PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2018
(unaudited)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Mobile TeleSystems Public Joint Stock Company and its subsidiaries (the "Group") as of June 30, 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Emphasis of Matter – Early Adoption of International Financial Reporting Standard 16, Leases

We draw attention to Note 2 to the interim condensed consolidated financial statements, which describes that as at January 1, 2018 the Group early adopted International Financial Reporting Standard 16, *Leases*. The Group applied a transition option provided by the standard not to restate the comparative periods as a result of its adoption. Our conclusion is not qualified in respect of this matter.

Vladimir Kozyrev
Engagement partner

August 28, 2018

The Entity: Mobile TeleSystems PJSC

Certificate of state registration № P-7882.16, issued by the State Registration Chamber under the Ministry of Justice of the Russian Federation by 01.03.2000.

Primary State Registration Number: 1027700149124

Certificate of registration in the Unified State Register № 1027700149124 of 02.09.2002, issued by Moscow Department of the Russian Ministry of Taxation.

Address: 4, Marksistskaya st., Moscow, Russia, 109147

Audit Firm: AO Deloitte & Touche CIS

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

Primary State Registration Number: 1027700425444

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

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Amounts in millions of Russian Rubles)

	Notes	June 30, 2018 (unaudited)	December 31, 2017
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	7	256,472	263,063
Investment property		732	407
Right-of-use assets	9	150,211	-
Goodwill		37,138	34,281
Other intangible assets	7	92,444	79,397
Investments in associates	6	11,432	9,452
Other investments		2,073	1,953
Deferred tax assets		6,509	5,545
Accounts receivable, related parties	12	1,127	2
Other financial assets		4,623	8,890
Other non-financial assets		1,583	2,048
Total non-current assets		**564,344**	**405,038**
CURRENT ASSETS:			
Inventories		17,307	9,995
Trade and other receivables		30,001	28,017
Accounts receivable, related parties	12	12,469	11,358
Short-term investments	5	52,970	50,757
Advances paid and prepaid expenses		3,667	3,894
VAT receivable		9,060	7,165
Income tax assets		2,594	2,838
Assets held for sale		1,461	1,276
Cash and cash equivalents		57,292	30,586
Other assets		1,027	146
Total current assets		**187,848**	**146,032**
TOTAL ASSETS		**752,192**	**551,070**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Amounts in millions of Russian Rubles)

	Notes	June 30, 2018 (unaudited)	December 31, 2017
EQUITY AND LIABILITIES			
EQUITY:	11		
Common stock		200	200
Treasury stock		(29,901)	(22,644)
Additional paid-in capital		105	381
Retained earnings		142,519	151,043
Accumulated other comprehensive loss		(3,655)	(8,854)
Equity attributable to owners of the Company		109,268	120,126
Non-controlling interests		3,242	4,079
Total equity		**112,510**	**124,205**
NON-CURRENT LIABILITIES:			
Borrowings	8	249,836	228,040
Lease obligations	9	141,472	11,056
Deferred tax liabilities		23,856	23,773
Provisions		3,529	2,309
Other non-financial liabilities		2,017	3,203
Other financial liabilities		770	1,048
Contract liabilities and other advances received		556	765
Total non-current liabilities		**422,036**	**270,194**
CURRENT LIABILITIES:			
Trade and other payables		93,160	47,314
Accounts payable, related parties	12	1,940	1,102
Contract liabilities and other advances received		21,709	20,376
Borrowings	8	59,973	63,673
Lease obligations	9	15,910	801
Income tax liabilities		1,853	1,150
Provisions		7,890	9,852
Other non-financial liabilities		12,544	9,367
Other financial liabilities		2,667	3,036
Total current liabilities		**217,646**	**156,671**
TOTAL EQUITY AND LIABILITIES		**752,192**	**551,070**

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

President and CEO

____________________ Alexey V.Kornya

Vice-president, Finance, Investments, Mergers and Acquisitions

____________________ Andrey M. Kamensky

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(Amounts in millions of Russian Rubles, except per share amounts)

	Notes	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Service revenue		195,062	190,168
Sales of goods		27,209	21,353
Revenue	13	**222,271**	**211,521**
Cost of services		51,915	60,961
Cost of goods		24,799	18,854
Selling, general and administrative expenses		41,549	46,685
Depreciation and amortization	9	51,608	40,245
Operating share of the profit of associates		(1,835)	(1,495)
Other (income)/expenses		(170)	695
Operating profit		**54,405**	**45,576**
Finance income		(2,422)	(2,349)
Finance costs		18,680	13,569
Currency exchange loss/(gain)		1,097	(1,181)
Non-operating share of the loss of associates		79	328
Change in fair value of financial instruments		(2,046)	104
Other expenses		467	184
Profit before tax		**38,550**	**34,921**
Income tax expense		8,597	7,456
Profit for the period		**29,953**	**27,465**
Profit for the period attributable to:			
Owners of the Company		29,704	27,210
Non-controlling interests		249	255
Earnings per share (basic and diluted), Russian Rubles:		15.51 and 15.48	13.83 and 13.82

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

President and CEO

____________________Alexey V.Kornya

Vice-president, Finance, Investments, Mergers and Acquisitions

____________________Andrey M. Kamensky

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Amounts in millions of Russian Rubles)

	Six months ended June 30, 2018 (unaudited)	**Six months ended June 30, 2017 (unaudited)**
Profit for the period	29,953	27,465
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Unrecognised actuarial gain	228	-
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,551	(9)
Net fair value (loss)/gain on financial instruments	(580)	869
Share of other comprehensive income of associates and joint ventures		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations in associates and joint ventures	-	(583)
Other comprehensive income for the period, net of income tax	**5,199**	**277**
Total comprehensive income for the period	**35,152**	**27,742**
Total comprehensive income/(loss) for the period attributable to:		
Owners of the Company	34,903	27,487
Non-controlling interests	249	255

