

**For the attention of the general meeting of shareholders
of Sistema PJSFC**

**REPORT ON THE FINDINGS OF THE
FINANCIAL AND ECONOMIC AUDIT
OF SISTEMA
PUBLIC JOINT STOCK FINANCIAL CORPORATION
FOR 2016**

Date and place of report: 28 April 2017, Moscow

1. INTRODUCTION

1.1. In accordance with the Federal Law No 208-FZ “On Joint-Stock Companies” dd 26 December 1995, the Auditing Commission of Sistema PJSFC (hereinafter, the “Company”) conducted an audit of the Company’s financial and business operations in 2016.

1.2. Membership of the Auditing Commission:

Chair of the Auditing Commission: E. Kuznetsova,

Members of the Auditing Commission: A. Guryev and A. Lipsky

1.3. The audit was conducted during the period of 03 April 2017 – 28 April 2017.

1.4. The audit aims to ensure that:

- a) the key financial indicators of the Company presented in the annual report of the Company, annual financial statements and other financial documents of the Company are fair and accurate;
- b) financial accounts were kept and financial statements were delivered in compliance with Russian law;
- c) the financial and business activities of the Company were conducted in compliance with Russian law and to the benefit of the Company and its shareholders;
- d) decisions and directives of the Company’s collective governance bodies were adhered to and material business processes were performed in compliance with all applicable requirements and regulations;
- e) the data contained in the annual report on related party transactions concluded by the Company in the reporting year are fair and accurate.

1.5. For the purposes of the audit and the preparation of this Report of the Auditing Commission, the Company presented the following documents:

- The Company's Charter;
- The Company's Annual Report for 2016, including the Report on related party transactions concluded by the Company in the reporting year;
- The Company's Balance Sheet as of 31 December 2016;
- The Company's Profit and Loss Account for 2016;

- Supplements to the Balance Sheet and Profit and Loss Account:
 - Statement of Changes in Equity for 2016;
 - Cash Flow Statement for 2016;
 - Other supplements to the Company's Balance Sheet and Profit and Loss Account: notes (tables and/or texts) for 2016;
- Accounting documents, ledgers, and other documents for 2016;
- Audit opinion regarding the Company's financial statements for 2016.

1.6. The Company's management bears full responsibility for the preparation and fairness of the above annual financial reports in compliance with Russian Accounting Standards; for the establishment and operation of an efficient internal control system within the Company required for the preparation of annual financial reports free from any material misstatements, whether due to fraud or error; for the compliance with any and all necessary requirements and directives of the Company's management; and for conducting financial and business operations in compliance with Russian law and to the benefit of the Company and its shareholders.

1.7. The responsibility of the Auditing Commission was to conduct the audit in order to gain reasonable assurance that the key audit objectives were achieved and conclusions were drawn on the basis of impartial and sufficient analysis of all of the information, data, and documents provided for the audit.

1.8. The Auditing Commission judges the information, data, and documents obtained in the course of the audit to be sufficient for preparing conclusions and opinions.

2. ANALYSIS

2.1. The audit, judgements, and conclusions regarding the fairness of the Company's annual financial statements were based on the requirements of the relevant Russian accounting principles and standards applied during the preparation of financial statements.

2.2. The analysis and assessment of the Company's financial and business operations and conclusions regarding their conformity with existing requirements were based on the provisions of the applicable laws as well as internal rules and regulations of the Company.

2.3. The assessment of the efficiency of the Company's internal control procedures was based on the requirements of the applicable laws, internal rules and regulations of the Company in the area of risk management and internal control, and job descriptions of the Company's employees.

2.4. The audit procedures were built with due regard to the Company's form of incorporation and in adherence to the laws and regulations of the Russian Federation.

2.5. The methodology used included random audits of business operations, an audit of a random set of documents related to material events in the audit period, interviews with the Company's employees, and analysis of the Company's financial performance indicators for 2016.

