



JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

Sistema

Financial Results

4Q 2016 and full year 2016

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DISCLAIMER

Certain statements in this presentation may contain assumptions or forecasts in respect to forthcoming events within PJSC Sistema. The words “expect”, “estimate”, “intend”, “will”, “could” and similar expressions identify forward-looking statements. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the above-mentioned date or to reflect the occurrence of unanticipated events. Many factors could cause Sistema’s actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, deteriorating economic and credit conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.



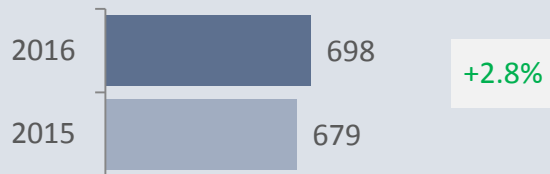
Consolidated results of 2016



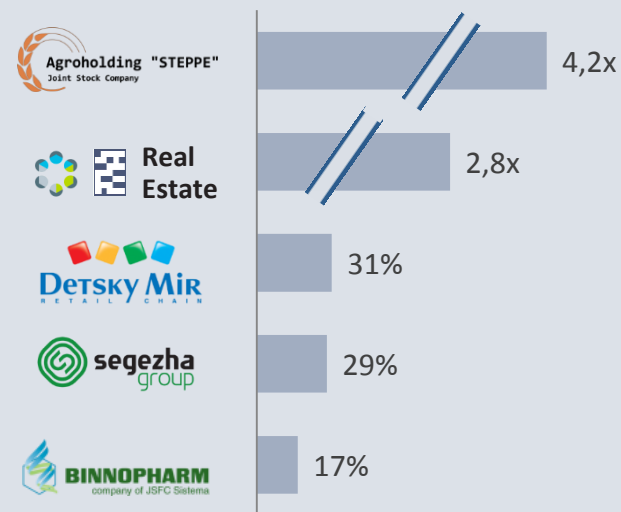
KEY HIGHLIGHTS 2016

RUB bln

CONSOLIDATED REVENUE

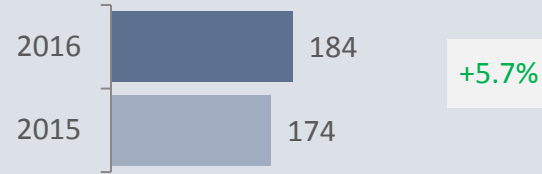


FASTEST GROWING ASSETS*

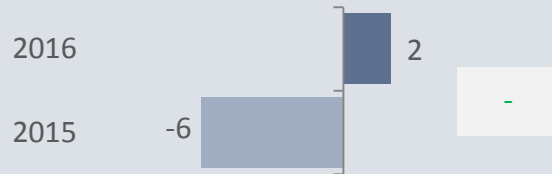


RUB bln

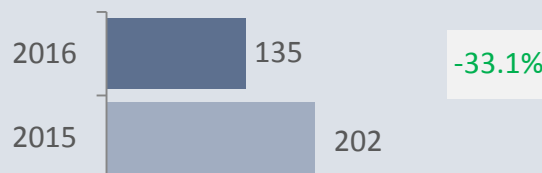
ADJUSTED OIBDA



ADJUSTED PROFIT



FIN. LIABILITIES AT CORP CENTRE**



- Consolidated revenue and OIBDA growth driven by considerable expansion of Detsky Mir and non-public assets
- Detsky Mir and non-public assets contributed 15.2% to portfolio's OIBDA vs. 6.0% in 2015
- Stable dividends from MTS and 46% y-o-y growth in cash returns from Detsky Mir and non-public assets
- Strong momentum for monetisations with successful sale of minority stakes in MTS and SG-trans in 2016
- Landmark Detsky Mir IPO completed in early 2017 at 9.2 EV/2016 EBITDA multiple
- Exceeded deleveraging target with debt down 33% during the year
- Progressive dividend trend maintained with final 2016 dividend of RUB 7.8 bln proposed by BoD resulting in 6% dividend yield*** for 2016

*By year-on-year revenue growth in 2016

**Including Corporate Centre's total debt, liabilities to Rosimushchestvo related to SSTL shares and liabilities to Rusnano related to Mikron shares

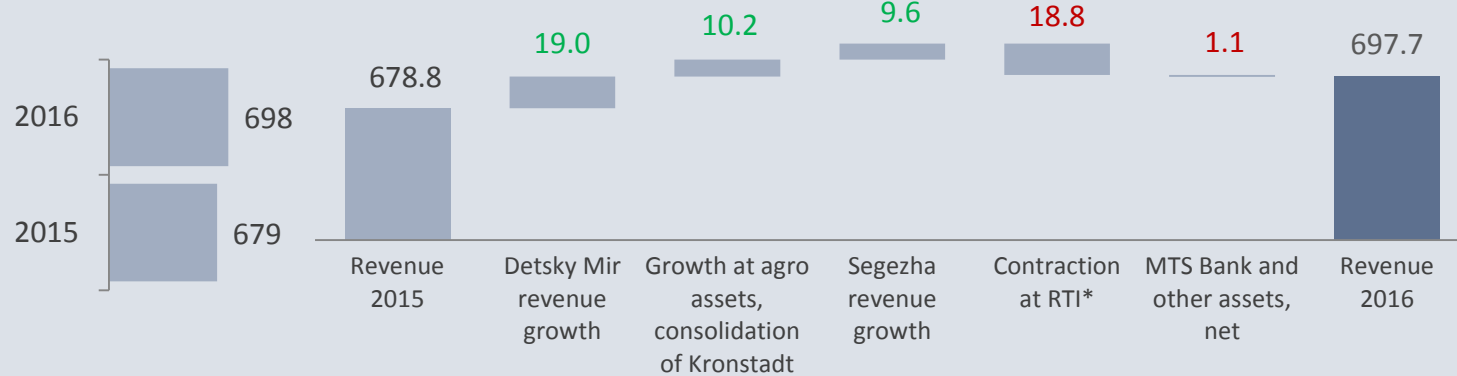
*** Based on Sistema's weighted average share price on the Moscow Exchange



FINANCIAL REVIEW OF 2016

CONSOLIDATED REVENUE ANALYSIS

IFRS, RUB bln

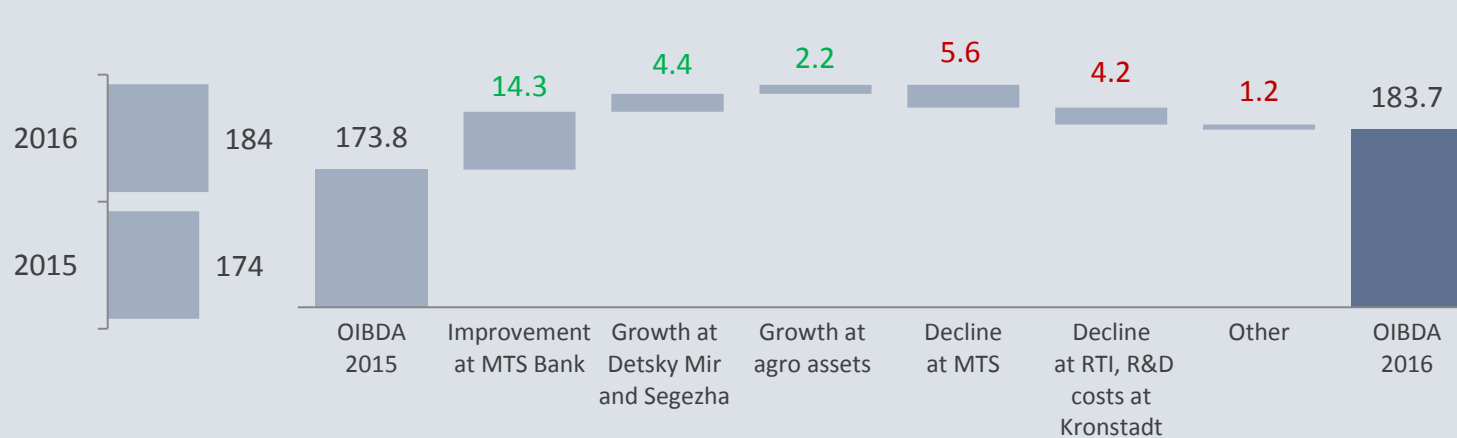


- Strong like-for-like growth and network expansion at **Detsky Mir**
- Capacity expansion and acquisition of a woodworking plant at **Segezha Group**
- M&A, strong production and efficiency trends in **agriculture**
- Decline at **RTI** due to delays in contract placements by large clients
- Continued de-risking at **MTS Bank**

*Excluding the impact of Nvision assets on RTI's revenues

ADJUSTED OIBDA ANALYSIS

IFRS, RUB bln

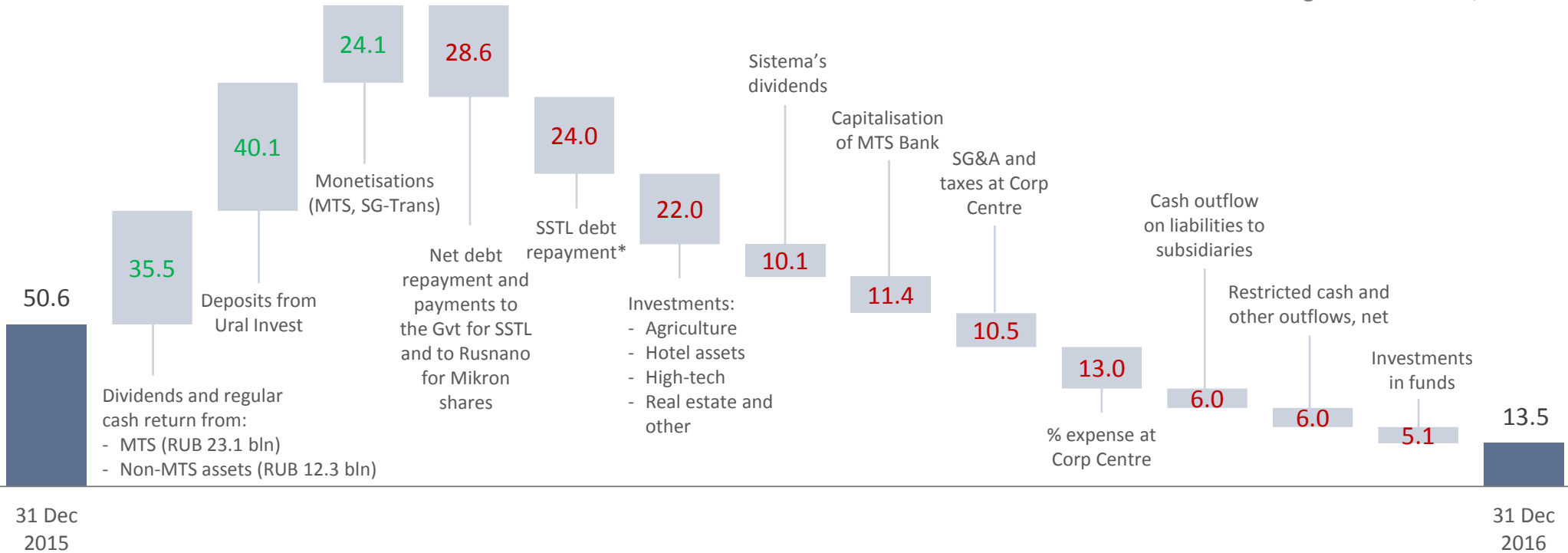


- Improved performance by **MTS Bank** due to lower provision charges
- Revenue growth and further improvements in operating efficiency at **Detsky Mir**
- Lower roaming usage, growth of costs related to retail network at **MTS**
- OpEx and other charges related to R&D for UAV project at **Kronstadt** (other parts of the business are profitable on OIBDA level)



