

2021



SISTEMA PUBLIC
JOINT STOCK FINANCIAL
CORPORATION
Annual Report

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 СИСТЕМА ПJSFC

About the report

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

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

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

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

Disclaimer

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

Such factors may include general economic conditions, competitive environment, risks associated with the deterioration of the geopolitical situation and business operations in Russia, fast technological and market changes in the segments where Sistema and its portfolio companies operate, the impact of COVID-19 on the macroeconomic situation in the markets where Sistema and its portfolio companies operate and on their financial results, as well as many other risks that are directly related to Sistema or its activities.

CONTENT

1

- 7 **COMPANY OVERVIEW**
- 8 Sistema today
- 10 Investment portfolio
- 12 Key highlights
- 14 Awards & recognition

2

- 17 **PERFORMANCE OF THE CORPORATION**
- 18 Strategy and governance model
- 30 Key events of 2021 and after the reporting date
- 40 Financial overview
- 44 Securities and share capital

3

- 53 **RESULTS OF KEY ASSETS**
- 54 MTS
- 66 Ozon
- 72 Segezha Group
- 90 Etalon Group
- 98 Medsi
- 110 Steppe AgroHolding
- 120 Binnopharm Group
- 128 Other consolidated assets
- 156 Venture capital funds

4

- 165 **CORPORATE GOVERNANCE**
- 166 Corporate governance system
- 186 Remuneration policy
- 188 Risk management

5

- 199 **SUSTAINABILITY MANAGEMENT**
- 200 Management system
- 202 Responsible investment
- 206 Key ESG areas
- 212 Social investments

6

- 215 **AUDITED CONSOLIDATED FINANCIAL STATEMENTS**



COMPANY OVERVIEW

- SISTEMA TODAY 8
- INVESTMENT PORTFOLIO 10
- KEY HIGHLIGHTS 12
- AWARDS & RECOGNITION 14

SISTEMA TODAY

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

SISTEMA'S STRATEGIC GOAL

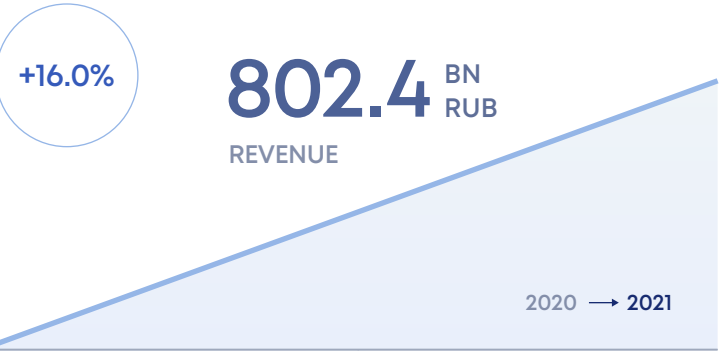
Is to ensure long-term growth of shareholder value by boosting return on investments in the existing assets and reinvesting available cash in new investment projects to diversify its portfolio and increase return on investments.

SISTEMA'S SUSTAINABILITY GOAL

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

AFKS MOEX	SSA LSE
---------------------------------	-------------------------------

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.



251.9BN RUB ADJUSTED OIBDA	1.8TN RUB ASSETS
1.4BN RUB SOCIAL INVESTMENTS	134.1THSD PEOPLE HEADCOUNT

BB FITCH CREDIT RATING¹	BB SA&P CREDIT RATING¹	RUAA- RAEX CREDIT RATING¹
--	---	--

1 As of the end of 2021.

TOP

25

LARGEST RUSSIAN COMPANIES BY REVENUE (RBC)

TOP

20

PUBLIC RUSSIAN COMPANIES IN FORBES GLOBAL 2000 RATING

0.6%

CONTRIBUTION TO RUSSIA'S GROSS DOMESTIC PRODUCT

INVESTMENT PORTFOLIO

Public assets

MTS

NYSE: MBT, MOEX: MTSS

OZON

NASDAQ and MOEX: OZON

SEGESHA GROUP

MOEX: SGZH

ETALON GROUP

LSE and MOEX: ETLN

> 25

COUNTRIES

> 20

SECTORS

> 25

COMPANIES

12.1

LOW ESG RISK

Sustainalytics

Sustainability management

BB

MSCI ESG

50%

INDEPENDENT DIRECTORS

TOP

5

INTERNATIONAL INVESTMENT COMPANIES

ESG Reporting Award

1 As of the end of 2021.

INVESTMENT PORTFOLIO

Venture capital funds

Sistema Venture Capital — 98%
Sistema Asia Fund — 66%

62.2 %

FORESTRY INDUSTRY

Segezha Group

Largest vertically integrated forestry holding in Russia

29.8 %

REAL ESTATE DEVELOPMENT

Etalon Group

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

100 %

COMMERCIAL PROPERTIES

Business Nedvizhimost

One of the largest real estate owners in Moscow

100 %

HOSPITALITY

Cosmos Hotel Group

One of the largest hotel management companies in the Russian market

91 %

UTILITIES

BPGC

One of Russia's largest power grid companies

100 %

INFORMATION TECHNOLOGY

Sitronics Group

Leading vertically integrated ICT holding in Russia

95.5 %

HEALTHCARE

Medsi

Russia's largest national healthcare chain

31.8 %

E-COMMERCE

Ozon²

Leading multi-category online sales platform in Russia

49.9 %

TELECOMMUNICATIONS

MTS¹

Leading public telecommunications operator in Russia

91.3 %

AGRICULTURE

Steppe AgroHolding

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

75.3 %

PHARMA

Binnopharm Group

Leading Russian pharmaceutical producer

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

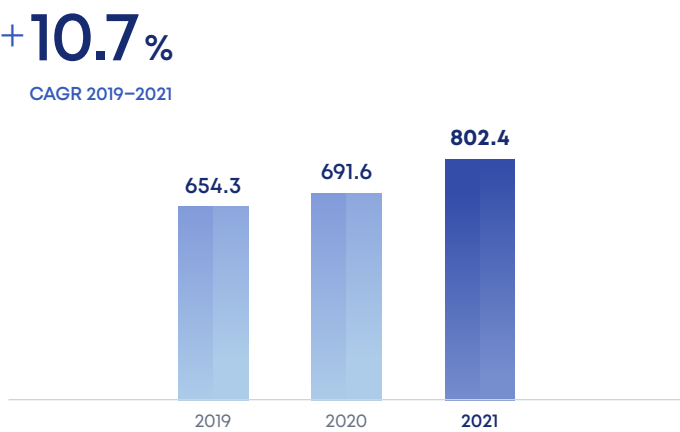
- ¹ In March 2022, as part of the long-term incentive programme, Vyacheslav Nikolaev acquired 19,983,816 ordinary shares of MTS owned by Bastion LLC, a wholly owned subsidiary of MTS. With the transfer of shares to Mr Nikolaev, his stake in MTS increased to above 1%. Sistema's effective ownership stake in MTS decreased to 49.9%.
- ² 12.2 m shares were issued to be used in the Ozon's management incentive programme, considering exercise of all options under the programme, the effective share of Sistema, including Sistema VC, would amount to 31.8%.



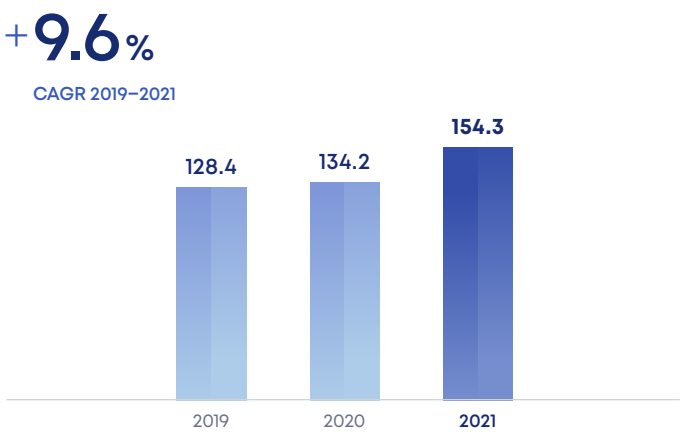
KEY HIGHLIGHTS

Group's performance

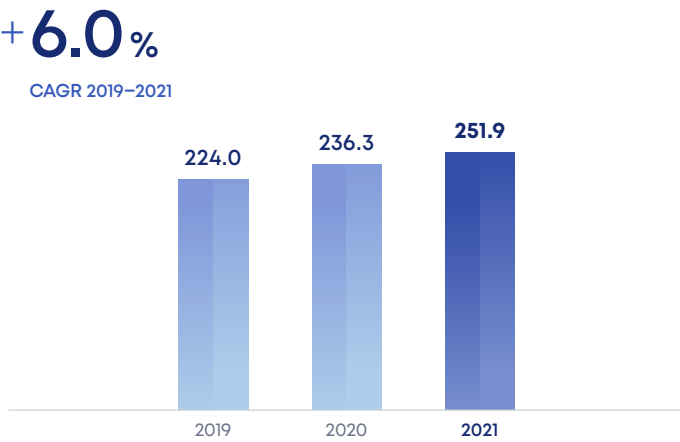
Revenue, RUB bn



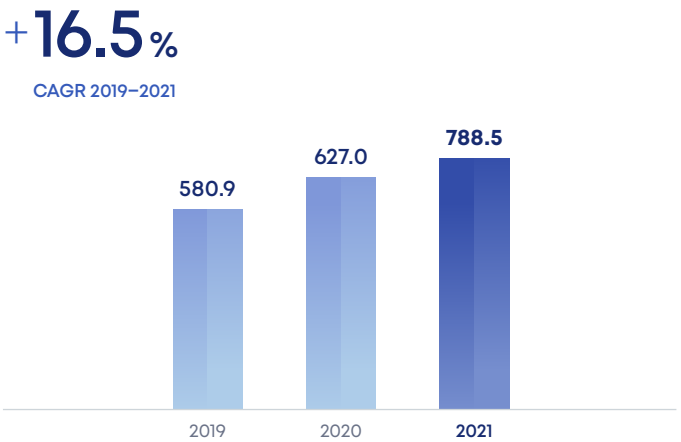
Selling, general and administrative expenses (SG&A), RUB bn



Adjusted OIBDA¹, RUB bn

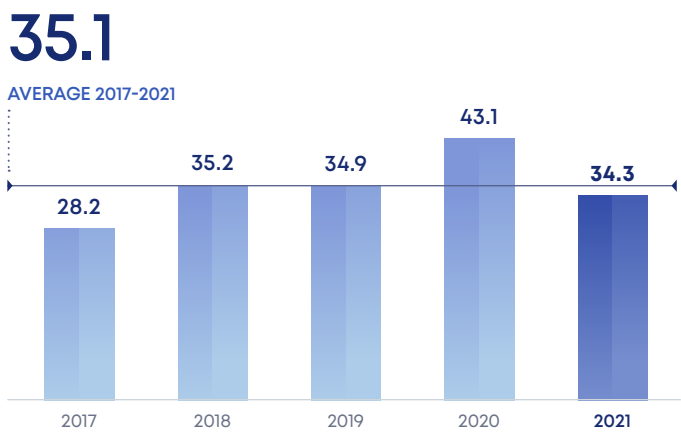


Net debt², RUB bn

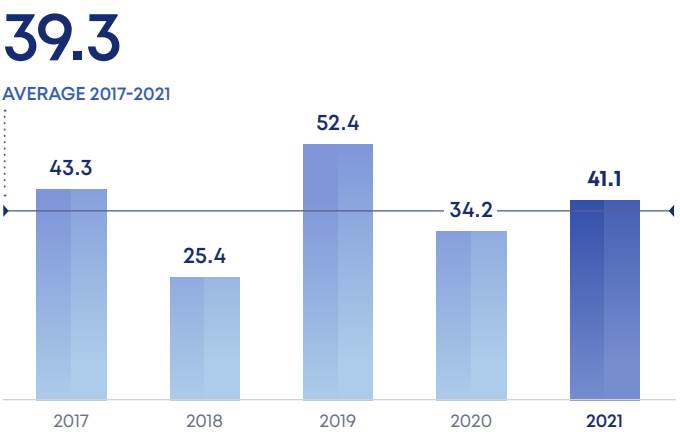


Corporate Centre's performance³

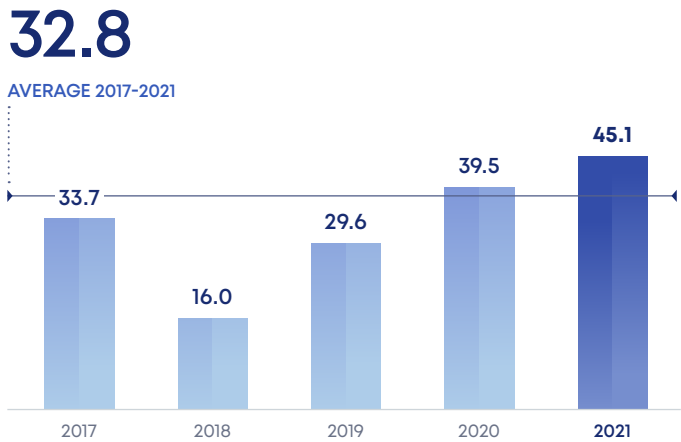
Dividends from assets, RUB bn



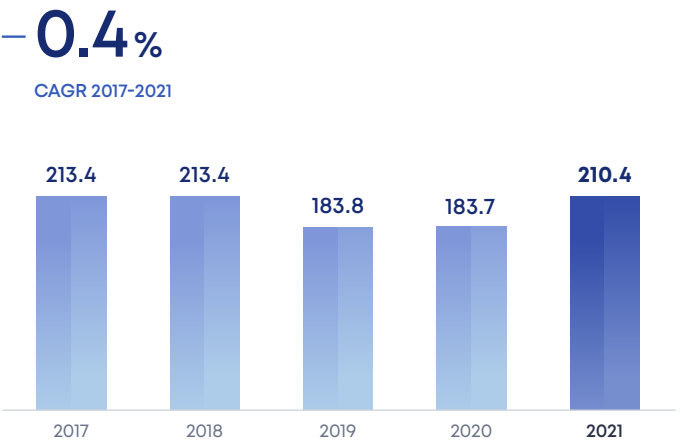
Monetisations, RUB bn



Investments, RUB bn



Net debt, RUB bn



¹ In this Annual Report, adjusted OIBDA is used to assess the operational success of the Corporation and Sistema Group companies and as such do not include one-off incomes or losses that are not related to business operations. The reconciliation of these indicators is provided in "Financial overview" section.
² Consolidated net debt is defined as consolidated total debt less cash, cash equivalents and deposits in banks. Consolidated total debt is defined as total borrowings plus finance lease. The total borrowings are defined as long-term and short-term borrowings.

³ According to management accounts.



AWARDS & RECOGNITION



SISTEMA PUBLIC
JOINT STOCK
FINANCIAL
CORPORATION

TOP 25
RUSSIAN COMPANIES
BY REVENUE
RBC 500

TOP 20
PUBLIC RUSSIAN
COMPANIES
in Forbes Global 2000

TOP 20
RUSSIAN COMPANIES
BY REVENUE
in RAEX 600

TOP 20
COMMERCIAL REAL
ESTATE OWNERS
Forbes

**CBONDS
AWARDS 2021**
Issuer of the Year

**SEGEZHA
GROUP'S IPO**
best placement
in Russia (SPB Exchange)



TOP 1000
GLOBALLY AND TOP 15 IN RUSSIA
BY TOTAL SHAREHOLDER RETURNS (TSR)
in Value Creators Ranking 2021
by Boston Consulting Group (BCG)

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

TOP 10
OF RUSSIA'S MOST
VALUABLE BRANDS
in Brand Finance Russia 50

TOP 10
IN THE ESG RANKING
OF RUSSIAN COMPANIES
RAEX Europe

TOP 15
PRIVATE COMPANIES &
TOP 10 RUSSIAN EMPLOYERS
in the Forbes ranking

TOP 10
BEST MOBILE BANKS
FOR DAILY BANKING
in mobile banking rank 2021
(Markswebb)



TOP 3
MOST VALUABLE INTERNET
COMPANIES IN RUSSIA
Forbes

TOP 5
FASTEST GROWING
PRIVATE RUSSIAN COMPANIES
Forbes

TOP 200
RUSSIAN EMPLOYERS AND
#1 IN THE IT AND INTERNET CATEGORY
HeadHunter's ranking



TOP 200
PRIVATE RUSSIAN
COMPANIES
Forbes

No. 1
IN THE TIMBER INDUSTRY
IN THE ESG RANKING OF RUSSIAN
COMPANIES
RAEX Europe

TOP 30
ENVIRONMENTALLY FRIENDLY
COMPANIES IN RUSSIA
Forbes

TOP 3
IN THE RANKING OF RUSSIA'S
TIMBER COMPANIES
Sbo-paper

SEGEZHA GROUP'S EUROPEAN PAPER
PACKAGING ASSETS WERE AWARDED
GOLD LEVEL
from the international
platform EcoVadis

RUSSIA M&A AWARDS
BEST DEAL OF 2021



TOP 200
PRIVATE RUSSIAN
COMPANIES
Forbes

TOP 10
DEVELOPERS IN THE MASS
HOUSING CATEGORY
Forbes

TOP 10
RUSSIAN DEVELOPERS
BY REVENUE
RBC 500

**URBAN
AWARDS 2021**
Developer of the year
and digital developer

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



TOP 5
RUSSIAN
LAND OWNERS
Forbes

No. 1
ESG RANKING OF RUSSIAN
COMPANIES RAEX EUROPE
Agricultural sector

TOP 50
AGRICULTURAL COMPANIES
OF RUSSIA
Expert

No. 1
RUSSIA'S MOST EFFICIENT
DAIRY FARMS
Soyuzmoloko

AGRICULTURAL INVESTOR 2021
Innovation of the year, Top manager of
the year, Socially responsible initiative
(during pandemic) and Reliable grain
supplier



TOP 10
VENOTONICS IN THE RUSSIAN
PHARMA MARKET

TOP 10
PRODUCERS OF GENERICS
IN THE RUSSIAN MARKET
IQVIA

TOP 10
PRODUCERS OF NUTRITIONAL
SUPPLEMENTS IN RUSSIA BY
SALES VALUE
DSM Group

**PHARMA COMPANY
OF THE YEAR 2021**
Award from the Green cross
pharmacies association



No. 1
RUSSIA'S TOP 20 PRIVATE CLINICS
AND #1 RUSSIA'S TOP 200 PRIVATE
MULTI-SPECIALTY CLINICS
Forbes and Vademec

TOP 3
IN THE RANKING OF MULTI-SPECIALTY
CLINICS BY NUMBER OF DOCTORS
BusinessStat / RBC

TOP 5
IN THE 2021 RANKING OF
ST. PETERSBURG FASTEST
GROWING MEDICAL CENTRES

**PATIENTS'
CHOICE 2021**
BEST CLINICS OF MOSCOW



PERFORMANCE OF THE CORPORATION

- STRATEGY AND GOVERNANCE MODEL 18
- KEY EVENTS OF 2021 AND AFTER THE REPORTING DATE 30
- FINANCIAL OVERVIEW 40
- SECURITIES AND SHARE CAPITAL 44

STRATEGY AND GOVERNANCE MODEL

Mission

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

Strategic goals and development areas

LONG-TERM GOALS

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

FOCUS AREAS

01

Building and continuously developing businesses worth over USD 1 billion

02

Embracing unique investment opportunities in traditional and new sectors

03

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

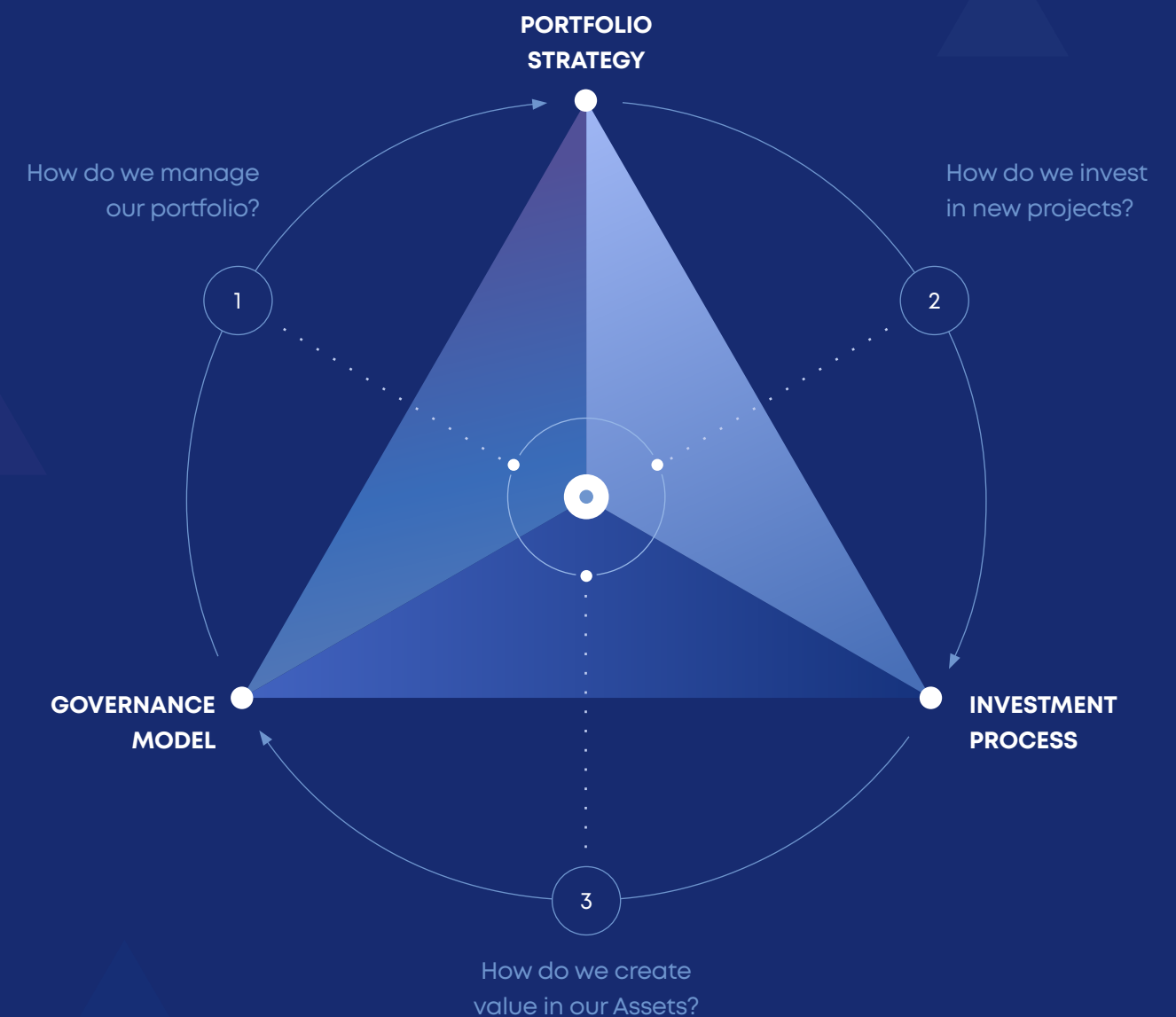
04

Continuous enhancement of corporate governance

Strategy

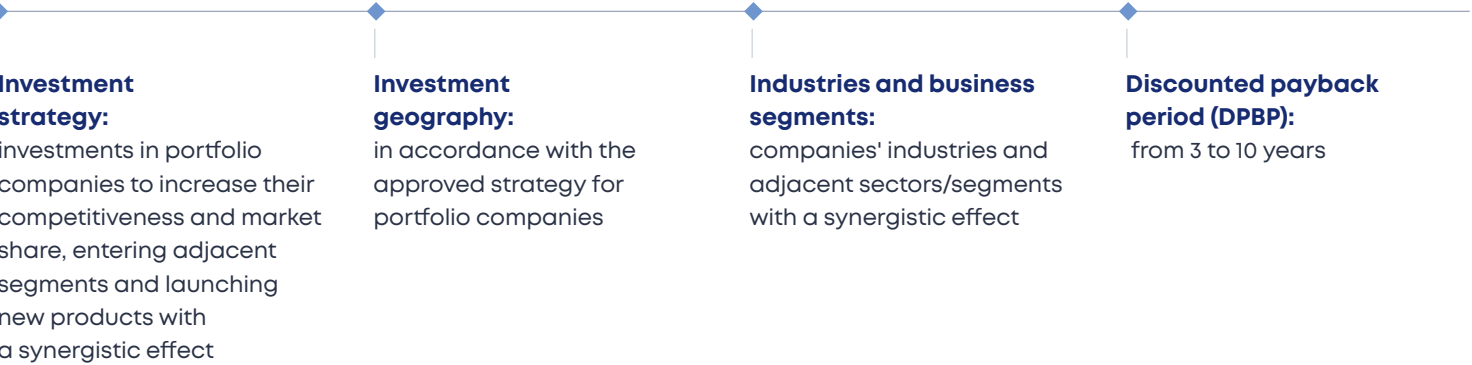
The Corporation's goals are matched with the elements of business model, which are inter-related

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



Portfolio strategy: current assets and new opportunities

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

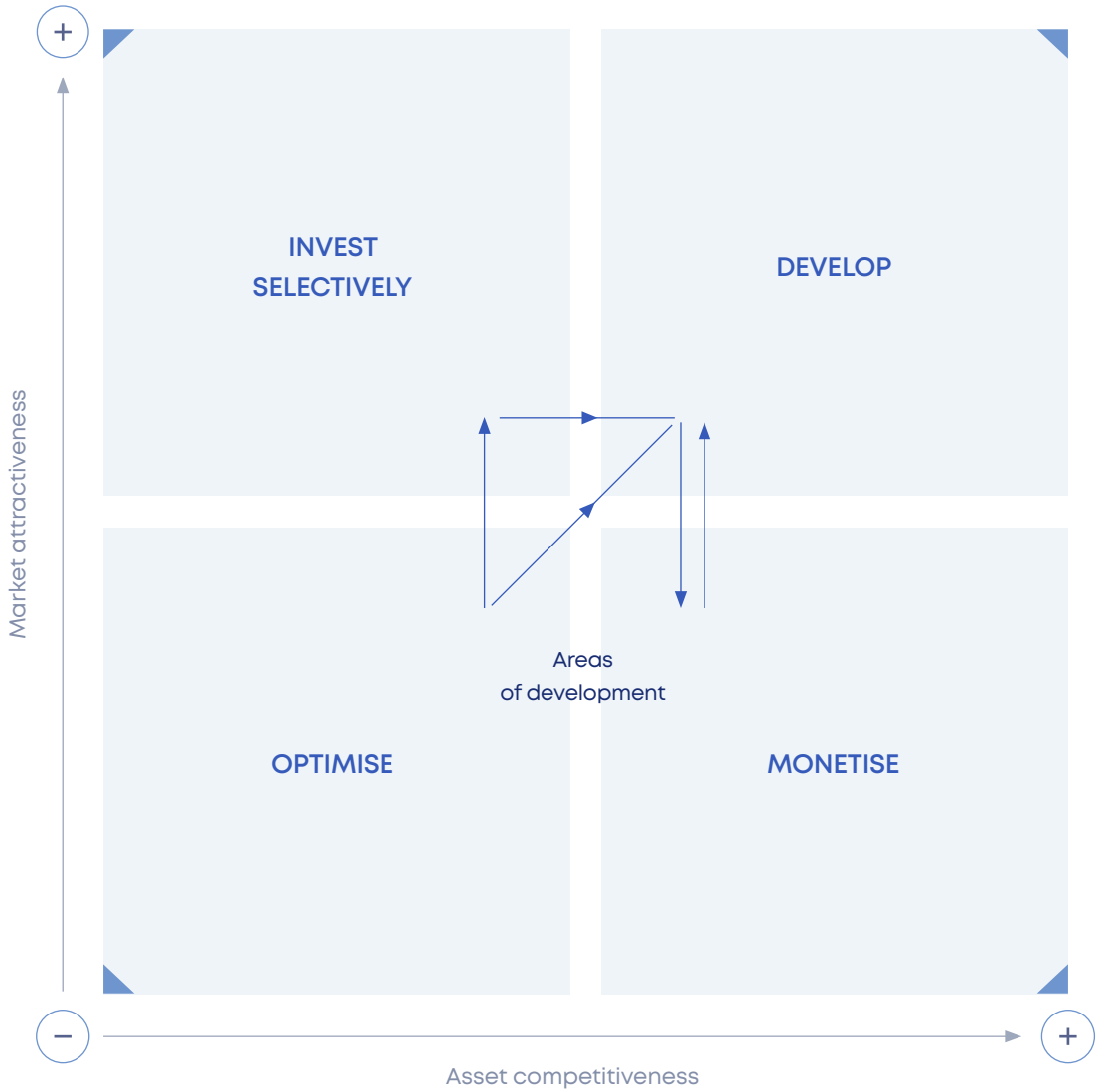


The portfolio strategy is based on classification of assets depending on market appeal, the competitiveness of the team and the company as a whole.



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

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



Idea and implementation

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

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

NEW INVESTMENTS: UNIQUE OPPORTUNITIES IN TRADITIONAL INDUSTRIES

MATURE UNDERVALUED ASSETS	Investment strategy: acquisition of substantial or controlling stakes in large assets in attractive markets with a possibility of increasing equity value, getting a premium in valuation and selling within 2-3 years.		
GROWING ASSETS	Investment strategy: acquiring and consolidating players in certain industries or market segments, enhancing the asset's competitive advantages, leveraging economies of scale and entering new market segments; exit in 4-5 years through a sale to a strategic investor or IPO.	Investment geography: mostly in Russia.	Industries and business segments: sectors with large markets, high growth or transformation rates, and significant potential for growing efficiency, digitalisation, import substitution or exports.

NEW INVESTMENTS IN TECH SECTOR AND TECHNOLOGIES OF THE FUTURE

TECHNOLOGY ASSETS	Investment strategy: Direct investments in large stakes in technology companies that do not meet the requirements of investment theses of Sistema's own funds, with an opportunity to create new fast-growing businesses, make a breakthrough in the development of key technologies of the future and monetise them in 5-7 years.		
VC FUNDS	Investment strategy: investments by Sistema's existing and new VC funds; investment monetisation. Mandatory engagement of external investors as financial partners (the share of outside partners in new funds is at least 50%).	Investment geography: no restrictions.	Industries and business segments: e-commerce, internet of things, artificial intelligence, cloud and edge computing, machine learning and neural networks, autonomous vehicles, robotics, augmented and virtual reality (AR/VR), blockchain, etc.



Investment process:
taking investment decisions

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

GR deals
monopoly, government contracts

VC funds
high-risk investments

Buy & build
strategic investments in creating leaders

Smart deals
non-cash deals with retained control

Special situations
turning around distressed companies

TYPE OF TRANSACTION

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

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

Management model: how the Corporation manages assets and creates value

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

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

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

ASSET MANAGEMENT PRINCIPLES

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

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



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

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

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



Value creation in assets



Implemented by assets

must have

HR

- ▶ Management Incentive System
- ▶ Organisational structure + standard agreements

FINANCE

- ▶ Budgeting cycle
- ▶ Financial planning and control

STRATEGY

- ▶ Strategic cycle
- ▶ Investment process

CORPORATE GOVERNANCE

- ▶ Corporate governance system
- ▶ Board of Directors

IT

- ▶ Management dashboard

GR

- ▶ If necessary

SUSTAINABILITY

Management system, including governance and policies

- ▶ Risk management
- ▶ Disclosure

Assistants provided to assets

if necessary

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

Responsible investment and ESG principles

12.1

LOW ESG RISK
Sustainalytics

1.4 BN
RUB

DIRECT SOCIAL INVESTMENTS
OF THE GROUP

B

MANAGEMENT LEVEL
CDP

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

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

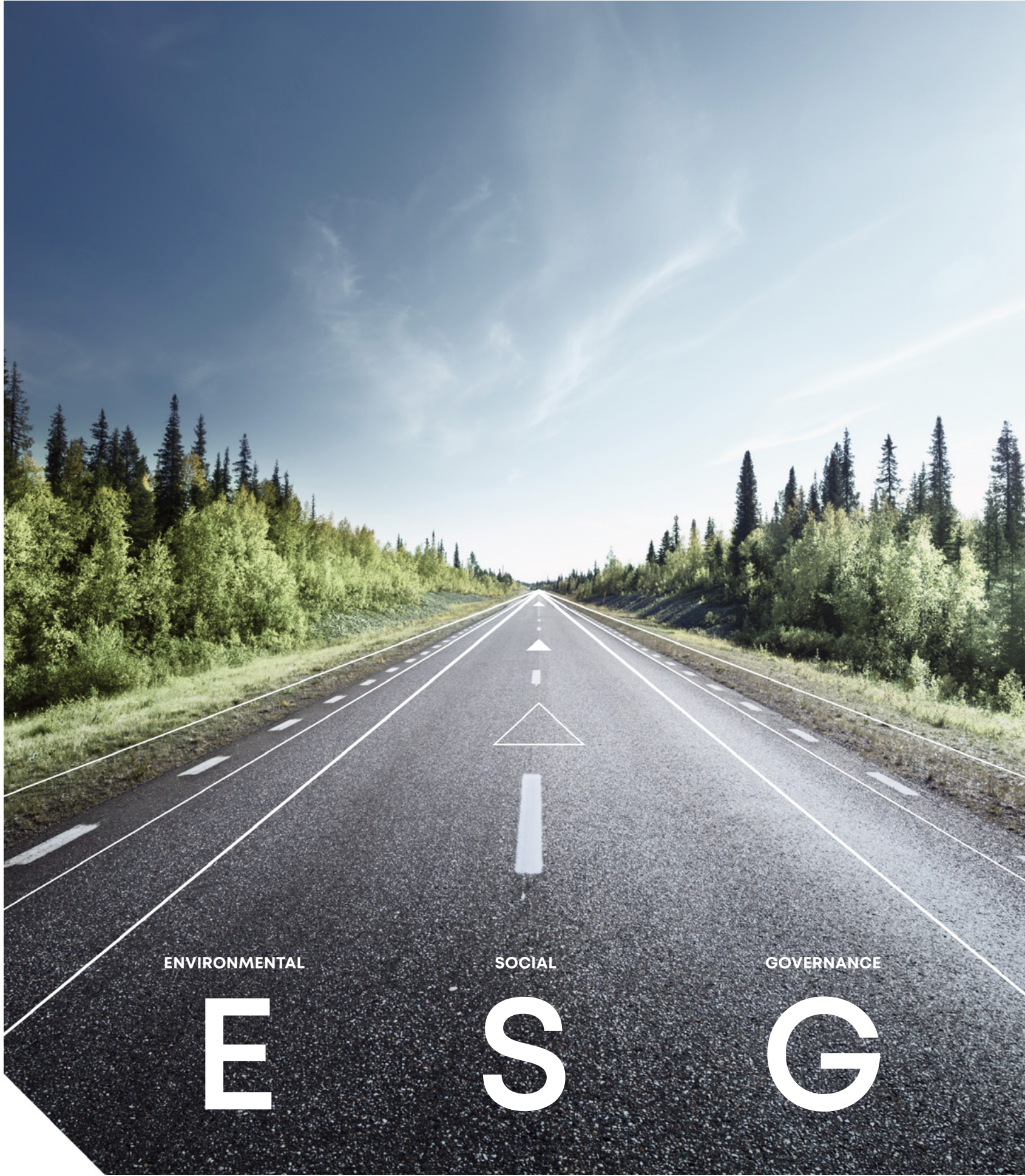
At the portfolio building stage, Sistema excludes "sin stocks", which is consistent with the Corporation's established investment culture, and also considers the ESG profiles of acquisition targets in other industries when making investment decisions.

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

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



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



KEY EVENTS OF 2021 AND AFTER THE REPORTING DATE

Corporation

CORPORATE GOVERNANCE

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

DIVIDENDS AND SHAREHOLDER RETURN

Dividend payout for 2020

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

Buyback programme

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

MONETISATIONS AND INVESTMENTS

IPO Segezha Group

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

Sale of a minority stake in Segezha Group

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

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



MONETISATIONS AND INVESTMENTS



Development of the pharma business

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

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

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

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

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

Acquisition of Nearmedic Group

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

Sistema SmartTech

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

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

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

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

MONETISATIONS
AND INVESTMENTS



Sistema SmartTech

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

Sistema Asia Fund

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

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

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

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

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

Sistema Venture Capital

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

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

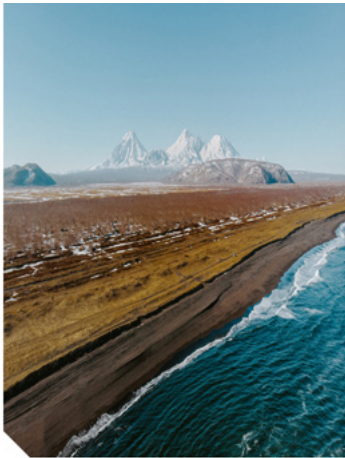
In February 2022, Sistema Venture Capital exited VisionLabs, one of the global leaders in computer vision and machine learning.



STRENGTHENING
OF FINANCIAL POSITION

Expert

ENHANCING SUSTAINABILITY



Comfortable debt levels

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

Active participation in debt capital markets

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

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

Upgrade in credit ratings

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

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

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

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

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

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



Portfolio assets



Dividend payouts

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

Buyback programme

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

Spin-off of infrastructure and tower assets

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

Consolidation of 100% of Sistema Capital

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

Acquisition of VisionLabs

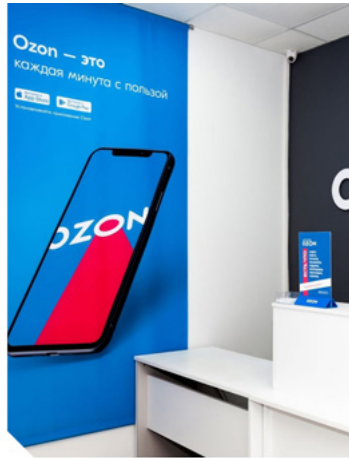
In February 2022, MTS acquired VisionLabs B.V., a global leader in computer vision and machine learning products, for RUB 6.5 bn. VisionLabs software is used in more than 1.7 m cameras worldwide. VisionLabs' revenue in 2020 exceeded RUB 1.1 bn.

Upgrade in credit ratings

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

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

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



Enhancing sustainability

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

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

Infrastructure development and foreign expansion

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

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

Development of ecosystem of financial services

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

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

Development of express deliveries

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

Raising funds for development

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



Dividend payouts

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

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

Consolidation and development of production facilities

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

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

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

ESG progress

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

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

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

ETALON



Dividend payouts

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

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

Regional expansion and portfolio growth

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

Raising capita

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



Credit rating awarded

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

First-time bond issue

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

Start of international expansion

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

Extension of product portfolio

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



Expansion of the healthcare chain

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

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

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

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

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

Development of the telemedicine app SmartMed

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



Expansion of land assets

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

Record-high harvest and exports

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

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

Acquisition of assets

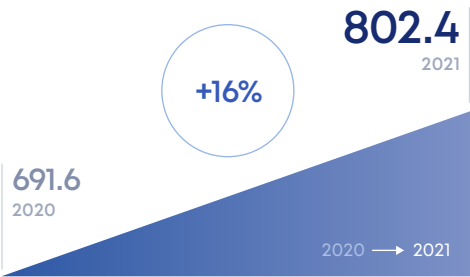
In July 2021, Steppe AgroHolding acquired 100% of the PIR Group holding company, Russia's leading producer of pre-packaged cheese and a major distributor of cheese, dairy products and plant-based alternatives.

ESG progress

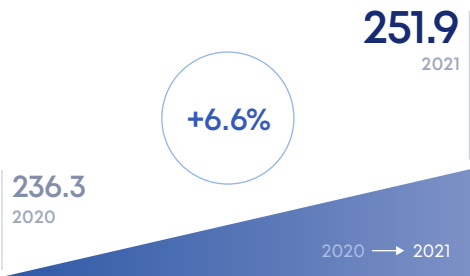
Steppe AgroHolding was included in the ESG ranking RAEX Europe. The ranking has been published since 2018 and is updated monthly. Steppe AgroHolding was the second agricultural company to be added to the list and was ranked 54th. Before that, the only agricultural company in the ranking was Rusagro,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

FINANCIAL OVERVIEW 2021

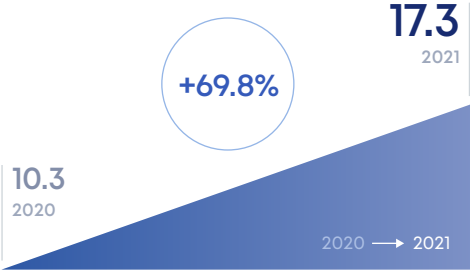
Revenue, RUB bn



Adjusted OIBDA, RUB bn



Net profit, RUB bn



RUB m¹	2021	2020	CHANGE, %
Revenue	802,398	691,626	16.0%
OIBDA	278,128	229,896	21.0%
Adjusted OIBDA	251,927	236,340	6.6%
Operating income	143,968	109,405	31.6%
Net profit attributable to Sistema	17,344	10,217	69.8%
Adjusted net profit /(loss) attributable to Sistema	(8,895)	15,998	–

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

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

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

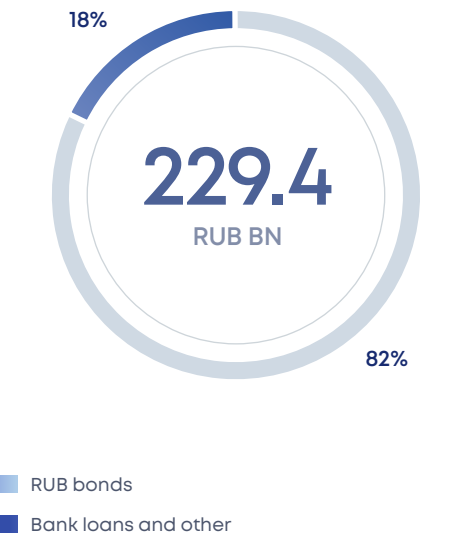
1 Hereinafter, adjusted OIBDA and adjusted net profit are non IFRS indicators used to evaluate financial performance of the Corporation and Sistema Group companies and represent underlying financial measures adjusted for a number of one-off gains and losses that are not related to business operations.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

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

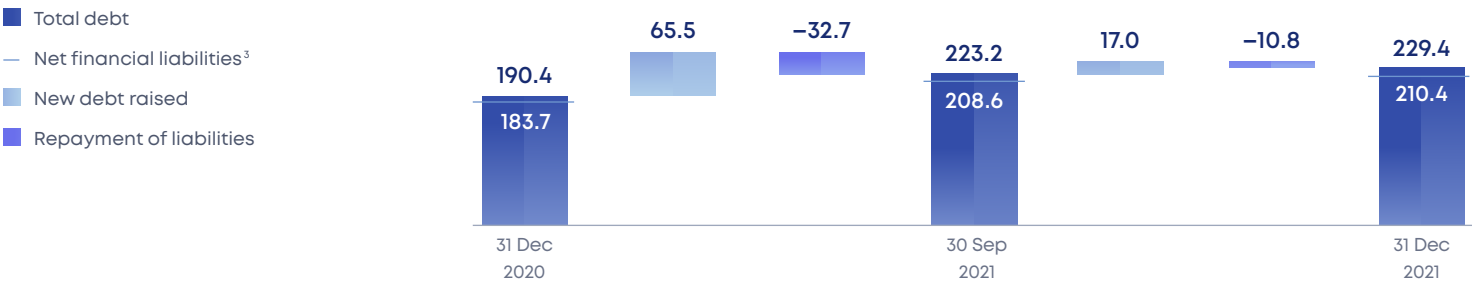
DEBT PORTFOLIO OVERVIEW

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

Structural analysis of debt portfolio, RUB bn

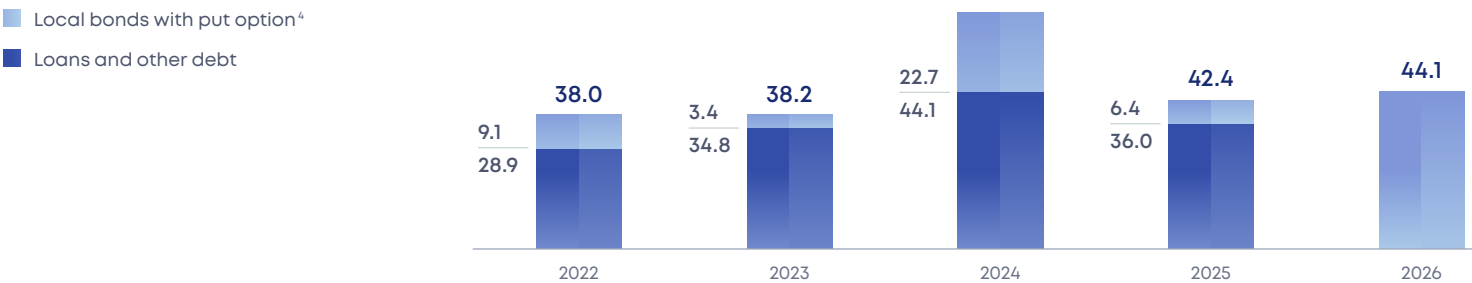


The Corporate Centre’s financial liabilities², RUB bn



Schedule for repayment of financial obligations of the Corporate Centre², RUB bn

As of December 31, 2021



2 Based on management accounts.
3 Including the total volume of borrowings with the exception of cash and cash equivalents at the Corporate Centre level.

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

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

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

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

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

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

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



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

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

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

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

SECURITIES AND SHARE CAPITAL

Shareholders' equity

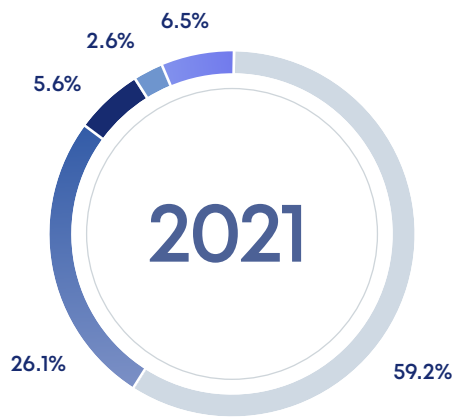
868.5^{BN}
RUB

AUTHORISED CAPITAL
in 2021

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

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

Shareholding structure in 2021, %



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

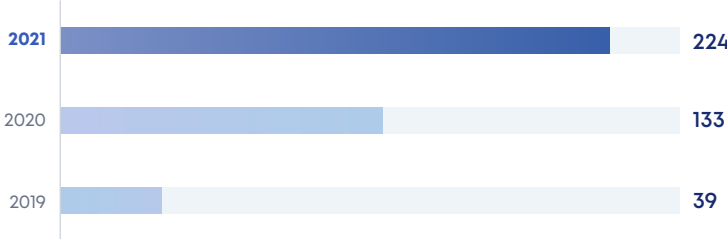
Up-to-date information on Sistema's shareholding structure can be found on the Company's website.

Shareholding structure at the end of the calendar year, %

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

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

Number of shareholders who are individuals, thousand people



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

Securities

Sistema conducted an initial public offering in 2005. Its shares are traded on the London Stock Exchange in the form of global 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 5.6 % of Sistema's equity, and the shares traded on the Moscow Exchange, 26.1%. Shares in free float constitute approximately 31.7% of the company's equity.

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

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

Quote Information and transaction prices

- MOEX.COM
- LONDONSTOCKEXCHANGE.COM
- NYSE.COM
- NASDAQ.COM

Free float breakdown, RUB bn



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

THE MOEX
RUSSIA INDEX



IMOEX

THE RTS INDEX



RTSI

MOEX BROAD
MARKET INDEX



MOEXBMI

MOEX SMID
INDEX



MCXSM

MSCI RUSSIA
SMALL CAP



MSCI RUSSIA

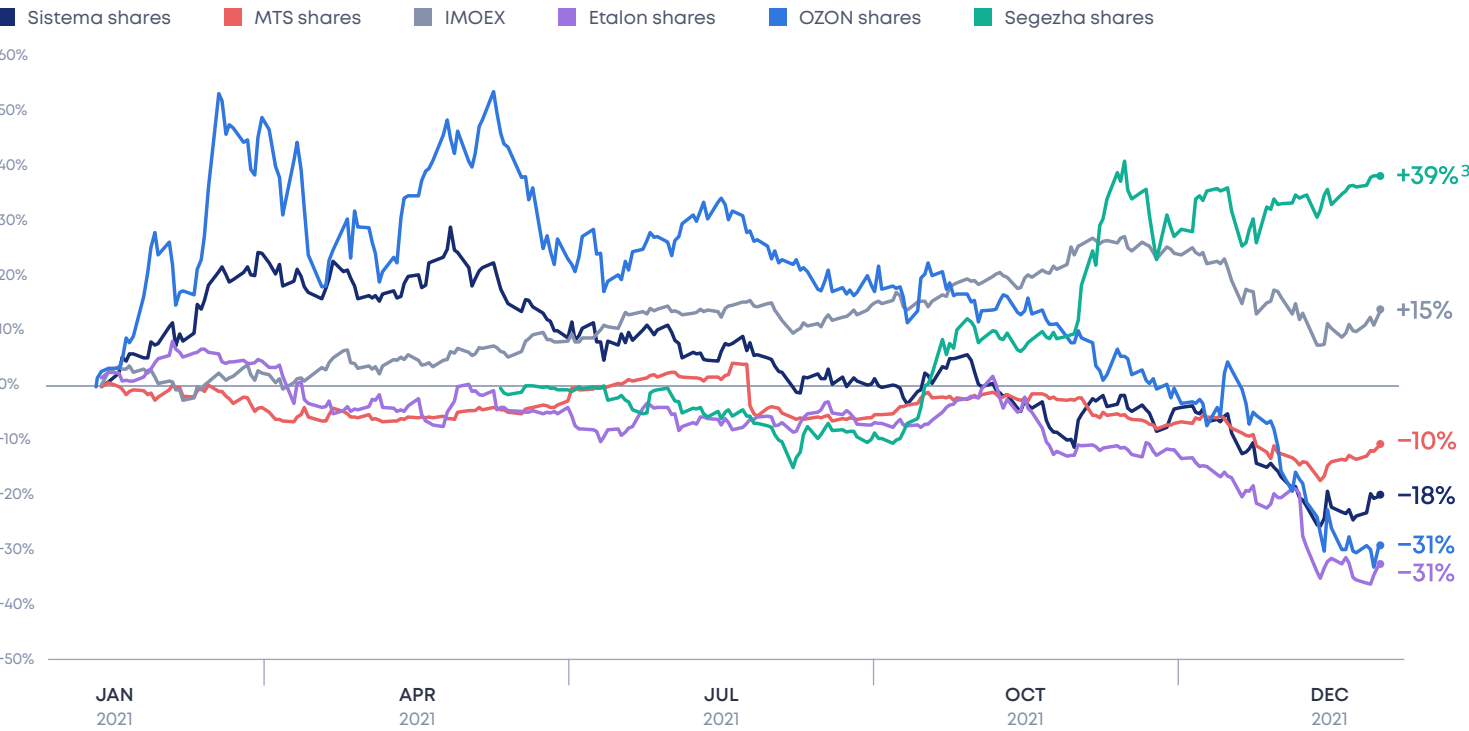
Results of trading in shares and GDRs on stock exchanges¹, %

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

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

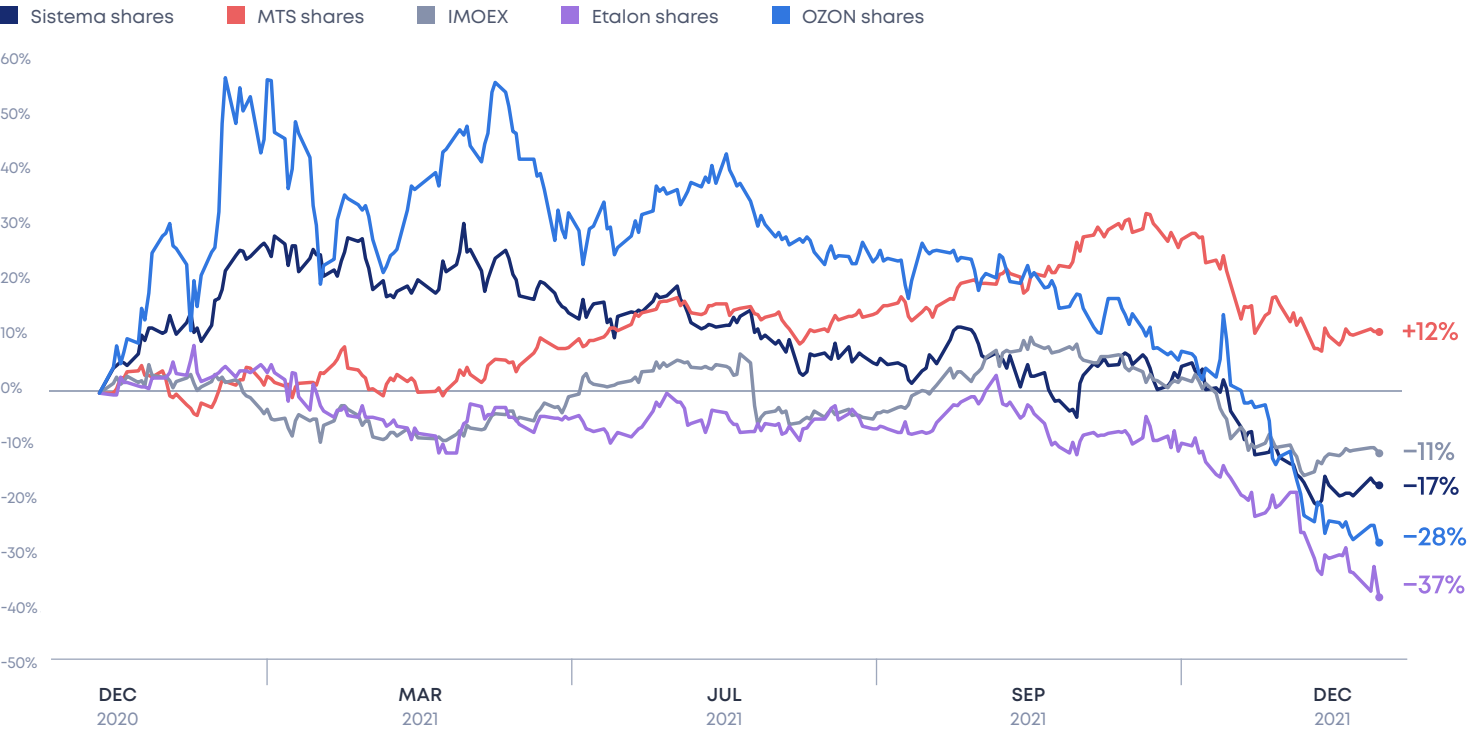
Despite the Group's strong operating and financial performance, Sistema share price was under pressure due to declining share prices of the key public portfolio companies (Ozon, MTS and Etalon Group).

Share prices of Sistema and its publicly traded assets², %



¹ Source: Bloomberg
² Source: Bloomberg. The indicator is calculated as appreciation/depreciation of a share/index in relation to the value as of 31 December 2020.
³ Since 28 April 2021

Share prices of Sistema (GDR) and its publicly traded assets⁴, %



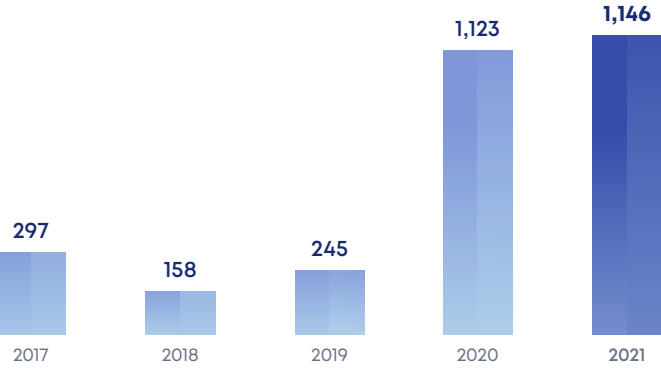
On the first trading day of 2021, the closing price of one ordinary share on the Moscow Exchange was RUB 29.3. Although the share price was growing in the first half of the year, it ended the year in the red, mainly under the influence of increased geopolitical risks. The highest share price in 2021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

On the first trading day of 2021, the closing price of one GDR on the LSE was USD 7.5. Although the price was growing in the first half of the year, it ended the year in the red, mainly under the influence of increased geopolitical risks. The highest price in 2021 was on 14 April at USD 10.0; the lowest price was recorded on 14 December at USD 5.9. On the last trading day of 2021, the closing price was USD 6.2⁵.

Sistema's average daily trading volume on the Moscow Exchange⁶, RUB m

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

+40.7%
ADTV CAGR 2017–2021



⁴ Source: Bloomberg. The indicator is calculated as appreciation/depreciation of a share/index in relation to the value as of 31 December 2020.
⁵ VWAP of shares traded on Moscow Exchange for the last 60 trading days of 2020 was RUB 28,987, while their VWAP for the last 60 trading days of 2021 was RUB 25,556.
⁶ Source: Moscow Exchange

ANALYST RECOMMENDATIONS¹



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

1

Source: Bloomberg

2

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

3

USD/RUB exchange rate: 74.41

4

USD/RUB exchange rate: 74.68

Dividends and share buyback programme

DIVIDEND POLICY



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

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

Additionally, starting from 2022, the Policy also recommends increasing dividend payments by an amount equal to 10% of the absolute increase in adjusted OIBDA⁵ for the last completed financial year, provided that adjusted OIBDA grew by more than 5% in the last completed financial year and the net debt%/adjusted OIBDA ratio does not exceed ×3.

DIVIDENDS DISTRIBUTED FOR THE FULL YEAR 2020

0.31 RUB

DIVIDEND PER SHARE
in 2021

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

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

UNPAID DIVIDENDS

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

- ▶

RUB 2,213,003,658.88 not paid on the basis of a written request from a shareholder
- ▶

RUB 1,071,733.35 not paid due to the lack of the necessary information about the recipients of dividends to transfer the corresponding amounts

5

Operating income before depreciation and amortisation.

