

STRATEGIC ACQUISITION OF LEADER-INVEST BY ETALON GROUP

19 February 2019



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ETALON GROUP AT A GLANCE BEFORE ACQUISITION

Etalon Group is one of Russia's largest development and construction corporations. The Company focuses on residential real estate for the middle class in the Moscow metropolitan area and St Petersburg.

KEY FACTS

>30
YEARS of experience in construction & development

58
CITIES in Russia covered by sales network

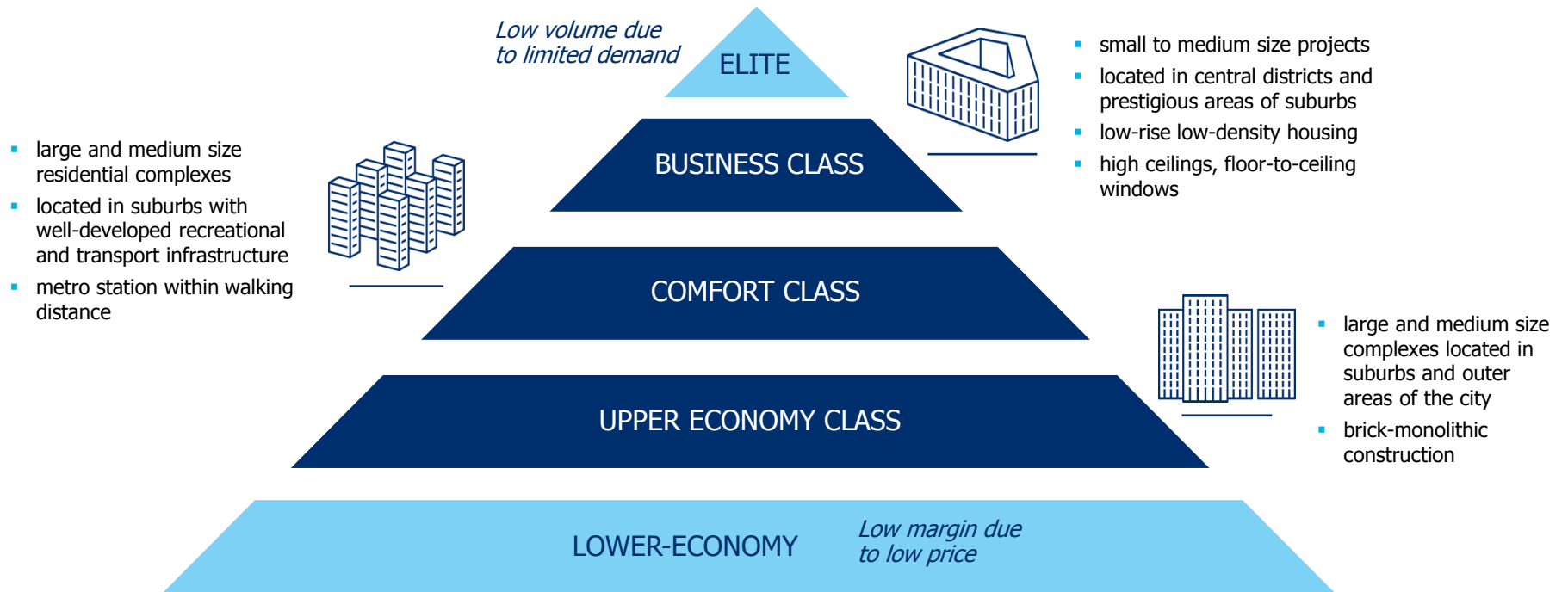
6.3
MLN SQM commissioned since inception

5 THS employees

2
MARKETS St Petersburg and Moscow metropolitan area – two capital cities with steadily growing population and high concentration of middle class customers

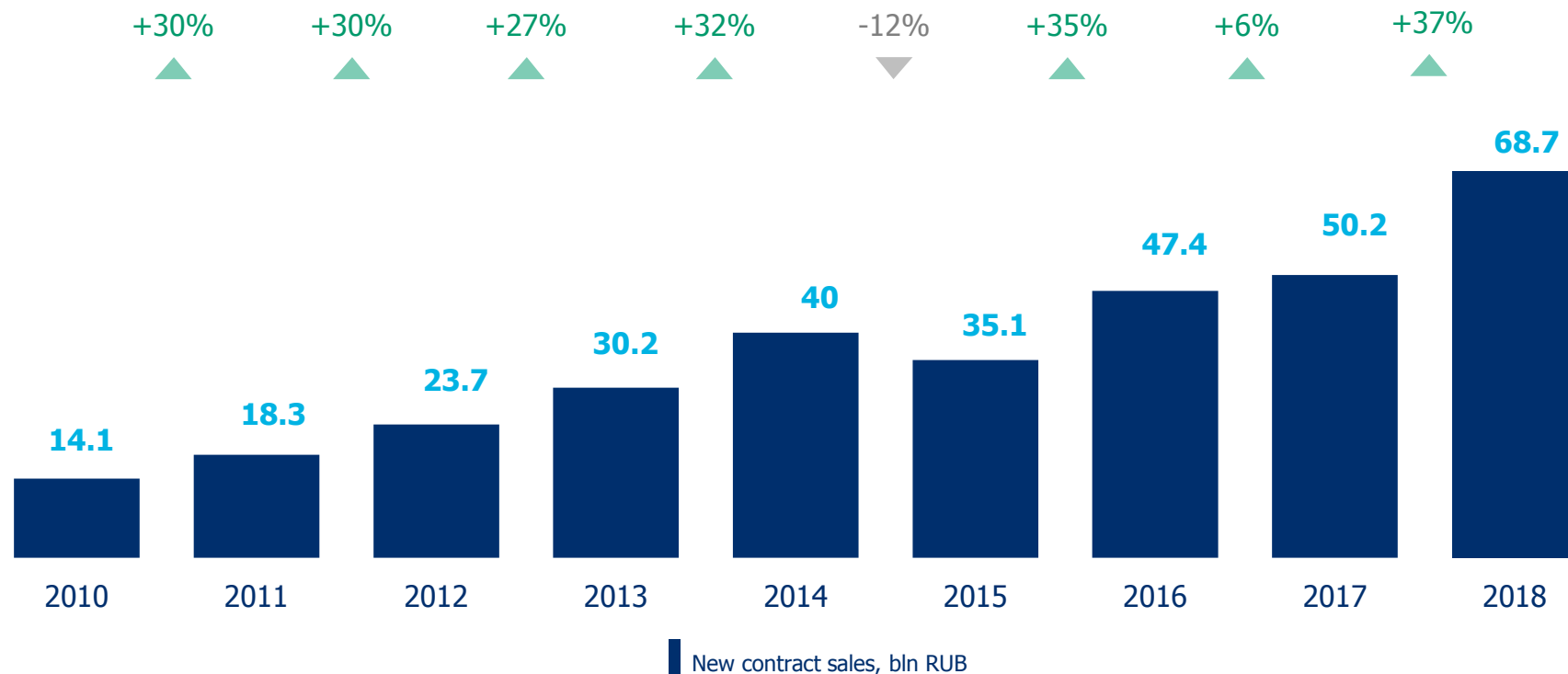
ETLN GDRs listed on the London Stock Exchange since 2011
LSE ticker

