SISTEMA PJSFC AND SUBSIDIARIES

Condensed Interim Consolidated
Financial Statements
for the Six Months ended 30 June 2018
(unaudited)

SISTEMA PJSFC AND SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the condensed interim consolidated financial statements that present fairly the financial position of Sistema Public Joint Stock Financial Corporation and its subsidiaries (the "Group") as of 30 June 2018, and the results of its operations, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and assumptions that are reasonable and prudent;
- Stating whether IAS 34 has been followed, subject to any material departures disclosed and explained in the condensed interim consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the condensed interim consolidated financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The condensed interim consolidated financial statements of the Group for the six months ended 30 June 2018 were approved by:

Andrey Dubovskov President and CEO	Vladimir Travkov Vice President, Finance and Investments (CFO)

29 August 2018

AO Deloitte & Touche CIS
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Moscow, 125047,
Russia

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REPORT ON REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To Shareholders and the Board of Directors of Sistema Public Joint Stock Financial Corporation:

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Sistema Public Joint Stock Financial Corporation and its subsidiaries (the "Group") as of 30 June 2018 and the related condensed interim consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim 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 condensed interim 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 condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Emphasis of Matter – Early Adoption of IFRS 16, *Leases*

We draw attention to Note 3 to the condensed interim consolidated financial statements, which describes that as at 1 January 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.

ВКозырев

Vladimir Kozyrev,
Engagement partner

Deloitte

29 August 2018

АКЦИОНЕРНОЕ ОБЩЕСТВО «ДЕЛОЙТ И ТУШ СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

The Entity: Sistema Public Joint Stock Financial Corporation	Audit Firm: AO Deloitte & Touche CIS
Certificate of state registration № 025.866, issued by the Moscow Registration Chamber on 16.07.1993	Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.
Primary State Registration Number: 1027700003891	Primary State Registration Number: 1027700425444
Certificate of registration in the Unified State Register № 77 011222220 of 11.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 46	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.
Address: Building 1, 13 Mokhovaya st., Moscow, 125009, Russia	Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

SISTEMA PJSFC AND SUBSIDIARIES

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

	Note	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Continuing operations			
Revenue	13	353,003	326,292
Cost of sales		(161,488)	(153,350)
Selling, general and administrative expenses		(64,612)	(73,805)
Depreciation and amortisation		(64,759)	(47,886)
Impairment of long-lived assets		(379)	(323)
Impairment of financial assets		(2,526)	(2,242)
Taxes other than income tax		(3,146)	(2,979)
Share of the profit or loss of associates and joint ventures		1,767	1,142
Other income		4,336	3,573
Other expenses		(3,031)	(3,843)
Operating income		**59,165**	**46,579**
Finance income		3,695	3,663
Finance costs		(33,279)	(24,472)
Currency exchange (loss)/gain		(7,208)	241
Profit before tax		**22,373**	**26,011**
Income tax expense		(9,254)	(8,955)
Profit from continuing operations		**13,119**	**17,056**
Discontinued operations			
Loss from discontinued operations		(388)	(4,230)
Profit for the period		**12,731**	**12,826**
Attributable to:			
Shareholders of Sistema PJSFC		(2,919)	12
Non-controlling interests		15,650	12,814
		12,731	**12,826**
(Losses)/earnings per share (basic and diluted), Russian Rubles:			
From continuing operations		(0.28)	0.34
From continuing and discontinued operations		(0.31)	0.00

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

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and Investments (CFO)

29 August 2018

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

	Six months ended 30 June	
	2018 (unaudited)	**2017 (unaudited)**
Profit for the period	12,731	12,826
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:		
Currency translation income on foreign operations in subsidiaries	9,794	668
Currency translation loss on foreign operations in associates and joint ventures	-	(323)
Net (loss)/gain on revaluation of financial assets	(4,652)	1,878
Other comprehensive income, net of tax	5,370	2,223
Total comprehensive income	**18,101**	**15,049**
Attributable to:		
Shareholders of Sistema PJSFC	(260)	2,153
Non-controlling interests	18,361	12,896
	18,101	**15,049**

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

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and Investments (CFO)

