SISTEMA PJSFC AND SUBSIDIARIES

Consolidated Financial Statements for 2016
and Independent Auditor's Report

SISTEMA PJSFC AND SUBSIDIARIES

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SISTEMA PJSFC AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016, and the results of its operations, cash flows and changes in equity for 2016, in compliance with International Financial Reporting Standards ("IFRSs").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and assumptions that are reasonable and prudent;
- Stating whether IFRS 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 IFRS;
- 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 2016 were approved by:

Mikhail Shamolin	Vsevolod Rozanov
President and CEO	Senior Vice President and CFO

31 March 2017

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Moscow, 125047,
Russia

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INDEPENDENT AUDITOR'S REPORT

To 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 and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income or loss, 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 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment of loans to customers of MTS Bank We focused on this area because management makes complex and subjective judgements over both the timing of recognition of impairment and the estimation of the size of any such impairment. Key areas of risk include: • the principal assumptions underlying the calculation of impairment for portfolios of loans, the operation of the models to make those calculations and application of adjustments to the results produced by those models; • the principal assumptions underlying the calculation of discounted cash flows for loans for which impairment is assessed on an individual basis; • how impairment events that have not yet resulted in a payment default are identified and measured. See Note 20 to the consolidated financial statements.	For individually assessed loans we assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate impairment provision. Where an impairment indicator had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where available. In addition, we examined a sample of loans, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including using all available evidence in respect of the relevant counterparties. Where impairment was calculated on a modelled basis, we tested the basis and operation of those models and the data and assumptions used. Our work included the following: • we tested the completeness and accuracy of the underlying loan information used in the impairment models; • we tested the operation of the models used to calculate the impairment including, in some cases, rebuilding those models independently and comparing the results; • we compared the principal assumptions made with our industry experience and knowledge; • we considered the potential for impairment to be affected by events which were not captured by management's models and evaluated how management had responded to these by making further adjustments where appropriate.
Litigation and regulatory claims We focused on this matter because the Group is subject to challenge in respect of a number of legal and regulatory matters, many of which are beyond its control. Consequently, management makes judgements about the probability and amounts of contingent liabilities arising from litigation or regulatory claims or possible claims which are subject to the future outcome of legal or regulatory processes. In particular, the U.S. Securities and Exchange Commission and the U.S. Department of Justice are currently investigating the Group's former subsidiary in Uzbekistan. See Notes 6 and 38 to the consolidated financial statements.	We analysed the summary of litigation matters provided by management, evaluated the Group's assessment of the nature and status of the litigations and claims and discussed significant cases with Group management, including in-house counsel. Where applicable, we also corroborated the Group's conclusions with respect to the provisions recognized and contingent liabilities disclosed through the assessment of regulatory and legal correspondence and through communications with the Group's external legal counsel. We validated completeness and appropriateness of the related disclosures in the consolidated financial statements.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Significant one-off transactions In light of its diversified investment strategy, the Group regularly conducts acquisitions, disposals, debt restructurings and subsidiary equity transactions. We focus on these matters because the appropriate accounting treatment of such transactions is complex and requires exercise of significant judgement. In the current period this includes specifically divestments the Group made during the year, as well as the status of the announced transaction with Reliance Communications Ltd. (RCOM). See Notes 5 and 8 to the consolidated financial statements.	Our procedures included the following: • obtaining and 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 IFRS was applied to the transactions. For the divestments completed in the year, we reviewed sales and purchase agreements to confirm that control had passed to buyers and recalculated any profit or loss on disposal. For the transaction with RCOM, where the merger process was ongoing at year end, we considered whether the criteria of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, had been met. Our work included particular focus on whether the conditions precedent for a sale to complete included conditions outside of management's control such as regulatory and court approvals.
Capitalisation and assets useful lives of assets We focused on the following matters because management judgement in these areas significantly impacts the carrying value of property, plant and equipment and their depreciation profiles: • the risk that amounts being capitalised do not meet capitalisation criteria; • the risk that the useful economic lives assigned to assets are inappropriate; and • the risk that constructed assets are not brought into operations on a timely basis. See Note 15 to the consolidated financial statements.	We evaluated the appropriateness of the Group's capitalisation policies, assessed the nature of costs incurred in capital projects through testing amounts recorded and assessing whether the costs meet capitalisation criteria, and assessed timeliness of commissioning of assets in the course of construction. We tested whether the Group's determination of useful lives is appropriate by considering our knowledge of the business, technological developments and practice in the respective industries.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is 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, 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; and
- 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, which constitute the key audit matters included herein.

Deloitte & Touche

Raikhman M. V.
Engagement partner

31 March 2017

The Entity: Sistema Public Joint Stock Financial Corporation

Certificate of state registration № 025.866, issued by the Moscow Registration Chamber on 16.07.1993

Primary State Registration Number: 1027700003891

Certificate of registration in the Unified State Register № 77 011222220 of 11.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 46

Address: 13/1 Mokhovaya st., Moscow, Russia, 125009

Audit Firm: ZAO Deloitte & Touche CIS

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(In millions of Russian Rubles, except for per share amounts)

	Notes	2016	2015
Continuing operations			
Revenue	10	697,705	678,821
Cost of sales		(349,741)	(352,670)
Selling, general and administrative expenses		(157,003)	(148,232)
Depreciation and amortisation		(96,710)	(88,670)
Impairment of long-lived assets	11	(2,896)	(11,941)
Impairment of financial assets	12	(11,400)	(7,220)
Taxes other than income tax		(5,574)	(4,000)
Share of the profit or loss of associates and joint ventures, net	19	3,147	4,377
Gain on acquisitions	7	1,169	-
Other income		6,840	1,918
Other expenses		(5,693)	(3,995)
Operating income		**79,844**	**68,388**
Finance income		9,853	18,451
Finance costs		(56,251)	(50,496)
Currency exchange gain/(loss)		6,055	(16,249)
Profit before tax		**39,501**	**20,094**
Income tax expense	13	(21,575)	(18,251)
Profit from continuing operations		**17,926**	**1,843**
Discontinued operations			
(Loss)/profit from discontinued operations	8	(8,767)	44,531
Profit for the period		**9,159**	**46,374**
Profit/(loss) attributable to:			
Shareholders of Sistema PJSFC		(11,758)	28,800
Non-controlling interests		20,917	17,574
		9,159	**46,374**
Earnings/(losses) per share (basic and diluted), Russian Rubles:			
From continuing operations	31	(0.56)	(2.11)
From continuing and discontinued operations	31	(1.25)	3.06

The accompanying notes are an integral part of these consolidated financial statements.

Mikhail Shamolin
President and CEO

Vsevolod Rozanov
Senior Vice President and CFO

31 March 2017

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OR LOSS
(In millions of Russian Rubles)

	Notes	2016	2015
Profit for the period		9,159	46,374
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation loss on foreign operations in subsidiaries		(11,004)	(6,841)
Currency translation loss on foreign operations in associates and joint ventures		(1,553)	(1,182)
Net fair value loss on revaluation of available-for-sale financial instruments		(1,199)	(3,223)
Items that will not be reclassified subsequently to profit or loss:			
Unrecognised actuarial gain		50	86
Other comprehensive loss, net of tax	25	(13,706)	(11,160)
Total comprehensive (loss)/income		**(4,547)**	**35,214**
Attributable to:			
Shareholders of Sistema PJSFC		(18,431)	21,303
Non-controlling interests		13,884	13,911
		(4,547)	**35,214**

The accompanying notes are an integral part of these consolidated financial statements.

Mikhail Shamolin
President and CEO

Vsevolod Rozanov
Senior Vice President and CFO

31 March 2017

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(In millions of Russian Rubles)

	Notes	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	15	408,130	421,522
Investment property	16	22,647	14,085
Goodwill	17	52,224	47,256
Other intangible assets	18	107,716	112,307
Investments in associates and joint ventures	19	19,537	22,219
Deferred tax assets	13	24,185	25,966
Loans receivable and other financial assets	20	100,023	112,236
Deposits in banks		27,274	45,696
Other assets		17,428	15,330
Total non-current assets		**779,164**	**816,617**
Current assets			
Inventories	22	82,690	76,622
Accounts receivable	23	60,888	74,276
Advances paid and prepaid expenses		16,348	17,544
Current income tax assets		2,580	6,051
Other taxes receivable		18,176	20,993
Loans receivable and other financial assets	20	62,588	78,020
Deposits in banks		9,173	76,117
Restricted cash	21	10,098	-
Cash and cash equivalents		60,190	122,775
Other assets		2,194	2,778
Total current assets		**324,925**	**475,176**
Total assets		**1,104,089**	**1,291,793**

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
(In millions of Russian Rubles)

	Notes	31 December 2016	31 December 2015
Equity and liabilities			
Equity			
Share capital	24	869	869
Treasury shares	24	(6,575)	(4,806)
Additional paid-in capital		87,369	80,778
Retained earnings		91,290	112,921
Accumulated other comprehensive loss	25	(13,752)	(7,079)
Equity attributable to shareholders of Sistema		159,201	182,683
Non-controlling interests		57,770	62,914
Total equity		**216,971**	**245,597**
Non-current liabilities			
Borrowings	26	395,017	414,103
Liabilities under put option agreements	29	2,243	-
Bank deposits and liabilities	27	6,432	7,275
Deferred tax liabilities	13	40,753	41,664
Provisions	30	3,411	4,190
Liability to Rosimushchestvo	29	21,282	-
Other financial liabilities	28	23,337	28,224
Other liabilities		8,742	11,414
Total non-current liabilities		**501,217**	**506,870**
Current liabilities			
Borrowings	26	83,109	142,657
Liabilities under put option agreements	29	-	65,684
Accounts payable		110,879	136,979
Bank deposits and liabilities	27	99,888	115,529
Advances received		26,069	24,953
Subscriber prepayments		17,900	20,955
Income tax payable		962	831
Other taxes payable		16,391	14,524
Dividends payable		249	210
Provisions	30	10,752	10,151
Liability to Rosimushchestvo	29	11,783	-
Other financial liabilities	28	7,919	6,853
Total current liabilities		**385,901**	**539,326**
Total equity and liabilities		**1,104,089**	**1,291,793**

The accompanying notes are an integral part of these consolidated financial statements.

Mikhail Shamolin
President and CEO

Vsevolod Rozanov
Senior Vice President and CFO

31 March 2017

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In millions of Russian Rubles)

					Accumulated other comprehensive (loss)/income				
	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Currency reserve	Other	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2015	**869**	**72,202**	**(6,913)**	**88,544**	**(1,800)**	**2,218**	**155,120**	**78,587**	**233,707**
Profit for the period	-	-	-	28,800	-	-	28,800	17,574	46,374
Other comprehensive loss, net of tax	-	-	-	-	(5,732)	(1,765)	(7,497)	(3,663)	(11,160)
Total comprehensive income/(loss) for the period	-	-	-	28,800	(5,732)	(1,765)	21,303	13,911	35,214
Settlements under long-term motivation program	-	(2,564)	2,564	-	-	-	-	-	-
Accrued compensation cost (Note 14)	-	2,866	-	-	-	-	2,866	-	2,866
Purchases of own shares	-	-	(457)	-	-	-	(457)	-	(457)
Capital transactions of subsidiaries (Note 9)	-	8,274	-	-	-	-	8,274	(6,452)	1,822
Business combinations and disposals of subsidiaries (Note 7)	-	-	-	-	-	-	-	343	343
Dividends declared by Sistema PJSFC	-	-	-	(4,423)	-	-	(4,423)	-	(4,423)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(23,475)	(23,475)
31 December 2015	**869**	**80,778**	**(4,806)**	**112,921**	**(7,532)**	**453**	**182,683**	**62,914**	**245,597**
(Loss)/ profit for the period	-	-	-	(11,758)	-	-	(11,758)	20,917	9,159
Other comprehensive (loss)/income, net of tax	-	-	-	-	(4,839)	252	(4,587)	(7,033)	(11,620)
Total comprehensive income for the period	-	-	-	(11,758)	(4,839)	252	(16,345)	13,884	(2,461)
Settlements under long-term motivation program	-	(313)	313	-	-	-	-	-	-
Accrued compensation cost (Note 14)	-	2,522	-	-	-	-	2,522	-	2,522
Purchases of own shares	-	-	(2,082)	-	-	-	(2,082)	-	(2,082)
Capital transactions of subsidiaries (Note 9)	-	4,382	-	-	-	-	4,382	9,358	13,740
Business combinations and disposals of subsidiaries (Note 7)	-	-	-	-	(2,086)	-	(2,086)	(600)	(2,686)
Dividends declared by Sistema PJSFC (Note 24)	-	-	-	(9,873)	-	-	(9,873)	-	(9,873)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(27,786)	(27,786)
31 December 2016	**869**	**87,369**	**(6,575)**	**91,290**	**(14,457)**	**705**	**159,201**	**57,770**	**216,971**

