



## SISTEMA ANNOUNCES FINANCIAL RESULTS FOR THE FIRST QUARTER 2017

**Moscow, Russia** – 5 June 2017 – Sistema PJSC (“Sistema” or the “Company”, together with its subsidiaries, “the Group”) (LSE: SSA, MOEX: AFKS), a publicly-traded diversified holding company operating primarily in Russia and the CIS, today announces its unaudited consolidated financial results in accordance with International Financial Reporting Standards (IFRS) for the first quarter ended 31 March 2017.

### OPERATIONAL AND STRATEGIC PROGRESS

- Resilient performance underscoring strength and diversity of the portfolio
- All key portfolio assets profitable at the adjusted OIBDA level: Group adjusted OIBDA margin improved YoY
- Largest asset, MTS, increased OIBDA YoY and improved OIBDA margin to 39.7%
- Strong revenue growth at Detsky Mir, Leader Invest, Medsi and hospitality assets
- MTS Bank delivered on strategy and reported positive bottom-line
- Successful asset monetisations including landmark IPO of Detsky Mir and MTS share sale

### SOLID FIRST QUARTER FINANCIAL RESULTS

- Revenues largely stable YoY at RUB 163.4 billion
- Consolidated revenues of Russian portfolio companies up 0.9% YoY
- Adjusted OIBDA<sup>1</sup> up 3.2% to RUB 44.4 billion; adjusted OIBDA margin improved to 27.2% from 26.2% a year earlier
- Adjusted profit attributable to Sistema of RUB 1.6 billion
- As of 31 March 2017, cash position<sup>2</sup> at the Corporate Centre level was RUB 20.5 billion
- Net debt<sup>3</sup> at the Corporate Centre level amounted to RUB 73.8 billion as of 31 March 2017

Mikhail Shamolin, President and Chief Executive Officer of Sistema, commented:

*“In the first quarter of 2017 Sistema delivered strongly against its key strategic objectives, which was reflected in solid results across our portfolio, successful asset monetisations and continued investment momentum.*

*“Consolidated revenues of our Russian portfolio companies increased by 1% and their OIBDA was up by 4% year-on-year. While our largest asset, MTS, confirmed its position as Russia’s leading telecom operator and notably improved its OIBDA margin, our children’s goods retailer Detsky Mir, healthcare group Medsi and real estate developer Leader Invest posted particularly robust growth, once again demonstrating Sistema’s expertise at establishing and growing market leaders in various core sectors of the Russian economy.*

*“One of our key achievements during the quarter was Detsky Mir’s RUB 19 billion IPO, which reopened the Russian public issuance market for global investors, being the first Russian IPO with full scale international marketing since 2014. Over 90% of the offering was subscribed by foreign investors. Proceeds from the transaction for Sistema reached 13 billion roubles which together with other inflows further strengthened our investment resources.*

*“During the quarter and thereafter we continued to see strong investment momentum in agriculture, with acquisition of around 36,000 hectares of high quality land in southern Russia which brought our total agricultural land bank to over 350,000 hectares. Our investment pipeline of large projects remains extensive, as we continue to identify and pursue the best opportunities to create value in our core Russian market.*

<sup>1</sup> See Attachment A for definitions and reconciliation of adjusted OIBDA and adjusted profit to IFRS financial measures.

<sup>2</sup> Including highly liquid deposits and liquid financial investments, based on management accounts. See Attachment A for reconciliation to IFRS financial measures.

<sup>3</sup> Including highly liquid deposits and liquid financial investments, based on management accounts. See Attachment A for reconciliation to IFRS financial measures.

*“In May 2017, Sistema received a legal claim filed by Rosneft and PJSOC Bashneft for the recovery of damages in the amount of RUB 106.6 billion allegedly incurred by the plaintiffs due to the reorganisation of Bashneft. Soon thereafter the plaintiffs filed a motion to increase the amount of the claim to RUB 170.6 billion. The plaintiffs’ actions have seriously damaged Sistema’s market capitalisation. Nevertheless, Sistema is confident that the claims of the plaintiffs are unfounded and unlawful and Sistema will vigorously defend its interests by all legal means.*

*“During ownership of Bashneft, Sistema developed it into one of the best oil companies, creating enormous value for all of Bashneft’s stakeholders, including the Russian Federation as the recipient of taxes and Bashneft’s subsequent owner. All corporate actions mentioned in the claim were aimed at maximising Bashneft’s value ahead of a possible IPO on international markets, in line with Sistema’s business model. Bashneft’s reorganisation was carried out for that purpose in full compliance with Russian laws.*

*“In the interests of all Sistema’s shareholders and other stakeholders and to safeguard our reputation, we are committed to maintaining full transparency around this claim and our defence against it. Accordingly, on our web-site we have established a dedicated public portal containing relevant information, which we will update as the matter progresses.”*

### **Conference call information**

Sistema’s management will host an analyst conference call today at 10:00 am (EST)/ 3:00 pm (London time) / 4:00 pm (CET)/ 5:00 pm (Moscow time) to present and discuss the first quarter 2017 results.