2.6. The authorised capital of the Company is RUB 868,500,000. Sistema PJSFC has 9,650,000,000 ordinary shares outstanding with a nominal value of RUB 0.09 each.

2.7. Sistema's principal shareholder is its Board Chairman Vladimir Evtushenkov, who owns 64.2% of the equity. Other shareholders of Sistema as of 31 December 2016 were: CJSC National Settlement Depository (non-bank lending institution) as a nominee shareholder (32.5%), Sistema Group companies, and the Company's employees and Board members.

2.8. During the audit period, the CEO of the Company was Mikhail Shamolin and the Chief Accountant was Irina Borisenkova. The Chief Accountant is responsible for the Company's financial reporting and delivery of financial statements.

2.9. The key types of the Company's activities in the audit period were:

- owning equity interests in other companies;
- leasing out assets (properties) for a consideration;
- issuing guarantees.

2.10. All the transactions closed by the Company in 2016 that are recognised as related party transactions under the Federal Law "On Joint-Stock Companies" were approved by the Board of Directors of the Company. The data on related party transactions concluded by the Company in the reporting year are presented in the Company's Annual Report for 2016.

3. FINANCIAL RESULTS

3.1. The result of the Company's financial and business operations in 2016 is a net loss of RUB 37,372,722,000, whereas in 2015 it had posted a net profit of RUB 34,461,228,000.

3.2. The Company's revenue primarily consists of dividends from subsidiaries. In 2016, it totalled RUB 36,665,582,000, which is RUB 5,822,337,000 higher than it was in 2015 (up 19%).

3.3. Loss before tax totalled RUB 38,045,431,000 in 2016, as opposed to income before tax of RUB 46,147,123,000 in 2015.

3.4. Net assets of the Company were positive in 2016, they fell by RUB 47,505,222,000 year-on-year and totalled RUB 246,565,907,000 at the end of the year.

4. DATA FROM EXTERNAL AUDIT REPORT

4.1. Information about the external auditor: Closed joint-stock company Deloitte & Touche CIS, member of the self-regulating auditors' organisation Russian Union of Auditors (ORNZ 11603080484), performed an audit of the Company's financial statements for 2016

prepared in accordance with the Russian Accounting Standards pursuant to agreement No. AUD/2016/41426 dd 28 November 2016 during the period of 12 September 2016 – 31 March 2017 and delivered its audit opinion on 31 March 2017.

4.2. In the auditor's opinion, the annual accounting (financial) statements present fairly in all material respects the financial position of Sistema PJSC as of 31 December 2016, the financial results of its operations, and its cash flows in 2016 in conformity with Russian Accounting Standards.

5. CONCLUSIONS

Based on the results of the audit of the Company's statements relying on impartial and sufficient analysis of all of the information, data and documents provided for the audit, and taking into account the opinion of the external auditor CJSC Deloitte & Touche CIS issued with regard to the fairness of the Company's annual financial statements, the Auditing Commission came to the following conclusions:

5.1. The Auditing Commission identified no material violations of Russian laws and regulations with respect to accounting operations and presentation of financial statements and no breach of Russian laws and regulations with regard to the Company's financial and business operations.

5.2. The Auditing Commission hereby confirms that the data on related party transactions concluded by the Company in the reporting year contained in the Company's Annual Report for 2016 are fair and accurate.

5.3. The Auditing Commission hereby confirms that the annual financial statements of the Company for 2016 and the Annual Report of the Company for 2016 present fairly in all material respects the Company's assets and liabilities as of 31 December 2016 and the financial results of the Company for 2016 in accordance with the requirements of the applicable Russian laws governing financial accounting and reporting and in conformity with the accounting policy of the Company.

Auditing Commission of Sistema PJSC:

Chair of the Auditing Commission _____ E. Kuznetsova

Member of the Auditing Commission _____ A. Guryev

Member of the Auditing Commission _____ A. Lipsky