6

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

DIVIDEND AMOUNTS AND PAYMENT DATES

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

2 991 500 000

DIVIDEND AMOUNT
IN 2021, RUB

SHARE BUYBACK PROGRAMME

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

At the end of January 2022, the Programme was implemented in full. Since the announcement of the programme, JSC Sistema Finance acquired 315,195,371 ordinary shares of the Corporation for an aggregate amount of approximately RUB 7 bn, which represents 3.27% of outstanding Sistema shares.

¹ Date of payment of dividends to the nominee shareholders and custodians being professional participants of the securities market, who are included in the shareholders register.
² Date of payment of dividends to other persons included in the shareholders register.

BONDS



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

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

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

Credit ratings

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

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

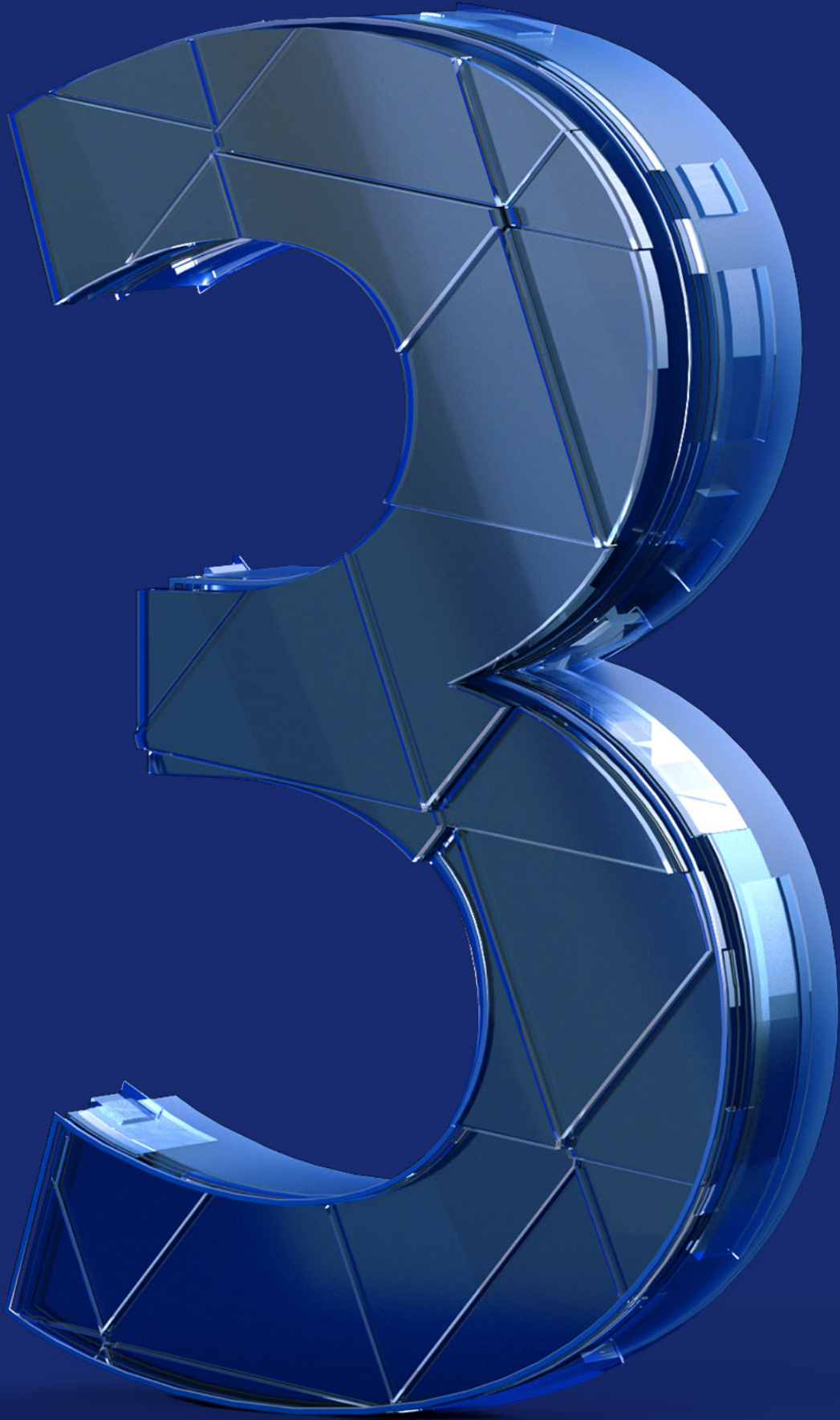
Sistema’s credit ratings³

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

³ Standard & Poor’s and Fitch ratings were withdrawn by agencies in 1Q 2022.



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



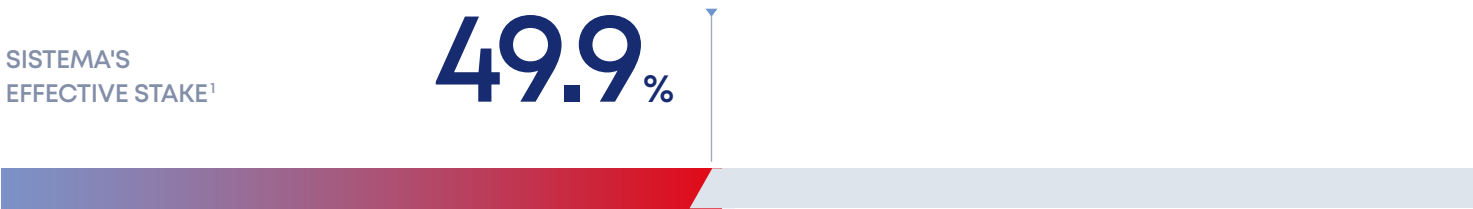
RESULTS OF KEY ASSETS

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



MTS.RU

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



TEAM



Vyacheslav Nikolayev
CEO

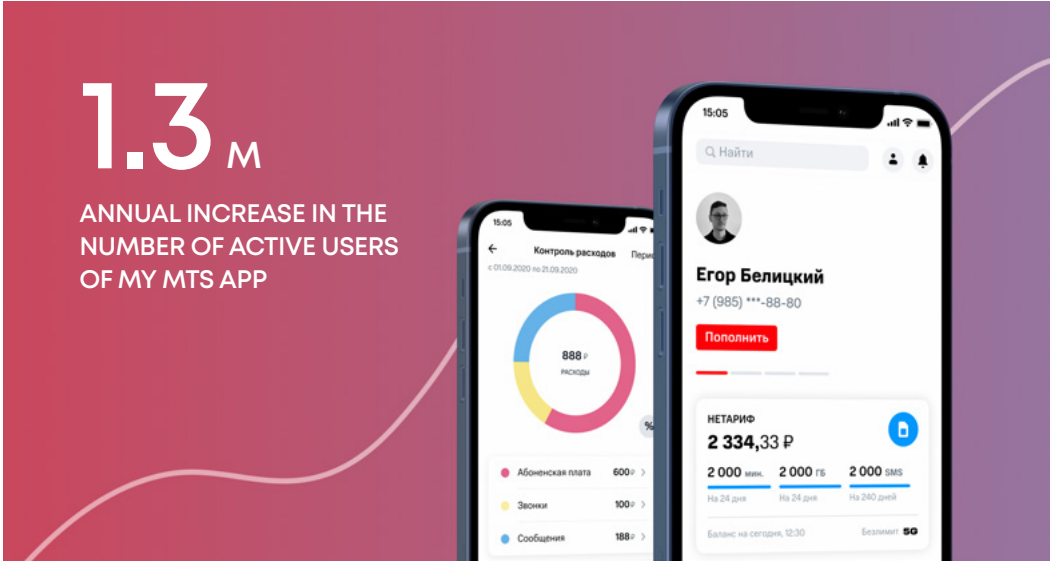


Felix Evtushenkov
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS



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



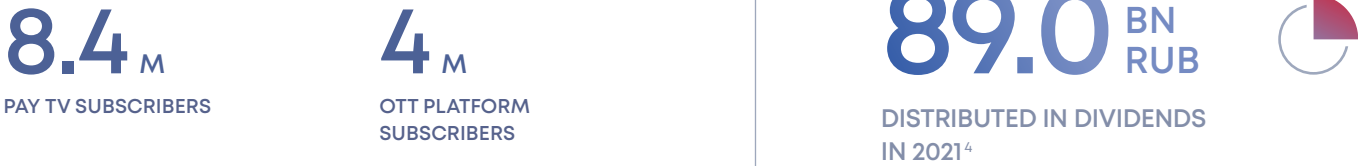
DIGITAL SOLUTIONS AND CLOUDS



ECOSYSTEM DEVELOPMENT



MEDIA



² Ecosystem customers are the customers who are actively and consciously using two and more products or services provided by MTS.
³ According to data from MTS Bank based on Frank Research reports.
⁴ Including MTS's share buyback programme.

Business model



BUSINESS LINES

TELECOM

FINTECH

MEDIA

CLOUD AND INFRASTRUCTURE

NEW DIGITAL SERVICES

PARTNERSHIPS

RETAIL CHAIN

TOOLS

CUSTOMER EXPERIENCE

ONE CUSTOMER ID

LOYALTY PROGRAMME

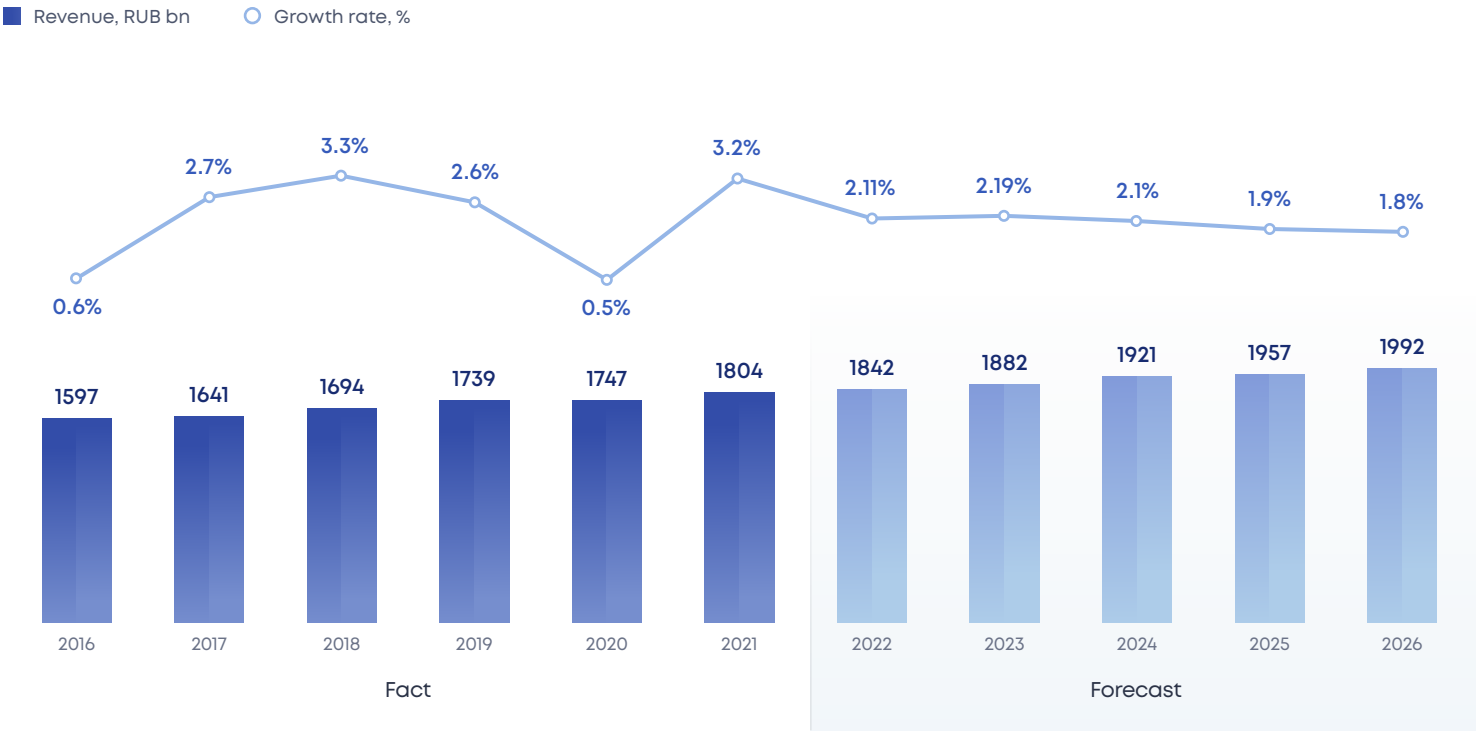
BIG DATA

ARTIFICIAL INTELLIGENCE

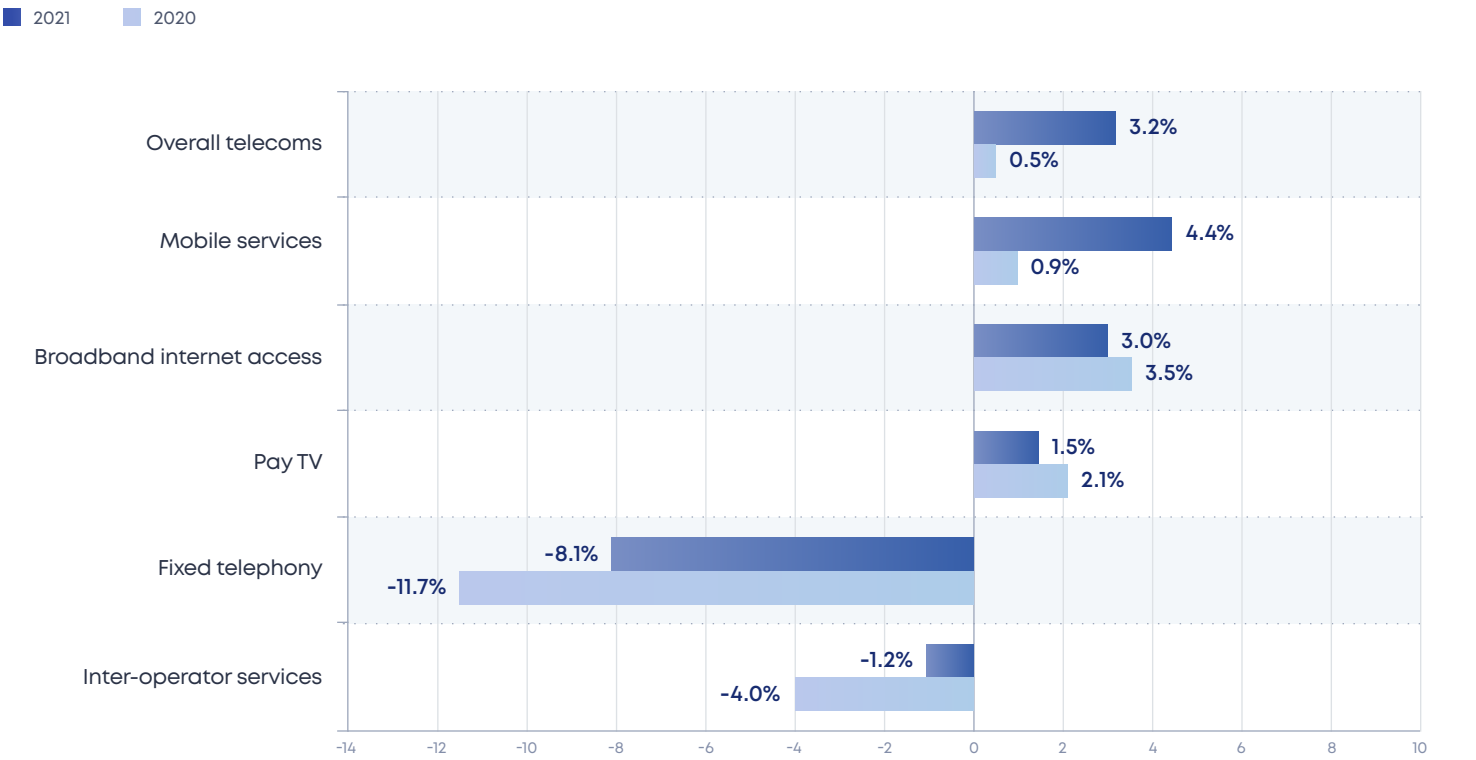
IT

Industry overview for 2021

Telecoms market in Russia¹



Annual growth of Russian telecoms segments¹



¹ Source: TMT Consulting

KEY TRENDS ON THE RUSSIAN TELECOMS MARKET

In the mobile segment

+8_M

THE SUBSCRIBER BASE INCREASED IN ABSOLUTE NUMBERS IN 2021

The highest result over the last 5 years

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

In 2021, the Russian telecommunications market was valued at RUB 1.8 tn¹, up by 3.2%, which is the highest level over the recent years. This growth was mainly driven by a recovery in mobile communications (+4.4% in 2021 compared to +0.9% in 2020).

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

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

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



1 Source: TMT Consulting

LEGAL FRAMEWORK & REGULATORY CHANGE

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

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

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

Measures included in the road map



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

MACROECONOMIC FACTORS THAT INFLUENCED THE COMPANY'S BUSINESS IN 2021

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



Business development in 2021

TELECOM

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

MEDIA

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

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

DEVELOPMENT OF THE 5G NETWORK

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

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

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

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

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

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

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

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

FINTECH

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

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

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

INTERNET OF THINGS (IOT)

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

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

RETAIL

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

DIGITAL SOLUTIONS AND CLOUDS

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

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

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

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

ARTIFICIAL INTELLIGENCE (AI)

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

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

PARTNERSHIPS

January 2021

+



MTS and **Vodafone Group** announced their decision to continue their strategic partnership until 2023.

January 2021

+



MTS Premium and **Yandex Plus** agreed to set up a partnership, that involves MTS Premium users of the MTS Premium plan automatically becoming the subscribers of Yandex Plus, which offers access to Kinopoisk HD platform, music and podcasts, enables them to get cashback in points and spend it on Yandex.Taxi, Yandex.Drive and other Yandex services.

May 2021

+



MTS and **LUKoil** agreed on a strategic partnership to launch Russia's first subscription that combines payment for fuel at filling stations and access to the digital products of the MTS ecosystem.

November 2021

+



MTS became the first Russian company to join **5G Future Forum (5GFF)**, an international association of telecom operators whose goal is to develop specifications and implement advanced solutions based on 5G technologies and multi-access edge computing (MEC).

February 2022

+



MTS signed a strategic cooperation memorandum with the Korean telecom leader **KT Corporation**, aiming to develop new business lines, including data centres, AI solutions, and media content.



AWARDS

Award in the area of customer experience
CX WORLD AWARDS 2021
April 2021
MTS won in the category “Best corporate customer experience B2B. Telecom services” by submitting a case on improvement of CJM and EJM during the pandemic in 2020.

IOT AWARDS 2021
November 2021
MTS became the winner in the category “IoT Company of the Year in Russia”.

National award
RUNET AWARD 2021
December 2021
MTS won in the category “SME Development in Russian Internet Domain” for its project “Know in Person.”

Professional award
"DIGITAL HEIGHTS 2021"
January 2022
MTS won in the category “Best IT Solution for the Energy Industry”.

SUSTAINABLE DEVELOPMENT

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

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

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

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

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



Development strategy and results of CLV 2.0 strategy

CUSTOMER LIFETIME VALUE 2.0

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

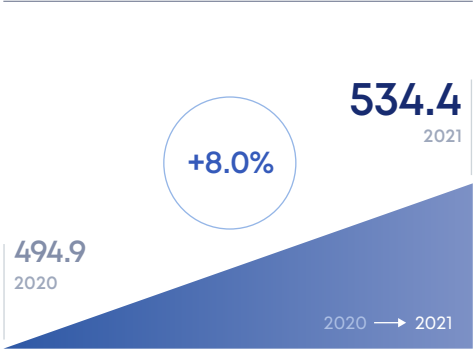
Development of services is the responsibility of business segments that may be significantly different in scale, development trends and nature of activities. They work independently in close mutually beneficial cooperation with partners within the ecosystem (joint use of technologies, customer data,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

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

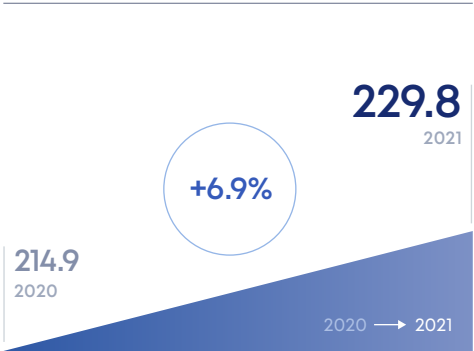
MTS's CAPEX in 2021 reached RUB 111 bn, of which RUB 109 bn was spent in Russia, with the enhancement of network capacity, coverage and quality remaining the main investment focus. Over the course of 2021, MTS built 27,300 base stations across Russia, of which 26,400 are 4G towers. Smartphone data usage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

Financial performance in 2021

Revenue, RUB m



Adjusted OIBDA, RUB m



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

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

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

Adjusted net income for 2021 remained at the level of 2020 due to higher amortisation charges caused by an increase in capital spending and M&A deals, growth of interest expenses on the back of the rise in the key rate and greater foreign exchange differences and derivative transactions. In the calendar year 2021, the total amount of dividends stood at RUB 74 bn. In July 2021, MTS completed a share buyback programme totally worth RUB 15 bn (2.27% of the total number of listed MTS shares).

74.0 BN RUB

THE TOTAL AMOUNT OF DIVIDENDS PAID
In the calendar year 2021

15.0 BN RUB

A SHARE BUYBACK PROGRAMME TOTALLY WORTH
Completed in July 2021



OZON.RU

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

SISTEMA'S
EFFECTIVE STAKE¹

31.8%

TEAM



Management Board



Elena Ivashentseva
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS

>445 BN RUB
GMV IN 2021
including services

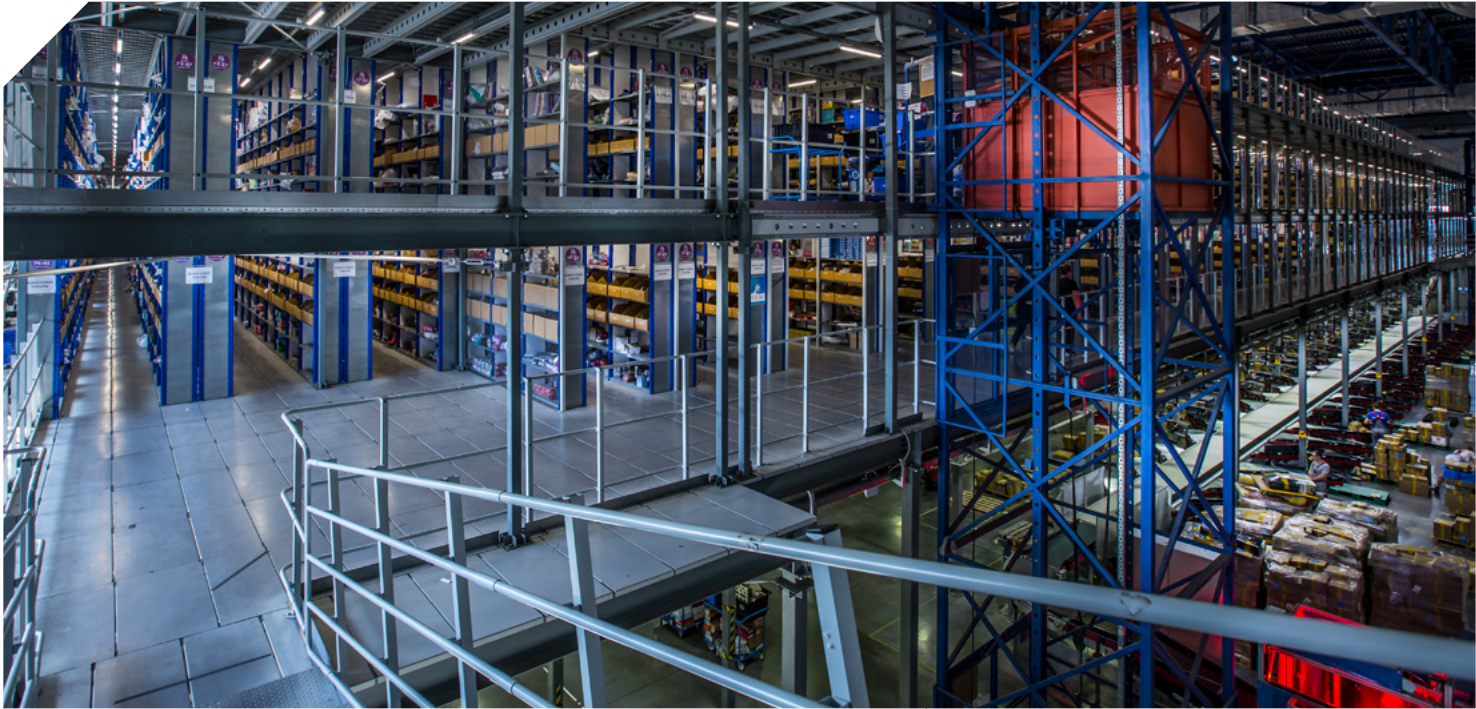
+125%
GMV GROWTH IN 2021

No. 2 RETAILER IN RUSSIA
BY GMV
gross merchandise value

178.2 BN RUB
REVENUE

>90 THSD
ACTIVE SELLERS

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



>3×
INCREASE IN NUMBER
OF ORDERS
compared to 2020

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

>200 M
ORDERS DELIVERED IN 2021

>25 M
ACTIVE CUSTOMERS

>80 M
UNIQUE SKUs

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

1,000,000
SQ M OF TOTAL
WAREHOUSE SPACE



Business model



Key e-commerce trends in Russia in 2021

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

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

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

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

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

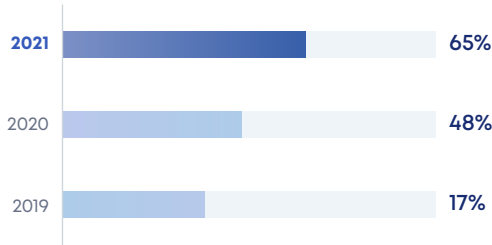
Multi-category retailers, such as Ozon, are the leading players in the Russian e-commerce market. Through a perfect combination of product mix, prices and services, multi-category players continue actively expanding their market share. According to analysts' findings, the share of multi-category marketplaces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

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



Business development in 2021

Ozon marketplace's share in GMV, %



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

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

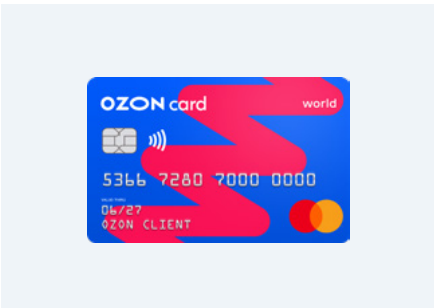
In 2021, Ozon successfully launched a number of fintech products, including the acquisition of a banking licence, as well as development of such products as Ozon.Card (a debit card), Ozon.Account (an e-wallet) and lending products. These products improve customer experience, increase the flexibility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

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

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

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

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



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

Strategic goals

>80%

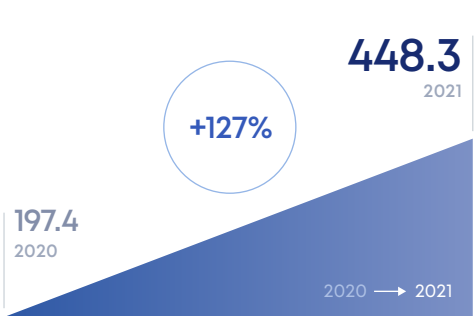
EXPECTED GMV GROWTH IN 2022 compared to 2021

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

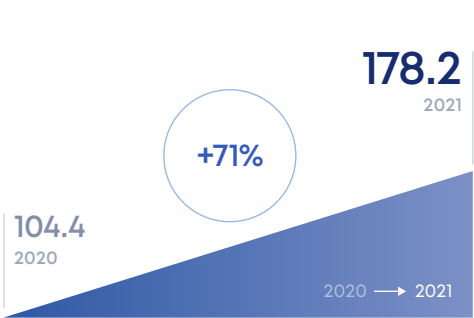
The company expects its GMV to grow by 80% or more in 2022 compared to 2021 and aims to improve unit economics.

Financial performance in 2021

GMV, including services, RUB bn



Revenue, RUB bn



Financial results, RUB bn¹

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

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

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

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

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

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

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

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



SEGEZHA-GROUP.COM

Segezha Group is one of Russia's largest vertically integrated holding companies with a full cycle of logging and advanced wood processing. Segezha Group comprises forest, wood processing and pulp and paper assets in Russia and Europe.

SISTEMA'S
EFFECTIVE STAKE

62.2%

TEAM



Mikhail Shamolin
CEO



Ali Uzdenov
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS

12

REGIONS
OF OPERATIONS
in Russia

15

THSD
EMPLOYEES

26

PRODUCTION
SITES

>100

COUNTRIES OF SALES

5

COUNTRIES WITH
REPRESENTATIVE OFFICES

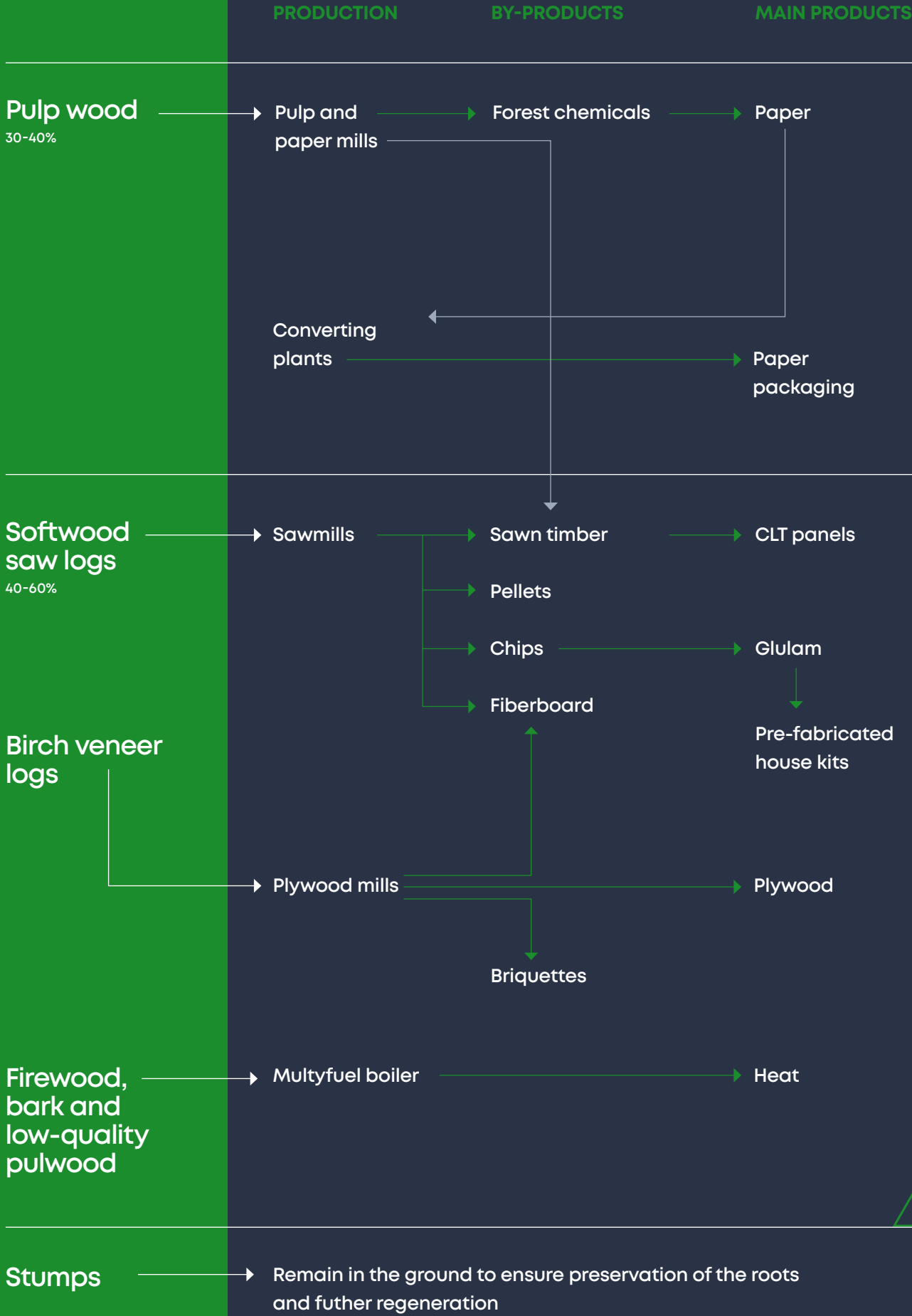
74%

OF REVENUE IS IN
FOREIGN CURRENCY

Business model

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

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



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

8¹%

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

77%

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

60²%

OF SEGEZHA GROUP'S SACK PAPER IS EXPORTED

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

Industry overview for 2021

Sack paper

GLOBAL MARKET

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

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

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

4.2^M TONNES

PAPER CONSUMPTION³ in 2021

1.9%

PAPER CONSUMPTION GROWTH 2021 vs 2020

3 Source: Fisher International, Segezha Group estimate.



Paper sacks

EUROPEAN MARKET

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

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

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

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

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

6.03^{BN} ITEMS

TOTAL PAPER SACK CONSUMPTION in Europe in 2021

4.5%

INCREASING DEMAND OF CONSUMPTION OF PAPER SACKS 2021 vs 2020

4 EUROSAC, Fisher International.
5 EUROSAC, Fisher International.
6 Segezha Group internal research, EUROSAC data.

RUSSIAN MARKET

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

In 2021, consumption of paper sacks in Russia totaled 826 m⁶ items, up 8.6% from the previous year. The growth of consumption was mainly driven by business activity in the construction sector (extension of the subsidised mortgage programme, commissioning of new housing and lifting of restrictions related to COVID-19). Segezha Group's output of industrial paper sacks increased by 11% compared to 2020 due to the launch of two new industrial lines in the town of Segezha.

8%

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

65%

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



Plywood

GLOBAL MARKET

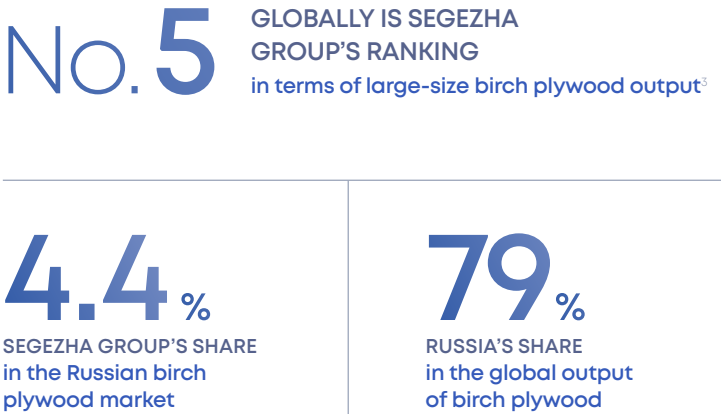
In 2021, the birch plywood market was characterised by roaring demand due to the recovery of a number of sectors after the pandemic. The total market volume increased by 4% year-on-year to 4.8 m cu m¹. Demand exceeded supply, leading to unprecedented growth in birch plywood prices. Segezha Group's price for plywood rose to peak values in 2021 reaching 678 euro per cu m (+67% year on year)

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

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

RUSSIAN MARKET

Russia continues to be the undisputed global leader in the production of birch plywood, with a 76% share of the global market in 2021². In the reporting year, Russia's plywood output increased by 8% compared to 2020, to 4.1 m cu m.



Sawn timber

GLOBAL MARKET

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

The United States and China were the biggest consumers of sawn timber, mostly in the construction sector and furniture production. Sawn timber consumption is estimated to have increased in 2021 by 6% year-on-year⁵.

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

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

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

RUSSIAN MARKET

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

Russia's exports of softwood sawn timber fell by 5% to 29 m cu⁸, mainly due to China, which remains the biggest consumer of Russian softwood sawn timber.



Glulam

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

According to expert estimates, the wooden housing construction grew by 15%-17% in 2021 year-on-year. The market for wooden housing construction in Russia is relatively small. However, the share of housing built using timber has more than doubled in the last 15 years². The key regions consuming prefab houses are still the Central, Northwest and Volga federal districts.

13 %
SEGEZHA GROUP’S SHARE
in the Russian prefab
houses market³

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

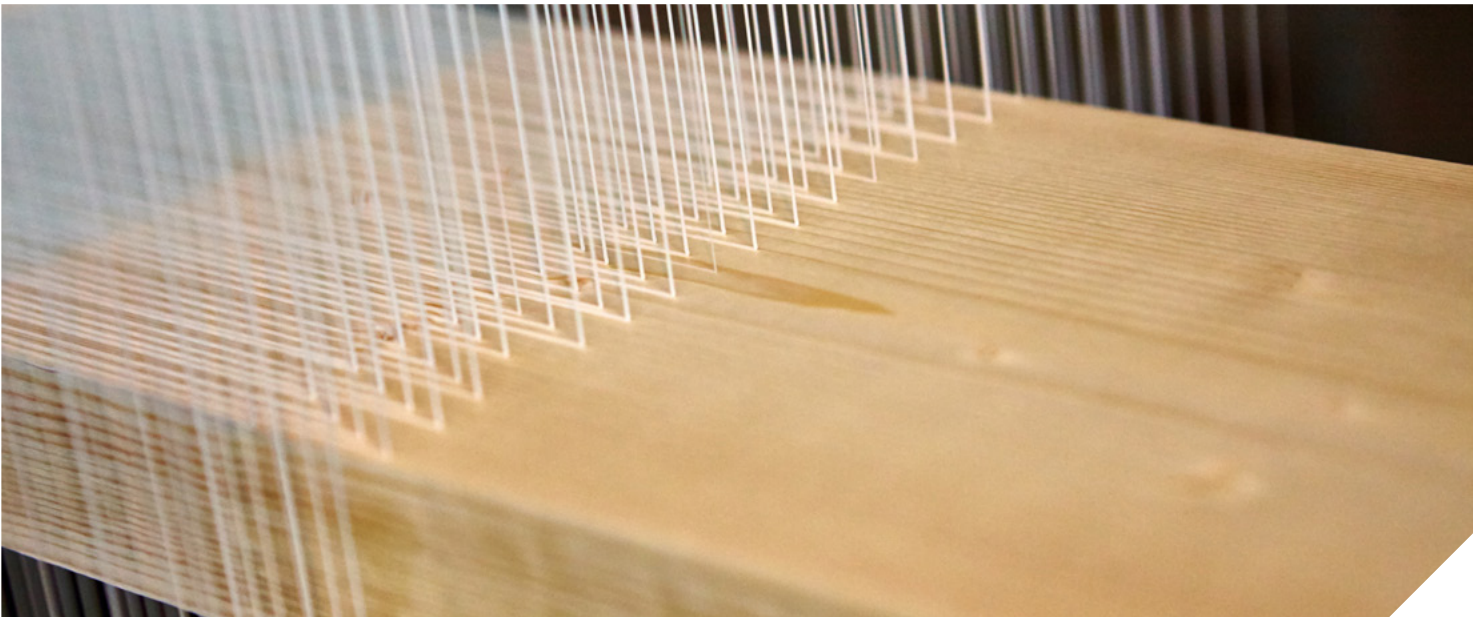
1 Source: Estimate by Segezha Group
2 Source: analytical article by Okna Media posted on the website of the Association of Wooden Housing Construction.
3 Source: analytical article by Okna Media posted on the website of the Association of Wooden Housing Construction.

Laminated beams

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

The key markets in Europe are Italy, Germany and Austria. The largest producers of laminated beams in Europe are located in Austria and Germany (about 90% of production). European manufacturers are usually local players supplying products to regional markets. In 2021, the European output of laminated beams totaled 3.7 m cu m⁴, growing 5% year-on-year, mostly thanks to production growth in Germany and Austria.

4 Source: Forecast: https://www.timber-online.net/wood_products/2021/05/over-3-million-m--for-the-first-time---record-years-for-glulam.html, estimate by Segezha Group



CLT panels

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

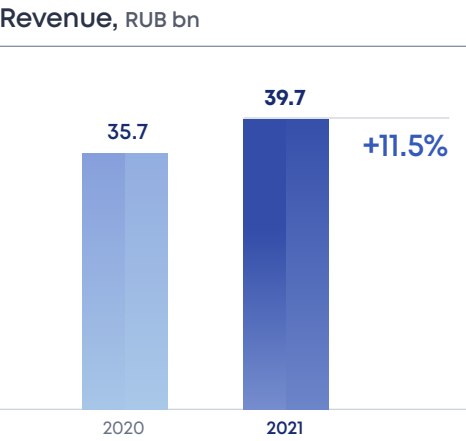
In the first half of 2021, there was a rapid increase in consumption and market prices; output was estimated at 1.2 m cu m (+20% year-on-year) with capacities of 1.6 m cu m.

Business development in 2021

Paper & Packaging

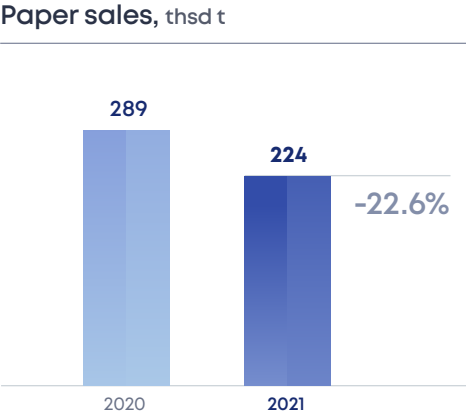
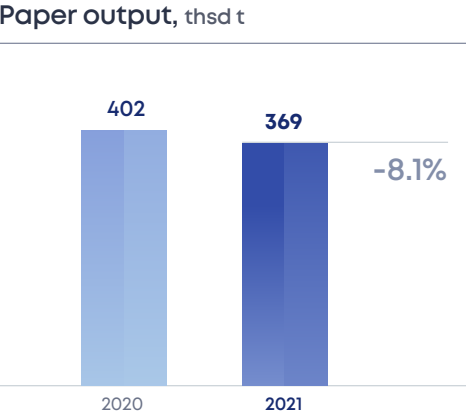
No.1 BY PAPER OUTPUT
in Russia¹

No.3 BY OUTPUT OF HIGH-QUALITY
UNBLEACHED SACK PAPER
globally¹



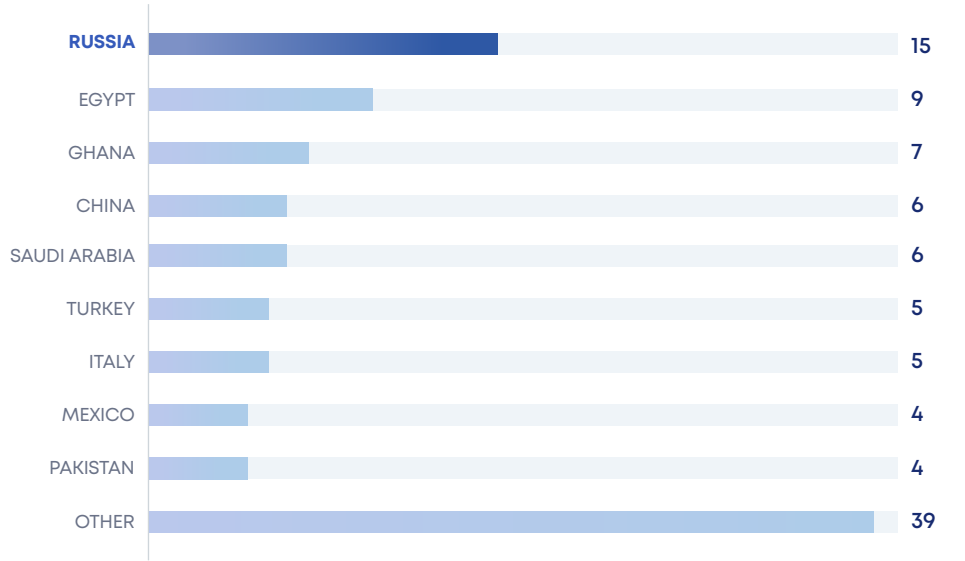
PAPER

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



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

Structure of paper sales in 2021 by country , %



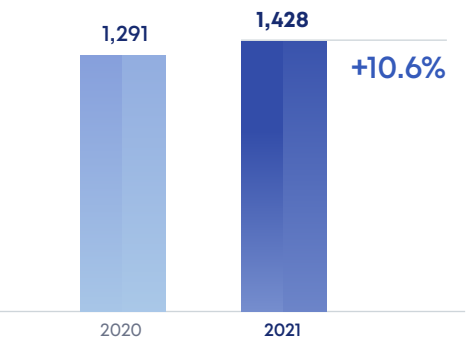
1 According to Segezha Group’s internal research as of 31 December 2021.

PAPER SACKS

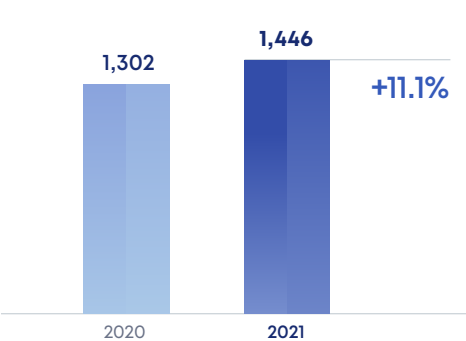
No. 1 BY OUTPUT OF PAPER SACKS in Russia¹

No. 2 BY OUTPUT OF PAPER SACKS in Europe¹

Paper sacks output, thsd t



Paper sacks sales, thsd t



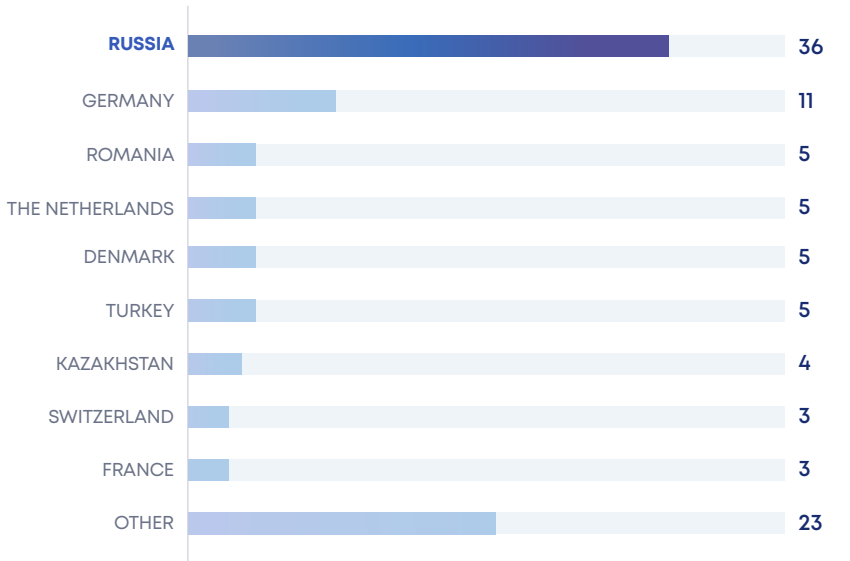
40% OF SEGEZHA GROUP'S SACK PAPER IS CONVERTED INTO PAPER PACKAGING AT ITS OWN FACILITIES

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

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

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

Structure of paper sack sales in 2021 by country, %

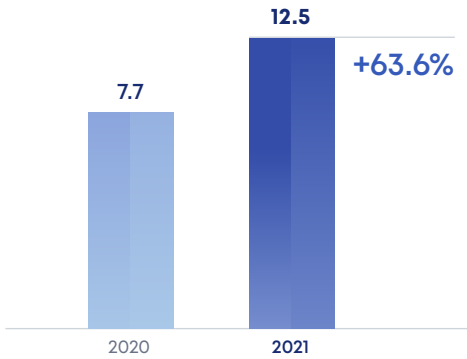


Plywood Boards

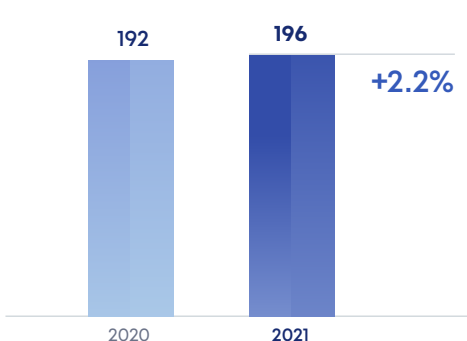
No. 5 BY OUTPUT OF LARGE-SIZE BIRCH PLYWOOD globally

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

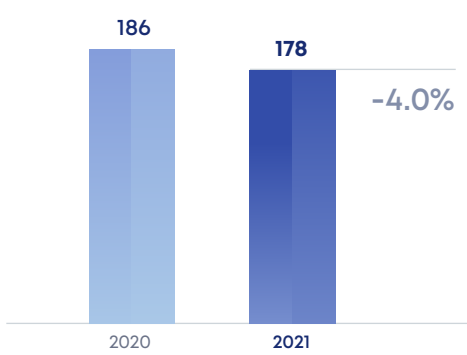
Revenue, RUB bn



Plywood output, thsd cu m



Plywood sales, thsd cu m

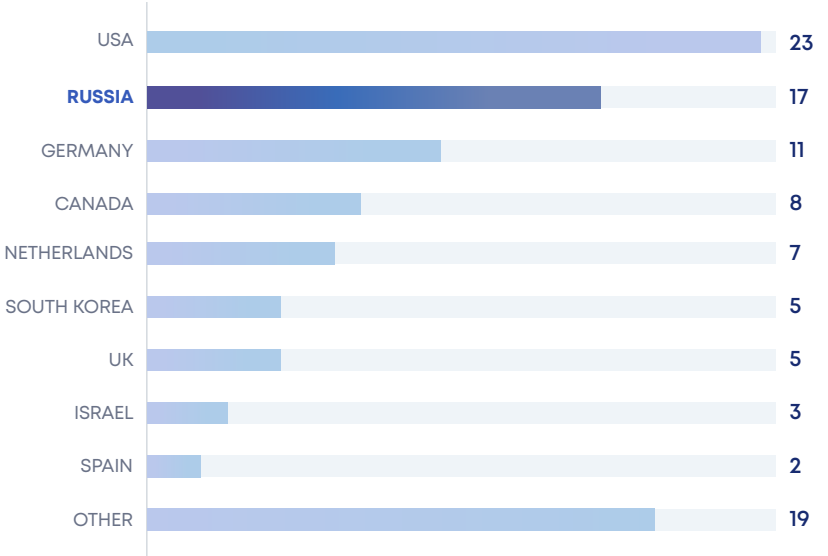


Revenue of the Plywood & Wood Boards segment totaled RUB 12.5 bn in 2021, an increase of 63.6% from 2020. This growth was driven mainly by rising prices, which hit record highs in the third quarter of 2021, as well as an increasing share of high-margin products.

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

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

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



¹ According to Segezha Group's internal research as of 31 December 2021.

¹ According to Segezha Group's internal research as of 31 December 2021.

Forestry management and woodworking

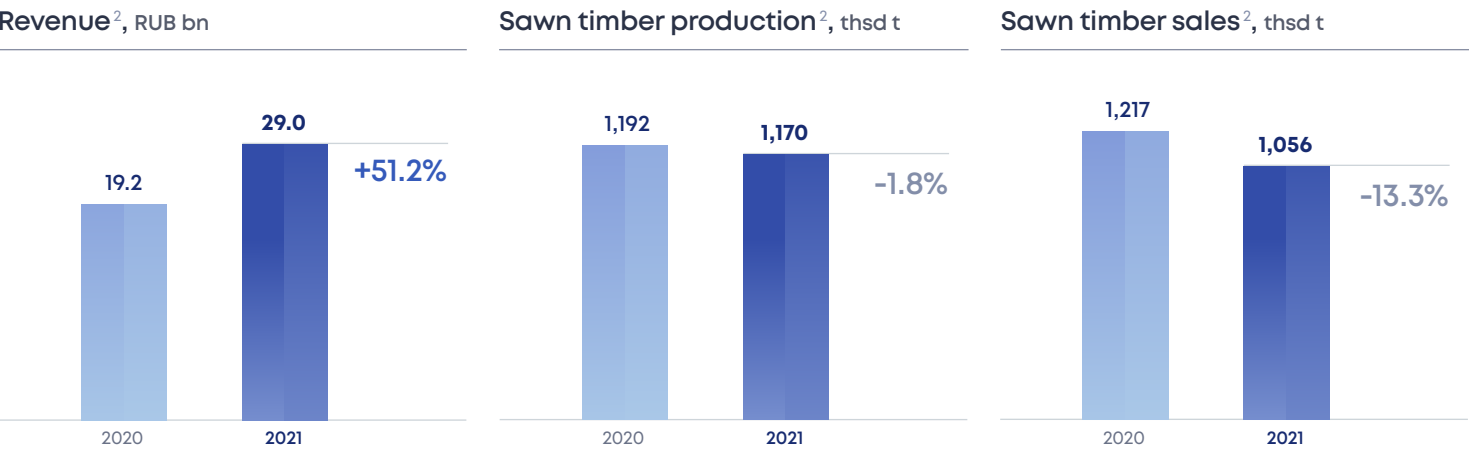
No.3

BY CAPACITY OF
SOFTWOOD SAWN TIMBER
in Europe¹

>20

NUMBER OF COUNTRIES THAT
PURCHASE SAWN TIMBER
FROM SEGEZHA GROUP

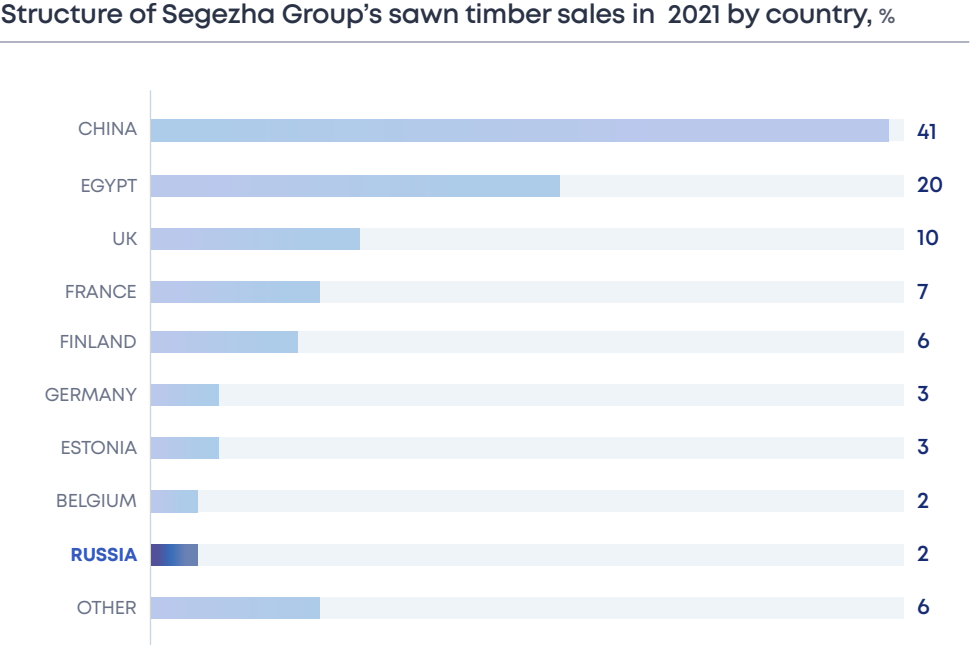
Revenue of the Forestry management and woodworking segment totaled RUB 29.0 bn in 2021, an increase of 30.4% from 2020. This growth was driven by higher sawn timber prices compared to 2020 (on the back of strong demand due to the post-Covid-19 global economic recovery), low inventory levels across the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



SAWN TIMBER

Segezha Group exports ~100% of its sawn timber to dozens of countries, with most volumes consumed by construction companies and producers of furniture and packaging. The main markets for the company's sawn timber are China, Europe and MENA³.

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



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

Prefabricated Houses

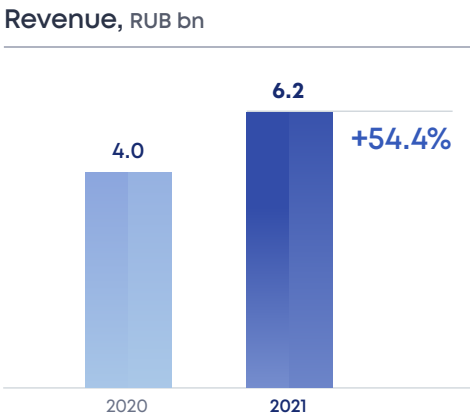
Revenue of the Prefabricated Houses segment totaled RUB 6.2 bn in 2021, an increase of 54.4% from 2020. This growth was driven by higher output and sales, in particular due to the start of production and sales of CLT panels, as well as higher product prices on the back of a recovery in construction.