ETALON GROUP SEGMENTS



SALES PERFORMANCE SINCE IPO

NEW CONTRACT SALES DEMONSTRATE IMPRESSIVE GROWTH, WITH CAGR OF 22%



ACQUISITION SUMMARY

TRANSACTION

- Acquisition of 51% in Leader-Invest JSC (“Leader-Invest”), a Russian residential real estate developer focused on the Moscow market, from Sistema PJSC and affiliates by Etalon’s subsidiary Etalon Group of Companies AO
- RUB 15.2 bln consideration to be paid fully in cash by Etalon Group
- Acquisition to be funded using 5-year credit facility from Sberbank with 10.1%⁽¹⁾ interest rate

LEADER-INVEST KEY FIGURES

- 31 projects under construction or in design stage located in Moscow inside the Moscow Ring Road, including 28 small to medium size projects and 3 large-scale multi-use development projects
- 1.3 million square meters of unsold NSA⁽²⁾
- Focus on comfort, business and premium class segments
- Low leverage with 0.1x net debt/EBITDA level as of 31.12.2018⁽³⁾
- c. 400 employees as of 31.12.2018

INTEGRATION

- After completing the transaction, Leader-Invest will be fully integrated into Etalon Group

DEAL ADVISORS

- J.P. Morgan Securities plc acted as financial adviser to Etalon Group
- Allen & Overy is acting as a legal advisor for Etalon Group
- PwC is acting as a financial and tax advisor for Etalon Group

⁽¹⁾ CBR key rate + 2.35%

⁽²⁾ According to Colliers International valuation report as of 01.10.2018

⁽³⁾ Net debt of RUB 0.3 bln as of 31.12.18 based on management accounts; FY2017 EBITDA of RUB 2.4 bln according to Leader-Invest IFRS accounts is used

STRATEGIC RATIONALE

CREATES A LEADING PLAYER IN MOSCOW

- Acquisition of Leader-Invest significantly improves Etalon's share in the most lucrative Moscow residential real estate market, making the combined entity one of the leading developers in Moscow:
 - #1 by number of projects offered to the market⁽¹⁾
 - #2 in sales⁽¹⁾
 - #2 in volumes under construction⁽²⁾

STRENGTHENING PROJECT PORTFOLIO

- c. 48% increase in unsold NSA⁽³⁾
- Replenish landbank with a diversified portfolio of early-stage and advanced-stage projects to create substantial growth opportunity
- No overlap with Etalon's pre-acquisition project portfolio

SIGNIFICANT OPERATIONAL SYNERGIES

- Etalon Group's vertically integrated platform will ensure efficient development of Leader-Invest projects
- Considerable optimisation of construction and SG&A costs by eliminating duplicate administrative and operational functions
- Utilisation of Etalon's sales network to unlock value of Leader-Invest projects
- Low one-off integration expenses thanks to limited headcount of Leader-Invest

IMPROVED PROFITABILITY AND STRONG FINANCIAL POSITION

- Improve Etalon's margin due to higher share of projects in more profitable business and premium class segments
- Significant addition to Etalon's revenue
- Etalon maintains strong balance sheet with 0.85x net debt/EBITDA level⁽⁴⁾

VALUE ENHANCING ACQUISITION

- Acquisition cost per sqm of RUB 23 ths is close to low end of Etalon's current land plot acquisition cost range of RUB 20 ths – RUB 38 ths⁽⁵⁾
- Average selling price per sqm for Leader-Invest projects of RUB 240 ths⁽⁶⁾, significantly above current range for Etalon's projects of RUB 132 ths – RUB 200 ths⁽⁵⁾

⁽¹⁾ Based on Knight Frank data as of 31.12.2018

⁽²⁾ Based on Russian Unified Registrar of Residential Real Estate Developers data as of 31.12.2018

⁽³⁾ Including minority interest of Sistema PJSC of 49%

⁽⁴⁾ Etalon Group net cash of RUB 2.3 bln plus Leader-Invest net debt of RUB 0.3 bln as of 31.12.18 based on management accounts less the acquisition cost funded by the credit facility; Etalon Group plus Leader-Invest FY2017 EBITDA of RUB 13.2 bln and RUB 2.4 bln, respectively, according to IFRS accounts

⁽⁵⁾ For Etalon Group projects under construction in Moscow within the Moscow Ring Road

