation, investing, budgeting, procurement and everyday operations. Sistema's integrated risk management system relies on international standards, recommendations and best practices in risk management. Integrated Risk Management aims to reasonably guarantee the achievement of strategic goals and contain risk within limits that Sistema's management and shareholders deem acceptable.



Sistema has in place an Integrated Risk Management Policy.

Integrated Risk Management aims to build and maintain an efficient system for:

- ▶ the regular and systematic identification and analysis of risks faced by Sistema
- ▶ the identification and assessment of risks associated with every specific managerial decision
- ▶ the distribution of responsibilities for risk management
- ▶ the preparation of careful response/mitigation plans and the control of their implementation
- ▶ the monitoring of risks and risk management effectiveness
- ▶ the preparation of risk management reports for various collective bodies within Sistema and for other stakeholders
- ▶ the accumulation of knowledge on Integrated Risk Management

Risk management officers across the Group regularly update the top risks of their respective businesses and the Group as a whole and analyse their potential effect on financial performance, which involves the use of financial models and simulation methods.

To address the risks so identified, risk owners develop risk mitigation and response plans, conduct risk monitoring and update action plans as necessary.

## Sistema PJSC uses the following methods of risk management

- ▶ Risk avoidance means refraining from particular actions or foregoing particular assets fraught with high risk. Risk avoidance is used in exceptional cases where the cost of treating a particular risk would be too high, such treatment action would not reasonably result in its satisfactory mitigation, and transferring such risk to a third party would be impossible or impractical.
- ▶ Risk mitigation means controlling and preventing a risk while owning it and treating it in a proactive manner. Mitigation steps aim to bring the probability of a particular risk event and/or the potential damage it can cause down to a level that is deemed acceptable according to Sistema's Risk Appetite. Mitigation is the priority risk management method at Sistema PJSC.
- ▶ Risk acceptance means assuming a risk without taking any steps to modify it. This method is used where the associated risk level is acceptable to Sistema PJSC or where modifying the risk would be impossible or economically impractical.
- ▶ Risk transference means handing a risk over to a third party where modifying it within Sistema PJSC would be impossible or economically impractical and its monetary value is greater than the limit deemed acceptable to the company. Risk transference may take the forms of insurance, hedging, outsourcing, etc.

For Sistema, insurance is an inextricable part of risk management. Insurance is fully integrated in the corporate risk management system toolkit and protects the financial interests of Sistema PJSC and its shareholders against unforeseen losses that may arise in the course of business processes, whether as a result of external effects or otherwise.

Sistema PJSC has in place a comprehensive insurance programme that covers a wide spectrum of operational risks and is reviewed on an annual basis. This includes various types of compulsory and optional third-party insurance, motor insurance, property insurance, health insurance for employees, and accident insurance.

Such insurance contracts are closed with Russia's largest insurers selected in open tender processes where insurer reliability is the key criterion.

One of the key principles of risk management at Sistema Group is the use of the risk appetite concept. This approach involves the identification and monitoring of the Corporation's target risk profile in light of current strategic goals and their integration into risk management procedures.

Sistema Group's risk appetite determines the level of risk acceptable to its shareholders and involves the following fundamental principles:

- ▶ the amount of potential losses arising from risks accepted by Sistema Group may not reach a level where it would lead to a complete termination of the Group's operations, whether in case of any crisis or otherwise
- ▶ the Group's cash flows are required to be organised in a way assuring the timely fulfilment of obligations towards counterparties both in the medium and long term
- ▶ the Group at all times aims to avoid the concentration of risks in specific counterparties, industries, and countries/regions associated with high risk
- ▶ sustainable development and long-term economic efficiency
- ▶ compliance with the requirements of national regulators wherever group companies operate and with the standards and recommendations of international regulatory bodies

## GLOBAL AND COUNTRY RISKS

Risks related to changes in the political and economic situation in Russia are material for Sistema because most of the Group's business is conducted in Russia. The companies and investment funds of Sistema Group also operate in the CIS, the EU, South and Southeast Asia. Many products of the Group's companies are exported to the CIS, Southeast Asia, Eastern Europe and North Africa. In the event of any major political turmoil in these regions, the Group's local business may be disrupted or discontinued, which may lead to material loss.

Political and economic instability, as well as any potential downturn or slowdown in Russia's economic growth, may lead to a decrease in household incomes and consumer demand, which could be damaging to the performance and financial standing of the entire group.

The business of the Group may be adversely influenced by a toughening of sanctions, a complete economic blockade and change in the political situation in the country, as well as potential involvement of the Russian Federation in military conflicts.

- ▶ impeccable business reputation and avoidance of any action potentially damaging to such business reputation
- ▶ maintaining credit ratings from 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 such report contains a relevant assessment of risks and their impact on the Corporation's financial performance, the effectiveness of risk mitigation and response plans, and potential risk areas (areas requiring attention) identified for future periods.

The Corporation has built a unified compliance system that involves a comprehensive mitigation programme including anti-corruption and stock exchange rules, the protection of personal data and confidential information, and steps against money laundering and terrorism funding.

Due to the situation in Ukraine, western countries imposed sanctions on a number of Russian citizens and companies. The sanctions might conceivably be extended to, or complemented by additional sanctions categories that would apply to, specific companies or individuals within the Group. Any breach of sanctions so imposed may prevent the companies of the Group from cooperating with the government authorities of the USA/EU/UK, result in civil or criminal penalties being applied to the sanctioned persons or their personnel in accordance with the laws of the USA/EU/UK, or lead to significant fines being imposed on the companies of the Group along with potential damage to their reputation.

Any further tension between Russia and other countries and any escalation of existing conflicts, introduction of additional sanctions, or continued uncertainty as to their scope may adversely impact the national economy, the financial status of the Group's partners and suppliers, and the capability of the Group's companies to conduct trading and financial operations and to secure funding on commercially viable terms, and may increase the volatility of stocks of Sistema and particular companies within the Group.

## INDUSTRY RISKS

Sistema is faced with diverse risks associated with the presence of Sistema's portfolio companies in various sectors of the economy. The most material risks are related to the Group's operations in the telecom, electric power, retail (including e-commerce), banking, high tech, hospitality, healthcare, pharmaceuticals, timber, agricultural and real estate industries.

## SISTEMA'S EXTERNAL RISKS

### Financial risks

Sistema's business is inextricably bound with the global economy and financial markets. In particular, it is sensitive to movements in the prices of oil, gas and other commodities exported by Russia. A weakening or strengthening of the rouble against the US dollar and the euro amid fluctuating oil prices and imposed sanctions may result in a rise in costs and/or a drop in revenues or impede the achievement of financial targets and the repayment of debt by Sistema Group companies.

An outflow of foreign investment from Russia under the pressure of sanctions and restrictions applying to the business of foreign companies may adversely affect the joint ventures (partnerships) and new investment projects of Sistema Group.

Growing inflation may result in higher expenses and therefore put downward pressure on profit margins and also affect domestic demand for the products and services of Sistema Group companies.

Servicing and refinancing the Corporation's current and future financial liabilities might require a significant outflow of cash. If sanctions persist in the medium term and the

### Political risks

The introduction of sanctions against Russia or Russian companies and individuals may cause disruptions in international payment systems, which in turn may make

### Social and environmental risks

Due to the wide variety of industries where the companies of Sistema Group operate, social and environmental risks faced by the assets differ materially across the Group. However, a number of major trends currently observed may be seen both as risks and opportunities for such companies:

- ▶ change in consumer sentiment, with people increasingly opting for sustainable consumption and healthy living,

Any significant change in these industries may have a material negative impact on the financial standing of Sistema's Group's companies and on the Group as a whole.

access of Russian banks and businesses to foreign debt remains restricted, market liquidity deficit will grow along with interest rates, inhibiting the acquisition of funding both for the operations and for debt refinancing across the Group. An inability to raise the required funding on such terms and in such time as required may lead to substantial restrictions on business development, operations and investments.

Unfavorable macroeconomic environments in many countries where Sistema has businesses may make it necessary to re-evaluate goodwill for some of the Corporation's assets.

Foreign currency controls and restrictions on capital repatriation may adversely affect capital flows and reduce the value of Sistema's investments in Russia, which in turn may have a significant negative impact on the business of Sistema Group.

A potential bankruptcy of one of the Russian banks acting as the Group's counterparty may reduce the availability of borrowing funds and lead to Sistema losing money deposited with such bank.

it impossible for companies across the Group to settle accounts, damaging Sistema's investment appeal as a result.

and growing expectations as regards brand missions, corporate responsibility, and business sustainability

- ▶ changing population age structure making it necessary to adjust and update products and services to best meet the needs of the ageing national population
- ▶ increased competition for talents due to a demographic decline and changing job expectations of the young workforce



- ▶ climate change and extreme weather conditions that may impact crop yields, people's health, and the operation of infrastructure
- ▶ new technological solutions and economic transformation, including digitalisation and automation in the manufacturing and service sectors conducive to workforce displacement
- ▶ growing cyber security threats and tightening regulations in confidentiality and personal data protection
- ▶ deteriorating living standards and potential rise in social tensions in specific regions where the Group operates eroding profits of the Corporation and companies across the Group
- ▶ tightening regulations in sustainable development, carbon control, and information disclosure

Among material risks faced by the Group's industrial companies are environmental, occupational health and safety and waste disposal risks, as well as risks related to infrastructure health, shutdowns and electromagnetic safety, which are critical for telecommunications and power grid companies.

In the agricultural sector the most material risks include climate risks and challenges related to the need to adapt to changing weather conditions, greenhouse gases, water consumption and animal farming.

## Legal risks

A risk of unpredictable court rulings and administrative decisions being passed with respect to the business of Sistema and its portfolio companies may adversely affect the Group's operations. This risk stems from numerous factors, including:

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

Emergencies and accidents at production facilities across Sistema Group may have significant environmental effects, including land and water pollution, excessive atmospheric discharges, effluent disposals and hazardous spills, potentially harmful for local communities, ecosystems and biodiversity. Any irrational use of natural resources (such as land and forests) may deplete raw materials and lower the economic performance of agricultural and forest assets.

To manage these risks the companies of the Group implement advanced technological solutions, enhance management systems in environmental protection, energy efficiency, occupational health and safety, and develop measures to prevent and mitigate accidents and emergencies.

Risks related to non-compliance with the principles of sustainable development in supply chains may result in disruptions in supply chains and hurt Sistema Group's reputation. As part of their efforts to minimise such risks, companies across the Group impose strict requirements on suppliers, contractors and partners as regards compliance with law and internal regulations.

With global and local terrorism threats rising, potential attack incidents across the Group's enterprises and infrastructure facilities may cause material economic damage, harm human health and lives, and provoke a regulatory tightening on data access requirements.

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

A lack of clarity on the applicability of the Federal Law "On Procedures for Foreign Investment in Business Entities of Strategic Importance for National Defence and State Security" and the regulations of the Customs Union of the Eurasian Economic Union to Sistema Group may have a negative impact on the business of Sistema Group.

There is also a risk of amendments being made to the laws of the countries where Sistema Group companies operate, due to potential change in the 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 their controlled companies, Sistema may incur financial losses related to the liabilities of its portfolio companies.

The minority shareholders of Sistema's subsidiaries may contest or vote against related-party or other transactions, which may limit Sistema's capabilities of closing investment deals and restructuring businesses.

Should the Russian Federal Anti-Monopoly Service conclude that Sistema or one of its material subsidiaries has violated

## Tax risks

Tax laws, regulations and practices of the jurisdictions where Sistema's assets operate are often intricate, opaque and prone to frequent modifications and ambiguous interpretations. Should any action of the Corporation or its portfolio company be interpreted as a breach of tax law, the Group's business may be significantly injured.

Russian transfer pricing law may make it necessary to introduce adjustments to pricing practices used at Sistema Group's companies and entail additional tax liability in light of certain transactions.

## Risks related to stock markets

Geopolitical tensions, sanctions imposed against certain Russian companies, a worsening macroeconomic environment and an outflow of capital and investors from the Russian market affect the value of Russian businesses. Sistema Group's access to investor funding through stock markets may therefore be restricted further as a result of the introduction of sectoral sanctions in industries where

any of the existing anti-monopoly laws, the relevant business will be subject to serious administrative sanctions, entailing losses for the Corporation. The Federal Anti-Monopoly Service may also prevent the Corporation and its portfolio companies from closing and/or performing certain transactions, which may also limit Sistema's capacity to conclude investment deals and restructure businesses.

In 2015, Russia adopted new rules relating to the taxation of undistributed profits of controlled foreign companies and profits from indirect property sale in Russia, the concept of a beneficiary owner, and new criteria to be used to establish tax residency of foreign legal entities in Russia. These rules have already undergone several revisions since they were first introduced, with new amendments having retroactive effect. The new taxation rules may result in more tax liability for the Group due to uncertainty on legal interpretation and a lack of relevant legal precedents.

the companies of Sistema Group operate and/or due to the investors growing increasingly wary of Russian companies in general. In particular, Sistema's ability to raise funding via debt instruments may be limited, which is liable to lead to a lack of working capital and cash available for investment and significantly undermine the Corporation's financial performance.

## Risks related to the coronavirus pandemic

In March 2020, the World Health Organisation (WHO) declared the rapid spread of the novel coronavirus disease (COVID-19) a pandemic. Steps taken by many countries, including Russia, to contain the spread of COVID-19 created serious operational difficulties for many businesses and significantly affected financial markets. COVID-19 had a material impact on the operations of many companies

in various sectors, including but not limited to temporary or permanent production stoppages, supply chain disruptions, quarantines, and decreased demand. The magnitude of the pandemic's impact on Sistema Group's operations will largely depend on the duration and extent of its effect on the global and national economies

## Risks related to delisting

In April 2022, the Federal Law No. 114-FZ "On Amendments to the Federal Law on Joint-Stock Companies and Certain Legislative Acts of the Russian Federation" came into effect and required the Russian issuers to terminate their depositary receipts programs, with the exceptions provided upon consideration of the issuers' requests.

The Corporation submitted the application and got the permission to maintain circulation of its depositary receipts outside the Russian Federation until 13 May 2023.

## RISKS RELATED TO SISTEMA GROUP'S OPERATIONS

### Implementation of the business strategy

The Corporation's strategy aims to develop a balanced and diversified asset portfolio in sectors and regions where Sistema has expertise and competitive advantages, while attracting leading international and Russian partners. Despite having a well-formulated strategy, Sistema cannot guarantee the achievement of its goals, the efficient management of its portfolio companies or benefits from new investment opportunities for a number of reasons, including high leverage and limited funds available for investment. Sistema's failure to achieve its strategic goals may damage its financial performance.

### Implementation of the business strategy

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

The acquisition of assets may increase pressure on the Corporation's cash position and make it necessary to obtain external funding.

Delays in the implementation of investment deals or failure to close them may hamper the achievement of Sistema's strategic goals and negatively influence the Corporation's results, financial position and investment appeal.

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

- ▶ inability to efficiently integrate the operating assets and personnel of the acquired company
- ▶ inability to establish and integrate necessary control mechanisms, including those related to logistics and distribution

### Management and key personnel

The implementation of Sistema's strategy in large part depends on the effort and professionalism of its management team. Failure to hire a sufficiently competent and motivated management team may jeopardise Sistema's business, performance, financial position and development prospects.

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

- ▶ conflicts between shareholders
- ▶ hostility and/or unwillingness to cooperate on the part of the management and personnel of the acquired asset
- ▶ loss of customers after the acquisition

If any of the above risks materialise, the relevant asset may lose part of its value and/or worsen Sistema's financial performance.

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

- ▶ delays in closing or failure to close a deal due to inability to obtain corporate or governmental approvals
- ▶ valuation errors
- ▶ assuming excessive obligations towards the buyer
- ▶ loss of synergies with other assets within the portfolio

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



### Cash flows from Sistema Group companies

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

### Uncertainty of estimates in reporting

In implementing the Company's accounting policy, management is required to make assumptions, estimates and judgements with respect to the book value of assets and liabilities that cannot be reliably valued on the basis of other sources. Estimates and their underlying assumptions are formed on the basis of past experience and other factors that are deemed relevant in specific circumstances. The actual results may differ from these valuations, which may have a material adverse effect on the Group's financial performance.

Estimates and assumptions are regularly reviewed. Any change in such estimates is recognised in such period in which the estimate is revised if such change influences only this period, or also applies to future periods if such change influences both the current and future periods.

### Licences and permits

The operations of Sistema Group's companies are regulated by different government bodies and agencies issuing and renewing licences, approvals, and permits, and also depend on applicable laws, regulations, and standards. Regulatory authorities to a large extent rely on their own judgement 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. There is no guarantee either that existing or future licences or permits will not be suspended or revoked on whatever grounds. Any of these circumstances may have material negative consequences for Sistema's business.

### Borrowings

Cash flows from portfolio companies may be insufficient to finance all of the Corporation's investments scheduled for a particular period. This may create a need to obtain additional external funding and increase the debt burden of the Corporation, which, in turn, would put downward pressure on credit ratings across the Group. A downgrading of a credit rating may increase the cost of debt servicing, make new borrowings more expensive or inaccessible and, in some cases, trigger loan acceleration. The risk of deterioration or withdrawal of the Corporation's credit rating correlates with reputation and liquidity risks. The Corporation's current debt level also constrains its borrowing capacity.

