

# **Public Joint-Stock Company Mobile TeleSystems**

Financial Statements for 2017  
and Independent Auditor's Report  
(Translated from original in Russian –  
unofficial translation)

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders and the Board of Directors of Mobile TeleSystems Public Joint-Stock Company

### **Opinion**

We have audited the accompanying financial statements of Mobile TeleSystems Public Joint-Stock Company (the "Company"), which comprise:

- Balance sheet as of 31 December 2017;
- Statement of financial results for 2017;
- Appendices to the balance sheet and statement of financial results:
  - Statement of changes in equity for 2017;
  - Statement of cash flows for 2017;
  - Notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for 2017 in accordance with Russian accounting and financial reporting standards ("RASs").

### **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 Financial Statements section of our report. We are independent of the Company 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 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**Why the matter was determined to be a key audit matter**
**How the matter was addressed in the audit**


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**Revenue recognition**

We considered this matter as a key audit matter in connection with the existence of significant risks associated with the accuracy and timeliness of revenue recognition, due to the complexity of information systems involved in the process of revenue recognition, the risk of non-compliance of applied tariffs to approved and published tariffs, as well as the correctness of accounting of tariff plans, incentive arrangements and discounts in automated systems.

See Note 2.11 "Revenue recognition" to the financial statements.

Our audit procedures to test revenue consisted of:

1. Analysis of the environment of information technologies that ensure the functioning of billing systems and other IT systems related to accounting, including control procedures for monitoring of changes and segregation of users' duties, and testing of these controls.
2. Assessment of design and implementation, testing of controls operating in the process of revenue recognition, including: recording and registration of phone calls, their duration, the provision of data transfer services and value added services; authorization of changes in tariff plans and input of this information into automated billing systems; correctness of the application of incentive arrangements and discounts;
3. End-to-end testing of reconciliation of data on the duration and volume of telecommunication services received from the moment of their initial registration by switching equipment to billing systems and other IT systems and further to accounting records, including verification of significant manual adjustments made when transferring data from billing systems and other IT systems to the General Ledger;
4. Test calls and checking the correctness of the fact of connections, their duration and correctness of tariff plan applied;
5. Analysis of incentive arrangements and discounts for their correct accounting and its compliance with the accounting policy of the Company;
6. Sample based verification of the information on active tariffs entered in the billing systems to the approved tariff orders and published tariff plans.

We have also reviewed the Company's accounting policy with respect to recognition of revenue from the provision of services to subscribers and insured that the existing policy is appropriate for new types of operations and applied correctly.

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**Why the matter was determined to be a key audit matter**
**How the matter was addressed in the audit**


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**IT systems and controls**

We considered this matter as a key audit matter due to the fact that IT systems and controls operate as critical elements of the Company's infrastructure, because possible deficiencies in their work and the risks of information distortion in the systems may have a significant negative impact on the Company's results and the process of financial statements preparation. As a result, a significant portion of our efforts was spent to test the implementation of controls at the level of key departments of the Company, including the shared service center.

We conducted detailed step-by-step walkthroughs to get an understanding of IT systems and key business processes which are relevant for financial statements preparation to evaluate controls structure, changes in controls in comparison to the previous year, and the risks of material misstatement of the financial statements associated with IT systems and key business processes. We tested the controls to obtain audit evidence about their operating effectiveness during the reporting period.

**Valuation of non-traded investments**

We considered this matter as a key audit matter due to the significance of non-traded financial investments for the Company's financial statements, and also due to the fact that the recognition of impairment and calculation of its magnitude requires complex and subjective judgment and estimates.

We have obtained an understanding of the Company's valuation methodology, procedures and controls related to the valuation and calculation of financial investments impairment losses for which current market value is not determined.

We have conducted audit substantive procedures in respect of certain financial investments on a sample basis. Our procedures, depending on the circumstances, involved the review of the management approach to determine an estimated value of financial investments and the data used to determine this value, as well as performance of independent estimated value calculation or estimation of the range of possible values of financial investments.

See Note 6 "Investments" to the financial statements.

We also reviewed the completeness and assessed the consistency of the disclosures in the financial statements with the applicable accounting standards.

**The investigation in respect of discontinued operations in Uzbekistan**

As disclosed in Note 28 to the financial statements "Contingent liabilities" starting from March 2014 the U.S. Securities and Exchange Commission and U.S. Department of Justice are investigating the Company's former subsidiary operations in Uzbekistan.

We obtained an understanding of the Company's procedures and controls related to the identification, measurement and disclosure of provisions and contingent obligations, as well as performed testing of such controls.

We analyzed the Company's conclusions in relation to valuation of provisions and contingent liabilities through interaction with the external lawyers of the Company.

The management of the Company cannot predict the outcome of the investigation and assess the possibility of the magnitude of the fine that may be significant.

We reviewed the presentation of the relevant information in the notes to the financial statements.

We considered this matter as a key audit matter, as management applies a high level of judgement in deciding whether to assess and disclose reserves and contingent liabilities.

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### **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 financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company's internal control.

## UNOFFICIAL TRANSLATION

- 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 financial statements of the current period, which constitute the key audit matters included herein.

The Russian original signed by  
Kozyrev Vladimir Sergeevich,  
Engagement leader

30 March 2018

The following financial statements were prepared for use in the Russian Federation in accordance with accounting principles and financial reporting practices generally accepted in the Russian Federation and are not intended to present the financial position and results of operations of the audited entity in accordance with accounting principles and practices generally accepted in any other jurisdiction.

The Entity: Public Joint-Stock Company Mobile TeleSystems

Certificate of state registration No. P-7882.16., issued by the State Registration Chamber under the Ministry of Justice of the Russian Federation on 1 March 2000.

Primary State Registration Number: 1027700149124.

Certificate of registration in the Unified State Register No. 1027700149124 of 2 September 2002, issued by Moscow Inspectorate of the Russian Ministry of Taxation.

Address: 4 Marksistskaya St., Moscow, 109147

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 No. 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39.

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

**BALANCE SHEET  
as at 31 December 2017**

Entity	<b>Mobile TeleSystems Public Joint-Stock Company</b>	Form No. 1 OKUD	<b>CODES</b>
Taxpayer identification number		Date (day, month, year)	0710001
Type of activity	<b>Telecommunications based on wireless technologies</b>		31/12/2017
Legal status/ form of ownership	<b>Public joint-stock company/ Joint private and foreign ownership</b>	OKPO	52686811
Measurement unit	<b>RUB million</b>	INN	7740000076
Address	<b>4 Marksistskaya St., Moscow, 109147</b>	OKVED	61.20
		OKOPF/ OKFS	12247/34
		OKEI	385

Item description	Note	31 December 2017	31 December 2016	31 December 2015
<b>ASSETS</b>				
<b>I. NON-CURRENT ASSETS</b>				
Intangible assets	4	11 674	12 586	9 702
Non-exclusive rights to use assets	4	41 989	37 392	32 520
Property, plant and equipment	5	167 765	173 143	180 646
Construction-in-progress	5	14 582	11 691	17 444
Investments	6	227 960	192 674	159 732
Other non-current assets	7	9 731	11 927	6 867
<b>Total Section I</b>		<b>473 701</b>	<b>439 413</b>	<b>406 911</b>
<b>II. CURRENT ASSETS</b>				
Inventories		376	505	758
Value-added tax receivable		4 433	3 711	4 742
Accounts receivable	8	35 635	28 956	42 735
Investments (other than cash equivalents)	6	54 228	9 794	67 223
Cash and cash equivalents	9	13 625	3 944	14 319
Other current assets		41	115	121
<b>Total Section II</b>		<b>108 338</b>	<b>47 025</b>	<b>129 898</b>
<b>TOTAL ASSETS</b>		<b>582 039</b>	<b>486 438</b>	<b>536 809</b>
<b>EQUITY AND LIABILITIES</b>				
<b>III. EQUITY AND RESERVES</b>				
Share capital	10	200	200	207
Treasury shares		-	-	(6)
Additional paid-in capital (excluding revaluation)		35	36	7 367
Reserve capital		31	31	31
Retained earnings	23	111 854	34 759	27 895
<b>Total Section III</b>		<b>112 120</b>	<b>35 026</b>	<b>35 494</b>
<b>IV. NON-CURRENT LIABILITIES</b>				
Borrowings	11	290 584	305 895	331 917
Deferred tax liabilities	14	13 045	14 298	12 824
Provisions	13	917	1 092	1 397
Accounts payable	12	1 599	4 036	2 492
Deferred income		168	206	316
<b>Total Section IV</b>		<b>306 313</b>	<b>325 527</b>	<b>348 946</b>
<b>V. CURRENT LIABILITIES</b>				
Borrowings	11	88 710	63 454	64 044
Accounts payable	12	69 910	56 900	82 108
Deferred income		2 604	2 207	2 072
Provisions	13	2 382	3 324	4 145
<b>Total Section V</b>		<b>163 606</b>	<b>125 885</b>	<b>152 369</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>582 039</b>	<b>486 438</b>	<b>536 809</b>

The Russian original signed by

A.V. Kornya,  
President of PJSC Mobile TeleSystems

A.V. Dvoretiskikh,  
Chief Accountant of PJSC Mobile TeleSystems

30 March 2018

**STATEMENT OF FINANCIAL RESULTS  
for 2017**

		<b>CODES</b>	
Entity	<b>Mobile TeleSystems Public Joint-Stock Company</b>	Form No. 2 OKUD	0710002
Taxpayer identification number		Date (day, month, year)	31/12/2017
Type of activity	<b>Telecommunications based on wireless technologies</b>	OKPO	52686811
Legal status/ form of ownership	<b>Public joint-stock company/ Joint private and foreign ownership</b>	INN	7740000076
Measurement unit	<b>RUB million</b>	OKVED	61.20
		OKOPF/ OKFS	12247/34
		OKEI	385

<b>Item description</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
Revenue		323 793	314 325
Cost of sales	3, 15	(161 311)	(161 395)
<b>Gross profit</b>		<b>162 482</b>	<b>152 930</b>
Selling expenses	15	(48 117)	(48 182)
Administrative expenses	3, 15	(32 053)	(33 970)
<b>Operating profit</b>		<b>82 312</b>	<b>70 778</b>
Income from interest in other entities	26	29 084	24 702
Interest income		4 340	6 335
Interest expense	11	(30 627)	(31 493)
Other income	16	67 014	37 258
Other expenses	17	(11 485)	(45 595)
<b>Profit before income tax</b>		<b>140 638</b>	<b>61 985</b>
Current income tax	14	(13 772)	(9 026)
including permanent tax (assets)/liabilities	14	(9 608)	3 247
Change in deferred tax liabilities	14	409	(1 843)
Change in deferred tax assets	14	112	(238)
Income tax and tax penalties of prior years	14	(137)	(219)
<b>Net profit</b>		<b>127 250</b>	<b>50 659</b>

**ADDITIONAL INFORMATION**

Result of other transactions not included in current year net profit		-	(3)
Comprehensive financial result for the period		127 250	50 656
Basic/diluted earnings per share, RUB	20	63.68	25.14
Diluted earnings per share, RUB	20	63.62	25.12

The Russian original signed by

A.V. Kornya,  
President of PJSC Mobile TeleSystems

A.V. Dvoretzkikh,  
Chief Accountant of PJSC Mobile TeleSystems

30 March 2018

**STATEMENT OF CHANGES IN EQUITY  
for 2017**

Entity  
Taxpayer identification number  
Type of activity  
Legal status / form of ownership  
  
Measurement unit

**Mobile TeleSystems Public Joint-Stock Company**  
**Telecommunications based on wireless technologies**  
**Public joint-stock company/ Joint private and foreign ownership**  
**RUB million**

	<b>CODES</b>
Form No. 3 OKUD	0710003
Date (day, month, year)	31/12/2017
OKPO	52686811
INN	7740000076
OKVED	61.20
OKOPF/ OKFS	12247/34
OKEI	385

**1. Changes in equity**

<b>Item description</b>	<b>Share capital</b>	<b>Treasury shares</b>	<b>Additional paid in capital</b>	<b>Reserve capital</b>	<b>Retained-earnings</b>	<b>Total</b>
<b>Total as at 31 December 2015</b>	<b>207</b>	<b>(6)</b>	<b>7 367</b>	<b>31</b>	<b>27 895</b>	<b>35 494</b>
Net profit	X	X	X	X	50 659	50 659
Dividends	X	X	X	X	(51 955)	(51 955)
Exchange differences of foreign subsidiaries	X	X	(3)	X	X	(3)
Change in equity due to reorganization	X	X	X	X	11 254	11 254
Decrease in number of shares (Note 10 Share capital)	(7)	6	(7 328)	X	(3 094)	(10 423)
<b>Total as at 31 December 2016</b>	<b>200</b>	<b>-</b>	<b>36</b>	<b>31</b>	<b>34 759</b>	<b>35 026</b>
Net profit	X	X	X	X	127 250	127 250
Dividends	X	X	X	X	(51 957)	(51 957)
Exchange differences of foreign subsidiaries	X	X	(1)	X	X	(1)
Change in equity due to reorganization	X	X	X	X	1 802	1 802
<b>Total as at 31 December 2017</b>	<b>200</b>	<b>-</b>	<b>35</b>	<b>31</b>	<b>111 854</b>	<b>112 120</b>

**2. Net assets**

<b>Item description</b>	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Net assets	112 131	35 037	35 513