⁽⁶⁾ Forecasted average real estate sale price for Leader-Invest projects

LEADER-INVEST AT A GLANCE



LEADER INVEST

ONE OF THE LEADING DEVELOPERS IN MOSCOW

- Leader-Invest is a leading residential real estate developer within Moscow Ring Road
- Portfolio includes 31 projects under construction or in design stage and 8 completed projects with total area of unsold property available for sale of about 1.3 million sqm
- Prime locations in well-developed and attractive neighbourhoods with a healthy living environment inside Moscow Ring Road
- 69 ths sqm of NSA sold in 2018

PROVEN BUSINESS MODEL

- Focus on the most in demand comfort and business segments
- Established process for selection of attractive assets with excellent transport accessibility
- Development of unique, niche product with a focus on modern trends
- 8 projects delivered over the last 3 years

WELL-DEVELOPED FINANCIAL FUNCTION AND TRANSPARENCY PRACTICES

- Leader-Invest reports IFRS financial results on semi-annual basis
- Portfolio valuation carried by reputable independent appraiser (Colliers International)
- Leader-Invest has publicly traded bonds since 2016
- S&P credit rating of B with a stable outlook

REPUTABLE SHAREHOLDER

- Leader-Invest is a subsidiary of Sistema PJSFC, whose shares and GDRs are listed on MOEX and the LSE since 2005
- Sistema PJSFC is a well-recognised holding company with reputable investment track record
- Well defined corporate governance platform in line with international standards
- Sistema PJSFC to remain a 49% minority shareholder post transaction

LEADER-INVEST PORTFOLIO OVERVIEW

WINGS



160 ths sqm
154 ths sqm
Business

Wings is a business-class project located in the Ramenki district of Moscow, just minutes from major transport routes and within walking distance of the Michurinskiy Prospekt metro station. The project's three interconnected buildings of up to 21 storeys, with a total of 1,473 apartments and 160 ths sqm of NSA, look out over a forest park and the Ramenka river. This development will offer residents 3.1-metre high ceilings with large windows that will provide for excellent views and plenty of natural lighting. The private territory of the Wings project will include recreation grounds, a preschool and school as well as commercial and office space.

2018 – 2023

NAGATINO I-LAND



333 ths sqm
333 ths sqm
Business

Nogatino I-Land is a business-class project located on the shore of the Moscow River in the Nagatino district of Moscow near major transport routes and just 5 minutes from the nearest metro station. The project will include residential and commercial space, as well as underground parking. Nagatino I-Land will offer residents extensive landscaped green spaces, including pedestrian boulevards along the Moscow River embankment. This 4-hectare development will become a self-contained neighbourhood, with cafes and restaurants, shopping and social infrastructure all located on the carefully thought-out territory.

2019 – 2025

ZIL YUG



623 ths sqm
623 ths sqm
Business / Comfort

This large-scale urban redevelopment project will create a new business- and comfort-class residential district with 623 ths sqm of NSA on a 109-hectare land plot just 6km from the Kremlin. Developed based on a "smart neighbourhood" concept, the district will be equipped with electric car charging stations, sorting facilities for recycling waste and other features that will make ZIL Yug one of the world's most modern urban districts. The ZIL Yug project will house approximately 60 ths residents and include an exhibition centre, shopping centre, schools, preschools, a hospital and health clinic.

2020 – 2028

OTHER PROJECTS



338 ths sqm
189 ths sqm

Premium / Business / Comfort

Leader-Invest's landbank includes 29 other projects that are either under construction or in the design stage, with a total area of 338 ths sqm. The company's portfolio includes premium-, business- and comfort-class projects located in well-developed residential areas with good social infrastructure inside the Moscow Ring Road, all with good access to public transport and main roads, as well as parks, shopping and entertainment facilities.

by 2024

TOTAL AREA
UNSOLD NSA
PROPERTY CLASS
BRIEF OVERVIEW

CONSTRUCTION
PERIOD

LEADER-INVEST ACQUISITION IS IN LINE WITH ETALON GROUP DEVELOPMENT STRATEGY



LEADER-INVEST FULLY SATISFIES ALL CHARACTERISTICS SET FOR POTENTIAL M&A TARGETS BY ETALON:

- 1** FOCUS ON THE SAME REGIONS AND SEGMENTS
- 2** COMPLEMENTARY PORTFOLIO AND VALUE CHAIN
- 3** CONSIDERABLE OPERATING SYNERGIES DUE TO ELIMINATION OF DUPLICATE FUNCTIONS AND MONETISATION OF SALES NETWORK
- 4** ATTRACTIVE PROFITABILITY ACROSS PROJECT PORTFOLIO AND SIGNIFICANT RETURN ON INVESTMENTS
- 5** HIGH LEVEL OF TRANSPARENCY

