PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Consolidated Financial Statements

As of December 31, 2017, 2016 and for the Years Ended December 31, 2017, 2016 and 2015.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016
(Amounts in millions of Russian Rubles)

	Notes	December 31, 2017	December 31, 2016
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	263,063	272,841
Investment property		407	336
Goodwill	12	34,281	33,685
Other intangible assets	14	79,397	75,128
Investments in associates	7	9,452	10,551
Other investments	8	1,953	36,319
Deferred tax assets	20	5,545	6,150
Accounts receivable, related parties	22	2	3,693
Other financial assets	18	8,890	13,877
Other non-financial assets		2,048	896
Total non-current assets		**405,038**	**453,476**
CURRENT ASSETS:			
Inventories	10	9,995	14,330
Trade and other receivables	9	28,017	29,805
Accounts receivable, related parties	22	11,358	4,401
Short-term investments	6	50,757	8,657
Advances paid and prepaid expenses		3,894	5,749
VAT receivable		7,165	7,098
Income tax assets		2,838	1,601
Assets held for sale		1,276	808
Cash and cash equivalents	5	30,586	18,470
Other assets		146	75
Total current assets		**146,032**	**90,994**
TOTAL ASSETS		**551,070**	**544,470**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016 (CONTINUED)
(Amounts in millions of Russian Rubles)

	Notes	December 31, 2017	December 31, 2016
EQUITY AND LIABILITIES			
EQUITY:			
Common stock	23	200	200
Treasury stock	23	(22,644)	(748)
Additional paid-in capital		381	191
Retained earnings		151,043	145,622
Accumulated other comprehensive loss	23	(8,854)	(6,030)
Equity attributable to owners of the Company		120,126	139,235
Non-controlling interests		4,079	4,713
Total equity		**124,205**	**143,948**
NON-CURRENT LIABILITIES:			
Borrowings	15	239,096	237,113
Deferred tax liabilities	20	23,773	26,611
Provisions	17	2,309	2,350
Other non-financial liabilities		3,968	4,129
Other financial liabilities	18	1,048	2,774
Total non-current liabilities		**270,194**	**272,977**
CURRENT LIABILITIES:			
Trade and other payables		47,314	41,473
Accounts payable, related parties	22	1,102	1,014
Subscriber prepayments and other advances		17,878	15,460
Borrowings	15	64,474	47,207
Income tax liabilities		1,150	962
Provisions	17	9,852	8,075
Other non-financial liabilities		11,865	10,305
Other financial liabilities	18	3,036	3,049
Total current liabilities		**156,671**	**127,545**
TOTAL EQUITY AND LIABILITIES		**551,070**	**544,470**

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in millions of Russian Rubles, except per share amounts)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Service revenue		390,761	386,486	386,159
Sales of goods		52,150	49,206	40,480
Revenue	26	**442,911**	**435,692**	**426,639**
Cost of services		123,779	130,158	126,805
Cost of goods	10	45,623	45,574	36,555
Selling, general and administrative expenses	24	95,186	94,046	87,340
Depreciation and amortization	26	79,912	81,582	77,843
Operating share of the profit of associates	7	(3,210)	(3,115)	(3,456)
Provision for investments in distressed Ukrainian banks	30	-	-	1,698
Impairment of non-current assets	13	3,775	-	3,516
Other expenses / (income)		1,746	(222)	2,415
Operating profit		**96,100**	**87,669**	**93,923**
Finance income	25	(5,548)	(5,273)	(8,368)
Finance costs	25	26,064	27,136	26,422
Currency exchange (gain) / loss		(1,301)	(3,241)	6,154
Non-operating share of the loss of associates	7	436	1,287	3,780
Change in fair value of financial instruments		(110)	(166)	(1,014)
Other expenses / (income)		992	317	(54)
Profit before tax		**75,567**	**67,609**	**67,003**
Income tax expense	20	18,977	15,138	13,931
Profit for the year from continuing operations		**56,590**	**52,471**	**53,072**
Loss from discontinued operations	27	-	(4,021)	(5,668)
Profit for the year		**56,590**	**48,450**	**47,404**
Profit / (loss) for the year attributable to:				
Owners of the Company		56,042	48,474	49,489
Non-controlling interests		548	(24)	(2,085)
Earnings per share (basic and diluted), Russian Rubles:	21	28.68 and 28.66	24.37 and 24.35	24.88 and 24.87

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in millions of Russian Rubles)

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Profit for the year	**56,590**	**48,450**	**47,404**
Other comprehensive loss			
Items that will not be reclassified subsequently to profit or loss:			
Unrecognized actuarial (loss) / gain	(40)	50	86
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(2,469)	(15,104)	2,647
Net fair value gain / (loss) on financial instruments	495	(1,200)	(3,223)
Share of other comprehensive loss of associates			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations in associates	(810)	(1,553)	(1,182)
Other comprehensive loss for the year, net of income tax	**(2,824)**	**(17,807)**	**(1,672)**
Total comprehensive income for the year	**53,766**	**30,643**	**45,732**
Total comprehensive income / (loss) for the year attributable to:			
Owners of the Company	53,218	31,268	47,187
Non-controlling interests	548	(625)	(1,455)

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated other comprehensive income / (loss)			Retained earnings	Equity attributable to equity holders	Non-controlling interests	Total equity
	Shares	Amount	Shares	Amount		Cash flow hedging reserve	Foreign currency translation reserve	Remeasure-ments of the net defined benefit liability				
Balances at January 1, 2015	**2,066,413,562**	**207**	**(77,501,432)**	**(24,464)**	**5,052**	**4,268**	**8,803**	**407**	**174,556**	**168,829**	**9,793**	**178,622**
Profit / (loss) for the year	-	-	-	-	-	-	-	-	49,489	49,489	(2,085)	47,404
Other comprehensive (loss) / income for the year, net of income tax	-	-	-	-	-	(3,223)	835	86	-	(2,302)	630	(1,672)
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**-**	**-**	**(3,223)**	**835**	**86**	**49,489**	**47,187**	**(1,455)**	**45,732**
Issuance of stock options	-	-	-	-	158	-	-	-	-	158	-	158
Dividends declared by MTS	-	-	-	-	-	-	-	-	(50,061)	(50,061)	-	(50,061)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(480)	(480)	(257)	(737)
Sale of own stock	-	-	9,935	2	-	-	-	-	-	2	-	2
Purchase of own stock	-	-	(29,666)	(6)	-	-	-	-	-	(6)	-	(6)
Disposal of Intellect Telecom (Note 4)	-	-	-	-	252	-	-	-	-	252	14	266
Disposal of Rent Nedvizhimost (Note 4)	-	-	-	-	6,003	-	-	-	-	6,003	343	6,346
Acquisition of NIS (Note 4)	-	-	-	-	(506)	-	-	-	-	(506)	(29)	(535)
Acquisition of NVision (Note 4)	-	-	-	-	(10,371)	-	-	-	-	(10,371)	-	(10,371)
Acquisition of Stream (Note 4)	-	-	-	-	(997)	-	-	-	-	(997)	-	(997)
Changes in ownership interest with no gain/loss of control – MGTS and NIS	-	-	-	-	105	-	-	-	-	105	(153)	(48)
Reclassification to retained earnings	-	-	-	-	304	-	-	-	(304)	-	-	-
Balances at December 31, 2015	**2,066,413,562**	**207**	**(77,521,163)**	**(24,468)**	**-**	**1,045**	**9,638**	**493**	**173,200**	**160,115**	**8,256**	**168,371**
Profit / (loss) for the year	-	-	-	-	-	-	-	-	48,474	48,474	(24)	48,450
Other comprehensive (loss) / income for the year, net of income tax	-	-	-	-	-	(1,200)	(13,970)	50	-	(15,120)	(601)	(15,721)
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**-**	**-**	**(1,200)**	**(13,970)**	**50**	**48,474**	**33,354**	**(625)**	**32,729**
Issuance of stock options	-	-	-	-	131	-	-	-	-	131	11	142
Dividends declared by MTS	-	-	-	-	-	-	-	-	(51,738)	(51,738)	-	(51,738)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,120)	(1,120)
Unclaimed dividends	-	-	-	-	-	-	-	-	3	3	-	3
Sale of own stock	-	-	1,074,525	213	-	-	-	-	-	213	-	213
Purchase of own stock (Note 23)	-	-	(3,067,396)	(748)	-	-	-	-	-	(748)	-	(748)
Purchase of non-controlling interests	-	-	-	-	5	-	-	-	-	5	(22)	(17)
Changes in ownership interest with no gain / loss of control - MTS Bank additional share issuance	-	-	-	-	(14)	-	-	-	-	(14)	-	(14)
Redemption of treasury shares (Note 23)	(68,031,987)	(7)	68,031,987	24,255	-	-	-	-	(24,248)	-	-	-
Disposal of UMS, the Group's subsidiary in Uzbekistan (Note 27)	-	-	-	-	-	-	(2,086)	-	-	(2,086)	(1,787)	(3,873)
Reclassification to retained earnings	-	-	-	-	69	-	-	-	(69)	-	-	-
Balances at December 31, 2016	**1,998,381,575**	**200**	**(11,482,047)**	**(748)**	**191**	**(155)**	**(6,418)**	**543**	**145,622**	**139,235**	**4,713**	**143,948**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015 (CONTINUED)
(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock			Accumulated other comprehensive income / (loss)						
	Shares	Amount	Shares	Amount	Additional paid-in capital	Cash flow hedging reserve	Foreign currency translation reserve	Remeasure-ments of the net defined benefit liability	Retained earnings	Equity attributable to equity holders	Non-controlling interests	Total equity
Balances at December 31, 2016	**1,998,381,575**	**200**	**(11,482,047)**	**(748)**	**191**	**(155)**	**(6,418)**	**543**	**145,622**	**139,235**	**4,713**	**143,948**
Profit for the year	-	-	-	-	-	-	-	-	56,042	56,042	548	56,590
Other comprehensive (loss) / income for the year, net of income tax	-	-	-	-	-	495	(2,620)	(40)	-	(2,165)	-	(2,165)
Disposal of East-West United Bank by MTS Bank, the Group’s associate (Note 7)	-	-	-	-	-	-	(659)	-	-	(659)	-	(659)
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**-**	**-**	**495**	**(3,279)**	**(40)**	**56,042**	**53,218**	**548**	**53,766**
Exercise of stock options	-	-	851,275	-	240	-	-	-	-	240	-	240
Dividends declared by MTS	-	-	-	-	-	-	-	-	(50,621)	(50,621)	-	(50,621)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-		(1,175)	(1,175)
Purchase of own stock (Note 23)	-	-	(75,708,384)	(21,896)	-	-	-	-	-	(21,896)	-	(21,896)
Purchase of non-controlling interests	-	-	-	-	(2)	-	-	-	-	(2)	(7)	(9)
Changes in ownership interest with no gain / loss of control	-	-	-	-	(48)	-	-	-	-	(48)	-	(48)
Balances at December 31, 2017	**1,998,381,575**	**200**	**(86,339,156)**	**(22,644)**	**381**	**340**	**(9,697)**	**503**	**151,043**	**120,126**	**4,079**	**124,205**

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in millions of Russian Rubles)

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year	56,590	48,450	47,404
Adjustments for:			
Depreciation and amortization	79,912	83,259	82,473
Impairment of non-current assets	3,775	-	3,516
Non-cash loss from sale of subsidiary in Uzbekistan	-	2,726	-
Finance income	(5,548)	(5,273)	(8,368)
Finance costs	26,064	27,427	26,630
Income tax expense	18,977	14,954	13,269
Currency exchange (gain) / loss	(1,301)	(3,232)	6,213
Amortization of deferred connection fees	(2,876)	(2,287)	(2,362)
Share of (profit) / loss of associates	(2,774)	(1,828)	324
Change in fair value of financial instruments	(110)	(166)	(1,014)
Inventory obsolescence expense	2,179	1,548	384
Allowance for doubtful accounts	2,923	2,857	3,221
Change in provisions	14,347	13,161	7,265
Other non-cash items	(657)	(3,656)	(562)
Movements in operating assets and liabilities:			
(Increase) / Decrease in trade and other receivables	(3,514)	(3,525)	2,781
Decrease / (Increase) in inventory	2,200	(1,816)	(5,998)
Decrease / (Increase) in advances paid and prepaid expenses	1,197	(812)	574
(Increase) / Decrease in VAT receivable	(1,145)	227	(642)
Decrease in trade and other payables and other current liabilities	(6,715)	(9,086)	(4,449)
Dividends received	3,590	2,801	3,269
Income tax paid	(22,427)	(11,687)	(9,643)
Interest received	3,319	3,344	4,760
Interest paid, net of interest capitalized	(23,366)	(26,821)	(24,957)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**144,640**	**130,565**	**144,088**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of subsidiaries, net of cash acquired (Note 4)	(367)	(5)	-
Purchases of property, plant and equipment (including capitalized interest in the amount of RUB 307 million, RUB 388 million and RUB 885 million, respectively)	(53,366)	(55,538)	(76,671)
Purchases of other intangible assets	(23,065)	(28,013)	(19,440)
Purchase of 3G and 4G licenses in Ukraine and Russia	-	(2,598)	(10,426)
Proceeds from sale of property, plant and equipment and assets held for sale	4,343	4,042	2,988
Purchases of short-term and other investments	(33,717)	(9,739)	(73,485)
Proceeds from sale of short-term and other investments	25,385	39,021	31,678
Investments in associates (Note 7)	(723)	(4,094)	-
Disposal of discontinued operation, net of cash disposed	-	(378)	-
NET CASH USED IN INVESTING ACTIVITIES	**(81,510)**	**(57,302)**	**(145,356)**

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015 (CONTINUED)
(Amounts in millions of Russian Rubles)

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of notes	(12,042)	(20,364)	(24,018)
Proceeds from issuance of notes	45,000	10,000	5
Notes and debt issuance cost paid	(98)	(16)	(1,244)
Finance lease obligation principal paid	(774)	(334)	(409)
Dividends paid	(51,759)	(52,805)	(50,786)
Cash flows from transactions with entities under common control	-	3,063	(4,821)
Proceeds from loans	25,136	50,696	63,162
Repayment of loans	(32,239)	(69,532)	(16,132)
Cash flows under credit guarantee agreement related to foreign-currency hedge (Note 19)	(1,766)	(2,984)	6,706
Repurchase of common stock	(21,896)	(748)	(6)
Other financial activities	(7)	(14)	(52)
NET CASH USED IN FINANCING ACTIVITIES	**(50,445)**	**(83,038)**	**(27,595)**
Effect of exchange rate changes on cash and cash equivalents	(569)	(5,219)	761
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**12,116**	**(14,994)**	**(28,102)**
CASH AND CASH EQUIVALENTS, beginning of the year	**18,470**	**33,464**	**61,566**
CASH AND CASH EQUIVALENTS, end of the year	**30,586**	**18,470**	**33,464**

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

1. GENERAL INFORMATION AND DESCRIPTION OF BUSINESS

Public Joint-Stock Company Mobile TeleSystems ("MTS PJSC", or "the Company") is a company incorporated under the laws of the Russian Federation and having its registered address at 4, Marksistskaya Street, 109147, Moscow, Russian Federation.

The consolidated financial statements of the Company and its subsidiaries ("the Group" or "MTS") as of December 31, 2017 and 2016, and for the years ended 31 December 2017, 2016 and 2015 were authorized for issue by MTS President on March 19, 2018.

Business of the Group – MTS PJSC was incorporated on March 1, 2000, through the merger of MTS CJSC and Rosico TC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow license area in 1994 and then began expanding through Russia and the CIS. MTS PJSC's majority shareholder is Public Joint-Stock Financial Corporation Sistema or Sistema, whose controlling shareholder is Vladimir P. Yevtushenkov.

The Group provides a wide range of telecommunications services including voice and data transmission, internet access, pay TV, various value added services ("VAS") through wireless and fixed lines, integration services as well as selling equipment, accessories and software. The Group's principal operations are located in Russia, Ukraine and Armenia.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol "MBT". Since 2003 common shares of MTS PJSC have been traded on the Public Joint-Stock Company "Moscow Exchange MICEX-RTS" ("Moscow Exchange").

Since 2009, the Group has been developing its own retail network, operated by Russian Telephone Company CJSC ("RTC"), a wholly owned subsidiary of MTS PJSC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation – These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements are prepared on a historical cost basis, unless disclosed otherwise. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Amounts in the consolidated financial statements are stated in millions of Russian Rubles ("RUB million"), unless indicated otherwise.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

Basis of consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved only where the Company has the power over the entity, is exposed and has rights to variable returns, and is able to use the power to affect its amount of variable returns. The results of the controlled entities acquired or disposed of during the reporting period are included in the consolidated financial statements from the date, the Group achieves control over the entity, or until the date on which the Company ceases to control the entity. If necessary, the accounting policies of controlled entities' are aligned with the accounting policy applied by the Group. All intra-group balances, income, expenses and cash flows are eliminated on consolidation.

(Amounts in millions of Russian Rubles unless otherwise stated)

Those entities where the Group exercises significant influence are recognized as associates and accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. These entities are recognized at cost at the time of acquisition and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income. The carrying amount of the investment in such entities may include goodwill as the positive difference between the cost of the investment and Group's proportionate share in the fair values of the entity's identifiable assets and liabilities. The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss is recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use. The Group presents its share in profits or losses in associates within operating profit if those interests are viewed as part of Group's core operations. As of December 31, 2017, only MTS Belarus was considered to be a part of Group's core operating activity. Shares in profits and losses of other Group's associates were presented as non-operating items.