CASH FLOWS AT THE CORPORATE CENTRE IN 2016

Management accounts, RUB bln



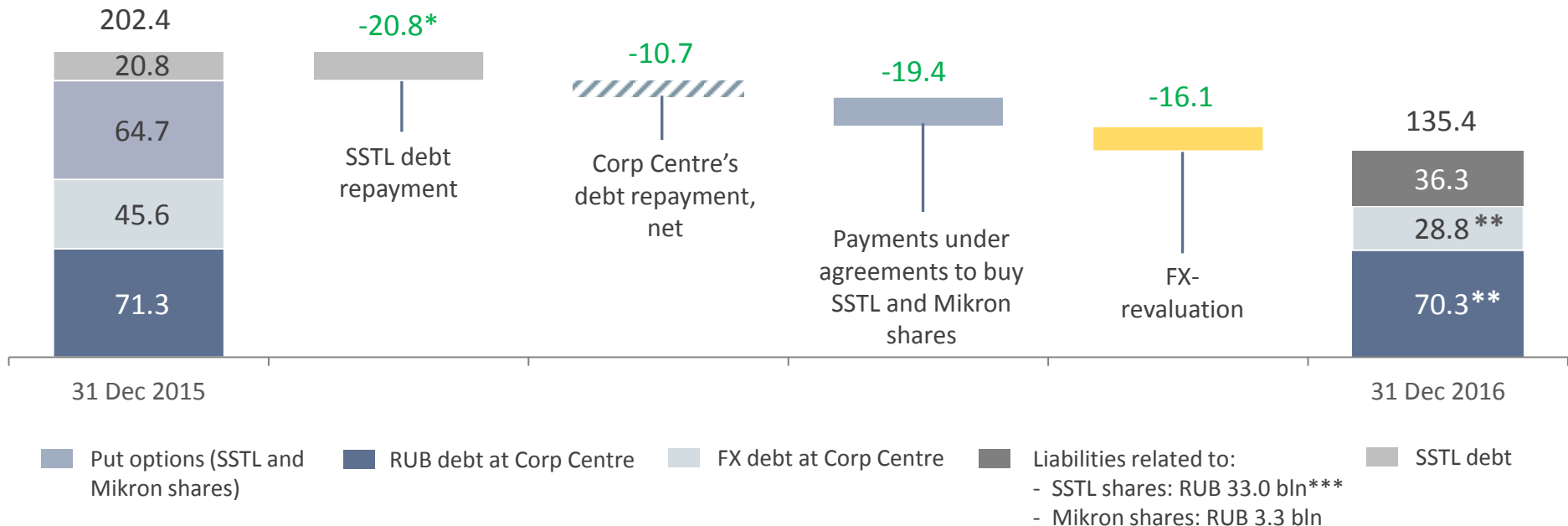
- RUB 59.6 bln generated at level of Corp Centre via dividends, regular cash returns and monetisations of MTS and SG-trans shares
- Detsky Mir's and non-public assets' share in portfolio's dividends and regular cash returns increased to 35% vs. 26% in 2015
- Cash largely utilised for deleveraging and reduction of financial liabilities, investments into core portfolio segments, Corp Centre's finance and other expenses and paying dividends to Sistema's shareholders
- Proceeds from Detsky Mir IPO (RUB 12.9 bln) and monetisation of MTS shares (RUB 4.7 bln) to support cash position in 1Q'17

*Including interest

CORPORATE CENTRE'S FINANCIAL LIABILITIES: SUCCESSFUL DELEVERAGING



Management accounts, RUB bln



- Corporate Centre's total financial liabilities down ~33% since the start of 2016
- Share of FX-liabilities in total financial liabilities down to 46%** as of year end 2016 vs. 61% at the start of the year
- Deleveraging drivers in 2016: (i) prepayment of debt guaranteed by Sistema at SSTL; (ii) payments made to the Russian budget for SSTL shares, (iii) payment to Rosnano for Mikron shares iv) early redemption of RUB 10 bln 17%-coupon local bonds in August 2016

*Amounts in Russian rubles calculated at RUB/USD exchange rate as of 31 December 2015

**Incl. FX hedges on the Corporate Centre's debt

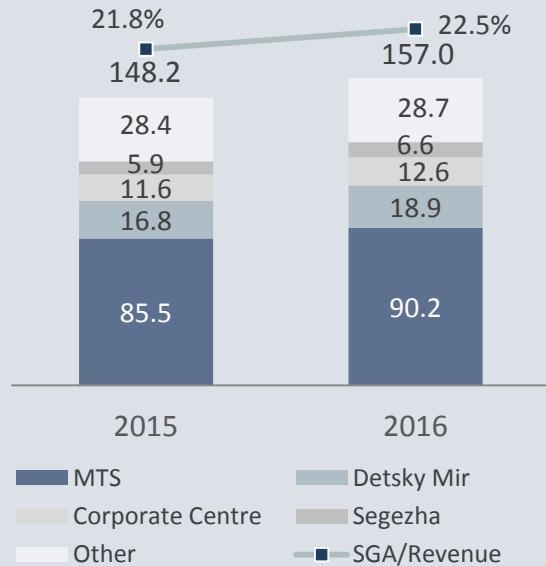
***Liability to Rosimuschestvo related to SSTL shares is USD-denominated



IFRS, RUB bln

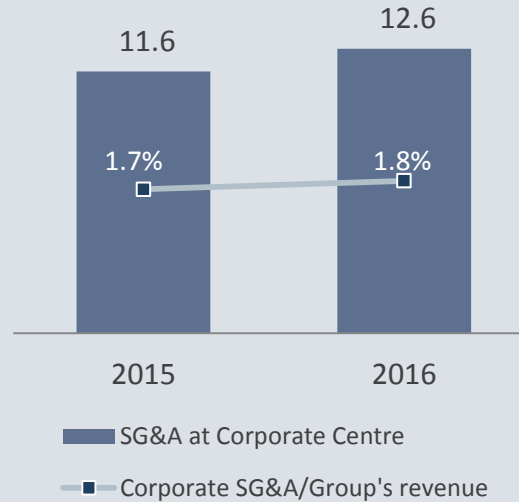
SG&A AND CAPEX

GROUP'S SG&A



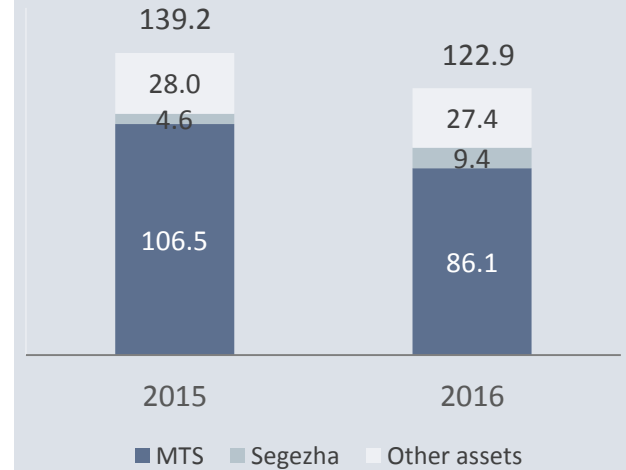
- Portfolio assets' SG&A grew mainly due to expansion of retail network at MTS and organic growth of business at Detsky Mir and Segezha
- Consolidated SG&A/Revenue ratio up YoY mainly due to growth at MTS, RTI, MTS Bank
- SGA/Revenue ratio improved at:
 - Detsky Mir: from 27.7% to 23.7%
 - Segezha Group: from 17.6% to 15.3%
 - Medsi: from 17.3% to 16.2%

CORPORATE CENTRE'S SG&A*



- Corporate Centre's SG&A increase mainly driven by asset monetisations and moderate increase in headcount

GROUP'S CAPEX



- Group's CAPEX reduced by 11.7% in 2016 largely due to decreased CAPEX at MTS
- Segezha Group CAPEX doubled YoY driven by investments into expansion and upgrade of capacities
- Medsi's CAPEX down by 61.4% following the completion of construction and launch of a large new clinical diagnostic centre in Moscow (opened at the end of 2015)

*Source: management accounts



Management Update



KEY ACHIEVEMENTS IN 2016 AND BEYOND

Excellent growth across key assets

- ✓ **MTS:** continued revenue growth and most resilient OIBDA margin among competitors (38.5% in 2016)
- ✓ **Detsky Mir and Segezha Group:** 31.4% and 28.7% revenue growth and 32.6% and 37.6% OIBDA increases, respectively
- ✓ **Agroholding Steppe:** land bank expanded by 136 thsd ha. Revenue and OIBDA up 4 times
- ✓ **Real estate:** 2.8x revenue increase with OIBDA margin of 40.0%
- ✓ **Medsi and Binnofarm:** 14.4% and 16.9% revenue growth and 8.6% and 21.4% OIBDA margins, respectively

Record asset monetisation

- ✓ RUB 18.1 bln generated through MTS share sales in 2016
- ✓ RUB 6.0 bln received for SG Trans divestment
- ✓ RUB 12.9 bln of proceeds from landmark Detsky Mir IPO and RUB 4.7 bln from MTS shares buyback in 1Q 2017

Major investments

- ✓ **Agriculture:** acquisition of crop production businesses in the Rostov and Stavropol regions operating 167,000 hectares of land. Good potential to grow production and improve operating efficiencies of the acquired assets
- ✓ **Segezha Group:** acquisition of Lesosibirsk Woodworking Plant allowed to double production of sawmill wood and expanded access to wood resources
- ✓ **Hospitality:** 9 quality hotels acquired in Moscow and Russian regions. Total # of rooms in Sistema's portfolio is ≈3,770

Significant deleveraging

- ✓ **Corporate Centre:** 33% reduction in total financial liabilities
- ✓ Successfully restructured SSTL and Mikron related liabilities

Increased dividends

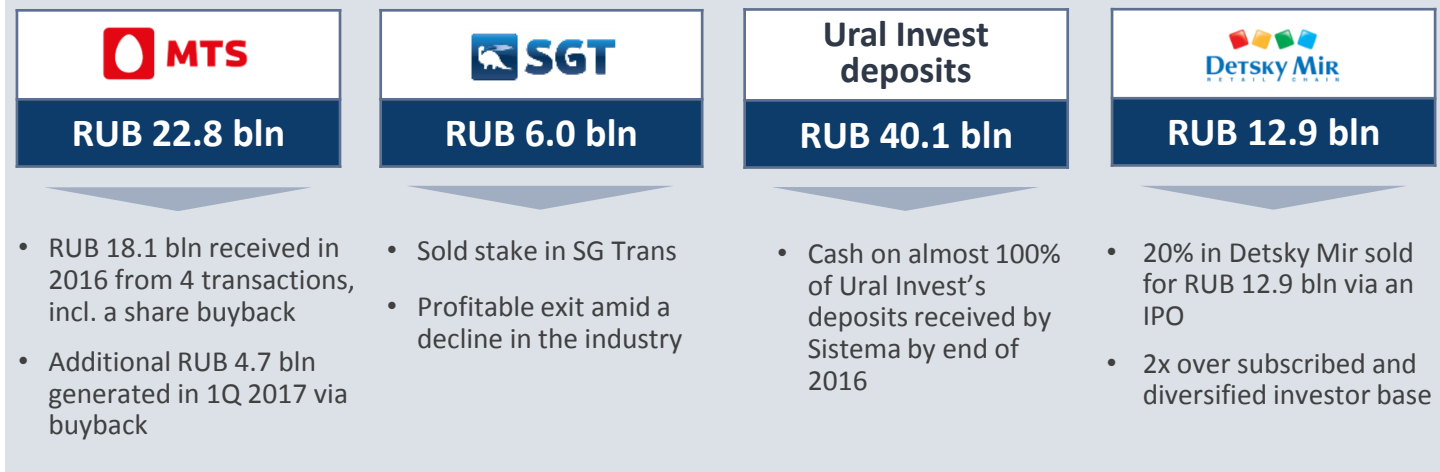
- ✓ **Dividend:** RUB 7.8 bln proposed by the BoD for as the final 2016 dividend, equivalent to a 6% dividend yield for 2016
- ✓ **Dividend policy:** new minimum dividend yield established at 6% and new minimum annual DPS at RUB 1.19