### Loan covenants

Loan and debt securities agreements signed by the Corporation and companies across the Group contain certain restrictive covenants that limit their capacity to borrow further funds, collateralise or sell assets and enter into transactions with affiliates. They may also restrict certain aspects of Sistema's operations, such as the financing of capital expenses, or limit its capacity to repay debt and service other liabilities. Any breach of covenants, however inadvertent, may entitle the creditors of the Corporation and/or its portfolio companies to call in on their loans, which poses a threat to the Corporation's financial performance.

### Privatised companies

The portfolio of Sistema Group contains several privatised assets. In the future the Corporation and specific companies of the Group may also take part in other asset privatisations. Since Russia's privatisation-related legislation remains somewhat unclear and inconsistent and contradicts other provisions of law (e.g., federal and local privatisation norms are in discrepancy), many of such privatisations can potentially be contested, however selectively, which may have a material negative effect on the business, financial situation, performance, or development prospects of the Corporation.

## Compliance with applicable laws and regulations

In conducting their business, the Corporation and companies across Sistema Group are required to comply with a number of rules and regulations regarding market competition, corporate governance, fraud and corruption prevention, conflict of interest management, compliance with sanctions, fair treatment of customers, the prevention of money laundering and terrorism financing, adherence to the information security policy and the prevention of illegitimate use of insider information and market manipulations. Any failure to comply with these requirements may create the risk of legal and regulatory sanctions, significant financial losses and reputational damage.

Moreover, the operations of Sistema and its portfolio companies are also regulated by the anti-corruption laws of other jurisdictions where they conduct their business or where their securities are traded, including Russian law, the UK Bribery Act and the US Foreign Corrupt Practices Act (FCPA). Any investigation into potential violations of the FCPA, UK Bribery Act or other anti-corruption laws of the US, the UK or other jurisdictions may negatively affect the reputation, business, financial situation and performance of Sistema and the companies of Sistema Group.

## Human rights

The Corporation is aware of its responsibility for observing human rights, preventing any exertion of undue influence on human rights, and eliminating or mitigating the potential consequences of such influence should it ever take place.

In its activities and dealings with suppliers, contractors, partners and other stakeholders the Corporation may directly or indirectly influence the rights of employees, local communities, customers and consumers. Any instance of human rights violations would adversely affect the

Corporation's reputation and lead to court disputes, loss of investor, customers or employee trust, or backlash from local communities, trade unions and NGOs. Risks associated with human rights are taken into account in the risk management systems of Sistema Group companies, with material items regularly reviewed by the boards of directors of relevant portfolio companies. For more details on the management of human rights risks please refer to Sustainability Management.

## Digitalisation of business, development of IT and protection of personal data

With digitalisation of businesses (implementation of modern IT solutions and systems) and comprehensive penetration of the Internet, risks related to cyber security and personal data protection are becoming a major threat to businesses across Sistema Group. Any inability to prevent cyber attacks and unsanctioned access to Sistema's networks and data bases may cause, inter alia, leaks of personal data and confidential information, damage to the assets of the Group's portfolio companies, disruptions in production processes, network security breaches and costs related to the restoration of IT systems

and equipment, which may materially and adversely affect the business of Sistema Group.

Risks associated with the protection of personal data are most relevant for assets in telecommunications, online services, finance and e-commerce. Sistema's portfolio companies implement their own programmes, projects and measures that make it possible to reduce the likelihood and potential negative consequences of their industry-specific risks.

## Competition

All industries where Sistema operates are exposed to competition from other companies. Telecom, electric power, retail (including e-commerce), hospitality, private healthcare, pharma, banking, high tech, real estate, timber and agricultural markets in Russia and elsewhere are highly

competitive. An inability of any company of the Group to compete efficiently may have a material negative effect on the business, performance, financial situation and development prospects of the Corporation.

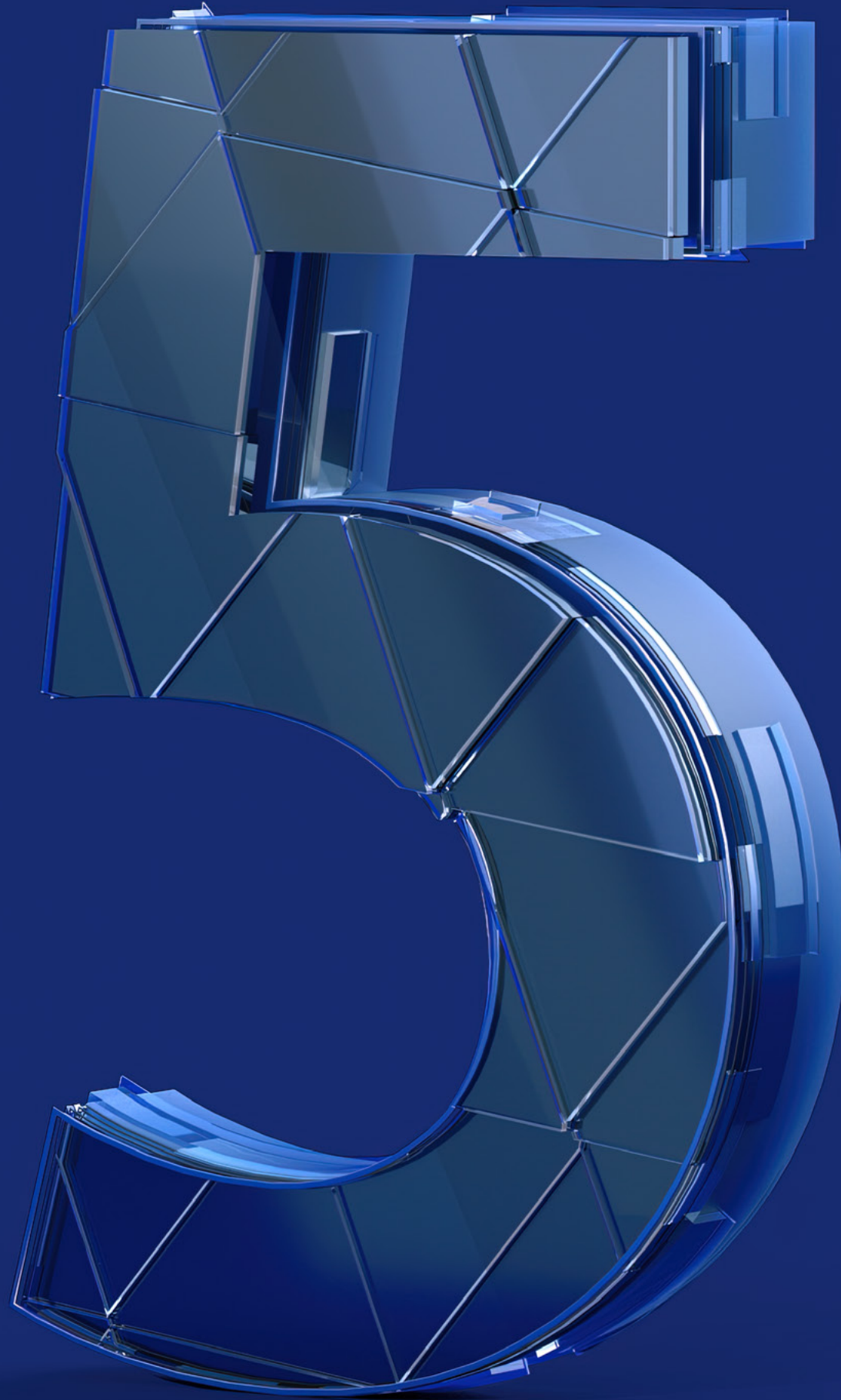


## Brand quality and reputation

Developing and maintaining brand awareness for the Group's companies is crucial to shaping the public opinion about their existing and future products and services. Sistema believes that the importance of a company brand is growing steadily in highly competitive markets. Successful development and improvement of brand awareness depends to a great extent on the efficiency of marketing and ability to provide quality products and services at competitive prices. The effort and money

invested in brand development may prove greater than the incomes they yield, which means potential financial losses for the Group's companies.

Sistema's reputation may suffer from any unethical business practices, professional errors, negligence, failure to comply with human rights, dissemination of inside information and any corruption offence, should any of the above take place anywhere within the Group.



# SUSTAINABILITY MANAGEMENT

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# MANAGEMENT SYSTEM

Sistema's Board of Directors plays a key role in determining the strategic areas of the Corporation's sustainability activities and overseeing their results. In the middle of 2021, Sistema's Board of Directors approved the Terms of Reference of the Sustainability and Investor Relations Committee, which was established to replace the Investor Relations and Dividend Policy Committee. The new Terms of Reference provide for the Committee's leading role in setting the Corporation's ESG agenda.



For more details please go to:  
[https://www.sistema.com/upload/iblock/9f2/b4c5yd01g4d818514c0c4sc78vxhn9be/ToR\\_ESG\\_IR-Committee.pdf](https://www.sistema.com/upload/iblock/9f2/b4c5yd01g4d818514c0c4sc78vxhn9be/ToR_ESG_IR-Committee.pdf)



Human Rights Policy  
[https://www.sistema.com/upload/iblock/70d/tejazhtom0mt8b3eugvucqwkcmvnx031/Sistema\\_Human-Rights-Policy.pdf](https://www.sistema.com/upload/iblock/70d/tejazhtom0mt8b3eugvucqwkcmvnx031/Sistema_Human-Rights-Policy.pdf)



Environmental Policy  
[https://www.sistema.com/upload/iblock/3a8/n6ceomgl3p88f4eyoqx6boqm86ujbeb/Sistema\\_Environmental-Policy.pdf](https://www.sistema.com/upload/iblock/3a8/n6ceomgl3p88f4eyoqx6boqm86ujbeb/Sistema_Environmental-Policy.pdf)

The key responsibilities of the Sustainability and Investor Relations Committee include: facilitating the formulation, development and implementation of the Corporation's strategy in the area of investor relations, dividend policy and sustainability; developing recommendations for improving the ESG strategy of the Corporation and its portfolio companies; facilitating the transformation of the Corporation's business processes based on the principles of sustainable development and responsible investment; reviewing the corporate charity strategy.

Other Committees of the Board of Directors also consider certain aspects of ESG factors (including corporate governance and ethical business conduct) within their respective mandates.

The key principles and approaches of the ESG strategy are communicated to the Group companies through their boards of directors, where Sistema is represented by its key managers (managing partners). In May 2021, Sistema's Board of Directors approved new documents: the Human Rights Policy and the Environmental Policy that set out in detail the provisions of Sistema's Sustainability Policy and support the ESG management system.

The Human Rights Policy is a voluntary public document that defines Sistema's approaches in the area of human rights, including preventing any adverse impact on human rights or promotion of such impact, eliminating or mitigating the consequences of such impact if it does take place, and, if necessary, compensating for damage. This Environmental Policy contributes to the implementation of the guiding corporate responsibility principles set out in Sistema's Corporate Governance Code and Sustainability Policy, including the principle of respect for the environment.

The implementation of defined ESG agenda at the operational level, communication of these policies to investors and public non-financial reporting are the responsibilities of the Sustainability Function, which reports directly to the Corporation's President.

The aspects of corporate social responsibility, social communications, regional policy and charitable activities are supervised by the Corporate Communications Function; corporate governance and compliance are overseen by the Company Secretary, the Corporate Governance & Legal Matters Function and the Internal Audit Department; while the HR Department is responsible for HR policy. If necessary, cross-functional working groups are created in the Corporate Centre to develop common approaches to managing the key aspects of sustainable development.

ESG risk management is part of the corporate risk management system. To learn more about ESG risks, please go to the Risk Management section. All risks associated with human rights are taken into account in the risk management systems of Sistema Group companies, and related material matters are regularly reviewed by their boards of directors. The Corporation has zero tolerance for human rights violations across its entire value chain and expects its suppliers, contractors and partners to ensure the same degree of commitment to legal compliance and respect for human rights. The Group's companies use accessible and properly formalised whistleblowing mechanisms, which ensure confidentiality and fair review, protect whistleblowers from retaliation, and provide post-investigation feedback.

In implementing its investment and social programmes, Sistema draws upon its extensive corporate expertise, strikes synergistic intersectoral partnerships with local authorities, academia, civic & non-profit organisations, and encourages cooperation between businesses across the Group.





Transparency and an ongoing dialogue with stakeholders are the basic principles of Sistema's activities as a public company. Sistema prepares public non-financial reports in accordance with recognised international standards and promotes the disclosure of material non-financial information by its key portfolio companies and funds.

## Sistema's responsible business principles

-  RISK MANAGEMENT
-  INTEGRITY AND TRANSPARENCY
-  OBSERVANCE OF HUMAN RIGHTS
-  ETHICS, LOYALTY AND HONESTY IN RELATIONS WITH PARTNERS, COUNTERPARTIES AND STAFF
-  EMPLOYEE CARE
-  FOCUSED ALLOCATION OF FINANCIAL AND INTELLECTUAL RESOURCES FOR THE DEVELOPMENT OF INNOVATION
-  RESPECT FOR THE ENVIRONMENT
-  INVESTING PART OF PROFITS IN SOCIALLY SIGNIFICANT PROJECTS AND PROGRAMMES



In 2021, Segezha Group approved its Sustainability Strategy and Policy and set long-term goals for reducing its impact on ecosystems. The document is focused on four key areas:

-  innovative forest business
-  comfortable living environment in the forest regions of Russia
-  climate-oriented forest management and production
-  sustainable supply chain.



For more details please go to:  
<https://segezha-group.com/upload/iblock/0ec/aobxzutgr44dz0lqqacbbmn7lcqnwrf.pdf>



For more details please go to:  
<https://www.sistema.com/upload/iblock/0b6/0b6eabe7c86c5ccb7f3bb96b76c45c.pdf>

# RESPONSIBLE INVESTMENT

The responsibility of Sistema as an investor is in the effective management of portfolio assets and funds to build value for shareholders and a wide range of stakeholders in the long term.

The Corporation aims to build competitive high-added-value businesses that honour the principles of social and environmental responsibility and contribute to the sustainable development of their respective industries and geographies and to the steady growth

of socioeconomic and technological potential, human and natural capital, standards of living and social well-being.

Sistema's investment process is regulated by internal documents and procedures. Potential investment projects and investment programmes of portfolio companies are subject to detailed examination as part of Sistema's multi-stage investment process. In addition to financial analysis and industry analysis that underlie decision-making for each project, such components as management quality, staffing, state

of production base, infrastructure and technology, related social obligations and environmental risks can also be considered for specific projects.

At the end of 2020, Sistema's strategic approach to responsible investment was incorporated into a new set of investment criteria approved by the Board of Directors (that included ESG factors for the first time) and into the updated corporate governance regulations. Sustainable development became an integral element of Sistema's strategy, carrying weight in all investment decisions and asset management strategies.

## Implementation of responsible investment principles

### WHEN FORMING A PORTFOLIO OF ASSETS

- ▶ No "sin stocks" and activities that are forbidden by local law or international standards
- ▶ Reviewing a company's ESG profile when making investment decisions

### WHEN MANAGING ASSETS

- ▶ Basic sustainability standards in portfolio companies and extra requirements for pre-IPO ones
- ▶ Engagement with portfolio companies via their boards (as per established corporate procedures) to enhance sustainability management and drive ESG performance

### WHEN DIVESTING ASSETS

- ▶ Ensuring the independence and reliability of sustainability management systems within the company
- ▶ Issuing reference notes and guidelines on sustainability where necessary

## Participation in sustainability initiatives



In 2002, Sistema became a signatory to the UN Global Compact to promote shared values and responsible business practices, and, in 2017, to the Social Charter of the Russian Business, a set of fundamental principles of responsible business practices adopted by the Russian Union of Industrialists and Entrepreneurs.



## Sistema's position in ESG ratings

**CONFIRMED ITS STATUS AS A CONSTITUENT OF THE INDEX**  
constituent since 2016

**BB** 2021

**BB** 2020

**BB** 2019

**B** 2018

**No. 1** BEST SCORE AMONG RUSSIAN COMPANIES in the industry group "Diversified Financials"

**No. 30** OUT OF 900+ COMPANIES in the industry group "Diversified Financials"

**12.1** 2021 Low ESG risk

**15.3** 2020

**30.9** 2019 High ESG risk

The value of the company has low exposure to the risk of significant financial impact caused by ESG factors.

**B** Management

**TOP 11**  
SISTEMA AND MTS MADE IT TO THE TOP 11 OF 66 RUSSIAN COMPANIES THAT RECEIVED A REQUEST FROM INVESTORS TO DISCLOSE INFORMATION ABOUT CLIMATE CHANGE RISKS

**GROUP A**  
WHICH COMPRISES 30 COMPANIES WITH POSITIVE CHANGES in the "Responsibility and Transparency" index

**GROUP A**  
WHICH COMPRISES 21 COMPANIES WITH THE HIGHEST INDIVIDUAL SCORES in the "Responsibility and Transparency" index

**TOP 20**  
IN THE GENERAL RATING OF 150+ LARGEST RUSSIAN COMPANIES

In 2021, RAEX-Europe included Segezha Group and Steppe AgroHolding in its ESG ranking of Russian companies for the first time. At the end of 2021, MTS ranked 10th, Sistema 17th, Segezha Group 49th and Steppe AgroHolding 50th in the general ESG ranking of more than 150 companies from more than 20 industries.