The Group has joint operations with MTS Bank, a Group's associate, relating to the development of the MTS Dengi project and Vimpelcom, relating to construction of LTE base stations. Joint operations are characterized by the fact that the operators that have joint control over the arrangement have a right to the assets, and obligations for the liabilities, relating to the arrangement. Respectively, each operator accounts for its share of the joint assets and its agreed share of any liabilities, and recognizes its share of the output, revenues and expenses incurred under the arrangement.

Investments in shares of the companies over which the Group does not have control or an ability to exercise significant influence are accounted for under the cost method. The Group does not evaluate cost-method investments for impairment unless there is an indicator of impairment.

Effective ownership interests in the Group's significant subsidiaries were the following:

	Accounting method	**December 31, 2017**	**December 31, 2016**
RTC	Consolidated	100.0%	100.0%
Vodafone Ukraine	Consolidated	100.0%	100.0%
MTS Turkmenistan (Note 29)	Consolidated	100.0%	100.0%
Sibintertelecom	Consolidated	100.0%	100.0%
NVision Group	Consolidated	100.0%	100.0%
Sitronics Telecom Solutions	Consolidated	100.0%	100.0%
NVision Czech Republic	Consolidated	100.0%	100.0%
Sputnikovoe TV	Consolidated	100.0%	100.0%
Stream	Consolidated	100.0%	100.0%
Dega	Consolidated	100.0%	100.0%
Stream Digital(1)	Consolidated	100.0%	100.0%
MTS Energo	Consolidated	100.0%	-
Bashkortostan Cellular Communications (BCC)	Consolidated	100.0%	-
Praliss Enterprises Limited	Consolidated	100.0%	-
Metro-Telecom	Consolidated	95.0%	95.0%
MGTS Group	Consolidated	94.7%	94.7%
MTS Armenia	Consolidated	80.0%	80.0%
Navigation Information Systems Group	Consolidated	77.7%	77.7%
Oblachny Retail LLC	Consolidated	50.8%	-
MTS International Funding Limited(2) ("MTS International")	Consolidated	SE	SE
MTS Belarus	Equity	49.0%	49.0%
Sistema Capital	Equity	30.0%	-
MTS Bank	Equity	26.6%	26.6%
Zifrovoe TV	Equity	20.0%	20.0%
OZON Holdings Limited	Equity	11.2%	10.8%

(1) A wholly-owned subsidiary, through which the Group currently repurchases its own shares.

(2) A company organized and existing as a private limited company under the laws of Ireland. The Group does not have any equity in MTS International. It was established for the purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group. In 2010 and 2013, MTS International issued $750 million 8.625% notes due in 2020 and $500 million 5.0% notes due in 2023, respectively (Note 15). The notes are guaranteed by MTS PJSC in the event of default. MTS International does not perform any other activities except those required for notes servicing. The Group bears all costs incurred by MTS International in connection with the notes' maintenance activities. Accordingly, the Group concluded that it exercises control over the entity.

Acquisitions from entities under common control – Business combinations arising from transfers of interests in entities that are under common control with the Group are consolidated prospectively starting from the date, the control over those entities is passed to the Group. The assets and liabilities acquired are recognized at the carrying values recorded previously in the counterparty's financial statements with the resulting gain or loss recognized directly in equity.

Functional currency translation methodology – As of December 31, 2017, the functional currencies of Group entities were as follows:

- For entities incorporated in the Russian Federation, Dega and MTS International – the Russian Ruble ("RUB");
- For Vodafone Ukraine – the Ukrainian Hryvna;
- For MTS Armenia – the Armenian Dram;
- For MTS Turkmenistan – the Turkmenian Manat;
- For MTS Belarus – the Belorussian Ruble;
- For NVision Czech Republic – the Czech Crown.

Foreign-currency transactions are translated into the functional currency at the exchange rates at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are translated at the closing rate, whereas non-monetary items are stated at the exchange rate at the date of their recognition. Exchange rate differences are recognized in profit or loss.

For entities whose records are maintained in their functional currency, which is other than the reporting currency, all year-end assets and liabilities have been translated into U.S. Dollars ("USD") at the period-end exchange rate set by local central banks. Subsequently, U.S. Dollars balances have been translated into Russian Rubles at the period-end exchange rate set by the Central Bank of Russia. Revenues and expenses have been translated at the average exchange rate for the period using cross-currency exchange rate via U.S. Dollar as described above. Translation differences resulting from the use of these rates are reported as a component of other comprehensive income.

Management estimates – The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include allowance for doubtful accounts and inventory obsolescence, the valuation of assets acquired and liabilities assumed in business combinations, the recoverability of investments and the valuation of goodwill, property, plant and equipment and intangible assets, liability under put option agreement, certain provisions and financial instruments.

Property, plant and equipment – Property, plant and equipment, including improvements, are stated at cost. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life, as follows:

Network and base station equipment:	
Network infrastructure	5-44 years
Other	1.5-21 years
Land and buildings:	
Buildings	20-150 years
Leasehold improvements	the term of the lease
Office equipment, vehicles and other:	
Office equipment	3-21 years
Vehicles	2-7 years
Other	2-25 years

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between any sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

Borrowing costs – Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset during the construction phase that necessarily takes a substantial period of time are capitalized as part of property, plant and equipment until the asset is substantially ready for its intended use. The Group considers a construction period of more than six months to be substantial.

Other intangible assets – Other intangible assets primarily consist of billing, telecommunication, accounting and office software as well as numbering capacity, customer base and licenses. These assets are assets with finite useful lives. They are initially recognized at cost and amortized on a straight-line basis over their estimated useful lives.

Goodwill – Goodwill represents an excess of consideration transferred plus the fair value of any non-controlling interest (“NCI”) in the acquiree at the acquisition date over the fair values of the identifiable net assets of the acquired entity. Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit (“CGU”) to which the goodwill is allocated. The impairment test is carried out on a regular basis at the end of each financial year, as well as whenever there are indications that the carrying amount of the CGU unit is impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGU units that are expected to benefit from the synergies of the combination. If the carrying amount of the CGU unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this CGU must be reduced. Impairment losses for goodwill must not be reversed. If the impairment loss recognized for the CGU exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the CGU.

Impairments of intangible assets and property, plant and equipment – Impairments are identified by comparing the carrying amount with the recoverable amount. If no future cash flows generated independently of other assets can be allocated to individual assets, recoverability is assessed on the basis of the CGU to which the assets can be allocated. At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or CGU must be determined. In addition, at the end of each period the Group assesses whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill no longer exists or may be decreased. If the impairment loss is reversed, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years.

Assets and disposal groups held for sale – The Group classifies assets and disposal groups as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the assets (or disposal group) are available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and their sale is highly probable to occur within a year. Held for sale assets and disposal groups are measured at the lower of carrying amount or fair value less cost to sell.

Inventories and spare parts – Inventories are stated at the lower of cost or net realizable value. Inventory cost is determined using the weighted average cost method. Handsets and accessories held for sale are expensed when sold. The Group regularly assesses its inventories for obsolete and slow-moving stock.

Value-added tax (“VAT”) – Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

Income taxes – Income taxes of the Group's Russia-incorporated entities have been computed in accordance with Russian legislation and are based on the taxable profit for the period. The corporate income tax rate in Russia is 20%. The withholding tax rate on dividends paid within Russia is 13%. The foreign subsidiaries of the Group are paying withholding taxes in their respective jurisdictions. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Financial instruments – A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade and other receivables, investments (mainly deposits with original maturity of more than three months, originated loans and notes, as well as debt securities) and derivative financial assets. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds, trade and other payables, bank loans, finance lease obligations and derivative financial liabilities. Financial instruments are recognized as soon as the Group becomes a party to the contractual regulations of the financial instrument.

Financial assets and financial liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for a financial asset or liability accounted for at fair value through profit or loss, in which case transaction costs are expensed. Subsequently they are measured either at amortized cost or fair value depending on classification of those assets and liabilities based on their purpose. Financial assets can be classified as 1) financial assets at fair value through profit or loss; 2) held-to-maturity investments; 3) available for sale financial assets; 4) loans and receivables. Financial liabilities can be classified as 1) financial liabilities at fair value or 2) other financial liabilities.

Cash and cash equivalents – Cash and cash equivalents represent cash on hand and in bank accounts, as well as short-term bank deposits, which have original maturities of less than three months. Such investments are measured at amortized cost.

Trade and other receivables – Trade and other receivables are stated at their nominal value as reduced by appropriate allowance for doubtful accounts.

Allowance for doubtful accounts – The Group provides an allowance for doubtful accounts based on management's periodic review with respect to the recoverability of trade receivables, advances given, loans and other receivables. Such allowance reflects specific cases, collection trends or estimates based on evidence of collectability.

Short-term investments – Short-term investments mainly represent investments in loans, time deposits, which have original maturities in excess of three months and are repayable in less than twelve months, as well as investment in debt securities. Investment in debt securities are classified as financial assets at fair value through profit or loss, if they held for trading, otherwise they are classified as available for sale with unrealized gains and losses recorded as part of other comprehensive income. Deposits and loans are carried at amortized cost.

Other investments – Other investments consist primarily of long-term deposits, which are repayable in more than a year, loans, notes and equity holdings in private companies. Deposits, loans and notes not quoted in active market are classified as loans and receivables and carried at amortized cost. The notes quoted in active market are classified based on Group's intention and ability to hold these notes to maturity either as held to maturity or available for sale. The Group reviews these investments for indicators of impairment on a regular basis.

Trade payables and other non-derivative financial liabilities are measured at amortized cost.

Hedging activities – The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them as either other current or other non-current financials assets or liabilities in the consolidated statement of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews related fair value hierarchy classifications on a quarterly basis. The fair value measurement of the Group’s derivative instruments is based on the observable yield curves for similar instruments.

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

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

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

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

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

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

Fair value of financial instruments – Fair value of financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities;
- Level 3 – No observable pricing inputs in the market.

Financial assets and financial liabilities are classified in the three-tier hierarchy based on the lowest level of input that is significant to the fair value measurements. The Group’s assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Liability under put option agreement – To optimize the structure of business acquisitions and to defer payment of the purchase price, the Group enters into put and call option agreements to acquire the remaining non-controlling stakes in newly acquired subsidiaries. Upon initial recognition, the commitment to purchase non-controlling interests is recognized as a financial liability for the present value of the redemption amount, which approximates its fair value. Subsequent changes in the value of the commitment are recognized in profit or loss for the reporting period.

Finance leases – Leases are classified as finance whenever the terms of the lease transfer substantially all risks and rewards incidental to ownership of the leased asset to the Group. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the lease term. The corresponding liability is recognized in the consolidated statement of financial position within borrowings. The discount rate used in the calculating the present value of minimum lease payments is the interest rate implicit in the lease. If there is no interest rate in the lease, the Group’s incremental borrowing rate is used.

Share-based payment programs – Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period and offset against capital reserves. For cash-settled share-based payment transactions, the fair value of the obligation is newly determined at each reporting date and at the settlement date, and the changes in the fair value are recognized in profit or loss, until the liability is settled.

Retirement benefits – MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement, which form a defined benefit plan. The cost of providing benefits is determined using projected unit credit method with actuarial valuation being carried out at the end of each reporting period.

Provisions – Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at managements' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. The main provisions the Group holds are in relation to employees' bonuses and other rewards, decommissioning and restoration obligation, tax provisions as well as legal claims.

Provision for decommissioning and restoration – The Group calculates a provision for decommissioning and restoration when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group records the present value of provision for decommissioning and restoration as non-current provisions in the consolidated statement of financial position.

Subscriber prepayments – The Group requires the majority of its customers to pay in advance for telecommunications services. All amounts received in advance of services provided are recorded as a subscriber prepayment liability and are not recognized as revenues until the related services have been provided to the subscriber.

Treasury stock – Shares of common stock repurchased by the Group are recorded at cost as treasury stock and reduce the shareholders' equity in the Group's consolidated financial statements.

Revenue recognition – Revenue includes all revenues from the ordinary business activities of the Group. Revenues are measured at the fair value of the consideration received or receivable and recorded net of value-added tax. The Group recognizes revenue when the amount of revenue and related costs can be measured reliably; when it is probable that future economic benefit will flow to the Group; 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 Group acts as an agent of the content providers while gross revenue and related costs are recorded when the Group acts as a primary obligor in the arrangement.

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

Mobile subscribers	7 months – 9 years
Residential wireline voice phone subscribers	15 years
Other fixed line subscribers	3-5 years

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

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

The Group regularly provides special incentives to its retail customers. Generally the Group sells mobile devices of worldwide known brands with an offer of free telecommunication services for a time period from one to twelve months. Such arrangements with a customer provide for two deliverables – a mobile device delivered immediately and mobile services to be consumed in the future. The consideration received from a customer is allocated between the deliverables based on their standalone value on the market. Revenue on the devices sales is recognized at the moment of their sale, and the revenue on provision of free telecommunication services is deferred and recognized upon consumption by a subscriber.

Roaming discounts – The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group 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 Group accounts for discounts received as a reduction of roaming expenses and rebates granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statement of financial position.

Sales and marketing expenses – Sales and marketing expenses consist primarily of dealers' commissions and advertising costs. Dealers' commissions are linked to revenues received during the six-month period from the date a new subscriber is activated by a dealer. The Group expenses these costs as incurred.

Netting – The Group offsets its financial assets and financial liabilities only if it has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Standards, interpretations and amendments adopted on January 1, 2017

The Group has applied amendments to IAS 7 *Disclosure Initiative* for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both cash and non-cash changes.

The Group's liabilities consist of borrowings (Note 15) and certain other financial liabilities (Note 18). A reconciliation between the opening and closing balances of these items is provided in Note 16. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period.

None of the standards, interpretations and amendments adopted by the Group on January 1, 2017 had a significant effect on the Group's consolidated financial statements.

(Amounts in millions of Russian Rubles unless otherwise stated)

Standards, interpretations and amendments in issue but not yet effective

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

IFRS 9	Financial Instruments [(1)]
Amendments to IFRS 2	Classification and measurement of Share-based Payment Transactions [(1)]
IFRS 15	Revenue from contracts with Customers [(1)]
Amendments to IAS 40)	Transfers of Investment Property[(1)]
Amendments IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle [(1)]
IFRIC 22	Foreign Currency Transactions and advances Consideration [(1)]
IFRS 16	Leases [(2)]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [(3)]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures [(2)]
IFRIC 23	Uncertainty over Income Tax Treatments [(2)]
Amendments to IFRS 9	Prepayment Features With Negative Compensation[(2)]
Amendments IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle [(2)]

(1) Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
(2) Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
(3) Effective date is not currently determined.

IFRS 9, *Financial Instruments*. IFRS 9 regulates the classification and measurement of financial assets and liabilities and requires certain additional disclosures. The primary changes relate to the assessment of hedging arrangements and provisioning for potential future credit losses on financial assets as well as recognition of modification gain or loss for all revisions of estimated payments or receipts, including changes in cash flows arising from a modification or exchange of a financial liability, that does not result in its derecognition.

Based on Group's current estimate there will be no material effect from earlier recognition of future credit losses on financial assets or for current hedge accounting. The estimated gain in relation of the Group's modified liabilibies will amount to RUB 3 bln.

The Group will recognize the cumulative effect arising from the transition as an adjustment to the opening balance of equity. Prior period's comparative will not be restated.

IFRS 15, *Revenue from Contracts with Customers*. This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces the existing standards IAS 18, *Revenue*, and IAS 11, *Construction Contracts*. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the standard, an entity recognizes revenue when (or as) a performance obligation is satisfied, i. e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios than exists in the current guidance. Furthermore, extensive disclosures are required by IFRS 15.

The Group currently anticipates that the main effect from the adoption of IFRS 15 on the Group's consolidated financial statements will relate to the deferral of certain incremental costs incurred in acquiring or fullfilling a contract with a customer. Such contract costs will be amortised over the period of benefit. The Group will use a practical expedient from IFRS 15 allowing to expense contract costs as incurred when the amortization period is one year or less. The Group estimates the additional asset stemming from the capitalization of contract costs to amount to RUB 5.9 bln.

Other anticipated impacts of the standard includes later recognition of revenue in cases, where "material rights" (such as offering additional products and services free of charge) are granted to the customers, and the reallocation of renumeration between components of contracts with customers. The Group estimates the additional deferred revenue to be recognized as a result of applying IFRS 15 will not be material.

The Group will utilize the option for simplified initial application, so that contracts that are not completed by January 1, 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application. The prior period comparatives will not be restated.

IFRS 16, Leases. This standard principally requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. The standard also includes new provisions on the definition of a lease and its presentation, on disclosures in the notes, and on sale and leaseback transactions.

The Group elected to early adopt the standard effective January 1, 2018 concurrent with the adoption of the new standard related to revenue recognition.

The Group will make use of the following practical expedients:

- relief from the requirement to reassess whether a contract is, or contains the lease;
- use of assessment of whether leases are onerous applying IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* immediately before the date of initial application as an alternative to performing an impairment review;
- permission to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Based on analysis performed, the Group expects its lease liability and non-current assets to increase by no less than RUB 134 bln, respectively, as a result of applying IFRS 16. In terms of future effects on the statement of profit or loss, the lease expenses will be for depreciation of right-of-use assets and interest of lease liability; interest will typically be higher at the earlier stages of a lease and reduce over the term.

The Group will recognize the cumulative effect arising from the transition as an adjustment to the opening balance of equity. Prior period's comparative will not be restated.

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

Other mentioned IFRS pronouncements do not have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

1. Critical accounting estimates

A critical accounting estimate is an estimate that is both important to the presentation of the Group's financial position and requires management's most difficult, subjective or complex judgments, often as a result of the need to determine estimates and develop assumptions about the outcome of matters that are inherently uncertain.

Management evaluates such estimates on an on-going basis, based upon historical results, historical experience, trends, consultations with experts, forecasts of the future, and other methods which management considers reasonable under the circumstances. Management considers the accounting estimates discussed below to be its critical accounting estimates, and, accordingly, provides an explanation of each.