In 2016 Sistema has delivered across all of its key targets and milestones

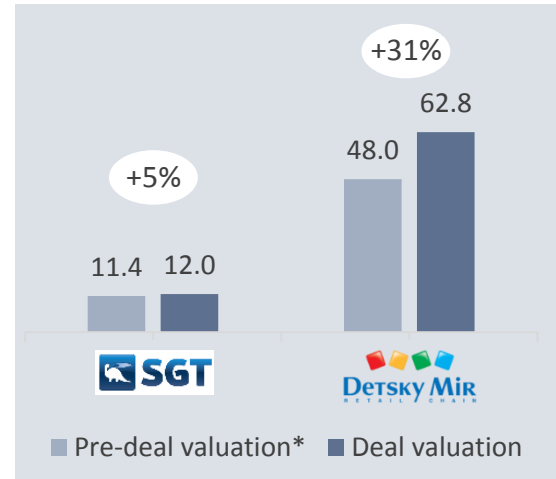


CREATING VALUE THROUGH ASSET MONETISATIONS

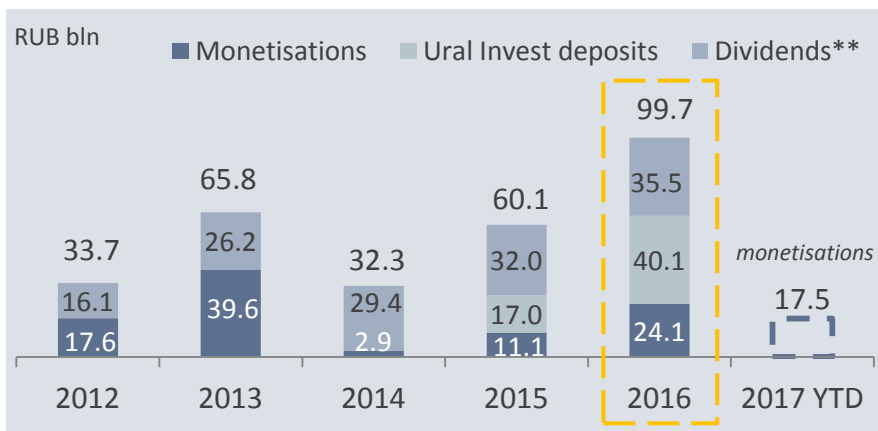
GENERATING CASH IN 2016 – 1Q 2017



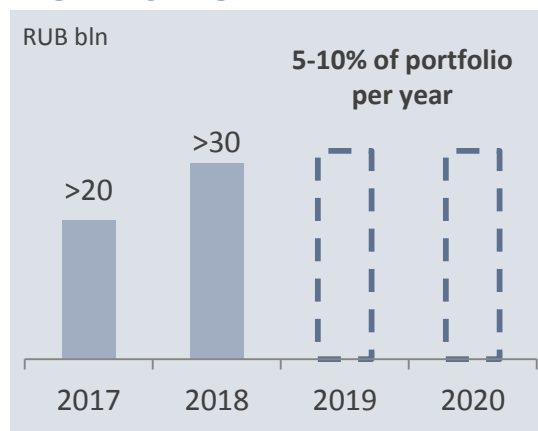
DEMONSTRATING ASSET VALUE



CASH GENERATION TRACK RECORD 2012 - 2017



MONETISATION PLAN



- Record RUB 64.2 bln generated through monetisations of portfolio companies and Ural-Invest deposits in 2016
- Detsky Mir IPO completed in 1Q 2017 at ≈31% premium to sell-side SOTP consensus estimates

Continued strong monetisation and value creation track record

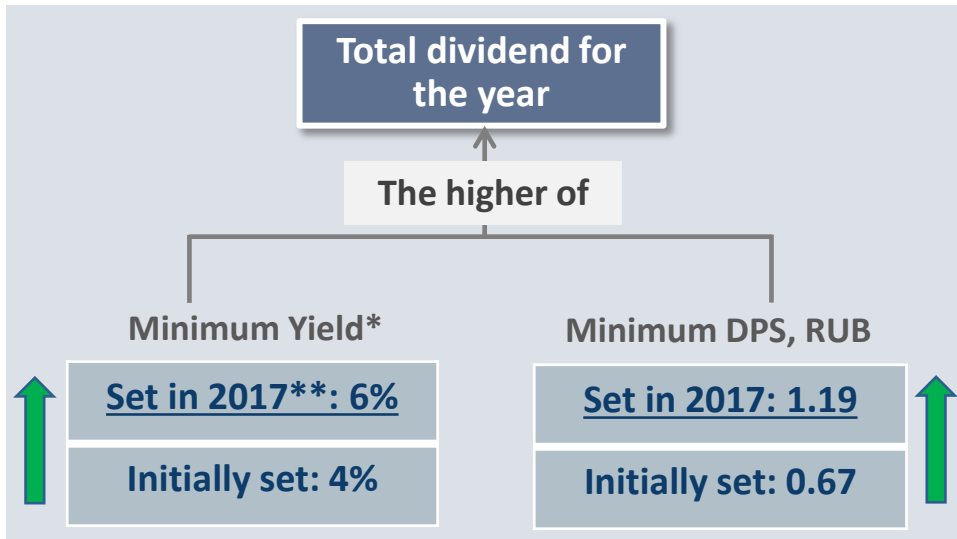
*100% equity value according to Sistema's SOTP sell-side consensus

** Dividends and regular cash returns

DIVIDENDS: STRONG GROWTH TREND, MINIMUM DIVIDEND YIELD AND DPS INCREASED TO 6% AND RUB 1.19

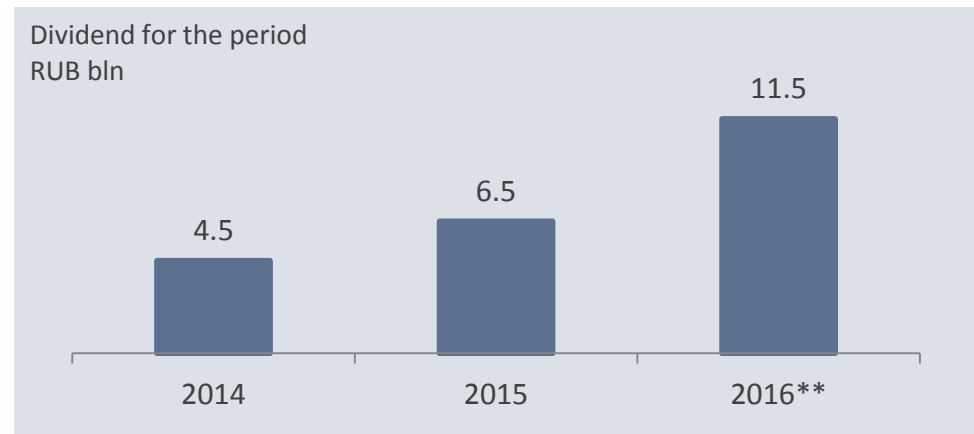


SISTEMA'S DIVIDEND POLICY: UPDATE 2017

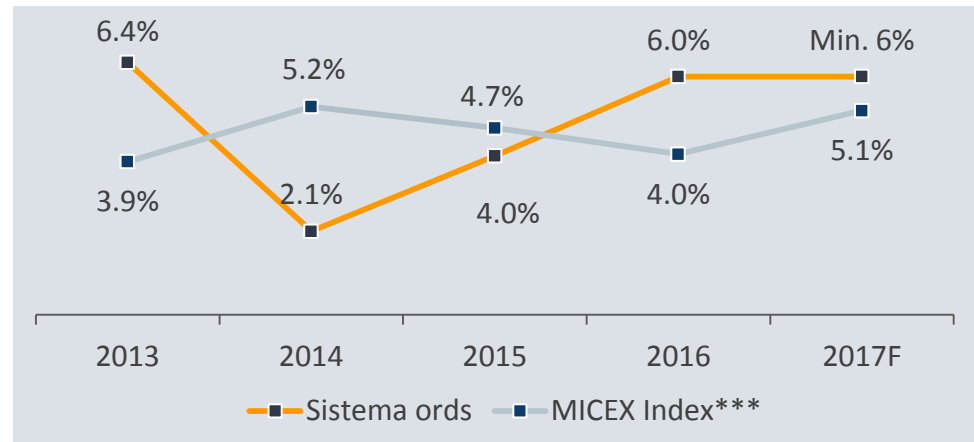


- Final dividend for 2016 recommended by the BoD at RUB 7.8 bln, equivalent to a dividend per share (DPS) growth of 78% vs 2015 and annual dividend yield* of 6% for 2016
- Dividend policy updates:
 - 6% minimum dividend yield and RUB 1.19 minimum dividend per share as new target
 - Interim dividend will now be paid for 9 months

SISTEMA'S DIVIDENDS: CONTINUED GROWTH MOMENTUM



SISTEMA'S DIVIDEND YIELD TREND VS THE MARKET



Increase in dividends in line with progressive guidance. Outperformance vs the MICEX index yield trend

*Annual dividend divided by the weighted average price of Sistema ordinary shares traded at the Moscow Exchange in the relevant reporting year

**According to Sistema's BoD recommendation approved on 1 April 2017, subject to approval by AGM

*** Source: Bloomberg



OUTLOOK FOR 2017

EXPECTED ORGANIC ASSETS GROWTH

Revenue growth unless stated otherwise



+/- 2%



≈30%



≈20%



5-10%



Double-digit LFL, 70 new stores



Cash sales >2x

SPECIAL SITUATIONS OR BOLT ON M&A

- Screening the market for **special situations, distressed assets** in existing or new sectors

- **Considering bolt-on agriculture acquisitions in:**
 - field crops farming (land bank)
 - logistics and infrastructure
 - dairy products
 - fruit and vegetables

- **Identifying bolt-on forestry acquisitions** in several Russia regions with potential to expand

EXPANDING MONETISATION PIPELINE

- Considering disposal of **non-core assets in subsidiaries** or **non-core investments** in portfolios

- **Exploring possible pre-IPO strategic deals:**
 - Segezha Group
 - Agriculture
 - Medsi
 - Real estate

- Preparing for potential **public market entry for Agriculture in 2018, Segezha and Real estate in 2018-2019**

- **Dividends** from subsidiaries

On track to deliver strong growth in 2017 through organic and M&A investments as well as select monetisation



Update on key portfolio assets

DETSKY MIR'S IPO: REOPENING THE RUSSIAN MARKET WITH A SUCCESSFUL MONETISATION



KEY HIGHLIGHTS

Landmark transaction

- ✓ **First Russian IPO** with full international marketing since **2013**
- ✓ **First Russian non-food retailer IPO** in 10 years
- ✓ **Total IPO size:** RUB 19.2 bln

Price and valuation

- ✓ **IPO price:** RUB 85 per share, 100% equity valuation of **RUB 62.8 bln**
- ✓ **EV/ 2016 EBITDA multiple:** **9.2x**

Diversified investor base

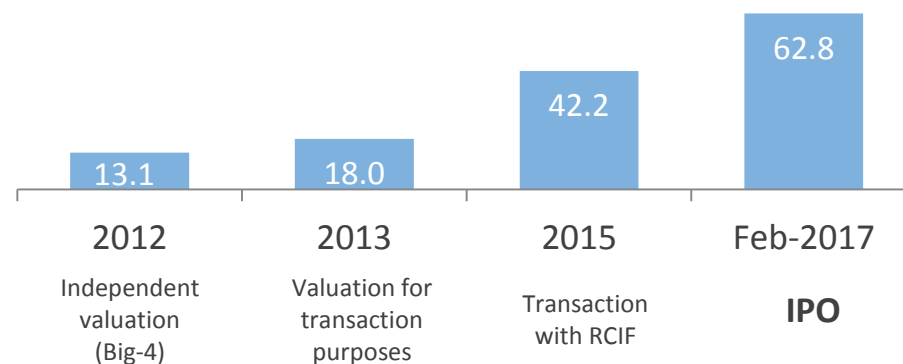
- ✓ The book **oversubscribed 2.1 times**
- ✓ **Over 90% of demand** originated **outside of Russia**