The Russian original signed by

A.V. Kornya,  
President of PJSC Mobile TeleSystems

A.V. Dvoretiskikh,  
Chief Accountant of PJSC Mobile TeleSystems

30 March 2018

**STATEMENT OF CASH FLOWS  
for 2017**

		<b>CODES</b>	
		Form No. 4 OKUD	0710004
		Date (day, month, year)	31/12/2017
Entity	<b>Mobile TeleSystems Public Joint-Stock Company</b>	OKPO	52686811
Taxpayer identification number		INN	7740000076
Type of activity	<b>Telecommunications based on wireless technologies</b>	OKVED	61.20
Legal status/ form of ownership	<b>Public joint-stock company/ Joint private and foreign ownership</b>	OKOPF/ OKFS	12247/34
Measurement unit	<b>RUB million</b>	OKEI	385
<b>Item description</b>		<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash inflows - total</b>			
<b>including:</b>			
Proceeds from customers		<b>285 252</b>	<b>282 154</b>
Interest received on cash equivalents		281 816	275 222
Other cash inflows		479	295
		2 957	6 637
<b>Cash outflows - total</b>			
<b>including:</b>			
Payments for acquired goods, services, raw materials and other current assets		<b>(201 202)</b>	<b>(183 553)</b>
Payments to employees		(108 051)	(113 601)
Interest paid		(28 888)	(30 330)
Income tax paid		(27 854)	(28 182)
Other taxes and duties paid		(15 546)	(5 755)
Other payments		(11 116)	(5 415)
		(9 747)	(270)
<b>Net cash flow from operating activities</b>			
		<b>84 050</b>	<b>98 601</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash inflows - total</b>			
<b>including:</b>			
Proceeds from sales of property, plant and equipment and other non-current assets		<b>39 880</b>	<b>75 680</b>
Proceeds from sales of securities and other financial instruments		88	12
Dividends received		-	16
Interest received		28 428	23 204
Proceeds from repayment of loans given to other entities		2 434	8 320
Proceeds from reorganization of subsidiaries in the form of merger		8 871	7 671
Proceeds from repayment of deposits		17	2
		42	36 455
<b>Cash outflows - total</b>			
<b>including:</b>			
Purchase of subsidiaries and other financial investments		<b>(82 905)</b>	<b>(127 006)</b>
Purchase of property, plant and equipment (including investment property) and intangible assets		(23 466)	(25 436)
Loans given to other entities		(57 794)	(70 550)
		(1 645)	(31 020)
<b>Net cash used in investing activities</b>			
		<b>(43 025)</b>	<b>(51 326)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash inflows - total</b>			
<b>including:</b>			
Proceeds from borrowings provided by other entities		<b>98 052</b>	<b>98 002</b>
<b>Cash outflows - total</b>			
<b>including:</b>			
Repayment of borrowings (excluding interest)		<b>(128 895)</b>	<b>(152 696)</b>
Dividends paid (including withholding income tax)		98 052	98 002
Borrowing costs		(75 032)	(97 734)
Cash flow on guarantee agreement related to foreign currency hedge		(52 039)	(51 954)
		(58)	(24)
		(1 766)	(2 984)
<b>Net cash used in financing activities</b>			
		<b>(30 843)</b>	<b>(54 694)</b>
<b>Net cash flow for the reporting period</b>			
		<b>10 182</b>	<b>(7 419)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>			
		<b>3 944</b>	<b>14 319</b>
<b>Cash and cash equivalents at the end of the reporting period</b>			
		<b>13 625</b>	<b>3 944</b>
Effect of foreign exchange rate changes on cash and cash equivalents		(501)	(2 956)

The Russian original signed by

A.V. Kornya,  
President of PJSC Mobile TeleSystems

30 March 2018

A.V. Dvoretiskikh,  
Chief Accountant of PJSC Mobile TeleSystems

**NOTES TO THE FINANCIAL STATEMENTS OF  
Public Joint-Stock Company Mobile TeleSystems for 2017**

**1. GENERAL MATTERS**

Public Joint-Stock Company Mobile TeleSystems ("the Company" or "PJSC MTS") provides mobile and fixed-line communication services on the territory of the Russian Federation ("RF"). The Company is one of the leading mobile operators in the Russian Federation.

State Registration Certificate No. P-7882.16 was issued by the State Registration Chamber under the Ministry of Justice of the Russian Federation on 1 March 2000.

Legal and actual address: Russian Federation, 109147, Moscow 4 Marksistskaya St.

PJSC MTS has branches and structural divisions registered in the following regions in the RF:

Moscow city; the Moscow Region; the Oryol Region, Oryol; the Belgorod Region, Belgorod; the Lipetsk Region, Lipetsk; the Kursk Region, Kursk; the Voronezh Region, Voronezh; the Bryansk Region, Bryansk; Tula; Smolensk; Ryazan; Vladimir; Kaluga; Yaroslavl; Tver; Kostroma; Ivanovo; Tambov; St.-Petersburg; the Leningrad Region; Pskov; the Komi Republic, Syktyvkar; the Arkhangelsk Region, Arkhangelsk; the Vologda Region, Vologda; the Kaliningrad Region, Kaliningrad; Murmansk; Veliky Novgorod; the Republic of Karelia, Petrozavodsk; the Nizhny Novgorod Region, Nizhny Novgorod; the Kirov Region, Kirov; the Republic of Tatarstan, Kazan; the Udmurt Republic, Izhevsk; the Chuvash Republic, Cheboksary; the Republic of Mordovia, Saransk; the Mariy El Republic, Yoshkar-Ola; Penza; Samara; Saratov; Orenburg; the Ulyanovsk Region, Ulyanovsk; the Republic of Bashkortostan, Ufa; the Krasnodar Region, Krasnodar; the Astrakhan Region, Astrakhan; the Volgograd Region, Volgograd; the Stavropol Region, Stavropol; the Rostov Region, Rostov on-Don; the Republic of Adygea, Maykop; the Republic of Kalmykia, Elista; the Kabardino-Balkaria Republic, Nalchik; the Karachay-Cherkessia Republic, Cherkessk; the Republic of Ingushetia, Magas; the Republic of North Osetia-Alania, Vladikavkaz; the Republic of Dagestan, Makhachkala; the Chechen Republic, Grozny; the Sverdlovsk Region, Ekaterinburg; the Perm Region, Perm; the Chelyabinsk Region, Chelyabinsk; the Kurgan Region, Kurgan; the Tyumen Region, Tyumen; the Khanty-Mansi Autonomous District, Surgut; the Yamalo-Nenets Autonomous District, Noyabrsk; the Novosibirsk Region, Novosibirsk; the Omsk Region, Omsk; the Kemerovo Region, Kemerovo; the Altai Region, Barnaul; the Krasnoyarsk Region, Krasnoyarsk; the Tomsk Region, Tomsk; the Republic of Khakassia, Abakan; the Altai Republic, Gorno-Altaysk; the Tyva Republic, Kyzyl; the Primorsky Region, Vladivostok; the Khabarovsk Region, Khabarovsk; the Amur Region, Blagoveshchensk; Chita; the Republic of Sakha (Yakutia), Yakutsk; the Irkutsk Region, Irkutsk; the Kamchatka Region, Petropavlovsk-Kamchatsky; the Magadan Region, Magadan; the Buryat Republic, Ulan-Ude; the Sakhalin Region, Yuzhno-Sakhalinsk.

PJSC MTS also has a representative office in the Republic of Belarus.

The average number of staff at the Company in 2017 and 2016 was 28 238 and 29 436 respectively.

The entity keeping record of title to securities is JSC Independent Registrar Company.

Company's information is published in the Attachment to the Newsletter of the Federal Financial Markets Service of Russia.

**1.1. Primary source of the Company's income**

The Company generates revenue primarily from rendering the following services:

- Mobile communication services;
- Lease of communication channels;
- Fixed local, long-distance and international communication services;
- Telematic services; and
- Other services.

**1.2. Negative factors (risks) that affected the financial results of the Company's operations in the reporting year**

Emerging markets such as the RF are subject to diverse risks that differ from those of more developed markets, including economic, political, social, legal, and legislative risks. Laws and regulations affecting businesses in the RF may change rapidly and may be subject to arbitrary interpretations. The future economic direction of the RF is largely dependent upon fiscal and monetary measures undertaken by the government, together with legal, regulatory and political developments.

Since the RF produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the world oil and gas price movements. Management is unable to reliably estimate further price movements and the impact that they may have on the Company's financial position.

Starting from March 2014, the USA and the European Union imposed sanctions on a number of Russian officials, businessmen and organizations. International credit rating agencies downgraded the Russian Federation's long-term foreign currency sovereign rating. Currently there remains uncertainty with respect to the scale and timing of further sanctions.

In 2017, the Central Bank of the Russian Federation lowered the key rate from 10% to 7.75% percent. However, further lowering is complicated by challenging economic situation and high inflation risks.

Further turmoil in global financial markets or tightening and prolongation of sanctions against Russia may result in the reduced ability of Russian business to access the international capital and export markets, capital outflows, weakening of the Ruble and other adverse economic consequences, which could have a negative impact on the PJSC MTS's business, including ability to obtain financing on commercially reasonable terms. Management believes it is taking the appropriate measures to support the sustainability of the Company in the current circumstances. PJSC MTS has a hedging policy in place, which partly mitigates the variability of cash outflows as a result of changes in exchange rates of the ruble when making payments denominated in foreign currencies.

During 2014, the Ukrainian Parliament adopted a law allowing for the imposition of sanctions against countries, individuals and entities, which according to the Ukrainian government impose threat to the national interest, security, sovereignty and territorial integrity of Ukraine. The National Bank of Ukraine also introduced a ban on dividend payments to foreign investors. The ban was prolonged numerous times and in accordance with its edition effective as at 31 December 2017 the dividends payments from income received in 2015 and 2016 are allowed but subject to certain limitations. Earlier in 2015, a number of large Ukrainian banks were declared insolvent. These circumstances, combined with continued political and economic instability in the country could result in further negative impacts on the Company's investments in its subsidiaries in Ukraine.

**1.3. Liquidity risk**

Liquidity risk represents the risk of insufficient funds. In accordance with the Company's policy, the borrowings are made centrally through a combination of short-term and long-term credit facilities. These borrowings in conjunction with cash from operating activities are used to meet the estimated financing needs. The Company's management estimated the risk on its debt refinancing as low.

Management manages the liquidity risk on long-term debt liabilities supporting the loan portfolio with various periods of maturity and necessary amount of net debt, thus minimizing the risk of debt refinancing. The debt repayment periods vary from one to seven years.

As at 31 December 2017 the short-term liabilities exceeded the short-term assets by RUB 58 154 million. Management considers that the Company has access to sufficient amount of liquidity due to proceeds of cash from operating activities and credit lines in the amount of RUB 199 828 million (Note 11 Borrowings).

## **2. ACCOUNTING POLICY**

The financial statements of PJSC MTS are prepared in accordance with the accounting and reporting requirements of the Russian Federation.

The Company maintains its accounting records in accordance with the requirements of the RF legislation on accounting, regulations of the RF Ministry of Finance and agencies authorized by federal laws to regulate accounting.

In 2017, the accounting records were maintained in accordance with the Company's accounting policy approved by the Order of the President of PJSC MTS No. 01/0403 P dated 27 December 2016.

The Company uses Oracle e-Business Suite as the principal software suite to maintain its financial and tax accounting records.

### **2.1. Going concern assumption**

In preparation of the financial statements, the Company's management assumed that the Company will continue as a going concern in the foreseeable future and has neither intention nor obligation to discontinue or significantly reduce its activities, and that therefore its obligations will be discharged in due course.

### **2.2. Chart of accounts**

The Company applies working chart of accounts built on segregation of all accounting items into groups based on common characteristics shared by items.

The Company accounts for assets, liabilities and business transactions in accordance with the working chart of accounts.

The structure of a chart of accounts ensures the consistency of accounting data with the financial statements.

### **2.3. Stockcount**

The procedure and timing of stockcount of assets and liabilities and the list of items subject to stockcount are determined by the Company's management, except where there is a need to take an obligatory stockcount. Obligatory stockcount is prescribed by the Russian legislation and federal and industry standards.

A count of property, plant and equipment ("PP&E") is performed for each PP&E group in different reporting periods, but at least once every 3 years for each PP&E group.

The count held as at 1 October 2017 included the following PP&E groups:

- Buildings, including buildings in lease;
- Land and natural resources;
- Constructions;
- Telecommunications facilities, including telecommunications facilities in lease;
- Vehicles, including vehicles in lease
- Idled PP&E;
- Manufacturing and other tools;
- Other technical equipment and machines;
- Other PP&E;
- Other PP&E that are not communications facilities;
- Other manufacturing and other tools in lease;
- Other equipment in lease;
- Improvements of leased PP&E.

A count of intangible assets ("IA") is performed once every 3 years.

The last count was performed on 1 October 2017.

The count of other assets and liabilities was performed as at 1 October and 31 December 2017 (depending on the type of assets and liabilities) as scheduled by the Order of the President of PJSC MTS No. 01/00238 P On Performing Stockcount of Assets and Inspection of Liabilities Before Preparation of the Annual Financial Statements dated 22 August 2017.

#### ***2.4. Assets and liabilities denominated in foreign currencies***

When accounting for foreign currency transactions, the Company uses the Central Bank of Russian Federation's official exchange rates of the Russian ruble ("RUB") against other currencies at the dates of the transaction (unless another exchange rate is agreed by the parties).

Assets and liabilities denominated in foreign currencies are translated into RUB as at:

- The transaction date; and
- The last day of the reporting period.

Advances are not subsequently adjusted for movements in exchange rates.

Foreign exchange differences are recognized in other income / expenses.

Foreign currency gains and losses are recognized on the net basis as other income or expenses in the statement of financial results.

#### ***2.5. Current and non-current assets and liabilities***

Assets and liabilities classified in the financial statements as current are expected to be used (settled) within 12 months after the reporting date.

Other assets and liabilities are reported as non-current.

#### ***2.6. Accounting for property, plant and equipment***

The historical cost of property, plant and equipment comprises:

- Purchase price (including import duties and non-refundable purchase taxes, less trade discounts);
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be used in the manner intended by management;
- The initial estimate of dismantling costs and the cost of returning network infrastructure sites to their original condition;
- Capitalized borrowing costs.

The inclusion of borrowing costs in the historical cost of property, plant and equipment is mandatory for assets, which require a significant period of more than 6 months to prepare for their intended use.

The historical cost of property, plant and equipment items found during the stockcount is its current market value at the date of recognition.

If capital investments into real estate items have been already incurred but the title to such items has not been registered yet in the manner prescribed by the legislation, such real estate items are recognized as property, plant and equipment regardless of the fact of their state registration (except for land plots). Such items are depreciated in accordance with the general policy from the first day of the month following the month of recognition.