The dial-in numbers for the conference call are:

#### **Russia**

+7 495 213 1767  
8 800 500 9283 (toll free)

#### **United Kingdom**

+44 330 336 9105  
0800 368 0935 (toll free)

#### **United States**

+1 719 325 2202  
888 389 5986 (toll free)

#### **Conference ID: 7384037**

Alternatively, you can quote the conference call title: “Sistema First Quarter 2017 Financial Results”.

A replay of the conference call will be available on the Company’s website [www.sistema.com](http://www.sistema.com) for seven days after the event.

**For further information, please visit [www.sistema.com](http://www.sistema.com) or contact:**

#### **Investor Relations**

Yuri Krebs  
Tel: +7 (495) 730 66 00  
[y.krebs@sistema.ru](mailto:y.krebs@sistema.ru)

#### **Public Relations**

Sergey Kopytov  
Tel.: +7 (495) 228 15 27  
[kopytov@sistema.ru](mailto:kopytov@sistema.ru)

## **FINANCIAL SUMMARY AND GROUP OPERATING REVIEW**

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	163,350	164,265	<i>(0.6%)</i>
Adjusted OIBDA	44,395	43,001	3.2%
Operating income	20,267	19,716	2.8%
Profit attributable to Sistema	1,579	1,994	<i>(20.8%)</i>
<i>Adjusted profit attributable to Sistema</i>	1,579	2,235	<i>(29.3%)</i>

Sistema's consolidated revenue decreased by 0.6% year-on-year in the first quarter of 2017, with strong sales growth at children's goods retailer Detsky Mir offsetting a decline in revenue from Indian telecommunications subsidiary SSTL, which was in line with expectations as the company continues to work towards the merger of its telecommunications business with Reliance Communications. Excluding SSTL, Group revenue increased by 0.9% year-on-year.

Group selling, general and administrative expenses (SG&A) increased by 0.8% year-on-year to RUB 37.3 billion, reflecting growth of the retail network at MTS and Detsky Mir's expansion with a continued focus on cost discipline. SG&A at the Corporate Centre decreased by 18.7% year-on-year to RUB 1.6 billion. Group depreciation and amortisation expenses increased by 4.7% year-on-year to RUB 24.1 billion.

In the quarter, Group adjusted OIBDA increased by 3.2% year-on-year to RUB 44.4 billion with OIBDA growth at MTS and Medsi more than compensating for a decline at SSTL. All consolidated assets were profitable on the OIBDA level (with the exception of SSTL), despite the seasonally weak first quarter. The Group's adjusted OIBDA margin was 27.2% in the reporting quarter, compared to 26.2% in the corresponding period of 2016.

Adjusted profit attributable to Sistema decreased to RUB 1.6 billion in the reporting quarter, compared to RUB 2.2 billion in the first quarter of 2016, due to lower finance income, lower FX-gains at MTS and higher depreciation and amortisation expenses at Segezha Group.

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

### **MTS**

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	104,683	105,864	<i>(1.1%)</i>
OIBDA <sup>5</sup>	41,540	40,319	<i>3.0%</i>
Operating income	21,409	20,831	<i>2.8%</i>
Profit attributable to Sistema	6,244	7,756	<i>(19.5%)</i>

MTS's revenue declined by 1.1% year-on-year in the first quarter, affected by fewer days in the first quarter of 2017 compared to 2016 (the leap year) and depreciation of the Ukrainian hryvnia. Excluding these factors, revenue remained stable.

Adjusted OIBDA, including MTS's share in MTS Bank results, grew by 3.0% year-on-year, while the adjusted OIBDA margin increased to 39.7%, driven by optimisation of roaming costs, an increase in service revenue, and a recovery in the profitability of Ukrainian operations.

Profit attributable to Sistema decreased by 19.5% year-on-year due to lower foreign exchange gains, expansion of MTS's retail network (compared to the first quarter of 2016) and a decrease in interest income.

In the first quarter of 2017, MTS and Ericsson held the first trials of 5G technology in Russia, achieving record data transfer speeds of 25 GB/bps. The trials involved innovative technologies during the trials, including Multi-User and Massive MIMO, Beam Tracking and Dynamic TDD.

In March 2017, MTS successfully placed four-year RUB 10 billion exchange-traded bonds. The semi-annual coupon was set at 8.85% per annum.

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

In April 2017, MTS's Board of Directors recommended that the AGM approve payment of dividends for 2016 in the amount of RUB 15.6 per ordinary share (RUB 31.2 per ADR). If shareholders approve this recommendation, MTS will pay up to RUB 31.17 billion in dividends for 2016.

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

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	21,061	16,414	<i>28.3%</i>
Adjusted OIBDA	1,109	806	<i>37.6%</i>
Operating income	400	435	<i>(8.0%)</i>
Adjusted profit attributable to Sistema	77	76	<i>0.6%</i>

Detsky Mir's revenue increased by 28.3% year-on-year in the first quarter due to double-digit growth of like-for-like sales and increased traffic at stores opened in 2016. Like-for-like revenue growth was 11.2% in the first quarter of 2017. The number of checks grew by an impressive 13.3% on a like-for-like basis.

