SISTEMA PJSFC AND SUBSIDIARIES

Consolidated Financial Statements for 2017
and Independent Auditor's Report

SISTEMA PJSFC AND SUBSIDIARIES

TABLE OF CONTENTS

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 2017

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 2017, and the results of operations, cash flows and changes in equity for 2017, in compliance with International Financial Reporting Standards ("IFRSs").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for 2017 were approved by:

Andrey Dubovskov President and CEO	Vsevolod Rozanov Senior Vice President and CFO

30 March 2018

Deloitte.

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

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 ("Sistema") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 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 2017, 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 2017 and its consolidated financial performance and cash flows for 2017 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
Litigations and regulatory claims In the normal course of business, the entities of the Group may be subject to various legal proceedings, disputes, claims and regulatory reviews, where the outcomes are subject to significant uncertainty. In particular, in the reporting period the entities of the Group had claims brought against them, amounts of which are significant. In addition, the U.S. Securities and Exchange Commission and the U.S. Department of Justice are currently investigating the operations of the Group's former subsidiary in Uzbekistan. We focused on this matter because of the materiality of the amounts disputed in the litigations, and subjectivity in the management judgements in recognition, valuation and disclosure of respective provisions and contingent liabilities, as well as the effect this matter has on other financial reporting areas, such as borrowings and liquidity. See Notes 5, 7 and 38 to the consolidated financial statements.	We obtained an understanding of the Group's internal processes and controls in respect of the identification, measurement and disclosure of provisions and contingent liabilities in the consolidated financial statements. We reviewed the summary of claims and possible future claims provided by management and the Group's assessment of the probability of their negative outcome. To ensure completeness of the summary we assessed the process by which claims across the Group are reported and collated for the summary, reconciled it with contingent liabilities identified by component auditors, and researched publicly available sources of information for claims and disputes not included in the summary. On a sample basis, we reviewed the legal claims, court decisions and, if applicable, terms of settlement agreements. We also discussed significant matters with management and internal and, in certain cases, external legal counsels and critically assessed key assumptions. We analyzed management's assessment of the effect the litigations had on the Group's borrowings and covenants and reviewed management's analysis of the Group's ability to continue as a going concern and settle its obligations within contractual maturity. We validated completeness and appropriateness of the related disclosures in the consolidated financial statements required by the applicable financial reporting standards.
Diversified structure of the Group Sistema is a holding company that owns mainly controlling stakes in its subsidiaries, whose results are included in the consolidated financial statements. The large number of entities of the Group and diversified nature of their operations require the Group's management to design and implement group wide controls, including monitoring and control activities to ensure timely, reliable and complete financial information received from its subsidiaries. Audit procedures regarding the financial information of the subsidiaries included in the consolidated financial statements may be performed by us or by the auditors of those subsidiaries ("components") acting under our supervision. As the group auditor, we are fully responsible for conducting the audit and forming our audit opinion.	We obtained an understanding of the group-wide controls over the consolidation process and the preparation of the consolidated financial statements, including instructions of the Group's management to its subsidiaries. Our audit approach was developed considering the Group's diversified structure and associated risks of material misstatement of the consolidated financial statements. It included determination of necessary procedures and audit scope in relation to each component's financial information, depending on its significance for the Group and identification of risks of misstatement of their financial information. The nature and extent of our involvement in the component auditors' work was also dependent on our assessment of their professional competence in the context of allocated scope. To obtain reasonable assurance of fair presentation of the components' financial

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
We focused on this matter, because the diversified structure of the Group has a significant impact on our audit approach, and the nature and extent of our involvement in component auditors' work is significant.	information, we assessed risks and determined audit procedures performed by the component auditors, and evaluated the results of the procedures. This included a critical analysis of the component auditors' documentation, discussion of significant matters with the component auditors, component or Group management and, if applicable, designing and performing additional audit procedures. We also performed procedures with respect to consolidation adjustments to the financial information of the subsidiaries in order to assess their nature, completeness and accuracy.
Significant non-routine transactions In light of its strategy, the Group regularly conducts complex acquisitions and disposals, debt restructurings and other significant non-routine transactions. We focus on these matters because the appropriate accounting treatment of such transactions is often complex and requires exercise of significant judgement. In the current period, this included, for example, a transaction with Reliance Communications Ltd. (RCOM). See Note 6 to the consolidated financial statements.	Our procedures included 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 IFRSs were applied to the transactions. In relation to the transaction with RCOM, as part of which the Group completed the demerger of the telecommunication business of SSTL in the reporting year, we analyzed the appropriateness of SSTL results being reported in discontinued operations, accuracy of the result from its disposal in the Group's consolidated financial statement of profit or loss, and accounting and measurement of related contingent liabilities.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report and quarterly report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report and quarterly report are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report and quarterly report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Vladimir Kozyrev
Engagement partner

30 March 2018

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: Building 1, 13 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	2017	2016
Continuing operations			
Revenue	10	704,551	680,864
Cost of sales		(337,996)	(337,687)
Selling, general and administrative expenses		(154,538)	(152,110)
Depreciation and amortisation		(96,159)	(95,687)
Impairment of long-lived assets	11	(8,061)	(2,714)
Impairment of financial assets	12	(5,745)	(11,323)
Taxes other than income tax		(5,906)	(5,541)
Share of the profit or loss of associates and joint ventures, net		3,030	3,147
Other income		6,256	8,107
Other expenses		(14,210)	(4,887)
Operating income		**91,222**	**82,169**
Finance income		8,069	9,435
Finance costs		(48,983)	(51,850)
Expense under the Settlement Agreement	5	(100,000)	-
Currency exchange (loss)/gain		(398)	6,564
(Loss)/profit before tax		**(50,090)**	**46,318**
Income tax expense	13	(11,443)	(21,565)
(Loss)/profit from continuing operations		**(61,533)**	**24,753**
Discontinued operations			
Loss from discontinued operations	6	(4,995)	(15,594)
(Loss)/profit for the period		**(66,528)**	**9,159**
(Loss)/profit attributable to:			
Shareholders of Sistema PJSFC		(94,603)	(11,758)
Non-controlling interests		28,075	20,917
		(66,528)	**9,159**
Losses per share (basic and diluted), in Russian Rubles:	30		
From continuing operations		(9.67)	(0.03)
From continuing and discontinued operations		(10.01)	(1.25)

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

Andrey Dubovskov
President and CEO

Vsevolod Rozanov
Senior Vice President and CFO

30 March 2018

SISTEMA PJSFC AND SUBSIDIARIES

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

	Notes	2017	2016
(Loss)/profit for the period		(66,528)	9,159
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation gain/(loss) on foreign operations in subsidiaries		14,443	(11,004)
Currency translation loss on foreign operations in associates and joint ventures		(499)	(1,553)
Net fair value gain/(loss) on revaluation of available-for-sale financial instruments		5,307	(1,199)
Items that will not be reclassified subsequently to profit or loss:			
Unrecognised actuarial (loss)/gain		(41)	50
Other comprehensive income/(loss), net of tax		19,210	(13,706)
Total comprehensive loss		**(47,318)**	**(4,547)**
Attributable to:			
Shareholders of Sistema PJSFC		(78,387)	(18,431)
Non-controlling interests		31,069	13,884
		(47,318)	**(4,547)**

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

Andrey Dubovskov
President and CEO

Vsevolod Rozanov
Senior Vice President and CFO

30 March 2018

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

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	15	411,467	408,130
Investment property	16	24,664	22,647
Goodwill	17	54,081	52,224
Other intangible assets	18	97,666	107,716
Investments in associates and joint ventures	19	20,783	19,537
Deferred tax assets	13	35,809	24,185
Loans receivable and other financial assets	20	104,395	100,023
Deposits in banks		-	27,274
Other assets		18,169	15,711
Total non-current assets		**767,034**	**777,447**
Current assets			
Inventories	22	81,401	81,366
Accounts receivable	23	54,836	60,888
Advances paid and prepaid expenses		15,324	19,389
Current income tax assets		3,274	2,580
Other taxes receivable		17,190	18,176
Loans receivable and other financial assets	20	99,798	62,588
Deposits in banks		28,068	9,173
Restricted cash	21	8,591	10,098
Cash and cash equivalents		59,959	60,190
Other assets		2,174	2,194
Total current assets		**370,615**	**326,642**
Total assets		**1,137,649**	**1,104,089**

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

	Notes	31 December 2017	31 December 2016
Equity and liabilities			
Equity			
Share capital	24	869	869
Treasury shares	24	(5,816)	(6,575)
Additional paid-in capital		67,856	87,369
(Accumulated loss)/retained earnings		(17,375)	91,290
Accumulated other comprehensive income/(loss)	25	2,332	(13,752)
Equity attributable to shareholders of Sistema		47,866	159,201
Non-controlling interests		74,957	57,770
Total equity		**122,823**	**216,971**
Non-current liabilities			
Borrowings	26	393,651	395,017
Bank deposits and liabilities	27	33,419	6,432
Deferred tax liabilities	13	38,160	40,753
Provisions	29	3,399	3,411
Liability to Rosimushchestvo	35	13,427	21,282
Other financial liabilities	28	6,514	25,580
Other liabilities		7,537	8,742
Total non-current liabilities		**496,107**	**501,217**
Current liabilities			
Borrowings	26	142,168	83,109
Liability under the Settlement Agreement	5	80,000	-
Accounts payable		114,402	110,879
Bank deposits and liabilities	27	83,873	99,888
Advances received		30,171	26,069
Subscriber prepayments		18,618	17,900
Income tax payable		1,833	962
Other taxes payable		14,378	16,391
Dividends payable		4,578	249
Provisions	29	13,038	10,752
Liability to Rosimushchestvo	35	9,601	11,783
Other financial liabilities	28	6,059	7,919
Total current liabilities		**518,719**	**385,901**
Total equity and liabilities		**1,137,649**	**1,104,089**

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

Andrey Dubovskov
President and CEO

Vsevolod Rozanov
Senior Vice President and CFO

30 March 2018

SISTEMA PJSFC AND SUBSIDIARIES

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

	Share capital	Additional paid-in capital	Treasury shares	(Accumulated loss)/ retained earnings	Accumulated other comprehensive (loss)/income: Currency reserve	Accumulated other comprehensive (loss)/income: Other	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2016	**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 (loss)/income	-	-	-	(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 (Notes 8 and 6)	-	-	-	-	(2,086)	-	(2,086)	(600)	(2,686)
Dividends declared by Sistema PJSFC	-	-	-	(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**
(Loss)/profit for the period	-	-	-	(94,603)	-	-	(94,603)	28,075	(66,528)
Other comprehensive (loss)/income, net of tax	-	-	-	-	(1,187)	4,973	3,786	(1,326)	2,460
Total comprehensive (loss)/income	-	-	-	(94,603)	(1,187)	4,973	(90,817)	26,749	(64,068)
Settlements under long-term motivation program	-	(2,240)	2,240	-	-	-	-	-	-
Accrued compensation cost (Note 14)	-	1,484	-	-	-	-	1,484	-	1,484
Purchases of own shares	-	-	(1,601)	-	-	-	(1,601)	-	(1,601)
Capital transactions of subsidiaries (Note 9)	-	8,674	-	-	-	-	8,674	(11,135)	(2,461)
Agreement with RCOM (Note 6)	-	(27,431)	-	-	12,298	-	(15,133)	30,632	15,499
Dividends declared by Sistema PJSFC (Note 24)	-	-	-	(14,062)	-	-	(14,062)	-	(14,062)
Sale of own shares	-	-	120	-	-	-	120	-	120
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(29,059)	(29,059)
31 December 2017	**869**	**67,856**	**(5,816)**	**(17,375)**	**(3,346)**	**5,678**	**47,866**	**74,957**	**122,823**