Changes in the historical cost of property, plant and equipment items may be made as a result of their major improvement that extends useful lives and/or enhancement of original performance parameters. Changes in the historical cost of a property, plant and equipment item may relate to the replacement of its significant component or partial liquidation.

Repair, maintenance and day-to-day servicing costs are treated as expenses for the period and expensed as incurred.

Property, plant and equipment are not revalued.

At the end of each reporting period, the Company determines whether any indications of impairment of property, plant and equipment exist.

Items of property, plant and equipment are depreciated starting from the first day of the month following the month in which items are recognized for accounting purposes and until items are depreciated in full or derecognized.

Depreciation is charged on a straight-line basis over the estimated useful life, whether the asset is used during this period or not.

Non-depreciable items of property, plant and equipment include those items, which do not change their consumer characteristics over time (for example, land plots).

Depreciation rates for property, plant and equipment are determined in accordance with the Company's property, plant and equipment register.

<b>Groups of property, plant and equipment</b>	<b>Useful lives, years</b>	
	<b>From (minimum)</b>	<b>To (maximum)</b>
Buildings	20	150
Constructions and transmission facilities	5	44
Machinery and equipment	1.5	20
Vehicles	2	7
Manufacturing and other tools	2	20
Land and natural resources	n/a	n/a
Other types of property, plant and equipment	2	30

Useful lives of property, plant and equipment are revised on an as-needed basis, but at least at the end of each reporting period. If reviewed useful life differs from previous estimates, the changes are recognized prospectively.

Component accounting is applied to complex items of property, plant and equipment. The components of such complex items may have different useful lives.

Depreciation of property, plant and equipment items ceases from the first day of the month following the month of item disposal.

## **2.7. Accounting for intangible assets**

The Company recognizes intangible assets when they meet recognition criteria for intangible assets with useful lives of over 12 months.

Software costs with useful lives of less than 12 months in the amount of up to RUB 1 million are written off to current period expenses on a one-time basis. Expenses in the amount of over RUB 1 million are recognized on the straight-line basis during the period over which the right of use is made available.

Intangible assets acquired for consideration are initially measured at cost, including:

- Asset purchase price, including import duties and non-refundable purchase taxes, less any trade discounts; and
- Any costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

Brands, mastheads, publishing titles, customer lists and items similar in substance that are internally generated are not recognized as intangible assets.

Expenditure incurred after the recognition of an acquired intangible asset is recognized as an expense for the period. Certain expenses (for example, expenses related to the acquisition of updates, software development) may be accounted for on a stand-alone basis provided that the general criteria for recognition of an intangible asset is met.

Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization.

The Company determines whether the useful life of an intangible asset is finite or indefinite. Intangible assets with indefinite useful lives are not amortized. Such assets are subject to annual impairment review. Intangible assets with finite useful lives are amortized on a straight-line basis.

Useful lives of intangible assets are determined on the basis of dates specified in contractual documents or regulatory approvals. If the useful life is not specified by relevant document, it is determined on the basis of a technical expert's opinion.

In the absence of expert opinion or information on the useful life in purchase documents, the following depreciation periods apply (provided that the asset has finite useful life):

- Software - 2 years;
- Trademark (service mark) - 10 years;
- Fixed-line numbering capacity - 10 years;
- Mobile numbering capacity - 5 years;
- Other intangible assets - 2 years.

Useful lives of intangible assets purchased under agreements with an option for prolongation are determined taking into account a possible extension of the agreement provided that the amount of estimated costs of the prolongation is insignificant (compared to the amounts of the agreement).

Useful lives of intangible assets are revised on an as-needed basis, but at least at the end of each reporting period.

### ***2.8. Accounting for investments***

The historical cost of investments acquired for consideration includes actual costs incurred net of value added tax and other refundable taxes (unless otherwise prescribed by the Russian legislation).

For debt securities for which no current market value can be determined, the difference between historical cost and par value according to the terms of their issue is recognized evenly over security life as other income or expenses in the statement of financial results.

Investments for which current market value could be determined are presented in the financial statements at market value as at the end of the reporting period through adjustment of their value as at the previous reporting date. The difference is recognized in other income/other expenses. Such revaluation is performed on a quarterly basis.

Investments for which the current market value is not determinable are disposed off at historical cost.

Investments for which the current market value is not determinable are tested for impairment as at the last day of the reporting quarter. The Company makes an allowance for the impairment of investments if, after a review, there is an evidence of sustained significant impairment of investments. The allowance is made in the amount of the difference between the recorded and estimated value of the respective investments determined as at the end of the reporting quarter.

### ***2.9. Accounting for inventories***

The following items are recognized as inventories:

- Raw materials and supplies;
- Merchandise; and
- Finished goods.

The cost of inventories acquired for consideration includes actual costs incurred by the Company for acquisition, net of value added tax ("VAT") and other recoverable taxes (unless otherwise prescribed by the Russian legislation).

Discounts/bonuses provided by suppliers form an integral part of the cost of inventories during their sale.

The cost of inventories denominated in foreign currency is translated as at the date of purchase/costs incurred.

Accounting for the acquisition of equipment, materials, and goods is performed using accounts 15 Procurement of inventories and 16 Variances in cost of inventories. Inventories are recognized in the inventories and equipment accounts at purchase price. Inventories are recognized at purchase price. If no price is specified in the purchase documents, the market value of acquired inventories is determined, based on the prices set by suppliers of similar inventories.

Variances between the standard cost of inventories and their actual purchase price are recognized in account 16 Variances in cost of inventories. At the end of the month, variances recognized in account 16 are transferred (or reversed in case of a negative variance) to the accounts used to expense respective inventories (cost of sales, selling expenses, overheads, shortages, etc.) pro rata to the cost of the inventories sold or used. The procedures for the valuation and write-off of inventories are set out in the Company's internal documents.

Upon input into operation or other disposal of inventories, they are measured at average cost, which is based on the estimation of inventory cost at the time of its disposal.

To reduce accounting effort, personal protective clothing and shoes are expensed upon distribution to the Company's staff.

Finished goods are recorded in account 43 Finished Goods at their actual production cost without using account 40 Production of Goods and Services.

Merchandise is recorded in account 41 Goods at book value.

At the end of each reporting month the Company measures inventories at the lower of:

- Actual cost, or
- Net realizable value.

If the actual cost of inventories exceeds their net realizable value the Company creates allowance for obsolescence of such inventories.

The write-down of inventories to net realizable value is recognized as an expense in the statement of financial results.

Inventories, which are obsolete, have fully or partially lost their original quality or which current market value has decreased, are reported in the balance sheet at the end of the reporting period net of the allowance for inventory obsolescence.

### ***2.10. Accounting for cash and cash equivalents***

Cash and cash equivalents comprise highly liquid investments with original maturities of less than three months that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value are disclosed in the Cash and cash equivalents of balance sheet.

### ***2.11. Accounting for revenue***

Based on the nature, conditions of receipt and type of operations, the Company's income is divided into:

- Revenue (operating income);
- Other operating income;
- Income other than operating income.

Revenue (income from operating activities) includes:

- Revenue from communication services:
  - Subscription and time-based fees;
  - Air-time revenue;
  - Fixed local, long-distance, and international communication services;
  - Data transmission services;
  - Pay-TV;
  - Additional services;
  - Roaming services;
  - Connection fees;
  - Interconnection services;
  - Service provider fees;
  - Lease of telecommunication channels; and
  - Other communication services.
- Revenue from trade and intermediary services;
- Revenue from property lease.

The share of revenue from communication services and connection fees in 2017 and 2016 amounted to 98.3% and 98.3% respectively.

Other operating income includes:

- Income from sales of property, plant and equipment, intangible assets and other assets;
- Income from the recovery of a previously recognized allowance for impairment of assets;
- Income recognized based on stock count results;
- Income from compensation of damages inflicted on the Company and penalties receivable; and
- Other income.

Non-operating income comprises:

- Gain from revaluation of securities to current market value;
- Loan interest income and income from other similar contracts (other debt obligations, including securities);
- Dividends received from other entities;
- Gain from swaps;
- Positive exchange gain;
- Other income.

### **Revenue recognition**

Revenues for accounting purposes are determined on an accrual basis.

Revenue is recognized in the amount net of any trade discounts and volume rebates allowed by the entity.

Income from the sale of telecommunication services is determined on the basis of data from the billing system on the volume and types of services provided for the reporting period and approved tariffs for telecommunication services, taking into account discounts provided in accordance with the Company's marketing policy.

The Company recognizes revenue when the amount of revenue and the relevant expenses can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met as described below.

Revenues derived from wireless, local telephone, long distance, data and video services are recognized 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 the Company 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.

Connection fees and payments for other non-recurring services received during the reporting period but relating to future reporting periods are recognized as deferred income with subsequent straight-line recognition throughout the expected subscriber life.

The Company calculates an average life of mobile subscribers for each region in which it operates and amortizes regional connection fees based on an average life of mobile subscribers.

Revenue from the lease of communication channels is recognized on the last day of the reporting month. Income is determined taking into account discounts (markups) that are applied in accordance with the Company's marketing policy.

Revenue from the sale of goods is recognized when legal title has been passed to the buyer.

Revenue from royalties for trademark use and from services under management contracts is recognized on a straight-line basis during the reporting period.

Service fees included in the cost of goods are recognized as revenue over the service period.

Income from agreements denominated in foreign currencies is recognized in accounts at the official exchange rate as at transaction date (if determined) or as at the last day of the month in which the service/work was provided (if the period of service / work is determined). At the same time, an average monthly rate is applied to periodic services (for example, roaming services) rendered continuously during the reporting period.

### **2.12. Cost records**

The Company divides the main types of expenses into the following expense functions:

- Cost of sales (communication services, goods sold);
- Administrative expenses;
- Selling expenses;
- Other expenses.

The cost of sales includes direct expenses attributable to rendering communication services, sale of subscriber equipment and accessories.

The cost of sales includes the following types of expenses:

- Interconnect cost;
- Lease of communication channels;
- Roaming expenses;
- Cost of subscriber equipment and accessories;
- Production personnel payroll;
- Lease of production resources;
- Repair and maintenance of communication equipment;
- Content-related expenses;
- Other direct expenses.

Selling, administrative and other operating expenses comprise:

- Advertising and marketing;
- Dealer commission fees;
- Payment processing fees;
- Sales office expenses (rent, repair, utilities, etc.);
- Administrative and selling personnel payroll;
- Repair and maintenance;

- Utilities (electricity, water, heating);
- Billing and data processing;
- Lease of land and non-production premises;
- Legal and notary services;
- Environmental expenses;
- Advisory services;
- Other employee expenses (training, material aid, gifts, corporate events, etc.);
- Universal Service Fund contributions;
- Property insurance;
- Taxes;
- Other expenses.

Expenses related to production, performance of work and provision of services are grouped by cost elements.

Other expenses include:

- Disposal of property, plant and equipment, intangible assets and other assets;
- Loss recognized based on inventory count results
- Compensation of damages;
- Allowance for doubtful debts and inventory impairment; and
- Loan interest expense and expenses under other similar contracts (other debt obligations, including securities);
- Loss on swaps;
- Foreign exchange losses; and
- Other non-operating expenses.

### ***2.13. Accounting for loans and borrowings***

Loans and borrowings are initially recognized at cost net of significant borrowing costs (over RUB 1 million) directly attributable to the receipt, issue and placement of debt securities. Such costs in excess of RUB 1 million are charged to other expenses on a straight-line basis over the term of the loan or the loan agreement.

If borrowing costs are not significant (less than RUB 1 million) they are recognized as interest expense as incurred.

Long-term liabilities are reclassified to short-term liabilities when, under a loan agreement, their maturity is less than 365 days from the reporting date.

Interest payable to a lender is capitalized as part of the cost of the investment asset or interest payable on a straight-line basis regardless of the loan conditions.

### ***2.14. Accounting for allowances and provisions***

The Company creates the following allowances:

- Allowance for doubtful accounts (monthly);
- Allowance for impairment of investments (quarterly);
- Allowance for inventory obsolescence (monthly).

The Company creates the following provisions:

- Provision for unused vacations (included in accounts payable);
- Provision for performance bonuses (included in accounts payable);
- Provision for asset retirement;
- Provision for litigation;
- Tax provisions;
- Provision for discounts provided on roaming services; and
- Other provisions meeting the recognition criteria.

Doubtful accounts are the Company's receivables which have not been repaid at the date specified in a contractual agreement and are not secured by related guarantees.

Accounts receivable may be deemed uncollectible (before expiry of the limitation period) based on the results of a Company investigation, provided that the specified procedures are performed, if costs required to collect these receivables exceed potential economic benefits.

The allowance for impairment of investments in securities for which the current market value is not determinable is made at the end of the quarter in the amount of the excess of the recorded value over the estimated value of the investments, if there is an evidence of a sustained significant decline in investment value.

The allowance for inventory obsolescence is made in the amount of the difference between the net realizable value (estimated selling price of goods net of selling costs) and an actual cost of inventories, provided that the latter is higher than the net realizable value. And allowance is also created in case of inventory physical damage, partial or full technical obsolescence. Expense for allowance is included in other operating expenses.

The Company concludes roaming discount agreements with a number of mobile operators. According to the agreements, the Company is obliged to provide and entitled to receive discounts that are generally dependent on the volume of inter operator roaming traffic. The Company uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Company recognizes provisions, if all of the following conditions are met:

- There is a present obligation (legal or constructive) arising as a result of a past event;
- It is highly probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- Obligation amount can be reliably estimated.

The provision (allowance) is recognized at the end of the reporting period in the amount representing the best estimate of the consideration required to settle the present obligation.

Asset retirement obligations are calculated when the Company has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. Obligations of the Company relate primarily to the costs of removing its equipment from leased sites. The Company recorded the present value of its asset retirement obligations in its financial statements in the line "Provisions" of Section IV "Non-current liabilities" of the balance sheet.

### **2.15. Deferred tax**

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of:

- Temporary differences between the carrying amount of assets and liabilities in the balance sheet and the corresponding tax bases;
- The carryforward of unused tax credits (including a decrease in the taxable base of future periods by the amount of losses incurred in the reporting (previous) period).

