PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements

As of June 30, 2017 and December 31, 2016
and for the Six Months Ended June 30, 2017 and
2016 (unaudited)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

	Notes	June 30, 2017	December 31, 2016
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	5	263,991	272,841
Investment property		408	336
Goodwill		33,616	33,685
Other intangible assets	5	72,633	75,128
Investments in associates		9,476	10,551
Other investments	4	6,609	36,319
Deferred tax assets		7,019	6,150
Accounts receivable, related parties	9	3,900	3,693
Other financial assets		11,438	13,877
Other non-financial assets		1,929	896
Total non-current assets		**411,019**	**453,476**
CURRENT ASSETS:			
Inventories		11,269	14,330
Trade and other receivables		31,411	29,805
Accounts receivable, related parties	9	4,344	4,401
Short-term investments	3	67,459	8,657
Advances paid and prepaid expenses		3,565	5,749
VAT receivable		7,465	7,098
Income tax assets		2,718	1,601
Assets held for sale		1,339	808
Cash and cash equivalents		34,272	18,470
Other assets		144	75
Total current assets		**163,986**	**90,994**
TOTAL ASSETS		**575,005**	**544,470**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Amounts in millions of Russian Rubles)

	Notes	June 30, 2017	December 31, 2016
EQUITY AND LIABILITIES			
EQUITY:	8		
Common stock		200	200
Treasury stock		(10,161)	(748)
Additional paid-in capital		239	191
Retained earnings		142,341	145,622
Accumulated other comprehensive income		(5,753)	(6,030)
Equity attributable to owners of the Company		126,866	139,235
Non-controlling interests		3,786	4,713
Total equity		**130,652**	**143,948**
NON-CURRENT LIABILITIES:			
Borrowings	6	255,756	237,113
Deferred tax liabilities		25,967	26,611
Provisions		2,427	2,350
Other non-financial liabilities		4,022	4,129
Other financial liabilities		2,886	2,774
Total non-current liabilities		**291,058**	**272,977**
CURRENT LIABILITIES:			
Trade and other payables	8	76,786	41,473
Accounts payable, related parties	9	1,251	1,014
Subscriber prepayments		14,033	15,460
Borrowings	6	40,973	47,207
Income tax liabilities		688	962
Provisions		6,722	8,075
Other non-financial liabilities		10,909	10,305
Other financial liabilities		1,933	3,049
Total current liabilities		**153,295**	**127,545**
TOTAL EQUITY AND LIABILITIES		**575,005**	**544,470**

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

	Notes	Six months ended June 30, 2017	Six months ended June 30, 2016
Service revenue		190,168	190,709
Sales of goods		21,353	21,210
	10	**211,521**	**211,919**
Cost of services		60,961	65,964
Cost of goods		18,854	20,037
Selling, general and administrative expenses		46,685	46,256
Depreciation and amortization		40,245	39,653
Operating share of the profit of associates		(1,495)	(1,462)
Other expenses/(income)		695	(648)
Operating profit		**45,576**	**42,119**
Finance income		(2,349)	(3,005)
Finance costs		13,569	15,810
Currency exchange gains		(1,181)	(3,272)
Non-operating share of the loss of associates		328	1,021
Change in fair value of financial instruments		104	179
Other expenses		184	86
Profit before tax		**34,921**	**31,300**
Income tax expense		7,456	6,880
Profit for the period from continuing operations		**27,465**	**24,420**
Loss from discontinued operations		**-**	(1,132)
Profit for the period		**27,465**	**23,288**
Profit / (loss) for the period attributable to:			
Owners of the Company		27,210	23,563
Non-controlling interests		255	(275)
Earnings per share (basic and diluted), Russian Rubles:		13.83 and 13.82	12.13 and 12.12

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

	Six months ended June 30, 2017	Six months ended June 30, 2016
Profit for the period	27,465	23,288
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(9)	(8,412)
Net fair value gain/(loss) on financial instruments	869	(1,736)
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)	(1,190)
Other comprehensive income/(loss) for the period, net of income tax	**277**	**(11,338)**
Total comprehensive income for the period	**27,742**	**11,950**
Total comprehensive income / (loss) for the period attributable to:		
Owners of the Company	27,487	12,871
Non-controlling interests	255	(921)