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(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 owners of the Company	Non-controlling interests	Total equity
Balances at January 1, 2017	**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 period	-	-	-	-	-	-	-	-	27,210	27,210	255	**27,465**
Currency translation adjustment, net of income tax	-	-	-	-	-	-	67	-	-	67	-	**67**
Change in fair value of derivatives, net of income tax	-	-	-	-	-	869	-	-	-	869	-	**869**
Disposal of East West United Bank by MTS Bank to Sistema	-	-	-	-	-	-	(659)	-	-	(659)	-	**(659)**
Total comprehensive (loss) / income for the period	-	-	-	-	-	**869**	**(592)**	-	**27,210**	**27,487**	**255**	**27,742**
Issuance of stock options	-	-	851,275	1	107	-	-	-	-	108	-	**108**
Dividends declared by MTS	-	-	-	-	-	-	-	-	(30,491)	(30,491)	-	**(30,491)**
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,175)	**(1,175)**
Purchase of own stock	-	-	(32,061,256)	(9,414)	-	-	-	-	-	(9,414)	-	**(9,414)**
Changes in ownership interest with no gain/loss of control	-	-	-	-	(59)	-	-	-	-	(59)	(7)	**(66)**
Balances at June 30, 2017	**1,998,381,575**	**200**	**(42,692,028)**	**(10,161)**	**239**	**714**	**(7,010)**	**543**	**142,341**	**126,866**	**3,786**	**130,652**
Balances at January 1, 2018	**1,998,381,575**	**200**	**(86,339,156)**	**(22,644)**	**381**	**340**	**(9,697)**	**503**	**151,043**	**120,126**	**4,079**	**124,205**
Adjustment on initial application of IFRS 15 (net of tax)	-	-	-	-	-	-	-	-	3,943	3,943	22	**3,965**
Adjustment on initial application of IFRS 9 (net of tax)	-	-	-	-	-	-	-	-	1,949	1,949		**1,949**
Adjusted balances at January 1, 2018	-	-	-	-	-	-	-	-	**156,935**	**126,018**	**4,101**	**130,119**
Profit for the period	-	-	-	-	-	-	-	-	29,704	29,704	249	**29,953**
Unrecognized actuarial gain	-	-	-	-	-	-	-	228	-	228	-	**228**
Currency translation adjustment, net of income tax	-	-	-	-	-	-	5,551	-	-	5,551	-	**5,551**
Change in fair value of derivatives, net of income tax	-	-	-	-	-	(580)	-	-	-	(580)	-	**(580)**
Total comprehensive (loss) / income for the period	-	-	-	-	-	**(580)**	**5,551**	**228**	**29,704**	**34,903**	**249**	**35,152**
Exercise of stock options	-	-	1,369,303	403	(195)	-	-	-	-	208	-	**208**
Dividends declared by MTS	-	-	-	-	-	-	-	-	(44,120)	(44,120)	-	**(44,120)**
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,165)	**(1,165)**
Changes in ownership interest with no gain/loss of control	-	-	-	-	(81)	-	-	-	-	(81)	57	**(24)**
Purchase of own stock	-	-	(26,797,204)	(7,660)	-	-	-	-	-	(7,660)	-	**(7,660)**
Balances at June 30, 2018	**1,998,381,575**	**200**	**(111,767,057)**	**(29,901)**	**105**	**(240)**	**(4,146)**	**731**	**142,519**	**109,268**	**3,242**	**112,510**

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in millions of Russian Rubles)

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	29,953	27,465
Adjustments for:		
Depreciation and amortization	51,608	40,245
Finance income	(2,422)	(2,349)
Finance costs	18,680	13,569
Income tax expense	8,597	7,456
Currency exchange loss/(gain)	1,097	(1,181)
Amortization of deferred connection fees	(1,078)	(446)
Share of the profit of associates	(1,756)	(1,167)
Change in fair value of financial instruments	(2,046)	104
Inventory obsolescence expense	1,568	47
Allowance for doubtful accounts	1,445	1,475
Change in provisions	7,913	7,148
Other non-cash items	(797)	(985)
Movements in operating assets and liabilities:		
Increase in trade and other receivables	(2,357)	(2,092)
(Increase)/decrease in inventory	(8,812)	3,037
Decrease in advances paid and prepaid expenses	482	1,211
Increase in VAT receivable	(1,804)	(1,097)
Decrease in trade and other payables and other current liabilities	(9,733)	(8,104)
Dividends received	1,674	1,486
Income tax paid	(9,772)	(10,484)
Interest received	5,919	875
Interest paid, net of interest capitalized	(18,297)	(11,337)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**70,062**	**64,876**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of subsidiaries, net of cash acquired	(3,093)	-
Purchases of property, plant and equipment	(27,753)	(19,566)
Purchase of 4G licenses in Ukraine	(5,527)	-
Purchases of other intangible assets	(6,484)	(6,862)
Cost to obtain and fulfill contracts, paid	(2,085)	-
Proceeds from sale of property, plant and equipment and assets held for sale	2,289	2,463
Purchases of short-term and other investments	(29,404)	(32,794)
Proceeds from sale of short-term and other investments	24,112	4,017
Investments in associates	(2,101)	(320)
Cash payments and proceeds related to swap contracts	49	-
NET CASH USED IN INVESTING ACTIVITIES	**(49,997)**	**(53,062)**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(Amounts in millions of Russian Rubles)

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes	(8,305)	-
Proceeds from issuance of notes	27,550	20,000
Proceeds from loans	20,000	20,000
Repayment of loans	(19,170)	(24,682)
Cash outflow under credit guarantee agreement related to foreign currency hedge	(981)	(901)
Notes and debt issuance cost paid	(39)	(29)
Lease obligation principal paid	(6,844)	(574)
Repurchase of own shares	(7,660)	(9,414)
Dividends paid	(2)	-
Other	123	(8)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**4,672**	**4,392**
Effect of exchange rate changes on cash and cash equivalents	1,969	(404)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**26,706**	**15,802**
CASH AND CASH EQUIVALENTS, beginning of the period	**30,586**	**18,470**
CASH AND CASH EQUIVALENTS, end of the period	**57,292**	**34,272**

The accompanying notes are an integral part of these interim condensed 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, Moscow, 109147, Russian Federation. The Company and its subsidiaries represent the Group.

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 Sistema Public Joint-Stock Financial Corporation (“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 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.

Seasonality – Whilst the Group does not view its business as highly seasonal as defined by IAS 34, *Interim Financial Reporting*, its financial results are impacted by seasonality through the calendar year. Higher consumption of roaming services in May-September and increased demand for handsets and accessories at the year-end before winter holidays enhance revenue from services and sales of goods for the second half of the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation – These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated statements of the Group for the year ended December 31, 2017.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its 2017 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequently to the issuance of its annual consolidated statements of the Group for the year ended December 31, 2017.

Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the annual consolidated statements of the Group for the year ended December 31, 2017 and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Group’s financial position, financial performance and cash flows for the interim reporting period in accordance with IAS 34, *Interim Financial Reporting*. Results for the six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018.

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 these consolidated financial statements are stated in millions of Russian Rubles, unless indicated otherwise.

These interim condensed consolidated financial statements for the six months ended June 30, 2018 were authorized for issue by the Company’s President on August 28, 2018.

As at June 30, 2018, current liabilities exceeded current assets by RUB 29.7 bln. 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 186 bln (Note 8).

Significant accounting policies – The accounting policies and method of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated statements of the Group for the year ended December 31, 2017, except for the adoption of new standards.

Starting from January 1, 2018 the Group applies IFRS 9, *Financial Instruments*, IFRS 15, *Revenue from Contracts with Customers*, and IFRS 16, *Leases*.

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.

As a result of IFRS 9 adoption the Group recognized RUB 3 bln (RUB 2.4 bln net of tax) gain relating to modification of its financial liabilities. The effect from earlier recognition of future losses on financial assets amounted to RUB 0.5 bln (0.4 bln net of tax). The new provisions on the classification of financial assets did not results in any changes in measurement and presentation of the Group’s financial assets.

The Group recognized the cumulative effect arising from the transition as an adjustment to the opening balance of equity. Prior period comparatives were not restated.

IFRS 15, *Revenue from Contracts with Customers*. This standard establishes a single comprehensive framework 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.

The most significant impact from the adoption of IFRS 15 on the Group’s consolidated financial statements related to the deferral of certain incremental costs incurred in acquiring or fulfilling a contract with a customer. Such contract costs are currently amortised over the period of benefit. The Group used a practical expedient from IFRS 15 allowing to expense contract costs as incurred when the amortization period is one year or less.