Deferred tax does not arise due to permanent differences between financial and tax accounting data. Permanent differences affect only the period in which they arise and are not recognized separately in the financial statements - a record is made in the accounting records reflecting the current income tax calculated on the basis of taxable profit, i.e. including permanent differences.

Deferred tax assets and liabilities are calculated using the balance sheet method, implying the comparison of the carrying amount of assets and liabilities with their tax base.

Deferred tax assets and liabilities are calculated by applying to deductible and taxable temporary differences an income tax rate that:

- Is consistent with the expected manner of recovery or settlement; and
- Is expected to apply in the period in which the liability is to be settled or the asset to be realized.

Deferred tax assets and liabilities are reported on the net basis, unless separate tax base formation is required.

### **2.16. Reporting segments**

Based on the current management structure, the Company believes that it operates within one operating segment. Hence, segment information is not disclosed.

## **3. CHANGES IN THE DISCLOSURE OF FINANCIAL INFORMATION**

### **3.1. Adjustments of comparative figures**

In the reporting year, the Company has changed a classification of expenses in the statement of financial results for 2016, as a result the corresponding figures of the Company's financial statements were adjusted to ensure comparability with the figures for 2017. The summary of the changes is as follows:

*Financial information for 2016, restated for the effects of changes in disclosures in the reporting year by the following items:*

<b>Item description</b>	<b><u>Initial amount</u></b>	<b><u>Reclassification</u></b>	<b><u>(RUB million) Restated amount</u></b>
<b>STATEMENT OF FINANCIAL RESULTS</b>			
Cost of sales	165 470	(4 075)	161 395
Administrative expenses	29 895	4 075	33 970

1. Expenses related to provision for Universal Service Fund were reclassified from cost of sales to administrative expenses in the amount of RUB 3 081 million.
2. Billing and data processing expenses were reclassified from cost of sales to administrative expenses in the amount of RUB 994 million.

## DISCLOSURE OF FINANCIAL STATEMENTS ITEMS

## 4. INTANGIBLE ASSETS AND NON-EXCLUSIVE RIGHTS TO USE ASSETS

## 4.1. Intangible assets

Movements in the historical cost of the main classes of intangible assets for 2017 and 2016 as well as accumulated amortization and net book value were as follows as at 31 December 2017, 2016 and 2015:

	(RUB million)				
	Exclusive rights for intellectual property	Rights to use radio frequencies and radio frequency channels	Licenses	Numbering capacity and other	Total
Historical cost as at 31 December 2015	1 102	9 126	3 761	2 170	16 159
Accumulated amortization as at 31 December 2015	(262)	(4 170)	(132)	(1 893)	(6 457)
<b>Net book value as at 31 December 2015</b>	<b>840</b>	<b>4 956</b>	<b>3 629</b>	<b>277</b>	<b>9 702</b>
Additions at historical cost	723	571	4 068	33	5 395
Disposals at historical cost	(168)	(559)	-	(153)	(880)
Historical cost as at 31 December 2016	1 657	9 138	7 829	2 050	20 674
Accumulated amortization as at 31 December 2016	(762)	(4 774)	(740)	(1 812)	(8 088)
<b>Net book value as at 31 December 2016</b>	<b>895</b>	<b>4 364</b>	<b>7 089</b>	<b>238</b>	<b>12 586</b>
Additions at historical cost	461	958	-	359	1 778
Disposals at historical cost	(13)	(1 058)	(3)	(297)	(1 371)
Historical cost as at 31 December 2017	2 105	9 038	7 826	2 112	21 081
Accumulated amortization as at 31 December 2017	(1 204)	(4 836)	(1 481)	(1 886)	(9 407)
<b>Net book value as at 31 December 2017</b>	<b>901</b>	<b>4 202</b>	<b>6 345</b>	<b>226</b>	<b>11 674</b>

## 4.2. Non-exclusive rights to use assets

Non-exclusive rights to use assets as at 31 December 2017, 2016 and 2015 comprised:

	(RUB million)		
	2017	31 December 2016	2015
Software	41 503	36 891	32 028
Servitude	486	501	492
<b>Total</b>	<b>41 989</b>	<b>37 392</b>	<b>32 520</b>

## 5. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

### 5.1. Property, plant and equipment

Movements in the historical cost of the key groups of property, plant and equipment for 2017 and 2016 as well as the historical cost, accumulated depreciation and net book value as at 31 December 2017, 2016 and 2015 comprise:

(RUB million)

	Buildings	Constructions and transmission facilities	Machinery and equipment	Vehicles	Manufacturing and other tools	Land and natural resources	Other types of property, plant and equipment	Total
Historical cost as at 31 December 2015	11 310	70 037	325 490	2 370	581	461	930	411 179
Accumulated depreciation as at 31 December 2015	(2 957)	(27 802)	(197 037)	(1 789)	(456)	-	(492)	(230 533)
<b>Net book value as at 31 December 2015</b>	<b>8 353</b>	<b>42 235</b>	<b>128 453</b>	<b>581</b>	<b>125</b>	<b>461</b>	<b>438</b>	<b>180 646</b>
Additions at historical cost	357	3 939	30 759	329	91	49	26	35 550
Disposals at historical cost	(463)	(491)	(15 635)	(68)	(32)	-	(722)	(17 411)
Historical cost as at 31 December 2016	11 204	73 485	340 614	2 631	640	510	234	429 318
Accumulated depreciation as at 31 December 2016	(3 191)	(31 249)	(219 115)	(1 981)	(461)	-	(178)	(256 175)
<b>Net book value as at 31 December 2016</b>	<b>8 013</b>	<b>42 236</b>	<b>121 499</b>	<b>650</b>	<b>179</b>	<b>510</b>	<b>56</b>	<b>173 143</b>
Additions at historical cost	179	3 878	33 719	178	214	68	-	38 236
Disposals at historical cost	(24)	(95)	(18 858)	(341)	(58)	-	(28)	(19 404)
Historical cost as at 31 December 2017	11 359	77 268	355 475	2 468	796	578	206	448 150
Accumulated depreciation as at 31 December 2017	(3 421)	(36 016)	(238 357)	(1 920)	(515)	-	(156)	(280 385)
<b>Net book value as at 31 December 2017</b>	<b>7 938</b>	<b>41 252</b>	<b>117 118</b>	<b>548</b>	<b>281</b>	<b>578</b>	<b>50</b>	<b>167 765</b>

**UNOFFICIAL TRANSLATION**

Additional information about property, plant and equipment as at 31 December 2017, 2016 and 2015 was as follows:

<b>Item description</b>	<b>(RUB million)</b>		
	<b>2017</b>	<b>31 December 2016</b>	<b>2015</b>
Property, plant and equipment used under lease agreements	30 691	21 512	12 132
including:			
- under finance lease <sup>1</sup>	5 968	3 353	2 038
- other	24 723	18 159	10 094
Changes in cost of property, plant and equipment as a result of completions, additions, reconstruction and partial liquidation	1 399	1 099	1 769
Non-depreciable property, plant and equipment	578	510	462
Property, plant and equipment transferred under lease agreement (at carrying amount)	158	267	477
Real estate property put into operation but under the process of state registration	2 668	2 794	2 900

**5.2. Construction-in-progress**

As at 31 December 2017, 2016 and 2015, construction-in-progress comprised the following:

<b>Item description</b>	<b>(RUB million)</b>		
	<b>2017</b>	<b>31 December 2016</b>	<b>2015</b>
Completed work and construction services	7 304	6 237	12 310
Equipment for installation	7 278	5 454	5 134
<b>Total</b>	<b>14 582</b>	<b>11 691</b>	<b>17 444</b>

Due to the development of 4G and LTE networks, the Company performed an analysis of idle equipment to determine the alternatives of its further usage. The stockcount and analysis resulted in identifying equipment, which was obsolete, unfit for operation or lacking in demand. As at 31 December 2017, 2016 and 2015 the following allowances were recognized:

- Allowance for unused equipment was recorded in the Equipment for installation line in the amount of RUB 867 million, RUB 227 million and RUB 238 million, respectively;
- Allowance for inventory obsolescence was recorded in the Completed work and construction services line in the amount of RUB 537 million, RUB 412 million and RUB 162 million, respectively.

**6. INVESTMENTS****6.1. Long-term investments**

As at 31 December 2017, 2016 and 2015, the Company's long-term investments comprised the following:

<sup>1</sup>The Company estimates the value of leased property, plant and equipment as discounted future payments under long-term lease agreements.

**UNOFFICIAL TRANSLATION**

	<b>(RUB million)</b>		
	<b>31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Bank deposits</b>			
PJSC Sberbank	-	24 263	29 153
<b>Total</b>	<b>-</b>	<b>24 263</b>	<b>29 153</b>
<b>Debt securities</b>			
LLC Digital Television and Radio Broadcasting	-	-	25
<b>Total</b>	<b>-</b>	<b>-</b>	<b>25</b>
Allowance for impairment of debt securities (clause 6.4.1)	-	-	(25)
<b>Loans receivable</b>			
Dega Retail Holding Ltd	3 946	4 154	4 881
PJSC Navigation Information Systems	110	-	-
LLC BASTION	87	100	-
JSC Russian Telephone Company	-	8 110	8 851
Mr. Pierre and Mr. Moussa Fattouch <sup>3</sup>	-	5 459	-
JSC SITRONICS Telecom Solutions	-	2 890	1 925
PJSC MTS-Bank <sup>10</sup>	-	2 100	2 100
JSC NVision Group	-	330	2 220
LLC STV	-	140	-
MTS Finance S.A. <sup>2</sup>	-	-	1 695
Other	54	85	114
<b>Total</b>	<b>4 197</b>	<b>23 368</b>	<b>21 786</b>
Allowance for impairment of long-term loans receivable (clause 6.4.1)	(162)	(11 195)	(1 791)
<b>Investments in share capital of subsidiaries and affiliates</b>			
PJSC MGTS (clause 6.3)	121 981	72 572	33 060
LLC Telecom Projects	21 000	21 000	21 000
MTS B.V. <sup>4</sup>	14 196	14 196	11 723
JSC Russian Telephone Company	13 640	13 640	13 640
Baggio Holding B.V.	12 520	12 520	12 218
Allegretto Holding S.a.r.l.	11 787	11 787	11 787
LLC Stream Digital <sup>8</sup>	30 180	10 180	-
ARAMAYO INVESTMENTS LIMITED (Cyprus) <sup>5</sup>	-	10 089	-
Mobile Telecom Holding <sup>5</sup>	10 089	-	-
Narico Holdings Ltd <sup>7</sup>	3 136	-	3 136
LLC STV	3 000	-	-
OZON HOLDINGS LTD	2 750	2 702	2 702
JSC Sibintertelecom	1 157	1 157	1 157
Vostok Mobile B.V.	1 064	1 064	1 064
ES MTS-Turkmenistan	727	727	727
LLC Stream	406	406	406
MC MTS BELINVEST	263	263	-
JLLC Mobile TeleSystems	78	78	78
International Cell Holding Ltd <sup>5</sup>	-	-	10 089
LLC Universal Mobile Systems <sup>6</sup>	-	-	5 505
Other	2 106	1 419	1 566
<b>Total</b>	<b>250 080</b>	<b>173 800</b>	<b>129 858</b>
<b>Trust management agreement</b>			
MC Sistema Capital <sup>9</sup>	17 357	-	-
<b>Total</b>	<b>17 357</b>	<b>-</b>	<b>-</b>
<b>Securities acquisition costs</b>			
Advances for acquisition	1 170	1 106	914
Bonds <sup>9</sup>	-	18 698	-
<b>Total</b>	<b>1 170</b>	<b>19 804</b>	<b>914</b>
Allowance for impairment of investments in share capital of subsidiaries and affiliates (clause 6.4.2)	(44 682)	(37 366)	(20 188)
<b>Total long-term investments</b>	<b>227 960</b>	<b>192 674</b>	<b>159 732</b>

**6.2. Short-term investments**

As at 31 December 2017, 2016 and 2015, the Company's short-term investments comprised the following:

	(RUB million)		
	<b>31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Investments in share capital of subsidiaries and affiliates</b>			
Narico Holdings Ltd <sup>7</sup>	-	3 136	-
Callnet Enterprises Limited	-	141	-
MTS Bermuda Ltd <sup>1</sup>	-	-	22 851
JSC Sistema-Inventure <sup>11</sup>	-	-	8 626
<b>Total</b>	<b>-</b>	<b>3 277</b>	<b>31 477</b>
Allowance for impairment of investments in share capital of subsidiaries and affiliates (clause 6.4.2)	-	(3 277)	(13 167)
<b>Bank deposits</b>			
PJSC Sberbank	23 040	-	29 241
PJSC Bank VTB	-	-	10 932
<b>Total</b>	<b>23 040</b>	<b>-</b>	<b>40 173</b>
<b>Loans receivable</b>			
Dega Retail Holding Ltd	6 548	5 860	-
Mr. Pierre and Mr. Moussa Fattouch <sup>3</sup>	5 184	-	6 559
JSC SITRONICS Telecom Solutions	3 022	-	-
JSC Russian Telephone Company	1 997	-	-
JSC NVision Group	859	-	-
CJSC Kornet-AM	424	447	537
OJSC Teleservice	110	-	-
MTS Bermuda Ltd <sup>1</sup>	-	-	2 065
Other	327	345	475
<b>Total</b>	<b>18 471</b>	<b>6 652</b>	<b>9 636</b>
Allowance for impairment of short-term loans receivable (clause 6.4.1)	(4 750)	(792)	(896)
<b>Debt securities</b>			
JSC SITRONICS	220	220	-
<b>Total</b>	<b>220</b>	<b>220</b>	<b>-</b>
<b>Trust management agreement</b>			
MC Sistema Capital <sup>9</sup>	9 671	3 714	-
<b>Total</b>	<b>9 671</b>	<b>3 714</b>	<b>-</b>
<b>Repurchase agreements</b>			
MOEX	7 576	-	-
<b>Total</b>	<b>7 576</b>	<b>-</b>	<b>-</b>
<b>Total short-term investments</b>	<b>54 228</b>	<b>9 794</b>	<b>67 223</b>

<sup>1</sup>In December 2015 the Company made a decision to liquidate MTS Bermuda Ltd in 2016, therefore, as at 31 December 2015 the investment in the share capital of MTS Bermuda Ltd was classified as short-term. In 2016 MTS Bermuda Ltd was liquidated.