Sistema's stake

- ✓ Sistema sold 20.5% of Detsky Mir for **RUB 12.9 bln**
- ✓ Sistema's effective stake after IPO: **52.1%**

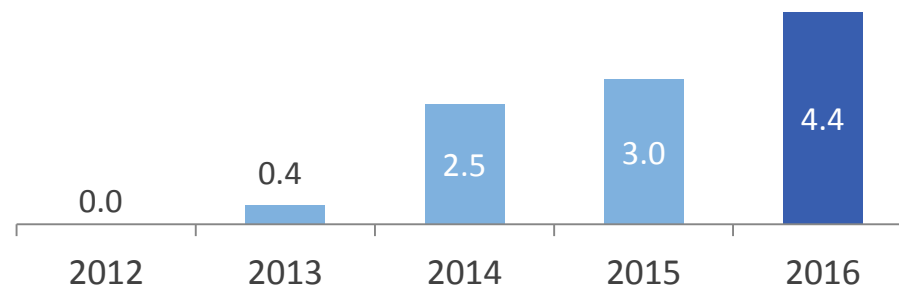
DETSKY MIR'S VALUATION TRACK RECORD

RUB bln



DETSKY MIR'S DIVIDEND TRACK RECORD

RUB bln

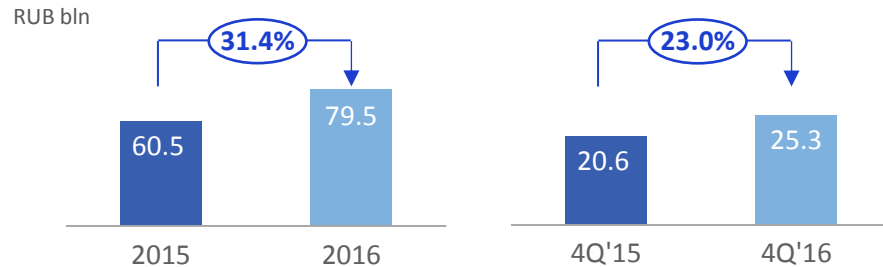


*The valuation was made by independent appraiser in the preparation of IPO

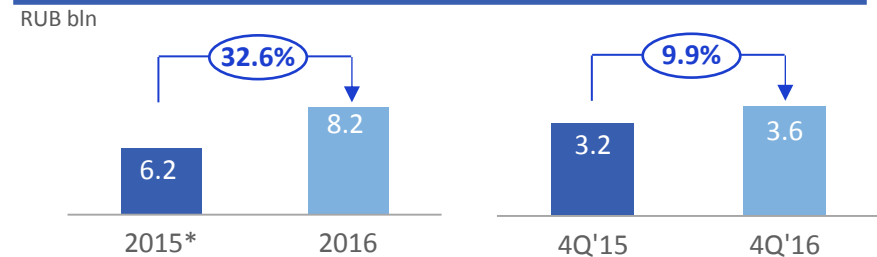


TOP CHILDREN'S GOODS RETAILER IN RUSSIA AND CIS : PUBLIC COMPANY WITH EXCELLENT GROWTH PERSPECTIVES

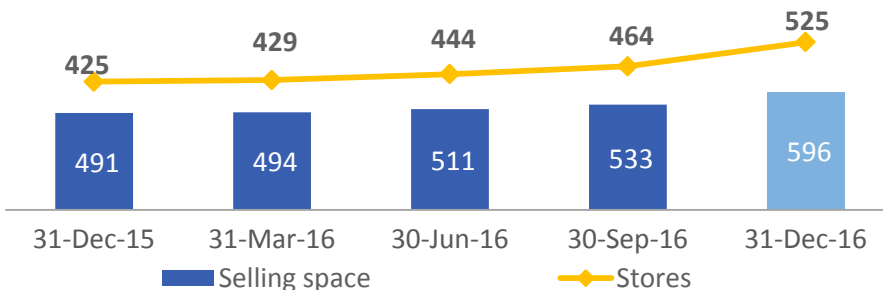
REVENUE



ADJ. OIBDA



SELLING SPACE (THSD M²) AND NUMBER OF STORES



RUB bln	2016	2015	YoY	4Q'16	4Q'15	YoY
Revenue	79.5	60.5	31.4%	25.3	20.6	23.0%
Adj. OIBDA	8.2	6.2	32.6%	3.6	3.2	9.9%
Adj. OIBDA margin	10.3%	10.2%	0.1pp	14.1%	15.8%	-1.7pp
Adj. Profit	2.8	2.2	28.0%	1.6	1.5	2.7%
Net debt	12.2	16.4	-25.8%	-	-	-
SGA/revenue	23.7%	27.7%	-4.0pp	21.5%	28.7%	-7.2pp
Like-for-like growth**	12.3%	13.7%	-1.4pp	8.8%	12.4%	n/a
Traffic growth	6.0%	5.0%	1.0pp	7.0%	4.1%	n/a
Average check growth	5.9%	8.3%	-2.4pp	1.7%	8.0%	n/a
CAPEX	1.7	5.3	-67.1%	0.8	0.9	-14.7%

> 2016 revenues increase driven by like-for-like sales growth of 12.3%, ramp-up of stores opened in previous years and continued expansion of the retail chain. The group opened 101 new stores during the year, bringing the total number of outlets to 525 as of year end.

> E-commerce was Detsky Mir's fastest growing sales channel, with online sales more than doubling in 2016.

> Adjusted OIBDA increased due to improved operational efficiency. The ratio of administrative expenses to revenues declined from 27.7% in 2015 to 23.7% in 2016 in particular due to further automation of key business processes. As an anchor tenant at most shopping malls where it has a presence, Detsky Mir succeeded in significantly lowering rental costs as a percentage of sales and increased the operational efficiency of its chain of stores.

> Detsky Mir paid out a record dividend for 2016 of RUB 4.4 bln, including RUB 3.0 bln paid to Sistema.

> In 2017, Detsky Mir plans to open at least 70 new stores.

* In 2015-2016 OIBDA is adjusted

** LfL growth in RUB terms. LfL growth includes only DM stores in Russia that have been in operations for at least 12 full calendar months.

SEGEZHA GROUP: INVESTMENT PROGRAMME TO UNLOCK VALUE



KEY INVESTMENT PROJECTS 2016 - 2018

2016	2017 - 2018	
SACK PAPER		
Investment amount	RUB 13.1 bln (2016-2018)	
Key projects:	Modernisation of Segezha Pulp and Paper Mill	
	<ul style="list-style-type: none"> Modernisation of pulping equipment Installation of the paper-making machine (PMM #11) 	<ul style="list-style-type: none"> Launch of the PPM #11 Power increase of pulp mill's fibre line
Results	<ul style="list-style-type: none"> Increased production by 28% to 1,150 t of paper pulp per day 	<ul style="list-style-type: none"> Reduced paper production costs Increase in production of unbleached paper (+110 thsd per year) Growth of sack paper output by c. 40%

PLYWOOD		
Investment amount	RUB 4.9 bln (2016 – 2017)	
Key projects	Construction of Vyatskiy Plywood Mill in Kirov	
	Launch of construction	Launch of Plywood Plant
Results	New plywood production (97 thsd m cu a year)	<ul style="list-style-type: none"> Long-grain plywood, new high-margin product Double annual output of long- and cross-grain plywood

PAPER SACKS - 2016

Investment amount: RUB 2.3 bln

Key projects

- Launching new production facility in Salsk

Results

- Expanding capacity
- Reduced production costs, higher margins

WOOD PROCESSING - 2016

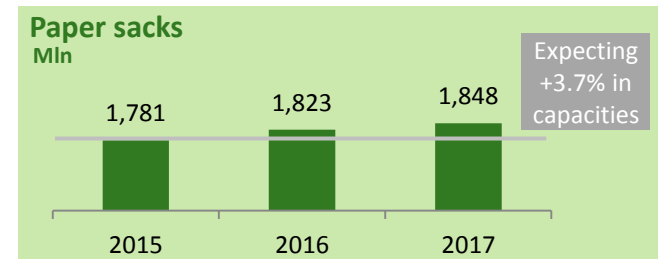
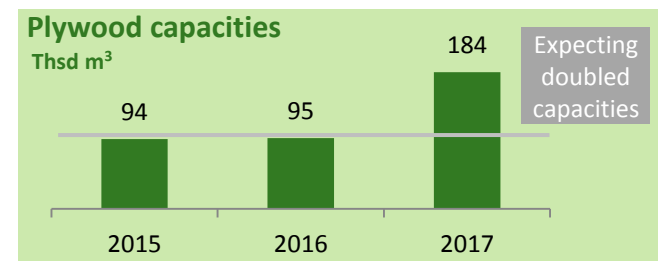
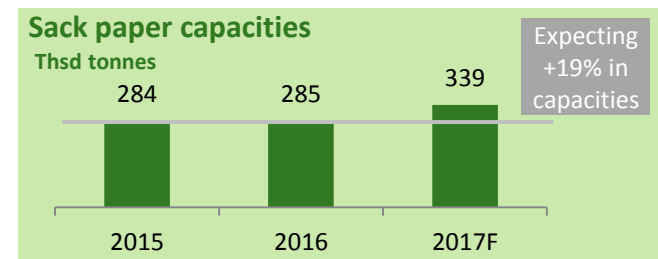
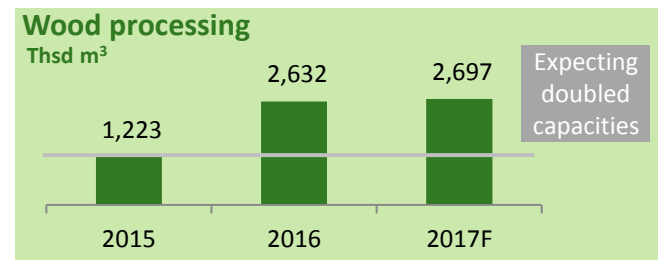
Investment amount: RUB 5.2 bln

Key projects

- Acquisition of Lesosibirsk LDK No. 1

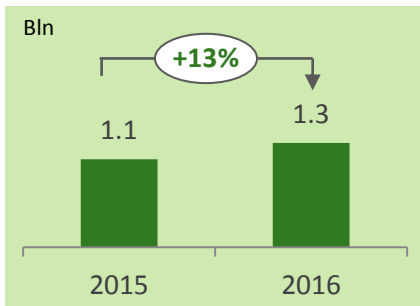
Results:

- Over 2x growth in wood processing capacities and expansion of product offering
- RUB 5.7 bln to Segezha's 2016 revenues

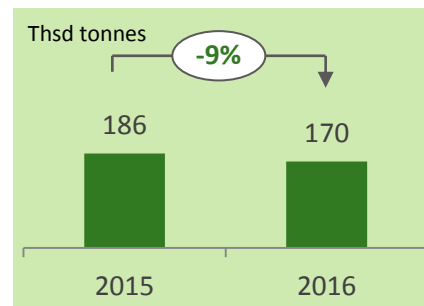


LEADING PAPER AND PACKAGING HOLDING SEGEZHA GROUP: PROVEN INVESTMENT EFFICIENCY

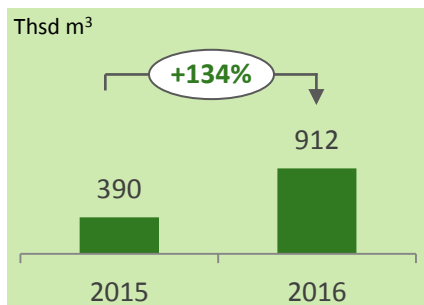
PAPER SACKS



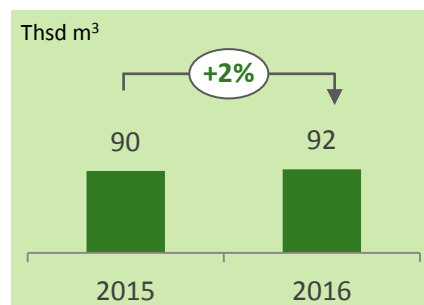
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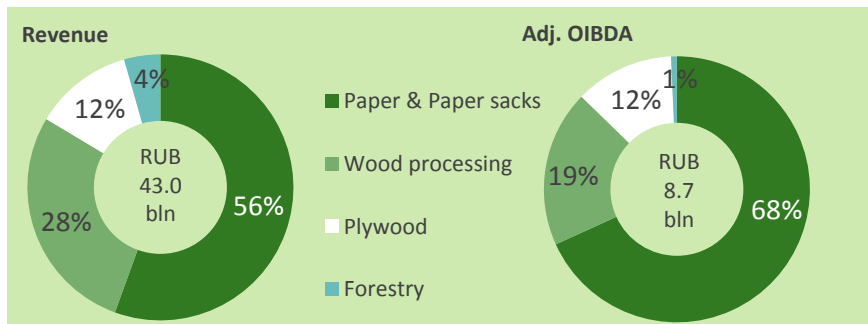
SAWN LUMBER