## Sustainability awards



### INTERNATIONAL AWARD FOR ESG REPORTING

Sistema's public sustainability report was named among the five best in the financial and investment sector at ESG Reporting Awards 2021. The Corporation was the only Russian finalist in its category.



### SURVEY OF THE COMPANIES' CONTRIBUTION TO THE NATIONAL PROJECTS

Sistema received a diploma for best practices in covering the company's contribution to the National Projects from the Sustainable Business Development, CSR and Volunteering Council of the Russian Chamber of Industry and Commerce.



### CHANGE MANAGEMENT. VISIONARIES AWARD

Sistema's case of ESG transformation in approaches to investment and asset management ranked 2nd in the category "Economy. Business" at the annual Russian award ceremony in the area of sustainable impact in the economy, environment and society Change Management. Visionaries.



### CORPORATE GOVERNANCE INDEX

#### TOP 20

Sistema is among the leaders of disclosure of corporate governance



### ESG RANKING OF PUBLIC FINANCIAL COMPANIES

#### TOP 3

Sistema is among the top 3 out of 30 leading Russian banks, financial organisations and insurance companies



### CORPORATE CHARITY RATING

#### A

Sistema is among 12 participants of the 2021 Leaders of Corporate Charity rating

#### A+

MTS is a leader in the rating

#### C+

Segezha Group is included in the list of companies with developing practices



### ESG TRANSPARENCY RATING

#### 1.98 POINTS

Sistema has the highest level of transparency among the companies of the financial sector

#### 1.95 POINTS

Information disclosure at MTS is close to maximum levels

#### 1.80 POINTS

Segezha Group is the only pulp and paper company in the rating



### ESG RATING OF SUSTAINABLE CORPORATE GOVERNANCE

#### A+

Sistema is one of the leaders of corporate ESG practices in Russia

#### A

MTS is demonstrating best corporate ESG practices

#### B+

Segezha Group has well-developed corporate ESG practices



### AK&M SOCIAL PERFORMANCE RANKING

#### TOP 3

MTS was ranked 2nd in the telecommunications industry and among the top 25 Russian companies with RUB 100 bn+ revenues in 2020

#### No. 1

Segezha Group's social responsibility ranking in the the pulp and paper and timber processing industry

#### TOP 3

Segezha Group made it to the top 3 by social efficiency in the industry

### ESG REPORTING RATING

MTS, Segezha Group and Etalon Group were included in the first sustainability reporting rating of 61 companies. In October 2021, MTS's ESG reporting rating was upgraded to the highest level.

## Cooperation with Russia's regions

In the past year, Sistema signed strategic cooperation agreements with several entities of Russia (the Vologda, Irkutsk, Nizhny Novgorod and Tyumen regions). These agreements are aimed at promoting a favourable economic and social climate in the regions, making them attractive for businesses and comfortable for local residents and tourists. The key areas of cooperation include telecommunications, healthcare, tourism, construction of residential properties and infrastructure, timber processing.

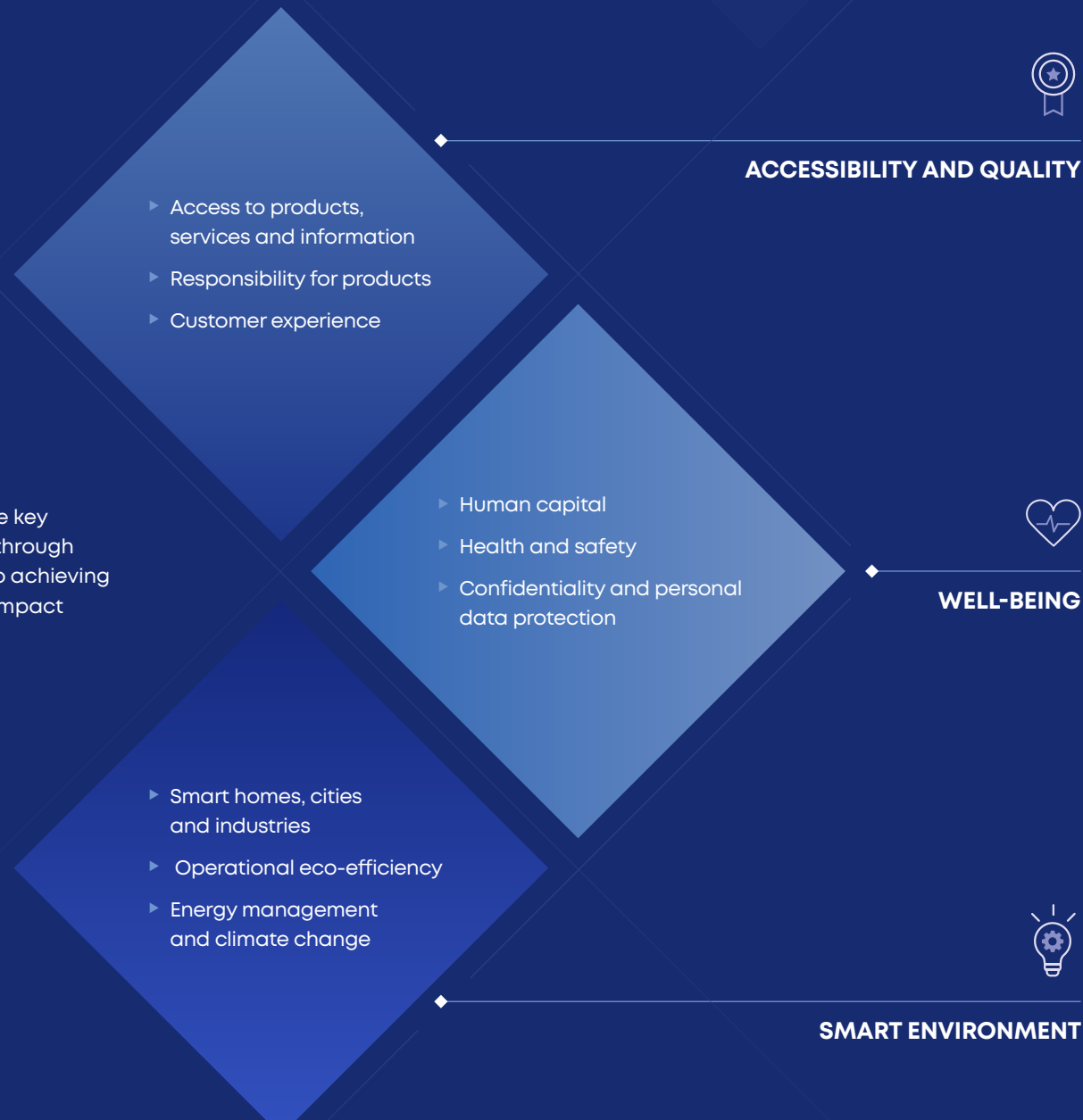
A strategic cooperation agreement between Sistema and the government of the Vologda region provides for the establishment of a special economic area that will include textile and timber processing clusters. Plans for the future include advanced processing of timber and manufacturing of new types of products. Development of the textile industry envisages expansion of production capacity, creation of a comfortable environment for the employees of the clothes manufacturing industry and establishment of a textile cluster that will focus on the design and making of clothes.

The cooperation agreement with the Tyumen region also provides for development in the timber processing sector. Sistema will share its competences in the field of implementation of information systems for managing security at various facilities and processing data. Sistema is also considering investing in the healthcare sector of the region.

Under the cooperation agreement with the Irkutsk region the parties aim to bring investment, technologies and personnel training systems to the region to ensure competitiveness of the forest industry enterprises. In addition to supporting the manufacturing sector, Sistema also seeks to develop the hospitality and recreation segment in the Irkutsk region.

# KEY ESG AREAS

Sistema identified three key ESG areas to cultivate through investing, with a view to achieving a meaningful positive impact



- ▶ Access to products, services and information
- ▶ Responsibility for products
- ▶ Customer experience

## ACCESSIBILITY AND QUALITY

- ▶ Human capital
- ▶ Health and safety
- ▶ Confidentiality and personal data protection

## WELL-BEING

- ▶ Smart homes, cities and industries
- ▶ Operational eco-efficiency
- ▶ Energy management and climate change

## SMART ENVIRONMENT

Innovation and digital transformation are the focus of the Corporation's strategy.

Sistema consistently invests in building intellectual potential: science and education, advanced research, tech startups, new developments and digitalisation. The Corporation cooperates with innovation support institutes, creates its own R&D centres and facilitates the adoption of advanced technologies and organisational innovations in its portfolio companies. Most of the projects implemented by the Corporation, its assets and Sistema Charitable Foundation contribute to solving socially important issues at the intersection of the key ESG areas.



## Key ESG areas

### Accessibility and quality

- ▶ Access to products, services and information
- ▶ Customer experience
- ▶ Responsibility for products



### Well-being

- ▶ Human capital
- ▶ Health and safety
- ▶ Confidentiality and personal data protection



### Smart environment

- ▶ Smart homes, cities and industries
- ▶ Operational eco-efficiency
- ▶ Energy management and climate change



The Corporation's activities are underpinned by developed corporate governance practices and effective cooperation of the Group's companies.

## Corporate governance and synergies

- ▶ Business ethics
- ▶ Human rights and relations with stakeholders
- ▶ Risk management
- ▶ Innovation management
- ▶ Sustainable supply chain





## Examples of key ESG efforts of portfolio companies

Sistema and its portfolio companies contribute significantly to the formation of a competitive labour and procurement market (including the engagement of small and medium-size businesses), the modernisation of infrastructure, industry and agriculture, the enhancement of the accessibility and safety of products and services, the development of the health and education systems and the social and environmental well-being of communities where they operate.

Given the vast diversity of sectors Sistema invests in, sustainability risks and value creation potential vary across the Group. Below we provide some of the most illustrative examples of the effort's portfolio companies made in 2021. Traditional synergies between assets enabled many cross-sectional projects.

### Recognition of achievements in customer experience



- ▶ **MTS** won in the category "Best corporate customer experience B2B. Telecom services," submitting a case on improvement of CJM<sup>1</sup> and EJM<sup>2</sup> in 2020. MTS pays substantial attention to customers' satisfaction with every product, especially in the corporate segment, where innovative services and new technologies appear much earlier than in the mass market.
- ▶ **Etalon Group** won a record number of awards - seven - in the residential housing segment of Urban Awards 2021, a national award that was given for the 13th time. Etalon was also named the Developer of the Year and was awarded by the award's partner Mitsubishi Electric "For use of cutting-edge technology in construction."

### Accessibility for remote regions



- ▶ In 2021, **MTS** carried out over 50 projects for improvement and upgrade of mobile communications in its regions of operations. An important task for the reporting year was to provide communication and mobile internet to remote residential areas. Mobile communications and internet networks were upgraded in the Central, Volga, Ural and Siberian federal districts. Over 100 towns and villages in these districts received access to internet and mobile communications. MTS also worked to improve mobile communication along major transport arteries.
- ▶ **MTS** deployed an NB-IoT network at Russia's Progress research station in Antarctica to transmit data from devices of the Arctic and Antarctic Research Institute. The trackers, sensors and network sensors will be used to study the movement of glaciers and snow cover and to monitor the integrity of snow runways and microclimate in residential and work premises. MTS also provided 2G mobile communication at the Novolazarevskaya Antarctic research station. Now polar researchers will be able to call their families and use messengers, thus remaining in touch with and not being isolated from the outside world.
- ▶ **Ozon** expanded its reach last year, expanding in the Siberian market and opening its first fulfilment centre in the Novosibirsk region. The new centre has the capacity to store up to 4 m SKUs<sup>3</sup> and process over 85,000 parcels per day. In addition to its eastward expansion, Ozon opened the first fulfilment centre in Russia's westernmost region, the Kaliningrad special economic zone. The new centres will enable the company to increase the serviced area and the speed of delivery and also to create new jobs.

<sup>1</sup> CJM (customer journey map) is a tool for studying customer experience and points of interaction with a brand, product or service provided by a company.

<sup>2</sup> EJM (employee journey map) is a tool for studying experience of an employee or candidate and their interaction with customers or other employees.

<sup>3</sup> SKU – stock keeping unit.



### Development of services for business



- ▶ **VisionLabs** and the digital construction ecosystem BIMDATA announced start of technological partnership. The companies joined efforts to develop a system that will enhance control over implementation of construction projects, personnel and work progress. Their cooperation is expected to produce a new digital service for the construction industry. It will be based on the BIMDATA platform and VisionLab's face and object recognition technology.
- ▶ The AI Centre of **MTS** signed a cooperation agreement with Plug and Play, a Silicon Valley accelerator. This will give Russian startups access to Western investments and expertise, while Plug and Play will get access to the Russian market. Under the agreement, startups from MTS's accelerator will be able to undergo training at Plug and Play and raise funding from its partners across the world.

### Development of human capital



- ▶ **MTS** started an academic programme to teach students of several leading Russian tech schools to develop NB-IoT devices. The schools participating in the project are the ones where the operator has its NB-IoT network deployed: The Moscow Institute of Electronics and Mathematics of the Higher School of Economics, the Russian Technological University, the St Petersburg State University of Aerospace Instrumentation, the Tomsk State University of Control Systems and Radioelectronics, the Ural Federal University and the Northeastern Federal University. The students will get access to the necessary equipment to develop energy-saving devices, while the teachers are invited to take advice from the company's experts.
- ▶ **Segezha Group's** Segezha Pulp and Paper Mill (PPM) and the Northern College, a vocational school in the Republic of Karelia, launched a programme for the development of the college and upgrade of its facilities in 2021-2025. The programme was developed under the previously signed agreement on cooperation in training personnel for Segezha PPM. The funds allocated by the company during the five years of the programme will go towards upgrading the facilities and creating a comfortable study environment. The Northern College, in turn, will train students in occupations required by the mill. In 2021, Segezha PPM allocated about RUB 2 m for the development of the college.

### Development of healthcare services



- ▶ **MTS** and the Cardiology Research Institute of Tomsk National Research Medical Centre of the Russian Academy of Sciences announced a strategic partnership in digital healthcare. The parties intend to cooperate in the development and implementation of digital solutions, IT tools and services for the medical, research and educational activities of the cardiology centre. The agreement envisages experimental and clinical testing of these solutions at the Cardiology Research Institute.
- ▶ **MTS** and representatives of the Vologda region's healthcare department and Vologda city clinic No 3 signed an agreement on launch of a pilot project for remote blood pressure monitoring, MTS 120/80. The system makes it easier to monitor patients with cardiovascular diseases. It enables doctors to check on patients remotely, which is especially relevant during lockdowns caused by the COVID-19 pandemic.
- ▶ **Medsi** continues introducing digital solutions at its clinics. Last year, it introduced the MUSE information system and the Onconet remote monitoring system. Both services aim at improving the quality of telemedicine, reducing the number of errors in diagnosing and simplifying communications between doctors and patients. They also make it possible for doctors to exchange information within the chain of clinics. At present, about 20 Medsi clinics are connected to MUSE, with the remaining clinics across the country expected to join next year.

## Development of healthcare services



- ▶ In 2021, **Medsi** opened several specialised clinics for various diseases. In cooperation with the best clinics and experts of Israel, the United States and Australia, it opened the International Melanoma Centre in Moscow as part of Medsi's International Oncology Centre. It brings together the best competences and expertise of the parties and offers patients a comprehensive checkup for skin growths that takes just one day.
- ▶ On the basis of the same International Oncology Centre, **Medsi** opened a centre for breast diagnostics, the Quick Help Clinic. One of its advantages is that a patient with suspected cancer may receive a doctor's opinion and referral for treatment on the day of appointment.
- ▶ During the workshop "Breast Cancer: Patient's Journey Today. Secondary Lymphostasis," the centre organised Russia's first ever live streaming of transplantation of lymph nodes for treating lymphostasis during breast cancer. The demonstration of the technique thus became available to oncologists from remote regions of the country.
- ▶ In autumn 2021, **Medsi** opened an Ophthalmology Centre with a surgery department in Moscow. The centre will provide multi-specialty care for a wide range of vision disorders. Its daily capacity is about 50 patients, and its cutting-edge equipment will make it possible to perform some 13,000 surgeries a year.
- ▶ Specialised or multi-specialty centres are being opened on the basis of **Medsi's** clinicodiagnostic centres across the country. Notably, an outpatient cancer centre opened in Shcholkovo, the Moscow region, which offers free consultation and treatment to any resident of the region. In Perm and Izhevsk, Medsi opened the regions' first centres for prevention of strokes and heart attacks. The company plans to later use them as centres for outpatient cancer treatment. In Moscow, Medsi opened five multi-specialty local clinics last year, the capacity of each being about 80,000 patients a year.

## Improving quality of life in regions of operations



- ▶ **MTS** began developing a 5G network in larger cities of Russia. In mid-2021, the operator launched 19 pilot 5G zones in the most popular areas of Moscow. In addition to development of wireless communication in 2021, MTS focused on the development of products aimed at improving city infrastructure. One of the key solutions was the development of smart video surveillance, which helps to ensure security of individual apartment blocks and the city in general. In future, video analytics using 5G networks may be used to optimise traffic flows in the city, to ensure traffic safety and create a safe city environment for pedestrians.
- ▶ **Etalon Group** entered the Kuzbass real estate market. The company will develop residential construction projects in Kemerovo and Novokuznetsk. State-of-the-art comfortable housing will be built in the suburbs of the two cities. In addition to Kuzbass, the company began developing projects in Novosibirsk and Omsk, thus venturing beyond the Urals.
- ▶ **Sitronics Group** began developing infrastructure for electric cars. After commissioning a pilot project for placement of charging stations in Moscow, Sitronics started development of such infrastructure in Nizhni Novgorod and Ulyanovsk. Charging stations are mostly placed in cities' transport hubs (railway stations, airports, etc.)
- ▶ **Segezha Group** supports the regions where it has industrial assets by investing in the development of social and urban infrastructure. One of the key areas in the company's sustainability efforts is ensuring comfortable living conditions for local population. Last year, the company invested in the development of social infrastructure, construction of roads and supply of essential products and services. Special attention is paid to supporting local communities in the social and cultural sphere and in the areas of healthcare, education and sports.