6.2 BN
RUB

TOTAL REVENUE OF THE
LAMINATED WOOD PRODUCTS
SEGMENT
in 2021

54.4 %

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

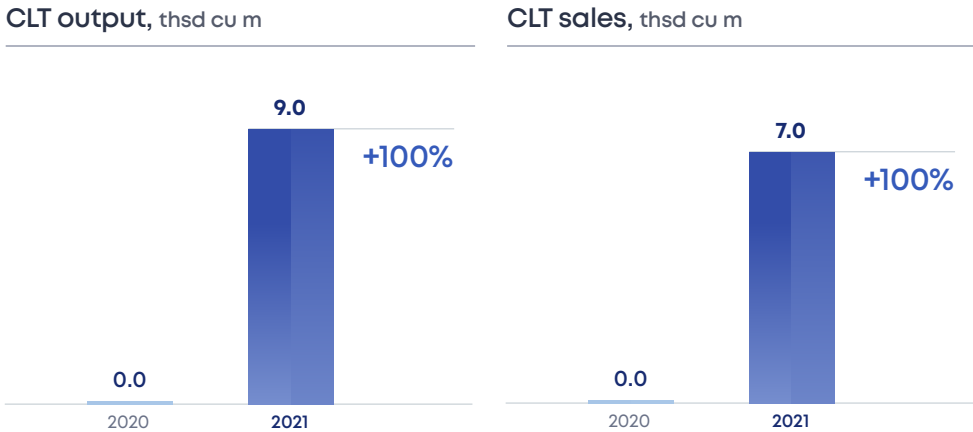


CLT PANELS

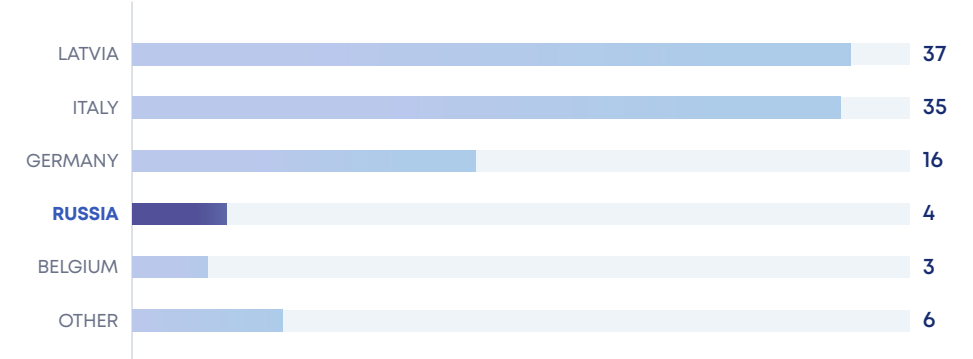
No.1

SEGEZHA GROUP IS THE LARGEST
MANUFACTURER OF CLT PANELS
in Russia

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



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

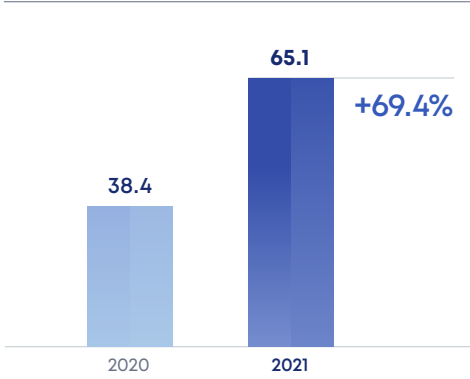


LAMINATED BEAMS

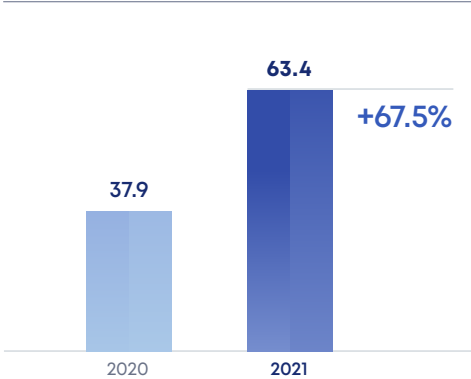
No.1

SEGEZHA GROUP IS NO 1 PRODUCER OF LAMINATED BEAMS¹ in Russia

Laminated beam output, thsd cu m

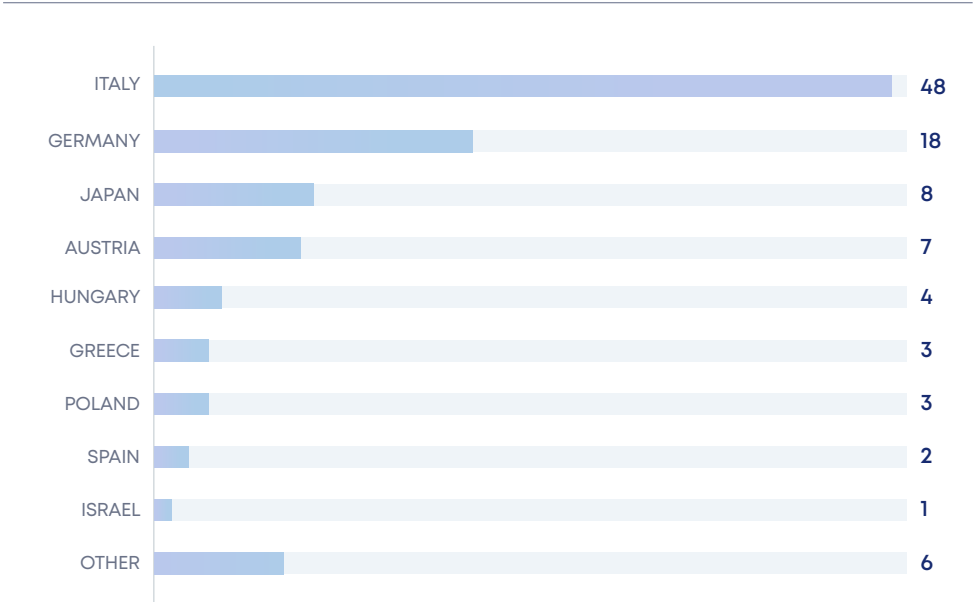


Laminated beam sales, thsd cu m



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

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

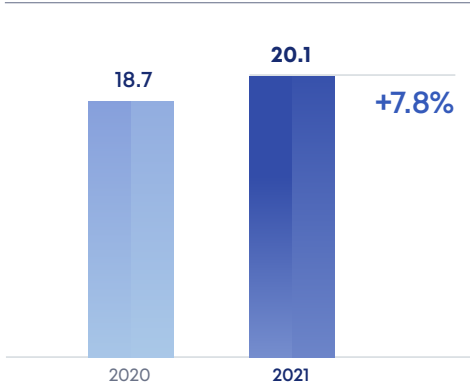


PREFABRICATED HOUSES

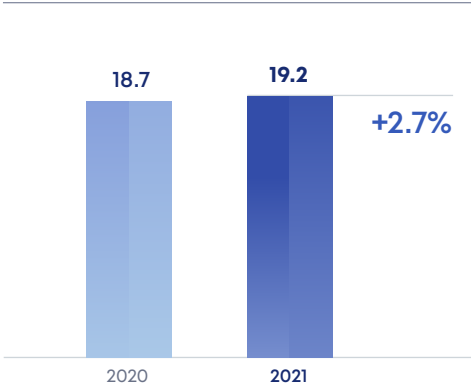
80%

IS SEGEZHA GROUP'S SHARE IN PREFAB HOUSES MARKET¹ in Russia

Output of prefab houses, thsd cu m



Sales of prefab houses, thsd cu m

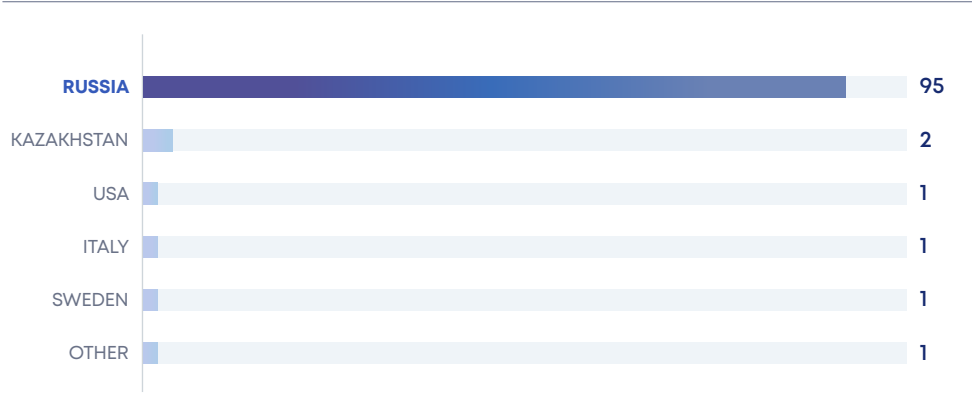


¹ According to Segezha Group's internal research as of 31 December 2021.



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

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



NEW TECHNOLOGIES

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

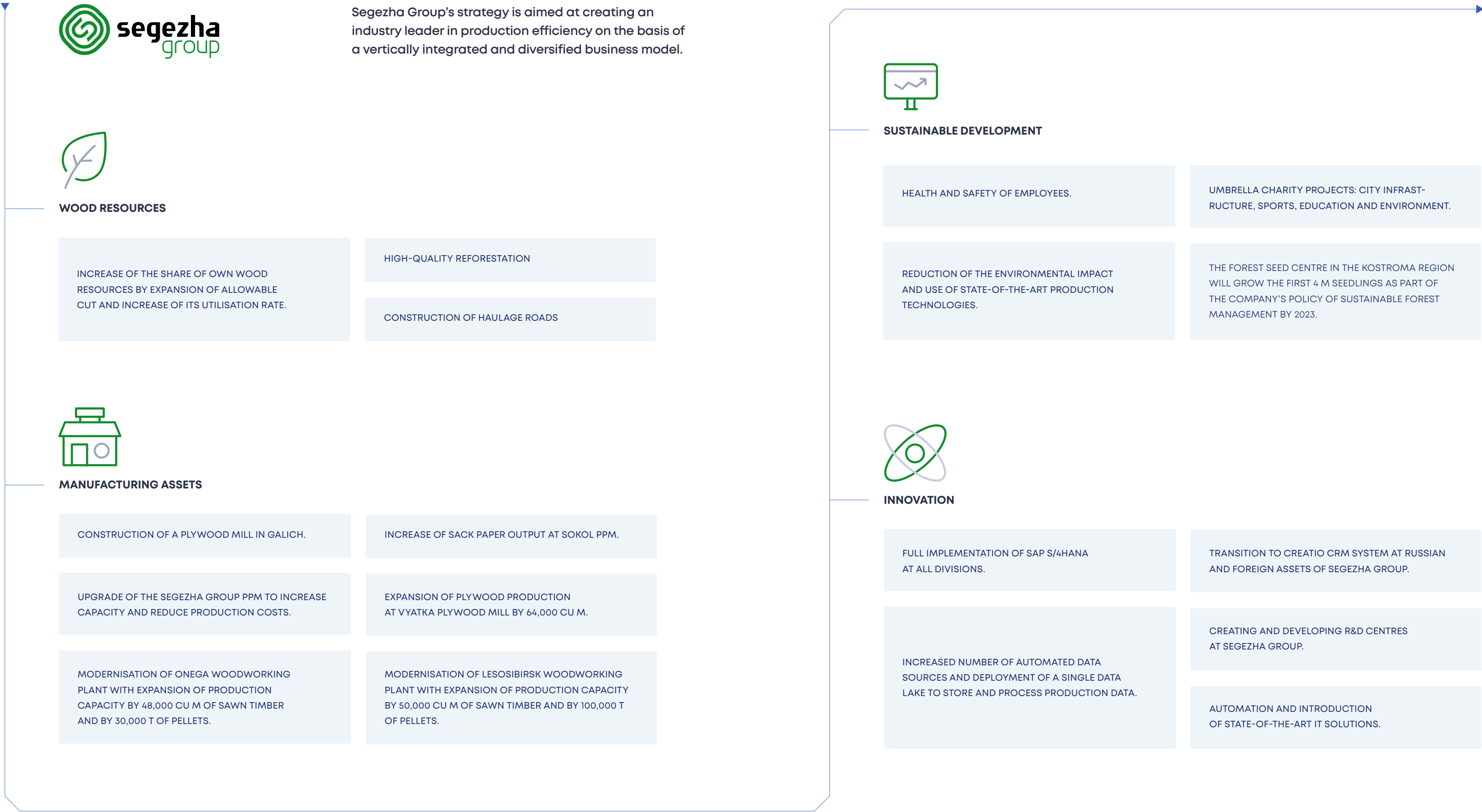
KEY ACHIEVEMENTS

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

- ▶ Segezha Group acquired the assets of CJSC Novoyeniseysky Timber Chemical Complex. Production capacities: up to 500,000 cu m of sawn timber, 60,000 t of pellets and 20 m reference sq m of fibreboard. The company also has 2.2 m cu m of annual allowable cut. The assets are located in the town of Lesosibirsk, the Krasnoyarsk region.



Operations & investment development strategy



Financial performance in 2021

Financial results, RUB m

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

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

29.3 BN RUB
OIBDA
67.6% y-o-y

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

Revenue growth was also supported by the increased average exchange rates of foreign currencies against the rouble year-on-year. The rouble's exchange rate decreased by 6% against the euro and by 2% against the US dollar in 2021. The share of foreign currency revenue grew by 2.5 p.p. year-on-year, to 74.5%. In 2021, adjusted OIBDA increased by 67.6% year-on-year, to RUB 29.3 bn, mainly due to higher prices for all types of the company's products and improved productivity and efficiency of its own logging.

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



ETALON

 ETALONGROUP.COM

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

The company is on Forbes's Top-10 list of major Russian property developers¹, enjoys the highest reliability rating² in the industry and belongs to the nation's top 3 construction companies present in 6+ Russian regions³.

SISTEMA'S
EFFECTIVE STAKE

29.8%

TEAM



Gennady Shcherbina
CEO



Sergey Egorov
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS

6^M
SQ M
IN NSA⁴

270^{BN}
RUB
IN ASSET MARKET
VALUE

27 PROJECTS IN DESIGN
AND CONSTRUCTION
PHASES⁵

446^{THSD}
SQ M
SOLD
in 2021

84.4^{BN}
RUB
SALES
in 2021

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



421^{THSD} SQ M
COMMISSIONED IN 2021
ACROSS 9 PROJECTS

84.1^{BN}
RUB
CASH COLLECTIONS
in 2021

+34%
IN AVERAGE HOME PRICES
in 2021

Industry overview for 2021

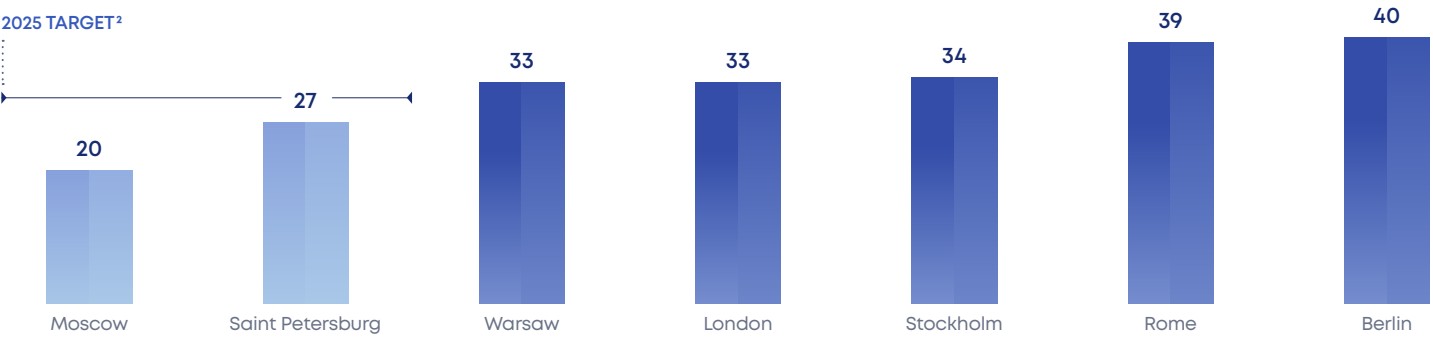
The national real estate market performed strongly throughout 2021 despite the persisting pandemic-related threats, with developers increasingly competing for attractive urban land.

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

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

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

Housing area per capita¹, sq m



3.5 ^{TN} RUB

REVENUE OF RESIDENTIAL DEVELOPERS FROM UNITS BEING SOLD

while construction is still in progress

High inflation led to negative effective returns on bank deposits, pushing people to look for alternative vehicles to invest in. While retail bank deposits in Russia are up just 6% (RUB 1.9 tn) year-on-year, with the growth rate 1 p.p. lower than in 2020³, funds on the escrow accounts of off-plan homebuyers (i.e. revenue of residential developers from units being sold while construction is still in progress) tripled year-on-year, reaching a staggering RUB 3.1 tn. The trend is especially pronounced in St. Petersburg, where escrow-account figures quadrupled, while Moscow statistics dovetail with the national average.

The persistent threat of Covid-19 puts the squeeze on demand for office space, driving the category's share in the overall real estate investment structure from 32% in 2020 to 19% in 2021⁴, while investment in land plots for development projects went up from 50% to 64%⁵. According to Knight Frank, developers continue vying for land in Saint Petersburg where housing demand is strongest. That said, as Moscow runs out of commercially sound empty space and competition among top market players intensifies, demand for land will increasingly follow a decentralisation trajectory.

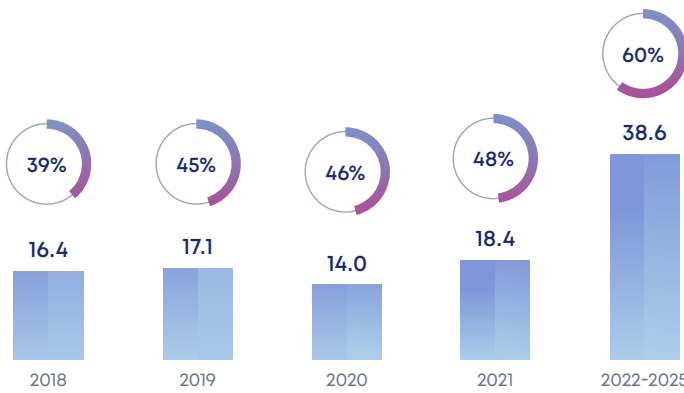
By 2025, the national top 20 developers are projected to generate a record high 60% of supply in Moscow and St Petersburg, while the number of small and medium-sized players will continue shrinking as the Central Bank's interest rate grows.

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

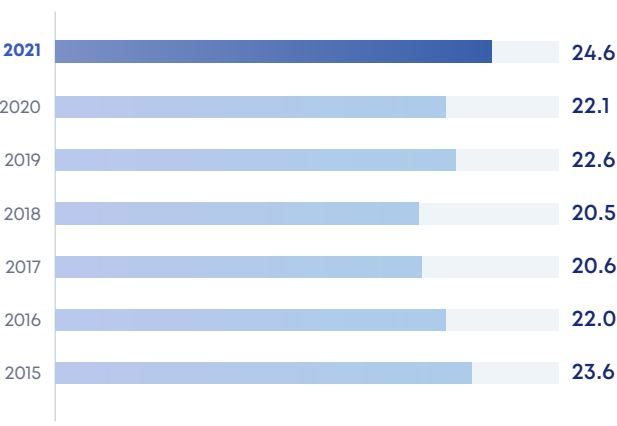
Top-20 developers continue building up portfolios⁶

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

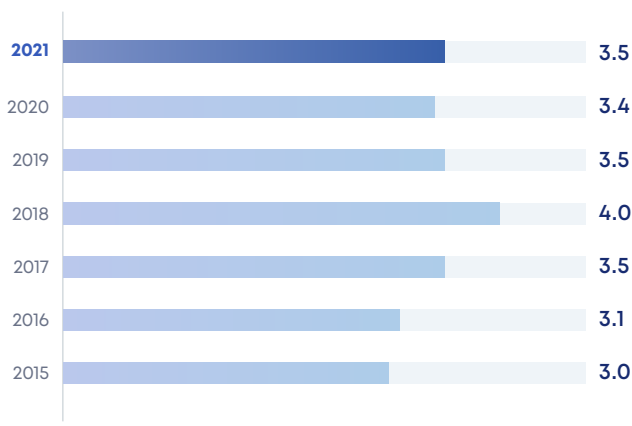
Delivered in total, m sq m
Aggregate market share of Top-20 players



Home floorspace delivered in cities with 1m+ populations⁷, m sq m

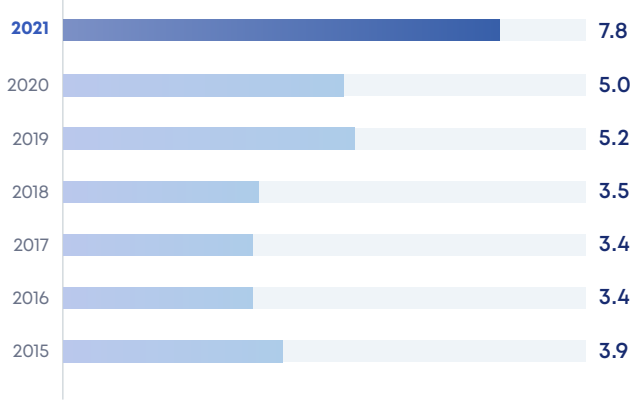


Home floorspace delivered in Saint Petersburg⁷, m sq m



Home floorspace delivered in Moscow⁷, m sq m

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



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

Business development in 2021

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

PROJECT PORTFOLIO EXPANSION

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

STEADY SALES GROWTH AND STRONGER FINANCIAL POSITION

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

Growing revenue and efficient cost management made Etalon one of the leading Russian public developers in terms of pre-PPA gross profit margin, which reached **36%**. With net debt reduced to **RUB 2.6 bn** and Net Debt/pre-PPA LTM EBITDA¹ to **0.12x**, the company is prepared to go forward with its ambitious strategic programme.

ADVANCING NEW TECHNOLOGIES

Etalon's key R&D areas are the development of seamless digital architecture for the entire value chain, product standardisation and the introduction of new housing construction technologies. The company's technological transformation aims to increase its operating efficiency and profit margins. At the time of the report², Etalon Group is working on:

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

INCREASING FOCUS ON SUSTAINABLE DEVELOPMENT (ESG)

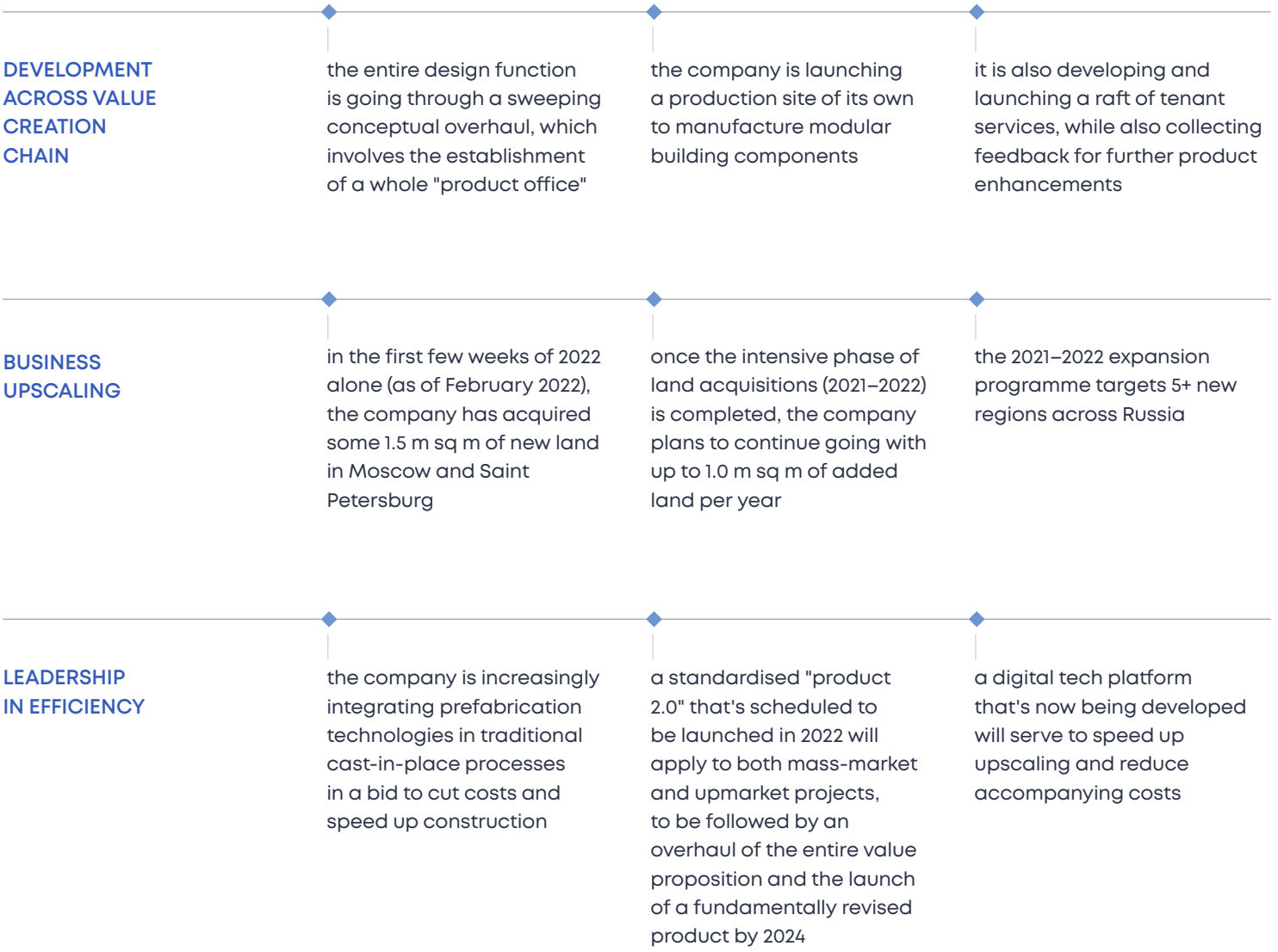
Among corporate policies and standards adopted and updated by Etalon Group in 2022 (such as the Policy on Insider Information, the Policy on Information Disclosure and the Code of Transactions in Securities) is a new ESG Policy designed to systematise the company's approach to sustainable development.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

Development strategy

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

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

Strategy implementation



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

Progress made so far towards 2024 strategic targets

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

Financial performance in 2021

Financial results³, RUB m

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

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

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

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

1 As of February 2022, if not stated otherwise
2 Customer Journey Map, or a history of a customer’s interactions with the company from first becoming aware of a need for its product to repeat communications.
3 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.
4 W/o regard to rounding.
5 EBITDA before purchase price allocation (PPA).

Operating performance in 2021

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

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

Progress on specific projects

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

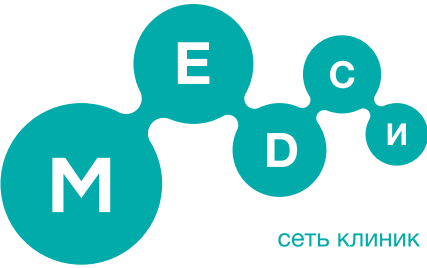
In a move to expand geographically, the company acquired land in the Siberian cities of Omsk and Novosibirsk in 2021 and in Yekaterinburg and Tyumen in 2022. With first construction permits in Omsk received in late 2021, the company is launched sales at the project in April 2022.

Largest completed projects

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



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



MEDSI.RU

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

SISTEMA'S
EFFECTIVE STAKE

95.5%

TEAM



Elena Brusilova
CEO



Tagir Sitdekov
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS

12
REGIONS IN RUSSIA

>90
FACILITIES

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

24%
OIBDA
MARGIN

71%
BRAND RECOGNITION
IN MOSCOW



3.3%
SHARE ON RUSSIAN PRIVATE
HEALTHCARE MARKET

279 THSD
SQ M
OF FLOORSPACE

3 THSD
RUB
AVERAGE CHEQUE

>10,000,000
VISITS

269 THSD
BED-DAYS

Business model

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

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

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



ASSETS OVERVIEW

	2020		2021
CLINICAL DIAGNOSTIC CENTRES (CDCS), TOTAL	5	CDC Krasnaya Presnya CDC Belorusskaya CDC Grokholsky CDC Maryino CDC Solyanka	+27
PAEDIATRIC CLINICS	2		2
PRIMARY CARE CLINICS	20		+727
HOSPITALS	2		2
WELLNESS CENTRES AND RETREATS	3		3
HOME CARE	1		1
CLINICS OUTSIDE MOSCOW, TOTAL	16	5 Perm 1 Nizhnevartovsk 1 Nyagan 1 Volgograd 1 Bryansk 1 Barnaul 4 Izhevsk 3 St Petersburg	+3349
TOTAL FACILITIES	49		+4291

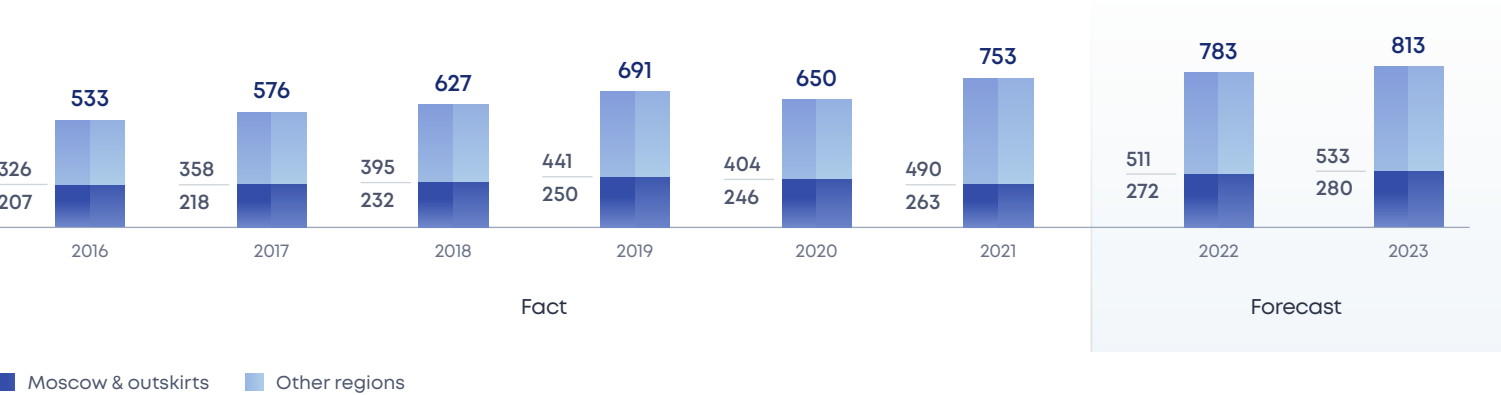
Industry overview for 2021

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

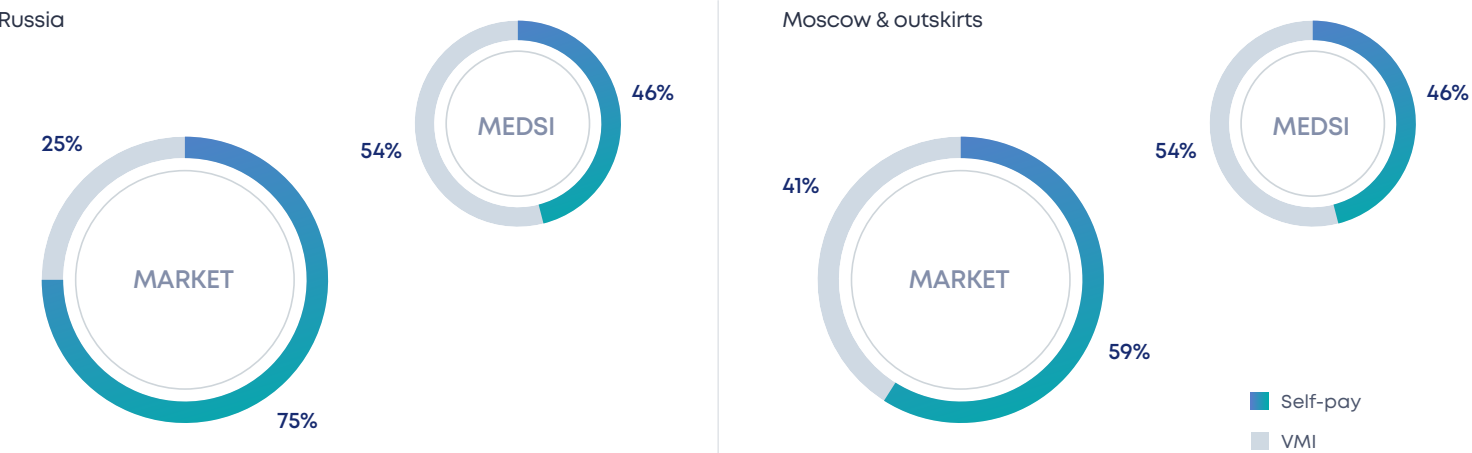
The retail segment (self-pay patients) remains the main source of commercial revenue, up 19.8% year-on-year, to RUB 567.5 bn. Self-pay patients generate 58.9% of proceeds in Moscow and 75.3% in other regions of Russia. Revenue from voluntary medical insurance (VMI) is up 5% year-on-year, to RUB 185.9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

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

Commercial healthcare market by geography¹, bn RUB



Commercial healthcare market structure (2021)¹, %



¹ Source: BusinesStat

MEDSI'S MARKET POSITION

30.1 BN RUB

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

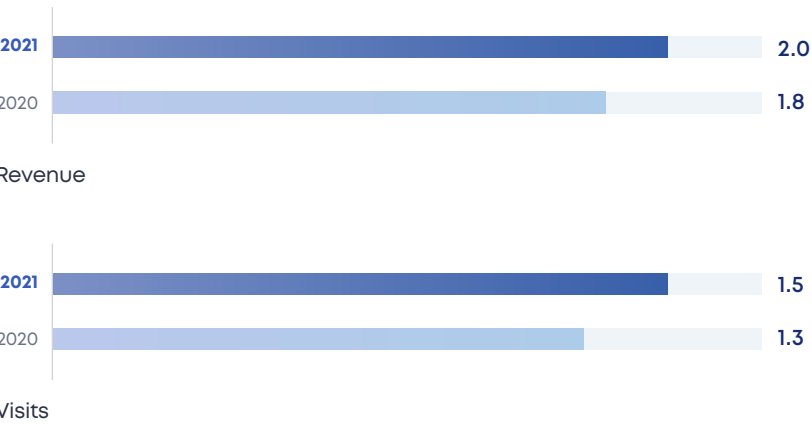
For Medsi, 2021 was a year of strong growth across operational and financial performance metrics. Medsi's revenue is up 20.2%, to RUB 30.1 bn, driven by higher occupancy rates, sustained demand for Covid-related services, new openings in Moscow and other regions, the development of telemedicine and home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

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

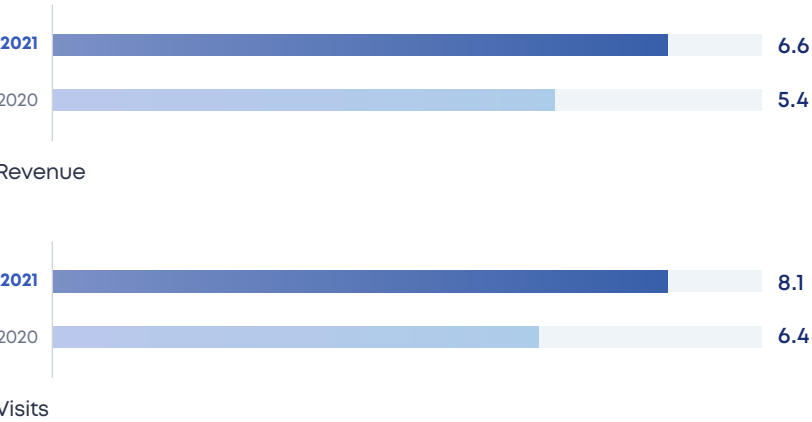
SELF-PAY PATIENTS

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

Medsi's share of the Russian market², %



Medsi's market share in Moscow and its outskirts², %



32%

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

² Source: BusinesStat, company data

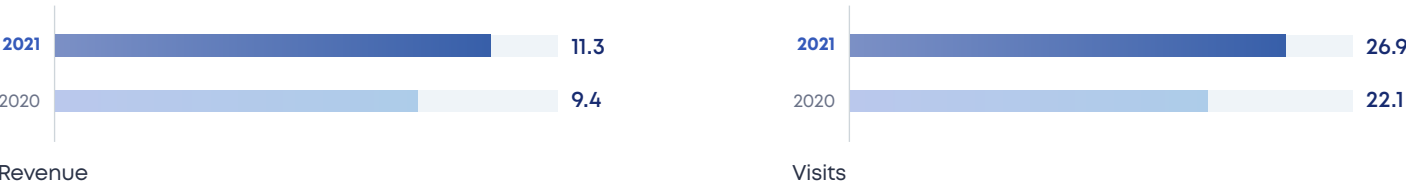
VMI SEGMENT

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

Medsi's share of the Russian market¹, %



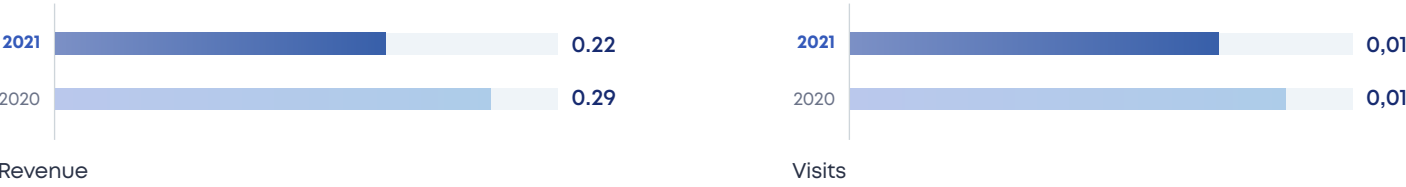
Medsi's market share in Moscow and its outskirts¹, %



OMI SEGMENT

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

Medsi's share of the Russian market¹, %



Medsi's market share in Moscow and its outskirts¹, %



¹ Source: BusinesStat, company data

Business development in 2021

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

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

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

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

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

99%

COVID-19 LABORATORY
TEST REVENUE
comparing with the
previous year

² Source: company data

Operating performance

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

Revenue by channel², %

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

Revenue by asset type², %

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

Key events in 2021

CHAIN EXPANSION

- Acquisition of 100% of shares in ProMedicina in Ufa and Dialine in Volgograd, previously owned by National Medical Chain. Medsi received 31 clinics (with an aggregate floorspace of 22,585 sq m), becoming a leading healthcare provider in two economically attractive cities.
- Opening of CDC Shchyolkovo, five "local clinics" and two franchise "family clinics" in Moscow, a clinic in Rostov-on-Don, and another one in St. Petersburg (where Medsi now has three facilities).
- Opening of Michurinsky Multi-Specialty Medical Centre in Moscow. The new 33,475 sq m facility comprises a clinicodiagnostic centre for adults and children, a hospital and a high-tech surgical centre. The company's investment in the project exceeded RUB 8 bn.
- Launch of SmartLab, a laboratory chain in Otradnoye (Moscow) with 2,000+ sq m in testing floorspace and a capacity to process 20m+ tests a year. Medsi's total investment in the project exceeded RUB 400 m.
- Opening of a children's hospital (with an area of 4,000+ sq m) in Otradnoye, offering a full range of paediatric services. Medsi's total investment in the project exceeded RUB 1 bn. The hospital relies on a "360-degree medicine" principle, where outpatient, inpatient, rehabilitation and home care services are centralised under one roof.

NEW SERVICES

- A fertility preservation programme for cancer patients launched at Medsi's Centre for Assisted Reproductive Technology in Moscow makes Medsi one of three healthcare providers in Russia possessing relevant expertise.
- The new Eye Surgery Centre in Moscow offers a full range of high-tech ophthalmological care.
- A new centre of excellence in St. Petersburg specialises in the treatment of giant melanocytic nevi in children.
- A new cancer check-up programme QuickHelpClinic helps detect malignant growth early on.

DIGITAL TRANSFORMATION

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



OPENING OF OUTPATIENT CANCER CENTRES

- A new outpatient cancer centre in Shchyolkovo (Moscow) has capacity to receive 180 visits per shift and incorporates a 3-bed day-care hospital.
- New cancer centres in Perm and Izhevsk offer diagnostic, treatment and supportive care services.

ECOSYSTEM DEVELOPMENT

- In 2021, like in the years before, Medsi continued developing its digital platform SmartMed, adding new online services for patients. The app showed strong performance over the year, with downloads reaching 376 k (up 53.6 k YoY), active users 528 k (up 72.3%), and appointments through the app up 3.1x, to 2.5 m.
- In September 2021, Medsi launched a remote psychological counseling programme in partnership with the online therapy startup YouTalk (available through SmartMed). The company also joined Sber Unity, an online VC platform bringing together startups, corporations and investors.
- In December 2021, Medsi partnered up with the AI developer Third Opinion to implement a brand-new chest imaging analysis software designed to dramatically enhance the quality of radiography readings



Strategic goals

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

INCREASING MARKET SHARE IN MOSCOW AND OTHER REGIONS

- ▶ Complete 11 investment projects launched, with clinics to open in 2022.
- ▶ Pursue M&A projects as the priority avenue of regional expansion¹.
- ▶ Launch a 5 thsd sq m radiology centre in Otradnoye (Moscow).
- ▶ Launch a 6 thsd sq m infectious disease hospital in Otradnoye.
- ▶ Develop laboratory facilities, add lab services and open SmartLab offices in every region where Medsi is by now present (all in 2022).

VERTICAL INTEGRATION

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

IMPROVED OPERATING EFFICIENCY

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

ECOSYSTEM DEVELOPMENT AND R&D²

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

¹ Mergers and Acquisitions.
² Research and Development.

Financial performance in 2021

Revenue, RUB bn



Adjusted OIBDA, RUB bn



Financial results¹, RUB m

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

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

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

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

3.7 BN RUB

ADJUSTED NET INCOME
is up 7.4% on the back of the OIBDA increase

4.0 BN RUB

OPERATING INCOME
+7.4% year-on-year



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

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

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

SISTEMA'S
EFFECTIVE STAKE

91.3%

TEAM



Andrey Neduzhko
CEO



Ali Uzdenov
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS

No. 1

IN RUSSIA IN TERMS
OF MILK YIELD PER
COW

No. 1

IN TERMS OF NICHE
CROP EXPORTS

No. 6¹

IN RUSSIA BY
LAND AREA

87^{THSD}_T

OF MILK PRODUCED
IN 2021

45^{THSD}_T

OF PACKAGED CHEESES
AND DAIRY PRODUCTS PRODUCED
AND DISTRIBUTED IN 2021

23.2^{THSD}

COWS
as of the end of 2021

10.4^{THSD}

LACTATING COWS
as of the end of 2021

1.8^{M T}

OF CROPS
HARVESTED
IN 2021²

¹ BEFL.
² Steppe AgroHolding plus RZ Agro.

Business model

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

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

100%
STEPPE

50%
RZ AGRO



Base
segment

MARKET
POSITION

No. 6

100%
STEPPE



GRAIN TRADING &
LOGISTICS



SUGAR & GROCERY
TRADING



DAIRY
FARMING



PACKAGED CHEESE,
DAIRY AND PLANT-BASED
PRODUCTS

MARKET
POSITION

TOP-10

No. 1

No. 1
BY PER-COW
YIELD

No. 1

Industry overview for 2021

CROP FARMING

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

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

GRAIN TRADING

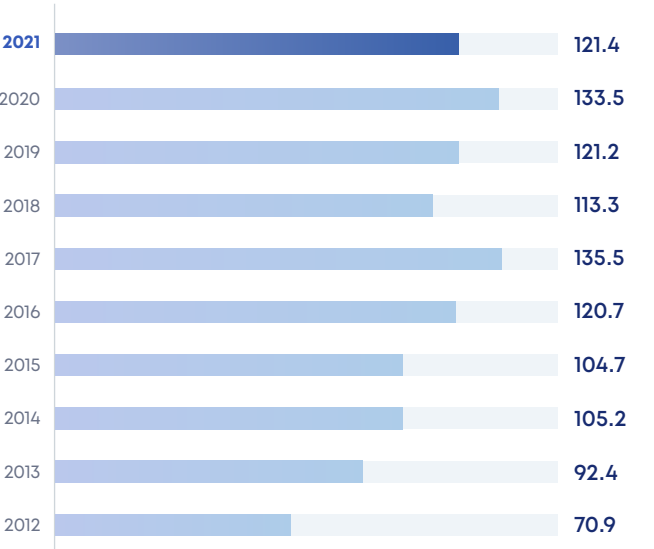
Russian grain exports in the 2020/2021 crop season (including exports to the Eurasian Economic Union, or EAEU) reached 51.5 m t, up 12.8% year-on-year.

A global leader in wheat exports, Russia exported 39.2 m t in the 2020/2021 crop season (EAEU included), which exceeds 20% of the global grain exports. In the first half of the new 2021/2022 crop season, Russia exported 27.2 m t of grain, including 21.8 m t of wheat, down 17% year-on-year. The key importers of Russian grain are Egypt, Turkey, Bangladesh, Iran, Saudi Arabia and other countries in the Middle East and Southeast Asia1.

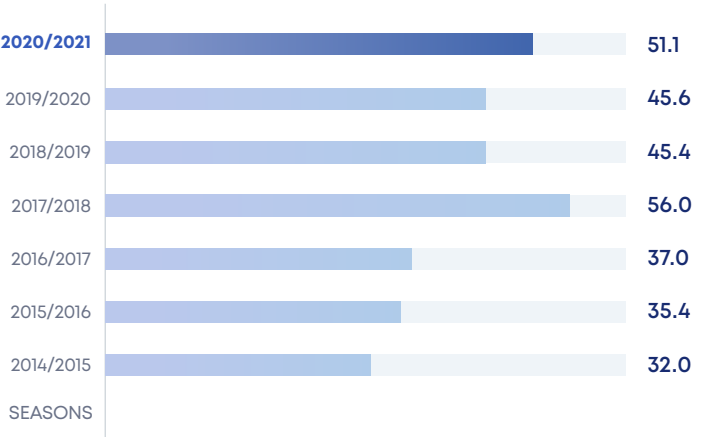
Land prices in Russia are generally on the rise, with investors increasingly looking to acquire farmland. The trend will likely continue in the long term due to the ongoing implementation of advanced agricultural technologies, growing food consumption, land shortages and an overall high investment appeal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



Gross grain and grain legume harvest in Russia², m t



Grain exports (EAEU included)³, m t



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

DAIRY FARMING

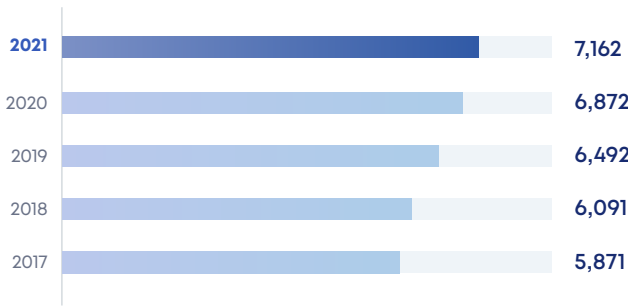
Russia's raw milk output in 2021 reached 32.3 m t, up 0.2% year-on-year. The raw milk output of agricultural companies increased by 1.5%, to 18.1 m t.

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

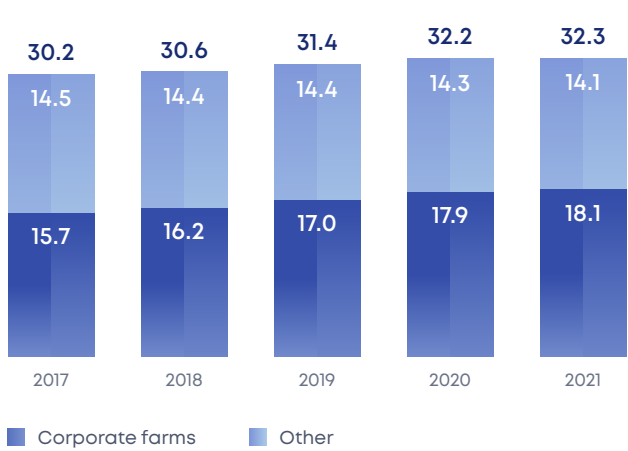
Agricultural companies produce 56% of all Russian milk, the rest coming from private households.

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

Per-cow milk yield in the corporate sector⁴, kg per year



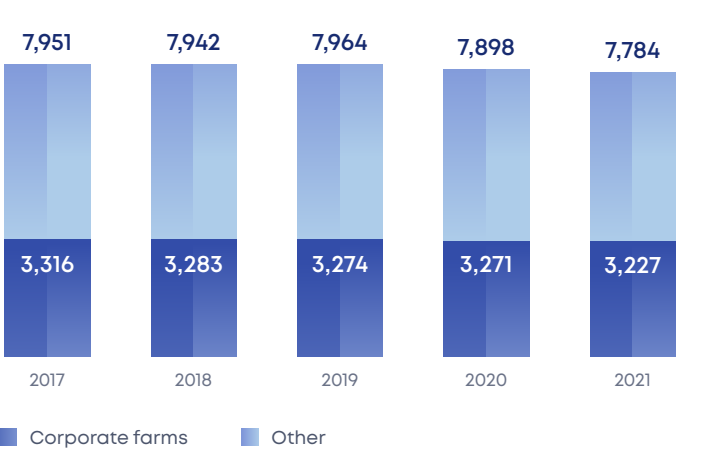
Milk output⁵, m t



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



Total lactating cows across farm categories⁶, thsd



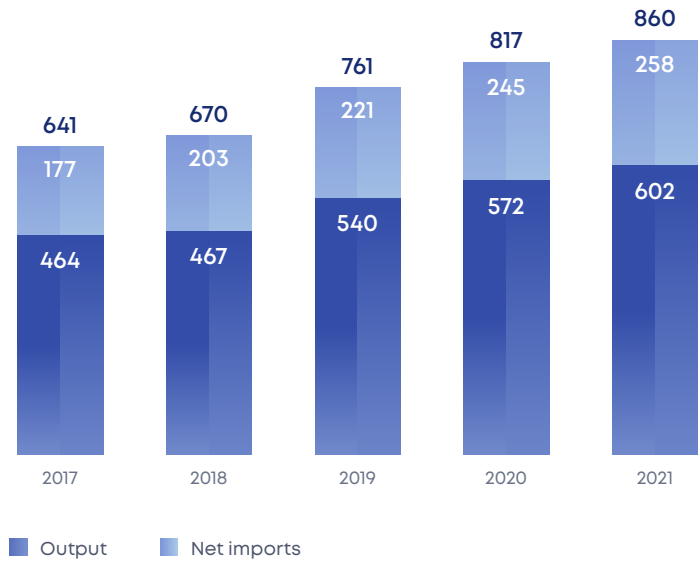
CHEESE MARKET

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

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

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

Cheese consumption in Russia¹, thsd t



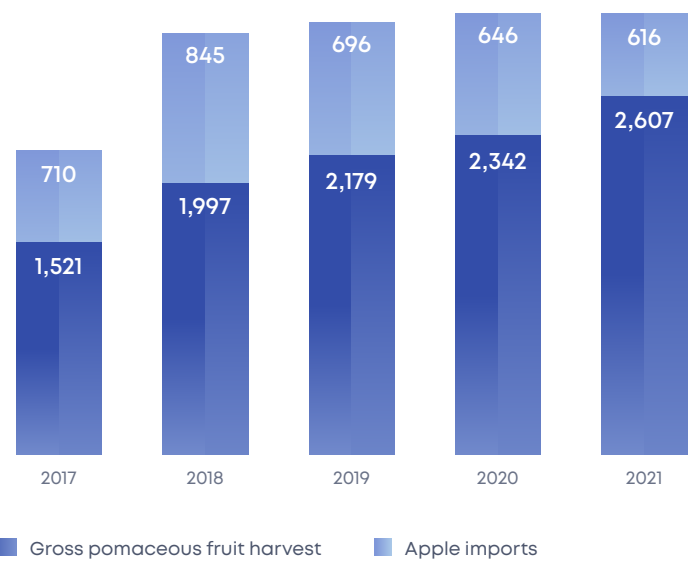
¹ Source: Rosstat, SoyuzMoloko.

FRUIT GROWING

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

2.6^M_T
GROSS POMACEOUS
FRUIT HARVEST
by the end of 2021

Russia's gross pomaceous fruit harvest and apple imports², thsd t



² Source: RosStat, UISIS.

Business development in 2021

STEPPE AGROHOLDING'S MARKET POSITIONS IN KEY SEGMENTS

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

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

CROP FARMING

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

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

DAIRY FARMING

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

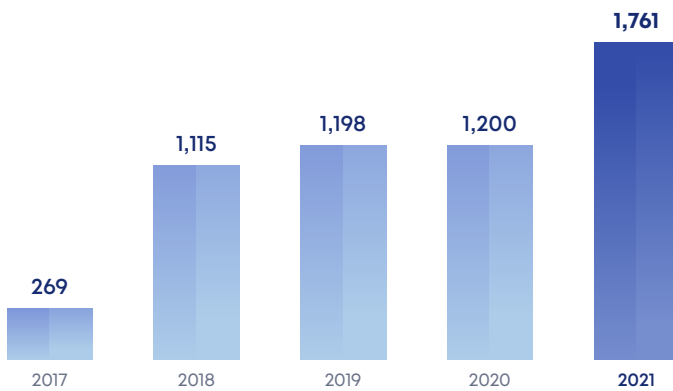
Among initiatives implemented in 2021 is a new dairy farm in the Krasnodar region designed for 3,000 lactating cows, scheduled to reach design capacity in 2022. A mega-farm in the Stavropol region designed to accommodate as many as 9 thsd lactating cows is now in the works, with new animals arriving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

GRAIN TRADING AND LOGISTICS

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

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

Steppe AgroHolding's grain sales, thsd t



TRADING IN NICHE CROPS

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

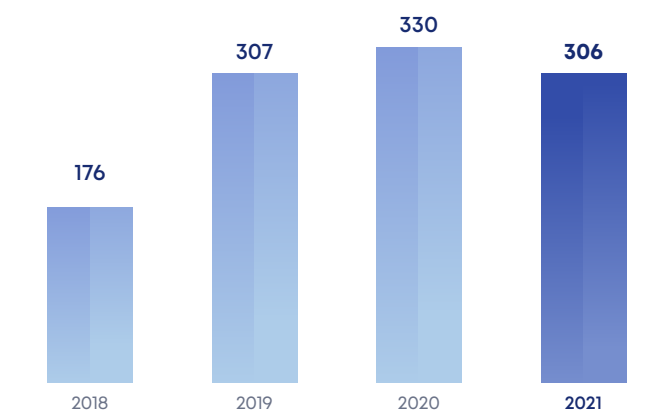
Niche crop trading is part of the company's strategy to diversify its product and shipment portfolio amid swiftly changing market conditions.

TRADING IN SUGAR AND GROCERIES

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

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

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



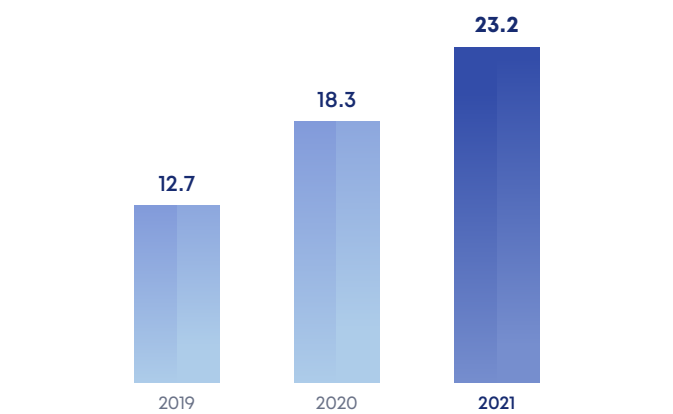
PRODUCTION OF PRE-PACKAGED CHEESE AND DISTRIBUTION OF DAIRY PRODUCTS AND DAIRY ALTERNATIVES

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

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

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

Steppe AgroHolding's sales of packaged groceries, thsd t



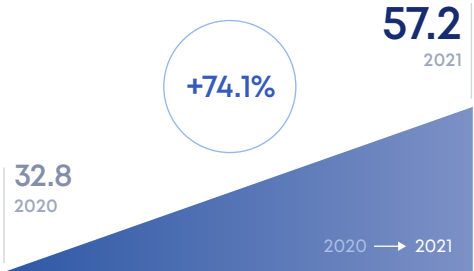
Development strategy

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

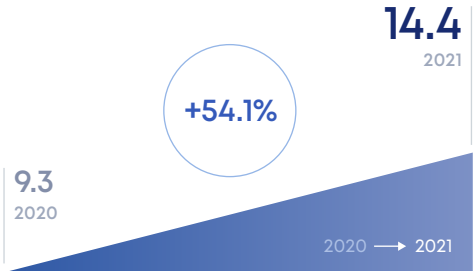


Financial and operational performance in 2021

Revenue, RUB bn



Adjusted OIBDA, RUB bn



Steppe AgroHolding's gross harvest (RZ Agro included)

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

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

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

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

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

Steppe AgroHolding: Production

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



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

SISTEMA'S
EFFECTIVE STAKE

75.3%

TEAM



Rustem Muratov
CEO



Dmitry Zubov
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS

1st

PRODUCTION SITE TO
START MANUFACTURING
SPUTNIK V VACCINE

> 20-30

NEW MARKETING
AUTHORISATIONS PER YEAR
IN RUSSIA

13

EXPORT
SEGMENTS

6

REPRESENTATIVE
OFFICES IN THE CIS

5

PRODUCTION
FACILITIES

20%

PRODUCTS ARE
MANUFACTURED
FROM IN-HOUSE
PRODUCED APIs

> 450

MARKETING
AUTHORISATIONS FOR
DRUGS IN RUSSIA

Business model

PRODUCTION

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

PRODUCT PORTFOLIO

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

PROMOTION

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

RESEARCH AND DEVELOPMENT

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

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

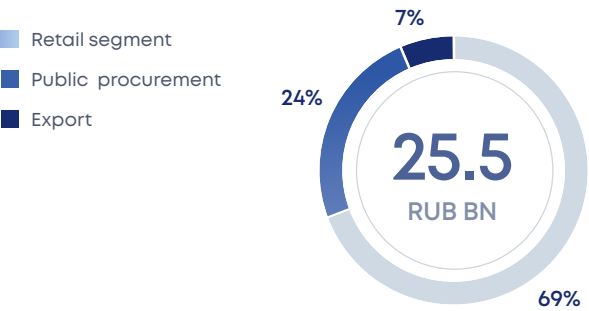
The R&D centre will comprise two research units:

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

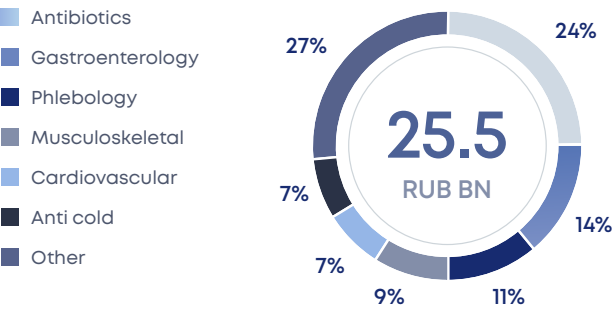
The new R&D centre will employ 450 people. By 2025, Binnopharm Group expects to launch more than 100 new products (dermatology, neurology, gynaecology, pediatrics, etc).