PLYWOOD



REVENUE AND ADJUSTED OIBDA BY BUSINESS SEGMENTS IN 2016



*Includes shipment of paper and paper board

RUB bln	2016	2015	YoY	4Q'16	4Q'15	YoY
Revenue	43.0	33.4	28.7%	11.1	8.7	28.8%
Adj. OIBDA	8.7	6.3	37.6%	1.8	1.0	78.1%
Adj. OIBDA margin	20.1%	18.8%	0.3pp	16.1%	11.7%	4.4pp
Adj. profit	2.0	2.3	-14.3%	0.2	0.7	-65.2%
Net debt	23.7	0.7	x34	-	-	-
CAPEX	9.6	4.6	x2	2.0	1.5	34.9%
Share of export revenues	67%	70%	-3pp	72%	69%	3pp
Own forestry consumption	63%	57%	6pp	64%	65%	-1pp
Total forestry, '000 m³	3,828	3,050	25.5%	1110	684	62.2%

> 2016 revenue grew as a result of increased production capacity, expansion of paper sack sales to new markets and consolidation of Lesosibirsk Woodworking Plant No. 1 (LWP), which delivered strong performance and contributed RUB 5.7 bln in revenue.

> Adjusted OIBDA grew driven in large part by contributions from LWP and new paper sack production facility in the Rostov region.

> Adjusted profit declined as Segezha's investment programme generated increased depreciation expense, as well as due to higher interest expense. In 2016, Segezha raised a EUR 383.6 mln syndicated loan.

> Record number of paper sacks sold as a result of a new production line in Segezha and the plant in the Rostov region coming online and increased efficiency of sales thanks to switching production to high demand seasons.

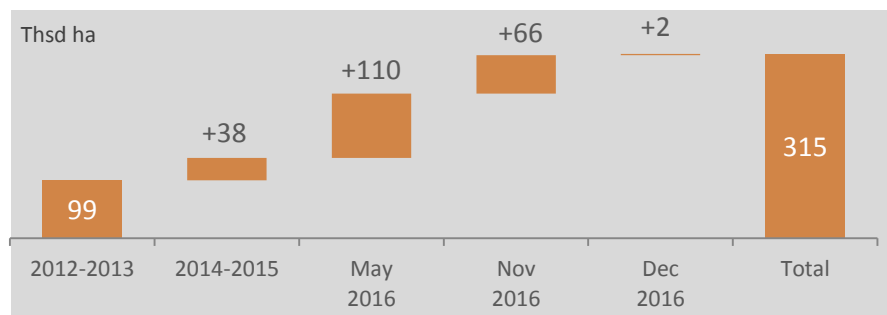
> Sales of sack paper declined in 2016 as Segezha increased use of its own materials to produce sacks.

> Paper production was flat YoY despite a production stoppage at Segezha Pulp & Paper Mill for upgrade work. Timber production more than doubled in 2016 as a result of the consolidation of LWP.

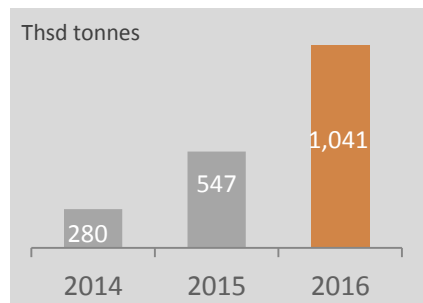


DIVERSIFIED AGRICULTURAL HOLDING: RECORD MARGIN AND HIGH YIELD

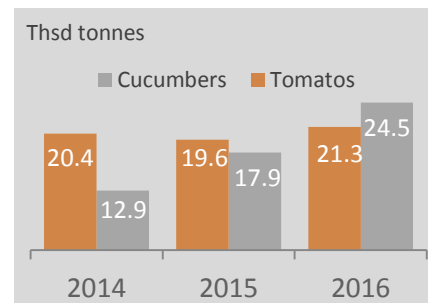
LAND BANK



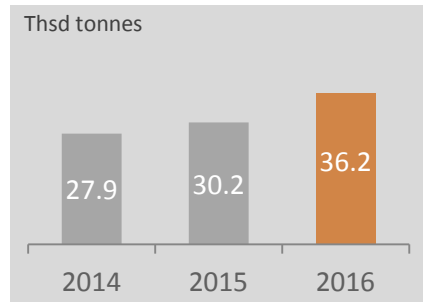
FIELD CROP PRODUCTION*



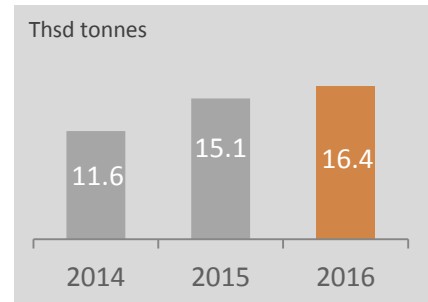
VEGETABLES



MILK PRODUCTION



APPLES



Argroholding Steppe

RUB bln	2016	2015	YoY
Revenue	8.4	2.1	x4
Adj. OIBDA	2.9	0.7	x4
Adj. OIBDA margin	34.2%	31.8%	2.4pp
Adj. profit	0.9	0.1	x6
Net debt	8.3	1.5	x5

RZ Agro**

2016	2015	YoY
3.2	2.3	39.6%
1.1	1.2	-4.6%
35.8%	52.5%	-16.7pp
1.0	0.9	2.6%
-0.3	0.1	n/a

> Steppe's revenue and adjusted OIBDA increases primarily driven by M&A and organic growth due to improved operational efficiencies

> 2016 saw a record harvest of 1.04 mln tonnes of grain. The significant increase in the gross harvest was achieved thanks to the acquisition of additional land as well as implementation of agricultural technologies and improved execution discipline.

> Growth in milk output driven by a 13% YoY expansion of the herd to 3,700 cows and increased productivity. A landmark event for the dairy segment in 2016 was regulatory approval to export to European Union markets based on an assessment that Steppe's milk meets EU standards.

> In 2016, Steppe planted 150 ha of new high-density orchards, which will be fully operational in 2018. Fruit yields increased by 5% in 2016 to 42.1 t/ha.

> Total tomato and cucumber production rose as a result of increase in greenhouses area under cultivation and an increase in yields from 31.6 kg/m² in 2015 to 35.1 kg/m² in 2016.

> In May 2016, an additional 110,000 ha of land in the Stavropol and Rostov regions were acquired and included in the 2016 harvest. The production of grain by new assets increased 65% as compared to 2015. At the end of 2016, Steppe acquired an additional 68,000 ha of land and is currently integrating them into its business.

> In 2016, ownership of Sistema's 50% share in RZ Agro was transferred to Agroholding Steppe as part of the strategy to establish a large-scale agriculture holding.

* Including operating data of Agroholding Steppe and RZ Agro.

** Sistema through 'Agroholding "Steppe"' owns 50% of RZ Agro and does not consolidate the company in the financial statements

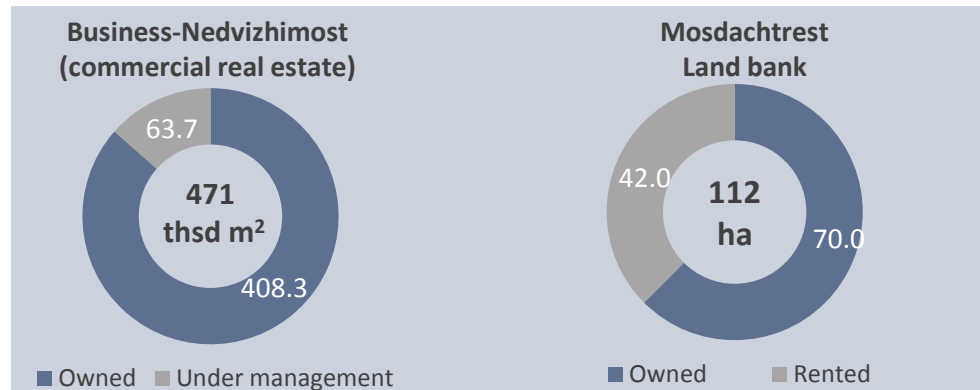


REAL ESTATE ASSETS GROWTH: FIRST TANGIBLE RESULTS AND NEW AREAS OF GROWTH

DIVERSIFIED DEVELOPMENT PORTFOLIO IN MOSCOW

Infill development	Nagatino I-Land	120 Lobachevsky St.	ZIL-YUG
			
Total space, thsd m²			
520	472	268	1,689*
Saleable space (apartments and commercial), thsd m²			
269	329	126	949*
Class			
Comfort, Business, Premium	Business /Comfort+	Business	Comfort+, Business
Implementation period			
2013-2020	2017-2023	2017-2021	2019-2029

RENTAL ASSETS



RUB bln	LEADER INVEST			RENTAL ASSETS		
	2016	2015	YoY	2016	2015	YoY
Revenue	8.8	1.0	x9	4.0	3.5	12.7%
Adj. OIBDA	3.0	-0.5	n/a	2.2	1.2	x2
OIBDA margin	34.2%	n/a	n/a	55.7%	33.1%	22.6pp
Profit	2.3	-0.5	n/a	0.6	0.2	x4
Net debt	0.6	1.1	-48.2%	-1.2	-1.7	n/a

Leader-Invest

- > 9-fold revenue increase in 2016 driven by revenue recognition on the sale of apartments in 5 Moscow residential complexes – Dom na Lyusinovskoy, Dom na Nagatinskoy, Dom na Samarinskoy, Dom na Rogozhskom and Dom na Izumrudnoy.
- > Leader-Invest will continue to implement highly profitable infill construction projects and will also launch construction in complex redevelopment projects Nagatino I-Land and 120 Lobachevsky St.

> In 2017, Leader-Invest plans to become a top-3 developer by total residential offering in “old Moscow”, the most lucrative region of the Russian capital.

> Inaugural 5-year exchange-traded bond totalling RUB 3 bln issued in December 2016 with a coupon rate at 13.5% per annum (1-3 coupons)

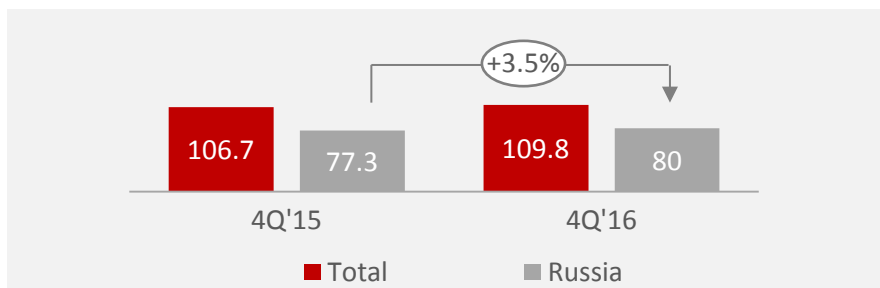
Rental assets

- > Sistema’s rental assets delivered combined revenue of RUB 4.0 bln in 2016, primarily driven by property rentals, as well as the sale of assets.
- > At the end of 2016, Business-Nedvizhimost agreed upon the principal terms of framework agreement with X5 Retail Group for X5 to set up stores on the first floors of former MGTS telephone stations. The first pool of buildings to be leased has been approved.