## Restoration of natural ecosystems



- ▶ Being one of the country's largest logging companies, **Segezha Group** takes reproduction of forest resources very seriously. Its enterprises are working towards ensuring that the area of clear cutting is equal to the area of reforestation. Reforestation work is performed on all clear-cut plots within three years after the end of logging and removal of logged timber. At the time of logging, effort is made to preserve undergrowth on logging plots and to mineralise the soil surface. Forest crops receive technological and silvicultural care to prevent growth of grass, bush and tree weeds, washaway of soil by water, its blowout and squeezing out by frost. At each stage of forest use, the company takes into account the transformation of animal habitats and the state of water, soil and unique vulnerable landscapes that are classified as protective forests. In 2021, the company increased the reforestation area by almost 32% compared to the previous year, to 38,647 ha.
- ▶ In addition, **Segezha Group** implements an intensive forest use model which ensures forming of sustainable forests, increase of economic effect from improvement cutting in young forests and preservation of the forest's biological functions. New rules of forest use intensification came into force on 1 January 2021. They were developed by the Natural Resources and Ecology Ministry of the Republic of Karelia and the St Petersburg Research Institute of Forest Management with Segezha Group's involvement. Field studies were performed on the plots leased by the company in Karelia. Segezha Group's enterprises in the republic were the first to start implementing the new rules. The project's preparatory phase alone took roughly RUB 365 m in investment.
- ▶ In 2021, Lesosibirsk Woodworking Plant No 1 and Novoyeniseisky Timber and Chemical Plant (both subsidiaries of **Segezha Group**) released about 300,000 young sturgeons and graylings in the Yenisey river as part of an ecological programme for reproduction of biological water resources and habitats. Next year, Segezha Groups plans another release in the Krasnoyarsk region so that surviving fish will produce spawn in a few years and replenish the population of Siberian sturgeons.
- ▶ **Steppe AgroHolding** has a large-scale project for improvement of environment and preservation of soil fertility, which envisages planting of trees in the Rostov region. The project provides for plantings on 55 ha of land and will cost the company some RUB 4.5 m. This is the company's another step in the implementation of the environmental part of its ESG strategy. The new project addresses two sustainable development goals: climate change and rational use of the ecosystem.

## Enhancement of operating eco-efficiency



- ▶ **Steppe AgroHolding** has received its first I-REC certificate<sup>1</sup>, which confirms the consumption of 100 MWh of electricity from renewable energy sources. One of Steppe's dairy farms has transitioned to use of power supplied by a small hydropower plant in Bashkortostan. The new experience marks the start of a large-scale programme that envisages increase of the share of electricity produced by renewable energy sources.
- ▶ **Segezha Group** has carried out an environmental programme at Segezha Pulp and Paper Mill aimed at reducing air emissions, including from lime kilns and surrounding machines. The company is moving away from use of fuel oil, replacing it with timber processing waste (branches, small trees, bushes, bark, etc.), which is used as fuel in the mills' energy cycle. The timber processing enterprises in the Krasnoyarsk and St Petersburg regions have completed transition to use of organic fuel. In addition, the company is replacing equipment used for timber processing and paper production. The new equipment will consume less energy and produce less air emissions.

<sup>1</sup> I-REC (International Renewable Energy Certificate) - international certificates for renewable energy.

# SOCIAL INVESTMENTS

Sistema Charitable Foundation (SCF) is one of the largest charitable foundations in Russia. It was established back in 2004 to manage the social activities and projects of Sistema and its portfolio companies. SCF invests in education and professional development, supports cultural and educational projects, and provides social assistance through the creation of a platform for the implementation and promotion of the Corporation's charitable initiatives. In addition to investments and support of charitable projects, SCF organises various charitable events and campaigns targeting people of various ages and social categories in all regions of Russia.

In 2021, SCF was able to fully launch its educational IT platform of the Lift to the Future. It also established a sustainable network of partnerships with experts and organisations required for its key projects.

The Foundation currently has several key programmes:

- ▶ Lift to the Future - an all-Russian career guidance and training program that promotes career opportunities at Sistema Group
- ▶ Culture and Education - launch and development of projects to develop and promote inclusive museum environment
- ▶ Social Environment - support of underprivileged groups of population, implementation of projects supporting people and non-profits, events targeting interaction within various groups
- ▶ Sistema Charity - development and promotion of best practices in the area of charity and social protection

In the area of culture and education, SCF introduces digital solutions and new approaches that are the most efficient way to increase accessibility of culture and art. In 2021, SCF supported the Russian Museum in opening its first permanent tactile exposition and the first exhibition of artists with special mental needs. The launch of this project resulted in creation of five virtual guides on the Russian Culture Ministry's platform Artefact, which were used by over 1.3 m online visitors; and about 100,000 people participated in the Cultural Weekend offline events.

The following events were organised as part of the **Social Environment** section:

- ▶ Regional festivals Sistema Fest were held in the Republic of Altay, Udmurtia, the Kurgan and Kostroma regions. They were attended by about 20,000 people in total
- ▶ Over 50 corporate volunteering events were held, with 500+ employees of Sistema Group involved in volunteering
- ▶ SCF offers support for war veterans to strengthen connection between generations and preserve memory about the country's history
- ▶ In support of sports and a healthy lifestyle, Sistema organised a charitable race, #ZaLes (#ForForest in Russian), in the Rostov region, during which participants planted about 3,250 oaks and ash-trees

**Sistema Charity** is one of the key focus areas of SCF. In 2021, SCF organised a grant contest, Sistema for a Good Cause, and received 69 initiatives with an aggregate budget of over RUB 12 m. Employees from 11 Sistema Group companies from 23 regions of Russia participated in the competition, submitting projects aimed at preserving cultural and historical heritage, child rearing, development of comfortable city infrastructure, animal protection and support of sports.

> **100** THSD

PEOPLE PARTICIPATED IN THE CULTURAL WEEKEND OFFLINE EVENTS

> **50**

CORPORATE VOLUNTEERING EVENTS WERE HELD

> **500**

EMPLOYEES OF SISTEMA GROUP INVOLVED IN VOLUNTEERING

**23**

REGIONS OF RUSSIA PARTICIPATED IN THE CHARITY COMPETITION



## BEST SUSTAINABILITY PRACTICES UN 2021

An array of inspiring cases is appearing around the world that can be replicated and scaled up. Having set out to create an SDG Good Practices database, a committee of UN experts studied submissions made over 2020-early 2021 and picked 400 best cases from around the globe.

The **Lift to the Future** project was named among the SDG Good Practices. The programme is designed to pursue four sustainable development goals: Quality Education, Decent Work & Economic Growth, Gender Equality, and Reduced Inequalities.

AMONG

**400**

BEST CASES FROM AROUND THE GLOBE

## Lift to the Future

**Lift to the Future is a flagship educational programme of Sistema Charitable Foundation. It was launched in 2020 and since then has attracted about 235,000 participants. About 70 educational materials were issued, and hundreds of young professionals and students received help with finding internships or first jobs.**

**235** THSD

PARTICIPANTS TOOK PART IN EDUCATIONAL PROGRAMME

In 2021, an IT platform was launched to attract new users. This made it possible to assess the demand for developed products and determine focus areas for attracting new users.

After a full-scale launch of the platform and based on the feedback received from the target audience, SCF analysed the key aspects of the project and the opinions of stakeholders, which enabled it to formulate the key areas of project development.

▶ Development of online education oriented towards comprehensive personal development

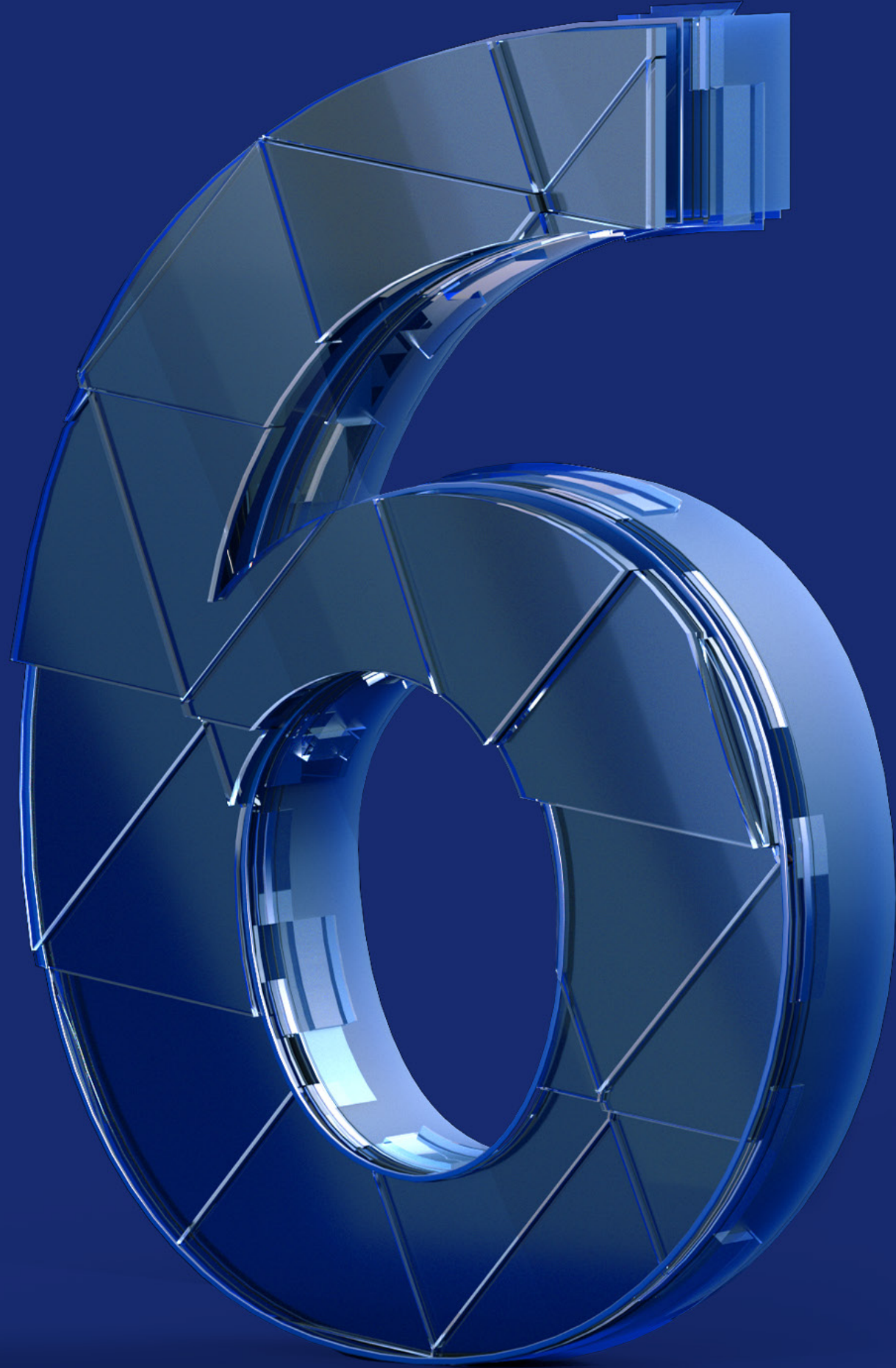
▶ Expansion of the platform's focus to include metadisciplinary skills and competences in sustainable development, which will later help to train highly sought professionals

▶ Development of a programme of internships and employment at the Corporation

In 2021, the Lift to the Future programme proved to be effective in the achievement of the set targets and was greatly sought after by users and partners, creating prerequisites for making it an open platform.

The main objective for 2022 is to transform the process and increase the value of user engagement with the platform.

The Lift to the Future programme acts as a consolidator of SCF's key projects, making it possible to create a comprehensive educational and social programme across the regions where the Corporation operates.



# ANNEXES

## ANNEX 1.

**LIST OF TRANSACTIONS CARRIED OUT BY SISTEMA PJSFC IN THE REPORTING YEAR THAT ARE RECOGNISED AS MAJOR TRANSACTIONS UNDER THE FEDERAL LAW**

During 2021, Sistema PJSFC did not carry out any transactions that are recognised as major transactions according to the Federal Law "On Joint-Stock Companies" or other transactions subject to the major transactions approval procedure pursuant to the Company's Charter.

## ANNEX 2

**LIST OF TRANSACTIONS CARRIED OUT BY SISTEMA PJSFC IN THE REPORTING YEAR THAT ARE RECOGNISED AS RELATED PARTY TRANSACTIONS UNDER THE FEDERAL LAW "ON JOINT-STOCK COMPANIES".**

All of the transactions performed by Sistema PJSFC in 2021 that qualify as related party transactions according to the Federal Law "On Joint-Stock Companies" were endorsed or approved by the Corporation's Board of Directors.

No	NO OF BOARD MINUTES, DATE OF BOARD RESOLUTION, DATE OF TRANSACTION	MATERIAL TERMS OF TRANSACTION			RELATED PARTY, GROUNDS FOR RECOGNITION AS RELATED PARTY
		SUBJECT OF TRANSACTION	COUNTERPARTIES	TRANSACTION VALUE	
1	12-20, 18/12/2020, 02/02/2021	Signing of an agreement providing for indemnification of members of Sistema's Board of Directors against legal and other expenses and losses	Sistema Finance S.A., A. Chubais	RUB 1,963,000,000.00	V. Evtushenkov, F. Evtushenkov, A. Chubais
2	12-20, 18/12/2020, 02/02/2021	Signing of an agreement providing for indemnification of members of Sistema's Board of Directors against legal and other expenses and losses	Sistema Finance S.A., E. Schneider	RUB 1,963,000,000.00	V. Evtushenkov, F. Evtushenkov, E. Schneider
3	01-21, 29/01/2021, 02/03/2021	Contribution of cash funds to the property of LLC Sistema Telecom Assets	LLC Sistema Telecom Assets	RUB 4,000,000,000.00	V. Evtushenkov, F. Evtushenkov, S. Shishkin
4	12-20, 18/12/2020, 12/02/2021	Contribution of an equity stake in LLC ITS to the property of LLC Aeromax	LLC Aeromax	RUB 3,012,851,000.00	V. Evtushenkov, F. Evtushenkov
5	01-21, 29/01/2021, 02/03/2021	Contribution of cash funds to the property of LLC Sistema Telecom Assets	LLC Sistema Telecom Assets	RUB 3,800,000,000.00	V. Evtushenkov, F. Evtushenkov, S. Shishkin
6	12-20, 18/12/2020, 10/03/2021	Granting an interest-bearing loan to LLC Sistema Telecom Assets	LLC Sistema Telecom Assets	RUB 3,065,700,000.00	V. Evtushenkov, F. Evtushenkov, S. Shishkin
7	01-21, 29/01/2021, 02/03/2021	Contribution of cash funds to the property of LLC Sistema Telecom Assets	LLC Sistema Telecom Assets	RUB 4,300,000,000.00	V. Evtushenkov, F. Evtushenkov, S. Shishkin
8	03-21, 19/03/2021, 30/03/2021	Signing an agreement on divestment of up to 34,000,000 shares in PJSC MTS in favour of LLC Bastion	LLC Sistema Telecom Assets, Sistema Finance S.A., LLC Bastion	RUB 7,700,000,000.00	V. Evtushenkov