The group opened two new Detsky Mir stores in the reporting period. E-commerce remains a key priority for the company, with e-commerce revenue nearly doubling year-on-year and amounting to RUB 900 million.

Adjusted OIBDA increased by 37.6% year-on-year. Selling, administrative and other operating expenses as a share of revenue declined by 3.0 percentage points year-on-year thanks to on-going improvements in workforce productivity and optimisation of rental costs.

Detsky Mir Group, which had 521 stores as of the end of the reporting quarter, plans to continue its active expansion and open at least 70 new stores in 2017.

<sup>4</sup> Here and from hereon, revenues are presented on an aggregated basis, excluding revenues from intra-segment (between entities in the same segment) transactions, but before inter-segment (between entities in different segments) eliminations, unless accompanied by the word "consolidated". Amounts attributable to individual companies, where appropriate, are shown prior to both intra-segment and inter-segment eliminations and may differ from respective standalone results due to certain reclassifications and adjustments.

<sup>5</sup> Including share in results of MTS Bank

<sup>6</sup> Detsky Mir's results were adjusted for additional bonus accruals under the LTI program (including related tax effects).

In March 2017, S&P Global Ratings assigned an inaugural long-term corporate credit rating of 'B+' to Detsky Mir with a Stable Outlook.

### Segezha Group

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	9,488	11,377	(16.6%)
Adjusted OIBDA	1,273	2,503	(49.1%)
Operating income	387	1,686	(77.0%)
Adjusted profit attributable to Sistema	59	968	(93.9%)

Revenue at Segezha Group decreased by 16.6% year-on-year in rouble terms, but increased by 10% year-on-year as calculated in euros. Adjusted OIBDA declined year-on-year as a result of lower revenues, a modest increase in logistics costs and an increase in the cost of raw materials. Segezha's strategy for 2017 aims to increase the company's operational efficiency to boost its financial results in rouble terms. Respective measures include cost optimisation, reshaping logistics to concentrate on the most cost-efficient markets and focusing on high-margin products.

Profit decreased by 93.9% on the back of lower OIBDA, higher depreciation costs related to implementation of the investment programme, as well as an increase in interest expenses.

On the operational side, sales of paper sacks increased year-on-year thanks to increased exports to Europe, Africa and the Middle East. Paper sack output increased by 7.7% year-on-year to 291.3 million, mainly due to the launch in 2016 of a new plant in Salsk and the launch of a new packaging line in Segezha. Segezha Group continues to increase the use of its own materials. As a result, sales of sack paper to third-party buyers declined year-on-year. Segezha Group produced 77,400 tonnes of paper in the quarter, up 4.2% year-on-year.

Sales of sawn timber increased year-on-year due to optimisation measures adopted by the division's enterprises. Sawn timber production increased to 205,400 cubic metres, up 21.5% year-on-year. Sales of birch plywood increased year-on-year, due to the expansion of the client base on terms that are favourable for the Group. In the reporting quarter, plywood production volumes remained at the same level as in 2016 and amounted to 24,200 cubic metres as a result of full capacity utilisation.

In May 2017, Segezha Group created a new division dedicated to wooden house construction, which is expected to develop into a high-quality market player that will compete with European peers.

### Agroholding Steppe

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	1,204	1,097	9.8%
OIBDA	112	180	(38.0%)
Operating loss	(68)	(70)	-
Loss attributable to Sistema	(276)	(208)	-

In the first quarter of 2017, Steppe's revenues increased by 9.8% year-on-year thanks to expansion of the business, increased output volumes and rising prices for products including cucumbers and raw milk, which accounted for the majority of sales. Seasonal weakness typical for the agricultural business combined with a higher cost base due to expansion of the business resulted in a decrease of OIBDA margin to 9.3%.

In addition to rising prices, milk sales volumes in the reporting quarter were positively affected by a 24% increase in the herd to 3,965 cows. Agroholding Steppe is currently undertaking construction of a new "model" commercial dairy farm that will house 1,800 cows, with a partial launch scheduled for year-end.

Since the beginning of 2017, Sistema acquired additional 36,000 hectares of land. As of today, Steppe's total land bank stands at approximately 351,000 hectares.

As part of its operational efficiency programme, the company continues to introduce modern agricultural technologies, increase per-head yield in its dairy segment and optimise milk sales. The process of upgrading equipment at new subsidiaries and affiliates is almost complete, and measures are being undertaken to optimise production costs in the vegetable segment. Special treatment of orchards planted before 2008 is expected to help to increase yields from as early as 2018.

## RTI

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	8,044	8,722	(7.8%)
OIBDA	220	807	(72.7%)
Operating (loss)/income	(422)	233	-
Loss attributable to Sistema	(1,432)	(675)	-

RTI's revenues declined in the first quarter of 2017 as a result of the rescheduling of contracting by clients in the Defence Solutions business unit. Revenues from the Microelectronics business grew by 7.9%.