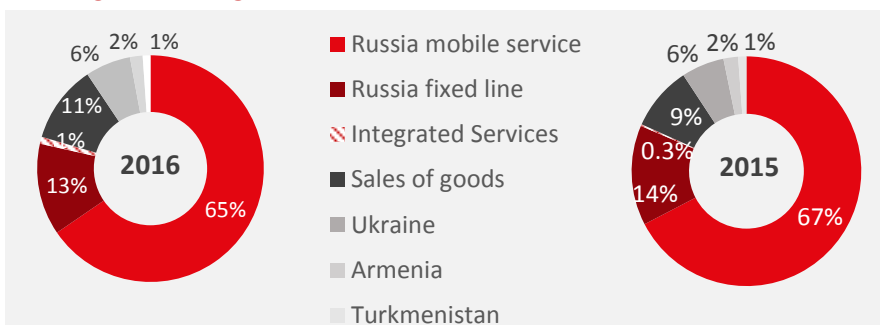
*Accounts for 100% of the space. Sistema’s share in ZIL-YUG is 50%

TOP TELECOM OPERATOR IN RUSSIA: No.1 PLAYER IN RECOVERING MARKET

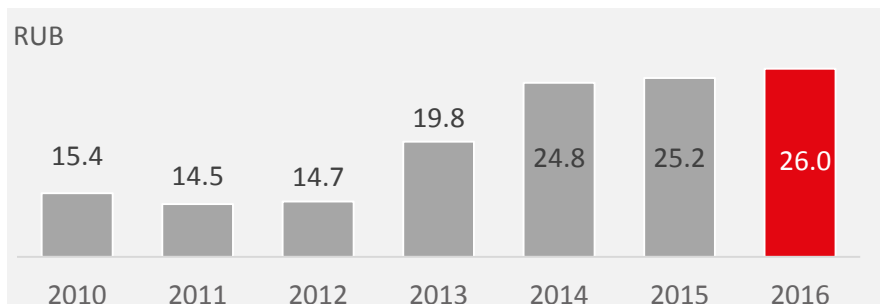
SUBSCRIBER BASE



REVENUE BREAKDOWN



DIVIDEND PER SHARE



*Here and thereafter profit is presented in Sistema's share

RUB bln	2016	2015	YoY	4Q'16	4Q'15	YoY
Revenue	435.7	426.6	2.1%	111.6	111.3	0.2%
Adj. OIBDA	167.6	173.3	-3.2%	41.2	41.4	-0.5%
Adj. OIBDA margin	38.5%	40.6%	-2.1pp	36.9%	37.2%	-0.3pp
Adj. Profit*	25.4	26.5	-4.1%	6.3	3.8	64.1%
Net debt	265.9	310.9	-14.5%	-	-	-
CAPEX	86.1	106.5	-19.1%	26.6	26.4	0.8%

> MTS remains Russia's leading mobile operator, growing revenue in 2016 and in 4Q 2016. Higher data usage and handset sales offset weaker roaming usage and lower contributions from subsidiaries outside Russia.

> An increase in internet traffic was driven by higher subscriber numbers for the "Smart" voice and data tariff in Russia and deployment of a 3G network in Ukraine.

> Adjusted OIBDA declined in 2016 due to macro pressures and retail expansion costs. The adjusted OIBDA margin remained high, despite negative affect by higher sales volumes of relatively low-margin mobile phones.

> Profit increased in 4Q 2016 YoY as lower leverage led to a reduction in interest costs, as well as sharply lower loss at MTS Bank. The decline in profit in 2016 was the result of the repurchase of US\$ 267 mln of MTS's outstanding 2020 Eurobond Notes.

> In 2016, MTS paid out dividends of RUB 52.0 bln.

> In March 2017, Sistema subsidiary Sistema Finance S.A. sold 16,038,892 ordinary shares of MTS in connection with a tender offer to purchase MTS shares, for a total consideration of RUB 4.7 bln. Sistema Group's effective stake in the share capital of MTS stands at 50.03%.



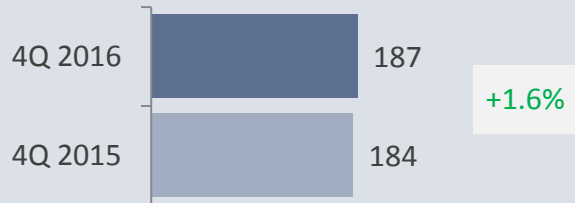
Consolidated results of 4Q 2016



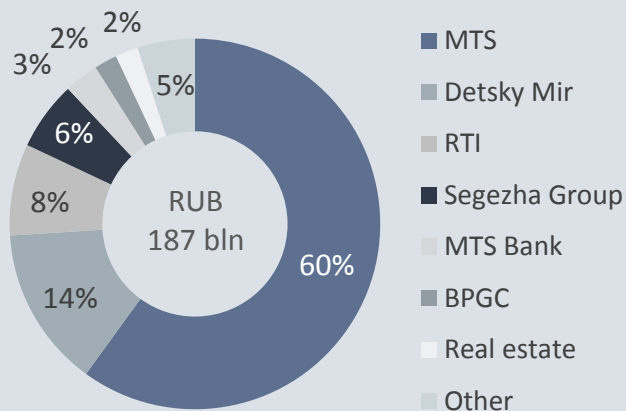
KEY HIGHLIGHTS OF 4Q 2016

CONSOLIDATED REVENUE

RUB bln

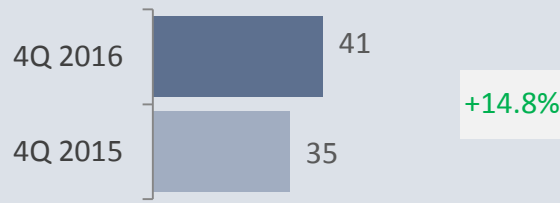


REVENUE BREAKDOWN BY ASSETS

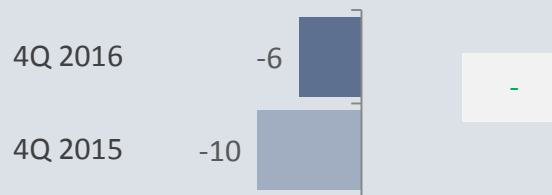


ADJUSTED OIBDA

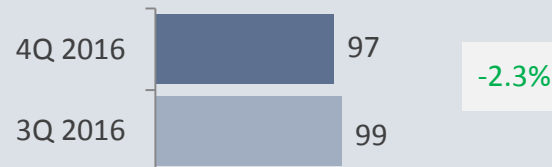
RUB bln



ADJUSTED LOSS



DEBT AT CORP CENTRE*



- Revenues grew YoY due to strong results at Detsky Mir and Segezha Group, as well as organic and M&A-driven growth at agriculture. The growth was partially offset by a decline at RTI and smaller asset sales
- Share of Detsky Mir and non-public assets in the portfolio's revenues up to 40% vs. 39% in 4Q 2015
- Operating performance improved significantly at Detsky Mir and non-public assets, as they generated 12.9% of the portfolio's OIBDA vs. 1.3% in 4Q 2015

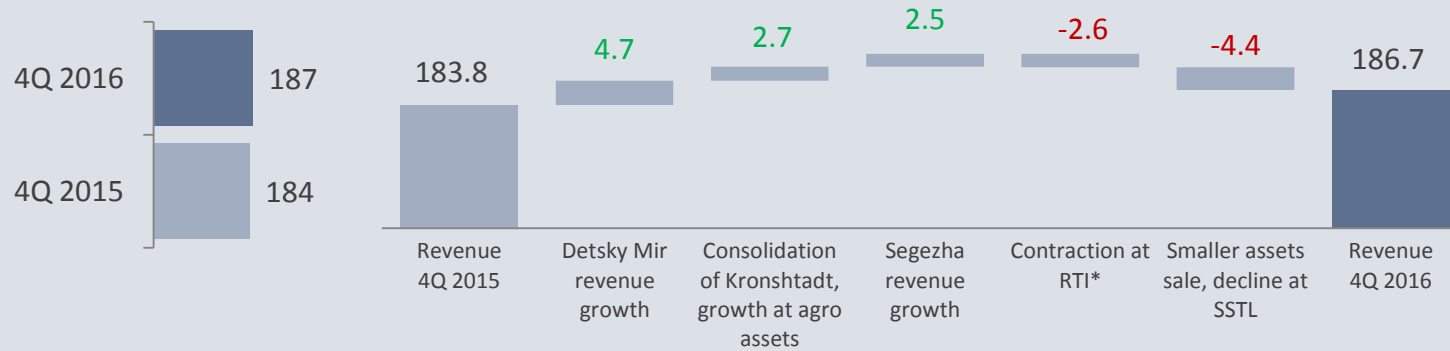
*Excluding liabilities under put option agreement and the agreement with Rosimushchestvo related to SSTL shares



FINANCIAL REVIEW OF 4Q 2016

CONSOLIDATED REVENUE ANALYSIS

IFRS, RUB bln

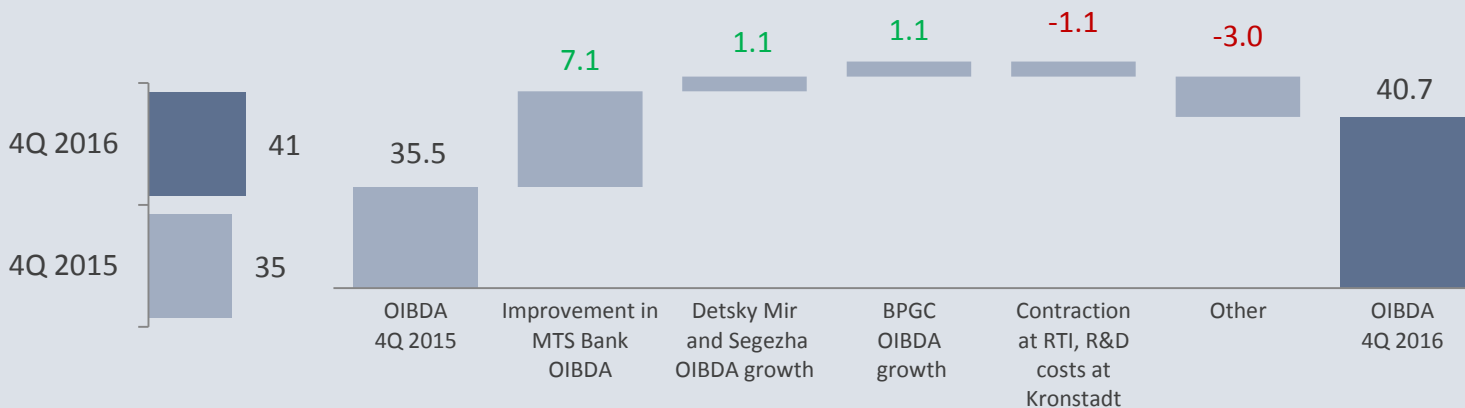


- Seasonally strong revenues at **Detsky Mir** supported by a 8.8% like-for-like growth
- Growth at **Segezha** achieved on the back of modernisation at Segezha PPM and acquisition of a woodworking plant
- Decline at RTI and sale of smaller assets partially offset growth in other portfolio's assets