No	NO OF BOARD MINUTES, DATE OF BOARD RESOLUTION, DATE OF TRANSACTION	MATERIAL TERMS OF TRANSACTION			RELATED PARTY, GROUNDS FOR RECOGNITION AS RELATED PARTY
		SUBJECT OF TRANSACTION	COUNTERPARTIES	TRANSACTION VALUE	
9	01-21, 29/01/2021, 02/03/2021	Contribution of cash funds to the property of LLC Sistema Telecom Assets	LLC Sistema Telecom Assets	RUB 3,300,000,000.00	V. Evtushenkov, F. Evtushenkov, S. Shishkin
10	12-21, 02/11/2021, 15/03/2021	Divestment of 122,196 shares in JSC Business Nedvizhimost in favour of JSC Mosdachtrest	JSC Mosdachtrest	RUB 6,231,996,000.00	V. Evtushenkov, F. Evtushenkov, S. Shishkin
11	05-21, 09/04/2021, 20/04/2021	Contribution of cash funds to the property of LLC Sistema Telecom Assets	LLC Sistema Telecom Assets	RUB 5,100,000,000.00 <sup>1</sup>	V. Evtushenkov <sup>2</sup> , F. Evtushenkov <sup>3</sup> , S. Shishkin <sup>4</sup>
12	05-21, 09/04/2021, 20/04/2021	Contribution of cash funds to the property of LLC Sistema Telecom Assets	LLC Sistema Telecom Assets	RUB 4,800,000,000.00	V. Evtushenkov <sup>2</sup> , F. Evtushenkov <sup>3</sup> , S. Shishkin <sup>4</sup>
13	05-21, 09/04/2021, 20/04/2021	Contribution of cash funds to the property of LLC Sistema Telecom Assets	LLC Sistema Telecom Assets	RUB 4,700,000,000.00 <sup>1</sup>	V. Evtushenkov <sup>2</sup> , F. Evtushenkov <sup>3</sup> , S. Shishkin <sup>4</sup>
14	05-21, 09/04/2021, 23/06/2021	Divestment of 21,025,725,000 shares in JSC RTI in favour of LLC ITS	LLC ITS	RUB 1.00	V. Evtushenkov, F. Evtushenkov
15	12-21, 02/11/2021, 29/11/2021	Contribution of cash funds to the property of LLC Cosmos Hotel Group	LLC Cosmos Hotel Group	RUB 201,000,000.00	V. Evtushenkov, F. Evtushenkov, A. Kolokolnikov
16	13-21, 19/11/2021, 30/11/2021	Contribution of cash funds to the property of LLC Aeromax	LLC Aeromax	RUB 1,047,032,356.00	V. Evtushenkov, F. Evtushenkov, A. Zasursky
17	13-21, 19/11/2021, 14/12/2021	Acquisition of an equity stake in LLC MC Kamchatka Project	LLC Sistema Telecom Assets	RUB 3,124,000,000.00	V. Evtushenkov, F. Evtushenkov, S. Shishkin
18	14-21, 08/12/2021, 10/12/2021	Contribution of cash funds to the property of LLC Sistema Telecom Assets	LLC Sistema Telecom Assets	RUB 6,500,000,000.00	V. Evtushenkov, F. Evtushenkov, S. Shishkin
19	15-21, 17/12/2021, 23/12/2021	Acquisition of 148,533,000 shares in PJSC Segezha Group	LLC Sistema Telecom Assets	RUB 1,199,998,107.00	V. Evtushenkov, F. Evtushenkov, S. Shishkin
20	15-21, 17/12/2021, 31/12/2021	Signing of an agreement providing for indemnification of members of Sistema's Board of Directors against legal and other expenses and losses	Sistema Finance Holding S.A., Y. Kuzminov	RUB 1,931,540,000.00	V. Evtushenkov, F. Evtushenkov, Y. Kuzminov
21	15-21, 17/12/2021, 31/12/2021	Signing of an agreement providing for indemnification of members of Sistema's Board of Directors against legal and other expenses and losses	Sistema Finance Holding S.A., A. Shokhin	RUB 1,931,540,000.00	V. Evtushenkov, F. Evtushenkov, A. Shokhin

<sup>1</sup> Interrelated transactions the aggregate amount of which totalled 2.4% of the book value of Sistema's assets according to its financial reports as of the last reporting date preceding such transactions.

<sup>2</sup> The controlling person and a member of a governance body of Sistema PJSFC and the controlling person of LLC Sistema Telecom Assets. Shareholding in Sistema PJSFC and the stake owned in Sistema PJSFC as of the date of interrelated transactions: 59.2105%. Shareholding in LLC Sistema Telecom Assets as of the date of interrelated transactions: 0%. Stake owned in LLC Sistema Telecom Assets as of the date of interrelated transactions: not applicable.

<sup>3</sup> A member of a governance body of Sistema PJSFC and a close relative of the controlling person of LLC Sistema Telecom Assets. Shareholding in Sistema PJSFC and the stake owned in Sistema PJSFC as of the date of interrelated transactions: 5.2125%. Shareholding in LLC Sistema Telecom Assets as of the date of interrelated transactions: 0%. Stake owned in LLC Sistema Telecom Assets as of the date of interrelated transactions: not applicable.

<sup>4</sup> A member of governance bodies of Sistema PJSFC and LLC Sistema Telecom Assets. Shareholding in Sistema PJSFC and the stake owned in Sistema PJSFC as of the date of interrelated transactions: 0.0806%. Shareholding in LLC Sistema Telecom Assets as of the date of interrelated transactions: 0%. Stake owned in LLC Sistema Telecom Assets as of the date of interrelated transactions: not applicable.



**ANNEX 3**  
**REPORT ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**  
**RECOMMENDED BY THE BANK OF RUSSIA**

In the opinion of Sistema's Board of Directors, the Corporation complies with the principles and guidelines of the Corporate Governance Code recommended by the Bank of Russia (hereinafter, "the Code") with such reservations as are mentioned herein below.

When assessing Sistema's corporate governance practices for consistency with the Code's recommendations, the Board looked at both formal and actual adherence to the principles and recommendations contained in the Code by the Corporation and its officers, including the general achievement of corporate governance standards stipulated in the Code through both conventional and alternative mechanisms.

No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
<b>I. SHAREHOLDER RIGHTS AND EQUALITY IN THEIR EXERCISE</b>				
1.1.	The company must ensure an equal and fair treatment of all shareholders as regards their rights to participate in corporate governance.			
1.1.1.	The company must create for its shareholders the most favourable conditions for participation in the general meeting, for making informed decisions as regards the general meeting's agenda items, coordinating their actions, and expressing their opinions on matters under consideration.	<p>1. The company offers a variety of means of communication with the company, such as a hotline, e-mail, and an online forum, providing shareholders ample opportunity to express their opinions and submit queries about the agenda in the run-up to the general meeting.</p> <p>The above communication means were organised and made available to the shareholders before each meeting held throughout the reporting period.</p>	Observed	The Corporation specifies an e-mail address (osa@sistema.ru) to which the shareholders are invited to send their opinions or questions with regard to the General Meeting, including its agenda, in each meeting's convocation notice.
1.1.2.	The Company must use such procedures for notifying shareholders of the upcoming general meeting and for furnishing them with related materials so as to enable the shareholders to be well prepared for the meeting.	<p>1. Throughout the reporting period, the Company published on the corporate website notices of all upcoming shareholder meetings no later than 30 days prior to the date of each such meeting, unless a longer notice period is provided by law.</p> <p>2. Each such notice specified the documents required to be produced by shareholders to gain access to the meeting's venue.</p> <p>3. The shareholders are provided access to information about persons having proposed agenda items and/or nominees to the board of directors and the audit review commission (if the Company's charter provides for such a commission to be established).</p>	Observed	<p>Pursuant to Sistema's Charter, a notice of each general meeting of shareholders specifying the date, time and venue of the meeting and documents required for admission is published on the Company's website (www.sistema.ru/www.sistema.com) no later than 30 days prior to each such meeting.</p> <p>Each meeting notice also specifies the documents that shareholders need to produce to be granted access to meeting materials (documents) contained in the Corporation's office, and if the meeting is convened in physical form, the documents required for access to the meeting's venue.</p> <p>Explanatory notes or other relevant materials on each particular agenda item specify the initiator of such item. Wherever such agenda item mentions any nominee to the company's governance bodies, the related documents also specify his/her nominator.</p>
1.1.3.	During preparation for the general meeting and during the meeting itself, the company must enable shareholders to promptly and easily receive information about the meeting and related materials, put questions to executive bodies and members of the company's board of directors, and communicate with each other.	<p>1. Throughout the reporting period, the shareholders were provided ample opportunity to put questions to the members of the Corporation's executive bodies and board of directors both before and during the general meetings.</p> <p>2. The collective opinion of the board of directors (as well as dissenting opinions entered in the minutes, if any) on each agenda item of shareholders' meetings held in the reporting period was properly specified in the relevant proxy materials.</p> <p>3. Prior to each general meeting held throughout the reporting period, the company provided eligible shareholders with lists of persons entitled to participate in such meeting on the same date as it itself obtained such lists.</p>	Observed	<p>In the course of preparations for each Annual General Meeting, the shareholders are able to receive answers to their questions sent to a special email address (osa@sistema.ru) indicated in the notice of the general meeting. Shareholders participating in a physical general meeting may put questions to the members of executive bodies, the board of directors, the management board, and the President, each of whom is also present at such meeting.</p> <p>The opinion of the Board of Directors on the agenda items of the General Meeting is reported in the explanatory note for each such agenda item.</p> <p>Pursuant to the Terms of Reference of the General Meeting of Shareholders, shareholders have the right to receive the list of persons entitled to participate in the upcoming general meeting, for which purpose they are invited to contact Sistema's Corporate Secretary.</p>
1.1.4.	The company must enable shareholders to request the convocation of general meetings, nominate candidates to the company's governance bodies, and propose items to be put on each meeting's agenda.	<p>1. According to the Company's charter, shareholders are entitled to propose items to be put on the agenda of each annual meeting of shareholders at least within 60 days after the end of the related calendar year.</p> <p>2. Throughout the reporting period, the company rejected no proposal of agenda items, nor nominee to its governance bodies, on grounds of any misprint or other immaterial shortcoming or error.</p>	Observed	<p>According to Sistema's Charter, shareholders are entitled to propose items to be put on the upcoming meeting's agenda within 100 days after the end of each financial year.</p> <p>Should a shareholder's proposal contain a material shortcoming or error, the Corporation must inform such shareholder about such shortcoming or error in sufficient time for it to be eliminated before the Board of Directors approves the general meeting's agenda and the list of nominees to the Corporation's governance and control bodies.</p>
1.1.5.	The company must enable shareholders to exercise their voting rights in such manner as they consider easiest and most convenient.	1. The Charter allows filling out electronic ballot forms on the Corporation's website whose address is required to be specified in the notice of each general meeting.	Observed	Pursuant to Sistema's Charter, shareholders are also entitled to vote at the General Meeting electronically in accordance with such procedures as are determined by the Board of Directors of the Company, including but not limited to sending completed ballots to an e-mail address and/or by completing an electronic ballot form on a website, in each case as approved by the Board of Directors.



No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
1.1.6.	The general meeting of shareholders must be conducted in a manner providing all attendees an equal opportunity to express their opinions and ask questions.	<p>1. Each physical meeting of shareholders held throughout the reporting period afforded ample time for the delivery and discussion of reports on all agenda items and provided an opportunity for each shareholder to express their opinion and ask any questions they might have.</p> <p>2. The Company invited candidates to its governance and control bodies and took all necessary steps to assure their attendance of the general meetings of shareholders where their nominations were put to the vote. Such candidates to governance and control bodies were in fact present at the general meeting of shareholders and at the disposal of all shareholders for any questions whatsoever.</p> <p>3. Sistema's President, the chief officer in charge of financial accounting, and the chair and other members of the audit committee were also at the disposal of all shareholders for any questions whatsoever at every general meeting throughout the reporting period.</p> <p>4. Throughout the reporting period, the company used telecommunication technologies to provide shareholders with remote access to general meetings, except where the board of directors had passed a well-substantiated resolution that no such telecommunication means were available or reasonably required to be provided.</p>	Observed	<p>The Corporation had no physical meetings of shareholders in the reporting period.</p> <p>Sistema's shareholders are invited to use an e-voting system available on the website of the Corporation's registrar, JSC Reyestr. Shareholders are also given the opportunity to vote remotely, provided that the relevant depository furnishes the technical means for such voting.</p> <p>In preparation for a general meeting of shareholders organised in absentee ballot form, the Board of Directors decided to conduct a live stream for shareholders on the final date of the period afforded for voting. The live stream included management reporting on annual performance results and answering shareholder questions.</p>
1.2.	The company must provide all shareholders equal and fair opportunities to share in the company's net income via dividends.			
1.2.1.	The Company must develop and implement a transparent and clear mechanism for determining the amount of dividends due and distributing them.	<p>1. The Corporation's Dividend Policy is approved by the Board of Directors and disclosed on the Corporation's official website.</p> <p>2. Where the dividend policy of the company providing a consolidated financial statement relies on its performance figures to determine the amount of dividends to be distributed, such consolidated metrics are required to be set out in such dividend policy.</p> <p>3. The proxy materials of the meeting scheduled to review the distribution of dividends provided rationale for the proposed net income distribution, including dividends and business needs, and its assessment in light of consistency with the company's adopted dividends policy, with clarifications and economic considerations as regards the partial retention of profit for business needs.</p>	Observed	<p>The Company's Board of Directors adopted a Dividend Policy, which is available on the company's website.</p> <p>The financial metrics used for determining the amount of dividends to be distributed are in accordance with consolidated financial IFRS reports.</p> <p>Where the General Meeting of shareholders is invited to vote on the amount of dividends to be distributed, the related proxy materials include an explanatory note setting out in sufficient detail the Board's approach to the quantification of such dividends.</p>
1.2.2.	The Company approves no dividend distribution that, although being in no breach of statutory restrictions, is economically impractical and/or conducive to misconceptions about the company's performance.	1. Over and above statutory restrictions, the Corporation's Dividend Policy details the specific financial and economic circumstances that are to be viewed as grounds for suspending dividend payments.	Observed	The Dividend Policy stipulates that dividends are to be suspended if there are no retained earnings.
1.2.3.	The company may not allow the deterioration of any dividend rights of its existing shareholders.	1. No action of the Corporation taken throughout the reporting period may compromise the dividend rights of any existing shareholder.	Observed	<p>The Corporation is the issuer of only one type of ordinary shares. Holders of global depository receipts are entitled to dividends on a par with holders of ordinary shares.</p> <p>In the reporting period, the Corporation took no action that would compromise the dividend rights of the holders of any ordinary shares and/or global depository receipts.</p>
1.2.4.	The company must aim to avoid providing shareholders with any other types of income distributions other than dividends and disposal value distributions.	1. Throughout the reporting period, the Corporation used no other means of profit (income) distribution (e.g., transfer pricing, fictitious and/or overpriced services, or loans) to any persons controlling the Corporation other than dividends.	Observed	<p>The board-approved Code of Ethics makes those in charge of transactions also responsible for the timely notification of the Board of any and all conflicts of interest that may arise in relation to such transactions.</p> <p>Throughout the reporting period, the Corporation's controlling shareholder received no income from it in the form of transfer pricing, payments for any services, or loans.</p>
1.3.	The corporate governance system and practices are required to ensure an equal footing for all shareholders that own shares of the same category (type), including minority and foreign shareholders, and their equal treatment by the Company.			
1.3.1.	The Company has created proper conditions for the fair treatment of each shareholder by the company's governance bodies and the controlling persons and established proper barriers to any abuse on the part of large shareholders to the detriment of minorities.	1. Throughout the reporting period, no person controlling the Company abused the rights of any of its shareholders. There either was no conflict of interest between the Company's controlling persons and shareholders, or, should such conflict have arisen, the Board of Directors properly attended to them.	Observed	<p>The Corporation has taken every step necessary to prevent any shareholders' actions intended to harm other shareholders or the Corporation as well as any other abuse of shareholder rights.</p> <p>There were no recorded conflicts between the Corporation's shareholders in the reporting period.</p>
1.3.2.	The Company takes no action that causes or may cause any artificial redistribution of controlling rights.	1. Either there are no quasi-treasury shares, or such shares are not admitted to voting throughout the reporting period.	Observed	In the reporting period, no quasi-treasures shares were used for voting at the General Meeting of shareholders.