Other 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.

Additionally, as a result of changes in criterias of principal versus agent evaluation in IFRS 15, the Group recognizes revenue for content services as an agent except for contracts where the Group controls the respective content.

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group utilized the option for simplified initial application, so that contract that are not completed by January 1, 2018 were accounted for as if they had been recognized under IFRS 15 from the very beginning. The cumulative effect arising from the transition amounted to RUB 5 bln (4 bln net of tax) and was recognized as an adjustment to the opening balance of equity. The prior period results were not restated. Contract liabilities and other advances received as of 31 December 2017 include advanced received and subscriber prepayments.

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 on revenue recognition.

The Group made use of the following practical expedients:

- relief from the requirement to reassess whether a contract is, or contains the lease;
- application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- 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.

As a result of applying IFRS 16, the Group recognised an additional lease liability and right-of-use assets in the amount of RUB 141 bln.

As of January 1, 2018 the weighted average borrowing rate applied by the Group to discount its lease liabilities amounted to 8.83%.

The reconciliation between the operating lease commitments disclosed under IAS 17 as of December 31, 2017 discounted at the weighted average rate and lease liability recognized at January 1, 2018 is presented below:

	January 1, 2018
Operating lease commitments	15,135
Operating lease commitments discounted at 8.83%	10,530
Lease liability under IFRS 16	148,897
Difference	**138,367**
Thereof:	
Finance lease liability recognized at December 31, 2017	8,161
Lease liability related to exclusive right to use trademark	1,808
Extention options reasonably certain to be exercised	128,398

(Amounts in millions of Russian Rubles unless otherwise stated)

The main difference between the discounted value of the operating lease commitments as of December 31, 2017 and the value of lease liability under IFRS 16 recognised at January 1, 2018 pertains to the fact that previously applied standard IAS 17 required that, in determining its lease operating commitments, the Group only considers future payments under the non-cancellable period of leases. Under the new lease standard, when determining a lease liability, the Group is required to consider existing extensions which are reasonably certain to be exercised.

Prior period comparatives were not restated. Lease liabilities as of 31 December 2017 include financial lease obligations recognized in accordance with IAS 17.

For contracts concluded after January 1, 2018, the Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements (including sub-lease and lease of intangible assets), which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expense on a straight-line basis over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate non-lease components of the contract and, instead, to account for any lease and associated non-lease components as a single arrangements.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate. The incremental borrowing rate is determined based on the credit spreads of the Group debt instruments in relation to zero-coupon yield curve for government securities.

The right-of-use assets are amortised on a straight-line basis over the expected lease term. The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal options. When assessing the lease term the Group considers all facts and circumstances that create the economic incentive for the Group to excise the option to extend the lease, such as useful life of the asset located on the leased site, sites replacement statistics, sequence of technology change, profitability of our retail stores as well as costs to terminate or enter into lease contracts.

The table below summarises the estimated terms, over which the right-of-use assets are amortised:

Lease of sites for placement of network equipment and base stations inside the buildings	av. 10 years
Lease of sites for placement of network equipment and base stations on land	20 years
Lease of fiber-optic lines	2 years
Lease of retail stores	up to 8 years
Lease of administrative offices, warehouses, parking garages	3 years
Lease of vehicles	4 – 5 years

The effects from implementation of IFRS 9, IFRS 15 and IFRS 16 on the Group financial statements as of June 30, 2018 are summarized in Note 3.

(Amounts in millions of Russian Rubles unless otherwise stated)

3. IMPLEMENTATION OF NEW STANDARDS – IFRS 9, IFRS 15 AND IFRS 16

The effects of new standards adoption on the Group's consolidated statement of financial position as of June 30, 2018 are presented below:

	As if old standards still applied	IFRS 16	IFRS 15	IFRS 9	As reported
ASSETS					
NON-CURRENT ASSETS:					
Property, plant and equipment	267,543	(9,787)	(1,284)	-	256,472
Investment property	732	-	-	-	732
Right-of-use assets	-	150,211	-	-	150,211
Goodwill	37,138	-	-	-	37,138
Other intangible assets	84,007	-	8,437	-	92,444
Investments in associates	11,896	(12)	(37)	(415)	11,432
Other investments	2,073	-	-	-	2,073
Deferred tax assets	6,509	-	-	-	6,509
Accounts receivable, related parties	1,127	-	-	-	1,127
Other financial assets	4,623	-	-	-	4,623
Other non-financial assets	1,441	(1,172)	1,314	-	1,583
Total non-current assets	**417,089**	**139,240**	**8,430**	**(415)**	**564,344**
CURRENT ASSETS:					
Inventories	17,307	-	-	-	17,307
Trade and other receivables	30,234	-	-	(233)	30,001
Accounts receivable, related parties	12,469	-	-	-	12,469
Short-term investments	52,970	-	-	-	52,970
Advances paid and prepaid expenses	3,763	(96)	-	-	3,667
VAT receivable	9,060	-	-	-	9,060
Income tax assets	2,594	-	-	-	2,594
Assets held for sale	1,461	-	-	-	1,461
Cash and cash equivalents	57,292	-	-	-	57,292
Other assets	960	-	67	-	1,027
Total current assets	**188,110**	**(96)**	**67**	**(233)**	**187,848**
TOTAL ASSETS	**605,199**	**139,144**	**8,497**	**(648)**	**752,192**

(Amounts in millions of Russian Rubles unless otherwise stated)

	As if old standards still applied	IFRS 16	IFRS 15	IFRS 9	As reported
EQUITY AND LIABILITIES					
EQUITY:					
Common stock	200	-	-	-	200
Treasury stock	(29,901)	-	-	-	(29,901)
Additional paid in capital	105	-	-	-	105
Retained earnings	138,477	(1,878)	3,834	2,086	142,519
Accumulated other comprehensive loss	(3,531)	(3)	42	(163)	(3,655)
Equity attributable to owners of the Company	105,350	(1,881)	3,876	1,923	109,268
Non-controlling interests	3,233	(13)	22	-	3,242
Total equity	**108,583**	**(1,894)**	**3,898**	**1,923**	**112,510**
NON-CURRENT LIABILITIES:					
Borrowings	252,138	-	-	(2,302)	249,836
Lease obligations	13,186	128,286	-	-	141,472
Deferred tax liabilities	22,762	(472)	982	584	23,856
Provisions	3,529	-	-	-	3,529
Other non-financial liabilities	3,068	(1,051)	-	-	2,017
Other financial liabilities	770	-	-	-	770
Contract liabilities and other advances received	556	-	-	-	556
Total non-current liabilities	**296,009**	**126,763**	**982**	**(1,718)**	**422,036**
CURRENT LIABILITIES:					
Trade and other payables	93,883	(723)	-	-	93,160
Accounts payable, related parties	1,940	-	-	-	1,940
Contract liabilities and other advances received	-	-	21,709	-	21,709
Subscriber prepayments	15,832	-	(15,832)	-	-
Borrowings	60,826	-	-	(853)	59,973
Lease obligations	912	14,998	-	-	15,910
Income tax liabilities	1,853	-	-	-	1,853
Provisions	7,890	-	-	-	7,890
Other non-financial liabilities	14,804	-	(2,260)	-	12,544
Other financial liabilities	2,667	-	-	-	2,667
Total current liabilities	**200,607**	**14,275**	**3,617**	**(853)**	**217,646**
TOTAL EQUITY AND LIABILITIES	**605,199**	**139,144**	**8,497**	**(648)**	**752,192**