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

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

	2017	2016
Cash flows from operating activities		
(Loss)/profit for the period	(66,528)	9,159
	(66,528)	9,159
Adjustments for:		
Expense under the Settlement Agreement	100,000	-
Depreciation and amortisation	96,490	100,546
Share of the profit or loss of associates and joint ventures, net	(3,030)	(3,147)
Finance income	(8,069)	(9,851)
Finance costs	48,983	57,368
Income tax expense	11,443	21,575
Currency exchange loss/(gain)	398	(6,035)
Loss from discontinued operations	(593)	7,614
(Profit)/loss on disposal of property, plant and equipment	(251)	109
Change in fair value of financial instruments through profit or loss	(997)	(110)
Amortisation of connection fees	(2,876)	(2,287)
Impairment loss on loans receivable	360	6,063
Dividends received from associates and joint ventures	4,218	2,955
Non-cash compensation to employees	1,653	2,522
Impairment of long-lived assets	8,061	2,896
Impairment of financial assets	5,744	11,803
Other non-cash items	9,417	3,092
	204,423	204,272
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	(12,432)	11,253
Bank deposits and liabilities	7,938	(16,484)
Restricted cash	1,507	(10,098)
Financial assets/liabilities at fair value through profit or loss	(5,834)	(2,401)
Accounts receivable	(1,795)	11,224
Advances paid and prepaid expenses	1,553	863
Other taxes receivable	(1,840)	2,964
Inventories	(12,648)	(8,862)
Accounts payable	(630)	(3,838)
Subscriber prepayments	4,025	(435)
Other taxes payable	(1,531)	2,720
Advances received and other liabilities	11,025	(7,358)
Payment in accordance with the Settlement Agreement	(20,000)	-
Interest paid	(46,261)	(59,791)
Income tax paid	(28,898)	(19,344)
Net cash provided by operating activities	**98,602**	**104,685**

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

	2017	2016
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(78,441)	(89,958)
Proceeds from sale of property, plant and equipment	7,745	4,516
Payments for purchases of intangible assets	(26,003)	(32,920)
Payments for businesses, net of cash acquired	(4,132)	(13,956)
Payments for investments in associates and joint ventures	(5,260)	(3,235)
Proceeds from sale of investments in affiliated companies	5,181	6,118
Payments for financial assets, long-term	(30,100)	(28,212)
Proceeds from sale of financial assets, long-term	11,081	15,774
Payments for financial assets, short-term	(28,139)	(23,489)
Proceeds from sale of financial assets, short-term	34,594	95,294
Cash of discontinued operations	811	(2,576)
Interest received	8,011	10,197
Other	(2,550)	(1,588)
Net cash (used in) investing activities	**(107,202)**	**(64,035)**
Cash flows from financing activities		
Proceeds from borrowings	215,956	209,963
Principal payments on borrowings	(150,357)	(249,126)
Debt issuance costs	(111)	(428)
Acquisition of non-controlling interests in existing subsidiaries	(24,726)	(26,816)
Payments to purchase treasury shares	(1,601)	(2,082)
Proceeds from transactions with non-controlling interests	13,607	19,099
Dividends paid	(38,792)	(37,725)
Proceeds from sale of own shares	120	-
Cash outflow under credit guarantee agreement related to foreign currency hedge	(1,766)	(2,985)
Net cash provided by/(used in) financing activities	**12,330**	**(90,100)**
Effect of foreign currency translation on cash and cash equivalents	(3,961)	(13,135)
Net decrease in cash and cash equivalents	**(231)**	**(62,585)**
Cash and cash equivalents at the beginning of the period	60,190	122,775
Cash and cash equivalents at the end of the period	**59,959**	**60,190**

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, forestry, pulp and paper, agriculture, high technology, banking services, real estate, healthcare and tourism. The Company and the majority of its subsidiaries are incorporated in the Russian Federation ("RF"). The Company's registered address is building 1, 13 Mokhovaya street, 125009, Moscow.

The 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 will continue to operate in the foreseeable future. The Group's net loss for 2017 was RUB 66,528 million, its current liabilities as of 31 December 2017 exceeded current assets by RUB 148,104 million, which is mainly due to the conclusion of the Settlement Agreement in December 2017 (Note 5). After the balance sheet date, the Group raised funds to fulfill its obligations under the Settlement agreement (Note 40). The cash flow forecast prepared by the management of the Group for a period of at least twelve months after the end of the reporting period demonstrates the Group's ability to pay off current liabilities within the terms set by the contractual obligations.

These consolidated financial statements were approved by the Company's President and CEO and authorised for issue on 30 March 2018.

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.

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.

Deferred tax assets. Deferred tax assets are recognized for all temporary deductible differences, provided that there is a taxable profit in respect of the temporary deductible differences, which could be utilized. The valuation of recognized deferred tax assets is based on management estimation of future taxable profit.

Fair value measurements. Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Where the fair value of assets and liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. Information about assets and liabilities measured at fair value on recurring basis is disclosed in Note 33.

Useful lives of property, plant and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the 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 5, 7, 29 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.

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

The Group's reportable segments are Mobile TeleSystems ("MTS"), Detsky mir, RTI, MTS Bank 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 and Armenia. 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 company in the field of defence and microelectronic solutions, which integrates high-tech research and manufacturing companies. MTS Bank is a universal commercial bank with operations in Russia. Corporate segment comprises the Company and entities, which hold and manage the Company's interests in its subsidiaries, joint ventures and associates. The Other category includes other operating segments including East-West United Bank, Segezha Group, Sitronics, Kronshtadt Group, Binnopharm, Medsi, Agroholding Steppe, Sistema Venture Capital, Hospitality assets, Leader-Invest and Bashkirian Power Grid Company ("BPGC"), none of which meets the quantitative thresholds for determining reportable segments.

In connection with the acquisition of a 47% share in East-West United Bank from MTS Bank by the Company in 2017 (Note 9), information reported to the Management Board for the purpose of resource allocation and the assessment of segment performance is prepared separately for MTS Bank and East-West United Bank. As a result, the Group identified East-West United Bank as a separate operating segment, excluding its results from the MTS Bank segment and including it instead in the "Other" category as it does not satisfy the criteria for separate reporting. Segment data for the prior period presented for comparative purposes was restated to reflect this change.

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.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment for 2017 and 2016:

	External revenues		**Inter-segment revenue**		**Segment operating income/(loss)**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
MTS	440,242	433,972	2,668	1,720	94,324	86,227
Detsky mir	96,985	79,532	18	15	8,024	6,620
RTI	41,769	44,433	150	156	(4,839)	275
MTS Bank	16,626	17,032	1,480	1,236	370	(3,034)
Corporate	1,763	1,737	877	1,115	(12,670)	(24,042)
Total reportable segments	597,385	576,706	5,193	4,242	85,209	66,046
Other	107,166	104,158	1,509	3,621	5,160	16,004
	704,551	**680,864**	**6,702**	**7,863**	**90,369**	**82,050**
Inter-segment eliminations					853	119
Operating income					**91,222**	**82,169**
Finance income					8,069	9,435
Finance costs					(48,983)	(51,850)
Expense under the Settlement Agreement					(100,000)	-
Currency exchange (loss)/gain					(398)	6,564
Profit before tax					**(50,090)**	**46,318**

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 and current assets and financial assets and gain on acquisition) by reportable segment:

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

	Additions to non-current assets		Depreciation and amortisation		Other non-cash items	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
MTS	86,748	80,630	79,912	81,582	6,698	2,698
Detsky mir	2,501	1,760	1,818	1,591	121	26
RTI	3,014	3,091	2,640	2,539	926	1,643
MTS Bank	2,704	1,840	554	689	360	6,063
Corporate	1,538	6,488	566	564	1,402	8,967
Other	33,647	50,056	10,669	8,722	4,660	962
	130,152	**143,865**	**96,159**	**95,687**	**14,167**	**20,359**

The following is an analysis of the Group's segment assets and liabilities by reportable segment:

	2017	**2016**
Segment assets		
MTS	565,391	559,008
Detsky mir	44,415	44,730
RTI	62,721	74,237
MTS Bank	144,047	133,598
Corporate	115,990	110,783
Total reportable segments	932,564	922,356
Other	306,021	273,622
Total segment assets	1,238,585	1,195,978
Inter-segment eliminations	(100,936)	(91,889)
Consolidated total assets	**1,137,649**	**1,104,089**
Segment liabilities		
MTS	426,962	400,618
Detsky mir	44,938	45,185
RTI	79,603	81,152
MTS Bank	121,477	113,291
Corporate	226,833	154,235
Total reportable segments	899,813	794,481
Other	193,165	179,922
Total segment liabilities	1,092,978	974,403
Inter-segment eliminations	(78,152)	(87,285)
Consolidated total liabilities	**1,014,826**	**887,118**

As of 31 December 2017 and 2016, the amount of investment in MTS Belarus, an associate of MTS, included in its reportable segment assets was RUB 3,660 million and RUB 4,303 million, respectively. Other associates and joint ventures represent separate operating segments and are reported in the Other category.

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

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	
	2017	**2016**	**2017**	**2016**
Russia	632,352	604,768	547,528	538,799
Other	72,199	76,096	44,456	61,135
	704,551	**680,864**	**591,984**	**599,934**

5. LEGAL CLAIM OF ROSNEFT AND BASHNEFT AND THE SETTLEMENT AGREEMENT

In May 2017, PJSC NK Rosneft, PJSOC Bashneft and the Ministry of Land and Property Relations of the Republic of Bashkortostan (the "MLPR of the RB") filed legal claims against the Company and its subsidiary JSC Sistema-Invest with the Republic of Bashkortostan Arbitration Court seeking to recover RUB 106,630 million of damages allegedly suffered by Bashneft as a result of its reorganization (the "Claim-1"), arranged by the Group in 2014. The Republic of Bashkortostan Arbitration Court accepted the Claim-1 and opened case #A07-14085/2017. The amount of damages under the Claim-1 was subsequently increased to RUB 170,619 million.

On 23 June 2017, the Republic of Bashkortostan Arbitration Court made a decision to arrest the following shares owned by the Company and Sistema-Invest as a security under the Claim-1: 31.76% in the share capital of PJSC MTS, 100% in the share capital of Medsi and 90.47% in the share capital of JSC Bashkirian Power Grid Company (BPGC). On 26 June 2017, the bailiffs imposed additional restrictive measures, which, in addition to the arrest of shares, limited the rights of the Company and Sistema-Invest to receive any income on the arrested shares.