The OIBDA margin decreased in the first quarter of 2017, primarily due to creation of impairments for inventories in the Microelectronics business unit, and also as a result of lower revenue from the Defence Solutions business unit.

In the first quarter of 2017, Mikron's microchips for public transportation cards were awarded the status of first level domestic production from the Ministry of Industry and Trade. The microchips are designed for use in secure access systems with robust information protection requirements.

In May 2017, Sistema and RTI received information about a claim by the Russian Ministry of Defence (MoD) seeking damages from RTI JSC in the amount of approximately RUB 5 billion. As of the date of this press release, the Moscow Arbitration Court had provisionally deferred the decision regarding acceptance of the claim until 15 June 2017. RTI continues to work with the MoD on a number of projects.

## Medsi

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	2,534	2,253	12.5%
OIBDA	726	43	1,594.2%
Operating income/(loss)	408	(263)	-
Profit /(loss) attributable to Sistema	288	(244)	-

In the first quarter of 2017, Medsi's revenues increased by 12.5% year-on-year, mainly due to increased traffic and average check per visit driven by an increased share of advanced medical services (including under Mandatory Medical Insurance, or MMI) and comprehensive check-up programmes, as well as a more active marketing campaign. The Clinical Diagnostic Centre at Krasnaya Presnya delivered strong results, which had a positive effect on total revenues.

Medsi's OIBDA increased nearly 17 times year-on-year to RUB 726 million, while the OIBDA margin grew to 28.7%. This strong performance was due to an increase in revenues and optimisation of administrative expenses, as well as due to the sale of a loss-making fitness centre in Moscow.

In the first quarter of 2017, Medsi's profit attributable to Sistema was RUB 288 million, compared to a net loss in the first quarter of 2016.

In the reporting period, Medsi and Philips created a training centre for medical specialists at the Clinical Diagnostic Centre at Krasnaya Presnya. The centre will focus on comprehensive check-up and is expected to train up to 1,000 specialists per year by 2019.

In 2017, Medsi and MTS are set to become one of Russia's first providers of "telemedical" services. Online medical consultation services will provide patients with access to highly qualified Medsi physicians. The new technology will shorten waiting times and make medical care more accessible.

## Bashkirian Power Grid Company (BPGC)

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	<b>4,586</b>	4,088	12.2%
OIBDA	<b>1,616</b>	1,476	9.5%
Operating income	<b>1,036</b>	859	20.6%
Profit attributable to Sistema	<b>794</b>	693	14.5%

BPGC's revenue grew by 12.2% year-on-year in the reporting period due to indexation of tariffs starting from July 2016. OIBDA increased by 9.5% year-on-year and the OIBDA margin remained strong at 35.2% thanks to control over operating costs. Profit increased by 14.5% year-on-year to RUB 794 million.

Losses in distribution networks slightly increased to 10.5% in the reporting period from 10.04% in the first quarter of 2016 due to the commissioning of CCGT-410 Novo-Salavat, which led to an increase in transit electricity flows. At the same time, the number of emergency shutdowns at LLC Bashkirenergo decreased by 19.6% in 2016, thanks to continued implementation of a technical modernisation and reconstruction programme.

The roll-out of the modernisation project for Ufa's electricity network using Smart Grid technology is moving ahead, with installation of smart nodes continuing across the city's distribution points.

The pace of new technical connections declined as a result of a shift of connections to later periods.

#### **Sistema Shyam TeleServices Ltd. (SSTL)**

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	1,555	3,964	(60.8%)
OIBDA	(1,195)	47	-
Operating loss	(1,391)	(196)	-
Loss attributable to Sistema	(1,219)	(1,177)	-

Sistema and Reliance Communications Ltd ("RCom") continue to work towards the merger of SSTL's telecommunications business with RCom. As of close of business on 2 June 2017, Sistema and RCom were in the final stage of discussions with the Department of Telecommunication of India (DoT) regarding closing conditions for the potential transaction. The completion of the transaction is expected in June-July 2017, subject to receipt of final approvals from DoT and RCom meeting the closing conditions.

#### **MTS Bank**

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	4,581	5,373	(14.7%)
OIBDA	276	26	962.0%
Operating profit/(loss)	131	(148)	-
Profit/(loss) attributable to Sistema	63	(143)	-

Revenue at MTS Bank declined by 14.7% year-on-year. The Bank returned to profitability thanks to an increase in consumer lending, lower provision charges and optimisation of operating expenses. MTS Bank issued RUB 4.5 billion of new consumer loans in the first quarter of 2017, compared to RUB 1.7 billion in the corresponding period of 2016.

In line with its strategy, the Bank continued to grow sales of low-risk transaction products. In the reporting quarter, the share of fee and commission income increased to 20.6% compared to 13.7% in the first quarter of 2016. Interest income declined year-on-year due to a contraction of the Bank's balance sheet and lower interest rates on the Russian market.

MTS Bank continued to roll out a new digital strategy focused on remote customer service offerings. To build on synergies with MTS, the Bank launched a new product that allows MTS customers to take out microloans to pay for services using their mobile account. Loan repayment by MTS customers has been simplified with a system whereby funds are debited from mobile accounts, helping to improve credit histories of borrowers and prevent late repayments.