<sup>2</sup>In 2016 the investment disposed due to the liquidation of MTS Finance S.A.

<sup>3</sup>In 2016 the Company signed an amendment agreement which prolonged the maturity of the loan. Due to this fact, the investment was reclassified as long-term. In 2017, it was reclassified to short-term investments under the provision of the agreement.

<sup>4</sup>In August 2016 PJSC MTS made a decision to increase its interest in the share capital of MTS B.V. with the purpose of purchasing additional issue of PJSC MTS Bank's shares.

<sup>5</sup>In May 2016 PJSC MTS transferred the assets previously recognized on the balance sheet of International Cell Holding Ltd, a related party, as part of the contribution to the share capital of ARAMAYO INVESTMENTS LIMITED (Cyprus), which in its turn was transferred as part of the contribution to the share capital of Mobile Telecom Holding (Luxembourg) in 2017.

<sup>6</sup>In 2014, PJSC MTS received a 50.01% stake in the share capital of LLC Universal Mobile Systems recognized in the balance sheet for 2015 at the current market value. In 2016, interest in the share capital of LLC Universal Mobile Systems was sold to the State Unitary Enterprise Center of Radio Communication, Radio Broadcasting and Television of the Ministry of Development of Information Technologies and Communications of the Republic of Uzbekistan.

<sup>7</sup>In 2016 the Company made a decision to liquidate Narico Holdings Ltd, which resulted in reclassification of the long-term investment into short-term at the end of 2016. However, due to emerging legal complications in the process of liquidation, the Company classified the investment as a long-term as at 2017.

<sup>8</sup>In September 2016, PJSC MTS purchased a 100% stake in the share capital of LLC Stream Digital. In 2017 the Company increased the share capital by RUB 20 billion.

<sup>9</sup>Eurobonds issued in June 2010 with 8.625% yield per annum and maturity in 2020. Issuer of bonds is a related party MTS International Funding Ltd. In 2017, the bonds and cash were transferred in trust management to MC Sistema Capital, a subsidiary of JSFC Sistema, with which the Company concluded a trust management agreement in May 2016 to obtain short-term income from securities sale and purchase transactions.

<sup>10</sup>In January 2017 PJSC MTS-Bank, the associate of PJSC MTS, early repaid the subordinated debt received from the Company in September 2012 with maturity in 2022. PJSC MTS-Bank also repaid interests in the amount of RUB 116 million.

<sup>11</sup>On 3 February 2016 PJSC MTS purchased a 30% stake in JSC Sistema-Inventure from LLC Telecom Projects, a related party, for the amount of RUB 3 648 million, thus increasing its share to 100%. In 2016, PJSC MTS was reorganized by merging with JSC Sistema-Inventure.

### 6.3. Revaluation of listed securities

	(RUB million)		
	2017	31 December 2016	2015
<b>PJSC MGTS</b>			
<b>Ordinary shares</b>			
Market value of shares, RUB million	107 887	63 626	27 144
Number of shares	79 038 072	79 038 072	55 851 360
Market price per share, RUB	1 365.00	805.00	486.00
<b>Preferred shares</b>			
Market value of shares, RUB million	14 095	8 947	5 916
Number of shares	11 141 428	11 141 428	11 141 428
Market price per share, RUB	1 265.00	803.00	531.00
<b>PJSC Rostelecom</b>			
<b>Ordinary shares</b>			
Market value of shares, RUB million	2	3	3
Number of shares	30 351	30 351	30 351
Market price per share, RUB	63.57	83.85	91.24

Revaluation for 2017 and 2016 amounted to RUB 49 408 million and RUB 17 620 million, respectively (Note 16 Other income).

#### 6.4. Allowance for impairment of investments

In accordance with the Company's accounting policy, the Company created an allowance for impairment of long-term and short-term investments, which, as at 31 December 2017, 2016 and 2015, comprised the following:

##### 6.4.1. Allowance for impairment of loans receivable and debt securities

Allowance for impairment of loans receivable and debt securities	(RUB million)					
	As at 31 December 2015	Creation of an allowance and other movements	Use of allowance	As at 31 December 2016	Creation of an allowance and other movements	As at 31 December 2017
MTS Finance S.A.	(1 695)	38	1 657	-	-	-
JSC Russian Telephone Company	-	(8 110)	-	(8 110)	8 110	-
CJSC Kornet-AM	(537)	90	-	(447)	23	(424)
OJSC Teleservice	-	-	-	-	(55)	(55)
JSC NVision Group	-	-	-	-	(859)	(859)
JSC Metro-Telecom	(262)	9	-	(253)	10	(243)
PJSC Navigation Information Systems	-	-	-	-	(110)	(110)
JSC SITRONICS Telecom Solutions	-	(2 890)	-	(2 890)	(132)	(3 022)
LLC STV	-	(140)	-	(140)	140	-
Other	(218)	31	40	(147)	(52)	(199)
<b>Total</b>	<b>(2 712)</b>	<b>(10 972)</b>	<b>1 697</b>	<b>(11 987)</b>	<b>7 075</b>	<b>(4 912)</b>

##### 6.4.2. Allowance for impairment of investments in share capital of subsidiaries and affiliates

Allowance for impairment of investments in share capital of subsidiaries and affiliates	(RUB million)						
	As at 31 December 2015	Creation of an allowance and other movements	Use of allowance	As at 31 December 2016	Creation of an allowance and other movements	Use of allowance	As at 31 December 2017
Narico Holdings Ltd	(3 136)	-	-	(3 136)	-	-	(3 136)
JIR Broadcast Inc.	-	-	-	-	-	-	-
The Coral/Sistema Strategic Fund	(362)	-	-	(362)	-	-	(362)
JSC Metro-Telecom	(340)	-	-	(340)	-	-	(340)
MTS Bermuda Ltd	(12 429)	-	12 429	-	-	-	-
LLC Telecom Projects	(8 708)	879	-	(7 829)	-	-	(7 829)
MTS B.V.	(7 602)	(6 594)	-	(14 196)	-	-	(14 196)
JSC Sistema-Inventure	(738)	738	-	-	-	-	-
Baggio Holding B.V.	-	(12 520)	-	(12 520)	-	-	(12 520)
Callnet Enterprises Limited <sup>1</sup>	-	(141)	-	(141)	-	141	-
OZON HOLDINGS LTD <sup>2</sup>	-	(2 043)	-	(2 043)	(166)	-	(2 209)
Allegretto Holding S.a.r.l.	-	(43)	-	(43)	-	-	(43)
LLC STV	-	-	-	-	(3 000)	-	(3 000)
Other <sup>2</sup>	(40)	(20)	27	(33)	(1 014)	-	(1 047)
<b>Total</b>	<b>(33 355)</b>	<b>(19 744)</b>	<b>12 456</b>	<b>(40 643)</b>	<b>(4 180)</b>	<b>141</b>	<b>(44 682)</b>

<sup>1</sup>In 2017 Callnet Enterprises Limited was liquidated. In prior reporting periods, an allowance for this investment was charged and then utilized in 2017.

<sup>2</sup>An allowance was created due to negative trend in the cost of net assets of OZON HOLDINGS LTD, as well as ES MTS-Turkmenistan and OJSC Cellular Communications of Bashkortostan, included into Other.

#### 6.5. Acquisitions in 2017

**OJSC Cellular Communications of Bashkortostan.** In July 2017, the Company acquired 100% stake in the share capital of OJSC Cellular Communications of Bashkortostan. OJSC Cellular Communications of Bashkortostan operates in the Republic of Bashkortostan and possesses rights for using radio frequencies in 450 and 2,100 MHz bands. The acquisition contributed to frequency resources of PJSC MTS in the Republic of Bashkortostan. A purchase consideration included cash in the amount of RUB 220 million and contingent consideration estimated by the Company in the amount of RUB 72 million to be paid within 12 months from the acquisition date.

**Oblachny Retail.** In October 2017 the Company acquired 50.82% stake in the share capital of Oblachny Retail LLC (trademark LiteBox), Russian company specializing in development of software for retail sale. The Company also entered into an option agreement with the participants of Oblachny Retail LLC, according to which PJSC MTS has the right and the obligation, by demand of non-controlling participants of Oblachny Retail LLC, to repurchase their shares at a price that depends on the Company's operating results for the period from 2019 to 2020.

This transaction ensures the Company's presence in the market of "cloud" cash offices as a licensed operator of fiscal data and a provider of ready-made solutions for the cash services for business customers. A purchase consideration included cash in the amount of RUB 160 million and contingent consideration estimated in the amount of RUB 10 million to be paid within 12 months from the acquisition date.

As part of the acquisition PJSC MTS also contributed RUB 420 million to the share capital of Oblachny Retail LLC.

**Praliss Enterprises.** In December 2017, PJSC MTS acquired 100% stake in Praliss Enterprises, one of the world's leading eSport clubs Gambit Esports. Entering the e-sports market is in line with the strategy of the companies of MTS Group to develop digital directions and products that are outside the traditional market of telecommunications services. The acquisition price included cash in the amount of RUB 220 million and contingent consideration to be paid within 12 months from the acquisition date and consideration to be paid in the period from 2018 to 2019 if Praliss Enterprises reaches certain performance indicators, in total equaling RUB 93 million.

These acquisitions allow PJSC MTS to diversify its activities. However, there may be additional risks related to the obligations of the companies acquired and risks of non-achievement of initial financial and performance goals.

## 7. OTHER NON-CURRENT ASSETS

As at 31 December 2017, 2016 and 2015, other non-current assets comprised:

	(RUB million)		
	31 December		
	2017	2016	2015
<b>Other non-current assets</b>			
Advances given for acquisition of property, plant and equipment, software and construction services	9 257	8 191	2 824
Interest on loans receivable	313	5 052	2 737
Security deposit, payment	165	227	-
Allowance for impairment of interest on loans receivable	(4)	(1 543)	(164)
Deposit for participation in radio frequencies auction	-	-	1 470
<b>Total</b>	<b>9 731</b>	<b>11 927</b>	<b>6 867</b>

**8. ACCOUNTS RECEIVABLE**

Accounts receivable as at 31 December 2017, 2016 and 2015 comprised the following:

	(RUB million)		
	<b>31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Accounts receivable</b>			
Trade receivables	18 165	19 506	19 608
Allowance for trade receivables	(5 070)	(5 294)	(5 638)
Settlements on roaming discounts	9 014	6 945	12 302
Dividends receivable from PrJSC VF Ukraine <sup>1</sup>	4 708	5 142	6 998
Provision for dividends receivable from PrJSC VF Ukraine <sup>1</sup>	(4 708)	(5 142)	(6 998)
Dividends receivable from ES MTS-Turkmenistan <sup>2</sup>	1 012	863	68
Provision for dividends receivable from ES MTS-Turkmenistan <sup>2</sup>	(1 012)	-	-
Receivables from commercial representatives	3 232	2 580	1 706
Allowance for receivables from dealers	(208)	(212)	(221)
Advances paid	806	921	1 178
Allowance for advances paid	(20)	(15)	(23)
Interest on loans receivable and deposits	6 952	653	7 794
Allowance for interest on loans receivable	(692)	(74)	(167)
Prepayments on taxes and duties	2 137	550	3 714
Settlements with the Social Security Fund	98	101	95
Other	1 294	2 467	2 358
Allowance for other receivables	(73)	(35)	(39)
<b>Total</b>	<b>35 635</b>	<b>28 956</b>	<b>42 735</b>

<sup>1</sup> In 2017, the Regulation of the Management Board of the National Bank of Ukraine, related to the prohibition to transfer dividends to foreign investors by Ukrainian companies, was amended in part of the permitted period to pay dividends and the amount of the monthly dividend payment. Due to the fact that the introduction of the prohibition to perform obligations suspends the limitation period, the right of PJSC MTS for dividends from PrJSC VF Ukraine is not forfeited. As at 31 December 2017, 2016 and 2015, PJSC MTS charged an allowance for the full amount of dividends receivable as there is uncertainty related to receipt of dividends from PrJSC VF Ukraine.

<sup>2</sup> On 29 September 2017, PJSC MTS announced the forced suspension of provision of communication services in Turkmenistan due to the fact that partnership agreements regulating the provision of services in Turkmenistan were not extended by the state telecommunication company Turkmentelecom. As at 31 December 2017, PJSC MTS charged an allowance for the full amount of dividends receivable as there is uncertainty related to receipt of dividends from MTS-Turkmenistan.

**9. CASH AND CASH EQUIVALENTS**

As at 31 December 2017, 2016 and 2015, cash and cash equivalents comprised:

	(RUB million)		
	<b>31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Cash and cash equivalents</b>			
Current bank accounts	11 624	3 942	5 480
Deposits with initial maturity of less than 3 months	2 000	-	8 836
Petty cash	1	2	3
<b>Total</b>	<b>13 625</b>	<b>3 944</b>	<b>14 319</b>

**10. SHARE CAPITAL**

As at 31 December 2017, 2016 and 2015, the Company's share capital comprised the following:

Types of shares	Par value, RUB	Number of shares			Including number of treasury shares acquired by subsidiaries and affiliates and the Company		
		2017	2016	2015	2017	2016	2015
Ordinary shares	0.1	1 998 381 575	1 998 381 575	2 066 413 562	86 338 023	9 972 030	77 521 163
<b>Total</b>		<b>1 998 381 575</b>	<b>1 998 381 575</b>	<b>2 066 413 562</b>	<b>86 338 023</b>	<b>9 972 030</b>	<b>77 521 163</b>

The shareholder structure as at 31 December 2017, 2016 and 2015 comprised the following:

	% of ownership		
	2017	2016	2015
Non-banking credit organization JSC National Settlement Depository (nominal holder)	51.59	50.42	48.08
JSFC Sistema	31.76	31.76	30.79
LLC Sistema Telecom Aktivy	11.03	11.03	10.67
Sistema Finance S.A.	3.48	6.28	10.00
Other shareholders	2.14	0.51	0.46
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

The controlling owner of PJSC MTS is Vladimir Petrovich Evtushenkov.