On 30 August 2017, the Republic of Bashkortostan Arbitration Court made a decision to partially satisfy the Claim-1. According to the decision, the court has ordered the Company and Sistema-Invest to pay damages of RUB 136,274 million.

On 19 September 2017, Sistema filed an appeal on that decision in the Eighteenth Arbitration Appeal Court (Chelyabinsk).

In early December 2017, the Republic of Bashkortostan Arbitration Court accepted legal claims of Rosneft and Bashneft (the "Claim-2") and the MLPR of the RB (the "Claim-3") seeking to recover RUB 131,639 million of damages allegedly suffered by Bashneft because of the payment of dividends in 2009-2014. Subsequently the Claim-2 and the Claim-3 were combined in one proceeding under case #A07-38665/2017.

On 12 December 2017, the Republic of Bashkortostan Arbitration Court made a decision to arrest the following assets of the Company and Sistema-Invest as a security under case #A07-38665/2017: 52.09% of shares in the authorised share capital of PJSC Detsky Mir, 90.5% of shares in the authorised share capital of JSC Agroholding Steppe, 71.87% of shares in the authorised share capital of PJSC MTS Bank, 100% of the authorised share capital of LLC Sistema Telecom Assets, 98.78% of shares in the authorised share capital of JSC Leader-Invest, 16.18% of the authorised share capital of LLC Segezha Group, 88.78% of the authorised share capital of LLC Kronshtadt Group, 45.96% of the authorised share capital of LLC Sistema Hotel Management, 27% of the authorised share capital of LLC United Bridge Construction Enterprise. The court also limited the rights of the Company and Sistema-Invest to receive income on the arrested shares and shareholdings.

On 18 December 2017, the Eighteenth Arbitration Appeal Court (Chelyabinsk) announced the resume of the decision according to which the court ruled to uphold the judgment of the Republic of Bashkortostan Arbitration Court on the Claim dated 30 August 2017 under case #A07-14085/2017 (Claim-1). According to the ruling of the court of appeal, Sistema and Sistema-Invest must pay to Bashneft RUB 136,274 million of damages allegedly suffered by Bashneft as a result of its reorganisation in 2014. The decision of the appeal court under the Claim-1 was prepared on 25 December 2017.

On 22 December 2017, Sistema, Sistema-Invest, Rosneft, Bashneft and the MLPR of the RB signed a settlement agreement under the Claim-1 (the "Settlement Agreement"). According to the Settlement Agreement, all sides recall all their lawsuits and abandon all claims against each other, and the Company is obliged to pay Bashneft RUB 100 billion by 30 March 2018. Payments will be made in three tranches: RUB 20 billion before 29 December 2017, RUB 40 billion before 28 February 2018 and RUB 40 billion before 30 March 2018.

On 26 December 2017, the Republic of Bashkortostan Arbitration Court approved the Settlement Agreement. The decision of the court on approval of the Settlement Agreement stipulated that on approval of the Settlement Agreement the dispute is considered to be resolved and the decision of the Republic of Bashkortostan Arbitration Court of 30 August 2017 under the Claim-1 should not be enforced.

On 26 December 2017, in accordance with the resolution of the Moscow Directorate of the Federal Bailiffs Service, the restrictions to receive income on 31.76% shares of PJSC MTS, 100% shares of Medsi and 90.47% shares of JSC BPGC have been lifted. The above mentioned restrictions were removed as part of the implementation of the Settlement Agreement.

The Group recognized the expense under the Settlement Agreement of RUB 100 billion in the consolidated statement of profit or loss for 2017. The liability under the Settlement Agreement in the consolidated statement of financial position as of 31 December 2017 is RUB 80 billion.

On 19 February 2018, the Republic of Bashkortostan Arbitration Court lifted the arrest of 52.09% of the share capital of PJSC Detsky Mir and 90.47% of the share capital of JSC BPGC. The court also removed the previously imposed limitations on the right of the Company to receive income on the securities of PJSC Detsky Mir. On 1 March 2018, the court lifted the arrest of 31.76% in the share capital of PJSC MTS.

By 5 March 2018, the Group early repaid the liability under the Settlement Agreement partially from its own funds and partially from borrowed funds.

On 19 March 2018, the Republic of Bashkortostan Arbitration Court lifted all other restrictive measures in relation to 100% shares of Medsi, 90.5% of shares in the authorised share capital of JSC Agroholding Steppe, 71.87% of shares in the authorised share capital of PJSC MTS Bank, 100% of the authorised share capital of LLC Sistema Telecom Assets, 98.78% of shares in the authorised share capital of JSC Leader-Invest, 16.18% of the authorised share capital of LLC Segezha Group, 88.78% of the authorised share capital of LLC Kronshtadt Group, 45.96% of the authorised share capital of LLC Sistema Hotel Management, 27% of the authorised share capital of LLC United Bridge Construction Enterprise

On 21 March 2018, the Arbitration Court of the Republic of Bashkortostan satisfied a motion by Bashneft, Rosneft and the MLPR of the RB regarding the withdrawal of claims (the Claim-2 and the Claim-3) totalling RUB 131.6 billion that were filed against the Company and Sistema-Invest in December 2017, and terminated the proceedings on case #A07-38665/2017.

The Company and Sistema-Invest have also withdrawn previously filed claims as per the terms of the Settlement Agreement.

The parties have thus fully and duly performed the Settlement Agreement.

6. DISCONTINUED OPERATIONS

The Group enters into transactions to sell shares of its subsidiaries, which result in the Group losing control over such subsidiaries. The results of disposed subsidiaries during the reporting period are included in the consolidated financial statements up to the date of loss of control. Information on the sale of shares in subsidiaries and their impact on the Group's results is provided below.

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

The amounts recognized in profit / (loss) from discontinued operations are as follows:

	2017	2016
SSTL results up to the deconsolidation date	(5,587)	(6,803)
Loss on disposal of SSTL	(428)	-
SG-trading results up to deconsolidation date	(1)	(24)
Gain on disposal of SG-trading	1,146	-
Targin results up to the deconsolidation date	-	142
Loss on disposal of Targin	(125)	(4,888)
UMS results up to the deconsolidation date	-	(1,295)
Loss on disposal of UMS	-	(2,726)
Loss from discontinued operations	**(4,995)**	**(15,594)**

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. On 31 October 2017, the Group completed the demerger. As a result of the transaction, the telecommunication business of SSTL, including licenses and obligations to the Department of Telecommunications of India (the "DoT") for the 800-850 MHz spectrum, was transferred to RCOM. SSTL received a 10% equity stake in RCOM as a result of the additional issuance of shares. If the DoT and courts confirm that the SSTL spectrum may be used to deploy fourth generation networking without additional charges, SSTL will get the right for an additional payment from RCOM. The non-controlling shareholders of SSTL received the right to exchange their SSTL shares to equivalent shares in RCOM equity before 20 March 2018. The Group concluded that this puttable instrument should be classified as a financial liability. As a result, the Group derecognized accumulated non-controlling interests of RUB 30.6 billion, recognized a financial liability of RUB 1.1 billion with a corresponding effect on additional paid-in capital. From the date of the demerger, the financial liability increased to RUB 2.3 billion as a result of the increase of the quoted price of RCOM shares. As a result of the exchange SSTL's equity share in RCOM was reduced to 7.48%.

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

Gain/(losses) of the disposed subsidiaries after intercompany eliminations included in discontinued operations in the consolidated statements of profit or loss for 2017 and 2016 are as follows:

	2017		2016			
	SSTL	**SG-trading**	**SSTL**	**SG-trading**	**Targin**	**UMS**
Revenue	3,898	1,754	12,466	4,375	26,666	5,115
Expenses	(9,485)	(1,783)	(19,268)	(4,389)	(26,365)	(6,602)
(Loss)/ profit before tax	(5,587)	(29)	(6,803)	(14)	301	(1,487)
Income tax benefit / (expense)	-	28	-	(10)	(159)	192
Results up to deconsolidation date	**(5,587)**	**(1)**	**(6,803)**	**(24)**	**142**	**(1,295)**

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

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

	2017		2016			
	SSTL	**SG-trading**	**SSTL**	**SG-trading**	**Targin**	**UMS**
Net cash (used)/ received in operating activities	(3,631)	(124)	(13,418)	(371)	2,384	(544)
Net cash received/(used) in investing activities	22	(53)	(302)	-	(3,562)	-
Net cash (used)/ received from financial activities	-	-	(15,111)	-	1,792	1,234
Total net cash (used)/received	**(3,609)**	**(177)**	**(28,830)**	**(371)**	**614**	**690**

The loss and gain on disposal is as follows:

	2017		2016	
	SSTL	**SG-trading**	**Targin**	**UMS**
Net assets as at disposal date	12,233	(204)	(8,989)	(6,598)
Non-controlling interests	-	-	-	1,787
Accumulated other comprehensive (loss)/income	(16,619)	-	-	2,085
Fair value of consideration received	3,958	1,350	4,100	-
(Loss)/gain on disposal	**(428)**	**1,146**	**(4,889)**	**(2,726)**

7. 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.

MTS continues to cooperate with these investigations. MTS, the DOJ and the SEC are having discussions about a potential resolution to allegations of non-compliance with the Foreign Corrupt Practices Act. However, at this stage, the Group is unable to predict whether or not such discussions will result in a settled resolution to the investigations, the magnitude of any settlement, or whether there will be further developments in the investigations.

8. 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").

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

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.

Business combinations in 2017

In 2017 MTS, Agroholding "Steppe" and Medsi acquired several companies related to their operating segments for RUB 1,195 million, RUB 3,171 million and RUB 661 million respectively.

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

	MTS	**Agroholding «Steppe»**	**Medsi**
Cash consideration	1,195	3,171	661
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	-	2,443	193
Other non-current assets	594	996	20
Current assets	461	913	59
Deffered tax liabilities	-	(203)	-
Loans and borrowings	-	(1,362)	(169)
Other non-current liabilities	(516)	-	-
Current liabilities	(138)	(251)	(152)
Non-controling interest	-	-	46
Goodwill	**794**	**635**	**664**

Acquisition of companies in MTS operating segment – The excess of the consideration over the value of net assets acquired in the amount of RUB 794 million was allocated to goodwill. Goodwill is mainly attributable to the expected synergies and to the company employees.

Acquisition of companies in Agroholding "Steppe" operating segment – The initial accounting for the acquisitions of companies in operating segment Agroholding "Steppe" 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.

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.

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

Acquisition of companies in Medsi operating segment – The initial accounting for the acquisitions of companies in operating segment Medsi 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.

The excess of the consideration paid over the value of net assets was allocated to goodwill. Goodwill mainly arised from expertise of company client base and the expected synergies from expertise in management of medical clinics and established business process.

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 241 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.