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)

	2016	2015
Cash flows from operating activities		
Profit for the period	9,159	46,374
	9,159	46,374
Adjustments for:		
Depreciation and amortisation	100,546	94,915
Share of the profit or loss of associates and joint ventures, net	(3,147)	(4,377)
Finance income	(9,851)	(18,526)
Finance costs	57,368	51,174
Income tax expense	21,575	17,944
Currency exchange (gain)/loss	(6,035)	16,318
Loss/(profit) from discontinued operations	7,614	(49,029)
Loss on disposal of property, plant and equipment	109	461
Change in fair value of financial instruments through profit or loss	(110)	(1,076)
Gain on disposal of subsidiaries	(60)	(1,262)
Amortisation of connection fees	(2,287)	(2,362)
Impairment loss on loans receivable	6,063	21,788
Dividends received from associates and joint ventures	2,955	3,622
Non-cash compensation to employees	2,522	3,292
Impairment of long-lived assets	2,896	11,941
Impairment of financial assets	11,803	7,327
Other non-cash items	3,152	2,482
	204,272	201,006
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	11,253	14,279
Bank deposits and liabilities	(16,484)	(7,806)
Restricted cash (Note 21)	(10,098)	-
Financial assets at fair value through profit or loss	(2,401)	(966)
Accounts receivable	11,224	7,845
Advances paid and prepaid expenses	863	5,814
Other taxes receivable	2,964	(776)
Inventories	(8,862)	(24,926)
Accounts payable	(3,838)	19,050
Subscriber prepayments	(435)	2,892
Other taxes payable	2,720	2,805
Advances received and other liabilities	(7,358)	1,943
Interest paid	(59,791)	(48,304)
Income tax paid	(19,344)	(16,784)
Net cash provided by operating activities	**104,685**	**156,072**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(In millions of Russian Rubles)

	2016	2015
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(89,958)	(106,561)
Proceeds from sale of property, plant and equipment	4,516	3,682
Proceeds from settlement with Ural-Invest	-	10,821
Payments for purchases of intangible assets	(32,920)	(32,662)
Payments for businesses, net of cash acquired	(13,956)	(14,421)
Payments for investments in associates and joint ventures	(3,235)	(3,077)
Proceeds from sale of investments in affiliated companies	6,118	-
Payments for financial assets, long-term	(28,212)	(56,584)
Proceeds from sale of financial assets, long-term	15,774	1,482
Payments for financial assets, short-term	(23,489)	(41,425)
Proceeds from sale of financial assets, short-term	95,294	42,103
Cash of discontinued operations	(2,576)	-
Interest received	10,197	18,283
Other	(1,588)	(1,885)
Net cash used in investing activities	**(64,035)**	**(180,244)**
Cash flows from financing activities		
Proceeds from borrowings	209,963	177,606
Principal payments on borrowings	(249,126)	(129,478)
Debt issuance costs	(428)	(1,162)
Acquisition of non-controlling interests in existing subsidiaries	(26,816)	(3,452)
Payments to purchase treasury shares	(2,082)	(456)
Proceeds from transactions with non-controlling interests	19,099	9,718
Dividends paid	(37,725)	(27,535)
Cash (outflow)/inflow under credit guarantee agreement related to foreign currency hedge	(2,985)	6,706
Net cash (used in)/provided by financing activities	**(90,100)**	**31,947**
Impairment of cash and cash equivalents (Note 38)	-	(1,697)
Effect of foreign currency translation on cash and cash equivalents	(13,135)	(3,270)
Net (decrease)/increase in cash and cash equivalents	**(62,585)**	**2,808**
Cash and cash equivalents at the beginning of the period	122,775	119,967
Cash and cash equivalents at the end of the period	**60,190**	**122,775**

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL

Sistema Public Joint Stock Financial Corporation (the "Company", together with its subsidiaries, the "Group") invests in, and manages a range of companies which operate in various industries, including telecommunications, retail, high technology, finance, pulp and paper, utilities, pharmaceuticals, healthcare, agriculture and tourism. The Company and the majority of its subsidiaries are incorporated in the Russian Federation ("RF"). The Company's registered address is 13 Mokhovaya street, 125009, Moscow.

The majority 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").

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. As at 31 December 2016, the Group's current liabilities exceeded its current assets by RUB 60,976 million. The Group believes that it generates sufficient operating cash flows and adequate funding is available to fulfil the Group's short-term obligations, if needed, including unused credit facilities of RUB 186,542 million and long-term deposits of RUB 27,274 million available for withdrawal.

These consolidated financial statements were approved by the Company's President and CEO and authorised for issue on 31 March 2017.

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 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.

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 voting 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 voting 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the Group has made in the process of applying its accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Agreement with RCOM. Note 5 describes that the Group signed an agreement with RCOM regarding the demerger of the telecommunication business of SSTL. The Group concluded that as of 31 December 2016 SSTL does not qualify for being reported as held for sale or a discontinued operation because the closing of the transaction is still subject to applicable approvals, which are not considered perfunctory.

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.

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.

Impairment of loans and receivables. The Group regularly reviews its accounts receivable, loans to customers, due from banks and other loans and receivables to assess for impairment. The Group's allowances for impairment of such assets are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses could have a material impact on its financial statements in future periods.

The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on customer performance in the past, on observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. The Group uses management's judgement to adjust observable data for a group of loans to reflect current circumstances not observed in historical data.

Impairment of financial assets in the consolidated financial statements has been determined on the basis of existing economic conditions. The Group is not in a position to predict what changes in conditions will take place in its markets of operations and what effect such changes might have on the adequacy of the accounting for impairment of financial assets in future periods.

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.

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 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 34.

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 amortization 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 30 and 38 for further information.

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 its 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 ("MTS"), Detsky mir, RTI, MTS Bank, Sistema Shyam TeleServices ("SSTL") 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 as well as content and entertainment services in Russia, Ukraine, Armenia and Turkmenistan. Detsky mir is the largest retail chain in the children's goods market in the Russian Federation and Kazakhstan. Activity of Detsky mir is the sale of children's clothing and goods through retail and internet stores. RTI is a Russian industrial holding, which develops and manufactures high-tech products and infrastructure solutions in the fields of radio communication and space technology, threat monitoring and control solutions, microelectronics and system integration. MTS Bank is a universal commercial bank with operations in Russia and Luxembourg. SSTL is a mobile operator in India. 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 Segezha Group, Sitronics, Kronshtadt Group, Binnopharm, Medsi, Agroholding Steppe, Sistema Venture Capital, Intourist, Leader-Invest and Bashkirian Power Grid Company ("BPGC"), none of which meets the quantitative thresholds for determining reportable segments.

The results of operations of Targin and Universal Mobile Systems ("UMS") are reported as discontinued operations in the accompanying consolidated statements of profit or loss for all periods presented (Note 8). The segment reporting for 2015 was restated accordingly. The consolidated statement of financial position was not retrospectively restated on discontinued operations and therefore as of 31 December 2015 the statement of financial position captions in the "Other" category include Targin and captions in the MTS category include UMS.

The accounting policies of the operating segments are the same as those described in the significant accounting policies. 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.

(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 2016 and 2015:

	External revenues		**Inter-segment revenue**		**Segment operating income/(loss)**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
MTS	433,972	425,674	1,720	965	86,227	91,708
Detsky mir	79,532	60,544	15	-	6,620	3,805
RTI	44,433	69,384	156	7,903	275	4,548
MTS Bank	19,074	25,157	1,159	462	(3,282)	(17,658)
SSTL	12,466	13,965	-	-	(2,347)	(3,227)
Corporate	1,737	2,272	1,115	1,145	(24,042)	(14,392)
Total reportable segments	591,214	596,996	4,165	10,475	63,451	64,784
Other	106,491	81,825	3,699	5,026	16,274	(272)
	697,705	678,821	7,864	15,501	79,725	64,512
Inter-segment eliminations					119	3,876
Operating income					**79,844**	**68,388**
Finance income					9,853	18,451
Finance costs					(56,251)	(50,496)
Currency exchange gain/(loss)					6,055	(16,249)
Profit before tax					**39,501**	**20,094**

The following is an analysis of the Group's depreciation and amortisation, additions to non-current assets (comprising property, plant and equipment, investment property and other intangible assets) and other non-cash items (comprising impairment of certain long-lived assets and non-current financial assets and gain on acquisition) by reportable segment:

	Additions to non-current assets		**Depreciation and amortisation**		**Other non-cash items**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
MTS	80,630	99,477	81,582	77,843	2,698	5,216
Detsky mir	1,760	5,352	1,591	954	26	363
RTI	3,091	4,768	2,539	2,482	1,643	431
MTS Bank	1,840	1,145	663	689	6,063	19,207
SSTL	-	-	889	832	-	-
Corporate	6,488	2,476	564	523	8,967	1,273
Other	50,056	36,621	8,882	5,347	962	3,796
	143,865	**149,839**	**96,710**	**88,670**	**20,359**	**30,286**

(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:

	2016	2015
Segment assets		
MTS	559,008	669,331
Detsky mir	44,730	39,199
RTI	74,237	88,462
MTS Bank	166,526	184,971
SSTL	24,045	33,292
Corporate	110,783	201,576
Total reportable segments	979,329	1,216,831
Other	216,590	217,528
Total segment assets	1,195,919	1,434,359
Inter-segment eliminations	(91,830)	(142,566)
Consolidated total assets	**1,104,089**	**1,291,793**
Segment liabilities		
MTS	400,618	485,104
Detsky mir	45,185	38,793
RTI	81,152	88,717
MTS Bank	137,047	165,801
SSTL	44,503	75,693
Corporate	154,235	197,005
Total reportable segments	862,740	1,051,113
Other	111,663	123,760
Total segment liabilities	974,403	1,174,873
Inter-segment eliminations	(87,285)	(128,677)
Consolidated total liabilities	**887,118**	**1,046,196**

As of 31 December 2016 and 2015, the amount of investment in MTS Belarus, an associate of MTS, included in its reportable segment assets was RUB 4,303 million and RUB 5,407 million, respectively. Other associates and joint ventures represent separate operating segments and are reported in the Other category.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		Non-current assets	
	2016	**2015**	**2016**	**2015**
Russia	604,768	595,360	538,799	507,660
India	13,233	13,965	16,571	21,311
Other	79,704	69,496	47,605	73,469
	697,705	**678,821**	**602,975**	**602,440**

5. AGREEMENT WITH RCOM

In November 2015, the Group signed an agreement with Reliance Communications Ltd. (RCOM) regarding the demerger of the telecommunication business of SSTL. As a result of the transaction, SSTL will receive and hold a 10% equity stake in RCOM. In addition, RCOM will assume the liability to pay the Department of Telecommunications (DoT) instalments for SSTL's spectrum. A payment mechanism has been agreed in relation to disputed spectrum contiguity charges claimed by the DoT. During 2016, the transaction was approved by the stock exchanges, the Securities and Exchange Board of India (SEBI), the Competition Commission of India (CCI), and the Bombay and Rajasthan High Courts. The final conditions of the transaction are to be agreed by the DoT.

6. INVESTIGATIONS INTO FORMER OPERATIONS IN UZBEKISTAN

In March 2014, MTS received requests for the provision of information from the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") relating to a currently conducted investigation of the Group's former subsidiary in Uzbekistan.

In July 2015, activities related to the MTS former operations in Uzbekistan have been referenced in civil forfeiture complaints (the "Complaints"), filed by the DOJ in the U.S. District Court, Southern District of New York (Manhattan), directed at certain assets of an unnamed Uzbek government official. The Complaints allege among other things that MTS and certain other parties made corrupt payments to the unnamed Uzbek official to assist their entering and operating in the Uzbekistan telecommunications market. The Complaints are solely directed towards assets held by the unnamed Uzbek official, and none of the Group assets are affected by the Complaints.

The Group continues to cooperate with these investigations. The Group cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant.

7. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method, with assets and liabilities of acquired entities being measured at their fair values as of the date of acquisition. Goodwill is determined as the excess of the consideration transferred plus the fair value of any non-controlling interests in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The excess of the fair values of the identifiable net assets acquired over the cost of the business combination plus the fair value of any non-controlling interests in the acquiree at the acquisition date is credited to income ("negative goodwill").