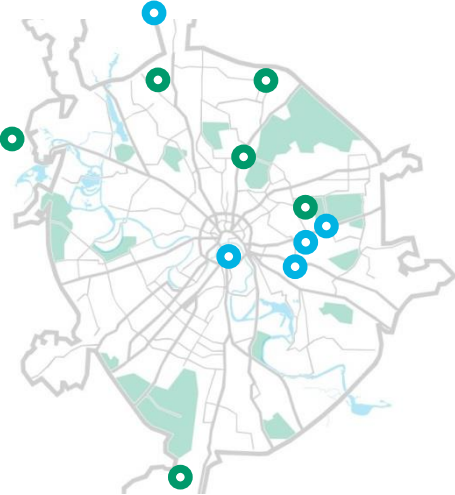


TRANSACTION EFFECT ON ETALON GROUP OPERATIONS IN MOSCOW



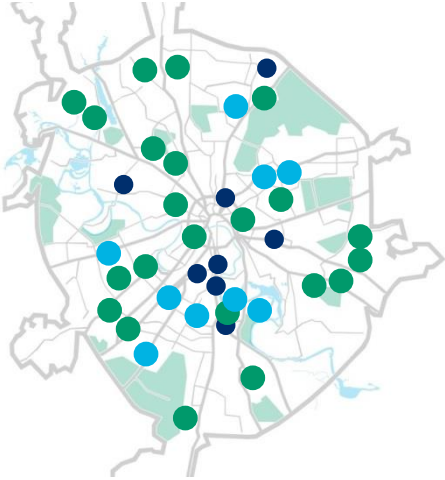
ETALON'S PROJECTS

11 projects



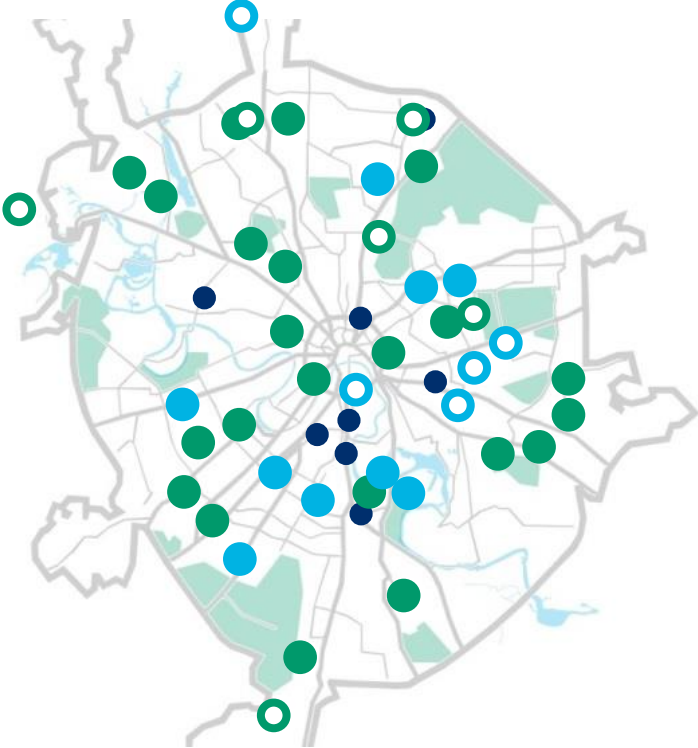
LEADER'S PROJECTS

31 projects



PROJECTS IN MOSCOW

42 projects



 UNDER CONSTRUCTION

 DESIGN STAGE

 COMPLETED

ETALON GROUP OPERATIONS IN ST PETERSBURG AND MOSCOW AFTER THE TRANSACTION



57 PROJECTS

4.0 MLN SQM UNSOLD NSA⁽¹⁾

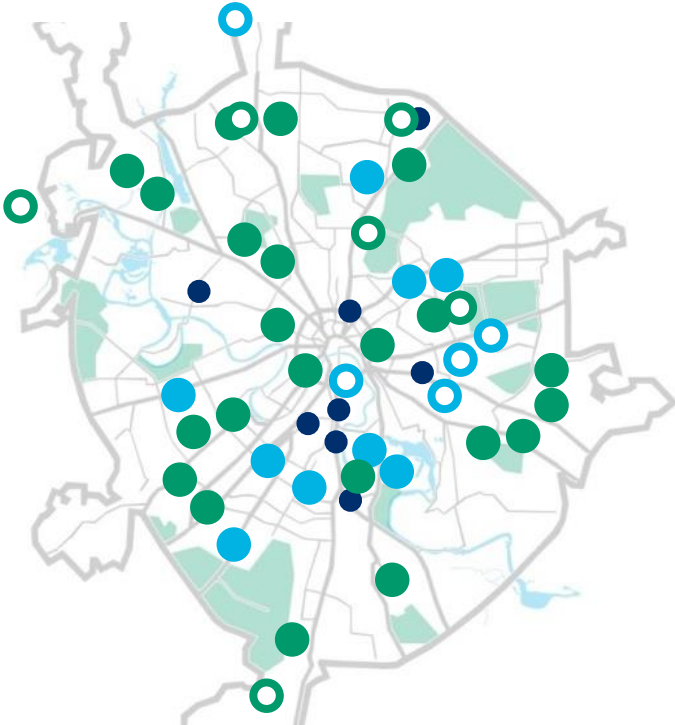
200 BLN RUB OPEN MARKET VALUE⁽¹⁾

58 CITIES COVERED BY SALES NETWORK

PROJECTS IN ST PETERSBURG



PROJECTS IN MOSCOW



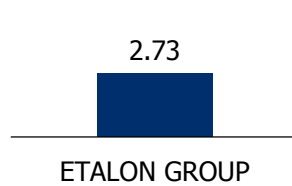
- UNDER CONSTRUCTION
- DESIGN STAGE
- COMPLETED
- ETALON BEFORE DEAL
- NEW PROJECTS

⁽¹⁾ Including minority interest of Sistema PJSFC of 49% in Leader-Invest projects

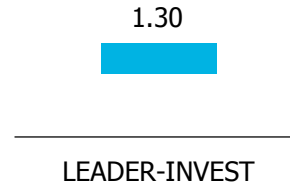
LANDBANK DEVELOPMENT

UNSOLD NSA,
MLN SQM

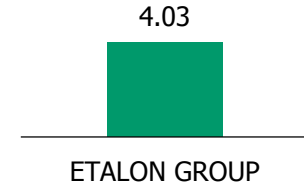
ETALON GROUP



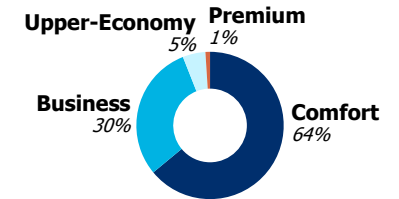
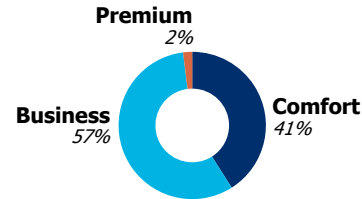
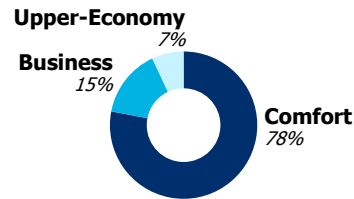
LEADER-INVEST