2. Depreciation and amortization of non-current assets

Depreciation and amortization expenses are based on management estimates of useful life, residual value and amortization method of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and management views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for the new technologies. Critical estimates in the evaluations of useful lives for intangible assets include, but are not limited to, the estimated average customer relationship based on churn, the remaining license period and the expected developments in technology and markets.

The useful lives of property and equipment and intangible assets are reviewed at least annually, taking into consideration the factors mentioned above and all other important relevant factors. The actual economic lives of intangible assets may be different from useful lives estimated by management, thereby resulting in a different carrying value of intangible assets with finite lives.

The Group continues to evaluate the amortization period for intangible assets with finite lives to determine whether events or circumstances warrant revised amortization periods. A change in estimated useful lives is a change in accounting estimate, and depreciation and amortization charges are adjusted prospectively. See Notes 11 and 14 for further information.

3. Impairment of non-current assets

The Group has made significant investments in property, plant and equipment, intangible assets, goodwill and other investments.

Pursuant to IAS 36, goodwill and other intangible assets with indefinite useful lives and intangible assets not yet brought into use must be tested for impairment annually or more often if indicators of impairment exist. Other assets are tested for impairment when circumstances indicate that there may be a potential impairment.

Estimating recoverable amounts of assets and CGUs must, in part, be based on management's evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). Changing the assumptions selected by management, in particular, the discount rate and growth rate assumptions used to estimate the recoverable amounts of assets, could significantly impact the Group's impairment evaluation and hence results.

All of the Group's operations are in countries with emerging markets. The political and economic situation in these countries may change rapidly and potentially have a significant impact on these countries. Changing state of the world economy, and increased macroeconomic risks, impact management's assessment of cash flow forecasts and the discount rates applied.

There are significant variations between different markets with respect to growth, mobile penetration, Average Revenue Per User ("ARPU"), market share and similar parameters, resulting in differences in operating margins. The future developments of operating margins are important in the Group's impairment assessments, and the long-term estimates of these margins are highly uncertain.

See Notes 12 and 13 for further information about goodwill and impairment test.

4. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 18 for further information.

5. Provisions and contingencies

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. In addition, significant uncertainty exists in relation of employee bonuses and other rewards, which depend on their individual performance and Group's results. Management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable.

See Note 17 and Note 30 for further information.

4. BUSINESS ACQUISITIONS AND DISPOSALS

1. Acquisitions after the reporting period

***Acquisition of Kulturnaya Sluzhba* –** In January 2018, the Group acquired a 78.2% ownership interest in Kulturnaya Sluzhba LLC ("KS"), operating under the trademark Ponominalu.ru. The purchase price comprised of cash payment, contingent consideration, payable in 12 months after the acquisition date and earn-out payments, the amounts to be paid to the sellers in 2018 if agreed upon financial targets are met by KS.

Acquisition of Moskovskaia Direktciia Teatralno-Kontcertnyh i Sportivno-Zrelishchnyh Kass - In February 2018, the Group acquired a 100% ownership interest in Moskovskaia Direktciia Teatralno-Kontcertnyh i Sportivno-Zrelishchnyh Kass LLC ("MDTZK"), operating under the trademark Ticketland.ru. The purchase price comprised of cash payment and contingent consideration, payable in 12 months after the acquisition date.

These acquisitions allow the Group to enter the event ticket market, while broadening the Group's suite of digital services, and integrate a key new product into existing loyalty program and mobile applications ecosystem.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table summarizes the preliminary purchase price allocation for MDZTK and KS:

	MDTZK	**KS**
Cash and cash equivalents	325	39
Current assets	159	153
Property, plant and equipment	128	25
Goodwill	3,280	669
Other intangible assets	56	75
Other non-current assets	19	20
Current liabilities	(639)	(474)
Liability under put option agreement over non-controlling interests	-	(96)
Non-current liabilities	(78)	(12)
Consideration transferred	**3,250**	**399**
Contingent consideration and earn-out payments	60	132
Cash	3,190	267
Consideration transferred	**3,250**	**399**

The goodwill is mainly attributable to the expected synergies resulted from the acquisitions.

The Group also entered into an option agreement with the shareholders of the KS, pursuant to which the Group has the right and obligation (in the form of a call and put option), with the put option exercisable at the request of non-controlling shareholders, to acquire their shares at a price calculated based on the future operating and financial results of KS.

The Group has elected to measure the non-controlling interests in the acquiree at fair value. The fair value of the non-controlling interest has been estimated based on agreed formula in accordance with the agreement. The fair value measurements are based on significant inputs that are not observable in the market. The fair value estimate is based on:

- An assumed discount rate of 10.2%
- Average revenue of RUB 199 million
- A net debt of RUB 83 million

The receivables acquired (which principally comprised trade receivables) in these transactions with a fair value of RUB 274 million had gross contractual amounts of RUB 290 million. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RUB 16 million.

2. Acquisitions in 2017

Acquisition of Bashkortostan Cellular Communication - In July 2017, the Group acquired a 100% ownership interest in Bashkortostan Cellular Communication OJSC (“BCC”). BCC operates in the Republic of Bashkortostan and holding rights to use 450 MHz and 2,100 MHz radio frequencies. The acquisition enhances the Group’s spectrum resources in the Republic of Bashkortostan. The purchase price comprised of cash payment and contingent consideration, payable in 12 months after the acquisition date. The business combination was accounted for by applying the acquisition method.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table summarizes the purchase price allocation for BCC at the date of acquisition:

	BCC
Cash and cash equivalents	13
Current assets	5
Licenses	260
Goodwill	62
Other non-current assets	21
Current liabilities	(15)
Non-current liabilities	(54)
Consideration transferred	**292**
Contingent consideration	72
Cash paid	220
Consideration transferred	**292**

The excess of the consideration over the value of net assets acquired in the amount of RUB 62 million was allocated to goodwill which is attributable to the "Russia convergent" segment. Goodwill is mainly attributable to the expected synergies.

Licenses acquired are amortized over a period of their remaining useful life of 15 years in average.

Acquisition of Oblachny Retail – In October 2017, the Group acquired 50.82% of ownership interest in the Russian retail software developer Oblachny Retail LLC ("Oblachny Retail"), operating under trademark LiteBox, with a call and put option arrangement existing over another 49.18% of shares. The deal allows the Group to enter the cloud-based cash register market as a fully licensed fiscal data operator ("FDO") and a provider of integrated digital cash management solutions for B2B clients. The purchase price comprised of cash payment and contingent consideration, payable in 12 months after the acquisition date. As a part of business combination the Group also made a contribution of RUB 420 million to the share capital of an acquiree to provide funds for future development. The Group has elected to measure the non-controlling interests in the acquiree at fair value. The business combination was accounted for by applying the acquisition method.

The following table summarizes the purchase price allocation for Oblachny Retail at the date of acquisition:

	Oblachny Retail
Cash and cash equivalents	420
Current assets	23
Other intangible assets	181
Goodwill	524
Current liabilities	(123)
Liability under put option agreement over non-controlling interests	(402)
Other non-current liabilities	(33)
Consideration transferred	**590**
Contingent consideration	10
Additional contribution	420
Cash paid	160
Consideration transferred	**590**

The excess of the consideration over the value of net assets acquired in the amount of RUB 524 million was allocated to goodwill that is assigned to the "Litebox" operating segment. The goodwill is attributable to the company employees and the expected synergies.

Software acquired is amortized over a period of their remaining useful life of 5 years in average.

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group also entered into an option agreement with the shareholders of the acquiree, pursuant to which the Group has the right and obligation, at the request of non-controlling shareholders, to acquire their shares at a price calculated based on the operating results of Oblachny Retail for 2019-2020.

Acquisition of Praliss Enterprises – In December 2017, the Group purchased a 100% ownership interest in Praliss Enterprises ("Praliss"), thus acquiring one of the world's leading eSport clubs – Gambit Esports. The acquisition is a part of the Group's digital innovation strategy. The purchase price comprised of cash payment, contingent consideration, payable in 12 months after the acquisition date, and the earn-out amounts to be paid to the sellers in the course of two years from 2018 to 2019 if agreed upon operational targets are met by Praliss. The business combination was accounted for by applying the acquisition method.

The following table summarizes the purchase price allocation for Praliss as of December 31, 2017:

	Praliss
Other intangible assets	132
Goodwill	208
Non-current liabilities	(27)
Consideration transferred	**313**
Contingent consideration and earn-out payments	93
Cash	220
Consideration transferred	**313**

The excess of the consideration over the value of net assets acquired in the amount of RUB 208 million was allocated to goodwill that is attributable to the "eSports" operating segment. The goodwill is mainly attributable to the expected synergies resulted from the acquisition.

None of the goodwill recognized is expected to be deductible for income tax purposes.

3. Acquisition and disposal in 2016

Acquisition of Smarts-Yoshkar-Ola – In September 2016, the Group acquired 100% of the shares of Smarts-Yoshkar-Ola CJSC ("Smarts-Yoshkar-Ola"), operating in the Republic of Mari El and holding rights to use 1800 MHz radio frequencies. The acquisition enhances the Group's spectrum resources in the Republic of Mari El. The business combination was accounted for by applying the acquisition method.

The following table summarizes the purchase price allocation for SMARTS-Yoshkar-Ola at the date of acquisition:

	Smarts-Yoshkar-Ola
Cash and cash equivalents	5
Current assets	5
Licenses	323
Other non-current assets	14
Current liabilities	(30)
Non-current liabilities	(69)
Gain on bargain purchase (included in other operating income in the consolidated statement of profit or loss)	(235)
Consideration transferred	**13**
Contingent consideration	3
Cash paid	10
Consideration transferred	**13**

(Amounts in millions of Russian Rubles unless otherwise stated)

The consideration paid was initially determined by a contract concluded between the Group and the seller (SMARTS Group) in 2014. To determine the fair value of assets acquired, the Group used comparative prices of the first radio frequencies auction held in Russia in 2015, which gave rise to the recognition of a gain from bargain purchase.

The details on disposal of 50.01% share in LLC “Universal Mobile Systems" (“UMS”) are disclosed in Note 27.

4. Acquisitions and disposals in 2015

Acquisition of Stream – In December 2015, the Group increased its share in Stream from 45% to 100%, after Sistema Mass Media, a subsidiary of Sistema, exchanged ownership of 55% in Stream for rights for its own debt in amount of RUB 561 million and promissory notes of LLC Stream Digital (fully-owned subsidiary of Stream) of RUB 1,089 million due on demand and bearing interest of 9% p.a. In 2016 promissory notes of LLC Stream Digital were returned to the Group as non-cash payment for 49% interest of Rent Nedvizhimost from a subsidiary of Sistema. Stream operates as content aggregator, providing VAS services mainly to the Group. The acquisition was accounted for as a transaction under common control directly in equity.

Acquisition of NVision Group – In the first stage of the transaction, carried in July 2015, the Group has acquired 100% of the shares of SITRONICS Telecom Solutions CJSC, NVision program solutions, NVision Czech Republic a.s. and some smaller subsidiaries of NVision Group, from subsidiaries of Sistema. Through this transaction, the Group has obtained proprietary rights over billing system, exploited by the Group, which will allow reducing time-to-market for new products and billing and IT-related expenses. In December 2015, the Group has completed acquisition of 100% share in the holding company NVision Group JSC (“NVision Group”), from subsidiaries of Sistema. NVision Group is also one of the largest system integrators and complex IT solutions providers in Russia. Total consideration amounted to RUB 11,213 million, including RUB 73 million in notes and RUB 11,140 million in cash. As of December 31, 2017 and 2016 the Group has accounted for indemnification asset in amount of RUB 292 million and RUB 299 million respectively related to tax provisions of acquired companies. The acquisition was accounted for as a transaction under common control directly in equity.

Acquisition of Navigation Information Systems – In January 2015, the Group acquired 89.5% of Navigation Information Systems (“NIS”) from Sistema for RUB 44 million. NIS is the leading systems integrator for GLONASS satellite projects. The acquisition allows the Group to develop its proprietary technological platform for machine-to-machine solutions. The acquisition was accounted for as a transaction under common control directly in equity.

Disposal of Rent Nedvizhimost – In February 2015, the Group sold 51% stake in its wholly-owned subsidiary Rent Nedvizhimost to a subsidiary of Sistema, for RUB 4.3 billion. The Group classified the associated assets and liabilities of the disposal group as held for sale as of December 31, 2014. After the loss of control, the Group applied for its remaining 49% interest the equity method of accounting. Further, in May 2015, the Group sold remaining 49% interest to a subsidiary of Sistema for RUB 4.2 billion. These disposals were accounted for as transactions under common control directly in equity.

The following table summarizes the details of acquisitions of subsidiaries under common control in 2015:

Acquired company	Considera-tion paid net of cash acquired*	Non cash considera-tion made	Cash acquired	Assets acquired other than cash	Liabilities assumed
NVision	10,181	73	959	12,861	12,977
NIS	(177)	-	221	589	1,360
Stream	(558)	-	558	512	2,065

* As included in consolidated cash flow statement within cash flows from transactions under common control

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table summarizes the details of disposal of subsidiaries under common control finalized in 2015 (only for part of transaction with loss of control):

Disposed company	Considera-tion received net of cash disposed*	Non cash considera-tion received	Cash disposed	Asset disposed other than cash	Liabilities disposed
Rent Nedvizhimost	1,193	-	157	2,013	316

* As included in consolidated cash flow statement within cash flows from transactions under common control

Disposal of Intellect-Telecom – In January 2015, the Group sold its 47.3% equity investment in Intellect Telecom to Sistema for RUB 344 million. The Group classified the investment as held for sale as of December 31, 2014. The disposal was accounted for as a transaction under common control directly in equity.

Pro forma results of operations – The following pro forma financial data for the years ended December 31, 2017, 2016 and 2015 give effect to the business combinations as they had been completed at the beginning of the year.

Pro forma:	2017 (BCC, Oblachny Retail, Praliss)	2016 (SMARTS-Yoshkar-Ola)	2015 (NVision Group, NIS and Stream)
Net revenues	443,178	435,694	434,757
Net income	55,881	48,465	46,887

The pro forma information is based on various assumptions and estimates. The pro forma information is neither necessarily indicative of the operating results that would have occurred if the Group acquisitions had been consummated as of January 1, 2015, 2016, or 2017, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual results of operations of these companies are included into the consolidated financial statements of the Group only from the respective dates of acquisition.

Since their respective acquisition dates, companies acquired in 2015 contributed revenue in the amount of RUB 2,133 million and net loss in the amount of RUB 447 million to consolidated statement of profit or loss for the year ended December 31, 2015. The company acquired in 2016 contributed revenue in the amount of RUB 1 million and net loss in the amount of RUB 15 million to consolidated statement of profit or loss for the year ended December 31, 2016. Companies acquired in 2017 contributed revenue in the amount of RUB 37 million and net loss in the amount of RUB 105 million to consolidated statement of profit or loss for the year ended December 31, 2017.

(Amounts in millions of Russian Rubles unless otherwise stated)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	December 31, 2017	December 31, 2016
Cash and cash equivalents at banks and on hand in:		
Russian Rubles	16,879	7,657
Turkmenian Manat	1,267	1,252
US Dollars	1,119	3,904
Euro	983	1,173
Ukraine Hryvna	403	1,538
Other	318	394
Short-term deposits with an original maturity of less than 92 days:		
Russian Rubles	6,595	504
US Dollars	2,603	50
Ukraine Hryvna	352	1,990
Other	67	8
Total cash and cash equivalents	**30,586**	**18,470**

There were certain limitations on cash disposition in Ukraine as of December 31, 2017 (for details see Note 30). Cash balances in Ukraine amounted to RUB 1,330 million and RUB 3,617 million as of December 31, 2017 and 2016, respectively.

6. SHORT-TERM INVESTMENTS

The Group’s short-term investments comprised the following:

	Category	December 31, 2017	December 31, 2016
Deposits	Loans and receivables	27,826	3,850
Assets in Sistema-Capital trust management (Notes 18, 22)	Financial asset at fair value through profit or loss	9,600	3,721
Notes	Loans and receivables	7,605	-
Loans	Loans and receivables	5,669	1,021
Notes	Available for sale	57	65
Total short-term investments		**50,757**	**8,657**

The amount of loans recognized in loans and receivables generally consists of a loan issued to Mr. Pierre Fattouche and Mr. Moussa Fattouche.

Notes recognized in loans and receivables category represent the balance of REPO transactions.

(Amounts in millions of Russian Rubles unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES

The Group's investments in associates (all accounted for using the equity method) comprised the following:

	Country of operations	Operating activity	December 31, 2017	December 31, 2016
MTS Belarus	Belarus	telecommunications	3,660	4,303
MTS Bank	Russia	banking	2,902	3,592
Equity investments in other unquoted companies	Russia	e-commerce, digital TV, asset management, etc.	2,890	2,656
Total investments in associates			**9,452**	**10,551**

The reconciliation of summarised financial information of MTS Belarus to the carrying amount of the Group's interest in associate is presented as follows:

	December 31, 2017	December 31, 2016
Assets		
Non-current assets	9,819	9,414
Current assets	8,117	6,800
Liabilities		
Non-current liabilities	(703)	(0)
Current liabilities	(9,764)	(7,433)
Total identifiable net assets	**7,469**	**8,781**
The Group's share in associate	49%	49%
The Group's share of identifiable net assets	3,660	4,303
Carrying amount of the Group's interest	**3,660**	**4,303**

The Group's share in the profit of MTS Belarus was included in operating share of the profit of associates in the accompanying consolidated statement of profit or loss. The composition of the Group's share of income of MTS Belarus is as follows:

	Year ended December 31,		
	2017	2016	2015
Revenue	(23,037)	(22,256)	(20,886)
Net profit for the year	(6,552)	(6,356)	(7,054)
The Group's share of the profit of the associate for the year	**(3,210)**	**(3,115)**	**(3,456)**
Other comprehensive loss for the year (currency translation adjustment)	525	2,292	3,110
Total comprehensive income for the year	(6,027)	(4,064)	(3,944)
The Group's share of total comprehensive income of the associate for the year	**(2,953)**	**(1,991)**	**(1,933)**
Dividends received	**3,590**	**2,795**	**3,269**

(Amounts in millions of Russian Rubles unless otherwise stated)

The reconciliation of summarized financial information of MTS Bank to the carrying amount of the Group's interest in associate is presented below:

	December 31, 2017	December 31, 2016
Total assets	142,405	166,594
Total liabilities	(121,169)	(137,627)
Non-controlling interests	-	(3,339)
Total identifiable net assets attributable to the Group	**21,236**	**25,628**
The Group's share in associate	26,6%	26,6%
The Group's share of identifiable net assets	6,127	6,817
Impairment of investment in associate	(3,225)	(3,225)
Carrying amount of the Group's interest	**2,902**	**3,592**

In February 2016, MTS Bank placed 3,588,304 additional ordinary shares. The Group acquired 946,347 shares in the placement for a total consideration of RUB 1,325 million. As the result of the transaction, the Group's share in MTS Bank decreased from 27.0% to 26.8%.

