



JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

SISTEMA PJSFC

**Annual report
2020**

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1. RESPONSIBILITY STATEMENT



JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

To whom it may concern

30 April 2021

Responsibility Statement

To the best of my knowledge (a) the consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of Sistema PJSFC and the undertakings included in the consolidation taken as a whole; and (b) the management report includes a fair review of the development and performance of the business and the position of Sistema PJSFC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Yours sincerely,

Vladimir Chirakhov
President and Chief Executive Officer
Sistema PJSFC

2. PROFILE OF SISTEMA

Profile of Sistema

Overview

Sistema PJSC (“Sistema” or the “Corporation”) is the largest publicly traded investment company in Russia. Founded in 1993, Sistema is today represented across over 15 high-potential sectors of the Russian economy through its portfolio companies that serve over 150 mln consumers. Sistema’s investment portfolio includes mostly Russian companies in such sectors as telecommunications, forestry, agriculture, healthcare, real estate, consumer retail, and others.

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

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

Sistema’s credit ratings

Rating agency	Date of most recent rating update	Long-term credit rating	Outlook
Standard & Poor’s	17 December 2020	BB	Stable
Fitch	13 May 2020	BB-	Stable
Expert RA	23 September 2020	ruAA-	Stable

3. MANAGEMENT REPORT

3.1. KEY EVENTS

KEY EVENTS AT THE CORPORATION IN 2020 AND AFTER REPORTING PERIOD

Corporate governance

In April 2020, Sistema's Board of Directors appointed Vladimir Chirakhov, Chairman of the Board of Directors of Detsky Mir, as President and Chairman of the Executive Board of Sistema.

In 2020, a new law was passed in Russia allowing joint-stock companies to conduct their annual general meetings of shareholders in the year 2020 in the form of absentee voting. In addition to absentee voting, Sistema's Board of Directors decided to organise live streaming for shareholders on the final date of voting. In the course of the live stream the Corporation's management reported on the results of 2019 and took questions from shareholders.

Monetisations

Placements of Detsky Mir shares

In June 2020 and September 2020, Sistema and the Russia-China Investment Fund (RCIF) held two successful offerings of Detsky Mir shares, resulting in an increase of Detsky Mir free float up to almost 100%¹ and full exit of Sistema and RCIF from Detsky Mir. Proceeds to Sistema amounted to RUB 8.9 bln in June 2020 and RUB 16.9 bln in September 2020.

Investments and transactions

Agreement on construction of an R&D laboratory

In January 2020, Sistema and its subsidiary LLC Sistema BioTech signed an investment agreement with the International Medical Cluster Fund on establishment of a multi-specialty biotech R&D lab and a centre for non-clinical testing of latest international products and technologies at the International Medical Cluster in Skolkovo. The agreement envisages construction of a lab building with a total area of 15,000 sq m. The lab will be made operational in late 2022 – early 2023 and will become one of Russia's largest private R&D centres.

Focus on investments via funds

In 2020, Sistema continued investing in attractive projects in the Russian and global markets through its funds, Sistema_VC and SAF. In February 2020, the Corporation established a new fund, Sistema SmartTech, which will invest in companies at early development stages (from seed investment to round A). The fund's life is 8 years, and its target size is RUB 5 bln. Sistema's investment in the fund will not exceed RUB 1.5 bln. Sistema SmartTech is expected to support about 20 early-stage VC projects, with investments in each individual project ranging from RUB 50 mln to RUB 300 mln.

In April 2021, Sistema SmartTech invested RUB 200 mln in LLC Urentbike.ru (Urent), which develops one of the largest kicksharing services in Russia.

IPO of Ozon

In November 2020, Ozon held an IPO of American Depository Shares (ADSs) on NASDAQ and obtained a listing of its ADSs on the Moscow Exchange. Gross proceeds to Ozon amounted to approximately USD 1.25 bln, including from the underwriters' overallotment option and the concurrent private placement through which Sistema invested USD 67.5 mln. Following completion of the IPO, fulfilment of the private placement agreement and conversion of convertible loans previously provided to Ozon, Sistema's total stake in Ozon stood at 33.1%.

Development of the pharmaceuticals business

In August 2019, Sistema, together with VTB Group, acquired a 46.5% equity stake in OJSC Sintez. In May 2020, Sistema and VTB Group increased their stake in OJSC Sintez to 56.2%.

In February 2021, Sistema and VTB Group contributed their 56.2% stake in OJSC Sintez to the equity of Binnopharm Group to create a pharmaceutical holding company. At the same time, Sistema, VTB Group and a consortium of investors consisting of the Russia-China Investment Fund and major Middle East funds contributed an 85.6% stake in JSC Alium to the equity of Binnopharm Group. As a result, the effective stake of Sistema together with VTB Group in Binnopharm Group is 79%.

In March 2021, Group acquired a 32.4% stake in OJSC Sintez from JSC National Immunobiological Company controlled by State Corporation Rostec.

As a result of the operational integration of OJSC Sintez (includes CJSC Biocom) and JSC Alium (includes JSC Binnopharm), Binnopharm Group has become a major pharmaceutical player, ranking 5th by sales in monetary terms among Russian companies in the commercial segment in 2020.

¹ Excluding quasi-treasury shares and shares held by management and directors of Detsky Mir.

IPO of Segezha Group

In April 2021, Segezha Group conducted an IPO on the Moscow Exchange. Through its IPO Segezha placed 3,750,000,000 new shares and raised gross proceeds of RUB 30 bln, with be used to finance further business expansion and reduce debt leverage. Upon completion of the IPO, Segezha Group will have a free float of 23.9%, while Sistema will retain a 73.7% ownership stake².

Creation of leading manufacturer of transformer equipment in Russia

In December 2020, the Group and Sberbank Investments LLC (“SberInvest”) through their joint venture Megapolis-Invest LLC (“Megapolis-Invest”) acquired 64.37% in Elektrozavod JSC and 100% in Elektrokombinat LLC (“Elektrozavod Group”) from certain private investors for RUB 24.7 bln.

In February 2021, Megapolis-Invest acquired an additional 29.64% stake in Elektrozavod JSC from a private investor for RUB 5.8 bln. Following completion of the transaction, Megapolis-Invest held a 94.01% stake in Elektrozavod JSC. The goal of the transaction is to create Russia’s leading manufacturer of transformer equipment and implement a real estate development project on land plots in Moscow owned by Elektrozavod Group.

Elektrozavod Group includes transformer equipment production facilities in Moscow and Ufa, maintenance divisions, research and design institutes, an engineering centre and land plots totalling 19 ha near the Elektrozavodskaya metro station in Moscow.

Strengthening of financial profile

Debt level

As of 31 December 2020, the financial liabilities of Sistema’s Corporate Centre remained at the level of 2019 and amounted to RUB 190.4 bln.

Active participation in capital markets

Sistema was active in capital markets on the back of a strong demand for its debt securities in 2020. Sistema PJSC issued five series of local bonds for an aggregate amount of RUB 54 bln (001P-13, coupon rate of 6.60%; 001P-14, coupon rate of 6.35%; 001P-15, coupon rate of 6.70%; 001P-16, coupon rate of 6.10%; 001P-17, coupon rate of 6.75%), and also organised a secondary offering of two issues repurchased earlier in a tender offer for RUB 7.8 bln (001P-04, coupon rate of 6.35%; 001P-05, coupon rate of 6.85%).

In February 2021, Sistema issued two series of local bonds for a total amount of RUB 17.5 bln (001P-18, coupon rate of 6.90%; 001P-19, coupon rate of 7.35%), and organized a secondary offering of one issue purchased earlier in a tender offer for RUB 2.8 bln (001P-07, coupon rate of 6.90%). Also, in April 2021, Sistema completed the book-building process for RUB 10 bln series 001P-20 bonds with an 8.20% coupon rate.

Upgrade in credit ratings

In September 2020, S&P upgraded Sistema’s rating from BB- to BB with a stable outlook, and Expert RA upgraded Sistema’s rating by two notches from ruA to ruAA- with a stable outlook.

Dividends and shareholder returns

Dividends

In June 2020, the Annual General Meeting of shareholders of Sistema decided to pay dividends for 2019 in the amount of RUB 1.25 bln or RUB 0.13 per ordinary share.

Extension of share repurchase programme

In December 2020, Sistema PJSC announced the extension of the share buyback programme until 31 December 2021. The Programme, launched on 17 September 2019, initially stipulated that Sistema’s ordinary shares were to be repurchased by a wholly-owned subsidiary of Sistema for up to a maximum pecuniary amount of RUB 3.0 bln. The maximum number of shares to be repurchased under the Programme were not to exceed 300 mln. As of 31 December 2020, Sistema’s wholly-owned subsidiary repurchased 120.6 mln shares for an aggregate amount of RUB 1.6 bln.

Enhancing sustainable development

In 2020, the Board of Directors of the Corporation approved two internal regulatory documents reflecting Sistema’s commitment to the ESG agenda: Sustainability Policy and a new version of the Corporate Governance Code. These documents were made in accordance with international standards and reflect best practices in the area of sustainable development. Sistema has made a commitment to implement these practices in its portfolio companies acting through representatives on the boards of directors.

² Assuming no exercise of the over-allotment option to purchase shares in the amount equivalent to up to 15% of the total number of new shares granted by Sistema to Renaissance Capital as Stabilization Manager and exercisable for a period of up to 30 days from 28 April 2021.

In November 2020, in confirmation of its commitment to the principles of sustainable development, Sistema signed an agreement with Sberbank for a RUB 10 bln credit facility where specific interest rates may be linked to the company's sustainability performance.

In December, the Board of Directors approved updated investment criteria as part of the Corporation's strategy, for the first time including ESG factors in the investment process and solidifying Sistema's strategic approach to responsible investment.

EVENTS AT PORTFOLIO COMPANIES IN 2020 AND AFTER REPORTING PERIOD

MTS

Dividend payouts

In August 2020, MTS completed the payment of dividends for 2019 in the amount of RUB 41.1 bln, or RUB 20.57 per share (RUB 41.14 per ADR). In November, the company completed the payment of interim dividends for the first half of 2020 in the amount of RUB 17.84 bln, or RUB 8.93 per share (RUB 17.86 per ADR).

Share buyback

In December 2020, PJSC MTS completed the share repurchase plan in the amount up to RUB 15.0 bln announced on 31 March 2020. Since the launch of the repurchase plan, MTS's wholly-owned subsidiary LLC Bastion has acquired 45,501,316 shares of common stock (including shares of common stock represented by ADSs) representing 2.28% of the share capital issued by MTS.

In March 2021, the board of directors of MTS approved a share repurchase plan in the amount of up to RUB 15 bln. The programme will run till 31 December 2021.

Upgrade in credit ratings

In September 2020, the rating agency Expert RA upgraded MTS's rating from ruAA+ to ruAAA with a stable outlook.

Appointment of MTS President

In March 2021, the Board of Directors of MTS appointed Vyacheslav Nikolayev, First Vice President of MTS for Customer Experience, Marketing and Ecosystem Development, as new President of MTS (effective 13 March 2021).

Etalon Group

Dividend payouts

In January 2020, Etalon Group's Board of Directors adopted a revised dividend policy and approved minimal guaranteed dividend payments in the amount of RUB 12 per share/GDR unless the ratio of EBITDA to interest payments made by the company in the reporting period falls below 1.5.

Listing on the Moscow Exchange

In February 2002, the global depositary receipts of Etalon Group, previously trading only on the LSE, were also listed on the Moscow Exchange and included in the Level 1 Quotation list.

Increasing equity capital

In April 2021, the Board of Directors of Etalon Group approved an additional offering of up to 88,487,391 ordinary shares in the company representing 30% of Etalon Group's total issued ordinary shares. The subscription price will be USD 1.7 per share. The net proceeds from the offering will be used for the acceleration of the company's investment programme and business expansion.

Segezha Group

Debut in debt capital markets

In January 2020, Segezha Group issued RUB 10 bln bonds with a 7.1% coupon rate.

Expansion of production facilities

In November 2020, Segezha installed a new paper packaging production line in the city of Segezha (Karelia), with the capacity to manufacture 87 mln paper sacks per year. The line uses a unique technology to digitally apply glue to packaging, which improves both the quality and speed of gluing as well as the environmental impact of the finished product. Moreover, in December 2020, preparations began to install four new consumer packaging production lines in the Moscow region with a combined manufacturing capacity of over 96 mln bags per year.

After the reporting period, in February 2021, Russia's first cross-laminated timber (CLT) plant was launched in the Vologda region. Segezha Group's investments exceed RUB 3 bln. The plant's capacity is 50,000 cu m of finished products per year.

ESG progress

In December 2020, Segezha Group's Board of Directors approved a new health and safety strategy, as well as a new environmental strategy. Both strategies aim to implement global best practices and standards in the Company's business processes.

In March 2021, Segezha Group became a member of the UN Global Compact. The initiative brings together over 16,000 organisations from more than 160 different countries who have strategies that meet certain ESG criteria.

In April 2021, the Board of Directors approved the group's Sustainability Strategy as well as an ESG Policy for the period through 2025. Segezha's new Sustainability Strategy is based on four pillars: innovative forest business; making Russia's forest regions a better place to live; climate-smart forest management and production; and responsible forest supply chain.

Dividend payouts

In April 2021, the Board of Directors of Segezha Group approved the Group's updated Dividend Policy. Segezha Group aims to pay dividends of between RUB 3 bln and RUB 5.5 bln each year from 2021 to 2023. Starting from 2024, dividend distributions are expected to be based on adjusted free cash flow, with a 75%-100% payout stipulated in the Dividend Policy and potentially higher payouts in case of stronger markets and/or leverage headroom.

IPO of Segezha Group

In April 2021, Segezha Group conducted an IPO on the Moscow Exchange. Through its IPO Segezha placed raised gross proceeds of RUB 30 bln, with be used to finance further business expansion and reduce debt leverage. The shares are included in MOEX's Level 1 List under SGZH ticker.

Steppe AgroHolding

Expansion of land assets

In 2020, the land assets of JSC Steppe AgroHolding (Steppe) totalled 565,000 ha, up from 416,000 ha at the end of 2019, mostly due to the acquisition of an 116,000 ha asset in the Rostov region in the first half of the year. On top of that, in May 2020, Steppe acquired three agricultural enterprises in the Stavropol region, including a dairy farm which, following renovation, will have the capacity to accommodate 9,000 head of lactating cows and will become the largest dairy farm in Russia, with milk production volume exceeding 100,000 tonnes per year. The deal also increased Steppe's land assets by 28,000 ha.

In May 2020, Steppe sold 100% of shares in the Yuzhny agricultural enterprise, which specialises in tomato and cucumber production, to focus on the key business segments: crop production, grain trading and dairy farming.

Medsi

Business expansion

As a step to expand its regional chain, in March 2020, Medsi acquired ASPEC clinic chain in Izhevsk, which includes a CDC with a daytime in-patient clinic, an adult clinic, a children's clinic and a women's health clinic with a total area of 4,344 sq m.

In 2020, the first three clinics of the Smart 500 format were opened in Moscow. This new format of "convenience" clinics, with an area of 500 sq m, includes 12-15 rooms for out-patient medical care for children and adults, laboratory and functional diagnostics facilities, and ultrasound. Medsi plans to open a family clinic with advanced diagnostics in Maryino in the summer of 2020, with a total area of 4,400 sq m.

Construction of a new multi-specialty centre at Michurinsky Prospekt, with more than 34,000 sq m of floorspace, is nearing completion, with the opening planned for 2022. The medical centre will include a CDC for children and adults, a daytime in-patient clinic, and a 24-hour in-patient clinic with a centre for high-tech surgery.

Ozon

Investments in the logistics infrastructure

In 2020, Ozon increased the area of its fulfilment centres (to almost 220,000 sq m), mostly due to the opening of a fulfilment centre in Rostov-on-Don with total floorspace of more than 22,000 sq m in October 2020.

Raising funds for development

In November 2020 Ozon had an IPO on NASDAQ and obtained listing of its American Depository Shares on the Moscow Exchange. Gross proceeds to Ozon amounted to approximately USD 1.25 bln, including from the underwriters' overallotment option and the concurrent private placement through which Sistema invested USD 67.5 mln.

In February 2021 Ozon placed a USD 750 mln convertible bond. The company plans to deploy the funds to support organic growth, expand into new business verticals and for general corporate purposes.

Ecosystem development

In 2020, Ozon began to actively develop the ecosystem of financial services. As of 31 December 2020, the company issued approximately 450,000 active debit cards dubbed OZON.Card. The card's key advantage is cashback in the form of points for goods purchased on Ozon, which can be used to pay for subsequent purchases. In December 2020, Ozon began issuing these cards in digital form.

3.2. STRATEGY

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 industries and high-potential technologies and fuelling **long-term growth in shareholder value**.

Strategic goals of Sistema

- Steady growth of the Corporation's shareholder value;
- Building profitable and growing companies that are leaders in their industries;
- Maximising net asset value.

Strategic focus

- Building and continuously developing businesses worth over USD 1 bln;
- Embracing unique investment opportunities in traditional and new sectors;
- Creating value in assets through team strengthening, strategic repositioning, business transformation, operational improvements, equity structure optimisation, digitalisation, etc;
- Continuous enhancement of corporate governance and increased focus on ESG.

Governance model

The Corporation 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 implementation of investment strategies of portfolio companies. In most cases, Managing Partners chair the boards of directors and are in charge of forming the board and organising its work. They also bear responsibility for 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

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

Value creation in assets

1. **Forming boards of directors at portfolio companies, which must include independent directors** with recognised industry and functional expertise. The boards of directors support management of portfolio companies in making key decisions on the areas of development and control the quality of execution and the results of decisions made.
2. Forming a best-in-class, **efficient management team**, establishing strategic goals, and incentive system for it, and determining a strategic development plan, efficient operating management model and required resources.
3. Introducing **processes of strategic, financial and operational planning and control** and best international practices of **investment and project management**.
4. **Identifying new technologies and advanced work tools** to increase profitability and accelerate growth at the company. Developing innovative products and services, improving their quality, entering new markets and attracting new customers.
5. **Continuously and comprehensively assessing the company's performance and contributions of its board of directors and management team.** This process ensures that the asset is managed in accordance with the Corporation's strategic goals and principles.

Investment principles

Current investments

Focus: Investments in portfolio companies with potential to become businesses worth over USD 1 bln.

Investment strategy: investments in portfolio companies to increase their competitiveness and market share, enter adjacent segments and launch new products with a synergistic effect.

Geography: in accordance with the approved strategy for portfolio companies.

Industries and business segments: companies' industries and adjacent sectors/segments with a synergistic effect.

Discounted payback period (DPBP): 3-10 years

New investments

Focus: unique investment opportunities in traditional industries in Russia:

Mature undervalued assets

Investment strategy: acquisition of substantial or controlling stakes in large assets in attractive markets with a possibility of increasing shareholder 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.

Geography: mostly 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.

Focus: Investments in tech sector and technologies of the future

Technology assets

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

Venture 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%).

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, AR/VR, blockchain and others.

Responsible investment and ESG principles

For Sistema, responsible investment is an integral element of its 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 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".

3.3. SHAREHOLDERS' EQUITY

Structure of shareholders' equity

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

Sistema conducted an initial public offering in 2005. Its shares are traded on the London Stock Exchange in the form of global depositary 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 6.9 % of Sistema's equity, and the shares traded on the Moscow Exchange, 25.0%. Shares in free float constitute approximately 31.9% of the company's equity.

The Moscow Exchange includes Sistema's share prices in the calculation base of its key indices (MOEX and RTS), as well as its Broad Market Index and the Small and Medium Capitalisation Index. Moreover, in March 2021, the ordinary shares of Sistema PJSC were included in the calculation base of the MOEX 10 index.

Sistema is also the largest shareholder in three other public companies: MTS (MTSS ticker symbol on the Moscow Exchange and MBT on the New York Stock Exchange), Etalon Group (ETLN ticker symbol on the Moscow Exchange and the London Stock Exchange) and Ozon (OZON ticker symbol on the Moscow Exchange and NASDAQ).

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

Changes in Sistema's GDR and ordinary share prices

In 2020, the price of Sistema's shares and GDRs grew by 88.0% and 53.9% respectively, significantly outperforming the market: the MOEX Russia Index grew by 8.0%, while the RTS declined by 10.4%. Market capitalisation at the end of 2020 was USD 3.6 bln, up from USD 2.4 bln at the end of 2019. The growth in share prices was largely driven by the diversification of Sistema's asset portfolio, which proved resilience to amid the pandemic, deleveraging efforts, successful monetisations of Detsky Mir, and Ozon's swift growth and ground-breaking IPO. Stock liquidity also improved year-on-year: the average daily trading volume in monetary terms increased from USD 3.8 mln in 2019 to USD 15.2 mln in 2020 on Moscow Exchange and from USD 0.5 mln to USD 1.1 mln on London Stock Exchange.

In September 2019, the Corporation launched a share buyback programme in the amount of RUB 3 bln. As of 31 December 2020, the programme was implemented in the amount of RUB 1.6 bln. In December 2020, it was decided to extend the programme until the end of 2021.

On the first trading day of 2020, the closing price of one GDR on London Stock Exchange was USD 4.92. Strong performance was observed during the year, with the price of one GDR peaking at USD 8.69 on 24 November. On the last trading day of the year, the closing price was USD 7.50.

On the first trading day of 2020, the closing price of one ordinary share on Moscow Exchange was RUB 15.13. Strong performance was observed during the year, with the price of one ordinary share peaking at RUB 33.62 on 23 November. On the last trading day of the year, the closing price was RUB 28.64.

3.4. REPORT ON DIVIDENDS DECLARED (ACCRUED) ON SISTEMA SHARES

Dividend policy

Dividends are a key tool for increasing shareholder value. When determining the amount of payouts, the Corporation's Board of Directors takes into account several factors, including:

- cash flows generated by Sistema's biggest public assets, which mostly support the Corporate Centre and are aimed at financing future investments;
- growth and development prospects of non-public assets whose cash flows and monetisations may be intended for the distribution of dividends and other mechanisms of delivering shareholder returns;
- debt and other liabilities of the Corporate Centre.

When assessing any payouts, the Board of Directors also factors in the overall situation in financial markets and the macroeconomic environment in Russia and other main markets where Group companies operate.

Dividends distributed for the full year 2020

On 27 June 2020, the Annual General Meeting of shareholders of Sistema resolved (Minutes No 1-20) to pay dividends in the amount of RUB 1,254,500,000.00, or RUB 0.13 per ordinary share.

As of 31 December 2020, the total amount of distributed dividends equalled RUB 1,254,456,799.18. Withholding tax on dividends distributed to foreign shareholders totalled RUB 564,222.00.

Unpaid dividends

As of 31 December 2020, the total amount of unpaid dividends equalled RUB 3,213,719,518.44, including:

- RUB 3,213,003,658.88 not paid on the basis of a written request from a shareholder;
- RUB 715,859.56 not paid due to the lack of the necessary information about the recipients of dividends to transfer the corresponding amounts.

	Total amount of declared dividends, RUB	Dividend per share, RUB	Declaration date	Payment date
2014 (for the full year 2013)	19,879,000,000	2.06	28/06/2014	31/07/2014
2015 (for the full year 2014)	4,535,500,000	0.47	27/06/2015	29/07/2015
2016 (for the full year 2015)	6,465,500,000	0.67	25/06/2016	27/07/2016
2016 (for H1 2016)	3,667,000,000	0.38	23/09/2016	20/10/2016
2017 (for the full year 2016)	7,816,500,000	0.81	24/06/2017	28/07/2017
2017 (for 9M 2017)	6,562,000,000	0.68	28/11/2017	22/12/2017 ³ 19/01/2018 ⁴
2018 (for the full year 2017)	1,061,500,000	0.11	30/06/2018	31/07/2018
2019 (for the full year 2018)	1,061,500,000	0.11	29/06/2019	31/07/2019
2020 (for the full year 2019)	1,254,500,000	0.13	27/06/2020	29/07/2020

³ Date of payment of dividends to nominee shareholders and custodians who are professional participants of the securities market and who are included in the shareholders register.

⁴ Date of payment of dividends to other persons included in the shareholders register.

3.5. CONSOLIDATED FINANCIAL RESULTS OVERVIEW

The following financial information should be read in conjunction with our Financial Statements.

Consolidated financial results

Key performance measures

RUB mln ⁵	2020	2019	Change
Revenue	691,626	654,303	5.7%
OIBDA	229,897	201,788	13.9%
Adj. OIBDA	236,340	224,016	5.5%
Operating income	109,404	86,828	26.0%
Adj. operating income	115,848	109,057	6.2%
Net profit attributable to Sistema	10,216	28,597	(64.3%)
Adj. net profit attributable to Sistema	15,998	53,379	(70.0%)

The following table sets forth a summary of our financial results for the years ended 31 December 2020 and 2019. This financial information should be read in conjunction with our Financial Statements.

	Years ended 31 December			
	2020	% of revenues	2019	% of revenues
Continuing operations				
Revenue	691,626	100.0%	654,303	100.0%
Cost of sales	(330,055)	(47.7%)	(300,123)	(45.9%)
Selling, general and administrative expenses	(134,176)	(19.4%)	(128,418)	(19.6%)
Depreciation and amortization	(120,492)	(17.4%)	(114,959)	(17.6%)
Impairment of long-lived assets	(5,621)	(0.8%)	(11,637)	(1.8%)
Impairment of financial assets	(2,956)	(0.4%)	(6,940)	(1.1%)
Taxes other than income tax	(4,134)	(0.6%)	(4,962)	(0.8%)
Share of the profit or loss of associates and joint ventures, net	(405)	(0.1%)	(4,425)	(0.7%)
Profit from disposal of other assets	11,142	1.6%	-	0.0%
Other income	14,829	2.1%	11,486	1.8%
Other expenses	(10,354)	(1.5%)	(7,497)	(1.1%)
Operating income	109,404	15.8%	86,828	13.3%
Finance income	5,330	0.8%	5,921	0.9%
Finance costs	(71,468)	(10.3%)	(77,560)	(11.9%)
Changes in the fair value of financial instruments	21,883	3.2%	(11,268)	(1.7%)
Currency exchange profit/(loss)	(18,643)	(2.7%)	13,611	(2.1%)
Profit before tax	46,506	6.7%	17,532	2.7%
Income tax expense	(8,341)	(1.2%)	(27,003)	(4.1%)
Profit/(Loss) from continuing operations	38,165	(5.5%)	(9,471)	(1.4%)

⁵ Hereinafter, adjusted OIBDA, adjusted operating income 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.

Discontinued operations				
Profit from discontinued operations	3,122	0.5%	67,079	10.3%
Net profit for the year	41,287	6.0%	57,608	8.8%
Attributable to:				
Shareholders of Sistema PJSFC	10,216	1.5%	28,597	4.4%
Non-controlling interests	31,071	4.5%	29,011	4.4%

In 2020 Sistema's consolidated revenue increased by 5.7% year-on-year, to RUB 691.6 bln, driven by revenue growth at key assets: at MTS thanks to higher mobile services revenue and strong growth in new business segments (Fintech, Media and B2B Digital & Cloud); at Segezha Group as a result of revenue growth due to increased sales volumes of paper packaging and sawn timber, as well as higher prices for plywood and sawn timber; at Steppe AgroHolding thanks to increased revenue in all key segments; and at Medsi as a result of a higher average cheque largely driven by the launch of COVID-19 diagnostics and treatment services, as well as an expansion of the clinic chain in Moscow and the acquisition of new clinics in Izhevsk. The Group's Adjusted OIBDA in 2020 grew by 5.5% year-on-year, to RUB 236.3 bln, primarily due to increases in adjusted OIBDA at portfolio companies: at MTS following revenue growth, despite a significant decrease in revenues from international roaming charges and new provisions being accrued at MTS and MTS Bank; at Segezha Group following revenue growth and despite higher logistics costs and a downward pressure on the prices of most products throughout the year; at Steppe due to increased operational efficiency at new land assets, an effective trading strategy, growth in sales prices for agricultural produce, increased profitability in the grain trading segment and performance enhancements in international trading, as well as a growth of production volumes in the dairy farming segment and a successful time arbitrage strategy in the sugar and grocery trading segment; and at Medsi following revenue and thanks to participation in a JV with Capital Group to build the Nebo residential complex.

The Group's selling, general and administrative (SG&A) expenses in 2020 increased by 4.5%, to RUB 134.2 bln. The SG&A/revenue ratio declined across most assets in 2020 year-on-year due to strict cost control. In 2020, the Corporate Centre SG&A/Group revenue ratio remained almost unchanged year-on-year, standing at 2.0%.

The 2020 adjusted net profit amounted to RUB 16.0 bln, down from RUB 53.4 bln in 2019. The decline in net profit is in part a result of the sale of 100% shares in LeaderInvest and its deconsolidation, the public offering of 18.3% of shares in Detsky Mir, and the deconsolidation and reclassification of the remaining stake in Detsky Mir (33.4%) as investment in associates in 2019.

The Group's 2020 Capex increased by 8.6% year-on-year, to RUB 127.8 bln, as a result of an increased investment at MTS in network development, and also impacted by the FX-denominated component of Capex in the context of rouble depreciation, as well as expansion and modernisation of production capacities at Segezha Group.

Segment reporting

In our comparison of period-to-period results of operations we analyze changes, developments and trends in revenues by reference to individual segment revenues. We present our revenues on an aggregated basis after elimination of intra-segment (between entities in the same segment) transactions, but before intersegment (between entities in different segments) eliminations. Amounts attributable to individual companies, where appropriate, are shown prior to both intra-segment and inter-segment eliminations.

The following tables set forth a summary of revenues and operating income by reportable segment for the years ended 31 December 2020 and 2019.

Revenue by segment RUB mln	Years ended 31 December			
	2020	% of revenues	2019⁶	% of revenues
MTS	494,926	71.6%	470,605	71.9%
Segezha Group	68,987	10.0%	58,495	8.9%
Medsi	25,041	3.6%	22,322	3.4%
Ozon	-	0.0%	-	0.0%
Corporate	4,908	0.7%	3,341	0.5%
Other	111,783	16.2%	107,189	16.4%

⁶ Restated for discontinued operations.

Aggregated revenue	705,645	102.0%	661,952	101.2%
Intersegment eliminations	(14,019)	(2.0%)	(7,649)	(1.2%)
Total	691,626	100.0%	654,303	100.0%

Operating income by segment RUB mln	Years ended 31 December			
	2020	% of total operating income	2019	% of total operating income
MTS	111,233	101.7%	113,884	131.2%
Segezha Group	11,185	10.2%	8,333	9.6%
Medsi	3,704	3.4%	2,848	3.3%
Ozon	(8,428)	(7.7%)	(7,834)	(9.0%)
Corporate	(14,262)	(13.0%)	(18,781)	(21.6%)
Other	7,530	6.9%	(5,754)	(6.6%)
Aggregated operating income	110,962	101.4%	92,690	106.8%
Intersegment eliminations	(1,558)	(1.4%)	(5,868)	(6.8%)
Total	109,404	100.0%	86,828	100.0%

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 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 mln	2020	2019
Operating income	109,404	86,828
Depreciation and amortisation	(120,492)	(114,959)
OIBDA	229,896	201,787

Adjusted OIBDA, adjusted operating income and adjusted net profit attributable to Sistema shareholders. The Company uses adjusted OIBDA, adjusted operating income and adjusted net 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 mln	2020	2019
Operating income	109 404	86 828
Accruals related to LTI program at portfolio companies	577	489
Impairment of non-current assets (MTS)	2 023	-
Impairment of rental properties	-	2 958
Impairment of investment and other property	2 789	6 429
Other non-recurring loss, net	1 054	12 352
Adjusted operating income	115 848	109 057
Depreciation and amortisation	120 492	114 959
Adjusted OIBDA	236 340	224 016

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

RUB mln	2020	2019
Net profit attributable to Sistema	10 216	28 597
Provisions for deferred tax assets (DTA)	-	4 308
Accruals related to LTI program at portfolio companies	551	679
Impairment of non-current assets (MTS)	1 011	-
Revaluation of the provision for liability with regards to the Securities and Exchange Commission investigation (MTS)	-	(1 722)
Impairment of rental properties, inc. write-offs of DTA	-	3 159
Impairment of investment and other property, inc. write-offs of DTA	3 446	7 361
Other non-recurring loss, net	773	10 996
Adjusted net profit attributable to Sistema	15 998	53 379

Liquidity position

RUB mln	2020	2019
Net cash provided by operating activities	136,827	106,269
Net cash used in investing activities	(108,055)	(43,926)
Net cash (used in)/provided by financing activities	20,257	(110,102)
Effect of foreign currency translation on cash and cash equivalents	995	(2,755)
Net increase/(decrease) in cash and cash equivalents	50,024	(50,514)

Net cash provided by operating activities

Net cash provided by operating activities in the reporting year increased by RUB 30,558 mln, or 28.8% from RUB 106,269 mln in year ended December 31, 2019 to RUB 136,827 mln in year ended December 31, 2020. The increase was mainly caused by the Group's stronger operating results in 2020 and partly due to MTS's payment in 2019 of the SEC's penalty of RUB 55.6 bln.

Net cash used in investing activities

Net cash used in investing activities increased from RUB 43,926 mln in the year ended 31 December 2019 to RUB 108,055 mln in the year ended 31 December 2020 by RUB 64,129 mln, or 146%. Increase was mainly due to the effect of 2019 year with significant proceeds from the sale of Leader Invest, placement of Detsky Mir shares as well as sale of MTS Ukraine division.

Net cash provided by financing activities

In the reporting year, net cash provided by financing activities amounted to RUB 20,257 mln as compared to the previous year cash outflow of RUB 110,102 mln. The change is mainly due to higher amounts of borrowings in the reporting period as well as lower debt repayments during the 2020 year compared to 2019.

Debt portfolio overview

In 2020 the Corporate Centre's financial liabilities remained on par with 2019, at RUB 190.4 bln. Steady NAV growth driven by the solid performance of Ozon and other portfolio companies and significantly decreased debt servicing costs allow Sistema to maintain the current level of debt burden. Besides, in 2020 Sistema and Sberbank signed an agreement fully releasing from pledge 16% of shares in MTS (previously used as collateral under a loan issued to Sistema in February of 2018).

In order to optimise and diversify its debt portfolio, Sistema was active in the capital markets in 2020, having issued five series of bonds for a total of RUB 54 bln and also having improved the terms of a number of loan agreements. As of the end of the year, Sistema had significantly optimised the structure of its financial liabilities, with the share of rouble-denominated bonds up from 44% in 2019 to 66% in 2020. The Corporation also managed to extend the duration of its loan portfolio, achieve a record-low coupon rate (6.10%) on the bonds issued in December of 2020, and shape a comfortable debt retirement schedule.

Credit ratings

Sistema's achievements in growing the value of its diversified loan portfolio and in deleveraging caused several rating agencies to upgrade the company's credit ratings throughout 2020. In September 2020, S&P upgraded Sistema's rating to "BB", with a "stable" outlook. In the same month, Expert RA moved Sistema's rating up two notches, to ruAA-, with the outlook similarly described as "stable".

	Long-term credit rating	Outlook	Date of most recent rating update
Standard & Poor's	BB	Stable	17/12/2020
Fitch	BB-	Stable	13/05/2020
Expert RA	ruAA-	Stable	23/09/2020

3.6. KEY PORTFOLIO ASSETS OVERVIEW

MTS

Sistema's effective stake: 50.02%

President and Chairman of the Management Board: Vyacheslav Nikolayev⁷

Chairman of the Board of Directors: Felix Evtushenkov

PJSC Mobile TeleSystems (“MTS”) is a leading Russian telecom operator offering mobile and fixed-line services, Internet access, cable and satellite TV, digital services and mobile apps, financial and e-commerce services, and convergent IT solutions in the fields of system integration, the Internet of things, monitoring, data processing, and cloud computing.

Industry overview for 2020⁸

The Russian market of telecommunications in 2020 reached RUB 1.73 trn, down 0.7% year-on-year. The market shrinking results from a general slowdown in the sectors of mobile services (from 2.8% in 2019 to 0.3% in 2020), broadband internet access (from 3.9% in 2019 to 1.1% in 2020), and pay TV (from 8.6% in 2019 to 1.5% in 2020). Though positive, the growth in these sectors was too modest to offset the revenue slump in fixed telephony (-11.6%), wholesale (inter-operator) services (-5.8%), and some other segments.

Mobile revenue in 2020 grew 0.3% year-on-year. The main reasons behind the slow growth are the shrinking subscriber base and a nosedive in international roaming revenue. In 2020, the company's active subscriber base (the number of active users of SIM cards) went down 1.3%, to 257 mln, with mobile phone penetration at 175%. In absolute terms, the company lost an all-time high of 3.5 mln subscribers. Such was the result of a nationwide lockdown aimed to contain the spread of COVID-19, which understandably kept people away from retail outlets and unable to buy new SIM cards. Pervasive travel restrictions were another factor throttling down growth, with Russia losing a lot of immigrant workforce, previously heavy users of telecom services.

In November 2020, the Russian government approved a 2021-2024 5G network development roadmap, a brainchild of RosTec and RosTeleCom. Among other things, the roadmap requires that operators build their 5G networks in the 24.25-27.4 GHz range from Russian-made equipment only. The roadmap's total budget through the end of 2024 is RUB 208.1 bln, including RUB 21.5 bln in subsidies provided to RosTec specifically to produce 5G equipment. Market analysts estimate that local manufacturers of 5G technology will need at least three years to design the required solutions and launch mass production, putting Russia further behind advanced economies in 5G rollout and digitalisation.

2021 year will see a continued negative impact of pandemic-related factors on the telecom market. That said, most segments will start climbing back to normal, with the mobile-telephony subscriber base back on an upward trend and people starting to travel and hence generate roaming revenue. Unless the negative trends that hit in 2020 are repeated, revenues from broadband connections and pay TV will also be on the rise. It is broadly expected that many businesses, having tried and seen the benefits of remote working, will stick to the mixed office/home format even when the pandemic is over.

Market trends in 2021 will in large part depend on the pricing policies of telcos, which are highly likely to keep updating their rates and prices from time to time. As traffic consumption grows and society needs more network capacity, mobile operators will likely bank on the more expensive high-speed rates as far as wireline service is concerned while at the same time promoting large-traffic and unlimited solutions in the mobile segment. Based on the data of the past few years, analysts forecast a steady CAGR of 2%.

Business development in 2020

The COVID-19 pandemic emerged as a risk factor for MTS and the telecom industry as a whole. A massive switch to remote working & learning along with a surge in the consumption of digital entertainment, such as video streaming and online games, ushered in a redistribution of traffic structure:

- a dramatic drop in international roaming revenue;
- a growth in voice traffic and data services;
- more calls on landline phones in residential neighborhoods;
- a more uniform distribution of data consumption throughout the day.

⁷ As of 31 December 2020, Alexey Kornya.

⁸ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

As the pandemic hit, MTS moved fast to come up with a raft of new products and services to address the emergency needs of subscribers. This involved the delivery and online registration of SIM cards; fast-track advancement of digital financial products (such as virtual credit cards); free doctor consultations through the SmartMed app (a tie-up with Medsi); and a product bundle titled #BudDoma comprising TV services, access to electronic book and music libraries, a fitness app, and a telemedicine app.

In January 2020, having enrolled the support of Tatarstan's administration, MTS and Ericsson deployed Russia's first 5G LTE network at the KAMAZ automotive factory (the nation's biggest producer of trucks) in Naberezhnye Chelny. Later in the year, MTS landed contracts to deploy dedicated 5G networks for the petrochemical giant Sibur-KhimProm and a major gold & silver producer Polymetal. The company also signed a contract with GazPromneft to deploy a dedicated geographically distributed LTE network with centralised control functions, a solution specifically tailored for the oil industry.

In July 2020, MTS started building a convergent backhaul network in the Moscow region to consolidate fixed-line and mobile backhaul networks of MTS and MGTS into a uniquely wide combined grid.

Moreover, in July 2020, MTS became the first company in Russia to receive a license to provide 5G mobile communication services within the 24.25-24.65 GHz range in 83 regions across Russia. The license was issued by RosKomnadzor until 16 July 2025. 5G technology is an important tool with which to enhance and develop an extensive ecosystem of products, especially as regards automation solutions for corporate customers.

In September 2020, MTS and Huawei announced the launch of a large-scale programme of upgrades for the mobile network (involving a capacity enhancement and a raft of innovative services) to make it 5G-ready.

In November 2020, MTS combined the mobile apps MTS Money and MTS Bank into a single storefront.

MTS continues evolving digital products for both private and corporate customers, along with numerous strategic initiatives to develop digital business lines and enhance the potential for innovations. 2020 saw the launch of a cashback offer to apply to cash transfers to the CIS (specifically tailored for non-Russian residents), payments through push notifications, and an option to take out and refinance consumer loans through the MTS Money app.

On top of that, MTS Investments came up with a new retail offer for those wishing to try their hand at stock trading. Also, in 2020, MTS unveiled an eSIM solution for IoT and M2M applications in accordance with the international GSMA standard. The technology enables loading virtual SIM cards on embedded microchips and changing subscriber profile.

MTS teamed up with Ericsson to install Russia's first "Smart City Pole" in the Republic of Tatarstan. The innovation is designed to perform ecological monitoring and service a "smart car park".

In November 2020, in addressing a federal waste management digitalisation programme, MTS came up with a solution that allows local authorities to control the collection and disposal of municipal solid waste (MSW) in that it tracks waste-bin fill-level, schedules pick-up routes, controls cleaning activities for timing and quality, and automates a full cycle of paperwork procedures, from billing to executing contracts to releasing payments to contractors.

Keen to advance its cloud business (#CloudMTS), in 2020, the telco still further upgraded the performance of its "supercomputer" for instantaneous data crunching and launched a cloud-based data protection feature for B2G applications.

Also, in 2020, the company unveiled Russia's first cloud-gaming marketplace as a "one-stop-shop" for all of the domestic platforms: GFN.RU, Loudplay, Playkey and DROVA, and started NUUM, a neobank specifically catering to gamers providing virtual bonuses for actual financial transactions, later to be spent on special game features.

2020 also saw the launch of a new connected-cars business arm, MTS Automotive, in a tie-up with Stopol Avto and Koagent Rus, developers of multimedia technology for car applications.

In 2020, MTS started a retail grocery delivery marketplace (in conjunction with Rate&Goods) and a delivery service catering to SME (in a tie-up with Briskly).

In November 2020, the company sold 100% of equity shares in the IT business NVision Group to Sistema PJSFC for RUB 369 mln, a final valuation achieved upon an adjustment of financial performance figures as of the closing date.

Financial performance in 2020

Indicator, RUB mln ⁹	2020	2019	Change
Revenue	494,926	470,605	5.2%
Adj. OIBDA ¹⁰	214,895	212,818	1.0%
Operating income	112,893	115,577	(2.3%)
Adj. net profit attributable to Sistema ¹¹	31,756	25,403	25.0%

Despite an overall downturn in the telecoms market, MTS looks upon 2020 as a year of growth and leadership strengthening. The annual revenue is up 5.2% year-on-year, to RUB 494.9 bln, primarily driven by strong performance in core business segments and the development of new business lines, such as media, fintech, and B2B cloud solutions, which collectively delivered about a third of the revenue.

Adjusted OIBDA is up 1.0%, to RUB 214.9 bln. Though supported by an increase in revenue, OIBDA growth has been constrained by adverse factors such as a drop in high-margin international roaming proceeds amid global travel restrictions.

Adjusted net profit is up 25.0% year-on-year, to RUB 31.8 bln, as a result of steady performance in core business segments, a reduction in net interest expenditure (a trend that reflects the company's consistent steps in optimising the loan portfolio), and the effects of movements in currency rates and transactions in derivatives that the company uses for hedging purposes.

Over the course of the year, the company distributed a total of RUB 58.9 bln in dividends, in addition to RUB 26.5 bln in "special" dividends distributed in Q1 2020.

OZON

Sistema Group's stake: 33.1%¹²

CEO: Alexander Shulgin

Chairman of the Board of Directors: Elena Ivashentseva

Ozon is a leading multi-category e-commerce platform and one of the largest internet companies in Russia. Ozon's fulfillment infrastructure and delivery network have some of the widest coverage among e-commerce players in the country, enabling Ozon to provide more than 85 mln people in Russia with fast and convenient courier delivery and pick-up locations within walking distance.

Industry overview for 2020¹³

In 2020, the Russian e-commerce market grew by 58% year-on-year, reaching RUB 2.7 bln. The overall Russian retail market fell by 4% in 2020 year-on-year to RUB 35.6 trn. E-commerce penetration in Russia was close to 8% in 2020. Russian e-commerce market is highly fragmented compared to other countries which creates substantial opportunity for market consolidation and market share gains for leading multi-category players. The three largest e-commerce players' combined market share was 25% in 2020. It is expected that by 2025 as a result of the growth of e-commerce penetration in Russia some of the strongest e-commerce players will become larger than some of the current TOP-5 brick-and-mortar retailers in the country.

Russian retail market is one of the largest and fast-growing markets in Europe. According to analysts, e-commerce market in Russia could exceed RUB 10 trn by 2025. Main drivers of future e-commerce growth are generational shift, investment in fulfillment and logistics infrastructure by e-commerce businesses, growing popularity of online payments and increasing level of consumer trust to domestic e-commerce business.