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(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	Investments revaluation reserve	Foreign currency translation reserve	Remeasure-ments of the net defined benefit liability	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balances at January 1, 2016	**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 period	-	-	-	-	-	-	-	-	23,563	23,563	(275)	**23,288**
Currency translation adjustment, net of income tax	-	-	-	-	-	-	(8,956)	-	-	(8,956)	(646)	**(9,602)**
Change in fair value of derivatives, net of income tax	-	-	-	-	-	(1,736)	-	-	-	(1,736)	-	**(1,736)**
Total comprehensive (loss) / income for the period	**-**	**-**	**-**	**-**	**-**	**(1,736)**	**(8,956)**	**-**	**23,563**	**12,871**	**(921)**	**11,950**
Issuance of stock options	-	-	-	-	(101)	-	-	-	-	(101)	3	**(98)**
Dividends declared by MTS	-	-	-	-	-	-	-	-	(27,879)	(27,879)	-	**(27,879)**
Dividends to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(1,120)	**(1,120)**
Unclaimed dividends	-	-	-	-	-	-	-	-	2	2	-	**2**
Sale of own stock	-	-	1,024,587	214	-	-	-	-	-	214	-	**214**
Purchase of own stock	-	-	(6,986)	(1)	-	-	-	-	-	(1)	-	**(1)**
Changes in ownership interest with no gain/loss of control – MTS Bank additional share issuance	-	-	-	-	(5)	-	-	-	-	(5)	-	**(5)**
Reclassification to retained earnings	-	-	-	-	106	-	-	-	(106)	-	-	**-**
Balances at June 30, 2016	**2,066,413,562**	**207**	**(76,503,562)**	**(24,255)**	**-**	**(691)**	**682**	**493**	**168,780**	**145,216**	**6,218**	**151,434**
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 / (loss) 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**
Total comprehensive (loss) / income for the period	**-**	**-**	**-**	**-**	**-**	**869**	**(67)**	**-**	**27,210**	**28,146**	**255**	**28,401**
Issuance of stock options	-	-	851,275	1	107	-	-	-	-	108	-	**108**
Dividends declared by MTS	-	-	-	-	-	-	-	-	(30,491)	(30,491)	-	**(30,491)**
Dividends to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(1,175)	**(1,175)**
Changes in ownership interest with no gain/loss of control – NIS	-	-	-	-	(1)	-	-	-	-	(1)	(7)	**(8)**
Purchase of own stock	-	-	(32,061,256)	(9,414)	-	-	-	-	-	(9,414)	-	**(9,414)**
MTS share in MTS Bank loss from sale of Disposal of East West United Bank by MTS Bank to Sistema	-	-	-	-	(58)	-	(659)	-	-	(717)	-	**(717)**
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**

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

	Six months ended June 30, 2017	Six months ended June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	27,465	23,288
Adjustments for:		
Depreciation and amortization	40,245	41,080
Finance income	(2,349)	(3,005)
Finance costs	13,569	16,057
Income tax expense	7,456	6,720
Currency exchange gain	(1,181)	(3,270)
Amortization of deferred connection fees	(446)	(491)
Share of the profit of associates	(1,167)	(442)
Change in fair value of financial instruments	104	179
Inventory obsolescence expense	47	621
Allowance for doubtful accounts	1,475	1,131
Change in provisions	7,148	6,317
Other non-cash items	(985)	(793)
Movements in operating assets and liabilities:		
Increase in trade and other receivables	(2,092)	(7,458)
Decrease in inventory	3,037	950
Decrease in advances paid and prepaid expenses	1,211	843
(Increase)/ Decrease in VAT receivable	(1,097)	461
Decrease in trade and other payables and other current liabilities	(8,104)	(3,337)
Dividends received	1,486	1,181
Income tax paid	(10,484)	(2,960)
Interest received	875	2,081
Interest paid, net of interest capitalized	(11,337)	(15,479)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**64,876**	**63,674**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(19,566)	(25,545)
Purchases of other intangible assets	(6,862)	(14,126)
Purchase of 4G licenses in Russia	-	(2,598)
Proceeds from sale of property, plant and equipment and assets held for sale	2,463	1,300
Purchases of short-term and other investments	(32,794)	(7,482)
Proceeds from sale of short-term and other investments	4,017	22,042
Investments in associates	(320)	(1,326)
NET CASH USED IN INVESTING ACTIVITIES	**(53,062)**	**(27,735)**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(Amounts in millions of Russian Rubles)