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

Pro forma results of operations

Pro forma financial information for 2017 and 2016 which gives effect to the acquisitions as if they had occurred as of 1 January 2017 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 loss for 2017 is a loss of RUB 1,108 million attributable to financial results of business acquired in 2017. Revenue for the period includes RUB 1,147 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:

	2017	2016
Cash consideration	5,027	14,590
Payables at the end of the year	(270)	(501)
Cash acquired	(450)	(133)
Contingent liability	(175)	-
Acquisition of subsidiaries, net of cash acquired	**4,132**	**13,956**

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.

Transactions in 2017

The information on capital transactions of subsidiaries which took place in 2017 and their impacts on the Group's equity is summarised below:

	Increase/ (decrease) of additional paid-in capital	(Decrease)/ increase of non-controlling interests
Initial public offering of Detsky mir	10,094	(107)
MTS shares tender offer	(1,369)	(10,858)
Intragroup transfer of 47% in EWUB	678	(678)
Other	(729)	508
Total impact	**8,674**	**(11,135)**

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

MTS shares tender offer – Under the MTS tender offer to repurchase its ordinary shares (including shares represented by American depository shares), MTS purchased a total of 42,484,404 shares for a total cost of RUB 12.2 billion from non-controlling shareholders. Simultaneously, MTS purchased 33,223,980 shares from Sistema Finance S.A., a subsidiary of the Group, for an aggregate purchase price of RUB 9.5 billion.

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

Intragroup transfer of 47% in East-West United Bank – In May 2017, the Company acquired 47% in East-West United Bank from MTS Bank for RUB 2.6 billion and increased its effective interest to 97%.

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:

	(Decrease)/ increase 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.

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%

10. REVENUE

The Group primarily receives its revenue 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 the 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.

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.

Detsky mir - The amount of revenue is determined as the fair value of consideration received or receivable, less the estimated amount of returns, discounts and other similar amounts.

Detsky mir recognises sales proceeds from retail customers at the time of sale of goods in stores. When selling goods through the Internet, Detsky mir recognizes revenue at the time of receipt by the customer.

In its retail stores, Detsky mir also utilises gift cards. Gift cards have a certain validity period and may be used before a certain date. Detsky mir recognizes the income from the sale of gift cards either at the time the gift card is used by its holder, or at the expiration date.

MTS Bank and East-West United 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 and East-West United Bank revenues are included in the rendering of services line below.

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

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:

	2017	2016
Rendering of services	455,114	443,866
Sale of goods	226,130	204,690
Construction contracts	23,307	32,308
	704,551	**680,864**

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.

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

	2017	2016
Contracts in progress at the end of the year:		
Construction costs incurred plus recognised profits less recognised losses to date	113,970	97,726
Less: progress billings	(110,411)	(98,983)
	3,559	**(1,257)**
Costs and estimated earnings in excess of billings on uncompleted contracts	11,908	8,285
Billings in excess of costs and estimated earnings on uncompleted contracts	(8,349)	(9,542)
	3,559	**(1,257)**

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

11. IMPAIRMENT OF LONG-LIVED ASSETS

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

	2017	2016
Impairment of other long-lived assets	4,857	2,473
Impairment in MTS Turkmenistan	3,204	-
Impairment of goodwill (Note 17)	-	241
Total impairment of long-lived assets	**8,061**	**2,714**

MTS Turkmenistan – In 2017, the Group recognized impairment charges of RUB 3,204 million attributable to the non-current assets of MTS Turkmenistan. In September 2017, the Group's subsidiary in Turkmenistan MTS-TM suspended the provision of telecommunication services to its subscribers, due to the termination by Turkmen state-owned companies and state authorities of line rental, frequency allocation, interconnect, and other agreements necessary to servicing MTS clients. However, the license for the provision of telecommunication services on the Turkmenistan territory is valid till the end of July 2018. The Group considered facts described above as impairment indicators and consequently determined that all long-lived assets attributable to Turkmenistan subsidiary were impaired. The recoverable amount of CGU "MTS Turkmenistan" was equal to nil as of 31 December 2017 and was classified within Level 3 of the fair value hierarchy.

12. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets for 2017 and 2016 comprise the following:

	2017	2016
Allowance for doubtful accounts	3,721	3,696
Impairment of available for sale securities	150	1,027
Impairment of loans carried at amortised cost	1,874	6,600
Total impairment of financial assets	**5,745**	**11,323**

Provision for financial assets attributable to MTS Bank and East-West United 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.

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.

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

The Group's income tax expense for 2017 and 2016 comprise the following:

	2017	**2016**
Current income tax expense	28,975	23,358
Deferred income tax benefit	(17,532)	(1,793)
Total income tax expense recognised in the current year relating to continuing operations	**11,443**	**21,565**

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:

	2017	**2016**
Loss/(profit) before tax	**50,090**	**(46,318)**
Income tax (benefit)/expense calculated at 20%	(10,018)	9,264
Adjustments due to:		
Earnings distribution from subsidiaries and associates	3,833	3,454
Increase of unrecognised deferred tax assets	14,991	4,749
Other non-deductible expenses	2,704	5,174
Settlements with tax authorities	-	68
Different tax rate of subsidiaries	86	(410)
Non-taxable income	(335)	(869)
Other	182	135
Income tax expense	**11,443**	**21,565**

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

2017	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Recognised in Equity**	**Business combinations and disposals**	**Closing balance**
Deferred tax (liabilities)/ assets in relation to:						
Accrued expenses and accounts payable	8,103	413	(9)	-	-	8,507
Property, plant and equipment	(24,189)	498	(39)	-	-	(23,730)
Intangible assets	(10,632)	168	17	-	(130)	(10,577)
Deferred connection fees	540	32	(10)	-	-	562
Inventory obsolescence	1,292	(328)	-	-	-	964
Allowance for doubtful accounts and loans receivable	962	(106)	(30)	-	-	826
Deferred revenues	164	(42)	-	-	-	122
Undistributed earnings of subsidiaries and joint ventures and associates	(5,831)	(280)	119	-	-	(5,992)
Tax losses carried forward	13,895	13,908	-	(2,399)	-	25,404
Other	(872)	3,078	(555)	-	(88)	1,563
Total	**(16,568)**	**17,341**	**(507)**	**(2,399)**	**(218)**	**(2,351)**

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

2016	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Recognised in Equity**	**Business combinations and 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	-	(357)	(872)
Total	**(15,698)**	**1,942**	**(13)**	**-**	**(2,799)**	**(16,568)**

As of 31 December 2017 and 2016 the Group reported the following deferred income tax assets and liabilities in the consolidated statements of financial position, following the application of the right of offset:

	2017	**2016**
Deferred tax assets	35,809	24,185
Deferred tax liabilities	(38,160)	(40,753)
Net deferred tax liabilities	**(2,351)**	**(16,568)**

As of 31 December 2017 and 2016 the tax losses carried forward, for which deferred tax assets were recognised, amounted to RUB 127,021 million and RUB 69,474 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 2017 and 2016:

Jurisdiction	**Carry-forward period**	**2017**	**2016**
India	2018-2026	113,591	189,505
Russia	infinite	187,517	158,301
Total		**301,108**	**347,806**

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

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 2017 and 2016 comprised RUB 132,419 million and RUB 142,099 million, respectively.

Share options granted under the Company's employee share option plan – In 2017 and 2016 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 1,484 million and RUB 2,522 million in the consolidated statements of profit or loss for 2017 and 2016, 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.

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 2017 and 2016 consisted of the following:

	2017	**2016**
Carrying amount		
Switches, transmission devices, network and base station equipment	235,503	243,349
Buildings and leasehold improvements	77,360	77,169
Power and utilities	26,269	25,206
Land	19,959	18,133
Other	52,376	44,273
Total	**411,467**	**408,130**

(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 2016	85,427	60,457	12,366	9,326	29,434	6,563	203,573
Additions	27,658	3,382	324	245	1,843	-	33,452
Disposals	(12,400)	(47)	(163)	(582)	(7,665)	-	(20,857)
Business combinations	-	323	-	-	-	-	323
Currency translation adjustment	(3,763)	(9,462)	-	-	(1,227)	6	- (14,446)
Other	(87)	44	-	(40)	(44)	-	(127)
Balance at 31 December 2016	96,835	54,697	12,527	8,949	22,341	6,569	201,918
Additions	24,686	1,660	27	13	3,400	49	29,835
Disposals	(8,429)	(19,041)	(50)	(1,112)	(1,394)	-	(30,026)
Business combinations	163	260	-	-	1,221	-	1,644
Currency translation adjustment	(980)	(1,131)	-	-	(35)	6	- (2,140)
Other	(6)	(2)	-	1	55	-	48
Balance at 31 December 2017	**112,269**	**36,443**	**12,504**	**7,851**	**25,588**	**6,624**	**201,279**
Accumulated depreciation and impairment							
Balance at 1 January 2016	(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) -
Disposals	8,345	3,391	50	1,108	1,385	-	14,279
Amortisation expense	(17,614)	(2,989)	(1,184)	(1,042)	(1,450)	-	(24,279)
Impairment	(148)	-	-	-	(542)	-	(690)
Currency translation adjustment	726	570	-	-	33	-	1,329
Other	(17)	-	-	2	(35)	-	(50)
Balance at 31 December 2017	**(57,277)**	**(16,838)**	**(10,355)**	**(4,761)**	**(14,382)**	**-**	**(103,613)**

(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 and Business Nedvizhimost.

Investment property is stated at cost less accumulated depreciation and impairment losses.

Depreciation for investment property is computed under the straight-line method utilising average estimated useful lives of the assets of 25 years. Accumulated depreciation as of 31 December 2017 and 2016 amounted to RUB 3,461 million and RUB 3,035 million respectively.

	2017	**2016**
Balance at the beginning of the year	22,647	14,085
Reclassified to property, plant and equipment	-	(804)
Additions	3,203	10,902
Disposals	(757)	(1,368)
Depreciation expense	(426)	(256)
Reclassified (to)/from inventories	(3)	88
Balance at the end of the year	**24,664**	**22,647**

Included in revenue is investment property rental income for 2017 of RUB 2,396 million (2016: RUB 2,608 million). Operating expenses arising from the investment property that generated rental income during 2017 totalled RUB 436 million (2016: RUB 377 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 2017 and 2016, the Group determined the fair values of the investment property at RUB 62,808 million and RUB 59,107 million, respectively.

The fair values as of 31 December 2017 and 2016 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. OIBDA is determined as operating profit before on depreciation and amortization.

(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 2016							
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**
Business combinations	794	-	-	635	-	664	2,093
Impairment	-	-	-	-	-	-	-
Currency translation adjustment	(198)	-	-	-	-	(38)	(236)
Balance as of 31 December 2017							
Gross amount of goodwill	47,982	-	8,323	6,478	3,454	8,500	74,737
Accumulated impairment loss	(4,982)	-	(8,219)	-	(241)	(7,214)	(20,656)
	43,000	**-**	**104**	**6,478**	**3,213**	**1,286**	**54,081**

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.