In November 2016, MTS Bank placed 10,000,000 additional ordinary shares. The Group acquired 2,637,310 shares in the placement for a total consideration of RUB 2,769 million. As the result of the transaction, the Group's share in MTS Bank decreased from 26.8% to 26.6%.

In May 2017 MTS Bank disposed of a 47% stake in East-West United Bank to Sistema, retaining less than 20% and losing control. Consequently, the accumulated foreign currency translation reserve in the amount of RUB 659 million was derecognized from the accumulated other comprehensive income of the Group.

The Group's share in the net losses of MTS Bank was included in the non-operating share of the loss of the associates in the accompanying consolidated statement of profit or loss. The composition of the Group's share of loss of MTS Bank is as follows:

	Year ended December 31,		
	2017	2016	2015
Total interest income	(14,204)	(16,555)	(20,455)
Total interest expense	6,505	8,364	9,691
Net loss for the year	593	4,495	15,371
The Group's share of the loss of the associate for the year	**109**	**1,179**	**4,078**
Other comprehensive loss / (income) for the year	2,000	1,614	(1,251)
Total comprehensive loss for the year	2,593	6,109	14,120
The Group's share of the total comprehensive loss for the year	**690**	**1,608**	**3,737**

The Group holds less than 20% of the equity interests in OZON Holdings Limited, nevertheless it determined that it has significant influence over the investee based on direct and indirect ownership of equity shares, representation on the investee's Board of Directors and certain veto rights related to matters intersecting with the Group's interests.

In September, 2017 the Group acquired 5,193 additional ordinary shares of OZON Holdings Limited for a total consideration of RUB 19 million. As the result of the transaction, the Group's share in OZON Holdings Limited increased from 10.8% to 10.96%.

(Amounts in millions of Russian Rubles unless otherwise stated)

In October, 2017 the Group acquired 7,698 additional ordinary shares for a total consideration of RUB 28 million. As the result of the transaction, the Group's share in OZON Holdings Limited increased from 10.96% to 11.19%.

In September, 2017 the Group acquired 30% ownership interest in Sistema Capital, a trust management company, by making a cash contribution of RUB 356 million into its authorized share capital.

The following table is the aggregate financial information of investments in the other individually insignificant associates, held by the Group:

	Year ended December 31,		
	2017	**2016**	**2015**
Net loss/(profit) for the year	1,760	1,172	(1,079)
The Group's share of the loss/(profit) of the associate for the year	**327**	**108**	**(297)**
Other comprehensive income for the year	-	-	-
Total comprehensive loss/(income) for the year	1,760	1,172	(1,079)
The Group's share of total comprehensive loss/(income) of the associate for the year	**327**	**108**	**(297)**

8. OTHER INVESTMENTS

As of December 31, 2017 the other investments of the Group comprised individually insignificant items.

As of December 31, 2016 the other investments of the Group mainly comprised long term deposits of RUB 27,056 million, loan issued to Mr. Pierre Fattouche and Mr. Moussa Fattouche, the holders of a 20% non-controlling stake in MTS Armenia, in the amount of RUB 5,802 million and other.
As of December 31, 2017 loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche was reclassified to short-term investments.

9. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following:

	December 31, 2017	**December 31, 2016**
Subscribers	11,723	11,360
Roaming	7,650	8,083
Dealers	3,204	2,723
Interconnect	2,121	2,517
Other trade receivables	4,272	4,805
Other receivables	1,391	2,477
Allowance for doubtful accounts	(2,344)	(2,160)
Trade and other receivables	**28,017**	**29,805**

(Amounts in millions of Russian Rubles unless otherwise stated)

The analysis of the age of trade and other accounts receivables past due but not impaired:

	December 31, 2017	December 31, 2016
Neither past due nor impaired	22,551	24,100
Past due, but not impaired:		
Less than 60 days	3,265	3,225
61-150 days	872	1,205
More than 150 days	1,329	1,275
Total	**28,017**	**29,805**

The following table summarizes changes in the allowance for doubtful accounts receivable:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of the year	**(2,160)**	**(2,928)**	**(2,166)**
Allowance for doubtful accounts	(2,880)	(2,863)	(3,269)
Accounts receivable written off	2,696	3,459	2,507
Disposal of subsidiary	-	172	-
Balance, end of the year	**(2,344)**	**(2,160)**	**(2,928)**

10. INVENTORIES

Inventory and spare parts comprised the following:

	December 31, 2017	December 31, 2016
Handsets and accessories	7,836	11,597
SIM cards and prepaid phone cards	784	1,165
Advertising and other materials	561	280
TV equipment for resale	350	320
Software and equipment for installation and resale	309	703
Spare parts for telecommunication equipment	155	265
Total inventory and spare parts	**9,995**	**14,330**

Other materials mainly consist of automotive and IT components, advertising, stationery, fuel and auxiliary materials.

Spare parts for telecommunication equipment included in inventory are expected to be utilized within twelve months of the year end.

Expenses for inventory obsolescence provision were included in cost of goods in the consolidated statement of profit or loss.

For the years ended December 31, 2017, 2016 and 2015, cost of goods comprised the following expenses:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Amount of inventories recognized as an expense	43,440	44,026	36,568
Inventory obsolescence provision	2,692	2,159	865
Reversal of obsolescence provision	(509)	(611)	(878)
Total cost of goods	**45,623**	**45,574**	**36,555**

(Amounts in millions of Russian Rubles unless otherwise stated)

The reversal of the inventory obsolescence provision relates to handsets and accessories sold in the course of the Group's promotion campaigns. Inventories have been sold with positive margin.

11. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2017, December 31, 2016 and January 1, 2016 was as follows:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
Cost					
January 1, 2016	**542,530**	**27,321**	**49,692**	**28,966**	**648,509**
Additions	1,350	32	-	47,340	48,722
Put into use	47,894	1,550	5,278	(54,722)	-
Disposal of UMS	(4,152)	(1,309)	(452)	(2,444)	(8,357)
Transfer to assets held for sale	(1,557)	-	(5)	-	(1,562)
Disposal	(20,321)	(426)	(3,201)	(374)	(24,322)
Other	(118)	(200)	269	55	6
Foreign exchange differences	(17,568)	(1,525)	(2,331)	(1,455)	(22,879)
December 31, 2016	**548,058**	**25,443**	**49,250**	**17,366**	**640,117**
Additions	2,094	15	302	57,170	59,581
Put into use	48,689	281	4,522	(53,492)	-
Arising on business combinations	10	2	5	-	17
Transfer to assets held for sale	(1,408)	-	(22)	-	(1,430)
Disposal	(27,092)	(684)	(5,460)	(1,315)	(34,551)
Other	327	(69)	(452)	7	(187)
Foreign exchange differences	(4,320)	36	(315)	(242)	(4,841)
December 31, 2017	**566,358**	**25,024**	**47,830**	**19,494**	**658,706**
Accumulated amortisation and impairment					
January 1, 2016	**(300,509)**	**(7,455)**	**(37,883)**	**-**	**(345,847)**
Charge for the year	(53,371)	(1,262)	(5,323)	-	(59,956)
Disposal of UMS	1,121	62	214	-	1,397
Transfer to assets held for sale	846	-	5	-	851
Disposal	19,126	134	2,768	-	22,028
Other	(222)	(182)	227	-	(177)
Foreign exchange differences	12,061	551	1,816	-	14,428
December 31, 2016	**(320,948)**	**(8,152)**	**(38,176)**	**-**	**(367,276)**
Charge for the year	(53,258)	(1,114)	(3,929)	-	(58,301)
Effect on assets impairment	(2,175)	(393)	(295)	(764)	(3,627)
Transfer to assets held for sale	940	-	22	-	962
Disposal	24,248	284	5,053	-	29,585
Other	(458)	33	395	-	(30)
Foreign exchange differences	2,892	(79)	231	-	3,044
December 31, 2017	**(348,759)**	**(9,421)**	**(36,699)**	**(764)**	**(395,643)**
Net book value					
January 1, 2016	**242,021**	**19,866**	**11,809**	**28,966**	**302,662**
December 31, 2016	**227,110**	**17,291**	**11,074**	**17,366**	**272,841**
December 31, 2017	**217,599**	**15,603**	**11,131**	**18,730**	**263,063**

(Amounts in millions of Russian Rubles unless otherwise stated)

Charge of amortization for 2015 year for Network and base station equipment, Land and buildings and Office equipment, vehicles and other was RUB 51,967 million, RUB 930 million and RUB 5,385 million, respectively.

The amount of the compensation from third parties for items of property, plant and equipment that were accidentally damaged during construction in Moscow for the years ended December 31, 2017, 2016 and 2015 totaled RUB 1,231 million, RUB 1,350 million and RUB 1,010 million, respectively, and was included in the accompanying consolidated statements of profit or loss as component of other operating income.

12. GOODWILL

The change in the net carrying amount of goodwill for the years ended December 31, 2017 and 2016 by operating segments was as follows:

	Russia convergent	Moscow fixed line	Ukraine	Other	Total
Balance at January 1, 2016					
Gross amount of goodwill	30,266	1,083	129	7,972	39,450
Accumulated impairment loss	(1,466)	-	-	(3,516)	(4,982)
	28,800	**1,083**	**129**	**4,456**	**34,468**
Currency translation adjustment	-	-	(34)	(749)	(783)
Balance at December 31, 2016					
Gross amount of goodwill	30,266	1,083	95	7,223	38,667
Accumulated impairment loss	(1,466)	-	-	(3,516)	(4,982)
	28,800	**1,083**	**95**	**3,707**	**33,685**
Acquisitions (Note 4)	62	-	-	732	794
Reclassification	(81)	81	-	-	-
Currency translation adjustment	-	-	(8)	(190)	(198)
Balance at December 31, 2017					
Gross amount of goodwill	30,247	1,164	87	7,765	39,263
Accumulated impairment loss	(1,466)	-	-	(3,516)	(4,982)
	28,781	**1,164**	**87**	**4,249**	**34,281**

13. IMPAIRMENT REVIEW

Goodwill - Management of the Group performs impairment tests for the goodwill assigned to the cash-generating units at least annually and when there are any indications that the carrying amount of the CGU is impaired.

Tangible and intangible assets excluding goodwill - At the end of each reporting period, management of the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss.

When reviewing for indicators of impairment management of the Group considers the relationship between its market capitalization and book value, changes in country risk premiums and other.

When the carrying amount of the CGU exceeds its recoverable amount, assets allocated to this CGU must be impaired.

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

(Amounts in millions of Russian Rubles unless otherwise stated)

Future cash flows calculations are based on a five-year operations plan, which is prepared and approved by the management of the Group. Estimation of future cash flows requires assumptions to be made in respect of uncertain factors, including management's expectations of the following: OIBDA margin, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks involved.

During the year ended December 31, 2017 the Group recognized impairment charges in the amount of RUB 3,775 million, including RUB 3,204 million in respect of the non-current assets of the CGU "Turkmenistan" and RUB 571 million in respect of the non-current assets of the CGU "NVision Czech Republic". Impairment charges were recorded in a separate line item as a part of operating profit in the consolidated statements of profit or loss.

CGU "Turkmenistan" provided mobile services across multiple regions of Turkmenistan.The impairment in the CGU "Turkmenistan" reflects uncertainty in respect of the ability to continue operations in Turkmenistan. In September, 2017, the Group's subsidiary in Turkmenistan suspended the provision of telecommucation services to its subscribers, due to the termination by Turkmen state-owned companies and state authorities of line rental, frequency allocation, interconnect, and other agreements necessary to servicing clients. The recoverable amount of the CGU "Turkmenistan" was equal to nil as of December 31, 2017.

CGU "NVision Czech Republic" tailors in-house software solutions, provides support and managed services to telecom operators, delivers electronic and mechanical manufacturing services. The impairment in the CGU "NVision Czech Republic" reflects lower operating performance. The recoverable amount of the CGU "NVision Czech Republic" was RUB 954 million as of December 31, 2017.

Impairment charges are attributable to operating segments of the Group, reported as a part of the "Other" category, which does not constitute a reportable segment (Note 26).

The total amount of the impairment loss for the year ended December 31, 2017 was allocated to the carrying amounts of property, plant and equipment and other intangible assets as follows:

	Turkmenistan	NVision Czech Republic
Property, plant and equipment	3,063	564
Other intangible assets	141	7
Total	**3,204**	**571**

During the year ended December 31, 2016 no impairment charges were recorded.

As a result of impairment test as of December 31, 2015 the impairment charge of RUB 3.5 billion was recorded in a separate line item within operating profit in the consolidated statement of profit or loss in respect of the Group's investment in the CGU "Armenia". CGU "Armenia" provides mobile and fixed line services across multiple regions of Armenia. The impairment charge is attributable to the operating segment of the Group, reported as a part of the "Other" category, which does not constitute a reportable segment (Note 26). This charge relates solely to goodwill. The impairment reflects the decrease of interconnect traffic and related revenue due to dramatic growth of prices for international calling from Russia to Armenia. The recoverable amount of CGU "Armenia" was RUB 18.5 billion as of December 31, 2015.

Key assumptions used for value in use calculation:

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

(Amounts in millions of Russian Rubles unless otherwise stated)

The table below presents OIBDA margin utilized for value in use calculation of related CGUs:

CGU	December 31, 2017	December 31, 2016
Russia convergent	38.0%-39.1%	34.6%-37.0%
Armenia	40.2%-41.2%	42.0%-45.0%
Moscow fixed line	41.0%-48.5%	42.2%-51.0%
Ukraine	31.4%-40.6%	40.6%-46.5%
NVision Czech Republic	4.2%	5.5%-6.8%

The table below presents capital expenditure as a percentage of revenue utilized for value in use calculation of related CGUs:

CGU	December 31, 2017	December 31, 2016
Russia convergent	17.2%	18.8%
Armenia	17.8%	11.9%
Moscow fixed line	20.6%	17.5%
Ukraine	22.7%	19.9%
NVision Czech Republic	2.5%	2.7%

The terminal growth rate into perpetuity has been determined based on the nominal gross domestic product rates for the country of operation, adjusted for specific characteristic of the CGUs business.

The table below presents terminal growth rate utilized for value in use calculation of related CGUs:

CGU	December 31, 2017	December 31, 2016
Russia convergent	1%	1%
Armenia	nil	nil
Moscow fixed line	1%	1%
Ukraine	3%	3%
NVision Czech Republic	2%	2%

The discount rate, applied to measure free cash flow is the weighted average cost of capital according to the finance structure established for each CGU.

The table below presents pre-tax rates for discounting of cash flows in functional currencies of related CGUs:

CGU	December 31, 2017	December 31, 2016
Russia convergent	16.0%	15.1%
Armenia	15.2%	15.5%
Moscow fixed line	14.5%	13.7%
Ukraine	20.8%	21.6%
NVision Czech Republic	8.7%	8.7%

Sensitivity analysis

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount, except for the CGU “NVision Czech Republic”.

(Amounts in millions of Russian Rubles unless otherwise stated)

After the recognition of the impairment of non-current assets the carrying value of the CGU “NVision Czech Republic” is equal to the estimated recoverable amount, any adverse change in key assumptions would, in isolation, cause a further impairment loss to be recognized.