*Excluding the impact of Nvision assets on RTI's revenues in 4Q'15

ADJUSTED OIBDA ANALYSIS

IFRS, RUB bln

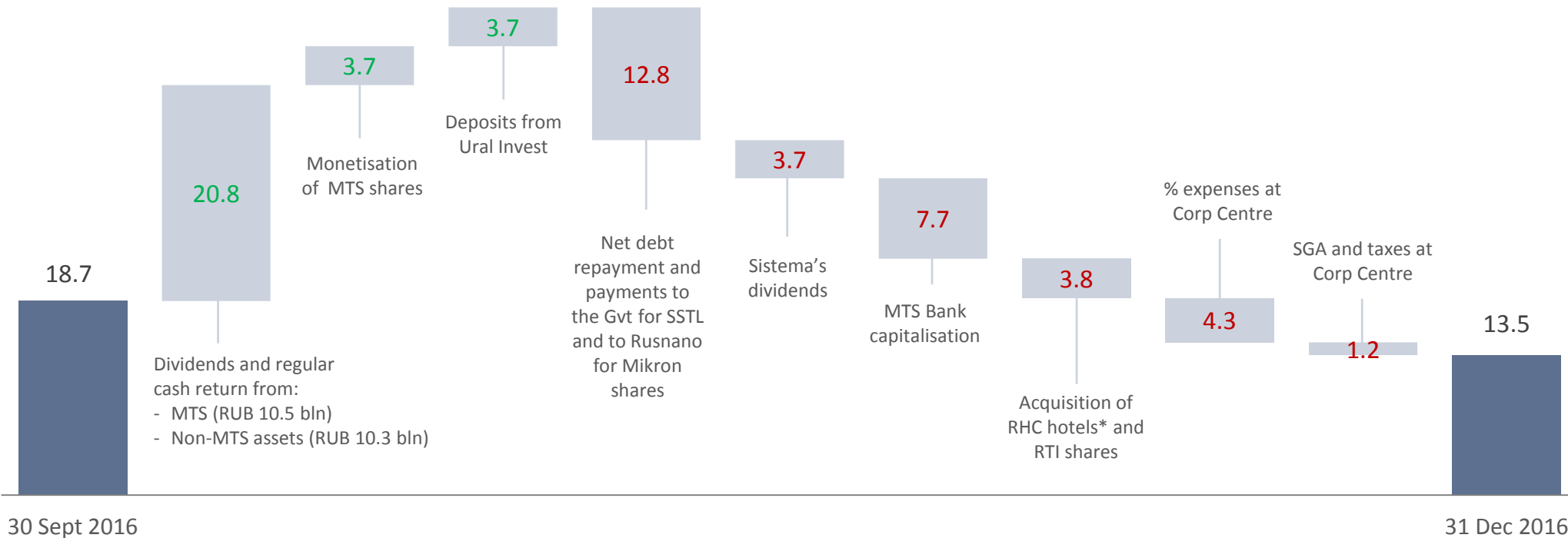


- Contraction of OIBDA loss at **MTS Bank** due to lower provision charges
- **BPGC** OIBDA growth driven by lower provisions for claims of counterparties. OIBDA margin of 36.9%
- **Kronstadt** OIBDA loss driven by investment in new projects



CASH FLOWS AT CORPORATE CENTRE IN 4Q 2016

Management accounts, RUB bln



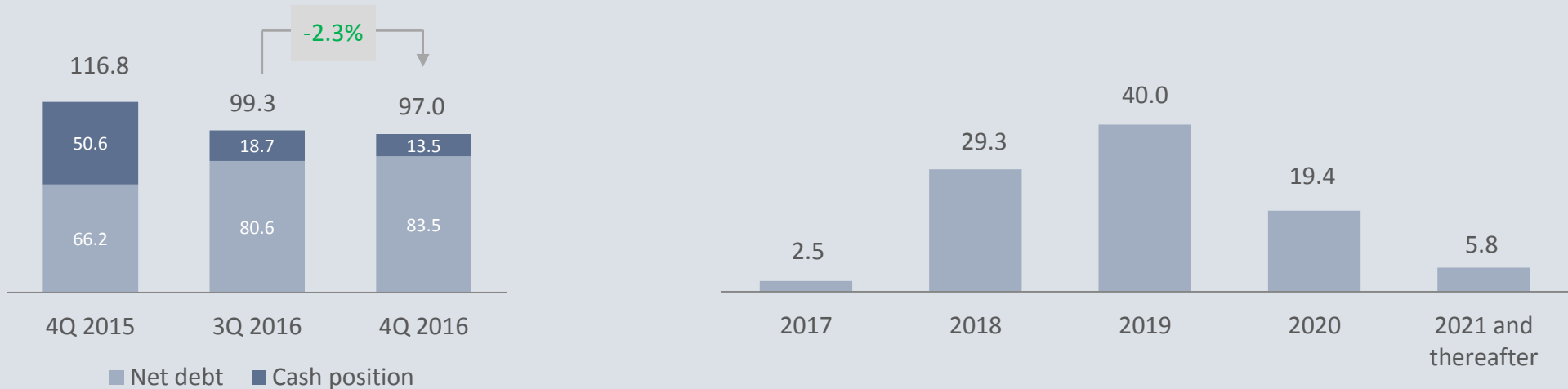
- Deleveraging continued in 4Q 2016 with further reduction of the liability to the Government for SSTL shares and restructuring of the option on Mikron shares
- First interim dividend of RUB 3.7 bln paid during the quarter
- Monetisations continued in 1Q 2017 with Detsky Mir's IPO (RUB 12.9 bln) and MTS buyback (RUB 4.7 bln) successfully closed



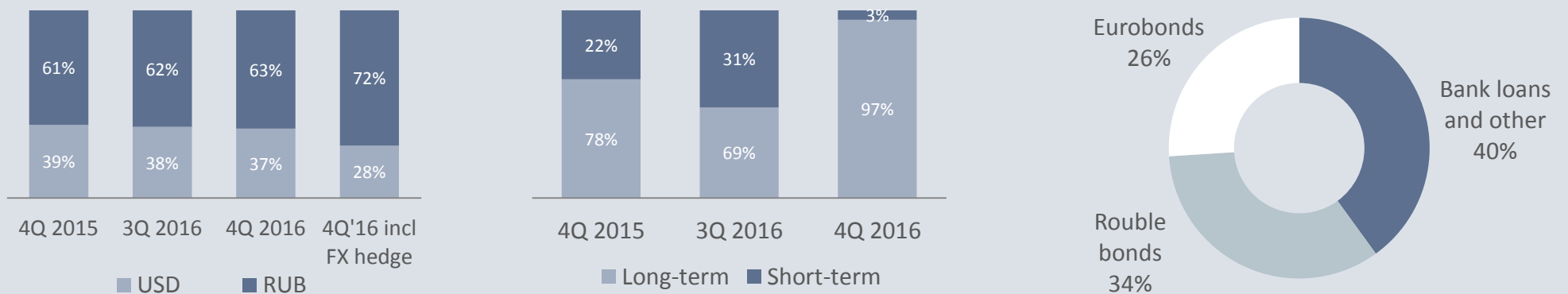
CORPORATE CENTRE'S DEBT PROFILE

CORPORATE CENTRE'S DEBT AND MATURITY PROFILE*

Management accounts, RUB bln



CORPORATE CENTRE'S DEBT STRUCTURE*



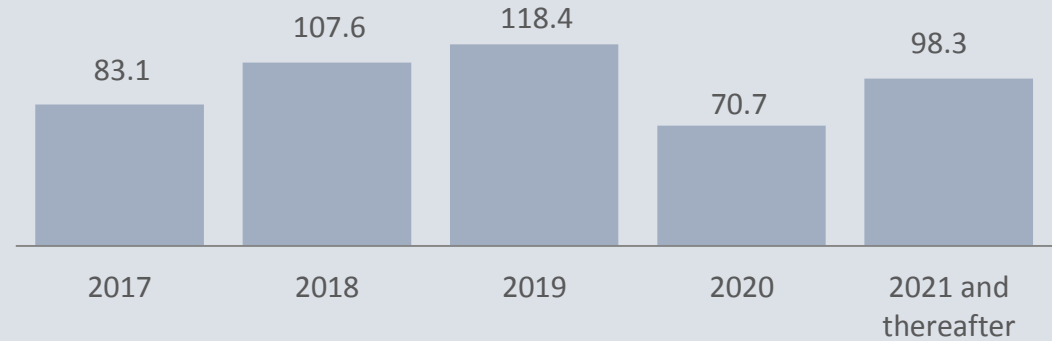
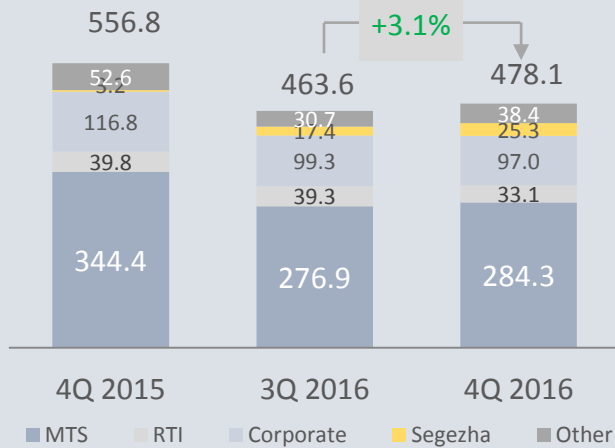
*Excluding liabilities under put options agreements and the agreement with Rosimushchestvo related to SSTL shares



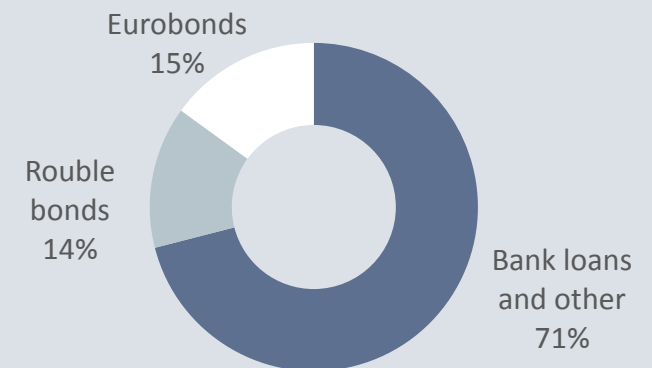
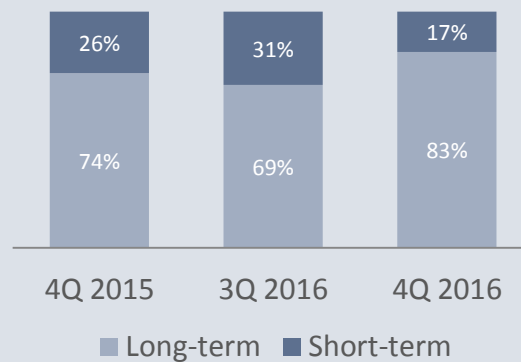
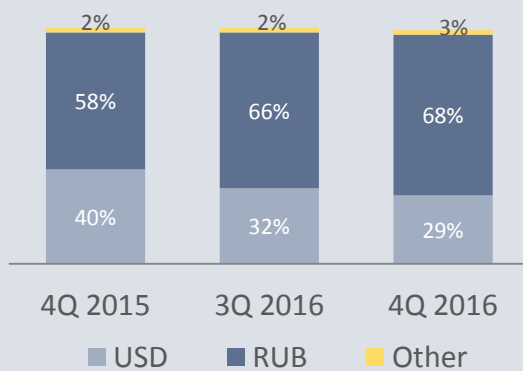
CONSOLIDATED DEBT

CONSOLIDATED DEBT AND MATURITY PROFILE*

Management accounts, RUB bln



CONSOLIDATED DEBT STRUCTURE*



*Excluding liabilities under put options agreements and the agreement with Rosimushchestvo related to SSTL shares



Attachments

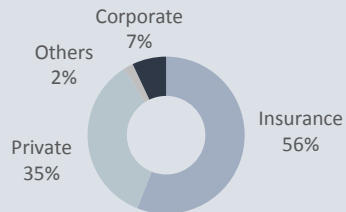


HEALTHCARE (MEDSI) AND PHARMACEUTICALS (BINNOPHARM)

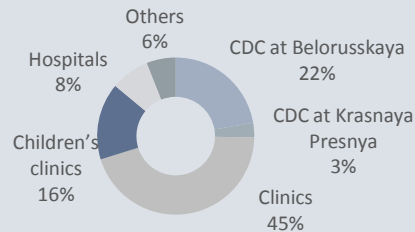
MEDSI

RUB bln	2016	2015	YoY	4Q'16	4Q'15	YoY
Revenue	9.4	8.2	14.4%	2.6	2.3	13.5%
OIBDA	0.8	0.5	72.4%	0.2	0.4	-41.0%
OIBDA margin	8.6%	5.7%	2.9pp	8.5%	16.4%	-7.9pp
Profit/Loss	-0.5	-0.1	n/a	-0.1	0.2	n/a
Net cash	1.3	0.2	628.2%	-	-	-
Patient visits, '000	7 314	7 266	0.7%	1 989	2 043	-2.6%
Services provided, '000	11 483	11 403	0.7%	3 098	3 183	-2.7%