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

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

	2017	2016
Russia convergent	28,781	28,800
Armenia and other	4,249	3,707
Moscow fixed line	1,164	1,083
Ukraine	87	95
Unallocated	8,719	8,719
Total	**43,000**	**42,404**

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 the Group. "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 2017 and 2016, no impairment charges were recorded in respect of the Group's goodwill balances attributable to MTS segment.

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	**2017**	**2016**	**2017**	**2016**
Russia convergent	38.0%-39.1%	34.6%-37.0%	17.2%	18.8%
Armenia	40.2%-41.2%	42.0%-45.0%	17.8%	11.9%
Moscow fixed line	41.0%-48.5%	42.2%-51.0%	20.6%	17.5%
Ukraine	31.4%-40.6%	40.6%-46.5%	22.7%	19.9%

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

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 CGU's 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	**2017**	**2016**	**2017**	**2016**
Russia convergent	1%	1%	16.0%	15.1%
Armenia	nil	nil	15.2%	15.5%
Moscow fixed line	1%	1%	14.5%	13.7%
Ukraine	3%	3%	20.8%	21.6%

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.

Agroholding "Steppe" – The recoverable amounts of the CGUs are determined based on their value in use. Cash flow models were prepared in Russian rubles. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flow beyond the 5-year period were extrapolating using growth rates stated below. The growth rate do not exceed the long-term average growth rate for the business sector of the economy in whch CGU operates.

Key assumptions used for value-in-use calculations are determined on the basis of market analysis which is performed regularly. The table below presents key assumptions used for value-in-use calculations:

	2017	**2016**
Terminal cash flows growth rate	4%	4%
Discount rate	16-16.25%	16-17%
Range of average annual market price growth rate	4-6%	4-10%

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 of MTS.

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

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

Operating licenses	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 2017 and 2016 consisted of the following:

	2017	2016
Carrying amounts of:		
Amortised intangible assets:		
Billing and telecommunication software	54,992	48,266
Operating licenses	19,605	36,887
Radio frequencies	3,090	4,120
Acquired customer base	2,149	3,306
Software and other	11,206	8,568
	91,042	**101,147**
Unamortised intangible assets:		
Trademarks	6,624	6,569
Total	**97,666**	**107,716**

(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 2016	85,427	60,457	12,366	9,326	29,434	6,563	203,573
Additions	27,658	3,382	324	245	1,843	-	33,452
Disposals	(12,400)	(47)	(163)	(582)	(7,665)	-	(20,857)
Business combinations	-	323	-	-	-	-	323
Currency translation							-
adjustment	(3,763)	(9,462)	-	-	(1,227)	6	(14,446)
Other	(87)	44	-	(40)	(44)	-	(127)
Balance at 31 December 2016	96,835	54,697	12,527	8,949	22,341	6,569	201,918
Additions	24,686	1,660	27	13	3,400	49	29,835
Disposals	(8,429)	(19,041)	(50)	(1,112)	(1,394)	-	(30,026)
Business combinations	163	260	-	-	1,221	-	1,644
Currency translation							-
adjustment	(980)	(1,131)	-	-	(35)	6	(2,140)
Other	(6)	(2)	-	1	55	-	48
Balance at 31 December 2017	**112,269**	**36,443**	**12,504**	**7,851**	**25,588**	**6,624**	**201,279**
Accumulated depreciation and impairment							
Balance at 1 January 2016	(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)
							-
Disposals	8,345	3,391	50	1,108	1,385	-	14,279
Amortisation expense	(17,614)	(2,989)	(1,184)	(1,042)	(1,450)	-	(24,279)
Impairment	(148)	-	-	-	(542)	-	(690)
Currency translation adjustment	726	570	-	-	33	-	1,329
Other	(17)	-	-	2	(35)	-	(50)
Balance at 31 December 2017	**(57,277)**	**(16,838)**	**(10,355)**	**(4,761)**	**(14,382)**	**-**	**(103,613)**

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.

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

The Group's operating licenses do not provide for automatic renewal. As of 31 December 2017, 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.

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.

SSTL spectrum – As a result of the demerger of the telecommunication business of SSTL (Note 6) 800-850 MHz spectrum was transferred to RCOM.

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. All investments in associates and joint ventures are accounted for using the equity method.

Investments in associates and joint ventures as of 31 December 2017 and 2016 consisted of the following:

	2017		2016	
	Voting power	**Carrying value**	**Voting power**	**Carrying value**
OZON	22.37%	4,678	21.60%	4,929
MTS Belarus	49.00%	3,660	49.00%	4,303
Real estate projects	48%-50%	3,204	48%-50%	4,629
Razvitie	50.00%	2,238	50.00%	928
Michurinskiy project	50.00%	1,270	-	-
Other		5,733		4,748
Total		**20,783**		**19,537**

Investments in real estate projects – As of 31 December 2016, the Group held between 48% and 50% of the shares in companies owning foreign and Russian retail and other real estate with a total book value of RUB 4,629 million. In April 2017, the Group sold its shares in two German projects to a third party with a carrying value of RUB 3,498 million. In other projects, the Group retained its ownership interests as of 31 December 2017 and additionally invested RUB 1,909 million in 2017. The Group continues to account for them as investments in associates and joint ventures.

Michurinsky project – During the first half of 2017, the Group established a new legal entity LLC "Michurinsky project" and contributed buildings to its share capital. In June 2017, a third party investor purchased a 50% interest in LLC "Michurinsky project" for a cash consideration of RUB 2 billion. As a result, the Group's interest in LLC "Michurinsky project" decreased to 50% and it was accounted for as an investment in a joint venture.

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

The financial position and results of operations of significant associates and joint venture as of and for the years ended 31 December 2017 and 2016 were as follows:

	2017					2016			
	MTS Belarus	**OZON**	**Real estates projects**	**Razvitie**	**Michu-rinskiy project**	**MTS Belarus**	**OZON**	**Real estates projects**	**Razvitie**
Non-current assets	9,819	4,656	6,863	4,003	4,030	9,414	3,922	12,162	4,004
Current assets	8,117	8,189	8,421	465	21	6,800	8,073	1,262	260
Total assets	**17,936**	**12,845**	**15,284**	**4,468**	**4,051**	**16,214**	**11,995**	**13,424**	4,264
Non-current liabilities	(703)	(572)	(1,361)	-	(5)	-	(629)	(4,631)	-
Current liabilities	(9,764)	(7,789)	(5,064)	(1)	(43)	(7,433)	(5,413)	(412)	(2,506)
Total liabilities	**(10,467)**	**(8,361)**	**(6,425)**	**(1)**	**(48)**	**(7,433)**	**(6,042)**	**(5,043)**	**(2,506)**
Net assets of investee	**7,469**	**4,484**	**8,859**	**4,467**	**4,003**	**8,781**	**5,953**	**8,381**	**1,758**
Group's ownership interest	49.00%	22.37%	48%-50%	50.00%	50.00%	49.00%	21.60%	48%-50%	50.00%
Fair value adjustment on the date of purchase	-	3,674	(1,048)	4	(731)	-	3,644	606	49
Carrying amount of the Group's interest	**3,660**	**4,678**	**3,204**	**2,238**	**1,270**	**4,303**	**4,929**	**4,629**	**928**
Total revenues	23,037	21,998	25	-	-	22,256	15,322	557	-
Total profit/(loss) for the year	6,552	(1,589)	3	7	-	6,356	(1,190)	769	(17)
The Group's share in profit/(loss)	**3,210**	**(355)**	**1**	**3**	**-**	**3,114**	**(257)**	**369**	**(8)**
Total comprehensive income/(loss)	6,027	(1,589)	3	7	-	4,064	(1,194)	769	(17)
The Group's share in comprehensive income/(loss) for the year	**2,953**	**(355)**	**1**	**3**	**-**	**1,991**	**(258)**	**369**	**(8)**

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

Group's share of profit/(loss) from continuing operations	171	(71)
Group's share of total comprehensive income	428	1,053
Aggregate carrying amount of the Group's interests in these associates and joint ventures	5,734	4,748

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 and East-West United Bank, the Group's subsidiaries 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 entered 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 2017 and 2016, financial assets, other than those shown separately on the face of the statements of financial position, less allowance for impairment losses, comprise:

	2017	2016
Financial assets at FVTPL		
Debt and equity securities	37,414	30,935
	37,414	**30,935**
Loans and receivables at amortised cost		
Bank loans to customers	64,708	62,900
Interbank loans due from banks	15,512	3,090
Other loans and receivables	22,647	18,431
	102,867	**84,421**
AFS financial assets		
Debt and equity securities	28,163	16,460
	28,163	**16,460**
HTM financial assets		
Debt and equity securities	27,346	17,163
	27,346	**17,163**
Hedging instruments at fair value		
Interest rate swaps designated as cash flow hedges	8,403	13,632
	8,403	**13,632**
	204,193	**162,611**
Current	99,798	62,588
Non-current	104,395	100,023
	204,193	**162,611**

At 31 December 2017 and 2016, 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, East-West United Bank) comprise:

	2017	2016
Cash and cash equivalents	31,758	28,895
Bank loans to customers	75,126	99,556
Interbank loans due from banks	15,553	3,339
Financial assets at FVTPL	16,106	18,430
AFS financial assets	11,485	8,166
HTM financial assets	27,346	17,163
Other	110	713
Less: allowance for loan losses	(10,459)	(36,905)
	167,025	**139,357**

The movement in the allowance for loan losses during 2017 and 2016 was as follows:

	2017	2016
Allowance for loan losses, beginning of the year	**36,905**	**46,910**
Additions charged to the results of operations, net	199	6,063
Write-off of loan loss provisions	(26,374)	(14,883)
Currency translation adjustment	(271)	(1,185)
Allowance for loan losses, end of the year	**10,459**	**36,905**

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

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

	2017	2016
Individuals	37,797	44,157
Manufacturing	10,668	17,277
Real estate	5,906	9,809
Trade	5,816	9,454
Transport and communication	3,575	2,844
Food production	2,993	6,407
Finance lease	1,455	1,598
Finance sector	1,099	2,865
Culture and art	21	886
Other	5,796	4,259
Total bank loans to customers	**75,126**	**99,556**

Loans to individuals comprise the following:

	2017	2016
Credit cards	8,421	17,451
Mortgage loans	14,200	14,671
Consumer loans	15,045	11,020
Other	131	1,015
	37,797	**44,157**
Less allowance for loan losses	(4,019)	(12,979)
Total loans to individuals	**33,778**	**31,178**

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 2017 and 2016, RTI has RUB 8,591 million and 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, costs in excess of billings of RTI and construction in progress of Leader-Invest.

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.

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.