	Six months ended June 30, 2017	Six months ended June 30, 2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes	-	(17,904)
Proceeds from issuance of notes	20,000	-
Proceeds from loans	20,000	1,036
Repayment of loans	(24,682)	(26,035)
Cash outflow under credit guarantee agreement related to foreign currency hedge	(901)	(1,034)
Notes and debt issuance cost paid	(29)	-
Finance lease obligation principal paid	(574)	(168)
Repurchase of own shares	(9,414)	-
Cash flows from transactions with entities under common control	-	3,063
Other financial activities	(8)	-
NET CASH PROVIDED BY/ (USED IN) FINANCING ACTIVITIES	**4,392**	**(41,042)**
Effect of exchange rate changes on cash and cash equivalents	(404)	(3,405)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**15,802**	**(8,508)**
CASH AND CASH EQUIVALENTS, beginning of the period	**18,470**	**33,464**
CASH AND CASH EQUIVALENTS, end of the period	**34,272**	**24,956**

The accompanying notes are an integral part of these unaudited 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, 109147, Moscow, Russian Federation.

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 through wireless and fixed lines, integration services as well as selling equipment and accessories. The Group's principal operations are located in Russia, Ukraine, Turkmenistan 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.

Seasonality – The Group's 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 before winter holidays enhance revenue from services and sales of goods for the second half-year. However, the Group doesn't view its business as highly seasonal as defined by IAS 34, Interim Financial Reporting.

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, 2016.

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 2016 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, 2016.

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, 2016 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. Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017.

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, unless indicated otherwise.

The interim condensed consolidated financial statements of the Group as of June 30, 2017 and December 31, 2016 and for the six months ended June 30, 2017 and 2016 were authorized for issue by the Company's President on August 28, 2017.

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 its power over the entity 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.

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 policies decisions of the investee but is not to control those policies. Investments in 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 June 30, 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 associate, relating to the development of the MTS Dengi project and with 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 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 ability to exercise significant influence are accounted for using the cost method. The Group does not evaluate cost-method investments for impairment unless there is an indicator of impairment.

(Amounts in millions of Russian Rubles unless otherwise stated)

As of June 30, 2017 and December 31, 2016, the Company had investments in the following significant entities:

	Accounting method	June 30, 2017	December 31, 2016
RTC	Consolidated	100.0%	100.0%
MTS Ukraine	Consolidated	100.0%	100.0%
MTS Turkmenistan	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 (1)	Consolidated	100.0%	100.0%
Stream Digital (2)	Consolidated	100.0%	100.0%
Metro-Telecom	Consolidated	95.0%	95.0%
MGTS Group	Consolidated	94.7%	94.7%
MTS Armenia (3)	Consolidated	80.0%	80.0%
Navigation Information Systems Group	Consolidated	77.7%	77.7%
MTS International Funding Limited (4) (“MTS International”)	Consolidated	SE	SE
MTS Belarus	Equity	49.0%	49.0%
MTS Bank	Equity	26.6%	26.6%
Zifrovoe TV	Equity	20.0%	20.0%
OZON Holdings Limited	Equity	10.8%	10.8%

(1) A wholly-owned subsidiary, through which the Group currently repurchases its Eurobonds
(2) A wholly-owned subsidiary, through which the Group currently repurchases its own shares.
(3) Former K-Telecom
(4) A private 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 6). 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.

Functional currency translation methodology – As of June 30, 2017, the functional currencies of Group entities were as follows:

- For entities incorporated in the Russian Federation, MTS Finance, Dega and MTS International – the Russian Ruble (“RUB”);
- For MTS Ukraine – the Ukrainian Hryvna;
- For MTS Turkmenistan – the Turkmenian Manat;
- For MTS Armenia – the Armenian Dram;
- For disposed Universal Mobile Services (“UMS”) – the Uzbek Som;
- For MTS Belarus – the Belorussian Ruble,
- For Nvision Czech Republic A.S. – the Czech Koruna.