The changes in the following table to assumptions used in the impairment review of the CGU “NVision Czech Republic” would have, in isolation, led to following changes to the impairment loss recognized in the year ended December 31, 2017:

	Increase by 1 pps	**Decrease by 1 pps**
Pre-tax discount rate	(127)	172
OIBDA margin	523	(523)
Average capital expenditure as a percentage of revenue	(523)	523

14. OTHER INTANGIBLE ASSETS

Net book value of other intangible assets as at December 31, 2017, December 31, 2016 and January 1, 2016 was as follows:

	Licenses	**Right to use radio frequencies**	**Billing and other software**	**Client base**	**Numbering capacity**	**Other**	**Total**
Useful life, years	***1 to 20***	***1 to 15***	***1 to 25***	***4 to 31***	***2 to 15***	***1 to 10***	
Cost							
January 1, 2016	**28,490**	**9,326**	**93,134**	**7,537**	**3,208**	**9,767**	**151,462**
Additions	3,382	245	27,658	-	65	232	31,582
Arising on business combinations (Note 4)	323	-	-	-	-	-	323
Disposal of UMS	-	-	(1,891)	-	-	(3,687)	(5,578)
Disposal	(2)	(582)	(10,509)	(164)	(160)	(2,842)	(14,259)
Other	44	(40)	(87)	-	(4)	(40)	(127)
Foreign exchange differences	(5,101)	-	(3,763)	-	(39)	(1,187)	(10,090)
December 31, 2016	**27,136**	**8,949**	**104,542**	**7,373**	**3,070**	**2,243**	**153,313**
Additions	1,647	13	24,686	-	12	219	26,577
Arising on business combinations (Note 4)	260	-	163	-	-	150	573
Disposal	(93)	(1,112)	(8,429)	(50)	(158)	(166)	(10,008)
Other	(2)	1	(6)	-	-	57	50
Foreign exchange differences	(1,207)	-	(980)	-	(9)	(23)	(2,219)
December 31, 2017	**27,741**	**7,851**	**119,976**	**7,323**	**2,915**	**2,480**	**168,286**
Accumulated amortisation and impairment							
January 1, 2016	**(9,873)**	**(4,261)**	**(50,557)**	**(3,619)**	**(2,996)**	**(5,560)**	**(76,866)**
Charge for the year	(2,092)	(1,170)	(18,002)	(620)	(46)	(1,389)	(23,319)
Disposal of UMS	-	-	494	-	-	2,162	2,656
Disposal	2	582	10,193	164	160	2,836	13,937
Other	(7)	20	43	-	(13)	(42)	1
Foreign exchange differences	2,007	-	2,697	-	34	668	5,406
December 31, 2016	**(9,963)**	**(4,829)**	**(55,132)**	**(4,075)**	**(2,861)**	**(1,325)**	**(78,185)**
Charge for the year	(2,180)	(1,042)	(17,614)	(616)	(57)	(224)	(21,733)
Effect on assets impairment	-	-	(148)	-	-	-	(148)
Disposal	92	1,108	8,345	50	158	157	9,910
Other	-	2	(17)	-	(4)	(31)	(50)
Foreign exchange differences	570	-	726	-	8	13	1,317
December 31, 2017	**(11,481)**	**(4,761)**	**(63,840)**	**(4,641)**	**(2,756)**	**(1,410)**	**(88,889)**
Net book value							
January 1, 2016	**18,617**	**5,065**	**42,577**	**3,918**	**212**	**4,207**	**74,596**
December 31, 2016	**17,173**	**4,120**	**49,410**	**3,298**	**209**	**918**	**75,128**
December 31, 2017	**16,260**	**3,090**	**56,136**	**2,682**	**159**	**1,070**	**79,397**

Charge of amortization for 2015 year for Licenses, Right to use radio frequencies, Billing and other software, Client base, Numbering capacity and Other was RUB 1,447 million, RUB 1,202 million, RUB 16,933 million, RUB 692 million, RUB 147 million and RUB 3,770 million, respectively.

(Amounts in millions of Russian Rubles unless otherwise stated)

In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group has been granted access to various telecommunication licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local communication authorities.

Operating licenses contain a number conditions specified by legislation which generally include the required date of services provision, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

The Group's operating licenses do not provide for automatic renewal. All licenses covering the territories of the Russian Federation expired as of December 31, 2017 were renewed. The cost to renew the licenses was not significant. Weighted-average period until the next renewal of licenses in the Russian Federation is five years.

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

Contractual obligations to purchase intangible assets are disclosed in the Note 30.

15. BORROWINGS

The Group's borrowings comprise the following:

	December 31, 2017	December 31, 2016
Notes	108,776	78,186
Bank and other loans	182,937	195,088
Finance lease obligations	11,857	11,046
Total borrowings	**303,570**	**284,320**
Less: current portion	(64,474)	(47,207)
Total borrowings, non-current	**239,096**	**237,113**

Notes – The Group's Notes consisted of the following:

	Currency	Interest rate (actual at December 31, 2017)	December 31, 2017	December 31, 2016
MTS International Notes due 2023 (Note 2)	USD	5.00%	26,187	28,218
MTS International Notes due 2020 (Note 2)	USD	8.625%	17,621	18,537
MTS PJSC Notes due 2022	RUB	7.70%	14,947	-
MTS PJSC Notes due 2023	RUB	8.25%	9,997	9,984
MTS PJSC Notes due 2031	RUB	9.40%	9,994	9,986
MTS PJSC Notes due 2022	RUB	9.00%	9,991	-
MTS PJSC Notes due 2021	RUB	8.85%	9,986	-
MTS PJSC Notes due 2018	RUB	7.70%	9,986	-
MTS PJSC Notes due 2020	RUB	9.25%	49	1,448
MTS PJSC Notes due 2017	RUB	8.70%	-	9,995
Other Notes due 2018-2022	RUB	0.25%-10%	18	18
Total notes			**108,776**	**78,186**
Less: current portion			(29,979)	(11,389)
Total notes, non-current			**78,797**	**66,797**

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group has an unconditional obligation to repurchase certain MTS PJSC Notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are as follows:

MTS PJSC Notes due 2023	March 2018
MTS PJSC Notes due 2031	August 2018
MTS PJSC Notes due 2020	November 2018

The Group discloses these notes as maturing in 2018 (MTS PJSC Notes due 2023; MTS PJSC Notes due 2031; MTS PJSC Notes due 2020) in the aggregated maturities schedule as the noteholders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons.

As of Desember 31, 2017 the Group had no outstanding repurchase transactions. As of December 31, 2016 the Group had the following outstanding repurchase transactions with a due date on January 09, 2017:

	№ of Notes	**Due amount**	**Unrealized premium**	**Total**
MTS PJSC Notes due 2018	2,777,440	2,588	-	2,588
				2,588

The above balances are included in the short-term portion of bank loans and other debt disclosed below.

Bank and other loans – The Group's loans from banks and financial institutions consisted of the following:

	Maturity	**Interest rate (actual at December 31, 2017)**	**December 31, 2017**	**December 31, 2016**
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2018-2020	LIBOR + 1.15% (2.994%)	17,077	25,394
Citibank	2018-2024	LIBOR + 0.9% (2.744%)	10,592	12,812
Skandinavska Enskilda Banken AB	2017	LIBOR + 0.23%-1.8% (2.069%-3.644%)	-	1,163
			27,669	**39,369**
EUR-denominated:				
Credit Agricole Corporate Bank and BNP Paribas	2017	EURIBOR + 1.65% (1.38%)	-	876
LBBW	2017	EURIBOR +1.52% (1.25%)	-	296
			-	**1,172**
RUB-denominated:				
Sberbank	2018-2021	8.45%-9.85%	149,890	144,813
VTB	2021	7.99%	5,000	-
Gasprombank	2018	9.6%-10.9%	-	4,000
Notes in REPO	2018	Various	-	2,588
Citibank	2018	9.9%-9.95%	-	2,400
Other	2018-2025	Various	247	533
			155,137	**154,334**
Other currencies:				
Various financial institutions	2018-2020	Various	131	213
			131	**213**
Total bank and other loans			**182,937**	**195,088**
Less: current portion			(33,694)	(35,188)
Total bank and other loans, non-current			**149,243**	**159,900**

(Amounts in millions of Russian Rubles unless otherwise stated)

Compliance with covenants – Bank loans and notes of the Group are subject to certain covenants limiting the Group's ability to incur debt, carry on transactions with related parties, create liens on properties, dispose assets, including GSM and 3G licenses for several license areas, issue guaranties, grant loans to employees and entities, delist notes, delay coupon payments, merge or consolidate MTS PJSC with another entity or be a subject to a court decision to pay over USD 75 million (RUB 4,320 million as of the reporting date, which remains unsatisfied for more than 60 days) or be a subject to a court decision to pay over USD 250 million (RUB 14,400 million as of the reporting date, which remains unsatisfied for more than 180 days) without being appealed, discharged or waived.

The Group is required to comply with certain financial ratios and maintain ownership in certain subsidiaries.

The noteholders of MTS International Notes due 2020 and MTS International Notes due 2023 have the right to require the Group to redeem the notes at 101% of their principal amount and related interest, if the Group experiences a change in control.

If the Group fails to meet these covenants, after certain notice and cure periods, the debtholders are entitled to accelerate the repayment of the debt.

The Group was in compliance with all existing notes and bank loans covenants as of December 31, 2017.

Available credit facilities – As of December 31, 2017, the Group's total available unused credit facilities amounted to RUB 36,000 million and related to the following credit lines:

	Currency	Maturity	Interest rate	Available till	Available amount
Sberbank	RUB	2021	To be agreed	April 2021	20,000
VTB	RUB	2021	7.99%	January 2021	10,000
Absolut Bank	RUB	2019	CBR[1] auction rate + 1.25%-1.8%	December 2019	3,000
SPB Bank	RUB	2020	To be agreed	March 2020	3,000
Total					**36,000**

[1] CBR – Central Bank of Russia

In addition, the Group has a credit facility made available by Citibank at MosPrime + 1.50% interest rate with the available amount set up on request and to be repaid within 182 days.

The following table presents the aggregated scheduled maturities of principal on notes and bank loans (gross of debt issuance costs) outstanding for the five years ending December 31, 2022 and thereafter:

	As of December 31, 2017	
	Notes	**Bank loans and other debt**
Payments due in the year ending December 31,		
2018	30,054	34,005
2019	-	74,229
2020	17,677	51,240
2021	10,012	19,920
2022	25,000	1,753
Thereafter	26,257	2,640
Total	**109,000**	**183,787**
Less: unamortized debt issuance costs	(224)	(850)
Total debt	**108,776**	**182,937**

(Amounts in millions of Russian Rubles unless otherwise stated)

Early repayment of Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG (Tranche B) debt – On March 1, 2018 the Group fully repaid its outstanding loans of Tranche B in whole amount of USD 224.7 million (RUB 12,668 million), in addition to the amount of interest accrued.

Finance lease obligations – The following table presents a summary of net book value of leased property, plant and equipment:

	December 31, 2017	December 31, 2016
Network and base station equipment	8,098	6,906
Office equipment, vehicles and other	63	66
Leased assets, net	**8,161**	**6,972**

Additions under finance lease agreements for the years ended December 31, 2017, 2016 and 2015 amounted to RUB 3,339 million, RUB 1,117 million and RUB 1,735 million respectively. Depreciation of the assets under finance leases for the years ended December 31, 2017, 2016 and 2015 amounted to RUB 702 million, RUB 603 million and RUB 554 million, respectively, and was included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss.

Interest expense accrued on finance lease obligations for the year ended December 31, 2017, 2016 and 2015 amounted to RUB 954 million, RUB 855 million and RUB 756 million, respectively, and was included in finance costs in the accompanying consolidated statement of profit or loss.

The following tables present future minimum lease payments under capital leases together with the present value of the net minimum lease payments as at December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Minimum lease payments, including:		
Current portion (less than 1 year)	1,763	1,432
More than 1 to 5 years	6,837	6,079
Over 5 years	12,845	11,061
Total minimum lease payments	**21,445**	**18,572**
Less amount representing interest	(9,588)	(7,526)
Present value of net minimum lease payments, including:		
Current portion (less than 1 year)	801	630
More than 1 to 5 years	3,138	3,055
Over 5 years	7,918	7,361
Total present value of net minimum lease payments	**11,857**	**11,046**
Less current portion of lease obligations	(801)	(630)
Non-current portion of lease obligations	**11,056**	**10,416**

Leased assets include transponders which are installed on a satellite and used for provision of satellite television services, network equipment and automobiles. The lease term of the transponders is twelve years. The lease term of network equipment is fifteen years. The average lease term of the automobiles is three years. The Group has an obligation to purchase these automobiles under the respective finance lease agreements at the end of the lease term.

(Amounts in millions of Russian Rubles unless otherwise stated)

16. RECONCILIATION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

	December 31, 2016	Financing cash flows	Operating cash flows	Acquisitions	Foreign exchange movement	Currency translation adjustment	Change in fair value	Other changes[2]	December 31, 2017
Notes (Note 15)	78,186	32,860	-	-	(2,339)	-	-	69	108,776
Bank and other loans (Note 15)	195,088	(7,103)[1]	-	27	(5,478)[1]	(12)	-	415	182,937
Finance lease obligation (Note 15)	11,046	(774)	(854)	-	(368)	-	-	2,807	11,857
Credit guarantee agreement related to foreign-currency hedge (Note 19)	2,907	(1,766)	-	-	(145)	-	-	-	996
Contingent Consideration (Note 18)	3	-	-	175	2	-	-	-	180
Payables related to repurchase of common stock (Note 23)	-	(21,896)	-	-	-	-	-	21,896	-
Dividends payable (Note 23)	87	(51,759)	-	-	-	-	-	51,797	125
Payable related to purchase of noncontrolling interests	-	(7)	-	-	-	-	-	7	-
Liability under put option agreement (Note 28)	2,243	-	-	402	-	(101)	(120)	-	2,424
Total liabilities arising from financial activities	**289,560**	**(50,445)**	**(854)**	**604**	**(8,328)**	**(113)**	**(120)**	**76,991**	**307,295**

1) Including cash flows from cross-currency swaps
2) Including accrual of liabilities related to dividends declared, repurchase of common stock, additions under finance lease agreements, depreciation of debt issuance cost and others changes that are not material.

(Amounts in millions of Russian Rubles unless otherwise stated)

17. PROVISIONS

The following table summarizes the movement in provisions for the year ended December 31, 2017, 2016 and 2015:

	Tax provisions other than for income tax	Provision for decommissioning and restoration	Employee bonuses and other rewards	Other provisions	Total provisions
At 1 January 2015	**(2,974)**	**(1,640)**	**(6,901)**	**(7)**	**(11,522)**
Arising during the year	(481)	(107)	(10,478)	(27)	(11,093)
Utilised	24	-	8,706	7	8,737
Discount rate adjustment and imputed interest (change in estimates)	-	256	87	-	343
Unused amounts reversed	2,951	25	846	6	3,828
Arising due to subsidiary purchase	(15)	-	(456)	(186)	(657)
Translation adjustments and other	(30)	7	(41)	-	(64)
At 31 December 2015	**(525)**	**(1,459)**	**(8,237)**	**(207)**	**(10,428)**
Current 2015	(525)	-	(7,131)	(207)	(7,863)
Non-current 2015	-	(1,459)	(1,106)	-	(2,565)
At 1 January 2016	**(525)**	**(1,459)**	**(8,237)**	**(207)**	**(10,428)**
Arising during the year	(1,058)	(45)	(14,085)	(275)	(15,463)
Utilised	374	8	12,482	223	13,087
Discount rate adjustment and imputed interest (change in estimates)	-	(142)	(51)	-	(193)
Unused amounts reversed	742	430	1,096	34	2,302
Disposal of a subsidiary		-	91	-	91
Translation adjustments and other	10	17	152	-	179
At 31 December 2016	**(457)**	**(1,191)**	**(8,552)**	**(225)**	**(10,425)**
Current 2016	(457)	-	(7,393)	(225)	(8,075)
Non-current 2016	-	(1,191)	(1,159)	-	(2,350)
At 1 January 2017	**(457)**	**(1,191)**	**(8,552)**	**(225)**	**(10,425)**
Arising during the year	(229)	(108)	(15,181)	(534)	(16,052)
Utilised	342	5	12,203	92	12,642
Discount rate adjustment and imputed interest (change in estimates)	-	(103)	41	-	(62)
Unused amounts reversed	33	338	1,233	101	1,705
Translation adjustments and other	1	10	99	(79)	31
At 31 December 2017	**(310)**	**(1,049)**	**(10,157)**	**(645)**	**(12,161)**
Current 2017	(310)	-	(8,897)	(645)	(9,852)
Non-current 2017	-	(1,049)	(1,260)	-	(2,309)

(Amounts in millions of Russian Rubles unless otherwise stated)

18. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

1. Financial assets

	December 31, 2017	December 31, 2016
Trade and other receivables (Note 9)	**28,017**	**29,805**
Accounts receivable, related parties (Note 22)	**11,360**	**8,094**
Cash and Cash equivalents (Note 5)	**30,586**	**18,470**
Other financial assets:		
Financial assets at fair value through profit or loss:		
Assets in Sistema-Capital trust management	9,600	3,721
Total financial assets at fair value through profit or loss	**9,600**	**3,721**
Financial assets at fair value through OCI:		
Notes	57	65
Cross-currency swap designated as cash flow hedge	8,403	13,632
Total financial assets at fair value through OCI	**8,460**	**13,697**
Loans and receivables:		
Bank deposits	27,836	30,906
Loans and receivables	5,415	8,221
Notes	8,480	804
Other	1,810	1,504
Total loans and receivables	**43,541**	**41,435**
Total other financial assets	**61,601**	**58,853**
Total financial assets	131,564	115,222
Total current financial assets	(120,719)	(61,333)
Total non-current financial assets	**10,845**	**53,889**

2. Financial liabilities

	December 31, 2017	December 31, 2016
Trade and other payables	**47,314**	**41,473**
Accounts payable, related parties (Note 22)	**1,102**	**1,014**
Financial liabilities at amortised cost:		
Loans and borrowings:		
Notes	108,776	78,186
Bank and other loans	182,937	195,088
Finance lease obligations	11,857	11,046
Total loans and borrowings	**303,570**	**284,320**
Guarantee payment received	996	2,907
Total financial liabilities at amortized cost	**304,566**	**287,227**
Other financial liabilities at fair value:		
Financial liabilities at fair value through profit or loss:		
Deliverable currency forward not designated as hedge	-	142
Liabilities under option agreements (Note 28)	2,424	2,243
Interest rate swaps designated as cash flow hedges	390	-
Total financial liabilities at fair value through profit or loss	**2,814**	**2,385**
Financial liabilities at fair value through OCI:		
Interest rate swaps designated as cash flow hedges	-	531
Cross-currency swap designated as cash flow hedge	274	-
Total financial liabilities at fair value through OCI	**274**	**531**
Total other financial liabilities at fair value	**3,088**	**2,916**
Total financial liabilities	356,070	332,630
Total current financial liabilities	(115,926)	(92,743)
Total non-current financial liabilities	**240,144**	**239,887**

(Amounts in millions of Russian Rubles unless otherwise stated)

Group financial liabilities are represented by trade and other payables, notes and bank loans. The main purpose of these financial liabilities is to finance the Group's operations and capital expenditures. The Group's principal financial assets include loans and investments, trade and other receivables, cash and deposits.