(Amounts in millions of Russian Rubles unless otherwise stated)

The effects of new standards adoption on the Group's condensed consolidated statements of profit or loss for the six months ended June 30, 2018 are presented below:

	As if old standards still applied	IFRS 16	IFRS 15	IFRS 9	As reported
Service revenue	196,219	-	(1,157)	-	195,062
Sales of goods	27,209	-	-	-	27,209
Revenue	**223,428**	**-**	**(1,157)**	**-**	**222,271**
Cost of services	61,718	(8,674)	(1,129)	-	51,915
Cost of goods	24,928	-	(129)	-	24,799
Selling, general and administrative expenses	47,985	(4,526)	(1,910)	-	41,549
Depreciation and amortization	39,873	9,588	2,147	-	51,608
Operating share of the profit of associates	(1,847)	12	-	-	(1,835)
Other (income)/expenses	(119)	(51)	-	-	(170)
Operating profit	**50,890**	**3,651**	**(136)**	**-**	**54,405**
Finance income	(2,422)	-	-	-	(2,422)
Finance costs	12,833	6,018	-	(171)	18,680
Currency exchange loss/(gain)	1,101	(4)	-	-	1,097
Non-operating share of the loss of associates	79	-	-	-	79
Change in fair value of financial instruments	(2,046)	-	-	-	(2,046)
Other expenses	467	-	-	-	467
Profit before tax	**40,878**	**(2,363)**	**(136)**	**171**	**38,550**
Income tax expense	9,063	(473)	(27)	34	8,597
	-	-	-	-	-
Profit for the period	**31,815**	**(1,890)**	**(109)**	**137**	**29,953**
Profit for the period attributable to:					
Owners of the Company	31,553	(1,877)	(109)	137	29,704
Non-controlling interests	262	(13)	-	-	249

(Amounts in millions of Russian Rubles unless otherwise stated)

The effects of new standards adoption on the Group's condensed consolidated statements of cash flows for the six months ended June 30, 2018 are presented below:

	As if old standards still applied	IFRS 16	IFRS 15	IFRS 9	As reported
CASH FLOWS FROM OPERATING ACTIVITIES:					
Profit for the period	31,815	(1,890)	(109)	137	29,953
Adjustments for:					
Depreciation and amortization	39,873	9,588	2,147	-	51,608
Finance income	(2,422)	-	-	-	(2,422)
Finance costs	12,833	6,018	-	(171)	18,680
Income tax expense	9,063	(473)	(27)	34	8,597
Currency exchange loss/(gain)	1,101	(4)	-	-	1,097
Amortization of deferred connection fees	(1,078)				(1,078)
Share of the profit of associates	(1,768)	12	-	-	(1,756)
Change in fair value of financial instruments	(2,046)	-	-	-	(2,046)
Inventory obsolescence expense	1,568	-	-	-	1,568
Allowance for doubtful accounts	1,445	-	-	-	1,445
Change in provisions	7,913	-	-	-	7,913
Other non-cash items	(797)	-	-	-	(797)
Movements in operating assets and liabilities:					
Increase in trade and other receivables	(2,357)	-	-	-	(2,357)
Increase in inventory	(8,812)	-	-	-	(8,812)
Decrease in advances paid and prepaid expenses	482	-	-	-	482
Increase in VAT receivable	(1,804)	-	-	-	(1,804)
Decrease in trade and other payables and other current liabilities	(8,798)	(728)	(207)	-	(9,733)
Dividends received	1,674	-	-	-	1,674
Income tax paid	(9,772)	-	-	-	(9,772)
Interest received	5,919	-	-	-	5,919
Interest paid, net of interest capitalized	(12,443)	(5,854)	-	-	(18,297)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**61,589**	**6,669**	**1,804**	**-**	**70,062**
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of subsidiary, net of cash acquired	(3,093)	-	-	-	(3,093)
Purchases of property, plant and equipment	(27,753)	-	-	-	(27,753)
Purchase of 4G licenses in Ukraine	(5,527)	-	-	-	(5,527)
Purchases of other intangible assets	(6,484)	-	-	-	(6,484)
Cost to obtain and fulfill contracts, paid	-	-	(2,085)	-	(2,085)
Proceeds from sale of property, plant and equipment and assets held for sale	2,289	-	-	-	2,289
Purchases of short-term and other investments	(29,404)	-	-	-	(29,404)
Proceeds from sale of short-term and other investments	24,112	-	-	-	24,112
Investments in associates	(2,101)	-	-	-	(2,101)
Cash payments and proceeds related to swap contracts	49	-	-	-	49
Other investing activities	(281)	-	281	-	-
NET CASH USED IN INVESTING ACTIVITIES	**(48,193)**	**-**	**(1,804)**	**-**	**(49,997)**
CASH FLOWS FROM FINANCING ACTIVITIES:					

	As if old standards still applied	IFRS 16	IFRS 15	IFRS 9	As reported
Repayment of notes	(8,305)	-	-	-	(8,305)
Proceeds from issuance of notes	27,550	-	-	-	27,550
Proceeds from loans	20,000	-	-	-	20,000
Repayment of loans	(19,170)	-	-	-	(19,170)
Cash outflow under credit guarantee agreement related to foreign currency hedge	(981)	-	-	-	(981)
Notes and debt issuance cost paid	(39)	-	-	-	(39)
Lease obligation principal paid	(175)	(6,669)	-	-	(6,844)
Repurchase of own shares	(7,660)	-	-	-	(7,660)
Dividends paid	(2)	-	-	-	(2)
Other	123	-	-	-	123
		-	-	-	
NET CASH PROVIDED BY FINANCING ACTIVITIES	**11,341**	**(6,669)**	**-**	**-**	**4,672**
Effect of exchange rate changes on cash and cash equivalents	1,969	-	-	-	1,969
NET INCREASE IN CASH AND CASH EQUIVALENTS	**26,706**	**-**	-	-	**26,706**
CASH AND CASH EQUIVALENTS, beginning of the period	**30,586**	-	-	-	**30,586**
CASH AND CASH EQUIVALENTS, end of the period	**57,292**	**-**	**-**	**-**	**57,292**

4. BUSINESS ACQUISITIONS

Acquisitions in 2018

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, deferred payment, payable in 12 months after the acquisition date and contingent consideration to be paid to the sellers in 2018 if agreed upon financial targets are met by KS. As of June 30, 2018, the Group paid the full amount of contingent consideration of RUB 54 million to the seller.

According to the terms of the purchase agreement, the Group has to pay additional consideration of RUB 78 million in 12 months after the acquisition date. The consideration could be reduced by the amount of any losses incurred by the Group in respect of any claims relating to the pre-acquisition period. In case the amount of the losses incurred exceeds the amount of deferred payment, the seller will have to reimburse the Group the amount of such an excess. As of the acquisition date, the Group recorded a provision for tax liabilities in the amount of RUB 134 million and the related indemnification asset of RUB 56 million.