Foreign-currency transactions are translated into the functional currency at the exchange rates prevailing 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 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

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 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.

Significant accounting policies – The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended December 31, 2016.

Standards, interpretations and amendments adopted on January 1, 2017

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.

Standards, interpretations and amendments in issue but not yet effective

For more information on standards, interpretations, and amendments that have been issued but not yet applied, please refer to the section "Summary of accounting policies" in the notes to the annual consolidated statements of the Group for the year ended December 31, 2016.

3. SHORT-TERM INVESTMENTS

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

	Category	June 30, 2017	December 31, 2016
Deposits	Loans and receivables	45,826	3,850
Notes	Held to maturity	16,502	-
Assets in Sistema-Capital trust management (Notes 7,9)	Financial asset at fair value through profit or loss	3,711	3,721
Loans	Bills of exchange	1,363	1,021
Notes	Available for sale	57	65
Total short-term investments		**67,459**	**8,657**

4. OTHER INVESTMENTS

The Group's other investments comprised the following:

	Category	June 30, 2017	December 31, 2016
Deposits	Loans and receivables	2	27,056
Loans/Unquoted Notes	Loans and receivables	5,348	8,004
Other	-	1,259	1,259
Total other investments		**6,609**	**36,319**

(Amounts in millions of Russian Rubles unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Six-months period ended June 30, 2017	Six-months period ended June 30, 2016
Property, Plant and Equipment		
Additions	23,058	22,846
Disposals (net book value)	(1,865)	(1,421)
Intangible assets		
Additions	7,969	16,472
Disposals (net book value)	(36)	(300)

6. BORROWINGS

The Group's borrowings comprised the following:

	June 30, 2017	December 31, 2016
Notes	96,974	78,186
Bank and other loans	188,104	195,088
Finance lease obligations	11,651	11,046
Total borrowings	**296,729**	**284,320**
Less: current portion	(40,973)	(47,207)
Total borrowings, non-current	**255,756**	**237,113**

Notes – The reconciliation between opening and closing balance of the Group's Notes for the six months ended June 30, 2017 was the following:

	Currency	Interest rate (actual at June 30, 2017)	Carrying amount
Balance at January 1, 2017			78,186
New Notes			
MTS PJSC Notes due 2021	RUB	8.85%	10,000
MTS PJSC Notes due 2022	RUB	9.00%	10,000
Currency exchange gain			(1,215)
Other movement			3
Balance at June 30, 2017			**96,974**
Less: current portion			(21,392)
Total notes, non-current			**75,582**

(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, 2017 was the following:

	Currency	**Interest rate (actual at June 30, 2017)**	**Carrying amount**
Balance at January 1, 2017			**195,088**
New loans			
Loans	RUB	9.05%-9.6%	24,400
Repayments			
Sberbank	RUB	8.45%	(10,000)
Gasprombank	RUB	9.6%-10.9%	(8,400)
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	USD	LIBOR + 1.15% (2.598%)	(3,583)
Notes in REPO	RUB	-	(2,588)
Other financial institutions			(5,892)
Currency exchange gain			(1,166)
Other movement			245
Balance at June 30, 2017			**188,104**
Less: current portion			(18,883)
Total bank and other loans, non-current			**169,221**

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 $75 million (RUB 4,431 million as of the reporting date), which remains unsatisfied for more than 60 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, 2017.

Available credit facilities – As of June 30, 2017, the Group's total available unused credit facilities amounted to RUB 37,750 million and related to the following credit lines:

(Amounts in millions of Russian Rubles unless otherwise stated)

	Currency	Maturity	Interest rate	Available till	Available amount
Sberbank	RUB	2021	To be agreed	April 2021	20,000
Gasprombank	EUR	2021	CBR[1] key rate + 0.6%	September 2017	6,750
Rosselhozbank	RUB/USD/EUR	31 days	To be agreed	November 2017	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					**37,750**

[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 June 30, 2022 and thereafter:

	As of June 30, 2017	
	Notes	**Bank loans and other debt**
Payments due in the year ending June 30,		
2018	21,454	19,250
2019	10,000	67,567
2020	18,133	67,924
2021	10,012	20,678
2022	10,000	10,131
Thereafter	27,566	3,605
Total	**97,165**	**189,155**
Less: unamortized debt issuance costs	(191)	(1,051)
Total debt	**96,974**	**188,104**

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

	June 30, 2017	December 31, 2016
Network and base station equipment	8,060	6,906
Office equipment, vehicles and other	66	66
Leased assets, net	**8,126**	**6,972**

Depreciation of the assets under finance leases for the six months ended June 30, 2017 and 2016 amounted to RUB 320 million and RUB 301 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 six months ended June 30, 2017 and 2016 amounted to RUB 436 million and RUB 450 million, respectively, and was included in finance costs in the accompanying consolidated statement of profit or loss.

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments as at June 30, 2017 and December 31, 2016:

(Amounts in millions of Russian Rubles unless otherwise stated)

	June 30, 2017	December 31, 2016
Minimum lease payments, including:		
Current portion (less than 1 year)	1,589	1,432
More than 1 to 5 years	6,565	6,079
Over 5 years	11,967	11,061
Total minimum lease payments	**20,121**	**18,572**
Less amount representing interest	(8,470)	(7,526)
Present value of net minimum lease payments, including:		
Current portion (less than 1 year)	698	630
More than 1 to 5 years	3,205	3,055
Over 5 years	7,748	7,361
Total present value of net minimum lease payments	**11,651**	**11,046**
Less current portion of lease obligations	(698)	(630)
Non-current portion of lease obligations	**10,953**	**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.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value measurement of the Group's derivative instruments and assets 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	June 30, 2017	December 31, 2016
Assets			
Sistema International Funding S.A. Bonds due in 2019 (related party) (Notes 3, 9)	Level 1	57	65
Derivative instruments	Level 2	11,645	13,632
Cross-currency interest rate swap		*11,135*	*13,632*
Deliverable currency forward		*510*	-
Assets in Sistema-Capital trust management (related party) (Notes 3, 9)	Level 2	3,711	3,721
Liabilities			
Derivative instruments	Level 2	(433)	(673)
Interest rate swap		*(433)*	*(531)*
Deliverable currency forward		-	*(142)*
Liability under put option agreement	Level 3	(2,474)	(2,243)
Contingent consideration	Level 3	(3)	(3)

(Amounts in millions of Russian Rubles unless otherwise stated)

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, 2017 and 2016.

The liability under put option agreement 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 are presented in the table below:

Unobservable inputs	**June 30, 2017**	**December 31, 2016**
Post-tax discount rate	13%	13%
Revenue growth rate	(0.5) – 0.1% (av. -0.2%)	(0.9) – (2.9)% (av. -1.8%)
OIBDA margin	43.8-44.8% (av. 44.2%)	42.0-45.0% (av. 43.5%)

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, 2017		**December 31, 2016**	
	Level of inputs	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Notes (Note 6)	Level 1	(100,776)	(97,165)	(81,462)	(78,381)
Bank and other loans	Level 3	(188,949)	(189,155)	(199,131)	(196,382)
		(289,725)	**(286,320)**	**(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 for the six months ended June 30, 2017 and 2016.

There were no transfers between the accounting categories of financial instruments during the six months ended June 30, 2017 and 2016.

8. 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, 2017 and December 31, 2016. Preferred shares have not been issued.

As of June 30, 2017, the total shares in treasury stock comprised 42,692,028, and 1,955,689,547 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.

In March 2017 the Group completed a tender offer (the "Tender Offer") to repurchase its ordinary shares. Under the Tender Offer, in the six months ended June 30, 2017 the Group purchased 16,022,364 shares at a price per share of RUB 290.00, 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

Dividends

As of June 30, 2017, 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 net income of MTS PJSC for the six months ended June 30, 2017 and year ended December 31, 2016 that is distributable under Russian legislation totaled RUB 100,815 million and RUB 50,659 million, respectively.

In June 2017 the Group declared cash dividends for the calendar year 2016 in amount of RUB 31,174.8 million (including dividends on treasury shares of RUB 666.0 million), which equals to RUB 15.6 per share or RUB 31.2 per ADS.