No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
1.4.	The Company must provide its shareholders with reliable and efficient ways to register their title to the shares, and the ability to dispose of them in a free and unencumbered manner.			
1.4.	The Company must provide its shareholders with reliable and efficient ways to register their title to the shares, and the ability to dispose of them in a free and unencumbered manner.	1. The technologies used for and the terms and conditions of services provided are consistent with the needs of the company and its shareholders and conducive to the recording and exercise of shareholders' rights in the most efficient way possible.	Observed	The Corporation uses the services of one of Russia's largest registrars with streamlined and reliable technology enabling the recording and exercise of shareholders' rights in the most efficient way possible. The Corporation cooperates with the registrar to update information about shareholders contained in the shareholder register.
<b>II. BOARD OF DIRECTORS</b>				
2.1.	The board of directors is in charge of strategic stewardship of the company. It also determines the main principles for and approaches to organising the company's risk control and internal control systems, controls the work of its executive bodies, and performs other key functions.			
2.1.1.	The board of directors is accountable for decisions relating to the appointment and dismissal of executives and the election and dissolution of executive bodies, including on grounds of their poor or inappropriate performance. The board of directors is also required to ensure that the company's executive bodies comply with the adopted development strategy and adhere to a course of action consistent with the company's line of activity.	1. The powers of the board of directors to appoint and dismiss members of executive bodies and determine the terms of their employment agreements are set out in the charter. 2. In the reporting period, the Nominations Committee reviewed the members of executive bodies for competence, skills, and experience in light of the current and anticipated needs of the Company as determined in the Company's adopted strategy. 3. The board of directors reviewed a report (reports) from the CEO and the collective executive body (if any) regarding performance on the Company's strategy in the reporting period.	Observed	The Charter of Sistema PJSFC stipulates that Board matters include the appointment and dismissal of the President, the election and dismissal of members of the Management Board, and the approval of the terms of employment agreements signed with the President and members of the Management Board.  The Nomination, Remuneration and Corporate Governance Committee of the Board discusses management succession matters at least once every year as part of the overall corporate HR policy report.  The Board of Directors reviews the President's report on performance on the Corporation's strategy at least once every year.
2.1.2.	The board of directors must set the main long-term guiding principles for the company's business, assess and approve the key performance indicators and the main business goals of the company, and evaluate and approve strategies and business plans for the core businesses of the Company.	1. In the reporting period, the board of directors reviewed matters relating to the implementation status and updates of the strategy, the approval of the company's financial plan (budget) and criteria and indicators (including interim ones) regarding the implementation of the company's strategy and business plans.	Observed	The Board of Directors controls and supports the formulation and execution of the Corporation's strategy at each stage, evaluates its progress and feasibility, and adjusts it as necessary.  The strategy and business plans of the Corporation approved by the Board of Directors contain clear criteria, most of which are quantity indices, and use interim control metrics.  The Board of Directors approves the Corporation's budget on an annual basis.  At least once a year, the Board of Directors reviews the Corporation's strategy and assesses its implementation status and whether it needs updating.
2.1.3.	The board of directors must determine the principles of and approaches to organising the risk management and internal control systems within the company.	1. The principles of and approaches to the organisation of risk management and internal control systems within the company are determined by the board of directors and set out in the company's internal regulations governing risk management and internal control. 2. In the reporting period, the board of directors approved (revised) the Corporation's acceptable risk level (risk appetite), or the Audit Committee and (or) the Risk Committee (if any) discussed a proposal to have the Company's risk appetite reviewed by the board of directors	Observed	According to Sistema's Charter, the approval of risk management principles within the Corporation is a Board matter. The Corporation also has specific internal regulations in place that govern corporate risk management and internal control policies.  The board of directors reviews and approves the corporate risk management report at least once every year.
2.1.4.	The board of directors must determine the company's policy with regard to the remuneration and (or) reimbursement of expenses to Board members, executive bodies and other key executives of the company.	1. The company has a board-approved policy (policies) in place governing the remuneration and reimbursement of expenses (compensations) to the members of the board of directors, the Company's executive bodies or other key employees of the Company. 2. In the reporting period, the board of directors reviewed matters related to the said policy.	Observed	The General Meeting of shareholders of the Corporation approved the Policy on remuneration and compensations payable to members of the Corporation's Board of Directors.  The Board of Directors approved a corporate HR management strategy and regulations governing the remuneration of the employees of Sistema PJSFC.  The Board of Directors also approved rules governing the reimbursement of expenses to the Corporation's senior executives.  The Board of Directors reviews agenda items related to remuneration and compensations at least once every year.
2.1.5.	The board of directors must play a key role in preventing, identifying and settling internal conflicts between the company's governance bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and settling internal conflicts. 2. The company has adopted a system of measures for identifying transactions that involve conflicts of interest and resolving such conflicts.	Observed	The Board of Directors takes all necessary steps to prevent and settle internal conflicts.  The Corporation regularly collects information about the related and affiliated persons of the members of its Board of Directors and executive bodies. Pursuant to the corporate Code of Ethics, the Corporation uses a regular practice of ethics assessment where managers that are involved in any transactions whatsoever fill in declaration forms designed to identify potential conflicts of interest. The declarations are then filed with the corporate Internal Audit Department that checks them for signs of conflicts of interest.  Any person having any potential conflicting interest in any related party transaction has a duty to abstain from decision-making (voting) on such transaction.  The Corporation has a system of disciplinary measures in place as a means to ensure employees' compliance with corporate rules for the resolution of conflicts of interest.





No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
2.1.6.	The board of directors must play a key role in securing corporate transparency, timely and full information disclosures, and unhindered access to corporate files.	1. The company's internal regulations detail the executive roles that are in charge of the implementation of the corporate information policy.	Observed	The Board of Directors approved a Regulation on Information Policy.  The responsibility to control compliance with said Regulation lies with the Corporate Secretary who reports to the board of directors.
2.1.7.	The board of directors must control corporate governance practices and play a key role in the company's major corporate actions.	1. In the reporting period, the board of directors reviewed the findings of a self-assessment and (or) an external assessment of the company's corporate governance practices.	Observed	The Nomination, Remuneration and Corporate Governance Committee relies on annual governance assessment findings to formulate specific proposals on how to enhance governance practices, which proposals are then elevated to the board of directors for final approval.  The Board of Directors reviews matters related to governance practices at least once every year.
2.2.	The board of directors is responsible to the company's shareholders.			
2.2.1.	Any information about board actions is duly disclosed and available to shareholders.	1. The company's annual report for the reporting period provides board and committee attendance statistics on each member.  2. The annual report contains information on the main findings of the assessment (self-assessment) of board performance quality in the reporting period.	Observed	The Annual Report and the Corporation's website (www.sistema.ru/www.sistema.com) disclose information about the number of meetings of the Board of Directors and its Committees held in the past year, specifying the forms of such meetings and Board members' attendance.  The main findings of the performance assessments of the Board and of executive bodies are disclosed in the corporate Annual Report.
2.2.2.	The board chair must be accessible to the company's shareholders for communications.	1. The company has a transparent procedure in place where shareholders can submit their queries/petitions to the board chair (or senior independent director, if any) and receive feedback.	Observed	Shareholders can put questions to the Chairman of the Board of Directors regarding any board matter whatsoever and communicate their own position (opinion) on such matter through the Corporate Secretary.
2.3.	The board of directors must be an efficient and professional governance body capable of exercising objective independent judgement and passing decisions that represent the interests of the company and its shareholders.			
2.3.1.	Only those possessing impeccable business and personal reputation as well as the expertise, skills and experience relevant for decision-making with regard to board matters and the efficient fulfilment of other board functions may be elected to the board of directors.	1. In the reporting period, the board of directors (or its nomination committee) assessed candidates to the board in light of their expertise, skills, business reputation, freedom from conflicts of interest, etc.	Observed	The Board's Nomination, Remuneration and Corporate Governance Committee assesses all candidates nominated to the Board of Directors in light of their independence and potential contribution to the work of the Board of Directors.  Sufficient professional experience, business reputation and freedom from conflicts of interest are important criteria of such assessment.
2.3.2.	The election of board members must be a transparent procedure where shareholders have ample opportunity to inform themselves about the candidates so as to form an opinion on their personal and professional qualities.	1. Throughout the reporting period, before each general meeting where shareholders were to vote on any candidates to the board, the corporation had provided shareholders with biographies of all such candidates, the findings of any assessments (whether performed by the board itself or its nomination committee) of their expertise, experience and skills in light of consistency with the company's current and future needs, and information as to their independence according to recommendations 102-107 of the Code and as to whether they have provided their written consent to be so elected to the board.	Observed	The biographies of candidates to the Board of Directors, recommendations of the Board's Nomination, Remuneration and Corporate Governance Committee with regard to voting on such candidates, and information as to whether they meet the requisite independence criteria and whether each nominee has agreed in writing to be elected to the board are contained in the proxy materials of all meetings where shareholders are invited to elect any board members.  The status of the newly elected members of the Board of Directors (including whether or not they are independent) is then to be validated at the first board meeting following each such election.
2.3.3.	The composition of the board of directors must be well balanced in terms of qualifications, experience, expertise and business qualities, with all board members trusted by shareholders.	1. In the reporting period, the board of directors duly analysed which qualifications, experience and skills it needs and identified requisite "skill sets" for the short and longer term.	Observed	The annual assessments of the Board of Directors involve the evaluation of the available expertise and its consistency with corporate needs.
2.3.4.	The board of directors must consist of as many members as are reasonably required for maximum efficiency of all board actions, including establishing and running board committees, and for affording all substantial minority shareholders ample opportunity to have a candidate they vote for elected to the board.	1. Within the reporting period, the board of directors looked into the number of board members in light of the company's needs and the shareholders' interests.	Observed	The annual assessments of the Board of Directors involve the assessment whether the number of its members is consistent with the corporate needs.
2.4.	The board of directors must have a sufficient number of independent directors.			
2.4.1.	It is recommended that independent member status be granted to persons possessing sufficient professionalism, experience and independence to form independent opinions and exercise objective and responsible judgement free from any influence from the company's executive bodies, groups of shareholders or other stakeholders. It should be noted that a candidate is not normally considered to be independent if he/she is affiliated with the company, its material shareholder, material counterparty or competitor or with the state.	1. In the reporting period, all independent board members met all the independence criteria set out in recommendations 102-107 of the Code or were recognised as independent by resolution of the board of directors.	Observed	All board members whom the Corporation recognised to be independent throughout the reporting period met the recommended independence criteria contained in the Corporate Governance Code and the Listing Rules of Moscow Exchange or were recognised to be independent by resolution of the board of directors.



No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
2.4.2.	It is recommended that the company assess all candidates to the board in light of consistency with independence criteria and regularly review incumbent board members that have independent status for whether they continue to meet such independence criteria on a substance-over-form basis.	<p>1. In the reporting period, the board of directors (or its nomination committee) formed an opinion about the independence of each candidate to the board and presented it to shareholders.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) performed at least one evaluation of the independence status of its incumbent board members (post-election).</p> <p>3. The company has proper regulations in place setting out the specific steps to be taken by board members (including board notification procedures) should they cease to be independent for any reason whatsoever.</p>	Observed	<p>The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter, "the Committee") issues an opinion on the independence of all nominees to the Board of Directors.</p> <p>At the first meeting of the Board of Directors following the General Meeting of shareholders where such new Board of Directors was elected, the Board of Directors confirms the independent status granted to its members.</p> <p>The Committee also performs regular evaluations of incumbent board members for whether they continue to meet independence criteria.</p> <p>When elected to the Board, Board members undertake in writing to notify the Corporation of any circumstances that may affect their ability to exercise independent judgement on any board matters whatsoever.</p>
2.4.3.	Independent directors must make up at least one-third of the board at any time.	1. Independent directors make up at least one-third of the board at any time.	Observed	As of the end of the reporting period, half (6 out of 12) of the Corporation's board members were independent.
2.4.4.	Independent directors must play a key role in preventing internal conflicts and in material corporate actions.	1. Throughout the reporting period, independent directors (in no conflict of interest with the Corporation) performed preliminary assessments of all material corporate actions potentially conducive to conflicts of interest, with all findings duly reported to the board of directors.	Observed	<p>Independent directors routinely perform a preliminary assessment of potential actions and resolutions of the Corporation that might lead to conflicts as they prepare for each meeting of the Board or Board Committees. This includes the Audit, Finance and Risk Committee pre-approving all related party transactions.</p> <p>Opinions of Board members are incorporated in each meeting's materials.</p>
2.5.	The board chair must facilitate the discharge of the board's functions in the most efficient way possible.			
2.5.1.	It is recommended that the board either elect an independent director as its chair or elect one of its independent members to be the "lead independent director" in charge of coordinating the activities of the independent directors and liaising with the board chair on their behalf.	<p>1. The board chair is an independent director, or a lead independent director is elected from among independent directors.</p> <p>2. The role, rights and duties of the board chair (and, if applicable, of the lead independent director) are duly set out in the company's internal regulations.</p>	Partially observed	<p>The role of the Board Chairman is set out in the Terms of Reference of the Board of Directors of Sistema PJSFC that was approved by the General Meeting of shareholders.</p> <p>The Terms of Reference also define the role of the Deputy Chair of the Board, who, together with the Corporate Secretary, is put in charge of organising communications between independent directors and the board chair.</p> <p>Each independent director is afforded ample opportunity to communicate to the board and its chair his or her personal opinion on any agenda item. With that in mind, the Corporation as a whole and the Board of Directors in particular have yet to reach a consensus on whether the Board needs a formal lead/senior independent director and a hierarchy of independent board members. The Board of Directors and its Nomination, Remuneration and Corporate Governance Committee intend to get back to this matter as soon as there occurs a significant change in the board composition and new independent directors appear.</p>
2.5.2.	The board chair must ensure that board meetings are constructive, invite and encourage an open discussion of all items on the agenda, and control the execution of previously issued resolutions.	1. The performance of the board chair is assessed along with the overall board performance over a particular reporting period.	Observed	The annual assessments of the Board of Directors involve the evaluation of the efficiency of interactions between Board members and the Board Chairman.
2.5.3.	The board chair must ensure that board members receive in good time the complete information required for decision-making on each agenda item.	1. The board chair's duty of providing full and timely information to all board members is set out in the company's internal regulations.	Observed	Pursuant to the Board Regulations, the Board Chairman ensures that board members receive in good time the complete information required for decision-making on each agenda item.
2.6.	Members of the board must act reasonably and in good faith and protect the interests of the company and its shareholders in reliance on sufficient information and with due care and diligence.			
2.6.1.	The term "act reasonably and in good faith" means decision-making on the basis of the entire available information, with no conflict of interest involved, and all shareholders of the company being treated equally, with exposure to risks no greater than standard business risks.	<p>1. The company's internal regulations stipulate that a board member is required to notify the board of any conflicts of interest they might have in respect of any item on the agenda of a board or committee meeting before a discussion of such item commences.</p> <p>2. The company's internal regulations stipulate that a board member may not vote on any agenda item where he/she has a conflict of interest.</p> <p>3. The company has a procedure in place that allows the board of directors to receive professional advice on board matters at the expense of the company.</p>	Observed	<p>The Terms of Reference of the Board of Directors and the corporate Code of Ethics stipulate that board members are required to notify the Corporation of any conflicts of interest that have or may have arisen and abstain from voting on any matters where they have such a conflict of interest.</p> <p>The Board of Directors is entitled to retain external independent experts for the examination of draft resolutions at the Corporation's expense.</p>
2.6.2.	The rights and obligations of board members must be clearly formulated and recorded in internal regulations.	1. The company has an internal document in place that clearly defines the rights and duties of board members.	Observed	The rights and duties of Board members are recorded in the Charter, the Terms of Reference of the Board of Directors, and the Board Regulation.
2.6.3.	Board members must be afforded sufficient time to perform their duties.	<p>1. The (self-)assessment of the board's performance conducted in the reporting period must involve an analysis of personal attendance discipline and whether the time provided for the directors' work is actually sufficient for performing their duties in due and thorough manner.</p> <p>2. Internal regulations put board members under an obligation of notifying the board of their intention to join or having joined the governance bodies of any further organisations (other than those controlled by the company).</p>	Observed	<p>The annual assessments of the board performance involve the evaluation of the organisation and attendance of board meetings.</p> <p>When nominated to the Board, candidates fill in special questionnaires as set out in the Terms of Reference of the Board of Directors, where they are required to specify all organisations where they sit or intend to sit on governance bodies. The board members have a duty to notify the Corporate Secretary in writing of any changes occurring since they last filled in that questionnaire.</p>