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction 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.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Business combinations in 2016

The information on business combinations which took place in 2016 is summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
Lesosibirsk LDK No. 1	Pulp and paper	February	60%	Segezha Group	3,085
Agriculture businesses	Agriculture	April-October	99%-100%	Steppe	7,909
Regional Hotel Chain	Hotel businesses	December	100%	Intourist	2,786
Other					810
Total					**14,590**

The following table summarizes the amounts of the assets acquired and liabilities assumed relating to such acquisitions at the acquisition date:

	Lesosibirsk LDK No. 1	Agriculture businesses	Regional Hotel Chain	Other
Cash consideration	**3,085**	**7,909**	**2,786**	**810**
Recognised amounts of identifiable assets and liabilities assumed:				
Property, plant and equipment	6,511	7,168	5,867	3
Other non-current assets	12	106	255	371
Current assets	2,688	2,728	461	218
Deferred tax (liabilities)/assets	(128)	(1,006)	335	(3)
Borrowings	(6,613)	(1,511)	(3,766)	-
Other non-current liabilities	-	(40)	-	(69)
Current liabilities	(824)	(342)	(366)	(77)
Non-controlling interests	(2,015)	-	-	-
Gain on acquisitions	-	(1,175)	-	(235)
Goodwill	**3,454**	**1,981**	**-**	**602**

During the measurement period, the Group recognized impairment of goodwill of Lesosibirsk LDK No. 1 of RUB 240 million.

The excess of the consideration paid over the value of net assets of Lesosibirsk LDK No. 1 was allocated to goodwill, which mainly arised from expected synergies on effective management expertise in wood processing projects, well-functioning business processes, access to resources and availability of raw materials.

The excess of the consideration paid over the value of net assets of agriculture businesses was allocated to goodwill, which mainly arised from expected synergies on economies of scale related to operating and capital expenditures.

The Group determined that the gain on acquisition of agriculture businesses was primarily attributable to the sellers' decision to no longer operate in agriculture sector and their willingness to sell the related businesses in short run.

The initial accounting for the acquisitions of agriculture businesses, Regional Hotel Chain and other acquisitions has only been provisionally determined at the end of the reporting period. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations, including goodwill calculation had not been finalised and the amounts of identifiable assets acquired and liabilities assumed have therefore only been provisionally determined based on the best estimate of the likely fair values.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Business combinations in 2015

Kronshtadt Group – In October 2015, Sistema acquired 100% of the share capital of Kronshtadt Group, a manufacturer of high-technology products and solutions for the aircraft manufacturing, defence, security and transportation industries, for a total cash consideration of RUB 5.3 billion, including previously issued loan in the amount of RUB 0.6 billion.

The Group saw high growth potential for the Kronshtadt Group business, driven by improving operating efficiency and the successful completion of certain research and development projects. In 2016 the Group finalized valuation of assets of the Kronshtadt Group with the involvement of the independent appraiser and the acquisition date fair value of the assets changed. The following table summarizes consideration paid and the amounts of the assets acquired and liabilities assumed that were recognised at the acquisition date:

	Provisional amounts	Measurement period adjustments	Recognised amounts (as adjusted)
Cash consideration	5,342	-	5,342
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Current assets	5,031	671	5,702
Property, plant and equipment	1,947	205	2,152
Intangible assets	7,213	(5,937)	1,276
Other non-current assets	728	(209)	519
Current liabilities	(7,501)	257	(7,244)
Deferred tax liabilities	(1,590)	1,162	(428)
Other non-current liabilities	(486)	(444)	(930)
Goodwill	**-**	**4,295**	**4,295**

During the measurement period the Group recognized impairment of goodwill of Kronshtadt Group of RUB 4,295 million (recorded in consolidated statement of profit or loss for 2015). The Group revised their estimate of discounted cash flows as at acquisition date because design and development of unmanned aerial vehicles was at the pre-commercial stage.

Other acquisitions – The information on other business combinations which took place in 2015 is summarised below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
Agriculture businesses	Agriculture	December	85%-100%	Steppe	8,728
Other					1,636
Total					**10,364**

In 2016 the Group finalized valuation of other assets and the acquisition date fair value of the assets changed. The following table summarises the amounts of the assets acquired and liabilities assumed relating to these acquisitions at the acquisition dates:

	Provisional amounts	Measurement period adjustments	Recognised amounts (as adjusted)
Cash consideration	10,364	-	10,364
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Current assets	3,370	218	3,558
Property, plant and equipment	12,781	(4,960)	7,821
Other non-current assets	357	-	357
Current liabilities	(1,792)	89	(1,703)
Deferred tax liabilities	(1,458)	772	(686)
Other non-current liabilities	(2,575)	-	(2,575)
Non-controlling interests	(343)	-	(343)
Goodwill	**24**	**3,881**	**3,905**

(Amounts in millions of Russian Rubles, unless otherwise stated)

Pro forma results of operations

Pro forma financial information for 2016 and 2015 which gives effect to the acquisitions as if they had occurred as of 1 January 2016 is not presented because the effects of these business combinations, individually and in aggregate, were not material to the Group's consolidated results of operations.

Included in the profit for 2016 is loss of RUB 135 million attributable to financial results of acquired business which took place in 2016. Revenue for the period includes RUB 6,685 million in respect of these business combinations.

The following table summarises the details of purchase of subsidiaries, net of cash acquired, reported in the statements of cash flows:

	2016	**2015**
Cash consideration	14,590	16,191
Amount payable at the year end	(501)	(1,296)
Cash acquired	(133)	(474)
Purchases of subsidiaries, net of cash acquired	**13,956**	**14,421**

8. DISCONTINUED OPERATIONS

The Group enters into transactions to dispose ownership interests in its existing subsidiaries that result in the Group losing control over the subsidiaries. The results of the existing subsidiaries disposed of during the reporting period are included in the consolidated financial statements until the date on which the Company ceases to control the subsidiaries. The information on disposals of subsidiaries and their impacts on the Group's results is summarised below.

Amounts recorded in profit/(loss) from discontinued operations include results of Targin and UMS and effects of their deconsolidation in 2016, as well as the gain from settlements with Ural-Invest in 2015, as follows:

	2016	**2015**
Results of Targin up to deconsolidation date	142	1,170
Loss on disposal of Targin	(4,888)	-
Results of UMS up to deconsolidation date	(1,295)	(5,668)
Loss on disposal of UMS	(2,726)	-
Gain from settlements with Ural-Invest	-	49,029
(Loss)/ profit from discontinued operations	**(8,767)**	**44,531**

Disposal of Targin – In December 2016, the Group and PJSC Rosneft closed the transaction on the sale of 100% shares of Targin. The selling price amounted to RUB 4.1 bln with the possibility to be revised following the completion of a due diligence. The Group is not aware of any facts or circumstances leading to the price deduction.

Disposal of UMS – In August 2016, the Group sold its 50.01% stake in UMS (Universal Mobile Systems) for USD 1 to the State Unitary Enterprise Centre of Radio Communication, Radio Broadcasting and Television of Ministry of Development of Information Technologies and Communications of the Republic of Uzbekistan.

The results of operations of Targin and UMS are reported as discontinued operations in the accompanying consolidated statements of profit or loss for all periods presented. In accordance with IFRS, the consolidated statement of financial position and consolidated statements of cash flows were not retrospectively restated for discontinued operations.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Gain/(losses) of the disposed subsidiaries included in discontinued operations in the consolidated statements of profit or loss for 2016 and 2015 are as follows:

	Targin		**UMS**	
	2016	**2015**	**2016**	**2015**
Revenue	26,666	25,228	5,115	4,610
Expenses	(26,365)	(23,722)	(6,602)	(10,939)
Profit/(loss) before tax	301	1,506	(1,487)	(6,329)
Income tax (expense)/ benefit	(159)	(336)	192	661
Results up to disposal date	**142**	**1,170**	**(1,295)**	**(5,668)**

Cash flows from discontinued operations included in the consolidated statements of cash flows are as follows:

	Targin		**UMS**	
	2016	**2015**	**2016**	**2015**
Net cash provided by/(used in) operating activities	2,384	2,344	(544)	(1,121)
Net cash used in investing activities	(3,562)	(2,976)	-	(1,252)
Net cash provided by financing activities	1,792	730	1,234	3,492
Net cash inflows	**614**	**98**	**690**	**1,119**

The loss on disposal of Targin and UMS were measured as follows:

	Targin	**UMS**
Net assets as at disposal date	(8,989)	(6,598)
Non-controlling interest	-	1,787
Accumulated other comprehensive income	-	2,085
Fair value of consideration	4,100	-
Loss on disposal	**(4,889)**	**(2,726)**

9. 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.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Transactions in 2016

The information on capital transactions of subsidiaries which took place in 2016 and their impacts on the Group's equity is summarised below:

	Increase/ (decrease) of additional paid-in capital	Increase/ (decrease) of non-controlling interests
Acquisition of 15% in RTI	(4,272)	1,749
Disposal of 3.35% in MTS	12,367	6,023
Additional share issues of Mikron	(967)	967
Additional share issues of MTS Bank	(1,527)	1,527
Restructuring of Steppe	(831)	1,342
Restructuring of Sitronics	(818)	183
Disposal of 10% and 3% in RTI	1,714	(714)
Acquisition of 39% of Lesosibirsk LDK No. 1	-	(2,091)
Other	(1,284)	372
Total impact	**4,382**	**9,358**

Acquisition of 15% in RTI – In December 2016, the Group purchased from VTB 15.32% of RTI share capital for a cash consideration of RUB 4.5 billion with a final settlement due in January 2019 including restructuring an option in respect of 2.91% for cash consideration of RUB 0.9 billion. The current Group's ownership interest in RTI is 87%.

Disposal of 3.35% in MTS – In 2016 in a series of transactions the Group sold 33,911,737 American Depositary Shares of MTS to a non-affiliated buyer for a consideration of USD 279.3 million (RUB 17.7 billion). As of 31 December 2016, the remaining Group ownership interest in MTS was 50.03%.

Additional share issues of Mikron – In February and December 2016, the Group participated in an additional share issues of PJSC Mikron (subsidiary of RTI) for RUB 3.4 billion.

Additional share issues of MTS Bank – In February 2016 and November 2016, the Group participated in additional share issues of MTS Bank for RUB 15.5 billion.

Restructuring of Steppe – In October 2016, the Group sold 11.9% of Steppe in exchange for a minority stakes in Steppe's subsidiaries and cash consideration of RUB 0.5 billion with a final settlement due in October 2019.

Restructuring of Sitronics – In October 2016, the Group purchased 26% of Sitronics CAMS (subsidiary of Sitronics) in an exchange of assets. In May 2016, Sistema Finance S.A. performed intragroup acquisition from Sitronics 100% of SITRONICS IT BV for cash consideration of RUB 5.7 billion.

Disposal of 10% and 3% in RTI – In April 2016, the Group sold 10% of RTI share capital to PJSC Sovcombank for a total cash consideration of RUB 1 billion. In March 2016, the Group also exchanged 3% in RTI for 1.5% in JSC Concern RTI Systems (subsidiary of RTI).

Acquisition of 39% in Lesosibirsk LDK No. 1 – In April 2016, in a series of transactions the Group acquired an additional stake in Lesosibirsk LDK No. 1 for a total cash consideration of RUB 2 billion and increased its stake from 60% to 99%.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Transactions in 2015

The information on capital transactions of subsidiaries which took place in 2015 and their impacts on the Group's equity is summarized below:

	Increase/ (decrease) of additional paid-in capital	Increase/ (decrease) of non-controlling interests
Sale of 23.1% in Detsky mir	9,238	180
Acquisition of 25.02% Medsi	(2,643)	(3,473)
Intragroup transfer of NVision Group to MTS	4,211	(4,211)
Intragroup transfer of Rent-Nedvizhimost	(2,845)	2,845
Other	313	(1,793)
Total impact	**8,274**	**(6,452)**

Sale of 23.1% in Detsky mir – In December 2015, the Group sold 23.1% of Detsky mir to the Russia-China Investment Fund ("RCIF") for a total consideration of RUB 9.75 billion. The remaining Group's ownership interest in Detsky mir is 75.8%. The Group granted the buyer an option to put its stake in Detsky mir to the Group at fair value in case of the non-occurrence of prescribed future events. The Group concluded that this puttable instrument should be classified as equity instrument rather than a financial liability because the occurrence of these events is considered under the control of the Group.

Acquisition of 25.02% Medsi – In October 2015, the Group acquired additional 25.02% stake in Medsi for RUB 6.1 billion and increased its stake to 100%.

Intragroup transfer of NVision Group to MTS – During 2015, in a series of transactions, the Group's subsidiaries Sistema Telecoms Assets and RTI sold 100% stake in NVision Group to MTS.

Intragroup transfer of Rent-Nedvizhimost – During 2015, in a series of transactions, MTS sold 100% stake in Rent-Nedvizhimost to Business-Nedvizhimost, another subsidiary of Sistema.

10. REVENUE

The Group receives its revenue primarily from the sale of goods and rendering services in Russia. Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenues under arrangements specific to the reportable segments of the Group are recognised as follows.

MTS – Revenues derived from wireless, local telephone, long distance, data and video services are recognised when services are provided. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or period of time (monthly subscription fees).

Content revenue is presented net of related costs when MTS acts as an agent of the content providers while the gross revenue and related costs are recorded when MTS is a primary obligor in the arrangement.