⁹ MTS's results are presented including the divestment of NVision Group in 4Q 2020. Results for 2019 and 2020 have been restated to reflect the effect of the sale.

¹⁰ Adjusted for an impairment of non-current assets of RUB 2 bln for FY 2020.

¹¹ Adjusted for an impairment of non-current assets of RUB 2 bln for FY 2020.

¹² Assuming 4,472,969 ordinary shares issuable upon exercise of outstanding vested share-based awards under the employee incentive program of Ozon

¹³ Sources: Data Insight, Rosstat, INFOLine. All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

On top of that, development of e-commerce in the Russian regions and in small and medium-sized cities, in particular, will be one of the key growth drivers of the e-commerce market in Russia.

In 2020, COVID-19 related restrictions accelerated e-commerce adoption by Russian consumers. As a result of the COVID-19 pandemic, online platforms such as Ozon experienced a significant increase in the number of new active buyers. The pandemic contributed to an increase in the number of active online consumers by approximately 4 mln in 2020, and will contribute to an increase in the number of online shoppers by approximately 3 mln in 2021. These numbers account for 12% and 9%, respectively, of the total number of online shoppers in 2019, and will account for more than 50% of the total increase in the number of online shoppers in 2020 and 2021, respectively. It is expected that the impact from COVID-19 to contribute approximately RUB 3.3 trn to overall e-commerce sales in Russia cumulatively over the six-year period from 2020 to 2025.

Business development in 2020

In November 2020, Ozon carried out an initial public offering simultaneously on two exchanges - NASDAQ and Moscow Exchange (MOEX), raising USD 1.2 bln. The company was valued at USD 7 bln, and two months later Ozon's market capitalization exceeded USD 10 bln.

In 2020, Ozon continued large-scale expansion of its logistics infrastructure in order to provide faster delivery to buyers in the regions and provide more logistics options to local sellers. In October, Ozon opened a new fulfilment centre in Rostov-on-Don with footprint space of more than 22,000 sq m. By the end of 2020 Ozon's footprint included over 220,000 square meters of fulfillment center space in Moscow and Moscow region, Tver, Saint-Petersburg, Kazan, Rostov-on-Don, Yekaterinburg and Novosibirsk.

To provide maximum convenience to its customers, Ozon operates a variety of last mile delivery channels, including pick-up points, couriers and parcel lockers. During 2020 Ozon continued to actively expand its last-mile network. As of December 31, 2020 Ozon, operated over 10,000 offline branded pick-up locations.

Ozon actively invested in the development of its e-grocery segment and its own rapid delivery service Ozon Express. In 2020, the service opened a network of dark stores in Moscow and provided express courier delivery within an hour to the entire capital inside the Moscow Ring Road as well as a significant portion of the Moscow region. Ozon plans to expand this service into the regions in 2021.

Number of Ozon card holders increased significantly throughout 2020. In December 2020 number of OZON cards users exceeded 450,000, compared to 57,000 as of December 31, 2019. In Q4 2020 Ozon launched a virtual Ozon card which allows for faster and wider adoption of the Ozon card.

In February 2021, Ozon placed a USD 750 mln convertible bond. The company plans to deploy the funds to support organic growth, expand into new business verticals and for general corporate purposes.

Financial performance in 2020

Indicator, RUB mln	2020	2019	Change
GMV incl services ¹⁴	197,414	80,815	144.3%
Revenue	104,350	60,104	73.6%
Adj. EBITDA ¹⁵	(11,716)	(15,832)	-
Operating cash flow	6,570	(14,312)	-

GMV incl. services came in at RUB 197.4 bln in FY 2020, with growth of 144.3% year-on-year.

Key growth drivers were:

- an increase in the Marketplace's share of GMV and a 4x increase in the number of marketplace sellers compared to 2019, which resulted in expansion of the product range and buyers' access to products;
- expansion of Ozon's fulfilment, logistics and IT infrastructure, particularly in Russia's regions, which made it possible to process the increasing number of orders and reduce delivery times.

¹⁴ GMV incl. Services is the value of goods sold on Ozon and revenue from services rendered to buyers and sellers, inclusive of VAT, less discounts, cost of returns and canceled orders. The figure does not include Ozon.Travel sales and the value of cancelled orders and discounts provided.

¹⁵ Adj. EBITDA is treated as a pre-tax loss, prior to the deduction of non-operating income (expenses), depreciation and option programmes expenses.

For the full year 2020, adjusted EBITDA as a percentage of GMV incl. services improved to (5.9%) from (19.6%) in 2019. The improved margin was due to infrastructure utilisation growth as a result of economies of scale, as well as the effect of operating leverage on IT and administrative costs.

Operating cash flow turned positive in 2020 and reached RUB 6.6 bln, following RUB 14.3 bln in negative operating cash flow in 2019 due to a negative working capital cycle and business scale-up, and also due to currency revaluation and a positive effect from derivatives.

Segezha Group

President: Mikhail Shamolin

Chairman of the Board of Directors: Ali Uzdenov

Sistema's effective stake: 73.7%¹⁶

Segezha Group PJSC is a large vertically integrated Russian forestry holding with a full cycle of logging and advanced wood processing. Segezha Group comprises forest, wood processing and pulp and paper assets in Russia and Europe.

The main production facilities are located in the European part of Russia and EU nations, with representative offices in 11 countries. Segezha Group's enterprises employ about 13,000 people.

The company exports products to over 100 countries. Exports of finished products account for 72% of the company's revenue. The Group is among Russian, European, and global leaders in the production of plywood, paper sacks, unbleached sack paper, and sawn timber.

New products

CLT panels. In 2020, Segezha Group completed the construction of Russia's first CLT plant with a capacity of 50,000 cu m and began producing CLT panels. CLT panels are cross-laminated layers of softwood timber, which have the same strength as such traditional construction materials as concrete, steel and brick, but are superior in terms of production costs, eco friendliness and ease of maintenance.

Lignosulphonates. In August 2020, the Sokol PPM launched a new production facility for dry lignosulphonates with an annual capacity of 21,000 tonnes. Dry lignosulphonates are a high-tech product with a high added value. Their production will enable the company to bring a new product to the market that is used in many industries: from construction to cement production and the oil sector.

Business model

Segezha Group's business model is based on the principle of vertical integration with the aim of creating added value and ensuring business sustainability by diversifying risks amid a changing macro environment. High levels of operational efficiency and a presence in all key stages of value creation - from in-house logging at leased forest plots to sale of high-margin products to end consumers - allow Segezha Group to maintain market leadership in terms of cost of finished products in all business segments.

Industry overview for 2020¹⁷

Sack paper

The global pulp and paper industry did not suffer from the pandemic as much as other sectors. Despite the pandemic and the accelerated decline in demand for writing and printing paper, there was a surge in demand for packaging paper and cardboard for the consumer segment.

At the beginning of 2020, the market saw a surplus of supply and high competition between major players, which pushed the prices down. Starting from Q3 2020, the global market witnessed positive dynamics and stabilisation of supply and demand. In the future, demand is expected to exceed supply thanks to the recovery in the construction industry and food production.

In Segezha Group's target segment (paper for industrial sacks), consumption grew by 1% vs 2019 to 4.1 mln tonnes, due to the recovery of markets in China, Europe, Latin and North America. In 2021, consumption is projected to reach 4.3 mln tonnes (+2.7% year-on-year).

¹⁶ In April 2021, Segezha Group conducted had an IPO on the Moscow Exchange. Upon completion of the IPO, Segezha Group will have a free float of 23.9%, while Sistema will retain a 73.7% ownership stake.

¹⁷ Sources: Fisher, Pory, Hawkins Wright, CEPI, EUROSAC, Rosstat, Indufor, FAOSTAT, GWMI, EUWID, FEA. All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

Paper sacks

In the European market, Germany, Turkey, Italy, France, Poland and Spain accounted for about 62% of demand for paper sacks in 2020. 63% of demand came from the construction industry (cement and dry construction mixes).

Paper sack consumption in Europe totalled 6.05 bln items in 2020, an increase of 3.5% compared to the previous year¹. Growth of the demand in the reporting period was hindered by restrictions related to the spread of COVID-19. Following the market trends, Segezha Group reduced the share of sacks produced for the construction sector in 2020 and increased the share of products for high-margin segments. In 2021, consumption in Europe is projected to continue growing and will reach 6.1bln sacks. CAGR of paper sack consumption in 2020-2025 will be 0.8%, growing mostly due to the food and animal food segments.

In Russia, the construction industry also accounts for the bulk (90%) of paper sack consumption. At the same time, demand exceeds domestic production, and the deficit is compensated with imports, the share of which in 2020 was 21%. In 2020, paper sack consumption in Russia was 761 mln, down 0.5% from the previous year. The main factors contributing to the decline were restrictions in the construction industry related to COVID-19.

In 2021, paper sack consumption in Russia is expected to reach 775 mln items (+2% year-on-year), supported mainly by growing volumes of infrastructure and housing construction, as well as the food industry, which has a huge potential for increasing the share of paper packaging to replace plastic.

Plywood

The global plywood market had been demonstrating a steady growth in previous years, but its size fell by 4% in 2020 year-on-year to 4.6 mln cu m due to the COVID-19 pandemic. Europe and Russia remained the biggest global consumers of plywood in 2020, accounting for 74% of total consumption. At the same time, the global market saw excessive supply of birch plywood in the reporting year due to the launch of new production facilities in Russia, which in turn created additional pressure on market prices.

In Q1 2020, prices in foreign markets were rising due to a slump in hardwood plywood output and supply in China and Asian countries caused by the lockdown. In Q2 2020, the negative effects of the pandemic led to a decline in demand in the key regions and sectors, but the markets gradually stabilised in the second half of the year. In 2021, global consumption is projected to reach 4.7 mln cu m (+2% year-on-year).

Analysts believe that CAGR of global birch plywood consumption will be 2% in 2020-2025. The demand for birch plywood will be driven by the construction, transport, furniture and shipbuilding industries.

Russia remains the world's indisputable leader in birch plywood production: its share of the global market was 83% in 2020. At the same time, Russia's plywood output fell by 3% in the reporting year vs. 2019 to 3.8 mln cu m. Segezha Group accounted for 4% of Russia's total birch plywood output in 2020.

Sawn timber

The global market of softwood sawn timber was estimated at 336 mln cu m in 2020. 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 dropped by 1% in 2020 year-on-year.

At the beginning of 2020, consumption and prices moved down due to the lockdown measures, which resulted in a slowdown of buying activity, temporary shutdown of processing facilities, growth of warehouse stock, closing of seaports, shipment delays and higher competition.

In H2 2020, demand recovered and prices in the key sawn timber markets went up. The reasons were the pick-up in the US construction sector, redirection of imports from Europe to North America due to a production decline in Canada (which is the main exporter of sawn timber to the US), and stabilisation of stock at Chinese ports. In 2021, the softwood sawn timber market is expected to see steady demand and prices.

The output of softwood sawn timber in Russia is estimated at 41 mln cu m in 2020, a decrease of 1% vs 2019. Russia is the world's No 4 producer of softwood sawn timber after Europe, the US and Canada with a market share of 12%. Russia's exports of softwood sawn timber fell by 3% to 30.4 mln cu m, mainly due to China, which remains the biggest consumer of Russian softwood sawn timber.

Laminated beams

Segezha Group's laminated wood structures are mostly exported to Europe, where the demand for the products of this kind is high. Italy, Germany and Austria were the main markets in 2020, accounting for 84% of all sales in the segment. Europe and Japan remained the leading global consumers of laminated beams that are used in the construction industry. In 2020, the European output of laminated beams was 3.5 mln cu m (+1.4% year-on-year), mostly thanks to production growth in Germany and Austria. France remains a promising market for laminated wood structures, since the share of rented wood housing is high there.

In H2 2020, the European market of laminated beams witnessed an active demand, which led to maximum capacity utilisation at production facilities and caused many companies to stop taking new orders. Producers noted an increase in the number of incomplete orders due to a shortage of raw materials. It became a problem for many companies as there was a deficit of raw wood supplies from Central Europe and Scandinavia, which led to higher purchasing prices. The forecast of laminated beams consumption in Europe is optimistic. In Italy, which is one of the key markets for Segezha Group, the segment will be driven by housing construction (the industry is projected to grow by 14% in 2021) and tax benefits for investments in construction.

Prefabricated houses

Segezha Group supplies laminated-beam prefab houses mainly to the Russian market, being the indisputable market leader with a 15% market share in 2020.

The capacity of the Russian market of prefabricated houses using laminated beams was estimated at 131,000 cu m in 2020 (+5% year-on-year). The share of housing built using timber is believed to have doubled in Russia in the last 15 years. The key regions consuming prefab houses are still the Central, Northwest and Volga federal districts. In the first half of 2020, there was a decline in sales due to the COVID-19 pandemic and lockdown. However, the demand rose by 30% year-on-year already in H2 2020. Experts also noted buyers' growing interest in country houses due to the pandemic.

Business 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
- Quality forest reproduction
- Construction of haulage roads

Manufacturing assets

- Construction of a plywood mill in Galich
- Upgrade of the Segezha PPM to increase capacity and reduce production costs
- Increasing paper packaging production capacity in Russia and Europe
- Increase of sack paper output at Sokol PPM
- Construction of a pellet facility at Sokol Woodworking Plant is in progress

Sustainable development

- Health and safety of employees
- 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 mln seedlings as part of the company's policy of sustainable forest management by 2023
- Umbrella charity projects: City Infrastructure, Sports, Education, Environment

Innovation

- Full implementation of SAP S/4HANA at all divisions by 2021
- Creating and developing R&D centres at the company
- Automation and introduction of state-of-the-art IT solutions

Business development in 2020

Paper and Packaging

Production, sales and revenue in the paper segment

Indicator	2020	2019	Change
Revenue, RUB bln ¹⁸	15,9	15,2	4.5%
Output, thsd tonnes ¹⁹	402	388	3.6%
Sales, thsd tonnes	289	254	13.8%

Segezha Group produces 70% of Russia's sack paper output. Over 30% of the paper output is supplied to the Group's facilities in Russia and Europe to manufacture paper sacks and bags, and the remaining 70% is sold in Russia or exported. The share of exports in sales to external customers exceeds 90%, and geography of supply is more than 75 countries. The main export markets for Segezha Group are China, Latin America, Southeast Asia, North Africa, the Middle East, and also Europe.

Revenue from paper sales in 2020 totalled RUB 15.9 bln, an increase of 4.5% from 2019. The growth came from the higher output and sales.

In 2020, Segezha Group's paper output grew by 3.6% year-on-year to 402,000 tonnes, mostly thanks to the measures taken to enhance the efficiency of production facilities. Paper sales in the reporting period were up 13.8% to 289,100 tonnes following the growth of output and also due to sale of warehouse inventories. Additional volumes were sold to both existing and new customers in China, India, Chile, Argentina and other countries.

Output, sales and revenue in the paper packaging segment

Indicator	2020	2019	Change
Revenue, RUB bln	19,7	18,1	8.9%
Output, mln items	1,291	1,262	2.3%
Sales, mln items	1,301	1,238	5.1%

Packaging products of Segezha Group's enterprises in Europe 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 and the Rostov region. About 29% of Segezha Group's sack paper is converted into paper packaging. The Group is actively increasing the production capacity in the segment of consumer packaging, investing into acquisition of new production lines.

Revenue from sales of paper packaging grew by 8.9% in 2020 vs. 2019 to RUB 19.7 bln. The growth came from increased sales and a greater share of high-margin products.

In 2020, Segezha Group sold 1,300.8 mln paper sacks, up 5.1% from the previous year, due to sales growth at its European and Russian conversion facilities. In Russia, the growth was mostly caused by the deficit of imported products, which also made it possible to raise selling prices. In Europe, the growth was brought about by higher demand, mainly in the construction industry.

The output in 2020 grew by 2.3% year-on-year to 1,290.8 mln items following growth of sales. The Group continued to increase the share of high-margin products in its portfolio, including by construction of new production facilities in the Moscow region.

Plywood

Output, sales and revenue in the plywood segment

Indicator	2020	2019	Change
Revenue, RUB bln	6,7	5,5	20.6%
Output, thsd cu m	192	192	0%
Sales, thsd cu m	186	182	1.9%

Most of the plywood produced by Segezha Group is made for exports (79% of the output in 2020). Plywood is supplied to more than 60 countries, the key export markets being Europe, the United States, Canada and Asia Pacific, including China, South Korea and India.

¹⁸ Net of intra-group turnover.

¹⁹ Approximately 29.1% of paper produced was supplied to Segezha Group's own converting facilities to produce paper packaging.

Revenue from plywood sales in 2020 totalled RUB 6.7 bln, an increase of 20.6% from 2019. The growth came primarily from the price increase, which became possible thanks to the timely response of the sales force to the market trends in early 2020, and also from a greater share of high-margin products. The financial result was also supported by the growth of foreign currencies against the Russian rouble.

In 2020, Segezha Group's plywood output remained the same as in 2019, 192,000 cu m, due to full utilisation of production capacity. Plywood sales grew by 1.9% to 185,600 cu m following the increase in output and also due to sale of warehouse inventories. 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.

Sawn timber

Output, sales and revenue in the sawn timber segment

Indicator	2020	2019	Change
Revenue, RUB bln	18.2	13.8	31.6%
Output, thsd cu m	1,192	1,014	17.5%
Sales, thsd cu m	1,217	1,005	21.1%

Segezha Group exports almost 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.

Revenue from sawn timber sales in 2020 totalled RUB 18.2 bln, an increase of 31.6% from 2019. The growth came from increased production and sales volumes and a rise in prices.

The output of sawn timber grew by 17.5% in 2020 year-on-year to 1,191,500 cu m thanks to the acquisition of LLC Karelian Wood Company, a logging and timber processing enterprise, at the beginning of 2020 and the increased output at existing facilities. Another contributing factor was redistribution of capacity utilisation at Sokol Woodworking Plant from laminated beams in favour of sawn timber. This was due to the replacement of an old press line with a new one, which will increase the plant's output of laminated beams by 20%.

Sawn timber sales grew by 21.1% in 2020 to 1,217,300 cu m following the increase in the output.

Key achievements

At the beginning of 2020, Segezha Group acquired a logging and timber processing enterprise, LLC Karelian Wood Company, in the Republic of Karelia with an annual capacity of up to 300,000 cu m of sawn timber and allowable cut exceeding 200,000 cu m.

In the reporting period, the Group continued building the plywood mill in Galich, the Kostroma region, with an annual capacity of 125,000 cu m of birch plywood. It will be commissioned in the end of 2021.

In April 2020, Segezha Group inaugurated the second fuel pellet facility at the Lesosibirsk Woodworking Plant No 1, which increased the Group's aggregate pellet production capacity to 110 tonnes p.a. The entire output of pellets is exported to Denmark, the Netherlands, the United Kingdom and other countries.

One of the key investment projects in 2020 was implementation of SAP S/4HANA, which will unite all of the Group's enterprises, unlock synergies between services and enhance operational efficiency.

In February 2021, the company inaugurated Sokol CLT, Russia's first large-scale industrial facility manufacturing advanced material for housing construction, in Sokol, the Vologda region.

In April 2021, Segezha Group conducted an IPO on the Moscow Exchange. Through its IPO Segezha placed raised gross proceeds of RUB 30 bln, with be used to finance further business expansion and reduce debt leverage. The shares are included in MOEX's Level 1 List under SGZH ticker.

Financial performance in 2020

Indicator, RUB mln	2020	2019	Change
Revenue	68,987	58,495	17.9%
Adj. OIBDA	17,457	13,993	24.8%
Operating income	11,185	8,333	34.2%

Adj. net loss / (profit) attributable to Sistema	(1,324)	5,040	-
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In 2020, Segezha Group increased its revenue by 17.9% to RUB 69.0 bln thanks to increased sales of paper packaging and sawn timber and higher prices of plywood and sawn timber. Revenue growth was also supported by increase of the average exchange rate of foreign currencies against the rouble year-on-year. The exchange rate of the Euro grew by 14% and of the US dollar by 11% in 2020. The share of foreign currency revenue was 72.0% in 2020.

Segezha Group's OIBDA grew by 24.8% to RUB 17.5 bln due to growing prices of plywood and sawn timber, despite the higher logistic costs and the pressure on the prices of the majority of the company's products throughout the year.

The company generated a net loss in 2020 due to the negative effect of the revaluation of its foreign currency debt. Net of FX differences, its net income grew by 170% in 2020 year-on-year.

Etalon Group

CEO: Gennady Shcherbina

Chairman of the Board of Directors: Sergey Egorov

Sistema's effective stake: 25.6%

Etalon Group is one of the largest and oldest real estate development companies in Russia specialising in mid-market construction projects and one of the leaders in St. Petersburg and Moscow.

Etalon Group is among the top 10 Russian developers according to Forbes and ranks first in the list of Russian developers with the highest reliability score.

Industry overview for 2020²⁰

2020 saw major structural shifts in market competition following several years of gradual changes. Although the number of planning permissions and projects available in Moscow and St. Petersburg is decreasing, investments in development sites across Russia are growing despite the current financial instability. The trend towards market consolidation has continued. Demand for real estate is expected to grow further in the long term due to people's need to improve their housing conditions and have a more comfortable living environment.

The strong resilience of the Russian economy to the consequences of the coronavirus pandemic compared to European countries will determine Russia's leadership in forecast recovery rates. By 2022, Russia's GDP is projected to grow by 1.1%, while the Eurozone will remain in the red territory with a negative growth of around 0.6%.

One of the key priorities of the Russian government is to improve the quality and affordability of housing. Russia is lagging behind Eastern Europe in terms of housing per capita. At the same time, more than 60% of the available housing, in particular, 57% in St Petersburg and 61% in Moscow, was built before 1990 and does not meet the standards of modern house buyers.

The main target set in the Strategy for Housing Development in Russia until 2025 is 30 sq m of residential space per capita. The programme for implementation of the government's priority tasks in housing construction envisages improvement of housing conditions for at least 5 mln families every year and increasing development volumes to at least 120 mln sq m a year.

The population's demand for housing rose significantly in 2020 amid low interest rates and taxation of deposits, and due to the subsidised mortgage programme introduced by the government. In 2020, Russia was among the top 3 countries in terms of reduction of mortgage rates (by 170 b. p.), which enhanced the attraction of investments in real estate assets and helped maintain record housing affordability figures.

Another contributor to the greater appeal of investments in real estate for individuals is migration to new project financing rules, which guarantees a full return of investments made in properties at development stage.

The government is also providing considerable support to first-time home buyers among young families by offering tax benefits and support programmes for families with children. The effect of these measures is up to RUB 2.3 mln per family. Mortgage subsidies for young families coupled with record levels of housing affordability in Moscow and St. Petersburg are going to drive sustainable demand even after the government's mortgage programme expires in July 2021.

²⁰ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

Changes in industry regulations and the greater role of banks are having a negative impact on the total number of issued development permits. In 2020, the number of permits issued in St. Petersburg decreased by 44%. In Moscow the number of issued development permits increased by 8% compared to 2019, while the area of accessible development sites fell by 48%.

As part of a new initiative the cost of changing the type of permitted use was increased, creating an additional barrier for small market players.

After a period of decline in investments in 2016-2017 caused by the introduction of new regulations, developers are seeing a rise of investments in their project portfolios, which is a sign of growing investor optimism in relation to the development sector.

The trend towards industry consolidation is accelerating due to the high interest rates charged on project financing for small market players and the difficulties related to the need to accumulate sufficient reserves on escrow accounts to get funding at reduced rates. By 2023 the share of top 20 developers in the supply structure is projected to reach a record 57% in Moscow and St Petersburg and further reduce the number of small and medium players.

Demand for residential real estate in Moscow and St Petersburg has grown by 99 mln sq m as mortgage rates plummeted in 2020. This trend is expected to continue in future. Demand in the lower price segment may be partially met by the government's renovation programme, however, a significant share of affluent buyers will still be looking for properties of higher quality.

In the long run, the terms of entering new projects and the role of developers are expected to change. Regional development is becoming an important performance indicator of real estate projects: a fall in unemployment, improved health of the population, flourishing economies of cities and towns. The business models of property development companies will be determined by their ability to structure highly profitable projects with a significant social and economic impact on the relevant regions.

Business development in 2020

In view of the accelerating changes and taking into consideration the availability of resources Etalon Group has formulated a new business development strategy until 2024. The main goal of the strategy is to increase business efficiency in the new economic conditions through improvement of business processes and use of modern home-building technologies and digital architecture.

Strategic goals

1. Developing an easily scalable business model on the basis of digital infrastructure to ensure end-to-end data transfer at all stages of value creation.
2. Attaining leadership through partnerships, creating a best-in-class platform for joint implementation of construction projects with small capital investments.
3. A long-term approach to expansion of land holdings providing for the purchase of unzoned land plots and based on successful experience of own zoning activities and opportunities for expanding geographical footprint.
4. Attaining leadership in cost efficiency and construction speed due to standardisation of product range and leadership in construction technologies.
5. Best customer experience in the industry due to development of B2C services, further improvement of communications and customer service at all stages of customer journey.

Strategy until 2024 envisages a new approach to each value creation stage:

Analysis and acquisition of land plots. A long-term focus on land expansion supported by the purchasing of unzoned land plots, extending the geographic span of projects through inorganic development.

Key expected results: increase in the size of the portfolio up to 6+ mln sq m aa balanced structure of land assets and long-term growth of sales.

Design. Design works in keeping with modern construction principles and standards, supply of popular formats of housing and living environments.

Key expected results: improving product quality, implementing highly transparent processes, minimising the lead time from finding a land plot to the start of construction to 6 months and creating a uniform system of standard design works and launching R&D.

Construction. Leadership in speed and cost efficiency ensured by product standardisation across entire product range and leadership in new construction technologies: modular technology, construction using CLT panels and modern prefabrication.

Key expected results: gross profit margin at 35%, increasing construction volumes more than two-fold without a rise in fixed costs.

Marketing and sales. Increasing customer lifetime value based on understanding the customer's expectations at the time of purchasing a new property and at the start of living in it and using available services. Customising a product and optimising its promotion based on big data and artificial intelligence technologies

Key expected results: stable double-digit growth of sales with the highest NPS²¹ and CLV²² in the industry, cutting marketing expenses by 20%

Project management. End-to-end data transfer at all stages of value creation through implementation of shared digital infrastructure.

Key expected result: a drop in selling and administrative expenses to revenue down to 4.5% and 5.5% respectively.

Partnership and supply chain. Leadership through partnership and creation of a best-in-class platform for residential development projects. The implemented strategic initiatives, including the introduction of dynamic pricing, pushed the average real estate prices up by 21% and boosted sales up to RUB 80 bln by the end of 2020.

Key expected results: a seamless architecture of a new business model, which is open to partners and suppliers and makes it possible to quickly develop innovative businesses and cut costs.

Operating performance in 2020

Despite a difficult start of the year, Etalon Group's operating results surpassed the management's optimistic forecasts, and the main monetary indicators reached a historic high. Etalon Group fully met its plans for new housing commissioning and sales, having completed the development of 12 properties with a total area of 540,000 sq m and sold more than 538,000 sq m of residential space in finished and unfinished residential estates. The record value of contracts signed by the company and the cash income amounting to RUB 80 bln and RUB 82 bln respectively have proven the effectiveness of the sales strategy approved by the company and boosted its financial results.

Indicator	2020	2019	Change
Sales, RUB mln ²³	79,922	77,627	3,0%
Sales, thsd sq m	538	630	(14,6%)
Average price, RUB thsd / sq m	149	123	20,6%
Average price (housing), RUB thsd / sq m	179	149	20,1%
Cash inflows, RUB mln	81,985	77,713	5,5%

Implementation of projects

The Architectural Council of Moscow approved the development plans for ZIL-Yug project, and a public media platform and urban development lab Generation Zil was launched to promote discussions on the development of the new district. Sales of properties completed as part of the first stage of the project are expected to start in the first half of 2021.

In 2021, the company expanded its product offer in St Petersburg by launching the new Domino development project at Beloostrovskaya St. and starting to develop new properties on the premises of the Galaxy quarter.

Largest completed projects

Hotel	Area, thsd sq m
Galaxy residential estate, 2nd phase properties, and Galaxy Premium quarter	139
Okhta House residential estate	134
Normandy residential estate, 1st phase	89
Silver Fountain residential estate, bldg. 2	67

²¹ Net Promoter Score

²² Customer Lifetime Value

²³ Operating indicator

Listing on Moscow Exchange

In addition to developing its business, Etalon Group also took some major steps aimed at expanding its investor base in 2020. In January, the company successfully arranged a listing of its global depositary receipts on the Moscow exchange. Etalon Group's securities were included in Level 1 List of the Moscow Exchange and since February the 3rd they have been trading on the Moscow Exchange under the ETLN ticker; while in March 2020 they were included in the calculation base for the Moscow Exchange Broad Market Indices.

Secondary public offering

In April 2021, the Board of Directors of Etalon Group approved an additional offering of up to 88,487,391 ordinary shares in the company representing 30% of Etalon Group's total issued ordinary shares. The subscription price will be USD 1.7 per share. The net proceeds from the offering will be used for the acceleration of the company's investment programme and business expansion.

Financial performance in 2020

Indicator, RUB mln²⁴	2020	2019	Change
Revenue	78,655	84,330	(6,7%)
Pre-PPA EBITDA ²⁵	16,482	11,175	47,5%
EBITDA	12,601	8,497	48,3%
Operating income	5,875	3,110	88,9%
Adj. net profit	19,580	21,484	(8,9%)

In 2020, the Company set a new record in terms of gross income: RUB 22 bln, up by 9.3% from 2019 despite a minor reduction in revenue caused by restrictions on construction works in the Moscow region during the coronavirus lockdown.

One of the Company's key priorities is to continue cutting SG&A expenses, which dropped by 19.1% at the end of the year in absolute terms and accounted for 12.5% of revenue vs 14.4% in 2019.

As a result of cost reduction, EBITDA before Purchase Price Allocation (PPA) increased by 47.5% up to RUB 16.5 bln. Net income adjusted for one-off acquisition and integration expenses grew by 88.9%, from RUB 3.1bln in 2019 to RUB 5.9 bln in 2020.

Etalon Group generated cash flows at an accelerated pace due to strong sales. The Group generated a positive cash flow from operations before interest, which totalled RUB 3.9 bln net of cash on escrow accounts. At the same time, cash flow from operations before interest adjusted for cash on escrow accounts almost doubled and reached RUB 26.8 bln. Net cash flow adjusted for cash contributed to escrow accounts returned to positive values and amounted to RUB 22.3 bln. Etalon Group paid RUB 3.5 bln in dividends (12 roubles per GDR) for 2020.

Medsi

President: Elena Brusilova

Chairman of the Board of Directors: Artyom Sirazutdinov

Sistema's effective stake: 95.5%

JSC Medsi Group (hereinafter, "Medsi") is Russia's largest private healthcare platform that offers a full range of preventive, diagnostic and treatment services, as well as a variety of services to improve the quality of life.

Business model

Medsi is a three-tier medical platform that unites all levels of medical care: from preventive health improvement programmes to complex high-tech surgeries and rehabilitation. Thanks to an effective routing system within the chain and the development of vertically integrated centres of excellence, Medsi provides patients with the continuity of the treatment process within the chain under uniform standards and with high effectiveness. One of the priority areas for improving the model is a digital platform that is used not only as a convenient tool for storing medical records and

²⁴ 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.

²⁵ EBITDA before purchase price allocation (PPA).

communicating with patients, but also as a foundation for developing ecosystem products intended to take care of patients' health and quality of life.

Industry overview for 2020²⁶

In 2020, Russia's market for commercial medical services grew by 6.1% to RUB 727 bln. The share of Moscow and the Moscow region is 35%.

The retail segment (self-pay patients) is still the biggest segment in the structure of commercial healthcare. It grew by 7.7% in 2020 to RUB 543.1 bln. The segment's share is 58.3% in Moscow and the Moscow region and 74.7% in Russia as a whole.

In the reporting period, the segment of voluntary medical insurance (VMI) amounted to RUB 183.6 bln, up 1.6% year-on-year, even though the number of visits decreased by 3.4%.

In the reporting period, the ATV²⁷ in the channels of self-pay patients and VMI grew by 5.0% and 5.2%, respectively, which was driven mainly by increased prices for medical services and also by limited access to free medical care and deferred demand for routine treatment amid the COVID-19 epidemic.

The COVID-19 epidemic has changed the way healthcare is delivered. Forced restrictions have boosted the popularity of telemedicine technologies and home care services. Demand for coronavirus testing and diagnostics (PCR, antibodies and CT) has increased significantly.

In 2021, the growth rate of the commercial healthcare market is expected to slow down due to the deterioration of the economic situation in Russia.

Getting "back to normal" will increase the availability of public healthcare, which, given falling real incomes, will lead to a decrease of the legal commercial sector by 3.9% to 194.5 mln visits or by 0.5% in value terms to RUB 540.4 bln. The VMI segment will be shrinking amid cost optimisation in the corporate sector. The market size will decrease by 4.4% to 45.7 mln visits or by 2.7% in value terms to RUB 178.7 bln.

COVID-19 mass vaccination will contribute to a gradual reduction in the number of COVID-19 cases and the return of routine medical care to pre-crisis levels in the second half of 2021. Given the significant increase in public funding to fight the epidemic in 2020, in 2021 the turnover of the OMI sector is expected to fall back to the level of 2019, RUB 2.1 trn.

New areas that received an impetus during the epidemic (telemedicine, genetic research and home care) will continue to show significant growth due to the low base effect, but they will still have an insignificant share of 1% to 2% in the total market size.

Business development in 2020

Cardiovascular diseases

An open-heart surgery with the installation of a heart-lung machine was performed at Medsi's Clinical Hospital 1, which was the first such case for the Russian private healthcare sector.

Oncology

Medsi is a strategic partner of the Moscow region in the treatment of cancer patients: in 2020, Russia's first outpatient cancer care centre in a private clinic was established at a Medsi facility. More than 11,000 patients from 80 Russian regions received treatment at Medsi clinics, with 29,000 cycles of chemotherapy/immunotherapy.

Children

Medsi is the only private healthcare provider in Russia specialising in hand and spinal reconstruction in children. In less than a year of work, more than 100 surgeries were carried out.

In the 4th quarter of 2020, 45 children successfully completed a full course of rehabilitation at the Otradnoye sanatorium. The programme is implemented within the framework of strategic cooperation with the state for the rehabilitation of children with cerebral palsy.

Other unique centres of excellence

Medsi clinics also provide reconstructive plastic surgery services after complex oncological and orthopedic surgeries, as well as treatment of connective tissue diseases, chronic viral hepatitis, chronic lung disease and enteropathy with

²⁶ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

²⁷ Average Ticket Value

genetically engineered biological drugs. In addition, one of Russia's most advanced neurosurgery centres was launched at the clinical hospital in Otradnoye.

Chain expansion

In 2020, Medsi continued to expand its medical floorspace by launching 4 new clinics in Moscow – 1 CDC in Maryino and 3 clinics in the Smart 500 format (small local outpatient clinics) – and by completing a deal to acquire 4 new clinics in Izhevsk in the 1st quarter. In total, the medical floorspace grew by 4.2% year-on-year, or by 4,300 sq m. In addition, Medsi's first franchise clinic was opened in Moscow in the reporting period.

In 2020, Medsi continued the construction of the Michurinsky multi-specialty medical centre in Moscow with a total area of 28,000 sq m.

Operational efficiency

In 2020, as part of the strategy to improve operational efficiency, Medsi launched a project to create a reference centre for radiology, which optimised and improved the quality of radiology services in all Medsi clinics. The company also started the construction of its own full-cycle clinical lab, which can satisfy the needs of Medsi's customers in diagnostics and provide additional opportunities for its partners. Despite the pandemic, Medsi successfully launched four new clinics, which reached positive OIBDA after 2-5 months of operation. In December 2020, Medsi's flagship asset CDC Krasnaya Presnya was successfully accredited by Joint Commission International (JCI).

Ecosystem development

In 2020, Medsi continued to develop its SmartMed platform with an aim to expand the range of digital services for patients.

In 2020, a digital personalised health monitoring system was launched on the basis of Bioniq.

During 2020, Medsi expanded its cooperation with Third Opinion, a company specialising in the use of artificial intelligence in medicine. During the pandemic, Medsi's doctors and the project's development team jointly developed software to determine the degree and localisation of lung lesions based on CT scans and a video-based system for monitoring the condition of patients in wards and intensive care units.

In September 2020, Medsi acquired an equity stake in Sistema BioTech, a biotechnology company that specialises in genetic diagnostics, predictive medicine and development of new drugs.

In December 2020, Medsi and MTS Startup Hub launched an accelerator for promising health tech projects.

Other results

In December 2020, Capital Group commissioned the residential complex Nebo ("Sky"), a project in central Moscow which the developer implements jointly with Medsi. Medsi will have a 50% share in the project's proceeds in 2020-2022, which will give the company an additional source of financing for its investment programme.

Operating performance

In 2020, the COVID-19 epidemic proved to be a challenge for both Medsi and the entire industry. Medsi was the first company in the market to join the fight against the coronavirus by repurposing its flagship hospital in a very short time. In addition, Medsi introduced a line of COVID-related products, including diagnostic, treatment and rehabilitation services. The company implemented special medical protocols at all its clinics and also launched telemedicine and home care services.

The measures taken made it possible to compensate for the spring drop in sales, and deferred demand for medical services allowed Medsi to show growth in 2020. In the reporting period, revenue grew by 12.2% to RUB 25.0 bln, despite a decrease in the total number of visits by 18.1% to 7.9 mln. The ATV increased by 36.9% to RUB 3,188.

Retail segment²⁸

In 2020, Medsi's 36.5% revenue growth in the retail segment significantly outpaced the overall market growth in this segment (+7.7% year-on-year). At the end of the reporting period, Medsi's market share in the retail segment was estimated at 1.6% in Russia as a whole and 5.2% in Moscow and the Moscow region.

VMI segment²⁸

In 2020, revenue in the VMI segment increased by 6.1%, although the number of visits fell by 26% year-on-year. At the end of the year, Medsi's market share in the VMI segment was estimated at 5.5% in Russia as a whole and 8.7% in Moscow and the Moscow region.

OMI segment²⁸

²⁸ Calculated based on data from BusinessStat and company statistics.

In 2020, revenue in the OMI segment fell by 1.6%, with the number of visits decreasing by 9.3% year-on-year. At the end of the year, Medsi's market share in the OMI segment was estimated at 0.3% in Russia as a whole and 1.3% in Moscow and the Moscow region.

In 2020, there was a negative trend in the number of visits and capacity utilisation in the outpatient segment amid the COVID-19 pandemic. At the same time, capacity utilisation in hospitals increased due to the provision of services for the treatment of COVID-19.

The ATV increased in 2020 due to the growth in the share of expensive services for COVID-19 diagnostics, such as computed tomography, in the outpatient segment and the high average cost of treatment for COVID-19 patients in the Otradnoye hospital.

Business development strategy

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

Increasing the market share in Moscow and other regions:

- Opening a new 28,000 sq m multi-specialty medical centre Michurinsky
- Launching a children's hospital as part CH1 in 2021
- Establishing a radiation therapy centre for cancer treatment
- Building an infectious diseases hospital
- Opening at least 50 outpatient clinics and CDCs, including up to 25 new assets during 2021
- Implementing regional projects through organic development, M&A and/or partnership projects with the state
- Scaling up home care, a chain of pharmacies at Medsi clinics and an online pharmacy

Vertical integration:

- Creating a single centralised clinical diagnostic lab and a nationwide chain of medical offices
- Developing reference centres for radiology, ultrasound and instrumental diagnostics
- Creating referral centres of excellence based on flagship assets in all major medical areas: cardiovascular diseases, oncology, traumatology and orthopaedics, neurology, children and other
- Developing medical tourism
- Digital transformation:

Improving operating efficiency:

- Improvement of the system of referrals of outpatients to inpatient facilities
- Further standardisation of business processes and increased business manageability
- Business analysis of medical data
- Standardisation of algorithms for the launch of new assets and the integration of acquired assets

Development of a medical ecosystem and R&D

- Further refinement of the digital platform SmartMed and expansion of the range of telemedicine services
- Introduction of biotech and genetic products into clinical practice
- Development of a new segment of occupational healthcare
- Implementation of a patient-centred model (P5 medicine) and expansion of the product offering in the segments of biohacking and predictive medicine.

Financial performance in 2020

Indicator, RUB mln	2020	2019	Change
Revenue	25,041	22,322	12.2%
Adj. OIBDA ²⁹	6,888	5,916	16.4%
Operating income	3,704	2,848	30.0%
Adj. net profit attributable to Sistema ²⁹	3,464	2,920	18.6%

Medsi's revenue increased by 12.2% in 2020 to RUB 25.0 bln, which was driven by a significant growth of the ATV due to COVID-19 diagnostics and treatment services, expansion of the chain of outpatient facilities in Moscow and acquisition of clinics in Izhevsk.

Adjusted OIBDA surged by 16.4% in 2020 to RUB 6.9 bln following revenue growth and due to participation in a JV with Capital Group for the construction of the Nebo residential complex at Michurinsky Prospekt. The property development project's effect on OIBDA was RUB 1.6 bln in 2020 compared to RUB 1.1 bln a year earlier.

²⁹ Adjusted for allocations related to the LTI programme and for the effect of the acquisition of the Izhevsk clinic.

Adjusted net profit grew by 18.6% in 2020 to RUB 3.5 bln as a result of increased adjusted OIBDA.

Steppe AgroHolding

CEO: Andrey Neduzhko

Chairman of the Board of Directors: Ali Uzdenov

Sistema's effective stake: 92.8%

JSC Steppe AgroHolding ("Steppe") is one of Russia's largest agricultural players possessing a diversified asset portfolio and operating over 565 thsd ha of land.

Between 2015 and 2020, the company evolved into an industrial leader and the nation's 6th largest owner of farmland, with land assets conveniently located in export-oriented geographies in the Russian south.

Steppe AgroHolding leads the market in operating efficiency and the quality of assets in crop and dairy farming. The company's competitive edge on the grain trading market is a combined effect of company-owned production, transhipment and logistical facilities, and an advantageous geographical location in direct proximity to major export channels.

Business model

Steppe AgroHolding is a vertically integrated business where crop farming as the core activity is complemented by logistical facilities and capabilities in grain, sugar and groceries trading. The company is also active in dairy farming and fruit growing.

Industry overview for 2020³⁰

Crop farming

Russia's gross harvest of grain and grain legumes in 2020 reached 133.0 mln tonnes, up 9.7% (11.8 mln tonnes) year-on-year, with cultivated land area up just 2.6% (from 46.7 mln ha to 47.9 mln ha).

An important development of the second half of the 2020-2021 crop year is the introduction of export quotas for wheat, barley, and corn. Designed to drive down domestic grocery prices, the restrictions are in effect from 15 February to 30 June 2021.

2020 witnessed a surge in investor appetite for M&A targets in crop farming. Strategic investors also continued buying farmland to augment and consolidate their land holdings, which, alongside other factors, fueled a further growth in land prices. The agriculture segment proved more resilient to the COVID-19 related dislocations than many other industries.

Agrotrading

Exports of grain in the 2019-2020 agricultural season reached 41.1 mln tonnes, down 2.8% year-on-year. Russia remains world's largest grain exporter, with national exports in the 2019-2020 crop year totalling 34.8 mln tonnes (Eurasian Economic Union included).

In the first half of the 2020-2021 crop year, Russia exported 33.4 mln tonnes of grain, including 28.3 mln of wheat, up 25% year-on-year.

Dairy farming

Russia's raw milk output in 2020 reached 32,215 thsd tonnes, up 2.7% (or 855 thsd tonnes) year-on-year.

Raw milk output in commercial dairy farms in 2020 went up 5.3%, to 17.9 mln tonnes. Primarily driven by the arrival of new players, the increase is only partly due to efficiency enhancements, with the average yield per farm cow remaining fairly low. 55% of Russia's raw milk is produced at commercial farms, and 45% at private households.

Russia's total output of marketable milk in 2020 is estimated at 23.5 mln tonnes, or 73% of all produced milk, which creates great potential for boosting the production of high-quality milk as a raw material for the food industry.

Fruit growing

Russia's gross harvest of pomaceous fruit in 2020 is up 7.4%, to 2.3 mln tonnes, mostly due to the planting of new intensive orchards and first apple harvests being collected at orchards planted a few years earlier. The area under perennial pomaceous fruit crops is up 2,100 ha, to 231,800 ha.

³⁰ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

Although an increase in apple production should ideally be accompanied by a proportional growth in warehousing capacities, producers of industrial refrigerators currently fail to keep up with the rates of new orchard planting. Besides, the Russian apple market remains heavily dependent on imports.

Business development in 2020

In 2020, Steppe increased its land holdings to 565 ha, becoming Russia's leader in the rate of farmland area growth. The company grew business and solidified its market position in dairy farming, grain trading, and sugar & grocery trading through a slew of initiatives including organic growth, M&A, trading intensification, and high-efficiency trading strategies.

In 2020, Steppe sold its vegetable growing assets, zeroing in on crop and dairy farming as core lines of business.

Crop farming

In 2020, Steppe increased the area of owned farmland to 565 thsd ha (up from 416 thsd ha a year earlier), having formed a new production cluster in the north of the Rostov region and acquired more land in the Stavropol region.