As of June 30, 2017 and December 31, 2016 dividends payable of RUB 31,753.2 and 87.0 million, respectively, were included in the trade and other payables within the statement of financial position.

9. 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 June 30, 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 June 30, 2017 and December 31, 2016 the Group had no impairment of receivables relating to amounts owed by related parties as well as expenses recognized during the periods of six months ended June 30, 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:

	June 30, 2017	December 31, 2016
Accounts receivable:		
Business Nedvizhimost, a subsidiary of Sistema	3,872	3,693
MTS Belarus, the Group's associate	2,118	2,273
MTS Bank, the Group's associate	1,603	1,726
Sitronics KASU, subsidiary of Sistema	166	51
Sistema, the parent company	43	46
Other related parties	442	305
Total accounts receivable, related parties	**8,244**	**8,094**
Less non-current portion	(3,900)	(3,693)
Accounts receivable, related parties – current	**4,344**	**4,401**
Accounts payable:		
MTS Belarus, the Group's associate	801	491
Kapstroi Telecom, an associate of Sistema	120	28
Business Nedvizhimost, a subsidiary of Sistema	89	32
Maxima, a subsidiary of Sistema	80	184
MTS Bank, the Group's associate	71	134
Sitronics KASU, subsidiary of Sistema	2	36
Other related parties	88	109
Total accounts payable, related parties	**1,251**	**1,014**

(Amounts in millions of Russian Rubles unless otherwise stated)

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.

	June 30, 2017	December 31, 2016
Advances for property, plant and equipment:		
Kapstroi Telecom, an associate of Sistema	337	186
Other related parties	2	1
Total advances for property, plant and equipment	**339**	**187**

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

	June 30, 2017	December 31, 2016
Short-term investments		
Sistema-Capital, a subsidiary of Sistema (assets management)	3,711	3,721
Promissory notes of Sistema	598	574
Promissory notes of Intellect Telecom, a subsidiary of Sistema	243	230
Loan receivable from Intellect Telecom, a subsidiary of Sistema	75	72
Sistema International Funding S.A. Bonds due in 2019, a subsidiary of Sistema	57	65
Deposits at MTS Bank, the Group's associate	18	33
Other loans receivable	6	-
Total short-term investments in related parties	**4,708**	**4 695**
Other investments in shares		
Sistema Venture Capital, a subsidiary of Sistema	117	117
Other	32	32
Total investments in shares of related parties	**149**	**149**

Operating transactions **–** For the six months period ended June 30, 2017 and 2016, operating transactions with related parties were as follows:

(Amounts in millions of Russian Rubles unless otherwise stated)

	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenues from related parties:		
MTS Bank, the Group's associate (telecommunication and call center services, bank cards distribution commission)	688	316
Zifrovoe TV, the Group's associate (subscriber acquisition services)	187	-
Sitronics KASU, subsidiaries of Sistema (construction of a fiber optic lines)	121	-
MTS Belarus, the Group's associate (roaming and interconnect services)	117	139
Medsi Group, subsidiaries of Sistema (telecommunication and call center services)	77	66
Detsky Mir, subsidiaries of Sistema (telecommunication services)	76	47
Other related parties	74	142
Total revenues from related parties	**1,340**	**710**
Operating expenses / (income) incurred on transactions with related parties:		
MTS Bank, the Group's associate (commission related expenses)	951	170
Business Nedvizhimost, a subsidiary of Sistema (rent and sale of property)	468	(203)
AB Safety, a subsidiary of Sistema (security services)	148	129
Jet Air Group, subsidiaries of Sistema (transportation services)	107	122
Maxima, a subsidiary of Sistema (advertising)	102	516
MTS Belarus, the Group's associate (roaming and interconnect services)	59	91
Elavius, a subsidiary of Sistema (transportation services)	11	85
Rent-Nedvizhimost, a former subsidiary of Sistema (rent), merged with Business Nedvizhimost in 2016	-	299
Other related parties	87	227
Total operating expenses incurred on transactions with related parties	**1,933**	**1,436**

Finance income, which arose from investment transactions with related parties for the six months period ended June 30, 2017 and 2016 was the following:

	Six months ended June 30, 2017	Six months ended June 30, 2016
Finance income from related parties:		
MTS Bank, the Group associate	62	135
Business Nedvizhimost, a subsidiary of Sistema	178	178
Sistema-Capital, a subsidiary of Sistema (assets management)	99	-
Sistema, parent company	26	23
Other related parties	55	6
Total finance income from related parties	**420**	**342**

Public Joint-Stock Company "MTS Bank" ("MTS Bank") – The Group maintains certain bank accounts with MTS Bank, an associate of the Group. As of June 30, 2017 and December 31, 2016, the Group's cash position at MTS Bank amounted to RUB 5,634 million and RUB 4,902 million, respectively, including short-term deposits in the amount of RUB 289 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 June 30, 2017 and December 31, 2016, the Group's cash position at East-West United Bank amounted to RUB 1,088 million and RUB 736 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 repayable in November, 2017. As of June 30, 2017 and December 31, 2016 the amount receivable of RUB 598 million and RUB 574 million, respectively, was included in short-term investments 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 with changes recognized 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 June 30, 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 June 30, 2017 and December 31, 2016 the balance of accounts receivable amounted to RUB 3,872 million and RUB 3,693 million. The amount as of June 30, 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. As of June 30, 2017 and December 31, 2016, the balance of assets under trust management amounted to RUB 3,711 million and RUB 3,721 million respectively.

Zifrovoe TV – In June 2017 the Group made a contribution to Zifrovoe TV (ZTV) in the amount of RUB 320 million. ZTV used the received funds to repay its debt to the Group in the amount of RUB 255 million. The book value of loans and interest receivable from ZTV recorded by the Group totaled to RUB 106 million. Consequently MTS recognized a net loss of RUB 171 million resulting from the immediate impairment of the investment in ZTV (RUB 320 million) offset by the excess of repaid ZTV debt over its book value recorded by MTS (RUB 149 million).

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 period ended June 30, 2017 and 2016, their total remuneration amounted to RUB 492 million and RUB 547 million, respectively. These amounts comprised of RUB 260 million and RUB 240 million in base salaries and 232 RUB million and RUB 307 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 period ended June 30, 2017 and 2016 amounted to RUB 227 million and RUB 187 million, respectively.

10. SEGMENT INFORMATION

Management 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

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 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 and Belarus.

The results of operations of UMS are reported as discontinued operations in the accompanying consolidated statements of profit or loss for all periods presented. The segment reporting for the six months ended June 30, 2016 was restated accordingly.

In 2016 management started to assess Russia convergent and Billing together in order to monitor the results and make funding decisions on this basis. Related financial information has, therefore, been 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 segment is presented below:

Six months ended 30 June 2017:

	Russia convergent	**Moscow fixed line**	**Ukraine**	**Total**	**Other**	**HQ and elimination**	**Consoli-dated**
Revenue							
External customers	176,000	17,169	11,934	205,103	6,366	52	211,521
Intersegment	2,452	2,335	537	5,324	3,564	(8,888)	-
Total revenue	**178,452**	**19,504**	**12,471**	**210,427**	**9,930**	**(8,836)**	**211,521**
Operating profit excluding depreciation and amortization	73,210	9,509	5,564	88,283	2,820	(5,282)	85,821

Six months ended 30 June 2016:

	Russia convergent	**Moscow fixed line**	**Ukraine**	**Total**	**Other**	**HQ and elimination**	**Consoli-dated**
Revenue							
External customers	173,251	17,402	13,629	204,282	7,570	67	211,919
Intersegment	2,485	2,465	1,521	6,471	3,763	(10,234)	-
Total revenue	**175,736**	**19,867**	**15,150**	**210,753**	**11,333**	**(10,167)**	**211,919**
Operating profit excluding depreciation and amortization	68,967	10,292	4,508	83,767	3,224	(5,219)	81,772

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

11. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of June 30, 2017, the Group had executed purchase agreements of approximately RUB 29,052 million to acquire property, plant and equipment, intangible assets and costs related thereto.