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

Inventories as of 31 December 2017 and 2016 consisted of the following:

	2017	2016
Detsky mir finished goods and goods for resale	26,287	25,328
Construction in progress of Leader-Invest	16,084	5,130
Costs and estimated earnings in excess of billings on uncompleted contracts	11,908	8,285
Raw materials and spare parts	10,665	6,956
MTS finished goods and goods for resale	9,995	16,276
Other finished goods and goods for resale	9,239	9,929
Other work-in-progress	3,875	10,786
Subtotal	**88,053**	**82,690**
Excluding non-current inventories	(6,652)	(1,324)
Total	**81,401**	**81,366**

The cost of inventories recognised as an expense during the year in respect of continuing operations was RUB 159,940 million (2016: RUB 125,690 million). The cost of inventories recognised as an expense includes RUB 4,659 million (2016: RUB 3,423 million) in respect of write-downs of inventory to net realisable value, construction contracts value write-down in amount of RUB 5,262 million (2016: RUB 350 million) and such costs have been reduced by RUB 509 million (2016: RUB 611 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 2017 and 2016 consisted of the following:

	2017	2016
Accounts receivable	60,018	69,579
Allowance for doubtful accounts	(5,182)	(8,691)
Total	**54,836**	**60,888**

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

	2017	2016
60-90 days	3,334	3,621
more than 90 days	2,201	2,480
Total	**5,535**	**6,101**

Movement in the allowance for doubtful accounts is as follows:

	2,017	2,016
Balance at the beginning of the year	(8,691)	(9,997)
Allowance for doubtful accounts	(3,748)	(3,303)
Amounts written off during the year as uncollectible	6,433	3,421
Disposal of subsidiaries	717	343
Currency translation gains/(losses)	107	845
Balance at the end of the year	**(5,182)**	**(8,691)**

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

24. EQUITY

Share capital – As of 31 December 2017 and 2016, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,437,514,653 and 9,397,374,298 shares were outstanding, respectively.

Treasury shares – Movement of treasury shares during 2017 and 2016 years was as follows:

	2017	2016
Balance at the beginning of the year, number of shares	252,625,702	165,360,565
Purchase of own shares, number of shares	72,823,265	98,250,000
Purchase of own shares of the Company by empoyees, number of shares	(5,536,162)	-
Settlements under long-term motivation program, number of shares	(107,427,458)	(10,984,863)
Balance at the end of the year, of number shares	**212,485,347**	**252,625,702**

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 24 June 2017, an annual general meeting of shareholders approved the total dividend payment of RUB 7,817 million for 2016 (including dividends on treasury shares of RUB 183 million), representing RUB 0.81 per ordinary share or RUB 16.2 per GDR.

On 28 November 2017, an extraordinary general meeting of shareholders approved an interim dividend payment of RUB 6,562 million for the first nine months of 2017 (including dividends on treasury shares of RUB 134 million), representing RUB 0.68 per ordinary share or RUB 13.6 per GDR.

25. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income balance, net of taxes of nil, as of 31 December 2017 and 2016:

	2017	2016
Accumulated currency translation loss	(7,842)	(21,745)
Unrealised gain/(loss) on financial instruments	5,195	(153)
Unrecognised actuarial loss	(75)	(34)
Total accumulated other comprehensive loss	**(2,722)**	**(21,932)**
Less: amounts attributable to non-controlling interests	5,054	8,180
Total accumulated other comprehensive income/(loss) attributable to Sistema PJSFC	**2,332**	**(13,752)**

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 EUR- 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 2017, finance costs did not include borrowing costs that were included in the cost of qualifying assets in amount of RUB 307 million (2016: RUB 388 million).

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

At 31 December 2017 and 2016, the Group's borrowings comprised:

	2017	2016
Bank loans	336,582	323,838
Corporate bonds	183,476	138,301
Finance lease obligations	14,855	14,361
Other	906	1,626
	535,819	**478,126**
Current	142,168	83,109
Non-current	393,651	395,017

Bank loans – As of 31 December 2017 and 2016, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 31 December 2017)	31 December 2017	31 December 2016
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2018-2020	LIBOR + 1.15% (2.994%)	17,076	25,394
Citibank	2018-2024	LIBOR + 0.9% (2.744%)	10,592	12,812
China Development Bank	2018-2021	LIBOR 6m+3.15%; 1.92%	8,640	9,099
Other			4,996	4,486
			41,304	**51,791**
EUR-denominated:				
ING Bank	2018-2021	4.30%	25,040	9,190
Other			1,284	1,699
			26,324	**10,889**
RUB-denominated:				
Sberbank	2018-2023	8.45%-16.60%	188,222	180,161
VTB	2018-2022	7.99%-12.35%; CBR+2.50%-4.80% (10.25% - 12.55%)	37,733	37,943
Gazprombank	2018-2022	8.9%-10.0%	21,021	4,819
Alfa Bank	2018-2023	8.7%-11.8%	15,501	10,210
Expobank	2017	14.00%-14.50%	-	3,000
Other			5,918	20,451
			268,395	**256,584**
Other currencies			559	4,574
Total bank loans			**336,582**	**323,838**

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

Corporate notes – As of 31 December 2017 and 2016, the Group's notes consisted of the following:

	Currency	**Interest rate**	**31 December 2017**	**31 December 2016**
MTS International Notes due 2023	USD	5.00%	26,188	28,217
Sistema International Notes due 2019	USD	6.95%	23,441	25,067
MTS International Notes due 2020	USD	8.63%	17,621	18,537
Sistema PJSFC Bonds due 2027	RUB	8.90%	15,000	-
Sistema PJSFC Bonds due 2018	RUB	12.70%	10,000	10,000
Sistema PJSFC Bonds due November 2026	RUB	9.90%	9,953	9,949
Sistema PJSFC Bonds due September 2025	RUB	12.50%	5,000	5,000
Sistema PJSFC Bonds due October 2026	RUB	9.80%	4,536	6,200
Sistema PJSFC Bonds due October 2025	RUB	10.90%	1,700	1,700
MTS Notes due 2022	RUB	7.70%	14,947	-
MTS Notes due 2023	RUB	8.25%	9,997	9,984
MTS Notes due 2031	RUB	9.40%	9,995	9,986
MTS Notes due 2022	RUB	9.00%	9,991	-
MTS Notes due 2018	RUB	7.70%	9,986	-
MTS Notes due 2021	RUB	8.85%	9,986	-
MTS Notes due 2020	RUB	9.25%	49	1,448
MTS Notes due 2017	RUB	8.70%	-	9,995
Detsky mir Notes due 2024	RUB	9.50%	3,000	-
Other			2,086	2,218
Total notes			**183,476**	**138,301**

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 2018
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 November 2027	February 2020
Sistema PJSFC Bonds due October 2026	November 2020
Sistema PJSFC Bonds due 2027	April 2022

Covenants – Loans and notes payable by the Group are subject to various restrictive covenants and events of default, which permit lenders to demand accelerated repayment of debt. Such covenants and events include non-compliance with certain financial ratios, cancellation of principal telecom licenses, significant court rulings, encumbrances and confiscation of certain assets and other material adverse changes.

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

As of 31 December 2017 the Group had long-term debt denominated in Russian rubles, presented as part of current liabilities in the consolidated statement of financial position for the following reasons:

	2017	**2016**
Ongoing arrest of shares of the Group's shares of subsidiaries (Note 5)	9,703	-
Noncompliance with other non-financial covenants	16,957	-
Noncompliance with certain financial ratios by the Group's subsidiaries	382	2,404
Total	**27,042**	**2,404**

To the date when these consolidated financial statements were authorized for issue, the lenders have not exercised their rights for early redemption.

Assets pledged as security – As of 31 December 2017 and 2016 land and buildings with carrying amounts of RUB 31,358 million and RUB 34,746 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 2017 and 2016, other assets including inventories and deposits with carrying amounts of RUB 3,877 million and RUB 4,200 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 2017 and 2016 are secured by the lessors' title to the leased assets, which have a carrying amount of RUB 11,726 million and RUB 10,785 million, respectively.

27. BANK DEPOSITS AND LIABILITIES

Liabilities of MTS Bank and East-West United 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 2017 and 2016 consisted of the following:

	2017	**2016**
Customer accounts	115,105	100,974
Debt securities issued	2,074	2,030
Other liabilities	113	3,316
	117,292	**106,320**
Less: amounts maturing within one year	(83,873)	(99,888)
Total bank deposits and liabilities, net of the current portion	**33,419**	**6,432**

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

28. OTHER FINANCIAL LIABILITIES

Other financial liabilities as of 31 December 2017 and 2016 consisted of the following:

	2017	2016
Payable for RTI shares (Note 9)	3,489	2,975
SSTL liabilities to non-controlling shareholders (Note 6)	2,348	-
MTS liabilities under put option agreements (MTS Armenia)	2,012	2,243
Interest rate and cross-currency swaps not designated as hedging instruments	1,104	1,734
Credit guarantee agreement related to foreign currency hedge	1,045	2,907
MTS liabilities related to hedging activities	664	531
Liabilities for change of the permitted use of the parcel of land for the purposes of construction of residential real estate.	726	-
SSTL payable for 800 MHz spectrum (Note 6)	-	19,126
Liabilities to Rosnano for Mikron's shares (Note 29)	-	3,300
Other	1,185	683
Non-current	6,514	25,580
Current	6,059	7,919
Total other financial liabilities	**12,573**	**33,499**

29. 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 2017 and 2016 consisted of the following:

	2017	2016
Employees' bonuses and other rewards	11,924	10,348
Provisions for decomissioning	1,049	1,192
Tax provisions other than for income tax	310	457
Other	3,154	2,166
Total	**16,437**	**14,163**
Current	13,038	10,752
Non-current	3,399	3,411

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

	Employees' bonuses and other rewards	Provisions for decomis-sioning	Tax provisions other than income tax	Other	Total
Balance at 1 January 2016	**(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)**
Additional provisions recognized	(15,776)	(108)	(229)	(1,930)	(18,043)
Payments	12,769	5	342	694	13,810
Unwinding of discount and effect of changes in the discount rate	49	(103)	-	-	- - (54)
Unused amounts reversed	1,283	339	33	325	1,980
Currency translation adjustment	99	10	1	(77)	33
Balance at 31 December 2017	**(11,924)**	**(1,049)**	**(310)**	**(3,154)**	**(16,437)**

30. 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 losses and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2017	2016
Loss for the year from discontinued operations attributable to shareholders of Sistema PJSFC	(3,260)	(11,470)
Loss for the year from continuing operations attributable to shareholders of Sistema PJSFC	(91,343)	(288)
(Losses) used in the calculation of basic and diluted earnings per share	**(94,603)**	**(11,758)**
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	9,448,453,265	9,439,069,910
(Losses) per share – basic and diluted in RUR	**(10.01)**	**(1.25)**
From continuing operations	(9.67)	(0.03)
From discontinued operations	(0.34)	(1.22)

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

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:

	2017	2016
Share options granted under the Company's employee share option plan	81,183,545	102,204,780

31. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management – The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net 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:

	2017	2016
Net borrowings	475,860	417,936
OIBDA	187,381	177,856
Net borrowings to OIBDA ratio	**2.54**	**2.35**

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 2017 and 2016, MTS Bank's capital adequacy ratio was 14.54% and 21.3%, respectively.