Upfront fees received for connection of new subscribers, installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the estimated average subscriber life, as follows:

Mobile subscribers	8 months - 7 years
Residential wireline voice phone subscribers	15 years
Other fixed line subscribers	3-5 years

MTS calculates an average life of mobile subscribers for each region in which it operates and amortises connection fees based on the average life specific to that region.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both accounts receivable and revenue.

MTS Bank – Revenues from interest bearing assets are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

MTS Bank revenues are included in the rendering of services line below.

RTI – When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Revenues from the long-term contracts are recognised using the percentage-of-completion method, measured by the percent of contract costs incurred to-date to estimated total contract costs. The stage of completion of a contract is determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following is an analysis of the Group’s revenue from continuing operations:

	2016	**2015**
Rendering of services	456,332	461,955
Sale of goods	209,065	164,472
Construction contracts	32,308	52,394
	697,705	**678,821**

Construction contracts

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability for advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under inventories.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The following is an analysis of amounts due from/(to) customers under construction contracts:

	2016	2015
Contracts in progress at the end of the year:		
Construction costs incurred plus recognised profits less recognised losses to date	97,726	84,771
Less: progress billings	(98,983)	(85,195)
	(1,257)	**(424)**
Costs and estimated earnings in excess of billings on uncompleted contracts	8,285	11,427
Billings in excess of costs and estimated earnings on uncompleted contracts	(9,542)	(11,851)
	(1,257)	**(424)**

11. IMPAIRMENT OF LONG-LIVED ASSETS

Impairment of long-lived assets includes impairment of property, plant and equipment, goodwill and other intangible assets.

	2016	2015
Impairment of goodwill (Note 17)	241	8,666
Impairment of other long-lived assets	2,655	3,275
Total impairment of long-lived assets	**2,896**	**11,941**

12. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets for 2016 and 2015 comprise the following:

	2016	2015
Allowance for doubtful accounts	3,773	3,818
Impairment of cash and deposits in banks (Note 38)	-	2,129
Impairment of available for sale securities	1,027	1,273
Impairment of loans carried at amortised cost	6,600	-
Total impairment of financial assets	**11,400**	**7,220**

Provision for financial assets attributable to MTS Bank is reported in cost of sales.

13. 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.

The Group is subject to permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. 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.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Deferred tax assets are not recognized when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making such determination, the Group considers all available positive and negative evidence, including projected future taxable income, tax planning strategies and recent financial operations.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

The Group's income tax expense for 2016 and 2015 comprise the following:

	2016	2015
Current income tax expense	23,360	19,739
Deferred income tax benefit	(1,785)	(1,488)
Total income tax expense recognised in the current year relating to continuing operations	**21,575**	**18,251**

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 recognized in the consolidated statements of profit or loss as a consequence of the following adjustments:

	2016	2015
Profit before tax	**(39,501)**	**(20,094)**
Income tax expense calculated at 20%	7,900	4,019
Adjustments due to:		
Earnings distribution from subsidiaries and associates	3,454	1,221
Increase of unrecognised deferred tax assets	5,164	10,028
Other non-deductible expenses	5,188	3,384
Settlements with tax authorities	68	335
Different tax rate of subsidiaries	(410)	(533)
Non-taxable income	(869)	-
Other	1,080	(203)
Income tax expense	**21,575**	**18,251**

(Amounts in millions of Russian Rubles, unless otherwise stated)

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statements of financial position:

2016	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Acquisitions /disposals**	**Closing balance**
Deferred tax (liabilities)/ assets in relation to:					
Accrued expenses and accounts payable	10,806	(2,376)	(131)	(196)	8,103
Property, plant and equipment	(19,912)	(994)	(653)	(2,630)	(24,189)
Intangible assets	(9,749)	(1,621)	166	572	(10,632)
Deferred connection fees	639	(20)	(32)	(47)	540
Inventory obsolescence	791	532	-	(31)	1,292
Allowance for doubtful accounts and loans receivable	877	267	(236)	54	962
Deferred revenues	-	164	-	-	164
Undistributed earnings of subsidiaries and joint ventures and associates	(7,240)	861	548	-	(5,831)
Tax losses carried forward	12,502	1,606	(49)	(164)	13,895
Other	(4,412)	3,523	374	(358)	(873)
Total	**(15,698)**	**1,942**	**(13)**	**(2,800)**	**(16,569)**

2015	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Acquisitions /disposals**	**Closing balance**
Deferred tax (liabilities)/ assets in relation to:					
Accrued expenses and accounts payable	6,439	4,476	(109)	-	10,806
Property, plant and equipment	(16,064)	(3,609)	261	(500)	(19,912)
Intangible assets	(10,015)	712	(380)	(66)	(9,749)
Deferred connection fees	929	(231)	(59)	-	639
Inventory obsolescence	895	(104)	-	-	791
Allowance for doubtful accounts and loans receivable	2,139	(1,262)	-	-	877
Undistributed earnings of subsidiaries and joint ventures and associates	(7,000)	64	(304)	-	(7,240)
Tax losses carried forward	13,417	(1,443)	528	-	12,502
Other	(5,171)	(680)	590	849	(4,412)
Total	**(14,431)**	**(2,077)**	**527**	**283**	**(15,698)**

(Amounts in millions of Russian Rubles, unless otherwise stated)

As of 31 December 2016 and 2015 the Group reported the following deferred income tax assets and liabilities in the consolidated statements of financial position:

	2016	**2015**
Deferred tax assets	24,185	25,966
Deferred tax liabilities	(40,753)	(41,664)
Net deferred tax liabilities	**(16,568)**	**(15,698)**

As of 31 December 2016 and 2015 the tax losses carried forward, for which deferred tax assets were recognised, amounted to RUB 69,474 million and RUB 62,509 million, respectively.

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 2017-2020 may not be reduced by tax losses carried forward in an amount exceeding 50% of the base. 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 2016 and 2015:

Jurisdiction	**Carry-forward period**	**2016**	**2015**
India	2017-2025	189,505	178,274
Russia	infinite	158,301	133,749
Total		**347,806**	**312,023**

14. EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses consist of salaries, bonuses and social security contributions. Employee benefits expenses included in cost of sales and selling, general and administrative expenses for 2016 and 2015 comprised RUB 142,099 million and RUB 136,395 million, respectively.

Share options granted under the Company's employee share option plan – In 2016 and 2015 the Company's Board of Directors established two-year motivational programs for senior and mid-level management. Participants of the programs, upon fulfilment of certain performance conditions and subject to continuing employment with the Group, are granted ordinary shares in the Company.

As a result, the Group recognised an expense of RUB 2,522 million and RUB 2,866 million in the consolidated statements of profit or loss for 2016 and 2015, respectively. The fair value of awards granted was measured based on the fair value of the Company's ordinary shares. The awards are equity-settled and are recognised in additional paid-in capital.

(Amounts in millions of Russian Rubles, unless otherwise stated)

15. 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.

Depreciation for property, plant and equipment is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	20-50 years
Leasehold improvements	the term of the lease
Base stations	7 years
Other network equipment	up to 31 years
Power and utilities	up to 35 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.

Property, plant and equipment, net of accumulated depreciation, as of 31 December 2016 and 2015 consisted of the following:

	2016	2015
Carrying amount		
Switches, transmission devices, network and base station equipment	243,349	268,884
Buildings and leasehold improvements	77,169	69,355
Power and utilities	25,206	23,168
Land	18,133	12,382
Other	44,273	47,733
Total	**408,130**	**421,522**

(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
Cost						
Balance at 1 January 2015	555,259	82,686	29,696	8,810	96,694	773,145
Additions	58,618	5,365	4,009	-	17,611	85,603
Disposals	(24,254)	(1,680)	(206)	(120)	(5,772)	(32,032)
Business combinations	-	5,677	-	2,685	1,611	9,973
Reclassified to investment property	(1,059)	-	-	-	-	(1,059)
Currency translation adjustment	(4,392)	2,320	-	-	501	(1,571)
Impairment	-	(2,520)	-	(115)	(669)	(3,304)
Other	(380)	(1,793)	-	1,122	(295)	(1,346)
Balance at 31 December 2015	583,792	90,055	33,499	12,382	109,681	829,409
Additions	41,862	7,252	4,301	87	20,427	73,929
Disposals	(27,291)	(2,022)	(92)	-	(25,981)	(55,386)
Business combinations	-	8,758	-	5,726	5,065	19,549
Reclassified from investment property	-	804	-	-	-	804
Reclassified to assets held for sale	(1,557)	(564)	-	-	(8)	(2,129)
Currency translation adjustment	(19,023)	(2,444)	-	(62)	(3,337)	(24,866)
Impairment	-	(95)	-	-	(502)	(597)
Other	(65)	(283)	-	-	164	(184)
Balance at 31 December 2016	**577,718**	**101,461**	**37,708**	**18,133**	**105,509**	**840,529**
Accumulated depreciation and impairment						
Balance at 1 January 2015	(288,513)	(19,657)	(8,145)	-	(56,182)	(372,497)
Disposals	21,160	1,623	17	-	5,068	27,868
Reclassified to investment property	490	-	-	-	-	490
Depreciation expense	(51,967)	(2,666)	(2,203)	-	(10,869)	(67,705)
Currency translation adjustment	3,922	-	-	-	643	4,565
Other	-	-	-	-	(608)	(608)
Balance at 31 December 2015	(314,908)	(20,700)	(10,331)	-	(61,948)	(407,887)
Disposals	20,222	316	19	-	13,690	34,247
Reclassified to assets held for sale	846	41	-	-	9	896
Depreciation expense	(52,393)	(4,351)	(2,190)	-	(15,102)	(74,036)
Currency translation adjustment	12,086	587	-	-	2,124	14,797
Other	(222)	(185)	-	-	(9)	(416)
Balance at 31 December 2016	**(334,369)**	**(24,292)**	**(12,502)**	**-**	**(61,236)**	**(432,399)**

(Amounts in millions of Russian Rubles, unless otherwise stated)

16. INVESTMENT PROPERTY

Investment property primarily includes apartment buildings, cottages, office and commercial space and business centres owned by the companies of the Group operating in real estate segment, including Leader-Invest, Business Nedvizhimost and Mosdachtrest.

Investment property is stated at cost less accumulated depreciation and impairment losses. Depreciation for investment property is computed under the straight-line method utilising estimated useful lives of the assets of 25 years. Accumulated depreciation as of 31 December 2016 and 2015 amounted to RUB 3,035 million and RUB 2,255 million respectively.

	2016	**2015**
Balance at the beginning of the year	14,085	10,229
Reclassified (to)/from property, plant and equipment	(804)	569
Additions	10,902	4,787
Disposals	(1,368)	(893)
Depreciation expense	(256)	(607)
Reclassified from inventories	88	-
Balance at the end of the year	**22,647**	**14,085**

Included in revenue is investment property rental income for 2016 of RUB 2,608 million (2015: RUB 2,455 million). Operating expenses arising from the investment property that generated rental income during 2016 totalled RUB 377 million (2015: RUB 244 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 2016 and 2015, the Group determined the fair values of the investment property at RUB 59,107 million and RUB 51,266 million, respectively.

The fair values as of 31 December 2016 and 2015 were determined either based 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 discount rate, revenue growth rates, OIBDA margin and adjustments to market values of similar properties.

(Amounts in millions of Russian Rubles, unless otherwise stated)

17. GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

The carrying amounts of goodwill attributable to operating segments are as follows:

	MTS	SSTL	RTI	Steppe	Segezha Group	Other	Total
Balance as of 1 January 2015							
Gross amount of goodwill	46,496	16,495	8,323	-	-	2,922	74,236
Accumulated impairment loss	(1,466)	(16,495)	(8,219)	-	-	(2,064)	(28,244)
	45,030	**-**	**104**	**-**	**-**	**858**	**45,992**
Business combinations	-	-	-	3,862	-	4,338	8,200
Impairment	(3,516)	-	-	-	-	(5,150)	(8,666)
Currency translation adjustment	1,673	-	-	-	-	57	1,730
Balance as of 31 December 2015							
Gross amount of goodwill	48,169	20,408	8,323	3,862	-	7,317	88,079
Accumulated impairment loss	(4,982)	(20,408)	(8,219)	-	-	(7,214)	(40,823)
	43,187	**-**	**104**	**3,862**	**-**	**103**	**47,256**
Business combinations	-	-	-	1,981	3,454	602	6,037
Impairment					(241)		(241)
Currency translation adjustment	(783)	-	-	-	-	(45)	(828)
Balance as of 31 December 2016							
Gross amount of goodwill	47,386	16,578	8,323	5,843	3,454	7,874	89,458
Accumulated impairment loss	(4,982)	(16,578)	(8,219)	-	(241)	(7,214)	(37,234)
	42,404	**-**	**104**	**5,843**	**3,213**	**660**	**52,224**

The Group performs impairment tests for the goodwill assigned to cash-generating units (CGUs) at least annually and when there are any indications that the carrying amount of the cash-generating unit is impaired. When the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit is impaired.