#### **Real Estate (Leader Invest, Business-Nedvizhimost, Mosdachtrest)<sup>7</sup>**

<i>(RUB millions)</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>Change</b>
Revenues	3,084	1,997	54.5%
OIBDA	801	498	60.8%
Operating income	694	374	85.6%

<sup>7</sup> Based on management accounts

Profit attributable to Sistema	334	269	24.0%
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Leader Invest's revenues grew by 85.9% to RUB 2.4 billion in the first quarter 2017. As of the end of the reporting period, Leader Invest held 45,000 sq m of real estate in Moscow. Cash inflow from sales was up 73.4% year-on-year to RUB 2 billion, while sq m sold grew by 72.1% to nearly 8,000.

OIBDA at Leader Invest increased by 68.1% year-on-year with an OIBDA margin of 31.0%. In the reporting period, the company delivered profit of RUB 0.5 billion.

At the beginning of the year, Leader Invest began work on three new projects in Moscow – Dom na Veshnyakovskoy, Dom v Kuskovo and Dom na Skhodnenskoy.

In the first quarter 2017, Leader-Invest was granted permission to start construction work on four projects: 4/3 Nagatinskaya St., Mishina, S. Kovalevskaya and F. Poletayeva. The company also signed a general contractor agreement to carry out work on 120 Lobachevsky St., and the design contract for stages three to five of Nagatino I-Land.

Combined revenue of Sistema's rental assets (which also include Business Nedvizhimost and Mosdachtrest) declined by 2.6% year-on-year. The slight decrease was due to the sale of some rental assets of Mosdachtrest in previous periods.

Combined OIBDA of rental assets grew by 4.6%, while the OIBDA margin increased from 8.1% to 8.7% in the first quarter 2017. Rental assets posted a net loss in the reporting period due to an increase in property tax, which will be revised along with cadastral value of property in subsequent periods.

### Binnopharm

<i>(RUB millions)</i>	1Q 2017	1Q 2016	Change
Revenues	319	312	2.2%
OIBDA	38	2	2,312.4%
Operating income/(loss)	2	(30)	-
Loss attributable to Sistema	(34)	(29)	-

In the reporting quarter, revenue at Binnopharm increased by 2.2% year-on-year due to growth in sales of the company's own products. The OIBDA margin improved by 11.3 percentage points year-on-year in the first quarter of 2017 due to an increase in the share of high margin sales of Binnopharm's own products, as well as due to a reduction in sales, general and administrative expenses.

In the first quarter of 2017 Binnopharm posted a loss attributable to Sistema of RUB 34 million due to an increase in interest expense on additional loan financing, as well as a higher depreciation as a result of renovations completed by the company in previous periods.

### Hospitality assets

<i>(RUB millions)</i>	1Q 2017	1Q 2016	Change
Revenues	824	519	58.6%
OIBDA	73	35	110.1%
Operating loss	(82)	(30)	-
Loss attributable to Sistema	(166)	(74)	-

Revenue from hospitality assets in the first quarter of 2017 grew by 58.6% year-on-year as a result of Sistema Hotel Management's acquisition of Regional Hotel Chain in the fourth quarter of 2016. Regional Hotel Chain consists of nine properties across Russia that operate under the Park Inn by Radisson, Courtyard by Marriott and Holiday Inn Express brands. The consolidation of these hotels also positively impacted OIBDA, which more than doubled year-on-year, as well as the OIBDA margin. The negative effect of a stronger rouble across a number of properties outside Russia was negated by higher occupancy rates.

### Corporate

<i>(RUB millions)</i>	1Q 2017	1Q 2016	Change
OIBDA	(1,686)	(2,685)	-
Net loss	(2,754)	(4,481)	-

Indebtedness	94,296	110,612	(14.8%)
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The Corporate segment comprises companies that control and manage Sistema's interests in its subsidiaries.

In the first quarter of 2017, the Corporate Centre's SG&A decreased by 18.7% year-on-year to RUB 1.6 billion.

Sistema's cash position at the Corporate Centre amounted to RUB 20.5 billion as of March 31, 2017 as compared to RUB 13.5 billion at the end of the fourth quarter of 2016. In the first quarter of 2017, Sistema invested RUB 6.3 billion into existing and new assets.

### **KEY GROUP HIGHLIGHTS IN THE FIRST QUARTER AND AFTER THE REPORTING PERIOD**

In May 2017, Sistema received a legal claim filed by Rosneft and PJSOC Bashneft against the Company and its subsidiary Sistema-Invest JSC for the recovery of damages in the amount of RUB 106,629,934,819, allegedly incurred by the plaintiffs due to the reorganisation of PJSOC Bashneft. Later in May 2017, Sistema received a motion filed by Rosneft and PJSOC Bashneft with the Republic of Bashkortostan Arbitration Court to increase the amount of damages under their legal claim to RUB 170,619,477,257.91. Sistema disputes the claim and considers the demands of the plaintiffs to be unlawful and unfounded. All corporate actions noted in the claim were carried out lawfully and in accordance with the best corporate governance practices with the objectives of growing the business and increasing the value of PJSOC Bashneft.