Revenue by clients in 2016



Revenue by assets in 2016

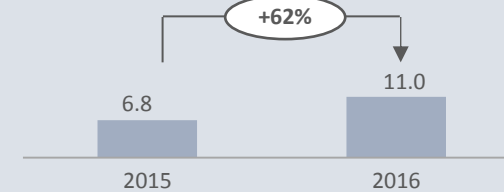


- > Revenue generated from individuals grew by 11% in 2016, while revenue from insurers (including from Mandatory Medical Insurance) rose by 19%, in part due to a 13% increase in patient visits covered by insurance.
- > The clinical-diagnostic centre (CDC) at Belorusskaya, Medsi's largest and busiest facility, grew revenues by 6% YoY. The new CDC at Krasnaya Presnya continues to open new departments, and facilities already in operation posted a utilisation ratio of 65%, but there remains significant scope for increasing traffic by opening additional facilities.
- > 15% revenue growth at Moscow clinics in 2016 driven by increase in patient visits and a 4% increase in the average check. Revenue from regional clinics grew by 7.6% in 2016 driven by optimisations of the sales strategy.
- > OIBDA rose in 2016 despite negative dynamics in 4Q 2016 YoY caused by slightly increased marketing expenses and other accrued non-cash provisions. Net loss was due to higher amortisation expense and pressures from currency revaluation.
- > In January 2017, the Ministry of Health accredited Medsi to host clinical trials for new medicines and treatments. Medsi plans to partner with Binnopharm in this area, and will host trials in cardiology, rheumatology, oncohematology, trauma care and other areas.

Binnopharm

Млрд руб.	2016	2015	YoY	4Q'16	4Q'15	YoY
Revenue	1.9	1.7	16.9%	0.8	0.6	33.4%
OIBDA	0.4	0.2	x2	0.3	0.2	36.7%
OIBDA margin	21.4%	11.6%	9.8pp	39.0%	38.0%	1pp
Profit	0.01	-0.07	n/a	0.14	0.1	34.1%
Net debt	1.5	0.8	83.6%	-	-	-

Production of finished pharmaceutical products, mln



- > Binnopharm delivered strong financial results in 4Q 2016 and full year 2016 thanks to consistent delivery on its strategy. Sales of Binnopharm's own products accounted for 78% of revenue in 2016, up from 43% a year earlier. Sales of Regevak B vaccine declined from 36% of total revenue in 2015 to 29% in 2016. In the commercial segment, sales of Binnopharm's own products increased from 29% of total revenue in 2015 to 47% in 2016.
- > In 2016, Binnopharm opened its own research and development centre, a 400 sq m facility that includes 7 laboratories. More than 20 drugs are at various stages of development and registration.
- > In 4Q 2016, Binnopharm acquired Alpharm, which produces two over-the-counter (OTC) products, Kipferon and Prosopin. The acquisition allows Binnopharm to enter the OTC market. In future the company may benefit from use of its own interferon compounds in drug production.

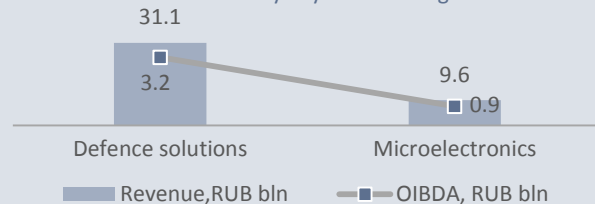


HIGH-TECH (RTI) AND ELECTRIC POWER GRIDS (BPGC)

RTI

RUB bln	2016	2015	YoY	4Q'16	4Q'15	YoY
Revenue without ICT business unit (NVision)*	44.6	63.4	-29.7%	14.2	16.8	-15.7%
Revenue	44.6	77.3	-42.3%	14.2	20.8	-31.9%
Adj. OIBDA	4.0	7.0	-42.6%	1.3	2.1	-39.4%
Adj. OIBDA margin	9.1%	9.1%	0pp	8.9%	10.0%	-1.1pp
Adj. Loss	-2.4	-2.1	n/a	-0.7	-0.3	n/a
Net debt	27.1	26.7	1.2%	-	-	-
Share of debt related to state defence contracts**	12%	43%	-31pp	-	-	-

Results by key business segments

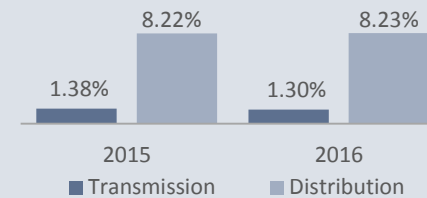


- > RTI's revenue declined in 2016 and 4Q 2016 YoY, reflecting the disposal of NVision in 2015, as well as lower project volumes on large defence contract where work was primarily carried out in 2014 and 2015. Both the key Defence Solutions business unit (BU) and the Microelectronics BU reported lower revenue as customers placed orders later in the year.
- > Adjusted OIBDA decreased for the full year reflecting revenue trends and impairment loss recognition for accounts receivable and supply stock. Adjusted OIBDA margin was flat in 2016.
- > Gross debt decreased in 2016 due to the Defence Ministry's gradual transition from credit financing for defence procurement back to a direct prepayment system. RTI also has on its accounts specially earmarked additional funds for State defence orders amounting to RUB 10 bln that are not included in the net debt calculation.
- > In December 2016, RTI restructured its debt portfolio via loan agreements with VTB Bank. The agreements provide for the deferment of about 60% of RTI Group's debt until 2021, to be followed by annual settlement payments through the end of 2026, as well as grace period for interest payments. The rest of the debt will be refinanced through five-year revolving credit lines, which will give RTI Group additional flexibility in managing its working capital.

BPGC

RUB bln	2016	2015	YoY	4Q'16	4Q'15	YoY
Revenue	16.1	14.8	8.3%	4.6	4.2	9.6%
OIBDA	5.6	4.3	30.1%	1.7	0.6	x3
OIBDA margin	35.1%	29.2%	5.9pp	36.9%	15.0%	21.9pp
Profit	2.7	2.0	33.5%	0.9	0.1	x7
CAPEX	4.5	3.6	24.0%	1.6	1.2	32.3%
New connections, '000	24 232	21 765	11.3%	7 131	6 776	5.2%
Connected power, MVt	394	454	-13.2%	126	127	-0.8%

Losses on distribution and transmission grids



- > Revenue at BPGC grew in 2016 and in 4Q 2016 YoY. In 4Q 2016, OIBDA increased YoY, driven mainly by indexation of electricity transmission tariffs that came into force on 1 July 2016. OIBDA in 2016 was also strong, rising by 30.1%. BPGC continues to be in a long-term regulatory period based on returns on invested capital, running from 2014 to 2023.
- > The OIBDA margin in 4Q 2016 and for the full 2016 increased; these improvements facilitated a reduction in reserves for potential disputes with counterparties in electricity transmission and sales.
- > Technical connections of new users continued to increase in 2016. Losses of electricity remained virtually unchanged at 2015 levels.
- > A strategic goal for BPGC is the reconstruction of Ufa's electricity grid using Smart Grid technology. Preliminary results from the implementation programme indicate a potentially significant reduction in electrical losses given comparable conditions for electrical flows, as well as a reduction in incidents affecting electricity supply and a reduction of operating costs.

*Information and Communications Technologies BU disposed in 2H 2015.

**Share of debt related to state defence contracts (with effectively zero interest rate).

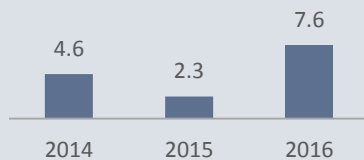


FINANCIAL SERVICES (MTS BANK) AND HOSPITALITY ASSETS

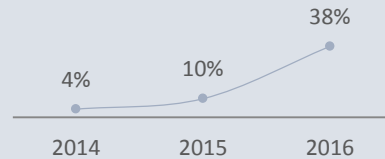
MTS Bank MTS Bank

RUB bln	2016	2015	YoY	4Q'16	4Q'15	YoY
Revenue	20,2	25,6	-21,0%	4,7	5,3	-9,6%
Loss	-2,8	-15,3	n/a	-2,5	-8,8	n/a
Interest income	16,4	20,5	-19,8%	3,8	4,6	-17,4%
Commission income	3,2	3,4	-5,1%	0,8	0,9	-16,6%
Net assets	20,2	8,7	131,5%	-	-	-
Capital Adequacy Ratio (N1)	20,2%	18,5%	1,7pp	-	-	-

Sales of POS-loans in MTS store, RUB bln



POS-loans portfolio yield after reserves, %

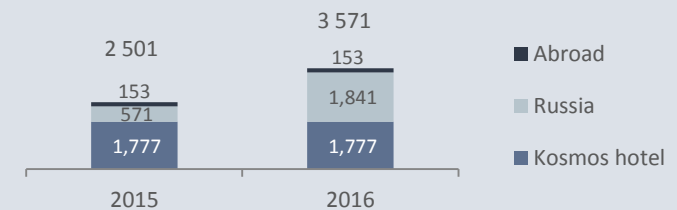


- MTS Bank improved significantly its financial results in 2016 and 4Q 2016 due to reduction in provision charges on the backdrop of optimisation of the bank's lending policy and a new credit scoring system rolled out in 2015-2016.
- Interest income declined in 2016 and 4Q 2016 as a result of reduction in risk appetite and the size of loan book in period of economic contraction, as well as due to lower interest rates in the Russian market. In line with the bank's plans to increase income contributions from low-risk transaction products, the share of fee and commission income increased to 16.0% in 2016, versus 13.3% in 2015.
- In 4Q 2016, MTS Bank strengthened its capital position via a RUB 10.5 billion additional share issue acquired by Sistema and MTS, which will allow to deliver on its strategy of developing as a universal digital financial institution that partners with MTS.
- To build on synergies with MTS's sales network, the bank opened 18 flagship branches under the scheme Bank+Operator (MTS retail shop paired with a fully fledged bank branch) in 2016. The bank opened smaller financial zones at an additional 50 MTS retail shops. In 2017, the bank aims to market its products at more than 1,000 MTS retail shops.

HOSPITALITY ASSETS

Млрд руб.	2016	2015	YoY	4Q'16	4Q'15	YoY
Revenue	2.8	2.5	13.9%	0.8	0.6	32.9%
OIBDA	0.5	0.4	9.7%	0.04	0.1	-64.4%
OIBDA margin	17.5%	18.1%	-0.6pp	5.0%	18.7%	-13.7pp
Loss	-0.3	-0.1	n/a	-0.3	-0.04	n/a
Net debt	4.4	1.3	x3	-	-	-
Room capacity	3771	2501	50.8%	-	-	-

Room capacity by regions



- Sistema's hospitality assets increased revenues by 32.9% year-on-year in the fourth quarter of 2016 and grew by 13.9% for the full year 2016 as a result of Sistema Hotel Management's acquisition of Regional Hotel Chain in the fourth quarter, which increased the number of hotel rooms operated by Sistema from 2,501 to 3,771.
- OIBDA declined by 64.4% year-on-year in 4Q 2016, but rose by 9.7% for the full year. Loss at hospitality assets was RUB 265 million in the fourth quarter and RUB 252 million for the full year. This was primarily the result of a decrease in revenues in rouble terms from hotels outside Russia as a result of the strengthening of the rouble.
- In 4Q 2016, the acquisition for RUB 2.6 billion of Regional Hotel Chain consisting of nine hotels with a total of 1,379 rooms was completed. The hotels are Courtyard by Marriott Paveletskaya (Moscow), Holiday Inn Express (Voronezh) and seven hotels operating under the Park Inn by Radisson brand in Astrakhan, Izhevsk, Kazan, Novosibirsk, Sochi, Volgograd and Yaroslavl.



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SISTEMA

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