Despite the unseasonably harsh agro-climatic conditions of 2020, the company leveraged innovations so as to avoid harvest losses.

The main areas of developmental focus in 2020 included efficiency enhancements, innovative technology to minimise adverse weather effects, latest technical solutions (such as drones), and AI-powered data projects.

Agrotrading and logistics

Steppe AgroHolding is among Russia's top 10 grain exporters. The company's total exports in the 2019-2020 crop year exceeded 1.1 mln tonnes, and total sales in calendar year 2020 reached 1.2 tonnes.

The company's main focus within the segment has been on enhancing operations and rolling out a high-efficiency trading strategy. Strong performance in the international trading segment combined with a GAFTA accreditation as a first-rate grain trader and partnerships with leading global traders pave the way for the evolution into a global grain trader with extended presence in the international markets.

Dairy farming

Dairy farming is Steppe's second largest line of business that greatly contributes to both diversification and vertical integration.

As of the end of 2020, the company had 6,587 lactating cows, up 14% (or 837 head) year-on-year. The total milk yield in 2020 was up 25% year-on-year, to 71.4 thsd tonnes, with a per-cow milk yield of 11.3 thsd kg a year.

The company further increased focus on productivity and technology advancements at dairy farms. This included the construction of a megafarm in the Krasnodar region, the future home of some 3 thsd cows scheduled for launch in the first half of 2021, and the upgrades of another megafarm in the Krasnodar region (with some 9 thsd cows) purchased in 2020.

Sugar and grocery trading

Sugar & grocery trading allows Steppe to unlock considerable synergies with the crop farming business while also ramping up the output of pre-packaged branded produce.

In 2020, sales in the segment totalled 330 thsd tonnes, up 7% (or 23 thsd tonnes) year-on-year. The aptly chosen "time arbitrage" strategy delivered a significant growth across financial performance parameters.

Business development strategy

Steppe's development strategy involves a continued growth of land holdings, a further enhancement of land asset efficiency, the launch and development of new dairy farms to boost milk output, growth in sales in the grain trading segment with a view to evolving into a full-fledged international trader, and strengthening the market position in the sugar & grocery trading segment through enhanced sales (of both branded and unbranded produce).

Operational results

Steppe AgroHolding's production

Indicator, thsd tonnes	2020	2019	Change
Milk production	71.4	56.9	25.5%

Grain trading sales	1,200.0	1,198.0	0.2%
Sugar & grocery trading sales	330.0	306.7	7.6%

Steppe AgroHolding's gross harvest (RZ Agro included)

Crop, thsd tonnes	2020	2019	Change
Wheat	647.8	707.7	-8.5%
Barley	56.8	34.1	66.5%
Sunflower	68.7	57.5	19.6%
Peas	59.1	24.5	140.9%
Corn	22.0	46.9	-53.0%
Beetroot	206.8	368.5	-43.9%
Other	192.0	80.9	137.5%

Financial performance in 2020

RUB mln	2020	2019	%
Revenue	32,824	28,487	15.2%
OIBDA	9,321	4,190	122.5%
Operating income	7,368	2,694	173.5%
Net profit / (loss) attributable to Sistema	3,909	(584)	-
OIBDA including AGK Yuzhny ³¹	9,697	4,103	136.3%

In 2020, revenue went up 15.2%, to RUB 32.8 bln, primarily driven by crop farming and grain trading. The growth is a combined product of an efficient selling strategy and rising grain prices, along with performance enhancements in dairy farming (which in turn stem from an increase in the number of lactating cows and a growth in per-cow yield) and growing revenue from sugar & grocery trading.

The 2020 OIBDA was up 122.5% year-on-year, primarily on the back of operational enhancements at new land assets, a high-efficiency trading strategy, and a growth in selling prices, along with stepped-up performance in the international trading segment and a supply chains optimisation.

In 2020, Steppe's Capex totalled RUB 2.5 bln, mostly applied towards new machinery and vehicles, logistics infrastructure, the construction and refurbishment of dairy farms, and the acquisition of land plots for expansion purposes.

Binnopharm Group

CEO: Rustem Muratov

Chairman of the Board of Directors: Dmitry Zubov

Sistema's effective stake – 79%³²

Binnopharm Group (hereinafter also the “Group”) is a pharmaceutical company that includes 5 production sites. The company is engaged in development and production of drugs, sales of products and active promotion of drugs in the markets of Russia and the CIS.

Business model

Research and development

Binnopharm Group has a modern research and development (R&D) division, which includes five centres of competence: a centre for the development of bio products, centres for the development of solid, soft and liquid dosage forms, and a centre for the development of active pharmaceutical ingredients.

The aggregate area of the centres exceeds 1,500 sq m. They employ more than 90 highly qualified specialists with substantial experience at large pharmaceutical, R&D and test labs. The Group's R&D is able to provide more than 40 new drugs in more than 45 dosage forms annually for the company's portfolio.

³¹ Agroholding Steppe's OIBDA including OIBDA of AGK Yuzhny during period of ownership by Agroholding Steppe through May 2020.

³² Effective stake together with VTB Group

Manufacturing

Binnopharm Group consists of five production sites, and employs more than 4,300 people. The Group's production facilities can manufacture most of the existing dosage forms with a total output of more than 450 mln units of drugs per year.

One of the Group's key advantages is in-house production of ingredients with a capacity of more than 200 tonnes per year.

Binnopharm Group's plant in Zelenograd was the first site to start producing the Sputnik V COVID-19 vaccine.

Promotion

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

Product portfolio

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

Industry overview for 2020³³

The Russian drug market grew 13.8% year-on-year in monetary terms in 2020. Relatively high growth was in the public segment: healthcare facilities (42.2%) and subsidised drug coverage (15.6%). The commercial segment grew 7.3% in 2020.

The COVID-19 pandemic had a significant impact on the growth of sales in monetary terms: consumers started panic-buying drugs, expecting an increase in prices amid the rouble's depreciation and a shortage of necessary drugs due to lockdown measures. On the other hand, rising drug prices, deteriorating financial situation and declining purchasing power of the population had a negative impact on the volume of sales in unit terms (-0.6% year-on-year).

The pharmaceutical market is expected to grow 10.0% in 2021, mainly due to inflationary growth in the commercial segment and additional funding for cost-intensive diseases in the public segment.

In 2020, due to the changing macroeconomic situation and the rouble's devaluation, there was an increase in the cost of drugs with a high share of imported components. Binnopharm Group's work with its key suppliers of raw materials and optimisation of promotion and marketing costs made it possible to compensate for the growing prime cost caused by the exchange rate differences.

There was also a trend towards decreasing sales of life-improving drugs and growing demand for essential drugs in the reporting period. To meet changing demand, Binnopharm Group regularly adjusted its sales forecasts and production plans during 2020. The Group launched the production of Hydroxychloroquine, significantly increased the output of Levofloxacin and started the manufacturing of the Sputnik V vaccine.

The structure of public sector procurement also changed: demand for drugs used in routine treatment decrease in favour of drugs for COVID-19 patients.

From 1 July 2020, mandatory labelling was introduced for all medicinal products manufactured after 1 July 2020. This led to a disruption in the supply chain, as most of the market players were not ready for the practical implementation of the project, which led to a shortage of medicines in pharmacies, especially outside Moscow and St Petersburg.

Business development in 2020

In August 2019, Sistema, together with VTB Group, acquired a 46.5% equity stake in OJSC Sintez. In May 2020, Sistema and VTB Group increased their stake in OJSC Sintez to 56.2%.

In February 2021, Sistema and VTB Group contributed their 56.2% stake in OJSC Sintez to the equity of Binnopharm Group to create a pharmaceutical holding company. At the same time, Sistema, VTB Group and a consortium of investors consisting of the Russia-China Investment Fund and major Middle East funds contributed an 85.6% stake in

³³ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

JSC Alium to the equity of Binnopharm Group. As a result, the effective stake of Sistema together with VTB Group in Binnopharm Group is 79%.

In March 2021, Group acquired a 32.4% stake in Sintez from JSC National Immunobiological Company, controlled by State Corporation Rostec.

As a result of the operational integration of OJSC Sintez (includes CJSC Biocom) and JSC Alium (includes JSC Binnopharm), Binnopharm Group has become a major pharmaceutical player, ranking 5th in terms of sales in monetary terms among Russian companies in the commercial segment in 2020.

Top drugs in 2020

Drug name	Description	Growth vs 2019
Leflobact/Leflox	Antibiotic	1,074.0%
Ceftriaxone	Antibiotic	68.6%
Maxilac	Probiotics	10.6%
Hydroxychloroquine	Antimalarial drug	-
Cefazolin	Antibiotic	17.3%
Ibuprofen	Anti-inflammatory drug	33.0%
Neobutine	Antispasmodic	10.5%
Rinorus	Vasoconstrictor	11.2%

Output

The total output in units increased in line with the annual plan by 3.8%, but there was reallocation towards drugs aimed at combating COVID-19, namely injection and infusion solutions

Dosage form, thsd units	2020	2019	%
Injection and infusion solutions	206,248	166,447	23.9%
Tablets and capsules	113,253	116,275	-2.6%
Other	70,743	93,236	-24.1%
Total	390,244	375,958	3.8%

Key focus areas and business goals for 2021-2022

The goal of Binnopharm Group is to become one of the leaders in the Russian pharmaceutical market and continue to expand its presence in foreign markets:

Sales development

- Reaching revenue and EBITDA targets
- Entering new sales markets

Enhancement of operational efficiency

- Optimising business processes
- Increasing the efficiency of structural units
- Growing labour productivity

Improvement of the company's investment appeal

Financial performance in 2020

Indicator, RUB mln ³⁴	2020	2019	Change
Revenue	21,372	16,432	30.1%
OIBDA	5,456	3,937	38.6%
Operating income	4,357	2,703	61.2%
Net profit	1,803	1,421	28.8%

The Group's revenue increased by 30.1% in 2020, while the market grew by 13.8% over the same period. Thanks to the control of purchase prices, including prices for imported substances, and administrative costs, as well as optimisation of sales plans in connection with changed consumer demand amid the pandemic, the Group's OIBDA grew by 38.6% year-on-year.

³⁴ Financial results of Binnopharm Group are presented to reflect the combination of the financial results of JSC Alium and JSC Sintez based on management accounts. Financial results of Binnopharm Group are not consolidated in the financial statement of Sistema PJSC. The data shows 100% net profit.

BPGC

CEO: Sergey Gurin

Chairman of the Board of Directors: Oleg Mubarakshin

Sistema's effective stake: 91%

Joint-stock company Bashkir Power Grid Company (BPGC) is a major regional power grid company and a leader on the Bashkortostan power transmission market.

Business model

BPGC manages companies in three main areas:

- LLC Bashkir Grid Company ("BGC") provides for electric power transmission between the central part of Russia and the Urals.
- LLC Bashkirenergo ensures distribution of electric power to individual consumers in the Republic of Bashkortostan.
- LLC BPGC Engineering carries out design, construction and overhaul of power facilities.

Industry overview for 2020³⁵

In 2020, electricity generation in Russia dropped 3% year-on-year, to 1.064 trn kWh, with consumption down 2.3%, to 1.05 trn kWh. The downward trend in large part resulted from lockdown measures amid the pandemic of COVID-19 as well as the OPEC+ agreement to reduce oil production.

Regulatory measures as regards electricity pricing in 2020 are strongly indicative of the government's commitment to containing tariff growth. Regulatory decisions passed in 2020 are consistent with this course, especially when it comes to retail rates for households. The average "common pot" tariff for electric power transmission went up 3.2% year-on-year. Specifically, in Bashkortostan, the average "common pot" tariff in 2020 was RUB 1.15 per kWh, with zero average indexation of one-part rates from July of 2020.

The user segment where electricity consumption in Bashkortostan is highest is industrial companies that usually either produce or transport hydrocarbons. The OPEC+ agreement of 2020 led to a significant reduction in oil supply figures, with Bashkortostan no exception to the trend. This caused a decline in demand for electric power from the republic's major oil companies versus 2019 numbers.

The pandemic caused a reduction in electric power consumption, including a 0.6% decrease in electricity purchased by LLC Energy Retail Company of Bashkortostan, the region's largest consumer of energy. The same trend was observed for many industrial, retail, service, and public catering businesses, as well as various SME operations, with the overall productive supply down 5.4%.

Based on data from main consumers in the oil industry, "common-pot" energy consumption in 2021 will shrink by another 3.5%, primarily due to OPEC+ oil production cuts.

Business development in 2020

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 than those of peers.

The overall supply of electricity to consumers and territorial grid operators (TGOs) in 2020 went down 7.9%, primarily driven by the OPEC+ production cuts. That said, electricity consumption in the retail (household) segment reached 2,995.5 mln kWh, up 4.6% year-on-year, due to lockdown measures and widespread remote working.

As Bashkortostan exceeded its designated cross-subsidisation volume ceiling in 2020, 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 all voltages, while the power loss component of two-part rates was adjusted by 5.6%, effective July of 2020.

The company recorded 13,727 connections to power grids in 2020, down 16.7% year-on-year, primarily due to the overall economic slowdown that happened that year.

³⁵ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

2020 marked the completion of the company's comprehensive project to upgrade the distribution grid infrastructure of Bashkortostan's capital Ufa with the new Smart Grid technology, an initiative first launched in 2014. The project cost the company a total of RUB 5.07 bln, of which RUB 901.18 mln was invested specifically in 2020. The project translated into a stronger quality of Ufa's grid infrastructure, an enhanced reliability of power supply, and improved energy efficiency. The extensive project involved reconstructions and automations of distribution and transformer substations, an optimisation of the entire grid structure, and installations of smart meters for better measurement accuracy. Specifically, in 2020, the company refurbished 108 distribution and transformer substations and laid 27.5 km of cables. All in all, the project encompassed 513 substations, 96.5 km of cables, and 75 thsd smart meters.

Two other major projects pursued in 2020 were the construction of the 110 kV Uzyan-Baynazarovo overhead power transmission line and the 50 MVA Romanovka substation, to be commissioned in 2022 and 2021, respectively. The total investment in the two projects is budgeted at RUB 708 mln, of which RUB 156.7 mln was used in 2020.

BPGC spent 2020 working on the enhancement of operating efficiency, which involved:

- a launch of upgrades to a 1C-powered software system for better metering and billing;
- automation of business processes employing IT and ERP systems;
- automation of the planning and control of capital expenditures relating to user hook-ups

In 2020, BPGC installed 22 thsd smart meters, with the total number of smart meters commissioned since the start of the programme (as of the end of 2020) reaching 307.7 thsd. This means a 39% overperformance on top of the targets determined as per the governmental programme Energy Efficiency and Development. Another 29.7 thsd meters are scheduled for installation in 2021.

In 2020, BPGC was ranked #6 among Russian grid companies providing best quality of power grid connection services. The ranking involves 60 major regional grid companies across Russia.

In March 2020, BPGC's subsidiary Bashkirenergo was awarded the highest category in the environmental efficiency rankings compiled by the ERA agency for 2020. This category shows the company's transparency, improvement of activities related to quality and environment, and efficient use of the necessary resources to achieve these results.

Operating results

Parameter	Units	2020		2019		Change	
		Bashkirenergo	BGC	Bashkirenergo	BGC	Bashkirenergo	BGC
Power losses	%	7,63	1,31	7,69	1,26	(0,06)	0,05
Power losses	mln kW·h	1 576	308	1 726	340	91,31	90,59
Power in	mln kW·h	20 662	23 441	22 453	27 094	92,02	86,52
Power out	mln kW·h	19 086	23 133	20 726	26 754	92,09	86,47

Key business goals

BPGC's mid-term strategic plans address operating efficiency and aim to hit the following targets:

Improved operating efficiency:

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

Digitalisation:

- Extensive programme to upgrade grid infrastructure through advanced digital solutions
- Production of power grid equipment for digitalisation projects
- Comprehensive digitalisation in technical and managerial processes

Upscaling the business:

- Consolidation of grid assets in Bashkortostan, including ones managed by territorial grid operators
- Signing up as manager for infrastructure projects to monetise managerial expertise and evolve into a centralised operator of heating, water supply, and water disposal assets
- Development of non-regulated business lines, in large part relying on the expertise gained in grid assets: IT services, power facility designing, outdoor lighting, etc.

Financial performance in 2020

Indicator, RUB mln	2020	2019	Change
Revenue	19,733	20,931	(5.7%)
OIBDA	4,381	6,205	(29.4%)
Operating income	1,574	3,537	(55.5%)
Net profit attributable to Sistema	1,174	2,698	(56.5%)

Revenue is down 5.7% year-on-year, to RUB 19.7 bln, primarily driven by slumping energy consumption by Bashkortostan's oil producers due to the OPEC+ deal as well as pandemic effects.

OIBDA is down 29.4% year-on-year, to RUB 4.4 bln. Apart from shrinking revenue, the decrease in OIBDA results from a growth in operating costs through one-off dispute settlement transactions. Net profit in 2020 is RUB 1.2 bln, down 56.5% year-on-year, a direct result of the OIBDA reduction.

Capital expenditures declined by 4.9% year-on-year and stood at RUB 3.4 bln. The cost reduction is due to optimisation move aimed at the enhancement of financial performance metrics.

RUB 1.3 bln distributed in 2020 in dividends

Business Nedvizhimost

CEO: Artemy Marinin

Chairman of the Board of Directors: Sergey Egorov

Sistema's effective stake: 100%

Business Nedvizhimost Group (“Business Nedvizhimost” or the “Group”) is one of the key players in Moscow’s commercial real estate market, with a portfolio of more than 80 properties. The Group also operates in the market of low-rise and suburban residential properties in and around Moscow, owns a significant number of land plots and provides additional services.

Business model

Business Nedvizhimost’s business model is focused on the following areas:

(1) Asset management. Asset management to increase capitalisation and liquidity of assets and to optimise the entire portfolio of owned and managed commercial real estate.

(2) Property management. Management of the Group’s real estate to improve the efficiency of its use and maximise net operating income.

(3) Facility management. Operation and maintenance of commercial and residential real estate to ensure good condition and avoid accidents.

(4) Flexible space chain Territory. Ready-made serviced 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.

(5) Unique pool of properties managed by Business Nedvizhimost. Mansions in central Moscow, office and commercial space, a gym, buildings located in almost every district of the city, industrial warehouse facilities, luxury villas and land plots.

Industry overview for 2020³⁶

In 2020, 224,400 sq m of office space were commissioned in Moscow, which is 42.2% less than in 2019 (388,100 sq m) but almost 70% more than in 2018 (132,700 sq m). During 2020, the commissioning of more than 300,000 sq m was postponed to 2021 due to a slowdown in business activity amid the coronavirus pandemic.

The volume of office space leased and acquired by end users in 2020 decreased by 30% year-on-year to 1.2 mln sq m, which is comparable to the drop in 2014. Despite the COVID-19 restrictions and the unstable epidemiological situation in Moscow until the end of the year, the volume of new transactions in the fourth quarter increased to the level of the first quarter: about 350,000 sq m of leased and acquired office space.

The volume of new transactions decreased in 2020 in both class A and class B, but the drop was more dramatic in class B (-36%) than in class A (-15%). As a result, the share of class A in the structure of new transactions increased from 26% in 2019 to 32% in 2020.

³⁶ All projections and forward-looking estimates regarding the industry in general and the company’s business in particular were made before February 2021, unless specifically noted otherwise.

Due to the size of Moscow's office property market, commercial terms may differ significantly depending on the submarket and the class of a particular property. The weighted average asking rental rate in class A Prime at the end of 2020 was RUB 46,500/sq m a year, up 11% year-on-year and 8% since the beginning of the pandemic.

The weighted average asking rental rates for class A premises (excluding class A Prime) in Moscow grew both within the Third Ring Road (TRR) (RUB 37,600 per sq m a year, up 7% since the beginning of the pandemic) and outside it (RUB 20,900 per sq m a year, up 14% since the beginning of the pandemic). The weighted average asking rental rates for class B premises slightly decreased both within the TRR (RUB 20,000 per sq m a year, down 4% since the beginning of the pandemic) and outside it (RUB 12,400 per sq m a year, down 2% since the beginning of the pandemic).

During the period of lockdown from March to June 2020, Business Nedvizhimost provided lease payment deferrals and temporary lease discounts. Individually negotiated discounts were temporary and were provided to tenants in the affected industries – sports, tourism, catering, entertainment and small businesses in the service sector – until the end of the temporary suspension of operations. As of the end of 2020, such discounts were cancelled.

In August 2020, Federal Law No 269-FZ entered into force, introducing substantial changes to Federal Law No 237-FZ "On State Cadastral Valuation", including the procedure for challenging the cadastral value of real estate. The law introduces compulsory pre-trial appeal to a state budgetary institution ("SBU") authorised to determine cadastral value in a given region of Russia, and those who disagree with its ruling can no longer ask the court to establish the cadastral value at the market level without challenging the ruling to dismiss a motion. The applicant will be required to prove that the SBU's ruling was unjustified and only then ask the court to establish the cadastral value at the market level or oblige the SBU to uphold the motion.

It is expected that more than 300,000 sq m of office space will be commissioned in 2021. Rental rates are expected to remain broadly the same, while the sublease market is expected to grow³⁷. Operators of flexible spaces will be more focused on small and medium-sized businesses. Large companies will be offered built-to-suit serviced office spaces.

Business development in 2020

At the end of 2020, the Group comprised over 16 legal entities with a broad pool of properties: land plots, offices, warehouses, mansions, office and retail premises, a chain of class B- and C office buildings, industrial warehouse facilities, and villa communities mainly within Moscow. The Group has properties not only in Moscow and the Moscow region, but also in St Petersburg and Samara.

In July 2020, Expert RA rating agency assigned a credit rating of "ruA-" to Business Nedvizhimost. The outlook is stable.

In August 2020, Business Nedvizhimost placed a debut bond issue worth RUB 4 bln with duration of 4 years and a coupon rate of 7.9%.

At the end of 2019, Business Nedvizhimost launched Territory, an umbrella brand for a chain of flexible coworking spaces. Territory will be the only chain of coworking spaces with properties located not only in central Moscow, but also in densely populated residential neighborhoods, which allows companies to choose the best location.

The first coworking space of the Territory chain was opened in November 2020 and includes over 200 workspaces, a conference hall, and eight meeting rooms.

In 2021, it is planned to open 19 flexible office spaces within the framework of the Territory project on the basis of telephone exchange buildings acquired from MGTS, with a total portfolio of about 8,000 workspaces.

Key business goals

Business Nedvizhimost Group's development strategy adopted in 2020 includes two focus areas:

- Become a key player in the market of flexible spaces using the telephone exchange buildings. The chain of flexible spaces will include not only offices but also spaces for sporting and other events.
- Remodel a number of assets in the real estate portfolio into business centres in order to upgrade their class and significantly increase rental rates.

³⁷ Knight Frank.

Operating results

Indicator ³⁸	2020	2019	Change
Area of commercial real estate in Moscow, thsd sq m	392.8	430.8	(8.8%)
Area of commercial real estate in St Petersburg, thsd sq m	26.0	26.0	0.0%
Land area (in Serebryany Bor)	179.8	191.7	(6.2%)
Land area (in the Moscow region)	728.9	803.0	(9.2%)
Land area (in Samara)	1,193.6	-	-
Land area (in St Petersburg)	44.3	44.3	-
Villas for rent (Serebryany Bor, Barvikha and Trudovaya communities), thsd sq m	43.9	48.0	(8.5%)
Area of commercial real estate in Moscow, thsd sq m	392.8	430.8	(8.8%)
Area of commercial real estate in St Petersburg, thsd sq m	26.0	26.0	0.0%

Financial performance in 2020

RUB mln ³⁹	2020	2019	Change
Revenue	6,296	7,106	(11.4%)
Adj. OIBDA	2,423	4,495	(46.1%)
Operating income	1,904	4,015	(52.6%)
Adj. net profit attributable to Sistema	1,378	3,333	(58.7%)

The 11.4% decline in revenue in 2020 was due to the completion of the programme of sales of commercial real estate in 2019.

Adjusted OIBDA decreased by 46.1% year-on-year in the reporting period mainly due to the changed revenue structure with a bigger share of rental revenue, which has lower OIBDA margin. The sale of a non-core asset in the second quarter of 2019 also had an impact on OIBDA.

The Group's net profit was affected by decreasing OIBDA and growing loan portfolio.

Cosmos Hotel Group

President: Alexander Shwein

Chairman of the Board of Directors: Leonid Monosov

Sistema's effective stake: 100%

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

Cosmos Hotel Group manages 4,168 rooms in 3-5-star hotels located in tourist and business centres. Assets under management include city business hotels and luxury resorts in Russia, Italy, Namibia and the Czech Republic.

Business model

The business model of Cosmos Hotel Group envisages provision of a broad range of hospitality services.

Cosmos Hotel Group specialises in professional hotel management, including implementation of service standards, introduction of quality assurance systems, recruitment, training and regular assessment of personnel, performing administrative and business operations, providing security services, setting up systems for active sales, income management and centralised procurement, as well as providing other highly skilled services in the hospitality segment.

Cosmos Hotel Group also 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.

³⁸ The table shows gross building area of the facilities (GBA), in accordance with legal documents.

³⁹ Management accounts.

Industry overview for 2020⁴⁰

The hotel sector declined sharply in 2020 amid a steep fall in occupancy rates due to the lockdown measures and travel restrictions caused by the spread of COVID-19 pandemic.

All business segments without any exception were hit hard by the coronavirus crisis: average RevPAR did not exceed 40% of the 2019 levels. Moscow and St Petersburg were among the hardest hit markets, since they are more dependent on international tourism.

At the same time, the closure of borders and government support measures stimulated development of domestic recreational tourism in Russia. As a result, hotels in the midscale segment switched their focus to domestic customers amid a considerable fall in prices (by about 30%).

The 2020 crisis was characterised by contraction of booking windows (to less than one week), making it necessary to quickly respond and adapt to the fast-changing environment.

The average daily room rate of hotels in Moscow dropped by 10% in 2020 compared to 2019, stabilising at about RUB 6,600. The occupancy rate of Moscow hotels in 2020 was 37% compared to 77% a year earlier. As a result, the average weighted RevPAR fell by a record 63% to RUB 2,075. RevPar hit an all-time low during the period of the most severe lockdown measures in April and May 2020, and starting from Q3 2020 the occupancy rates began to recover.

In 2020, two new hotels were commissioned in Moscow: a 154-room Movenpick Moscow Taganskaya 5* and a 116-room Holiday Inn Express Moscow - Khimki Go Park 3*. As of the end of 2020, the total number of available quality hotel rooms in Moscow reached approximately 20,500.

The hospitality industry is not expected to return to the 2019 levels before 2022-2023. The hotel sector of Russia is expected to continue operating with an average occupancy rate of 59% or less and with room rates at approximately the same level as in 2020.

The strongest recovery of demand is projected in the upper midscale segment, where the average occupancy rate may go up to 46%, while more upscale hotels will be lagging behind. Although RevPAR is expected to grow in 2021, it is not likely to reach the level of 2019.

International tourists are expected to return to Russia in Q4 2021 at the earliest and most of them will opt for mid-market hotels, as opposed to luxury accommodation. Demand is expected to increase in the segment of one- or two-day tours to destinations nearest to people's permanent place of residence and work, and in the "workation" segment (combining remote working with travel).

Moreover, the share of direct bookings through "live" channels (Instagram, etc.) is projected to increase, as such channels offer daily information updates and direct communication with hotel management.

In 2021, a few more hotels in the upper price segment are expected to open in Moscow: Crowne Plaza Moscow - Park Huaming, Marriott Imperial Plaza, Vertical Boutique BW Signature Collection, with a total number of rooms standing at approximately 700. Hilton Garden Inn Paveletskaya with 245 rooms will be launched in the midscale segment, and Hampton by Hilton Rogozhsky Val with 148 rooms will start operating in the economy segment.

Business development in 2020

In 2020, Cosmos Hotel Group actively developed the business segments required for making a comprehensive value proposition at all stages of interaction with the customer, with the main emphasis placed on expanding the borders of a traditional hospitality business. In the reporting period the company launched Cosmos Travel, an incoming tour operator, and Cosmos Food, a foodtech project managed in cooperation with Yandex.Food and Delivery Club.

In 2020, Cosmos Hotel Group launched a project aimed at further development of its chain of 4-star city hotels: the construction of hotels in Omsk and Segezha was started, a land plot was acquired for building a hotel at the International Sheremetyevo Airport. At the eco hotel Izumrudny Les a new 40-room hotel building was completed and commissioned, and an 8,000 sq m equestrian centre was opened.

Business development strategy

The development strategy of Cosmos Hotel Group is aimed at attaining leadership in the Russian hotel sector in terms of capacity, brand strength and awareness, building a strong umbrella brand Cosmos Hotels & More that would extend

⁴⁰ Sources: CBRE, C&W, JLL. All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

beyond the traditional hospitality industry, and launching a high-tech platform for developing, managing, promoting and selling accommodation and services. Moreover, at least 12 new hotels will be launched by 2023 as part of the company's development plan.

In 2021, Cosmos Hotel Group expects its revenue and operating income to recover to the 2019 levels and its operating indicators in the Travel and Food segments to improve. Plans for 2021 include launching construction of 6 new hotels and commissioning a new hotel in Segezha.

Operating results

Indicator	2020	2019	Change
RevPAR ⁴¹ , incl., RUB	1,331	2,389	(44.3%)
<i>Hotels in Moscow</i>	487	1,488	(67.3%)
<i>Hotels in Russia (except Moscow)</i>	1,722	2,399	(28.2%)
<i>Hotels abroad</i>	5,783	12,749	(54.6%)
Occupancy rate, incl., %	36.6%	66.6%	(30 p.p.)
<i>Hotels in Moscow</i>	28.5%	72.9%	(44.4 p.p.)
<i>Hotels in Russia (except Moscow)</i>	44.5%	61.4%	(16.9 p.p.)
<i>Hotels abroad</i>	20.7%	63.9%	(43.2 p.p.)
ADR ⁴² , incl., RUB	3,639	3,586	1.5%
<i>Hotels in Moscow</i>	1,707	2,040	(16.3%)
<i>Hotels in Russia (except Moscow)</i>	3,871	3,909	(0.9%)
<i>Hotels abroad</i>	27,979	19,955	40.2%
Rooms	4,162	4,122	40

Average occupancy rate of Cosmos Hotel Group in 2020 stood at 36.6%, a 30 p.p. decline versus 2019.

The hotel chain's average ADR in 2020 remained at the level of 2019 and amounted to RUB 3,639, mostly due to the growth of prices at hotels abroad and the euro appreciating by 29%.

RevPAR across the chain totalled RUB 1,331 in the reporting period, which is 25.6% lower compared to 2019. This negative trend is mostly due to the deterioration of annual results of Cosmos Moscow Hotel and hotels abroad caused by the lockdown measures introduced in spring-summer 2020.

Cosmos Hotel Group's total number of available rooms was increased due to the launch of a new 40-room building at the Izumrudny Les eco hotel (in the Moscow region).

Financial performance in 2020

RUB mln ⁴³	2020	2019	Change
Revenue	2 516	5 034	(50%)
Adj. OIBDA	(85)	1 251	-
Operating loss	(1 893)	(481)	-
Adj. net loss attributable to Sistema	(1 167)	(238)	-

In 2020, revenue significantly decreased year-on-year due to a sharp fall in occupancy rates amid the COVID-19 pandemic.

Following a decline in revenue, the company's adjusted OIBDA fell despite the fact the hotels continued to drastically cut their costs in order to minimise losses caused by the coronavirus crisis.

⁴¹ Revenue per available room.

⁴²Average Daily Rate.

⁴³ Management accounts.

Element

CEO: Ilya Ivantsov

Sistema's effective stake: 49.5%

Element Group ("Element" or "the Group") is a leading national microelectronics developer and producer that creates technologies for digital development of business and society.

Element is comprised of the most advanced Russian enterprises operating in the field of microelectronics and hardware development, production and design. The products made by the company are supplied as input material for the manufacturing, telecom, financial and energy sectors, thus facilitating the implementation of projects aimed at development of the digital economy.

Business model

The Group has seven design centres and seven large production sites, including Russia's flagship enterprise in the segment, PJSC Mikron. The Group's companies represent the full production cycle in the area of microelectronic component base, from fundamental research to sales of finished devices.

Industry overview for 2020⁴⁴

In 2020, the global microelectronics market saw a minor decline caused mostly by the impact of the COVID-19 pandemic on logistic chains and a lower demand for consumer electronics. The market shrank by 0.9% in 2020 to USD 415.4 bln.

The share of Russian manufacturers is very small, with the Russian microelectronics market accounting for just about 0.7% of the global one (RUB 149.7 bln in 2019), and the bulk of it coming from the defence industry. The Russian microelectronics market is dominated by foreign producers. In recent years, the share of Russian and Belarusian manufacturers remained about 15%, reaching up to 40% in the defence segment.

Domestically manufactured components for navigation, automated city management systems, monitoring systems, energy and transportation sectors are expected to appear in 2021-2025. Growth in the industry is projected to pick up in 2021-2023 following implementation of comprehensive projects with government support.

In 2020, the Russian Industry and Trade Ministry approved the Development Strategy of the Russian Electronics Industry till 2030, addressing the sector's problems. The document envisages a more than 2.5-fold increase of domestic production. The civilian electronics segment is projected to grow by RUB 940 mln to RUB 4.6 bln. According to the Ministry's plans, the share of the domestic component base will grow from 20% to 80%. The Strategy envisages investments in the development of microelectronics in the amount of RUB 142 mln in the next two years and about RUB 266 bln till 2024.

The industry will also benefit from the government's policy towards electronics development in Russia and digitalisation of the country's industries and economy, including as part of the federal programme "Russia's Digital Economy." Constraints on the segment's development include a reduction in the volume of state defence order.

Business development in 2020

In 2020, the Group's business was affected by the COVID-19 pandemic, which resulted in a lower demand from consumers. In addition, the rise in prices of precious metals used in chip production and growing FX rates led to a decrease in profit margins.

Element monitors the impact of macroeconomic factors on a continuous basis, using the following tools to reduce risks:

- long-term contracts with a price formula;
- effective procurement procedures;
- direct contracts with manufacturers of products / suppliers of raw materials.

In 2020, Element together with the state-owned company Rostec and PJSC Rostelecom, supported by the Russian Industry and Trade Ministry, established the Telecommunication Technologies consortium, the goal of which is to create conditions for implementing the government's strategy of imports substitution and development of domestic manufacturing of electronics, localisation of telecom equipment production and creating demand for Russian-made electronic component base.

⁴⁴ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

PJSC Mikron, which is part of the Group, presented a number of new products oriented towards the market of transport and financial services in the reporting year:

- RFID tags for city landscaping and labelling of street furniture and landscape structures;
- the Electronic Entrance system for remote management of access to municipal facilities with high visitor traffic amidst epidemiological risks;
- new generations of chips for electronic documents and labelling of technological objects.

In December 2020, Element signed a cooperation agreement with the National Research University of Electronic Technology, MIET, with view to develop the scientific, technological and production potential of the Russian microelectronics industry. The parties seek to join efforts in implementing digital projects in the fields whose digitalisation is dependent on microelectronics, such as artificial intelligence, machine-building, healthcare, transport, and power generation.

At present, Element:

- is the leading producer of microelectronic component base in Russia by output (over 2,674 mln microchips);
- is the main exporter of microelectronics from Russia (No 1, with a revenue of RUB 3 bln);
- is present in all key centres of Russian microelectronics with a high HR potential;
- has the production capacity of up to 11,000 plates (200 mm).

Key strategic goals

- Growing business scale;
- R&D development;
- Product development at design centres;
- Building a leading developer and producer of smart and computing devices using domestic component base and breakthrough technologies;
- Entering the market of promising civilian products, including the Internet of Things, hardware and software systems, data storage systems, etc.;
- Participation in such comprehensive projects as digital identification and labelling, telecom equipment, digitalisation of the energy sector and equipment for automated process control systems, etc.;
- Becoming a leading actor in the Development Strategy of the Russian Electronics Market.

Concept Group⁴⁵

CEO: Natalia Privalova

Chairman of the Board of Directors: Leonid Petukhov⁴⁶

Sistema's effective stake: 43%

LLC Concept Group ("Concept Group") is one of the leading fashion retailers in Russia

Business model

Concept Group's portfolio comprises the brands Acoola (children's clothes and accessories), Concept Club (women's clothes and accessories), and Infinity Lingerie (lingerie). The business is based on a multi-brand and multi-channel model that provides for a wide diversification of revenue. A significant part of the revenue comes from the company's nationwide retail and franchise chain that comprises over 260 stores. Concept Group is growing increasingly strong in e-commerce, which involves an extensive programme of upgrades of the webstore pages aimed to boost traffic and attract new customers. The share of e-commerce (webstores + marketplaces) in the total 2020 revenue is up 20 p.p. year-on-year, to 37%. Production is distributed among major garment factories of China and Bangladesh.

As of the end of 2020, the chain comprised 263 outlets across 100 cities, including 209 owned stores and 54 franchise outlets (of which 6 were outside of Russia: in Belarus, Latvia, and Armenia).

Format	Total	Owned stores	Franchising
Acoola	229	178	51
Concept Club	11	8	
C&A (Concept Club + Acoola)	23	23	3
Total	263	209	54

⁴⁵ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

⁴⁶ As of 31 December 2020, Artyom Sirazutdinov

Industry overview for 2020⁴⁷

In 2020, the Russian market of clothing, footwear and accessories dropped 25.3%, to RUB 1.7 trn, primarily due to a negative effect of the pandemic and a downturn in household income.

In 2020, e-commerce in Russia went up 11%, to RUB 245.2 bln, and experts are predicting even faster growth rates in 2021 (37%, to RUB 335.2 bln). By 2020, the market will likely exceed RUB 1 trn.

The childrenswear market in 2020 went up some 1%, to RUB 212 bln.

Business development in 2020

Despite a broad market crisis and a significant drop in revenue, the company's management moved quickly to cut costs and deliver a positive EBITDA in 2020 with no additional shareholder funding involved, while also negotiating procurement terms so as to free up enough cash to meet current liabilities.

Business development strategy

Among the strategy's main KPIs is the establishment of a strong and recognisable brand of affordable fashionable clothing, which, among other things, specifically requires evolving as an e-commerce player. The investment programme targets growth at pre-crisis rates, predicated on a demand recovery in 2021.

Targets for 2021

- Gain a stronger position in the womens- and childrenswear markets through an enhanced recognition of all brands (Acoola, Concept Group, and Infinity Lingerie) among the target audience;
- Achieve a revival in demand at Concept Group/franchise outlets through intensified marketing activity;
- Increase the share of revenue coming from e-commerce channels and attract customers to the Concept Club webstore;
- Improve operating efficiency through better lease & procurement terms, a more effective product mix, and further automation of business processes.

East-West United Bank S.A.⁴⁸

CEO: Sergey Pchelintsev

Chairman of the Board of Directors: Jeannot Krecké

Sistema's effective stake: 100%

East-West United Bank S.A. ("EWUB" or "the Bank") is a European bank providing asset management services for individuals and transactional banking services for businesses with a focus on Russian clients.

EWUB is a bank in Luxembourg that serves both private and corporate clients. In private banking, it helps HNWI save and grow wealth by sound capital management. Services for corporate clients range from transactional banking to treasure and credit products that help clients in managing their day-to-day operations.

EWUB is also represented on the German market of bank deposits. The platform East-West Direkt serves some 5,000 owners of deposit accounts across Germany and has the highest customer service rating on Test.de, an independent consumer-rights platform.

The Bank spent 2020 enhancing customer service in both private and corporate segments as per the strategy approved in 2018, which prioritises investing in digital infrastructure to upgrade customer experience and broaden operating capacity.

2020 saw the launch of EWUB's trade finance business line, where raw-materials traders are offered service bundles comprising loans, payment & cash management, and currency transactions.

The Bank's pipeline of products now under development comprises a raft of consultancy and loan products for private banking.

Also launched in 2020, a far-reaching programme of infrastructure upgrades will deliver a still further enhancement of customer experience and productivity.

⁴⁷ Source: Fashion Consulting Group, Russia Target Groups Index by Ipsos Comcon. All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

⁴⁸ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

Key strategic goals

Being domiciled in Luxembourg, a European "capital" for finance and private banking, along with offering a broad product portfolio and a superior customer experience, EWUB is clearly well-positioned to further grow clientele in the years to come. By increasingly extending services to Russian clients (both private and corporate), the Bank aims to grow assets under management and boost transactional banking volumes.

Sistema Venture Capital

President: Dmitry Filatov

Sistema's stake: 90%

Target size: **RUB 10 bln**

95% invested as of the end of 2020

Year established: **2016**

Geography: **Russia, the UK, Israel, Lithuania, the Netherlands and the US**

Investment industries: **Growth-stage tech companies**

Life: **no fixed term**

Target returns: **25%-30% (in RUB)**

Sistema_VC is a venture capital fund investing in growth-stage high-tech companies in Russia and Europe with potential to become leaders in their industries or niches.

Investment focus

(1) Deep tech projects⁴⁹

- 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 (SDN⁵⁰, NFV⁵¹ and SQL GPU Database)

(2) Projects in the segments of education, e-commerce and C2C services

- Priority investment stages: Late seed, Series A, B

Industry overview for 2020⁵²

VC funding to European startups in 2020 totalled USD 40 bln, down 4% from 2019. The slight decrease was in response to the pandemic in the first half of the year. However, the funding pace picked up in the third quarter and the fourth quarter of 2020 became the strongest quarter over the past two years with VC funding totalling USD 11.8 bln. Venture capital raised by European startups represented 13% of global funding in 2020.

In 2020, VC investments in the Russian market amounted to USD 702.9 mln, down 19% year-on-year. However, the number of transactions increased by 14.2% year-on-year, to 281. Due to the high risks and difficult-to-predict consequences of the pandemic, many investors decided to minimise the risks in the first half of 2020 and postponed transactions until the second half of the year.

The market was characterised by consolidation in 2020: as part of the reform of development institutions announced by the Russian Government, six development institutions, including the Skolkovo Innovation Centre, were transferred to VEB.RF, and the Russian Venture Company was transferred to RDIF. This consolidation may result in decreased competition and pace of development. Today, the Russian market has a limited number of private funds and corporations interested in buying startups.

Business development in 2020

During the year, Sistema_VC was focused on supporting its current portfolio, with several companies (TraceAir, NFWare, MEL Science, KisanHub, SQream and Connecterra) successfully raising additional funding totalling USD 75 mln. New partners in these rounds included XTX Ventures, Softline Venture Partners, Russia-China Venture Fund,

⁴⁹ Technologies or scientific advances that are hard to reproduce or copy, often unique and patented, and take products and solutions to a new level.

⁵⁰ Software-defined networking: organisation of data transmission over networks with the separation of programmed network management from data transmission devices.

⁵¹ Network functions virtualisation: a network architecture that involves the virtualisation of entire classes of network node functions into building blocks that may connect together.

⁵² Sources: Crunchbase, Dsight. All projections and forward-looking estimates regarding the industry in general and the funds's business in particular were made before February 2021, unless specifically noted otherwise.

Mubadala Investment Company, Low Carbon Investment Fund 2, Mangrove Capital Partners, Schusterman Family Investments, Pymwymic.

In 2020, one of the portfolio companies, Ozon Holdings PLC, had a successful IPO. Ozon's proceeds totalled approximately USD 1.25 bln.

In February 2021, one of the assets was monetised: Sistema_VC sold its stake in the British startup Observe Technologies (a developer of computer vision solutions for fish farms) to a strategic investor, AKVA Group (Norway). The deal was successfully closed with an IRR of 51%. Observe Technologies uses AI to give insights to optimise costs on fish farms: from feeding to health. The company's clients already include farms in Canada, the UK and Chile.

Business development strategy

The main strategic priority of Sistema_VC in 2021-2022 is asset monetisation.

Key portfolio companies

As of 31 December 2020

VisionLabs

Face and object recognition solutions for the commercial sector

- Leader of the international industry competition NIST FRVT (Face Recognition Vendor Test)
- Organiser of the annual international conference on computer vision and machine learning Machines Can See with the participation of researchers from the labs of Google, Facebook, Yandex, INRIA, Intel

Partners: Sberbank, Yandex.Taxi, Tinkoff Bank, Pochta Bank, Moscow Traffic Control Centre, Huawei

Segments

Platform leveraging machine learning technologies to target digital advertising

- The most accurate targeting because of combination of online and offline data
- One of the largest programmatic advertising platforms in Russia:
 - Coverage of 200 mln user profiles
 - Audience of 71 mln mobile devices
- Unique position in the market due to access to data of MTS and Sberbank
- Since 2019, the company has been profitable in terms of net income

Partners: Sberbank, MTS, Lukoil, Toyota, Huawei, Acer, IVI, HP, Kaspersky

YouDo

Marketplace for domestic and business services

- YouDo actively participates in the formation of a culture of the self-employed in Russia
- Operating indicators:
 - over 1.5 mln contractors
 - over 1 mln reviews on the quality of services

Partners: Ozon, IKEA, HH.ru

MEL Science

International company creating scientific and educational products for children using VR technologies

- MEL Science kits are used by families and schools in 40 countries
- The bulk of the company's sales come from the US
- The EdTech Cool Tool Award for the best VR/AR solution of 2020

Partners: Yandex, TMT Investments, Channel 4 Ventures, Mubadala Investment Company, Russia-China Venture Fund

SQream

Ultra-fast processing of large data sets for business insights

- The company's solutions are used in telecommunications, finance, healthcare, among others
- The Big Data Excellence Award for achievements in cancer research

Partners: Alibaba Group, Nvidia, Lenovo, Amazon Web Services

Five AI

A platform for the development and testing of tech solutions for self-driving cars

- The company participated in the UK government-backed project StreetWise with one of the most complex testing environments for self-driving vehicles on Europe's public roads.