KEY FIGURES

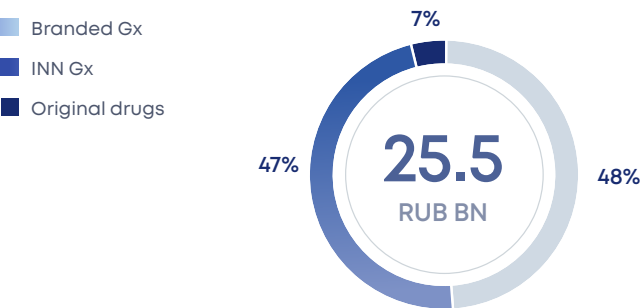
Revenue breakdown by distribution, 2021



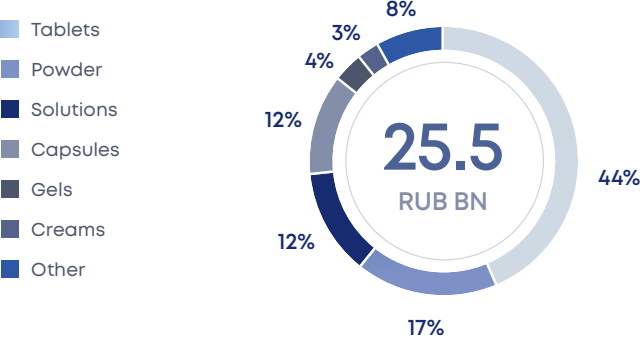
Revenue breakdown by product type, 2021



Retail portfolio breakdown, 2021



Full range of dosage forms, 2021

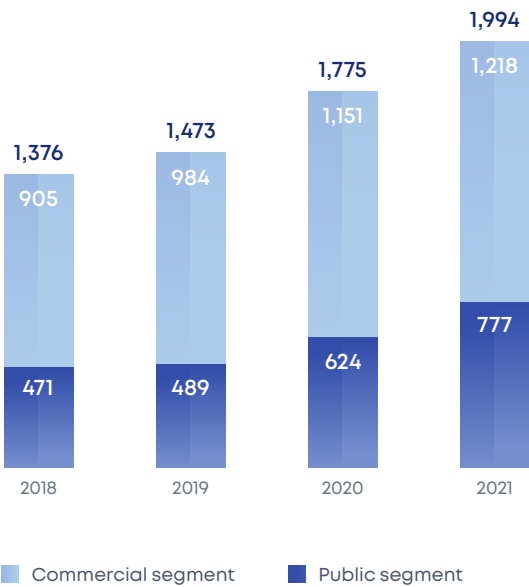




Industry overview for 2021

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

Development of the Russian pharmaceutical market¹, RUB bn



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

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

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

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

¹ Source: AIPharm, audit of retail and public pharmaceutical market, 2018-2021

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

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

>1.5 TN RUB

EXPECTED OUTPUT OF DOMESTICALLY MANUFACTURED DRUGS AND MEDICAL PRODUCTS

By the end of 2030

311 BN RUB

EXPECTED EXPORT OF DRUGS AND MEDICAL PRODUCTS

By the end of 2030





Business development in 2021

FORMATION OF BINNOPHARM GROUP AND CHANGES IN SHAREHOLDING STRUCTURE

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

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

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

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

PRODUCT PORTFOLIO EXPANSION

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

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

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

MODERNISATION PROJECTS AND CONSTRUCTION OF NEW PRODUCTION FACILITIES

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

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

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

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

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

R&D DEVELOPMENT

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

INTERNATIONAL EXPANSION

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

Operations & investment development strategy

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

CLEAR STRATEGY WITH MULTIPLE LEVERS SUPPORTING FUTURE GROWTH

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

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

Successful promotion strategy increasing salesforce effectiveness via pharma and medical representatives

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

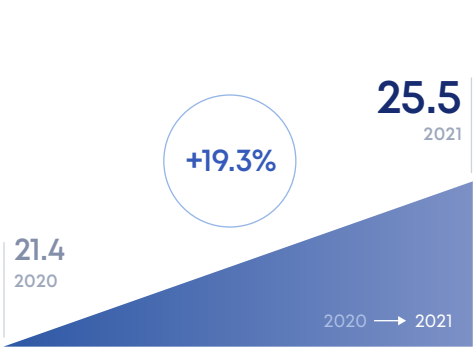
Expansion in foreign markets, to increase presence in the CIS countries

Inorganic growth via value accretive M&As

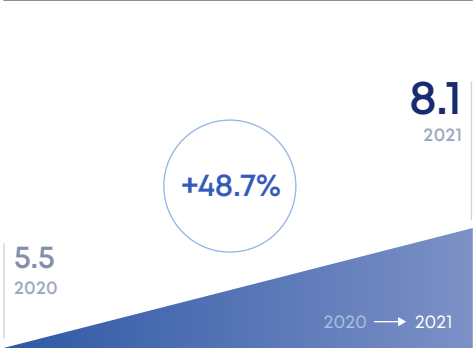


Financial performance in 2021

Revenue, RUB bn



OIBDA, RUB bn



RUB M	2021	2020	CHANGE, %
Revenue	25,496	21,372	19.3%
OIBDA	8,113	5,456	48.7%
Operating income	5,691	4,081	39.5%
Net income	3,353	1,939	72.9%

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

In 2021, OIBDA jumped by 48.7% year-on-year amid growing revenue, tighter control over administrative and selling expenses and optimisation of product portfolio. OIBDA margin grew by 6.3 p.p. year-on-year, up to 31.8%. Net income soared by 72.9% year-on-year on the back of OIBDA growth.

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



72.9 %
NET INCOME GROWTH
FY 2021

7.6 BN RUB
NET DEBT
By the end of 2021



BASHES.RU

Bashkir Power Grid Company (BPGC) is a dominant power grid company in the Republic of Bashkortostan and a provider of power facility engineering and construction services.

SISTEMA'S
EFFECTIVE STAKE

91%

TEAM



Sergey Gurin
CEO



Dmitry Sharovатов
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS

360.8 THSD
PCS
SAEM¹

84.6 THSD
KM
LENGTH OF GRIDS

14,706 PCS
NEW CONNECTIONS

100%
IMPLEMENTATION
OF SMART GRID
TECHNOLOGY IN UFA

41%
SHARE OF SAEM

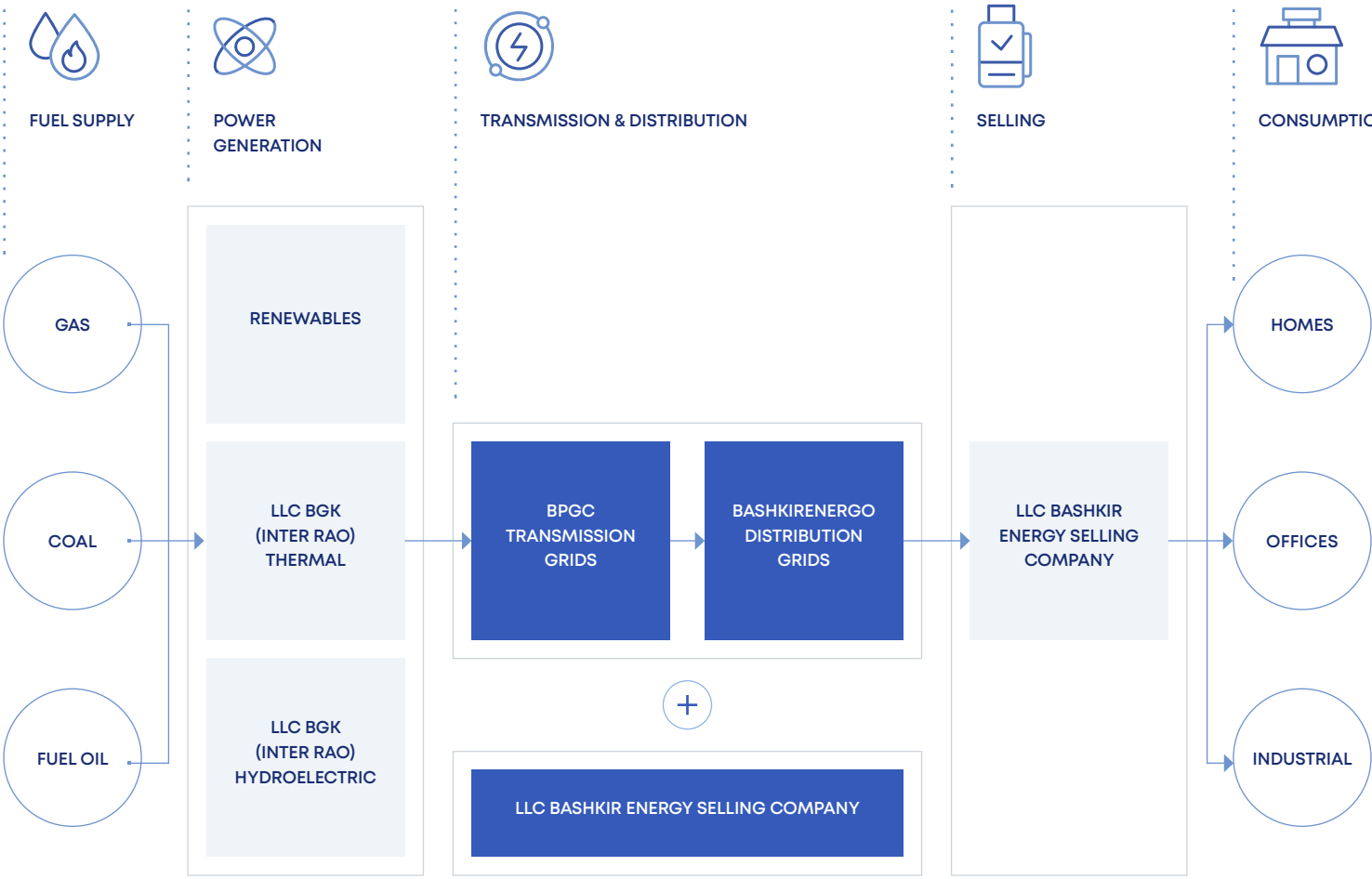
78²%
SHARE ON
BASHKORTOSTAN'S
POWER TRANSMISSION
MARKET

7.8 THSD
FTEs
HEADCOUNT

¹ Smart automated electric meters.
² In terms of revenue.



Business model



Industry overview for 2021

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

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

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

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

Business development in 2021

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

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

GROWTH IN OUTPUT & EFFECT OF PRICE INCREASES

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

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

NEW CONNECTIONS

The company recorded

14,706

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

as economic activity picked up



KEY PROJECTS

Distribution grid upgrades

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

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

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



OPTIMISATION AND AUTOMATION OF WORKFLOW AND OPERATIONS

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

- ▶ the implementation of a pilot automated workflow management system SKI1
- ▶ the launch of a call centre voice assistant for customers
- ▶ steps to optimise and automate connection costs

2021 marked the completion of the following automation projects:

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

SMART METER DEPLOYMENT: PLANS, RESULTS, AND POTENTIAL GAINS

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

Strategic goals

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

Improved operating efficiency

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

Digital transformation

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

Business upscaling

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

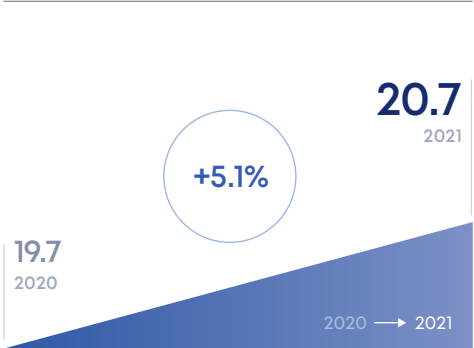
327,000

TOTAL NUMBER OF SMART METERS

By the end of 2021

Financial performance in 2021

Revenue, RUB bn



OIBDA, RUB bn



RUB M	2021	2020	CHANGE, %
Revenue	20,740	19,733	5.1%
OIBDA	5,319	4,381	21.4%
Operating income	2,457	1,574	56.1%
Net income attributable to Sistema	1,804	1,174	53.6%

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

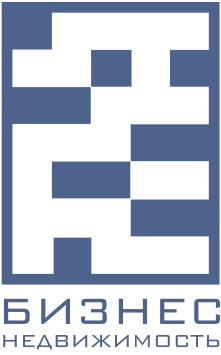
OIBDA is up 21.4% on the back of growing revenue along with a reduction in provisions for receivables to RUB 5.3 bn. Net income is up 53.6%, to RUB 1.8 bn. RUB 0.3 bn was distributed in dividends in 2021.

2.5 BN RUB
OPERATING INCOME
FY 2021

1.8 BN RUB
NET INCOME
By the end of 2021

Financial results, RUB m

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



 [SISTEMA-BN.RU](https://sistema-bn.ru)

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

SISTEMA'S
EFFECTIVE STAKE

100%

TEAM



Denis Beer
CEO



Sergey Egorov
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS

~ **400** THSD
SQ M
TOTAL AREA
OF COMMERCIAL
REAL ESTATE

ruBBB+
CREDIT RATING
Expert RA

79
COMMERCIAL PROPERTIES
in Moscow and
St Petersburg

100 %
OF PROPERTIES
IN OWNERSHIP



Business model

Main focus areas



ASSET MANAGEMENT

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



PROPERTY MANAGEMENT

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



FACILITY MANAGEMENT

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



FLEXIBLE SPACE CHAIN OFFICELESS

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

THE COMPANY ALSO DEVELOPS THE OLYMPIC STAR FITNESS CLUB IN MOSCOW

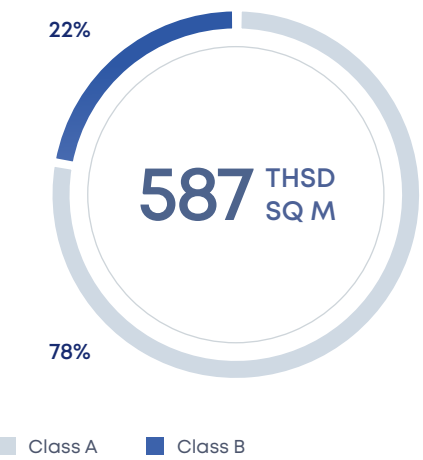
Industry overview for 2021

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

Total supply¹



New supply¹



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

480 THSD SQ M

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

704 THSD SQ M

THE TOTAL VACANT SPACE IN CLASS B in 2021

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

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

701.5 THSD SQ M

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



¹ Source: Knight Frank

Business development in 2021

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

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

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

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

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

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

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

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

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

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

3 FLEXIBLE OFFICE SPACES

JSC BUSINESS NEDVIZHIMOST PLANS TO LAUNCH UP In 2022

20 OFFICELES LOCATIONS

IS PLANNED TO OPEN UP IN MOSCOW AND ST PETERSBURG by the end of 2025

Financial performance in 2021

Financial results, RUB m

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

The decline in revenue, OIBDA and income in 2021 was mainly caused by the absence of significant sales of commercial real estate. Despite the reduction in the area occupied by MGTS equipment and the closure of two significant properties in the second half of 2021 for the purpose of renovation as part of the Officeless project, the company managed to maintain net operating income from leases at the level of 2020. OIBDA decreased mainly due to the write-off of expenses previously capitalised for the Territory project. The company’s net profit was affected by decreasing OIBDA and growing loan portfolio.

Structure of assets by region

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

The area of commercial real estate in Moscow decreased as a result of the sale of the Zarya recreation centre.





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

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

SISTEMA'S
EFFECTIVE STAKE

100%

TEAM



Alexey Akindinov
CEO ¹



Alexander Shvein
CHAIRMAN OF THE BOARD
OF DIRECTORS ²

KEY HIGHLIGHTS

20

HOTELS UNDER
MANAGEMENT
in Russia

4,653

ROOMS UNDER
MANAGEMENT

>1.2 _M

+ GUESTS IN COSMOS
HOTEL GROUP HOTELS
in 2021

51 %

AVERAGE OCCUPANCY
RATE OF COSMOS
HOTEL GROUP HOTELS

4,302 _{RUB}

AVERAGE ADR
OF COSMOS HOTEL
GROUP HOTELS

83.1 %

OF COSMOS HOTEL
GROUP'S REVENUE
IS GENERATED
in Russia

Business model

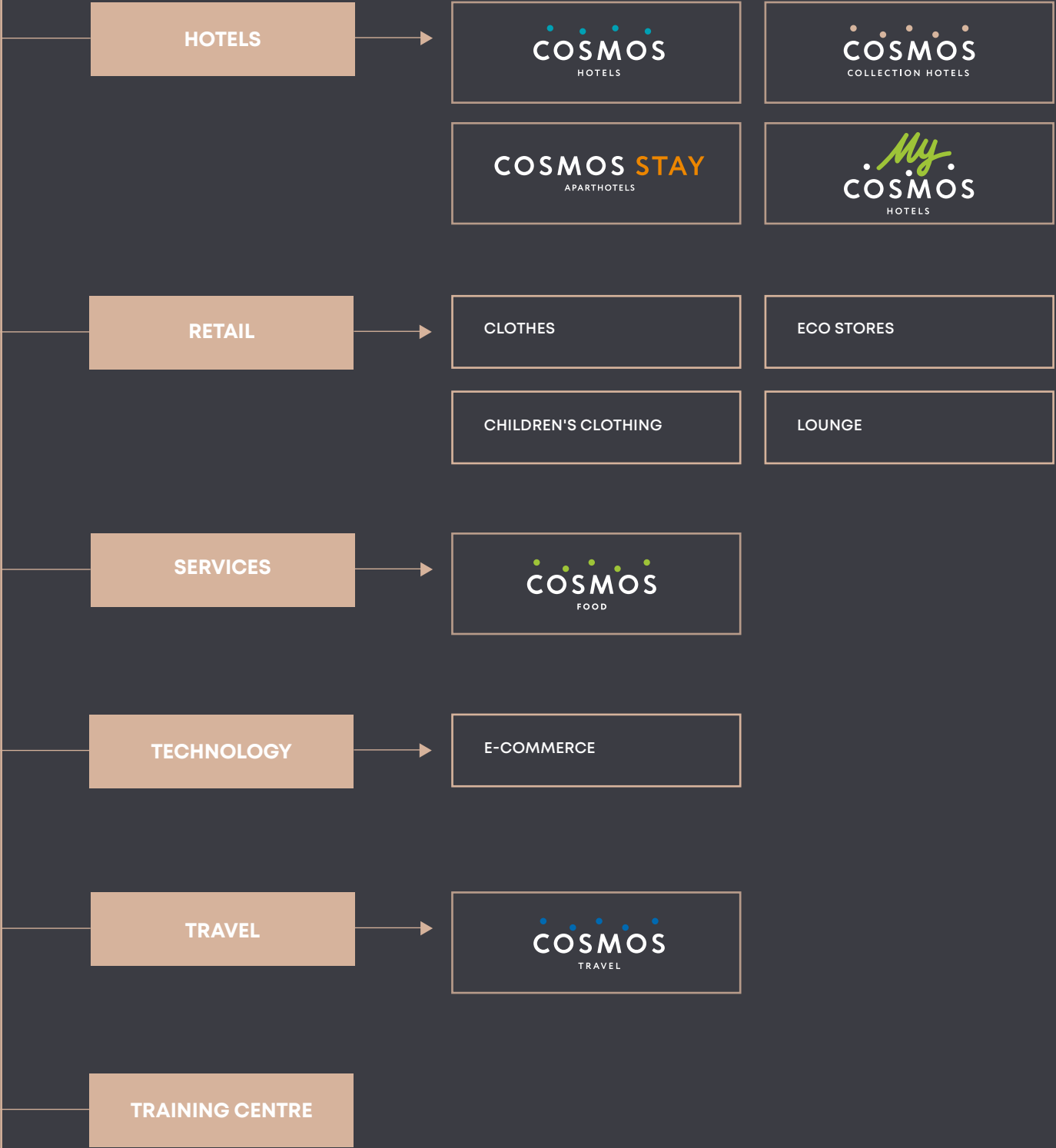
Cosmos Hotel Group operates its own hotels and third-party hotels. The company is developing rapidly through the construction of new hotels under its own brand and the execution of contracts for external management.

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

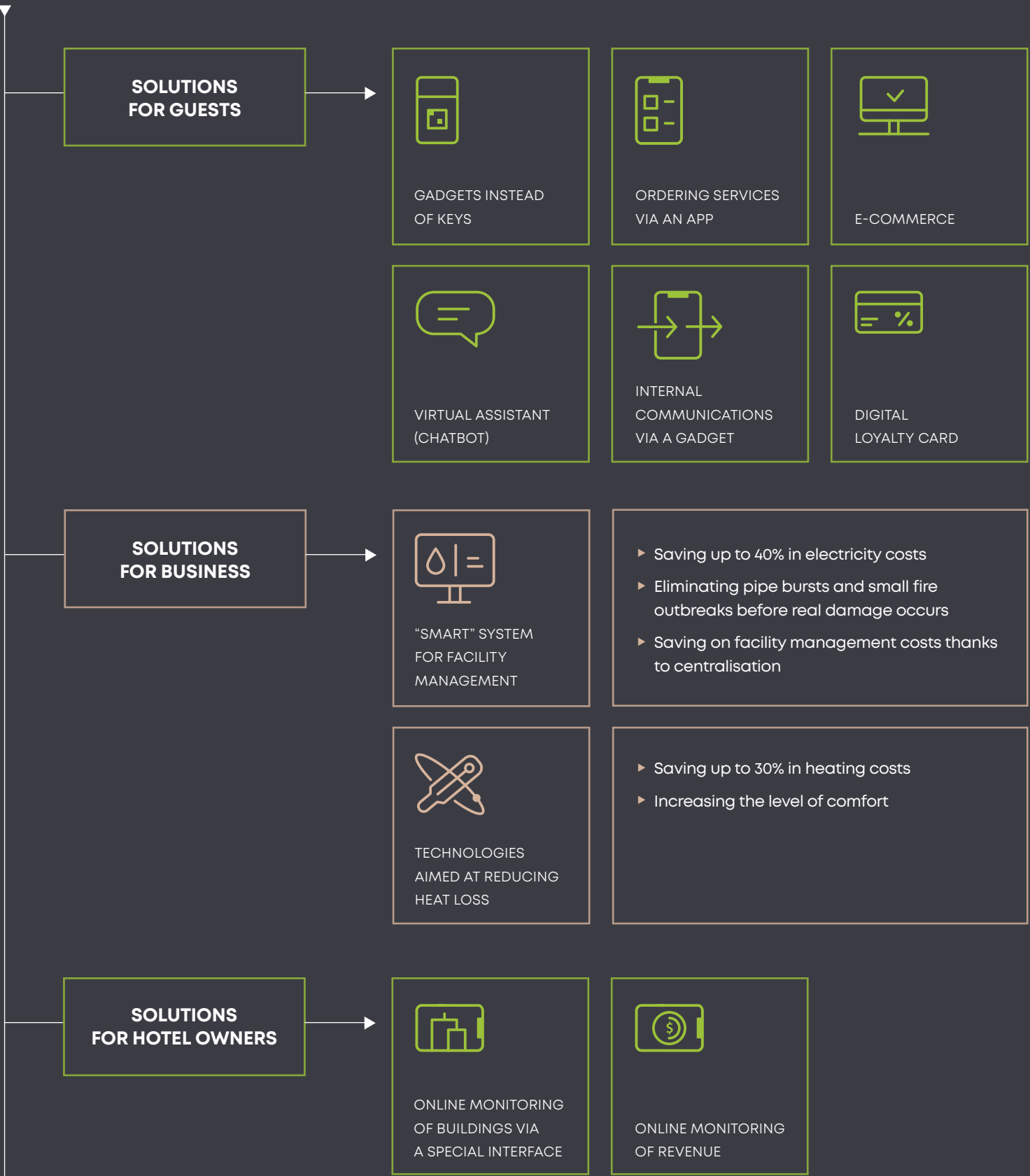
Cosmos Hotel Group offers a full range of value creation and management services for hotel assets, from project consulting and preparation of hotels for opening to cost-cutting and capitalisation enhancement.

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

¹ As of 31 December 2021, Alexander Shvein.
² As of 31 December 2021, Andrey Kolokolnikov.



Innovative solutions for hotel guests, management and owners



Industry overview for 2021

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

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

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

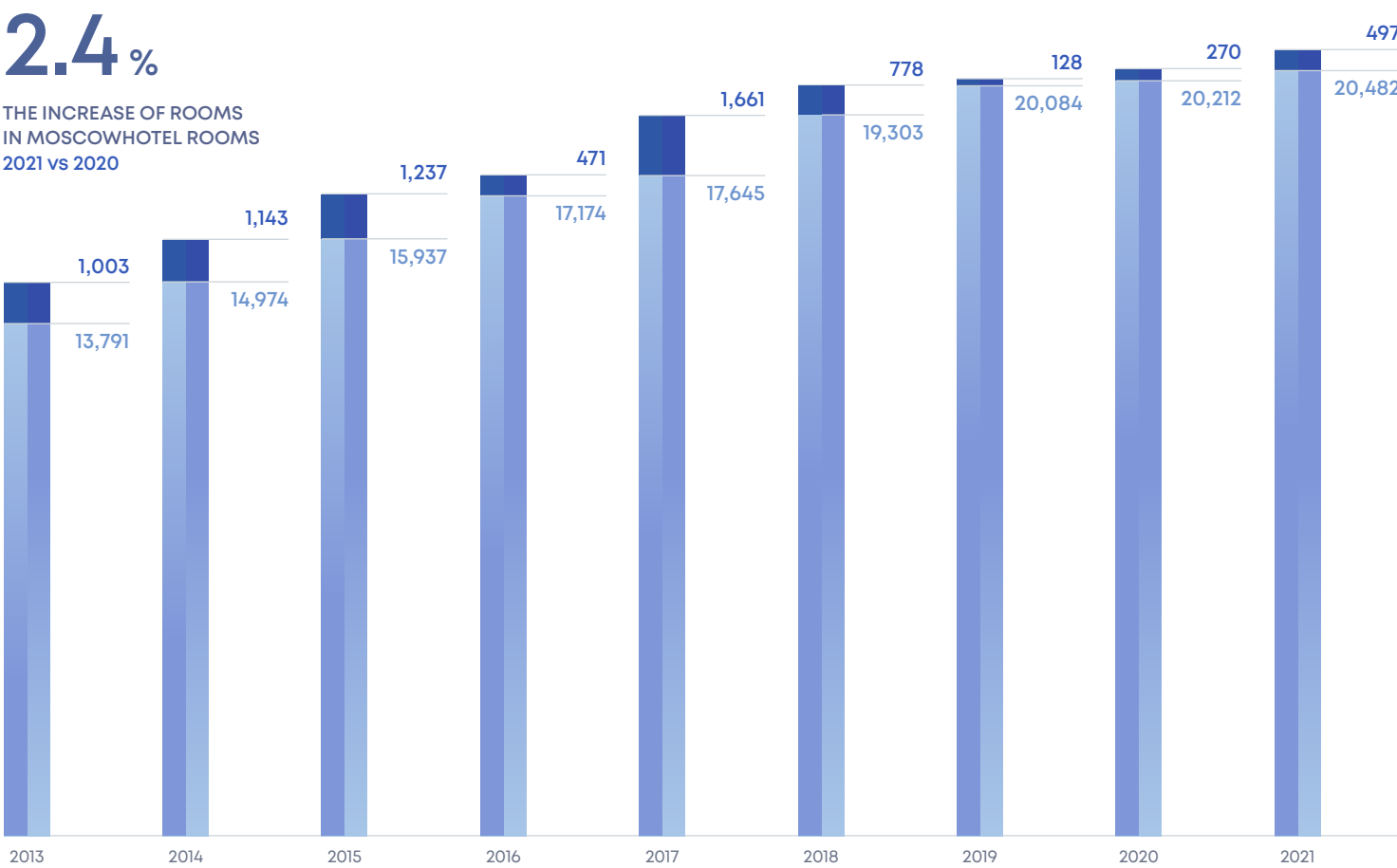
The fourth wave of COVID-19 in October-November 2021 once again postponed the recovery of the usual demand structure: the activity of the MICE industry in large cities decreased by an average of 40%-60%, while the average booking window decreased to 2-3 weeks. As a result, the seasonality of business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

22 %
THE INCREASE OF ADR IN MOSCOW
year-on-year

5 %
THE INCREASE OF ADR IN ST PETERSBURG
year-on-year

Hotel rooms in Moscow

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



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

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

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

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

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

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

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

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

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



Business development in 2021

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

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

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

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

4 THSD

TOTAL NUMBER
OF NEW ROOMS
CONSTRUCTED
in 2021

50 BN
RUB

TOTAL BUDGET
OF LARGE-SCALE
PROGRAMME
in 2021

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

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

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

Strategic goals

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

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

The company's investment programme includes the creation of 20 new urban and resort hotels under the Cosmos brand with a total of more than 4,000 rooms. Cosmos Hotel Group will continue its active expansion in the market of third-party hotel management.

The company will continue to take measures to improve its operational efficiency and strengthen the single centre of excellence.

Cosmos Hotel Group implements high-tech solutions at all stages of value creation: from planning and implementing new projects to interacting with guests and owners of hotels under management.

PLANS FOR 2022:

- ▶ open two new own hotels in Segezha and Omsk and two hotels owned by third parties (Hilton Garden Inn in Moscow and PSB Patriot by Cosmos in the Moscow region)
- ▶ start construction of new own hotels in Sheremetyevo, Yekaterinburg, Sheregesh and near Lake Baikal
- ▶ attract under management over 1,000 rooms owned by third parties.

In the next three years, the company plans to create 12 urban hotels and 8 resort hotels in various regions of Russia with a total of 4,000 rooms and a combined budget of about RUB 50 bn.

Financial performance in 2021

Financial results, RUB m

	2021	2020	CHANGE, %
Revenue	4,013	2,516	+ 59.5%
Adjusted OIBDA	296	-85	-
Operating income	-369	-1 893	-
Net income (loss)	-614	-1 167	-

In 2021, Cosmos Hotel Group's financial performance recovered compared to 2020. The company's revenue grew by 59.5% year-on-year to RUB 4.0 bn due to the fact that most of the pandemic-related restrictions imposed on hotels were lifted, whereas in 2020 hotel operations did not fully recover. The growing exchange rates also had a positive effect on revenue. Following a partial recovery in revenue, adjusted OIBDA amounted to RUB 0.3 bn in 2021 compared to minus RUB 0.1 bn a year earlier. Adjusted OIBDA margin was 7.4%. Adjusted net loss amounted to RUB 0.6 bn.

Operating results

	2021	2020	CHANGE, %
NUMBER OF ROOMS	4,653	4,162	+12%
Hotels in Russia	4,512	4,021	+12%
Hotels abroad	141	141	-

OCCUPANCY RATE OF THE CHAIN'S HOTELS, INCL.	51.1%	36.6%	+14.5 p.p.
Hotels in Russia	52.2%	37.2%	+15.0 p.p.
Hotels abroad	22.5%	20.7%	+1.8 p.p.

ADR OF THE CHAIN'S HOTELS (RUB), INCL.	4,302	3,639	+18%
Hotels in Russia	3,667	3,136	+17%
Hotels abroad	42,119	27,979	+51%

REVPAR OF THE CHAIN'S HOTELS (RUB), INCL.	2,197	1,331	+65%
Hotels in Russia	1,913	1,166	+64%
Hotels abroad	9,458	5,783	+64%

The average occupancy rate of Cosmos Hotel Group hotels in 2021 was 51.1%, which is 14.5 p.p. higher than in 2020 and 15.5 p.p. lower than in the pre-pandemic year of 2019.

The chain's ADR in 2021 increased compared to the level of 2019-2020 and amounted to RUB 4,302 both due to rising prices in foreign hotels caused by the euro's appreciation and due to higher ADR in Russian hotels, which confirms the trend towards growing domestic tourism.

In the reporting period, the chain's RevPAR amounted to RUB 2,197, which is 65% higher than in 2020 and only 8% lower than in 2019. The growth was driven by market recovery and increased demand.

Cosmos Hotel Group increased the number of rooms in 2021 by signing contracts for 750 rooms owned by third parties.

51.1 %

AVERAGE OCCUPANCY RATE OF COSMOS HOTEL GROUP HOTELS IN 2021

which is 14.5 p.p. higher than in 2020

2,197 RUB

AMOUNT OF THE CHAIN'S REVPAR IN THE REPORTING PERIOD

which is 65% higher than in 2020





 [SITRONICS.COM](https://sitronics.com)

Sitronics Group is a vertically integrated IT holding company offering a broad range of digital transformation solutions for B2B and B2G customers.

SISTEMA'S
EFFECTIVE STAKE

100%

TEAM



Nikolay Pozhidayev
CEO



Alexey Katkov
CHAIRMAN OF THE BOARD
OF DIRECTORS

KEY HIGHLIGHTS

>400
PARTNERS

>1,500
EMPLOYEES

No. 2 MICROSOFT PARTNER IN
CORPORATE LICENSING
(LSP) IN RUSSIA

79%
CAGR REVENUE
IN 2018–2021

2.5 BN
RUB
ADJUSTED OIBDA
IN 2021



AMONG RUSSIA'S

top 25

IT COMPANIES
IN 2020 (ACCORDING
TO CNEWS)



SITRONICS GROUP'S KEY BUSINESS LINES ARE:

IT SERVICES FOR B2B AND B2G
CUSTOMERS

COMPREHENSIVE SMART CITY
PROJECTS

DEVELOPMENT OF ELECTRIC VEHICLE
CHARGING INFRASTRUCTURE

DEVELOPMENT OF INTELLIGENT
MARINE SOLUTIONS AND HIGH-TECH
NAVIGATION PRODUCTS

MANUFACTURING OF INFORMATION,
COMPUTER AND TELECOM (ICT)
EQUIPMENT

MANUFACTURING OF INFORMATION,
COMPUTER AND TELECOM (ICT)
EQUIPMENT

29 200 000 000

REVENUE IN 2021, RUB

Business model

Sitronics Group uses a business model that is standard for the IT industry and employs traditional tools for communicating its value proposition, including implementation advice, system integration, the installation and maintenance of hard- and software and the development and implementation of comprehensive projects.

The company also possesses unique know-how in the spheres of marine navigation and the manufacturing of small-size spacecraft, which can serve as independent sources of information for further services and solutions.

INDUSTRIES

- ▶ Space industry
 - ▶ Oil and gas industry
 - ▶ Telecommunications
 - ▶ Retail
- ▶ Timber industry
 - ▶ Transport and logistics
 - ▶ Banks and insurance companies
- ▶ State organizations and law enforcement agencies
 - ▶ Machine engineering
 - ▶ Healthcare
 - ▶ Construction

TECHNOLOGIES

- ▶ Design and manufacture of satellite spacecraft weighing from 1 to 200 kg
 - ▶ Computer vision
 - ▶ Infrastructure for electric vehicles
- ▶ Big Data
 - ▶ Industrial Internet of Things
 - ▶ Autonomous unmanned air system
 - ▶ In-house production of server hardware
- ▶ Intelligent transport systems
 - ▶ Automated production complexes
 - ▶ Digital complexes for maritime navigation

COMPETENCES

- ▶ Software development and implementation
 - ▶ Design and implementation of computing complexes and data storage systems
 - ▶ System integration, support, IT outsourcing
- ▶ Information security
 - ▶ Design and construction of communication networks
 - ▶ Design and construction of data centers
 - ▶ Development and production of radioelectronics
- ▶ Providing digital services for shipping traffic
 - ▶ Development and production of microsatellite and nanosatellite systems
 - ▶ Providing services based on the Earth Observation data

Industry overview for 2021

The IT research agency Gartner estimates the global ICT market at year-end 2021 at USD 4.2 tn, up 7.7% from 2020, with the strongest growth observed in enterprise software sales (up 14.4% year-on-year).

The global IT market is characterised by a deep penetration of IT services, with hardware generating an increasingly small share of total revenue.

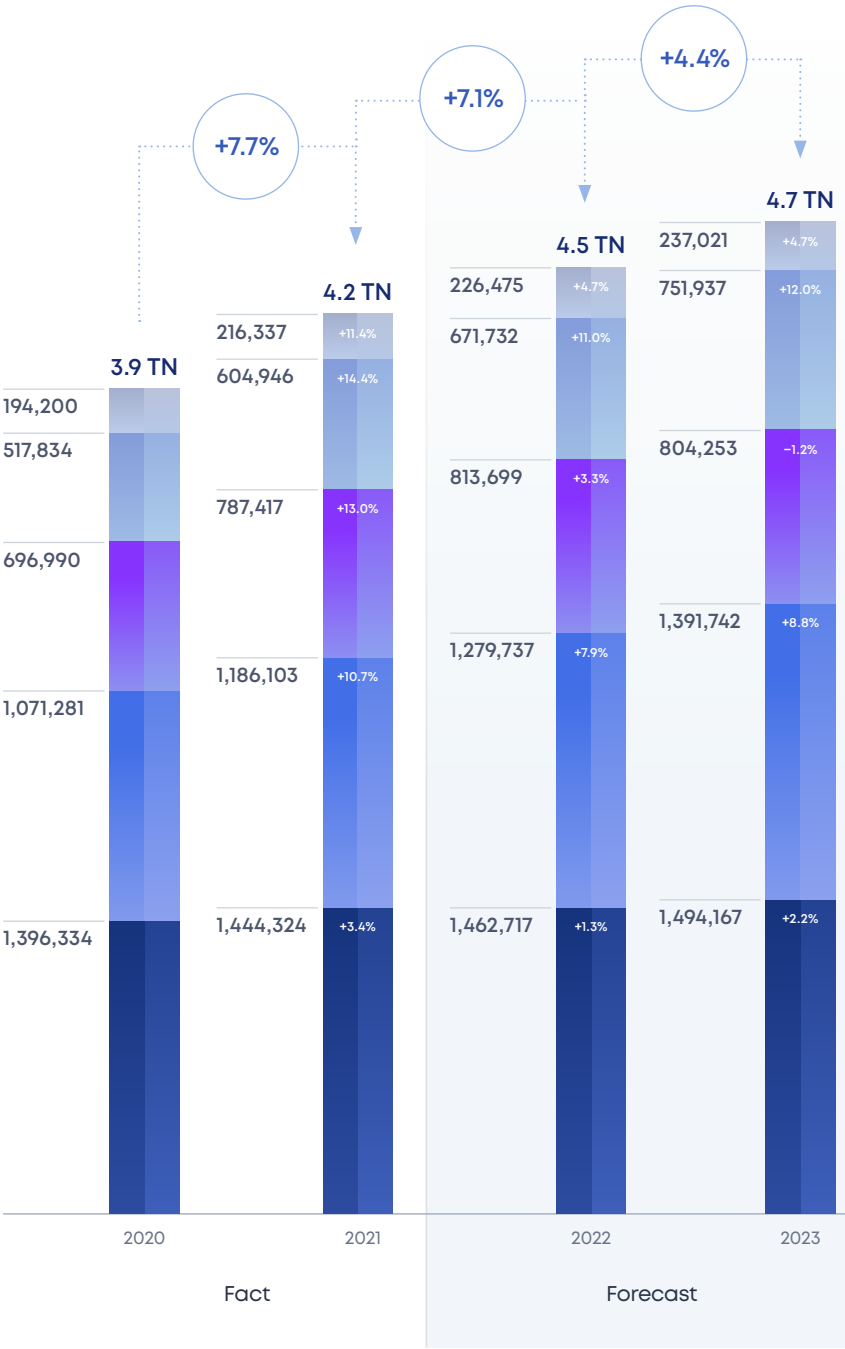
Global IT market, USD m

Although Russia's share in different segments of the global IT market varies within the modest range of 0.6% to 2%, its annual growth rate in 2021 (preliminary estimated at 10-15%) is almost the double of that of the global market.

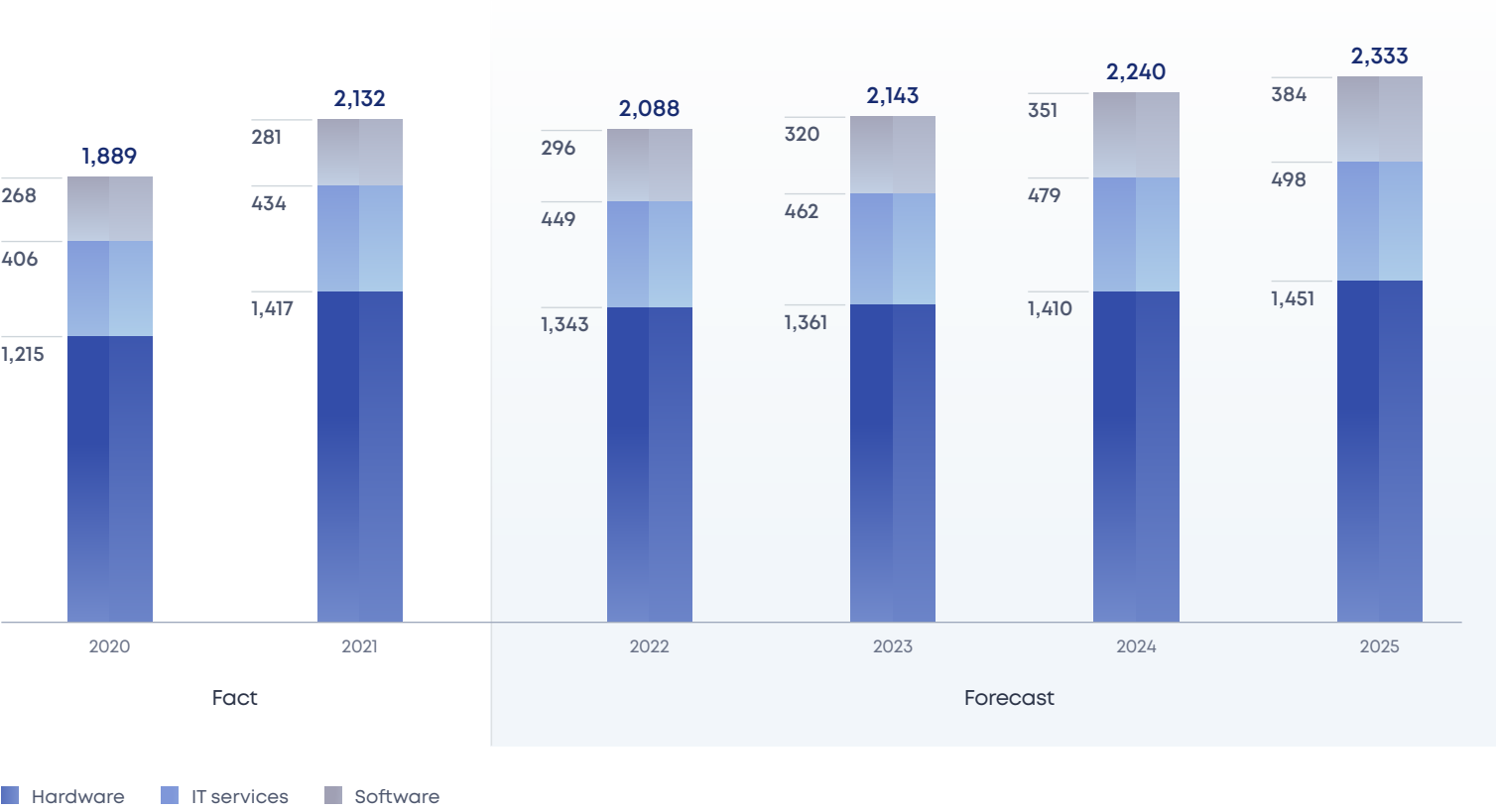
According to the market intelligence firm IDC, the Russian IT market in 2020 totaled RUB 1.8 tn, with hardware generating 65% of total revenue.

- Data Centres
- Enterprise software
- Hardware
- IT services¹
- Telecom

¹ IT services include system integration, advisory services, software development, firmware development and maintenance, and IT training.



Russian IT market, RUB bn



+30%
GROWTH OF THE
RUSSIAN GOVERNMENT
DIGITALISATION MARKET
year-on-year

Industry players estimate the Russian government digitalisation market to have grown 30% year-on-year, with government's effort to automate public administration effectively driving digital transformation across multiple spheres of life, and government projects responsible for roughly one-third of all software development contracts signed nationwide.

In the mid-term, the Russian IT-market evolution will continue to be driven by accelerating import substitution initiatives in both software and hardware space as well as a growing digitalisation of public administration and strategic industries. The national programme Russia's Digital Economy requires that the percentage of domestically developed software being procured from 2024 on reach a least 90% for government agencies and 70% for state-owned businesses.

BARRIERS AND RISKS PREDICTED
TO CONTAIN IT MARKET GROWTH
IN THE MID-TERM

- ▶ global shortages of electronic components and limited access to foreign-made electronics
- ▶ limited access to foreign software, with domestic solutions dependent on foreign open-source products
- ▶ strong demand for IT talents globally and shortage of skilled professionals

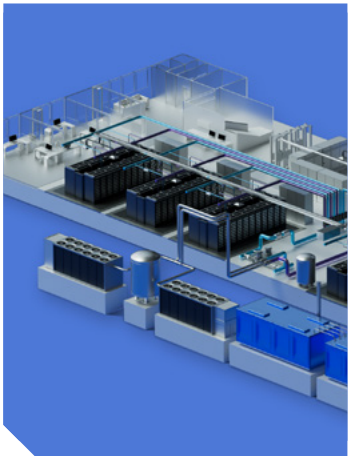
1 Source: IDC, preliminary estimates of industry players in 2021.



Business development in 2021

A lack of visible advancements in Sitronics's operating performance in 2021 is primarily due to a recent revision of the group's strategy and the establishment of new business segments whose first economic effects will only come to fruition in 2022–2025.

KEY BUSINESS INITIATIVES IN 2021



- Three trials of a new **autonomous marine navigation system** on commercial vessels.
- Three launches of **CubeSat satellites** to support scientific research and refine on platform capabilities.
- Establishment of a brand-new **charging-stations business** line and the launch of a related user app Sitronics Electro for e-vehicle owners (currently available in Moscow and Nizhny Novgorod).
- Launch of the production of **Sitronics-designed servers** as part of the national import substitution programme.
- 2021 was a **transformative year** for Sitronics Group, with corporate development strategy taking a swing from a niche telecom integrator to a vertically integrated ICT holding company possessing a broad array of unique expertise. As part of the process, the company established new business lines and conducted several M&A deals:
- In February, JSC Sitronics acquired 100% of shares in JSC Kronstadt Technologies (Sitronics KT), enriching its product portfolio with high-tech marine navigation and logistical management solutions.
- In May, Sitronics KT presented its unmanned marine navigation technology to the International Maritime Organisation (IMO). The technology is being tested as we speak on three commercial vessels.
- Sitronics KT also received an order from the shipbuilding industry department of the Russian Ministry of Industry and Commerce to develop **e-navigation services** (geoinformation etc.) to be integrated in shore- and ship-based systems.
- In April a rebranding carried out, gave all entities within the group a common Sitronics name.

KEY BUSINESS
INITIATIVES IN 2021

In November, the company launched the production of computer servers in Novosibirsk as part of the national import substitution programme. The first product line uses x86 architecture, and the facility has capacity to produce 30K+ servers a year.

In 2021, Sitronics Group acquired a 75.0% equity stake in the private Russian space company Sputnikx. In the future, the company plans to provide digital services to a broad range of customers using data from low-orbit satellites.

The company also started an e-vehicle charging business, with pilot infrastructure successfully deployed in multiple Russian regions (including Moscow).

In May 2021, Sitronics Group's president Nikolay Pozhidayev joined the supervisory board of the non-profit Telecom Technologies consortium, established to support the national telecom hardware manufacturing industry.

In December 2021, Sitronics Group joined the AI Ethics Code prepared by the national AI Alliance where Russia's leading tech companies make concerted effort to develop and implement AI solutions for educational, research and business applications.

SITRONICS GROUP IS AN
ACTIVE MEMBER OF A
NUMBER OF PROFESSIONAL
ASSOCIATIONS

Strategic goals

Sitronics's new development strategy aims to build a leading ICT holding company possessing unique expertise across an array of IT domains. That involves a corporate transformation from a niche telecom integrator into a provider of a broad range of products and services (including proprietary Sitronics solutions) for attractive markets.

STRATEGIC FOCUS AREAS

- ▶ development of a portfolio of proprietary products for industrial and urban digitalisation
- ▶ growth acceleration via new IT products and services
- ▶ active involvement in the national Northern Sea Route development project with autonomous navigation solutions
- ▶ formulation and implementation of ESG principles across the product portfolio

SITRONICS GROUP'S INVESTMENT
PROGRAMME PROVIDES FOR

- ▶ acquiring assets complementary to the Group's existing businesses
- ▶ investing in proprietary product developments



VENTURE CAPITAL FUNDS



SISTEMA_VC

Sistema Venture Capital is a venture capital fund investing in growth-stage high-tech companies capable of transforming conservative industries with tech solutions or creating new market niches.

SISTEMA'S
EFFECTIVE STAKE

98%

TEAM



Dmitry Filatov
CEO

INVESTMENT FOCUS

Deep tech projects:

- ▶ Projects using AI-based computer vision solutions for face and object recognition tasks in cybersecurity, agriculture, construction, real estate and other industries
- ▶ Projects using machine learning to process data and improve the efficiency of data use
- ▶ Projects with data transmission and processing technologies (SDN, NFV and SQL GPU Database)
- ▶ Projects in the segments of education, e-commerce and C2C services.
- ▶ Priority investment stages: Late seed, Series A, Series B.

KEY HIGHLIGHTS

TARGET FUND SIZE

10 BN RUB

YEAR ESTABLISHED

2016

INDUSTRIES

GROWTH-STAGE
TECH COMPANIES

FUND LIFE

NO FIXED TERM

TARGET RETURNS

20-25%

Overview of the VC market in 2021

EUROPE

In 2021, VC funding to European startups¹ basically doubled and amounted to EUR 100 bn vs EUR 46 bn in 2020. With this impressive growth, the European VC ecosystem entered a mature stage, just like the US and China. The share of late-stage rounds in the total volume of VC investments was 70%, which also indicates the maturity of the market. The UK, France and Germany remain Europe's largest venture capital markets and systematically produce unicorns, which have tripled in number since 2018.

RUSSIA

In 2021, the Russian venture capital market generally followed the global trends and grew to RUB 80 bn. As in the previous year, this growth was mainly due to foreign investments in companies with founders from Russia. Such deals accounted for more than 50% of the market. Following the reform of development institutions announced by the Russian Government in 2020, the activity of funds with state participation decreased considerably. In 2021, investments representing the state segment amounted to only RUB 2.3 bn vs RUB 3.9 bn a year earlier².

¹ According to PitchBook.
² Source: RBC.

EXITS

The first fund of Sistema Venture Capital completed the investment phase and began active sales of its portfolio companies in the reporting year.

> 40,000,000 USD
PORTFOLIO COMPANIES RAISED IN 2021

PORTFOLIO COMPANY

--	--	--	--

BUYER

--	--	--	--

AKVA Group (Norway) acquired the stakes of financial investors in Observe Technologies, a company specialising in computer vision technologies for industrial fish farms.

The transaction was closed in February 2021.

Sberbank acquired a 100% stake in GOSU Data Lab, an AI-based training platform for competitive gamers.

The transaction was closed in July 2021

Shutterstock (USA) acquired UK-based DataSine to strengthen its artificial intelligence (AI) division. DataSine uses AI to build a user's psychological profile.

The transaction was closed in July 2021.

MTS signed a definitive agreement to acquire a 100% stake in VisionLabs, a leading Russian developer of facial recognition technologies.

The transaction was closed in February 2022.



Overview of the fund’s assets

A PLATFORM THAT USES MACHINE LEARNING TECHNOLOGIES TO TARGET DIGITAL ADVERTISING

- ▶ The most accurate targeting because of combination of online and offline data.
- ▶ One of the largest programmatic advertising platforms in Russia.
- ▶ Unique position in the market due to access to data of MTS and Sberbank

PARTNERS:
Sberbank, MTS, Lukoil, Toyota, Huawei, Acer, IVI, HP, Kaspersky.

71_M

MOBILE DEVICES AUDIENCE

200_M

USER PROFILE COVERAGE

MARKETPLACE OF DOMESTIC AND BUSINESS SERVICES

- ▶ YouDo is an active participant in the formation of a culture of the self-employed in Russia
- ▶ One the top 20 most valuable Internet companies in Russia in 2019 according to Forbes

PARTNERS:
Ozon, IKEA, hh.ru

>1.5_M

CONTRACTORS

>1_M

REVIEWS ON THE QUALITY OF SERVICES

AN INTERNATIONAL COMPANY CREATING SCIENTIFIC AND EDUCATIONAL PRODUCTS FOR CHILDREN:

- ▶ MEL Science kits are used by families and schools in 40 countries
- ▶ The bulk of the company’s sales come from the US
- ▶ Chemistry and physics experiment kits are suitable for children aged 5 to 14 years

ULTRA-FAST PROCESSING OF BIG DATA TO IDENTIFY TRENDS IN TELECOM, RETAIL AND FINANCE.

PARTNERS:
Alibaba Group, Mangrove Capital, Hanaco Ventures.

A PLATFORM FOR THE DEVELOPMENT AND TESTING OF TECH SOLUTIONS FOR SELF-DRIVING CARS.

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

ARTIFICIAL INTELLIGENCE TO OPTIMISE THE SUPPLY OF GRAIN CROPS.

PARTNERS:
ABInBev, Notion, IQ Capital, University of Cambridge (Judge Business School).

CONSTRUCTION AUTOMATION POWERED BY DRONE DATA.

PARTNERS:
Engeo, Independent Construction, Fivepoint, Lennar, Sibur, Morton, Norilsk Nickel.

AN INDEPENDENT DEVELOPER OF GAMES FOR EDUCATION.

Luden.io games are played by over 4.7 m users.

A FREE GAME-BASED COURSE FOR AUTISTIC CHILDREN THAT PROVIDES ACCESS TO DISTANCE LEARNING AND DOING HOMEWORK.

Developed with and for autism professionals.

AI ASSISTANT FOR FARMERS AND ANALYTICS FOR THE DAIRY INDUSTRY.

Increasing productivity and product quality by reducing the use of antibiotics.

Growth in annual farm profits by an average of EUR 30,000.

PARTNERS:
Danone, Monsanto-Bayer and Rabobank.

DIGITAL TWINS OF INFRASTRUCTURE FACILITIES: PRECISE SOLUTIONS BASED ON DATA FROM MULTIPLE SOURCES, NOT ASSUMPTIONS OR PERSONAL EXPERIENCE

The company’s core product is Mapp, a cloud-based platform. SenSat operates on a SaaS model, with customers paying to interact with digital copies using Mapp.

PARTNERS:
Tencent, Heathrow, Murphy, National Grid, Highways England.

SOLUTIONS THAT HELP COMPANIES BUILD NETWORKS WITH THE FLEXIBILITY AND SCALABILITY THAT THEY NEED TO BE READY FOR 5G, THE IOT AND THE FUTURE OF THE DIGITAL WORLD.

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

CLOUD SOLUTIONS FOR MANAGING MULTI-VENDOR WI-FI NETWORKS.

A solution for managing access points from different vendors. Customers retain the ability to independently plan, configure and administer multi-vendor networks from a single centre, save on network deployment and make money on Wi-Fi services.

PARTNERS:
Beeline, MegaFon, MGTS, QTech.

A SIMULATOR OF A MACHINE LEARNING SPECIALIST WHO USES VISUAL PROGRAMMING TO MAKE HIS AND HIS CAT’S LIVING.

The game is actively used by schools and universities for educational purposes. All tasks in the game correspond to the logic of real-life machine learning development. WTL was included in Apple’s list of the best mobile games for players stuck at home.

THE BEST HOTEL DEALS WORLDWIDE BY SUBSCRIPTION.

FinalPrice invites users to subscribe and book hotels at the best prices. Customers can save from hundreds to thousands of dollars compared with a regular buyer at Expedia, Priceline, Booking.com, etc.

AWARDS

The annual ceremony of Russia PE&VC Awards took place during the 13th Russian Congress of Private Equity and the 9th Forum of Venture Investors in Moscow.

This is one of the main events dedicated to the PE and VC industry in Russia and the CIS. The team of Sistema Venture Capital was awarded as the best team in Russia’s VC market, while its successful exit from GOSU, an AI-based training platform for esports athletes, was named the Exit of the Year.

KEY PARTNERSHIPS

HeadHunter Group invested USD 5 m in YouDo, a portfolio company of Sistema Venture Capital, to jointly develop the YouDo for Business platform. This platform helps legal entities enter into contractual relations with self-employed individuals.



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

SISTEMA'S
EFFECTIVE STAKE

66%

KEY HIGHLIGHTS

TARGET FUND SIZE	GEOGRAPHY	INDUSTRIES
120 M USD	▶ INDIA ▶ SOUTHEAST ASIA	▶ CONSUMER TECH ▶ ENTERPRISE TECH ▶ SAAS
FUND LIFE	42,000,000 USD RAISED FROM PRIVATE AND INSTITUTIONAL INVESTORS IN 2021	
8+2 YEARS AS DECIDED BY SHAREHOLDERS		
YEAR ESTABLISHED	TARGET FUNDING ROUNDS	
2015	B/C	3× CASH-ON-CASH TARGET RETURNS

Business model

Sistema Asia Fund invests in companies at various growth stages in the markets of India and Southeast Asia. SAF is focused on investments in high-tech companies that operate in the sector of technology products and services and also invests in other types of businesses and consumer brands that use technologies as their key competitive advantage and operate in India and/or have significant presence in the Indian market.

Overview of venture capital market in India and China

In 2021, investors began to invest more in Indian startups, with more than 30 IPOs of companies from this country.

The long-running competition between the Chinese and Indian venture capital industries for the attention of foreign investors entered a new stage in the summer of 2021, when investments in Chinese startups fell from USD 17.3 bn in June to USD 4.8 bn in July, but investments in Indian startups rose from USD 1.6 bn to USD 8 bn over the same period.

In the third quarter of 2021, India had 10 new unicorns, second only to the US. In 2021, the total number of unicorns in India increased to 44.