For the purposes of impairment testing, goodwill attributable to the MTS segment is allocated to cash-generating units for the years ended 31 December as follows:

	2016	2015
Russia convergent	28,800	28,800
Armenia	3,707	4,456
Moscow fixed line	1,083	1,083
Ukraine	95	129
Unallocated	8,719	8,719
Total	**42,404**	**43,187**

(Amounts in millions of Russian Rubles, unless otherwise stated)

The "Russia convergent" CGU represents mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia, except for "Moscow fixed line", which represents the results of fixed line operations carried out in Moscow by MGTS, a subsidiary of MTS. "Armenia" and "Ukraine" represent operations carried out by subsidiaries of MTS in the respective countries. Goodwill allocated to these CGUs has arisen on acquisitions made by MTS. The Group does not allocate goodwill recognised as a result of its purchases of MTS shares by the Group to CGUs as it is monitored for internal management purposes at the level of the MTS segment as a whole. Unallocated amount of goodwill is tested for impairment with the reference to the market capitalisation of MTS.

The recoverable amounts of the CGUs are determined based on their value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

Future cash flows calculations are based on a five-year operation plan. Estimation of future cash flows requires assumptions to be made in respect of uncertain factors, including management's expectations of margins, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks involved.

During 2016 no impairment charges were recorded in respect of the Group's goodwill balances.

The key assumptions used in the value in use calculations are as follows:

Forecasted OIBDA margin and capital expenditure were primarily derived from internal sources, based on past experience and extended to include management expectations.

The table below presents forecasted OIBDA margin and capital expenditure as a percentage of revenue over the following five years utilised for value in use calculation of related CGUs:

	OIBDA margin		Capital expenditure as a percentage of revenue	
CGU	**2016**	**2015**	**2016**	**2015**
Russia convergent	34.6%-37.0%	32.3%-34.9%	18.8%	17.6%
Armenia	42.0%-45.0%	44.7%-46.1%	11.9%	12.0%
Moscow fixed line	42.2%-51.0%	48.2%-53.4%	17.5%	15.0%
Ukraine	40.6%-46.5%	35.4%-41.3%	19.9%	24.4%

The terminal growth rate has been determined based on the nominal gross domestic product rates for the country of operation, adjusted for specific characteristics of the CGUs business. The discount rate is the weighted average cost of capital, being equity and debt, according to the industry average finance structure. The cost of equity is calculated based on the risk free rate for long-term bonds issued by the government in the respective market. These rates are adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU. The cost of debt is defined as the rate effective for borrowings drawn by the Group at or near the date of the impairment test.

The table below presents terminal growth rate and pre-tax rates for discounting cash flows in functional currencies utilized for value in use calculation of related CGUs:

	Terminal growth rate		Discount rate	
CGU	**2016**	**2015**	**2016**	**2015**
Russia convergent	1%	1%	15.1%	13.9%
Armenia	nil	nil	15.5%	17.7%
Moscow fixed line	1%	1%	13.7%	18.4%
Ukraine	3%	3%	21.6%	26.6%

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount.

(Amounts in millions of Russian Rubles, unless otherwise stated)

18. OTHER INTANGIBLE ASSETS

Other intangible assets are mainly represented by billing and telecommunication software and other software, operating licenses, acquired customer bases and customer relationships.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses. Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets that are acquired separately.

All finite-life intangible assets are amortised using the straight-line method utilising estimated useful lives of the assets as follows:

Operating licenses	3-20 years
Billing and telecommunication software	1-20 years
Radio frequencies	2-15 years
Customer base	1-8 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 2016 and 2015 consisted of the following:

	2016	2015
Carrying amounts of:		
Amortised intangible assets:		
Billing and telecommunication software	48,266	40,979
Operating licenses	36,887	43,460
Radio frequencies	4,120	5,065
Acquired customer base	3,306	4,359
Software and other	8,568	11,881
	101,147	**105,744**
Unamortised intangible assets:		
Trademarks	6,569	6,563
Total	**107,716**	**112,307**

(Amounts in millions of Russian Rubles, unless otherwise stated)

	Billing and telecom software	Operating licenses	Customer base	Radio frequen - cies	Software and other	Trade - marks	Total
Cost or valuation							
Balance at 1 January 2015	84,923	41,553	13,302	8,294	26,276	6,748	181,096
Additions	19,976	11,705		1,262	1,679	-	34,622
Disposals	(18,888)	(1)	(1,228)	(268)	(859)	-	(21,244)
Business combinations	-	-	-	-	1,332	-	1,332
Currency translation							-
adjustment	(372)	7,162	206	-	639	(185)	7,450
Impairment	-	-	-	-	-	-	-
Other	(212)	38	86	38	366	-	316
Balance at 31 December 2015	85,427	60,457	12,366	9,326	29,433	6,563	203,572
Additions	27,658	3,382	325	245	1,843	-	33,453
Disposals	(12,400)	(47)	(164)	(582)	(7,665)	-	(20,858)
Business combinations	-	323	-	-	-	-	323
Currency translation							-
adjustment	(3,763)	(9,462)	-	-	(1,227)	6	(14,446)
Other	(87)	44	-	(40)	(43)	-	(126)
Balance at 31 December 2016	**96,835**	**54,697**	**12,527**	**8,949**	**22,341**	**6,569**	**201,918**
Accumulated depreciation and impairment							
Balance at 1 January 2015	(47,171)	(13,249)	(7,785)	(3,317)	(11,624)	-	(83,146)
Disposals	18,528	2	1,228	287	780	-	20,825
Amortisation expense	(16,075)	(2,279)	(692)	(1,202)	(6,355)	-	(26,603)
Currency translation adjustment	866	(1,534)	(758)	-	(289)	-	(1,715)
Other	(596)	63	-	(29)	(64)	-	(626)
Balance at 31 December 2015	(44,448)	(16,997)	(8,007)	(4,261)	(17,552)	-	(91,265)
							-
Disposals	10,687	2	164	582	5,889	-	17,324
Amortisation expense	(17,548)	(3,587)	(1,378)	(1,170)	(2,756)	-	(26,439)
Currency translation adjustment	2,697	2,779	-	-	702	-	6,178
Other	43	(7)	-	20	(56)	-	-
Balance at 31 December 2016	**(48,569)**	**(17,810)**	**(9,221)**	**(4,829)**	**(13,773)**	**-**	**(94,202)**

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. 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 targets for 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 2016, 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 five years.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The license for the provision of telecommunication services in Ukraine was renewed in 2013 and is valid until 2026. The license for the provision of telecommunication services in Armenia is valid until 2019. The license for the provision of telecommunication services in Turkmenistan is valid until 2029.

SSTL spectrum. SSTL owns 800 MHz technology neutral spectrum in nine telecom circles of India. Liability for the spectrum is payable in equal annual installments during the period from 2016 to 2025 and is included in Other financial liabilities.

19. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group holds interests in several associates, the most significant of which are MTS Belarus, OZON, and joint ventures represented by real estate projects and SG-trans (disposed in 2016). All investments in associates and joint ventures are accounted for using the equity method.

Investments in associates and joint ventures as of 31 December 2016 and 2015 consisted of the following:

	2016		2015	
	Voting power	**Carrying value**	**Voting power**	**Carrying value**
MTS Belarus	49.00%	4,303	49.00%	5,407
OZON	21.60%	4,929	21.60%	5,409
SG-trans	-	-	50.00%	5,580
Real estate projects	48%-50%	4,629	50.00%	1,754
Other		5,676		4,069
Total		**19,537**		**22,219**

Sale of SG-trans – In August 2016, the Group sold a 50% stake in SG-trans, a rail freight operator in Russia, to a group of unaffiliated buyers for a total consideration of RUB 6 billion. In connection with this disposal the Group recognized a gain of RUB 190 million.

Investments in real estate projects – In December 2015, the Group established Sistema Capital Partners private equity platform, which invests on behalf of the Group and co-investors in European and domestic high street retail properties. In 2016, the Group invested additional RUB 2,875 million in retail assets in Germany.

The financial position and results of operations of significant associates and joint venture as of and for the years ended 31 December 2016 and 2015 were as follows:

(Amounts in millions of Russian Rubles, unless otherwise stated)

	2016			2015			
	MTS Belarus	**OZON**	**Real estates projects**	**MTS Belarus**	**OZON**	**Real estates projects**	**SG-trans**
Non-current assets	9,414	3,922	12,162	11,404	2,553	839	28,401
Current assets	6,800	8,073	1,262	6,153	8,629	2,779	5,052
Total assets	**16,214**	**11,995**	**13,424**	**17,557**	**11,182**	**3,618**	**33,453**
Non-current liabilities	-	(629)	(4,631)	(2)	(260)	-	(20,176)
Current liabilities	(7,433)	(5,413)	(412)	(6,520)	(4,052)	(109)	(4,888)
Total liabilities	**(7,433)**	**(6,042)**	**(5,043)**	**(6,522)**	**(4,312)**	**(109)**	**(25,064)**
Net assets of investee	**8,781**	**5,953**	**8,381**	**11,035**	**6,870**	**3,509**	**8,389**
Group's ownership interest	49.00%	21.60%	48.00%	49.00%	21.60%	50.00%	50.00%
Fair value adjustment on the date of obtaining significant influence	-	3,644	606	-	3,925		1,386
Carrying amount of the Group's interest	**4,303**	**4,929**	**4,629**	**5,407**	**5,409**	**1,754**	**5,580**
Total revenues	22,256	15,322	557	20,886	13,222	-	19,438
Total profit/(loss) for the year	6,356	(1,190)	769	7,054	577	-	714
The Group's share in profit/(loss)	**3,114**	**(257)**	**369**	**3,456**	**125**	- -	**357**
Total comprehensive income/(loss)	4,064	(1,194)	769	3,944	577	- -	714
The Group's share in comprehensive income/(loss) for the year	**1,991**	**(258)**	**369**	**1,933**	**125**	**-**	**357**

The following is a summary of the aggregated financial information of other associates and joint ventures that are not individually material:

	2016	**2015**
Group's share of profit/(loss) from continuing operations	(78)	439
Group's share of total comprehensive income/(loss)	(78)	439
Aggregate carrying amount of the Group's interests in these associates and joint ventures	5,676	4,069

20. LOANS RECEIVABLE AND 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 statements of financial position, primarily comprise assets of MTS Bank, the Group's subsidiary engaged in banking activities, and investments of the Corporate segment.

Financial assets are classified into the following specified categories depending on their nature and purpose:

Category	**Description**	**Accounting policy**
Financial assets at fair value through profit or loss (FVTPL)	Financial assets which are either held for trading or are designated as at FVTPL.	Measured at fair value with changes recognised in profit or loss.
Held-to-maturity (HTM) investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity.	Measured at amortised cost using the effective interest method less any impairment.
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.	Measured at amortised cost using the effective interest method less any impairment.
Available-for-sale (AFS) financial assets	Non-derivatives that are either designated as AFS or are not classified within the above categories.	Measured at fair value with changes recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss is reclassified to profit or loss.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default loans on receivables.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 32.

(Amounts in millions of Russian Rubles, unless otherwise stated)

At 31 December 2016 and 2015, financial assets, other than those shown separately on the face of the statements of financial position, less allowance for impairment losses, comprise:

	2016	2015
Financial assets at FVTPL		
Debt and equity securities	30,935	28,954
	30,935	**28,954**
Loans and receivables at amortised cost		
Bank loans to customers	62,900	78,846
Interbank loans due from banks	3,090	7,966
Other loans and receivables	18,431	37,249
	84,421	**124,061**
AFS financial assets		
Debt and equity securities	16,460	12,214
	16,460	**12,214**
HTM financial assets		
Debt and equity securities	17,163	-
	17,163	**-**
Hedging instruments at fair value		
Interest rate swaps designated as cash flow hedges	13,632	25,027
	13,632	**25,027**
	162,611	**190,256**
Current	62,588	78,020
Non-current	100,023	112,236
	162,611	**190,256**

At 31 December 2016 and 2015, included in the above categories as well as cash and cash equivalents, financial assets attributable to the Group’s banking activities (MTS Bank and its subsidiaries) comprise:

	2016	2015
Cash and cash equivalents	28,895	46,536
Bank loans to customers	99,556	125,522
Interbank loans due from banks	3,339	8,200
Financial assets at FVTPL	18,430	20,581
AFS financial assets	8,166	6,765
HTM financial assets	17,163	-
Other	713	2,261
Less: allowance for loan losses	(36,905)	(46,910)
	139,357	**162,955**

(Amounts in millions of Russian Rubles, unless otherwise stated)

The movement in the allowance for loan losses during 2016 and 2015 was as follows:

	2016	2015
Allowance for loan losses, beginning of the year	**46,910**	**31,558**
Additions charged to the results of operations	6,063	21,788
Write-off of loan loss provisions	(14,883)	(7,627)
Currency translation adjustment	(1,185)	1,191
Allowance for loan losses, end of the year	**36,905**	**46,910**

The analysis of bank loans to customers by sector is presented below:

Analysis by sector

	2016	2015
Individuals	44,157	59,570
Manufacturing	17,277	20,579
Real estate	9,809	12,294
Trade	9,454	7,411
Transport and communication	6,407	6,884
Food production	1,598	6,406
Finance lease	2,865	5,441
Finance sector	2,844	1,243
Culture and art	886	1,252
Other	4,259	4,442
Total bank loans to customers	**99,556**	**125,522**

Loans to individuals comprise the following:

	2016	2015
Credit cards	17,451	20,664
Mortgage loans	14,671	20,829
Consumer loans	11,020	16,749
Other	1,015	1,328
	44,157	**59,570**
Less allowance for loan losses	(12,979)	(21,459)
Total loans to individuals	**31,178**	**38,111**

21. RESTRICTED CASH

According to the amendments to the law "On State Defense Orders", cash received under state defense orders has to be held on special accounts and its spending is restricted to activities related to these orders. As of 31 December 2016, RTI has RUB 10,098 million of cash on special accounts which was presented as restricted cash within current assets.