Limitations on cash distribution – There were certain limitations on cash distribution in Ukraine (Note 38) and India as of 31 December 2017. Cash balances in Ukraine and India were as follows:

	2017	2016
Ukraine	1,330	3,142
India	147	1,145

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.

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

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 32).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (excluding hedged items) at the year end are as follows.

	Liabilities		**Assets**	
	2017	**2016**	**2017**	**2016**
US Dollar	181,508	198,930	85,254	77,349
Euro	31,969	24,529	22,074	35,542

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 2017	**31 December 2016**
Profit or loss before tax	17,815	17,035

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

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect finance costs. The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by conducting certain hedging activities (Note 32).

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.

	2017	**2016**
Profit or loss before tax	192	231

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.

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

If prices of securities as of the year end had been 10% higher/lower:

	31 December 2017	31 December 2016
Profit before tax increase/decrease	3,741	3,094
OCI increase/decrease	2,253	817

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 2017, 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	142,168	132,171	124,584	51,748	47,996	37,152
Liabilitiy under the Settlement Agreements	80,000	-	-	-	-	-
Accounts payable	114,402	-	-	-	-	-
Bank deposits and liabilities	83,873	15,162	3,249	2,166	1,083	11,759
Liability to Rosimushchestvo	9,601	6,714	6,713	-	-	-
Other financial liabilities	6,059	5,091	363	-	-	1,060
Total financial liabilities	**436,103**	**159,138**	**134,909**	**53,914**	**49,079**	**49,971**

At 31 December 2017, 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	30,342	39,143	39,489	-	15,000	-
Liabilitiy under the Settlement Agreements	80,000					
Accounts payable	4,735	-	-	-	-	-
Liability to Rosimushchestvo	9,601	6,714	6,713	-	-	-
Other financial liabilities	-	3,489	-	-	-	1,060
Total financial liabilities	**124,678**	**49,346**	**46,202**	**-**	**15,000**	**1,060**

For day to day liquidity requirements the Group had unused credit facilities of RUB 136,674 million as of 31 December 2017, including RUB 66,520 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.

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

As of 31 December 2017 the Group has a significant balances according to settlements with the following financial institutions:

	2017	**2016**
Sberbank	27,712	31,619
The Central bank of Luxemburg	18,416	9,356
The Central bank the Russian Federation	9,908	3,157
Total	**56,036**	**44,132**

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.

32. 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 EUR- 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 21% of the Group's bank loans denominated in USD and EUR outstanding as of 31 December 2017 (2016: 19%).

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

The notional amounts related to currency derivative instruments amounted to RUB 28,669 million (USD 497 million) and RUB 25,885 million (USD 421 million and EUR 5 million) as of 31 December 2017 and 2016, 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 42% of the Group's bank loans with variable rates outstanding as of 31 December 2017 (2016: 21%).

Fixed-to-variable interest rate swap agreements – The Group's notes and bank loans denominated in Russian Rubles bear primarily fixed interest rates. To eliminate the exposure to changes in fair value of debt obligations, the Group enters into fixed-to-variable interest rate swap agreements. In aggregate the Group entered into fixed-to-variable interest rate swap agreements designated to manage the exposure to changes in value of the debt related to 5% of the Group's notes and bank loans with fixed rates outstanding as of 31 December 2017 (2016: 7%).

The notional amounts related to interest rate derivative instruments amounted to RUB 49,429 million and RUB 49,451 million as of 31 December 2017 and 2016, respectively.

33. FAIR VALUES

The following fair value hierarchy table presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 31 December 2017 and 2016. 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 2017				31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets								
Financial assets at FVTPL	37,414	-	-	37,414	30,935	-	-	30,935
AFS securities	18,167	-	9,996	28,163	8,166	-	8,294	16,460
Hedging instruments at fair value	-	8,403	-	8,403	-	13,632	-	13,632
	55,581	**8,403**	**9,996**	**73,980**	**39,101**	**13,632**	**8,294**	**61,027**
Financial liabilities								
Derivative instruments	-	(1,766)	-	(1,766)	-	(2,407)	-	(2,407)
Contingent consideration	-	-	(180)	(180)	-	-	(3)	(3)
Liabilities under put option agreements	-	-	(2,424)	(2,424)	-	-	(2,243)	(2,243)
SSTL liabilities for RCOM shares	(2,348)	-	-	(2,348)	-	-	-	-
	(2,348)	**(1,766)**	**(2,604)**	**(6,718)**	**-**	**(2,407)**	**(2,246)**	**(4,653)**

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 2017		31 December 2016	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
HTM financial assets	27,346	27,328	17,163	17,091
Financial liabilities				
Borrowings	535,819	540,255	478,126	483,858
Bank deposits and liabilities	117,292	117,353	106,320	106,276

The table below presents information regarding reconciliation of Level 3 fair value measurements as of 31 December 2017 and 2016.

	Liabilities under put option agreements	**AFS securities**	**Contingent consideration**	**Total**
Balance at 1 January 2016	**(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**
Total gains/(losses):				
- in profit or loss	120	-	-	120
- in other comprehensive income	111	1,008	-	1,119
Purchases	(412)	694	(177)	105
Balance at 31 December 2017	**(2,424)**	**9,996**	**(180)**	**7,392**

No unrealized gains or losses of Level 3 liabilities as a result of fair value measurements were recognized during the years ended 31 December, 2017 and 2016.

34. RELATED PARTY TRANSACTIONS

The Group has a number of related parties including its controlling shareholder and entities under common control, associates and joint ventures, and key management personnel.

Trading transactions – The Group's trading transactions with related parties that are not members of the Group comprise sales and purchases of goods and services in the normal course of business. During the year ended 31 December 2017, sales to related parties comprised RUB 651 million (2016: RUB 638 million), purchases from related parties comprised RUB 273 million (2016: RUB 2,741 million). As of 31 December 2017, advances paid to, trade balances receivable from and payable to related parties comprised RUB 1,257 million, RUB 5,227 million and RUB 1,464 million, respectively (31 December 2016: RUB 1,838 million, RUB 3,627 million and RUB 1,199 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 2017 and 2016, 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 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Controlling shareholder and entities under common control	3,783	2,936	33,442	37,034
Key management personnel	-	-	3,095	2,868
Other related parties	-	-	1,322	1,169

Finance costs related to such transactions with related parties and recognized in the consolidated statement of profit or loss in 2017 amounted to RUB 2,222 million (2016: RUB 3,199 million).

Compensation of key management personnel – In 2017 and 2016, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board and the independent directors was as follows:

	2017	**2016**
Short-term benefits	2,096	4,026
Share-based payments	737	1,100
Total	**2,833**	**5,126**

35. 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**	**2017**	**2016**
Mobile TeleSystems PJSC (Note 9)	MTS	Telecommunications	50.25%	50.03%
Sistema Shyam TeleServices Limited	SSTL	Telecommunications	56.68%	56.68%
MTS Bank PJSC	MTS Bank	Banking	86.66%	86.66%
RTI JSC (Note 9)	RTI	Technology	87.00%	87.00%
Detsky mir PJSC	Detsky mir	Retail trading	52.10%	72.63%
Medsi Group JSC	Medsi	Healthcare services	100%	100%
Bashkirian Power Grid Company JSC (1)	BPGC	Energy transmission	90.96%	90.96%
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	90.50%	88%

(1) Voting interests as of 31 December 2017 and 2016 – 93%.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

		Profit / (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
Name of subsidiary	**Principal place of business**	**2017**	**2016**	**2017**	**2016**
MTS	Russia	28,004	23,097	57,880	67,301
SSTL	India	(1,736)	(1,791)	-	(28,953)

The difference between the accumulated non-controlling interests of SSTL and the net assets of SSTL multiplied by the beneficial ownership as of 31 December, 2017 is due to the following factors:

- 17.14% of the SSTL loss is allocated to the owners of the Company because this share is owned by the Federal Agency for State Property Management (Rosimushchestvo) and an agreement was reached with Rosimushchestvo in 2016. According to this agreement, after the liability is repaid in full, the Group will acquire 17.14% of SSTL. The liability is repayable in installments between 2016 and 2020. The Group reflects this liability in separate lines of the consolidated statement of financial position as at 31 December 2017, reflecting the current and non-current portions.
- 26.28% of the SSTL loss is allocated to the owners of the Company because this share is owned by other non-controlling shareholders and they have the right to exchange their shares of SSTL for shares of RCOM as a result of the deal with RCOM (Note 6).

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations. The consolidated financial information presented below is indicative of pre-exclusion of intra-group transactions. The consolidated financial information for SSTL for the year 2017 is not provided, because as of 31 December 2017, the accumulated non-controlling interests of SSTL equal zero.

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

	2017	2016	
	MTS	**MTS**	**SSTL**
Current assets	146,032	90,188	4,425
Non-current assets	405,038	453,413	20,303
Total assets	**551,070**	**543,601**	**24,728**
Current liabilities	156,671	126,584	14,673
Non-current liabilities	270,194	274,034	29,830
Total liabilities	**426,865**	**400,618**	**44,503**
Equity attributable to shareholders of Sistema	62,246	70,968	(9,178)
Non-controlling interests	61,959	72,014	(28,953)
Revenue	442,910	435,692	12,466
Expenses	(386,320)	(387,242)	(19,268)
Profit/ (loss) for the year	**56,590**	**48,450**	**(6,802)**
Profit/(loss) attributable to shareholders of Sistema	28,586	25,353	(5,012)
Profit/(loss) attributable to the non-controlling interests	28,004	23,097	(1,791)
Other comprehensive (loss)/income attributable to shareholders of Sistema	(1,413)	(8,861)	5,356
Other comprehensive (loss)/income attributable to the non-controlling interests	(1,413)	(8,946)	1,913
Other comprehensive (loss)/income for the year	**(2,826)**	**(17,807)**	**7,269**
Total comprehensive income attributable to shareholders of Sistema	27,173	16,492	344
Total comprehensive income attributable to the non-controlling interests	26,592	14,151	123
Total comprehensive income for the year	**53,765**	**30,643**	**467**
Dividends paid to non-controlling interests	26,584	25,415	-
Net cash inflow/(outflow) from operating activities	144,640	130,565	(8,947)
Net cash outflow from investing activities	(81,510)	(57,302)	(137)
Net cash (outflow)/inflow from financing activities	(50,445)	(83,038)	7,165
Net cash inflow/(outflow)	**12,685**	**(9,775)**	**(1,919)**

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

36. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flows:

	2017	2016
Equipment and licenses acquired under capital leases	2,628	505
Change in amounts payable for capital expenditures	2,715	(15,285)
Payables related to business acquisitions	270	501
Payables related to purchases of non-controlling interests in subsidiaries	-	6,186

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

			Non-cash changes					
	1 January 2017	Cash flows from financial activities	Disposal of subsidiaries (Note 6)	New financial lease arrangements	Currency exchange	Changes of the share capital	Other changes	31 December 2017
Borrowings	478,126	65,488	(5,107)	2,628	(4,880)	(11)	(425)	535,819
Capital transactions of subsidiaries	-	(33)	-	-	-	3,499	(3,466)	-
Operations with own shares	-	(1,481)	-	-	-	1,481	-	-
Liability to Rosimushchestvo	33,065	(8,532)	-	-	(1,446)	-	(59)	23,028
Dividends payable	249	(38,792)	-	-	-	43,121	-	4,578
Other financial liabilities	33,499	(4,320)	(19,840)	-	(308)	-	3,542	12,573
Total	**544,939**	**12,330**	**(24,947)**	**2,628**	**(6,634)**	**48,090**	**(408)**	**575,998**

38. CONTINGENCIES AND COMMITMENTS

In addition to contingencies described in Note 7, 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 2017, the Group had capital commitments of RUB 42,323 million (31 December 2016: RUB 45,017 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	
2018	20,141
2019	13,193
2020	12,578
2021	12,290
2022	12,246
Thereafter	18,227
Total	**88,675**

Commitments on loans and unused credit facilities – As of 31 December 2017, MTS Bank and East-West United Bank had RUB 16,051 million of commitments on loans and unused credit facilities available to its customers (31 December 2016: RUB 6,891 million).