(Amounts in millions of Russian Rubles unless otherwise stated)

The fair values of the identifiable assets and liabilities of KS as at the date of acquisition were the following:

Goodwill	479
Non-current assets	209
Current assets	156
Current liabilities	(383)
Liability under put option agreement over non-controlling interests	(106)
Non-current liabilities	(34)
Consideration transferred	**321**
Fair value of contingent consideration	54
Cash paid	267
Consideration transferred	**321**

The excess of the consideration over the value of net assets acquired in the amount of RUB 479 million was recorded as goodwill which was allocated to the “Ponominalu” operating segment. The goodwill is mainly attributable to the expected synergies resulted from the acquisition.

Other intangible assets mainly include customer base and trademark and are amortized over 10 years, the period of their remaining useful life.

The Group also entered into an option agreement with the non-controlling shareholders of the KS. Pursuant to the agreement 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 operating and financial results of 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 deferred payment, payable in 12 months after the acquisition date.

Under the terms of the purchase agreement, the Group has to pay additional consideration of RUB 60 million in 12 months after the acquisition date. Deferred payment could be reduced by the amount of any losses incurred by the Group in respect of any tax or other claims relating to the pre-acquisition period. In case the amount of losses incurred exceeds the amount of deferred payment, the seller will have to reimburse the Group the amount of such an excess. As of the acquisition date, the Group recorded a provision for tax liabilities in the amount of RUB 125 million and the related indemnification asset of RUB 65 million.

The fair values of the identifiable assets and liabilities of MDTZK as at the date of acquisition were the following:

Goodwill	2,033
Other non-current assets	1,651
Current assets	744
Current liabilities	(868)
Non-current liabilities	(370)
Consideration transferred	**3,190**
Cash paid	3,190
Consideration transferred	**3,190**

The excess of the consideration over the value of net assets acquired in the amount of RUB 2,033 million was recorded as goodwill which was allocated to the “Ticketland” operating segment.

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

(Amounts in millions of Russian Rubles unless otherwise stated)

Other intangible assets mainly include customer base and trademark and are amortized over 10 years, the period of their remaining useful life.

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.

Goodwill recognized as a result of the acquisitions is not expected to be deductible for income tax purposes.

Since their acquisition dates, KS and MDTZK contributed RUB 420 million to the Group revenue and net loss of RUB 2 million to the profit for the period in the condensed consolidated statements of profit or loss.

If the acquisitions had taken place at the beginning of the reporting period, the Group revenue and profit for the period attributable to owners of the Company would have been RUB 222,385 million and RUB 29,722 million, respectively.

5. SHORT-TERM INVESTMENTS

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

	Category	June 30, 2018	December 31, 2017
Notes	At amortized cost	30,071	7,605
Loans	At amortized cost	11,320	5,669
Assets in Sistema Capital trust management (Notes 10, 12)	Financial asset at fair value through profit or loss	10,482	9,600
Deposits	At amortized cost	1,035	27,826
Notes (Notes 10, 12)	Financial asset at fair value through other comprehensive income	62	57
Total short-term investments		**52,970**	**50,757**

The amount of loans recognized in "at amortized cost" category generally consists of loan issued to Sistema Finance and a loan issued to Mr. Pierre Fattouche and Mr. Moussa Fattouche.

6. INVESTMENTS IN ASSOCIATES

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

	Country of operations	Operating activity	June 30, 2018	December 31, 2017
OZON	Russia	e-commerce	4,436	2,517
MTS Belarus	Belarus	telecommunications	4,033	3,660
MTS Bank	Russia	banking	2,569	2,902
Other		other	394	373
Total investments in associates			**11,432**	**9,452**

In March 2018, the Group acquired 141,498 ordinary shares of OZON Holdings Limited through an additional share issuance for a total consideration of RUB 1,158 million. As the result of the transaction, the Group's equity interest in OZON Holdings Limited increased from 11.2% to 13.7%. The Group also entered into a put option agreement to acquire additional shares of OZON Holdings Limited within 12 months for up to RUB 575 million. In May 2018, the Group acquired 114,616 ordinary shares of OZON Holdings Limited through a series of transactions with non-controlling shareholders for a total consideration of RUB 943 million. As a result of the transaction, the Group's equity interest in OZON Holdings Limited increased from 13.7% to 16.7%.

(Amounts in millions of Russian Rubles unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Six months ended June 30, 2018	Six months ended June 30, 2017
Property, Plant and Equipment		
Additions	26,464	23,058
Disposals (net book value)	(399)	(1,865)
Intangible assets		
Additions	12,751	7,969
Disposals (net book value)	(23)	(36)

Pursuant to the requirements of newly adopted IFRS 15 the Group recognized cost to obtain contracts as of January 1, 2018 which were included in other intangible assets. Its net book value as of June 30, 2018 was RUB 8,437 million, and related amortization charge for the six months ended June 30, 2018 – RUB 2,141 million.

8. BORROWINGS

The Group's borrowings comprised the following:

	June 30, 2018	December 31, 2017
Notes	131,964	108,776
Bank and other loans	177,845	182,937
Total borrowings	**309,809**	**291,713**
Less: current portion	(59,973)	(63,673)
Total borrowings, non-current	**249,836**	**228,040**

Notes – The reconciliation between opening and closing balance of the Group's Notes for the six months ended June 30, 2018 was the following:

	Currency	Interest rate (actual at June 30, 2018)	Carrying amount
Balance at December 31, 2017			**108,776**
New Notes			
MTS PJSC Notes due 2021	RUB	7.10%	10,000
MTS PJSC Notes due 2025	RUB	7.25%	10,000
MTS PJSC Notes due 2018	RUB	6.80%	750
Secondary Notes placement	RUB	6.85%	6,800
Repayments			(8,305)
Currency exchange loss			3,943
Balance at June 30, 2018			**131,964**
Less: current portion			(20,728)
Total notes, non-current			**111,236**

(Amounts in millions of Russian Rubles unless otherwise stated)

Bank and other loans – The reconciliation between opening and closing balance of the Group's loans from banks and financial institutions for the six months ended June 30, 2018 was the following:

	Currency	Interest rate (actual at June 30, 2018)	Carrying amount
Balance at December 31, 2017			**182,937**
New loans			
VTB	RUB	7.20%	20,000
Repayments			
Sberbank	RUB	7.50%	(5,000)
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	USD	LIBOR + 1.15% (3.651%)	(17,305)
Other			(1,060)
Effect from adoption of IFRS 9			(3,129)
Currency exchange loss			1,054
Other movements			348
Balance at June 30, 2018			**177,845**
Less: current portion			(39,245)
Total bank and other loans, non-current			**138,600**

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 4,707 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 15,689 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 June 30, 2018.