Partners: Lakestar, Notion, Trustbridge, Kindred, Amadeus Capital Partners

Sensat

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.
- In 2020, Sensat founder James Dean made it to the Telegraph's prestigious Tech Hot 100 list of successful founders of British tech companies

Partners: Tencent, Heathrow, Murphy, National Grid, Highways England

Connecterra

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, Rabobank.

NFWare

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.

- Winner of the Network Transformation Award, the main award in network technologies

Partners: Intel, Mail.ru Group, Telefonica, Lenovo, Hewlett Packard

TraceAir

Construction automation powered by drone data

- TraceAir technology helped Sibur save more than RUB 1.3 bln in three years at four sites

Partners: Engeo, Independent construction, Fivepoint, Lennar, Sibur, Morton, Norilsk Nickel

Sistema Asia Fund

Managing partner: Andrey Terebenin

Sistema's stake: 83%

Year established: 2015

Geography: India, Southeast Asia

Industry focus:

- Consumer tech (e-commerce, healthcare, transport, media, finance and education)
- Enterprise tech (IoT)
- VR/AR (virtual reality)
- SaaS

Life: 8 years mandatory + 2 years optional

Target returns: 3x cash-on-cash

Target funding rounds: A-C.

Sistema Asia Fund (SAF) is Sistema's venture fund which invests in high-tech companies in India and Southeast Asia.

SAF 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.

Investment criteria:

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

Industry overview in 2020⁵³

VC ecosystem was vibrant in India in 2020, with a lot of young companies, especially in the digital space supported by tailwinds of consumer behaviour in the new normal. Spaces like education tech, online delivery, SaaS and remote medicine burgeoned because of needs of home-bound consumers across the country. The year witnessed over USD 10 bln of VC investments across 800+ deals in the start-up space. VC/PE space in India continues to get deeper and more attractive with over 40 new funds raising USD 8.4 bln as dry powder for the next few years.

PE/VCs in India have seen increased IPOs as a way of exit in 2020 and we expect the trend to continue with more companies going for IPO. The year saw an increased addition of companies joining the unicorn club (11 new in 2020 vs 9 in 2019).

Business development in 2020

SAF's sector-diversified approach balanced the portfolio performance in the face of Covid-19, bringing Fund out as net-beneficiary in the pandemic year. Companies like Licious saw an unprecedented lift in business as online grocery ordering became an essential need of consumers. SaaS businesses like Uniphore witnessed a significant growth due to process automation and AI being adopted by businesses worldwide. Indian government's push towards infrastructure investment in India is proving to be extremely beneficial for SAF's B2B construction marketplace portfolio company Infra.Market.

Portfolio companies in the lending space like Lendingkart and Kissht experienced headwinds caused by repayment moratorium, borrower hardships and illiquidity of funds from the various capital sources they draw on. From Q4 2020, fin-tech space has started getting back to pre-pandemic levels with some tweaks to the business model and credit framework. In 2021, SAF expects Deep-Tech & B2B platforms to be dominant themes, while on the consumer front, D2C brands are garnering increased investor attention and activity.

Key milestones in 2020 and after reporting date

Netmeds

In June 2020, SAF realized its second monetization event by selling a stake in Netmeds, one of the major e-pharmacy players in the Indian market. The exit was part of an M&A deal where Reliance Retail Ventures (part of Reliance Industries Limited, India's largest company by market cap) marked its entry into the Indian e-pharmacy space by acquiring Netmeds.

Rebel Foods

In July 2020, SAF portfolio company Rebel Foods completed an E2 round of funding with Coatue Management LLC at a USD 828 mln valuation in June 2020. In November 2020, SAF completed a primary investment in Infra.Market, India's leading infrastructure and construction materials marketplace. SAF coinvested with leading global investors including Tiger Global and Accel.

Infra. Market

In February 2021, Infra. Market completed a Series D round of funding from Tiger Global and others at a Unicorn valuation. The valuation of the company has already grown 6X since SAF's investment in November 2020.

Business development strategy

In 2021, SAF targets completion of primary deployment of Fund 1 and launch of Fund 2. With a targeted first close of the next fund in 2-3 quarters of fund-raising effort, the team plans to re-initiate fresh deployment with a medium-term target of a 3-year primary deployment cycle. The focus of fund 2 raise would be building a scalable and high-quality LP base to become long-term partners of the SAF franchise. In the meantime, the team is also building a harvesting strategy for fund 1 to systematically monetize the portfolio balancing risk and upside, towards a full exit within the fund timelines.

Key portfolio companies

As of 31 December 2020

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. With over 80% of its revenues coming from North America and another 18% from Asia Pacific, the company is one of very few Indian SaaS companies that have achieved global scale.

⁵³ All projections and forward-looking estimates regarding the industry in general and the fund's business in particular were made before February 2021, unless specifically noted otherwise.

Licious is a brand operating in the meat and meat products-selling business in a market where over 90% of players represent disorganized retail with poor quality and low sanitary standards. The company manages the entire value creation chain, from sourcing to processing and delivery to customers, using uninterrupted cold chain.

Rebel Foods is Rebel foods is India's largest full stack food on demand company operating 300 cloud kitchens and 9 food brands therefore creating over 2700 virtual restaurants. The company adopts its unique food preparation technology in their kitchens that allows them to offer a highly standardized experience across locations. This process has helped the company create perhaps the largest cloud kitchen operation in the world.

Infra.Market is a construction marketplace which provides a one stop procurement solution to construction companies. The company is solving various issues like lack of price transparency, quality, fragmented vendor base, inefficient logistics and delivery in a highly unorganized market.

Sistema Capital⁵⁴

CEO: Igor Busarov

Sistema's stake: 70%

MTS's stake: 30%

A++ Expert RA rating

No 12 Among Russia's largest asset management companies by assets under management (Expert RA)

RUB 175.5 bln Assets under management

LLC Sistema Capital MC ("Sistema Capital") is a professional securities market participant that has been providing asset management services since 2001.

Business overview

The most significant event for stock markets in 2020 was the coronavirus pandemic. It seriously changed the behaviour of some market segments: a sharp fall of the securities market was followed by a strong growth amidst monetary incentives created by the world's leading economies and the growing number of private investors. The bond markets were influenced by easing of the fiscal policy of central banks, which brought yields to all-time lows.

Business development in 2020

Thanks to the management's efficient work to attract new customers from the market, assets under Sistema Capital's management grew by 84% in 2020, from RUB 95.4 bln at the end of 2019 to RUB 175.5 bln at the end of 2020.

The mutual investment fund Sistema Capital - High Technology managed by Sistema Capital was ranked among leading funds investing in high-tech by returns in 2020, according to the list compiled by Investfunds website. Its dollar-denominated returns totalled 63.2%.

Sistema Capital's bond funds held high positions by yield among open bond mutual investment funds with net asset value exceeding RUB 50 mln.

In 2020, the Expert RA rating agency confirmed its rating of Sistema Capital at A++ (the highest level of reliability and service quality of a management company). The outlook is stable.

In the reporting period, Sistema Capital began offering a new financial tool for its customers - closed mutual investment funds, which represent a quality alternative to open funds in terms of investment in non-traded instruments, such as real estate.

Business development strategy

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

⁵⁴ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

Sistema Capital Partners Group⁵⁵

Sistema's stake: 49%

Industrial Focus: asset-heavy opportunities

Geography: Europe

Investment cycle: 3-5 years

Assets under management: EUR 2 bln

Target IRR: > 15%

The SCP Group (“SCP”) is a leading niche investment firm targeting scalable, asset-heavy opportunities in Europe.

SCP focuses on building market-leading operating platforms, which own and manage asset portfolios. SCP has an established presence in London, Frankfurt and Luxembourg with a team of 20 highly experienced professionals and deep network of origination.

Since 2015, SCP has successfully developed three investment platforms focused on the retail and real estate sectors; divestments thus far have achieved average returns of 20%+. As of the end 2020 GAV of assets under administration was around EUR 2 bln.

In 2020, SCP raised EUR 476 mln in partnership capital from institutional and large private investors to complete acquisition of retail company Real and develop portfolio of x+bricks.

The gross value of assets involved in completed transactions amounted to EUR 1.7 bln as of 31 December 2020.

Key current projects

x+bricks

Development of real estate operating company aggregating food-anchored assets in Germany. Grew from EUR 100 mln seed equity to EUR 1bln platform since launch in 2018.

Real

Restructuring of a large, distressed food retailer in Germany. Value optimisation through strategic property and store sales.

⁵⁵ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2021, unless specifically noted otherwise.

3.7. RISKS

Integrated risk management system and the Group's risk appetite

The main risks that the business of the Corporation may encounter are the consequences of the processes and factors that Sistema has little or no influence on. That said, the Corporation can take measures to reduce the negative consequences of such factors if a certain risk materialises. This makes efficient assessment of the existing risks and the probability of their occurrence, as well as effective risk management, an important part of Sistema's strategy.

Risk management is an integral part of all processes at Sistema: it extends to strategy planning and implementation, investing, budgeting, procurement, and everyday operations. The integrated risk management system (ERM) operating at Sistema was built in compliance with international standards, recommendations and best practices in risk management. The ERM system is designed to keep risks at the level that is acceptable for Sistema's shareholders and management.

As part of quarterly ERM procedures the risk managers of Sistema Group compile risk registers for portfolio companies and a consolidated risk register for the Group, prioritise risks and aggregate them into portfolios, evaluate the probability and materiality of all risks and analyse the impact of material risks on the financial results of specific companies and Sistema Group as a whole, using simulation and financial modelling methods.

In order to address the risks listed in the risk register of Sistema Group, the risk owners develop risk management (mitigation) and response plans, conduct risk monitoring and make necessary adjustments.

One of the key principles of risk management at Sistema Group is the use of the risk appetite concept. This approach implies the identification and monitoring of the Corporation's target risk profile in accordance with the current strategic goals and in the context of their integration into risk management procedures.

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

- The amount of potential losses under the risks accepted by Sistema Group should not reach the level leading to the termination of the Group's operations, including under stressful conditions;
- The structure of cash flows of Sistema Group companies should guarantee a timely fulfilment of obligations to counterparties in the short and long term;
- In its operations, the Group aims to avoid concentration of risks in specific counterparties, industries, and countries/regions with high risk levels;
- Sustainable development and economic efficiency in the long term;
- Compliance with the requirements of national regulators in the countries of operation and the standards and recommendations of international regulatory bodies;
- Maintaining an impeccable business reputation, avoiding actions that could damage the company's public image;
- Maintaining the external individual credit rating 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 revaluation of risks and their impact on the Corporation's financial performance, an assessment of 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 with a programme of measures to minimise risks in the areas of anti-corruption and stock exchange compliance, personal data and confidentiality protection, anti-money laundering and counter-terrorism practices.

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. A significant portion of products produced by the Group's companies is sold in the CIS, Southeast Asia, Eastern Europe and North Africa. In the event of any major political turmoil in these regions, the Group's business in these regions may be disrupted or discontinued, which may lead to material losses.

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 have significant negative consequences for the results of operations and the financial position of all of Sistema Group companies.

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.

Due to the situation in Ukraine, western countries imposed sanctions on a number of Russian citizens and companies. There is a probability of extension of existing sanctions or introduction of additional categories of sanctions that may influence the companies of the Group or the executives employed by the Group of companies. Any potential breach of sanctions may prevent the companies of the Group from cooperating with the government authorities of the USA/EU, result in civil or criminal penalties being applied to the sanctioned persons or their personnel in accordance with the laws of the USA/EU, or lead to significant fines being imposed on the companies of the Group with potential damage to their reputation.

Any further tensions in the relationship between Russia and other countries and any escalation of existing conflicts, introduction of additional sanctions or continued uncertainty as to their scope may have an adverse impact on the Russian economy, the financial status of the Group's partners and suppliers, the capability of the Group's companies to conduct trading and financial operations and to raise funding on commercially beneficial terms, and may increase the volatility of Sistema's share price.

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.

Any significant changes in these industries may have a material negative impact on the financial position of the portfolio companies of Sistema and on the Group as a whole.

Sistema's external risks

Financial risks

The business of Sistema is inextricably connected to the state of 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 repayment of debt by Sistema Group companies.

An exodus of foreign investors from Russia amid the restrictions introduced for foreign companies as a result of sanctions may have a negative impact on the joint ventures (partnerships) and new investment projects of Sistema Group.

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

The servicing and refinancing of the existing and future liabilities of the Corporation may lead to a significant cash outflow. If in the medium-term sanctions are maintained and the access of Russian banks and businesses to foreign debt remains restricted, this may significantly increase the current liquidity deficit in the market and result in further interest rate rises, making it difficult for Sistema Group to raise funding for its operations and to refinance the debt of the Corporation and its portfolio companies. Should the Corporation be unable to raise necessary funding on the terms and within the timeframes required, it may create significant restrictions on business development and the Group's operating and investment activity.

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

Foreign currency control and restrictions on capital repatriation may adversely affect capital flows and reduce the value of Sistema's investments in Russia, which may have a significant negative impact on the business of Sistema Group.

Potential bankruptcy of one of the Russian banks acting as the Group's counterparty may result in a reduction in the sources of borrowing for the Corporation and its portfolio companies and may lead to direct losses of funds deposited in the accounts of such banks.

Political risks

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

Introduction of sanctions against Russia or Russian companies and individuals may cause disruptions in international payment systems, which in turn may prevent the Corporation and its portfolio companies from making settlements and reduce Sistema's investment appeal.

Social and environmental risks

Due to the variety of industries where the companies of Sistema Group operate, the social and environmental risks faced by the assets differ materially across the Group. However, it is possible to highlight a number of major trends that may be seen both as risks and opportunities for the companies of the Group:

- change in consumer preferences, a trend towards responsible consumption and a healthy lifestyle, higher expectations from brands in terms of their mission, responsibility and sustainable development;
- change in the age structure of customers, the need to adapt and update products and services in accordance with the demands of the ageing population;
- increased competition for talents due to demographic gaps and changing expectations of the young workforce in relation to working conditions;
- climate change and extreme weather conditions that may impact crop yields, the health of the population and the operation of infrastructure;
- emergence of new technological solutions and economic transformation, including digitalisation and automation in the manufacturing and service sectors and potential redundancy of a big number of employees;
- a growing threat to cyber security and a tightening of regulations in the area of confidentiality and personal data protection;
- deteriorating living standards and potential rise in social tensions in the regions where the Group operates, which may reduce the income of the Corporation and the portfolio companies of the Group;
- a tightening of regulations in the area of sustainable development, carbon regulations and information disclosure.
- of regulations in the area of sustainable development, carbon regulations and information disclosure.

Among the 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 the state of the infrastructure, the threat of accidents 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.

Emergencies and accidents at the production facilities of Sistema Group may have a significant impact on the environment: pollution of land and water, emissions above the allowable limit, discharge of waste waters or leaks of hazardous substances. Occurrence of these risks may damage the local communities, ecosystems and biodiversity. Irrational use of natural resources (land, forest) may deplete the raw materials/production base and lower the economic results of agricultural and forest assets.

To manage these risks the companies of the Group are implementing advanced technological solutions, improving management systems in the area of environmental protection, energy efficiency, occupational health and safety, and developing measures aimed at prevention and mitigation of accidents and emergencies.

The risks related to failure to comply with the principles of sustainable development in supply chains may result in disruption of supplies and have an adverse effect on the reputation of Sistema Group. As part of their efforts to minimise such risks the companies of the Group set strict requirements to suppliers, contractors and partners in terms of compliance with existing laws and internal regulations.

In view of the increased threat of global and regional terrorist attacks, any potential accidents at the enterprises and infrastructure facilities of the Group may cause significant economic damage, negatively affect people's health and provoke a tightening of regulatory requirements in the area of data access.

Legal risks

There is a risk of unpredictable court rulings and administrative decisions being passed with respect to the business of Sistema Group and its portfolio companies, which may have an adverse effect on the Group's operations. This risk is caused by numerous factors, including:

- possible discrepancies and ambiguities in: (i) federal and other laws; (ii) bylaws issued by the executive authorities of the states 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.
- influence of political, social and commercial factors on the judicial system;
- potential selective or arbitrary actions of government authorities.

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

Lack of clarity about the applicability of the Federal Law "On the Procedure for Foreign Investment in Companies of Strategic Importance to 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 due to its having foreign shareholders.

There is a risk of amendments to the laws of the countries where Sistema Group companies operate, due to potential changes in the laws and regulations governing international trade and investments that may be introduced by foreign states or international organisations.

Since Russian corporate law provides for the liability of shareholders 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.

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

Tax risks

The tax laws, regulations and practices of the jurisdictions where Sistema's assets operate are intricate, opaque and prone to frequent modifications and ambiguous interpretations. If the actions of the Corporation and its portfolio companies are interpreted as breach of tax laws, this may produce an adverse effect on the business of Sistema Group.

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

In 2015, new rules were introduced relating to the taxation of undistributed profits of controlled foreign companies and profits from indirect sale of properties in Russia, the concept of a beneficiary owner, and new criteria to be used to establish tax residency of foreign legal entities in Russia. Since coming into force these rules have been revised several times, with the introduced amendments having retroactive effect. As a result of the need to apply the new taxation rules, the Group's companies may face new tax liabilities arising from the uncertainty around the interpretation of tax law and lack of relevant legal precedents.

Risks related to stock markets

Deterioration of the geopolitical situation, sanctions imposed on some Russian companies, worsening of the macroeconomic environment and capital and investor flight from the Russian market led to a reduction in values of Russian companies in 2014-2019. In view of these circumstances Sistema Group's access to investor funding through stock markets may be restricted further as a result of introduction of sectoral sanctions in the business segments where the companies of Sistema Group operate and/or due to the cautious approach of investors to 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. The steps taken by many countries, including Russia, to contain the spread of COVID-19 have created serious operational difficulties for many businesses and had a serious impact on financial markets. COVID-19 has had a significant impact on the operations of many companies in various sectors of the economy, including, but not limited to, temporary or permanent shutdown of production, breakup of supply chains, quarantine of personnel and decreased demand. The significance of COVID-19 impact on Sistema Group's operations will largely depend on the duration and extent of its impact on the global and Russian economies.

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 the 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 achievement of the established goals, efficient management of the portfolio companies or benefits from new investment opportunities due to its high debt and limited investment resources. Sistema's failure to achieve the goals set in the strategy may undermine its financial results.

The development of Sistema Group companies depends on numerous factors, including the receipt of necessary permits from state authorities, sufficient demand from consumers, successful development of technologies, efficient risk and cost management, timely completion of R&D and introduction 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.

Acquisition, integration, disposal or restructuring of assets

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, insufficient or inadequate due diligence of the target company's operations and/or financial situation, and potential overvaluation of assets. These risks can also affect Sistema's financial performance.

Acquisition of assets may increase pressure on the cash position and create a need for raising external funding.

Delays in the implementation of investment deals or failure to close investment deals may have an adverse effect on the achievement of Sistema's strategic goals and negatively influence the results, financial position and investment appeal of the Corporation.

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;
- conflicts between shareholders;
- hostility and/or unwillingness to cooperate on the part of the management and personnel of the acquired asset;
- loss of customers by the acquired asset.

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 the deal due to inability to obtain corporate or state approvals;
- mistakes in asset valuation;
- assuming excessive obligations towards the buyer;
- loss of synergies with other assets staying in the portfolio.

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

Management and key personnel

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

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 repayment of debt and interest, and to make other investment activities in the future. Such cash-generation capacity may be restricted due to regulatory, tax or any other barriers, which may have an adverse effect on the financial position and liquidity of the Corporation.

Borrowings

Cash flows from portfolio companies may be insufficient to finance all of the Corporation's investments scheduled for a particular period. This may create a need to raise additional external funding and increase the debt burden of the Corporation, which, in turn, will put pressure on the credit ratings of the Corporation and the companies of Sistema Group. A downgrading of the credit rating may increase the cost of existing debt, make new borrowings more expensive or inaccessible and, in some cases, trigger acceleration of existing loans. The risk of deterioration or withdrawal of the Corporation's credit rating is correlated with reputation and liquidity risks. The current debt level of the Corporation also restricts new borrowings.

Uncertainty of estimates in reporting

In compliance with the provisions of the Company's accounting policy the management should make assumptions, estimates and judgements with respect to the book value of those assets and liabilities that cannot be assessed on the basis of other sources. The estimates and their underlying assumptions are formed on the basis of previous experience and other factors that are considered relevant in the given circumstances. The actual results may differ from these estimates, which may have a substantial adverse impact on the Group's financial results.

The estimates and the resulting assumptions are revised on a regular basis. Changes in estimates are recognised in the period in which the estimate was revised if the change influences only this period, or they are recognised in the period in which the estimate was revised and in future periods if the change influences both the current and future periods.

Loan covenants

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

Licences and permits

The operations of Sistema Group's companies are regulated by different government bodies and agencies 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 some grounds. Any of these circumstances may have material negative consequences for Sistema's business.

Privatised companies

The portfolio of Sistema Group contains several privatised assets. In the future the Corporation and the companies of the Group may also take part in privatisation of assets. Since Russia's privatisation-related legislation remains somewhat unclear and inconsistent and contradicts some other provisions of law (e.g., there are contradictions between federal and regional provisions on privatisation), privatisation of many companies can potentially be contested, however selectively, which may have a material negative impact on the business, financial situation, performance, or development prospects of the Corporation.

Compliance with applicable laws and regulations

The Corporation and the companies of Sistema Group should conduct their business activities in compliance with a number of rules and regulations in the area of market competition, corporate governance, fraud and corruption prevention, management of conflicts of interest, compliance with sanctions, fair treatment of customers, prevention of money laundering and terrorism financing, adherence to the policy on information security, prevention of illegitimate use of insider information and market manipulation. 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 regulated by the anti-corruption laws of relevant jurisdictions, where they conduct their business or where their securities are traded, including the laws of the Russian Federation, 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 harmful influence on human rights, eliminating or mitigating the potential consequences of such influence whenever it takes place.

As part of its operations and cooperation with suppliers, contractors, partners and other stakeholders the Corporation may exert direct and indirect impact on the rights of employees, local communities, customers, patients and consumers. Any instances of violations of human rights may have an adverse effect on the Corporation's reputation and lead to court disputes, loss of confidence of investors, customers and employees, cause resistance from local communities, trade unions and NGOs.

The risks associated with human rights are taken into account in the risk management systems of the companies of Sistema Group, and material items are regularly reviewed by the boards of directors of relevant portfolio companies. For more detail on the management of risks related to human rights, please refer to the section "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, the risks related to cyber security and personal data protection are becoming a major threat to the business of the companies of Sistema Group. Sistema Group's inability to prevent cyber-attacks and unsanctioned access to its 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, disruption in production processes, network security breaches, costs related to the restoration of IT systems and equipment, which may significantly undermine the business of Sistema Group.

The risks associated with the protection of personal data are most relevant for assets in the segments of 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 possible negative consequences of their industry-specific risks.

Competition

All business segments 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. Inability of Sistema Group's companies to compete efficiently may have a material negative impact on the business, performance, financial situation and development prospects of the Corporation.

Brand quality and reputation

Developing and maintaining brand awareness for the Group's companies is crucial to shaping 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.

The reputation of Sistema may suffer in the event of unethical business conduct, professional errors (including medical errors), negligence, failure to observe human rights or dissemination of inside information and corruption offences committed at the Corporation or its portfolio companies.

3.8. CORPORATE GOVERNANCE SYSTEM

Corporate governance principles

As an investment company, Sistema believes that high-quality corporate governance and information transparency are important elements of its strategy. Sistema aims to meet the best international standards of corporate governance and transparency and improves its corporate governance practices on an ongoing basis through timely implementation of required changes and high effectiveness of managerial decision-making.

Sistema's corporate governance principles
• Clear and effective procedures for making investment decisions;
• Reasonable transparency of governance processes for investors and partners;
• A dividend policy that takes due account of both the reasonable expectations of investors and Sistema's financial resources;
• Professionalism of the Board of Directors and its active involvement in strategic planning and the management and oversight of business processes;
• Special focus of the Board of Directors on related-party transactions and potential conflicts of interest.

Guided by these principles in all of its activities, including strategic and financial management, HR and social policy, preparation of financial statements, control and audit, and risk management, the Corporation builds a stronger foundation for its investment case.

In its corporate governance practices Sistema abides by applicable legislation, the Listing Rules of Moscow Exchange, the recommendations of the Russian Corporate Governance Code and the guidelines set out in the UK Corporate Governance Code. In accordance with Russian legislation and best international practices, the Corporation's Charter and internal regulations define its corporate governance principles and procedures, as well as the composition, procedures and powers of its governance and control bodies. The Corporate Governance and Ethics Code of Sistema sets out the additional commitments of the Corporation, its top management and employees in terms of social responsibility, transparency and ethical business principles.

Sistema's Charter provides for the following corporate governance bodies:

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

General Meeting of shareholders

The General Meeting of shareholders is the supreme governing body of the Corporation. The activities and powers of the Annual General Meeting of shareholders (hereinafter, "AGM") 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 enabling them to participate in the General Meeting.

Observance of shareholders' rights

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

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

Participation in General Meetings of shareholders and voting on agenda items

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

To ensure that shareholders can exercise their right to take part in the General Meeting, the Corporation is actively using 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 / www.sistema.com) at least 30 days before the date of the meeting and are then sent to nominee shareholders in electronic form.

Sistema's shareholders may use the e-voting system available on the website of the Corporation's registrar, JSC Reestr. To use this service, shareholders should contact the office of JSC Reestr 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 <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 holders of Sistema's global depositary receipts (GDRs) may vote on General Meeting agenda items by a proxy vote in line with the established procedure via a depositary bank servicing Sistema's GDR programme. In 2020, Sistema's depositary bank was Citibank, N.A. For more information on the depositary bank and voting procedures please go the bank's website <https://depositaryreceipts.citi.com/>. The votes of the GDR holders registered with the depositary are collected by the depositary 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.

The Board of Directors of Sistema PJSFC recommended that the General Meeting of shareholders approve the total amount of dividends payable for 2019 as equal to RUB 1,254,500,000.00, i.e. RUB 0.13 per share.

Information on General Meetings of shareholders held in 2020

Annual General Meetings of shareholders

Date and venue	27 June 2020
Form of the meeting	Absentee voting
Items reviewed and decisions taken	<ul style="list-style-type: none">▪ Annual report and financial statements for FY 2020 were approved;▪ Dividends for 2020 were distributed in the amount of RUB 1,254,500,000, or RUB 0.13 per ordinary share (RUB 2.60 per GDR);▪ The Board of Directors was elected;▪ Auditors were appointed for RAS and IFRS audits for 2020.
Attended	Shareholders that together hold 75.8% of votes
Date and reference number of the minutes	02 July 2020, No1-20

In 2020, 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 a live stream of the meeting, in the course of which the management presented the company's results for 2019 and took questions from the shareholders.

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.

The composition of the Board

The Board of Directors effective as of 31 December 2020 was elected at the AGM held on 27 June 2020. Independent directors account for 50% of the Board of Directors.

Composition of the Board of Directors of Sistema PJSFC as of 31 December 2020

1. Vladimir Evtushenkov⁵⁶
(*Board Chairman*)
2. Anna Belova⁵⁷
(*Deputy Chair of the Board in 2020*)
3. Andrey Dubovskov⁵⁸
(*Deputy Chair of the Board from 18 April 2020*)
5. Felix Evtushenkov
6. Ron Sommer
7. Robert Kocharyan^{57,59}
8. Roger Munnings^{57,60}
9. Vladimir Chirakhov
10. Anatoly Chubais⁴⁷
11. Etienne Schneider⁴⁵
12. David Iakobachvili^{47,61}



The Board of Directors consists of 12 members.

Changes in the membership of the Board of Directors

Compared to the corporate year 2019-2020, the number of Board members was increased from 11 to 12, and S. Boev and J. Krecké resigned the Board. Among the new members elected to the Board of Directors at the General Meeting of shareholders on 27 June 2020 were the President of the Corporation V. Chirakhov and independent directors A. Chubais and E. Schneider.

Meetings of the Board of Directors

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

In 2020, the Board of Directors held 12 meetings: 7 scheduled in-person meetings and 5 unscheduled meetings held in the form of absentee voting. The Board of Directors reviewed a total of 68 agenda items in 2020.

⁵⁶ The Chairman and Deputy Chairs of the Board of Directors were elected at the first Board meeting on 27 June 2020 (which was held after the AGM).

⁵⁷ Independent Director.

⁵⁸ On 18 April 2020, A. Dubovskov was also elected Deputy Chair of the Board of Directors.

⁵⁹ In line with Moscow Exchange listing rules, R. Kocharyan was recognised as independent by special resolution of Sistema's Board of Directors. Information pertaining to the decision is available on Sistema's website.

⁶⁰ In line with Moscow Exchange listing rules, R. Munnings was recognised as independent by special resolution of Sistema's Board of Directors. Information pertaining to the decision is available on Sistema's website.

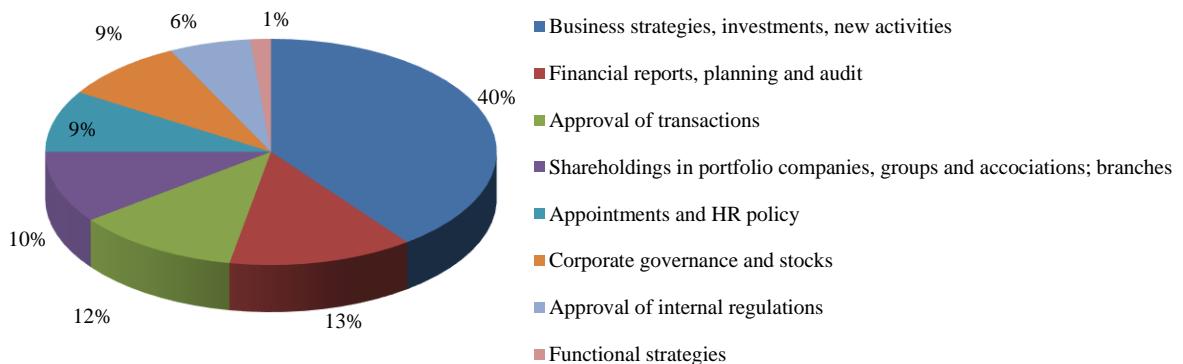
⁶¹ In line with Moscow Exchange listing rules, D. Iakobachvili was recognised as independent by special resolution of Sistema's Board of Directors. Information pertaining to the decision is available on Sistema's website.

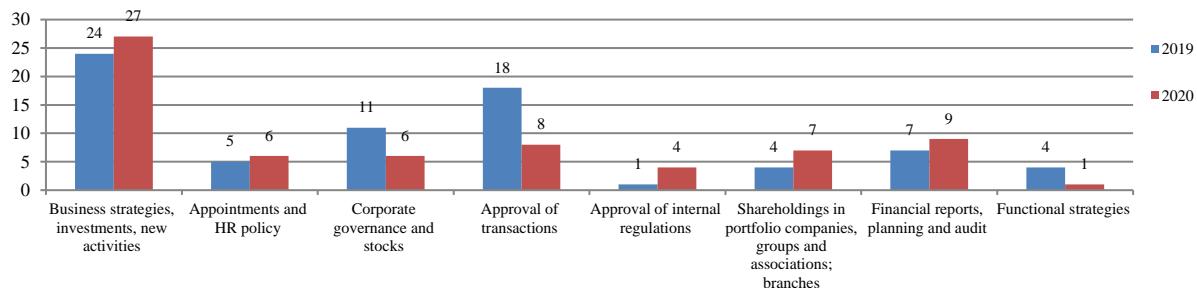
	2020	2019
Number of in-person meetings	7	8
Number of meetings with voting by ballot	5	5
Number of items in accordance with the Board's work plan	40	37
Actual number of items reviewed by the Board	68	74

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

- 1) Sistema's development strategy.
- 2) Sistema's action plan for tackling the coronavirus pandemic.
- 3) Sistema Group's strategic planning cycle.
- 4) Investment policy, strategy of Sistema's investment funds and priority areas for investment in 2020-2021.
- 5) New investment projects.
- 6) Managing and creating value for Sistema's investments in the following areas:
 - Telecommunication and digital assets;
 - E-commerce and retail assets;
 - Agricultural assets;
 - Timber processing and pulp and paper assets;
 - Banking assets;
 - High-tech assets;
 - Development and construction assets;
 - Healthcare assets;
 - Hotel assets.
- 7) Sistema's results and performance against budget.
- 8) Budget planning, approval of the consolidated budget of Sistema PJSC and management's KPIs for 2020-2021.
- 9) Management of the Corporation's risks.
- 10) Activities of the internal audit department.
- 11) HR matters and employee incentive systems.
- 12) Assessment of the quality of corporate governance.
- 13) Corporate Social Responsibility.
- 14) Mandatory corporate procedures, including calling the General Meeting and developing the work plan of the Board of Directors.
- 15) Composition of Board Committees and determining the status of Board members.
- 16) Approval of transactions, including the acquisition of equity stakes.

Items reviewed by the Board of Directors in 2020





Most of the items reviewed by the Board of Directors in 2020 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). The number of items concerning corporate governance and functional strategies decreased after these aspects were integrated into reports on business strategies.

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.

The Corporation practices in-depth analysis and preliminary review of materials relating to key items of the agenda involving thorough discussions between Board members and 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 2020 was 96.5%.

Participation of Board members in meetings of the Board of Directors and its Committees in 2020

	Board of Directors	Strategy Committee	Audit, Finance and Risk Committee	Nomination, Remuneration and Corporate Governance Committee	Ethics and Control Committee	Investor Relations and Dividend Policy Committee
Attendance						
V. Evtushenkov	12/12 ⁶²	4/4				
A. Belova	12/12	3/4	17/17	9/9	6/6	8/8
S. Boev ⁶³	5/5				3/3	
A. Dubovskov	12/12	3/4		4/5	2/3	
F. Evtushenkov	12/12	3/4				
R. Sommer	12/12	4/4	17/17	9/9		4/4
R. Kocharyan	8/12	4/4	2/9	6/9	2/3	
J. Krecké ⁶³	5/5		9/9		3/3	4/4
R. Munnings	12/12		17/17	9/9	3/3	8/8
V. Chirakhov ⁶⁴	7/7	4/4			3/3	
A. Chubais ⁶⁴	7/7					
M. Shamolin	11/12	3/4			1/3	
E. Schneider ⁶⁴	7/7		8/8			4/4
D. Iakobachvili	12/12	4/4	8/8	9/9		4/4

Assessment of the work of the Board of Directors and its committees

⁶² The first number shows the number of meetings attended by the Board member, the second number is the total number of meetings.

⁶³ Member of Sistema's Board of Directors until 27 June 2020

⁶⁴ Member of Sistema's Board of Directors from 27 June 2020

The assessment of the Board of Directors' performance is an important mechanism for maintaining and improving Board effectiveness. It aims to identify strengths and areas of improvement in Sistema's Board governance, and suggests changes and adjustments. Holding externally facilitated assessments from time to time is a global best practice that is also recommended by the Russian Corporate Governance Code. Sistema has endorsed this practice since 2017, when the first external evaluation of its Board was conducted. In keeping with recommendations of the Corporate Governance Code, the second external evaluation was scheduled for spring 2020 but was postponed to spring 2021 due to the coronavirus pandemic. The assessment was carried out by a consortium of two highly-reputed global firms: Nestor Advisors Ltd., a London-based advisory firm that specialises exclusively in corporate governance, and EY, one of the world's leading professional services organizations with significant presence in the Russian market.

The assessment covered the following areas of the Board's work:

- Key responsibilities, including strategic direction, oversight of company's performance, strategic HR issues, internal control and risk management;
- Board relationship with management and quality of information flows;
- Board profile, composition and director nomination practices;
- Board functioning and dynamics;
- Role of the Chairman;
- Board Committee structure and functioning;
- Board processes and support; and
- Board Committee effectiveness.

The goal of the assessment was to:

- Enhance the effectiveness of the Board by identifying possible improvements in its structure, processes, functioning, dynamics, and capacity to constructively challenge management;
- Develop shared views among Board members on how the Board can better contribute to Sistema's performance;
- Strengthen confidence in Sistema's approach to corporate governance among shareholders and key stakeholders;
- Assist Sistema in maintaining "best in class corporate governance", including compliance with the Russian Corporate Governance Code and alignment with international best practices in the area of board effectiveness; and
- Track progress vis-à-vis the previous 2017 Sistema Board evaluation.

The assessment was conducted on the basis of an extensive questionnaire and follow up interviews with board members and several members of senior management reporting to the Board. Its main findings can be summed up as follows:

- Sistema has a hard-working Board with developed governance processes and practices at Board and Committee level;
- Board members are very senior with significant decision-making and strategic experience and commensurate reputational weight. They are capable of complementing the Chairman's long-standing leadership;
- Going forward, the Board might want to focus more on long-term portfolio strategies. It should also consider a more independent composition profile in line with comparable investment companies worldwide and continue focusing its attention on the quality of the board leadership of its significant investees; and
- To this effect, succession planning at every level and its oversight by the Board could become more systematic.

The external assessment provided a set of recommendations for specific improvement in these and other areas whose implementation Sistema is currently exploring.

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;
- Investor Relations and Dividend Policy Committee.

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 <http://www.sistema.ru/okompanii/korporativnoe-upravlenie/korporativnye-dokumenty/>.

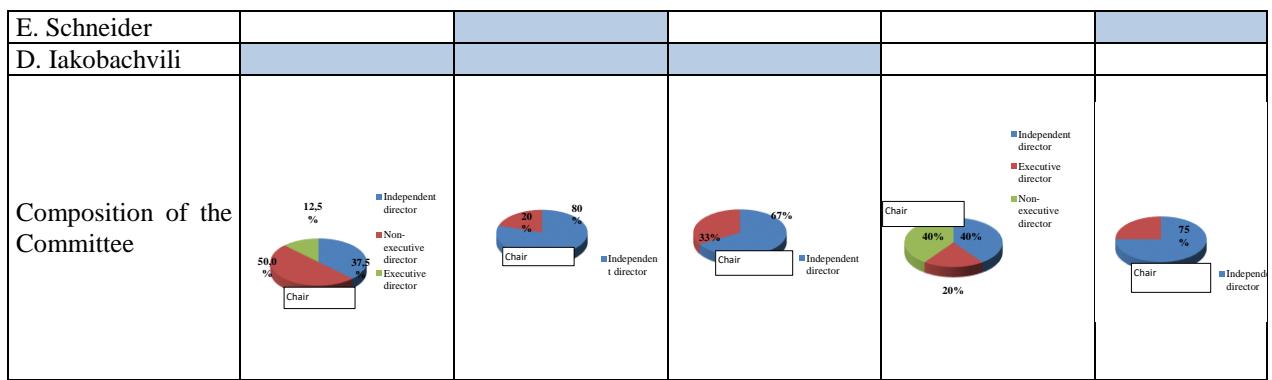
Functions of the Board committees

Name of the Committee	Functions of the Committee
Strategy Committee	<ul style="list-style-type: none"> ▪ Analysing the strategic management issues of Sistema Group; ▪ Reviewing the strategy planning methodology; ▪ Reviewing M&A transactions with a value exceeding USD 100m; ▪ Reviewing Sistema Group's investment projects requiring an entry into new geographies or industries and projects with significant state ownership.
Audit, Finance and Risk Committee	<ul style="list-style-type: none"> ▪ Facilitating and supervising the processes of preparing and auditing the Company's financial statements; ▪ Assessing the quality of audit services based on the audit of Sistema's financial statements and making preliminary recommendations to the Board of Directors with respect to the selection of RAS and IFRS auditors; ▪ Assessing the risk management system and ensuring compliance with applicable legal requirements in financial reporting, audit and planning; ▪ Performing a provisional appraisal of transactions submitted to the Board of Directors; ▪ Budgeting and financial modelling.
Nomination, Remuneration and Corporate Governance Committee	<ul style="list-style-type: none"> ▪ Facilitating the development of an effective corporate governance system meeting international standards at the Corporation and its portfolio companies; ▪ Conducting a preliminary review of candidates: <ul style="list-style-type: none"> a. for the Board of Directors of Sistema PJSFC; b. for the boards of directors of portfolio companies; c. for senior management positions across Sistema Group; d. for the position of the Corporation's Company Secretary; ▪ Developing the Corporation's incentive and remuneration policies; ▪ Organising the assessment of the performance of the Board of Directors.
Ethics and Control Committee	<ul style="list-style-type: none"> ▪ Ensuring an effective system of economic and corporate security; ▪ Monitoring compliance with the requirements of the Code of Ethics of the Corporation; ▪ Introducing a system for preventing corruption and fraud and other misconduct related to violations of applicable legislation at Sistema Group companies.
Investor Relations and Dividend Policy Committee	<ul style="list-style-type: none"> ▪ Strengthening the Corporation's investment case; ▪ Supporting effective relations with the financial community; ▪ Developing Sistema's dividend policy, including recommendations for the Corporation's Board of Directors with respect to the amount of payable dividends; ▪ Protecting the rights and interests of Sistema's shareholders.

The structure of Sistema's Board Committees as of 31 December 2020

	Strategy Committee	Audit, Finance and Risk Committee	Nomination, Remuneration and Corporate Governance Committee ⁶⁵	Ethics and Control Committee	Investor Relations and Dividend Policy Committee
V. Evtushenkov	Chair				
A. Belova					Chair
A. Dubovskov				Chair	
F. Evtushenkov					
R. Sommer					
R. Kocharyan			Chair		
R. Munnings		Chair			
V. Chirakhov					
A. Chubais					
M. Shamolin					

⁶⁵ The President of Sistema PJSFC attends Committee meetings in the capacity of a permanent invitee and does not vote on the matters submitted for consideration of the Committee.



R. Munnings, a member of the Audit, Finance and Risk Committee is an expert in finance and audit with many years of experience in the sector.

Matters considered by the Committees of the Board of Directors of the Corporation

<i>Name of the Committee</i>	<i>Number of meetings in 2020</i>	<i>Topics discussed</i>
<i>Strategy Committee</i>	4	<ul style="list-style-type: none"> Value creation by the Corporation's investments in various industries; Strategic planning cycle; Strategy of digital transformation; Corporate culture development.
<i>Audit, Finance and Risk Committee</i>	17	<ul style="list-style-type: none"> 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; Review of the principles of investment project prioritisation.
<i>Nomination, Remuneration and Corporate Governance Committee</i>	9	<ul style="list-style-type: none"> Development of corporate governance across Sistema Group; Organising the work of the Corporation during the coronavirus pandemic; Incentive system and key parameters, performance assessment and bonuses for the key managers and employees of Sistema; HR process and review of candidates for senior management positions at Sistema and nominees to the boards of directors of the key portfolio companies.
<i>Ethics and Control Committee</i>	6	<ul style="list-style-type: none"> Performance of the Internal Audit Department in 2019 and its work plan for 2021; The system for preventing fraud and corruption at Sistema; Functional strategy in the area of corporate (including information) security.
<i>Investor Relations and Dividend Policy Committee</i>	8	<ul style="list-style-type: none"> Amount of dividends and dividend policy of the Corporation; The Corporation's ESG strategy; Analysis and monitoring of Sistema's market and investment base; Functional strategy in the area of external communications; Sistema's equity story and perception of Sistema by the investment community.

President

The President of Sistema PJSFC 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 PJSFC. The President chairs the Management Board of Sistema PJSFC.

On 20 April 2020, the Board of Directors of Sistema PJSFC approved the appointment of Vladimir Chirakhov as the President and Chairman of the Management Board of Sistema PJSFC.

Vladimir Chirakhov

Born in Tbilisi (Georgia) in 1974.

In 1996, graduated with honours from the Russian Federal Security Service Academy with a degree in applied mathematics. In 2000, studied system analysis and business management at Moscow International Higher Business School MIRBIS. In 2001, graduated from the Russian Presidential Academy of National Economy with a degree in management. In 2013, completed Executive MBA at Moscow Skolkovo School of Management.

2005-2009 – category manager, project manager at LLC M.Video.Management.
2009 – Sales Director at LLC Lindex.

2009-2012 – Sales Director, Executive Director, CEO at LLC Korablik-R.
Appointed Deputy CEO for Sales at OJSC Detsky Mir in March 2012. CEO of PJSC Detsky Mir from September 2012 to March 2020.

Appointed President of Sistema PJSFC on 20 April 2020.
Awarded a national Order of Friendship in March 2020.

Management Board

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

In 2020, the Management Board held 8 meetings and reviewed 34 agenda items in the following key areas:

- 1) Sistema's development strategy.
- 2) Management of Sistema's investment funds
- 3) Sistema Group's strategic planning cycle.
- 4) Development strategy, value creation and monetisation of Sistema's investments in various industries.
- 5) Corporate governance practices at the Corporation
- 6) Budget execution, budget planning and key performance indicators.
- 7) Debt and liquidity management.
- 8) Sistema's ESG strategy.