In May 2017, Sistema subsidiary Sistema Finance JSC acquired from a non-affiliated seller 71,433,524 of Sistema ordinary shares, representing 0.74% of Sistema's share capital for a total consideration of approximately USD 27.86 million. The shares were purchased for general corporate purposes, including incentive programmes for employees and senior management. As a result of this transaction, Sistema Group owns 2.3% of the Company's total share capital.

In March 2017, Sistema successfully closed the book on its series 001P-06 exchange-traded bond issue with a nominal value of RUB 15 billion, as part of its Exchange-Traded Bond Programme. The rates for coupons 1-10 were set at 8.90% per annum. The bonds mature in 10 years, but bondholders have put options exercisable five years after the date of placement.

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 billion. Sistema Group's effective stake in the share capital of MTS stands at 50.03%.

In February 2017, Detsky Mir completed an initial public offering on Moscow Exchange. The IPO price was set at RUB 85 per share, implying a market capitalisation of RUB 62.8 billion when shares began trading on 10 February 2017. Sistema sold 151,301,256 shares via the offering, and held a stake in Detsky Mir's equity capital of 52.1% post-offering.

In January 2017, Sistema announced that the entire debt of RTI Group, except for liabilities pertaining to state defence orders which are covered by government guarantees, will be refinanced in 2016-2017 by VTB Bank, which will become the group's major lender, providing up to RUB 28.5 billion in financing. The loan 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 a grace period for interest payments. The rest of the debt will be refinanced through five-year revolving credit lines, giving RTI additional flexibility in managing its working capital. Sistema will buy from VTB (as the legal successor of OJSC Bank of Moscow) 15.32% of OJSC RTI's share capital for a consideration of RUB 4.5 billion, with final settlement in January 2019. Following the acquisition, Sistema's share in RTI's equity reached 87%.

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**For further information, please visit [www.sistema.com](http://www.sistema.com) or contact:**

Investor Relations	Public Relations
Yuri Krebs	Sergey Kopytov
Tel: +7 (495) 730 66 00	Tel.: +7 (495) 228 15 27
y.krebs@sistema.ru	kopytov@sistema.ru

**Sistema PJSC is a publicly-traded diversified Russian holding company serving over 150 million customers in the sectors of telecommunications, high technology, banking, retail, timber processing, agriculture, real estate, pharmaceuticals, tourism and healthcare services. The company was founded in 1993. Its revenue in 2016 reached RUB 697.7 bln; its total assets equalled RUB 1.1 trln as of 31 December 2016. Sistema's global depository receipts are listed under the "SSA" ticker on the London Stock Exchange. Sistema's ordinary shares are listed under the "AFKS" ticker on Moscow Exchange. Website: [www.sistema.com](http://www.sistema.com).**

*The Company is not an investment company, and is not and will not be registered as such, under the U.S. Investment Company Act of 1940.*

*Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Sistema. You can identify forward looking statements by terms such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might” the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. In addition, there is no assurance that the new contracts entered into by our subsidiaries referenced above will be completed on the terms contained therein or at all. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.*

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016**

*(Amounts in millions of Russian roubles, except for per share amounts)*

	Three months ended March 31,	
	2017	2016
Revenue	163,350	164,265
Cost of sales	(79,388)	(81,265)
Selling, general and administrative expenses	(37,301)	(36,993)
Depreciation and amortisation	(24,129)	(23,044)
Impairment of long-lived assets	(157)	(183)
Impairment of financial assets	(981)	(858)
Taxes other than income tax	(1,481)	(1,966)
Share of the profit or loss of associates and joint ventures	726	862
Other income	439	297
Other expenses	(811)	(1,399)
<b>OPERATING INCOME</b>	<b>20,267</b>	<b>19,716</b>
Finance income	1,562	3,345
Finance costs	(14,351)	(14,958)
Currency exchange gain/(loss)	4,503	5,345
<b>PROFIT BEFORE TAX</b>	<b>11,981</b>	<b>13,448</b>
Income tax expense	(4,684)	(4,831)
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>7,297</b>	<b>8,617</b>
Loss from discontinued operations	(125)	(540)
<b>PROFIT FOR THE PERIOD</b>	<b>7,172</b>	<b>8,077</b>
<b>Profit/(loss) attributable to:</b>		
Shareholders of Sistema PJSFC	1,579	1,994
Non-controlling interests	5,593	6,083
	<b>7,172</b>	<b>8,077</b>
<b>Earnings per share (basic and diluted), Russian Rubles:</b>		
From continuing and discontinued operations	0.17	0.21

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF MARCH 31, 2017 AND AND DECEMBER 31, 2016**  
*(Amounts in millions of Russian roubles)*