The Group accounts for its financial assets and liabilities at amortized cost, except for derivative instruments, marketable securities, assets in Sistema-Capital trust management and liabilities under option agreements, which are accounted for at fair value.

In May 2016, the Group entered into a trust agreement with the asset management company Sistema-Capital, a subsidiary of Sistema. The main purpose of the agreement is short-term profit-taking from operations with securities.

The fair value measurement of the Group's derivative instruments and investments in Sistema-Capital trust management is based on the observable yield curves for similar instruments and represents the estimated amount the Group would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, foreign exchange spot and forward rates.

The table below presents the fair value of financial instruments:

	Level of inputs	December 31, 2017	December 31, 2016
Assets			
Sistema International Funding S.A. Bonds due in 2019 (related party) (Note 6, 22)	Level 1	57	65
Derivative instruments	Level 2	8,403	13,632
Cross-currency interest rate swap		*8,403*	*13,632*
Assets in Sistema-Capital trust management (related party) (Note 6, 22)	Level 2	9,600	3,721
Liabilities			
Derivative instruments	Level 2	(664)	(673)
Interest rate swap		*(390)*	*(531)*
Cross-currency interest rate swap		*(274)*	-
Deliverable currency forward		-	*(142)*
Liabilities under option agreements	Level 3	(2,424)	(2,243)
Contingent consideration	Level 3	(180)	(3)

For the year ended December 31, 2017, 2016 and 2015, net realized gains and losses of Level 3 liabilities resulting from fair value measurements amounted to RUB 120 million gain, RUB 199 million gain and RUB 1,014 million gain, respectively and were recognized as a part of change in fair value of financial instruments' in consolidated statement of profit or loss. No unrealized gains or losses of Level 3 liabilities resulted from fair value measurements were recognized during the years ended December 31, 2017, 2016 and 2015.

The liability under put option agreement for redeemable NCI in MTS Armenia in amount of RUB 2,012 million is measured at fair value using a discounted cash flow technique. The most significant quantitative inputs used to measure the fair value of the liability under put option agreement for redeemable NCI in MTS Armenia are presented in the table below:

Unobservable inputs	December 31, 2017	December 31, 2016
Post-tax discount rate	13%	13%
Revenue growth rate	0.0 – (0.5)% (av. -0.2%)	(0.9) – (2.9)% (av. -1.8%)
OIBDA margin	40.2-41.2% (av. 40.7%)	42.0-45.0% (av. 43.5%)

(Amounts in millions of Russian Rubles unless otherwise stated)

The liability under option agreement for redeemable NCI in Oblachny Retail in amount of RUB 412 million is calculated based on agreed fixed formula, which includes future operating and financial indicators. The most significant quantitative inputs used to measure the fair value of the liability under option agreement for redeemable NCI in Oblachny Retail are presented in the table below:

Unobservable inputs	**December 31, 2017**
Discount rate	10%
Revenue, average amount per year	632
EBITDA margin, average rate	13,0%
Net debt, average amount per year	(129)

The carrying value of the Group's financial instruments accounted for at amortized cost approximates their fair value due to their short-term nature and market interest rates, except for borrowings, gross of debt issuance cost, as disclosed in the table below:

		December 31, 2017		**December 31, 2016**	
	Level of inputs	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Notes (Note 15)	Level 1	(112,531)	(109,000)	(81,462)	(78,381)
Bank and other loans (Note 15)	Level 3	(183,543)	(183,787)	(199,131)	(196,382)
		(296,074)	**(292,787)**	**(280,593)**	**(274,763)**

The fair value of the Group's bank and other loans is measured using a discounted cash flow technique. The discount rate used in the discounted cash flow analysis is determined on the base of the market rate for bank loans available to the Group.

While management has used available market information in estimating the fair value of its financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

There were no transfers between levels of inputs within the hierarchy during the years ended December 31, 2017, 2016 and 2015.

There were no transfers between the accounting categories of financial instruments during the years ended December 31, 2017, 2016 and 2015.

19. FINANCIAL RISK MANAGEMENT

As part of its business the Group is exposed to several types of financial risks: market risks, credit (or counterparty) risks, and liquidity risks. Risks mitigating activities are mainly performed at the Group headquarters by the corporate finance personnel and are subject to the approval of the Group's supervisory bodies – Board of Directors and Budget committee.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is primarily exposed to the following types of market risks: interest rate risk and currency exchange rates fluctuations. Financial instruments affected by market risk include loans and borrowings, deposits, and derivative financial instruments. The sensitivity analyses in the following sections relate to the financial position as of December 31, 2017, 2016 and 2015.

Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

- Variable interest rate

Group's bank loans denominated in US Dollars and Euros primarily bear floating interest rate.
To eliminate the exposure of changes in variable interest rates related to its debt obligations, the Group enters into variable-to-fixed interest rate swap agreements, so that interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective cash flow hedges.
In aggregate, the Group entered into variable-to-fixed interest rate swap agreements designated to manage the exposure of changes in variable interest rates related to 100% and 28.6% of the Group's bank loans with variable rates outstanding as of December 31, 2017 and 2016, respectively.

- Fixed interest rate risk

Group's Notes and bank loans denominated in Russian Rubles bear primarily fixed interest rates.
To eliminate the exposure of changes in value of debt obligations, the Group enters into fixed-to-variable interest rate swap agreements. In aggregate, the Group entered into fixed-to-variable interest rate swap agreements designated to manage the exposure of changes in value of the debt related to 7.9% and 12.9% of the Group's Notes and bank loans with fixed rates outstanding as of December 31, 2017 and 2016, respectively.

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

Sensitivity analysis

A reasonably possible increase of 100 basis points in short term interest rates would have resulted in RUB 44 million, RUB 704 million and RUB 933 million future increases of interest expense for the years ended December 31, 2017, 2016 and 2015, respectively. The same decrease in short term interest rates would have resulted in RUB 44 million, RUB 704 million and RUB 933 million future decreases of finance cost for the years ended December 31, 2017, 2016 and 2015, respectively. There will be no material impact on equity.

The interest rate sensitivity analysis was performed based on a constant position of fixed and floating rate debt.

Foreign currency risks

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. The Group manages its currency risk by hedging significant foreign currency cash outflows with derivatives and by using money market instruments.

The Group has entered into several cross-currency swap agreements. The contracts designated to manage the exposure of changes in currency exchange rate. The contracts assumed periodic exchange of principal and interest payments from RUB-denominated amounts to USD-denominated amounts at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2019-2024.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure of changes in currency exchange rate for 39.6% of the Group's USD-denominated Notes and bank loans outstanding as of December 31, 2017 and 29.2% of its USD- and Euro-denominated Notes and bank loans outstanding as of December 31, 2016.

(Amounts in millions of Russian Rubles unless otherwise stated)

The notionals related to currency derivative instruments amounted to RUB 28,669 million and RUB 25,885 million as of December 31, 2017 and 2016, respectively.

The Group has entered into deliverable currency forward agreements to minimize foreign currency risk exposure for operating activities. The contracts assumed the purchase or sale of the agreed amount of currency at a specified exchange rate and date. The rate was determined by the market spot rate upon issuance. As the result of deliverable currency forward agreements, unfulfilled as of December 31, 2017, 2016 and 2015, the Group recognized nil, RUB 142 mln loss and nil in the consolidated statement of profit and loss for the years ended December 31, 2017, 2016 and 2015.

The notionals related to deliverable currency forward instruments, unfulfilled as of December 31, 2017 and 2016, amounted to nil and RUB 18,339 mln, respectively.

The following table presents the effect of the Group's swap agreements designated as cash flow hedges in accumulated other comprehensive income for the years ended December 31, 2017, 2016 and 2015.

	2017	2016	2015
Accumulated derivatives (loss) / income, beginning of the year, net of tax of (26) and 261 and 1,067, respectively	**(103)**	**1,045**	**4,268**
Fair value adjustments on hedging derivatives, net of tax of (628) and (2,279) and 738, respectively	(2,512)	(9,116)	2,952
Amounts reclassified to loss / (profit) for the year during the period, net of tax of 739 and 1,992 and (1,544), respectively	2,955	7,968	(6,175)
Accumulated derivatives income / (loss), end of the year, net of tax of 85 and (26) and 261, respectively	**340**	**(103)**	**1,045**

The following tables demonstrate the sensitivity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant.

	Change in rate	USD - effect on profit before tax RUB mln,	EUR - effect on profit before tax RUB mln
2017	+5%	(447)	830
	-5%	447	(830)
2016	+20%	(6,722)	2,274
	-20%	6,722	(2,274)
2015	+20%	(8,986)	5,664
	-20%	8,986	(5,664)

The movement in the pre-tax effect is a result of a change in monetary assets and liabilities denominated in US dollars and Euro, where the functional currency of the entity is a currency other than US dollars and Euro.

There will be no material impact on equity.

The Group's exposure to foreign currency changes for all other currencies is not material.

(Amounts in millions of Russian Rubles unless otherwise stated)

Liquidity risk

Liquidity risk is the risk of a shortage of funds. The Group's policy is to borrow centrally using a mixture of long-term and short-term borrowing facilities. These borrowings, together with cash generated from operations are utilized to meet anticipated funding requirements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The Group manages liquidity risk on long-term borrowings by maintaining a varied maturity profile and a required net debt position, therefore minimizing refinancing risk. Long-term borrowings mature between one and 8 years.

As at December 31, 2017, current liabilities exceeded current assets by RUB 10,639 million. Management believes the Group has sufficient existing and continuing access to liquidity through both operating cash flows and the availability of committed credit facilities of RUB 36,000 million (Note 15).

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Group is exposed to credit risk primarily from its investing activities.

The Group considers its exposure to credit risk as of December 31, 2017, and 2016 to be as follows:

	December 31, 2017	December 31, 2016
Trade and other receivables	28,017	29,805
Bank deposits	27,836	30,905
Loan and notes	13,952	9,090
Assets in Sistema-Capital trust management	9,600	3,721
Derivative financial instruments	8,403	13,632

In accordance with the Group's financial instruments management policy, the aggregate credit risk the Group may have with one counterparty is limited. The Group maintains a mixture of cash and cash equivalents, investments, derivatives and certain other financial instruments with financial institutions. These financial institutions are located in different geographical regions and the Group's policy is designed to limit exposure to any one institutions. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions.

On December 15, 2015 Barclays bank and the Group signed an addendum to existing cross currency swap agreements. According to the terms of the addendum parties agreed to set credit exposure limits to one another, which permits to mitigate their credit risk by requiring other party to transfer collateral payments. The balance of Barclays bank's transfer of collateral payments to the Group is RUB 1.0 billion and RUB 2.9 billion as of December 31, 2017 and 2016, respectively.

Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Therefore management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

(Amounts in millions of Russian Rubles unless otherwise stated)

20. INCOME TAX

Significant components of income tax expense for the year ended December 31, 2017, 2016 and 2015 was as follows:

	Year ended December 31,		
	2017	**2016**	**2015**
Current income tax charge	20,712	15,177	11,865
Adjustments recognised for current tax of prior periods	673	98	284
Total current income tax	**21,385**	**15,275**	**12,149**
Deferred tax	(2,408)	(137)	1,782
Income tax expense on continuing operations	**18,977**	**15,138**	**13,931**

Income tax expense on continuing operations excludes the tax income from the discontinued operations of RUB nil, RUB 192 million and RUB 661 million for the year ended December 31, 2017, 2016 and 2015, respectively; it has been included in loss from discontinued operations (Note 27).

The statutory income tax rates in jurisdictions in which the Group operates for 2017, 2016 and 2015 were as follows: Russia and Armenia – 20%, Ukraine – 18%, Turkmenistan – 8%, Czech Republic - 19%. The Russian statutory income tax rate of 20% reconciled to the Group's effective income tax rate for the year ended December 31, 2017, 2016 and 2015 as follows:

	Year ended December 31,		
	2017	**2016**	**2015**
Statutory income tax rate for the year	**20.0%**	**20.0%**	**20.0%**
Adjustments:			
Expenses not deductible for tax purposes	1.7	2.1	3.1
Prior periods tax effects	0.8	0.1	0.5
Different tax rate of foreign subsidiaries	-	(0.5)	(0.8)
Earnings distribution from subsidiaries	0.9	0.2	(1.9)
Change in fair value of derivative financial instruments	0.4	0.3	(0.1)
Derecognition of deferred tax assets	0.7	-	-
Other	0.6	0.2	-
Effective income tax rate	**25.1%**	**22.4%**	**20.8%**

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

	December 31, 2017	**December 31, 2016**
Deferred tax assets	5,545	6,150
Deferred tax liabilities	(23,773)	(26,611)
Net deferred tax liabilities	**(18,228)**	**(20,461)**

(Amounts in millions of Russian Rubles unless otherwise stated)

Movements in the deferred tax assets and liabilities for the year ended December 31, 2016 were as follows:

	January 1, 2016	Recognised in profit / loss	Recognised in other comprehensive income	Effect of disposal	December 31, 2016
Assets / (liabilities) arising from tax effect of:					
Depreciation of property, plant and equipment	(15,648)	(325)	(653)	(2,675)	(19,301)
Other intangible assets	(6,454)	(1,241)	29	572	(7,094)
Potential distributions from / to Group's subsidiaries / associates	(4,738)	203	548	-	(3,987)
Licenses	(1,805)	(431)	137	-	(2,099)
Customer base	(782)	122	-	-	(660)
Accrued expenses for services	7,807	(1,280)	(131)	(14)	6,382
Lease obligations	2,351	(152)	-	-	2,199
Loss carryforward	1,887	383	(49)	(304)	1,917
Provision for investment in Delta Bank in Ukraine	889	-	(236)	-	653
Deferred connection fees	639	(20)	(32)	(47)	540
Hedge and other	(2,205)	3,070	131	(7)	989
Net deferred tax liability	**(18,059)**	**329**	**(256)**	**(2,475)**	**(20,461)**

Movements in the deferred tax assets and liabilities for the year ended December 31, 2017 were as follows:

	December 31, 2016	Recognised in profit / loss	Recognised in other comprehensive income	Effect of acquisitions	Effect of derecognition	December 31, 2017
Assets / (liabilities) arising from tax effect of:						
Depreciation of property, plant and equipment	(19,301)	599	(39)	-	(180)	(18,921)
Other intangible assets	(7,094)	(290)	(8)	(59)	(3)	(7,454)
Potential distributions from / to Group's subsidiaries / associates	(3,987)	(175)	119	-	-	(4,043)
Licenses	(2,099)	80	25	-	-	(1,994)
Customer base	(660)	124	-	-	-	(536)
Accrued expenses for services	6,382	761	(9)	-	(3)	7,131
Lease obligations	2,199	164	-	-	-	2,363
Loss carryforward	1,917	226	-	-	-	2,143
Provision for investment in Delta Bank in Ukraine	653	-	(52)	-	-	601
Deferred connection fees	540	33	(11)	-	-	562
Hedge and other	989	1,077	(141)	-	(5)	1,920
Net deferred tax liability	**(20,461)**	**2,599**	**(116)**	**(59)**	**(191)**	**(18,228)**

The Group recognizes deferred income tax on future dividend distributions from foreign subsidiaries and associates which are based on cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations.

The Group recognizes deferred tax assets in respect of tax losses carried forward to the extent that realization of tax losses against future taxable profit is probable. Deferred tax assets related to tax losses of the Group's subsidiaries are recognized based on the fact that certain tax planning opportunities are available to these subsidiaries that will create taxable profit in the period in which the unused tax losses can be utilized. The amount of the deferred tax asset considered realizable, however, could be remeasured if estimates of future taxable income are changed.

Federal law #401-FZ dated November 30, 2016 allowed for the indefinite carry forward of tax losses, whereas previously carry forward of tax losses was restricted to 10 years. Also the law specified that tax base for the years 2017-2020 may not be reduced by tax losses carried forward for the amount exceeding 50% of the base.

Unused tax losses with indefinite expiry date, for which deferred tax assets were not recognized in the consolidated statement of financial position as of December 31, 2017 and 2016 amounted to RUB 18,003 million and RUB 8,307 million, respectively.

The Group accrued following amounts for uncertain income tax positions as component of income tax payable:

	December 31, 2017	**December 31, 2016**
Uncertain income tax positions	906	756

Generally, uncertain income tax positions were originated from results of tax audit.

21. EARNINGS PER SHARE

The following table sets forth the computation of earnings per share for the year ended December 31, 2017, 2016 and 2015:

	Year ended, December 31, 2017	**Year ended, December 31, 2016**	**Year ended, December 31, 2015**
Numerator:			
Profit for the year from continuing operations attributable to the owners of the company	56,042	51,841	52,323
Loss for the year from discontinued operations attributable to the owners of the company	-	(3,367)	(2,834)
Denominator, in thousands:			
Weighted-average ordinary shares outstanding	1,953,779	1,989,282	1,988,728
Employee stock options	1,779	1,412	1,468
Weighted-average diluted shares outstanding	**1,955,558**	**1,990,694**	**1,990,196**
Earnings per share – basic, RUB	**28.68**	**24.37**	**24.88**
Basic EPS from continuing operations	28.68	26.06	26.31
Basic EPS from discontinued operations	-	(1.69)	(1.43)
Earnings per share – diluted, RUB	**28.66**	**24.35**	**24.87**
Diluted EPS from continuing operations	28.66	26.04	26.29
Diluted EPS from discontinued operations	-	(1.69)	(1.42)

(Amounts in millions of Russian Rubles unless otherwise stated)

22. RELATED PARTIES

Related parties include entities under common ownership with the Group, affiliated companies and associated companies.