Available credit facilities – As of June 30, 2018, the Group's total available unused credit facilities amounted to RUB 186,000 million and related to the following credit lines:

	Currency	Maturity	Interest rate	Available till	Available amount
Sberbank	RUB	2024	To be agreed	May 2024	115,000
VTB	RUB	2025	To be agreed	April 2025	30,000
Sberbank	RUB	2021	To be agreed	April 2021	20,000
VTB	RUB	2021	7.99%	January 2021	10,000
Rosselhozbank	RUB/USD/EUR	2018	To be agreed	November 2018	5,000
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					**186,000**

[1] CBR – Central Bank of Russia

(Amounts in millions of Russian Rubles unless otherwise stated)

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 June 30, 2023 and thereafter:

	As of June 30, 2018	
	Notes	**Bank and other loans**
Payments due in the year ending June 30,		
2019	20,799	39,388
2020	28,235	66,936
2021	10,012	58,018
2022	20,000	10,165
2023	43,137	1,907
Thereafter	10,000	1,917
Total	**132,183**	**178,331**
Less: unamortized debt issuance costs	(219)	(486)
Total debt	**131,964**	**177,845**

9. RIGHTS-OF-USE ASSETS AND LEASE OBLIGATIONS

The following table presents a summary of net book value of rights-of-use assets:

	June 30, 2018
Lease of sites for placement of network and base station equipment	92,297
Lease of land and buildings	55,498
Lease of vehicles and other	619
Exclusive rights for trademarks	1,797
Rights-of-use assets, net	**150,211**

Depreciation of the rights-of-use assets for the six months ended June 30, 2018 was as follows:

	Six months ended June 30, 2018
Lease of sites for network and base station equipment	(4,229)
Lease of land and buildings	(5,346)
Lease of vehicles and other	(52)
Exclusive rights for trademarks	(332)
Depreciation charge, total	**(9,959)**

Additions to the assets leased during the six months ended June 30, 2018 amounted to RUB 13,553 million (including the effect of IFRS 16 implementation of RUB 11,705 million). Depreciation of the assets leased for the six- months period ended June 30, 2018 amounted to RUB 9,959 million (including the effect of IFRS 16 implementation in the amount of RUB 9,588 million) and was included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss.

Interest expense accrued on lease obligations for the six months ended June 30, 2018 to RUB 6,638 million (including the effect of IFRS 16 implementation RUB 6,018 million) and was included in finance costs in the accompanying consolidated statements of profit or loss.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table presents future minimum lease payments under lease arrangements together with the present value of the net minimum lease payments as at June 30, 2018:

	June 30, 2018
Minimum lease payments, including:	
Current portion (less than 1 year)	30,091
More than 1 to 5 years	102,973
Over 5 years	114,423
Total minimum lease payments	**247,487**
Less amount representing interest	(90,105)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	15,910
More than 1 to 5 years	59,495
Over 5 years	81,977
Total present value of net minimum lease payments	**157,382**
Less current portion of lease obligations	(15,910)
Non-current portion of lease obligations	**141,472**

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are represented by trade and other receivables and payables, cash and cash equivalents, investments, derivative instruments, notes and bank loans and put option over non-controlling interests.

The table below presents the fair value of financial instruments carried at fair value within the statement of financial position:

	Level of inputs	June 30, 2018	December 31, 2017
Assets			
Sistema International Funding S.A. Bonds due in 2019 (related party) (Notes 5, 12)	Level 1	62	57
Derivative instruments	Level 2	6,389	8,403
Cross-currency interest rate swap		*5,631*	*8,403*
Currency forward		*758*	-
Assets in Sistema Capital trust management (related party) (Notes 5, 12)	Level 2	10,482	9,600
Liabilities			
Derivative instruments	Level 2	(345)	(664)
Interest rate swap		*(338)*	*(390)*
Cross-currency interest rate swap		-	*(274)*
Currency forward		*(7)*	-
Liabilities under option agreements	Level 3	(3,082)	(2,424)
Contingent consideration	Level 3	(149)	(180)

Changes in the Group's net assets and earnings resulted from fair value measurements of Level 3 liabilities were not significant for the six months ended June 30, 2018 and 2017.

(Amounts in millions of Russian Rubles unless otherwise stated)

The liability under put option agreement for redeemable non-controlling interests in MTS Armenia in the amount of RUB 2,543 million is measured at fair value using a discounted cash flow technique. The most significant quantitative inputs used to measure its fair value are presented in the table below:

Unobservable inputs	**June 30, 2018**	**December 31, 2017**
Post-tax discount rate	13%	13%
Revenue growth rate	0.5 – 1.5% (av. 1.1%)	0.0 – (0.5)% (av. -0.2%)
OIBDA margin	40.7-42.0% (av. 41.2%)	40.2-41.2% (av. 40.7%)

The liability under option agreement for redeemable non-controlling interests in Oblachny Retail in the amount of RUB 432 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 are presented in the table below:

Unobservable inputs	**June 30, 2018**	**December 31, 2017**
Discount rate	10%	10%
Revenue, average amount per year	632	632
EBITDA margin, average rate	13,0%	13,0%
Net debt, average amount per year	(129)	(129)

The liability under option agreement for redeemable non-controlling interests in Kulturnaya Sluzhba in the amount of RUB 107 million is calculated based on agreed fixed formula, which includes operating and financial indicators. The most significant quantitative inputs used to measure the fair value of the liability are presented in the table below:

Unobservable inputs	**June 30, 2018**
Revenue	205
Net debt	(50)

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:

		June 30, 2018		**December 31, 2017**	
	Level of inputs	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Notes (Note 8)	Level 1	(131,940)	(132,182)	(112,531)	(109,000)
Bank and other loans (Note 8)	Level 3	(178,185)	(178,332)	(183,543)	(183,787)
		(310,125)	**(310,514)**	**(296,074)**	**(292,787)**

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 for the six months ended June 30, 2018 and 2017.

There were no transfers between the accounting categories of financial instruments during the six months ended June 30, 2018 and 2017.

(Amounts in millions of Russian Rubles unless otherwise stated)

11. STOCKHOLDERS' EQUITY

Share capital (ordinary shares)

The Group had 1,998,381,575 authorized ordinary shares with par value 0.1 RUB as of June 30, 2018 and December 31, 2017. Preferred shares have not been issued.

As of June 30, 2018, the total shares in treasury stock comprised 111,767,057 and 1,886,614,518 shares were outstanding. As of December 31, 2017, the total shares in treasury stock comprised 86,339,156, and 1,912,042,419 shares were outstanding.

During six months ended June 30, 2018 the Group purchased 26,797,204 shares (including shares represented by ADSs) under the Repurchase Plan announced in 2017 at prices from RUB 264 to RUB 317 for a total cost of RUB 7,248 million.

Dividends

As of June 30, 2018, the dividend policy approved by the Board of Directors for the calendar years 2016 – 2018 was effective, 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.

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 statutory net income of MTS PJSC for the six months ended June 30, 2018 and year ended December 31, 2017 that is distributable under Russian legislation totaled RUB 43,536 million and RUB 127,250 million, respectively.

In June 2018 the Group declared cash dividends for the calendar year 2017 in the amount of RUB 46,762 million (including dividends on treasury shares of RUB 2,642 million), which equals to RUB 23.4 per share or RUB 46.8 per ADS.

As of June 30, 2018 and December 31, 2017 dividends payable of RUB 45,409 million and RUB 125.4 million, respectively, were included in the trade and other payables within the statements of financial position.