In May 2020, the powers of the previously elected Management Board were terminated, and the Board of Directors approved a new Management Board for a three-year term. As of 31 December 2020, the Corporation's Management Board consisted of 15 members.

Members of the Management Board of Sistema PJSFC as of 31 December 2020⁶⁶

1.	Vladimir Chirakhov	<i>President, Chairman of the Management Board</i>
2.	Igor Alyoshin	Vice President for Security
3.	Sergey Egorov	Managing Partner
4.	Artyom Zasursky	Vice President for Strategy
5.	Alexey Katkov	Managing Partner
6.	Igor Kozlov	Vice President for IT
7.	Svetlana Matveyeva	Vice President for HR
8.	Leonid Monosov	Managing Partner

⁶⁶ Short biographies of the members and information about their shareholdings in Sistema PJSFC are available in Annex 1.

9.	Oleg Mubarakshin	Managing Partner
10.	Leonid Petukhov	Managing Partner
11.	Vsevolod Rozanov	Managing Partner
12.	Artyom Sirazutdinov	Managing Partner
13.	Vladimir Travkov	Vice President for Finance
14.	Ali Uzdenov	Managing Partner
15.	Sergey Shishkin	Vice President for Corporate Governance and Legal Matters

Changes in Sistema's Management Board in 2020

<i>V. Chirakhov</i>	20 April 2020	appointed President, Chairman of the Management Board
<i>A. Pilipenko</i> <i>J. Tulgan</i> <i>M. Yanpolsky</i>	16 May 2020	appointment to the Management Board was terminated
<i>L. Monosov</i>	17 May 2020	appointed to the Management Board
<i>I. Kozlov</i>	13 July 2020	appointed to the Management Board
<i>L. Petukhov</i>	18 December 2020	appointed 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 financial models, business plans and key performance indicators of investment projects;
- Recommendations regarding the feasibility 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 Management Board and/or Board of Directors.

The Committee consists of 7 members and is chaired by the President of the Corporation Vladimir Chirakhov.

In 2020, the Committee held 47 meetings.

The Finance and Investment Committee oversees the work of the Expert Council, the Budget Subcommittee and the Remuneration Subcommittee.

The Expert Council consists of 12 members and considers all of the Corporation's new investment ideas and projects for acquisition of assets in new and related 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 further reported to the Finance and Investment Committee.

The Budget Subcommittee consists of 5 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 8 members and aims to improve budgeting policies, principles and procedures and to develop guidelines in this area for the governance bodies of the Corporation.

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.

The Committee consists of 13 members and is chaired by the Vice President for Finance Vladimir Travkov.

In 2020, the Risk Committee held 4 meetings.

The Risk Committee includes an Expert Group consisting of 8 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 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.

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 purchasing procedures and impartial decision-making;
- Facilitating the prevention of corruption, fraud and other wrongdoing in purchasing.

The Committee consists of 7 members and is chaired by the Vice President for Finance Vladimir Travkov.

In 2020, the Tender Committee held 25 meetings.

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.

The Committee consists of 12 members and is chaired by the Vice President for IT Igor Kozlov.

In 2020, the IT Committee held one meeting.

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 a dedicated risk management unit 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 the Corporation's senior management):

- Level 1: Heads of subdivisions and employees of the Corporation 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 an effective risk management practice;
 - The Finance and Investment Committee of the Corporation approves and monitors the implementation of investment projects;

- The Security Department is responsible, *inter alia*, for economic security, the 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 internal control system of the Corporation includes, but is not limited to:

- 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 in charge of various 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.

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 Auditor 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 Ethics and Control Committee.

The key objectives of the Internal Audit Department are:

- Helping shareholders and management improve the internal control system by performing regular audits of the effectiveness of the Corporation's internal control, risk management and corporate governance systems;
- Supplying management and shareholders with objective information on existing internal and external risks, as well as their probability and consequences;
- Enhancing awareness among the Corporation's management team about the performance of Sistema Group companies;
- Monitoring the achievement of the goals of shareholders of the Corporation.

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

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

The Internal Audit Department has all the resources and powers required to perform the above functions and is an independent structural unit. The Department's activities are performed in compliance with the existing laws of the Russian Federation, the Charter of Sistema PJSFC, the Code of Ethics and other internal regulations of the Corporation, as well as the recommendations of international professional organisations and standards in the area of internal control and audit (e.g., the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and International Internal Audit Standards).

Aiming to improve the quality, widen the scope and increase the depth of audits, the Department continuously works on a single methodology base to standardise audit and control procedures in specific fields and risk areas.

The Internal Audit Department closely interacts with Sistema's independent auditors, helping them 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 PJSFC and are also submitted for consideration by the Board of Directors at the end of the year.

In 2020, the Internal Audit Department conducted 23 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, specifically at planning, risk analysis and testing stages.

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 of the Corporation 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 2020, 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.

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. According to the decision of the Audit, Finance and Risk Committee, a tender for external audit services should be held at least every five years to ensure the auditor's impartiality and objectivity.

Corporate governance across Sistema Group

The quality of strategic planning and 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 by including 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 remain 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.

The boards of directors of portfolio companies and their committees ensure control and coordination and support the management of portfolio 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.

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 Board of Directors.

Development of the corporate governance system in 2020

Independent directors on the Corporation's Board of Directors

In 2020, 12 members were elected to the Corporation's Board of Directors, 6 of which qualify as independent directors or are recognised as independent according to Moscow Exchange's Listing Rules and the Russian Corporate Governance Code.

The current Board comprises the following independent directors:

- Anna Belova;
- Robert Kocharyan;
- Roger Munnings;
- Anatoly Chubais;
- Etienne Schneider;
- David Iakobachvili.

All of the Corporation's independent directors have strong reputations 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.

At the first meeting of Sistema's Board of Directors held after the Annual General Meeting of shareholders, independent director Anna Belova was elected Deputy Chair of the Corporation's Board of Directors. In this capacity, she, *inter alia*, coordinates the activities of independent members of the Board of Directors and interacts with the Chairman of the Board of Directors, acting as a senior independent director. Anna Belova has extensive experience as a board member of large Russian companies and has been a member of Sistema's Board of Directors since 2017.

Approval of internal regulations in the area of ESG

In 2020, the Board of Directors of the Corporation approved two internal regulatory documents reflecting Sistema's commitment to the ESG agenda: Sustainability Policy and a new version of the Corporate Governance Code. These documents were made in accordance with international standards and reflect best practices in the area of sustainable development. Sistema has made a commitment to implement these practices in its portfolio companies acting through representatives on the boards of directors.

Live streaming of the Annual General Meeting of shareholders

In 2020, a new law was passed in Russia allowing joint-stock companies to conduct their annual general meetings of shareholders in the year 2020 in the form of absentee voting. However, in addition to absentee voting, Sistema's Board of Directors decided to organise a live stream of the meeting on the final date of voting. In the course of the live stream the Corporation's management made a report on the results of 2019 and took questions from the shareholders.

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. The plan includes the following actions for 2021:

- 1) development of succession plans for the management and the Board of Directors with potential formalisation of this process in a special internal regulation of Sistema PJSFC (the first half of 2021);
- 2) development and approval of internal regulations of Sistema PJSFC in the area of environment and human rights as part of the ESG agenda (the first half of 2021);
- 3) development of a plan for preparing and holding an online meeting of shareholders in 2022 in the event of adoption of the corresponding amendments in Russian laws on joint-stock companies (the second half of 2021);
- 4) search for new independent candidates to be nominated by Sistema to the boards of Group companies (the second half of 2021).

3.9. REMUNERATION POLICY APPLIED TO BOARD MEMBERS AND SENIOR MANAGEMENT

Remuneration policy applied to the Board members of Sistema PJSFC

Remuneration for the work of members of the Board of Directors is calculated and paid in accordance with the Policy on Remuneration and Compensations Payable to Members of the Board of Directors of Sistema PJSFC (hereinafter, "the Policy") approved by the General Meeting of shareholders.

Basic remuneration of members of the Board of Directors

In 2020, basic remuneration of members of the Board of Directors amounted to RUB 13.7 mln or RUB 17.8 mln 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.

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. 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.

The amount of additional remuneration is at any rate limited by the amount of basic remuneration (not more than RUB 17.8 mln a year).

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.

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 PJSFC insures the liability of the members of the Corporation's Board of Directors.

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

Remuneration policy applied to the senior management of Sistema PJSFC

The short-term incentive scheme for the top managers of Sistema PJSFC in 2020 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 % 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 (i) 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, (ii) investments made in such an asset and project costs;
- % of the project team's annual income.

Share incentive schemes at Sistema PJSFC

At the beginning of 2020, the Board of Directors approved the main principles of an employee share incentive plan aimed at building a long-term relationship with the key managers and motivating them to achieve a shared goal: growing the capitalisation of the Corporation (hereinafter, "Share Incentive Plan").

The participants of the Share Incentive Plans are selected on the basis of their performance and personal contribution to the development of the Corporation and/or portfolio companies. The final list of participants is approved by the Board of Directors. Each participant shall be granted a substantial number of ordinary shares in Sistema PJSFC (more than 0.1% of the authorised capital).

Other terms and conditions

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

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

The Corporation does not provide loans to senior executives.

Remuneration paid to Sistema's Board members and senior management in 2020⁶⁷

Members of Sistema's Board of Directors received the following remuneration in 2020:

	2020	2019
Remuneration for work as member of the Board of Directors	RUB 365,497,500	RUB 191,720,000
Salaries ⁶⁸	RUB 122,499,000	RUB 106,523,000
Bonuses ⁶⁸	RUB 393,456,200	RUB 631,513,400
Remuneration for work as member of the Board's committees	RUB 5,820,000	RUB 6,750,000
Reimbursement of expenses incurred by Board members in connection with their duties ⁶⁹	RUB 824,200	RUB 4,917,600

Members of Sistema's Management Board⁷⁰ received the following remuneration in 2020:

	2020	2019
Salaries	RUB 584,901,900	RUB 507,160,500
Bonuses	RUB 4,889,969,300	RUB 2,933,809,000 ^{71 72}
Other types of remuneration	RUB 861,000	RUB 946,700

⁶⁷ All figures in this section are stated before applicable income tax.

⁶⁸ Remuneration in the form of salaries and bonuses is the compensation allocated in the reporting period to the non-executive directors sitting on the Board of Directors.

⁶⁹ Including reimbursement of travel and accommodation expenses related to participation of members in the meetings of the Board of Directors in the reporting period.

⁷⁰ Including the President of Sistema.

⁷¹ Bonuses for 2019 were paid to the employees of Sistema PJSC in Q1 2020.

⁷² In Q1 2020, some members of the Management Board used a part of their cash bonuses for 2019 for acquiring about 12 mln ordinary shares of the Corporation, which is consistent with Sistema's strategy for increasing the participation of its employees in the company's equity.

3.10. SUSTAINABILITY MANAGEMENT

Sustainable development management

Management system

Sistema's Board of Directors plays a key role in determining the strategic areas and overseeing the performance of the Corporation's sustainability activities. Sustainable development aspects that are essential for the Corporation are managed at both strategic and functional levels, with the key principles and approaches transmitted to the Group's companies through their boards of directors, which include key executives of Sistema PJSFC (Managing Partners).

The company spent 2020 implementing an action plan aiming to develop approaches to sustainability management and responsible investing. The Corporation's Board of Directors approved a new version of the Code of Corporate Conduct devised in reliance on global best ESG practices. In 2020, Sistema adopted its first-ever Sustainability Policy setting forth the guiding principles of Sistema Group's ESG activities and the priority ESG aspects in which Sistema can produce a lasting positive effect and create long-term value for stakeholders: Availability and Quality, Well-being, and Smart Environment.

Sistema's responsible business principles

- Consideration of ESG risks and opportunities
- Integrity and transparency
- Respect for human rights
- Ethics, loyalty and honesty
- 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

At the level of Sistema's Board of Directors, sustainable development is supervised by the Investor Relations and Dividend Policy Committee, which preliminarily defines the Corporation's position regarding ESG factors and reviews the strategy of Sistema Charitable Foundation. Other Committees of the Board of Directors consider certain aspects of ESG factors (corporate governance, ethical business conduct, etc.) within their respective mandates. The implementation of final ESG policies at the operational level, its communication to investors and public non-financial reporting are the responsibilities of the IR Service, which comprises ESG experts.

Issues of social corporate responsibility, social communications, regional policy and charitable activities are supervised by the Government Relations Department; corporate governance and compliance aspects of the said issues are supervised by the corporate secretary, the Corporate Governance & Legal Matters Department and the Audit Department, while the HR Department is responsible for HR policy aspects. Wherever 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, go to Risk Management.

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 a trove of corporate expertise, strikes synergistic intersectoral partnerships with government bodies, academia, civic & non-profit organisations, and encourages cooperation between businesses across the Group.

Transparency and 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.

In the autumn of 2020, consistent with its sustainability principles, Sistema signed an agreement with Sberbank for an up to RUB 10bln credit facility where specific interest rates may be tied to the company's sustainability performance (i.e., as sustainability improvement loans). In entering into the agreement, Sistema committed to get approved an Environment Policy and integrate responsible investment principles in its investment process and business model.

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. Provisional investment projects and programmes of portfolio companies receive detailed examination as part of Sistema's multi-stage investment process. In addition to financial and industrial analysis that underlie decision-making for each project, such aspects as management quality, staffing, the state of production facilities, infrastructure and technology, as well as related social obligations and environmental risks, are also factored in.

In the end of 2020, Sistema's strategic approach to responsible investment was incorporated into a new set of investment criteria (as specific ESG parameters) and entered into corporate governance bylaws, making sustainability an indispensable strategic aspect carrying weight in all investment decisions and asset management strategies.

Implementation of principles for responsible investment		
when building asset portfolio	when managing assets	when divesting from assets
<ul style="list-style-type: none"> • No "toxic" industries and activities that are forbidden by local law or international standards • Attention to the ESG profile of each company when making investment decisions 	<ul style="list-style-type: none"> • Basic sustainability standards in portfolio companies and extra requirements in preparing for IPOs • Interactions with portfolio companies via their boards (as per established corporate procedures) to enhance sustainability management and drive ESG performance 	<ul style="list-style-type: none"> • Ensuring the independence and reliability of sustainability management systems within the company • Issuing reference notes and guidelines on sustainability where necessary

For more details go to [Responsible Investment](#).

The Corporation's further plans involve the development of an Environmental Policy, a Human Rights Policy, and sustainability monitoring criteria, as well as the promotion of a sustainability practices evolution across the group in reliance on approved uniform standards.

Participation in sustainable development initiatives

Sistema is a signatory to the UN Global Compact promoting shared values and responsible business practices, and 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.

+ESG ratings and rankings in 2020

FTSE4Good index	Sistema is among FTSE4Good index constituents since 2016.								
MSCI ESG Ratings	<table border="1"> <tr> <td>2018</td><td>2019</td><td>2020</td></tr> <tr> <td>B</td><td>BB</td><td>BB</td></tr> </table>			2018	2019	2020	B	BB	BB
2018	2019	2020							
B	BB	BB							
Sustainalytics	<table border="1"> <tr> <td>2019</td><td>2020</td></tr> <tr> <td>30.9</td><td>15.3</td></tr> </table> <p>Sistema is ranked #44 among 690 firms in the "diversified financials" category.</p>			2019	2020	30.9	15.3		
2019	2020								
30.9	15.3								

Responsibility & Transparency and Sustainability Vector	Sistema is among the leaders of the <i>Responsibility & Transparency and Sustainability Vector</i> rankings of the Russian Union of Industrialists and Entrepreneurs (RSPP) since 2016 and constituents of related MOEX-RSPP ESG indices since 2019.
Disclosure insight action	In 2020, Sistema received score B (<i>Management</i>) and made it to the top 7 of 29 Russian businesses making voluntary climate data disclosures.

Last year's Russian Business Leaders: Dynamics, Responsibility, and Sustainability, an annual prize-giving campaign organised by the RSPP, awarded Sistema for "High quality of sustainability reporting" and Segezha Group, for a "Contribution to local social development".

Key focus areas

Sistema identified three key ESG areas to cultivate through investing, with a view to achieving a meaningful positive impact:

- Accessibility and quality of products and services
- Well-being of employees, customers and local communities
- Smart, efficient and safe environment.

Innovation and digital transformation are the focus of the Corporation's strategy. Sistema consistently invests in building intellectual potential through 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.

Investment strategy	Accessibility and quality <ul style="list-style-type: none"> • Access to products, services and information • Customer experience • Responsibility for products 	SDGs 4, 8, 9, 10, 12
	Well-being <ul style="list-style-type: none"> • Human capital • Health and safety • Confidentiality and personal data protection 	SDGs 3, 4, 5, 8, 10
	Smart environment <ul style="list-style-type: none"> • Smart homes, cities and industries • Operational eco-efficiency • Energy management and climate change 	SDGs 2, 3, 6, 7, 9, 11, 12, 13, 15
	Corporate governance and synergies <ul style="list-style-type: none"> • Business ethics • Human rights and stakeholder engagement • Risk management • Innovation management • Sustainable supply chain 	SDGs 1, 16, 17

Examples of key ESG efforts of portfolio companies

Sistema and its portfolio companies significantly contribute 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 industry 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 efforts of portfolio companies made in 2020. Traditional synergies between assets enabled many cross-sectional projects.

	Acc essi bility	Wel l- bein g	Sma rt envi ron men t
<p>Recognition of customer experience achievements</p> <p>MTS Bank received the Best Customer Service award at the 13th Bank of the Year ceremony organised by Banki.ru. Along with a highly efficient 24/7 help-desk service, the bank gained recognition for best customer service in social media.</p> <p>The National Association of Housing Developers recognised Etalon Group as Moscow's best property developer (with the highest reliability rating). In announcing its development strategy through 2024, Etalon Group identified "best customer service throughout the entire client pathway" among its core areas of focus, aiming to become the nation's No.1 in customer service, from project sourcing to delivery.</p>	D	D	
<p>New approaches to stakeholder engagement in estate planning</p> <p>In a tie-up with Citymakers, Etalon Group launched Generation Zil, an urban-planning media platform where Russian and international experts will discuss the future of the ZIL-Yug territory with Muscovites.</p> <p>The project offers analytical insights into the past of the district and plans for its development, a platform for expert discussions, and registrations for workshops of the urban planning lab. The final products of the public discussions and workshops, coupled with the territory's new master plan, will form the basis for the redevelopment of the new district in Moscow's south. Drawing on the philosophy of participatory design and the capabilities of the media platform, the new district has potential to evolve into a point of growth for urban environment and next-level urban infrastructure, with the best findings and solutions to be later rolled out nationwide.</p>	D	D	D
<p>International healthcare accreditation</p> <p>Medsi's CDC Krasnaya Presnya in Moscow received accreditation from the international nonprofit Joint Commission International (JCI), which evaluates healthcare providers for safety and service quality. CDC Krasnaya Presnya is Russia's fifth and Medsi's first health facility to receive a JCI certificate. The accreditation covers a set of parameters related to patient safety, customer needs, the quality of diagnostic and therapeutic services, professional skills, observance of the rights of patients and their families, the safety of buildings, and information security. The preparation for the accreditation involved an in-depth analysis of the clinic's last three years of operation, a 6-month comparative study, and the adoption of new targets, international analytical methods, and standardised processes.</p>	D	D	
<p>Digital solutions for remote health monitoring</p> <p>MTS offers digital solutions for remote health monitoring, controlling safety discipline, and minimising contagion risks at major industrial companies. The package includes three IoT features to monitor the health of staff and visitors: a non-contact thermometer, an automated telemedicine system for pre-travel (pre-shift) medical examinations, and an infra-red scanner. The solution specifically caters to large offices, major industrial, transport and logistical facilities, shopping malls, and high-hazard production sites. Although prompted by the COVID-19 pandemic, the solution is broad in the scale of applications and will also come in useful during flu season.</p> <p>Launched in December 2019, Medsi's referral centre for radiology and instrumental diagnostics makes it possible to make interpretation reports remotely, which translates into steadily high quality and optimal utilisation of both scanners and personnel, where patients and cases are distributed among doctors with relevant skill sets. The referral centre provides expert support to doctors dealing with challenging diagnostic cases, as well as local clinics lacking doctors of relevant specialisations. As of the end of 2020, the centre was networking with 18 clinics in four regions of Russia, having issued over 200 thsd remote interpretations of radiographic images and over a thousand of "second opinions". In 2021, the centre will expand its reach to 35 Medsi clinics nationwide, while also building relations with third-party healthcare providers.</p>	D	D	D
<p>Development of human capital</p> <p>Etalon Group signed a long-term cooperation agreement with Moscow State Construction University, involving research & development in the applications of new</p>		D	

<p>materials and technologies and the identification of scientific and technical challenges that require solving to drive the evolution of the construction industry and nurture young scientists. Although Segezha Group's new manufacturing factory, Galich Plywood Mill (GPM), is still in construction, its management is working hard as we speak to make sure that finding professionals locally won't be a problem. The company has signed a cooperation agreement with Galich School of Agriculture and Technology, whose brand-new Timber Processing Department will serve as a talent factory for the giant-in-the-making, offering graduates decent employment in their home town. GPM will provide practical training, including factory tours, mentorship, and internship programmes. With logging jobs included, the factory will need more than a thousand workers. The new production facility will free Galich from "one-factory town" status and generate a hefty tax revenue for the town's budget.</p> <p>Element Group has signed a cooperation agreement with the National Research University of Electronic Technology (MIET) to drive the scientific, research, and production potential of the Russian ME industry, create new skill sets, and promote sophisticated technical systems and industrial ecosystems. The agreement will serve to pool together expertise, organisational resources, and goodwill to cultivate new markets and enhance the efficiency of engineering solutions and deployments across a variety of industries, regions, and countries, under a raft of Russian governmental programmes, such as the National Strategy for Scientific and Technological Development, the Digital Economy Programme, and the Strategy for the Development of Russia's Electronic Industry.</p>		
<p>Cyber security to benefit customers</p> <p>Ozon has launched a programme of money rewards (a "bug bounty") for users who can detect any errors and vulnerabilities in the online platform. Just a handful of Russian companies are operating on their own software. Russia's first e-commerce player to launch a proprietary computer code, Ozon is planning to invest over RUB 3 mln in cooperation with cybersecurity researchers. The size of rewards to be paid for each identified "bug" will depend on the degree of its impact on the website's operation, the potential damage that such vulnerability may cause, and other factors.</p> <p>An e-commerce giant that services over 3.5 mln people every day, Ozon relies on the bug bounty to achieve 24/7 safety monitoring, a valuable addition to the efforts of the IT Security Lab currently employing more than 1,000 engineers.</p>	D	
<p>Digitalisation of waste collection and disposal</p> <p>With the support of the Russian Ecological Society, MTS launched a nationwide programme for the digitalisation of waste management. The solution helps local household services in that it tracks waste-bin fill-level, schedules pick-up routes, controls cleaning activities for timing and quality, and automates a full cycle of paperwork procedures, from billing to executing contracts to releasing payments to contractors. The programme ensures the timeliness and efficiency of waste pick-up and pricing transparency.</p> <p>The initiative also helps in preventing unauthorised dumping (via a high sensitivity to deviations) and so works towards a cleaner environment. Better route planning and saved trips translate into lower fuel consumption and a reduction in pollutant emissions. Looking ahead, the company plans to enhance the solution to predict landfill capacity and the workloads of recycling facilities. The solution has already been market-launched at four locations across Russia, with another seven geographies currently in the pilot-testing pipeline.</p>		D
<p>Zero-waste wood processing</p> <p>Segezha Group's paper-making arm Sokol Pulp & Paper Mill commissioned a pulp recycling line that produces dry lignosulfonates, flame retardants widely used in construction, metallurgy, drilling fluid production, dye production, etc.</p> <p>The automated hi-tech process is continuous and observes all applicable environmental requirements. The new industrial process creates more than 20 jobs.</p> <p>Another site of Segezha Group, Galich Plywood Mill (currently under construction), will incorporate an environmentally friendly 36 MW "power centre", which will serve as a permanent solution for waste disposal and a source of heat energy for the entire mill. The construction of the facility will be completed in 2021, even before the mill is commissioned.</p>		D

#COUNTRYWITHOUTVIRUS: fighting the COVID-19 pandemic in 2020

In the first weeks after the Russian government introduced a lockdown due to a high number of coronavirus cases, Sistema Group spent about RUB 1 bln to prevent the spread of the disease. The money was used to finance healthcare-

related measures, a launch of the manufacturing of personal protective equipment, the protection of employees' health, and support to the consumers of goods and services provided by the Group's companies.

In order to keep medical personnel healthy, efficient and motivated, a support centre was established for those involved in fighting the pandemic. The Centre accepts donations and humanitarian aid from individuals and organisations. The programme also involved the delivery of a more than RUB 1.7 bln worth of medical equipment, test kits, PPE, etc. to clinics and hospitals across the nation.

Assets	Initiatives
Medsi Group	<p>Medsi's flagship hospital in Otradnoye was converted into an infectious disease hospital and provided with all the necessary equipment, including 40 lung ventilators. The 100-bed facility has capacity for expansion. Effective from 01 April 2020, the hospital started admitting solely confirmed and suspected coronavirus patients.</p> <p>Medsi also offers testing for Covid-19 all across its chain of clinics, while Medsi doctors provide advice on how to stay safe in a pandemic and how to work towards a fast and full recovery if infected.</p> <p>The company set up a specialised Covid-19 centre to diagnose and prevent post-Covid pathologies.</p>
Sistema BioTech	<p>The biotech laboratory has developed several Covid-19 diagnostic kits allowing to detect the coronavirus with a 95%+ accuracy. Moscow clinics received about a mln of Sistema BioTech test kits of the type.</p>
Binnopharm Group	<p>The pharmaceutical company set up the trial testing and industrial production of the world's first registered coronavirus vaccine (in cooperation with the Russian Direct Investment Fund and the Gamaleya Scientific Research Institute of Epidemiology and Microbiology).</p> <p>Binnopharm Group doubled its output of products from the public "Covid-19 approval and recommendations list" in just nine months.</p>
MTS	<p>MTS provided its outlets and warehouses with abundant personal protective equipment, sanitisers, and other protection and disinfection material.</p> <p>To keep network capacity high and ensure that digital services suffer no interruptions despite the internet traffic surge amid the pandemic, the company increased network power, with a redundancy reserve for future periods.</p> <p>MTS has provided cloud resources for computer modeling of the new virus's pathogenic mechanism as part of Folding@Home, a global project aimed to help scientists find effective treatment for Covid-19.</p> <p>In just two days, the telco deployed a wi-fi network and amplified signal quality at Otradnoye Sanatorium, which was temporarily repurposed into a hostel for medical staff. MTS's retail arm provided tablets for no-contact doctor-patient communications.</p> <p>MTS also launched special options in customer support, such as:</p> <ul style="list-style-type: none"> • the possibility to use home internet and TV even with negative account balance; free traffic on popular educational platforms and culture & arts websites, and free access to MTS Fitness and MTS Library apps; • online consultations with Medsi doctors through the healthcare app SmartMed for just RUB 1, whatever your mobile operator; • the possibility to receive calls even when your phone is blocked for non-payment, and free calls to public coronavirus helplines and to air carriers; • senior support, with volunteers helping the elderly to learn how to get online doctor consultations, order grocery deliveries, and apply to the authorities online; • discounts and instalment plans for a variety of services and special solutions for corporate customers; • a free psychological helpline for those struggling with anxiety amid the pandemic (in collaboration with Moscow State Lomonosov University and the Russian Presidential Academy of National Economy and Public Administration).
Segezha Group	<p>Segezha Group donated RUB 1 mln to Lesosibirsk Infections Disease Hospital and RUB 18 mln to Segezha Central Hospital.</p> <p>The money went towards medical equipment, PPE, transport vehicles, and other materials and machines for fighting the coronavirus.</p>

LLC Vologda Textile	To meet society's needs during COVID-19 crisis, the textile factory specifically converted many of its production lines to increase the output of fabric by 5x, to 120,000 linear metres a month (an equivalent of 2 mln face masks). The company was put on the governmental "priority" list of businesses involved in the production of materials and components essential to the fight against the coronavirus pandemic.
Ozon	Throughout the lockdown period the marketplace host was meticulously monitoring prices for "hot products" in heightened demand due to the pandemic and subjected vendors caught exceeding their respective maximal allowed prices to harsh penalties. Just one day into the monitoring programme, the company blocked over 300 offers with surcharges ranging from 200% to 3,000%, both detected by Ozon and reported by customers. Ozon has upscaled its "delivery by the door" service launched back in 2019 and ramped up investment in a special information campaign to popularise contactless delivery methods.
Cosmos Hotel Group	Cosmos Hotel Group organised daily five-meals-a-day deliveries for the Medsi Otradnoye patients and personnel. On top of that, the company supplied the necessary household items such as bed linens, tableware, and small household appliances, and provided hotel accommodation for doctors.

Sistema Group stays committed to taking every necessary step to protect the health of people around and prevent the spread of the Covid-19 virus.

Social investing and operations of Sistema Charitable Foundation

Sistema Charitable Foundation (SCF) is one of the largest charitable foundations in Russia, specifically established as an operator for Sistema's social investments. SCF invests in education and professional development, supports cultural and educational projects, and provides social assistance through a platform specifically designed for the implementation and promotion of the Corporation's philanthropic initiatives.

In the middle of 2020, the Foundation adopted a new **Development Strategy through 2023**. The priority social investment initiative for Sistema is [Lift to the Future](#), a programme designed to develop career opportunities across the Group and address SDG No 4 in providing quality education accessible for all genders, ages, and geographies.

A novelty of 2020, the programme [Sistema in Support of Good Cause](#) combines all charity initiatives from across the Corporation on a single platform. SCF consolidated the data on all social projects in one database and launched a corporate-wide programme involving 80% of Sistema Group companies. Among the major charity endeavours of 2020 is the corporate-wide Green Marathon, which engaged 1,254 employees from 21 assets.

Digitalisation in the [Culture](#) category involved the launch of the first free-for-all online training course with Russian Museum, a 3D tour of the Lenino-Snegiri Military History Museum, and a video tour titled *Fashion for All Things Russian in the Era of Alexander III*, reaching a total viewership of some 34,000 people.

With support from Sistema Charitable Foundation, the State Russian Museum developed a sign language video guide app for the deaf and hard-of-hearing covering the expositions of the Mikhailovsky and Marmor Palaces in Saint Petersburg, one of the first national initiatives of the type. A programme of inclusivity projects for visitors with special needs was initiated by the Russian Museum and Sistema Charitable Foundation in 2019 with adapted museum tours and art therapy for people with disabilities and special needs.

SCF's 2020 [Social Projects](#) included the following:

- Local Sistema Fests in the Kostroma region, the Kurgan region (a grant contest) and the Republic of Altay (an online festival), reaching a total audience of some 3,500 individuals.
- Some 3,000 veterans received gifts for Victory Day.
- Over 400 children visited a New Year party in the Maly Theatre. Over 2,000 children from seven regions of Russia received gifts.
- 150 employees took part in the corporate sports day ("Games of the Heroes") as part of a new sports initiative
- Two working bees (clean-up events) were held among employees.

Although many offline activities had to be cancelled and/or put on hold due to the pandemic, the foundation did manage to carry out most of what it had planned.

SCF expenditure by project category	%
Education	40
Culture	15
Social Projects	30
Sistema Charity	1
Administrative expenses	14

Lift to the Future

10 years into the project, Lift to the Future is a truly nationwide programme providing career guidance, education, and career opportunities across the Group.

Over the course of 2019-2020, the foundation set up five engineering and 15 career guidance classrooms in seven cities. In 2020 Lift to the Future acquired an online incarnation. The digital Lift to the Future uniquely combines latest learning digitalisation trends with advanced analytics in addressing the projected labour-market needs of the future. The programme is free for all and accessible for high schoolers and undergraduates across Russia. Among distinctive features of Lift to the Future are its unique expert-created practical content, direct contacts with potential future employers, and focus on both hard and soft skills.

Since relaunch, the platform has received more than 80,000 new registered users and uploaded 12 career guidance videos, 40 training courses, and more than 400 vacancy listings for 12 companies across the Group. The digital platform will serve to create a large educational community with open access to training programmes, career aptitude tests, a library of professions, and job listings.

4. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

SISTEMA PJSFC AND SUBSIDIARIES

Consolidated Financial Statements for 2020
and Independent Auditor's Report

SISTEMA PJSFC AND SUBSIDIARIES

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SISTEMA PJSFC AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Sistema Public Joint Stock Financial Corporation and its subsidiaries (the “Group”) as of 31 December 2020, and the results of its operations, cash flows and changes in equity for 2020, in compliance with International Financial Reporting Standards (“IFRSs”).

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance;
- Making judgements and assumptions that are reasonable and prudent;
- Stating whether IFRSs have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group’s ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRSs;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for 2020 were approved by:

Vladimir Chirakhov
Chief Executive Officer (President)

6 April 2021


Vladimir Travkov
Vice President for Finance (CFO)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Sistema Public Joint Stock Financial Corporation

Opinion

We have audited the consolidated financial statements of Sistema Public Joint Stock Financial Corporation ("Sistema") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>Diversified structure of the Group</p> <p>Sistema is a holding company that owns mainly controlling stakes in its subsidiaries, whose results are included in the consolidated financial statements. The large number of entities of the Group and diversified nature of their operations require the Group's management to design and implement group wide controls, including monitoring and control activities to ensure timely, reliable and complete financial information received from its subsidiaries.</p> <p>Audit procedures regarding the financial information of the subsidiaries included in the consolidated financial statements may be performed by us or by the auditors of those subsidiaries ("components") acting under our supervision. As the group auditor, we are fully responsible for conducting the audit and forming our audit opinion.</p> <p>We focused on this matter because the diversified structure of the Group has a significant impact on our audit approach, and the nature and extent of our involvement in component auditors' work is significant.</p>	<p>We obtained an understanding of the group-wide controls over the consolidation process and the preparation of the consolidated financial statements, including instructions of the Group's management to its subsidiaries.</p> <p>Our audit approach was developed considering the Group's diversified structure and associated risks of material misstatement of the consolidated financial statements. It included determination of necessary procedures and audit scope in relation to each component's financial information, depending on its significance for the Group and identification of risks of misstatement of their financial information. The nature and extent of our involvement in the component auditors' work was also dependent on our assessment of their professional competence in the context of allocated scope.</p> <p>To obtain reasonable assurance of fair presentation of the components' financial information, we assessed risks and determined audit procedures performed by the component auditors, and evaluated the results of the procedures. This included a critical analysis of the component auditors' documentation, discussion of significant matters with the component auditors, component or Group management and, if applicable, designing and performing additional audit procedures.</p> <p>We also performed procedures with respect to consolidation adjustments to the financial information of the subsidiaries in order to assess their nature, completeness and accuracy.</p>
<p>Significant non-routine transactions</p> <p>In light of its strategy, the Group regularly conducts complex acquisitions and disposals, debt restructurings and other significant non-routine transactions.</p> <p>We focus on these matters because the appropriate accounting treatment of such transactions is often complex and requires exercise of significant judgement, in particular, in determining whether or not the Group has control over its investees, and whether or not the Group has assumed obligations to third-party investors.</p>	<p>Our procedures included reviewing legal documents to fully understand the terms and conditions of each transaction and therefore the associated accounting implications and evaluating documentation of management's positions on how IFRSs were applied to the transactions.</p> <p>In relation to the previously mentioned specific transactions, we analysed legal documents and evaluated the appropriateness of management's conclusions on whether or not the Group has control over the investees in the context of investee's governance structure, size of the Group's shareholding relative to other shareholders, dispersion of other vote holdings and other factors</p>

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>In the current period, this included, for example, the Group's investment in Megapolis-Invest and provision of equity financing for the acquisition of Real hypermarkets. See Note 17 and Note 38 to the consolidated financial statements.</p>	<p>relevant to determining whether the Group has current ability to direct relevant activities of the investees.</p> <p>We also assessed other aspects of the mentioned transactions, evaluated management's conclusions on accounting for any financial assets and liabilities stipulated by transaction documents, and, where relevant, assessed the appropriateness of fair value measurements related to the investments in these investees.</p>

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report and quarterly report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report and quarterly report are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report and quarterly report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


Vladimir Biryukov
Engagement partner

6 April 2021



The Entity: Sistema Public Joint Stock Financial Corporation

Certificate of state registration № 025.866, issued by the Moscow Registration Chamber on 16.07.1993

Primary State Registration Number: 1027700003891

Certificate of registration in the Unified State Register № 77 01122220 of 11.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 46

Address: building 1, 13 Mokhovaya st., Moscow, Russia, 125009

Audit Firm: AO Deloitte & Touche CIS

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(In millions of Russian Rubles, except for per share amounts)

	Notes	2020	2019
Continuing operations			
Revenue	8	691,626	654,303
Cost of sales		(330,055)	(300,123)
Selling, general and administrative expenses		(134,176)	(128,418)
Depreciation and amortisation		(120,492)	(114,959)
Impairment of long-lived assets	9	(5,621)	(11,637)
Impairment of financial assets	10	(2,956)	(6,940)
Taxes other than income tax		(4,134)	(4,962)
Share of the profit or loss of associates and joint ventures, net	17	(405)	(4,425)
Profit on disposal of other assets	18	11,142	-
Other income		14,829	11,486
Other expenses		(10,354)	(7,497)
Operating income		109,404	86,828
Finance income		5,330	5,921
Finance costs		(71,468)	(77,560)
Currency exchange (loss)/gain		(18,643)	13,611
Changes in the fair value of financial instruments		21,883	(11,268)
Profit before tax		46,506	17,532
Income tax expense	11	(8,341)	(27,003)
Profit/(loss) from continuing operations		38,165	(9,471)
Discontinued operations			
Profit from discontinued operations	5	3,122	67,079
Net profit for the year		41,287	57,608
Attributable to:			
Shareholders of Sistema PJSFC		10,216	28,597
Non-controlling interests		31,071	29,011
		41,287	57,608
Profit/(loss) per share (basic and diluted), in Russian Rubles:	30		
From continuing operations		0.91	(3.56)
From continuing and discontinued operations		1.09	3.02

The accompanying notes are an integral part of these consolidated financial statements.

Vladimir Chirakov
Chief Executive Officer (President)

6 April 2021

Vladimir Travkov
Vice President for Finance (CFO)

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (In millions of Russian Rubles)

	<u>2020</u>	<u>2019</u>
Net profit for the year	41,287	57,608
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Effect on sale of VF Ukraine	-	7,947
Currency translation gain/(loss) on foreign operations in subsidiaries	12,320	(7,246)
Currency translation loss on foreign operations in associates and joint ventures	(98)	(207)
Net fair value loss on financial instruments	-	(197)
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Unrecognised actuarial gain	-	211
Other comprehensive income, net of tax	12,222	508
Total comprehensive income	<u>53,509</u>	<u>58,116</u>
Attributable to:		
Shareholders of Sistema PJSFC	21,517	24,844
Non-controlling interests	<u>31,992</u>	<u>33,272</u>
Total comprehensive income	<u>53,509</u>	<u>58,116</u>

The accompanying notes are an integral part of these consolidated financial statements.

Vladimir Chirakov
Chief Executive Officer (President)

6 April 2021


Vladimir Travkov
Vice President for Finance (CFO)

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In millions of Russian Rubles)

	Notes	31 December 2020	31 December 2019
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	13	427,311	400,083
Investment property	14	12,649	13,660
Goodwill	15	57,204	55,388
Other intangible assets	16	99,749	91,138
Right-of-use assets	26	153,103	154,865
Investments in associates and joint ventures	17	73,856	79,917
Deferred tax assets	11	41,402	26,752
Other financial assets	19	158,629	116,973
Deposits in banks		22	82
Other assets		22,916	19,438
Total non-current assets		1,046,841	958,296
<i>Current assets</i>			
Inventories	21	46,449	45,329
Contract assets	8	6,306	6,474
Accounts receivable	22	56,458	54,703
Advances paid and prepaid expenses		15,302	14,038
Current income tax assets		5,449	4,711
Other taxes receivable		17,636	19,259
Other financial assets	19	104,573	87,138
Deposits in banks		1,755	1,659
Restricted cash	20	4,310	5,689
Cash and cash equivalents		113,693	63,669
Other assets		2,544	2,562
Total current assets		374,475	305,231
Total assets		1,421,316	1,263,527

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) (In millions of Russian Rubles)

	Notes	31 December 2020	31 December 2019
Equity and liabilities			
<i>Equity</i>			
Share capital	23	869	869
Treasury shares	23	(3,029)	(5,971)
Additional paid-in capital		75,279	75,045
Accumulated loss		(27,025)	(36,020)
Accumulated other comprehensive income	24	18,753	7,452
Equity attributable to shareholders of Sistema		64,847	41,375
Non-controlling interests		22,482	24,353
Total equity		87,329	65,728
<i>Non-current liabilities</i>			
Loans and borrowings	25	640,570	491,416
Lease liabilities	26	147,803	149,565
Bank deposits and liabilities	27	4,199	6,051
Deferred tax liabilities	11	34,769	36,172
Provisions	29	7,388	5,748
Other financial liabilities	28	3,745	3,526
Other liabilities		6,774	5,607
Total non-current liabilities		845,248	698,085
<i>Current liabilities</i>			
Loans and borrowings	25	83,391	129,454
Lease liabilities	26	17,772	16,060
Accounts payable		102,148	89,203
Bank deposits and liabilities	27	195,346	160,511
Income tax payable		1,029	921
Other taxes payable		15,540	16,065
Dividends payable		3,325	15,569
Provisions	29	16,612	14,910
Liability to Rosimushchestvo		-	7,231
Contract liabilities and other liabilities	8	49,844	46,321
Other financial liabilities	28	3,732	3,469
Total current liabilities		488,739	499,714
Total equity and liabilities		1,421,316	1,263,527

The accompanying notes are an integral part of these consolidated financial statements.

Vladimir Chirakhov
Chief Executive Officer (President)

6 April 2021

Vladimir Travkov
Vice President for Finance (CFO)

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	Accumulated loss	Accumulated other comprehensive (loss)/income		Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
					Currency reserve	Other			
1 January 2019	869	73,375	(4,759)	(63,572)	10,224	980	17,117	45,911	63,028
Net profit for the period	-	-	-	28,597	-	-	28,597	29,011	57,608
Effect on sale of VF Ukraine	-	-	-	-	3,974	-	3,974	3,973	7,947
Other comprehensive (loss)/income, net of tax	-	-	-	-	(7,664)	(62)	(7,727)	288	(7,439)
Total comprehensive income/(loss)	-	-	-	28,597	(3,690)	(62)	24,844	33,272	58,116
Sale of own shares	-	(238)	430	-	-	-	193	-	193
Purchase of own shares	-	-	(1,642)	-	-	-	(1,642)	-	(1,642)
Acquisition and sale of subsidiaries	-	-	-	-	-	-	-	(410)	(410)
Settlements under long-term motivation programs	-	352	-	-	-	-	352	436	788
Capital transactions of subsidiaries (Note 7)	-	1,556	-	-	-	-	1,556	(14,655)	(13,099)
Dividends declared by Sistema PJSFC (Note 23)	-	-	-	(1,045)	-	-	(1,045)	-	(1,045)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(40,201)	(40,201)
31 December 2019	869	75,045	(5,971)	(36,020)	6,534	918	41,375	24,353	65,728
1 January 2020	869	75,045	(5,971)	(36,020)	6,534	918	41,375	24,353	65,728
Profit for the period	-	-	-	10,216	-	-	10,216	31,071	41,287
Other comprehensive income/(loss), net of tax	-	-	-	-	11,400	(99)	11,301	921	12,222
Total comprehensive income/(loss)	-	-	-	10,216	11,400	(99)	21,517	31,992	53,509
Accrued compensation under long-term motivation programs	-	431	2,663	-	-	-	3,094	-	3,094
Settlements under long-term motivation programs	-	32	-	-	-	-	32	528	560
Capital transactions of subsidiaries (Note 7)	-	(229)	-	-	-	-	(229)	(8,194)	(8,423)
Sale of own shares	-	-	279	-	-	-	279	-	279
Dividends declared by Sistema PJSFC (Note 23)	-	-	-	(1,221)	-	-	(1,221)	-	(1,221)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(26,197)	(26,197)
31 December 2020	869	75,279	(3,029)	(27,025)	17,934	819	64,847	22,482	87,329

The accompanying notes are an integral part of these consolidated financial statements.