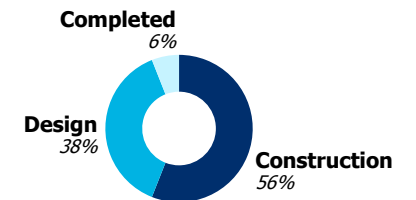
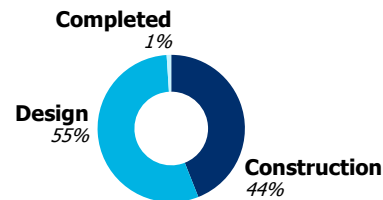
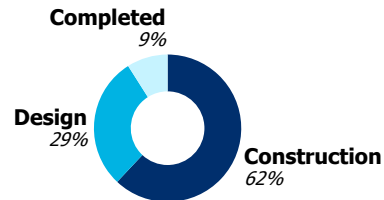
PRO-FORMA⁽¹⁾



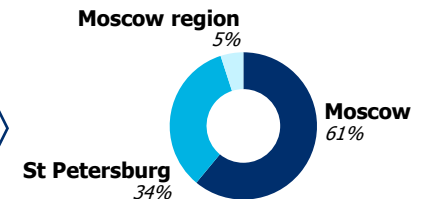
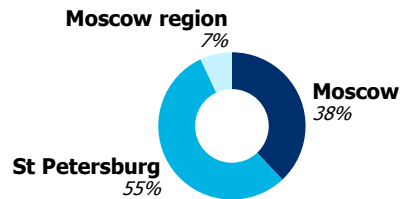
BREAKDOWN BY
SEGMENTS



BREAKDOWN BY
STAGE



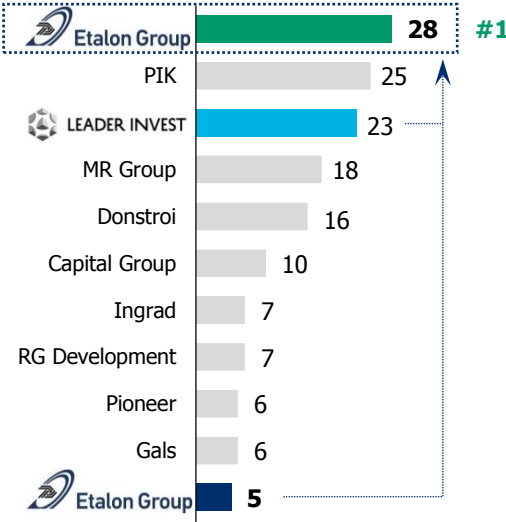
BREAKDOWN BY
REGIONS



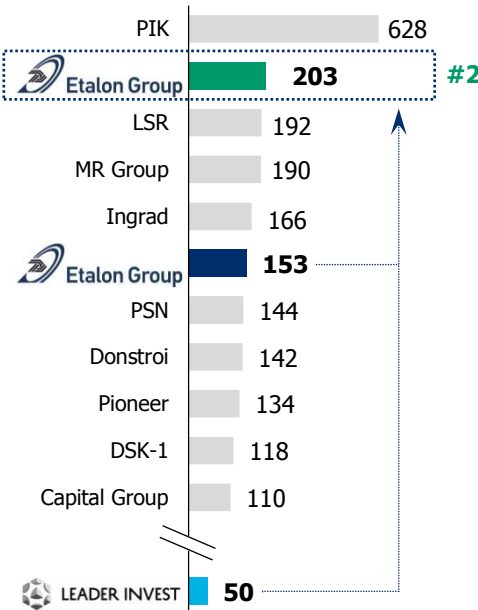
⁽¹⁾ Including minority interest of Sistema PJSFC of 49% in Leader-Invest projects

STRENGTHENING MARKET POSITION IN MOSCOW

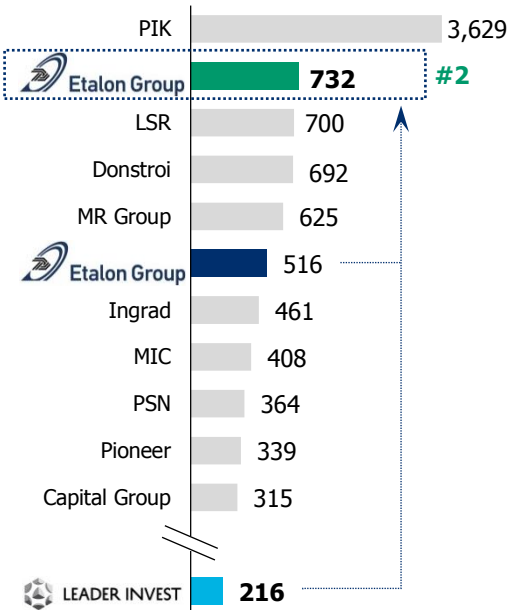
#1 BY NUMBER OF PROJECTS OFFERED TO THE MARKET⁽¹⁾