12. RELATED PARTIES

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

The aggregated impact of transactions with related parties to the Group's statements of financial position as of June 30, 2018 and December 31, 2017 and statements of profit or loss for the six months ended June 30, 2018 and 2017 was the following:

	June 30, 2018	December 31, 2017
Statements of financial position		
Right-of-use assets	2,259	-
Other investments	767	767
Accounts receivable, non-current	1,127	2
Accounts receivable, current	12,469	11,358
Short-term investments	15,936	10,064
Cash and cash equivalents	19,158	19,715
Lease obligations, non-current	(287)	-
Accounts payable	(1,940)	(1,102)
Lease obligations, current	(1,601)	-

(Amounts in millions of Russian Rubles unless otherwise stated)

	Six months ended June 30, 2018	Six months ended June 30, 2017
Statements of profit or loss		
Revenue	(2,079)	(1,340)
Operating expenses / (income)	1,331	1,933
Finance income	(879)	(420)
Interest expenses under lease arrangements	78	-
Depreciation	269	-

Terms and conditions of transactions with related parties – Outstanding balances as of June 30, 2018 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 June 30, 2018 and December 31, 2017 the Group had no impairment of receivables relating to significant amounts owed by related parties as well as expenses recognized during the six months ended June 30, 2018 in respect to bad or doubtful debts from related parties.

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

	June 30, 2018	December 31, 2017
Accounts receivable		
MTS Belarus, a Group's associate	6,932	4,835
Business Nedvizhimost, a subsidiary of Sistema	4,231	4,052
Sitronics, a subsidiary of Sistema	887	317
MTS Bank, a Group's associate	682	1,232
Zifrovoe TV, a Group's associate	638	702
Other related parties	226	222
Total accounts receivable, related parties	**13,596**	**11,360**
Less non-current portion	(1,127)	(2)
Accounts receivable, related parties – current	**12,469**	**11,358**
Accounts payable		
MTS Belarus, a Group's associate	1,449	828
Zifrovoe TV, a Group's associate	167	1
MTS Bank, a Group's associate	152	157
Business Nedvizhimost, a subsidiary of Sistema	78	60
Sitronics, a subsidiary of Sistema	34	9
Other related parties	60	47
Total accounts payable, related parties	**1,940**	**1,102**

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.

Rights-of-use assets and lease obligations – The following table presents a book value summary of right-of-use assets leased from related parties as of June 30, 2018:

	June 30, 2018
Book value of right-of-use assets:	
Business Nedvizhimost, a subsidiary of Sistema	1,714
Leader-Invest, a subsidiary of Sistema	101
Sistema Venture Capital, a subsidiary of Sistema	98
Mosdachtrest, a subsidiary of Sistema	88
BSK, a subsidiary of Sistema	49
Other related parties	209
Total book value of right-of-use assets	**2,259**

(Amounts in millions of Russian Rubles unless otherwise stated)

Depreciation of those assets leased for the six months ended June 30, 2018 amounted to RUB 269 million and was included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss.

The following table presents summary of lease obligations which arose from lease arrangements with related parties as of June 30, 2018:

	June 30, 2018
Lease obligations:	
Business Nedvizhimost, a subsidiary of Sistema	1,396
Leader-Invest, a subsidiary of Sistema	95
Sistema Venture Capital, a subsidiary of Sistema	90
Mosdachtrest, a subsidiary of Sistema	83
BSK, a subsidiary of Sistema	46
Other related parties	178
Total lease obligations	**1,888**
Less non-current portion	(287)
Lease obligations, related parties – current	**1,601**

Interest expense accrued on those lease obligations for the six months ended June 30, 2018 amounted to RUB 78 million and was included in finance costs in the accompanying consolidated statements of profit or loss.

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

	June 30, 2018	**December 31, 2017**
Short-term investments		
Sistema Capital, a subsidiary of Sistema (assets management)	10,482	9,600
Loan receivable from Sistema Finance, a subsidiary of Sistema	5,004	-
Promissory notes of Intellect Telecom, a subsidiary of Sistema	270	257
Loan receivable from Intellect Telecom, a subsidiary of Sistema	80	77
Sistema International Funding S.A. Bonds due in 2019, a subsidiary of Sistema	62	57
Deposits at MTS Bank, a Group's associate	32	67
Other loans receivable	6	6
Total short-term investments in related parties	**15,936**	**10,064**
Other investments		
Promissory notes of Sistema	618	618
Total other investments to related parties	**618**	**618**
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 six months ended June 30, 2018 and 2017, operating transactions with related parties were as follows:

	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues from related parties		
MTS Bank, a Group's associate (telecommunication and call center services, bank cards distribution commission)	1,050	688
Sitronics, a subsidiary of Sistema (construction of a fiber optic lines)	547	106
MTS Belarus, a Group's associate (roaming and interconnect services)	175	117
Zifrovoe TV, a Group's associate (subscriber acquisition services)	120	187
Detsky Mir, a subsidiary of Sistema (telecommunication services)	58	76
Medsi Group, a subsidiary of Sistema (telecommunication and call center services)	29	77
Other related parties	100	89
Total revenues from related parties	**2,079**	**1,340**
Operating expenses incurred on transactions with related parties		
MTS Bank, a Group's associate (commission related expenses)	982	951
AB Safety, a subsidiary of Sistema (security services)	152	148
Jet Air Group, a subsidiary of Sistema (transportation services)	69	107
MTS Belarus, a Group's associate (roaming and interconnect services)	58	59
Business Nedvizhimost, a subsidiary of Sistema (rent and sale of property)	47	468
Maxima, a subsidiary of Sistema (advertising)	12	102
Other related parties	11	98
Total operating expenses incurred on transactions with related parties	**1,331**	**1,933**

Finance income, which arose from investment transactions with related parties for the six months ended June 30, 2018 and 2017 was the following:

	Six months ended June 30, 2018	Six months ended June 30, 2017
Finance income from related parties		
MTS Bank, a Group's associate	389	62
Sistema Capital, a subsidiary of Sistema (assets management)	214	99
Business Nedvizhimost, a subsidiary of Sistema	178	178
East-West United Bank, a subsidiary of Sistema	69	-
Other related parties	29	81
Total finance income from related parties	**879**	**420**

MTS Bank – The Group maintains certain bank accounts with MTS Bank, an associate of the Group. As of June 30, 2018 and December 31, 2017, the Group's cash position at MTS Bank amounted to RUB 18,902 million and RUB 13,746 million, respectively, including short-term deposits in the amount of RUB 224 million and RUB 633 million, respectively.

East-West United Bank – The Group maintains certain bank accounts with East-West United Bank, a subsidiary of Sistema. As of June 30, 2018 and December 31, 2017, the Group's cash position at East-West United Bank amounted to RUB 256 million and RUB 5,969 million, respectively, including short-term deposits in the amount of nil and RUB 5,810 million, 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 is repayable in 2019. As of June 30, 2018 and December 31, 2017 the amount of RUB 618 million was included in other investments in the accompanying consolidated statements of financial position.

As of June 30, 2018 and December 31, 2017, the balance of Sistema International Funding S.A. Bonds due in 2019 amounted to RUB 62 million and RUB 57 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 June 30, 2018 and December 31, 2017 the balance of accounts receivable amounted to RUB 4,231 million and RUB 4,052 million, respectively. The amount of receivable 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 another trust agreement on the same terms. As of June 30, 2018 and December 31, 2017, the balance of assets under trust management amounted to RUB 10,482 million and RUB 9,600 million respectively.