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (In millions of Russian Rubles)

	2020	2019
Cash flows from operating activities		
Net profit for the year	<u>41,287</u>	<u>57,608</u>
<i>Adjustments for:</i>		
Depreciation and amortisation	120,492	135,070
Share of the profit or loss of associates and joint ventures, net	405	4,398
Profit from sales of stakes in associates and joint ventures	(3,368)	(828)
Finance income	(5,330)	(6,088)
Finance costs	71,468	83,516
Changes in the fair value of financial instruments	(21,798)	11,268
Income tax expense	8,341	28,227
Currency exchange loss/(gain)	18,621	(17,329)
Gain from discontinued operations	(2,880)	(53,986)
Profit on disposal of property, plant and equipment	(3,000)	(3,029)
Profit on disposal of other assets	(11,142)	-
Expected credit losses allowance on loans to customers	9,601	4,330
Non-cash compensation to employees	3,933	1,601
Impairment of long-lived assets	5,621	11,639
Impairment of financial assets	2,956	6,921
Other non-cash items	2,332	4,406
	<u>237,539</u>	<u>267,724</u>
<i>Movements in working capital:</i>		
Bank loans to customers and interbank loans due from banks	(36,748)	(33,778)
Bank deposits and liabilities	27,777	36,062
Restricted cash	(853)	2,925
Financial assets at fair value through profit or loss	(5,227)	4,125
Accounts receivable	(6,572)	(9,950)
Advances paid and prepaid expenses	(17,030)	781
Other taxes receivable	250	(1,337)
Inventories	(15,327)	(6,503)
Accounts payable	6,540	2,590
Subscriber prepayments	(143)	384
Other taxes payable	(195)	(2,652)
Advances received and other liabilities	34,607	9,830
Fines and penalties related to investigation into former operations in Uzbekistan	-	(55,607)
Interest paid	(70,302)	(83,064)
Income tax paid	(23,706)	(31,540)
Dividends received from associates and joint ventures	6,217	6,279
Net cash provided by operating activities	<u>136,827</u>	<u>106,269</u>

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) (In millions of Russian Rubles)

	2020	2019
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(94,123)	(92,178)
Proceeds from sale of subsidiaries, net of cash	2,988	59,328
Proceeds from sale of property, plant and equipment	6,661	6,598
Payments to obtain and fulfill contracts	(5,355)	(4,693)
Payments for purchases of intangible assets	(33,655)	(25,444)
Payments for businesses, net of cash acquired	(3,410)	(2,775)
Payments for investments in associates and joint ventures	(18,909)	(17,417)
Proceeds from sale of investments in affiliated companies	25,808	15,301
Payments for financial assets, long-term	(15,190)	(20,825)
Proceeds from sale of financial assets, long-term	7,236	5,367
Proceeds from disposal of other assets	5,104	-
Payments for financial assets, short-term	(5,294)	(10,436)
Proceeds from sale of financial assets, short-term	16,728	36,174
Interest received	4,338	5,354
Other	(982)	1,720
Net cash used in investing activities	(108,055)	(43,926)
Cash flows from financing activities		
Proceeds from borrowings	412,392	310,672
Principal payments of loans and borrowings	(318,492)	(342,138)
Debt issuance costs	(113)	(138)
Principal payments of lease liabilities	(17,094)	(24,303)
Acquisition of non-controlling interests in existing subsidiaries	(17,169)	(22,751)
Proceeds from transactions with non-controlling interests	394	89
Dividends paid	(39,661)	(30,124)
Proceeds from sale of treasury shares	-	233
Repurchase of own shares	-	(1,642)
Net cash provided/(used in) by financing activities	20,257	(110,102)
Effect of foreign currency translation on cash and cash equivalents	995	(2,755)
Net increase/(decrease) in cash and cash equivalents	50,024	(50,514)
Cash and cash equivalents at the beginning of the year	63,669	114,183
Cash and cash equivalents at the end of the year	113,693	63,669

The accompanying notes are an integral part of these consolidated financial statements.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles, unless otherwise stated)

1. GENERAL

Sistema Public Joint Stock Financial Corporation or Sistema PJSFC (the “Company”, together with its subsidiaries, the “Group”) invests in, and manages a range of companies which operate in various sectors of economy, including telecommunications, retail, high technology, finance, pulp and paper, utilities, pharmaceuticals, healthcare, agriculture, real estate and tourism. The Company and the majority of its subsidiaries are incorporated in the Russian Federation (“RF”). The Company’s registered address is building 1, 13 Mokhovaya street, 125009, Moscow.

The controlling shareholder of the Company is Vladimir Evtushenkov. Minority holdings are held by certain top executives and directors of the Company. The shares are listed on the London Stock Exchange in the form of Global Depository Receipts (“GDRs”) and on the Moscow Exchange.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on the assumption that the Group will continue to operate in the foreseeable future. As of 31 December 2020 short-term liabilities of the Group exceeded its current assets by RUB 114,264 million. The Group determines that it generates sufficient operating cash flow and has sufficient cash available to repay the Group’s current liabilities, including, if necessary, unused credit facilities of RUB 428,363 million. The cash flows forecast prepared by the management of the Group for a period of at least twelve months after the end of the reporting period demonstrates the Group’s ability to pay off current liabilities within the terms set by the contractual obligations.

These consolidated financial statements were approved by the Company’s Chief Executive Officer (President) and authorised for issue on 6 April 2021.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

This note sets out significant accounting policies that relate to the Group’s consolidated financial statements as a whole and describes the critical accounting judgements that management has identified as having a potentially material impact on the Group’s consolidated financial statements. When an accounting policy is generally applicable to a specific note to the accounts, the policy is described within that note.

Summary of significant accounting policies

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company and their subsidiaries. Control is achieved when the Company:

- Has the power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles, unless otherwise stated)

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income is attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests. Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of the Group and the majority of its subsidiaries operating in Russia is the Russian Ruble ("RUB"). The presentation currency of the consolidated financial statements of the Group is also the Russian Ruble.

Sources of estimation uncertainty

In the application of the Group's accounting policies management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles, unless otherwise stated)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Lease liabilities. The Group uses management's judgement to estimate:

- **Lease term.** The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal options. The Group also considers the cases where the Group is reasonably certain of not exercising early termination options. When assessing such options management assesses residual useful life of the asset located on the leased site, investment strategy of the Group and relevant investment decisions and duration of the renewal and early termination options.
- **Discount rate.** When calculating the present value of the lease payments the Group uses the incremental borrowing rate. Discount rate is determined for each asset based on the incremental borrowing rate for the respective company of the Group at the inception of the contract.

Stage of completion of project type contracts. The Group uses management's judgement to estimate stage of completion to recognize revenue under project type contracts. This estimate is based on costs forecasts and calculations and historical experience on similar projects.

Impairment of financial assets. The Group regularly reviews its financial assets to assess for impairment. The Group uses management's judgement to estimate allowance for Expected Credit Losses (ECL) for financial assets at amortised cost. ECL are measured in a way that reflects the unbiased and probability-weighted amount, the time-value of money and reasonable and supportable information at the reporting date pertaining to past events, current conditions and forecasts of future economic conditions.

ECL are measured as probability-weighted present value of all cash shortfalls over the expected life of each financial asset. For receivables from financial services, ECL are mainly calculated using a statistical model based on three major risk parameters: probability of default, loss given default and exposure of default.

The estimation of these risk parameters incorporates all available relevant information, not only historical and current loss data, but also reasonable and supportable forward-looking information reflected by the future expectation factors. This information includes macroeconomic factors (unemployment rate, inflation rate) and forecasts of future economic conditions. Significant changes in risk parameters could affect the estimated amount of ECL.

Impairment of long-lived assets. IFRS requires management to perform impairment tests annually for indefinite lived assets and, for finite lived assets, if events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment testing requires management to judge whether the carrying value of assets can be supported by the higher of the fair value of the asset or the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires assumptions to be made in respect of highly uncertain matters.

Recoverable amount of cash-generating units is estimated based on value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles, unless otherwise stated)

The growth rate in the post-forecast period is determined on the basis of the nominal GDP growth rate for each country and adjusted for the specific risk inherent in each generating unit. The discount rate used to calculate value in use is the weighted average cost of capital, calculated on the basis of the average capital structure for the economic sector. The cost of equity is determined on the basis of the risk-free rate for long-term government bonds issued in the country in which the generating unit operates. These rates are adjusted for the risk premium reflecting the risk of investing in ordinary shares and the specific risk of each cash-generating unit.

Deferred tax assets. Deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The valuation of probability is based on management estimation of future taxable profit.

Fair value measurements. Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Where the fair value of assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. Information about assets and liabilities measured at fair value on recurring basis is disclosed in Note 33.

Useful lives of property, plant and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortisation or depreciation charges. Technological developments are difficult to predict and management views on the trends and pace of development may change over time. The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Provisions and contingencies. The Group is subject to various legal proceedings, disputes, claims and regulatory reviews related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable. See Notes 29 and 38 for further information.

Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

The Group regularly carries out complex structured transactions for the acquisition and disposal of shares in subsidiaries, debt restructuring and financing arrangements. Determining the accounting treatment of such transactions is often complex and requires management's judgment, in particular in determining whether or not the Group has control over the investees, and whether or not the Group has obligations to third-party investors. In 2020, transactions in respect of which management has made significant judgments in these areas include the Group's investment in Megapolis-Invest (Note 17) and a transaction to provide equity financing for the acquisition of Real hypermarkets (Note 38).

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*Amounts in millions of Russian Rubles, unless otherwise stated*)

Standards, interpretations and amendments adopted in current year

In 2020 the Group adopted the following standards, interpretations and amendments:

Amendments to References to the Conceptual Framework in IFRS Standards	Conceptual Framework in IFRS standards
Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform and its Effects on Financial Reporting
Amendments to IFRS 16	Lease concessions related to the COVID-19 pandemic

These IFRS pronouncements do not have a material impact on the Group's consolidated financial statements.

Standards, interpretations and amendments in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16	Basic interest rate reform and its impact on the financial statements (Phase 2) 1)
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract 2)
Amendments to IAS 16	Property, Plant and Equipment—Proceeds before Intended Use ²⁾
Amendments to IFRS 3	Reference to the conceptual framework ²⁾
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture ²⁾
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³⁾
IFRS 17 and amendments to IFRS 17	Insurance Contracts ³⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴⁾
Amendments to IAS 8	Definition of Accounting Estimate ³⁾
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ³⁾

1) Effective for annual reporting periods from 1 January 2021, early application permitted

2) Effective for annual reporting periods from 1 January 2022, early application permitted

3) Effective for annual reporting periods from 1 January 2023, early application permitted

4) The effective date is postponed indefinitely, early application is allowed

The Group does not expect that the adoption of these standards will have a material impact on the Group's financial statements in future periods.

4. SEGMENT INFORMATION

As a diversified holding corporation, the Company invests in a range of businesses, which meet its investment and return criteria. The Company has determined that the chief operating decision maker ("CODM") is Management Board. Information reported to the Management Board for the purpose of resource allocation and the assessment of segment performance is focused on each individual business. No operating segments have been aggregated in arriving at the reportable segments of the Group. The Group's reportable segments are businesses that offer different products and services and are managed separately.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles, unless otherwise stated)

The Group's reportable segments are Mobile TeleSystems PJSC ("MTS"), Segezha Group JSC (formally Segezha Group LLC) ("Segezha Group"), Medsi Group JSC ("Medsi"), Ozon Holdings PLC ("Ozon") and Corporate. MTS is one of the leading telecommunications group in Russia and the CIS, offering mobile and fixed voice, broadband, internet access, pay TV, financial services, as well as content and entertainment services in Russia and Armenia. Segezha Group is a Russian vertically integrated forest industry holding that performs a full cycle of timber harvesting and advanced wood processing operations. Medsi is the largest federal private network of medical and preventive institutions in the country, providing a full range of services for the prevention, diagnosis and treatment of diseases, as well as rehabilitation services for children and adults. Ozon is one of the largest Russian e-commerce internet platforms. Corporate segment comprises the Company and entities, which hold and manage the Company's interests in its subsidiaries, joint ventures and associates. The Other category includes other operating segments including East-West United Bank (EWUB), Sitronics, RTI, Agroholding "Steppe" (Steppe), Sistema Venture Capital, Hospitality assets, Bashkirian Power Grid Company ("BPGC"), Business Nedvizhimost, Pharmaceutical assets (Alium JSC (formally OBL Pharm) and "Sintez"), Megapolis-Invest and Etalon Group, none of which meets the quantitative thresholds for determining reportable segments.

The Group revised the composition of reportable segments that do not meet individual quantitative thresholds. The segment information for previous periods has been adjusted retrospectively.

The accounting policies of the operating segments are the same as those described in the Significant accounting policies, judgements, estimates and assumptions (Note 3) and other relevant notes. The Group's CODM evaluates performance of the segments on the basis of operating income and OIBDA. OIBDA is defined as operating income before depreciation and amortisation of property, plant and equipment, intangible assets and right-of-use assets.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment for 2020 and 2019:

	External revenues		Inter-segment revenue		Segment operating income/(loss)	
	2020	2019	2020	2019	2020	2019
MTS	491,030	466,948	3,896	3,657	111,233	113,884
Segezha Group	68,982	58,428	5	67	11,185	8,333
Medsi	25,011	22,308	30	14	3,704	2,848
Ozon	-	-	-	-	(8,428)	(7,834)
Corporate	3,619	2,435	1,289	906	(14,262)	(18,781)
Total reportable segments	588,642	550,119	5,220	4,644	103,432	98,450
Other	102,984	104,184	8,799	3,005	7,530	(5,754)
	691,626	654,303	14,019	7,649	110,962	92,696
Inter-segment eliminations					(1,558)	(5,868)
Operating income					109,404	86,828
Finance income					5,330	5,921
Finance costs					(71,468)	(77,560)
Currency exchange (loss)/gain					(18,643)	13,611
Changes in the fair value of financial instruments					21,883	(11,268)
Profit before tax					46,506	17,532

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The following is an analysis of the Group's depreciation and amortisation, additions to non-current assets (comprising property, plant and equipment, investment property, other intangible assets and right-of-use assets), impairment of certain long-lived assets and other non-cash items (comprising impairment of current assets and financial assets) by reportable segment:

	Additions to non-current assets		Depreciation and amortisation		Impairment of non-current assets		Other non-cash items	
	2020	2019	2020	2019	2020	2019	2020	2019
MTS	135,646	129,795	100,205	96,279	2,023	(148)	2,469	3,427
Segezha Group	16,805	5,681	6,273	5,660	20	(477)	119	32
Medsi	5,414	4,318	2,708	2,411	-	-	-	185
Corporate	1,651	213	200	399	-	2,624	(700)	136
Other	12,899	18,915	11,106	10,210	3,578	9,638	1,068	3,160
	172,415	158,922	120,492	114,959	5,621	11,637	2,956	6,940

The following is an analysis of the Group's segment assets and liabilities by reportable segment:

	31 December 2020	31 December 2019
Segment assets		
MTS	932,281	838,327
Segezha Group	88,572	75,597
Medsi	39,160	30,842
Corporate	182,515	153,675
Total reportable segments	1,242,528	1,098,441
Other	288,360	262,210
Total segment assets	1,530,888	1,360,651
Inter-segment eliminations	(109,572)	(97,124)
Consolidated total assets	1,421,316	1,263,527
Segment liabilities		
MTS	886,609	787,613
Segezha Group	80,549	61,998
Medsi	17,643	11,625
Corporate	213,340	215,741
Total reportable segments	1,198,141	1,076,977
Other	231,982	206,819
Total segment liabilities	1,430,123	1,283,796
Inter-segment eliminations	(96,136)	(85,997)
Consolidated total liabilities	1,333,987	1,197,799

As of 31 December 2020 and 2019 the carrying amount of investment in MTS Belarus, an associate of MTS, included in its reportable segment assets was RUB 5,124 million and RUB 4,502 million, respectively. The carrying amount of investment in Ozon, included in assets of Corporate, as of 31 December 2020 and 2019 was RUB 12,584 million and RUB 11,854 million, respectively. The carrying amount of investments in other associates and joint ventures representing separate operating segments are included in the assets of Corporate.

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The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		Non-current assets	
	2020	2019	31 December 2020	31 December 2019
Russia	615,900	581,399	741,297	709,365
Other	75,726	72,904	21,348	16,753
	691,626	654,303	762,645	726,118

5. DISCONTINUED OPERATIONS

The Group enters into transactions to sell shares of subsidiaries, which result in the Group losing control over its subsidiaries. The results of subsidiaries disposed of during the reporting period are included in the consolidated financial statements prior to the date of loss of control over subsidiaries. Information on the sale of shares in subsidiaries, representing separate major lines of business or geographical areas of operations, and their impact on the Group's results is provided below.

The amounts recognised in profit from discontinued operations are as follows:

	2020	2019
Gain/(loss) from disposal of VF Ukraine	2,101	(5,499)
Currency translation gain/(loss) on disposal of VF Ukraine	127	(62)
Change in the fair value of contingent consideration for VF Ukraine	645	-
VF Ukraine results prior to disposal date	-	6,093
Profit on Microelectronics assets disposal	-	4,144
Microelectronics assets results prior to disposal date	-	(355)
Gain on disposal of Leader Invest	-	20,248
Leader Invest results prior to disposal date	-	(317)
Currency translation gain on SEC penalties	-	3,443
Other disposals	249	(472)
Gain on disposal of Detsky Mir	-	35,094
Detsky Mir results before disposal date	-	4,762
Profit from discontinued operations	3,122	67,079
Attributable to:		
Shareholders of Sistema PJSFC	1,650	62,363
Non-controlling interests	1,472	4,716

Leader Invest – In February 2019, the Group sold 51% of the stake of JSC Leader Invest to Etalon Group for RUB 15.2 billion. In August 2019, an agreement was signed to sell the remaining 49% stake for RUB 14.6 billion. In February 2019, the Group acquired 25% stake in Etalon Group for USD 226.6 million. Given the governance structure of Etalon Group, the Group's share relative to other shareholders, its dispersion and other factors the Group does not have the ability to direct relevant activities of Etalon Group and thus does not have control over Etalon Group as of 31 December 2020 and 2019.

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Detsky mir – In November 2019, as a result of secondary public offering, Sistema PJSFC sold 18.7% of Detsky mir equity capital for RUB 12.5 billion. As a result of the transaction, the share of Sistema PJSFC in the authorized capital of the company derived to 33.4%. Given the governance structure of Detsky mir, the Group's share relative to other shareholders, its dispersion and other factors the Group did not have the ability to direct relevant activities of Detsky mir and thus Detsky mir was not controlled by the Group as of 31 December 2019. As of 31 December 2019 the remaining stake in Detsky mir was reflected in the Group financial statements as an investment in an associate. The carrying value of the investment at the end of 2019 amounted to RUB 21.8 billion.

During 2020 as a result of several transactions the Group sold its remaining share in Detsky mir (Note 17).

VF Ukraine – In November 2019, the Group signed an agreement to sell Preludium BV, which owned 100% of the authorized capital of VF Ukraine PrJSC, PTT Telecom Kiev, VF Retail LLC and ITSF LLC, which carried out the Group's activities in Ukraine. The deal took place in December 2019. The fair value of the consideration received amounted to RUB 44,386 million, including cash of RUB 41,567 million, contingent consideration of RUB 2,045 million in case of achievement of certain indicators in the periods from 2019 to 2022 and deferred payment of RUB 773 million no later than 1 September 2020, representing equivalent of USD 12 million as of the date of payment. The deferred consideration was settled in cash by the purchaser in September 2020 in amount of RUB 897 million. The fair value of the contingent consideration was RUB 2,631 million as at 31 December 2020. In June 2020, the Group and the buyer agreed on the amount of the additional cash payment calculated on the basis of the final financial statements at the date of sale, and the Group recognised additional income from the sale in the amount of USD 28 million (RUB 2,101 million at the date of receipt in September 2020) as part of profit from discontinued operations in the consolidated statement of profit or loss.

Contribution of microelectronics assets into a joint venture – In May 2019, the authorized capital of LLC Element was increased as a result of the contributions of assets by participants. RTI JSC contributed microelectronics assets with a fair value of RUB 8.3 billion.

The results of the companies are presented as part of discontinued operations in the accompanying consolidated profit and loss statement for all periods presented.

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The results of the disposed subsidiaries included in discontinued operations in the consolidated statements of profit or loss for 2020 and 2019 are as follows:

	Microelectronics					
	assets 2019	Leader Invest 2019	Detsky mir 2019	VF Ukraine 2019	Other 2020	Other 2019
Revenue	4,461	1,444	111,221	36,675	1,223	2,558
Expenses	(4,800)	(1,794)	(105,756)	(28,564)	(1,033)	(3,034)
(Loss)/profit before income tax	(339)	(350)	5,465	8,111	190	(476)
Income tax (expense)/benefit	(16)	33	(703)	(2,018)	8	4
Results for the period/up to disposal date	(355)	(317)	4,762	6,093	198	(472)

Cash flows from discontinued operations included in the consolidated statements of cash flows for 2020 and 2019 are as follows:

	Microelectronics					
	assets 2019	Leader Invest 2019	Detsky mir 2019	VF Ukraine 2019	Other 2020	Other 2019
Net cash provided by/(used in) operating activities	1,362	(180)	10,463	17,343	(318)	(311)
Net cash (used in)/provided by investing activities	(248)	-	(3,050)	(13,046)	15	-
Net cash provided by/(used in) financial activities	8,016	247	(9,362)	(1,114)	366	(320)
Total net increase/(decrease) in cash and cash equivalents	9,130	67	(1,949)	3,183	63	9

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6. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method, with the identifiable assets acquired and the liabilities assumed recognised at their fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the acquisition occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which could be up to one year from the acquisition date, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

Business combinations in 2020

The information on business combinations which took place in 2020 is summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
Medsi Izhevsk	Healthcare services	March	100%	Medsi	130
Karelian Wood Company	Forest procurement	January	100%	Segezha	950
Other logging companies	Forest procurement	January-April	75.02%-100%	Segezha	74
Stopol LLC	Telecommunications	June	100%	MTS	321
Agriculture businesses	Agriculture	May	100%	Agroholding Steppe	4,736
Total					<u>6,211</u>

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The following table summarizes the amounts of the identifiable assets acquired and liabilities assumed relating to such acquisitions at the acquisition date:

	Medsi Izhevsk	Karelian Wood Company	Other logging companies	Stopol LLC	Agriculture businesses
Total consideration satisfied by:					
Cash consideration	130	829	74	312	2,111
Equity instruments of subsidiary	-	-	-	-	2,625
Fair value of contingent consideration arrangement	-	121	-	9	-
	130	950	74	321	4,736
Recognised amounts of identifiable assets acquired and liabilities assumed:					
Property, plant and equipment	431	704	1	2	2,382
Lease rights	-	1,084	185	-	3,028
Other non-current assets	10	350	-	-	-
Other current assets	6	712	4	300	1,088
Current liabilities	(196)	(287)	(49)	(263)	(976)
Lease liabilities	-	(428)	(92)	-	(1,475)
Other non-current liabilities	(19)	(197)	-	-	(1,000)
Net assets	232	1,938	49	39	3,047
Non-controlling interest	-	-	4	-	-
Goodwill	-	-	21	282	2,425
Bargain purchase gain	(102)	(988)	-	-	(736)

The excess of the consideration transferred over the value of the identifiable assets acquired and liabilities assumed was allocated to goodwill mainly arising from the following:

Stopol LLC	Ensuring the entry into the market of the smart multimedia systems for cars
Other logging companies	Expected synergy effect
Agriculture businesses	Market position, expected synergy effect

As a result of the acquisition of Karelian Wood Company, Medsi Izhevsk and Agricultural Businesses, the Group has received gain in the amount of RUB 1,826 million, which was recognised in other income in the consolidated statement of profit or loss.

The gain received from the acquisition of Karelian Wood Company is associated with a limited number of possible buyers, as well as with the underutilization by the previous owners of the potential of Karelian Wood Company in terms of both the volume of logging, and the volume of production and geography of shipments of lumber. In 2020, with no additional capital investment, the Group increased company's logging and sawn timber production, improving its operating profitability.

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The gain received from the acquisition of Medsi Izhevsk is related to the long-term development strategy of Medsi in the regions of the Russian Federation, and is due to the decision of the previous owner to sell non-core assets of his business in connection to disinterest in the development of this sector. Medsi by means of modern high-tech medical equipment, changes in medical and marketing programs will aim to attract additional patients to the clinics of the network and increase the efficiency of their work.

The gain received from the acquisition of individual Agriculture businesses is due to the general trend of price growth in the grain market in the reporting period. The terms of long-term lease agreements acquired under this transaction were recognised as favourable, and the right-of-use assets associated with the favorable terms of the lease agreements amount to RUB 772 million.

As of the reporting date, purchase price allocation of acquisitions of Medsi Izhevsk, Karelian Wood, Other logging companies, Stopol LLC and Agriculture businesses have been finalised.

Business combinations in 2019

In 2019 MTS, Segezha Group and Medsi acquired several companies related to their operating segments for RUB 360 million, RUB 140 million and RUB 41 million respectively.

The following table summarizes the final amounts of the identifiable assets acquired and liabilities assumed relating to such acquisitions at the acquisition date:

	Rikt JSC	Severlesprom LLC	Klinika na petrogradskoj storone LLC
Total consideration satisfied by:			
Cash consideration			
Cash consideration	360	140	41
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	118	-	86
Other intangible assets	172	-	-
Other non-current assets	14	219	3
Other current assets	27	23	14
Current liabilities	(37)	(14)	(45)
Non-current liabilities	(39)	(88)	(50)
Net assets	255	140	8
Goodwill	105	-	33

The excess of the consideration paid over the value of net assets was allocated to goodwill mainly arising from the following:

Rikt JSC	Expected synergy effect
Klinika na petrogradskoj storone LLC	Assembled workforce, market position, expected synergies

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Pro forma financial information for 2020 and 2019 which gives effect to the acquisitions as if they had occurred as of 1 January 2020 is not presented because the effects of these business combinations, individually and in aggregate, were not material to the Group's consolidated results of operations.

Loss and revenue attributable to financial results of business acquired in 2020 is not material.

The following table summarises the details of purchase of subsidiaries, net of cash acquired, reported in the statements of cash flows:

	2020	2019
Cash consideration	3,456	541
Net of cash acquired	(46)	(2)
Payments for acquisitions of subsidiaries in previous periods	-	2,236
Payments for businesses, net of cash acquired	3,410	2,775

7. CAPITAL TRANSACTIONS OF SUBSIDIARIES

The Group enters into transactions to acquire or dispose ownership interests in its existing subsidiaries that do not result in the Group losing control over the subsidiaries. Also, the entities of the Group enter into transactions with each other to transfer ownership interests in subsidiaries within the Group. Such transactions are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests ("NCI") are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity in additional paid-in capital ("APIC") and attributed to shareholders of the Company.

Transactions in 2020

The information on capital transactions of subsidiaries which took place in 2020 and their impacts on the Group's equity is summarised below:

	(Decrease)/ Increase of additional paid-in capital	Decrease of non-controlling interests
Purchase of own shares of MTS	(532)	(7,993)
Other	303	(201)
Total impact	(229)	(8,194)

MTS Share Acquisition Program – As a part of the implementation of the share acquisition plan approved in 2020, MTS acquired 48,797,719 ordinary shares, including acquisition of 22,758,872 ordinary shares from Sistema Finance S.A., the subsidiary of the Group, in the amount of RUB 7.49 billion.

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Transactions in 2019

The information on capital transactions of subsidiaries which took place in 2019 and their impacts on the Group's equity is summarised below:

	(Decrease)/ Increase of additional paid-in capital	Decrease of non-controlling interests
MTS shares tender offer	(527)	(7,949)
Purchase of own shares of Agroholding "Steppe"	66	(2,116)
Sale of additional stake of MTS Bank to MTS	2,328	(2,328)
The effect of the buyback of a minority stake in Binnopharm	(195)	(468)
Intragroup transactions effect	566	(566)
Other	(682)	(1,228)
Total impact	1,556	(14,655)

MTS Share Acquisition Program – As a part of the implementation of the share acquisition plan approved in 2018, MTS acquired 57,719,394 ordinary shares, including acquisition of 28,929,344 ordinary shares from Sistema Finance S.A., the subsidiary of the Group, in the amount of RUB 7.45 billion.

Change in ownership interest in subsidiaries:

- In February 2019, Sistema PJSFC and its 100% subsidiary Sistema Telecom Assets LLC sold a 39.5% stake in MTS Bank to Mobile TeleSystems BV, a 100% subsidiary of PJSC MTS for RUB 11.4 billion. As a result of the transaction, the effective ownership interest of MTS-Bank decreased to 52.4%.
- In December 2019, Sistema PJSFC sold a 4.5% stake in MTS Bank to Mobile TeleSystems B.V., a 100% subsidiary of MTS PJSC for RUB 1.4 billion. As a result of the transaction, Sistema JSFC completely withdrew from the shareholders of MTS-Bank PJSC.
- In March 2019, the Agroholding "Steppe" bought out its RUB 2 billion stake from a minority shareholder. As a result, the Group's share in the Agroholding "Steppe" increased to 92.8%.
- Sistema PJSFC increased its stake in Binnopharm from 74% to 89% as part of the creation of the joint pharmaceutical company Alium. Sistema's stake in Binnopharm increased as a result of the purchase of the stake from a minority shareholder as part of a planned transaction to merge OBL Pharm and Binnopharm.

8. REVENUE

Revenue from contracts with customers specific to the reporting segments of the Group is recognised in the following way.

MTS – Revenue for access charges, voice and video calls, rendering of cloud services, messaging, interconnect fees and fixed and mobile broadband is recognised as services are rendered. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or passage of time (monthly subscription fees). Products and services may be sold separately or in bundle packages. The most significant part of revenue relates to prepaid contracts.

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The Group capitalizes costs of obtaining contracts (such as sales commissions) and costs of fulfilling contracts and amortises over the period expected to benefit from the contract. The Group used the practical expedient allowed by of IFRS 15 whereby such costs may be expensed if the amortisation period is one year or less.

Revenue from sales of goods (mainly mobile handsets, other mobile devices, software licenses) is recognised when the significant risks and rewards of ownership have been transferred to the customer.

Revenue from providing financial services mainly relates to interest bearing assets of MTS Bank. Such revenue is recognised on an accrual basis using the effective interest method.

Medsi – Medsi recognises revenue from the provision of medical services when (or to the extent that) it fulfills the obligation to perform by transferring the promised good or service (i.e. asset) to the buyer. An asset is transferred when (or as) the buyer gains control of the asset.

The Group provides medical services under contracts for payment upon the provision of services and from advance contracts.

Under contracts that provide for payment upon the provision of services, the Group fulfills the obligation to perform at a certain point in time. Revenue is recognised at the time when the service is rendered in full.

Revenue from advance contracts (concluded in the usual practice for 1 year) that provide for the customer's right to receive a certain package of services during the term of the contract is recognised on a straight-line basis over the entire term of the contract.

In most cases, fitness services are provided on the basis of an advance payment form and are also recognised on a straight-line basis over the entire term of the contract.

As medical examination reports on services rendered to insurance companies are received with some delay, the Group recognises revenue less the provision for services rendered unwarranted, which is estimated based on historical data.

Segezha Group – Segezha Group receives revenue from the sale of goods (paper and packaging, lumber, plywood and other goods) and from the provision of finished goods delivery services to the buyer after the transfer of control over the goods. Sales are recognised at the time when control of goods is transferred, i.e. when the goods are delivered to the buyer in accordance with the terms of delivery (Incoterms 2010), the buyer has complete freedom of action with respect to the goods and when there is no unfulfilled obligation that may affect the acceptance of the goods by the buyer. Delivery is deemed to have been made when the goods have been delivered to a certain place, the risks of damage and loss passed to the buyer, and the buyer accepted the goods in accordance with the contract, the validity of the acceptance provisions has expired or the Group has objective evidence that all acceptance terms have been met.

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The following is analysis of the Group's revenue from continuing operations for 2020:

	Reportable segments					Total
	MTS	Segezha Group	Medsi	Corporate	Other	
Type of goods/services						
Mobile and fixed line services	384,327	-	-	-	-	384,327
Retail sale of goods	69,478	-	-	-	-	69,478
Works under specification	-	-	-	-	20,559	20,559
Production	-	68,982	-	-	36,951	105,933
Financial services	33,667	-	-	-	1,263	34,930
Other services	-	-	25,011	3,619	26,796	55,426
Other	3,558	-	-	-	17,415	20,973
	491,030	68,982	25,011	3,619	102,984	691,626
Revenue from goods or services transferred to customers						
At a point in time	69,478	68,982	23,771	3,619	78,350	244,200
Over time	421,552	-	1,240	-	24,634	447,426
	491,030	68,982	25,011	3,619	102,984	691,626

The following is analysis of the Group's revenue from continuing operations for 2019:

	Reportable segments					Total
	MTS	Segezha Group	Medsi	Corporate	Other	
Type of goods/services						
Mobile and fixed line services	370,140	-	-	-	-	370,140
Sale of goods	67,757	-	-	-	-	67,757
Works under specification	-	-	-	-	22,410	22,410
Production	-	58,428	-	-	31,043	89,471
Financial services	29,051	-	-	-	5,619	34,670
Other services	-	-	22,308	2,435	32,514	57,257
Other	-	-	-	-	12,598	12,598
	466,948	58,428	22,308	2,435	104,184	654,303
Revenue from goods or services transferred to customers						
At a point in time	69,537	58,428	20,839	2,435	82,498	233,737
Over time	397,411	-	1,469	-	21,686	420,566
	466,948	58,428	22,308	2,435	104,184	654,303

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as of 31 December 2020 as follows:

	2021	2022-2026	2027-2031	Total
Mobile and fixed telecommunication services	19,997	709	8	20,714
Other services	6,455	22,671	-	29,126
Loyalty programs	434	-	-	434
Total	26,886	23,380	8	50,274

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Contract assets and liabilities

Contract balances include trade receivables related to the recognised revenue, contract assets and contract liabilities.

Trade receivables represent an unconditional right to receive consideration (primarily in cash).

Contract assets represent accrued revenues that have not yet been billed to customers due to certain contractual terms other than the payment terms.

Contract assets of MTS represent accrued revenue in a bundled offering which combines the sale of a mobile device and the provision of mobile services for a fixed-period. The mobile device is invoiced at a reduced price leading to the reallocation of a portion of amounts invoiced for mobile communication services to the supply of the mobile phone. The excess of the amount allocated to the mobile phone over the price invoiced is recognised as a contract asset and thus transferred to trade receivables as the service is rendered.

Contract assets of MTS also relate to the MTS's rights to consideration for work completed but not yet billed for integration services projects.

Contract liabilities represent amounts paid by customers to the Group before receiving the goods or services promised in the contract. Contract liabilities consisted of advances received from customers and also amounts invoiced and paid for goods or services that are yet to be transferred.

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers as of 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Trade accounts receivable	33,063	37,434
Contract assets	6,306	6,474
Total assets	39,369	43,908
Less: current portion	(37,206)	(40,351)
Total non-current assets	2,163	3,557
Contract liabilities	(32,395)	(30,361)
Thereof:		
Mobile and fixed telecommunication services	(21,780)	(20,964)
Project type works	(10,181)	(9,054)
Loyalty programs	(433)	(343)
Total liabilities	(32,394)	(30,361)
Less: current liabilities	31,305	21,527
Total non-current liabilities	(1,089)	(8,834)

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Changes in the contract assets and the contract liabilities balances during the 2020 and 2019 are as follows:

	2020		2019	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Balance as of 1 January	6,474	(30,361)	7,297	(33,014)
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	21,174	-	24,865
Cash received, excluding amount recognised as revenue during the period	1,659	(23,208)	1	(25,768)
Transfer to assets held for sale	(96)	-	(21)	-
Effect of changes in estimates	(1,731)	-	(803)	-
Discontinued operations	-	-	-	3,556
Balance as of 31 December	6,306	(32,395)	6,474	(30,361)

Cost to obtain and fulfill a contract

The Group capitalizes certain incremental costs incurred in acquiring or fulfilling a contract with a customer if the management expects these costs to be recoverable and includes them in other intangible assets and other non-current assets, accordingly.

Costs of acquiring a contract include commissions paid to a third-party distributor as well as the associated remuneration of the Group's commercial employees for obtaining a contract with a customer. These costs are amortised on a straight-line basis over the average subscriber life.

Costs to fulfil a contract mainly relate to costs of equipment transferred to the subscribers required for the provision of services. These costs are amortised on a straight-line basis for the shorter of equipment useful life or average subscriber life.

The Group uses a practical expedient from IFRS 15, which allows to expensing of contract costs as incurred when the expected contract duration is one year or less.

As of 31 December 2020 and 31 December 2019, the balances of cost to obtain and fulfil contracts capitalized by the Group amounted to:

	31 December 2020	31 December 2019
Cost to obtain contracts	7,549	7,241
Cost to fulfil contracts	2,506	1,846

As of 31 December 2020 and 2019 the accumulated amortisation expense related to cost to obtain and fulfill contracts amounted to RUB 8,228 million and RUB 7,615 million, respectively. Amortisation expense related to cost to obtain and fulfill contracts recognised for the year ended 31 December 2020 amounted to RUB 3,819 million (2019: RUB 3,940 million). There was no impairment loss relating to the costs capitalized.

9. IMPAIRMENT OF LONG-LIVED ASSETS

Impairment of long-lived assets recognised in the consolidated statement of profit or loss for 2020, includes impairment of property, plant and equipment, investment property, goodwill and other intangible assets.

	2020	2019
Impairment of property, plant and equipment	3,027	4,736
Impairment of investment property	870	5,699
Impairment of intangible assets	202	1,034
Impairment of other non-current assets	241	-
Impairment of goodwill (Note 15)	1,281	168
Total impairment of long-lived assets	5,621	11,637

Impairment of investment property – As of 31 December 2020, the Group estimated the recoverable value of assets based on their value in use, taking into account the OIBDA margin in the range of 2.9% - 3.9%, the ratio of capital expenditures to revenue in the range of 31.2%, the growth rate in the post-forecast period of 1% and the discount rate before tax of 11.4%, and recognised an impairment loss of RUB 870 million in the consolidated statement of profit or loss for 2020.

As of 31 December 2019, the Group found evidence of impairment of investment property in the Corporate segment and, with the involvement of independent appraisers, assessed the recoverable amount of investment property. The valuation was performed in line with International Valuation Standards and was based on recent market transactions made on market terms with similar properties. As a result, the Group recognised an impairment loss of RUB 2,740 million in the consolidated statement of profit or loss for 2019.

As of 31 December 2019, the Group found evidence of impairment investment property in the Other segment. The valuation of the recoverable amount, carried out with the involvement of independent appraisers, was performed in line with International Valuation Standards and was based on recent market transactions made on market terms with similar real estate. As a result, the Group recognised an impairment loss of RUB 2,959 million in the consolidated income statement for 2019.

Impairment of property, plant and equipment – As of 31 December 2020 the Group estimated the recoverable amount of assets in the Other segment based on their value in use, taking into account the negative OIBDA margin in the range of (1.2)% - (25.1)% , the ratio of capital expenditures to revenue in the range of 2%-3%, the growth rate in the post-forecast period in the range of 2%-3% and the discount rate before tax of 13.45%, and recognised in the consolidated statement of profit or loss for 2020 an impairment loss of RUB 2,954 million.

As of 31 December 2019, the Group found evidence of impairment of the non-current assets in the Other segment based on their value-in-use. Future cash flows were estimated on the basis of the business plan until 2025 with the use of assumptions about a number of variables, including expectations for the following indicators: the return on OIBDA, the period and amount of future capital expenditures, the growth rate in the post-forecast period, and the discount rate reflecting the corresponding level of risk (16%). As a result, the Group recognised an impairment loss of RUB 2,422 million in the consolidated income statement for 2019.

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10. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets for 2020 and 2019 comprise the following:

	2020	2019
Allowance for expected credit losses of accounts receivable	3,434	5,408
(Reversal)/impairment of loans carried at amortised cost	(424)	1,260
(Reversal)/impairment of other financial assets	(54)	272
Total impairment of financial assets	2,956	6,940

Loans carried at amortised cost – For the years ended 31 December 2020 and 2019, the Group recognised in the consolidated statement of profit or loss impairment of loans in the amount of RUB 520 million and RUB 1,260 million, respectively. At the same time, for the year ended 31 December 2020, the Group reversed the provision for loans issued in the amount of RUB 944 million.

11. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the countries where the Group and its subsidiaries operate, which may differ from IFRS.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets are not recognised when management believes that it is more than 50% probable that deferred tax assets or some portion of them will not be realized. At the same time, the Group takes into account all available evidence, including projected future taxable profit, tax planning strategies and recent financial transactions.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

The Group's income tax expense for 2020 and 2019 comprise the following:

	2020	2019
Current income tax expense	(23,507)	(27,994)
Deferred income tax benefit	15,166	991
Total income tax expense recognised in the current year relating to continuing operations	(8,341)	(27,003)

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Income tax expense calculated by applying the Russian statutory income tax rate to income from continuing operations before income tax differs from income tax expense recognised in the consolidated statements of profit or loss as a consequence of the following adjustments:

	2020	2019
Profit before tax	46,506	17,532
Income tax expense calculated at 20%	(9,301)	(3,506)
<i>Adjustments due to:</i>		
Earnings distribution from subsidiaries and associates	(6,598)	(5,548)
Decrease/(increase) of unrecognised deferred tax assets	5,966	(14,071)
Non-deductible expenses	(417)	(4,277)
Different tax rate of subsidiaries	692	331
Non-taxable income	630	191
Other	687	(123)
Income tax expense	(8,341)	(27,003)

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statements of financial position for 2020 and 2019:

2020	Opening balance	Recognised in profit or loss	Recognised in OCI	Acquisitions / disposals	Closing balance
Deferred tax (liabilities)/assets in relation to:					
Accrued expenses and accounts payable	5,800	716	-	-	6,516
Property, plant and equipment	(25,387)	(2,711)	628	119	(27,351)
Intangible assets	(8,949)	591	-	-	(8,358)
Cost capitalization	(1,448)	(220)	-	-	(1,668)
Deferred connection fees	1,230	200	-	-	1,430
Inventory obsolescence	88	347	-	-	435
Allowance for expected credit losses	(19)	2,695	-	-	2,676
Deferred revenues	1	-	-	-	1
Undistributed earnings of subsidiaries and joint ventures and associates	(5,887)	1,451	-	-	(4,436)
Right-of-use asset	3,428	814	-	-	4,242
Tax losses carried forward	16,713	15,612	(8)	148	32,465
Debt modification	(433)	310	-	-	(123)
Other	5,443	(4,639)	-	-	804
Total	(9,420)	15,166	620	267	6,633

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2019	Opening balance	Recognised in profit or loss	Recognised in OCI	Acquisitions / disposals	Closing balance
Deferred tax (liabilities)/assets in relation to:					
Accrued expenses and accounts payable	5,578	1,163	-	(941)	5,800
Property, plant and equipment	(20,774)	(2,792)	(1,216)	(605)	(25,387)
Intangible assets	(9,043)	161	(34)	(33)	(8,949)
Cost capitalization	(1,321)	(149)	-	22	(1,448)
Deferred connection fees	954	186	-	90	1,230
Inventory obsolescence	915	1	-	(828)	88
Allowance for expected credit losses	341	33	-	(393)	(19)
Deferred revenues	145	-	-	(144)	1
Undistributed earnings of subsidiaries and joint ventures and associates	(5,949)	(175)	237	-	(5,887)
Right-of-use asset	2,699	1,030	-	(301)	3,428
Tax losses carried forward	16,843	251	176	(557)	16,713
Debt modification	(1,075)	642	-	-	(433)
Other	3,174	644	521	1,104	5,443
Total	(7,513)	995	(316)	(2,586)	(9,420)

As of 31 December 2020 and 2019 the Group reported the following deferred income tax assets and liabilities in the consolidated statements of financial position:

	31 December 2020	31 December 2019
Deferred tax assets	41,402	26,752
Deferred tax liabilities	(34,769)	(36,172)
Net deferred tax assets/(liabilities)	6,633	(9,420)

In 2020 the Group recognised previously unrecognised unused tax losses carried forward of the Corporate segment in the amount of RUB 7 billion based on forecasts for possible assets sales.

As of 31 December 2020 and 2019 the tax losses carried forward, for which deferred tax assets were recognised, amounted to RUB 162,327 million and RUB 83,565 million, respectively.

The Group accrued uncertain income tax positions as a component of income tax payable of RUB 595 million and RUB 825 million as of 31 December 2020 and 2019, respectively.

Russian Federal law №401-FZ dated 30 November 2016 allowed for the indefinite carry forward of tax losses, whereas this was previously restricted to 10 years. Also, the law specified that the tax base for the years 2017-2021 may not be reduced by tax losses carried forward in an amount exceeding 50% of the base.

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The following table summarizes temporary differences, for which deferred tax assets were not recognised in the consolidated statements of financial position as of 31 December 2020 and 2019:

Jurisdiction	Carry-forward period		
		2020	2019
India	2021-2027	95,589	115,322
Russia	Unlimited	235,685	232,836
Total		331,274	348,158

12. EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses consist of salaries, bonuses and social security contributions.

Employee benefits expenses included in cost of sales, selling, general and administrative expenses and result from discontinued operations for 2020 and 2019 comprised RUB 141,823 million and RUB 142,100 million, respectively.

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost. Cost includes major expenditures for improvements and replacements, which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance, including preventive maintenance, are charged to the consolidated statement of profit or loss as incurred.

The cost of major overhauls and replacements, which extend useful lives of the assets or increase their revenue generating capacity, are capitalised to the cost of the assets.