Net assets of the Company as at 31 December 2017, 2016 and 2015 total RUB 112 131 million, RUB 35 037 million and RUB 35 513 million, respectively.

On 16 February 2018, JSFC Sistema pledged in favor of PJSC Sberbank its ordinary non-certificated registered shares of PJSC MTS in the amount of 319 868 641 shares and with estimated value of RUB 64.6 billion which constitutes 16% of the share capital of the Company as a collateral for the obligations under the agreement for opening non-revolving credit line facilities.

**11. BORROWINGS**

Maturities of the main types of debt outstanding as at 31 December 2017 are presented as follows:

Borrowings	(RUB million)			
	Up to 1 year	1 year to 5 years	Over 5 years	Total
Loans	33 477	145 489	3 136	182 102
Borrowings	25 050	78 185	28 790	132 025
Notes	30 183	34 984	-	65 167
<b>Total</b>	<b>88 710</b>	<b>258 658</b>	<b>31 926</b>	<b>379 294</b>

A number of notes of the Company are subject to put options as the holders have the unilateral right to demand repurchase of the notes at par value prior to maturity. The notes in the accompanying financial statements are disclosed as maturing in the period, when put options may be exercised.

Some loan agreements contain provisions that limit the ability of the Company and its subsidiaries:

- borrow funds;
- enter into loan transactions with affiliates;
- merge or consolidate with another entity;
- transfer their property and assets to another entity;
- sell or transfer any of the GSM licenses for license areas in Moscow, St. Petersburg, Krasnodar and Ukraine;
- make certain types of reorganization or changes in the composition of the Company's shareholders.

If the Company fails to meet required covenants, after certain notice and cure periods, the creditors can accelerate the debt to be immediately due and payable.

A number of loan agreements contain provisions with regard to early repayment upon the creditor's demand in case of judgment against the Company and its subsidiaries requiring payment of money or recovery against property in an amount in excess of certain limits determined by the agreements and the continuance of any such judgment unsatisfied and in effect for any period of 60 consecutive calendar days without a stay of execution.

Loan agreements also contain cross default provisions with other loan agreements of PJSC MTS and its subsidiaries.

As at 31 December 2017, the Company was in full compliance with all covenants of notes and loan agreements.

Available credit facilities:

	<b>Up to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>(RUB million)</b>
	<b>Up to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Borrowings	27 038	24 532	-	51 570
Loans	5 000	36 000	-	41 000
Notes	9 656	13 552	-	23 208
<b>Total</b>	<b>41 694</b>	<b>74 084</b>	<b>-</b>	<b>115 778</b>

The accrued expenses on loans and borrowings recognized in the Interest expense line of the statement of financial results (interest and other additional expenses) for 2017 and 2016 amounted to RUB 30 627 million and RUB 31 493 million, respectively.

The debt issuance costs for 2017 and 2016 amounted to RUB 98 million and RUB 26 million, respectively, and are recognized in the Borrowings line of the balance sheet.

Investment assets costs for 2017 and 2016 amounted to RUB 283 million and RUB 355 million, respectively, and are recognized in the Property, plant and equipment line of the balance sheet.

**12. ACCOUNTS PAYABLE**

As at 31 December 2017, 2016 and 2015, the Company's accounts payable comprised the following:

	(RUB million)		
	2017	31 December 2016	2015
<b>Long-term payables</b>			
Interest on borrowings	1 147	3 504	688
Trade payables	452	532	608
Consideration on acquisition of subsidiaries	-	-	1 196
<b>Total long-term payables</b>	<b>1 599</b>	<b>4 036</b>	<b>2 492</b>
<b>Short-term payables</b>			
Trade payables	29 087	21 016	37 174
Advances received	12 419	12 702	13 021
Taxes and duties payable	7 044	7 124	4 726
Discounts provided on roaming services <sup>1</sup>	5 927	6 080	6 212
Wages and salaries payable	7 473	5 416	4 912
Interest on borrowings	7 157	3 180	4 307
Consideration on acquisition of subsidiaries	-	1 199	8 627
Social contributions payable	363	15	11
Other	440	168	3 118
<b>Total short-term payables</b>	<b>69 910</b>	<b>56 900</b>	<b>82 108</b>

<sup>1</sup>Discounts on roaming services provided to JSC Sibintertelecom are recorded in Accounts Payable line as being supported with documents. Those discounts provided on roaming services that are determined by the Company as accounting estimates as at the reporting date are recorded in the Provisions line of the balance sheet (Note 13 Provisions).

**13. PROVISIONS**

Movements in provisions for 2017 and 2016 comprised:

	(RUB million)			
	Discounts provided on roaming services	Asset retirement obligations	Other provisions	Total
<b>Total as at 31 December 2015</b>	<b>3 395</b>	<b>1 397</b>	<b>750</b>	<b>5 542</b>
Increase in provisions	3 166	114	108	3 388
Decrease in provisions	(3 395)	(419)	(700)	(4 514)
<b>Total as at 31 December 2016</b>	<b>3 166</b>	<b>1 092</b>	<b>158</b>	<b>4 416</b>
Increase in provisions	1 700	94	568	2 362
Decrease in provisions	(3 166)	(269)	(44)	(3 479)
<b>Total as at 31 December 2017</b>	<b>1 700</b>	<b>917</b>	<b>682</b>	<b>3 299</b>

Maturities of provisions as at 31 December 2017, 2016 and 2015 are presented below:

Balance sheet line	(RUB million)		
	2017	31 December 2016	2015
Long-term provisions <sup>1</sup>	917	1 092	1 397
Short-term provisions <sup>2</sup>	2 382	3 324	4 145
	<b>3 299</b>	<b>4 416</b>	<b>5 542</b>

<sup>1</sup>Long-term provisions include asset retirement obligations.

<sup>2</sup>Short-term provisions include provision for discounts provided on roaming services and other provisions.

**14. INCOME TAX**

Current income tax expense for 2017 and 2016 comprised:

	<b>2017</b>	<b>(RUB million) 2016</b>
<b>Profit before income tax</b>	<b>140 638</b>	<b>61 985</b>
including:		
dividends received (0% tax rate)	25 079	21 597
dividends received (13% tax rate)	3 614	3 105
<b>Theoretical income tax expense</b>	<b>22 859</b>	<b>7 860</b>
<b>Permanent tax liabilities:</b>		
non-deductible expenses	3 843	4 321
provision for contingent liabilities	32	(29)
dividends received from foreign subsidiaries	49	161
expenses in excess of allowable limits	2	28
allowance for impairment of investments	(180)	2 391
other	208	(61)
<b>Total</b>	<b>3 954</b>	<b>6 811</b>
<b>Permanent tax assets:</b>		
non-deductible income	(13 562)	(3 564)
<b>Total</b>	<b>(13 562)</b>	<b>(3 564)</b>
<b>Increase/(decrease) in deferred tax assets:</b>		
property, plant and equipment, including due to:		
- different periods and methods of depreciation for accounting and tax purposes	17	24
- other operations with property, plant and equipment	(1)	(2)
provisions	(248)	2 038
difference in methods of revenue recognition	347	(2 674)
allowance for doubtful debt	414	450
other	(417)	(74)
<b>Total</b>	<b>112</b>	<b>(238)</b>
<b>(Increase)/decrease in deferred tax liabilities:</b>		
prepaid expenses and capitalized debt issuance costs	(23)	287
property, plant and equipment, due to:		
- different periods and methods of depreciation for accounting and tax purposes	(50)	(1 190)
- other operations with property, plant and equipment	170	(799)
other	312	(141)
<b>Total</b>	<b>409</b>	<b>(1 843)</b>
<b>Total current income tax</b>	<b>13 772</b>	<b>9 026</b>

Permanent tax assets and liabilities are recorded on a net basis in the financial statements.

The Income tax and tax penalties of prior years line in the statement of financial results comprises the following:

	<b>2017</b>	<b>(RUB million) 2016</b>
Adjustments to income tax declarations for prior periods	(1)	(10)
Income tax arrears	302	-
Tax penalties of prior periods	(326)	2
Other tax penalties	162	227
<b>Total</b>	<b>137</b>	<b>219</b>

**15. OPERATING EXPENSES**

Below is the summary of the Company's expenses on operating activities for 2017 and 2016:

	<u>2017</u>	<u>(RUB million) 2016</u>
<b>OPERATING EXPENSES</b>		
Depreciation and amortization	59 558	58 677
Payroll	24 826	24 857
Social contributions	6 346	5 932
Raw materials and supplies	2 407	2 919
Other expenses	148 344	151 162
<b>Total</b>	<b><u>241 481</u></b>	<b><u>243 547</u></b>

Other expenses line includes:

	<u>2017</u>	<u>(RUB million) 2016</u>
Interconnection services	45 228	46 107
Dealers commission	29 925	28 951
Rent expense	19 276	19 165
Roaming expenses	10 732	14 174
Content expenses	7 524	7 662
Advertising and marketing expenses	6 993	7 771
Utilities	6 955	6 057
Technical support and maintenance of equipment	5 381	5 540
Taxes	5 266	5 150
Other expenses	11 064	10 585
<b>Total</b>	<b><u>148 344</u></b>	<b><u>151 162</u></b>

**16. OTHER INCOME**

Other income for 2017 and 2016 comprised:

	<u>2017</u>	<u>(RUB million) 2016</u>
<b>Other income</b>		
Gain from revaluation of securities to current market value (Note 6.3 Revaluation of listed securities)	51 444	17 620
Gain from the reversal of allowance for impairment of investments	9 529	1 011
Foreign exchange gain and loss, net	2 812	11 250
Gain from swaps	2 327	4 295
Accounts payable written off as unclaimed	282	322
Gain from sale and disposal of property, plant and equipment	269	409
Gain from sale and disposal of other property	161	1 079
Gain on disposal of investments	69	13
Insurance compensations	37	-
Result on REPO transactions	20	-
Gain from sale of foreign currency	-	652
Gain recognized based on stock count results	9	8
Gain from decrease in provisions	7	425
Lessor's income from finance lease of channels	5	-
Penalties and fines	4	155
Other	39	19
<b>Total</b>	<b><u>67 014</u></b>	<b><u>37 258</u></b>

**17. OTHER EXPENSES**

Other expenses for 2017 and 2016 comprised:

	<u>2017</u>	<u>(RUB million) 2016</u>
<b>Other expenses</b>		
Allowance for impairment of investments	5 747	23 792
Allowance for doubtful accounts	3 136	2 037
Allowance for obsolescence of long-term inventories and other non-current assets	954	293
Expenses related to charity activities	319	113
Gain from sale of foreign currency	243	-
Provisions	168	-
Loss on sale and disposal of property, plant and equipment	150	336
Bank charges	125	114
Loss on sale and disposal of other property	110	18 128
Write-off of value-added tax receivable	63	401
Loss recognized based on inventory count results	58	60
Penalties and fines	38	17
Loss on value added tax on gratuitous services	22	-
Accounts receivable written off as unrecoverable	17	25
Loss on disposal of investments	5	-
Loss on write off (disposal) of receivables	2	-
Other	328	279
<b>Total</b>	<b><u>11 485</u></b>	<b><u>45 595</u></b>

**18. EXCHANGE RATES**

The Central Bank of Russia's exchange rates set for the reporting dates are presented below:

<b>Currency</b>	<b>31 December</b>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
US Dollar	57.6002	60.6569	72.8827
EUR	68.8668	63.8111	79.6972
		<b><u>2017</u></b>	<b><u>(RUB million) 2016</u></b>
Foreign exchange gains from translation of assets and liabilities denominated in foreign currency and payable in foreign currency		2 795	10 020
Foreign exchange gains from translation of assets and liabilities denominated in foreign currency and payable in rubles		17	1 230
<b>Total</b>		<b><u>2 812</u></b>	<b><u>11 250</u></b>

**19. DERIVATIVE FINANCIAL INSTRUMENTS**

From 2006, the Company entered into a number of derivative agreements aimed at hedging the currency/interest rate risks associated with the Company's borrowings.

The Company uses off-balance sheet accounts to summarize information on the availability and movement of such instruments, recording the financial result in the statement of financial results after the transaction is completed.

The fair value of the Company's assets as at 31 December 2017, 2016 and 2015 was as follows (in rubles at the exchange rate as at the reporting date):

Derivative financial instruments	(RUB million)		
	2017	31 December 2016	2015
Swaps	7 738	13 123	24 342
Forwards	-	(142)	-
<b>Total</b>	<b>7 738</b>	<b>12 981</b>	<b>24 342</b>

In 2017 and 2016, gain from swap transactions amounted to RUB 2 327 million and RUB 4 295 million, respectively, and is included in the Other income line of the statement of financial results. The swaps mature in 2018-2024.

The Company entered into deliverable currency forward agreements to minimize foreign currency risk exposure for operating activities. The contracts assumed purchase or sale of the agreed amount of currency at a specified exchange rate and date. The foreign exchange rate is determined by the market spot rate upon performance of a transaction.

Underlying assets related to deliverable currency forwards not settled as at 31 December 2017, 2016 and 2015 amounted to RUB nil, RUB 18 339 million and RUB 0, respectively.

**20. BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share for 2017 and 2016 were as follows:

	2017	2016
Profit, RUB million	127 250	50 659
Weighted average number of ordinary shares outstanding	1 998 381 409	2 015 382 737
<b>Basic earnings per share, RUB</b>	<b>63.68</b>	<b>25.14</b>
<b>Diluted earnings per share, RUB</b>	<b>63.62</b>	<b>25.12</b>

**21. BOARD OF DIRECTORS**

As at 31 December 2017, the Board of Directors consisted of the following members:

Ron Sommer	Chairman of the Board of Directors
Regina von Flemming	Member of the Board of Directors
Aleksandr Evgenyevich Gorbunov	Member of the Board of Directors
Artem Ivanovich Zasursky	Member of the Board of Directors
Andrei Anatolievich Dubovskov	Member of the Board of Directors
Michel Combes	Member of the Board of Directors
Stanley Miller	Member of the Board of Directors
Vsevolod Valerievich Rozanov	Member of the Board of Directors
Thomas Holtrop	Member of the Board of Directors

The amount of compensation paid to the members of the Board of Directors in 2017 and 2016 amounted to RUB 408 million and RUB 206 million, respectively.