	<b>March 31,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
NON-CURRENT ASSETS:		
Property, plant and equipment	393,676	408,130
Investment property	22,793	22,647
Goodwill	51,948	52,224
Other intangible assets	105,687	107,716
Investments in associates and joint ventures	20,468	19,537
Deferred tax assets	22,663	24,185
Loans receivable and other financial assets	87,072	100,023
Deposits in banks	57	27,274
Other assets	19,436	17,428
	<u>723,800</u>	<u>779,164</u>
CURRENT ASSETS:		
Inventories	84,450	82,690
Accounts receivable	58,934	60,888
Advances paid and prepaid expenses	15,517	16,348
Current income tax assets	1,982	2,580
Other taxes receivable	16,183	18,176
Loans receivable and other financial assets	78,854	62,588
Deposits in banks	33,559	9,173
Restricted cash	9,303	10,098
Cash and cash equivalents	63,270	60,190
Other assets	2,227	2,194
	<u>364,279</u>	<u>324,925</u>
<b>TOTAL ASSETS</b>	<b><u>1,088,079</u></b>	<b><u>1,104,089</u></b>

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF MARCH 31, 2017 AND AND DECEMBER 31, 2016 (CONTINUED)**  
*(Amounts in millions of Russian roubles)*

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>LIABILITIES AND EQUITY</b>		
SHAREHOLDERS' EQUITY:		
Share capital	869	869
Treasury shares	(4,502)	(6,575)
Additional paid-in capital	95,597	87,369
Retained earnings	92,870	91,290
Accumulated other comprehensive loss	(16,172)	(13,752)
Equity attributable to shareholders of Sistema	168,662	159,201
Non-controlling interests	57,927	57,770
<b>TOTAL EQUITY</b>	<b>226,589</b>	<b>216,971</b>
NON-CURRENT LIABILITIES:		
Borrowings	386,738	395,017
Liabilities under put option agreements	2,411	2,243
Bank deposits and liabilities	3,050	6,432
Deferred tax liabilities	40,761	40,753
Provisions	3,396	3,411
Liability to Rosimushchestvo	19,713	21,282
Other financial liabilities	20,186	23,337
Other liabilities	9,685	8,742
Total non-current liabilities	485,940	501,217
CURRENT LIABILITIES:		
Borrowings	88,156	83,109
Accounts payable	98,537	110,879
Bank deposits and liabilities	97,736	99,888
Advances received	24,387	26,069
Subscriber prepayments	15,839	17,900
Income tax payable	605	962
Other taxes payable	15,983	16,391
Dividends payable	249	249
Provisions	13,320	10,752
Liability to Rosimushchestvo	11,324	11,783
Other financial liabilities	9,414	7,919
Total current liabilities	375,550	385,901
<b>TOTAL LIABILITIES</b>	<b>861,490</b>	<b>887,118</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,088,079</b>	<b>1,104,089</b>

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016**  
*(Amounts in millions of Russian roubles)*

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit for the period	7,172	8,077
Adjustments to reconcile net profit to net cash provided by operations (including discontinued operations):		
Depreciation and amortization	24,129	24,363
Share of the profit or loss of associates and joint ventures	(726)	(862)
Finance income	(1,562)	(3,369)
Finance costs	14,351	15,258
Income tax expense	4,684	4,789
Currency transaction gain	(4,503)	(5,337)
Loss from discontinued operations	125	-
Change in fair value of financial instruments through profit or loss	589	(11)
(Gain)/loss on disposal of property, plant and equipment	(372)	20
Amortization of connection fees	(289)	(281)
Impairment loss on loans receivable	135	516
Dividends received from associates and joint ventures	646	661
Non-cash compensation to employees	251	552
Impairment of long-lived assets	157	183
Impairment of financial assets	981	858
Other non-cash items	630	1,543
	<u>46,398</u>	<u>46,960</u>
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	6,405	8,009
Bank deposits and liabilities	(5,535)	(5,399)
Restricted cash	795	(10,022)
Financial assets at fair value through profit or loss	(679)	1,447
Accounts receivable	1,327	2,742
Advances paid and prepaid expenses	832	(104)
Other taxes receivable	1,855	385
Inventories	1,613	1,363
Accounts payable	(13,282)	(6,408)
Subscriber prepayments	(1,771)	(3,715)
Other taxes payable	(408)	154
Advances received and other liabilities	759	6,500
Interest paid	(12,555)	(13,023)
Income tax paid	(6,693)	(3,946)
	<u>19,061</u>	<u>24,943</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>19,061</b>	<b>24,943</b>

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016 (CONTINUED)**  
*(Amounts in millions of Russian roubles)*