After recognition as an asset, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation for property, plant and equipment is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	7 – 150 years
Leasehold improvements	the term of the lease
Base stations	3 – 44 years
Other network equipment	3 – 20 years
Power and utilities	up to 60 years
Other	up to 15 years

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Group considers a construction period of more than six months to be substantial. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing

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costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property, plant and equipment, net of accumulated depreciation and impairment, as of 31 December 2020 and 2019 consisted of the following:

		31 December 2020	31 December 2019
Carrying amount			
Switches, transmission devices, network and base station equipment		219,038	212,735
Buildings and leasehold improvements		74,183	77,049
Power and utilities		29,893	29,117
Land		22,982	21,932
Other		81,215	59,250
Total		427,311	400,083

Cost	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve- ments	Power and utilities	Land	Other	Total
	609,235	114,946	45,277	21,710	133,201	924,369
Balance as of 1 January 2019	609,235	114,946	45,277	21,710	133,201	924,369
Additions	52,340	9,727	3,773	336	21,450	87,626
Disposals	(26,870)	(1,068)	(372)	(373)	(4,277)	(32,960)
Business combinations	484	61	-	180	249	974
Reclassified from investment property	-	3,328	-	114	1,132	4,574
Reclassified to/from assets held for sale	(1,573)	555	-	-	-	(1,018)
Currency translation adjustment	1,889	(1,702)	-	(26)	(158)	3
Reclassified to/from right-of-use assets	-	-	-	-	773	773
Disposal of subsidiaries	(62,196)	(15,634)	-	(158)	(19,599)	(97,587)
Other	702	711	167	149	319	2,048
Balance as of 31 December 2019	574,011	110,924	48,845	21,932	133,090	888,802
Additions	54,862	5,928	3,561	350	35,269	99,970
Disposals	(38,293)	(3,735)	(80)	(6)	(11,377)	(53,491)
Business combinations	578	1,519	-	686	1,323	4,106
Reclassified to assets held for sale	(2,890)	(475)	-	-	(37)	(3,402)
Currency translation adjustment	2,286	2,096	-	62	2,335	6,779
Sale of companies	-	(3,568)	-	(3)	(261)	(3,832)
Reclassified to/from right-of-use assets	-	-	-	-	459	459
Other	(4)	966	-	(39)	1,050	1,973
Balance as of 31 December 2020	590,550	113,655	52,326	22,982	161,851	941,364

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	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve- ments	Power and utilities	Land	Other	Total
Accumulated depreciation and impairment						
Balance as of 1 January 2019	(378,994)	(32,191)	(17,154)	-	(73,709)	(502,048)
Disposals	26,163	377	34	-	3,172	29,746
Acquisitions of business	(290)	(5)	-	-	(104)	(399)
Disposals from sales of subsidiaries	40,717	6,596	-	-	11,389	58,702
Reclassified from assets held for sale	762	(76)	-	-	(1)	685
Depreciation expense	(47,905)	(6,190)	(2,608)	-	(13,628)	(70,331)
Currency translation adjustment	(767)	867	-	-	113	213
Reclassified to/from right-of-use assets	-	-	-	-	452	452
Impairment	-	(3,022)	-	-	(1,728)	(4,750)
Reclassified from investment property	-	(247)	-	-	(131)	(378)
Other	(962)	16	-	-	335	(611)
Balance as of 31 December 2019	(361,276)	(33,875)	(19,728)	-	(73,840)	(488,719)
Disposals	33,058	1,457	40	-	9,177	43,732
Disposals from sales of subsidiaries	-	1,466	-	-	168	1,634
Reclassified to assets held for sale	1,899	146	-	-	(7)	2,038
Depreciation expense	(43,220)	(4,659)	(2,745)	-	(14,133)	(64,757)
Currency translation adjustment	(1,968)	(806)	-	-	(1,205)	(3,979)
Reclassified to/from right-of-use assets	-	(246)	-	-	(169)	(415)
Impairment	-	(2,623)	-	-	(404)	(3,027)
Other	(5)	(332)	-	-	(223)	(560)
Balance as of 31 December 2020	(371,512)	(39,472)	(22,433)	-	(80,636)	(514,053)

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14. INVESTMENT PROPERTY

Investment property primarily includes cottages, office and commercial space and business centers owned by the companies of the Group operating in real estate sector, mainly Business Nedvizhimost.

Investment property is stated at cost less accumulated depreciation and impairment losses.

Depreciation for investment property is recognised using the straight-line method based on the average estimated useful lives of the assets of 25 years. Accumulated depreciation as of 31 December 2020 and 2019 amounted to RUB 5,271 million and RUB 4,955 million, respectively.

	2020	2019
Balance at the beginning of the year	13,660	23,310
Reclassified from / (to) property, plant and equipment	168	(4,196)
Additions	554	1,202
Disposals	(683)	(469)
Depreciation expense	(501)	(481)
Impairment (Note 10)	(870)	(5,699)
As part of disposed companies	-	(329)
Other comprehensive income	498	-
Reclassified from/(to) inventories	(177)	322
Balance at the end of the year	12,649	13,660

Included in revenue is investment property rental income for 2020 of RUB 1,960 million (2019: 2,130 million). Operating expenses arising from the investment property that generated rental income during 2020 totalled RUB 1,486 million (2019: 538 million).

In estimating the fair value of the investment property, the Group classified the properties within Level 3 of the fair value hierarchy. As of 31 December 2020 and 2019 the Group determined the fair values of the investment property at RUB 40,136 million and RUB 42,182 million, respectively.

The fair values as of 31 December 2020 and 2019 were determined based either on discounted cash flows or by reference to market values of similar properties in the relevant region. The main inputs to the fair value measurement are the post-tax discount rate, revenue growth rates, OIBDA margin and adjustments to market values of similar properties. OIBDA is defined as operating profit, adjusted on depreciation and amortisation.

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15. GOODWILL

Goodwill arising on an acquisition of a business is carried at cost recognised at the acquisition date less accumulated impairment losses, if any.

The carrying amounts of goodwill attributable to operating segments are as follows:

	MTS	Medsi	Steppe	Segezha Group	Other	Total
Balance as of 1 January 2019						
Gross amount of goodwill	55,396	664	6,927	3,760	13,921	80,668
Accumulated impairment loss	(7,570)	-	-	(241)	(13,369)	(21,180)
	47,826	664	6,927	3,519	552	59,488
Business combinations	105	33	-	-	-	138
Impairment	-	(168)	-	-	-	(168)
Currency translation adjustment	(423)	-	-	-	-	(423)
Disposal	(114)	-	-	-	(527)	(641)
Reclassified to right-of-use assets	-	-	-	(2,765)	-	(2,765)
Other	-	-	-	(306)	65	(241)
Balance as of 31 December 2019						
Gross amount of goodwill	54,964	697	6,927	689	13,459	76,736
Accumulated impairment loss	(7,570)	(168)	-	(241)	(13,369)	(21,348)
	47,394	529	6,927	448	90	55,388
Business combinations	282	-	2,425	21	-	2,728
Impairment	(1,281)	-	-	-	-	(1,281)
Currency translation adjustment	365	-	-	-	-	365
Disposal	-	-	-	-	-	-
Other	-	3	-	-	1	4
Balance as of 31 December 2020						
Gross amount of goodwill	55,611	700	9,352	710	13,460	79,833
Accumulated impairment loss	(8,851)	(168)	-	(241)	(13,369)	(22,629)
	46,760	532	9,352	469	91	57,204

The Group performs impairment test for the goodwill assigned to cash-generating units (CGUs) at least annually and when there are any indications that the carrying amount of the CGU is impaired. When the carrying amount of the CGU to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this CGU is impaired.

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MTS – For the purposes of impairment testing, goodwill attributable to the MTS segment is allocated to CGUs as follow:

	31 December 2020	31 December 2019
Russia convergent	28,927	30,804
Moscow fixed line	1,336	1,336
Other	7,778	6,535
Unallocated	8,719	8,719
Total	46,760	47,394

The “Russia convergent” CGU represents mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia, except for “Moscow fixed line”, which represents the results of fixed line operations carried out in Moscow by MGTS, a subsidiary of MTS. Russia convergent also includes sales of equipment and accessories. Goodwill allocated to these CGUs has arisen on acquisitions made by MTS. The Group does not allocate goodwill recognised as a result of its purchases of MTS shares by the Group to CGUs as it is monitored for internal management purposes at the level of the MTS segment as a whole. Unallocated amount of goodwill is tested for impairment with the reference to the market capitalisation of MTS.

The recoverable amounts of the CGUs are determined based on their value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

Future cash flows calculations are based on a five-year operation plan. Estimation of future cash flows requires assumptions to be made in respect of uncertain factors, including management's expectations of OIBDA margins, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks associated.

In 2020 according to impairment test results, other CGU was impaired in amount of RUB 1,281 million.

As a result of the impairment test performed on 31 December 2019, none of the cash generating units was impaired.

The key assumptions used in the value in use calculations are as follows:

- OIBDA margin used for the CGU Russia convergent was in the range of 43.2% - 44.3%, CGUs located in Armenia – 51.8% - 54.0%, in the Czech Republic in the range of 3.5% - 5.2% (2019: in the Russian Federation 42.4% - 43.5%, Armenia 46.9% - 50.0%, in the Czech Republic 3.2% - 3.9%).
- Capital expenditure for calculation of operational value was used as a percentage of the revenue of the CGUs Russia convergent and located in Armenia in the range of 20.9% - 22.2%, in the Czech Republic 1.2% (2019: 15.6% - 19.8% and 1.2% respectively).
- The terminal growth rate was used according to the CGUs Russia convergent and located in Armenia in the range of 0.01% - 1%, in the Czech Republic - 2%. (2019: 0.01% - 1% and 2% respectively).
- Pre-tax nominal discount rate for CGUs Russia convergent – 11.4%, located in Armenia – 13.3%, in the Czech Republic – 6.1% (2019: 14.1%, 13.5% and 6.1 % respectively) was calculated with reference to the weighted average cost of capital and reflects management's assessment of the risks inherent in these production units.

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Management believes that no reasonably possible change in the current period any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount.

Agroholding "Steppe" – The recoverable amounts of the CGUs were determined based on their value in use. Cash flow models were prepared in Russian rubles. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The growth rate does not exceed the long-term average growth rate for the business sector of the economy in which CGU operates.

Key assumptions used for value-in-use calculations are determined based on market analysis, which is performed regularly. The table below presents key assumptions used for value in-use calculations:

	2020	2019
Terminal cash flows growth rate	3.8%	4%
Discount rate	14%	14%
Range of average annual market price growth rate	3.8%-4%	4%-5%

Management believes that no reasonably possible change in the current period in any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount.

16. OTHER INTANGIBLE ASSETS

Other intangible assets are mainly represented by billing and telecommunication software and other software, operating licenses, acquired customer bases of MTS.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses. Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets that are acquired separately.

All finite-life intangible assets are amortised using the straight-line method utilising estimated useful lives of the assets as follows:

Operating licenses	1-20 years
Billing and telecommunication software	1-20 years
Radio frequencies	1-15 years
Customer base	4-31 years
Cost to obtain contracts	2-5 years
Software and other	1-10 years

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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Trademarks with indefinite contractual life are not amortised, but are reviewed, at least annually, for impairment.

Intangible assets other than goodwill as of 31 December 2020 and 2019 consisted of the following:

	31 December 2020	31 December 2019
Carrying amounts of:		
<i>Amortised intangible assets:</i>		
Billing and telecommunication software	65,179	55,560
Operating licenses	9,791	10,103
Radio frequencies	1,242	1,590
Acquired customer base	360	842
Software and other	9,085	9,377
Cost to obtain contracts	7,549	7,123
	93,206	84,595
<i>Unamortised intangible assets:</i>		
Trademarks	6,543	6,543
Total	99,749	91,138

MTS operating licenses – In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications (the “Ministry”). In addition to the licenses received directly from the Ministry, the Group has been granted access to various telecommunication licenses through acquisitions of subsidiaries. In foreign subsidiaries, the licenses are granted by the local communication authorities.

Operating licenses contain a number of requirements and conditions specified by legislation. The requirements generally include the start date of service, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

The Group’s operating licenses do not provide for automatic renewal. As of 31 December 2020, all expired licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. The weighted-average period until the next renewal of licenses in the Russian Federation is two and a half years.

The license for the provision of telecommunication services in Armenia is valid until 2034.

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	Billing and telecom software	Licenses	Customer bases	Radio frequencies	Software and other	Trade - marks	Cost to obtain contracts	Total
Cost								
Balance as of 1 January 2019	128,072	47,323	14,030	6,647	29,068	6,629	23,242	255,011
Additions	27,921	1,119	-	(38)	2,451	-	10,290	41,743
Disposals	(11,564)	(84)	(2,879)	(865)	(411)	-	(18,281)	(34,084)
Business combinations	6	-	(37)	-	63	-	-	32
Disposal of subsidiaries	(15,770)	(19,150)	-	-	(5,318)	(80)	(1,842)	(42,160)
Currency translation adjustment	718	197	-	(29)	19	-	108	1,013
Reclassified to other non-current assets	-	-	-	-	(1,226)	-	-	(1,226)
Other	93	3	-	(1)	462	(6)	-	551
Balance as of 31 December 2019	129,476	29,408	11,114	5,714	25,108	6,543	13,517	220,880
Additions	35,277	1,492	-	32	4,045	-	10,390	51,236
Disposals	(28,035)	(117)	(73)	(172)	(3,491)	-	(9,758)	(41,646)
Disposal of subsidiaries	(356)	-	-	-	-	-	-	(356)
Currency translation adjustment	386	914	108	-	105	-	-	1,513
Reclassified to right-of-use assets	-	-	-	-	(1,157)	-	-	(1,157)
Other	(83)	25	-	30	(47)	-	-	(75)
Balance as of 31 December 2020	136,665	31,722	11,149	5,604	24,563	6,543	14,149	230,395
Accumulated amortisation and impairment								
Balance as of 1 January 2019	(72,607)	(21,718)	(11,730)	(4,586)	(15,902)	-	(16,343)	(142,886)
Disposals	11,065	25	2,813	831	354	-	18,281	33,369
Amortisation expense	(24,394)	(3,430)	(1,361)	(372)	(1,722)	-	(6,887)	(38,166)
Impairment	-	-	-	(26)	(1,008)	-	-	(1,034)
Disposal of subsidiaries	12,657	5,155	6	-	2,648	-	1,210	21,676
Currency translation adjustment	(615)	664	-	29	(5)	-	(82)	(9)
Other	(22)	(1)	-	-	(96)	-	(2,573)	(2,692)
Balance as of 31 December 2019	(73,916)	(19,305)	(10,272)	(4,124)	(15,731)	-	(6,394)	(129,742)
Disposals	27,953	74	72	160	2,281	-	3,069	33,609
Amortisation expense	(25,194)	(1,796)	(589)	(367)	(2,148)	-	(3,275)	(33,369)
Impairment	(167)	-	-	-	(35)	-	-	(202)
Disposal of subsidiaries	36	-	-	-	-	-	-	36
Currency translation adjustment	(275)	(894)	-	-	5	-	-	(1,164)
Reclassified to right-of-use assets	-	-	-	-	150	-	-	150
Other	77	(10)	-	(31)	-	-	-	36
Balance as of 31 December 2020	(71,486)	(21,931)	(10,789)	(4,362)	(15,478)	-	(6,600)	(130,646)

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17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Additional investments in associates and joint ventures are added to the carrying amount of the equity-method investee without specific allocation to the underlying assets and liabilities of the investee. The additional ownership interest effectively increases the notional goodwill relating to the equity-method investee. After a transaction, the share of investee's profit or loss recognised by the Group is based on the new ownership interest.

Investments in associates and joint ventures as of 31 December 2020 and 2019 consisted of the following:

		2020		2019	
		Participating share	Carrying value	Participating share	Carrying value
Etalon Group (Note 5)	associate	25.58%	13,529	23.67%	13,342
Ozon	associate	33.78%	12,584	42.99%	11,854
Megapolis-Invest	joint venture	100.00%	11,002	-	-
Element LLC	joint venture	49.54%	9,566	50.00%	10,042
MTS Belarus	associate	49.00%	5,124	49.00%	4,502
Alium	joint venture	24.90%	4,344	26.26%	4,280
Michurinskiy project	joint venture	50.00%	4,229	50.00%	2,591
Real estate projects	associate	48%-50%	1,431	48%-50%	1,352
Sintez	joint venture	1.52%	216	1.54%	204
YouDo	associate	26.24%	1,140	26.24%	1,140
Zelenaya Tochka	joint venture	51.00%	1,260	-	-
Detsky mir (Note 5)	associate	-	-	33.38%	21,807
Other			9,431		8,803
				73,856	79,917

Participating share in profit or loss of associates and joint ventures is determined based on the percentage of the equity interest owned by the Group or on allocations of profits and losses between investors if designated by shareholders agreements.

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Etalon Group is one of the largest development and construction companies, includes companies in Russia and abroad. Carries out development projects in the markets of St. Petersburg and Moscow, the holding company is registered in the Republic of Cyprus.

Global depositary receipts of Etalon Group Plc are publicly traded. As of 31 December 2020 the carrying value of the investment in Etalon Group Plc exceeded the market quoted price based value which amounted to RUB 9.6 billion. Based on the available facts and information regarding the operating results of Etalon Group Plc, the ability and intention of the Group to hold the investment until recovery, and the trading volume of depositary receipts, the Group concluded that recognition of an impairment loss was not required.

Ozon is one of the largest players in the Russian e-commerce market, representing goods in various categories: electronics, household appliances, home goods and others. It has its own logistics network, operating marketplace technology, a developed web platform. Ozon Holdings PLC is registered in the Republic of Cyprus.

During 2020, Sistema continued to invest in Ozon. In November 2020, Ozon held an initial public offering (IPO) of its shares. Gross proceeds to the company, including the underwriters' overallotment option and the concurrent private placement, where Sistema participated and invested USD 67.5 million (RUB 5,095 million), amounted to approximately USD 1.25 billion. In December 2020, Sistema exercised its right to shares under a subscription agreement signed in Q1 2020 in the amount of RUB 3.1 billion and under the convertible loan agreement in amount of RUB 0.58 billion. As a result of these transactions, Sistema PJSCFC, together with its subsidiary Sistema Venture Capital JSC, owns 33.78% of the voting shares of Ozon as of 31 December 2020.

Global depositary receipts of Ozon Holding PLC are publicly traded. As of 31 December 2020 the market quoted price based value exceeded the carrying value of the investment in Ozon Holdings PLC and amounted to RUB 210.5 billion.

Megapolis-Invest – In December 2020, the Group and Sberbank Investments LLC ("SberInvest"), invested in authorized capital of Megapolis-Invest LLC ("Megapolis-Invest") the amount of RUB 11.0 billion and RUB 3.5 billion, respectively. Additionally, SberInvest provided Megapolis-Invest with debt financing of RUB 10.2 billion. As at 31 December 2020, Megapolis-Invest received these cash funds, however the ownership of SberInvest in the company was not registered in Unified State Register. After the registration of the ownership in 2021, the Group's share in the authorized capital of the Megapolis-Invest amounted to 75.86%. In December 2020, Megapolis-Invest acquired a 64.37% share in Elektrozavod JSC and 100% in Elektrokombinat LLC ("Elektrozavod Group") from certain private investors for RUB 24.7 billion.

Elektrozavod Group includes facilities for the production of transformer equipment in Moscow and Ufa, service units, research and design institutes, an engineering center, as well as land plots in the "Elektrozavodskaya" metro area in Moscow with an area of 19 hectares.

The Group and SberInvest signed the shareholders agreement and agreements granting Sistema the right to acquire in 2022-2023 and SberInvest the right to sell to the Group its stake in the equity capital of Megapolis-Invest in 2023 (hereinafter – Option agreements). The right of claim under loan agreement given by SberInvest to Megapolis-Invest shall be acquired by the Group in any of the events of execution under Option agreements. The fair value of the financial instruments arising from Option agreements is determined on the basis of the Black-Scholes model using the discounted cash flow method when calculating the cost of a stake in Megapolis-Invest. The fair value of the financial instruments as of 31 December 2020 is approximately nil.

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The Group does not have the exclusive right to manage the relevant activities of Megapolis-Invest and therefore the investment is accounted for under equity method.

Element LLC - A single national competence center in the field of microelectronic component base is being created on the basis of the joint venture. The company is registered and operates in the Russian Federation. In December 2020, Element JSC partially repurchased its share for a cash consideration of RUB 100 million. As a result, the Group's share decreased to 49.54%.

"MTS Belarus" is a telecommunications operator in the Republic of Belarus.

Alium JSC develops, manufactures and sells drugs and pharmaceutical substances, biotechnological genetically engineered drugs, including vaccines against hepatitis B. The Company and most of its subsidiaries are legal entities under the laws of the Russian Federation.

The Group together with VTB Bank and a consortium of investors comprising the Russian Direct Investment Fund (RDIF), the Russian-Chinese Investment Fund (RCIF) and several other funds (collectively, the "Investor Consortium") owns a share in "Alium" through Ristango Holding Limited, registered in the Republic of Cyprus.

The following agreements apply to the shares in Ristango Holding Limited held by partners:

- The "Investor Consortium" has the right to sell its stake in Ristango Holding Limited to the Group under certain conditions in January 2026 for amount up to RUB 5.4 billion, which will be reduced by the amount of dividends received by the "Investor Consortium" during the ownership period. The fair value of the financial instrument with the "Investor Consortium" is determined based on the Black-Scholes model using the discounted cash flow method when calculating the value of a stake in Ristango Holding Limited. As of 31 December 2020 and 2019, the fair value of the financial instrument is approximately nil.
The Group has the right to buy a stake in Ristango Holding Limited until July 2022 at the price specified in the agreement.
- Agreement with VTB to acquire its stake in Ristango Holding Limited for RUB 6.7 billion in December 2021. The fair value of the VTB Bank forward is defined as the difference between the redemption price and the fair value of the stake in Ristango Holding Limited, defined by the discounted cash flow method. As of 31 December 2020 the fair value of the financial instrument is RUB 2.4 billion and as of 31 December 2019 is approximately nil. If the value of a stake in Ristango Holding Limited changes by 10%, the fair value of the financial instrument will change by RUB 1.5 billion.

According to the documents under the transaction, the Group has no exclusive right to manage the relevant activities of "Alium" and Ristango Holding Limited, and therefore the investment is accounted for under equity method as of 31 December 2020 and 2019.

Project Michurinsky carries out construction and sale of apartments, as well as construction of a medical center. The company is registered in the Russian Federation.

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Sintez is engaged in the production and sale of medicines and medical devices. The companies belonging to the Sintez group of companies are registered and operate in the Russian Federation.

The Group, together with its financial partner, owns a stake in Sintez through Sinocom Investments Limited, a company registered in the Republic of Cyprus. The Group and the financial partner entered into agreement to acquire its stake in Sinocom Investments Limited in August 2022 for 8.1 billion rubles. Fair value is defined as the difference between the redemption price and the fair value of a stake in Sinocom Investments Limited, defined by the discounted cash flow method. As of 31 December 2020 the fair value of the financial instrument is RUB 1.8 billion and as of 31 December 2019 is approximately nil. If the value of a stake in Sinocom Investments Limited changes by 10%, the fair value of the financial instrument will change by RUB 1.3 billion.

In May 2020 as part of the mandatory offer to Sintez minority shareholders to acquire their common and preferred shares, Sinocom Investments Limited acquired 13,696 ordinary shares and 20,577 preferred shares of Sintez OJSC in the amount of approximately RUB 960 million. As a result, the share of Sinocom Investments Limited in the authorized capital of Sintez OJSC increased from 46.51% to 56.23%.

The percentage of voting rights of the Group in the holding company Sinocom Investment Limited as of 31 December 2020 and 2019 amounted 52.47% and 55.26%, respectively. The percentage of voting rights of Sinocom Investment Limited in Sintez as of 31 December 2020 and 2019 amounted 56.74% and 51.56%, respectively. The Group's share in the profit and loss of Sintez as of 31 December 2020 and 2019 of 1.52% and 1.54% respectively is calculated on the basis of the value of the participants' investments in Sinocom Investment Limited.

According to the transaction documents, the Group has no exclusive right to manage the relevant activities of Sintez and Sinocom Investments Limited and therefore the investment is accounted for investment under equity method as of 31 December 2020 and 2019.

Purchase of share in the fixed-line operator Zelenaya Tochka (MTS) – In February 2020, the Group acquired a 51% share in Achemar Holdings Limited and Clarika Holdings Limited, which own the operating companies of the Zelenaya Tochka Group, which provides fixed-line services in a number of regions of the Russian Federation. The purchase price includes a cash payment in the amount of RUB 1.37 billion. The acquisition of 51% of the shares was accounted for as an investment in a joint venture based on the terms of the shareholder agreement.

Detsky mir – In June and September 2020, the Group sold its residual 13.00% and 20.38% of the share capital of Detsky mir for RUB 8.93 billion and RUB 16.9 billion, respectively.

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Other – During 2020, the Group entered into the following investments in associates and joint ventures:

- *Loss of control over Galichles LLC and Galich Plywood Mill LLC (Segezha Group)* - In March 2020, Segezha Group structured project financing for the construction of a plywood mill in Galich, Kostroma Region, based on 100% of the Group's subsidiaries Galichles LLC and Galich Plywood Mill LLC (collectively, the "Companies"). The Group concluded that, in accordance with the Agreement signed with the bank on the Exercise of Corporate Rights, decisions regarding the relevant activities of the Companies require the unanimous consent of Segezha Group and the bank, and considers them as joint ventures with a 100% of share. The carrying amount of the investment as of 31 December 2020 is nil. Income from deconsolidation is approximate nil.
- *Fancy Show (MTS)* – In 2020, the Group formed a partnership with Fancy Show LLC for the purpose of organizing the production, performance, rental and promotion of the musical "Chess" in Russia. Under the terms of the agreement, the Group was entitled to a 36% share in the partnership's net profit and recognised the investment in the joint venture.
- *Purchase of share in Bionik-Medsi LLC (Medsi)* - In 2020, the Group acquired a 25% share in the associated company for a consideration of RUB 500 million, while the Group received an advance payment of RUB 500 million from Bionik-Medsi LLC for providing medical services to customers over the next 7 years. The rights and obligations arising from these transactions are different in nature, so the Group recognizes the investment in an associate under equity method and the obligation to provide services in the statement of financial position on gross basis.

The Group retained its ownership interests in the remaining projects and continues to account for them as investments in associates and joint ventures as at 31 December 2020.

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The financial position and results of operations of the largest associates and joint ventures (except of individually material joint ventures presented on the next page) as of and for the years ended 31 December 2020 and 2019 were as follows:

	MTS Belarus		Ozon		Real estate projects		Etalon Group		Sintez		Alium		Michurinskiy project	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Non-current assets	20,008	19,496	29,800	19,829	26,429	27,295	15,568	13,429	16,396	16,624	11,131	10,727	1,744	3,347
Current assets	12,705	11,536	124,808	18,902	3,874	3,458	170,951	158,949	7,959	7,333	7,663	5,969	15,978	12,587
Total assets	32,713	31,032	154,608	38,731	30,303	30,753	186,519	172,378	24,355	23,957	18,794	16,696	17,722	15,934
Non-current liabilities	(11,257)	(9,849)	(15,140)	(8,350)	(14,101)	(14,062)	(69,429)	(51,527)	(2,905)	(3,331)	(4,520)	(4,520)	-	(8,309)
Current liabilities	(10,999)	(11,995)	(60,211)	(29,688)	(7,193)	(6,606)	(66,017)	(67,447)	(4,870)	(4,060)	(6,556)	(4,792)	(7,802)	(981)
Total liabilities	(22,256)	(21,844)	(75,351)	(38,038)	(21,294)	(20,668)	(135,446)	(118,974)	(7,775)	(7,391)	(11,076)	(9,312)	(7,802)	(9,290)
Equity attributable to owners of the Company	10,457	9,188	79,257	693	9,009	10,085	51,073	53,404	16,580	16,566	7,718	7,384	9,920	6,644
The Group's share in the profit and loss	49.00%	49.00%	33.78%	42.99%	48%-50%	48.00%	25.58%	23.67%	1.52%	1.54%	24.90%	26.26%	50.00%	50.00%
Fair value adjustment on the date of acquisition	-	-	(14,189)	11,556	688	(172)	465	702	(36)	(52)	2,422	2,341	(731)	(731)
Accumulated impairment	-	-	-	-	(3,581)	(3,317)	-	-	-	-	-	-	-	-
Carrying amount of the														
Group's interest	5,124	4,502	12,584	11,854	1,431	1,352	13,529	13,343	216	204	4,344	4,280	4,229	2,591
Total revenues	36,121	32,593	104,350	60,038	7,862	2,391	78,655	74,809	12,965	4,366	8,336	7,568	11,184	9,039
Total profit/(loss) for the year	10,267	9,354	(22,264)	(21,585)	(5,726)	(1,387)	2,036	(802)	813	170	257	748	3,276	2,419
The Group's share in profit/(loss)	5,031	4,583	(8,428)	(7,834)	(2,748)	(666)	529	(655)	12	3	64	194	1,631	1,210
Total comprehensive income/(loss)	4,836	8,512	(22,264)	(21,585)	(5,726)	(1,387)	2,036	(802)	813	170	257	748	3,276	2,419
The Group's share in comprehensive income/ (loss) for the year	2,370	4,171	(8,428)	(7,834)	(2,748)	(666)	529	(655)	12	3	64	194	1,631	1,210
Dividends paid	(4,212)	(3,587)	-	-	-	-	-	(905)	(884)	-	-	-	-	-

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The following is a summary of the financial information related to the material joint ventures of the Group as of 31 December 2020 and 2019:

	Element LLC		Megapolis-Invest
	31 December 2020	31 December 2019	31 December 2020
Assets			
Current assets, including:	20,148	21,276	7,456
Cash and cash equivalents	1,825	2,231	827
Restricted cash	2,170	3,378	-
Non-current assets	20,056	20,650	28,157
Total assets	40,204	41,926	35,613
Liabilities			
Current liabilities	9,418	10,689	6,405
Non-current liabilities	11,299	11,603	16,022
Total liabilities	20,717	22,292	22,427
Non-controlling interest	2,246	1,600	5,385
Equity attributable to owners of the Company	17,241	18,034	7,802
Group's ownership interest	50%	50%	100%
Fair value adjustment on the date of obtaining significant influence	945	1,025	3,200
Carrying amount of the Group's interest	9,566	10,042	11,002
 Element LLC			
	2020	June-December 2019	
Revenue	23,138	14,365	
Operating expenses, including:	(21,279)	(12,885)	
Amortisation	(2,333)	(1,161)	
Operating income	1,859	1,480	
Non-operating (expenses)/income, including:			
Finance income	-	35	
Finance costs	(989)	(695)	
Profit before tax	707	820	
Income tax expense	(517)	(256)	
Net profit for the period of ownership	190	564	
Attributable to:			
Owners of the company	(453)	418	
Non-controlling interest	643	146	
The Group's share in (loss)/profit of Element LLC	(226)	225	
Total comprehensive income/(loss)	(476)	391	
The Group's share in comprehensive income/(loss) for the year	(226)	225	

The financial results of Megapolis-Invest from the date of establishment of the company to the reporting date are immaterial.

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The following is a summary of the aggregated financial information of other associates and joint ventures that are not individually material:

	2020	2019
Group's share of profit/(loss) from continuing operations	3,730	(2,052)
Group's share of total comprehensive income/(loss)	6,328	(1,613)
Aggregate carrying amount of the Group's interests in these associates and joint ventures	11,831	9,942
Dividends paid	(1,100)	(1,808)

18. PROFIT ON DISPOSAL OF OTHER ASSETS

In 2020, as a result of a series of transactions on the disposal of various assets and related liabilities, the Group made a profit of RUB 11,142 million. The assets sold are mainly represented by property, plant and equipment, receivables, advances issued and contract assets, the total carrying amount of which at the date of disposal was RUB 54,541 million. The total carrying amount of liabilities related to disposed assets at the date of disposal was RUB 46,611 million.

19. OTHER FINANCIAL ASSETS

The Group's financial assets, other than cash and cash equivalents, deposits in banks and accounts receivable shown separately on the face of the consolidated statements of financial position, primarily comprise assets of MTS Bank and East-West United Bank, the Group's subsidiaries engaged in banking activities, and investments of the Corporate segment.

The Group applies expected credit losses model for impairment analysis of financial assets classified at amortised cost. The Group applies the simplified approach for its trade and other receivables which requires recognition of expected credit losses at a lifetime from initial recognition of trade receivables.

Financial assets are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset, except for a financial asset accounted for at fair value through profit or loss, in which case transaction costs are expensed. Subsequently such financial assets are measured either at amortised cost or fair value depending on the classification of those assets.

Financial assets are classified into the following categories depending on their nature and purpose: Financial assets measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVTOCI), financial assets measured at amortised costs.

If the financial assets are held for collecting contractual cash flows in the form of principal and interest on the specified dates, they are classified as carried at amortised cost.

If the financial assets are held not only for collecting contractual cash flows in the form of principal and interest on the specified dates, but also for selling the financial asset, they are classified as measured at fair value through other comprehensive income.

All other financial assets are classified as measured at fair value through profit or loss.

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As of 31 December 2020 and 2019 financial assets, other than those shown separately on the face of the statements of financial position, less allowance for impairment losses, comprise:

	31 December 2020	31 December 2019
Financial assets measured at fair value through profit or loss		
Debt and equity securities	64,950	47,782
Contingent consideration	2,631	2,013
Option contracts	228	-
Derivatives embedded in lease agreements	562	-
Forwards and stock options	4,723	-
Cross-currency derivatives not designated as cash flow hedges	-	52
Currency rate swaps not designated as hedge instruments	4,508	318
	<u>77,602</u>	<u>50,165</u>
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	14,557	8,999
	<u>14,557</u>	<u>8,999</u>
Financial assets measured at amortised cost		
Debt securities	21,949	26,695
Bank loans to customers	131,136	99,228
Interbank loans due from banks	3,386	5,723
Other loans	14,572	13,301
	<u>171,043</u>	<u>144,947</u>
Total other financial assets	<u>263,202</u>	<u>204,111</u>
Current	104,573	87,138
Non-current	158,629	116,973
Total other financial assets	<u>263,202</u>	<u>204,111</u>

The following table summarizes changes in loss allowance for financial assets other than for loan losses and accounts receivable for 2020 and 2019:

	2020	2019
Balance as of 1 January calculated under IFRS 9	5,722	5,951
Charge for the period	1	66
Amounts written off against the allowance	(661)	(258)
Currency translation adjustments	(374)	(37)
Balance as of 31 December calculated under IFRS 9	<u>4,688</u>	<u>5,722</u>

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

As of 31 December 2020 and 2019, financial assets attributable to the Group's banking activities (MTS Bank and its subsidiaries, East-West United Bank) comprise:

	31 December 2020	31 December 2019
Financial assets measured at fair value through profit or loss		
Debt and equity securities	19,586	14,217
	19,586	14,217
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	13,789	8,999
	13,789	8,999
Financial assets measured at amortised cost		
Cash and cash equivalents	35,540	38,777
Bank loans to customers	148,647	111,114
Interbank loans due from banks	3,386	5,723
Debt securities	21,812	25,386
	209,385	181,000
Less: allowance for loan losses	(17,511)	(11,886)
	225,249	192,330

The movement in the allowance for loan losses, attributable to the Group's banking activities, during 2020 and 2019 was as follows:

	2020	2019
Allowance for loan losses, 1 January	11,886	9,862
Charge for the period	8,385	3,533
Amounts written-off against the allowance	(3,281)	(2,022)
Disposal	(282)	(40)
Reversal of allowance written-off	565	829
Currency translation adjustment	238	(276)
Allowance for loan losses, 31 December	17,511	11,886

In accordance with IFRS 9, the Group records an allowance for expected credit losses (ECL) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due under the contract and cash flows that the Group expects to receive. The shortfall is discounted at an approximation to the asset's original effective interest rate.

The expected credit-loss approach uses three stages for allocating impairment losses:

Stage 1: expected credit losses within the next twelve months.

Stage 1 includes all contracts with no significant increase in credit risk since initial recognition and usually contains new contracts that are fewer than 31 days past due date. The portion of the lifetime expected credit losses resulting from default events possible within the next 12 months is recognised.

SISTEMA PJSFC AND SUBSIDIARIES

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Stage 2: expected lifetime credit losses- not credit impaired.

If a financial asset has a significant increase in credit risk since initial recognition but is not yet credit impaired, it is moved to Stage 2 and measured at lifetime expected credit loss. This is defined as the expected credit loss that results from all possible default events over the expected life of the financial instrument.

Stage 3: expected lifetime credit losses – credit impaired

If a financial asset is defined as credit impaired or in default, it is transferred to Stage 3 and measured at lifetime expected credit loss. The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

Movements in impairment loss allowance on loans to legal entities for the year ended 31 December 2020 and 2019 were as follows:

	Stage 1	Stage 2	Stage 3	POCI*	Total
Balance as of 1 January 2020	711	135	4,672	294	5,812
- Transfer to Stage 1	1	(1)	-	-	-
- Transfer to Stage 2	(66)	66	-	-	-
- Transfer to Stage 3	(30)	(47)	77	-	-
New financial assets originated or purchased	458	-	119	-	577
Change due to change of credit risk	(103)	46	38	-	(19)
Sales of financial assets	-	-	(279)	-	(279)
Write-offs	-	-	(513)	-	(513)
Recovery of previously written-off assets	-	-	(1,110)	-	(1,110)
Foreign exchange difference	57	22	205	67	351
Balance as of 31 December 2020	1,028	221	3,209	361	4,819

	Stage 1	Stage 2	Stage 3	POCI*	Total
Balance as of 1 January 2019	356	605	5,126	255	6,342
- Transfer to Stage 1	19	(18)	(1)	-	-
- Transfer to Stage 2	(46)	47	(1)	-	-
- Transfer to Stage 3	(55)	(496)	551	-	-
New financial assets originated or purchased	537	2	-	119	658
Change due to change of credit risk	(45)	42	(374)	(28)	(405)
Sales of financial assets	(40)	-	-	-	(40)
Write-offs	(13)	(32)	(767)	(52)	(864)
Recovery of previously written-off assets	-	-	392	-	392
Foreign exchange difference	(2)	(15)	(254)	-	(271)
Balance as of 31 December 2019	711	135	4,672	294	5,812

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

Movements in impairment loss allowance attributable to loans to individuals for the year ended 31 December 2020 and 2019 were as follows:

	Stage 1	Stage 2	Stage 3	POCI*	Total
Balance as of 1 January 2020	1,808	923	2,978	358	6,067
- Transfer to Stage 1	1,396	(1,172)	(224)	-	-
- Transfer to Stage 2	(415)	594	(179)	-	-
- Transfer to Stage 3	(2)	(3,848)	3,850	-	-
New financial assets originated or purchased	1,226	-	-	-	1,226
Change due to change of credit risk	(914)	4,949	2,843	(230)	6,648
Write-offs	-	-	(1,631)	-	(1,631)
Recovery of previously written-off assets	-	-	382	-	382
Balance as of 31 December 2020	3,099	1,446	8,019	128	12,692

	Stage 1	Stage 2	Stage 3	POCI*	Total
Balance as of 1 January 2019	756	318	2,005	398	3,477
- Transfer to Stage 1	599	(465)	(134)	-	-
- Transfer to Stage 2	(188)	236	(48)	-	-
- Transfer to Stage 3	(2)	(1,228)	1,230	-	-
New financial assets originated or purchased	1,351	-	-	-	1,351
Change due to change of credit risk	(708)	2,062	593	-	1,947
Write-offs	-	-	(1,103)	(40)	(1,143)
Recovery of previously written-off assets	-	-	435	-	435
Balance as of 31 December 2019	1,808	923	2,978	358	6,067

* POCI – financial assets purchased or originated credit-impaired

The following valuation categories represent the Group's classification of credit quality of the loans:

- *Low to fair risk* – loans of high credit quality and low probability of default, not past due or immaterially overdue;
- *Monitoring* – loans with increased probability of default including restructured loans;
- *Impaired* – impaired loans including more than 90 days overdue.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

The table below summarizes information regarding the quality of loans to individuals as of 31 December 2020 and 2019:

31 December 2020:

	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	88,058	-	-	-	88,058
Monitoring	-	3,816	306	-	4,122
Impaired	-	-	9,518	128	9,646
Loss allowance	(3,099)	(1,446)	(8,019)	(128)	(12,692)
Total	84,959	2,370	1,805	-	89,134

31 December 2019:

	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	66,507	138	-	-	66,645
Monitoring	-	2,801	49	358	3,208
Impaired	-	-	3,987	-	3,987
Loss allowance	(1,808)	(923)	(2,978)	(358)	(6,067)
Total	64,699	2,016	1,058	-	67,773

The table below summarizes information regarding the quality of loans to legal entities as of 31 December 2020 and 2019:

31 December 2020:

	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	27,066	2,947	-	-	30,013
Monitoring	6,106	5,868	-	-	11,974
Doubtful	-	-	877	-	877
Impaired	-	-	3,957	-	3,957
Loss allowance	(983)	(266)	(3,570)	-	(4,819)
Total	32,189	8,549	1,264	-	42,002

31 December 2019:

	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	19,314	1,728	-	-	21,042
Monitoring	7,396	2,472	-	-	9,868
Impaired	-	-	6,055	301	6,356
Loss allowance	(711)	(135)	(4,672)	(294)	(5,812)
Total	25,999	4,065	1,383	7	31,454

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Analysis by credit quality of loans to individuals outstanding as of 31 December 2020 is as follows:

As of 31 December 2020	Gross loans	Impairment loss allowance	Net loans	Impairment loss allowance to gross loans
Collectively assessed				
Not past due	88,056	(3,101)	84,955	4%
Overdue:				
up to 30 days	2,370	(507)	1,863	21%
31 to 60 days	841	(506)	335	60%
61 to 90 days	605	(432)	173	71%
91 to 180 days	1,739	(1,373)	366	79%
over 180 days	7,523	(6,431)	1,092	85%
Total collectively assessed	101,134	(12,350)	88,784	12%
Individually impaired				
Not past due	256	(90)	166	34%
Overdue:				
up to 30 days	46	(12)	34	26%
31 to 60 days	7	-	7	0%
61 to 90 days	-	-	-	0%
91 to 180 days	6	-	6	0%
over 180 days	377	(240)	137	64%
Total individually impaired	692	(342)	350	49%
Total	101,826	(12,692)	89,134	12%

Analysis by credit quality of loans to small and medium-sized enterprises outstanding as of 31 December 2020 is as follows:

As of 31 December 2020	Gross loans	Impairment loss allowance	Net loans	Impairment loss allowance to gross loans
Collectively assessed				
Not past due	1,025	(16)	1,009	2%
Overdue:				
up to 30 days	29	(6)	23	21%
31 to 60 days	8	(3)	5	37%
61 to 90 days	8	(5)	3	64%
91 to 180 days	22	(12)	10	55%
over 180 days	644	(407)	237	63%
Total collectively assessed loans	1,736	(449)	1,287	26%

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The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Group:

	31 December 2020	31 December 2019
Loans collateralized by cash deposits	817	4,246
Loans collateralized by guaranties of legal entities	32,346	16,630
Loans collateralized by pledge of real estate	18,733	15,102
Loans collateralized by pledge of own promissory notes	-	27
Loans collateralized by pledge of equipment	100	496
Loans collateralized by securities	2,058	1,349
Loans collateralized by rights of claim	-	15
Loans collateralized by pledge of inventories	165	2
Unsecured loans	94,428	73,233
Impairment loss allowance	<u>(17,511)</u>	<u>(11,879)</u>
Total loans to customers, net	<u>131,136</u>	<u>99,221</u>

20. RESTRICTED CASH

According to the amendments to the law "On State Defence Orders", cash received under state defence orders has to be held on special accounts and its spending is restricted to activities related to these orders. As of 31 December 2020, RTI and other companies have RUB 4,310 million and as of 31 December 2019 RTI has RUB 5,689 million of cash on special accounts which are presented as restricted cash within current assets.

21. INVENTORIES

Inventory mainly include the retail network of MTS and raw materials of Segezha Group and material and technical product of RTI.

Inventory should be accounted at the lower of net realisable value and carrying amount. The Group periodically assesses its inventories for obsolete or slow-moving stock.

The cost of raw materials includes the cost of purchase, customs duties, transportation and handling costs. Work-in-progress and finished goods are stated at production cost which includes direct production expenses and manufacturing overheads.

Inventories as of 31 December 2020 and 2019 consisted of the following:

	2020	2019
Raw materials and spare parts	16,002	13,721
MTS finished goods and goods for resale	15,204	15,515
Other finished goods and goods for resale	5,760	6,983
Other work-in-progress	<u>9,483</u>	<u>9,110</u>
Total	<u>46,449</u>	<u>45,329</u>

SISTEMA PJSFC AND SUBSIDIARIES

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The cost of inventories recognised as an expense during the year in respect of continuing operations was RUB 110,389 million (2019: RUB 90,211 million). The cost of inventories recognised as an expense includes RUB 2,174 million (2019: RUB 3,178 million) in respect of write-downs of inventory to net realisable value and has been reduced by RUB 674 million (2019: RUB 664 million) in respect of the reversal of such write-downs.

22. ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the customers to the Group.

The carrying value of all trade receivables is reduced by appropriate allowances for ECL. For trade receivables the Group applies a simplified approach and calculates ECL based on lifetime expected credit losses.