India is also keeping up with international VC trend for “decacorns” (privately held startups valued at USD 10 bn or more), with Byju’s (an EdTech startup) valued at USD 18 bn and Paytm (a payment gateway and e-commerce platform) valued at USD 16 bn. According to Pitchbook, Indian tech startups raised USD 23.5 bn in 2021, nearly double the amount collected in the previous two years.

The top three invested sectors in 2021: FinTech (Pine Labs, OfBusiness, BharatPe and CRED), EdTech (Byju’s, Eruditus and Unacademy) and SaaS (Gupshup, Postman and BrowserStack). India’s technology sector that is being created now can make the country’s economy No 2 or No 3 in the world in 20–25 years. This sector will allow the country to repeat the success of China in a shorter time.

1 MOIC (multiple of invested capital) allows investors to measure how much value an investment has generated.
2 Unicorns are private companies valued at USD 1 bn or more. Data as of the end of 2021.

4

UNICORNS²

7.4 BN USD

AGGREGATE VALUATION
OF 4 UNICORNS IN THE PORTFOLIO

3×

GROSS MULTIPLE OF INVESTED
CAPITAL (MOIC)¹



Key portfolio companies

1.4 BN USD
MOIC OF OVER 3.0x



NO. 1 "CLOUD KITCHEN" IN INDIA AND GLOBALLY

The company is the world's largest chain of internet restaurants with a single infrastructure for preparing and delivering food to customers in India and other countries under several brands, including Faasos, Behrouz Biryani, Oven Story and Mandarin Oak.

Investment in August 2018

2.5 BN USD
MOIC OF OVER 5.3x



SPEECH RECOGNITION, VOICE BIOMETRICS AND VIRTUAL ASSISTANTS

Uniphore is the leader in the Indian market of conversational AI. Uniphore was founded in 2008 and aims to bridge the communication gap between man and machine using voice and speech. The company develops and sells software solutions for conversational analytics, conversational assistance and conversational security. Uniphore products are used by more than 4 m people in 80 companies globally. The company has offices in the US, India and Singapore. Its headcount exceeds 150.

Investment in July 2019

2.5 BN USD
MOIC OF OVER 8.4x



COMPREHENSIVE MARKETPLACE FOR BUILDING MATERIALS

The company specialises in serial production under its own brands and solves the local market's issues like lack of price transparency, quality, fragmented vendor base, and inefficient logistics and delivery in the unorganised market.

Investment in December 2020

1.0 BN USD
MOIC OF OVER 6.0x



NO. 1 BRAND IN INDIA FOR ONLINE SALES OF MEAT AND MEAT PRODUCTS

The company is creating a complex brand selling meat and seafood in the market where over 90% of players represent unorganised retail with poor quality and low sanitary standards. The company manages the entire value creation chain, from supply to processing and delivery to customers, using uninterrupted cold chain.

Investment in March 2017

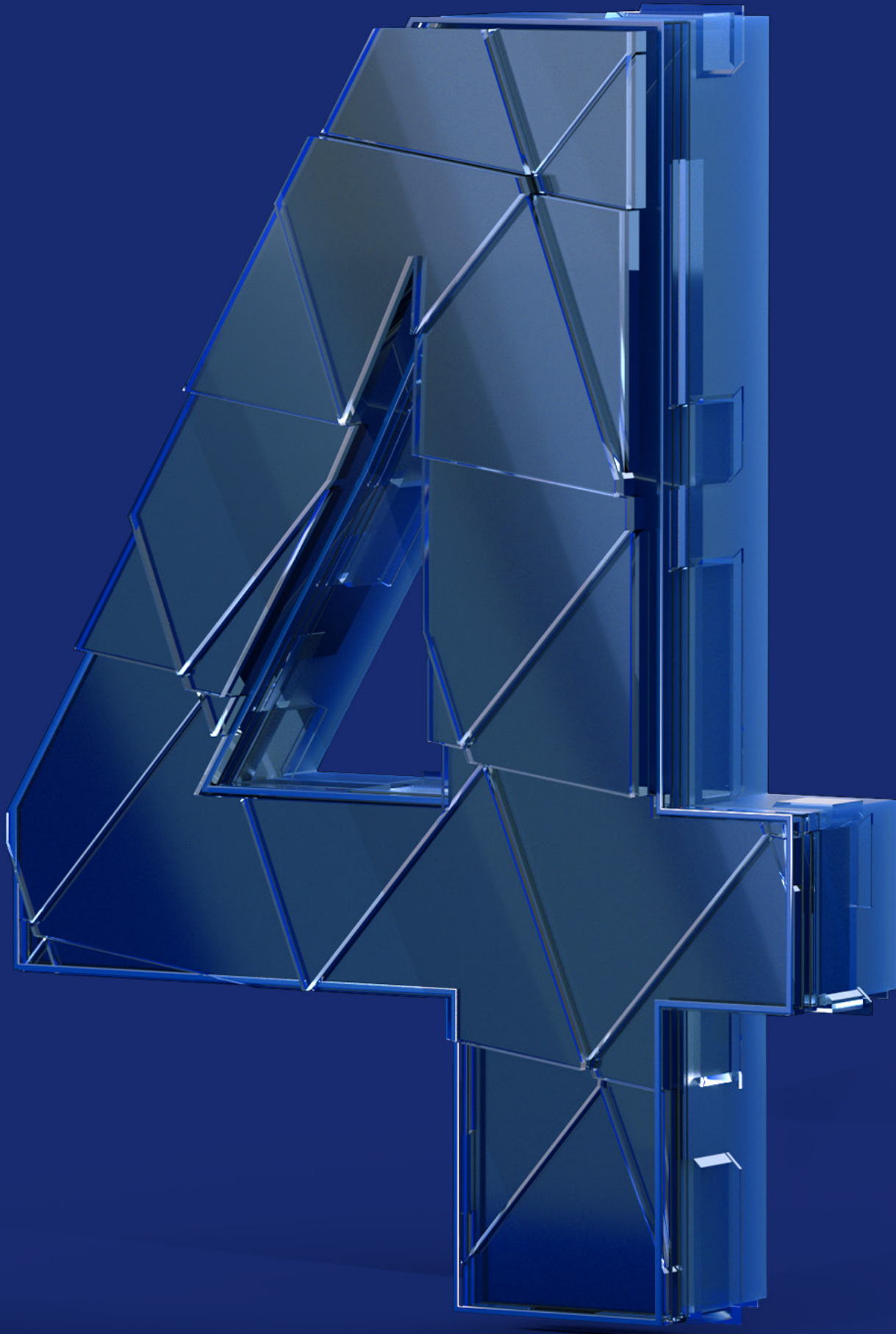
Business development in 2021

IN 2021, SAF INVESTED IN THE FOLLOWING COMPANIES:

- ▶ **In February 2022**, Sistema Asia Fund participated in the series B investment round of **Airmeet**, a comprehensive new generation platform for virtual interactions between companies and their customers or other audiences.
- ▶ **In March 2021**, Sistema Asia Fund took part in the series D investment round of **Uniphore**, a global leader in automation of speech interaction.
- ▶ **In May 2021**, Sistema Asia Fund made a series B investment in **ANSR**, which offers leading international companies services of accelerating their digital transformation on the basis of Global Capability Centres (GCCs).
- ▶ **In July 2021**, Sistema Asia Fund participated in the Series C funding round of **HealthifyMe**, a developer of a health and fitness app that helps its users eat healthy and track exercise with real coaches or a smart bot.
- ▶ **In September 2021**, Sistema Asia Fund participated in the series C funding round of **Exotel**, India's most popular CPaaS platform.

▶ **It is planned to launch a new venture capital fund specialising in investments in tech companies in India and Southeast Asia – Sistema Asia Fund-2 (SAF-2).**

The goal of SAF-2 will be to build a scalable and high-quality base of investors acting as long-term partners. SAF's team is also preparing a "harvest" strategy (exit strategy for SAF-1) that ensures the portfolio value growth and a full exit from investments within the predetermined time frame.



CORPORATE GOVERNANCE

CORPORATE GOVERNANCE SYSTEM 166

REMUNERATION POLICY 186

RISK MANAGEMENT 188

CORPORATE GOVERNANCE SYSTEM

Corporate governance principles

A crucial element of the strategy of Sistema as an investment company is maintaining a high level of corporate governance and information transparency. The Corporation strives to meet the best international standards in these areas and consistently enhances its corporate governance practices.

SISTEMA'S CORPORATE GOVERNANCE PRINCIPLES

01

Clear and effective procedures for taking investment decisions

02

Reasonable transparency of management processes for investors, counterparties, employees and other stakeholders

03

A dividend policy that takes due account of both reasonable expectations of investors and Sistema's financial resources

04

Professionalism of the Board of Directors and its active involvement in strategic planning and the management and oversight of business processes

05

Special focus of the Board of Directors on related-party transactions and potential conflicts of interest of corporate governance

Sistema is guided by these principles in all of its activities, including strategic and financial management, HR policy, reporting, control and audit, and risk management. In its corporate governance practices Sistema abides by applicable legislation, the Listing Rules of Moscow Exchange, the recommendations of the Russian Corporate Governance Code¹ and the guidelines set out in the UK Corporate Governance Code². Sistema's Charter and

internal regulations define its corporate governance principles and procedures, as well as the composition, procedures and powers of its governance and control bodies. The Corporate Governance Code and the Ethics Code of Sistema set out the additional commitments of the Corporation, its top management and employees in terms of transparency and ethical conduct of business.

¹ The Corporate Governance Code recommended by the Russian Central Bank's letter No 06-52/2463 dated 10 April 2014 is available at https://www.cbr.ru/statichitml/file/59420/inf_apr_1014.pdf.
² The text of the UK Corporate Governance Code is available at: <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>



Sistema's corporate governance structure as of 31 December 2021



General Meeting of shareholders

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

OBSERVANCE OF SHAREHOLDERS' RIGHTS

Shareholders who own at least 2% of the Corporation's voting shares are entitled to propose items for the agenda of the General Meeting of shareholders and nominate candidates for election to the Corporation's Board of Directors. Such proposals, including any attachments thereto, should be submitted to the Corporation no later than 100 days after the end of the reporting year, in accordance with the Terms of Reference of the General Meeting of shareholders and other internal regulations of the Corporation¹. Candidates nominated by shareholders to the Board of Directors of the Corporation are provisionally reviewed by the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors.

PARTICIPATION IN GENERAL MEETINGS OF SHAREHOLDERS AND VOTING ON AGENDA ITEMS

Sistema aims to ensure maximum protection of the right of shareholders to take part in the governance of the Corporation by participating in the AGM, voting on agenda items and receiving income in the form of dividends. To ensure that shareholders can exercise their right to take part in the General Meeting, the Corporation actively uses electronic means of communication. All materials relating to the General Meeting's agenda items are published on the Corporation's website in Russian and in English (www.sistema.ru / www.sistema.com) at least 30 days before the date of the meeting and are then sent to nominee shareholders in electronic form².

Sistema's shareholders may use the e-voting option available on the website of the Corporation's registrar, JSC Reyestr. To use this service, shareholders should contact the office of JSC Reyestr for access to their personal

shareholder accounts on the registrar's website. If a shareholder has a personal account on the e-government portal, they may get access to the service without applying to the registrar. More detailed information on the procedure for connecting to the e-voting service is available on the website of the Corporation's registrar at <http://www.aoreestr.ru/shareholders/e-voting>.

Each shareholder is also entitled to vote on agenda items either in person or through a representative (if the General Meeting is held as an in-person meeting of shareholders). The shareholders whose title to the shares is recorded in the shareholder register may complete ballot papers and send them to Sistema by mail ahead of the General Meeting.

The owners of Sistema's global depositary receipts (GDR) may vote on the agenda items of the General Meeting by means of a proxy vote in line with the established procedure via a depositary bank servicing the GDR programme of Sistema. In 2021, Sistema's depositary bank was Citibank, N.A. For information about the depositary bank and voting, please visit the bank's website at <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.

In May 2021, the Board of Directors approved a new Dividend Policy, setting the recommended amount of dividends for 2021-2023. In accordance with the Policy, the recommended dividend amount is at least RUB 0.31 per



ordinary share in 2021, at least RUB 0.41 per share in 2022 and at least RUB 0.52 per share in 2023. Thus, based on the current number of the Corporation's ordinary shares, the recommended total dividend payout is at least c.RUB 3 bn in 2021, c.RUB 4 bn in 2022 and c.RUB 5 bn in 2023.

Additionally, starting from 2022, the Policy recommends increasing dividend payments by an amount equal to 10% of the absolute increase in adjusted OIBDA for the latest completed financial year, provided that adjusted OIBDA grew by more than 5% that year and the net debt² /adjusted

OIBDA¹ ratio does not exceed 3x.

When determining the recommended dividend amount for 2020, Sistema's Board of Directors was guided by the above Dividend Policy and recommended that the AGM allocate RUB 2,991.5 m for dividends, which corresponds to RUB 0.31 per ordinary share or RUB 6.20 per GDR.

Information about General Meetings of shareholders in 2021

Annual General Meeting of shareholders

DATE	26 JUNE 2021
Form of the meeting	Absentee voting
Items reviewed and decisions taken	▶ Annual report and financial statements for FY 2020 were approved. ▶ Dividends for 2020 were distributed in the amount of RUB 2,991.5 m, or RUB 0.31 per ordinary share (RUB 6.20 per GDR). ▶ The Board of Directors was elected. ▶ Auditors were appointed for RAS and IFRS audits for 2021. ▶ A new version of the Policy on Remuneration and Compensations for Members of the Board of Directors of Sistema PJSC was approved.
Attended	Shareholders that held a total of 76.4% of votes
Date and reference number of the minutes	26 June 2021, No 1-21

In 2021, a new law was passed in Russia allowing joint-stock companies to conduct their annual general meetings of shareholders in the form of absentee voting. In addition to absentee voting, the Corporation organised live streaming for shareholders on the final date of voting, in the course of which the management presented the company's results for 2020 and took questions from shareholders.

1 Operating income before depreciation and amortisation.
2 All financial indicators used to determine the amount of dividends are determined in accordance with the Corporation's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

1 If an extraordinary General Meeting of shareholders is conducted and its agenda contains an item on the election of the Board of Directors, shareholders who own a sufficient number of shares are also entitled to nominate candidates to the Board of Directors. Such proposals should be submitted to the Corporation no later than 30 days prior to such General Meeting.
2 The notice of the General Meeting of shareholders and ballots are also sent by mail to shareholders whose rights to the shares of the Corporation are recorded in the shareholder register.

Board of Directors

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

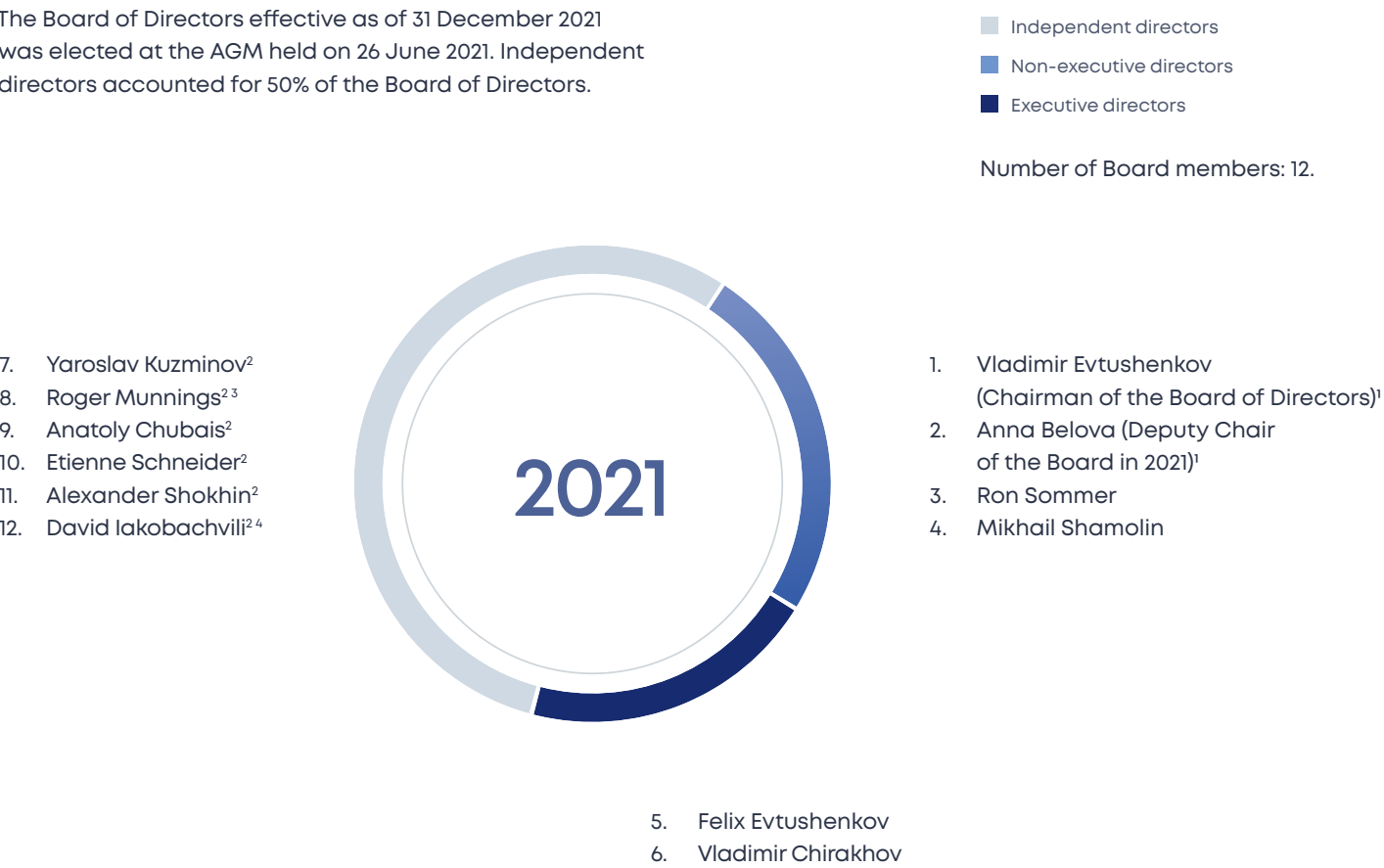
Under Sistema's Charter, the responsibilities of the Board of Directors include:

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

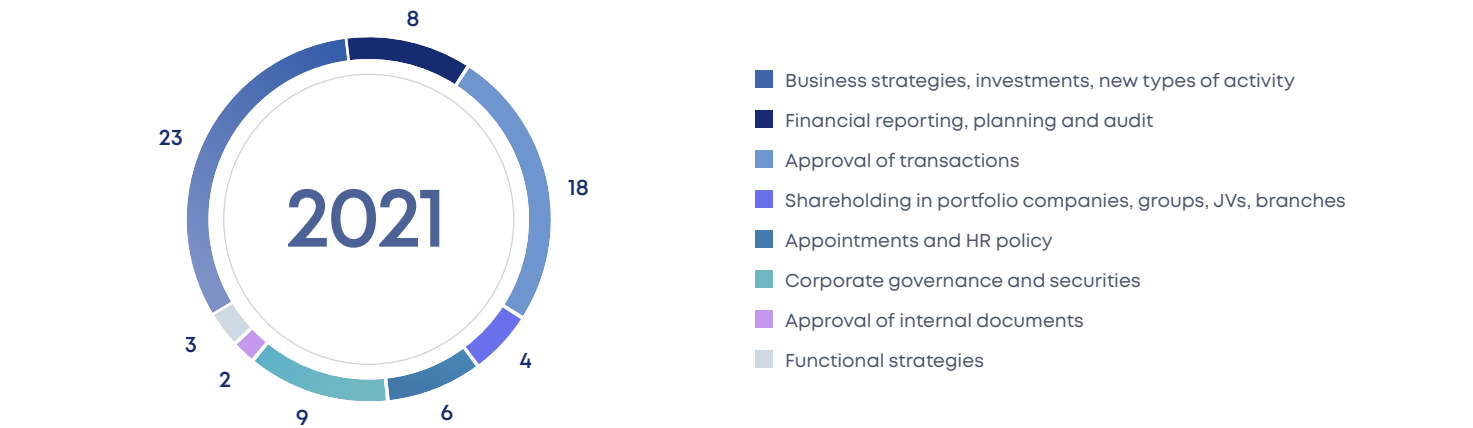
COMPOSITION OF THE BOARD OF DIRECTORS

Composition of the Board of Directors as of 31 December 2021

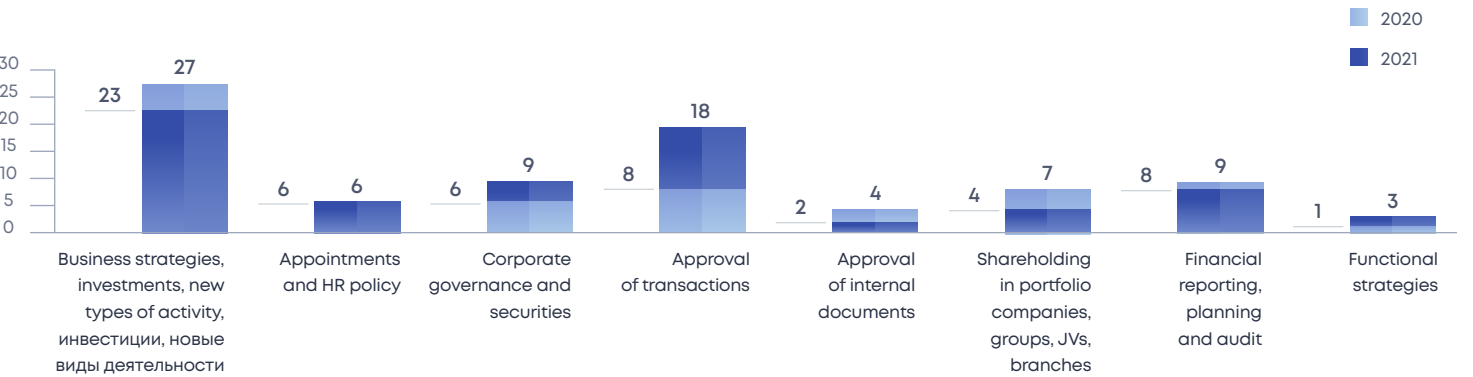
The Board of Directors effective as of 31 December 2021 was elected at the AGM held on 26 June 2021. Independent directors accounted for 50% of the Board of Directors.



Items reviewed by the Board of Directors in 2021 by subject



Distribution of issues considered by the board of directors in 2021 and 2020, by topics



Most of the items reviewed by the Board of Directors in 2021 were related to the Corporation's business strategy and management of its portfolio of investments in various industries, financial planning and approval of transactions (including shareholdings in companies).

Preparation for meetings and quorum of the Board of Directors

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

these meetings, independent directors discuss such items in detail with the Corporation's management. This makes it possible to increase the involvement of the Board members in the development of the Corporation's strategy.

Meetings of Sistema's Board of Directors usually have a high attendance rate: the average quorum of meetings in 2021 was 97.9%.

The Corporation organises regular meetings of independent Board members for in-depth immersion in materials of strategic items to be reviewed by the Board. At

Participation of Sistema Board members in meetings of the Board of Directors and its committees in 2021

	BOARD OF DIRECTORS	STRATEGY COMMITTEE	AUDIT, FINANCE AND RISK COMMITTEE	NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	ETHICS AND CONTROL COMMITTEE	SUSTAINABILITY AND INVESTOR RELATIONS COMMITTEE¹
Attendance²						
V. Evtushenkov	16/16	5/5				
A. Belova	16/16	4/5	20/20	7/7	8/8	9/9
A. Dubovskov³	7/7	5/5		6/7	4/4	
F. Evtushenkov	16/16	5/5				
R. Sommer	16/16	3/5	10/10	7/7		9/9
R. Kocharyan³	6/7	2/5		6/7	3/4	
Y. Kuzminov⁴	9/9			5/5		
R. Munnings	16/16		20/20	12/12		8/9
V. Chirakhov	16/16	4/5			4/8	
A. Chubais	15/16					3/4
M. Shamolin	16/16	4/5			3/4	2/4
E. Schneider	16/16		18/20	5/5		5/5
A. Shokhin⁴	8/9		9/10	5/5		4/4
D. Iakobachvili	15/16	4/5	20/20	11/12	4/4	4/4

Assessment of the performance of the Board of Directors and its Committees

Assessment of the Board's work is an important tool for preserving and improving its effectiveness. The assessment procedure is designed to identify the strengths and potential areas for improvement in the Board's work. Regular external assessment is part of international best practices and is recommended by the Russian Corporate Governance Code. Sistema introduced this practice in 2017 and consistently implements it.

A regular external assessment of the Board of Directors took place in 2021. It was performed by a consortium of two firms with global footprint and high reputation: Nestor Advisors Ltd., a London consultancy that specialises in corporate governance, and EY, one of the global leaders in professional services that has substantial presence in the Russian market.

1 Before 26 June 2021 — Investor Relations and Dividend Policy Committee.
2 The first number shows the number of meetings attended by the Board member, the second number is the total number of meetings.
3 Member of Sistema's Board of Directors until 26 June 2021.
4 Member of Sistema's Board of Directors from 26 June 2021.

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

- ▶ key duties of the Board of Directors, including determination of the strategy, oversight over performance indicators, strategic HR issues, internal control and risk management
- ▶ relationship between the Board of Directors and the management, the quality of information flows between them
- ▶ composition of the Board of Directors, the member nomination process
- ▶ the Board's practices and dynamics
- ▶ the role of the Chairman of the Board
- ▶ the structure and work of Board Committees
- ▶ procedures of the Board and organisational support to its activities
- ▶ effectiveness of Board Committees

The assessment of the Board of Directors had the following objectives:

- ▶ to increase the effectiveness of the Board of Directors by identifying opportunities for improvement in its structure, procedures, practices, work dynamics and ability to constructively challenge the Corporation's management
- ▶ to help Board members to develop a common vision as to the ways in which the Board can be most instrumental in promoting Sistema's effectiveness
- ▶ to increase trust in Sistema's corporate governance mechanisms among the shareholders and key stakeholders
- ▶ to assist Sistema with remaining a leader in corporate governance practices, including compliance with recommendations of the Russian Corporate Governance Code, and implementing best international practices related to the effectiveness of Board work
- ▶ to assess changes in the Board's work since the previous external assessment in 2017

The assessment of the Board of Directors was conducted using a detailed questionnaire and follow-up interviews with Board members and several executives reporting to the Board of Directors. Key conclusions of the assessment are as follows:

01

Sistema's Board of Directors works actively, using advanced corporate governance procedures in its work and the work of its Committees.

02

Board members have a high professional level, significant experience in management decision-making, expertise in strategy and a relevant professional reputation. These qualities enable Board members to complement the Board Chairman who traditionally plays a leading role in the Board's work.

03

In future, it is advisable for the Board of Directors to concentrate more on matters of long-term portfolio strategy. The Board should also be guided by approaches to determining the independence profile of its members that are used by peer international investment firms and continue paying significant attention to the effectiveness of boards of directors of Sistema's key portfolio companies.

04

In order to achieve these goals, it is advisable to better regulate the succession planning process at all levels.



Committees of the Board of Directors

Sistema has five committees of the Board of Directors:

- ▶ Strategy Committee
- ▶ Audit, Finance and Risk Committee
- ▶ Nomination, Remuneration and Corporate Governance Committee
- ▶ Ethics and Control Committee
- ▶ Sustainability and Investor Relations Committee¹

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

The status, procedures for nominating members, responsibilities and decision-making procedures of the Board's Committees are regulated by the terms of reference of the relevant committees as approved by the Board of Directors and published on the Corporation's website in the Corporate Documents section at <https://sistema.ru/about/corpmanage/docs>.

Functions of the Board Committees

NAME OF THE COMMITTEE	KEY FUNCTIONS OF THE COMMITTEE
Strategy Committee	▶ Analysing 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	▶ Assisting the process of preparation and audit of the Corporation's financial reports and supervising them ▶ 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	▶ 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: a. for the Board of Directors of Sistema 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

NAME OF THE COMMITTEE	KEY FUNCTIONS OF THE COMMITTEE
Ethics and Control Committee	▶ Ensuring an effective system of economic and corporate security
	▶ Monitoring compliance with the requirements of the Corporation's Code of Ethics
	▶ Assessing the functioning of the system for preventing corruption and fraud and other misconduct related to violations of applicable legislation at Sistema Group companies
Sustainability and Investor Relations Committee	▶ Supporting the strategy development and transformation of the Corporation's business processes in line with the sustainability and responsible investment principles
	▶ Strengthening the Corporation's investment case
	▶ 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

Composition of Sistema's Board Committees as of 31 December 2021

	STRATEGY COMMITTEE	AUDIT, FINANCE AND RISK COMMITTEE	NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE ¹	ETHICS AND CONTROL COMMITTEE	SUSTAINABILITY AND INVESTOR RELATIONS COMMITTEE
V. Evtushenkov	CHAIR				
A. Belova					CHAIR
F. Evtushenkov					
R. Sommer					
Y. Kuzminov			CHAIR		
R. Munnings		CHAIR			
V. Chirakhov					
A. Chubais					
M. Shamolin					
E. Schneider					
A. Shokhin					
D. Iakobachvili				CHAIR	

¹ The President of Sistema PJSC attends Committee meetings in the capacity of a permanent invitee and does not vote on the matters submitted for consideration of the Committee.

Composition of the Committee, %



Subjects of the items considered by the Board Committees in 2021

NAME OF THE COMMITTEE	NUMBER OF MEETINGS IN 2021	SUBJECTS CONSIDERED
Strategy Committee	5	Value creation by the Corporation's investments in various industries Analysis of investment opportunities
Audit, Finance and Risk Committee	20	Appraisal of the auditor's services, development of recommendations for the Board of Directors on appointing an external auditor Review and approval of the Corporation's financial reports, the annual report and report on performance against the Corporation's budget Review of management's reports on risk management at Sistema, risk maps and mitigation plans Preliminary review and evaluation of transactions and investment projects to be submitted to the Board of Directors Review of performance and work plans of internal audit units

NAME OF THE COMMITTEE	NUMBER OF MEETINGS IN 2021	SUBJECTS CONSIDERED
Nomination, Remuneration and Corporate Governance Committee	7	Assessment and development of corporate governance across Sistema Group Incentive system and key parameters, performance assessment and bonuses for the key managers and employees of Sistema HR process and preview of candidates for senior management positions at Sistema and nominees to the boards of directors of the key portfolio companies Succession planning for the Board of Directors and its Committees Corporate culture development
Ethics and Control Committee	8	Performance of the Internal Audit Department in 2020 and its work plan for 2022 Results of the ethics declaration campaign at Sistema Functional strategy in the area of corporate security (including information security)
Sustainability and Investor Relations Committee	9	Amount of dividends and dividend policy of the Corporation ESG strategy of the Corporation and development of ESG culture Analysis and monitoring of Sistema's market and investment base Risks and opportunities for the Corporation's investment strategy Approach to non-financial reporting and potential for applying integrated reporting principles

PRESIDENT

The President of Sistema is a permanent chief executive officer whose main tasks include managing the current operations of the Corporation and dealing with matters outside the remit of the General Meeting of Shareholders, the Board of Directors and the Management Board, with the aim of achieving the strategic goals set by the Board of Directors, ensuring the Corporation's profitability and safeguarding the rights and legitimate interests of its shareholders. The President reports to the Board of Directors and the General Meeting of shareholders of Sistema. The President chairs the Management Board of Sistema.

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

MANAGEMENT BOARD

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

- In 2021, the Management Board held eight meetings and reviewed 33 agenda items in the following key areas:
- Sistema's development strategy
 - development strategy, value creation and monetisation of Sistema's investments in various industries
 - management of Sistema's investment funds
 - Sistema Group's strategic planning cycle
 - corporate governance practices at the Corporation
 - financial planning and control
 - ESG strategy of Sistema

In May 2020, the Board of Directors approved the composition of the Management Board. As of 31 December 2021, the Corporation's Management Board consisted of eight members.

Members of the Management Board of Sistema as of 31 December 2021

- | | | |
|----|--------------------|---|
| 1. | Vladimir Chirakhov | President, Chair of Management Board |
| 2. | Felix Evtushenkov | Senior Managing Partner |
| 3. | Artyom Zasursky | Vice President for Strategy |
| 4. | Igor Kozlov | Vice President for IT |
| 5. | Svetlana Matveyeva | Vice President for HR |
| 6. | Vladimir Travkov | Vice President for Finance |
| 7. | Ali Uzdenov | Senior Managing Partner |
| 8. | Sergey Shishkin | Vice President for Corporate Governance and Legal Affairs |

Changes in Sistema's Management Board in 2021

DATE OF CHANGE		DESCRIPTION
V. Kulubekov	8 February	Elected to the Management Board
A. Sirazutdinov	16 February	Powers terminated
A. Kolokolnikov	20 February	Elected to the Management Board
V. Rozanov	2 April	Powers terminated
T. Sitdekov	14 May	Elected to the Management Board
I. Alyoshin, S. Egorov, A. Katkov, A. Kolokolnikov, V. Kulubekov, L. Monosov, O. Mubarakshin, L. Petukhov, T. Sitdekov	20 December	Powers terminated
F. Evtushenkov	20 December	Elected to the Management Board

GOVERNANCE BODIES REPORTING TO THE PRESIDENT AND THE MANAGEMENT BOARD

To improve its managerial decision-making processes Sistema has established a number of governance bodies that report to the President and the Management Board, namely the Finance and Investment Committee, the Risk Committee, the Tender Committee and the IT Committee.

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

Finance and Investment Committee

- The responsibilities of the Finance and Investment Committee include:
- review of the Corporation's investment projects at different stages from conception to completion
 - approval of the financial model, business plan and hurdle rate for each investment project
 - making recommendations regarding viability of projects, exit scenarios, and sources of financing
 - review of external financing terms

The Committee considers the Corporation's investment projects once they are approved by the Expert Council. An approval by the Committee is required for further review of the project by the Board of Directors.

As of 31 December 2021, the Committee consisted of six members. The Corporation's President V. Chirakhov is the chair of the Committee.

In 2021, the Committee met 53 times.

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

The Expert Council consists of 16 members and considers all of the Corporation's new investment ideas and projects for acquisition of assets in new and adjacent industries, as well as in industries where Sistema already has a presence. The Expert Council is charged with verification of the conformity of the projects with a series of formal requirements set out in the Corporation's regulatory documents, the scoring of projects, and the preparation of written opinions thereon. Once approved by the Expert Council, projects are submitted to the Finance and Investment Committee.

Risk Committee

- The Risk Committee's responsibilities include:
- ▶ Assessment of the most material risks facing the Corporation and its portfolio companies
 - ▶ Ensuring the preparation of a risk register and a generalised risk map of Sistema
 - ▶ Preparation and approval of risk assessment reviews
 - ▶ Development of proposals regarding acceptable risk levels (risk appetite) for Sistema
 - ▶ Coordination of risk management strategies and plans and monitoring of their implementation

As of 31 December 2021, the Committee consisted of 13 members. Vice President for Finance V. Travkov is the chair of the Committee.

In 2021, the Risk Committee held four meetings. The Risk Committee has an Expert Group consisting of eight members that reviews matters pertaining to the approval of counterparty limits (applying to banks, insurers and management companies) and guarantees (including bank guarantees) securing counterparty obligations, the pre-approval of WACC¹ estimates for the evaluation of investment projects of portfolio companies to be further reported to the Finance and Investment Committee, and other operational matters pertaining to risk management across Sistema Group.

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

The Remuneration Subcommittee consists of seven members and aims to improve policies, principles and procedures related to HR management and to develop guidelines in this area for the governance bodies of the Corporation.

Tender Committee

- The responsibilities of the Tender Committee include:
- ▶ Ensuring the acquisition of goods, works and services on the best terms available
 - ▶ Minimising the costs of purchase (ownership, operation) of goods, works and services without compromising their quality
 - ▶ Ensuring the sale of Sistema's property and rights as they become irrelevant to the company's operations on the best economic terms available
 - ▶ Ensuring the transparency of procurement procedures and impartial decision-making
 - ▶ Facilitating the prevention of corruption, fraud and other wrongdoing in procurement

The Committee consists of eight members and is chaired by Vice President for Finance V. Travkov. In 2021, the Tender Committee held 27 meetings.

Information Technologies Committee

- The IT Committee's responsibilities include:
- ▶ Coordinating the work of subdivisions and employees of the Corporation on matters related to information technologies
 - ▶ Creating conditions conducive to effective implementation of Sistema's IT projects and initiatives
 - ▶ Building and maintaining the integrated IT architecture of the Corporation based on advanced digital technologies
 - ▶ Ensuring the uniformity of corporate IT standards and tools at Sistema
 - ▶ As of 31 December 2021, the Committee consisted of 12 members. Vice President for IT I. Kozlov is the chair of the Committee.
- In 2021, the IT Committee did not hold meetings.

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

Risk management

- Sistema's risk management system employs a two-level approach, under which the risks identified at Sistema and its portfolio companies are consolidated to assess their impact on Sistema Group as a whole.
- The enterprise risk management system (ERM) used in the Corporation addresses the following tasks:
- ▶ Identification of risks at all levels of management (from the top to line management), which includes identifying risk owners and making risk passports
 - ▶ Primary assessment of the materiality of identified risks and their analysis (VaR methodology)
 - ▶ Ranging risks by management levels
 - ▶ Assessment of the aggregate influence of material risks on the Corporation's key financial indicators (Monte Carlo modelling)
 - ▶ Development of plans to mitigate identified risks at all management levels
 - ▶ Regular monitoring of performance against mitigation plans and assessment of their effectiveness
 - ▶ Risk monitoring, quarterly reports on risks facing the Corporation
- Sistema's risk management procedures are carried out by risk owners with the support of risk management professionals from the Finance Function.
- The reassessment of identified and/or new risks, the effects of mitigation and response measures and the approval of limits applying to counterparties (banks, management companies and insurers) are monitored at least on a quarterly basis by a special Expert Group of the
- Risk Committee, which includes representatives of all of the Corporation's key departments. The risk management system is monitored by Sistema's Risk Committee and Management Board.
- Sistema's senior executives make regular reports on risk management at the Corporation to the Audit, Finance and Risk Committee, which translate into further reports to the Board of Directors.
- Internal control system**
- Sistema's internal control system is based on advanced international and Russian internal control practices and methodologies, covers all the main material decision-making levels and serves the best interests of the Corporation's shareholders, investors and management. The internal control system and the responsibility for implementation of control procedures are formalised in codes, policies, procedures and other internal regulations of the Corporation.
- The Internal Control Policy was approved by the Corporation's Board of Directors and is an internal top-level document describing the key principles of internal control as a continuous and integrated process that involves all units and governance bodies of the Corporation. The Corporation methodically works on the development of a regulatory framework designed to govern all matters relating to internal control by means of cascading them from the level of the Board of Directors to the level of employees.
- The key objectives of the internal control system are:
- ▶ Creating new and improving existing control mechanisms that will ensure efficient business processes and the implementation of the Corporation's investment projects

1 Weighted Average Cost of Capital

- ▶ Ensuring the safety of the Corporation's assets and efficient use of its resources
- ▶ Protecting the interests of the Corporation's shareholders and preventing and resolving conflicts of interest
- ▶ Creating conditions for the timely preparation and submission of reliable reports and other information that is legally required to be publicly disclosed
- ▶ Ensuring the Corporation's compliance with applicable laws and requirements of regulators

In accordance with advanced practices and approaches in internal control and audit, the effectiveness of the Corporation's internal control system is ensured at three levels (in addition to the Board of Directors and senior management):

- ▶ **Level 1. Heads and employees of the Corporation's subdivisions are responsible for building an effective internal control system and assessing and managing risks within their remit.**
- ▶ **Level 2. Sistema's controlling bodies and Committees perform control functions, e.g.:**
- ▶ The Risk Committee and the risk management function are responsible for developing and monitoring the implementation of effective risk management practices
- ▶ The Finance and Investment Committee of the Corporation approves and monitors the implementation of investment projects

Internal audit

The Internal Audit Department reports to the Board of Directors (functionally) and Sistema's President (administratively). The Audit Department is headed by a Chief Audit Executive who is appointed and dismissed by the President based on the resolutions passed by the Corporation's Board of Directors following a preliminary approval by the Board's Audit, Finance and Risk Committee.

The key objectives of the Internal Audit Department are:

- ▶ to assist with increasing the effectiveness of the internal control, corporate governance and risk management systems of the Corporation and to give recommendations on their improvement to the governance bodies, the relevant committee, the subdivisions and employees of the Corporation
- ▶ to coordinate its activities with the external auditor of the Corporation and other persons providing assurance to the Corporation

- ▶ The Security Department is in charge of comprehensive security at the Corporation, including economic security, prevention of corruption and information security
- ▶ **Level 3. The Internal Audit Department, which conducts independent assessments of the effectiveness of the internal control system, the risk management procedures, and the corporate governance system.**

The Corporation's internal control system includes, among other things, the following:

- ▶ Regulation of processes and procedures
- ▶ Division of roles and responsibilities in decision making
- ▶ Prevention and identification mechanisms of control
- ▶ Notification about irregularities, abuse of office, conflicts of interest
- ▶ Ethical standards of business conduct
- ▶ Awareness of the Corporation's employees about the internal control system

All of the Corporation's employees as persons in charge of control procedures bear responsibility for the effectiveness of such controls and risk management activities as prescribed in their job descriptions, internal regulations and legislation of the Russian Federation and other applicable jurisdictions.

- ▶ to provide consultations to the subdivisions and employees of the Corporations

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

- ▶ provides assurance (audits) by objectively analysing available audit evidence aiming at independent evaluation of the risk management, internal control and corporate governance processes. The contents and scope of the audit assignment for providing assurance are determined by the customer and the Internal Audit Department
- ▶ assesses the reliability and effectiveness of the internal control system and gives recommendations to the governance bodies, the relevant committee, the divisions and employees of the Corporation improving it
- ▶ assesses the level of corporate governance at the Corporation and gives recommendations to the governance bodies, the relevant committee, the divisions and employees of the Corporation on improving it

- ▶ assesses the reliability and effectiveness of the risk management system of the Company and gives recommendations to the governance bodies, the relevant committee, the divisions and employees of the Corporation on improving it
- ▶ provides consultations to the subdivisions and employees of the Corporation. The contents, scope and format of consultations shall be determined by the Chief Audit Executive of the Corporation after consultations with the divisions and/or employees of the Corporation that initiated (requested) the consultations
- ▶ provides consultations to the governance bodies, subdivisions and employees of the Corporation on ensuring effective functioning of the Single Whistleblowing Hotline. Performs selective audits of messages received on the Single Hotline at the discretion of the Chief Audit Executive and subject to availability of the required competences at the Internal Audit Department
- ▶ regularly meets with the external auditor of the Corporation and other persons providing assurance to the Corporation

The Internal Audit Department has all the resources and powers required to perform the above functions and is an independent structural unit. In its work, the Department is guided by applicable laws of the Russian Federation, International Professional Standards of Internal Audit, the Code of Ethics of the Institute of Internal Auditors and the Corporation's Charter and other internal regulations.

External audit

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

The Internal Audit Department closely interacts with Sistema's independent auditors, helping them to better coordinate their work and providing consultations to ensure better annual audit planning with respect to evaluation of the effectiveness of the internal control system in the area of financial reporting, and assessing the identified risks.

Regular reports on the performance of the Internal Audit Department are reviewed by the Audit, Finance and Risk Committee and the Ethics and Control Committee of the Board of Directors of Sistema and are also submitted for consideration by the Board of Directors.

In 2021, the Internal Audit Department conducted 24 audits to assess the effectiveness of the Corporation's internal control, risk management and corporate governance systems. The audits performed by the Internal Audit Department did not uncover any weaknesses or risks that could affect the sustainability of the Corporation's business as a whole. Specific comments pertaining to various aspects audited were communicated to stakeholders in a timely manner and followed up by recommendations on how to eliminate them.

Sistema's Internal Audit Department actively develops automation technologies in an effort to improve the effectiveness of audit procedures.

Resolution of conflicts of interest

Matters related to conflicts of interest are governed by the Corporation's Code of Ethics as well as the laws of applicable jurisdictions. The Corporation has an ethics assessment procedure: all top managers complete Ethics and Conflict of Interest Declarations annually or as conflicts of interests arise. Moreover, all new employees are introduced to the requirements of the Code of Ethics and the procedure for completion of Declarations and are required to report relevant conflicts of interest (if any) before starting to perform their responsibilities.

In 2021, the results of the ethics declaration campaign were reviewed by the Ethics and Control Committee of Sistema's Board of Directors. In most cases, the declared conflicts of interest did not require any resolution measures, as they posed no risks to the Corporation's interests. However, action plans on conflict resolution were implemented with respect to several declarants in accordance with best corporate governance practice.

CORPORATE GOVERNANCE ACROSS SISTEMA GROUP

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

The Corporation carries out strategic management of its key portfolio companies through the efficient work of boards of directors. The boards of directors of the key portfolio companies include professional independent members with expertise in the relevant industries, as well as in strategy, finance, audit and corporate governance. Independent directors account for about one third of members of the boards of key portfolio companies (depending on the level of the company's organisational maturity).

The Corporation continuously improves its corporate governance system in order to increase efficiency and keep in line with best practices. Improving the quality of corporate governance processes at portfolio companies and attracting competent professionals to their boards of directors is designed to increase the quality of decision-making and the shareholder value of Sistema's portfolio assets. With that in mind, the Nomination, Remuneration and Corporate Governance Committee of Sistema's Board of Directors gives priority to the selection of candidates to be nominated to the boards of directors of portfolio companies and is deeply involved in the process, from formulating the skills and expertise requirements for each key asset to making recommendations with regard to specific lists of candidates.

The boards of directors of portfolio companies and their committees ensure control and coordination and support the management of their respective companies in decision-making in the following main functional areas, seeking to further enhance the quality of management of portfolio companies:

- ▶ strategy and key transactions
- ▶ budget planning
- ▶ HR policy and incentive system
- ▶ internal audit
- ▶ risk management

The committees of the boards of directors of portfolio companies play a pivotal role in the collective review of relevant matters to be reported to the boards of directors.

DEVELOPMENT OF THE CORPORATE GOVERNANCE SYSTEM IN 2021

Independent directors on the Corporation's Board of Directors

In 2021, 12 members were elected to the Corporation's Board of Directors, six of whom qualify as independent directors or were recognised as independent according to the Moscow Exchange's Listing Rules and the Russian Corporate Governance Code.

All of the Corporation's independent directors have broad recognition in the professional community and vast experience in managing large organisations, which ensures the objectivity of their judgements and independence from the influence of the Corporation's management and shareholders when making decisions.

The current Board comprises the following independent directors:

- ▶ Yaroslav Kuzminov
- ▶ Etienne Schneider
- ▶ Roger Munnings
- ▶ Alexander Shokhin
- ▶ Anatoly Chubais
- ▶ David Iakobachvili



Development of ESG strategy

In May 2021, the Corporation's Board of Directors approved two new internal documents detailing Sistema's approach to sustainability management: the Environmental Policy and the Human Rights Policy. In September 2021, the Board of Directors approved an ESG action plan for 2022-2023 and in November, the Corporation's ESG strategy including key targets.

In June 2021, Sistema's Board of Directors approved the Terms of Reference of the Sustainability and Investor Relations Committee, which was established to replace the Investor Relations and Dividend Policy Committee. The new Terms of Reference provide for the Committee's leading role in setting the Corporation's ESG agenda. The ESG activities of the Committee are aimed at the development of the Company's corporate culture based on the ESG principles and the integration of ESG into the Company's strategy in order to increase the sustainability of Sistema's investment portfolio. A. Belova was elected chair of the Committee.

As a responsible investor, Sistema sets itself targets that go beyond financial metrics and aspires to high efficiency of social and environmental impact management throughout the entire value chain. By enhancing management approaches, the Corporation sets the vector for its portfolio companies to go by when pursuing their sustainability agendas and making ESG aspects an integral part of their business strategies.

Plans for the development of corporate governance

The Nomination, Remuneration and Corporate Governance Committee of Sistema's Board of Directors annually develops and approves the Corporation's action plan for improving corporate governance in the next year and later adjusts it as necessary. The plan for 2022, which was developed taking into account the results of the external assessment of the Board of Directors, among other things, envisages the following steps:

01

development and implementation of succession plans for the management and members of the Board and Board Committees based on individual competences (before the end of 2022)

02

implementation of ESG measures approved by the Board of Directors, with corresponding elements of the strategy submitted for the Board's review (for 2022-2023)

REMUNERATION POLICY

Remuneration policy applied to Sistema’s Board members

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

Supplementary remuneration of members of the Board of Directors

In accordance with the amended Policy being in effect during the reporting period, additional remuneration in the form of ordinary shares is paid to the members of the Board of Directors subject to capitalisation growth in the reporting year¹. 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 year².

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

Reimbursement of expenses and other conditions

Members of the Board of Directors are reimbursed for their expenses associated with performance of their duties, including participation in the meetings of the Board of Directors and Board committees.

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

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

Basic remuneration of members of the Board of Directors

In 2021, basic remuneration of members of the Board of Directors amounted to RUB 13.7 m or RUB 17.8 m per year depending on whether a director is a tax resident of Russia. Basic remuneration was paid to Board members in cash in equal quarterly instalments.

Remuneration for performance of additional duties

Members of the Board of Directors performing additional duties, i.e., the Chairman of the Board, Deputy Chair of the Board and Chairs of the Board Committees, receive remuneration on a quarterly basis in the amount stipulated by the Policy.

¹ For an increase in capitalisation to be recorded for the purposes of the Policy, the weighted average price of one ordinary share of Sistema on the Moscow Exchange at the end of the reporting year (for 60 preceding trading days) should exceed the weighted average price of one share at the beginning of the reporting year (for 60 preceding trading days).
² 0.1% or 0.125% (depending on tax residency) of the increase in capitalisation for the financial year.

REMUNERATION POLICY APPLIED TO SISTEMA’S SENIOR MANAGEMENT

The short-term incentive scheme for the top managers of Sistema PJSC in 2021 consisted of:

- ▶ A fixed monthly salary determined in line with the internal system of job categories (grades)
- ▶ Bonuses paid for implementation of projects, generation of cash income, achievement of KPIs and set objectives. Remuneration is paid based on employees' individual performance and positive cashflow generated by projects implemented by the teams of Managing Partners and Departments of Sistema. Payments may amount to a) up to 20% of cash income from implemented projects, b) fixed percentage of annual income for achievement of KPIs

For the purpose of calculating bonuses, cash income means:

- ▶ an increase in the value of an asset (in the event of an asset sale or an IPO) net of (a) hurdle rate determined by the Finance and Investment Committee chaired by the President of the Corporation prior to the start of a project or the acquisition of an asset, (b) investments made in such an asset and project costs
- ▶ percentage of the project team's annual income

Miscellaneous

No extra compensation above the level stipulated by labour laws of the Russian Federation is paid to the President or other senior executives in case of termination of employment.
Sistema does not pay remuneration to executive management for serving on the Management Board.
The Corporation does not provide loans to senior executives.

REMUNERATION PAID TO SISTEMA'S BOARD MEMBERS AND SENIOR MANAGEMENT¹

Remuneration and compensation paid to Sistema’s Board members, RUB

ITEM	2021	2020
Remuneration for work as member of the Board of Directors	390,957,500	365,497,500
Salaries ^{2 3}	398,492,500	122,499,000
Bonuses	351,123,200	393,456,200
Remuneration for work as member of the Board's committees	9,380,000	5,820,000
Reimbursement of expenses incurred by Board members in connection with their duties	1,069,500	824,200

Remuneration paid to Sistema's Management Board members⁴, RUB

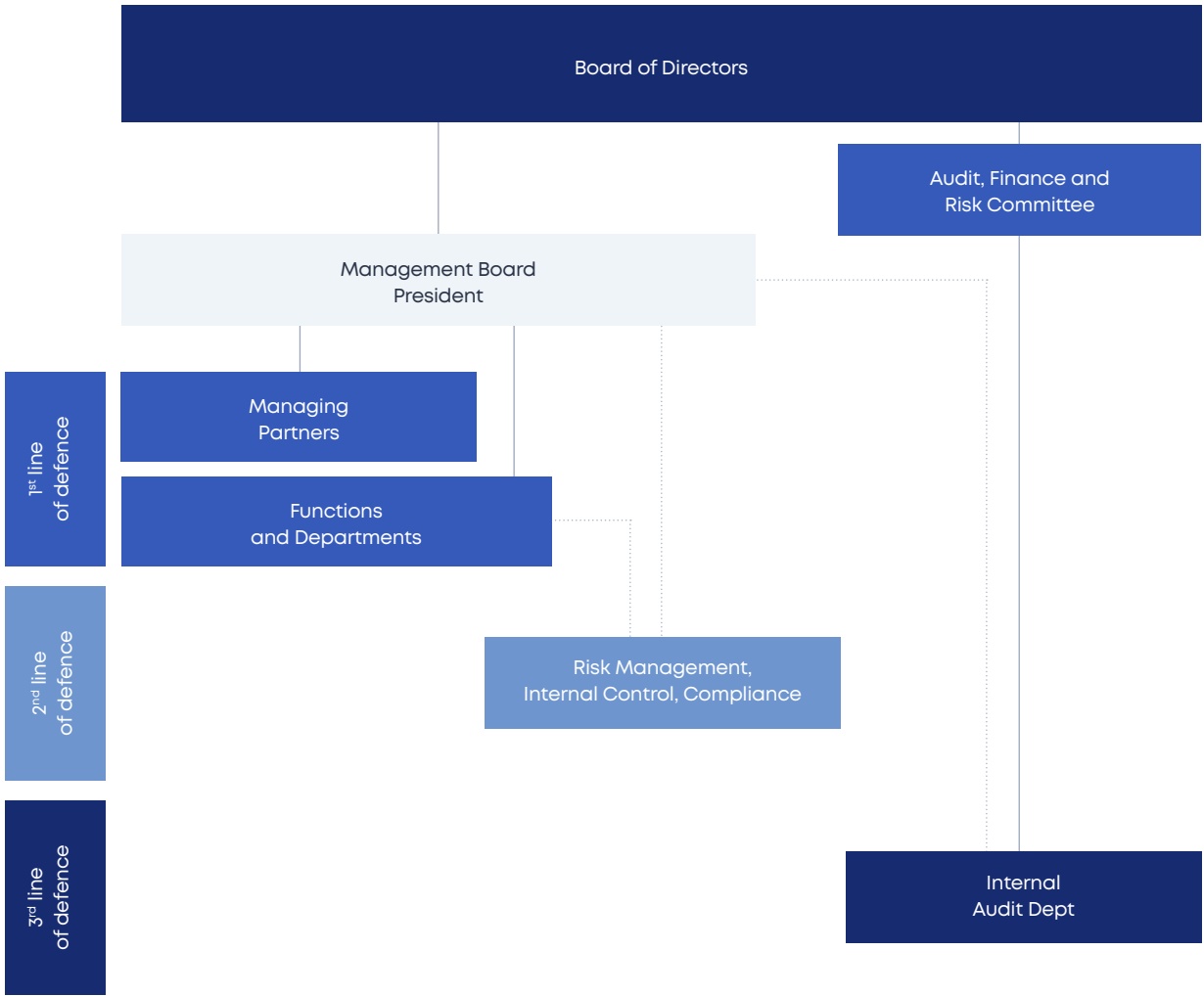
ITEM	2021	2020
Salaries ⁵	988,800,200	584,901,900
Bonuses	3,982,281,800	4,889,969,300
Other types of remuneration	6,870,000	861,000

¹ All figures in this section are given before the applicable income tax.
² Remuneration in the form of salaries and bonuses is the compensation allocated in the reporting period to the non-executive members of the Board of Directors.
³ This amount includes holiday pay and severance pay. In 2021, holiday pay to the non-executive members of the Board of Directors amounted to RUB 69,452,000, while severance pay totaled RUB 222,154,000. No such payments were made in 2020.
⁴ Including Sistema's President and other executive members of the Board of Directors.
⁵ This amount includes holiday pay. Holiday pay to the members of the Management Board amounted to RUB 557,404,000 in 2021 and RUB 148,560,000 in 2020.

RISK MANAGEMENT

Sistema’s potential risks are the manifestations of processes and factors that Sistema has little or no influence on. That said, it is within the Corporation’s power to take steps to reduce the negative consequences of such factors should they materialise. This makes the efficient assessment of existing risks and of their occurrence probability, as well as effective risk management, an important part of Sistema’s strategy.

Part and parcel of Sistema’s each and every business process, risk management is built into strategy planning and implementation, investing, budgeting, procurement and everyday operations. Sistema’s integrated risk management system relies on international standards, recommendations and best practices in risk management. Integrated Risk Management aims to reasonably guarantee the achievement of strategic goals and contain risk within limits that Sistema’s management and shareholders deem acceptable.



Sistema has in place an Integrated Risk Management Policy.

Integrated Risk Management aims to build and maintain an efficient system for:

- ▶ the regular and systematic identification and analysis of risks faced by Sistema
- ▶ the identification and assessment of risks associated with every specific managerial decision
- ▶ the distribution of responsibilities for risk management
- ▶ the preparation of careful response/mitigation plans and the control of their implementation
- ▶ the monitoring of risks and risk management effectiveness
- ▶ the preparation of risk management reports for various collective bodies within Sistema and for other stakeholders
- ▶ the accumulation of knowledge on Integrated Risk Management

Risk management officers across the Group regularly update the top risks of their respective businesses and the Group as a whole and analyse their potential effect on financial performance, which involves the use of financial models and simulation methods.

To address the risks so identified, risk owners develop risk mitigation and response plans, conduct risk monitoring and update action plans as necessary.