#2 IN SALES⁽¹⁾



#2 IN VOLUMES UNDER CONSTRUCTION⁽²⁾

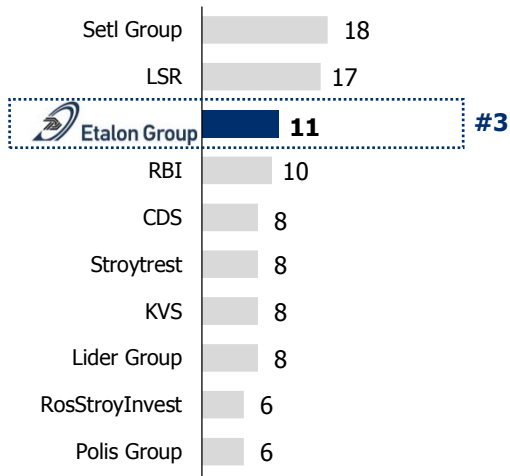


⁽¹⁾ Based on Knight Frank data as of 31.12.2018; for sales ranking the data for residential real estate sales is used without commercial premises and parking

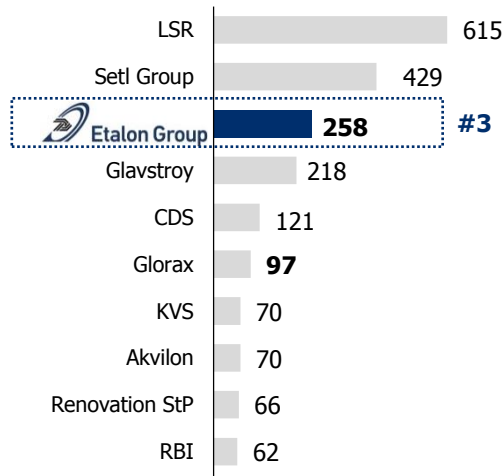
⁽²⁾ Based on Russian Unified Registrar of Residential Real Estate Developers data as of 31.12.2018

MARKET POSITION IN ST PETERSBURG

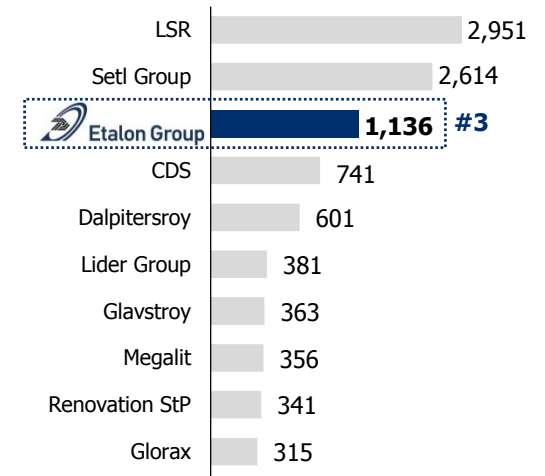
#3 BY NUMBER OF PROJECTS OFFERD TO THE MARKET⁽¹⁾



#3 IN SALES⁽¹⁾



#3 IN VOLUMES UNDER CONSTRUCTION⁽²⁾



⁽¹⁾ Based on Knight Frank data as of 31.12.2018; for sales ranking the data for residential real estate sales is used without commercial premises and parking
⁽²⁾ Based on Russian Unified Registrar of Residential Real Estate Developers data as of 31.12.2018

BENEFITS OF INTEGRATION



DESIGN AND PERMITTING



MARKETING AND SALES



PROJECT MANAGEMENT



GENERAL CONTRACTING AND SUBCONTRACTING



ONGOING MAINTENANCE

CURRENT CHALLENGES FOR LEADER-INVEST

- Lack of design bureau that can evaluate planning solutions and advise on their necessity

- Limited in-house sales capacity
- Large commission paid for brokers
- Limited access to regional buyers

- Limited expertise in implementing full-fledged development projects and lack of experience with large-scale mixed-use projects

- Significant construction costs related to inflation of construction budgets and project execution due to lack of in-house general contractors and subcontractors

- No property management company
- No access to customers after sale of real estate in order to receive feedback and further promote projects

WAYS ETALON CAN IMPROVE IT

- Deep in-house design expertise
- Extensive use of BIM tools at all stages of development
- Quick approval of documentation due to reputation as a strong and reliable player

- Best-in-class sales team
- 58 cities covered by sales network
- Established in-house marketing and sales functions
- Strong brand
- Advanced IT solutions facilitate interaction with customers and brokers

- About 200 fully-managed residential buildings delivered
- Large-scale construction projects ranging from factories to exhibition centres
- Skilled staff who ensure quality, safety and timely delivery, while accurately forecasting required resources

- High quality general contracting and subcontracting services offer competitive prices and quality with proven track-record and experience executing large-scale projects

- Own property management company with 4.6 mln sqm of real estate and 18.4 ths parking spaces under management

BENEFITS FOR ETALON GROUP

- Potential to cut costs for external architects and increase efficiency of planning solutions, as well as monitoring of under-construction projects

- Lower costs for promoting projects
- Lower fees paid to brokers
- Accelerate pace of sales at existing projects thanks to Etalon's strong sales team and additional demand from regional buyers

- Increase quality of projects
- Shorten construction time
- Efficient implementation of large-scale projects like Wings, Nagatino and ZIL-Yug

- Reduce construction costs at Leader-Invest projects
- Increase quality of projects
- Utilise Etalon Group capacities and achieve economies of scale
- Increase margins for large-scale mixed-use projects

- Additional income from property management company
- Expand areas of activity of service company by entering business and premium segments
- Expand channels for promoting projects

VALUE CREATION THROUGH SYNERGIES

- Management has conducted an analysis of potential synergies with Leader-Invest on the basis of the Group's experience in the real estate sector and precedent transactions in the industry
- A preliminary analysis of potential synergies has identified the following areas:

CONSTRUCTION COSTS

1. Optimisation of materials sourcing and procurement
2. General and subcontractors services costs optimisation
3. Increased purchasing power in new land plot acquisitions – lower acquisition costs

ADMINISTRATIVE EXPENSES

1. Personnel cost optimisation
2. Rationalisation of shared services

SELLING EXPENSES

1. Utilisation of combined sales network
2. Combined procurement of marketing / advertisement services
3. Increased efficiency of customer funnel