## 22. MANAGEMENT BOARD

As at 31 December 2017, the Management Board consisted of the following members:

Andrei Anatolievich Dubovskov	President
Mariya Nikolayevna Golyandrina	Member of the Management Board, Vice President, Human Resources
Kirill Aleksandrovich Dmitriev	Member of the Management Board, Vice President, Sales and Customer Service
Igor Alfridovich Egorov	Member of the Management Board, Director of Moscow Region
Ruslan Sultanovich Ibragimov	Member of the Management Board, Vice-President, Corporate and Legal Issues
Alexey Valeryevich Kornya	Member of the Management Board, Vice-President, Finance, Investment and Mergers and Acquisitions
Vyacheslav Konstantinovich Nikolayev	Member of the Management Board, Vice President, Marketing
Andrei Gennadievich Smelkov	Member of the Management Board, Vice-President, Director of MTS Foreign Companies Business Unit
Andrei Eduardovich Ushatskiy	Member of the Management Board, Vice President, Information Technology
Valery Viktorovich Shorzhin	Member of the Management Board, Vice-President, Procurement and Administrative Matters

The amount of compensation paid to the members of the Management Board in 2017 and 2016 amounted to RUB 711 million and RUB 764 million, respectively.

## 23. DISTRIBUTION OF RETAINED EARNINGS

The annual meetings of shareholders which took place on 29 June 2017 and 29 September 2017 voted to distribute part of the profit retained by the Company in 2016 and first half of 2017 to pay dividends to shareholders in the amount of RUB 31 175 million and RUB 20 783 million, respectively.

The annual meetings of shareholders which took place on 23 June 2016 and 30 September 2016 voted to distribute part of the profit retained by the Company in 2015 and during the first half of 2016 to pay dividends to shareholders in the amount of RUB 27 997 million and RUB 23 961 million, respectively.

## 24. REORGANIZATION OF THE COMPANY

### ***24.1. Reorganization of the Company in 2017***

On 31 October 2017, the Company was reorganized through the merger of LLC Telecom Povolzhye, JSC COMSTAR XMAO, JSC SMARTS-Yoshkar-Ola with PJSC MTS.

Property, plant and equipment and intangible assets of the merged company were transferred to PJSC MTS at net book value; other assets and liabilities were transferred at carrying amount at the date of the merger according to the transfer acts. The financial results of the merged companies are included in the financial statements of PJSC MTS from the date of their merger.

The financial result from the reorganization of PJSC MTS through the merger of LLC Telecom Povolzhye, JSC COMSTAR XMAO, JSC SMARTS-Yoshkar-Ola, not included in the net profit for the period, represented the effect of RUB 1 802 million and included the amount of net assets of the merged company at the date of the merger of RUB 1 856 million, the amount of disposed investments of the Company in the merged company at the date of the merger of RUB 54 million. The effect of the merger was recognized in Change of equity due to reorganization line in the statement of changes in equity.

**Adjusted amounts of the Company's statement of financial results for the year ended 31 December 2017 (unaudited)**

The pro-forma financial indicators for 2017 reflect the merger of LLC Telecom Povolzhye, JSC COMSTAR XMAO, JSC SMARTS-Yoshkar-Ola in 2017 as if it took place at the beginning of the reporting period.

<b>Adjusted amounts</b>	<b>(RUB million) 2017</b>
Revenue	314 402
Operating profit	70 734
Net profit	<u>50 249</u>
Basic/diluted earnings per share, RUB	<u><u>24.93</u></u>

The pro-forma information is based on various assumptions and estimates. The pro-forma information is not necessarily indicative of the operating results that would have occurred if the Company acquisitions were completed as at 1 January 2017 and is also not necessarily indicative of future financial results. The pro-forma information does not reflect in any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual financial results of operations of these companies are included in the financial statements of the Company from the dates of merger.

**24.2. Reorganization of the Company in 2016**

On 15 June 2016, the Company was reorganized through the merger of JSC Sistema-Inventure with PJSC MTS:

Property, plant and equipment and intangible assets of the merged company were transferred to PJSC MTS at net book value; other assets and liabilities were transferred at carrying amount at the date of the merger according to the transfer acts. The financial results of the merged companies are included in the financial statements of PJSC MTS from the date of their merger.

The financial result from the reorganization of PJSC MTS through the merger of JSC Sistema-Inventure, not included in the net profit for the period, represented the effect of RUB 11 254 million and included the amount of net assets of the merged company at the date of the merger of RUB 22 791 million, the amount of disposed investments of the Company in the merged company at the date of the merger of RUB 11 537 million. The effect of the merger was recognized in Change of equity due to reorganization line in the statement of changes in equity.

**25. RELATED PARTIES**

Related parties of PJSC MTS are represented by its subsidiaries and associates, JSFC Sistema, all the companies controlled by or significantly influenced by JSFC Sistema, and key management personnel and other individuals or legal entities which have significant influence on the decisions concerning management of PJSC MTS and the above-mentioned companies through participation in their share capital and/or other circumstances.

**25.1. Related party transactions****Interest expense on borrowings**

	<b>2017</b>	<b>(RUB million) 2016</b>
MTS International Funding Ltd	5 233	5 949
PJSC MGTS	2 526	3 400
LLC Telecom Projects	1 139	1 044
JSC MGTS-Nedvizhimost	892	1 053
JSC Sibintertelecom	328	316
LLC Stream Digital	276	-
LLC Stream	152	-
ARAMAYO INVESTMENTS LIMITED	70	-
CJSC MTS Armenia	49	55
Baggio Holding B.V.	8	72
LLC STV	7	66
LLC BASTION	-	20
Dega Retail Holding Ltd	-	2
Other	127	308
<b>Total</b>	<b>10 807</b>	<b>12 285</b>

**Interest income on loans receivable**

	<b>2017</b>	<b>(RUB million) 2016</b>
Dega Retail Holding Ltd	884	848
JSC Russian Telephone Company	889	569
JSC NVision Group	101	231
LLC STV	78	-
LLC BASTION	11	45
PJSC MTS-Bank	8	185
JSC SITRONICS Telecom Solutions	7	199
MTS International Funding Ltd	-	782
MTS Finance S.A.	-	326
LLC Stream Digital	-	74
MTS Bermuda Ltd	-	9
Other	9	28
<b>Total</b>	<b>1 987</b>	<b>3 296</b>

**Purchase of equipment, goods, work and services**

	<b>2017</b>	<b>(RUB million) 2016</b>
JSC Russian Telephone Company	21 900	21 588
JSC NVision Group	5 568	6 929
PJSC MGTS	4 828	5 055
LLC Stream	3 331	3 279
JSC Sitronics Telecom Solutions	1 766	1 099
PrJSC VF Ukraine	1 093	1 642
JSC Advertising Agency Maxima	-	980
MTS Armenia CJSC	928	629
JSC Sibintertelecom	466	455
LLC Jooms Projects	337	475
JSC Metro-Telecom	137	113
Other	4 027	1 310
<b>Total</b>	<b>44 381</b>	<b>43 554</b>

**Sale of equipment, goods, work and services**

	<b>2017</b>	<b>(RUB million) 2016</b>
JSC Russian Telephone Company	6 992	3 912
PJSC MGTS	2 664	1 931
JSC Sibintertelecom	2 486	2 136
PrJSC VF Ukraine	1 341	1 075
PJSC MTS-Bank	1 154	648
CJSC MTS Armenia	492	655
JSC Group of companies Medsi	156	126
JSC COMSTAR XMAO	-	210
JSC NVision Group	36	266
Other	2 002	2 287
<b>Total</b>	<b>17 323</b>	<b>13 246</b>

**Income from interest in other entities**

	<b>2017</b>	<b>(RUB million) 2016</b>
PJSC MGTS	21 012	20 020
JLLC Mobile TeleSystems	3 597	3 099
ARAMAYO INVESTMENTS LIMITED	3 288	-
ES MTS-Turkmenistan	645	1 334
Allegretto Holding S.a.r.l.	527	243
CJSC City Telecom	12	6
LLC MC Sistema Capital	3	-
<b>Total</b>	<b>29 084</b>	<b>24 702</b>

**25.2. Amounts of outstanding balances with related parties****Loans payable, including interest payable**

	<b>31 December</b>			<b>(RUB million) Period of settlement for 2017</b>
	<b>2017</b>	<b>2016</b>	<b>2015</b>	
MTS International Funding Ltd	72 217	76 050	91 378	2018-2023
PJSC MGTS	26 716	27 746	32 465	2018-2021
LLC Telecom Projects	10 548	13 137	29	2018
JSC MGTS-Nedvizhimost	8 473	10 377	8 385	2018-2020
LLC Stream Digital	7 644	7 718	-	2019
JSC Sibintertelecom	4 870	4 640	435	2018
LLC Stream	2 498	1 516	-	2019
MTS Armenia CJSC	2 019	2 075	2 432	2018
PRELUDIUM B.V.	1 124	273	-	2018
Dega Retail Holding Ltd	996	2 907	7 322	2019
LLC STV	867	33	1 283	2020
Mobile TeleSystems B.V.	155	140	1 647	2018
Baggio Holding B.V.	87	79	1 264	2018
ARAMAYO INVESTMENTS LIMITED	-	1 385	-	2017
LLC Telecom Povolzhye	-	474	662	2017
LLC BASTION	-	204	204	2017
Other	262	621	305	2018-2019
<b>Total</b>	<b>138 476</b>	<b>149 375</b>	<b>147 811</b>	

## Loans receivable and bonds, including interest receivable

	31 December			(RUB million)
	2017	2016	2015	Period of settlement for 2017
Dega Retail Holding Ltd	11 993	10 638	5 154	2018-2020
JSC SITRONICS Telecom Solutions	3 303	3 164	2 000	2018
JSC Russian Telephone Company	2 886	9 378	9 551	2018
PJSC MTS-Bank	-	2 116	2 100	2017
JSC NVision Group	1 193	563	2 221	2018
CJSC Kornet-AM	473	498	599	2013
LLC BASTION	91	125	162	2019
MTS Finance S.A.	-	-	1 858	-
MTS Bermuda Ltd	-	-	7 511	-
MTS International Funding Ltd	-	18 737	-	2017
Other	592	821	643	2016-2020
<b>Total</b>	<b>20 531</b>	<b>46 040</b>	<b>31 799</b>	

## Accounts receivable

	Type of transaction	31 December			(RUB million)
		2017	2016	2015	
PrJSC VF Ukraine	Dividends receivable	4 708	5 142	6 998	
JSC Russian Telephone Company	Sale of goods, works, services	781	1 247	1 008	
PJSC MGTS	Sale of goods, works, services	1 313	796	389	
ES MTS-Turkmenistan	Dividends receivable	1 012	863	47	
JSC NVision Group	Sale of goods, works, services	858	-	1 061	
JSC Sibintertelecom	Sale of goods, works, services	561	837	786	
PrJSC VF Ukraine	Sale of goods, works, services	337	265	1 814	
JSC Sitronics Telecom Solutions	Sale of goods, works, services	184	-	138	
CJSC MTS Armenia	Sale of goods, works, services	137	80	145	
JSC Russian Telephone Company	Advances paid	-	-	2 400	
Dega Retail Holding Ltd	Other services	-	-	558	
JLLC Mobile TeleSystems	Sale of goods, works, services	-	-	1 400	
JSC Leader Invest	Sale of goods, works, services	-	-	807	
Other	Sale of goods, works, services	944	714	468	
Other	Other services	203	56	260	
<b>Total</b>		<b>11 038</b>	<b>10 000</b>	<b>18 279</b>	

**UNOFFICIAL TRANSLATION**

As at 31 December 2017, 2016 and 2015, the allowance for doubtful accounts from related parties and allowance for impairment of loans receivable from related parties (including interest receivable) comprised the following:

	(RUB million)		
	31 December		
	2017	2016	2015
PrJSC VF Ukraine	4 708	5 142	6 998
JSC SITRONICS Telecom Solutions	3 302	3 164	-
JSC Russian Telephone Company	-	9 379	-
JSC NVision Group	1 193	-	-
ES MTS-Turkmenistan	1 012	-	-
JSC Metro-Telecom	258	268	277
MTS Finance S.A.	-	-	1 858
Other	857	793	907
<b>Total</b>	<b>11 330</b>	<b>18 746</b>	<b>10 040</b>

**Accounts payable**

	Type of transaction	(RUB million)		
		31 December		
		2017	2016	2015
JSC Sibintertelecom	Discounts provided on roaming services	5 927	6 080	6 212
JSC Russian Telephone Company	Purchase of goods, works, services	4 452	4 357	5 286
LLC Telecom Povolzhye <sup>1</sup>	Purchases of investments	-	1 196	1 196
PrJSC VF Ukraine	Purchase of goods, works, services	1 021	942	411
JSC NVision Group	Purchase of goods, works, services	540	620	2 315
PJSC MGTS	Purchase of goods, works, services	497	400	666
JSC Advertising Agency Maxima	Purchase of goods, works, services	-	183	200
JSC Sitronics Telecom Solutions	Purchase of goods, works, services	580	135	189
JSC Sibintertelecom	Purchase of goods, works, services	1	1	3 076
LLC Sitronics Smart Technologies	Purchase of goods, works, services	9	-	17
LLC Telecom Projects	Purchases of investments	-	-	8 626
Other	Purchase of goods, works, services	606	621	1 401
Other	Other services	14	54	505
Other	Purchases of investments	-	1	-
<b>Total</b>		<b>13 647</b>	<b>14 590</b>	<b>30 100</b>

<sup>1</sup>In 2017, LLC Telecom Povolzhye was merged into PJSC MTS (see Note 24.1).