Sistema PJSC uses the following methods of risk management

- ▶ Risk avoidance means refraining from particular actions or foregoing particular assets fraught with high risk. Risk avoidance is used in exceptional cases where the cost of treating a particular risk would be too high, such treatment action would not reasonably result in its satisfactory mitigation, and transferring such risk to a third party would be impossible or impractical.
- ▶ Risk mitigation means controlling and preventing a risk while owning it and treating it in a proactive manner. Mitigation steps aim to bring the probability of a particular risk event and/or the potential damage it can cause down to a level that is deemed acceptable according to Sistema’s Risk Appetite. Mitigation is the priority risk management method at Sistema PJSC.
- ▶ Risk acceptance means assuming a risk without taking any steps to modify it. This method is used where the associated risk level is acceptable to Sistema PJSC or where modifying the risk would be impossible or economically impractical.
- ▶ Risk transference means handing a risk over to a third party where modifying it within Sistema PJSC would be impossible or economically impractical and its monetary value is greater than the limit deemed acceptable to the company. Risk transference may take the forms of insurance, hedging, outsourcing, etc.

For Sistema, insurance is an inextricable part of risk management. Insurance is fully integrated in the corporate risk management system toolkit and protects the financial interests of Sistema PJSC and its shareholders against unforeseen losses that may arise in the course of business processes, whether as a result of external effects or otherwise.

Sistema PJSC has in place a comprehensive insurance programme that covers a wide spectrum of operational risks and is reviewed on an annual basis. This includes various types of compulsory and optional third-party insurance, motor insurance, property insurance, health insurance for employees, and accident insurance.

Such insurance contracts are closed with Russia’s largest insurers selected in open tender processes where insurer reliability is the key criterion.

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

Sistema Group's risk appetite determines the level of risk acceptable to its shareholders and involves the following fundamental principles:

- ▶ the amount of potential losses arising from risks accepted by Sistema Group may not reach a level where it would lead to a complete termination of the Group's operations, whether in case of any crisis or otherwise
- ▶ the Group's cash flows are required to be organised in a way assuring the timely fulfilment of obligations towards counterparties both in the medium and long term
- ▶ the Group at all times aims to avoid the concentration of risks in specific counterparties, industries, and countries/ regions associated with high risk
- ▶ sustainable development and long-term economic efficiency
- ▶ compliance with the requirements of national regulators wherever group companies operate and with the standards and recommendations of international regulatory bodies

GLOBAL AND COUNTRY RISKS

Risks related to changes in the political and economic situation in Russia are material for Sistema because most of the Group's business is conducted in Russia. The companies and investment funds of Sistema Group also operate in the CIS, the EU, South and Southeast Asia. Many products of the Group's companies are exported to the CIS, Southeast Asia, Eastern Europe and North Africa. In the event of any major political turmoil in these regions, the Group's local business may be disrupted or discontinued, which may lead to material loss.

Political and economic instability, as well as any potential downturn or slowdown in Russia's economic growth, may lead to a decrease in household incomes and consumer demand, which could be damaging to the performance and financial standing of the entire group.

The business of the Group may be adversely influenced by a toughening of sanctions, a complete economic blockade and change in the political situation in the country, as well as potential involvement of the Russian Federation in military conflicts.

- ▶ impeccable business reputation and avoidance of any action potentially damaging to such business reputation

- ▶ maintaining credit ratings from international rating agencies

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

The Corporation has built a unified compliance system that involves a comprehensive mitigation programme including anti-corruption and stock exchange rules, the protection of personal data and confidential information, and steps against money laundering and terrorism funding.

Due to the situation in Ukraine, western countries imposed sanctions on a number of Russian citizens and companies. The sanctions might conceivably be extended to, or complemented by additional sanctions categories that would apply to, specific companies or individuals within the Group. Any breach of sanctions so imposed may prevent the companies of the Group from cooperating with the government authorities of the USA/EU/UK, result in civil or criminal penalties being applied to the sanctioned persons or their personnel in accordance with the laws of the USA/ EU/UK, or lead to significant fines being imposed on the companies of the Group along with potential damage to their reputation.

Any further tension between Russia and other countries and any escalation of existing conflicts, introduction of additional sanctions, or continued uncertainty as to their scope may adversely impact the national economy, the financial status of the Group's partners and suppliers, and the capability of the Group's companies to conduct trading and financial operations and to secure funding on commercially viable terms, and may increase the volatility of stocks of Sistema and particular companies within the Group.



INDUSTRY RISKS

Sistema is faced with diverse risks associated with the presence of Sistema's portfolio companies in various sectors of the economy. The most material risks are related to the Group's operations in the telecom, electric power, retail (including e-commerce), banking, high tech, hospitality, healthcare, pharmaceuticals, timber, agricultural and real estate industries.

SISTEMA'S EXTERNAL RISKS

Financial risks

Sistema's business is inextricably bound with the global economy and financial markets. In particular, it is sensitive to movements in the prices of oil, gas and other commodities exported by Russia. A weakening or strengthening of the rouble against the US dollar and the euro amid fluctuating oil prices and imposed sanctions may result in a rise in costs and/or a drop in revenues or impede the achievement of financial targets and the repayment of debt by Sistema Group companies.

An outflow of foreign investment from Russia under the pressure of sanctions and restrictions applying to the business of foreign companies may adversely affect the joint ventures (partnerships) and new investment projects of Sistema Group.

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

Servicing and refinancing the Corporation's current and future financial liabilities might require a significant outflow of cash. If sanctions persist in the medium term and the

Political risks

The introduction of sanctions against Russia or Russian companies and individuals may cause disruptions in international payment systems, which in turn may make

Social and environmental risks

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

- ▶ change in consumer sentiment, with people increasingly opting for sustainable consumption and healthy living,

Any significant change in these industries may have a material negative impact on the financial standing of Sistema's Group's companies and on the Group as a whole.

access of Russian banks and businesses to foreign debt remains restricted, market liquidity deficit will grow along with interest rates, inhibiting the acquisition of funding both for the operations and for debt refinancing across the Group. An inability to raise the required funding on such terms and in such time as required may lead to substantial restrictions on business development, operations and investments.

Unfavorable macroeconomic environments in many countries where Sistema has businesses may make it necessary to re-evaluate goodwill for some of the Corporation's assets.

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

A potential bankruptcy of one of the Russian banks acting as the Group's counterparty may reduce the availability of borrowing funds and lead to Sistema losing money deposited with such bank.

it impossible for companies across the Group to settle accounts, damaging Sistema's investment appeal as a result.

and growing expectations as regards brand missions, corporate responsibility, and business sustainability

- ▶ changing population age structure making it necessary to adjust and update products and services to best meet the needs of the ageing national population
- ▶ increased competition for talents due to a demographic decline and changing job expectations of the young workforce

- ▶ climate change and extreme weather conditions that may impact crop yields, people's health, and the operation of infrastructure
- ▶ new technological solutions and economic transformation, including digitalisation and automation in the manufacturing and service sectors conducive to workforce displacement
- ▶ growing cyber security threats and tightening regulations in confidentiality and personal data protection
- ▶ deteriorating living standards and potential rise in social tensions in specific regions where the Group operates eroding profits of the Corporation and companies across the Group
- ▶ tightening regulations in sustainable development, carbon control, and information disclosure

Among material risks faced by the Group's industrial companies are environmental, occupational health and safety and waste disposal risks, as well as risks related to infrastructure health, shutdowns and electromagnetic safety, which are critical for telecommunications and power grid companies.

In the agricultural sector the most material risks include climate risks and challenges related to the need to adapt to changing weather conditions, greenhouse gases, water consumption and animal farming.

Legal risks

- A risk of unpredictable court rulings and administrative decisions being passed with respect to the business of Sistema and its portfolio companies may adversely affect the Group's operations. This risk stems from numerous factors, including:
- ▶ potential discrepancies and ambiguities in: (i) federal and other laws; (ii) bylaws issued by the government agencies of countries where Sistema Group operates; (iii) regional and local laws, rules and requirements
 - ▶ gaps in legislation and lack of court and administrative guidelines on the interpretation of some laws, as well as conflicts between certain court guidelines and rulings
 - ▶ the influence of political, social and commercial factors on the judicial system
 - ▶ potential selective or discretionary actions of government authorities

Emergencies and accidents at production facilities across Sistema Group may have significant environmental effects, including land and water pollution, excessive atmospheric discharges, effluent disposals and hazardous spills, potentially harmful for local communities, ecosystems and biodiversity. Any irrational use of natural resources (such as land and forests) may deplete raw materials and lower the economic performance of agricultural and forest assets.

To manage these risks the companies of the Group implement advanced technological solutions, enhance management systems in environmental protection, energy efficiency, occupational health and safety, and develop measures to prevent and mitigate accidents and emergencies.

Risks related to non-compliance with the principles of sustainable development in supply chains may result in disruptions in supply chains and hurt Sistema Group's reputation. As part of their efforts to minimise such risks, companies across the Group impose strict requirements on suppliers, contractors and partners as regards compliance with law and internal regulations.

With global and local terrorism threats rising, potential attack incidents across the Group's enterprises and infrastructure facilities may cause material economic damage, harm human health and lives, and provoke a regulatory tightening on data access requirements.

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

A lack of clarity on the applicability of the Federal Law "On Procedures for Foreign Investment in Business Entities of Strategic Importance for National Defence and State Security" and the regulations of the Customs Union of the Eurasian Economic Union to Sistema Group may have a negative impact on the business of Sistema Group.

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

Since Russian corporate law makes shareholders liable for the obligations of their controlled companies, Sistema may incur financial losses related to the liabilities of its portfolio companies.

The minority shareholders of Sistema's subsidiaries may contest or vote against related-party or other transactions, which may limit Sistema's capabilities of closing investment deals and restructuring businesses.

Should the Russian Federal Anti-Monopoly Service conclude that Sistema or one of its material subsidiaries has violated

Tax risks

Tax laws, regulations and practices of the jurisdictions where Sistema's assets operate are often intricate, opaque and prone to frequent modifications and ambiguous interpretations. Should any action of the Corporation or its portfolio company be interpreted as a breach of tax law, the Group's business may be significantly injured.

Russian transfer pricing law may make it necessary to introduce adjustments to pricing practices used at Sistema Group's companies and entail additional tax liability in light of certain transactions.

Risks related to stock markets

Geopolitical tensions, sanctions imposed against certain Russian companies, a worsening macroeconomic environment and an outflow of capital and investors from the Russian market affect the value of Russian businesses. Sistema Group's access to investor funding through stock markets may therefore be restricted further as a result of the introduction of sectoral sanctions in industries where

any of the existing anti-monopoly laws, the relevant business will be subject to serious administrative sanctions, entailing losses for the Corporation. The Federal Anti-Monopoly Service may also prevent the Corporation and its portfolio companies from closing and/or performing certain transactions, which may also limit Sistema's capacity to conclude investment deals and restructure businesses.

In 2015, Russia adopted new rules relating to the taxation of undistributed profits of controlled foreign companies and profits from indirect property sale in Russia, the concept of a beneficiary owner, and new criteria to be used to establish tax residency of foreign legal entities in Russia. These rules have already undergone several revisions since they were first introduced, with new amendments having retroactive effect. The new taxation rules may result in more tax liability for the Group due to uncertainty on legal interpretation and a lack of relevant legal precedents.

the companies of Sistema Group operate and/or due to the investors growing increasingly wary of Russian companies in general. In particular, Sistema's ability to raise funding via debt instruments may be limited, which is liable to lead to a lack of working capital and cash available for investment and significantly undermine the Corporation's financial performance.

Risks related to the coronavirus pandemic

In March 2020, the World Health Organisation (WHO) declared the rapid spread of the novel coronavirus disease (COVID-19) a pandemic. Steps taken by many countries, including Russia, to contain the spread of COVID-19 created serious operational difficulties for many businesses and significantly affected financial markets. COVID-19 had a material impact on the operations of many companies

in various sectors, including but not limited to temporary or permanent production stoppages, supply chain disruptions, quarantines, and decreased demand. The magnitude of the pandemic's impact on Sistema Group's operations will largely depend on the duration and extent of its effect on the global and national economies

Risks related to delisting

In April 2022, Russia's lower chamber of parliament passed a bill requiring Russian companies to terminate their foreign depositary programs under which depositary receipts representing shares of such companies (including the Corporation) are listed and traded on foreign stock exchanges. Remaining steps of the legislative process involve consideration of the bill by the Federation Council (upper chamber of the Russian parliament) and the President of the Russian Federation.

The termination of Sistema's depositary program would, inter alia, result in the cancellation of Sistema's GDRs, with the underlying ordinary shares represented by those GDRs being distributed to shareholders, and the delisting of the

GDRs from the London Stock Exchange. The underlying shares would continue to be listed on the Moscow Stock Exchange, which would remain the sole listing venue of the Corporation's equity securities. The mechanics and timing relating to how the GDRs will be converted into the underlying shares and how such underlying shares are to be traded following their withdrawal from Sistema's depositary program as well as a number of other relevant parameters remain uncertain. Recipients of such underlying shares may also be subject to restrictions on holding these (either as a matter of applicable law or their own policies). The adoption of this legislation could materially adversely affect the liquidity in, and the trading price of, Sistema's GDRs and ordinary shares.

RISKS RELATED TO SISTEMA GROUP'S OPERATIONS

Implementation of the business strategy

The Corporation's strategy aims to develop a balanced and diversified asset portfolio in sectors and regions where Sistema has expertise and competitive advantages, while attracting leading international and Russian partners. Despite having a well-formulated strategy, Sistema cannot guarantee the achievement of its goals, the efficient management of its portfolio companies or benefits from new investment opportunities for a number of reasons, including high leverage and limited funds available for investment. Sistema's failure to achieve its strategic goals may damage its financial performance.

Implementation of the business strategy

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

The acquisition of assets may increase pressure on the Corporation's cash position and make it necessary to obtain external funding.

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

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

- ▶ inability to efficiently integrate the operating assets and personnel of the acquired company
- ▶ inability to establish and integrate necessary control mechanisms, including those related to logistics and distribution

Management and key personnel

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

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

- ▶ conflicts between shareholders
- ▶ hostility and/or unwillingness to cooperate on the part of the management and personnel of the acquired asset
- ▶ loss of customers after the acquisition

If any of the above risks materialise, the relevant asset may lose part of its value and/or worsen Sistema's financial performance.

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

- ▶ delays in closing or failure to close a deal due to inability to obtain corporate or governmental approvals
- ▶ valuation errors
- ▶ assuming excessive obligations towards the buyer
- ▶ loss of synergies with other assets within the portfolio

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



Cash flows from Sistema Group companies

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

Uncertainty of estimates in reporting

In implementing the Company's accounting policy, management is required to make assumptions, estimates and judgements with respect to the book value of assets and liabilities that cannot be reliably valued on the basis of other sources. Estimates and their underlying assumptions are formed on the basis of past experience and other factors that are deemed relevant in specific circumstances. The actual results may differ from these valuations, which may have a material adverse effect on the Group's financial performance.

Estimates and assumptions are regularly reviewed. Any change in such estimates is recognised in such period in which the estimate is revised if such change influences only this period, or also applies to future periods if such change influences both the current and future periods.

Licences and permits

The operations of Sistema Group's companies are regulated by different government bodies and agencies issuing and renewing licences, approvals, and permits, and also depend on applicable laws, regulations, and standards. Regulatory authorities to a large extent rely on their own judgement when interpreting and implementing legal requirements, issuing and extending licences, approvals and permits, and monitoring compliance with such licences. There is no guarantee that the existing licences and permits, including those issued to the Group's companies, will be extended, that new licences and permits will be issued or that the companies will be able to comply with the terms of such licences. There is no guarantee either that existing or future licences or permits will not be suspended or revoked on whatever grounds. Any of these circumstances may have material negative consequences for Sistema's business.

Borrowings

Cash flows from portfolio companies may be insufficient to finance all of the Corporation's investments scheduled for a particular period. This may create a need to obtain additional external funding and increase the debt burden of the Corporation, which, in turn, would put downward pressure on credit ratings across the Group. A downgrading of a credit rating may increase the cost of debt servicing, make new borrowings more expensive or inaccessible and, in some cases, trigger loan acceleration. The risk of deterioration or withdrawal of the Corporation's credit rating correlates with reputation and liquidity risks. The Corporation's current debt level also constrains its borrowing capacity.

Loan covenants

Loan and debt securities agreements signed by the Corporation and companies across the Group contain certain restrictive covenants that limit their capacity to borrow further funds, collateralise or sell assets and enter into transactions with affiliates. They may also restrict certain aspects of Sistema's operations, such as the financing of capital expenses, or limit its capacity to repay debt and service other liabilities. Any breach of covenants, however inadvertent, may entitle the creditors of the Corporation and/or its portfolio companies to call in on their loans, which poses a threat to the Corporation's financial performance.

Privatised companies

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

Compliance with applicable laws and regulations

In conducting their business, the Corporation and companies across Sistema Group are required to comply with a number of rules and regulations regarding market competition, corporate governance, fraud and corruption prevention, conflict of interest management, compliance with sanctions, fair treatment of customers, the prevention of money laundering and terrorism financing, adherence to the information security policy and the prevention of illegitimate use of insider information and market manipulations. Any failure to comply with these requirements may create the risk of legal and regulatory sanctions, significant financial losses and reputational damage.

Moreover, the operations of Sistema and its portfolio companies are also regulated by the anti-corruption laws of other jurisdictions where they conduct their business or where their securities are traded, including Russian law, the UK Bribery Act and the US Foreign Corrupt Practices Act (FCPA). Any investigation into potential violations of the FCPA, UK Bribery Act or other anti-corruption laws of the US, the UK or other jurisdictions may negatively affect the reputation, business, financial situation and performance of Sistema and the companies of Sistema Group.

Human rights

The Corporation is aware of its responsibility for observing human rights, preventing any exertion of undue influence on human rights, and eliminating or mitigating the potential consequences of such influence should it ever take place.

In its activities and dealings with suppliers, contractors, partners and other stakeholders the Corporation may directly or indirectly influence the rights of employees, local communities, customers and consumers. Any instance of human rights violations would adversely affect the

Corporation's reputation and lead to court disputes, loss of investor, customers or employee trust, or backlash from local communities, trade unions and NGOs. Risks associated with human rights are taken into account in the risk management systems of Sistema Group companies, with material items regularly reviewed by the boards of directors of relevant portfolio companies. For more details on the management of human rights risks please refer to Sustainability Management.

Digitalisation of business, development of IT and protection of personal data

With digitalisation of businesses (implementation of modern IT solutions and systems) and comprehensive penetration of the Internet, risks related to cyber security and personal data protection are becoming a major threat to businesses across Sistema Group. Any inability to prevent cyber attacks and unsanctioned access to Sistema's networks and data bases may cause, inter alia, leaks of personal data and confidential information, damage to the assets of the Group's portfolio companies, disruptions in production processes, network security breaches and costs related to the restoration of IT systems

and equipment, which may materially and adversely affect the business of Sistema Group.

Risks associated with the protection of personal data are most relevant for assets in telecommunications, online services, finance and e-commerce. Sistema's portfolio companies implement their own programmes, projects and measures that make it possible to reduce the likelihood and potential negative consequences of their industry-specific risks.

Competition

All industries where Sistema operates are exposed to competition from other companies. Telecom, electric power, retail (including e-commerce), hospitality, private healthcare, pharma, banking, high tech, real estate, timber and agricultural markets in Russia and elsewhere are highly

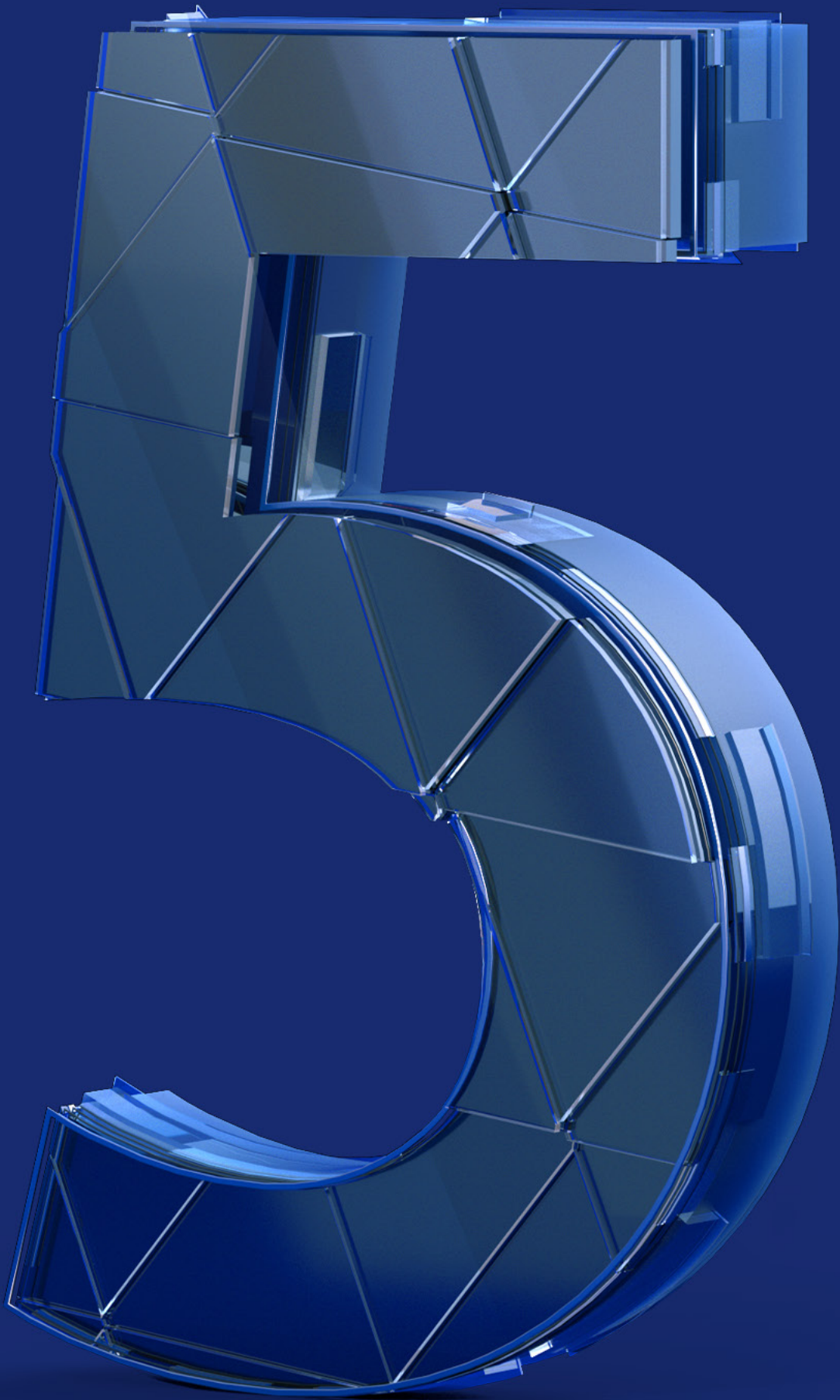
competitive. An inability of any company of the Group to compete efficiently may have a material negative effect on the business, performance, financial situation and development prospects of the Corporation.

Brand quality and reputation

Developing and maintaining brand awareness for the Group's companies is crucial to shaping the public opinion about their existing and future products and services. Sistema believes that the importance of a company brand is growing steadily in highly competitive markets. Successful development and improvement of brand awareness depends to a great extent on the efficiency of marketing and ability to provide quality products and services at competitive prices. The effort and money

invested in brand development may prove greater than the incomes they yield, which means potential financial losses for the Group's companies.

Sistema's reputation may suffer from any unethical business practices, professional errors, negligence, failure to comply with human rights, dissemination of inside information and any corruption offence, should any of the above take place anywhere within the Group.



SUSTAINABILITY MANAGEMENT

- MANAGEMENT SYSTEM 200
- RESPONSIBLE INVESTMENT 202
- KEY ESG AREAS 206
- SOCIAL INVESTMENTS 212



MANAGEMENT SYSTEM

Sistema's Board of Directors plays a key role in determining the strategic areas of the Corporation's sustainability activities and overseeing their results. In the middle of 2021, Sistema's Board of Directors approved the Terms of Reference of the Sustainability and Investor Relations Committee, which was established to replace the Investor Relations and Dividend Policy Committee. The new Terms of Reference provide for the Committee's leading role in setting the Corporation's ESG agenda.



For more details please go to:
https://www.sistema.com/upload/iblock/9f2/b4c5yd01g4d8i8514c0c4sc78vxhn9be/ToR_ESG_IR-Committee.pdf



Human Rights Policy
https://www.sistema.com/upload/iblock/70d/tejazhtom0mt8b3eugvucqwkcmvnx03l/Sistema_Human-Rights-Policy.pdf



Environmental Policy
https://www.sistema.com/upload/iblock/3a8/n6ceomgl3p88f4eyoqxr6boqm86ujbebf/Sistema_Environmental-Policy.pdf

The key responsibilities of the Sustainability and Investor Relations Committee include: facilitating the formulation, development and implementation of the Corporation's strategy in the area of investor relations, dividend policy and sustainability; developing recommendations for improving the ESG strategy of the Corporation and its portfolio companies; facilitating the transformation of the Corporation's business processes based on the principles of sustainable development and responsible investment; reviewing the corporate charity strategy.

Other Committees of the Board of Directors also consider certain aspects of ESG factors (including corporate governance and ethical business conduct) within their respective mandates.

The key principles and approaches of the ESG strategy are communicated to the Group companies through their boards of directors, where Sistema is represented by its key managers (managing partners). In May 2021, Sistema's Board of Directors approved new documents: the Human Rights Policy and the Environmental Policy that set out in detail the provisions of Sistema's Sustainability Policy and support the ESG management system.

The Human Rights Policy is a voluntary public document that defines Sistema's approaches in the area of human rights, including preventing any adverse impact on human rights or promotion of such impact, eliminating or mitigating the consequences of such impact if it does take place, and, if necessary, compensating for damage. This Environmental Policy contributes to the implementation of the guiding corporate responsibility principles set out in Sistema's Corporate Governance Code and Sustainability Policy, including the principle of respect for the environment.

The implementation of defined ESG agenda at the operational level, communication of these policies to investors and public non-financial reporting are the responsibilities of the Sustainability Function, which reports directly to the Corporation's President.

The aspects of corporate social responsibility, social communications, regional policy and charitable activities are supervised by the Corporate Communications Function; corporate governance and compliance are overseen by the Company Secretary, the Corporate Governance & Legal Matters Function and the Internal Audit Department; while the HR Department is responsible for HR policy. If necessary, cross-functional working groups are created in the Corporate Centre to develop common approaches to managing the key aspects of sustainable development.

ESG risk management is part of the corporate risk management system. To learn more about ESG risks, please go to the Risk Management section. All risks associated with human rights are taken into account in the risk management systems of Sistema Group companies, and related material matters are regularly reviewed by their boards of directors. The Corporation has zero tolerance for human rights violations across its entire value chain and expects its suppliers, contractors and partners to ensure the same degree of commitment to legal compliance and respect for human rights. The Group's companies use accessible and properly formalised whistleblowing mechanisms, which ensure confidentiality and fair review, protect whistleblowers from retaliation, and provide post-investigation feedback.

In implementing its investment and social programmes, Sistema draws upon its extensive corporate expertise, strikes synergistic intersectoral partnerships with local authorities, academia, civic & non-profit organisations, and encourages cooperation between businesses across the Group.

Transparency and an ongoing dialogue with stakeholders are the basic principles of Sistema's activities as a public company. Sistema prepares public non-financial reports in accordance with recognised international standards and promotes the disclosure of material non-financial information by its key portfolio companies and funds.

Sistema's responsible business principles

- ▶ RISK MANAGEMENT
- ▶ INTEGRITY AND TRANSPARENCY
- ▶ OBSERVANCE OF HUMAN RIGHTS
- ▶ ETHICS, LOYALTY AND HONESTY IN RELATIONS WITH PARTNERS, COUNTERPARTIES AND STAFF
- ▶ EMPLOYEE CARE
- ▶ FOCUSED ALLOCATION OF FINANCIAL AND INTELLECTUAL RESOURCES FOR THE DEVELOPMENT OF INNOVATION
- ▶ RESPECT FOR THE ENVIRONMENT
- ▶ INVESTING PART OF PROFITS IN SOCIALLY SIGNIFICANT PROJECTS AND PROGRAMMES



For more details please go to:
<https://www.sistema.com/upload/iblock/0b6/0b6ebeabe7c86c5ccb7f3bb96b76c45c.pdf>



In 2021, Segezha Group approved its Sustainability Strategy and Policy and set long-term goals for reducing its impact on ecosystems. The document is focused on four key areas:

- ▶ innovative forest business
- ▶ comfortable living environment in the forest regions of Russia
- ▶ climate-oriented forest management and production
- ▶ sustainable supply chain.



For more details please go to:
<https://segezha-group.com/upload/iblock/0ec/aobxzutgr44dz0lqqacbbmn7lcqnwrf.pdf>

RESPONSIBLE INVESTMENT

The responsibility of Sistema as an investor is in the effective management of portfolio assets and funds to build value for shareholders and a wide range of stakeholders in the long term.

The Corporation aims to build competitive high-added-value businesses that honour the principles of social and environmental responsibility and contribute to the sustainable development of their respective industries and geographies and to the steady growth

of socioeconomic and technological potential, human and natural capital, standards of living and social well-being.

Sistema's investment process is regulated by internal documents and procedures. Potential investment projects and investment programmes of portfolio companies are subject to detailed examination as part of Sistema's multi-stage investment process. In addition to financial analysis and industry analysis that underlie decision-making for each project, such components as management quality, staffing, state

of production base, infrastructure and technology, related social obligations and environmental risks can also be considered for specific projects.

At the end of 2020, Sistema's strategic approach to responsible investment was incorporated into a new set of investment criteria approved by the Board of Directors (that included ESG factors for the first time) and into the updated corporate governance regulations. Sustainable development became an integral element of Sistema's strategy, carrying weight in all investment decisions and asset management strategies.

Implementation of responsible investment principles

WHEN FORMING A PORTFOLIO OF ASSETS

- ▶ No "sin stocks" and activities that are forbidden by local law or international standards
- ▶ Reviewing a company's ESG profile when making investment decisions

WHEN MANAGING ASSETS

- ▶ Basic sustainability standards in portfolio companies and extra requirements for pre-IPO ones
- ▶ Engagement with portfolio companies via their boards (as per established corporate procedures) to enhance sustainability management and drive ESG performance

WHEN DIVESTING ASSETS

- ▶ Ensuring the independence and reliability of sustainability management systems within the company
- ▶ Issuing reference notes and guidelines on sustainability where necessary

Participation in sustainability initiatives



In 2002, Sistema became a signatory to the UN Global Compact to promote shared values and responsible business practices, and, in 2017, to the Social Charter of the Russian Business, a set of fundamental principles of responsible business practices adopted by the Russian Union of Industrialists and Entrepreneurs.



Sistema's position in ESG ratings



FTSE4Good

CONFIRMED ITS STATUS AS A CONSTITUENT OF THE INDEX constituent since 2016



BB

2021

BB

2020

BB

2019

B

2018



No. 1 BEST SCORE AMONG RUSSIAN COMPANIES in the industry group "Diversified Financials"

No. 30 OUT OF 900+ COMPANIES in the industry group "Diversified Financials"

12.1

2021 Low ESG risk

30.9

2019 High ESG risk

15.3

2020

The value of the company has low exposure to the risk of significant financial impact caused by ESG factors.



B

Management

TOP 11

SISTEMA AND MTS MADE IT TO THE TOP 11 OF 66 RUSSIAN COMPANIES THAT RECEIVED A REQUEST FROM INVESTORS TO DISCLOSE INFORMATION ABOUT CLIMATE CHANGE RISKS



GROUP A

WHICH COMPRISES 30 COMPANIES WITH POSITIVE CHANGES in the "Responsibility and Transparency" index



GROUP A

WHICH COMPRISES 21 COMPANIES WITH THE HIGHEST INDIVIDUAL SCORES in the "Responsibility and Transparency" index



TOP 20

IN THE GENERAL RATING OF 150+ LARGEST RUSSIAN COMPANIES

In 2021, RAEX-Europe included Segezha Group and Steppe AgroHolding in its ESG ranking of Russian companies for the first time. At the end of 2021, MTS ranked 10th, Sistema 17th, Segezha Group 49th and Steppe AgroHolding 50th in the general ESG ranking of more than 150 companies from more than 20 industries.

Sustainability awards



INTERNATIONAL AWARD FOR ESG REPORTING

Sistema's public sustainability report was named among the five best in the financial and investment sector at ESG Reporting Awards 2021. The Corporation was the only Russian finalist in its category.



SURVEY OF THE COMPANIES' CONTRIBUTION TO THE NATIONAL PROJECTS

Sistema received a diploma for best practices in covering the company's contribution to the National Projects from the Sustainable Business Development, CSR and Volunteering Council of the Russian Chamber of Industry and Commerce.



CHANGE MANAGEMENT. VISIONARIES AWARD

Sistema's case of ESG transformation in approaches to investment and asset management ranked 2nd in the category "Economy. Business" at the annual Russian award ceremony in the area of sustainable impact in the economy, environment and society Change Management. Visionaries.



CORPORATE GOVERNANCE INDEX

TOP 20

Sistema is among the leaders of disclosure of corporate governance



ESG RANKING OF PUBLIC FINANCIAL COMPANIES

TOP 3

Sistema is among the top 3 out of 30 leading Russian banks, financial organisations and insurance companies



CORPORATE CHARITY RATING

A

Sistrema is among 12 participants of the 2021 Leaders of Corporate Charity rating

A+

MTS is a leader in the rating

C+

Segezha Group is included in the list of companies with developing practices



ESG TRANSPARENCY RATING

1.98 POINTS

Sistema has the highest level of transparency among the companies of the financial sector

1.95 POINTS

Information disclosure at MTS is close to maximum levels

1.80 POINTS

Segezha Group is the only pulp and paper company in the rating



ESG RATING OF SUSTAINABLE CORPORATE GOVERNANCE

A+

Sistema is one of the leaders of corporate ESG practices in Russia

A

MTS is demonstrating best corporate ESG practices

B+

Segezha Group has well-developed corporate ESG practices



AK&M SOCIAL PERFORMANCE RANKING

TOP 3

MTS was ranked 2nd in the telecommunications industry and among the top 25 Russian companies with RUB 100 bn+ revenues in 2020

No. 1

Segezha Group's social responsibility ranking in the the pulp and paper and timber processing industry

TOP 3

Segezha Group made it to the top 3 by social efficiency in the industry

ESG REPORTING RATING

MTS, Segezha Group and Etalon Group were included in the first sustainability reporting rating of 61 companies. In October 2021, MTS's ESG reporting rating was upgraded to the highest level.

Cooperation with Russia's regions

In the past year, Sistema signed strategic cooperation agreements with several entities of Russia (the Vologda, Irkutsk, Nizhny Novgorod and Tyumen regions). These agreements are aimed at promoting a favourable economic and social climate in the regions, making them attractive for businesses and comfortable for local residents and tourists. The key areas of cooperation include telecommunications, healthcare, tourism, construction of residential properties and infrastructure, timber processing.

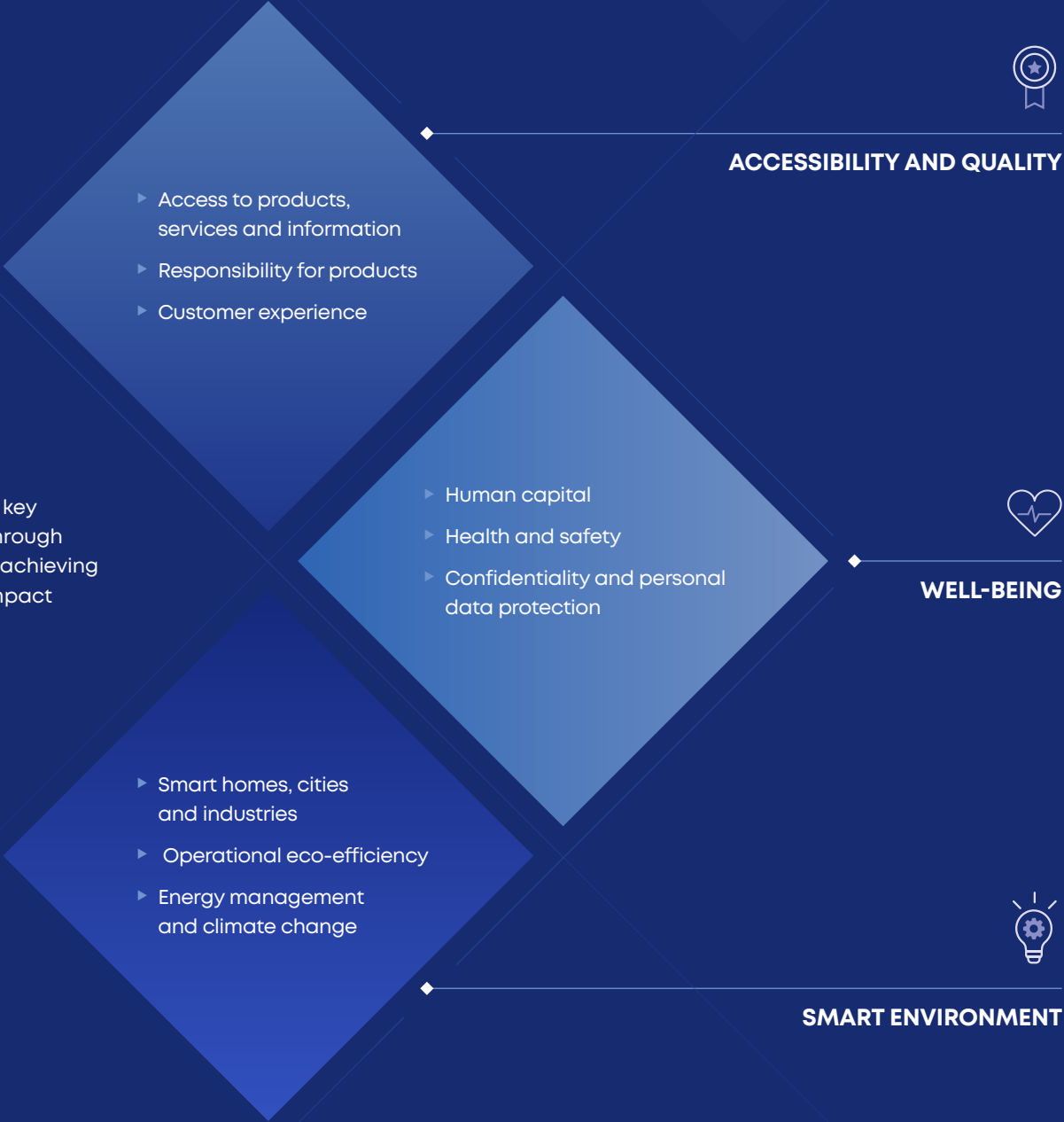
A strategic cooperation agreement between Sistema and the government of the Vologda region provides for the establishment of a special economic area that will include textile and timber processing clusters. Plans for the future include advanced processing of timber and manufacturing of new types of products. Development of the textile industry envisages expansion of production capacity, creation of a comfortable environment for the employees of the clothes manufacturing industry and establishment of a textile cluster that will focus on the design and making of clothes.

The cooperation agreement with the Tyumen region also provides for development in the timber processing sector. Sistema will share its competences in the field of implementation of information systems for managing security at various facilities and processing data. Sistema is also considering investing in the healthcare sector of the region.

Under the cooperation agreement with the Irkutsk region the parties aim to bring investment, technologies and personnel training systems to the region to ensure competitiveness of the forest industry enterprises. In addition to supporting the manufacturing sector, Sistema also seeks to develop the hospitality and recreation segment in the Irkutsk region.

KEY ESG AREAS

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



Innovation and digital transformation are the focus of the Corporation's strategy.

Sistema consistently invests in building intellectual potential: science and education, advanced research, tech startups, new developments and digitalisation. The Corporation cooperates with innovation support institutes, creates its own R&D centres and facilitates the adoption of advanced technologies and organisational innovations in its portfolio companies. Most of the projects implemented by the Corporation, its assets and Sistema Charitable Foundation contribute to solving socially important issues at the intersection of the key ESG areas.



Key ESG areas

Accessibility and quality

- ▶ Access to products, services and information
- ▶ Customer experience
- ▶ Responsibility for products



Well-being

- ▶ Human capital
- ▶ Health and safety
- ▶ Confidentiality and personal data protection



Smart environment

- ▶ Smart homes, cities and industries
- ▶ Operational eco-efficiency
- ▶ Energy management and climate change



The Corporation's activities are underpinned by developed corporate governance practices and effective cooperation of the Group's companies.

Corporate governance and synergies

- ▶ Business ethics
- ▶ Human rights and relations with stakeholders
- ▶ Risk management
- ▶ Innovation management
- ▶ Sustainable supply chain



Examples of key ESG efforts of portfolio companies

Sistema and its portfolio companies contribute significantly to the formation of a competitive labour and procurement market (including the engagement of small and medium-size businesses), the modernisation of infrastructure, industry and agriculture, the enhancement of the accessibility and safety of products and services, the development of the health and education systems and the social and environmental well-being of communities where they operate.

Given the vast diversity of sectors Sistema invests in, sustainability risks and value creation potential vary across the Group. Below we provide some of the most illustrative examples of the effort's portfolio companies made in 2021. Traditional synergies between assets enabled many cross-sectional projects.

Recognition of achievements in customer experience



- ▶ **MTS** won in the category "Best corporate customer experience B2B. Telecom services," submitting a case on improvement of CJM¹ and EJM² in 2020. MTS pays substantial attention to customers' satisfaction with every product, especially in the corporate segment, where innovative services and new technologies appear much earlier than in the mass market.
- ▶ **Etalon Group** won a record number of awards - seven - in the residential housing segment of Urban Awards 2021, a national award that was given for the 13th time. Etalon was also named the Developer of the Year and was awarded by the award's partner Mitsubishi Electric "For use of cutting-edge technology in construction."

Accessibility for remote regions



- ▶ In 2021, **MTS** carried out over 50 projects for improvement and upgrade of mobile communications in its regions of operations. An important task for the reporting year was to provide communication and mobile internet to remote residential areas. Mobile communications and internet networks were upgraded in the Central, Volga, Ural and Siberian federal districts. Over 100 towns and villages in these districts received access to internet and mobile communications. MTS also worked to improve mobile communication along major transport arteries.
- ▶ **MTS** deployed an NB-IoT network at Russia's Progress research station in Antarctica to transmit data from devices of the Arctic and Antarctic Research Institute. The trackers, sensors and network sensors will be used to study the movement of glaciers and snow cover and to monitor the integrity of snow runways and microclimate in residential and work premises. MTS also provided 2G mobile communication at the Novolazarevskaya Antarctic research station. Now polar researchers will be able to call their families and use messengers, thus remaining in touch with and not being isolated from the outside world.
- ▶ **Ozon** expanded its reach last year, expanding in the Siberian market and opening its first fulfilment centre in the Novosibirsk region. The new centre has the capacity to store up to 4 m SKUs³ and process over 85,000 parcels per day. In addition to its eastward expansion, Ozon opened the first fulfilment centre in Russia's westernmost region, the Kaliningrad special economic zone. The new centres will enable the company to increase the serviced area and the speed of delivery and also to create new jobs.

¹ CJM (customer journey map) is a tool for studying customer experience and points of interaction with a brand, product or service provided by a company.
² EJM (employee journey map) is a tool for studying experience of an employee or candidate and their interaction with customers or other employees.
³ SKU – stock keeping unit.



Development of services for business



- ▶ **VisionLabs** and the digital construction ecosystem BIMDATA announced start of technological partnership. The companies joined efforts to develop a system that will enhance control over implementation of construction projects, personnel and work progress. Their cooperation is expected to produce a new digital service for the construction industry. It will be based on the BIMDATA platform and VisionLab's face and object recognition technology.
- ▶ The AI Centre of **MTS** signed a cooperation agreement with Plug and Play, a Silicon Valley accelerator. This will give Russian startups access to Western investments and expertise, while Plug and Play will get access to the Russian market. Under the agreement, startups from MTS's accelerator will be able to undergo training at Plug and Play and raise funding from its partners across the world.

Development of human capital



- ▶ **MTS** started an academic programme to teach students of several leading Russian tech schools to develop NB-IoT devices. The schools participating in the project are the ones where the operator has its NB-IoT network deployed: The Moscow Institute of Electronics and Mathematics of the Higher School of Economics, the Russian Technological University, the St Petersburg State University of Aerospace Instrumentation, the Tomsk State University of Control Systems and Radioelectronics, the Ural Federal University and the Northeastern Federal University. The students will get access to the necessary equipment to develop energy-saving devices, while the teachers are invited to take advice from the company's experts.
- ▶ **Segezha Group's** Segezha Pulp and Paper Mill (PPM) and the Northern College, a vocational school in the Republic of Karelia, launched a programme for the development of the college and upgrade of its facilities in 2021-2025. The programme was developed under the previously signed agreement on cooperation in training personnel for Segezha PPM. The funds allocated by the company during the five years of the programme will go towards upgrading the facilities and creating a comfortable study environment. The Northern College, in turn, will train students in occupations required by the mill. In 2021, Segezha PPM allocated about RUB 2 m for the development of the college.

Development of healthcare services



- ▶ **MTS** and the Cardiology Research Institute of Tomsk National Research Medical Centre of the Russian Academy of Sciences announced a strategic partnership in digital healthcare. The parties intend to cooperate in the development and implementation of digital solutions, IT tools and services for the medical, research and educational activities of the cardiology centre. The agreement envisages experimental and clinical testing of these solutions at the Cardiology Research Institute.
- ▶ **MTS** and representatives of the Vologda region's healthcare department and Vologda city clinic No 3 signed an agreement on launch of a pilot project for remote blood pressure monitoring, MTS 120/80. The system makes it easier to monitor patients with cardiovascular diseases. It enables doctors to check on patients remotely, which is especially relevant during lockdowns caused by the COVID-19 pandemic.
- ▶ **Medsi** continues introducing digital solutions at its clinics. Last year, it introduced the MUSE information system and the Onconet remote monitoring system. Both services aim at improving the quality of telemedicine, reducing the number of errors in diagnosing and simplifying communications between doctors and patients. They also make it possible for doctors to exchange information within the chain of clinics. At present, about 20 Medsi clinics are connected to MUSE, with the remaining clinics across the country expected to join next year.

Development of healthcare services



- ▶ In 2021, **Medsi** opened several specialised clinics for various diseases. In cooperation with the best clinics and experts of Israel, the United States and Australia, it opened the International Melanoma Centre in Moscow as part of Medsi's International Oncology Centre. It brings together the best competences and expertise of the parties and offers patients a comprehensive checkup for skin growths that takes just one day.
- ▶ On the basis of the same International Oncology Centre, **Medsi** opened a centre for breast diagnostics, the Quick Help Clinic. One of its advantages is that a patient with suspected cancer may receive a doctor's opinion and referral for treatment on the day of appointment.
- ▶ During the workshop "Breast Cancer: Patient's Journey Today. Secondary Lymphostasis," the centre organised Russia's first ever live streaming of transplantation of lymph nodes for treating lymphostasis during breast cancer. The demonstration of the technique thus became available to oncologists from remote regions of the country.
- ▶ In autumn 2021, **Medsi** opened an Ophthalmology Centre with a surgery department in Moscow. The centre will provide multi-specialty care for a wide range of vision disorders. Its daily capacity is about 50 patients, and its cutting-edge equipment will make it possible to perform some 13,000 surgeries a year.
- ▶ Specialised or multi-specialty centres are being opened on the basis of **Medsi's** clinicodiagnostic centres across the country. Notably, an outpatient cancer centre opened in Shcholkovo, the Moscow region, which offers free consultation and treatment to any resident of the region. In Perm and Izhevsk, Medsi opened the regions' first centres for prevention of strokes and heart attacks. The company plans to later use them as centres for outpatient cancer treatment. In Moscow, Medsi opened five multi-specialty local clinics last year, the capacity of each being about 80,000 patients a year.

Improving quality of life in regions of operations



- ▶ **MTS** began developing a 5G network in larger cities of Russia. In mid-2021, the operator launched 19 pilot 5G zones in the most popular areas of Moscow. In addition to development of wireless communication in 2021, MTS focused on the development of products aimed at improving city infrastructure. One of the key solutions was the development of smart video surveillance, which helps to ensure security of individual apartment blocks and the city in general. In future, video analytics using 5G networks may be used to optimise traffic flows in the city, to ensure traffic safety and create a safe city environment for pedestrians.
- ▶ **Etalon Group** entered the Kuzbass real estate market. The company will develop residential construction projects in Kemerovo and Novokuznetsk. State-of-the-art comfortable housing will be built in the suburbs of the two cities. In addition to Kuzbass, the company began developing projects in Novosibirsk and Omsk, thus venturing beyond the Urals.
- ▶ **Sitronics Group** began developing infrastructure for electric cars. After commissioning a pilot project for placement of charging stations in Moscow, Sitronics started development of such infrastructure in Nizhni Novgorod and Ulyanovsk. Charging stations are mostly placed in cities' transport hubs (railway stations, airports, etc.)
- ▶ **Segezha Group** supports the regions where it has industrial assets by investing in the development of social and urban infrastructure. One of the key areas in the company's sustainability efforts is ensuring comfortable living conditions for local population. Last year, the company invested in the development of social infrastructure, construction of roads and supply of essential products and services. Special attention is paid to supporting local communities in the social and cultural sphere and in the areas of healthcare, education and sports.

Restoration of natural ecosystems



- ▶ Being one of the country's largest logging companies, **Segezha Group** takes reproduction of forest resources very seriously. Its enterprises are working towards ensuring that the area of clear cutting is equal to the area of reforestation. Reforestation work is performed on all clear-cut plots within three years after the end of logging and removal of logged timber. At the time of logging, effort is made to preserve undergrowth on logging plots and to mineralise the soil surface. Forest crops receive technological and silvicultural care to prevent growth of grass, bush and tree weeds, washaway of soil by water, its blowout and squeezing out by frost. At each stage of forest use, the company takes into account the transformation of animal habitats and the state of water, soil and unique vulnerable landscapes that are classified as protective forests. In 2021, the company increased the reforestation area by almost 32% compared to the previous year, to 38,647 ha.
- ▶ In addition, **Segezha Group** implements an intensive forest use model which ensures forming of sustainable forests, increase of economic effect from improvement cutting in young forests and preservation of the forest's biological functions. New rules of forest use intensification came into force on 1 January 2021. They were developed by the Natural Resources and Ecology Ministry of the Republic of Karelia and the St Petersburg Research Institute of Forest Management with Segezha Group's involvement. Field studies were performed on the plots leased by the company in Karelia. Segezha Group's enterprises in the republic were the first to start implementing the new rules. The project's preparatory phase alone took roughly RUB 365 m in investment.
- ▶ In 2021, Lesosibirsk Woodworking Plant No 1 and Novoyeniseisky Timber and Chemical Plant (both subsidiaries of **Segezha Group**) released about 300,000 young sturgeons and graylings in the Yenisey river as part of an ecological programme for reproduction of biological water resources and habitats. Next year, Segezha Groups plans another release in the Krasnoyarsk region so that surviving fish will produce spawn in a few years and replenish the population of Siberian sturgeons.
- ▶ **Steppe AgroHolding** has a large-scale project for improvement of environment and preservation of soil fertility, which envisages planting of trees in the Rostov region. The project provides for plantings on 55 ha of land and will cost the company some RUB 4.5 m. This is the company's another step in the implementation of the environmental part of its ESG strategy. The new project addresses two sustainable development goals: climate change and rational use of the ecosystem.

Enhancement of operating eco-efficiency



- ▶ **Steppe AgroHolding** has received its first I-REC certificate¹, which confirms the consumption of 100 MWh of electricity from renewable energy sources. One of Steppe's dairy farms has transitioned to use of power supplied by a small hydropower plant in Bashkortostan. The new experience marks the start of a large-scale programme that envisages increase of the share of electricity produced by renewable energy sources.
- ▶ **Segezha Group** has carried out an environmental programme at Segezha Pulp and Paper Mill aimed at reducing air emissions, including from lime kilns and surrounding machines. The company is moving away from use of fuel oil, replacing it with timber processing waste (branches, small trees, bushes, bark, etc.), which is used as fuel in the mills' energy cycle. The timber processing enterprises in the Krasnoyarsk and St Petersburg regions have completed transition to use of organic fuel. In addition, the company is replacing equipment used for timber processing and paper production. The new equipment will consume less energy and produce less air emissions.

1 I-REC (International Renewable Energy Certificate) - international certificates for renewable energy.

SOCIAL INVESTMENTS

Sistema Charitable Foundation (SCF) is one of the largest charitable foundations in Russia. It was established back in 2004 to manage the social activities and projects of Sistema and its portfolio companies. SCF invests in education and professional development, supports cultural and educational projects, and provides social assistance through the creation of a platform for the implementation and promotion of the Corporation's charitable initiatives. In addition to investments and support of charitable projects, SCF organises various charitable events and campaigns targeting people of various ages and social categories in all regions of Russia.

In 2021, SCF was able to fully launch its educational IT platform of the Lift to the Future. It also established a sustainable network of partnerships with experts and organisations required for its key projects.

The Foundation currently has several key programmes:

- ▶ Lift to the Future - an all-Russian career guidance and training program that promotes career opportunities at Sistema Group
- ▶ Culture and Education - launch and development of projects to develop and promote inclusive museum environment
- ▶ Social Environment - support of underprivileged groups of population, implementation of projects supporting people and non-profits, events targeting interaction within various groups
- ▶ Sistema Charity - development and promotion of best practices in the area of charity and social protection

In the area of **culture and education**, SCF introduces digital solutions and new approaches that are the most efficient way to increase accessibility of culture and art. In 2021, SCF supported the Russian Museum in opening its first permanent tactile exposition and the first exhibition of artists with special mental needs. The launch of this project resulted in creation of five virtual guides on the Russian Culture Ministry's platform Artefact, which were used by over 1.3 m online visitors; and about 100,000 people participated in the Cultural Weekend offline events.

The following events were organised as part of the **Social Environment** section:

- ▶ Regional festivals Sistema Fest were held in the Republic of Altay, Udmurtia, the Kurgan and Kostroma regions. They were attended by about 20,000 people in total
- ▶ Over 50 corporate volunteering events were held, with 500+ employees of Sistema Group involved in volunteering
- ▶ SCF offers support for war veterans to strengthen connection between generations and preserve memory about the country's history
- ▶ In support of sports and a healthy lifestyle, Sistema organised a charitable race, #ZaLes (#ForForest in Russian), in the Rostov region, during which participants planted about 3,250 oaks and ash-trees

Sistema Charity is one of the key focus areas of SCF. In 2021, SCF organised a grant contest, Sistema for a Good Cause, and received 69 initiatives with an aggregate budget of over RUB 12 m. Employees from 11 Sistema Group companies from 23 regions of Russia participated in the competition, submitting projects aimed at preserving cultural and historical heritage, child rearing, development of comfortable city infrastructure, animal protection and support of sports.

>100 THSD
PEOPLE PARTICIPATED IN THE CULTURAL WEEKEND OFFLINE EVENTS

>50
CORPORATE VOLUNTEERING EVENTS WERE HELD

>500
EMPLOYEES OF SISTEMA GROUP INVOLVED IN VOLUNTEERING

23
REGIONS OF RUSSIA PARTICIPATED IN THE CHARITY COMPETITION

BEST SUSTAINABILITY PRACTICES UN 2021

An array of inspiring cases is appearing around the world that can be replicated and scaled up. Having set out to create an SDG Good Practices database, a committee of UN experts studied submissions made over 2020-early 2021 and picked 400 best cases from around the globe.

The **Lift to the Future** project was named among the SDG Good Practices. The programme is designed to pursue four sustainable development goals: Quality Education, Decent Work & Economic Growth, Gender Equality, and Reduced Inequalities.

AMONG
400
BEST CASES FROM AROUND THE GLOBE

Lift to the Future

Lift to the Future is a flagship educational programme of Sistema Charitable Foundation. It was launched in 2020 and since then has attracted about 235,000 participants. About 70 educational materials were issued, and hundreds of young professionals and students received help with finding internships or first jobs.

235 THSD
PARTICIPANTS TOOK PART IN EDUCATIONAL PROGRAMME

In 2021, an IT platform was launched to attract new users. This made it possible to assess the demand for developed products and determine focus areas for attracting new users.

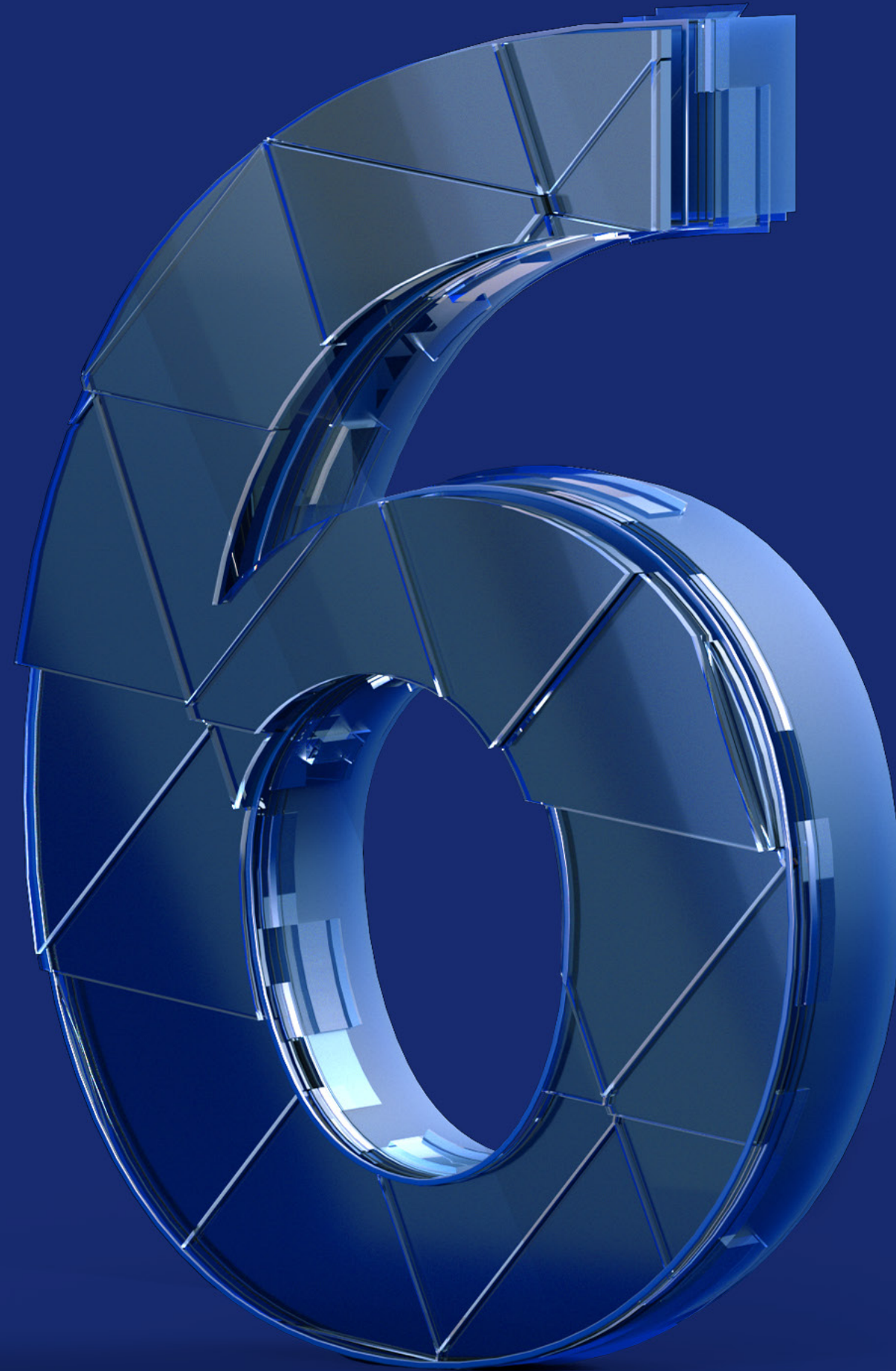
After a full-scale launch of the platform and based on the feedback received from the target audience, SCF analysed the key aspects of the project and the opinions of stakeholders, which enabled it to formulate the key areas of project development.