Accounts receivable, net of allowances, as of 31 December 2020 and 2019 consisted of the following:

	2020	2019
Accounts receivable	63,547	61,250
Allowance for ECL	<u>(7,089)</u>	<u>(6,547)</u>
Total	<u>56,458</u>	<u>54,703</u>

Below is the age analysis of receivables that are past due but not impaired:

	2020	2019
60-90 days	1,064	1,396
more than 91 days	<u>2,709</u>	<u>2,775</u>
Total	<u>3,773</u>	<u>4,171</u>

Movement in the allowance is as follows:

	2020	2019
Balance at the beginning of the year	(6,547)	(6,875)
Charge for the period	(5,560)	(5,476)
Amounts written-off against allowance	4,847	4,633
(Acquisition)/disposal of subsidiaries	(13)	659
Allowance recovery	437	291
Currency exchange (loss)/gain	<u>(253)</u>	<u>221</u>
Balance at the end of the year	<u>(7,089)</u>	<u>(6,547)</u>

SISTEMA PJSFC AND SUBSIDIARIES

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23. EQUITY

Share capital – As of 31 December 2020 and 2019, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,506,184,291 and 9,378,196,750 shares were outstanding, respectively.

Treasury shares – Movement of treasury shares during 2020 and 2019 years in quantity was as follows:

	2020	2019
Balance at the beginning of the year	271,803,250	170,829,468
Purchase of own shares	-	120,643,171
Sale of own shares	(21,539,922)	(19,669,389)
Settlements under long-term motivation program	(106,447,619)	-
Balance at the end of the year	143,815,709	271,803,250

Dividends – Dividends declared to the holders of the Company's ordinary shares are included in the financial statements in the period in which the dividends are approved for distribution by the shareholders.

On 29 June 2020, an annual general meeting of shareholders approved the total dividend payment of RUB 1,254.5 million (including dividends on treasury shares of RUB 33.8 million) representing RUB 0.13 per ordinary share or RUB 2.6 per one global depository receipt. The dividends were paid in 2020.

24. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income balance, net of taxes, as of 31 December 2020 and 2019:

	2020	2019
Cumulative effect of translation to the reporting currency	22,627	10,405
Unrecognised actuarial income	303	303
Total accumulated other comprehensive income	22,930	10,708
Less: attributable to non-controlling interests	(4,177)	(3,256)
Total accumulated other comprehensive income, attributable to Shareholders of Sistema PJSFC	18,753	7,452

SISTEMA PJSFC AND SUBSIDIARIES

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25. LOANS AND BORROWINGS

The Group's borrowings primarily comprise bank loans and corporate bonds. The Group enters into variable-to-fixed interest rate swap agreements to manage exposure to changes in variable interest rates related to a portion of its obligations, as well as into cross-currency interest-rate swap agreements to mitigate the impact of both, interest rate and exchange rate fluctuations, for a certain portion of its USD- and Euro-denominated borrowings.

Borrowings are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

Finance costs in profit or loss consist of interest expense for financial liabilities not classified as at FVTPL. In 2020, finance costs did not include borrowing costs that were included in the cost of qualifying assets in amount of RUB 581 million (2019: RUB 550 million).

At 31 December 2020 and 2019, the Group's borrowings comprised:

	2020	2019
Bank loans	367,769	349,964
Corporate bonds	346,204	266,616
Other	9,988	4,290
Total	723,961	620,870
Current	83,391	129,454
Non-current	640,570	491,416

Bank loans – As of 31 December 2020 and 2019, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 31 December 2020)	31 December 2020	31 December 2019
			2020	2019
EUR-denominated:				
ING Bank	2021-2027	EURIBOR+1.5% (4.13%)	4,490	3,879
Alfa Bank	2021-2028	3.08%	18,136	13,868
Sberbank	2021-2024	2.92%-3.0%	12,792	5,529
Other			1,434	1,066
			36,852	24,342
RUB-denominated:				
Sberbank	2021-2028	5.99%-11.2% 7.00%; CB+0.5%- 4.8% (4.75%-	143,034	185,558
VTB	2021-2026	9.05%)	139,929	68,877
Rosselkhozbank		6.85%-9.3%;	-	5,000
Gazprombank	2021-2025	CB+1.65% (5.9%) 9.25%-9.5%;	16,682	8,266
Otkrytie	2021-2025	CB+1.5% (5.75%) 8.20%-10.92%	4,020	17,524
Alfa Bank	2021-2030	CB+2% (6.25%)	25,932	28,931
Other			1,149	11,276
			330,746	325,432
Other currencies				
Total bank loans			367,769	349,964

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Corporate notes – As of 31 December 2020 and 2019, the Group's notes consisted of the following:

	Currency	Interest rate	31 December 2020	31 December 2019
MTS International 2023	USD	5.00%	32,596	27,394
MTS International 2020	USD	8.63%	-	18,616
MTS Notes 2025	RUB	8.00%	14,987	14,984
MTS Notes 2022	RUB	7.70%	14,980	14,969
MTS Notes 2023	RUB	6.85%	14,971	14,961
MTS Notes 2027	RUB	6.60%	14,970	-
Sistema PJSFC March 2027	RUB	8.90%	10,623	14,959
Sistema PJSFC May 2030	RUB	6.60%	14,723	-
MTS Notes 2026	RUB	7.90%	9,998	9,998
MTS Notes 2022	RUB	9.00%	9,998	9,995
MTS Notes 2021	RUB	8.85%	9,999	9,995
Sistema PJSFC July 2030	RUB	6.35%	9,218	-
Sistema PJSFC January 2028	RUB	10.00%	9,980	9,994
MTS Notes 2021	RUB	7.10%	9,997	9,992
MTS Notes 2022	RUB	6.45%	9,988	9,973
MTS Notes 2025	RUB	7.25%	9,816	9,820
MTS Notes 2024	RUB	8.70%	9,766	9,764
Sistema PJSFC February 2029	RUB	9.90%	3,800	9,661
Sistema PJSFC August 2030	RUB	6.70%	9,846	-
Sistema PJSFC November 2026	RUB	6.85%	9,694	9,650
Sistema PJSFC October 2029	RUB	7.85%	9,649	9,601
Sistema PJSFC March 2029	RUB	9.90%	9,626	9,527
Sistema PJSFC July 2029	RUB	9.40%	9,607	9,429
Sistema PJSFC October 2026	RUB	6.35%	6,171	6,123
Segezha Group JSC	RUB	7.10%	9,482	-
MTS Notes 2023	RUB	6.50%	9,860	9,351
MTS Notes 2022	RUB	5.50%	9,983	-
MTS Notes 2024	RUB	8.60%	7,488	7,485
MTS Notes 2027	RUB	6.60%	6,980	-
Sistema PJSFC November 2030	RUB	6.10%	4,750	-
MTS Notes 2022	RUB	8.40%	4,994	4,991
MTS Notes 2026	RUB	6.60%	4,990	-
Sistema PJSFC November 2030	RUB	6.75%	14,000	-
Sistema PJSFC September 2025	RUB	9.75%	4,207	4,196
Business Nedvizhimost 2024	RUB	7.90%	3,319	-
MTS Notes 2031	RUB	7.50%	891	891
Sistema PJSFC February 2028	RUB	9.25%	244	244
MTS Notes 2020			-	40
Other			13	13
Total			346,204	266,616

The Group has an unconditional obligation to repurchase certain notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. Such notes are disclosed maturing in the reporting period when the demand for repurchase could be submitted, irrespective of the Group's expectations about the intentions of the noteholders.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

The dates of the announcement for each particular note issue are as follows.

MTS Notes 2031	March 2021
Sistema PJSFC January 2028	January 2021
Sistema PJSFC February 2029	March 2022
Sistema PJSFC September 2025	April 2022
Sistema PJSFC March 2027	April 2022
Sistema PJSFC March 2029	October 2022
Sistema PJSFC November 2030	March 2023
Sistema PJSFC July 2030	April 2023
Sistema PJSFC July 2029	July 2023
Sistema PJSFC October 2026	November 2023
Sistema PJSFC November 2026	February 2024
Sistema PJSFC May 2030	May 2024
Sistema PJSFC February 2028	August 2024
Sistema PJSFC August 2030	September 2024
Sistema PJSFC October 2029	October 2024
Sistema PJSFC November 2030	June 2025

Covenants – Loans and notes payable by the Group are subject to various restrictive covenants and events of default, which permit lenders to demand accelerated repayment of debt. Such covenants and events include noncompliance with certain financial ratios, cancellation of principal telecom licenses, significant court rulings, encumbrances and confiscation of certain assets and other material adverse changes.

As of 31 December 2020 and 2019, the Group had long-term debt denominated in Russian rubles, presented as part of current liabilities in the consolidated statement of financial position for the following reasons:

	2020	2019
Violation of other non-financial restrictive conditions	-	11,312
Failure of subsidiaries to comply with a certain level of certain financial indicators	-	799
Total	12,111	

Assets pledged as security – As of 31 December 2020 and 2019, land and buildings with carrying amounts of RUB 42,254 million and RUB 35,206 million, respectively, have been pledged to secure borrowings of the Group. The freehold land and buildings have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. As of 31 December 2020 and 2019, other assets including inventories and deposits with carrying amounts of RUB 5,820 million, RUB 2,943 million respectively have been pledged to secure borrowings of the Group.

The following shares of the Group have been pledged to secure borrowings of the Group: 87% shares of RTI and 100% shares of certain subsidiaries of Segezha Group, Agroholding "Steppe", Hospitality assets.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

26. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

The Group assesses whether a contract is or contains a lease at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements (including sub-lease and lease of intangible assets), which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expense on a straight-line basis over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate non-lease components of the contract and, instead, to account for any lease and associated non-lease components as a single arrangement.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate of the respective companies of the Group.

The following table presents a summary of net book value of right-of-use assets:

	31 December 2020	31 December 2019
Sites for placement of network and base station equipment	94,510	92,942
Land and buildings	58,378	60,422
Other	215	1,501
Right-of-use assets, net	153,103	154,865

Depreciation of the right-of-use assets for the year ended 31 December 2020 and 2019, included in the depreciation and amortisation of fixed assets, intangible assets and the right-of-use assets in the accompanying consolidated statement of profit or loss. Amounts of RUB 4 million and RUB 8 440 million, respectively, were recognised as part of the financial result from discontinued operations in the accompanying consolidated statement of profit or loss.

Depreciation of the right-of-use assets included in depreciation and amortisation expense in the accompanying consolidated statement of profit or loss was as follows:

	2020	2019
Sites for placement of network and base station equipment	7,224	6,900
Land and buildings	14,241	20,294
Other	70	1,466
Depreciation charge, total	21,535	28,660

Additions to right-of-use assets during the year ended 31 December 2020 amounted to 17,954 million and for the year ended 31 December 2019 amounted to RUB 28,976 million.

Interest expenses on lease obligations for the year ended 31 December 2020 and 2019, were included in finance expenses in the accompanying consolidated statement of profit or loss. Wherein amounts of RUB 2 million and RUB 3,600 million, respectively, were recognised as part of the financial result from discontinued operations in the accompanying consolidated statement of profit or loss.

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The following table presents expenses related to lease, recognised in the consolidated statement of profit or loss for:

	2020	2019
Depreciation of right-of-use assets	21,535	28,660
Interest expense on lease liabilities	14,471	18,866
Impairment	-	436
Expenses relating to variable lease payments not included in the measurement of the lease liability	9,641	8,522

The following table presents future minimum lease payments under lease arrangements together with the present value of the net minimum lease payments as of 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Minimum lease payments, including:		
Less than 1 year	30,634	30,382
From 1 to 5 years	109,250	109,353
Over 5 years	127,510	140,368
Total minimum lease payments	267,394	280,103
Less amount representing interest	(101,819)	(114,478)
Present value of net minimum lease payments, including:		
Less than 1 year	17,772	16,060
From 1 to 5 years	70,833	67,636
Over 5 years	76,970	81,929
Total present value of net minimum lease payments	165,575	165,625
Less current portion of lease obligations	(17,772)	(16,060)
Non-current portion of lease obligations	147,803	149,565

Total cash outflows for leases for the year ended 31 December 2020 amounted to RUB 30,922 million (31 December 2019: RUB 42,809 million), including interest paid in amount of RUB 13,828 million (31 December 2019: RUB 18,507 million).

27. BANK DEPOSITS AND LIABILITIES

Liabilities of MTS Bank and EWUB primarily consist of customer accounts and deposits. These liabilities are initially measured at fair value, net of transaction costs. Liabilities are subsequently measured at amortised cost using the effective interest method and classified based on their contractual maturity.

Bank deposits and liabilities as of 31 December 2020 and 2019 consisted of the following:

	2020	2019
Customer accounts	170,273	151,419
Bank loans received	24,644	12,305
Debt securities issued	1,897	1,421
Other liabilities	2,731	1,417
	199,545	166,562
Less: amounts maturing within one year	(195,346)	(160,511)
Total bank deposits and liabilities, net of the current portion	4,199	6,051

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28. OTHER FINANCIAL LIABILITIES

Other financial liabilities as of 31 December 2020 and 2019 consisted of the following:

	31 December 2020	31 December 2019
Obligations to pay for the share in the Element LLC	816	1,568
Factoring operations liability	920	1,264
Steppe subsidiaries repo transactions on shares	2,049	-
MTS liabilities related to hedging activities	-	955
Contingent obligation to pay purchase price	1,067	917
Forwards not designated as hedge instruments	-	366
MTS liabilities under put option agreement	55	73
Interest rate and cross-currency swaps not designated as hedging instruments	943	68
Other	1,627	1,784
Non-current	3,745	3,526
Current	3,732	3,469
Total other financial liabilities	7,477	6,995

29. PROVISIONS

Provisions primarily consist of provisions related to employees' bonuses and other rewards, decommissioning and restoration obligations.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Provisions as of 31 December 2020 and 2019 consisted of the following:

	31 December 2020	31 December 2019
Employees' bonuses and other rewards	9,246	11,123
Provisions for decommissioning and restoration	5,273	4,788
Tax provisions other than for income tax	792	541
Litigations and other	8,689	4,206
Total	24,000	20,658
Current	16,612	14,910
Non-current	7,388	5,748

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	Employees' bonuses and other rewards	Provisions for decommissioning	Tax provisions other than income tax	Provision on SEC investigation	Other	Total
Balance as of 1 January 2019	(11,624)	(3,109)	(252)	(59,050)	(3,577)	(77,612)
Additional provisions recognised	(17,863)	(2,341)	(410)	-	(2,302)	(22,916)
Payments	16,796	19	41	55,607	1,529	73,992
Unwinding of discount and effect of changes in the discount rate	(12)	42	-	-	-	30
Unused amounts reversed	817	-	34	-	1,081	1,932
Transfer to financial liabilities	(303)	-	-	-	(803)	(1,106)
Transfer to liabilities held for sale	771	760	50	-	126	1,707
Currency translation adjustment	295	(159)	(4)	3,443	(260)	3,315
Balance as of 31 December 2019	(11,123)	(4,788)	(541)	-	(4,206)	(20,658)
Additional provisions recognised	(15,779)	(914)	(593)	-	(6,305)	(23,591)
Payments	17,776	54	333	-	1,100	19,263
Unwinding of discount and effect of changes in the discount rate	67	(138)	1	-	(74)	(144)
Unused amounts reversed	(125)	513	8	-	297	693
Currency translation adjustment	(62)	-	-	-	499	437
Balance as of 31 December 2020	(9,246)	(5,273)	(792)	-	(8,689)	(24,000)

30. EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share is the amount of earning/(loss) for the year attributable to ordinary shares of the Company divided by the weighted average number of ordinary shares outstanding during the year.

The earnings/(loss) and weighted average number of ordinary shares used in the calculation of basic and diluted earnings/(loss) per share are as follows.

	2020	2019
Earning for the year from discontinued operations attributable to shareholders of Sistema PJSFC	1,650	62,363
Earnings/(loss) for the year from continuing operations attributable to shareholders of Sistema PJSFC	8,566	(33,766)
Earnings used in the calculation of basic and diluted earnings per share	10,216	28,597
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	9,394,766,486	9,473,323,272
Earnings/(loss) per share – basic and diluted	1.09	3.02
From continuing operations	0.91	(3.56)
From discontinued operations	0.18	6.58

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31. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management – The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net loans and borrowings (loans and borrowings offset by cash and cash equivalents) and equity of the Group.

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and adjusts it, in light of changes in economic conditions. The Group may sell assets to reduce debt, maintain or adjust the capital structure.

The Board of Directors monitors the net loans and borrowings to OIBDA ratio. Since these are not IFRS measures, the Group's definition of OIBDA and net borrowings may differ from that of other companies. The Group's net borrowings to OIBDA ratio was as follows:

	2020	2019
Net loans and borrowings	610,268	557,201
OIBDA	<u>229,896</u>	<u>201,787</u>
Net loans and borrowings to OIBDA ratio	<u>2.65</u>	<u>2.76</u>

The Group is subject to certain externally imposed capital requirements and restrictions that are incorporated into the management of capital.

MTS Bank – The CBR requires that banks comply with the minimum capital adequacy ratio of 8% calculated based on statutory standalone financial statements. MTS Bank met the requirements established by the CBR. As of 31 December 2020 and 2019, MTS Bank's capital adequacy ratio was 12.82% and 14.1% respectively.

Financial risk management objectives – The Board of Directors has overall responsibility for the establishment and ongoing management of the Group's risk management framework, and the implementation and operation of the Board's policies are handled by the Management Board.

The Management Board monitors and manages the financial risks relating to the operations of the Group through internal management reports, which analyses exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), liquidity risk and credit risk.

Foreign currency risk – Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies and is primarily exposed to the US Dollar and Euro.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Ruble, US Dollar and Euro and by using certain derivative instruments (Note 32).

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The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (excluding hedged items) at the year-end are as follows:

	Liabilities		Assets	
	2020	2019	2020	2019
US Dollar	63,451	77,677	46,968	30,279
Euro	51,432	27,801	8,607	17,570

The table below details the Group's sensitivity to the strengthening of the US Dollar and Euro against the Russian Ruble. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the year-end denominated in the respective currencies.

	Increase in US Dollar and Euro	Decrease in profit before tax
2020	30%	17,792
2019	30%	17,289

The effect of a corresponding strengthening of the Russian Ruble against the US Dollar and EUR is equal and opposite.

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect finance costs. The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by using certain derivative instruments (Note 32).

A change of floating rates by 1% applied to the borrowings (excluding hedged items) would not significantly affect operations of the Group.

Fixed rate loan agreements often stipulate creditor's right to increase interest rates under certain circumstances, including increase of the key rate of the Central Bank of Russia. Therefore, in addition to the effect from changes in floating interest rates, the Group is also exposed to interest rate risk arising from these agreements.

Other price risks – Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. These changes may be caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The sensitivity analysis below has been determined based on the exposure to price risks at the end of the reporting period. Sensitivity analysis was prepared on pre-tax basis.

If prices of securities as of the year-end had been higher/lower:

	Increase in prices	Profit before tax increase	Other comprehensive income increase
2020	30%	9,311	3,309
2019	30%	6,841	2,160

The effect of a corresponding decrease in prices of securities is equal and opposite.

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Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due.

The Group's liquidity position is monitored and managed at the level of operating segments. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows, by matching the maturity profiles of financial assets and liabilities and by maintaining available credit facilities.

As of 31 December 2020, the schedule of repayments of financial liabilities (except for lease liabilities, which is presented in Note 26) of the Group for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
Loans and borrowings	83,391	140,016	143,218	128,189	162,033	67,114
Accounts payable	102,148	-	-	-	-	-
Bank deposits and liabilities	195,346	2,939	630	420	210	-
Other financial liabilities	3,732	661	3,084	-	-	-
Total financial liabilities	384,617	143,616	146,932	128,609	162,243	67,114

For day to day liquidity requirements the Group had unused credit facilities of RUB 428,363 million as 31 December 2020 (31 December 2019: RUB 536,797 million).

Credit risk – Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group is exposed to credit risks on cash and cash equivalents, deposits, derivatives and certain other financial instruments with financial institutions, loans and receivables carried at amortised cost and debt securities.

The determination of whether a financial asset has experienced a significant increase in credit risk is based on an assessment of the probability of default, which is made at least quarterly, incorporating external credit rating information as well as internal information on the credit quality of the financial asset. For debt instruments that are not receivables from financial services, a significant increase in credit risk is assessed mainly based on past-due information.

For contract assets, trade and other receivables, a simplified approach is applied whereby ECL are initially measured over the lifetime of the instrument.

Financial assets in financial institutions – the Group maintains mixture of cash and cash equivalents, deposits, derivatives and certain other financial instruments in financial institutions. These financial institutions are located in different geographical regions and the Group's policy is designed to limit exposure to any one institution. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions.

As of 31 December 2020 and 2019, the Group has a significant cash balances, cash equivalents and deposits in the following financial institutions:

	31 December 2020	31 December 2019
The Central bank of the Russian Federation	16,304	18,776
The Central bank of Luxemburg	9,240	12,819
VTB	17,797	5,148
Sberbank	10,673	3,852
Total	54,014	40,595

Bank loans to customers and interbank loans due to the banks – MTS Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the MTS Bank's risk management policy are not breached. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical segments.

Other loans and receivables carried at amortised cost – Concentrations of credit risk with respect to loans and trade receivables are limited given that the Group's customer base is large and unrelated. Management believes there is no further credit risk provision required in excess of ECL allowance.

32. DERIVATIVE INSTRUMENTS

The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them either other current or other non-current financial assets or liabilities in the consolidated statement of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews related fair value hierarchy classifications on a quarterly basis. The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments.

Gain and losses from changes in the fair value are recorded immediately in profit or loss.

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

Cross-currency interest rate swap agreements – The Group has entered into several cross-currency interest rate swap agreements. The contracts are designated to manage the exposure to changes in currency exchange rate. The contracts assumed periodic exchange of principal and interest payments from RUB-denominated amounts to USD- and Euro-denominated amounts at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2023-2024.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure to changes in currency exchange rate for 43% of the Group's bank loans denominated in USD and EUR outstanding as of 31 December 2020 (2019: 26%).

The notional amounts related to currency derivative instruments amounted to RUB 29,663 million and 18,572 million as of 31 December 2020 and 2019 respectively.

The Group has entered into currency forward and swaps agreements to minimize the foreign currency risk exposure for operating activities. The contracts assumed the purchase or sale of the agreed amount of currency at a specified exchange rate and on a specific date. The rate was determined by the market spot rate upon issuance. As the result of currency forward and swap agreements, unfulfilled as of 31 December 2020 and 2019, the Group recognised RUB 1,136 million gain and RUB 701 million gain in the consolidated statement of profit or loss for the 2020 and 2019, respectively.

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The notional amounts of currency forward and swap instruments, unfulfilled as of 31 December 2020 and 2019 was RUB 7,911 million and RUB 69,535 million, respectively.

Fixed-to-variable interest rate swap agreements – The Group's notes and bank loans denominated in Russian Rubles bear primarily fixed interest rates. To eliminate the exposure to changes in fair value of debt obligations, the Group enters into fixed-to-variable interest rate swap agreements. In aggregate the Group entered into fixed-to-variable interest rate swap agreements designated to manage the exposure to changes in value of the debt related to 5% of the Group's notes and bank loans with fixed rates outstanding as of 31 December 2020 (2019: 3%).

The notional amounts related to interest rate derivative instruments amounted to RUB 29,663 million and RUB 25,387 million as of 31 December 2020 and 2019, respectively.

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33. FAIR VALUES

The following fair value hierarchy table presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 31 December 2020 and 2019. Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. Level 1 classification comprises financial instruments where fair value is determined by unadjusted quoted prices in active markets for identical assets or liabilities that the Group can access at the measurement date; Level 2 – from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; Level 3 – from unobservable inputs.

	31 December 2020				31 December 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
At fair value through other comprehensive income	13,789	-	768	14,557	8,999	-	-	8,999
Contingent consideration asset related to the sale of business	-	-	2,631	2,631	-	-	2,013	2,013
At fair value through profit or loss	31,035	14,587	29,349	74,971	22,804	7,800	17,547	48,151
	44,824	14,587	32,748	92,159	31,803	7,800	19,560	59,163
Financial liabilities								
Derivative instruments	-	(943)	-	(943)	-	(1,389)	-	(1,389)
Contingent considerations	-	-	(1,067)	(1,067)	-	-	(907)	(907)
Liabilities under put option agreements	-	-	(55)	(55)	-	-	(73)	(73)
	-	(943)	(1,122)	(2,065)	-	(1,389)	(980)	(2,369)

The fair value of financial assets and liabilities categorised into Level 3 is primarily measured using the discounted cash flows technique. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and jurisdiction in which the investee operates.

In 2020, the Group started to present Changes in the fair value of financial instruments separately from Finance income, Finance costs and Currency exchange (loss)/gain in the consolidated statement of profit or loss. The consolidated statement of profit or loss for 2019 was changed accordingly.

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There were no changes made during the year to valuation methods or the processes to determine classification and no transfers were made between the levels in the fair value hierarchy. Carrying value of the Group's financial instruments accounted for at amortised cost approximates their fair value due to their short-term nature and market interest rates, except for borrowings as disclosed in the table below:

	31 December 2020		31 December 2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Loans and borrowings	723,961	734,919	620,870	629,374

The table below presents the change in fair value of financial assets and liabilities of Level 3 as of 31 December 2020 and 2019.

	Liabilities under put option agreements	Other financial assets	Other financial liabilities	Total
Balance as of 1 January 2019	(3,735)	16,693	(936)	12,022
Total gains/(losses):				
- in profit or loss	(1,805)	1,016	29	(760)
- in other comprehensive income	-	(781)	-	(781)
Disposals	-	(2,420)	-	(2,420)
Repayments	5,467	-	-	5,467
Business sale result	-	2,013	-	2,013
Purchases	-	3,039	-	3,039
Balance as of 31 December 2019	(73)	19,560	(907)	18,580
Total gains/(losses):				
- in profit or loss	53	9,909	(68)	9,894
- in other comprehensive income	-	2,746	-	2,746
Reclassifications to other categories	-	(97)	-	(97)
Disposals	-	(1,217)	-	(1,217)
Repayments	-	(112)	-	(112)
Purchases	(35)	1,959	(92)	1,832
Balance as of 31 December 2020	(55)	32,748	(1,067)	31,626

During 2020 and 2019, unrealized gains or losses were not recognised as a result of the assessment of Level 3 liabilities at fair value.

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34. RELATED PARTY TRANSACTIONS

The Group has a number of related parties including its controlling shareholder and entities under common control, associates and joint ventures, and key management personnel.

Trading transactions – The Group's trading transactions with related parties that are not members of the Group comprise sales and purchases of goods and services in the normal course of business. The counterparties for these transactions are predominantly associates and joint ventures.

During the year ended 2020 sales to related parties comprised RUB 1,234 million (2019: RUB 805 million), purchases from related parties comprised RUB 6,642 million (2019: RUB 744 million). As of 31 December 2020, trade balances receivable from and payable to related parties comprised RUB 5,626 million and RUB 2,083 million, respectively (31 December 2019: RUB 4,111 million and RUB 1,005 million). Bank loans to related parties as of 31 December 2020 are amounted to RUB 4,195 million (31 December 2019: RUB 2,877 million). Debt obligations to related parties as of 31 December 2020 are RUB 5,785 million (31 December 2019: RUB 688 million).

Dividends received – In 2020, the Group received dividends from MTS Belarus in the amount of RUB 4,212 million (2019: RUB 3,587 million), Etalon Group in the amount of RUB 905 million (2019: 884 million) and Detsky mir in the amount of RUB 452 million (2019: 1,248 million).

Financial transactions – The Group's financial transactions with related parties primarily comprise loans, deposits and other debt instruments issued to or by the Group entities. At 31 December 2020 and 2019, amounts owed by or to related parties under such arrangements are as follows:

	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Controlling shareholder and entities under common control	20,919	13,594	30,483	24,159
Key management personnel	-	-	5,482	4,657
Other related parties	-	-	5,090	4,634

Finance costs related to such transactions with related parties and recognised in the consolidated statement of profit or loss in 2020 amounted to RUB 1,494 million (2019: RUB 1,653 million).

Turnover from other financial transactions with related parties for the twelve months ended 31 December 2020 amounted to RUB 9,184 million.

Compensation of key management personnel – In 2020 and 2019, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board was as follows:

	2020	2019
Short-term benefits	3,507	4,383
Share-based payments	2,857	-
	6,364	4,383

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35. SUBSIDIARIES

Details of the Group's most material direct subsidiaries at the end of the year are as follows:

Significant entities	Short name	Principal activity	Beneficial ownership as of 31 December	
			2020	2019
Mobile TeleSystems PJSC	MTS	Telecommunications	50.02%	50.01%
Medsi Group JSC	Medsi	Healthcare services	95.49%	96.94%
Bashkirian Power Grid Company JSC	BPGC	Energy transmission	90.96%	90.96%
Segezha Group JSC	Segezha Group	Pulp and paper	98.33%	98.33%
Agroholding Steppe JSC	Steppe	Agriculture	92.82%	92.82%

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Principal place of business	Profit allocated to non- controlling interests		Accumulated non-controlling interests	
		2020	2019	2020	2019
MTS	Russia	30,672	27,116	13,601	15,783

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations. The consolidated financial information presented below is indicative of pre-exclusion of intra-group transactions.

	MTS	
	2020	2019
Current assets	262,354	194,589
Non-current assets	656,849	629,321
Total assets	919,203	823,910
Current liabilities	328,614	348,457
Non-current liabilities	557,899	439,060
Total liabilities	886,513	787,517
Equity attributable to shareholders of Sistema	15,100	17,285
Non-controlling interests	17,590	19,109
Revenue	494,926	476,105
Expenses	(432,852)	(421,007)
Profit for the year	62,074	55,098
Profit attributable to shareholders of Sistema	30,741	27,124
Profit attributable to the non-controlling interests	31,333	27,974
Other comprehensive income attributable to shareholders of Sistema	822	4,224
Other comprehensive income attributable to the non-controlling interests	822	4,207
Other comprehensive income for the year	1,644	8,431
Total comprehensive income attributable to shareholders of Sistema	31,563	31,348
Total comprehensive income attributable to the non-controlling interests	32,155	32,181
Total comprehensive income for the year	63,718	63,529

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	MTS	
	2020	2019
Dividends accrued to non-controlling interests	25,935	38,273
Net cash inflow from operating activities	155,507	106,653
Net cash outflow from investing activities	(81,133)	(29,554)
Net cash outflow from financing activities	<u>(27,360)</u>	<u>(120,448)</u>
Net cash inflow/(outflow)	<u>47,014</u>	<u>(43,349)</u>

36. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities, which are not, reflected in the consolidated statements of cash flows:

	2020	2019
Additions to right-of-use assets	17,954	27,951
Offsetting of counter-obligations	13,532	-
Equipment and licenses acquired under capital leases	12,701	674
Employee benefits	3,933	1,601
Exchange of shares	-	2,365
Acquisition of non-controlling interest	-	3,629
Fair value of consideration with subsidiary's equity instruments	2,625	-
Fair value of contingent consideration	-	(2,045)
Deferred payment	-	(775)

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37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2020	Cash flows from financial activities (i)	Cash flows from operation activities (ii)	Non-cash changes				31 December 2020
				Disposal/ acquisition of subsidiaries (Note 5, 6)	Currency exchange	Equity changes	Other changes (iii)	
Loans and borrowings	620,870	93,787	-	(1,477)	16,078	-	(5,297)	723,961
Liabilities for capital transactions of subsidiaries	-	(8,288)	-	-	-	7,864	424	-
Lease liability	165,625	(17,094)	(13,828)	1,795	1,529	-	27,547	165,574
Liability under agreement with Rosimuchestvo	7,232	(8,487)	-	-	1,285	-	(30)	-
Dividends payable	15,569	(39,661)	-	-	-	27,418	-	3,326
Other financial liabilities	6,995	-	-	-	-	(279)	760	7,476
Total	816,291	20,257	(13,828)	318	18,892	35,003	23,404	900,337

	1 January 2019	Cash flows from financial activities (i)	Cash flows from operation activities (ii)	Non-cash changes				31 December 2019
				Disposal/ acquisition of subsidiaries (Note 5, 6)	Currency exchange	Equity changes	Other changes (iii)	
Loans and borrowings	698,335	(31,604)	-	(34,695)	(12,998)	-	1,832	620,870
Liabilities for capital transactions of subsidiaries	-	(15,288)	-	-	-	12,320	2,968	-
Lease liability	207,367	(24,303)	(18,507)	(44,501)	(1,273)	-	46,842	165,625
Liability under agreement with Rosimuchestvo	16,210	(7,374)	-	-	(1,604)	-	-	7,232
Dividends payable	4,415	(30,124)	-	-	-	41,283	(5)	15,569
Other financial liabilities	11,377	(1,409)	-	-	-	1,450	(4,423)	6,995
Total	937,704	(110,102)	(18,507)	(79,196)	(15,875)	55,053	47,214	816,291

- (i) The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.
- (ii) The cash flows are represented by lease liability interest paid.
- (iii) Other changes include new lease agreements and interest accruals.

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38. CONTINGENCIES AND COMMITMENTS

Capital commitments – A capital commitment is a contractual obligation for future payments mainly for the acquisition of network infrastructure. These amounts are not recorded in the consolidated statement of financial position since the Group has not yet received goods or services from suppliers. As of 31 December 2020, the Group had capital commitments of RUB 78,797 million (31 December 2019: RUB 54,340 million), relating to the acquisitions of property, plant and equipment.

Guarantees – As of December 31, 2020, MTS-Bank and EWUB acted as guarantors for loans received by several companies in the amount of RUB 23,774 million (31 December 2019: RUB 19,799 million), and also had commitments to provide loans under open credit lines in the amount of RUB 24,206 million (31 December 2019: RUB 27,708 million). The Group will be required to make payments under these guarantees only if the respective debtors fail to meet their payment obligations. These guarantees would require payment by the Group in the event of default on payment by the respective debtor. Such guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of the amount of the expected credit losses allowance, and the amount initially recognised less, where appropriate, cumulative income recognised in accordance with the revenue recognition policies.

Telecommunication licenses – The management believes that as of 31 December 2020, the Group is in compliance with conditions of the used licenses.

Restriction on transactions with the shares of BPGC – In 2014, in the course of litigation, which the Group is not a party to, the court imposed restrictions on transactions with the shares of BPGC owned by the Group. The restrictions do not limit the Group's voting rights, rights to receive dividends or any other shareholders rights.

Taxation – Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances, reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have different interpretations, and the effects on the consolidated financial statements could be significant.

Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources, which will be required to settle such liabilities. 31 December 2020, provisions for additional taxes and customs settlements comprised RUB 1,216 million (31 December 2019: RUB 1,388 million).

The Group also assesses the following contingent liabilities in respect of additional tax settlements:

	31 December 2020	31 December 2019
Contingent liabilities for additional taxes other than income tax	1,043	1,715
Contingent liabilities for additional income taxes	892	2,173

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In accordance with the rules on controlled foreign companies, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, should be included in the income tax base of the controlling entities in particular cases. The management of the Group does not expect any significant effect of these changes on the consolidated financial statements of the Group.

Operating Environment – Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020, oil prices dropped for more than 40%, which resulted in immediate weakening of Russian Ruble against major currencies. The impact of further economic and political developments on future operations and financial position of the Group might be significant.

At the beginning of 2020, a new coronavirus (COVID-19) began to spread very rapidly in the world. It led to the fact that the World Health Organization (WHO) announced the beginning of a pandemic in March 2020. In 2020, Russian government authorities adopted a number of decisions and measures aimed at protecting public health from the impact of the COVID-19 pandemic, which affected the Group's operations and financial position. Main effects of COVID-19 pandemic on the Group's revenues and operating expenses include decrease in sales of phones, accessories and software; drop in roaming revenues due to the restrictions on the customers' mobility; decrease in revenues from financial services; drop in sales of event ticketing services and revenues of hospitality assets. The Group developed plans of mitigation of COVID-19 impact on its business, and performed the analysis of the economic situation, available banking financing and possible consequences for its cash flows and liquidity. Additional effect from impairment of non-current assets of RUB 4.3 billion includes impairment of property, plant and equipment, including those in Hospitality assets segment, of RUB 3 billion and impairment of goodwill related to event ticketing companies of RUB 1.3 billion. The Group's credit risk increased as a result of the spread of COVID-19, which, in turn, led to an increase in the Group's allowance for expected credit losses on bank assets compared to 2019. Overall, the development of the COVID-19 situation remains uncertain and may further negatively affect the economy and financial markets of various regions of the world, including the countries where the Group operates, which, in turn, may affect the structure of public and business expenses and the results of the Group's operating activities.

Legal proceedings – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Group operates. At 31 December 2020, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 7,295 million.

In August 2018, the Federal Antimonopoly Service of Russia ("FAS Russia") charged MTS and other federal operators with violation of antimonopoly laws in respect to establishing discriminatory terms and conditions for bulk SMS pricing for the banks with state-owned equity interest as compared to the terms and conditions for other banks and later – with establishing unreasonably high bulk SMS prices.

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In May 2019, FAS Russia considered that MTS had breached the provisions of antimonopoly laws in respect to establishing discriminatory terms and conditions for bulk SMS pricing and charging unreasonably high bulk SMS prices, prescribing MTS to cease its violations. MTS contested the decision and the prescription of FAS Russia in the Moscow Arbitration Court, which upheld the position of FAS Russia in November 2019, following by the Arbitration Court of Appeal in March 2020. MTS filed a cassation appeal to the Arbitration Court of the Moscow District, which also upheld the position of FAS Russia. In December 2020, MTS cassation appeal was rejected by the Judicial Chamber of the Supreme Court. Management of the Group believes that as of 31 December 2020 it has adequately provided for charges imposed by FAS Russia and other related expenses.

Investigation into former operations in Uzbekistan – In March 2019, MTS reached a resolution with the United States Securities and Exchange Commission (“SEC”) and the United States Department of Justice (“DOJ”) relating to the previously disclosed investigation concerning former subsidiary in Uzbekistan.

MTS consented to the entry of an administrative cease-and-desist order (the “Order”) by the SEC.

The United States District Court for the Southern District of New York approved a deferred prosecution agreement (“DPA”) entered by MTS and a plea agreement entered into a subsidiary of MTS in Uzbekistan. Under the agreements with the DOJ and SEC, MTS agreed to pay a total penalty of USD 850 million (RUB 59.1 billion as of 31 December 2018) to the United States, which was comprised of a criminal fine, criminal forfeiture and civil penalty. MTS provided a provision of USD 850 million (RUB 55.8 billion as of the date of accrual), which was recognised as a part of discontinued operations in the consolidated statements of profit or loss for the year ended 31 December 2018. In March 2019, MTS paid the total penalty of USD 850 million (RUB 55.6 billion as of the payment date).

Under the DPA and the Order, MTS agreed to appoint and in September 2019 appointed an independent compliance monitor. Pursuant to the DPA and the Order, the monitorship will continue for a period of three years starting from the appointment date, and the term of the monitorship may be terminated early or extended depending on certain circumstances, as ultimately determined and approved by the DOJ and SEC.

Class action complaint – In March 2019, a proposed class action complaint on behalf of Shayan Salim and all other persons similarly situated has been filed in the United States District Court for the Eastern District of New York against MTS PJSC and certain of its managers. In March 2021, US District Judge of Eastern District Court of New York granted MTS’s motion to dismiss with prejudice and dismissed the complaint in full.

License fee and spectrum charges for 2002-2011 in India – In December 2019, SSTL received the Supreme Court of India judgment regarding license fee and spectrum charges for 2002-2011 in accordance with the definition and interpretation of Annual Gross Revenue (AGR) approved by the Supreme Court of India. The company calculated immaterial amount to be paid based on the aforementioned definition of AGR and considering the scheme of demerger with RCOM (which is currently undergoing bankruptcy procedures) of 2017. This amount was paid in February 2020. The Group does not expect any significant effect of this matter on the consolidated financial statements of the Group.

Commitment to provide equity financing for Real hypermarkets acquisition – In February 2020, the Group entered into an equity commitment agreement to provide financing in the amount of up to EUR 263 million in connection with the acquisition by a group of purchasers managed by SCP Group SARL, related party of the Group, of the German hypermarket chain Real from Metro AG and its subsidiaries (hereinafter – the “Transaction”). The Transaction was completed in June 2020, whereas the aforementioned equity financing in the amount of EUR 263 million, was provided by a group of investors (hereinafter – the “Investors”). Based on the terms of agreements with the Investors, upon completion of the Transaction the Group does not have any outstanding material exposure associated with the financing of the Transaction including material obligations towards the Investors in relation to guaranteed return of their respective investments, and, therefore, is neither exposed to significant risks nor entitled to significant rewards associated with the financing of the Transaction. As a result, no significant financial assets and/or financial liabilities related to the Transaction have been recognised on the Group’s balance sheet as of 31 December 2020. Upon completion of the Transaction, Group’s commitments entered into in February 2020 were fully discharged.

39. SUBSEQUENT EVENTS

Purchase of assets of Novoeniseysky Lesokhimichesky Complex (hereinafter – NLHK) – In February 2021, the Group acquired the rights to claim loans and other liabilities of NLHK in the total amount of RUB 11.5 billion in various currencies, as well as the rights to enter into an option for 71% of NLHK’s shares at an auction for the sale of assets related to NLHK which is one of the largest closed-cycle woodworking enterprises located in Lesosibirsk, Krasnoyarsk Krai, specializes in the production of lumber, MDF, chipboard, pellets, as well as joinery for the construction of residential and industrial premises. The cash consideration for the acquired assets, paid in February 2021, amounted to RUB 2,306 million. As a result of this acquisition, the Group did not obtain control over NLHK.

Ruble bonds placement – In March 2021, MTS issued social corporate notes of RUB 4.5 billion, with a 3-year maturity and a coupon of 6.5%. The funds raised from the bonds placement will be used to connect 4,995 socially significant objects to the Internet in eight regions of the Russian Federation.

Convertible bonds placement – In February 2021, Ozon issued convertible unsecured foreign currency bonds in the amount of USD 750 million, with a maturity until 2026 and a coupon of 1.875%.

Acquisition of a stake in Elektrozavod JSC – In February 2021, Megapolis-Invest LLC signed an agreement to acquire an additional 29.64% share in Elektrozavod JSC from the third party for RUB 5.8 billion. As the result, upon the completion of the deal, the Megapolis-Invest LLC total ownership interest in Elektrozavod JSC will increase to 94.01% of the company’s authorized capital. As the result of transaction, the Group did not obtain control over Elektrozavod JSC.

Ruble bonds placement – In February 2021 Sistema closed the order book for corporate notes totaling RUB 17.5 billion. Maturity – 10 years from the date of placement, the annual coupon rate is 6.90% and 7.35% for the 001P-18 series and 001P-19 series, respectively.

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Incorporation of a pharmaceutical holding company – In February 2021, the incorporation of a pharmaceutical holding company, Binnopharm Group was completed. In order to set up a single pharmaceutical holding, Sistema and its financial partner, VTB Group, have contributed a 56.2% stake in Sintez OJSC (including Biocom CJSC) to the capital of Binnopharm Group. At the same time, Sistema, VTB, and a consortium of investors including Russian-Chinese Investment Fund, contributed an 85.6% stake in Alium JSC (which includes Binnopharm JSC) to the capital of Binnopharm Group. As a result, the effective share of Sistema together with VTB in the holding company will be 79%, and the Consortium of Investors – 15.8%. The remaining 5.2% of the shares are distributed among the minority shareholders-individuals.

Ruble bonds placement – In February 2021, Sistema completed a secondary placement of corporate notes totaling RUB 2.8 billion, RUB 2.4 billion of which the Corporation sold on the market, making a secondary placement at a price of 99.55% of the nominal value. The maturity date is 21 January 2028; the coupon rate is 6.9% per annum.

Acquisition of a stake in OJSC Sintez (hereinafter – Sintez) – In March 2021, the Group (through a subsidiary Sistema Telecom Assets LLC) purchased a 32.39% stake of the authorized capital of Sintez (part of Binnopharm Group) from the JSC Nacimbio controlled by State Corporation Rostec.

Share Repurchase Plan of MTS – In March 2021, MTS board of directors approved a buyback of ordinary registered uncertified shares and ADSs by means of a share repurchase plan (the “Repurchase Plan”) that authorizes open market transactions, accelerated repurchase transactions and/or privately negotiated transactions in the total aggregate amount of up to RUB 15 billion, which includes funds to be used for purchasing the MTS’s ordinary registered uncertified shares (including ADSs) proportionate to the number of the MTS’s shares purchased under the Repurchase Plan in each reporting month at the average price per share calculated for a relevant month, from MTS’s parent company Sistema PJSFC and two Sistema subsidiaries: Sistema Telecom Assets LLC and Sistema Finance S.A.

The Repurchase Plan will be carried out by the MTS’s wholly owned subsidiary Bastion LLC. Amount of RUB 15 billion is equal to approximately USD 198 million translated at the CBR’s exchange rate of RUB 75.83 to USD 1.00 as of 30 March 2021.

MTS entered into a loan agreement of USD 300 million with New Development Bank – The credit facility is provided for seven years and can be used in one of three currencies - US Dollar, Euro or Chinese yuan. MTS intends to use the raised funds in further developing the company’s digital infrastructure, in particular including by expanding mobile network coverage in rural areas as well as investing in cloud computing capabilities.