29 August 2018

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

	Note	30 June 2018 (unaudited)	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment		406,428	411,467
Investment property		23,445	24,664
Goodwill		56,688	54,081
Other intangible assets		112,089	97,666
Right-of-use assets		198,861	-
Investments in associates and joint ventures	8	25,039	20,783
Deferred tax assets		41,271	35,809
Loans receivable and other financial assets	9	91,086	104,395
Deposits in banks		108	-
Other assets		13,110	18,169
Total non-current assets		**968,125**	**767,034**
Current assets			
Inventories		98,068	81,401
Contract assets		8,270	-
Accounts receivable		57,318	54,836
Advances paid and prepaid expenses		18,450	15,324
Current income tax assets		3,091	3,274
Other taxes receivable		20,279	17,190
Loans receivable and other financial assets	9	119,852	99,798
Deposits in banks		1,591	28,068
Restricted cash		12,942	8,591
Cash and cash equivalents		97,541	59,959
Other assets		3,480	2,174
Total current assets		**440,882**	**370,615**
Total assets		**1,409,007**	**1,137,649**

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

	Note	30 June 2018 (unaudited)	31 December 2017
Equity and liabilities			
Equity			
Share capital		869	869
Treasury shares		(4,759)	(5,816)
Additional paid-in capital		68,643	67,856
Accumulated loss		(18,340)	(17,375)
Accumulated other comprehensive income		3,940	2,332
Equity attributable to shareholders of Sistema		50,353	47,866
Non-controlling interests		66,657	74,957
Total equity		**117,010**	**122,823**
Non-current liabilities			
Borrowings	11	466,838	381,561
Lease liabilities	12	185,604	12,090
Bank deposits and liabilities		11,028	33,419
Deferred tax liabilities		40,749	38,160
Provisions		4,632	3,399
Liability to Rosimushchestvo		14,629	13,427
Other financial liabilities		2,086	6,514
Other liabilities		5,857	7,537
Total non-current liabilities		**731,423**	**496,107**
Current liabilities			
Borrowings	11	176,458	139,403
Lease liabilities	12	23,402	2,765
Liabilities under the Settlement Agreement	5	-	80,000
Accounts payable		111,717	114,402
Bank deposits and liabilities		115,677	83,873
Contract liabilities and other liabilities		58,648	48,789
Income tax payable		1,853	1,833
Other taxes payable		17,633	14,378
Dividends payable	10	28,856	4,578
Provisions		11,500	13,038
Liability to Rosimushchestvo		7,725	9,601
Other financial liabilities		7,105	6,059
Total current liabilities		**560,574**	**518,719**
Total equity and liabilities		**1,409,007**	**1,137,649**

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

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and Investments (CFO)

29 August 2018

SISTEMA PJSFC AND SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
(in millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	(Accumulated loss)/ Retained earnings	Accumulated other comprehensive (loss)/income: Currency reserve	Accumulated other comprehensive (loss)/income: Other	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2017	**869**	**87,369**	**(6,575)**	**91,290**	**(14,457)**	**705**	**159,201**	**57,770**	**216,971**
Profit for the period	-	-	-	12	-	-	12	12,814	12,826
Other comprehensive income, net of tax	-	-	-	-	755	1,386	2,141	82	2,223
Total comprehensive income	-	-	-	12	755	1,386	2,153	12,896	15,049
Settlements under long-term motivation program	-	(2,144)	2,144	-	-	-	-	-	-
Accrued compensation cost	-	742	-	-	-	-	742	-	742
Purchase of own shares	-	-	(1,601)	-	-	-	(1,601)	-	(1,601)
Capital transactions of subsidiaries	-	11,486	-	-	-	-	11,486	(5,149)	6,337
Dividends declared by Sistema PJSFC	-	-	-	(7,634)	-	-	(7,634)	-	(7,634)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(17,840)	(17,840)
30 June 2017	**869**	**97,453**	**(6,032)**	**83,668**	**(13,702)**	**2,091**	**164,347**	**47,677**	**212,024**
1 January 2018	**869**	**67,856**	**(5,816)**	**(17,375)**	**(3,346)**	**5,678**	**47,866**	**74,957**	**122,823**
Effect of new standards (Note 3)	-	-	-	2,998	-	(1,051)	1,947	2,793	4,740
1 January 2018 (revised)	**869**	**67,856**	**(5,816)**	**(14,377)**	**(3,346)**	**4,627**	**49,813**	**77,750**	**127,563**
(Loss)/profit for the period	-	-	-	(2,919)	-	-	(2,919)	15,650	12,731
Other comprehensive income/(loss), net of tax	-	-	-	-	6,643	(3,984)	2,659	2,711	5,370
Total comprehensive (loss)/income	-	-	-	(2,919)	6,643	(3,984)	(260)	18,361	18,101
Settlements under long-term motivation program	-	(1,057)	1,057	-	-	-	-	-	-
Capital transactions of subsidiaries (Note 7)	-	1,844	-	-	-	-	1,844	(4,724)	(2,880)
Dividends declared by Sistema PJSFC (Note 10)	-	-	-	(1,044)	-	-	(1,044)	-	(1,044)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(24,730)	(24,730)
30 June 2018	**869**	**68,643**	**(4,759)**	**(18,340)**	**3,297**	**643**	**50,353**	**66,657**	**117,010**