Sistema Finance – In June 2018 the Group provided a loan to Sistema Finance, a subsidiary of Sistema. As of June 30, 2018 the balance of loan receivable amounted to RUB 5,004 million is due before December 31, 2018 and bears interest of CBR key rate + 1.15% p.a.

Remuneration of key management personnel – Key management personnel of the Group are members of the Board of Directors and Management Board. During the six months ended June 30, 2018 and 2017 their total remuneration amounted to RUB 437 million and RUB 492 million, respectively. These amounts comprised of RUB 191 million and RUB 260 million in base salaries and 246 RUB million and RUB 232 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 six months ended June 30, 2018 and 2017 amounted to RUB 223 million and RUB 227 million, respectively.

13. 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. 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

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, Ticketland, Ponominalu 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 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:

Six months ended 30 June 2018:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consoli-dated
Revenue							
Mobile services	149,258	662	12,817	162,737	3,059	52	165,848
Fixed line services	11,365	16,483	112	27,960	185	-	28,145
Sales of goods	22,766	61	105	22,932	4,277	-	27,209
Other services	121	-	-	121	948	-	1,069
External customers	183,510	17,206	13,034	213,750	8,469	52	222,271
Intersegment	2,167	2,276	415	4,858	4,837	(9,695)	-
Total revenue	**185,677**	**19,482**	**13,449**	**218,608**	**13,306**	**(9,643)**	**222,271**
Operating profit / (loss), excluding depreciation and amortization	93,296	10,563	7,255	111,114	1,669	(6,770)	106,013

Six months ended 30 June 2017:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consoli-dated
Revenue							
Mobile services	143,743	313	11,814	155,870	5,465	52	161,387
Fixed line services	11,023	16,827	100	27,950	159	-	28,109
Sales of goods	19,421	29	20	19,470	1,883	-	21,353
Other services	202	-	-	202	470	-	672
External customers	174,389	17,169	11,934	203,492	7,977	52	211,521
Intersegment	2,463	2,335	537	5,335	5,766	(11,101)	-
Total revenue	**176,852**	**19,504**	**12,471**	**208,827**	**13,743**	**(11,049)**	**211,521**
Operating profit / (loss), excluding depreciation and amortization	72,434	9,509	5,564	87,507	3,545	(5,231)	85,821

Service revenue is recognized over time as the services are transferred to customers, while revenue from sales of goods is recognised at a point in time when goods are transferred.

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

14. 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, interconnection, and other agreements necessary to servicing MTS-TM clients. However, the license for the provision of telecommunication services on the Turkmenistan territory was valid till the end of July 2018.

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group considers that through these acts the Turkmen State has violated its rights as a foreign investor under the Agreement on Promotion and Reciprocal Protection of Investments (the "Treaty") signed between the Government of the Russian Federation and the Government of Turkmenistan on March 29, 2009, ultimately resulting in the total expropriation of the Group's investment in Turkmenistan.

In accordance with the Treaty, the Group has been pursuing an amicable resolution of this dispute, and gave a formal notice to the Government of Turkmenistan within the required timeframe of its intention to pursue relief under the Treaty if no agreement could be reached. Regrettably, such agreement has not been reached and therefore on July 27, 2018 subsequent to the end of the reporting period the Group has filed a Request for Arbitration against the Sovereign State of Turkmenistan with the World Bank's International Center for Settlement of Investments Disputes ("ICSID") initiating the legal proceedings in order to protect its legal rights and investments in Turkmenistan.

15. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of June 30, 2018, the Group had executed purchase agreements of approximately RUB 32,016 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 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 June 30, 2018 the Group made 88% of its total purchase installment contemplated by the agreement.

Taxation – 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 estimates the following contingent liabilities in respect of additional tax settlements:

	June 30, 2018	December 31, 2017
Contingent liabilities for additional taxes other than income tax	877	732
Contingent liabilities for additional income taxes	2,678	2,591

Licenses – In January and March 2018, VF Ukraine PrJSC secured a 4G LTE licenses in the 2510-2520 / 2630-2640 and 1780-1785 / 1875-1880 MHz bands as the result of a national auction. Under the terms and conditions of the LTE licenses, VF Ukraine is obligated to deliver LTE services to:

- not less than 90% of the population in each regional center of Ukraine (except for regional centers separately indicated in the terms and conditions of the licenses) within 12 months from the date when the licenses were effective;
- at least 90% of the population in each population center with over 10 000 inhabitants (except for regional centers separately indicated in the terms and conditions of the licenses) within 42 months the licenses were effective.

Management believes that as of June 30, 2018 the Group complied with conditions of 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 2017 Federal Antimonopoly Service of the Russian Federation (FAS Russia) issued a warning to MTS and some other federal operators on termination of actions containing signs of violation of the antimonopoly laws in respect of establishing unreasonable differences in tariffication of communication services for subscribers in home region and outside and establishing high prices for communication services in national roaming. In 2018, MTS changed the principles and terms of tariffication, FAS Russia passed decisions on these issues, admitting that violations were rectified, therefore the Group expects that the amount of possible fines will not be significant.

In August 2018, FAS Russia has charged MTS and other federal operators with violation of antimonopoly laws in respect to establishing distinguished terms and conditions for the entities with state-owned equity interest as compared to the terms and conditions for the other entities. As a result of the case examination a fine may be imposed on MTS. The amount of the fine can not be reasonably estimated at the moment.

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. In addition, 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.

These factors resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could have a negative impact on the Group’s business including ability to obtain financing on commercially reasonable terms. Management believes it is acting appropriately 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.

Economic risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of June 30, 2018 the Group held RUB 5,619 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 effective starting July 1, 2018. Compliance with the laws require the construction of additional storage, processing and indexing centers. The Group expects the increase by approximately RUB 60 bln in related capital expenditures during the next 5 years.

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 the DOJ in the U.S. District Court, Southern District of New York (Manhattan), directed at certain assets of an unnamed Uzbek government official. The Complaints allege among other things that MTS and certain other parties made corrupt payments to the unnamed Uzbek official to assist their entering and operating in the Uzbekistan telecommunications market.

The 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.

16. SUBSEQUENT EVENTS

Acquisition of shares under share repurchase plan – On July 2, 2018, the Group announced that its Board of Directors has approved the repurchase of shares of common stock and ADSs by means of a share repurchase plan (the "Repurchase Plan") that authorizes open market transactions, accelerated repurchase transactions and/or privately negotiated transactions in the total aggregate amount of up to RUB 30 bln, which includes funds used for purchasing the MTS shares from Sistema.

Since the end of the reporting period the Group acquired 9,935,052 MTS shares of common stock representing 0.50% of share capital issued by MTS under the Repurchase Plan.

Acquisition of controlling stake in MTS Bank – On July 5, 2018, the Group acquired 28.63% stake in MTS Bank, one of the 50 largest banks in Russia, for RUB 8.27 bln from Sistema. As a result of the deal, MTS's share in MTS Bank increased from 26.61% to 55.24%. The deal is expected to simplify interaction between the companies, speeds up the decision-making process and reduces time-to-market for digital financial products.