**25.3. Cash flows with related parties**

	<b>2017</b>	<b>(RUB million) 2016</b>
<b>Cash flows from operating activities</b>		
Proceeds from customers	13 470	3 473
Other cash inflows	185	140
Payments for acquired goods, services, raw materials and other current assets	(42 272)	(17 773)
Interest paid	(10 164)	(3 639)
Other payments	-	(1)
<b>Net cash outflow from operating activities</b>	<b>(38 781)</b>	<b>(17 800)</b>
<b>Cash flows from investing activities</b>		
Dividends received	28 428	23 204
Proceeds from repayment of loans given to other entities	8 871	7 671
Interest received	1 392	5 550
Proceeds from sales of securities and other financial instruments	-	3
Purchase of subsidiaries and other financial investments	(23 464)	(25 234)
Purchase of property, plant and equipment (including investment property) and intangible assets	(7 356)	(10 268)
Loans given to other entities	(1 645)	(31 020)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>6 226</b>	<b>(30 094)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings provided by other entities	25 346	38 753
Repayment of borrowings (excluding interest)	(38 172)	(34 536)
Dividends paid (including withholding income tax)	(22 031)	(22 523)
Cash flow on guarantee agreement related to foreign currency hedge	(1 766)	(2 984)
<b>Net cash outflow from financing activities</b>	<b>(36 623)</b>	<b>(21 290)</b>

**25.4. Joint Venture**

**PJSC MTS-Bank.** On 28 March 2013, PJSC MTS and PJSC MTS-Bank entered into a simple partnership agreement without forming a legal entity, to derive profit through sale of products of joint activity to their customers. PJSC MTS contributed to the partnership's common property its professional reputation and the Company's personnel professional knowledge and skills measured at RUB 4 667 million, which form 70% of the partnership's capital. PJSC MTS-Bank is responsible for keeping record of all the income and expenses on joint operations and determining the financial result for distribution.

In accordance with the principles of distributing, the financial result of the simple partnership for the reporting period, the Company's statement of financial results for 2017 and 2016 shows a nil income from joint arrangements.

The Company estimates that expenses incurred as part of the joint arrangement and recorded under various types of expenses of the statement of financial results for 2017 and 2016 amounted to RUB 19 million and RUB 683 million, respectively.

**PJSC VimpelCom.** On 22 October 2014, PJSC MTS and PJSC VimpelCom entered into an agreement on the provision of combined services related to planning, joint development and operation of LTE communication networks.

The term of validity of the agreement is seven years, during that period the operators will share base stations and sites exploitation, their infrastructure and transmission network. At the same time, the companies may be involved in the construction of the network on their own to develop LTE individual coverage.

**UNOFFICIAL TRANSLATION**

*Assets and liabilities recognized in the balance sheet*

	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>(RUB million) 31 December 2015</b>
Property, plant and equipment (residual value)	1 907	1 066	774
Amounts due from / (to) customers under joint venture agreement	(601)	720	427

*Result from operations recognized in the statement of financial results*

	<b>2017</b>	<b>(RUB million) 2016</b>
Depreciation of PPE	(286)	(190)
Compensated expenses	500	226
Property operating costs	(288)	(358)

**26. INCOME FROM INTEREST IN OTHER ENTITIES**

Income from interest in other entities for 2017 and 2016 comprised:

	<b>2017</b>	<b>(RUB million) 2016</b>
PJSC MGTS	21 012	20 020
JLLC Mobile TeleSystems	3 597	3 099
ARAMAYO INVESTMENTS LIMITED	3 288	-
ES MTS-Turkmenistan	645	1 334
Allegretto Holding S.a.r.l.	527	243
JSC CITY TELECOM	12	6
LLC MC Sistema Capital	3	-
<b>Total</b>	<b>29 084</b>	<b>24 702</b>

**27. GUARANTEES ISSUED**

Guarantees issued by the Company as at 31 December 2017 were as follows:

<b>Debtor's name</b>	<b>Creditor's name</b>	<b>Date of issue</b>	<b>Date of expiry</b>	<b>Contractual currency</b>	<b>Contractual amount (in contractual currency)</b>	<b>Contractual amount (RUB million)</b>
MTS International Funding Ltd	Bondholders	22 June 2010	22 June 2020	US Dollar	752	43 293
MTS International Funding Ltd	Bondholders	30 May 2013	30 May 2023	US Dollar	502	28 924
Dega Retail Holding Ltd	Deutsche Bank Aktiengesellschaft	25 November 2011	30 June 2021	US Dollar	125	7 200
JSC Russian Telephone Company	LLC Samsung Electronics Rus Company	20 October 2016	Perpetual	RUB	7 000	7 000
PrJSC VF Ukraine	Vodafone Sales and Services Ltd	15 October 2015	Perpetual	EUR	10	689
JSC NVision Group	MICROSOFT IRELAND OPERATIONS LIMITED	01 February 2017	31 January 2020	US Dollar	10	576
JSC NVision Group	LLC Cisco Solutions	29 June 2016	29 June 2018	US Dollar	10	576
JSC NVision Group	Hitachi Data Systems Gmbh (HDS)	05 September 2017	31 December 2018	US Dollar	3	173
JSC NVision Group	D-Link Trade LLC	13 April 2017	31 December 2018	US Dollar	1.5	86
JSC NVision Group	MICROSOFT IRELAND OPERATIONS LIMITED	25 December 2017	31 January 2020	US Dollar	8.5	490
ES MTS-Turkmenistan LLC Telecom Povolzhye	Nokia Siemens Networks Oy/ Nokia Siemens Networks GmbH&Co.KG	22 December 2012	Perpetual	US Dollar	1	58
	ANALIVIA LIMITED, JSC SMARTS	19 September 2016	19 March 2018	RUB	-	3
<b>Total</b>						<b>89 068</b>

## 28. CONTINGENT LIABILITIES

**Licenses.** In July 2012, the Federal Service for Supervision of Communications, Information Technology and Mass Communications provided PJSC MTS with a license and frequencies for the provision of LTE telecommunication services in Russia. According to the terms and conditions of the LTE license, the Company is obliged to fully deploy LTE networks within seven years starting from 1 January 2013 and provide LTE services in all Russian population centers with more than 50 000 people by 2019. Moreover, the Company is obliged to annually invest at least RUB 15 billion in the implementation of the LTE standard until the network is fully deployed.

The Management believes that as at 31 December 2017 the Company complies with all above-mentioned conditions.

**Litigations.** Occasionally in the normal course of business, the Company is a party to legal, tax and customs disputes; and subject to claims, certain of which relate to developing markets and evolving fiscal and regulatory environments in which PJSC MTS operates.

**Legal proceedings on violation of the antimonopoly legislation.** In August 2017, the Federal Antimonopoly Service of the Russian Federation (FAS Russia) filed a case against PJSC MTS on violation of the antimonopoly legislation and for establishing monopolistically high prices for mobile radio-telephone communication services in the national roaming in the territory of the Russian Federation.

In February 2018, MTS PJSC was found guilty by FAS Russia of violating the legislation in terms of subscriber tariffs for the national roaming services and initiated the administrative proceedings in March 2018. As at the date of approval of the financial statements, there is uncertainty as to the outcome of the proceedings, as well as the probability of an administrative fine to be imposed in the amount of illegal income.

Illegal income is defined as the difference between the amount of revenue received by PJSC MTS as a result of unjustified prices and revenue that could be received as a result of prices that are justified from the point of view of FAS Russia.

Since the management does not have information on the price level that FAS Russia considers economically justified, it is currently impossible to reliably estimate the amount of the fine that can be potentially collected from PJSC MTS.

**Arrest PJSC MTS shares.** On 26 June 2017, JSFC Sistema, the largest shareholder of PJSC MTS, reported on arrest of 31.76% interest in the share capital of PJSC MTS that belonged to JSFC Sistema. The arrest was made based on the court decree of the Republic of Bashkortostan Arbitration Court to act on a legal claim of NK Rosneft PJSC, PJSC ANK Bashneft and the Ministry of Land and Property Relations of the Republic of Bashkortostan filed against JSFC Sistema and JSC Sistema-Invest in May 2017.

The decision of the court, the arrest of JSFC Sistema's interest in the share capital of PJSC MTS, as well as technical default of JSFC Sistema did not inhibit operating activities of PJSC MTS and did not have any impact in accordance with the existing debt instruments of PJSC MTS.

On 1 March 2018, the Arbitration Court of the Republic of Bashkortostan removed the arrest from 31.6% of shares in MTS as part of execution of a voluntary settlement agreement that was signed by both parties in December 2017.

**Counter-terrorism laws.** On 7 July 2016, the President of the Russian Federation signed counter-terrorism laws, also known as Yarovaya-Ozerov package. The package of laws stipulates the obligatory storage by telecommunication providers of phone calls, subscriber text messages, pictures, sounds, video and other messages during a certain period of time.

The laws are effective from 1 July 2018. To comply with counter-terrorism laws it may be necessary to build additional data storage, processing and indexation centers and to significantly increase the capital expenses of PJSC MTS. This may have negative impact on the Company's financial indicators, in particular, on net cash flow.

The requirements of counter-terrorism laws to the number of subscriber messages subject to mandatory storage will be directly established by the bylaws, which are currently being approved. The Company's management will estimate the potential impact of the laws on the financial statements, including the necessity to accrue additional provisions as soon as these requirements are approved and become effective.

**Investigations into former operations in Uzbekistan.** In March 2014, the Company 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 PJSC MTS's former subsidiary in Uzbekistan.

In 2015, activities related to the PJSC MTS's former operations in Uzbekistan have been referenced in a civil forfeiture complaint (hereinafter, the "Complaint"), filed by DOJ in the U.S. District Court, Southern District of New York (Manhattan). The Complaint alleges among other things that PJSC 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 Complaint is solely directed towards assets held by the unnamed Uzbek official, and none of PJSC MTS's assets are affected by the Complaint.

The Company cooperates with these investigations in good faith. The management of PJSC MTS, the United States Securities and Exchange Commission and the United States Department of Justice are in process of discussing a decision regarding the allegations made about the non-compliance with the U.S. Foreign Corrupt Practices Act ("FCPA"). However, at this stage the Company cannot predict the outcome of the investigations, assess the possibility of the magnitude of any expenses related to the investigations and estimate whether new circumstances may arise.

**Taxation.** Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Although the Company's management believes that the accompanying financial statements reflect fairly the Company's tax liabilities, there is a risk that the interpretation of the legislation by the tax and customs authorities, as applied to the transactions and activities of the Company, may not coincide with that of the management. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years prior to the year of tax review. Under certain circumstances, reviews may cover longer periods.

In 2017 Russian tax authorities performed tax review of PJSC MTS for 2015 and 2014. No comments were identified which could have resulted in additional expenses accrual.

Establishment of prices when selling goods and services between the companies of the MTS Group is regulated by the transfer pricing rules.

Management believes that the allowances recorded in the financial statements are sufficient to cover tax liabilities. However, the risk remains that the relevant authorities could take a position that is different from the position of the management of PJSC MTS with regard to the issues subject to varying interpretations and the effect could be significant.

The Company has the following contingent liabilities on income tax and other taxes for which it determines the outflow of economic benefits as less than possible:

	(RUB million)		
	31 December		
	2017	2016	2015
Contingent liabilities on other taxes	441	224	125
Contingent income tax liabilities	697	2 627	242

## 29. SUBSEQUENT EVENTS

### 29.1. Acquisitions of companies in 2018

**Kulturnaya Sluzhba.** In January 2018, the Company acquired 78.2% interest in the share capital of Kulturnaya Sluzhba LLC (hereinafter - "KS"), performing its activities under the brand Ponominalu.ru. The acquisition price included cash in the amount of RUB 267 million and contingent fee to be paid within 12 months from the acquisition date and consideration on the results of financial indicators to be paid in 2018 if the financial indicators are achieved by KS, in total equaling to RUB 132 million.

The Company also concluded an option agreement with KS participants, which stipulates that PJSC MTS has a call/put option, by demand of non-controlling participants of the Company to repurchase shares at the price which depends on the results of the Company's activities.

**"Moskovskaya Direktsiya Teatralno-kontsertnykh i Sportivno-zrelischnykh kass".**

In February 2018, the Company acquired 100% interest in the share capital of LLC "Moskovskaya Direktsiya Teatralno-kontsertnykh i Sportivno-zrelischnykh kass" (hereinafter - "MDTZK") performing its activities under the brand Ticketland.ru. The acquisition price included cash in the amount of RUB 3,190 million and contingent consideration to be paid within 12 months from the acquisition date estimated in total RUB 60 million.

The acquisitions allowed PJSC MTS to enter the market of sales of tickets to the theaters, concerts, musicals and festivals, as well as to propose subscribers a service of purchase of electronic tickets with their integration into the loyalty program and ecosystem of mobile applications of PJSC MTS.

**Investments into development of OZON.** In March 2018, PJSC MTS invested RUB 1.15 billion into development of OZON as part of additional emission of the Company. As the result, the interest of PJSC MTS in the share capital of Ozon Holdings Limited increased from 11.2% to 13.7%.

### 29.2. Early repayment of a loan

In March 2018, PJSC MTS early repaid part of a ten-year loan, where the mandated lead arrangers were Calyon, ING Bank N.V, Nordea Bank AB and Raiffeisen Zentralbank Osterreich AG. Early repayment amount totaled USD 224.7 million (RUB 12 668 million). Early repayment of one of the tranches is related to optimization of the Company's debt portfolio, an increase in average age and a reduction in the cost of net debt.

### 29.3. Placement of RUB-denominated bonds

In March 2018, PJSC MTS placed two series of exchange-traded bonds in MOEX (PJSC Moscow Stock Exchange MICEX-RTS) for the total amount of RUB 20 billion with coupon rates of 7.10% and 7.25% per annum and maturities of 3.5 years and 7 years, respectively.

### 29.4. Change of the President of PJSC MTS

On 1 March 2018, the Board of Directors of PJSC MTS made a decision to early terminate the duties of the President of PJSC MTS Andrei Anatolievich Dubovskov from 12 March 2018 and appoint Aleksey Valeryevich Kornya as the President of PJSC MTS for the period of three years from 13 March 2018.

### 29.5. Loans granted by PJSC MGTS

For the period from January to March 2018 the Company received loans from the subsidiary of PJSC MGTS in the amount of RUB 6 839 million, interest rate 7.65% per annum.

The Russian original signed by

A.V. Kornya,  
President of PJSC Mobile TeleSystems

A.V. Dvoretiskikh,  
Chief Accountant of PJSC Mobile TeleSystems

30 March 2018