Terms and conditions of transactions with related parties – Outstanding balances as of December 31, 2017 were unsecured and settlements are made on a cash basis. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2017 and December 31, 2016 the Group had no impairment of receivables relating to significant amounts owed by related parties as well as expenses recognized during the year ended December 31, 2017 and 2016 in respect to bad or doubtful debts from related parties.

Accounts receivable from and accounts payable to related parties were as follows:

	December 31, 2017	December 31, 2016
Accounts receivable		
MTS Belarus, the Group's associate	4,835	2,273
Business Nedvizhimost, a subsidiary of Sistema	4,052	3,693
MTS Bank, the Group's associate	1,232	1,726
Zifrovoe TV, the Group's associate	702	50
Sitronics, a subsidiary of Sistema	317	-
Sitronics KASU, a former subsidiary of Sistema	-	51
Other related parties	222	301
Total accounts receivable, related parties	**11,360**	**8,094**
Less non-current portion	(2)	(3,693)
Accounts receivable, related parties – current	**11,358**	**4,401**
Accounts payable		
MTS Belarus, the Group's associate	828	491
MTS Bank, the Group's associate	157	134
Business Nedvizhimost, a subsidiary of Sistema	60	32
Sitronics, a subsidiary of Sistema	9	-
Sitronics KASU, a former subsidiary of Sistema	-	36
Maxima, a subsidiary of Sistema	-	184
Other related parties	48	137
Total accounts payable, related parties	**1,102**	**1,014**

The Group has neither the intent nor the ability to offset the outstanding accounts payable and accounts receivable with related parties under the terms of existing agreements.

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group provides advances to related parties which are summarized as follows:

	December 31, 2017	December 31, 2016
Advances for property, plant and equipment:		
Kapstroi Telecom, a former subsidiary of Sistema	-	186
Other related parties	1	1
Total advances for property, plant and equipment	**1**	**187**

Investing and financing transactions – The Group holds certain investments in related parties which are summarized as follows:

	December 31, 2017	December 31, 2016
Short-term investments		
Sistema-Capital, a subsidiary of Sistema (assets management)	9,600	3,721
Promissory notes of Intellect Telecom, a subsidiary of Sistema	257	230
Loan receivable from Intellect Telecom, a subsidiary of Sistema	77	72
Deposits at MTS Bank, the Group's associate	67	33
Sistema International Funding S.A. Bonds due in 2019, a subsidiary of Sistema	57	65
Promissory notes of Sistema	-	574
Other loans receivable	6	-
Total short-term investments in related parties	**10,064**	**4 695**
Other investments		
Promissory notes of Sistema	618	-
Loan receivable from MTS Bank, the Group's associate	-	2,116
Other	-	60
Total other investments to related parties	**618**	**2,176**
Other investments in shares		
Sistema Venture Capital, a subsidiary of Sistema	117	117
Other investments	32	32
Total investments in shares of related parties	**149**	**149**

(Amounts in millions of Russian Rubles unless otherwise stated)

Operating transactions – For the years ended December 31, 2017, 2016 and 2015, operating transactions with related parties were as follows:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Revenues from related parties			
MTS Bank, the Group's associate (telecommunication and call center services, bank cards distribution commission)	1,507	900	588
Zifrovoe TV, the Group's associate (subscriber acquisition services)	724	55	3
Sitronics, subsidiary of Sistema (construction of a fiber optic lines)	303	-	-
MTS Belarus, the Group's associate (roaming and interconnect services)	248	276	266
Detsky Mir, subsidiary of Sistema (telecommunication services)	188	129	64
Medsi Group, subsidiary of Sistema (telecommunication and call center services)	156	242	113
Sistema, parent company (consulting services)	19	83	61
Segezha Group, a subsidiary of Sistema (software supply)	10	149	-
Sitronics KASU, a former subsidiary of Sistema (construction of fiber optic lines, project management, software support)	5	40	8
NVision Group, a former subsidiary of Sistema (fixed line services)	-	-	119
Stream, a former Group's associate (SMS notifications)	-	-	141
Other related parties	189	304	121
Total revenues from related parties	**3,349**	**2,178**	**1,484**
Operating expenses incurred on transactions with related parties			
MTS Bank, the Group's associate (commission related expenses)	2,259	347	61
Business Nedvizhimost, a subsidiary of Sistema (rent and sale of property)	821	246	224
AB Safety, a subsidiary of Sistema (security services)	302	271	212
Jet Air Group, subsidiary of Sistema (transportation services)	172	183	180
Maxima, a subsidiary of Sistema (advertising)	143	1,018	1,351
MTS Belarus, the Group's associate (roaming and interconnect services)	121	161	394
Elavius, a subsidiary of Sistema (transportation services)	11	159	328
Inturavtoservis, subsidiary of Sistema (transport services)	4	124	44
Rent-Nedvizhimost, a former subsidiary of Sistema (rent), merged with Business Nedvizhimost in 2016	-	308	776
Stream, a former Group's associate (content services)	-	-	2,132
NVision Group, a former subsidiary of Sistema (IT consulting)	-	-	575
Other related parties	220	297	301
Total operating expenses incurred on transactions with related parties	**4,053**	**3,114**	**6,578**

(Amounts in millions of Russian Rubles unless otherwise stated)

Finance income, which arose from investment transactions with related parties for years ended December 31, 2017, 2016 and 2017 was the following:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Finance income from related parties			
Sistema-Capital, a subsidiary of Sistema (assets management)	369	128	-
Business Nedvizhimost, a subsidiary of Sistema	359	491	346
MTS Bank, the Group's associate	345	285	447
Zifrovoe TV, the Group's associate	70	12	-
Sistema, parent company	48	53	188
Other related parties	76	16	86
Total finance income from related parties	**1,267**	**985**	**1,067**

Public Joint-Stock Company "MTS Bank" ("MTS Bank") – The Group maintains certain bank accounts with MTS Bank, an associate of the Group. As of December 31, 2017 and December 31, 2016, the Group's cash position at MTS Bank amounted to RUB 13,746 million and RUB 4,902 million, respectively, including short-term deposits in the amount of RUB 633 million and RUB 532 million, respectively. As of December 31, 2016 the subordinated loan issued by the Group to MTS Bank amounted to RUB 2,100 million. The loan was repaid in January, 2017.

East-West United Bank - The Group maintains certain bank accounts with East-West United Bank, a subsidiary of Sistema. As of December 31, 2017 and December 31, 2016, the Group's cash position at East-West United Bank amounted to RUB 5,969 million and RUB 736 million, respectively, including short-term deposits in the amount of RUB 5,810 million and nil, respectively.

Sistema - In November 2009, the Group accepted a promissory note, issued by Sistema, as repayment of the loan principal and interest accrued to date under an agreement with Sistema-Hals. The note is interest free and repayable in 2019. As of December 31, 2017 and December 31, 2016 the amount of RUB 618 million and RUB 574 million was included in other investments and short-term investments, respectively in the accompanying consolidated statements of financial position.

In October 2014 the Group acquired 2,501,350 Sistema Notes due 2016 (series 04) and 1,000 Sistema International Funding S.A. Bonds due in 2019 for RUB 519 million and RUB 32 million, respectively. The acquired bonds were classified as available for sale and accounted for at fair value to recognize changes in fair value in other comprehensive income. In March 2015 and May 2015 upon scheduled redemption, the Group received principal and coupon in the amount of RUB 409 million. In March 2016 the Group received principal and coupon of Sistema Notes due 2016 (series 04) in the amount of RUB 201 million.

As of December 31, 2017 and December 31, 2016, the balance of Sistema International Funding S.A. Bonds due in 2019 amounted to RUB 57 million and RUB 65 million respectively.

Business Nedvizhimost – In February 2015 and further in May 2015, the Group sold its 100% stake in Rent Nedvizhimost to Business Nedvizhimost, subsidiary of Sistema, for RUB 8,500 million in total.

As of December 31, 2017 and December 31, 2016 the balance of accounts receivable amounted to RUB 4,052 million and RUB 3,693 million, respectively. The amount as of December 31, 2017 is due before December 31, 2018 and bears interest of 12% p.a.

Sistema-Capital – In April 2016 the Group entered into trust agreement with the asset management company Sistema-Capital. In December 2017 the Group entered into additional trust agreement with the same terms. As of December 31, 2017 and December 31, 2016, the balance of assets under trust management amounted to RUB 9,600 million and RUB 3,721 million respectively.

Zifrovoe TV – In June 2017 the Group made a cash contribution to Zifrovoe TV (ZTV) in the amount of RUB 171 million.

Remuneration of key management personnel – Key management personnel of the Group are members of the Board of Directors and Management Board. During the year ended December 31, 2017, 2016 and 2015 their total remuneration amounted to RUB 739 million, RUB 760 million and RUB 835 million, respectively. These amounts comprised of RUB 490 million, RUB 470 million and RUB 514 million in base salaries and 249 RUB million, RUB 290 million and RUB 321 million in bonuses paid pursuant to a bonus plan, respectively.

Management and directors are also entitled to cash-settled and equity-settled share-based payments. Related compensation accrued during the year ended December 31, 2017, 2016 and 2015 amounted to RUB 486 million, RUB 481 million and RUB 175 million, respectively.

23. SHAREHOLDERS' EQUITY

Share capital (ordinary shares) – The Group had 1,998,381,575 authorized ordinary shares with par value 0.1 RUB as of December 31, 2017 and 2016. Preferred shares have not been issued.

As of December 31, 2017, the total shares in treasury stock comprised 86,339,156 and 1,912,042,419 shares were outstanding. As of December 31, 2016, the total shares in treasury stock comprised 11,482,047, and 1,986,899,528 shares were outstanding.

Mobile TeleSystems' Level III American Depositary Shares (ADS) were successfully placed during the Company's initial public offering on the New York Stock Exchange on June 30, 2000. Each ADS represents 2 ordinary shares. As of December 31, 2015 the Group repurchased 33,997,667 ADSs, which were used to decrease the Group's charter capital in 2016.

MTS ordinary shares have been traded on the Moscow Exchange (previously, Moscow Interbank Currency Exchange (MICEX)) since October 2003 under the ticker symbol MTSI.

In 2016, the Group launched a Tender Offer, aiming to return cash of up to RUB 4,935 million to the holders of ordinary shares and ADS. During the year ended December 31, 2016 through the Tender Offer the Group has repurchased 3,060,409 ordinary shares for RUB 747 million (including 1,550,495 ordinary shares purchased from Sistema for RUB 335 million).

In 2017 the Group launched a Tender Offer, aiming to repurchase its ordinary shares (including shares represented by ADSs) for up to RUB 4,647 million. Through the Tender Offer, during the year ended December 31, 2017, the Group purchased a total of 16,022,364 shares (including shares represented by ADSs) at a price per share of RUB 290, for a total cost of RUB 4,646 million. Simultaneously, the Group purchased 16,038,892 shares from Sistema Finance under the Sistema Purchase Agreement for an aggregate purchase price of RUB 4,651 million.

In 2017, the Group announced that its Board of Directors has approved the repurchase of its shares and ADSs by means of a share repurchase plan in the total amount of up to RUB 20,000,000,000 (the "Repurchase Plan"), the amount includes funds used for purchasing the Company's shares from Sistema Finance until April 2019. The Repurchase Plan is carried out by the Group's wholly-owned subsidiary Stream Digital, LLC. During the year ended December 31, 2017, the Group purchased 43,647,128 shares (including shares represented by ADSs) under the Repurchase Plan at prices from RUB 257 up to RUB 305 for a total cost of RUB 12,475 million.

1. Nature and purpose of reserves

Additional paid in capital reserve is used to recognize equity-settled share-based payment transactions, results of capital transactions under common control; changes in ownership interest in subsidiaries that do not result in gain/loss of control; the excess of cash received over the acquisition cost of treasury shares.

Foreign currency translation reserve is used to record exchange differences arising from the translation of foreign subsidiaries financial statements from functional to presentation currency.

(Amounts in millions of Russian Rubles unless otherwise stated)

Investments revaluation reserve is used to record the accumulated impact of derivatives designated as cash flow hedges and revaluation of investments available for sale.

Remeasurements of the net defined benefit liability is used to recognize actuarial gains and losses related to the pension program set for employees of the Group's subsidiary MGTS.

The following table represents roll forward of reserves balances for the years ended December 31, 2017, 2016 and 2015:

	Foreign currency translation reserve	Cash flow hedging reserve	Remeasurements of the net defined benefit liability
Balances at January 1, 2015	**8,803**	**4,268**	**407**
Other comprehensive income for the year	835	3,253	86
Less: tax expense	-	(542)	-
Amounts reclassified to profit for the year	-	(7,121)	-
Less: tax benefit	-	1,187	-
Net other comprehensive income / (loss) for the year	**835**	**(3,223)**	**86**
Balances at December 31, 2015	**9,638**	**1,045**	**493**
Other comprehensive (loss) / income for the year	(13,970)	(11,324)	50
Less: tax benefit	-	2,219	-
Amounts reclassified to profit for the year	(2,086)	9,897	-
Less: tax expense	-	(1,992)	-
Net other comprehensive (loss) / income for the year	**(16,056)**	**(1,200)**	**50**
Balances at December 31, 2016	**(6,418)**	**(155)**	**543**
Other comprehensive loss for the year	(2,620)	(3,140)	(40)
Less: tax benefit	-	628	-
Amounts reclassified to profit for the year		3,748	-
Less: tax expense		(741)	-
Amounts reclassified to Additional paid in capital	(659)		
Less: tax expense	-		
Net other comprehensive (loss) / income for the year	**(3,279)**	**495**	**(40)**
Balances at December 31, 2017	**(9,697)**	**340**	**503**

2. Non-controlling interest

As of December 31, 2017 the only material subsidiary of the Group which had non-controlling interests was MGTS.

The summarised financial information of MGTS PJSC is presented as follows:

	Year ended December 31,		
	2017	**2016**	**2015**
Non-controlling interest opening balance	**(4,787)**	**(5,191)**	**(4,399)**
Profit for the year attributable to non-controlling interest	(554)	(727)	(782)
Dividends to non-controlling interest	1,175	1,120	257
Other	(14)	11	(267)
Non-controlling interest closing balance	**(4,180)**	**(4,787)**	**(5,191)**

(Amounts in millions of Russian Rubles unless otherwise stated)

	December 31	
	2017	2016
Current assets	22,595	25,301
Non-current assets	42,204	50,130
Current liabilities	(8,959)	(7,653)
Non- current liabilities	(7,250)	(7,965)

	Year ended December 31,		
	2017	2016	2015
Revenue, gross of intercompany	(39,565)	(40,210)	(41,144)
Profit for the year, gross of intercompany	(9,719)	(12,167)	(13,322)

3. Dividends

As a leading telecommunications group with a home base in developing markets, MTS' primary need is to maintain sufficient resources and flexibility to meet financial and operational requirements. At the same time, the Group continually seeks ways to create shareholder value through both its commercial and financial strategies, including organic and non organic development as well as the Group's capital management practices.

MTS continues to include dividend payments as part of its commitment to maximizing shareholder value. Decisions on dividends are proposed by the Board of Directors and voted upon thereafter at a general meeting of shareholders. In determining the Company's dividend payout, the Board of Directors considers a variety of factors, including:

- Macroeconomic factors and levels of competitiveness in core markets,
- Cash flow from operations,
- The outlook for earnings growth,
- Capital expenditure requirements,
- Potential acquisition opportunities,
- The state of capital markets and the Group's liquidity position, and
- The Group's overall debt position.

In 2016, the Board of Directors approved a dividend policy for the calendar years 2016 – 2018, committing to a minimum cumulative dividend payout of RUB 20.0 per ordinary share through two semi-annual payments. In addition, the Group will aim for a target payout of RUB 25.0 – 26.0 per ordinary share in each calendar year.

The Group may take decisions on dividend payout based not only on annual results but also on interim results for three, six or nine months of the fiscal year. Annual and interim dividend payments, if any, must be recommended by the Board of Directors and approved by the shareholders.

In accordance with Russian laws, earnings available for dividends are limited to profits determined under Russian statutory accounting regulations, denominated in Russian Rubles, after certain deductions. The net income of MTS PJSC for the years ended December 31, 2017, 2016 and 2015 that is distributable under Russian legislation totaled RUB 125,091 million, RUB 50,659 million and RUB 6,590 million, respectively.

The following table summarizes the Group's declared cash dividends for the years ended December 31, 2017, 2016 and 2015:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Dividends declared (including dividends on treasury shares of 1,337, 1,950 and 1,922 respectively)	51,958	51,958	52,011
Dividends, RUB per ADS	52.00	52.00	50.34
Dividends, RUB per share	26.00	26.00	25.17

(Amounts in millions of Russian Rubles unless otherwise stated)

As of December 31, 2017 and 2016 dividends payable were RUB 125.4 and 87.0 million, respectively, and included in the trade and other payables within the consolidated statement of financial position.