No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
2.6.4.	All members of the board of directors must be granted equal access to the company's documents and information. New entrants to the board must receive sufficient information about the company and its board of directors as promptly as is reasonably practicable.	<p>1. The company's internal documents stipulate that board members have the right to get access to, and executive bodies are required to provide them with, any information and documents they reasonably need for performing their duties with respect to the company and its subsidiaries.</p> <p>2. The company has a formal induction programme in place where new entrants to the board receive requisite information.</p>	Observed	<p>Sistema's Board members are able to promptly receive answers to their queries and any information they may require either directly from executive management or through the Corporate Secretary. The employees' duty to provide such information is set out in the internal regulations.</p> <p>The Corporate Secretary duly informs new entrants to the Board of its work practices in accordance with Board Regulations.</p>
2.7.	Board meetings must be organised and prepared for in a way conducive to maximum possible performance efficiency.			
2.7.1.	It is recommended that the corporation determine the appropriate frequency of board meetings, due account being taken of the company's business scale and specific tasks and challenges it faces in a particular period of time.	1. The board of directors held at least six meetings in the reporting year.	Observed	<p>Meetings of the Board of Directors are held at least six times a year in accordance with an approved work plan.</p> <p>The board had 16 meetings in the reporting period.</p>
2.7.2.	It is recommended that the company formulate a specific procedure to be relied on when preparing for and conducting board meetings and make sure it is duly set out in internal regulations. Among other things, such procedure must ensure that board members are given ample time to prepare for each meeting.	<p>1. The company has an internal regulation in place that sets out a specific procedure to be relied on when preparing for and conducting board meetings. The regulation states, inter alia, that board members must receive at least a five days' notice of each meeting.</p> <p>2. Every board member absent from the physical venue of each board meeting held throughout the reporting period was provided with ample opportunity to take part in the discussion of all agenda items and vote on each of them remotely (by means of a conference call or video conferencing).</p>	Observed	<p>The Terms of Reference of the Board of Directors and the Board Regulations set out the specific procedures and timelines for preparing and holding Board meetings.</p> <p>Board members have permanent access to the work plan of the Board of Directors. All information for Board meetings is made available on the board data portal (to which all board members have permanent access) at least 10 days before each board meeting.</p> <p>Every member of the board is given an opportunity to participate in board meetings through video conferencing.</p>
2.7.3.	The holding form of each meeting must be determined based on the importance of agenda items to be discussed, with the more important matters to be discussed face-to-face whenever possible.	1. The company's charter or internal regulations stipulate that the board should attempt to discuss the more important agenda items (including those described in recommendation 168 of the Code) at physical (face-to-face) meetings.	Observed	<p>All scheduled board meetings are held in person. Remote meeting formats are used primarily for the discussion of urgent matters.</p> <p>The Board Regulation stipulates that the board should at all times attempt to discuss the more important agenda items in person.</p>
2.7.4.	It is recommended that decisions on the most essential aspects of the company's business are made by a qualified majority or a simple majority of votes of all the elected Board members.	1. The company's charter stipulates that resolutions on the most important items, including those set out in recommendation 170 of the Code, require a qualified majority of at least three-fourths of votes given or a simple majority of all elected Board members.	Partially observed	<p>Pursuant to the Charter, any decisions regarding any increase in the shareholder (charter) capital, the issuance of any specific type of securities, or the approval of any material or related party transaction require applying special voting rules.</p> <p>Resolutions on any other agenda items require a simple majority of votes.</p> <p>Independent directors who regularly attended the meetings made up half of the Board of Directors of Sistema PJSC in the reporting period. The Board of Directors will revisit this matter if and when there is a material modification in the board composition.</p>
2.8.	The board of directors must establish committees for previewing matters pertaining to essential business aspects.			
2.8.1.	It is recommended that the board set up an audit committee composed of independent directors for previewing reports and matters related to the control of the company's financial and business activities.	<p>1. The board of directors set up an audit committee consisting only of independent directors.</p> <p>2. The company's bylaws set out the audit committee's objectives, including those contained in recommendation 172 of the Code.</p> <p>3. At least one member of the audit committee, who is an independent director, has experience and expertise in preparing, analysing, evaluating, and auditing statutory (financial) accounts.</p> <p>4. The audit committee met at least once per quarter throughout the reporting period.</p>	Partially observed	<p>The Corporation established an Audit, Finance and Risk Committee of the Board of Directors (hereinafter, "the Committee") and adopted its Terms of Reference. The Committee's objectives as recorded in the Terms of Reference are consistent with the recommendations contained in the Corporate Governance Code.</p> <p>Independent directors constituted the majority of the Committee members (4 out of 5) throughout the reporting period. The committee chair possessed vast experience and expertise in preparing, analysing, evaluating, and auditing statutory (financial) accounts.</p> <p>Sistema aims to include independent directors in all Committees to ensure that they are actively involved in discussing business aspects of most import for the Corporation. The average independent director of the Board sits on three committees, which adds up to a relatively high workload. With independent directors having reasonable limitations as to how much time they have available to responsibly discharge their duties to the Corporation, and it being understood that corporate matters require careful consideration involving a diversity of viewpoints, the Corporation was not reasonably able to put more independent directors on the Committee and make it an independent-only governance body with no loss in discussion quality.</p> <p>In 2021, the Committee met 20 times.</p>
2.8.2.	It is recommended that the board set up a remuneration committee composed of independent directors and chaired by an independent director other than the board chair for previewing remuneration-related reports and matters aiming to create an efficient and transparent incentive system.	<p>1. The board of directors set up a remuneration committee consisting only of independent directors.</p> <p>2. The remuneration committee is chaired by an independent director other than the board chair.</p> <p>3. The company's bylaws set out the remuneration committee's objectives, including those contained in recommendation 180 of the Code, as well as triggers for reviewing the company's remuneration policies with regard to board members, executive bodies, and other key management personnel.</p>	Observed	<p>The Corporation established a Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter, "the Committee") and adopted its Terms of Reference. The Committee's objectives as recorded in the Terms of Reference are consistent with the recommendations contained in the Corporate Governance Code.</p> <p>All members of the Committee were independent directors throughout the reporting period.</p>



No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
2.8.3.	It is recommended that the board set up a nomination (HR etc.) committee where independent directors make up the majority for reviewing reports and matters related to workforce/succession planning as well as the board's composition and performance.	<p>1. The board of directors set up a nomination committee (or a differently titled committee overseeing such objectives as are set out in recommendation 186 of the Code) where independent directors make up the majority.</p> <p>2. The company's bylaws set out the nomination committee's objectives (or objectives of a differently titled committee overseeing nomination matters), including those contained in recommendation 186 of the Code.</p> <p>3. The nomination committee liaised with the company's shareholders (including minor ones) encouraging nominations to the company's board throughout the reporting period either on its own or collectively with other board committees or relevant departments within the company, aiming to elect the next board of directors that would best meet the company's goals and objectives.</p>	Observed	<p>The Corporation established a Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter, "the Committee") and adopted its Terms of Reference. The Committee's objectives as recorded in the Terms of Reference are consistent with the recommendations contained in the Corporate Governance Code.</p> <p>The Committee routinely liaises with minority shareholders seeking nominations to the next Board of Directors.</p> <p>All members of the Committee were independent directors throughout the reporting period.</p>
2.8.4.	It is recommended that the company also set up other board committees (e.g., strategy, corporate governance, ethics, risk management, budgeting, HSE committees etc.) as it deems relevant in light of its business scale and exposure to risk.	<p>1. The board of directors discussed the board structure in light of consistency with the company's business scale and nature, goals, needs, and risks at least once throughout the reporting period. Additional committees were either set up or found unnecessary.</p>	Observed	<p>The Board establishes board committees in accordance with corporate goals and objectives at least once every year, at the first meeting after each new board is elected.</p>
2.8.5.	It is recommended that the composition of each board committee allow for an all-round consideration of each agenda item, involving a reasonable diversity of opinion.	<p>1. The audit, remuneration, and nomination committees (or differently titled committees with similar functions) were chaired by independent directors throughout the reporting period.</p> <p>2. The company's internal regulations (policies) include provisions that stipulate that persons who are not permanent members of the audit, nomination and remuneration committees may nonetheless attend them if invited by the chair of such committee.</p>	Partially observed	<p>Each board committee consisted of at least 4 board members throughout the reporting period.</p> <p>The Audit, Finance and Risk Committee, the Nomination, Remuneration and Corporate Governance Committee, and the Ethics and Control Committee were chaired by independent directors. Two of the board committees to which no strict regulatory recommendations apply (the Strategy Committee and the Ethics and Control Committee) were chaired by non-executive directors.</p> <p>Sistema aims to include independent directors in all Committees to ensure that they are actively involved in discussing business aspects of most import for the Corporation. The average independent director of the Board sits on three committees, which adds up to a relatively high workload. With independent directors having reasonable limitations as to how much time they have available to responsibly discharge their duties to the Corporation, and it being understood that corporate matters require careful consideration involving a diversity of viewpoints, the Corporation was not reasonably able to have every board committee chaired by an independent director.</p> <p>The Corporation chose not to restrict the maximum number of committees a board member may sit on as this heavily depends on the specific time schedules and capabilities of each individual board member. The Corporation believes that such personalised approach is most conducive to the efficient organisation of the board's work.</p> <p>Although the Terms of Reference of specific committees currently contain no indication that directors who are not permanent members of the Audit, Finance and Risk Committee or the Nomination, Remuneration and Corporate Governance Committee may attend their meetings if invited by their chairs, we will make sure to incorporate such clauses the next time these regulations are revised. Although not formally documented, the principle is observed in practice.</p>
2.8.6.	Committee chairs must regularly report on their respective committees' performance to the board and its chair.	<p>1. In the reporting period, committee chairs regularly reported to the board on their respective committees' performance.</p>	Observed	<p>Committee chairs regularly inform the board chair of their respective committees' performance.</p> <p>All of the committees make annual performance reports to the Board of Directors.</p>
2.9.	The board of directors must arrange for regular performance reviews of the board of directors, its committees, and its specific members.			
2.9.1.	Performance reviews must be aimed at evaluating the efficiency of the board of directors, its committees and members of the board of directors, analysing whether their performance is adequate for the company's development needs, and identifying vulnerabilities and ways to step up performance.	<p>1. The company's internal regulations set out specific procedures for the (self-) assessment of board performance.</p> <p>2. The (self-) assessment of board performance conducted in the reporting period specifically looked at the performance of each committee, each board member, and the entire board as a whole.</p> <p>3. The findings of such assessment were duly reviewed at an in-person board meeting.</p>	Observed	<p>Performance reviews are a mandatory regular practice pursuant to the Terms of Reference of the Board of Directors.</p> <p>The board assessment procedure used by the Corporation is a product of many years of practice and specifically looks at the performance of the board (including how well it is organised) and its committees.</p> <p>The criteria used to assess the performance of the Board of Directors focus on their professional and personal qualities, independence, teamwork, personal involvement, and other factors that generally have a bearing on board performance.</p> <p>Each year's assessment findings are reviewed at the last in-person board meeting preceding each general meeting of shareholders.</p> <p>The Nomination, Remuneration and Corporate Governance Committee relies on these findings to formulate suggestions as to how to improve board and committee performance.</p>



No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
2.92.	Performance reviews of the board of directors, its committees and members must be conducted at least once every year. It is recommended that a third party (consultant) be retained to perform an independent assessment of the board's performance at least once every three years.	1. The company retained a third party (consultant) to conduct an independent assessment of the board's performance at least once in the last three reporting periods.	Observed	Performance reviews of the Board of Directors and its Committees are performed annually. This year's external assessment was done by a consortium of EY and Nestor Advisors Ltd.
<b>III. CORPORATE SECRETARY</b>				
3.1.	The corporate secretary has the duty of arranging efficient day-to-day interactions with shareholders, coordinating the company's activities aimed at protecting shareholder rights and interests, and facilitating the efficient work of the board of directors.			
3.1.1.	The corporate secretary must possess the requisite expertise, experience and qualifications for the execution of his/her professional duties, have an impeccable reputation, and be generally trusted by shareholders.	1. The company's website and annual report detail the corporate secretary's biography (including age, education, qualifications, and experience), as well as previous employment record for at least the past five years.	Observed	The Board of Directors adopted a Terms of Reference of the Corporate Secretary of the Corporation. The Terms of Reference specify the requirements applying to the Corporate Secretary in accordance with the Corporate Governance Code. The Terms of Reference are available on the corporate website.  The Corporate Secretary's details were disclosed in the 2020 Annual Report released in 2021.
3.1.2.	The corporate secretary must be sufficiently independent from the company's executive bodies and have the requisite powers and resources to exercise his/her professional duties.	1. The company adopted a Terms of Reference of the Corporate Secretary, which is publicly available.  2. The board of directors appoints and dismisses the corporate secretary and reviews any matters related to his/her remuneration.  3. The company's internal regulations determine that the corporate secretary is entitled to request and receive any documents and information about the company from its governance bodies, departments, and employees.	Observed	The Corporate Secretary reports directly to the Board of Directors and is appointed and dismissed by the Board of Directors.  The Board of Directors adopted a Terms of Reference of the Corporate Secretary detailing the requirements for being eligible for appointment as Corporate Secretary, the procedure for his/her appointment and dismissal, his/her accountability and procedures for interacting with corporate governance bodies and departments, and his/her functions, rights, duties, remuneration terms, and responsibilities. The Terms of Reference are available on the corporate website and clearly state that the Corporate Secretary is entitled to request and receive any documents and information about the company from its governance bodies, departments, and employees.
<b>IV. REMUNERATION OF THE BOARD OF DIRECTORS, EXECUTIVE BODIES, AND KEY MANAGEMENT PERSONNEL</b>				
4.1.	The amount of remuneration provided by the company should be sufficient for engaging, motivating and retaining employees possessing the necessary competencies and qualifications. Any and all remuneration payable to board members, the members of executive bodies, and key management personnel must be in accordance with the corporate remuneration policy.			
4.1.1.	It is recommended that the company remunerate board members, the members of executive bodies, and other key management personnel in a manner that adequately motivates them to be efficient and enables the company to engage and retain highly competent senior personnel, while avoiding unjustified overexpenditure and disproportionate pay gaps with the company's non-executive employees.	1. The amount of the remuneration of board members, the members of executive bodies, and other key management personnel is determined in reliance on relevant benchmarks from among peer companies.	Observed	The Company's HR department regularly furnishes the Nomination, Remuneration and Corporate Governance Committee with the properly obtained findings of key management pay studies conducted across a variety of Russian and international companies comparable to the Corporation. The Committee relies on these findings to finalise the incentive system and determine the total remuneration amounts payable to specific key employees.  The Committee also conducts regular benchmarking analyses of board remuneration systems operating in companies comparable to the Corporation.
4.1.2.	The company's remuneration policy must be developed by the remuneration committee and approved by the company's board of directors. It is the duty of the board of directors to control compliance with, review and revise the corporate remuneration policy with support from the remuneration committee.	1. Within the reporting period, the remuneration committee reviewed the remuneration policy (policies) and its (their) implementation practice, evaluated it (them) for efficiency and transparency, and issued related recommendations to the board (where necessary) on how best to modify them.	Observed	The Corporation's remuneration policy is developed by the Nomination, Remuneration and Corporate Governance Committee and approved by the Board of Directors.  The Board of Directors adopted a suite of regulations governing the remuneration and LTI principles that apply to the members of executive bodies and other management personnel.  The Nomination, Remuneration and Corporate Governance Committee reviews corporate remuneration system status reports at least once every year and issues related recommendations to the Board as necessary.
4.1.3.	The company's remuneration policy must set out transparent mechanisms for determining the amount of remuneration payable to the board members, executive bodies and other key management personnel and detail any other payments and benefits they might be entitled to.	1. The company's remuneration policy sets out transparent mechanisms for determining the amount of remuneration payable to the board members, executive bodies and other key management personnel and details any other payments and benefits they might be entitled to.	Observed	The Corporation's internal regulations detail the procedures to follow to determine the amount of relevant remuneration and all of its specific components as well as any expense compensations.  Any decisions as regards the amount of remuneration to be paid to any person are taken independently from such person and are not discussed with him/her.
4.1.4.	It is recommended that the company develop an expense reimbursement policy specifying types of costs to be reimbursed and expense caps applying to board members, the members of executive bodies, and other key management personnel. The expense reimbursement policy may be incorporated in the general remuneration policy.	1. The remuneration policy (policies) or other internal documents detail the rules for board members, the members of executive bodies, and other key management personnel to follow to have their costs and expenses reimbursed.	Observed	According to the Corporation's internal regulations, compensation is due only for expenses incurred by the members of corporate governance bodies and other employees in the course of the discharge of their professional duties on behalf of the company, and only within strict pre-determined cap amounts.



No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
4.2.	The board remuneration system must be designed so as to align the directors' financial interests with the longer-term interests of shareholders.			
4.2.1.	It is preferable that board members receive a fixed remuneration amount for their work on the board. Per-meeting forms of remuneration are undesirable, as are any short-term and supplementary incentive mechanisms.	<p>1. Any remuneration paid to the board members throughout the reporting period was in accordance with the company's adopted remuneration policy.</p> <p>2. Throughout the reporting period, board members received no short-term or supplementary rewards linked to the company's performance, nor any rewards for attending any particular board or committee meetings.</p>	Partially observed	<p>All types of remuneration payable to board members are in accordance with the Policy on remuneration and compensations payable to members of the Board of Directors. The main form of remuneration payable to the Board of Directors according to such Policy is fixed remuneration.</p> <p>Board members are also entitled to supplementary share awards linked to the achievement of the Corporation's overall investment goals. Although the amounts of such supplementary awards are also fixed, they may only be triggered by positive corporate stock price performance throughout the reporting year. The Corporation is planning to revisit the existing board remuneration principles in 2022.</p>
4.2.2.	Although the long-term ownership of shares in the company is most conducive to the alignment of director interests with those of shareholders, it is recommended that companies avoid tying the vesting of title to any shares to any performance triggers or involving board members in any option plans.	1. If the company's remuneration policy provides for any shares to be allocated to board members, it must also detail clear rules that apply to their owners, aiming to encourage long-term holding behaviour.	Partially observed	<p>A certain portion of remuneration payable to the Board members (additional remuneration) is in the form of shares. Board members are encouraged to hold on to their shares in the long term and tend to keep them at least as long as they remain on the board. The Corporation immediately discloses information on any transactions made by any Board members that involve Sistema's shares or any derivatives where Sistema shares are used as underlying assets, which also stimulates long-term ownership and contains the use of risk hedging strategies.</p> <p>Having considered different ways to institute this principle and taking into account the variety of jurisdictions where Board members reside, the Corporation currently sees no legitimate grounds or methods to restrict the Board members' rights to hold and dispose of shares in the Corporation.</p>
4.2.3.	It is inadvisable to allow additional remuneration or compensation to be paid to any board member should their contract be terminated on an early basis on grounds of any change of control or any other ground.	1. The company practices no supplementary payments or compensations in case of an early termination of any board member's duties on grounds of any change of control or any other ground.	Observed	No bylaw provides for any supplementary payments or compensations due to board members in case of an early termination of any board member's duties on grounds of any change of control or any other ground.
4.3.	The remuneration system applying to the members of executive bodies and other key management personnel must involve a variable component tied to the company's performance results and personal contributions made toward them.			
4.3.1.	The total remuneration paid to the members of executive bodies and other key management personnel must rely on a reasonable and justified balance of fixed and variable (performance- and contribution-dependent) components.	<p>1. In the reporting period, the annual performance indicators approved by the board of directors were used for determining the amount of the variable part of remuneration of members of executive bodies and other key managers of the company.</p> <p>2. In conducting its latest review of the incentive system as applies to the members of executive bodies and other key management personnel, the board of directors (remuneration committee) was satisfied with and found reasonable the existing ratio of the fixed and variable remuneration components.</p> <p>3. When determining the amount of remuneration to be paid to the members of executive bodies and other key management personnel, the company takes care to factor in its risk exposure, aiming to discourage excessive risk taking.</p>	Observed	<p>The Corporation uses a board-approved incentive system that applies to the members of its executive bodies and other key managers. The Board of Directors approves key performance indicators as an element of such incentive system.</p> <p>The Nomination, Remuneration and Corporate Governance Committee is involved in the development of key performance indicators to be used in the incentive system. In particular, the committee carefully analyses the ratio of the fixed and variable remuneration components.</p> <p>The results of such incentive programmes are reviewed at the end of each year.</p> <p>In assessing performance results for incentive purposes, the Corporation factors in its exposure to risks.</p> <p>Should analysis reveal any signs of performance misstatement or other unethical practices on the part of employees to the prejudice of long-term shareholder interests, such employees are held to account and made to reimburse the Corporation for related damages in accordance with law.</p>
4.3.2.	It is recommended that listed companies adopt a long-term incentive scheme where the members of their executive bodies and other key management personnel receive awards in the form of shares in the company (options or other derivatives where shares in the company are the underlying assets).	1. If the company has adopted a long-term incentive system where members of its executive bodies and other key management personnel receive shares in the company (or derivative instruments based on them), the title to such shares or instruments vests at least three years after they are so allocated, conditional on the achievement of certain business performance targets.	Observed	<p>The Board of Directors adopted the main principles of employee share incentive plans aimed at building long-term relationships with the key managers and motivating them to achieve the common goal of increased capitalisation.</p> <p>Such plans are made for employees whose potential personal contributions to the performance and value appreciation of the Corporation and its subsidiaries are deemed to be significant, with the final list of participants to be approved by the Board. Each participant receives a material (0.1%+ of share capital) amount of shares in Sistema PJSFC, with no restrictions imposed as to their disposal.</p>
4.3.3.	Severance benefits ("golden parachutes") paid by the company in the event of an early termination of the powers of a member of any executive body or any key manager should not exceed the double amount of their fixed annual pay, provided that such early termination is on the employer's initiative and such employee is not found guilty of any wrongdoing.	1. Severance benefits ("golden parachutes") paid by the company throughout the reporting period in the events of the early termination of the powers of a member of any executive body or any key manager did not exceed the double amount of their fixed annual pay, provided that such early termination was on the employer's initiative and such employee was not found guilty of any wrongdoing.	Observed	Severance benefits paid by the Corporation throughout the reporting period in the event of an early termination of the powers of a member of any executive body or any other key manager on the Corporation's initiative did not exceed the maximum amount as set out in labour law, which is less than the double annual fixed salary.