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for purchases of property, plant and equipment	(12,126)	(19,213)
Proceeds from sale of property, plant and equipment	690	1,203
Payments for purchases of intangible assets	(3,946)	(7,687)
Payments for businesses, net of cash acquired	(486)	(2,948)
Payments for investments in associates and joint ventures	(938)	(1,600)
Payments for purchases of financial assets, long-term	(1,893)	(4,745)
Proceeds from sale of financial assets, long-term	1,447	3,707
Payments for financial assets, short-term	(14,529)	(6,906)
Proceeds from sale of financial assets, short-term	1,499	46,894
Interest received	1,631	3,247
Other	-	752
<b>NET CASH (USED IN)/ PROVIDED BY INVESTING ACTIVITIES</b>	<b>(28,651)</b>	<b>12,704</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	49,483	18,745
Principal payments on borrowings	(41,443)	(43,123)
Debt issuance costs	(29)	-
Acquisition of non-controlling interests in existing subsidiaries	(4,597)	-
Payments to purchase treasury stock	(10)	-
Proceeds from capital transactions with non-controlling interests	13,301	-
Cash outflow under credit guarantee agreement related to foreign-currency hedge	(900)	(1,034)
<b>NET CASH PROVIDED BY/ (USED IN) FINANCING ACTIVITIES</b>	<b>15,805</b>	<b>(25,412)</b>
Effect of foreign currency translation on cash and cash equivalents	(3,135)	(3,827)
<b>Net increase in cash and cash equivalents</b>	<b>3,080</b>	<b>8,408</b>
Cash and cash equivalents at the beginning of the period	60,190	122,775
Cash and cash equivalents at the end of the period	63,270	131,183

**SISTEMA PJSFC AND SUBSIDIARIES**  
**UNAUDITED SEGMENTAL BREAKDOWN FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016**  
*(Amounts in millions of Russian roubles)*

	External revenues		Inter-segment revenue		Segment operating income	
	3m2017	3m2016	3m2017	3m2016	3m2017	3m2016
MTS	104,189	105,635	494	229	21,404	20,983
Detsky Mir	21,061	16,414	-	-	400	435
RTI	8,035	8,705	9	17	(422)	233
MTS Bank	4,122	5,123	459	250	131	(148)
Corporate	370	420	218	240	(1,838)	(2,828)
Total reportable segments	<b>137,777</b>	<b>136,297</b>	<b>1,180</b>	<b>736</b>	<b>19,675</b>	<b>18,675</b>
Other	25,573	27,968	339	478	369	448
	<b>163,350</b>	<b>164,265</b>	<b>1,519</b>	<b>1,214</b>	<b>20,044</b>	<b>19,123</b>
Inter-segment eliminations					223	593
<b>Operating income</b>					<b>20,267</b>	<b>19,716</b>
Finance income					1,562	3,345
Finance costs					(14,351)	(14,958)
Foreign currency exchange loss					4,503	5,345
<b>Profit before tax</b>					<b>11,981</b>	<b>13,448</b>

	Capital expenditures		Depreciation and amortisation	
	3m2017	3m2016	3m2017	3m2016
MTS	11,106	20,941	20,130	19,488
Detsky Mir	253	212	426	370
RTI	692	694	643	574
MTS Bank	99	55	145	174
Corporate	315	-	152	144
Other	3,607	4,998	2,633	2,294
	<b>16,072</b>	<b>26,900</b>	<b>24,129</b>	<b>23,044</b>

## **Attachment A**

*Operating Income Before Depreciation and Amortisation (OIBDA) and OIBDA margin.* OIBDA represents operating income before depreciation and amortisation. OIBDA margin is defined as OIBDA as a percentage of our net revenues. Our OIBDA may not be similar to OIBDA measures of other companies; is not a measurement under accounting principles generally accepted under IFRS and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of profit and loss. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of businesses and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. OIBDA is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies.

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

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

<i>RUB millions</i>	<i>1Q 2017</i>	<i>1Q 2016</i>
<b>Operating income</b>	<b>20,267</b>	<b>19,716</b>
Impairment of goodwill (subsidiary of Segezha Group)	-	241
<b>Adjusted operating income</b>	<b>20,267</b>	<b>19,957</b>
Depreciation and amortisation	24,129	23,044
<b>Adjusted OIBDA</b>	<b>44,395</b>	<b>43,001</b>

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

<i>RUB millions</i>	<i>1Q 2017</i>	<i>1Q 2016</i>
<b>Profit attributable to Sistema</b>	<b>1,579</b>	<b>1,994</b>
Impairment of goodwill (subsidiary of Segezha Group)	-	241
<b>Adjusted profit attributable to Sistema</b>	<b>1,579</b>	<b>2,235</b>

*Net debt at the Corporate Centre level.* We define net debt as indebtedness less cash, cash equivalents and other liquid deposits and financial instruments. The indebtedness is defined as long-term debt, including its current portion, and short-term debt. We believe that the presentation of net debt at the Corporate Centre level provides useful information to investors because we use this measure in our management of the Corporate Centre's liquidity, financial flexibility, capital structure and leverage. The IFRS financial measure most directly comparable to net debt at the Corporate Centre level is the indebtedness of our Corporate segment as reported in our segment disclosures. Net debt at the Corporate Centre level can be reconciled to the indebtedness of our Corporate segment as follows:

<i>RUB millions</i>	<i>1Q 2017</i>	<i>1Q 2016</i>
<b>Indebtedness of the Corporate segment</b>	<b>94,296</b>	<b>110,612</b>
Cash and cash equivalents	(14,659)	(12,738)
Liquid deposits and financial instruments	(5,825)	(21,082)
<b>Net debt at the Corporate Centre level</b>	<b>73,813</b>	<b>76,792</b>