- ▶ Development of online education oriented towards comprehensive personal development
- ▶ Expansion of the platform's focus to include metadisciplinary skills and competences in sustainable development, which will later help to train highly sought professionals
- ▶ Development of a programme of internships and employment at the Corporation

In 2021, the Lift to the Future programme proved to be effective in the achievement of the set targets and was greatly sought after by users and partners, creating prerequisites for making it an open platform.

The main objective for 2022 is to transform the process and increase the value of user engagement with the platform.

The Lift to the Future programme acts as a consolidator of SCF's key projects, making it possible to create a comprehensive educational and social programme across the regions where the Corporation operates.



AUDITED CONSOLIDATED FINANCIAL STATEMENTS

SISTEMA PJSFC AND SUBSIDIARIES

Consolidated Financial Statements for 2021
and Independent Auditor's Report

SISTEMA PJSFC AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021	1
INDEPENDENT AUDITOR’S REPORT	2-7
CONSOLIDATED FINANCIAL STATEMENTS FOR 2021:	
Consolidated statement of profit or loss	8
Consolidated statement of comprehensive income	9
Consolidated statement of financial position	10-11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13-14
Notes to the consolidated financial statements	
1. General	15
2. Basis of preparation	15
3. Significant accounting policies, judgements, estimates and assumptions	15
4. Segment information	20
5. Discontinued operations	23
6. Business combinations	24
7. Capital transactions of subsidiaries	31
8. Revenue	32
9. Impairment of long-lived assets	37
10. Impairment of financial assets	38
11. Income taxes	38
12. Employee benefits expenses	41
13. Property, plant and equipment	41
14. Investment property	44
15. Goodwill	45
16. Other intangible assets	48
17. Investments in associates and joint ventures	51
18. Profit on disposal of other assets	58
19. Other financial assets	58
20. Restricted cash	65
21. Inventories	65
22. Accounts receivable	66
23. Equity	67
24. Accumulated other comprehensive income	67
25. Loans and borrowings	68
26. Lease liabilities and right-of-use assets	72
27. Bank deposits and liabilities	73
28. Other financial liabilities	74
29. Provisions	74
30. Earnings/(loss) per share	76
31. Capital and financial risk management	76
32. Derivative instruments	79
33. Fair values	81
34. Related party transactions	83
35. Subsidiaries	84
36. Non-cash transactions	85
37. Reconciliation of liabilities arising from financing activities	86
38. Contingencies and commitments	87
39. Subsequent events	91

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 2021

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 2021, and the results of its operations, cash flows and changes in equity for 2021, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs").

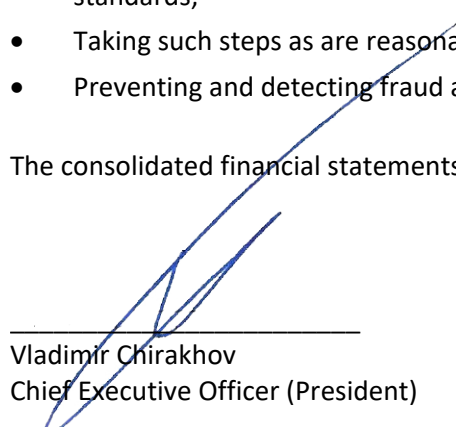
In preparing the consolidated financial statements, management is responsible for:

- 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.

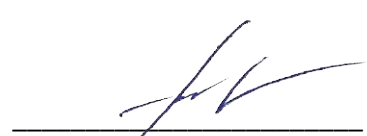
Management is also responsible for:

- 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 2021 were approved by:



Vladimir Chirakhov
Chief Executive Officer (President)



Vladimir Travkov
Vice President for Finance (CFO)

7 April 2022

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 2021 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 2021, 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 Auditor's Independence Rules and the Auditor's Professional Ethics Code, that are relevant to our audit of the financial statements in the Russian Federation together with the ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), 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**

Diversified structure of the Group

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.

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.

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.

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.

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.

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.

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.

Significant non-routine transactions

In light of its strategy, the Group regularly conducts complex acquisitions and disposals, debt restructurings and other significant non-routine transactions.

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,

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.

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

Why the matter was determined to be a key audit matter

and whether or not the Group has assumed obligations to third-party investors.

In the current period, this included, among others, obtaining control over Binnopharm Group, the Group's investment in Inter Forest Rus and its subsidiaries and loss of control over Segezha Zapad. See Note 6 and Note 17 to the consolidated financial statements.

How the matter was addressed in the audit

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 relevant to determining whether the Group has current ability to direct relevant activities of the investees;

- verified the correctness of the approach for valuation of identified assets acquired and liabilities assumed through business combinations;
- assessed other aspects of the 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;
- verified the compliance of the disclosures contained in the consolidated financial statements with IFRS requirements.

Compliance with anti-bribery laws and regulations and associated accounting and disclosure implications

In March 2019, the Group's subsidiary MTS reached a resolution with the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") relating to the investigation concerning the Group's former subsidiary in Uzbekistan. The Group consented to the commencement of an administrative cease-and-desist order (the "Order") by the SEC and entered into a deferred prosecution agreement ("DPA"). Under the DPA and the Order in September 2019 the Group appointed an independent compliance monitor ("Independent Monitor") for, inter alia, review, testing and improving MTS' anti-corruption compliance code, policies, and procedures for a period of three years. In 2021, the DOJ and SEC approved a one year extension of the monitorship, which is permitted by the terms of the DPA and the Order.

Our audit procedures related to the Group's estimation of any contingencies related to any potential instance of non-compliance with anti-corruption laws and regulations included the following, among others:

- We inspected the laws and regulations MTS has to comply with in order to obtain an understanding of the relevance and applicability to MTS and to assess any potential penalties that may arise for non-compliance;
- We read the procedures performed by the Independent Monitor and evaluated the implications of their findings, including discussing these with management as well as internal and external legal advisors;
- We inquired management regarding their follow up on the results of internal and external investigations and on the design and operational effectiveness of the MTS's compliance programs and internal controls relating to the prevention and detection of fraud and corruption;

Why the matter was determined to be a key audit matter**How the matter was addressed in the audit**

Given the significant judgments required to be made by management in order to estimate contingencies related to any potential instance of non-compliance with anti-corruption laws and regulations, the audit procedures necessary to evaluate management's judgments in this area as of 31 December 2021 required a high degree of auditor judgment in evaluating whether the audit evidence obtained supports management's estimate.

- We tested the design and operating effectiveness of internal controls at MTS, including, amongst others, the control environment (including whistle-blower and internal fraud management cases) and the controls for the adherence of business partners to the anti-corruption codes;
 - We read the minutes of the MTS Board of Directors' meetings;
 - We evaluated management's assessment of compliance with anti-corruption laws and regulations as well as an estimation of contingencies related to any potential instances of non-compliance;
 - We obtained letters from external and internal legal counsel; and
 - We evaluated the Group's accounting policy with respect to the accounting for provisions and disclosure of contingent liabilities to determine if the existing policy continues to be appropriate, and assessed the compliance of the disclosures in the consolidated financial statements against the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".
-

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,
(ORNZ #21906100113),
Engagement partner,
Acting based on the power of attorney issued by the General Director on 24.12.2021
authorizing to sign off the audit report on behalf of AO "Deloitte & Touche CIS"
(ORNZ #12006020384)



7 April 2022

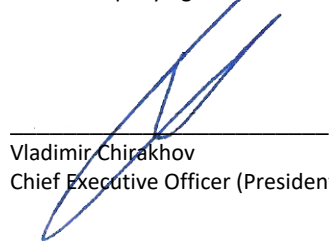
SISTEMA PJSFC AND SUBSIDIARIES

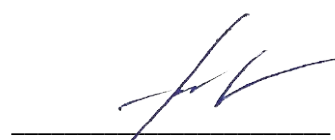
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(In millions of Russian Rubles, except for per share amounts)

	Notes	2021	2020
Continuing operations			
Revenue	8	802,398	691,626
Cost of sales		(392,762)	(330,055)
Selling, general and administrative expenses		(154,271)	(134,176)
Depreciation and amortisation		(134,160)	(120,492)
Reversal of impairment/(impairment) of long-lived assets	9	408	(5,621)
Impairment of financial assets	10	(4,101)	(2,956)
Taxes other than income tax		(3,489)	(4,134)
Share of the profit or loss of associates and joint ventures, net	17	19,830	(405)
Profit on disposal of other assets	18	-	11,142
Other income		17,440	14,829
Other expenses		(7,326)	(10,354)
Operating income		143,967	109,404
Finance income		6,304	5,330
Finance costs		(71,503)	(71,468)
Currency exchange loss		(1,651)	(18,643)
Changes in the fair value of financial instruments		16,050	21,883
Profit before tax		93,167	46,506
Income tax expense	11	(40,294)	(8,341)
Profit from continuing operations		52,873	38,165
Discontinued operations			
Profit from discontinued operations	5	470	3,122
Net profit for the year		53,343	41,287
Attributable to:			
Shareholders of Sistema PJSFC		17,343	10,216
Non-controlling interests		36,000	31,071
		53,343	41,287
Profit per share (basic and diluted), Russian Rubles:	30		
From continuing operations		1.81	0.91
From continuing and discontinued operations		1.83	1.09

The accompanying notes are an integral part of these consolidated financial statements.


Vladimir Chirakhov
Chief Executive Officer (President)


Vladimir Travkov
Vice President for Finance (CFO)

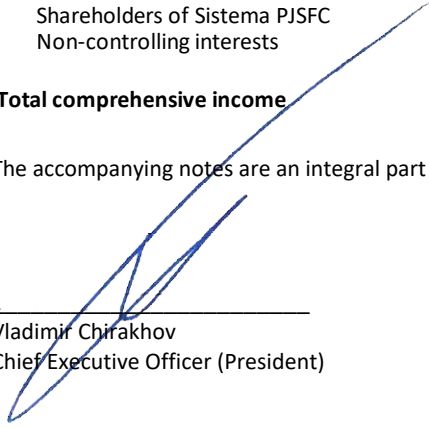
7 April 2022

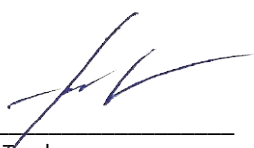
SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (In millions of Russian Rubles)

	2021	2020
Net profit for the year	53,343	41,287
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation (loss)/gain on foreign operations in subsidiaries	(1,458)	12,320
Currency translation gain/(loss) on foreign operations in associates and joint ventures	95	(98)
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Unrecognised actuarial gain	215	-
Other comprehensive (loss)/income, net of tax	(1,148)	12,222
Total comprehensive income	52,195	53,509
Attributable to:		
Shareholders of Sistema PJSFC	15,375	21,517
Non-controlling interests	36,820	31,992
Total comprehensive income	52,195	53,509

The accompanying notes are an integral part of these consolidated financial statements.


Vladimir Chirakhov
Chief Executive Officer (President)


Vladimir Travkov
Vice President for Finance (CFO)

7 April 2022

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In millions of Russian Rubles)

	Notes	31 December 2021	31 December 2020
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	13	521,041	427,311
Investment property	14	13,160	12,649
Goodwill	15	89,120	57,204
Other intangible assets	16	139,958	99,749
Right-of-use assets	26	195,525	153,103
Investments in associates and joint ventures	17	63,490	73,856
Deferred tax assets	11	31,471	41,402
Other financial assets	19	214,986	158,629
Deposits in banks		20	22
Other assets	13	36,156	22,916
Total non-current assets		1,304,927	1,046,841
<i>Current assets</i>			
Inventories	21	77,674	46,449
Contract assets	8	8,272	6,306
Accounts receivable	22	70,029	56,458
Advances paid and prepaid expenses		18,237	15,302
Current income tax assets		5,103	5,449
Other taxes receivable		25,245	17,636
Other financial assets	19	154,465	104,573
Deposits in banks		1,549	1,755
Restricted cash	20	4,909	4,310
Cash and cash equivalents		81,883	113,693
Other assets		2,563	2,544
Total current assets		449,929	374,475
Total assets		1,754,856	1,421,316

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(In millions of Russian Rubles)

	Notes	31 December 2021	31 December 2020
Equity and liabilities			
<i>Equity</i>			
Share capital	23	869	869
Treasury shares	23	(6,435)	(3,029)
Additional paid-in capital		95,768	75,279
Accumulated loss		(21,623)	(27,025)
Accumulated other comprehensive income	24	16,785	18,753
Equity attributable to shareholders of Sistema		85,364	64,847
Non-controlling interests		40,994	22,482
Total equity		126,358	87,329
<i>Non-current liabilities</i>			
Loans and borrowings	25	641,511	640,570
Lease liabilities	26	165,221	147,803
Bank deposits and liabilities	27	16,755	4,199
Deferred tax liabilities	11	42,398	34,769
Provisions	29	8,026	7,388
Other financial liabilities	28	15,972	3,745
Other liabilities		12,159	6,774
Total non-current liabilities		902,042	845,248
<i>Current liabilities</i>			
Loans and borrowings	25	209,254	83,391
Lease liabilities	26	22,616	17,772
Accounts payable		132,353	102,148
Bank deposits and liabilities	27	225,795	195,346
Income tax payable		951	1,029
Other taxes payable		22,547	15,540
Dividends payable		5,258	3,325
Provisions	29	23,256	16,612
Contract liabilities and other liabilities	8	52,390	49,844
Other financial liabilities	28	32,036	3,732
Total current liabilities		726,456	488,739
Total equity and liabilities		1,754,856	1,421,316

The accompanying notes are an integral part of these consolidated financial statements.

Vladimir Chirakhov
Chief Executive Officer (President)

Vladimir Travkov
Vice President for Finance (CFO)

7 April 2022

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 income/(loss)		Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
					Currency reserve	Other			
1 January 2020	869	75,045	(5,971)	(36,020)	6,534	918	41,375	24,353	65,728
Net 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
1 January 2021	869	75,279	(3,029)	(27,025)	17,934	819	64,847	22,482	87,329
Net profit for the period	-	-	-	17,343	-	-	17,343	36,000	53,343
Other comprehensive (loss)/income, net of tax	-	-	-	-	(1,961)	(7)	(1,968)	820	(1,148)
Total comprehensive income/(loss)	-	-	-	17,343	(1,961)	(7)	15,375	36,820	52,195
Acquisition and sale of subsidiaries	-	-	-	-	-	-	-	15,374	15,374
Accrued compensation under long-term motivation programs	-	442	1,521	-	-	-	1,963	-	1,963
Settlements under long-term motivation programs of subsidiaries	-	1,374	-	-	-	-	1,374	3,016	4,390
Capital transactions of subsidiaries (Note 7)	-	24,752	-	-	-	-	24,752	10,910	35,662
Purchase of own shares	-	-	(5,425)	-	-	-	(5,425)	-	(5,425)
Sale of own shares	-	(218)	498	-	-	-	280	-	280
Effect of derivatives reclassification (Note 6)	-	(5,861)	-	(8,179)	-	-	(14,040)	(13,881)	(27,921)
Dividends declared by Sistema PJSFC (Note 23)	-	-	-	(2,944)	-	-	(2,944)	-	(2,944)
Dividends declared by subsidiaries	-	-	-	(818)	-	-	(818)	(33,727)	(34,545)
31 December 2021	869	95,768	(6,435)	(21,623)	15,973	812	85,364	40,994	126,358

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)

	2021	2020
Cash flows from operating activities		
Net profit for the year	53,343	41,287
<i>Adjustments for:</i>		
Depreciation and amortisation	134,160	120,492
Share of the profit or loss of associates and joint ventures, net	(19,830)	405
Profit from sales of stakes in associates and joint ventures	-	(3,368)
Finance income	(6,304)	(5,330)
Finance costs	71,508	71,468
Changes in the fair value of financial instruments	(15,935)	(21,798)
Income tax expense	40,294	8,341
Currency exchange loss	1,626	18,621
Gain from discontinued operations	(470)	(2,880)
Profit on disposal of property, plant and equipment	(3,483)	(3,000)
Profit on disposal of other assets	-	(11,142)
Expected credit losses allowance on loans to customers	12,218	9,601
Non-cash compensation to employees	7,045	3,933
(Reversal) of impairment/impairment of long-lived assets	(408)	5,621
Impairment of financial assets	4,101	2,956
Other non-cash items	(5,314)	2,332
	272,551	237,539
<i>Movements in working capital:</i>		
Bank loans to customers and interbank loans due from banks	(102,038)	(36,748)
Bank deposits and liabilities	46,161	27,777
Restricted cash	163	(853)
Financial assets at fair value through profit or loss	(919)	(5,227)
Accounts receivable	(1,671)	(6,572)
Advances paid and prepaid expenses	(665)	(17,030)
Other taxes receivable	(4,700)	250
Inventories	(18,277)	(15,327)
Accounts payable	(7,892)	6,540
Subscriber prepayments	2,215	(143)
Other taxes payable	5,277	(195)
Advances received and other liabilities	27,532	34,607
Interest paid	(71,469)	(70,302)
Income tax paid	(31,708)	(23,706)
Dividends received from associates and joint ventures	7,015	6,217
Net cash provided by operating activities	121,575	136,827

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(In millions of Russian Rubles)

	2021	2020
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(123,541)	(94,123)
Proceeds from sale of subsidiaries, net of cash	1,336	2,988
Proceeds from sale of property, plant and equipment	6,141	6,661
Payments to obtain and fulfill contracts	(4,224)	(5,355)
Payments for purchases of intangible assets	(43,635)	(33,655)
Payments for businesses, net of cash acquired	(36,153)	(3,410)
Payments for investments in associates and joint ventures	(11,522)	(18,909)
Proceeds from sale of investments in associates and joint ventures	-	25,808
Payments for financial assets, long-term	(25,848)	(15,190)
Proceeds from sale of financial assets, long-term	10,503	7,236
Proceeds from disposal of other assets	-	5,104
Payments for financial assets, short-term	(4,888)	(5,294)
Proceeds from sale of financial assets, short-term	6,105	16,728
Interest received	6,739	4,338
Other	(217)	(982)
Net cash used in investing activities	(219,204)	(108,055)
Cash flows from financing activities		
Proceeds from borrowings	259,820	412,392
Principal payments of loans and borrowings	(147,999)	(318,492)
Debt issuance costs	(308)	(113)
Principal payments of lease liabilities	(19,682)	(17,094)
Acquisition of non-controlling interests in existing subsidiaries	(34,454)	(17,169)
Proceeds from transactions with non-controlling interests	50,366	394
Dividends paid	(35,560)	(39,661)
Repurchase of own shares	(5,425)	-
Net cash provided by financing activities	66,758	20,257
Effect of foreign currency translation on cash and cash equivalents	(939)	995
Net (decrease)/ increase in cash and cash equivalents	(31,810)	50,024
Cash and cash equivalents at the beginning of the year	113,693	63,669
Cash and cash equivalents at the end of the year	81,883	113,693

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 Depositary 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 2021 short-term liabilities of the Group exceeded its current assets by RUB 276,527 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 485,128 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 7 April 2022.

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.

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 major non-separable improvements to the respective leased premises, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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.

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Judgment identifying accounting impacts of acquisitions and business combinations – 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 2021, transactions in respect of which management has made significant judgments in these areas include the Group's acquisition of Inter Forest Rus (Note 6), loss of control over Segezha Zapad (Note 17) and obtaining control over Binnopharm Group (Note 6).

Standards, interpretations and amendments adopted in current year

In 2021 the Group adopted the following standards, interpretations and amendments:

Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform and its Effects on Financial Reporting (Phase 2)
Amendments to IFRS 16	Lease concessions related to the COVID-19 pandemic
Amendments to IFRS 1 and IAS 12 ¹⁾	Deferred tax on assets and liabilities arising from a single transaction

1) Voluntary early adoption

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 IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹⁾
Amendments to IAS 16	Property, Plant and Equipment—Proceeds before Intended Use ¹⁾
Amendments to IFRS 3	Reference to the conceptual framework ¹⁾
Amendments to IFRS	Annual Improvements to IFRS Standards 2018-2020 Cycle ¹⁾
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²⁾
IFRS 17 and amendments to IFRS 17	Insurance Contracts ²⁾
Amendments to IAS 8	Definition of Accounting Estimate
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policy ²⁾
Amendments to IFRS 10 and IAS 28	Sale of Contribution of Assets between an Investor and its Associate or Joint Venture ³⁾

1) Effective for annual reporting periods from 1 January 2022, early application permitted

2) Effective for annual reporting periods from 1 January 2023, early application permitted

3) The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

The Group does not expect that the adoption of these standards will have a material impact on the Group's consolidated financial position and financial performance in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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.

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, Agrohholding “Steppe” (Steppe), Sistema Venture Capital, Hospitality assets, Bashkirian Power Grid Company (“BPGC”), Business Nedvizhimost, Binnopharm Group, Megapolis-Invest, Etalon Group, “Zarya”, “New Investment Holding”, none of which meets the quantitative thresholds for determining reportable segments.

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment for 2021 and 2020:

	External revenues		Inter-segment revenue		Segment operating income/(loss)	
	2021	2020	2021	2020	2021	2020
MTS	530,181	491,030	4,222	3,896	117,679	111,233
Segezha Group	92,438	68,982	4	5	22,351	11,185
Medsi	30,040	25,011	47	30	3,978	3,704
Ozon (Note 17)	-	-	-	-	(12,584)	(8,428)
Corporate	3,427	3,619	903	1,289	5,955	(14,262)
Total reportable segments	656,086	588,642	5,176	5,220	137,379	103,432
Other	146,312	102,984	15,350	8,799	9,002	7,530
	802,398	691,626	20,526	14,019	146,381	110,962
Inter-segment eliminations					(2,414)	(1,558)
Operating income					143,967	109,404
Finance income					6,304	5,330
Finance costs					(71,503)	(71,468)
Currency exchange loss					(1,651)	(18,643)
Changes in the fair value of financial instruments					16,050	21,883
Profit before tax					93,167	46,506

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, right-of-use assets and advances paid for non-current 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		(Reversal) of impairment/ impairment of non-current assets		Other non-cash items	
	2021	2020	2021	2020	2021	2020	2021	2020
MTS	141,400	135,646	111,088	100,205	17	2,023	721	2,469
Segezha Group	24,490	16,805	6,947	6,273	907	20	339	119
Medsi	7,639	5,414	3,256	2,708	-	-	67	-
Corporate	1,383	1,651	963	200	5	-	2,190	(700)
Other	27,162	12,899	11,906	11,106	(1,337)	3,578	784	1,068
	202,074	172,415	134,160	120,492	(408)	5,621	4,101	2,956

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The following is an analysis of the Group's segment assets and liabilities by reportable segment:

	31 December 2021	31 December 2020
Segment assets		
MTS	1,028,277	932,281
Segezha Group	208,117	88,572
Medsi	49,850	39,160
Corporate	169,853	182,515
Total reportable segments	1,456,097	1,242,528
Other	397,788	288,360
Total segment assets	1,853,885	1,530,888
Inter-segment eliminations	(99,029)	(109,572)
Consolidated total assets	1,754,856	1,421,316
Segment liabilities		
MTS	1,001,311	886,609
Segezha Group	163,118	80,549
Medsi	24,928	17,643
Corporate	256,491	213,340
Total reportable segments	1,445,848	1,198,141
Other	269,081	231,982
Total segment liabilities	1,714,929	1,430,123
Inter-segment eliminations	(86,431)	(96,136)
Consolidated total liabilities	1,628,498	1,333,987

As of 31 December 2021 and 2020 the carrying amount of investment in MTS Belarus, an associate of MTS, included in its reportable segment assets was RUB 6,265 million and RUB 5,124 million, respectively. The carrying amount of investment in Ozon, included in assets of Corporate, as of 31 December 2021 and 2020 was RUB 0 million and RUB 12,584 million, respectively. The carrying amount of investments in other associates and joint ventures representing separate operating segments are included in the assets of Corporate.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets (property, plant and equipment, investment property, other intangible assets, right-of-use assets, advance payments for non-current assets and goodwill) by location of assets are detailed below.

	Revenue from external customers		Non-current assets	
	2021	2020	2021	2020
Russia	711,682	615,900	964,116	741,297
Other	90,716	75,726	19,935	21,348
	802,398	691,626	984,051	762,645

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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:

	2021	2020
Gain from disposal of VF Ukraine	-	2,101
Currency translation on disposal of VF Ukraine	93	127
Change in the fair value of contingent consideration VF Ukraine	377	645
Other disposals	-	249
Profit from discontinued operations	470	3,122
Attributable to:		
Shareholders of Sistema PJSFC	237	1,650
Non-controlling interests	233	1,472

The results of the companies are presented as part of discontinued operations in the accompanying consolidated profit and loss statement for all periods presented.

The results of the disposed subsidiaries included in discontinued operations in the consolidated statements of profit or loss for 2021 and 2020 are as follows:

	Other	
	2021	2020
Revenue	-	1,223
Expenses	-	(1,033)
Profit before income tax	-	190
Income tax benefit	-	8
Net income attributable to discontinued operations	-	198

Cash flows from discontinued operations included in the consolidated statements of cash flows for 2021 and 2020 are as follows:

	Other	
	2021	2020
Net cash used in operating activities	-	(318)
Net cash provided by investing activities	1,234	15
Net cash provided by financial activities	-	366
Total net cash increase in cash and cash equivalents	1,234	63

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021

The business combinations which took place in 2021 is summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Consideration
MTT	Telecommunications	June	100%	MTS	5,798
GreenBush	Telecommunications	June	100%	MTS	5,200
Other acquisitions of MTS	Telecommunications	April	100%	MTS	3,161
Binnopharm Group	Pharmaceuticals	June	n/a	Other	38,343
Inter Forest Rus	Timber procurement	December	100%	Segezha	38,748
Novoyeniseysky wood-chemical complex	Timber procurement	September	100%	Segezha	3,708
Zarya	Fishing	July	49%	Other	3,000
Acquisitions of Medsi	Healthcare	December	100%	Meds	2,131
Other acquisitions	Other	July-August		Other	3,574
Total					103,663

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The following table summarizes the amounts of the identifiable assets acquired and liabilities assumed relating to such acquisitions at the acquisition date:

	MTT	GreenBush	Other acquisitions of MTS	Binnopharm Group	Inter Forest Rus	Novoyeni- seysky wood- chemical complex	Zarya	Acquisitions of Medsi	Other acquisitions
Total consideration satisfied by:									
Cash consideration	3,680	5,200	1,512	-	16,951	3,708	3,000	2,131	3,574
Fair value of the previously held interest in the acquiree	-	-	1,582	38,343	-	-	-	-	-
Deferred payment	160	-	7	-	21,797	-	-	-	-
Fair value of financial assets	1,958	-	-	-	-	-	-	-	-
Fair value of contingent consideration arrangement	-	-	60	-	-	-	-	-	-
	5,798	5,200	3,161	38,343	38,748	3,708	3,000	2,131	3,574
Recognised amounts of identifiable assets acquired and liabilities assumed:									
Property, plant and equipment	588	5,171	623	13,296	23,490	4,058	756	232	1,655
Right-of-use assets	114	-	-	403	28,731	4,923	-	956	679
Other intangible assets	1,947	1	360	20,783	557	-	5,985	8	1,000
Other non-current assets	140	17	43	988	771	929	-	-	54
Inventories	-	-	-	8,360	8,031	1,250	633	67	1,587
Other current assets	3,396	93	1,590	10,082	5,375	746	19	423	2,376
Current liabilities	(2,656)	(26)	(736)	(14,326)	(8,556)	(1,315)	(3,388)	(174)	(5,515)
Lease liabilities	-	-	-	(389)	(8,270)	(1,837)	-	(957)	(592)
Non-current liabilities	(715)	(56)	(118)	(8,942)	(11,381)	(1,224)	(366)	-	(468)
Net assets	2,814	5,200	1,762	30,255	38,748	7,530	3,639	555	776
Non-controlling interests	-	-	-	(14,746)	-	-	(639)	-	13
Goodwill	2,984	-	1,399	22,834	-	-	-	1,576	2,785
Bargain purchase gain	-	-	-	-	-	(3,822)	-	-	-

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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:

MTT	Expected synergy effect
Other acquisitions of MTS	Expected synergy effect
Binnopharm	Skilled workforce, ability to develop new medicine
Other	Expected synergy effect and development of new competencies

Acquisition of MTT- In June 2021, MTS acquired a 100% ownership interest in OJSC Multiregional TransitTelecom (MTT), a provider of intelligent connectivity solutions for businesses, to expand its connectivity services portfolio. The purchase price constituted a cash payment of RUB 3,680 million paid in June 2021, transfer of financial assets offset against the purchase price of RUB 1,958 million and contingent consideration of RUB 160 million.

Acquisition of GreenBush - In June 2021, MTS acquired a 100% ownership interest in LLC GDTs Energy Group (GreenBush), the operator of the GreenBush data center in Technopolis special economic area, to use the facility's additional capacity to offer colocation and cloud solutions to customers as well as to facilitate the Group's own compute and storage needs. The purchase price constituted a cash payment of RUB 5,200 million paid in July 2021.

Binnopharm Group

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 GSC) to the capital of Binnopharm Group. At the same time, Sistema, VTB, and a consortium of investors comprising the Russian Direct Investment Fund (RDIF), the Russia-China Investment Fund (RCIF) established by the RDIF and China Investment Corporation, and leading Middle Eastern funds, contributed an 85.6% stake in 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 amounted to 79%, and the Consortium of Investors - 15.8%. The remaining 5.2% of the shares were distributed among the minority shareholders-individuals. The Group continued to account for investments in Ristango Holding Limited and Sinocom Investments Limited (holding companies through which investments in JSC "Alium" and OJSC "Sintez" were made) under equity method.

Acquisition of stake in OJSC Sintez (hereinafter - Sintez) – In March 2021, Sistema (through a subsidiary Sistema Telecom Assets LLC) purchased a stake of 32.39% of the authorized capital of Sintez from the Holding Company Nacimbio controlled by State Corporation Rostec. The transaction amounted to RUB 6.9 billion. In May 2021, Sistema contributed the stake in OJSC Sintez acquired from the Holding Company Nacimbio to the capital of Binnopharm Group, as a result of which the share of Binnopharm Group in OJSC Sintez amounted to 88.6%.

Increase of stake in Ristango Holding Limited – In April 2021, the Group purchased a stake of 3.95% of the authorized capital of Ristango Holding Limited from minority shareholders for RUB 1.2 billion.

Obtaining control over Binnopharm Group – On 25 June 2021, amended and restated Shareholder Agreement was signed between the members of Ristango Holding Limited, as a result of which the Group has obtained control over the operating activities of Ristango Holding Limited, the owner of 100% of the authorized capital of Binnopharm Group.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

For the period from 1 January 2021 until the date of acquisition of control over Ristango Holding Limited by the Group, the amount of profit from the revaluation of financial instruments in relation to the partners' participation interests in Ristango Holding Limited amounted to RUB 5.5 billion. After control was obtained, these financial assets were derecognised and financial liabilities in the amount of the present value of the redemption amount were recognized as part of other financial liabilities, which resulted in an effect of RUB 8.2 billion, RUB 5.9 billion and RUB 13.9 billion on accumulated loss, additional capital and non-controlling interests, respectively.

As a result of the transaction, the umbrella brands "Alium" and "Sintez" were identified. These intangible assets are expected to have indefinite lives based on their history and the Group's plans to continue to support and build the acquired brands.

Sale of stake in Ristango Holding Limited to Nevsky Property Limited – On 28 June 2021, Sistema Telecom Assets LLC, a 100% subsidiary of Sistema, sold an 11.2% stake in Ristango Holding Limited to Nevsky Property Investments Limited (controlled by VTB Capital) for RUB 7 billion. The transaction was recognized directly in equity (Note 7).

Exercise of the contract to acquire VTB's share in Ristango Holding Limited – In July 2021, the Group exercised its right under the forward agreement with VTB and early purchased VTB's 20.97% share in Ristango Holding Limited for RUB 6.7 billion.

Exercise of the contract to acquire VTB's share in Sinocom Investments Limited – In December 2021, Sistema Telecom Assests LLC, a 100% subsidiary of Sistema, exercised its right to acquire the VTB Bank's (Europe) SE shares of Sinocom Investments Limited, which owns shares of Ristango Holding Limited, for the amount of RUB 9.06 billion. As a result of the transaction, the effective share of the Corporation in Binnopharm Group increased to 75.3%.

As of 31 December 2021, the Group, with the involvement of an independent appraiser, completed the assessment of the fair value of the acquired assets and liabilities.

Acquisition of LLC Inter Forest Rus and its subsidiaries – On December 28, 2021, the Group acquired 100% control over LLC Inter Forest Rus and its 24 subsidiaries from a third party, including four sawmills, plywood and pellet manufacturers, as well as logging assets with an estimated cutting area of about 10.9 million cubic meters. All acquired assets are located in the Krasnoyarsk Region and the Irkutsk Region.

The preliminary purchase price includes a cash payment of USD 528 million (RUB 38,748 million at the transaction date exchange rate), of which USD 230 million (RUB 16,951 million at the transaction date exchange rate) was paid during 2021. The provisional purchase price may be subject to adjustment depending on the actual OIBDA and working capital of the acquired assets for 2021, as well as other applicable adjustments. Deferred payments in the total amount of USD 50 million (RUB 3,715 million at the exchange rate as of 31 December 2021), included in long-term other financial liabilities from the acquisition of companies, are payable in equal amounts in 2 and 4 years from the date of signing of the sale and purchase agreement, but not discounted, since act as security against possible property losses of the Group related to the decisions of the previous owners (Note 28). The security covers, among other things, the risks of loss of property, additional taxes, penalties and fines, disposal of allowable forest cut.

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

As at 31 December 2021, the Group has not completed the fair value measurement of the acquired assets and liabilities and the allocation of the purchase price. The allocation of the acquisition cost to the fair value of the acquired assets and liabilities will be completed within 12 months from the acquisition date.

Consolidation of CJSC Novoyeniseysky wood-chemical complex – On 15 February 2021, the Group submitted an application to participate in an auction held by the bank of non-core assets "Trust" to sell assets related to CJSC Novoyeniseysky wood-chemical complex (NLHK). NLHK is one of the largest closed-cycle woodworking enterprises located in the Lesosibirsk, Krasnoyarsk Region, specializing on the lumber production, dispersed wood fraction, chipboard, pellets, as well as joinery for the construction of residential and industrial premises.

The auction lot included the bank's rights to claims on loans and other liabilities in the total amount of RUB 11.5 billion in different currencies, as well as the right to enter into an option for 71% of NLHK shares, the condition for the exercise of which was, among other things, the termination of arbitration proceedings in the bankruptcy proceedings against NLHK. The Group purchased the lot for a cash consideration of RUB 2,306 million paid in February 2021.

On 20 May 2021, the Group signed an agreement to acquire a minority interest of 29% of NLHK shares. The transaction was completed on 27 July 2021, the shares became the property of the Group's subsidiary, JSC Lesosibirsky LDK №1. The total remuneration amounted to USD 17 million (RUB 1.2 billion), of which RUB 620 million was paid on 8 June 2021, the remaining amount RUB 601 million was due after the transfer of ownership, and was paid on 19 August 2021.

On 15 September 2021, the Arbitration Court of the Krasnoyarsk Region decided to terminate the bankruptcy proceedings in relation to NLHK, and the option to acquire 71% of the shares became exercisable, and, accordingly, the Group obtained control over operating activities and consolidated 100% of the assets and liabilities of NLHK.

As of 31 December 2021, with the involvement of an independent appraiser the Group completed the assessment of the fair value of the acquired assets and liabilities.

As a result of the acquisition of NLHK, the Group received gain from the acquisition in the amount of RUB 3,822 million, which was recognized as part of "Other income" in the Consolidated statement of profit or loss and other comprehensive income. The gain is related to the bankruptcy proceedings against NLHK, initiated as a result of a corporate conflict between the previous owners of the company. As a result of this conflict, NLHK's potential in terms of both harvesting volumes and sawn timber production volumes was not fully utilized. In the 4th quarter 2021, having terminated the bankruptcy procedure, as well as having ensured a sufficient level of working capital, the Group, without additional capital investments, increased the volumes of logging and production of sawn timber, increasing the operating profitability of the company.

Acquisitions of Medsi – In December 2021, the Group acquired the Dialine clinic chain in Volgograd (DIALINE Clinical Diagnostic Laboratory LLC and DIALINE Multidisciplinary Medical Center LLC), as well as the Promedicine clinic chain in Ufa ("MMC "Clinic of Allergology and Pediatrics" LLC, "KNTS" LLC, "MC" Preventive Medicine" LLC, "MMC" Preventive Medicine" LLC and "Preventive Medicine-Pharm" LLC).

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Part of the consideration for the Promedicine chain in the amount of RUB 973 million was paid by transfer under a letter of credit. As of 31 December 2021, the Group recorded the letter of credit as restricted cash. The Group recorded other payables for the acquisition of the Promedicine chain and the Dialine chain in the amount of RUB 1,023 million and RUB 56 million, respectively.

Since accounting for the acquisition of business has not been completed as at 31 December 2021 yet, the Group has recorded the preliminary amounts of the acquired identifiable assets.

Acquisition of Zarya – In July 2021, the Group acquired a 49% stake in LLC Zarya for RUB 3 billion. The main activity of the company is fish production. The Group and other participants entered into a shareholder agreement, according to which the Group received control over operating activities. In December 2021, the Group acquired an additional 41% stake in the authorized capital for RUB 3.2 billion. As a result of the transaction, the share of the Group in this subsidiary increased to 90%.

As of 31 December 2021, the Group has not completed the assessment of the fair value of the acquired assets and liabilities and the purchase price allocation, the Group recorded the estimated amounts of the acquired identifiable assets, determined, among other inputs, based on the carrying value at the date of acquisition.

Business combinations in 2020

The 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					6,211

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The following table summarizes the final amounts of the identifiable assets acquired and liabilities arising from the following:

	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.

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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.

The following table summarises the details of purchase of subsidiaries, net of cash acquired, reported in the statements of cash flows:

	2021	2020
Cash consideration	39,756	3,456
Net of cash acquired	(3,603)	(46)
Acquisitions of subsidiaries less cash acquired	36,153	3,410

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 2021

The information on capital transactions of subsidiaries which took place in 2021 and their impacts on the Group's equity is summarised below:

	Increase/ (decrease) of additional paid-in capital	Increase/ (decrease) of non-controlling interests
Purchase of own shares by MTS	(3,239)	(10,541)
Initial Public Offering of Segezha Group	19,540	10,399
Sale of stake in Ristango Holding Limited to Nevsky Property Investments Limited (Note 6)	3,313	3,388
Sale of stake in Segezha Group	6,738	4,300
Other	(1,600)	3,364
Total impact	24,752	10,910

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Purchase of own shares by MTS – In 2021 MTS acquired 65,308,610 ordinary shares, including acquisition of 22,796,040 ordinary shares from Sistema PJSFC and Sistema Finance S.A., the subsidiary of the Group, in the amount of RUB 7.5 billion.

Initial Public Offering of Segezha Group – On 28 April 2021, Segezha Group carried out an initial public offering of 3.75 billion ordinary shares on the Moscow Exchange. As a result, Segezha Group has raised RUB 30 billion. The amount of expenses directly related to the issue and placement of shares amounted to RUB 1 billion. Subsequently, Sistema has exercised the option for additional placement of secondary shares as part of the initial public offering and listing of ordinary shares of Segezha Group on the Moscow Exchange. The total amount of Sistema's proceeds from the exercise of the option for the additional placement is approximately RUB 0.8 billion.

Sale of a stake in Segezha Group – In December 2021, Sistema sold a 8.7% stake in ordinary shares of PJSC Segezha Group for USD 150 million (RUB 11 billion).

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 by 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.

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.

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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.

Meds*si* – 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 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 performance obligation 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.

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The following is analysis of the Group's revenue from continuing operations for 2021:

	Reportable segments					
	MTS	Segezha	Medsi	Corporate	Other	Total
<i>Type of goods/services</i>						
Mobile and fix line services	401,707	-	-	-	-	401,707
Sale of goods	76,726	-	-	-	-	76,726
Works under specification	-	-	-	-	15,340	15,340
Production	-	92,438	-	-	76,287	168,725
Financial services	46,532	-	-	-	2,226	48,758
Medical services	-	-	30,040	-	-	30,040
Other services	-	-	-	3,427	29,484	32,911
Other	5,216	-	-	-	22,975	28,191
	530,181	92,438	30,040	3,427	146,312	802,398
<i>Revenue from goods or services transferred to customers</i>						
At a point in time	96,046	92,438	28,714	3,427	122,643	343,268
Over time	434,135	-	1,326	-	23,669	459,130
	530,181	92,438	30,040	3,427	146,312	802,398

The following is analysis of the Group's revenue from continuing operations for 2020:

	Reportable segments					
	MTS	Segezha	Medsi	Corporate	Other	Total
<i>Type of goods/services</i>						
Mobile and fix line services	384,327	-	-	-	-	384,327
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
Medical services	-	-	25,011	-	-	25,011
Other services	-	-	-	3,619	26,796	30,415
Other	3,558	-	-	-	17,415	20,973
	491,030	68,982	25,011	3,619	102,984	691,626
<i>Revenue from goods or services transferred to customers</i>						
At a point in time	78,884	68,982	23,771	3,619	78,350	253,606
Over time	412,146	-	1,240	-	24,634	438,020
	491,030	68,982	25,011	3,619	102,984	691,626

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as of 31 December 2021 as follows:

	<u>2022</u>	<u>2023-2027</u>	<u>2028-2032</u>	<u>Total</u>
Mobile telecommunication services	21,087	901	76	22,064
Other services	10,481	14,443	-	24,924
Loyalty programme	451	-	-	451
Total	<u>32,019</u>	<u>15,344</u>	<u>76</u>	<u>47,439</u>

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 payments 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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers as of 31 December 2021 and 2020:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Trade accounts receivable	33,939	33,063
Contract assets	8,272	6,306
Total assets	42,211	39,369
Less: current portion	(40,070)	(37,206)
Total non-current assets	2,141	2,163
Contract liabilities	(32,953)	(32,395)
Thereof:		
Mobile telecommunication services	(22,064)	(21,780)
Project type works	(10,438)	(10,181)
Loyalty programmes	(451)	(433)
Total liabilities	(32,953)	(32,394)
Less: current portion	31,125	31,305
Total non-current liabilities	(1,828)	(1,089)

Changes in the contract assets and the contract liabilities balances during the 2021 and 2020 are as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Contract assets</u>	<u>Contract liabilities</u>	<u>Contract assets</u>	<u>Contract liabilities</u>
Balance as of 1 January	6,306	(32,395)	6,474	(30,361)
Revenue recognized that was included in the contract liability balance at the beginning of the period	-	26,424	-	21,174
Cash received, excluding amount recognized as revenue during the period	136	(27,355)	1,659	(23,208)
Transfer to assets held for sale	-	-	(96)	-
Effect of changes in estimates	(1,942)	373	(1,731)	-
Increase in revenue for which no payment was received	3,772	-	-	-
Balance as of 31 December	8,272	(32,953)	6,306	(32,395)

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021 and 31 December 2020, the balances of cost to obtain and fulfil contracts capitalized by the Group amounted to:

	31 December 2021	31 December 2020
Cost to obtain contracts	7,779	7,549
Cost to fulfil contracts	3,155	2,506

As of 31 December 2021 and 2020 the accumulated amortisation expense related to cost to obtain and fulfill contracts amounted to RUB 9,015 million and RUB 8,228 million, respectively. Amortisation expense related to cost to obtain and fulfill contracts recognised for the year ended 31 December 2021 amounted to RUB 4,076 million (2020: RUB 3,819 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 2021, includes impairment of property, plant and equipment, investment property, goodwill and other intangible assets.

	2021	2020
(Reversal)/Impairment of property, plan and equipment	(313)	3,027
Impairment of investment property	-	870
Impairment of intangible assets	40	202
(Reversal)/Impairment of other non-current assets	(274)	241
Impairment of goodwill (Note 15)	139	1,281
Total impairment of long-lived assets	(408)	5,621

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.

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

In 2021 the Group assessed whether there were any indicators of the possible impairment of fixed assets and properties in the course of construction. The Group identified impairment in the total amount of RUB 130 million relating to Buildings and facilities, Machinery and equipment and other fixed assets of Segezha Sawmills LLC due to production closure. The Group has also accrued impairment in the total amount of RUB 777 million relating to the detailed design documentation and other capitalized costs due to revised and updated technical parameters of the projects. Also for the year ended 31 December 2021, the Group reversed the provision for property, plant and equipment in the "Other" segment in the amount of RUB 1,430 million due to improved financial performance.

10. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets for 2021 and 2020 comprise the following:

	2021	2020
Allowance for expected credit losses of accounts receivable	1,922	3,434
Impairment/(Reversal of impairment) of loans carried at amortised cost	1,958	(424)
Impairment/(Reversal of impairment) of other financial assets	221	(54)
Total impairment of financial assets	4,101	2,956

Loans carried at amortised cost – For the years ended 31 December 2021 and 2020, the Group recognised in the consolidated statement of profit or loss impairment of loans in the amount of RUB 1,958 million and RUB 520 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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The Group's income tax expense for 2021 and 2020 comprise the following:

	2021	2020
Current income tax expense	(31,705)	(23,507)
Deferred income tax benefit	(8,589)	15,166
Total income tax expense recognised in the current year relating to continuing operations	(40,294)	(8,341)

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:

	2021	2020
Profit before tax	93,167	46,506
Income tax expense calculated at 20%	(18,633)	(9,301)
<i>Adjustments due to:</i>		
Earnings distribution from subsidiaries and associates	(6,221)	(6,598)
(Decrease)/increase of unrecognised deferred tax assets	(11,077)	5,966
Non-deductible expenses	(5,438)	(417)
Different tax rate of subsidiaries	600	692
Non-taxable income	3,213	630
Other	(2,738)	687
Income tax expense	(40,294)	(8,341)

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statements of financial position for 2021 and 2020:

2021	Opening balance	Recognised in profit or loss	Recognised in capital	Acquisitions / disposals	Closing balance
Deferred tax (liabilities)/ assets in relation to:					
Accrued expenses and accounts payable	6,516	1,795	-	1,519	9,830
Property, plant and equipment	(27,351)	(1,743)	32	(9,819)	(38,881)
Intangible assets	(8,358)	1,244	-	(4,217)	(11,331)
Cost capitalization	(1,668)	(162)	-	-	(1,830)
Deferred connection fees	1,430	176	-	-	1,606
Inventory obsolescence	436	(128)	-	427	735
Allowance for expected credit losses	2,676	761	3	85	3,525
Undistributed earnings of subsidiaries and joint ventures and associates	(4,436)	166	(86)	-	(4,356)
Right-of-use asset	4,242	789	-	(3)	5,028
Tax losses carried forward	32,465	(11,904)	168	919	21,648
Debt modification	(123)	52	-	(7)	(78)
Effect of derivatives reclassification	-	-	2,045	-	2,045
Other	805	365	166	(204)	1,132
Total	6,634	(8,589)	2,328	(11,300)	(10,927)

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

2020	Opening balance	Recognised in profit or loss	Recognised in OCI	Acquisitions /disposals	Closing balance
Deferred tax assets/ (liabilities) 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
Итого	(9,420)	15,166	620	267	6,633

As of 31 December 2021 and 2020 the Group reported the following deferred income tax assets and liabilities in the consolidated statements of financial position:

	31 December 2021	31 December 2020
Deferred tax assets	31,471	41,402
Deferred tax liabilities	(42,398)	(34,769)
Net deferred tax assets/(liabilities)	(10,927)	6,633

In 2021 the Group wrote off previously recognised deferred tax assets of the Corporate segment in the amount of RUB 14 billion based on forecasts for possible assets sales.

As of 31 December 2021 and 2020 the tax losses carried forward, for which deferred tax assets were recognised, amounted to RUB 108,238 million and RUB 162,327 million, respectively.

The Group accrued uncertain income tax positions as a component of income tax payable of RUB 160 million and RUB 595 million as of 31 December 2021 and 2020, 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 2017-2024 may not be reduced by tax losses carried forward in an amount exceeding 50% of the base.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021 and 2020:

Jurisdiction	Carry-forward period	2021	2020
India	2022-2028	81,463	95,589
Russia	Unlimited	305,335	235,685
Total		386,798	331,274

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 2021 and 2020 comprised RUB 159,886 million and RUB 141,823 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 costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Property, plant and equipment, net of accumulated depreciation and impairment, as of 31 December 2021 and 2020 consisted of the following:

	31 December 2021	31 December 2020
Carrying amount		
Switches, transmission devices, network and base station equipment	229,863	219,038
Buildings and leasehold improvements	93,736	74,183
Power and utilities	30,854	29,893
Land	24,153	22,982
Other	142,435	81,215
Total	521,041	427,311

As of 31 December 2021 and 2020 the “Other” line includes, among other things, timber processing equipment of PJSC “Segezha Group” in the amount of RUB 61,781 million and RUB 28,936 million respectively. The increase in the cost of timber processing equipment is driven by the company’s investment program (RUB 18,544 million in 2021 compared to RUB 8,390 million in 2020) and business combinations (RUB 21,409 million in 2021 compared to from 265 million rubles in 2020).

	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve- ments	Power and utilities	Land	Other	Total
Cost						
Balance as of 1 January 2020	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
Disposal of subsidiaries	-	(3,568)	-	(3)	(261)	(3,832)
Reclassified 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
Additions	59,927	6,963	4,392	490	45,591	117,363
Disposals	(44,394)	(872)	(741)	(5)	(7,484)	(53,496)
Business combinations	973	17,897	-	477	30,522	49,869
Reclassified to assets held for sale	(992)	(1)	-	-	(51)	(1,044)
Currency translation adjustment	1,306	(155)	-	(32)	(169)	950
Reclassified from right-of-use assets	-	-	-	56	1,034	1,090
Sale of companies	-	-	-	-	(326)	(326)
Other	(341)	673	-	185	1,897	2,414
Balance as of 31 December 2021	607,029	138,160	55,977	24,153	232,865	1,058,184

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

	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 2020	(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 from 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 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)
Disposals	38,225	572	125	-	6,250	45,172
Disposals from sales of subsidiaries	-	-	-	-	255	255
Reclassified to assets held for sale	1,247	1	-	-	15	1,263
Depreciation expense	(44,387)	(6,367)	(2,815)	-	(15,516)	(69,085)
Currency translation adjustment	(1,016)	154	-	-	(29)	(891)
Reclassified from right-of-use assets	-	-	-	-	(358)	(358)
(Impairment)/recovery of impairment	-	831	-	-	(518)	313
Other	277	(143)	-	-	107	241
Balance as of 31 December 2021	(377,166)	(44,424)	(25,123)	-	(90,430)	(537,143)

Advances issued for the acquisition of non-current assets are included in Other assets within non-current assets and amount to RUB 25,247 million and RUB 12,630 million as at 31 December 2021 and 2020, respectively. The growth is related to the capital expenditure programs of the Group's subsidiaries.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021 and 2020 amounted to RUB 5,735 million and RUB 5,271 million, respectively.

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	12,649	13,660
Reclassified from / (to) property, plant and equipment	735	168
Additions	914	554
Disposals	(1,547)	(683)
Depreciation expense	(465)	(501)
Impairment (Note 10)	-	(870)
Other comprehensive income	-	498
Reclassified from/(to) inventories	874	(177)
Balance at the end of the year	13,160	12,649

Included in revenue is investment property rental income for 2021 of RUB 2,570 million (2020: 1,960 million). Operating expenses arising from the investment property that generated rental income during 2021 totalled RUB 1,515 million (2020: 1,486 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 2021 the Group determined the fair values of the investment property at RUB 48,367 million (2020: RUB 40,136 million).

The fair values as of 31 December 2021 and 2020 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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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	Binno-Pharm Group	Other	Total
Balance as of							
1 January 2020							
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
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
Business combinations	4,383	1,576	2,694	-	22,834	91	31,578
Impairment	-	(35)	-	-	-	(104)	(139)
Currency translation adjustment	395	-	-	-	-	82	477
Balance as of							
31 December 2021							
Gross amount of goodwill	60,389	2,276	12,046	710	22,834	13,633	111,888
Accumulated impairment loss	(8,851)	(203)	-	(241)	-	(13,473)	(22,768)
	51,538	2,073	12,046	469	22,834	160	89,120

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

MTS – For the purposes of impairment testing, goodwill attributable to the MTS segment is allocated to enlarged CGUs as follow:

	Telecom	Other	Unallocated goodwill	Total
Balance as of 1 January 2020				
Gross amount of goodwill	32,801	11,380	10,783	54,964
Accumulated impairment loss	(1,466)	(4,040)	(2,064)	(7,570)
	31,335	7,340	8,719	47,394
Acquisitions	-	282	-	282
Reclassification	(1,877)	1,877	-	-
Impairment	-	(1,281)	-	(1,281)
Currency translation adjustment	-	365	-	365
Balance as of 31 December 2020				
Gross amount of goodwill	30,924	13,904	10,783	55,611
Accumulated impairment loss	(1,466)	(5,321)	(2,064)	(8,851)
	29,458	8,583	8,719	46,760
Acquisitions	4,337	46	-	4,383
Reclassification	253	(253)	-	-
Currency translation adjustment	-	395	-	395
Balance as of 31 December 2021				
Gross amount of goodwill	35,514	14,092	10,783	60,389
Accumulated impairment loss	(1,466)	(5,321)	(2,064)	(8,851)
	34,048	8,771	8,719	51,538

The enlarged CGU (which represents a group of CGUs) "Telecom" includes the following business units:

The "Russia convergent" – represents mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia. Russia convergent also includes sales of equipment and accessories. Goodwill allocated to these CGUs has arisen on acquisitions made by MTS.

The "Moscow fixed line" – represents the results of fixed line operations carried out in Moscow by MGTS, a subsidiary of MTS, and divided into two CGU – «MGTS commercial» and «MGTS service».

The enlarged CGU "Other" includes CGU "Armenia", CGU "Cloud Retail" and CGU "Entertainment".

Unallocated goodwill represents goodwill recognized as a result of the purchase of MTS shares by the Group. It is not subject to allocation to CGUs as it is reviewed by management at the MTS segment level. Unallocated goodwill is tested for impairment based on the market capitalization 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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

In 2021 according to impairment test results, no impairment was recognized.

As a result of the impairment test performed on 31 December 2020, other CGU was impaired in amount of RUB 1,281 million.

The key assumptions used in the value in use calculations

The table below presents OIBDA margin applied for value in use calculation of related CGUs:

CGU	December 31,	
	2021	2020
Russia Convergent	41.3%-46.9%	43.2%-44.3%
Armenia	53.5%-60.3%	51.8%-54.0%
MGTS Commercial	59.9%-63.0%	Not available
MGTS Service	42.5%-51.8%	Not available
Entertainment	4.8%-12%	8.8%-32%
Cloud	37.7%-67.3%	41.3%-69.0%
Other CGUs	4.3%-5.0%	3.5%-5.2%

The table below presents capital expenditure as a percentage of revenue applied for value-in-use calculations of related CGUs:

CGU	December 31,	
	2021	2020
Russia Convergent	18%	20.9%
Armenia	22%	22.2%
MGTS Commercial	16%	Not available
MGTS Service	16%	Not available
Entertainment	3%	0.0%
Cloud	17%	15.4%
Other CGUs	1%	1.2%

The terminal growth rate into perpetuity has been determined based on the nominal gross domestic product rates for the country of operation, adjusted for specific characteristic of the CGUs.

The table below presents terminal growth rates applied for value-in-use calculations of related CGUs:

CGU	December 31,	
	2021	2020
Russia Convergent	1%	1%
Armenia	nil	nil
MGTS Commercial	1%	Not available
MGTS Service	1%	Not available
Entertainment	1.5%	1.5%
Cloud	1%	1%
Other CGUs	2%	2%

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The table below presents pre-tax rates for the discounting of cash flows in functional currencies of related CGUs:

CGU	December 31,	
	2021	2020
Russia Convergent	10.1%	11.4%
Armenia	11.2%	13.3%
MGTS Commercial	12.7%	Not available
MGTS Service	9.9%	Not available
Entertainment	13.1%	13.6%
Cloud	13.6%	13.2%
Other CGUs	6.0%	6.1%

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:

	2021	2020
Terminal cash flows growth rate	3.8%	3.8%
Discount rate	14%	14%
Range of average annual market price growth rate	3.8-8.5%	3.8-4%

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.

Binnopharm Group – The recoverable amounts of the CGUs were determined based on their fair value less costs of disposal. It was determined with the reference to the sale of stake in Ristango Holding Limited in June 2021 and valuation of similar companies.