No	CORPORATE GOVERNANCE PRINCIPLE	CRITERIA FOR ASSESSMENT	COMPLIANCE STATUS	NOTES
<b>V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM</b>				
5.1.	The company must have an effective risk management and internal control system aimed at providing reasonable assurance in the achievement of the company's goals and targets.			
5.1.1.	The board of directors has a duty to determine the principles of, and approaches to, organising the company's risk management and internal control systems.	1. The powers of specific governance bodies and departments involved in risk management and internal control are clearly set out in the company's board-approved bylaws/policies.	Observed	The Corporation's bylaws include the board-approved Internal Audit Policy and Internal Control Policy, as well as a Risk Management Code, each developed in accordance with the COSO internal control-integrated framework principles.  The Corporation uses risk management and internal control systems at both operating and organisational levels.  The roles and objectives of various governance bodies involved are clearly set out in the said documents.
5.1.2.	Organising and maintaining effective risk management and internal control systems is the duty of relevant executive bodies.	1. The company's executive bodies have clearly distributed the duties, powers, and responsibilities with regard to risk management and internal control between relevant executives and departments subordinated to them.	Observed	The corporate Finance Function includes a risk management unit.  Heads of departments across the Corporation are responsible for developing, documenting, implementing, monitoring and upgrading risk management and internal control systems within their respective functional areas.
5.1.3.	Risk management and internal control systems must be conducive to an objective, fair and clear understanding of the company's current status and prospects, the integrity and transparency of the company's financial statements, and responsible risk-taking.	1. The company has an anti-corruption policy in place.  2. The company has created a safe, confidential and accessible mechanism (hotline) for any person to inform the board of directors or its audit committee about any breaches of law, internal procedures, or the company's code of ethics.	Observed	The existing internal control and risk management systems enables timely response to new risks.  In addition to a board-approved Anticorruption Policy, the Corporation uses a whistleblowing hotline enabling any employee to report any known offence on the part of any corporate officials whatsoever. The purpose of the hotline is to combat any abuse in the course of any projects or business activities, such as the procurement of products, works and services, and to prevent corruption and fraud. Whistleblowers are guaranteed safety from any types of pressure (such as dismissals, harassment, or discrimination of any kind).
5.1.4.	It is recommended that the board of directors take all necessary and sufficient measures to ensure that the existing risk management and internal control systems of the company are effective and consistent with board-approved organisation principles and approaches.	1. The board of directors (or its audit and/or risk committee) organised an evaluation of the reliability and effectiveness of the corporate risk management and internal control systems at least once throughout the reporting period.  2. The board of directors reviewed the findings of such evaluation, which are also incorporated in this annual report.	Observed	The Board of Directors regularly (at least once every year) looks into the organisation, operation, and effectiveness of the corporate risk management and internal control system and issues recommendations on how to improve it, with the final findings and recommendations then reported to shareholders as part of the Annual Report.
5.2.	The company must perform internal audits for the systematic independent evaluation of the reliability and effectiveness of its risk management, internal controls, and governance practices.			
5.2.1.	It is recommended that internal audits be performed either by an independent outside auditor, or by a specialised internal audit department with differentiated reporting lines, where auditors actually report to the board despite being formally subordinated to the CEO and so gain the necessary independence from the executive management they are meant to control.	1. For the purposes of internal audits, the company either established an internal audit department that reports to the board of directors or engaged an independent external auditor that also reports to the board.	Observed	The Corporation has an Internal Audit Department whose activities are governed by a Terms of Reference of the Internal Audit Department.  The department reports to the Board of Directors functionally and to the President administratively.  The Chief Auditor is appointed and dismissed by President on resolution of the Board.
5.2.2.	It is recommended that internal audits look into the effectiveness of internal controls, risk management, and corporate governance while relying on generally accepted internal auditing standards.	1. Internal audits performed throughout the reporting period involve the evaluation of the reliability and effectiveness of the corporate risk management and internal control system.  2. Internal audits performed throughout the reporting period specifically looked into particular corporate governance practices, including communications (inter alia, on matters pertaining to internal control and risk management) across all governance levels and stakeholder relations.	Observed	The Corporation's internal audit procedures comply with the International Internal Audit Standards of the Institute of Internal Auditors.  The Corporation's internal audits address, inter alia, the effectiveness of internal controls, risk management, and corporate governance.
<b>VI. CORPORATE DISCLOSURES AND INFORMATION POLICY</b>				
6.1.	The company and its operations must be transparent to shareholders, investors and other stakeholders.			
6.1.1.	The company must rely on an information policy that insures efficient communications with shareholders, investors, and other stakeholders.	1. The company uses a board-approved information policy developed on the basis on recommendations contained in the Code.  2. Throughout the reporting period, the board of directors (or one of its committees) analysed the effectiveness of corporate communications, both within the company and with its shareholders and other stakeholders, and discussed whether the corporate information policy required any modification.	Observed	The Corporation uses a board-approved Information Policy that is enforced by corporate executive bodies and the Corporate Secretary. The Board of Directors controls compliance with the Information Policy and routinely reviews it for possible updates.  Executive bodies regularly meet with outside analysts in relation to public disclosures (releases) of financial statements, major investment projects, and development plans.



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6.1.2.	The company must disclose relevant information on governance mechanisms and practices, including compliance with the Code.	<p>1. The company discloses information about its corporate governance system and principles on its website and otherwise.</p> <p>2. The company discloses the names of the members of its executive bodies and board of directors, their independence status, and their involvement in specific board committees (in accordance with the Code).</p> <p>3. If the company is controlled by a controlling party, it must release such party's memorandum setting out such party's plans regarding corporate governance.</p>	Observed	<p>The Corporation's website (www.sistema.ru/www.sistema.com) provides the details of its governance bodies, including their composition and the biographies of their members.</p> <p>The Corporation has adopted a Corporate Governance Code (hereinafter, "the Code") setting out the key principles of corporate governance and Board commitments (duties).</p> <p>The Code is also available on the corporate website.</p> <p>The Corporation has no controlling party from 2022.</p>
6.2.	The company must make timely, complete, relevant and reliable disclosures enabling its shareholders and investors to take informed decisions.			
6.2.1.	The company must disclose information regularly, consistently and promptly and must ensure that the information so disclosed is easily accessible, reliable, complete, and comparable.	<p>1. The company has a procedure in place that serves to coordinate the disclosure efforts of all corporate departments and employees where disclosure is required.</p> <p>2. If the company is listed on a stock exchange in any foreign country, any material information disclosure made by the company in Russia must be accompanied by a simultaneous and equivalent disclosure in such other country.</p> <p>3. Where foreign shareholders own material quantities of the company's shares, information disclosures throughout the reporting period were made both in Russian and in a widely spoken foreign language.</p>	Observed	<p>The Corporation's information policy makes it possible to coordinate the disclosure efforts of all corporate departments.</p> <p>The Corporation makes sure to disclose material information as soon as is reasonably practicable and to promptly respond to any rumours and/or unreliable information that may appear publicly.</p> <p>Corporate disclosures are released on the Sistema website (www.sistema.ru/www.sistema.com) and the Interfax news feed.</p> <p>The Corporation ensures that its disclosures are unambiguous, objective, and neutral and makes no effort to withhold or conceal any negative information.</p>
6.2.2.	It is recommended that the company make disclosures on a "substance over form" basis and release material information even where not directly required by law.	<p>1. The company's information policy sets out approaches to disclosing information on other events (actions) that may have a material effect on its share price although are not legally required to be disclosed.</p> <p>2. The company discloses information about its capital structure in accordance with recommendation 290 of the Code in its annual report and on its corporate website.</p> <p>3. The company discloses information on its material controlled entities, including their key lines of business, accountability mechanisms, and the board's powers as regards making strategic decisions for, and evaluating the performance of, such controlled entities.</p> <p>4. The company discloses a non-financial report (a sustainability/environment/CSR or other report containing non-financial information, including that about the company's environmental impact (whether on the environment or climate change), society, and corporate governance, other than the statutorily required stock issuer's report and joint-stock company's annual report).</p>	Observed	<p>The Corporation discloses all material information both about itself and about other companies controlled by it.</p> <p>Such disclosures beyond the legally required minimum cover:</p> <ul style="list-style-type: none"> <li>▶ the corporate strategy and targets;</li> <li>▶ financial activities and status;</li> <li>▶ capital structure;</li> <li>▶ social responsibility.</li> </ul> <p>The Corporation discloses information on its controlled entities, including disclosures in the annual report and consolidated financial statements, to the extent it receives such information as their shareholder in accordance with corporate and other applicable law.</p> <p>The Corporation also releases annual sustainability reports.</p>
6.2.3.	The annual report is among the most important tools of communication with shareholders and other stakeholders and so must contain sufficient information for evaluating the company's annual performance results.	<p>1. The company's annual report details the audit committee's findings as regards the effectiveness of both external and internal audits performed.</p> <p>2. The company's annual report contains information on its environmental and social policies.</p>	Observed	<p>The Corporation discloses all material information in the Annual Report in accordance with the recommendations contained in the Corporate Governance Code.</p> <p>The Annual Report includes all material data from the annual statutory and financial reports, while also covering corporate sustainability efforts.</p>
6.3.	The company must ensure that all shareholders have equal and unhindered access to information and documents upon their request.			
6.3.1.	Shareholders must be able to exercise their right to access documents and information without any unreasonable effort or expense.	<p>1. The company's information policy (or related bylaws) describe(s) a non-onerous procedure by which shareholders can gain access to the company's information and documents.</p> <p>2. The company's information policy (or related bylaws) clearly provide(s) that, should any shareholder request any information whatsoever on any entity controlled by the company, the company will take the necessary steps to obtain such information from such controlled entity.</p>	Observed	<p>When giving shareholders access to its documents and information, the Corporation complies with applicable law and aims to avoid unnecessary difficulties for shareholders. The Corporation's information policy sets out the procedure for receiving such access.</p> <p>The Corporation makes sure to avoid any overstatement of the costs of making and sending the copies of such documents.</p> <p>Pursuant to the Information Policy, in case of requests from shareholders the Corporation receives and passes on information on its controlled entities to the extent provided by law.</p>
6.3.2.	It is recommended that the company organise shareholder communications in a way conducive to a reasonable equilibrium of the interests of the shareholders and those of the company itself, notably as regards the confidentiality of important commercial information that may have a material effect on its competitive ability.	<p>1. Throughout the reporting period, the company either denied no shareholder request for information, or provided ample rationale for such denial.</p> <p>2. The company duly notifies its shareholders of the confidential nature of any information they are provided and has them formally assume nondisclosure obligations as set out in the corporate information policy.</p>	Observed	<p>A shareholder may be granted access to confidential information about the Corporation only provided that the shareholder is aware of the confidential nature of such information and assumes the obligation to maintain its confidentiality in accordance with applicable law.</p>





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<b>VII. MAJOR CORPORATE ACTIONS</b>				
7.1.	Any action that has or may have a significant impact on the structure of the shareholders' equity or the financial position of the company and consequently its shareholders (major corporate actions) must be taken on an equitable basis and with consideration given to the rights and interests of shareholders and other stakeholders.			
7.1.1.	Major corporate actions include any corporate restructuring of the company, any acquisition of 30 or more % of voting shares in the company (takeover), any material transactions, any increase or reduction in the company's share (charter) capital, any listing of delisting of shares in the company, and any other actions that may result in a material change in any shareholder rights or materially prejudice shareholder interests. It is recommended that the company's charter set out specific criteria of major corporate actions and determine the consideration of such actions to be a board matter.	1. The company's charter sets out the list (criteria) of transactions or other actions that qualify as major corporate actions. Decisions with regard to major corporate actions are board matters. Where any type of corporate action is specifically determined by law to be a shareholder matter, the charter provides for the board's duty of issuing related recommendations to the general meeting of shareholders.	Observed	The Russian law expressly determines any decisions on the listing and delisting of any shares and on the approval of any major transactions to be shareholder matters. Although the Charter contains no formal list or criteria of material actions, it classifies all other actions determined as such in the Corporate Governance Code as board matters.
7.1.2.	The board must play a key role in deciding or issuing recommendations on major corporate actions, primarily relying on the collective opinion of independent directors.	1. The company has a procedure in place that allows independent directors to state their position on major corporate actions before their approval.	Observed	Prior to being considered by the Board of Directors, related party transactions are previewed by the Audit, Finance and Risk Committee (hereinafter, "the Committee"), where independent directors make up a majority. The Committee's opinion is discussed when the transactions are reviewed at a Board meeting.  Decisions on the approval of related-party transactions are taken by Board members who are not related parties.
7.1.3.	Where any major corporate action affects the rights and lawful interests of any shareholders, it is recommended that the company ensure that such action is equitable for all shareholders, and where law omits to provide adequate mechanisms for the protection of such shareholders' rights, it is recommended that the company take initiative to institute such additional corporate mechanisms to protect the rights and lawful interests of its shareholders, it being understood that the company should aim to rely on governance principles contained in this Code beyond the obligatory statutory minimum requirements.	1. The approval of other transactions material to the company, in particular due to the specific realities of its business, although not statutorily designated as a board matter, qualifies as such pursuant to the company's charter.  2. In the reporting period, all major corporate actions passed the approval procedure before being carried out.	Observed	The Board of Directors reviews all material matters as prescribed by the corporate bylaws. In particular, in setting out board matter criteria the Charter provides for lower materiality thresholds than legally required.  In the reporting year, all actions that qualify as major corporate actions in accordance with the Corporate Governance Code passed approval by the Board of Directors before being carried out.
7.2.	The company must establish such procedures for taking major corporate actions that enable shareholders to receive timely and full information about such actions, give them the opportunity to influence such actions, and guarantee reasonable protection of their rights.			
7.2.1.	Disclosures of information on major corporate actions must address their rationale, circumstances, and consequences.	1. Where the company performed any major corporate actions within the reporting period, the company took care to disclose in a detailed and timely manner the entire relevant information about such actions, including their rationale, circumstances, and consequences for shareholders.	Observed	Being a public company, the Corporation discloses the maximum possible amount of information on any corporate action, including those that may influence the dividend and/or any other rights of the shareholders.
7.2.2.	It is recommended that the rules and procedures related to the company's major corporate actions be clearly set out in corporate bylaws.	1. The company's internal documents stipulate triggers and procedures for engaging an independent appraiser to determine the value of assets to be disposed or acquired in a major transaction or in a related party transaction.  2. The company's internal documents stipulate a procedure for engaging an independent appraiser to determine the acquisition and selling prices of any shares in the company.  3. The company's bylaws provide that, should any board member, the CEO, any member of any collective executive body, any person controlling the company, or any person entitled to issue binding instructions to the company have any conflict of interest or any actual vested interest in any transaction whatsoever despite not formally qualifying as a related party in such transaction, such persons nonetheless have a duty to abstain from voting on such transactions.	Observed	To the extent that the rules and procedures related to the Corporation's major corporate actions are not clearly provided for by applicable law, such rules and procedures are set forth in the corporate bylaws.  When reviewing material transactions at Board meetings, an independent appraiser or an investment consultant is engaged to determine the price of such transactions.  Only Board members that are free from any conflict of interest and are not related parties in any given transaction are admitted to voting on its approval.