FINANCE

1. Refinancing of current Leader-Invest debt at Etalon's marginal financing cost

**RUB 0.7 Bln –
RUB 1.1 Bln**

Estimated annual savings⁽¹⁾

⁽¹⁾ One-off integration costs in 2019 are estimated at c. RUB 0.5-0.9 bln

JOINT BRANDING UNDER ETALON'S ROOF



Etalon Group

- ✓ More than 30-year history
- ✓ Successful track record in Russia with 6.3 million sqm commissioned since inception, without any delays
- ✓ TOP-3 brand by customer recognition in St Petersburg
- ✓ TOP-10 brand by customer recognition in Moscow
- ✓ #1 developer operating in Moscow and St Petersburg by customer recognition in Russia's regions thanks to nationwide sales and marketing network
- ✓ The highest (5 out of 5) grade of quality according to Russian Unified Registrar of Residential Real Estate Developers
- ✓ Strong corporate brand without unified project branding



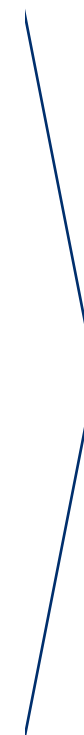

LEADER INVEST

- ✓ Leading developer in Moscow by number projects in portfolio
- ✓ TOP-30 brand by customer recognition in Moscow
- ✓ Established product branding for business class residential property called "Schastye" (Happiness):



– Normal (3 out of 5) grade of quality according to Russian Unified Registrar of Residential Real Estate Developers

- ✗ One of three developers in Moscow market that uses the word "leader" in its name
- ✗ Low brand recognition in Russia's regions

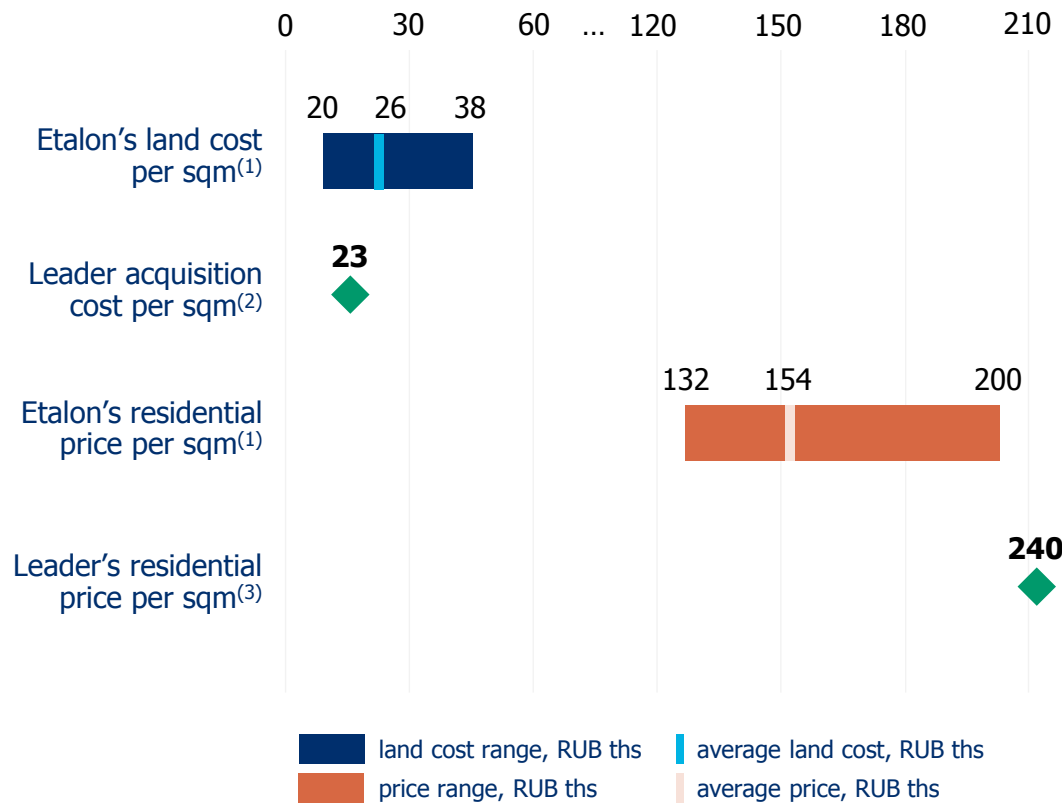


BENEFITS:

- Reputation as a reliable developer with significant experience will add value to Leader-Invest projects
- Well-developed sales network and high brand recognition for Etalon will significantly increase sales for Leader-Invest projects
- Large number of projects will further strengthen Etalon's brand recognition in Moscow
- Potential to use well-developed project branding standards of Leader-Invest