22. INVENTORIES

Inventories mainly include goods for resale of Detsky mir and the retail network of MTS and costs in excess of billings of RTI.

Inventories are stated at the lower of cost or market value. Inventories are accounted for using the weighted-average cost method. Inventory should be accounted further at the lower of net realisable value and carrying amount. The Group periodically assesses its inventories for obsolete or slow-moving stock.

(Amounts in millions of Russian Rubles, unless otherwise stated)

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.

Costs and estimated earnings in excess of billings on uncompleted contracts include the accumulated costs of projects contracted with third parties, net of related progress billings.

Inventories as of 31 December 2016 and 2015 consisted of the following:

	2016	2015
Detsky mir finished goods and goods for resale	25,328	17,772
MTS finished goods and goods for resale	16,276	16,054
Work-in-progress	15,916	15,607
Other finished goods and goods for resale	9,929	5,505
Raw materials and spare parts	6,956	10,257
Costs and estimated earnings in excess of billings on uncompleted contracts	8,285	11,427
Total	**82,690**	**76,622**

The cost of inventories recognised as an expense during the year in respect of continuing operations was RUB 125,690 million (2015: RUB 81,701 million). The cost of inventories recognised as an expense includes RUB 3,423 million (2015: RUB 2,222 million) in respect of write-downs of inventory to net realisable value, and has been reduced by RUB 611 million (2015: RUB 878 million) in respect of the reversal of such write-downs.

23. ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the customers to the Group.

Accounts receivable are stated at their net realizable value after deducting a provision for doubtful accounts. Such provision reflects either specific cases of delinquencies or defaults or estimates based on evidence of collectability.

Accounts receivable, net of provision for doubtful accounts, as of 31 December 2016 and 2015 consisted of the following:

	2016	2015
Accounts receivable	69,579	84,273
Allowance for doubtful accounts	(8,691)	(9,997)
Total	**60,888**	**74,276**

Below is the age analysis of receivables that are past due but not impaired:

	2016	2015
60-90 days	3,621	2,894
91-120 days	2,480	2,737
Total	**6,101**	**5,631**

(Amounts in millions of Russian Rubles, unless otherwise stated)

Movement in the allowance for doubtful accounts is as follows:

	2016	**2015**
Balance at the beginning of the year	(9,997)	(9,510)
Allowance for doubtful accounts	(3,303)	(3,301)
Amounts written off during the year as uncollectible	3,421	4,137
Disposal of subsidiaries	343	-
Currency translation gains/(losses)	845	(1,323)
Balance at the end of the year	**(8,691)**	**(9,997)**

24. EQUITY

Share capital – As of 31 December 2016 and 2015, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,397,374,298 and 9,484,639,435 shares were outstanding, respectively.

Treasury shares – Movement of treasury shares during 2016 and 2015 years was as follows:

	2016	**2015**
Balance at the beginning of the year	165,360,565	214,097,404
Purchase of own shares	98,250,000	27,800,000
Settlements under long-term motivation program	(10,984,863)	(76,536,839)
Balance at the end of the year	**252,625,702**	**165,360,565**

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 25 June 2016, an annual general meeting of shareholders approved the total dividend payment of RUB 6,470 million for 2015 year (including dividends on treasury shares of RUB 173 million), representing RUB 0.67 per ordinary share or RUB 13.4 per GDR.

On 22 September 2016, an extraordinary general meeting of shareholders approved an interim dividend payment of RUB 3,667 million for the six months of 2016 year (including dividends on treasury shares of RUB 91 million), representing RUB 0.38 per ordinary share or RUB 7.6 per GDR.

(Amounts in millions of Russian Rubles, unless otherwise stated)

25. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income balance, net of taxes, as of 31 December 2016 and 2015:

	2016	2015
Accumulated currency translation loss	(21,745)	(9,237)
Unrealised gain on financial instruments	(153)	1,045
Unrecognised actuarial loss	(34)	(34)
Total accumulated other comprehensive loss	**(21,932)**	**(8,226)**
Less: amounts attributable to non-controlling interests	8,180	1,147
Total accumulated other comprehensive loss attributable to Sistema PJSFC	**(13,752)**	**(7,079)**

26. 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 2016, finance costs did not include borrowing costs that were included in the cost of qualifying assets in amount of RUB 388 million (2015: RUB 885 million).

At 31 December 2016 and 2015, the Group's borrowings comprised:

	2016	2015
Bank loans	323,838	366,724
Corporate bonds	138,301	171,755
Finance lease obligations	14,361	16,085
Other	1,626	2,196
	478,126	**556,760**
Current	83,109	142,657
Non-current	395,017	414,103

(Amounts in millions of Russian Rubles, unless otherwise stated)

Bank loans – As of 31 December 2016 and 2015, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 31 December 2016)	31 December 2016	31 December 2015
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2017-2020	LIBOR 6m+1.15%	25,394	39,449
China Development Bank	2017-2021	LIBOR 6m+3.15%; 1.92%	9,099	21,026
Citibank	2017-2024	LIBOR 6m+0.9%	12,812	17,511
Bank of China	2016	1.91% - 3.83%	-	10,391
VTB	2016-2018	LIBOR 3m+7.5%	-	4,032
Skandinavska Enskilda Banken AB	2017	LIBOR 6m+0.225% - 1.8%	1,163	3,938
Other			3,323	275
			51,791	**96,622**
EUR-denominated:				
Credit Agricole Corporate Bank and BNP Paribas	2017-2018	EURIBOR 6m+1.65%	876	1,639
VTB	2016-2017	EURIBOR 6m+6.2%	-	1,076
ING Bank	2017-2021	4.30%	9,190	
Other			823	1,466
			10,889	**4,181**
RUB-denominated:				
Sberbank	2017-2023	8.45%-17.75%	180,161	203,363
VTB	2017-2026	10.20%-19.70%; CBR+2.02%-4.80% (12.02%-14.80%)	37,943	24,753
Gazprombank	2017-2022	10.9% - 12.0%	4,819	11,187
Expobank	2017-2019	14.00%-14.50%	3,000	3,500
Alfa Bank	2017-2023	10.50%-13.45%	10,210	4,970
Other			20,451	12,779
			256,584	**260,552**
Other currencies			4,574	5,369
Total bank loans			**323,838**	**366,724**

(Amounts in millions of Russian Rubles, unless otherwise stated)

Notes – As of 31 December 2016 and 2015, the Group's notes consisted of the following:

	Currency	Interest rate	31 December 2016	31 December 2015
MTS International Notes due 2023	USD	5.00%	28,217	33,908
MTS International Notes due 2020	USD	8.63%	18,537	42,238
Sistema International Notes due 2019	USD	6.95%	25,067	32,027
Sistema PJSFC Bonds due 2016	RUB	8.75%	-	13,896
Sistema PJSFC Bonds due 2018	RUB	12.70%	10,000	10,000
Sistema PJSFC Bonds due 2030	RUB	17.00%	-	8,206
Sistema PJSFC Bonds due 2027	RUB	9.90%	9,949	-
Sistema PJSFC Bonds due 2026	RUB	9.80%	6,200	-
Sistema PJSFC Bonds due September 2025	RUB	12.50%	5,000	5,000
MTS Notes due 2031	RUB	9.40%	9,986	-
MTS Notes due 2023	RUB	8.25%	9,984	9,971
MTS Notes due 2017	RUB	8.70%	9,995	9,637
MTS Notes due 2020	RUB	9.25%	1,448	2,110
MTS Notes due 2016	RUB	8.75%	-	1,788
Sistema PJSFC Bonds due October 2025	RUB	10.90%	1,700	1,700
Other			2,218	1,274
Total notes			**138,301**	**171,755**

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. The dates of the announcement for each particular note issue are as follows:

MTS Notes due 2020	November 2017
MTS Notes due 2023	March 2018
MTS Notes due 2031	August 2018
Sistema PJSFC Bonds due September 2025	October 2018
Sistema PJSFC Bonds due October 2025	November 2019
Sistema PJSFC Bonds due 2027	February 2020
Sistema PJSFC Bonds due 2026	November 2020

Covenants – Loans and notes payable by the Group are subject to various restrictive covenants, including, but not limited to compliance with certain financial ratios, limitations on dispositions of assets and transactions within the Group and retention of principal telecom licenses. As of 31 December 2016 and 2015, the Group had RUB 2,404 million and RUB 10,222 million, respectively of RUB-denominated long-term debt which was presented within current liabilities in the consolidated statements of financial position because of non-compliance with certain financial ratios by the Group's subsidiaries.

Assets pledged as security – As of 31 December 2016 and 2015 land and buildings with carrying amounts of RUB 34,746 million and RUB 26,962 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 2016 and 2015, other assets including inventories and deposits with carrying amounts of RUB 4,200 million, RUB 2,635 million respectively have been pledged to secure borrowings of the Group. 87% shares of RTI have been pledged to secure borrowings of the Group.

In addition, the Group's obligations under finance leases as of 31 December 2016 and 2015 are secured by the lessors' title to the leased assets, which have a carrying amount of RUB 10,785 million and RUB 9,037 million, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

27. BANK DEPOSITS AND LIABILITIES

Liabilities of MTS Bank primarily consist of customer accounts and deposits. These liabilities are initially measured at fair value, net of transaction costs. Liabilities are subsequently measured at amortised cost using the effective interest method and classified based on their contractual maturity.

Bank deposits and liabilities as of 31 December 2016 and 2015 consisted of the following:

	2016	2015
Customer accounts	100,974	109,719
Subordinated debt and bonds	-	7,600
Debt securities issued	2,030	2,587
Other liabilities	3,316	2,898
	106,320	**122,804**
Less: amounts maturing within one year	(99,888)	(115,529)
Total bank deposits and liabilities, net of the current portion	**6,432**	**7,275**

28. OTHER FINANCIAL LIABILITIES

Other financial liabilities as of 31 December 2016 and 2015 consisted of the following:

	2016	2015
SSTL payable for 800 MHz spectrum (Note 18)	19,126	25,693
Liabilities to Rosnano for Mikron's shares (Note 29)	3,300	-
Payable for RTI shares (Note 9)	2,975	-
Credit guarantee agreement related to foreign currency hedge	2,907	6,853
Interest rate and cross-currency swaps not designated as hedging instruments	1,734	1,855
MTS liabilities related to hedging activities	531	676
Other	683	-
Current	7,919	6,853
Non-current	23,337	28,224
Total other financial liabilities	**31,256**	**35,077**

(Amounts in millions of Russian Rubles, unless otherwise stated)

29. LIABILITIES UNDER PUT OPTION AGREEMENTS

From time to time, to optimise the structure of business acquisitions and to defer payment of the purchase price or to attract a co-investor into the business, the Group enters into put option agreements to acquire the non-controlling interests in its subsidiaries.