Guarantees – At 31 December 2017, MTS Bank and East-West United Bank guaranteed loans for several companies which totalled RUB 5,580 million (31 December 2016: RUB 3,921 million), including related parties of RUB 1,113 million (31 December 2016: RUB 234 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.

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, CJSC "VF 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 CJSC "VF Ukraine" is required provide coverage across Ukraine by April 2020.

In accordance with the terms of the license, CJSC "VF 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 2017, CJSC "VF 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 323 million (RUB 476 million as of 31 December 2017) adjusted for the rate of inflation in the years 2017-2018.

Management believes that as of December 31, 2017 the Group complied with the conditions of the aforementioned licenses.

Agreement with Apple – In April 2017, MTS entered into an unconditional purchase agreement with Apple Rus LLC to buy 615,000 iPhone handsets at list prices at the dates of respective purchases over a period ending 30 June 2019. Pursuant to the agreement, MTS is also required to incur certain iPhone advertising and promotion costs. As of December 31, 2017 MTS made 44% of its total purchase installment contemplated by the agreement.

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.

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

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 2017, provisions for additional taxes and customs settlements comprised RUB 1,216 million (31 December 2016: RUB 1,213 million).

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

	December 31, 2017	December 31, 2016
Contingent liabilities for additional taxes other than income tax	732	354
Contingent liabilities for additional income taxes	2,591	2,588

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 December 31, 2017 allows payment of dividends from the profit earned in 2014-2015, subject to certain restrictions, as well as payment of the whole amount of dividends accrued from the profit earned before 2014 that was earlier prohibited. 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. As of 31 December 2017, 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 will 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 anti-terror laws in respect of the data storage volume are to be determined by legal acts that have not been adopted yet. The Group will estimate the potential impact of the laws on the Group's consolidated financial statements, including additional provisions, once requirements are approved and come into force.

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

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 2017, management estimates the range of possible losses in all pending litigations or other legal proceedings, other than the litigations in Notes 5 and 7, being up to RUB 8,697 million.

In August 2017, Federal Antimonopoly Service of the Russian Federation (FAS Russia) has charged MTS with violation of antimonopoly laws in respect to establishing and maintaining monopolistically high prices for communication services in national roaming. In February 2018 FAS Russia found MTS responsible for the aforementioned violation. 5 March 2018 FAS Russia has initiated the case in relation to MTS. As result of the hearing, administrative fine might be imposed on MTS in the amount of illegally obtained income. The amount of illegally obtained income is determined as the difference between the amount of revenue received by MTS as a result of applying monopolistically high prices and the amount of revenue that could be received as a result of applying prices which are considered by FAS Russia reasonable. As there is no information regarding the level of prices that FAS Russia considers economically justified, it is not possible to make a reliable estimation of the adverse effects of the fine that will be potencially imposed.

39. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for a period that begins on or after 1 January 2017:

Amendment	Description	Impact
Amendments to IAS 7 Disclosure Initiative	The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.	The Group's liabilities arising from financing activities consist of borrowings (Note 26) and certain other financial liabilities (Note 28). A reconciliation between the opening and closing balances of these items is provided in Note 37. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period.
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.	The application of these amendments has no material impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.
Annual Improvements to IFRSs 2014-2016 Cycle	IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified as held for sale or included in the disposal group. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.	The application of these amendments has no material impact on the Group's consolidated financial statements as none of the Group's material interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Standard or amendment	Effective date[1]
IFRS 15, Revenue from Contracts with Customers	1 January 2018
IFRS 9, Financial Instruments	1 January 2018
IFRIC 22, Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 40 – Transfers of Investment Property	1 January 2018
Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
IFRS 16, Leases	1 January 2019
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed
IFRIC 23, Uncertainty Over Income Tax Treatments	1 January 2019
Amendments to IFRS 9 – Prepayment Features With Negative Compensation	1 January 2019
Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
IFRS 17, Insurance Contracts	1 January 2021

[1] Effective for annual periods effective on or after that date, with earlier application permitted.

The Group is currently implementing IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, as well as IFRS 16, Leases, which it intends to early adopt as of 1 January 2018, concurrent with the adoption of the new standard related to revenue recognition.

IFRS 9, Financial Instruments – The standard replaces IAS 39, Financial Instruments: Recognition and Measurement, and brings together the following aspects of accounting for financial instruments: classification and measurement, impairment, derecognition and general hedge accounting.

The Group estimates that the main impact of IFRS 9 will be in the way the Group accounts for the impairment of financial assets. In general, the Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for its customer loan portfolio and trade receivables and will increase the amount of loss allowance recognized for these items.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 as at 1 January 2018 will be recognized in equity and are currently estimated being insignificant.

IFRS 15, Revenue from Contracts with Customers – This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces the existing standards IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations.

The Group will adopt IFRS 15 from 1 January 2018 using the modified retrospective method, with the effect of initially applying this standard recognized in equity at the date of initial application. As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

The Group currently anticipates that the main effect from the adoption of IFRS 15 on the Group's consolidated financial statements will be a recognition of contract costs – costs of obtaining a contracts (such as sales commissions) and costs of fulfilling a contract – which, under the new standard, are required to be capitalized and amortized over the period expected to benefit from the contract. The Group will use the practical expedient allowed by of IFRS 15 whereby such costs may be expensed if the amortization period is one year or less. The Group estimates the additional asset stemming from the capitalization of contract costs to amount to RUB 5.9 billion as at 1 January 2018.

Other anticipated impacts of the standard includes delayed recognition of revenue in cases where “material rights” (such as offering additional products and services free of charge) are granted to customers, and reallocation of remuneration between the components of contracts with customers. The estimated effect of such reallocations on equity and deferred revenue as of 1 January 2018 is estimated being insignificant.

IFRS 16, Leases – This standard requires lessees to adopt a uniform approach to the presentation of leases. Correspondingly, assets must be recognized for the right of use received and liabilities must be recognized for the payment obligations entered into for all leases. The Group will be making use of relief options available for short-term leases. The Group will transition to IFRS 16 in accordance with the modified retrospective method. For leases that have to date been classified as operating leases in accordance with IAS 17, the lease liability will be carried at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate at the time the standard was first applied. The right-of-use asset will generally be measured at the amount of the lease liability. The prior period figures will not be restated.

The analysis conducted Group-wide indicated the probable recognition of right-of-use assets and lease liabilities in the balance sheet totaling around not less than RUB 176 billion as of 1 January 2018. In terms of the future effects on the statement of profit and loss, in contrast to the presentation of operating lease expenses to date, the Group will be recognizing depreciation charges on right-of-use assets and the interest expense from the unwinding of the discount on the lease liability.

The above assessment for IFRS 9, 15 and 16 is preliminary because not all transition work has been finalized. The actual impact of adopting the new standards on 1 January 2018 may change because their adoption will require the Group to revise its accounting processes and internal controls and these changes are not yet complete, while the new accounting policies, assumptions, judgements and estimation techniques employed are subject to changes until the Group finalizes its first consolidated financial statements that include the date of initial application.

The Group does not anticipate that the application of other revised IFRSs effective 1 January 2018 will have a material impact on the Group's consolidated financial statements. In respect of new and revised IFRSs effective 1 January 2019 and afterwards, the Group is still evaluating their impact.

40. EVENTS AFTER THE REPORTING DATE

Proceeds from new borrowings – In February and March 2018, the Company raised loans of the total amount of RUB 80 billion from Gazprombank and Sberbank which are secured by 52.09% of the shares of Detsky mir and shares of MTS, which are recorded as collateral in proportion to the drawdown of the loan from Sberbank.

Acquisition of MDTZK LLC and Kulturnaya Sluzhba LLC – In the first quarter of 2018, the MTS acquired 100% stake in MDTZK LLC (operating under the trademark Ticketland.ru) and a 78.2% stake in Kulturnaya Sluzhba LLC (operating under the trademark Ponominalu.ru), the leading players in the Russian e-ticketing industry. The acquisitions allow MTS to enter the event ticket market (both online and offline) and establish itself as a leading ticket operator in Russia, while broadening MTS’s suite of digital services and integrating a key new product into its existing loyalty program and mobile app ecosystem.

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

The preliminary distribution of the acquisition price for MDTZK and KS is presented in the table below:

	MDTZK	**KS**
Cash consideration	3,250	399
Recognised amounts of identifiable assets acquired:		
Property, plant and equipment	128	25
Other non-current assets	75	95
Current assets	484	192
Other non-current liabilities	(78)	(108)
Current liabilities	(639)	(474)
Goodwill	**3,280**	**669**

Goodwill is mainly attributable to the expected synergies.

Investments in the development of OZON – In March 2018, MTS invested RUB 1.15 billion in the development of Ozon Holdings Limited through an additional share issuance.

Early repayment of credit facilities **–** In March 2018, MTS made partial early repayment of the 10-year credit facility from Calyon, ING Bank N.V., Nordea Bank AB and Raiffeisen Zentralbank Osterreich AG in the amount of USD 224.7 million (RUB 12,668 million). The early repayment of the loan is a part of the debt portfolio optimization strategy aimed at decreasing of the overall cost of debt and increasing its overall tenor.

Ruble bonds placement – In March 2018, MTS issued two series of exchange-traded bonds totaling RUB 20 billion with a semi-annual coupon rate of 7.10% and 7.25% and a maturity of 3.5 years and 7 years respectively. In March and January 2018, Sistema issued two series of exchange-traded bonds totaling RUB 25 billion with a coupon rate of 9.25% and 9.80% respectively and a maturity of 10 years.

MTS shares tender offer under share repurchase plan – Since the end of the reporting period the Group acquired 27,059,204 MTS shares of common stock representing 1.35% of share capital issued by MTS including purchase of 17,339,848 shares from Sistema Finance S.A., a subsidiary of the Group. The Group purchased MTS shares of common stock under the share repurchase plan announced in 2017.