VALUE ENHANCING ACQUISITION

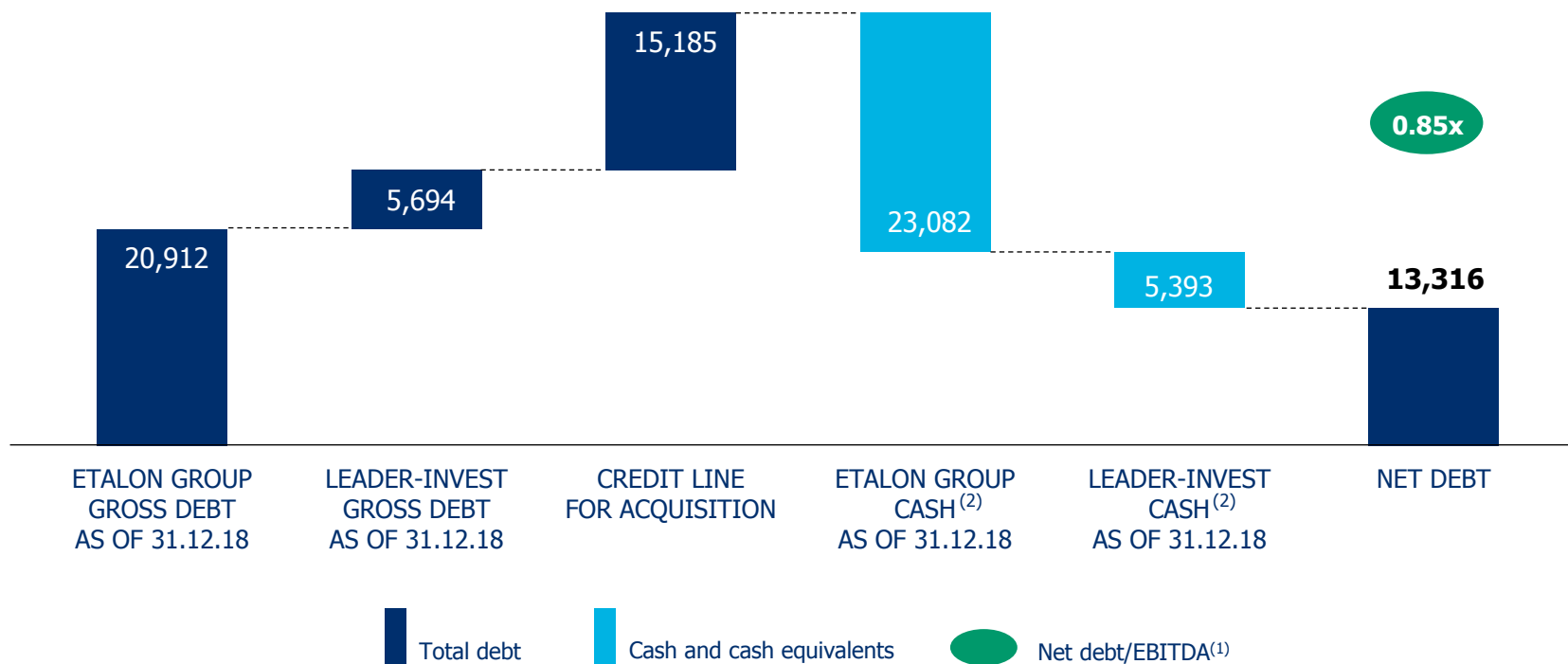
ACQUISITION OF MORE PROFITABLE PROJECTS AT AN ATTRACTIVE PRICE:



- The cost of RUB 23 ths per sqm for the acquisition of Leader-Invest is close to the lower end of Etalon Group's current price range for land acquisition of RUB 20 ths – RUB 38 ths per sqm, and 11% below Etalon Group's average acquisition cost of RUB 26 ths per sqm
- The average selling price of RUB 240 ths per sqm⁽³⁾ for Leader-Invest projects is significantly above the current range of RUB 132 ths – RUB 200 ths per sqm for Etalon Group's projects

⁽¹⁾ For Etalon Group projects under construction in Moscow within the Moscow Ring Road
⁽²⁾ Acquisition cost divided by Etalon's share of unsold area in Leader-Invest project portfolio of 1.3 mln sqm
⁽³⁾ Forecasted average real estate sale price for Leader-Invest projects

ETALON MAINTAINS A STRONG BALANCE SHEET EVEN AFTER RUB 15.2 BLN ACQUISITION



⁽¹⁾ Etalon Group plus Leader-invest FY2017 EBITDA of RUB 13.2 bln and RUB 2.4 bln, respectively, according to IFRS accounts

⁽²⁾ Cash and cash equivalents

INDICATIVE INTEGRATION TIMETABLE



INTEGRATION

- Optimisation of personnel structure and elimination of duplicate functions
- Establish unified management team
- Integration of Leader-Invest projects into the Etalon sales network
- Termination of inefficient construction contracts and signing of new contracts with Etalon general and sub contractors based on tender procedures
- Unification of accounting and reporting systems, as well as other policies and standards
- Identifying best practices and its implementation
- Formation of a unified corporate culture
- Prepare new development strategy

1. Start of sales of Leader-Invest projects under the Etalon Group brand
2. Leader-Invest consolidation in financial reporting
3. New strategy adoption and presentation to the market

CONTINUE TO ADHERE TO DISCIPLINED LONG-TERM FINANCIAL POLICIES



LEVERAGE



Continue to maintain strong balance sheet with net debt / EBITDA below 2x

DIVIDENDS



Keep dividend policy unchanged with 40% - 70% payout ratio

NEW
ACQUISITIONS



In line with previously announced principles

CONCLUSION

- 1.** UNIQUE OPPORTUNITY TO ACCELERATE GROWTH IN SALES AND POSITIVE OPERATING CASH FLOW EVEN FURTHER AND TO REACH STRATEGIC GOALS AHEAD OF SCHEDULE, WHILE CONTINUING TO PAY DIVIDENDS IN LINE WITH EXISTING DIVIDEND POLICY
- 2.** ACQUISITION OF HIGH-QUALITY PROJECT PORTFOLIO WITH EXCELLENT GEOGRAPHICAL FIT, WHILE MAINTAINING STRONG BALANCE SHEET
- 3.** RIGHT TIME FOR TRANSACTION TO CONSOLIDATE MARKET IN KEY REGION
- 4.** OPPORTUNITY TO CREATE VALUE THROUGH SYNERGIES AND IMPROVED PROFITABILITY



STRATEGIC ACQUISITION
OF LEADER-INVEST BY
ETALON GROUP

ETALON GROUP PLC

2-4 CAPITAL CENTRE
ARCH. MAKARIOU III AVENUE
NICOSIA | CYPRUS

TEL: +44 (0)20 8123 1328
FAX: +44 (0)20 8123 1328
EMAIL: INFO@ETALONGROUP.COM