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, patents and trademarks of Binnopharm Group.

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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.

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 2021 and 2020 consisted of the following:

	<u>31 December 2021</u>	<u>31 December 2020</u>
<i>Carrying amounts of:</i>		
<i>Amortised intangible assets:</i>		
Billing and telecommunication software	70,627	65,179
Operating licenses	9,317	9,791
Radio frequencies	905	1,242
Acquired customer base	3,409	360
Software and other	22,874	9,085
Cost to obtain contracts	7,778	7,549
Patents and amortisable trademarks	<u>12,314</u>	<u>-</u>
	127,224	93,206
<i>Unamortised intangible assets:</i>		
Trademarks	<u>12,734</u>	<u>6,543</u>
Total	<u>139,958</u>	<u>99,749</u>

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 2021, 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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

	Billing and telecom software	Operating licenses	Customer bases	Radio frequencies	Software and other	Non- amortisable trademarks	Cost to obtain contracts	Patents and amortisable trademarks	Total
Cost									
Balance as of 1 January 2020	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 other non-current 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
Additions	34,421	1,365	2,963	-	8,077	-	3,653	43	50,522
Disposals	(14,783)	(44)	(680)	(233)	(2,111)	-	(3,287)	-	(21,138)
Business combinations	571	35	1,147	-	9,745	6,191	-	12,884	30,573
Currency translation adjustment	381	992	(34)	-	(35)	-	-	-	1,304
Other	(114)	-	-	1	(17)	-	-	-	(130)
Balance as of 31 December 2021	157,141	34,070	14,545	5,372	40,222	12,734	14,515	12,927	291,526
Accumulated depreciation and impairment									
Balance as of 1 January 2020	(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)
Disposals	14,716	7	679	244	2,076	-	3,287	-	21,009
Amortisation expense	(29,737)	(1,857)	(1,026)	(349)	(3,988)	-	(3,424)	(613)	(40,994)
Impairment	-	(1)	-	-	(39)	-	-	-	(40)
Currency translation adjustment	(211)	(971)	-	-	55	-	-	-	(1,127)
Other	204	-	-	-	26	-	-	-	230
Balance as of 31 December 2021	(86,514)	(24,753)	(11,136)	(4,467)	(17,348)	-	(6,737)	(613)	(151,568)

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021 and 2020 consisted of the following:

	2021		2020	
	Participating share	Carrying value	Participating share	Carrying value
Associates				
Etalon Group	29.79%	18,312	25.58%	13,529
MTS Belarus	49.00%	6,265	49.00%	5,124
Real estate projects	48%-50%	1,136	48%-50%	1,431
Ozon	33.04%	-	33.78%	12,584
		25,713		32,668
Joint ventures				
Megapolis-Invest	75.86%	10,375	100.00%	11,002
Michurinskiy project	50.00%	5,646	50.00%	4,229
New Investment Holding	50.00%	557	0.00%	-
Segezha Zapad	100.00%	410	0.00%	-
Alium	0.00%	-	24.90%	4,344
Sintez	0.00%	-	1.52%	216
		16,988		19,791
Other associates and joint ventures		20,789		21,397
Total		63,490		73,856

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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.

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.

In May 2021, Sistema, through its 100% subsidiary Capgrowth Investments Limited («Capgrowth»), participated in the subscription right offer to the existing holders of Etalon Group equity securities within the secondary public offering (SPO), in proportion to Capgrowth's share in the capital of Etalon Group - 25.6%. Capgrowth has subscribed for 22.63 million shares of the Company at a price of US 1.7 per ordinary share for a total amount of RUB 2.8 billion.

Sistema PJSC has also entered into a Total Return Swap agreement with Alfa Bank JSC (the "Bank") in respect of Etalon Group's global depositary receipts (the "GDRs" and the "TRS Agreement"), which envisages the transfer of exclusively property, but not voting rights to Sistema, under which the Bank acquired a total of 72.85 million GDRs for RUB 9.4 billion («Purchase price»). The TRS agreement was concluded for a period of 30 months, taking into account a various early termination provisions provided for by the TRS Agreement. TRS stipulates that any excess of the Purchase Price plus interest over the market value of underlying GDRs at completion of the agreement is to be paid by Sistema to the Bank and the other way round - any excess of the market value of underlying GDRs over the Purchase Price plus interest are to be paid by the Bank to Sistema.

Simultaneously with the TRS Agreement, an Option Agreement was signed between the Bank and Capgrowth, according to which (i) Capgrowth has the right to purchase all GDRs acquired by the Bank pursuant to the TRS Agreement (the "Call Option") and (ii) in the event that Capgrowth does not exercise the Call Option, the Bank has the right to sell the entire package of GDRs to a third party and, further, in the absence of an interested buyer, to Capgrowth, in each case within the terms and conditions provided for in the Option Agreement.

In June 2021, Capgrowth acquired 4.2% (16.16 million GDR's) from other investors and increased its share in the capital of Etalon Group up to 29.79%.

Global depositary receipts of Etalon Group Plc are publicly traded. As of 31 December 2021 the market quoted price based value of the investment in Etalon Group Plc amounted to RUB 9.8 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 comparing the carrying amount of the investment with the Group's share of net assets, 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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The Group's share in the loss of Ozon recognized for the year ended 31 December 2021 amounted to RUB 12,584 million. The unrecognized loss represents the Group's share of the additional losses after the carrying amount of the Group's investment in Ozon amounted to nil. The group did not incur legal or constructive obligations or make payments on behalf of Ozon. The amount of unrecognized loss for 12 months 2021 amounted to RUB 6,409 million.

Megapolis-Invest – In 2020 the Group and Sberbank Investments signed the shareholders agreement and agreements granting Sistema the right to acquire in 2022-2023 and Sberbank Investments 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 Sberank Investments 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 2021 is approximately nil.

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.

The change in the Group's share in the authorized capital of Megapolis-Invest in 2021 is due to the registration of the share of Sberbank Investments in the Unified State Register of Legal Entities.

In February 2021, Megapolis-Invest LLC signed an agreement to acquire an additional 29.64% stake in Elektrozavod JSC from the third party for RUB 5.8 billion. As a result, upon the completion of the deal, the Megapolis-Invest LLC total ownership interest in Elektrozavod JSC increased to 94.01% of the company's authorized capital. As a result of transaction, the Group did not obtain control over Elektrozavod JSC.

"MTS Belarus" is a telecommunications operator in the Republic of Belarus.

Ristango Holding Limited - On 25 June 2021, amended and restated Shareholders Agreement was signed between the members of Ristango Holding Limited (holding company through which investments in Alium and Sintez were made), as a result of which the Group has obtained control over the relevant activities of Ristango Holding Limited (Note 6). At the acquisition date, the Group remeasured its previously held interest in Ristango Holding Limited to fair value and as result recognized the gain in the amount of RUB 25,107 million in the share of the profit or loss of associates and joint ventures line.

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.

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.

In April 2021, the Group performed a step acquisition and obtained control over Achemar Holdings Limited, owner of Stavropol and Tambov subsidiaries of Zelenaya Tochka.

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

As of the acquisition date the Group remeasured the previously held equity interest in Achemar Holdings Limited from RUB 1,166 million to fair value of RUB 1,582 million and recognized the resulting gain of RUB 415 million in the operating share of the profit of the associates and joint ventures in the accompanying consolidated statement of profit or loss.

The Group continued to account for its investment in other operational companies of Zelenaya Tochka, owned by Clarkia Holdings Limited, as investment in joint venture.

New Investment Holding - In September 2021, New Investment Holding JSC, jointly controlled by Sistema and Sberbank, acquired the Niarmedic International Limited, which owns 100% of the authorized capital of Nearmedic Plus LLC, Nearmedic Pharma LLC and a number of other companies conducting business in Russia and Italy in the fields of pharmaceuticals and medicine for one ruble. The net debt of the Nearmedic Group as of the closing date of the Transaction amounted to RUB 5.9 billion.

Sistema and Sberbank Group (hereinafter – Sberbank) provided equity financing in equal shares for the total amount RUB 1.2 billion to repay part of the Nearmedic Group's debt to Sberbank. The Group and Sberbank Investments have entered into a shareholders agreement and option agreements with a maturity of 3.5 years from the closing date of the Deal, granting Sistema the right to acquire and Sberbank Investments the right to sell to the Group Sberbank Investments' stake in the capital of New Investment Holding JSC with the simultaneous transfer to the Corporation the rights to claim Sberbank on a loan granted to the Nearmedic Group in the amount of up to RUB 2.8 billion. The fair value of financial instruments arising from entering into Option Agreements as of 31 December 2021 is close to zero.

As of 31 December 2021, the Group has not completed the assessment of the fair value of the acquired assets and liabilities and the purchase price allocation. The purchase price allocation to the fair value of the acquired assets and liabilities will be completed within 12 months from the acquisition date. The Group has recorded estimated amounts of identifiable assets acquired, including those based on their carrying amounts at the date of acquisition.

Other – During 2021, the Group entered into the following investments in associates and joint ventures:

- In July 2021 the Group purchased 51% stake in Amaran Limited, 100% owner of LLC Factorin («Factorin»), for RUB 867 million. Factorin is the developer and owner of blockchain-based platform for trade finance transactions with a focus on supply chain finance and invoice factoring. The purchase of 51% stake was accounted as investment in joint venture based on the terms of the shareholders' agreement;
- In 2020 the Group formed a partnership with “LLC Fancy Show”, for the purposes of production, release and promotion of “Chess” musical in Russia. The Group received the right to 36% net profit of the partnership and accounted for investment as investment in joint venture. The joint venture was ceased in September 2021;

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

- Loss of control over Segezha Zapad – On 30 December 2021 the Group has signed with its two financial partners a share purchase agreement for the sale of 20% less one share for each partner of the Project and a Corporate agreement on the governance of the Project. Under the terms of the signed Corporate Agreement, the parties to the agreement have the equal rights to manage the significant activities of the investee. Taking into account the provisions of the Corporate agreement, the management concluded that starting from 30 December 2021 the Group loses control over the Segezha Zapad project and recognizes it as joint venture with a 100% interest as the Investments in joint ventures and associates. On 25 January 2022 the transfer of ownership over the 40% minus 2 shares stake in Segezha Zapad Project to the Group's partners has been registered, this did not amend the rights to govern significant activities. By concluding the options agreements the Group's partners have the right to quit the Project upon expiration of the 13th month from the date of the agreement. The Group also has corresponding options to buy back the shares belonging to the partners during the 13th and 14th months. The Group's conclusions over the significant activities and control over such activities are subject to reevaluation upon acceptance of offers on options exercised by any party or should significant provisions of the above agreements be amended.

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 2021.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The financial position and results of operations of associates as of and for the years ended 31 December 2021 and 2020 were as follows:

	Etalon Group		MTS Belarus		Real Estate Projects		Ozon		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Non-current assets	16,648	15,568	19,030	20,008	25,796	26,429	74,752	29,800	136,226	91,805
Current assets	205,450	170,951	15,386	12,705	3,917	3,874	166,586	124,808	391,339	312,338
Total assets	222,098	186,519	34,416	32,713	29,713	30,303	241,338	154,608	527,565	404,143
Non-current liabilities	(105,910)	(69,429)	(9,062)	(11,257)	(14,607)	(14,101)	(86,794)	(15,140)	(216,373)	(109,927)
Current liabilities	(54,831)	(66,017)	(12,568)	(10,999)	(6,714)	(7,193)	(123,936)	(60,211)	(198,049)	(144,420)
Total liabilities	(160,741)	(135,446)	(21,630)	(22,256)	(21,321)	(21,294)	(210,730)	(75,351)	(414,422)	(254,347)
Equity attributable to owners of the Company	61,357	51,073	12,786	10,457	8,392	9,009	30,608	79,257	113,143	149,796
The Group's share in the profit and loss	29.79%	25.58%	49.00%	49.00%	48%-50%	48%-50%	33.04%	33.78%	n/a	n/a
Fair value adjustment on the date of acquisition	28	465	-	-	688	688	(14,189)	(14,189)	(13,473)	(13,036)
Accumulated impairment	-	-	-	-	(3,581)	(3,581)	-	-	(3,581)	(3,581)
Capital transactions	-	-	-	-	-	-	(2,333)	-	(2,333)	-
Unrecognised loss	-	-	-	-	-	-	6,409	-	6,409	-
Carrying amount of the Group's interest	18,312	13,529	6,265	5,124	1,136	1,431	-	12,584	25,713	32,668
Total revenues	87,138	78,655	39,383	36,121	-	7,862	178,215	104,350	304,736	226,988
Total profit/(loss) for the year	3,006	2,036	10,379	10,267	(616)	(5,726)	(56,779)	(22,264)	(44,010)	(15,687)
The Group's share in profit/(loss)	843	529	5,086	5,031	(296)	(2,748)	(12,584)	(8,428)	(6,951)	(5,616)
Total comprehensive income/(loss)	3,006	2,036	10,562	4,836	(616)	(5,726)	(56,782)	(22,264)	(43,830)	(21,118)
The Group's share in comprehensive income/ (loss) for the year	843	529	5,175	2,370	(296)	(2,748)	(12,584)	(8,428)	(6,862)	(8,277)
Dividends paid	(1,076)	(905)	(4,034)	(4,212)	-	-	-	-	(5,110)	(5,117)

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The financial position and results of operations of joint ventures as of and for the years ended 31 December 2021 and 2020 were as follows:

	Megapolis-Invest ⁽¹⁾		Michurinskiy project		New Investment Holding		Segezha Zapad		Alium		Sintez		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Non-current assets	33 889	28 157	929	1 744	5 745	-	3 217	-	-	11 131	-	16 396	43 780	57 428
Current assets	8 256	7 456	18 842	15 978	1 420	-	900	-	-	7 663	-	7 959	29 418	39 056
Total assets	42 145	35 613	19 771	17 722	7 165	-	4 117	-	-	18 794	-	24 355	73 198	96 484
Non-current liabilities	(24 047)	(16 022)	-	-	(4 736)	-	(2 947)	-	-	(4 520)	-	(2 905)	(31 730)	(23 447)
Current liabilities	(6 127)	(6 404)	(7 003)	(7 802)	(1 315)	-	(760)	-	-	(6 556)	-	(4 870)	(15 205)	(25 632)
Total liabilities	(30 174)	(22 426)	(7 003)	(7 802)	(6 051)	-	(3 707)	-	-	(11 076)	-	(7 775)	(46 935)	(49 079)
Non-controlling interest	-	5 385	-	-	-	-	-	-	-	-	-	-	-	5 385
Equity attributable to owners of the Company	11 971	7 802	12 768	9 920	1 114	-	410	-	-	7 718	-	16 580	26 263	42 020
The Group's share in the profit and loss	75,86%	100,00%	50,00%	50,00%	50,00%	0,00%	100,00%	0,00%	0,00%	24,90%	0,00%	1,52%	n/a	n/a
Fair value adjustment on the date of acquisition	1 294	3 200	(738)	(731)	-	-	-	-	-	2 422	-	(36)	556	4 855
Accumulated impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying amount of the Group's interest	10 375	11 002	5 646	4 229	557	-	410	-	-	4 344	-	216	16 988	19 791
Total revenues	6 806	-	9 731	11 184	1 092	-	-	-	-	8 336	-	12 965	17 629	32 485
Total profit/(loss) for the year	(2 548)	-	2 848	3 276	(87)	-	-	-	-	257	-	813	213	4 346
The Group's share in profit/(loss)	(1 957)	-	1 392	1 631	(43)	-	-	-	220	64	17	12	(371)	1 707
Total comprehensive income/(loss)	(2 548)	-	2 848	3 276	(87)	-	-	-	-	257	-	813	213	4 346
The Group's share in comprehensive income/(loss) for the year	(1 957)	-	1 392	1 631	(43)	-	-	-	220	64	17	12	(371)	1 707
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-

⁽¹⁾ Current assets, including cash and cash equivalents in the amount of RUB 2,058 million. (2020: RUB 827 million)

Total loss for the year, including depreciation of RUB 989 million, finance costs of RUB 1,578 million, finance income of RUB 89 million, income tax expense of RUB 156 million.

The financial results of Megapolis-Invest for 2020 are immaterial, as the company was established in December 2020.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The financial position and results of operations of other associates and joint ventures as of and for the years ended 31 December 2021 and 2020 relating to the Group's share were as follows:

	Other	
	2021	2020
Non-current assets	23,798	21,851
Current assets	17,820	16,493
Total assets	41,618	38,344
Non-current liabilities	(11,724)	(10,671)
Current liabilities	(12,452)	(10,268)
Total liabilities	(24,176)	(20,939)
Non-controlling interest	(977)	(1,123)
Equity attributable to owners of the Company	16,466	16,282
The Group's share in the profit and loss	n/a	n/a
Fair value adjustment on the date of acquisition	4,323	5,115
Accumulated impairment	-	-
Carrying amount of the Group's interest	20,789	21,397
The Group's share in revenues	24,495	22,974
The Group's share in profit	720	781
The Group's share in comprehensive income for the year	737	853
Dividends paid	(1,104)	(1,110)

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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.

As of 31 December 2021 and 2020 financial assets, other than those shown separately on the face of the statements of financial position, less allowance for impairment losses, comprise:

	31 December 2021	31 December 2020
Financial assets measured at fair value through profit or loss		
Debt and equity securities	79,282	64,950
Contingent consideration	1,867	2,631
Option contracts	112	228
Derivatives embedded in lease agreements	434	562
Forwards and stock options	-	4,723
Cross-currency derivatives not designated as cash flow hedges	110	-
Currency rate swaps not designated as hedge instruments	4,640	4,508
	86,445	77,602
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	12,804	14,557
	12,804	14,557
Financial assets measured at amortized cost		
Debt securities	22,996	21,949
Bank loans to customers	217,525	131,136
Interbank loans due from banks	4,010	3,386
Other loans	25,671	14,572
	270,202	171,043
Total financial assets	369,451	263,202
Current	154,465	104,573
Non-current	214,986	158,629
Total financial assets	369,451	263,202

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The following table summarizes changes in loss allowance for financial assets other than for financial assets attributable to the Group's banking activities and accounts receivable for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Balance as of 1 January calculated under IFRS 9	4,688	5,722
Charge for the period	(54)	1
Amounts written off against the allowance	(619)	(661)
Currency translation adjustments	568	(374)
Balance as of 31 December calculated under IFRS 9	<u>4,583</u>	<u>4,688</u>

As of 31 December 2021 and 2020, financial assets attributable to the Group's banking activities (MTS Bank and its subsidiaries, East-West United Bank) comprise:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Financial assets measured at fair value through profit or loss		
Debt and equity securities	23,278	19,586
	<u>23,278</u>	<u>19,586</u>
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	11,782	13,789
	<u>11,782</u>	<u>13,789</u>
Financial assets measured at amortized cost		
Cash and cash equivalents	30,371	35,540
Bank loans to customers	239,698	148,647
Interbank loans due from banks	4,010	3,386
Debt securities	22,999	21,812
	<u>297,078</u>	<u>209,385</u>
Less: allowance for loan losses	(22,173)	(17,511)
	<u>309,965</u>	<u>225,249</u>

The movement in the allowance for loan losses, attributable to the Group's banking activities, during 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Allowance for loan losses, 1 January	17,511	11,886
Charge for the period	11,032	8,385
Amounts written-off against the allowance	(3,361)	(3,281)
Disposal	(4,334)	(282)
Reversal of allowance written-off	1,557	565
Currency translation adjustment	(232)	238
Allowance for loan losses, 31 December	<u>22,173</u>	<u>17,511</u>

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 in "cost of sales" line. 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 allowance expense for expected credit losses relating to banking activities is recorded in the "Cost of sales" line.

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.

- 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 attributable to loans to individuals for the year ended 31 December 2021 and 2020 were as follows:

	Stage 1	Stage 2	Stage 3	POCI*	Total
Balance as of 1 January 2021	3,099	1,446	8,019	128	12,692
- Transfer to Stage 1	1,809	(1,633)	(176)	-	-
- Transfer to Stage 2	(939)	1,220	(281)	-	-
- Transfer to Stage 3	(278)	(4,691)	4,969	-	-
New financial assets originated or purchased	3,821	-	-	-	3,821
Change due to change of credit risk	(1,419)	7,019	2,887	-	8,487
Write-offs	-	-	(3,282)	-	(3,282)
Sale	-	-	(4,324)	-	(4,324)
Recovery of previously written-off assets	-	-	581	-	581
Balance as of 31 December 2021	6,093	3,361	8,393	128	17,975

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

	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

* POCI – financial assets purchased or originated credit-impaired

Movements in impairment loss allowance on loans to legal entities for the year ended 31 December 2021 and 2020 were as follows:

	Stage 1	Stage 2	Stage 3	POCI*	Total
Balance as of 1 January 2021	1,028	221	3,209	361	4,819
- Transfer to Stage 1	119	(119)	-	-	-
- Transfer to Stage 2	(46)	49	(3)	-	-
- Transfer to Stage 3	(105)	(26)	131	-	-
New financial assets originated or purchased	355	-	-	-	355
Change due to change of credit risk	(168)	(67)	(1,433)	-	(1,668)
Write-offs	-	-	(49)	-	(49)
Recovery of previously written-off assets	-	-	975	-	975
Foreign exchange difference	(180)	(3)	(51)	-	(234)
Balance as of 31 December 2021	1,003	55	2,779	361	4,198

	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

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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.

The table below summarizes information regarding the quality of loans to individuals as of 31 December 2021 and 2020:

31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	174,667	756	-	-	175,423
Monitoring	-	7,125	831	-	7,956
Impaired	-	-	10,072	-	10,072
Loss allowance	(6,093)	(3,361)	(8,521)	-	(17,975)
Total	168,574	4,520	2,382	-	175,476

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

The table below summarizes information regarding the quality of loans to legal entities as of 31 December 2021 and 2020:

31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	34,643	721	-	-	35,364
Monitoring	5,700	1,321	-	-	7,021
Doubtful	-	-	767	-	767
Impaired	-	-	3,095	-	3,095
Loss allowance	(894)	(194)	(3,110)	-	(4,198)
Total	39,449	1,848	752	-	42,049

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

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Analysis by credit quality of loans to individuals outstanding as of 31 December 2021 is as follows:

As of 31 December 2021	Gross loans	Impairment loss allowance	Net loans	Impairment loss allowance to gross loans
Collectively assessed				
Not past due	175,421	(6,296)	169,125	4%
Overdue:				
up to 30 days	3,989	(1,090)	2,899	27%
31 to 60 days	2,007	(1,240)	767	62%
61 to 90 days	1,584	(1,093)	491	69%
91 to 180 days	3,248	(2,499)	749	77%
over 180 days	6,641	(5,659)	982	85%
Total collectively assessed	192,890	(17,877)	175,013	9%
Individually impaired				
Not past due	367	(25)	342	7%
Overdue:				
up to 30 days	-	-	-	0%
31 to 60 days	8	-	8	0%
61 to 90 days	3	(1)	2	33%
91 to 180 days	5	(1)	4	20%
over 180 days	178	(71)	107	40%
Total individually impaired	561	(98)	463	17%
Total	193,451	(17,975)	175,476	9%

Analysis by credit quality of loans to small and medium-sized enterprises outstanding as of 31 December 2021 is as follows:

As of 31 December 2021	Gross loans	Impairment loss allowance	Net loans	Impairment loss allowance to gross loans
Collectively assessed				
Not past due	1,079	(22)	1,057	2%
Overdue:				
up to 30 days	19	(8)	11	42%
31 to 60 days	15	(14)	1	93%
61 to 90 days	11	(10)	1	91%
91 to 180 days	14	(11)	3	79%
over 180 days	568	(374)	194	66%
Total collectively assessed loans	1,706	(439)	1,267	26%

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Group:

	31 December 2021	31 December 2020
Loans collateralized by cash deposits	556	817
Loans collateralized by guaranties of legal entities	36,746	32,346
Loans collateralized by pledge of real estate	19,115	18,733
Loans collateralized by pledge of equipment	1	100
Loans collateralized by securities	1,946	2,058
Loans collateralized by pledge of inventories	924	165
Unsecured loans	180,410	94,428
Allowance for impairment losses	(22,173)	(17,511)
Total loans to customers, net	217,525	131,136

20. RESTRICTED CASH

As of 31 December 2021 several companies of the Group has RUB 4,909 million (2020: RUB 4,310 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 and product of Segezha Group and Steppe.

Inventory is 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 2021 and 2020 consisted of the following:

	2021	2020
Raw materials and spare parts	26,051	16,002
MTS finished goods and goods for resale	18,806	15,204
Other finished goods and goods for resale	15,691	5,760
Other work-in-progress	17,126	9,483
Total	77,674	46,449

The cost of inventories recognised as an expense during the year in respect of continuing operations was RUB 141,081 million (2020: RUB 110,389 million). The cost of inventories recognised as an expense includes RUB 2,935 million (2020: RUB 2,174 million) in respect of write-downs of inventory to net realisable value and has been reduced by RUB 451 million (2020: RUB 674 million) in respect of the reversal of such write-downs.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Accounts receivable	77,395	63,547
Allowance for ECL	<u>(7,366)</u>	<u>(7,089)</u>
Total	<u>70,029</u>	<u>56,458</u>

Below is the age analysis of receivables that are past due but not impaired:

	<u>2021</u>	<u>2020</u>
60-90 days	1,634	1,064
more than 90 days	<u>3,404</u>	<u>2,709</u>
Total	<u>5,038</u>	<u>3,773</u>

Movement in the allowance is as follows:

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	(7,089)	(6,547)
Charge for the period	(3,061)	(5,560)
Usage of allowance to doubtful accounts write-off	1,808	4,847
(Acquisition)/Disposal of subsidiaries	-	(13)
Allowance recovery	850	437
Currency exchange gain/(loss)	<u>126</u>	<u>(253)</u>
Balance at the end of the year	<u>(7,366)</u>	<u>(7,089)</u>

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

23. EQUITY

Share capital – As of 31 December 2021 and 2020, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,393,161,501 and 9,506,184,291 shares were outstanding, respectively.

Treasury shares – Movement of treasury shares during 2021 and 2020 years in quantity was as follows:

	2021	2020
Balance at the beginning of the year	143,815,709	271,803,250
Purchase of own shares	192,072,542	-
Purchase of own shares of the Company by employees	(20,997,160)	(21,539,922)
Settlements under long-term motivation program	(58,052,592)	(106,447,619)
Balance at the end of the year	256,838,499	143,815,709

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 28 June 2021, an annual general meeting of shareholders approved the total dividend payment of RUB 2,991.5 million (including dividends on treasury shares of RUB 47.4 million) representing RUB 0.31 per ordinary share or RUB 6.2 per one global depository receipt. The dividends were paid in 2021.

24. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income balance, net of taxes, as of 31 December 2021 and 2020:

	2021	2020
Cumulative effect of translation to the presentation currency	21,264	22,627
Unrecognized actuarial income	518	303
Total accumulated other comprehensive income	21,782	22,930
Less: attributable to non-controlling interests	(4,997)	(4,177)
Total accumulated other comprehensive income, attributable to Shareholders of Sistema PJSFC	16,785	18,753

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021, finance costs did not include borrowing costs that were included in the cost of qualifying assets in amount of RUB 853 million (2020: RUB 581 million).

At 31 December 2021 and 2020, the Group's borrowings comprised:

	31 December 2021	31 December 2020
Bank loans	425,479	367,769
Corporate bonds	414,911	346,204
Other	10,375	9,988
Total	850,765	723,961
Current	209,254	83,391
Non-current	641,511	640,570

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Bank loans – As of 31 December 2021 and 2020, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (as of 31 December 2021)	31 December 2021	31 December 2020
EUR-denominated:				
Alfa Bank	2022-2028	3.08%	16,548	18,136
Sberbank	2022	0.36%	6,682	12,792
ING Bank	2022-2027	EURIBOR+1.5% (4.13%)	3,609	4,490
Other			1,221	1,434
			28,060	36,852
RUB-denominated:				
Sberbank	2022-2031	5.99%-12.00% CB+1.05%-1.19% (9.55% - 9.69%)	181,311	143,034
VTB	2022-2031	10.10%; CB+0.5%-4.8% (9.00%-13.30%)	143,480	139,929
Alfa Bank	2022-2030	5.82%-12.05%	29,652	25,932
Gazprombank	2022-2027	7.6%-9.3%; CB+1.60% (10.10%)	22,011	16,682
ICBC Bank	2022	9.5%	3,600	324
Otkrytie	2022	11.05%-11.45%	2,412	4,020
Other			14,589	825
			397,055	330,746
Other currencies			364	171
Total bank loans			425,479	367,769

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Corporate notes – As of 31 December 2021 and 2020, the Group's notes consisted of the following:

	Currency	Interest rate (as of 31 December 2021)	31 December 2021	31 December 2020
MTS International 2023	USD	5.00%	32,800	32,596
MTS Notes 2025	RUB	8.00%	14,990	14,987
MTS Notes 2022	RUB	7.70%	14,991	14,980
MTS Notes 2023	RUB	6.85%	14,982	14,971
MTS Notes 2027	RUB	6.60%	14,975	14,970
Sistema PJSFC March 2027	RUB	8.90%	10,607	10,623
Sistema PJSFC May 2030	RUB	6.60%	14,741	14,723
MTS Notes 2026	RUB	7.90%	9,999	9,998
MTS Notes 2022	RUB	9.00%	10,000	9,998
MTS Notes 2021	RUB	8.85%	-	9,999
Sistema PJSFC July 2030	RUB	6.35%	9,218	9,218
Sistema PJSFC January 2028	RUB	6.90%	9,943	9,980
MTS Notes 2021	RUB	7.10%	-	9,997
MTS Notes 2022	RUB	6.45%	9,994	9,988
MTS Notes 2025	RUB	7.25%	9,882	9,816
MTS Notes 2024	RUB	8.70%	9,831	9,766
Sistema PJSFC February 2029	RUB	9.90%	3,800	3,800
Sistema PJSFC August 2030	RUB	6.70%	9,858	9,846
Sistema PJSFC November 2026	RUB	6.85%	9,624	9,694
Sistema PJSFC October 2029	RUB	7.85%	9,689	9,649
Sistema PJSFC March 2029	RUB	9.90%	9,641	9,626
Sistema PJSFC July 2029	RUB	9.40%	9,849	9,607
Sistema PJSFC October 2026	RUB	6.35%	6,181	6,171
Segezha Group JSC January 2023	RUB	7.10%	9,605	9,482
Segezha Group JSC October 2036	RUB	9.85%	10,000	-
Segezha Group JSC November 2036	RUB	9.70%	10,000	-
MTS Notes 2023	RUB	6.50%	9,923	9,860
MTS Notes 2022	RUB	5.50%	9,995	9,983
MTS Notes 2024	RUB	8.60%	7,491	7,488
MTS Notes 2027	RUB	6.60%	6,983	6,980
Sistema PJSFC November 2030	RUB	6.10%	4,748	4,750
MTS Notes 2022	RUB	8.40%	4,997	4,994
MTS Notes 2026	RUB	6.60%	4,992	4,990
Sistema PJSFC November 2030	RUB	6.75%	14,000	14,000
Sistema PJSFC September 2025	RUB	9.75%	4,817	4,207
Sistema PJSFC February 2031	RUB	6.90%	4,819	-
Sistema PJSFC February 2031	RUB	7.35%	12,055	-
Sistema PJSFC April 2031	RUB	8.20%	9,912	-
Sistema PJSFC June 2031	RUB	8.40%	14,851	-
Sistema PJSFC September 2031	RUB	8.20%	15,000	-
Sistema PJSFC November 2031	RUB	9.95%	4,294	-
Business Nedvizhimost August 2024	RUB	10.45%	3,330	3,319
Binnopharm Group November 2036	RUB	9.90%	3,000	-
MTS Notes 2031	RUB	7.50%	78	891
Sistema PJSFC February 2028	RUB	9.00%	244	244
MTS Notes 2024	RUB	6.50%	4,172	-
Other			10	13
Total			414,911	346,204

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.

SISTEMA PJSFC AND SUBSIDIARIES

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:

Sistema PJSFC February 2029	March 2022
Sistema PJSFC Semtember 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 February 2031	November 2023
Binnopharm Group November 2036	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
Segezha Group JSC October 2036	November 2024
Sistema PJSFC February 2031	February 2025
Sistema PJSFC November 2030	June 2025
Sistema PJSFC January 2028	July 2025
MTS Notes 2031	February 2026
Sistema PJSFC November 2031	February 2026
Sistema PJSFC April 2031	May 2026
Sistema PJSFC June 2031	June 2026
Segezha Group JSC November 2036	November 2026
Sistema PJSFC September 2031	December 2026

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 2021 and 2020, 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:

	2021	2020
Violation of other non-financial restrictive conditions	10,685	-
Total	10,685	-

Assets pledged as security – As of 31 December 2021 and 2020, land and buildings with carrying amounts of RUB 23,399 million and RUB 42,254 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 2021 and 2020, other assets including inventories and deposits with carrying amounts of RUB 9,105 million, RUB 5,820 million respectively have been pledged to secure borrowings of the Group.

Stakes in some subsidiaries and affiliates of Segezha, Steppe, Hospitality assets and others have been pledged to secure borrowings of the Group.

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 2021	31 December 2020
Sites for placement of network and base station equipment	91,607	94,510
Land and buildings	100,483	58,378
Other	3,435	215
Rights-of-use assets, net	195,525	153,103

Depreciation of the right-of-use assets for the year ended 31 December 2021 and 2020, 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 0 million and RUB 4 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:

	2021	2020
Sites for placement of network and base station equipment	11,521	7,224
Land and buildings	11,325	14,241
Other	119	70
Depreciation charge, total	22,965	21,535

Additions to right-of-use assets during the year ended 31 December 2021 amounted to 65,231 million (including RUB 35,838 million through acquisitions within business combinations) and for the year ended 31 December 2020 amounted to RUB 17,954 million. The main additions of right-of-use assets in 2021 relate to MTS, Segezha, Steppe and Medsi.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Interest expenses on lease obligations for the year ended 31 December 2021 and 2020, were included in finance expenses in the accompanying consolidated statement of profit or loss. Wherein amounts of RUB 0 million and RUB 2 million, respectively, were recognised as part of the financial result from discontinued operations in the accompanying consolidated statement of profit or loss.

The following table presents expenses related to lease, recognised in the consolidated statement of profit or loss for:

	2021	2020
Depreciation of right-of-use assets	22,965	21,535
Interest expense on lease liabilities	13,761	14,471
Expenses relating to variable lease payments not included in the measurement of the lease liability	10,721	9,641

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 2021 and 2020:

	31 December 2021	31 December 2020
Minimum lease payments, including:		
Less than 1 year	36,324	30,634
From 1 to 5 years	118,696	109,250
Over 5 years	156,629	127,510
Total minimum lease payments	311,649	267,394
Less amount representing interest	(123,812)	(101,819)
Present value of net minimum lease payments, including:		
Less than 1 year	22,616	17,772
From 1 to 5 years	82,886	70,833
Over 5 years	82,335	76,970
Total present value of net minimum lease payments	187,837	165,575
Less current portion of lease obligations	(22,616)	(17,772)
Non-current portion of lease obligations	165,221	147,803

Total cash outflows for leases for the year ended 31 December 2021 amounted to RUB 32,950 million (31 December 2020: RUB 30,922 million), including interest paid in amount of RUB 13,269 million (31 December 2020: RUB 13,828 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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Bank deposits and liabilities as of 31 December 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Customer accounts	213,236	170,273
Bank loans received	21,430	24,644
Debt securities issued	5,581	1,897
Other liabilities	<u>2,303</u>	<u>2,731</u>
	242,550	199,545
Less: amounts maturing within one year	<u>(225,795)</u>	<u>(195,346)</u>
Total bank deposits and liabilities, net of the current portion	<u>16,755</u>	<u>4,199</u>

28. OTHER FINANCIAL LIABILITIES

Other financial liabilities as of 31 December 2021 and 2020 consisted of the following:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Payables for the acquisition of LLC Inter Forest Rus	22,126	-
Factoring operations liability	5,459	920
Payables for the acquisition of a stake in OJSC Sintez (Note 6)	4,775	-
Financial instruments in relation to non-controlling interests of Binnopharm Group (Note 6)	3,732	-
Obligations under swap agreement with Alpha Bank (Note 17)	3,175	-
Repo transaction on Steppe subsidiaries shares	2,050	2,049
Obligation of Binnopharm Group in relation to preferred shares of subsidiary owned by RDIF	2,000	-
Interest rate and cross-currency swaps not designated as hedging instruments	974	943
Contingent consideration and other liabilities	383	1,067
MTS liabilities under put option agreement	-	55
Other	<u>3,334</u>	<u>2,443</u>
Non-current	15,972	3,745
Current	<u>32,036</u>	<u>3,732</u>
Total other financial liabilities	<u>48,008</u>	<u>7,477</u>

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Provisions as of 31 December 2021 and 2020 consisted of the following:

	31 December 2021	31 December 2020
Employees' bonuses and other rewards	13,741	9,246
Provisions for decommissioning and restoration	7,490	5,273
Tax provisions other than for income tax	47	792
Other	10,004	8,689
Total	31,282	24,000
Current	23,256	16,612
Non-current	8,026	7,388

	Employees' bonuses and other rewards	Provisions for decomis- sioning	Tax provisions other than income tax	Other	Total
Balance as of 1 January 2020	(11,123)	(4,788)	(541)	(4,206)	(20,658)
Additional provisions recognized	(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)
Additional provisions recognized	(19,204)	(2,329)	(165)	(5,870)	(27,568)
Payments	14,169	31	298	2,946	17,444
Unwinding of discount and effect of changes in the discount rate	4	(145)	-	-	(141)
Unused amounts reversed	713	226	820	1,565	3,324
Other	(18)	-	(1)	47	28
Purchases	(159)	-	(207)	(3)	(369)
Balance as of 31 December 2021	(13,741)	(7,490)	(47)	(10,004)	(31,282)

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

30. EARNINGS PER SHARE

Earnings per share is the amount of earning 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 and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows.

	<u>2021</u>	<u>2020</u>
Earning for the year from discontinued operations attributable to shareholders of Sistema PJSFC	238	1,650
Loss for the year from continuing operations attributable to shareholders of Sistema PJSFC	<u>17,105</u>	<u>8,566</u>
Earnings used in the calculation of basic and diluted earnings per share	<u>17,343</u>	<u>10,216</u>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>9,466,994,541</u>	<u>9,394,766,486</u>
Earnings per share – basic and diluted	<u>1.83</u>	<u>1.09</u>
From continuing operations	1.81	0.91
From discontinued operations	0.02	0.18

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:

	<u>2021</u>	<u>2020</u>
Net loans and borrowings	768,882	610,268
OIBDA	<u>278,127</u>	<u>229,896</u>
Net loans and borrowings to OIBDA ratio	<u>2.76</u>	<u>2.65</u>

The Group is subject to certain externally imposed capital requirements and restrictions that are incorporated into the management of capital.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021 and 2020, MTS Bank's capital adequacy ratio was 12.54% and 12.82% 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).

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	
	2021	2020	2021	2020
US Dollar	63,395	63,451	34,497	46,968
Euro	39,940	51,432	5,081	8,607

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
2021	50%	31,879
2020	30%	17,792

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).

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

A change of floating rates by 1% applied to the borrowings (excluding hedged items) would result in an increase in the Group's future interest expense by RUB 1,786 million.

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:

	<u>Change in prices</u>	<u>Profit before tax increase</u>	<u>Other comprehensive income increase</u>
2021	30%	10,282	2,828
2020	30%	9,311	3,309

The effect of a corresponding decrease in prices of securities is equal and opposite.

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 2021, the schedule of repayments of financial liabilities (except for lease liabilities, presented in Note 26) of the Group for the next five years and thereafter was as follows:

	<u><1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>>5 years</u>
Loans and borrowings	209,254	167,881	173,355	170,957	83,574	45,744
Accounts payable	132,353	-	-	-	-	-
Bank deposits and liabilities	225,795	11,728	2,513	1,675	839	-
Other financial liabilities	32,036	10,383	-	1,857	3,732	-
Total financial liabilities	599,438	189,992	175,868	174,489	88,145	45,744

For day-to-day liquidity requirements the Group had unused credit facilities of RUB 485,128 million as 31 December 2021 (31 December 2020: RUB 428,363 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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021 and 2020, the Group has a significant cash balances, cash equivalents and deposits in the following financial institutions:

	31 December 2021	31 December 2020
The Central bank the Russian Federation	9,721	16,304
The Central bank of Luxemburg	10,902	9,240
VTB	10,430	17,797
Sberbank	1,745	10,673
Total	32,798	54,014

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.

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 65% of the Group's bank loans denominated in USD and EUR outstanding as of 31 December 2021 (2020: 43%).

The notional amounts related to currency derivative instruments amounted to RUB 39,788 million and 29,663 million as of 31 December 2021 and 2020 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 2021 and 2020, the Group recognised loss RUB 83 million and RUB 1,136 million gain in the consolidated statement of profit or loss for the 2021 and 2020, respectively.

The notional amounts of currency forward and swap instruments, unfulfilled as of 31 December 2021 and 2020 was RUB 9,993 million and RUB 7,911 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 6% of the Group's notes and bank loans with fixed rates outstanding as of 31 December 2021 (2020: 5%).

The notional amounts related to interest rate derivative instruments amounted to RUB 39,788 million as of 31 December 2021 (2020: RUB 29,663 million).

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021 and 2020. 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 2021				31 December 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
At fair value through other comprehensive income	11,782	-	1,022	12,804	13,789	-	768	14,557
Contingent consideration asset related to the sale of business	-	-	1,867	1,867	-	-	2,631	2,631
At fair value through profit or loss	-	-	-	-	-	-	-	-
	34,274	11,974	38,330	84,578	31,035	14,587	29,349	74,971
	46,056	11,974	41,219	99,249	44,824	14,587	32,748	92,159
Financial liabilities								
Derivative instruments	-	(4,150)	-	(4,150)	-	(943)	-	(943)
Contingent considerations	-	-	(188)	(188)	-	-	(1,067)	(1,067)
Liabilities under put option agreements	-	-	-	-	-	-	(55)	(55)
	-	(4,150)	(188)	(4,338)	-	(943)	(1,122)	(2,065)

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021		31 December 2020	
	Carrying value	Fair value	Carrying value	Fair value
Loans and borrowings	850,765	839,849	723,961	734,919

The table below presents the change in fair value of financial assets and liabilities of Level 3 as of 31 December 2021 and 2020.

	Liabilities under put option agreements	Other financial assets	Other financial liabilities	Total
Balance as of 1 January 2020	(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
Reclasses 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
Total gains/(losses):				
- in profit or loss	55	18,996	392	19,443
- in other comprehensive income	-	(650)	-	(650)
Reclasses to other categories ⁽¹⁾	-	(10,085)	-	(10,085)
Disposals	-	(3,194)	-	(3,194)
Repayments	-	(880)	487	(393)
Purchases	-	4,284	-	4,284
Balance as of 31 December 2021	-	41,219	(188)	41,031

⁽¹⁾ The principal amount is represented by the reclassification of financial instruments in respect of non-controlling interests to other financial liabilities after obtaining the control over Binnopharm Group (Note 6).

During 2021 and 2020, unrealized gains or losses were not recognised as a result of the assessment of Level 3 liabilities at fair value.

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021 sales to related parties comprised RUB 1,634 million (2020: RUB 1,234 million), purchases from related parties comprised RUB 5,554 million (2020: RUB 6,642 million). As of 31 December 2021, trade balances receivable from and payable to related parties comprised RUB 6,935 million and RUB 1,936 million, respectively (31 December 2020: RUB 5,626 million and RUB 2,083 million). Bank loans to related parties as of 31 December 2021 are amounted to RUB 4,665 million (31 December 2020: RUB 4,195 million). Debt obligations to related parties as of 31 December 2021 are RUB 8,016 million (31 December 2020: RUB 5,785 million).

Dividends received – In 2021, the Group received dividends from MTS Belarus in the amount of RUB 4,034 million (2020: RUB 4,212 million), Etalon Group in the amount of RUB 1,076 million (2020: 905 million) and Detsky mir in 2020 in the amount of RUB 452 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 2021 and 2020, 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 2021	31 December 2020	31 December 2021	31 December 2020
Controlling shareholder and entities under common control	31,143	20,919	26,897	30,483
Key management personnel	-	-	5,392	5,482
Other related parties	-	-	11,859	5,090

Finance costs related to such transactions with related parties and recognised in the consolidated statement of profit or loss in 2021 amounted to RUB 1,171 million (2020: RUB 1,494 million).

Turnover from other financial transactions with related parties for the twelve months ended 31 December 2021 amounted to RUB 3,496 million (2020: RUB 9,184 million).

Compensation of key management personnel – In 2021 and 2020, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board was as follows:

	2021	2020
Short-term benefits	4,643	3,507
Share-based payments	1,486	2,857
	<u>6,129</u>	<u>6,364</u>

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

35. SUBSIDIARIES

Details of the Group's most material subsidiaries at the end of the year are as follows:

Significant entities	Short name	Principal activity	Beneficial ownership as of 31 December	
			2021	2020
Mobile TeleSystems PJSC	MTS	Telecommunications	50.58%	50.02%
Medsia Group JSC	Medsia	Healthcare services	95.49%	95.49%
Bashkirian Power Grid Company JSC	BPGC	Energy transmission	90.96%	90.96%
Segezha Group JSC	Segezha Group	Pulp and paper	62.17%	98.33%
Agroholding Steppe JSC	Steppe	Agriculture	91.26%	92.82%
Binnopharm Group LLC	Binnopharm Group	Pharmaceuticals	75.32%	n/a

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/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2021	2020	2021	2020
MTS	Russia	31,633	30,672	4,286	13,601
Segezha Group	Russia	3,229	(22)	17,015	132

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.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

	MTS		Segezha Group	
	2021	2020	2021	2020
Current assets	263,299	262,354	56,319	24,535
Non-current assets	752,518	656,849	152,991	64,883
Total assets	1,015,817	919,203	209,310	89,418
Current liabilities	473,364	328,614	73,222	16,516
Non-current liabilities	527,851	557,899	89,896	64,033
Total liabilities	1,001,215	886,513	163,118	80,549
Equity attributable to shareholders of Sistema	5,480	15,100	29,150	8,609
Non-controlling interests	9,123	17,590	17,041	259
Revenue	534,403	494,926	92,442	68,987
Expenses	(470,134)	(432,852)	(77,205)	(70,335)
Profit for the year	64,269	62,074	15,237	(1,348)
Profit attributable to shareholders of Sistema	31,840	30,741	12,041	(1,324)
Profit attributable to the non-controlling interests	32,429	31,333	3,196	(24)
Other comprehensive income attributable to shareholders of Sistema	605	822	140	952
Other comprehensive income attributable to the non-controlling interests	592	822	-	-
Other comprehensive income for the year	1,197	1,644	140	952
Total comprehensive income attributable to shareholders of Sistema	32,445	31,563	12,181	(372)
Total comprehensive income attributable to the non-controlling interests	33,021	32,155	3,196	(24)
Total comprehensive income for the year	65,466	63,718	15,377	(396)

	MTS		Segezha Group	
	2021	2020	2021	2020
Dividends accrued to non-controlling interests	30,747	25,935	2,493	75
Net cash inflow from operating activities	142,579	155,507	13,092	14,734
Net cash outflow from investing activities	(116,165)	(81,133)	(50,497)	(12,925)
Net cash (outflow)/inflow from financing activities	(71,214)	(27,360)	46,154	(1,623)
Net cash (outflow)/inflow	(44,800)	47,014	8,749	186

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:

	2021	2020
Additions to the assets leased	29,393	17,954
Offsetting of counter-obligations	-	13,532
Capital expenditure liabilities	5,402	12,701
Employee benefits	7,045	3,933
Fair value of the equity consideration of a subsidiary	-	2,625
Deferred payment	26,579	-

Information on non-cash acquisitions of subsidiaries is disclosed in Note 6.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2021	Cash flows from financing activities (i)	Cash flows from operating activities (ii)	Disposal/ acquisition of subsidiaries (Note 5, 6)	Non-cash changes			31 December 2021
					Currency exchange	Changes in equity	Other changes (iii)	
Loans and borrowings	723,961	111,514	-	20,376	(2,243)	-	(2,843)	850,765
Capital transactions of subsidiaries	-	31,680	-	-	-	(35,466)	3,786	-
Lease liability	165,574	(19,682)	(13,269)	12,174	(8)	-	43,048	187,837
Dividends payable	3,326	(35,557)	-	-	-	37,489	-	5,258
Other financial liabilities	7,476	(21,197)	-	44,916	-	5,425	11,385	48,005
Total	900,337	66,758	(13,269)	77,466	(2,251)	7,448	55,376	1,091,865

	1 January 2020	Cash flows from financial activities (i)	Cash flows from operation activities (ii)	Disposal/ acquisition of subsidiaries (Note 5, 6)	Non-cash changes			31 December 2020
					Currency exchange	Changes in equity	Other changes (iii)	
Loans and borrowings	620,870	93,787	-	(1,477)	16,078	-	(5,297)	723,961
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

- (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, interest accruals and newly recognized other financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 2021, the Group had capital commitments of RUB 104,616 million (31 December 2020: RUB 78,797 million), relating to the acquisitions of property, plant and equipment.

Guarantees – As of December 31, 2021, MTS-Bank and EWUB acted as guarantors for loans received by several companies in the amount of RUB 16,172 million (31 December 2020: RUB 23,774 million), and also had commitments to provide loans under open credit lines in the amount of RUB 37,327 million (31 December 2020: RUB 24,206 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 2021, 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 – Russian legislation on taxation for business purposes continues to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by tax 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 tax 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 in accordance with its interpretations of the Russian tax legislation. However, the tax 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 2021, provisions for additional taxes and customs settlements comprised RUB 414 million (31 December 2020: RUB 1,216 million).

The Group also assesses the following contingent liabilities in respect of additional tax settlements:

	31 December 2021	31 December 2020
Contingent liabilities for additional taxes other than income tax	860	1,043
Contingent liabilities for additional income taxes	1,132	892

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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.

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. 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.

Due to the deterioration of the geopolitical situation since February 2022 the EU, the US, the UK and several other countries have introduced significant new sanctions and export controls on certain Russian individuals and entities. These include, among other things, restrictions targeting a number of large Russian financial institutions and the Central Bank of Russia, several companies and individuals, and technology export controls.

Changes in these matters are highly unpredictable, occur quickly and often without warning, and are largely beyond the control of the Group.

The Group is currently assessing its currency, interest rate, credit and other market risks.

Current and future risks include, but are not limited to, the risk of limitation and complete closure of access to capital markets and the possibility of obtaining financing on commercially reasonable terms, the risk of decrease of fair value of financial assets, the risk of restrictions on the import of certain equipment and software and the export of finished products, as well as the risk of further depreciation of the Russian ruble against other currencies, which could adversely affect the Group's investment program as a significant portion of its capital expenditures are closely linked to foreign currencies. In addition, an increase in the interest rate by the Central Bank of Russia, which raised the key rate to 20%, will increase the cost of financing the Group. Violation of financial and non-financial covenants stipulated by loan agreements of the Group may result in banks' demand of accelerated repayment of existing loans. The Group's management regularly analyzes the implementation of covenants. To date, the Group's covenants stipulated by loan agreements have not been violated.

The negative impact on the Russian economy is likely to increase the credit risk of many customers, leading to the need to recognize a significant additional amount of expected credit losses. However, it is currently not possible to quantify the corresponding financial effect.

The operations of MTS Bank, a company of the Group, are subject to risks that affect the ability of borrowers to repay amounts due to the Group, which may depend on the overall macroeconomic and business environment. Unfavorable changes in economic conditions could lead to a deterioration in the value of collateral for loans and other liabilities.

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The above events require the business of the Group to adapt to a changing operating environment, characterized by significant uncertainty and having a significant impact on the Group and its operations. The actual future operating environment and its impact on the Group may differ from the management's current expectations. The management of the Group is currently assessing the possible impact of the above events and is taking all necessary measures to ensure the sustainability of the Group's operations.

Starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation evolves rapidly, COVID-19 could significantly impact the operations of many companies in various sectors of the economy, including but not limited to disruption to operations due to production suspensions or closures, supply chain disruptions, staff quarantines, reduced demand, and difficulties in obtaining funding. Therefore, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

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 2021, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 5,681 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 economic entities with state participation in comparison with the conditions established for economic entities without state participation in the authorized capital. In addition, the FAS Russia saw in the actions of MTS PJSC signs of establishing a monopoly high price for bulk SMS services.

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. In March 2021, Deputy Chairman of the Supreme Court of the Russian Federation upheld the rejection. In August 2021, the Group paid the fine imposed by FAS Russia in full amount of RUB 189 million.

In April, June and July 2021, JSC "Tinkoff Bank", PJSC "Sovcombank" and JSC "Raiffeisenbank" initiated litigations against the Group, claiming reimbursement for losses incurred in connection with violation of antimonopoly laws in respect to establishing unreasonably high bulk SMS prices. Commercial Court of the City of Moscow has dismissed all three claims in full. It's currently impossible to predict the timing or outcome of the litigations on violation of antimonopoly laws in respect to establishing unreasonably high bulk SMS prices. Management of the Group believes that as of 31 December 2021 it has adequately provided for claims related to SMS pricing.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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 the Group’s former subsidiary in Uzbekistan, consented to the entry of an administrative cease-and-desist order (the “Order”) by the SEC and entered a deferred prosecution agreement (“DPA”). Under the DPA and the Order in September 2019 the Group appointed an independent compliance monitor for, inter alia, review, testing and perfecting MTS’ anti-corruption compliance code, policies, and procedures.

As of 31 December 2021 MTS has not received notice from the SEC, the DOJ or the monitor of any breach of the terms of the DPA or the Order. However, given a variety of factors, including the COVID-19 pandemic, MTS has agreed to a one-year extension of the DPA and the monitorship with the DOJ and the SEC to provide the Group with adequate time to implement necessary enhancements to certain critical components of its anti-corruption compliance and ethics program and allow the monitor sufficient time to be able to complete its review of the remedial efforts, including the MTS’s implementation of the monitor’s recommendations and an assessment of the sustainability of the MTS’s remedial actions. The term of the monitorship will continue until September 2023.

In connection with compliance monitorship, certain transactions were identified relating to the MTS’s subsidiary in Armenia, and such transactions were disclosed to the DOJ and SEC. The DOJ and SEC have requested information regarding the transactions and MTS has initiated an investigation into the matter. It’s currently impossible to predict the timing or outcome of the investigation.

In December 2020, MTS received a request for information from the DOJ concerning certain historical transactions with a supplier of telecommunication and information technology. Currently, MTS is cooperating to provide information to the DOJ and the SEC responsive to the request.

Litigation related to operations in Turkmenistan - In September 2017, the MTS’s subsidiary in Turkmenistan MTS Turkmenistan or MTS-TM, suspended the provision of telecommunication services to its subscribers, due to the termination by Turkmen state-owned companies and state authorities of line rental, frequency allocation, interconnect, and other agreements necessary to provide telecommunication services. The license for the provision of telecommunication services on the territory of Turkmenistan was valid until July 2018.

In July 2018, the MTS filed a Request for Arbitration against the Sovereign State of Turkmenistan with the World Bank’s International Center for Settlement of Investments Disputes (“ICSID”) in order to protect its legal rights and investments in Turkmenistan. As of December 31, 2021 the case is pending.

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. The plaintiff has filed an appeal for dismissal resolution of Eastern District Court of New York. The appeal is pending. It’s currently impossible to predict the outcome of the litigation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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

Ozon – Due to sanctions imposed by the US, the EU and other countries against Russia, on 8 March 2022, a delisting event occurred for the company's USD 750 million bonds with a 1.875% coupon maturing in 2026. Subject to the terms of the bonds, bondholders are entitled to require the Company to repay principal and accrued interest on the bonds on the date that is fourteen New York Business Days following the 60-day period from the later of the date of the Delisting Event or the date of notification of it to bondholders. As a result of the measures introduced by Russia to control the movement of capital, the ability of the Russian subsidiaries of the company to transfer funds to the Cypriot holding company, which is the issuer of bonds, may be limited. The company is currently developing an offer to bondholders in connection with the Delisting Event.

Placement of ruble-denominated bonds – On 26 January 2022, Segezha Group placed fifteen-year exchange-traded bonds series 002P-03R for a total amount of RUB 9 billion on the Moscow Exchange with a coupon of 10.9% per annum and maturity period of 2 years. The funds received from the placement were used to pay off the debt on the acquisition of Inter Forest Rus LLC and its subsidiaries.

Acquisition of VisionLabs – In February 2022, the Group acquired a 100% ownership interest in VisionLabs B.V. («VisionLabs»), leading provider of computer vision and machine learning solutions. The acquisition is aimed at reinforcement of the Group’s artificial intelligence product portfolio in the computer vision space, and enhancing the potential of the Group’s digital ecosystem. The purchase price constitutes a cash payment of RUB 3.8 billion to a third party, transfer of the non-controlling stake in one of the Group’s subsidiaries for RUB 0.7 billion and contingent consideration of RUB 0.6 billion. Contingent consideration is based on certain performance criteria for the periods starting 2022 and ending 2024.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

MTS President increases ownership stake – On 24 March 2022 Vyacheslav Nikolaev acquired 19,983,816 ordinary shares of MTS owned by Bastion LLC, a wholly owned subsidiary of MTS. With the transfer of shares to Mr Nikolaev, his stake in MTS increased to more than 1% of outstanding share capital of the company. Following the transfer, the aggregate stake of Sistema and its subsidiaries in MTS (including ordinary shares and ADRs) has remained unchanged at 42.085%, as Sistema and its subsidiaries were not a party to the transaction. At the same time, since the shares were transferred from those held by MTS's wholly-owned subsidiary Bastion LLC, the transaction has resulted in a decrease of the Group's effective stake in MTS to 49.94%. Accounting consequences of this change in ownership is still being assessed.

Sale of stake in Sistema Finance Holdings S.A. – On 24 March 2022, the Group sold 90% of the shares of Sistema Finance Holdings S.A. to a third party. Accounting consequences of this change in ownership is still being assessed.