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2017, 2016 and 2015 comprised the following:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Salaries and social contributions	44,605	44,347	40,026
Utilities and maintenance	9,361	9,092	6,817
Advertising and marketing expenses	9,185	10,480	9,543
General and administrative expenses	8,321	7,007	6,762
Dealers commission	6,718	6,740	8,960
Taxes other than income tax	3,896	3,806	1,970
Cash collection commission	3,689	3,311	2,906
Universal service fund	3,462	3,412	3,441
Consulting expenses	1,975	1,618	2,392
Billing and data processing	1,292	1,485	1,829
Other	2,682	2,748	2,694
Total	**95,186**	**94,046**	**87,340**

25. FINANCE INCOME AND COSTS

Finance income and costs for the year ended December 31, 2017, 2016 and 2015 comprised the following:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Interest expense:			
– Loans and notes	22,131	22,982	25,154
– Amortization of debt issuance costs	623	683	732
– Finance lease obligations	954	855	756
– Provisions: unwinding of discount	91	94	77
Total interest expense	**23,799**	**24,614**	**26,719**
Loss on financial instruments	2,486	25	210
Other finance costs[(2)]	86	2,885	378
Total finance costs	**26,371**	**27,524**	**27,307**
Less: amounts capitalized on qualifying assets [(1)]	(307)	(388)	(885)
Finance costs	**26,064**	**27,136**	**26,422**
Finance income on loans and receivables			
– Interest income on bank deposits	4,818	4,277	7,187
– Interest income on loans	330	510	728
– Other finance income	400	486	453
Finance income	**5,548**	**5,273**	**8,368**
Net finance costs	**20,516**	**21,863**	**18,054**

(1) The annual weighted average capitalization rates of 8.2%, 8.3% and 8.3% were used to determine the amount of capitalized interest for the years ended December 31, 2017, 2016 and 2015, respectively.

(2) Including repurchase of MTS International Notes

(Amounts in millions of Russian Rubles unless otherwise stated)

26. SEGMENT INFORMATION

Management (chief operating decision maker) analyzes and reviews results of the Company's operating segments separately based on the nature of products and services, regulatory environments and geographic areas. MTS Group's management evaluates the segments' performance based on revenue and operating profit, excluding depreciation and amortization. Management does not analyze assets or liabilities by reportable segments.

The Group identified the following reportable segments:

Russia convergent: represents the results of mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia, including voice and data services, transmission, broadband, pay-TV and various value-added services and retail operations.

Moscow fixed line: represents the results of fixed line operations carried out in Moscow by the Group's subsidiary MGTS. MGTS is the only licensed public switched telephone network ("PSTN") operator in Moscow and is considered a natural monopoly under Russian antimonopoly regulations. Consequently, substantial part of services provided by MGTS are subject to governmental regulation.

Ukraine: represents the results of mobile and fixed line operations carried out across multiple regions of Ukraine.

The "Other" category does not constitute a reportable segment. It includes the results of a number of other operating segments that do not meet the quantitative thresholds for separate reporting, such as Turkmenistan, Armenia, System Integrator, Satellite TV, Navigation Information Systems, Metro-Telecom, Stream, NVision Czech Republic, Litebox, eSports and Belarus.

In 2017, management has started internally assess Russia convergent and NVision Czech Republic, Stream, Navigation Information Systems and Metro-Telecom separately in order to monitor the results and make funding decisions on this basis, and thus has presented them separately. Related financial information was, retrospectively, restated.

The results of operations of UMS are reported as discontinued operations in the accompanying consolidated statements of profit or loss. The segment reporting for the year ended December 31, 2015 was restated accordingly. The consolidated statement of financial position is not required to be retrospectively restated with respect to discontinued operations and therefore as of December 31, 2015 statement of financial position captions in the "Other" category of the following presentation includes UMS.

The intercompany eliminations presented below primarily consist of sales transactions between segments conducted under the normal course of operations.

Financial information by reportable segments is presented below:

Year ended December 31, 2017:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consoli-dated
Revenue							
External customers	365,846	34,350	24,992	425,188	17,618	105	442,911
Intersegment	5,136	4,683	1,111	10,930	12,785	(23,715)	-
Total revenue	**370,982**	**39,033**	**26,103**	**436,118**	**30,403**	**(23,610)**	**442,911**
Operating profit	93,821	8,801	5,258	107,880	(871)	(10,909)	96,100
Depreciation and amortization	59,942	10,642	6,106	76,690	3,481	(259)	79,912
Other disclosure:							
Capital expenditures	65,790	7,403	10,573	83,766	2,392	-	86,158

(Amounts in millions of Russian Rubles unless otherwise stated)

Year ended December 31, 2016:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consoli-dated
Revenue							
External customers	355,056	34,796	27,026	416,878	18,689	125	435,692
Intersegment	4,849	4,871	2,161	11,881	14,423	(26,304)	-
Total revenue	**359,905**	**39,667**	**29,187**	**428,759**	**33,112**	**(26,179)**	**435,692**
Operating profit	81,484	10,850	3,599	95,933	3,523	(11,787)	87,669
Depreciation and amortization	60,087	10,900	6,304	77,291	4,395	(104)	81,582
Other disclosure:							
Capital expenditures	61,208	7,316	7,666	76,190	3,995	-	80,185

Year ended December 31, 2015:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consoli-dated
Revenue							
External customers	351,406	34,770	25,590	411,766	14,718	155	426,639
Intersegment	4,370	4,836	2,604	11,810	4,456	(16,266)	-
Total revenue	**355,776**	**39,606**	**28,194**	**423,576**	**19,174**	**(16,111)**	**426,639**
Operating profit	82,788	13,737	4,715	101,240	2,180	(9,497)	93,923
Depreciation and amortization	61,202	7,715	5,199	74,116	3,800	(73)	77,843
Other disclosure:							
Capital expenditures	64,194	9,303	19,955	93,452	5,269	-	98,721

The consolidated operating profit is reconciled to the consolidated profit before tax on the face of the consolidated statement of profit or loss.

Financial information by geographic areas is presented below:

	For the year ended December 31,		
Revenue	**2017**	**2016**	**2015**
Russia	405,365	392,764	387,456
Other	37,546	42,928	39,183
Total revenue	**442,911**	**435,692**	**426,639**

Non-current assets [1]	**As of December 31, 2017**	**As of December 31, 2016**
Russia	339,693	340,944
Other	37,048	40,710
Total non-current assets:	**376,741**	**381,654**

(1) Comprises property, plant and equipment, goodwill and other intangible assets.

Revenues from external customers and non-current assets are allocated to individual countries based on location of operations. No single customer represents 10% or more of the consolidated revenue.

(Amounts in millions of Russian Rubles unless otherwise stated)

27. OPERATIONS IN UZBEKISTAN

On August 5, 2016, the Group sold its 50.01% stake in UMS, a subsidiary in Uzbekistan for USD 1 to UMS's sole remaining shareholder - the State Unitary Enterprise Centre of Radio Communication, Radio Broadcasting and Television of The Ministry of Development of Information Technologies and Communications of the Republic of Uzbekistan.

The results of UMS operations were reported as discontinued operations in the accompanying consolidated statements of profit or loss. The consolidated statements of financial position and consolidated statements of cash flows for all periods presented were not retrospectively restated on discontinued operations.

UMS's summary of financial information:

Results of discontinued operation

	For the year ended December 31,	
	2016	**2015**
Revenue	5,115	4,610
Expenses	(6,602)	(10,939)
Loss before tax	**(1,487)**	**(6,329)**
Income tax gain (note 19)	192	661
Loss for the period	**(1,295)**	**(5,668)**
Loss on sale of discontinued operations	(2,726)	-
Loss from discontinued operations	**(4,021)**	**(5,668)**
Loss attributable to non-controlling interests	(654)	(2,834)
Loss to owners of the Company	**(3,367)**	**(2,834)**
Basic loss per share	(1.69)	(1.43)
Diluted loss per share	(1.69)	(1.42)

Cash flows from (used in) discontinued operation

	For the year ended December 31,	
	2016	**2015**
Net cash used in operating activities	(543)	(1,121)
Net cash used in investing activities	(1,253)	(2,195)
Net cash provided by financing activities	1,234	3,492

As of August 5, 2016, the carrying amounts of UMS net assets and reconciliation of the loss on disposal were as follows:

Property, plant and equipment	(6,960)
Other intangible assets	(2,922)
Other non-current assets	(2,577)
Cash and cash equivalents	(378)
Other current assets	(1,359)
Non-current liabilities	5,113
Current liabilities	2,484
Non-controlling interest	1,787
Accumulated other comprehensive income	2,086
Consideration received	**-**
Loss on disposal of UMS	**(2,726)**

(Amounts in millions of Russian Rubles unless otherwise stated)

28. LIABILITY UNDER PUT OPTION AGREEMENT

In September 2007, the Group acquired an 80% stake in International Cell Holding Ltd ("ICH"), the 100% indirect owner of MTS Armenia, Armenia's mobile phone operator, and signed a call and put option agreement to acquire the remaining 20% stake. In 2016 ICH was liquidated and all its legal rights were assigned to Aramayo Investments Limited, a subsidiary of the Group. December 2010, the Group signed an amendment to the put and call option agreement. According to the amended option agreement, the price for the remaining 20% stake option will be determined by an independent investment bank subject to a cap of EUR 200 million. The put option can be exercised during the period from the next business day following the date of settlement of all liabilities under the loan agreement up to December 31, 2018. The call option can be exercised during the period from July 1, 2010 up to December 31, 2018. If both the call notice and the put notice are served on the same day then the put notice shall be deemed exercised in priority to the call notice. The liability under put option agreement amounted to RUB 2,012 million and RUB 2,243 million as of December 31, 2017 and December 31, 2016 respectively (Note 18).

The liability under put option agreement related to Oblachny Retail is disclosed in Note 18.

29. OPERATIONS IN TURKMENISTAN

In September 2017, the Group's subsidiary in Turkmenistan MTS-TM suspended the provision of telecommunication services to its subscribers, due to the termination by Turkmen state-owned companies and state authorities of line rental, frequency allocation, interconnect, and other agreements necessary to servicing MTS clients. However, the license for the provision of telecommunication services on the Turkmenistan territory is valid till the end of July 2018.

According to the IAS 36 (par.12) the Group considered facts described above as an impairment indicators and consequently determined that all long-lived assets attributable to Turkmenistan subsidiary were impaired. The Group also assessed the recoverability of the current assets and recorded a provision for those that were considered to be impaired. No indicators of impairment were identified in respect of cash and cash equivalents attributable to MTS-TM. Total impairment charges recognized in the Group's consolidated statement of profit or loss for the year ended December 31, 2017 were as follows:

Impairment long-lived assets	3,204
Current provision for income tax	100
Provision for doubtful accounts	74
Other operating expenses	37
Taxes other than income tax	20
Deferred income tax	(69)
	3,366

30. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of December 31, 2017, the Group had executed purchase agreements of approximately RUB 33,645 million to acquire property, plant and equipment, intangible assets and costs related thereto.

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

(Amounts in millions of Russian Rubles unless otherwise stated)

Operating leases – The Group has entered into non-cancellable agreements to lease space for telecommunications equipment, offices and transmission channels, which expire in various years up to 2099. Rental expenses under the operating leases of RUB 7,705 million, RUB 7,581 million and RUB 6,093 million for the years ended December 31, 2017, 2016 and 2015, respectively, are included in selling, general and administrative expenses in the accompanying consolidated statement of profit or loss. Rental expenses under the operating leases of RUB 18,352 million, RUB 18,955 million and RUB 19,549 million for the years ended December 31, 2017, 2016 and 2015, respectively, are included in cost of services in the accompanying consolidated statement of profit or loss. Future minimum lease payments due under these leases at December 31, 2017 are as follows:

Payments due in	
2018	10,000
2019	827
2020	441
2021	238
2022	201
Thereafter	3,428
Total	**15,135**

Taxation – Russia and other CIS countries currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or non-existent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia and the CIS countries that are more significant than those typically found in countries with more developed tax systems.

Generally, according to Russian and Ukrainian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2017, tax declarations of MTS PJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review.

In 2017, the Russian tax authorities completed a tax audit of MTS PJSC for the years ended December 31, 2015 and 2014. No issues that could result in additional significant charges identified.

Pricing of goods and services provided within the Group is subject to transfer pricing rules.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements. However, the risk remains that the relevant tax authorities could take different positions with regard to interpretive issues and the effect could be significant.

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

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

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

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

In March 2015, MTS-Ukraine acquired a nationwide license for the provision of UMTS (3G) telecommunications services through an open tender. The license cost UAH 2,715 million (RUB 6,015 million at the acquisition date) and was granted for 15 years. In accordance with the terms of the license, MTS-Ukraine was required to launch UMTS services in Ukraine by October 2016, and provide coverage throughout Ukraine by April 2020.

In accordance with the terms of the license, MTS-Ukraine also concluded agreements to convert the provided frequencies for commercial use with the Ministry of Defense of Ukraine, Ministry of Internal Affairs of Ukraine and State Service of Special Communications and Information Protection of Ukraine. For the conversion of frequencies, MTS-Ukraine paid UAH 358 million (RUB 865 million as of the payment date) in 2015 and UAH 299 million (RUB 645 million as of the payment date) in 2017, and is liable to pay UAH 232 million (RUB 476 million as of December 31, 2017) adjusted for the rate of inflation in 2018.

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

Litigation – In the ordinary course of business, the Group is party to various legal, tax and customs proceedings, and subject to claims, some of which relate to developing markets and evolving fiscal and regulatory environments within MTS's markets of operation.

In August 2017, Federal Antimonopoly Service of the Russian Federation (FAS Russia) has charged MTS with violation of antimonopoly laws in respect to establishing and maintaining monopolistically high prices for communication services in national roaming. In Febraury 2018 FAS Russia found MTS responsible for the aforementioned violation. An administrative case is expected to be initiated, which will result in an administrative fine imposed on MTS in the amount of illegally obtained income.

The amount of illegally obtained income is determined as the difference between the amount of revenue received by MTS as a result of applying monopolistically high prices and the amount of revenue that could be received as a result of applying prices which are considered by FAS Russia reasonable.

As there is no information regarding the level of prices that FAS Russia considers economically justified, it is not possible to make a reliable estimation of the adverse effects of the fine that will be potencially imposed.

Potential adverse effects of economic instability and sanctions in Russia – In 2014 political and economic sanctions targeting certain Russian economic sectors were introduced by the EU, US and other countries. Sanctions were subsequently extended and there is significant uncertainty regarding the extent and timing of further sanctions. Also, Russian Ruble has materially depreciated against the U.S. Dollar and Euro and ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% in December, 2014. In 2018 due to Russia's ability to remain stable amid severe external shocks Russia sovereign credit ratings were increased from "stable" to "positive". The Central Bank of Russia has gradually decreased its key rate to 7.75% as of December 31, 2017 and subsequently to 7.50% as of February 12, 2018.

These factors resulted in a lower cost of capital and a stable rate of inflation. However, in Russia there is an uneven growth dynamics, which could have a negative impact on the Group's business including ability to obtain financing on commercially reasonable terms. Management believes it is appropriately acting to support the sustainability of the Group's business in the current circumstances. The Group has a hedging policy in place, which partly mitigated variability of cash outflows, denominated in foreign currencies.

Political and economic crisis in Ukraine – During the year ended December 31, 2014, a deterioration in the political environment of Ukraine has led to general instability, economic deterioration and armed conflict in eastern Ukraine. In 2014 The National Bank of Ukraine ("NBU") passed a decree prohibiting Ukrainian companies to pay dividends to foreign investors. The decree was extended for a few times and its edition effective as of December 31, 2017 allows payment of dividends from the profit earned in 2014-2015, subject to certain restrictions, as well as payment of the whole amount of dividends accrued from the profit earned before 2014 that was earlier prohibited Furthermore, since 2014 the Group established a provision in respect of cash balances in several Ukrainian banks, whose liquidity was affected by the economic downturn. For the year ended December 31, 2015 the provision amounted to RUB 1,698 million and was included as a component of operating expenses in the accompanying consolidated statement of profit or loss.

The Group believes that these circumstances, despite the recent improvement, combined with political and economic instability in the country, could result in further negative impact on the Group's business including financial position and results of operations.

As of December 31, 2017, the Group held RUB 1,330 million in current accounts and deposits in Ukrainian banks.

Anti-terror law – On July 7, 2016 a series of anti-terror laws (also known as "Yarovaya-Ozerov bundle of laws") was enacted by the signature of the President of Russia. In general terms, the laws mandate that operators store and record phone conversations, text messages of subscribers, images, sounds, video and other types of communications by telecommunications operators for defined periods of time. These requirements are to become effective starting July 1, 2018. Compliance with the laws may require the construction of additional storage, processing and indexing centers and a significant increase in the Group capital expenditures. This may adversely impact Group's financial indicators, in particular free cash flow.

The requirements of the anti-terror laws in respect of the data storage volume are to be determined by legal acts that have not been adopted yet. The Group will estimate the potential impact of the laws on the Group's consolidated financial statements, including additional provisions, once requirements are approved and come into force.

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

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

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

31. SUBSEQUENT EVENTS

4G license secured by Vodafone Ukraine – In January and March 2018, VF Ukraine PrJSC, which serves the Ukraine market and operates as Vodafone Ukraine, secured a 4G licenses in the 2510-2520 / 2630-2640 and 1780-1785 / 1875-1880 MHz bands as the result of a national auction. The first 4G launch in Ukraine's largest cities could take place by the end of March 2018.

Acquisition of MDTZK LLC and Kulturnaya Sluzhba LLC – In the first quarter of 2018, the Group acquired 100% stake in MDTZK LLC (operating under the trademark Ticketland.ru) and a 78.2% stake in Kulturnaya Sluzhba LLC (operating under the trademark Ponominalu.ru), the leading players in the Russian e-ticketing industry. The acquisitions allow MTS to enter the event ticket market (both online and offline) and establish itself as a leading ticket operator in Russia, while broadening MTS's suite of digital services and integrating a key new product into its existing loyalty program and mobile app ecosystem. See Note 4 for further information.

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

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

Investments in the development of Ozon Holdings Limited – In March 2018, MTS invested RUB 1.15 billion in the development of Ozon Holdings (OZON) through an additional share issuance. As a result, MTS's stake in the authorized capital of Ozon will increase from 11.2% to 13.7%.

Acquisition of shares under Share Repurchase Plan – Since the end of the reporting period the Group acquired 27,059,204 MTS shares of Common Stock representing 1.35% of share capital issued by MTS. The Group purchased MTS shares of Common Stock under the Share Repurchase Plan announced in 2017.