(Amounts in millions of Russian Rubles unless otherwise stated)

Agreement with Apple – In April 2017, the Group entered into an unconditional purchase agreement with Apple Rus LLC to buy 615,000 iPhone handsets at the prices relevant as at the dates of purchases over a period ending June 30, 2019. Pursuant to the agreement the Group is also required to arrange iPhone advertising campaign. As of June 30, 2017 no iPhone purchases were made by the Group.

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 3,930 million and RUB 3,665 million for the six months ended June 30, 2017 and 2016, 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 9,111 million and RUB 10,091 million for the six months ended June 30, 2017 and 2016, 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 June 30, 2017 are as follows:

Payments due in	
2017	8,404
2018	4,253
2019	1,226
2020	607
2021	344
Thereafter	3,124
Total	**17,958**

In 2016 new IFRS 16 “Leases” was issued, effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Group has not applied IFRS 16 “Leases” for 2016 and six months ended June 30, 2017. Application of the new standard will result in significant changes in accounting for operating leases.

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, 2017	**December 31, 2016**
Contingent liabilities for additional taxes other than income tax	600	354
Contingent liabilities for additional income taxes	1,043	2,588

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

In accordance with the terms of the license, MTS-Ukraine also concluded agreements on conversion of provided frequencies with the Ministry of Defense of Ukraine, Ministry of Internal Affairs of Ukraine and State Service of Special Communications and Information Protection of Ukraine. For 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 207 million (RUB 468 million as of June 30, 2017) adjusted for the rate of inflation in 2018.

Management believes that as of June 30, 2017 the Group complied with conditions of aforementioned licenses.

Litigation – In the ordinary course of business, the Group is a party to various legal and customs proceedings, and subject to claims, certain of which relate to developing markets and evolving fiscal and regulatory environments in which MTS operates. Management believes that the Group's liability, if any, in all such pending litigation, other legal proceeding or other matters will not have a material effect upon its financial condition, results of operations or liquidity of the Group.

Potential adverse effects of economic instability and sanctions in Russia – During 2016 and six months ended June 30, 2017 the Russian economy was negatively impacted by instability in crude oil prices and extension of political and economic sanctions. The sanctions targeting certain Russian economic sectors were introduced by the EU, US and other countries in 2014, and there remains significant uncertainty regarding the extent and timing of further sanctions. Russian Ruble has appreciated against the U.S. Dollar and Euro, partly compensating for its material depreciation in 2014 and 2015.

These factors resulted in increased inflation and uncertainty regarding further economic growth, which could have a negative impact on the Group's business. Management believes it is taking the appropriate measures 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. The deterioration has further exacerbated the country's already weak macroeconomic trends, which have led to reduced credit ratings, significant depreciation of its national currency and increased inflation. During 2014, the Ukrainian Parliament adopted a law allowing for the imposition of sanctions against countries, persons and companies deemed by the Ukrainian government to threaten Ukrainian national interests, national security, sovereignty or the territorial integrity of Ukraine. The National Bank of Ukraine ("NBU") passed a decree prohibiting Ukrainian companies to pay dividends to foreign investors. The decree was extended for a few times and its edition effective as of June 30, 2017 allows payment of dividends from the profit earned in 2014-2016, subject to certain restrictions. These circumstances, combined with continued political and economic instability in the country, could result in further negative impact on the Group's business including our financial position and results of operations.

Such risks apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of June 30, 2017, the Group held RUB 4,255 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 are currently being reviewed and clarified. The Group will estimate the potential impact of the laws on the Group's consolidated financial statements, including additional provisions, when requirements and any obligations are sufficiently specified.

Investigations into former operations in Uzbekistan – In 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 investigations of the Group’s former operations in Uzbekistan. The Company continues to cooperate with these investigations. The Company cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant.

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.

12. SUBSEQUENT EVENTS

Acquisition of Bashkortostan Cellular Communication OJSC – In July 2017, the Group acquired a 100% stake in Bashkortostan Cellular Communication OJSC (“BCC”) for RUB 300 million, including net debt from Bashinformsvyaz PJSC. BCC operates in the Republic of Bashkortostan and hold rights to use 450 MHz and 2,100 MHz radio frequencies. The acquisition enhances the Group’s spectrum resources in the Republic of Bashkortostan.