If put options issued by the Group over the equity of subsidiary companies are settled by exchange of an amount of cash or another financial asset dependent on valuation of a fixed number of shares in the subsidiary, the potential cash payments are recognised as financial liabilities at fair value, and are reclassified from equity. Such liabilities are subsequently measured at fair value; the remeasurement is recorded in profit or loss. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

As of 31 December 2016 and 2015, liabilities recorded by the Group in relation to such put options comprised:

Subsidiary	**Underlying interest**	**Earliest demand date**	**31 December 2016**	**31 December 2015**
MTS Armenia	20.00%	December 2018	2,243	2,925
SSTL	17.14%		-	54,808
Mikron	20.42%		-	7,050
Other			-	901
Total			**2,243**	**65,684**
Current			-	65,684
Non-current			2,243	-

SSTL – As of 31 December 2015 the Russian Government, represented by the Federal Agency for State Property Management ("Rosimushchestvo"), had a put option to sell 17.14% stake in SSTL to Sistema for the higher of USD 777 million or market value as of 26 March 2016 determined by an independent valuator. In June 2016, the Group has signed an agreement with the Russian Government, represented by Rosimushchestvo, whereby the Group acquired 17.14% of the shares of SSTL for USD 777 million (RUB 47,130 million as of 31 December 2016). The liability is due to be repaid in instalments in 2016-2020. Ownership rights for the shares will be transferred to the Group in proportion to the repaid liability balance subject to certain conditions. As of 31 December 2016 the beneficial ownership of SSTL has not changed and the Group repaid part of the liability amounting to RUB 15,718 million in 2016. The Group presented the current / non-current portions of the liability in separate lines in the consolidated statement of financial position as of 31 December 2016.

Mikron – In October 2016, the Group has signed an agreement with RUSNANO on restructuring an option agreement with respect to 20.42% of shares of Mikron for RUB 8,100 million. The liability will be repaid in instalments in 2016-2017. Ownership rights for the shares will be transferred to the Group in 2017. The Group presented the outstanding liability of RUB 3,300 million in other financial liabilities in the consolidated statement of financial position as of 31 December 2016.

(Amounts in millions of Russian Rubles, unless otherwise stated)

30. PROVISIONS

Provisions primarily consist of provisions related to employees' bonuses and other rewards, decommissioning and restoration obligations. The provision for employee benefits represents annual compensation and share-based compensation.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Provisions as of 31 December 2016 and 2015 consisted of the following:

	2016	**2015**
Employees' bonuses and other rewards	10,348	9,920
Provisions for decomissioning	1,192	1,459
Tax provisions other than for income tax	457	525
Other	2,166	2,437
Total	**14,163**	**14,341**
Current	10,752	10,151
Non-current	3,411	4,190

	Employees' bonuses and other rewards	**Provisions for decomis-sioning**	**Tax provisions other than income tax**	**Other**	**Total**
Balance at 1 January 2015	**(7,459)**	**(1,640)**	**(2,974)**	**(2,122)**	**(14,195)**
Additional provisions recognized	(11,707)	(107)	(481)	(756)	(13,051)
Acquisitions	(456)	-	(15)	(186)	(657)
Payments	8,810	-	24	622	9,456
Unwinding of discount and effect of changes in the discount rate	87	256	-	(1)	342
Unused amounts reversed	846	25	2,951	6	3,828
Currency translation adjustment	(41)	7	(30)	-	(64)
Balance at 31 December 2015	**(9,920)**	**(1,459)**	**(525)**	**(2,437)**	**(14,341)**
Additional provisions recognized	(16,169)	(1)	(1,055)	(1,330)	(18,555)
Payments	14,408	-	374	764	15,546
Unwinding of discount and effect of changes in the discount rate	(12)	(142)	-	-	- - (154)
Unused amounts reversed	1,102	393	739	462	2,696
Disposed	91	-	-	375	466
Currency translation adjustment	152	17	10	-	179
Balance at 31 December 2016	**(10,348)**	**(1,192)**	**(457)**	**(2,166)**	**(14,163)**

(Amounts in millions of Russian Rubles, unless otherwise stated)

31. EARNINGS/(LOSSES) PER SHARE

Earnings per share is the amount of profit 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:

	2016	2015
Profit/(loss) for the year from discontinued operations attributable to shareholders of Sistema PJSFC	(6,433)	48,697
Loss for the year from continuing operations attributable to shareholders of Sistema	(5,325)	(19,897)
(Losses)/earnings used in the calculation of basic and diluted earnings per share	**(11,758)**	**28,800**
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	9,439,069,910	9,420,045,036
(Losses)/earningsper share – basic and diluted	**(1.25)**	**3.06**
From continuing operations	(0.56)	(2.11)
From discontinued operations	(0.68)	5.17

The following potential ordinary shares and the impact of the related expense are together anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share.

	2016	2015
Share options granted under the Company's employee share option plan	102,204,780	129,112,727

32. 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 borrowings (borrowings offset by cash and cash equivalents) and equity of the Group.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to 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 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:

	2016	2015
Net borrowings	417,936	433,985
OIBDA	176,554	157,058
Net borrowings to OIBDA ratio	**2.36**	**2.65**

(Amounts in millions of Russian Rubles, unless otherwise stated)

The Group is subject to certain externally imposed capital requirements and restrictions that are incorporated into the management of capital:

MTS Bank – The CBR requires that banks comply with the minimum capital adequacy ratio of 8% calculated on the basis of statutory standalone financial statements. MTS Bank met the requirements established by the CBR. As of 31 December 2016 and 2015, MTS Bank's capital adequacy ratio was 21.3% and 18.3%, respectively.

Limitations on cash distribution – There were certain limitations on cash distribution in Ukraine (Note 38) and India as of 31 December 2016. Cash balances in Ukraine and India were as follows:

	2016	2015
Ukraine	3,142	6,612
India	1,145	3,064

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 risk reports which analyse 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 conducting certain hedging activities (Note 33).

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	
	2016	2015	2016	2015
US Dollar	198,930	266,186	77,349	161,805
Euro	24,529	21,848	35,542	56,542

The table below details the Group's sensitivity to the strengthening of the US Dollar and Euro against the Russian Ruble by 20%. 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.

	31 December 2016	31 December 2015
Profit or loss before tax	17,035	6,048

The effect of a corresponding strengthening of the Russian Ruble against the US Dollar and EUR is equal and opposite.

(Amounts in millions of Russian Rubles, unless otherwise stated)

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 conducting certain hedging activities (Note 33).

The table below details the Group's annualised sensitivity to a change of floating LIBOR rate by 1% which would impact its operations. The analysis was applied to borrowings (excluding hedged items) based on the assumption that amount of the liability outstanding at the date of statements of financial position was outstanding for the whole period.

	2016	**2015**
Profit or loss before tax	231	572

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 10% higher/lower:

	31 December 2016	**31 December 2015**
Profit before tax increase/decrease	3,094	2,895
OCI increase/decrease	817	1,057

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.

At 31 December 2016, the schedule of repayments of undiscounted financial liabilities of the Group for the next five years and thereafter was as follows:

	<1 year	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**5+ years**
Borrowings	83,109	107,592	118,419	70,690	31,334	66,982
Liabilities under put option agreements	-	2,243	-	-	-	-
Accounts payable	110,879	-	-	-	-	-
Bank deposits and liabilities	99,888	4,297	712	288	25	1,110
Liability to Rosimushchestvo	11,783	7,070	7,070	7,142	-	-
Other financial liabilities	7,919	6,093	1,612	2,267	1,943	11,422
Total financial liabilities	**313,578**	**127,295**	**127,813**	**80,387**	**33,302**	**79,514**

(Amounts in millions of Russian Rubles, unless otherwise stated)

At 31 December 2016, the schedule of repayments of undiscounted financial liabilities of the Corporate segment for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Borrowings	2,548	29,340	40,012	19,438	5,687	-
Accounts payable	7,824	-	-	-	-	-
Liability to Rosimushchestvo	11,783	7,070	7,070	7,142	-	-
Other financial liabilities	3,170	2,975	-	-	-	515
Total financial liabilities	**25,325**	**39,385**	**47,082**	**26,580**	**5,687**	**515**

For day to day liquidity requirements the Group had unused credit facilities of RUB 186,542 million as of 31 December 2016, including RUB 87,131 million related to Corporate segment.

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.

Financial assets with financial institutions – The Group maintains mixture of cash and cash equivalents, deposits, derivatives and certain other financial instruments with 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.

Bank loans to customers and interbank loans due from 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 the normal provision for bad and doubtful receivables.

33. HEDGING ACTIVITIES

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.

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met.

Fair value hedges – Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

Cash flow hedges – The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income.

The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Gains or losses accumulated in other comprehensive income are immediately reclassified into consolidated statement of profit and loss when related hedged transactions affect earnings.

For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are recorded immediately in profit or loss.

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

Cross-currency interest rate swap agreements – The Group has entered into several cross-currency 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 2019-2020.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure to changes in currency exchange rate for 19% of the Group's bank loans denominated in USD and EUR outstanding as of 31 December 2016 (2015: 19%).

The notional amounts related to currency derivative instruments amounted to RUB 25,885 million, RUB 40,049 million as of 31 December 2016 and 2015, respectively.

Variable-to-fixed interest rate swap agreements – The Group's bank loans denominated in USD and EUR bear primarily floating interest rates. To eliminate the exposure to changes in variable interest rates related to its debt obligations, the Group enters into variable-to-fixed interest rate swap agreements, so that interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective cash flow hedges. In aggregate, the Group entered into variable-to-fixed interest rate swap agreements designated to manage the exposure of changes in variable interest rates related to 21% of the Group's bank loans with variable rates outstanding as of 31 December 2016 (2015: 26%).

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 7% of the Group's notes and bank loans with fixed rates outstanding as of 31 December 2016 (2015: 7%).

The notional amounts related to interest rate derivative instruments amounted to RUB 49,451 million, RUB 67,338 million as of 31 December 2016 and 2015, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

34. 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 2016 and 2015. 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 2016				31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets								
Financial assets at FVTPL	30,935	-	-	30,935	28,954	-	-	28,954
AFS securities	8,166	-	8,294	16,460	10,571	-	1,643	12,214
Hedging instruments at fair value	-	13,632	-	13,632	-	25,027	-	25,027
	39,101	**13,632**	**8,294**	**61,027**	**39,525**	**25,027**	**1,643**	**66,195**
Financial liabilities								
Derivative instruments	-	(2,407)	-	(2,407)	-	(2,531)	-	(2,531)
Contingent considerations	-	-	(3)	(3)	-	-	(115)	(115)
Liabilities under put option agreements	-	-	(2,243)	(2,243)	-	-	(2,925)	(2,925)
	-	**(2,407)**	**(2,246)**	**(4,653)**	**-**	**(2,531)**	**(3,040)**	**(5,571)**

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.

(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. The 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 and bank deposits and liabilities as disclosed in the table below:

	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
HTM financial assets	17,163	11,955	-	-
Financial liabilities				
Borrowings	478,126	483,858	556,760	546,492
Bank deposits and liabilities	106,320	106,276	122,804	121,945

The table below presents information regarding reconciliation of Level 3 fair value measurements as of 31 December 2016 and 2015.

	Liabilities under put option agreements	Other financial assets	Other financial liabilities	Total
Balance at 1 January 2015	**(3,192)**	**193**	**(99)**	**(3,098)**
Total gains/(losses):				
- in profit or loss	1,014	-	-	1,014
- in other comprehensive income	(747)	-		(747)
Purchases		1,450		1,450
Disposals/settlements	-	-	(16)	(16)
Balance at 31 December 2015	**(2,925)**	**1,643**	(115)	**(1,397)**
Total gains/(losses):				
- in profit or loss	199	-	-	199
- in other comprehensive income	483	-	-	483
Purchases	-	6,651	112	6,763
Balance at 31 December 2016	**(2,243)**	**8,294**	**(3)**	**(6,048)**

During 2016, no unrealised gain relating to financial assets that are measured at fair value at the end of each reporting period has been recognised (2015: a gain of RUB 922 million). Such fair value gains or losses are included in other income.

35. 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. During the year ended 31 December 2016, sales to related parties comprised RUB 638 million (2015: RUB 1,770 million), purchases from related parties comprised RUB 2,741 million (2015: 737 million). As of 31 December 2016, trade balances receivable from and payable to related parties comprised RUB 3,627 million and RUB 1,199 million, respectively (31 December 2015: RUB 2,253 million and RUB 1,233 million).

(Amounts in millions of Russian Rubles, unless otherwise stated)

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 2016 and 2015, 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 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Controlling shareholder and entities under common control	2,936	5,561	37,034	42,331
Key management personnel	-	-	2,868	2,988
Other related parties	1,838	1,244	1,169	1,572

Finance costs related to such transactions with related parties and recognized in the consolidated statement of profit or loss in 2016 amounted to RUB 3,199 million (2015: 3,048 million).

Investing transactions – In 2016, the Group incurred capital expenditures of RUB 747 million from an entity under common control.

Compensation of key management personnel – In 2016 and 2015, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board, was as follows:

	2016	**2015**
Short-term benefits	3,643	3,364
Share-based payments	1,100	1,251
Total	**4,743**	**4,615**

36. SUBSIDIARIES

Details of the Group's most material direct subsidiaries at the end of the year are as follows:

			Beneficial ownership as of 31 December	
Significant entities	**Short name**	**Principal activity**	**2016**	**2015**
Mobile TeleSystems PJSC (Note 9)	MTS	Telecommunications	50.03%	53.47%
Sistema Shyam TeleServices Limited	SSTL	Telecommunications	56.68%	56.68%
MTS Bank PJSC	MTS Bank	Banking	86.66%	87.11%
RTI OJSC (Note 9)	RTI	Technology	87.00%	84.68%
Detsky mir PJSC	Detsky mir	Retail trading	72.63%	75.82%
Medsi JSC	Medsi	Healthcare services	100%	100%
Targin JSC (Note 8)	Targin	Oilfield services	disposed	100%
Bashkirian Power Grid Company JSC	BPGC	Energy transmission	90.96%(1)	90.96%(1)
Segezha Group LLC	Segezha Group	Pulp and paper	100%	100%
Leader-Invest JSC	Leader-Invest	Real estate	100%	100%
Agroholding Steppe JSC (Note 9)	Steppe	Agriculture	88.13%	100%

(1) Voting interests as of 31 December 2016 and 2015 – 93%.

(Amounts in millions of Russian Rubles, unless otherwise stated)

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 2016	Profit / (loss) allocated to non-controlling interests 2015	Accumulated non-controlling interests 2016	Accumulated non-controlling interests 2015
MTS	Russia	23,097	23,029	67,301	72,293
SSTL	India	(1,791)	(2,758)	(28,953)	(29,076)

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.

	2016		2015	
	MTS	**SSTL**	**MTS**	**SSTL**
Current assets	90,188	4,425	159,017	7,586
Non-current assets	453,413	20,303	494,361	26,389
Total assets	**543,601**	**24,728**	**653,378**	**33,975**
Current liabilities	126,584	14,673	157,910	34,395
Non-current liabilities	274,034	29,830	327,097	41,297
Total liabilities	**400,618**	**44,503**	**485,007**	**75,692**
Equity attributable to shareholders of Sistema	70,968	(9,178)	87,822	(12,641)
Non-controlling interests	72,014	(28,953)	80,549	(29,076)
Revenue	435,692	12,466	431,232	13,965
Expenses	(387,242)	(19,268)	(383,828)	(24,445)
Profit/ (loss) for the year	**48,450**	**(6,802)**	**47,404**	**(10,480)**
Profit/(loss) attributable to shareholders of Sistema	25,353	(5,012)	26,460	(7,722)
Profit/(loss) attributable to the non-controlling interests	23,097	(1,791)	20,944	(2,758)
Other comprehensive income/(loss) attributable to shareholders of Sistema	(8,861)	5,356	(1,231)	(7,588)
Other comprehensive income/(loss) attributable to the non-controlling interests	(8,946)	1,913	(441)	(2,710)
Other comprehensive (loss)/income for the year	**(17,807)**	**7,269**	**(1,672)**	**(10,298)**
Total comprehensive income/(loss) attributable to shareholders of Sistema	16,492	344	25,229	(15,309)
Total comprehensive income/(loss) attributable to the non-controlling interests	14,151	123	20,503	(5,469)
Total comprehensive income/(loss) for the year	**30,643**	**467**	**45,732**	**(20,778)**
Dividends paid to non-controlling interests	25,415	-	23,241	
Net cash inflow (outflow) from operating activities	- 130,565	- (8,947)	144,088	(2,395)
Net cash outflow from investing activities	(57,302)	(137)	(145,356)	(53)
Net cash (outflow)/inflow from financing activities	(83,038)	7,165	(27,595)	4,154
Net cash (outflow)/inflow	**(9,775)**	**(1,919)**	**(28,863)**	**1,706**

(Amounts in millions of Russian Rubles, unless otherwise stated)

As disclosed in Note 29, the Group wrote the put option over its 17.14% share in SSTL which was exercised in 2016. As a result, 74% of SSTL loss is allocated to owners of the Company. The Company also purchased redeemable preference shares of SSTL. These factors resulted in the difference between accumulated non-controlling interests of SSTL and SSTL net assets multiplied by beneficial ownership.

37. 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:

	2016	2015
Financial instruments received under the settlement agreement with Ural-Invest (Note 8)	-	37,964
Equipment and licenses acquired under capital leases	505	513
Amounts owed for capital expenditures	15,285	28,538
Payables related to business acquisitions	501	1,296
Payables related to purchases of non-controlling interests in subsidiaries	6,186	3,057

38. CONTINGENCIES AND COMMITMENTS

In addition to contingencies described in Note 6, the Group has the following contingencies and commitments.

Capital commitments – A capital commitment is a contractual obligation to make payment in the future, mainly in relation to buy assets such as 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. At 31 December 2016, the Group had capital commitments of RUB 31,815 million (31 December 2015: RUB 31,594 million) relating to the acquisitions of property, plant and equipment.

Operating lease commitments – The Group enters into various agreements to lease space for telecommunications equipment, transmission channels, mobile towers, retail outlets and offices. The leases have various terms and renewal rights, none of which is individually significant to the Group. Future minimum lease payments under non-cancellable operating leases comprise:

Payments due in	
2017	19,865
2018	12,211
2019	12,671
2020	13,087
2021	16,126
Thereafter	16,748
Total	**90,708**

Commitments on loans and unused credit facilities – As of 31 December 2016, MTS Bank had RUB 6,891 million of commitments on loans and unused credit facilities available to its customers (31 December 2015: RUB 5,064 million).

Guarantees – At 31 December 2016, MTS Bank guaranteed loans for several companies which totalled RUB 3,921 million (31 December 2015: RUB 5,423 million), including related parties of RUB 234 million (31 December 2015: RUB 589 million). 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 obligation under the contract, as determined in accordance with IAS 37, and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Telecommunication licenses – In 2012, the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media allocated MTS the necessary license and frequencies to provide LTE telecommunication services in Russia. Under the terms and conditions of the LTE license, MTS is obligated to fully deploy LTE networks within seven years, commencing from 1 January 2013, and deliver LTE services in each population center with over 50,000 inhabitants in Russia by 2019. Also, MTS is obligated to invest at least RUB 15 billion annually toward the LTE roll-out until the network is fully deployed.

In May 2007, the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media awarded MTS a license to provide 3G services in Russia. The 3G license was granted subject to certain capital and other commitments.

In March 2015, upon winning a tender, MTS-Ukraine, a subsidiary of MTS, has acquired a nationwide license for the provision of UMTS (3G) telecommunications services. The license with the cost of UAH 2,715 million (RUB 6,015 million at the acquisition date) has been granted for 15 years. In accordance with the terms of the license MTS-Ukraine is required provide coverage across Ukraine by April 2020.

In accordance with the terms of the license, MTS-Ukraine also concluded agreements on the conversion of provided frequencies with the Ministry of Defense of Ukraine, Ministry of Internal Affairs of Ukraine and State Service of Special Communications and Information Protection of Ukraine. As of 31 December 2015, MTS-Ukraine has paid UAH 358 million (RUB 865 million as of the payment date) for the conversion of frequencies and is liable to pay UAH 267 million (RUB 596 million as of 31 December 2016) adjusted for the rate of inflation in the years 2017-2018.

Management believes that as of December 31, 2016 the Group complied with the conditions of the aforementioned licenses.

Restriction on transactions with the shares of BPGC – In 2014, in the course of litigation, which the Group is not a party to, the court imposed restrictions on transactions with the shares of BPGC owned by the Group. The restrictions do not limit the Group's voting rights, rights to receive dividends or any other shareholders rights.

Taxation – Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have different interpretations, and the effects on the 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. As of 31 December 2016, provisions for additional taxes and customs settlements comprised RUB 1,213 million (31 December 2015: RUB 1,076 million).

The Group also assesses the following contingent liabilities in respect of additional tax settlements:

	December 31, 2016	December 31, 2015
Contingent liabilities for additional taxes other than income tax	1,306	419
Contingent liabilities for additional income taxes	3,256	413

In 2015, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, should be included in the income tax base of the controlling entities in particular cases. The management of the Group does not expect any significant effect of these changes on the consolidated financial statements of the Group.

Potential adverse effects of economic instability and sanctions in Russia – Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

Political and economic crisis in Ukraine – During 2014, a deterioration in the political environment of Ukraine has led to general instability, economic deterioration and armed conflict in eastern Ukraine. The deterioration has further exacerbated the country's already weak macroeconomic trends, which have led to reduced credit ratings, significant depreciation of its national currency and increased inflation. During 2014, the Ukrainian Parliament adopted a law allowing for the imposition of sanctions against countries, persons and companies deemed by the Ukrainian government to threaten Ukrainian national interests, national security, sovereignty or the territorial integrity of Ukraine. The National Bank of Ukraine ("NBU") passed a decree prohibiting Ukrainian companies to pay dividends to foreign investors. The decree was extended for a few times and its edition effective as of 31 December 2016 allows payment of dividends for the years 2014-2015, subject to certain restrictions. These circumstances, combined with continued political and economic instability in the country, could result in further negative impact on the Group's business including our financial position and results of operations.

Such risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. During 2015, the Group created an additional reserve of RUB 1,698 million for cash balances deposited in distressed Ukrainian banks which was included in Impairment of financial assets line in the accompanying consolidated statement of profit or loss.

Also, in 2015 the Group entered into a factoring agreement in respect of cash balances deposited in bank Kyivska Rus (reserved in full amount as of 31 December 2016), under which the factor is obliged to reimburse the Group for 45% of the cash balance. As of 31 December 2016, the Group did not account for any asset under this agreement, as no transfer of funds was made. As of 31 December 2016, the Group's held RUB 3,617 million in current accounts and deposits in Ukrainian banks.

Anti-terror law – On 7 July 2016, a series of anti-terror laws (also known as "Yarovaya-Ozerov packet of laws") was enacted. The laws provide for mandatory storage of recorded phone conversations, text messages of subscribers, images, sounds, video and other types of messages by telecommunications operators for certain periods of time. These requirements become effective starting 1 July 2018. Compliance with laws may require construction of additional storage, processing and indexing centers and significant increase in the Group capital expenditures. This may adversely impact Group's financial indicators.

The requirements of the series of anti-terror laws are in the process of clarification and in-depth development. The Group will estimate the possible impact of the anti-terror laws on the Group's consolidated financial statements, including additional provisions, when the requirements and any obligations are sufficiently specified.

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 2016, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 8,722 million.

39. APPLICATION OF NEW AND REVISED IFRSS

Standards, interpretations and amendments adopted on 1 January 2016

None of the standards, interpretations and amendments adopted by the Group on 1 January 2016 had a significant effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not early adopted any of the new or revised IFRSs that have been issued but are not yet effective. Significant new standards or amendments include:

IFRS 9, *Financial Instruments* – The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements. IFRS 9 governs the classification and measurement of financial assets and liabilities, derecognition, impairment and hedge accounting matters. Particularly, in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. The Group anticipates that the adoption of IFRS 9 may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities primarily related to MTS Bank and Corporate reporting segments. However, it is not practicable to provide a reasonable estimate of its effect until a detailed review has been completed.

IFRS 15, *Revenue from Contracts with Customers* – This standard, effective for annual periods beginning on or after 1 January 2018 (earlier application permitted), provides a single, principle-based five-step model for determination and recognition of revenue to be applied to all contracts with customers. It supersedes the existing standards IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and related interpretations.

The impact on the Group's consolidated financial statements following implementation of the new standard will include future capitalisation and recognition of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period (MTS reporting segment).

The Group is continuing to analyse the effects of the new standard implementation, though a reliable estimate of the quantitative effects will only be possible once the analysis has been completed.

IFRS 16, *Leases* – The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, with certain exemptions, and to present the rights and obligations associated with these leases in the statement of financial position. Therefore, upon adoption of this standard, lessees will no longer be required to make a distinction between finance and operating lease. For all leases, a lessee will recognise a lease liability in its statement of financial position for an obligation to make future lease payments. At the same time, a lessee will capitalise a right of use to the underlying asset. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 (earlier application is permitted, if IFRS 15 has also been applied). The Group is currently evaluating the impact of these amendments on the consolidated financial statements, though a reliable estimate of the quantitative effects is not possible at the present time.

The Group does not expect that future adoption of other new or revised IFRSs that have been issued but are not yet effective will have a material impact on the Group's consolidated financial statements.

40. EVENTS AFTER THE REPORTING DATE

For the purpose of the accompanying consolidated financial statements, subsequent events have been evaluated through 31 March 2017.

Initial public offering of Detsky mir – In February 2017, Detsky mir completed an initial public offering on Moscow Exchange. The IPO price was set at RUB 85 per share. The Company sold 151,301,256 shares via the offering, the remaining Group ownership interest in Detsky mir is 52.1%.

MTS shares tender offer – Under the MTS tender offer to repurchase its ordinary shares (including shares represented by ADSs), MTS purchased a total of 16,022,364 shares at a price per share of RUB 290, for a total cost of RUB 4.6 billion from non-controlling shareholders. Simultaneously, MTS purchased 16,038,892 shares from Sistema Finance S.A. for an aggregate purchase price of RUB 4.7 billion.