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

SISTEMA PJSFC AND SUBSIDIARIES

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

	Six months ended 30 June	
	2018 (unaudited)	**2017 (unaudited)**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	12,731	12,826
Adjustments for:		
Depreciation and amortisation	64,759	48,372
Share of the profit or loss of associates and joint ventures	(1,767)	(1,142)
Finance income	(3,695)	(3,790)
Finance costs	33,308	26,128
Income tax expense	9,254	8,922
Currency exchange loss/(gain)	7,208	(735)
Loss from discontinued operations	388	125
Profit on disposal of property, plant and equipment	(1,247)	(283)
Loss from fair value adjustment of financial instruments through profit or loss	92	275
Amortisation of connection fees	(1,078)	(446)
Impairment loss on loans receivable	1,728	98
Dividends received from associates and joint ventures	1,551	1,486
Non-cash compensation to employees	287	742
Impairment of long-lived assets	379	323
Impairment of financial assets	2,526	2,231
Other non-cash items	2,274	1,421
	128,698	96,553
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	9,055	930
Bank deposits and liabilities	9,360	(207)
Restricted cash	(4,351)	46
Financial assets at fair value through profit or loss	2,561	(775)
Accounts receivable	(3,919)	3,043
Advances paid and prepaid expenses	(2,557)	(720)
Other taxes receivable	(3,083)	(911)
Inventories	(19,510)	(6,480)
Accounts payable	(6,142)	(9,517)
Subscriber prepayments	582	(1,264)
Other taxes payable	3,255	(2,184)
Advances received and other liabilities	492	4,281
Payment in accordance with the Settlement Agreement	(80,000)	-
Interest paid	(31,460)	(25,147)
Income tax paid	(12,338)	(12,052)
Net cash (used in)/provided by operating activities	**(9,357)**	**45,596**

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

	Six months ended 30 June	
	2018 (unaudited)	**2017 (unaudited)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment and investment property	(36,576)	(29,418)
Proceeds from sale of property, plant and equipment	2,678	2,854
Payments to obtain and fulfill contracts	(2,104)	-
Payments for purchases of intangible assets	(13,140)	(7,542)
Payments for businesses, net of cash acquired	(2,988)	(2,391)
Payments for investments in associates and joint ventures	(4,348)	(3,167)
Proceeds from sale of investments in affiliated companies	114	3,846
Payments for financial assets, long-term	(10,809)	(14,578)
Proceeds from sale of financial assets, long-term	1,895	6,295
Payments for financial assets, short-term	(28,111)	(34,007)
Proceeds from sale of financial assets, short-term	31,260	9,796
Interest received	6,905	3,801
Other	(925)	-
Net cash used in investing activities	**(56,149)**	**(64,511)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	207,631	140,499
Principal payments on borrowings	(87,637)	(88,402)
Debt issuance costs	(595)	-
Lease liabilities payments	(10,230)	(29)
Acquisition of non-controlling interests in existing subsidiaries	(5,572)	(4,819)
Payments to purchase treasury stock	-	(1,601)
Proceeds from transactions with non-controlling interests	-	13,544
Dividends paid	(1,496)	-
Cash outflow under credit guarantee agreement related to foreign-currency hedge	(981)	(901)
Net cash provided by financing activities	**101,120**	**58,291**
Effect of foreign currency translation on cash and cash equivalents	1,968	(1,623)
Net increase in cash and cash equivalents	**37,582**	**37,753**
Cash and cash equivalents at the beginning of the period	59,959	60,190
Cash and cash equivalents at the end of the period	**97,541**	**97,943**

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

1. GENERAL

Sistema Public Joint Stock Financial Corporation (the "Company", together with its subsidiaries, the "Group") invests in, and manages a range of companies which operate in various sectors of economy, including telecommunications, retail, high technology, finance, pulp and paper, utilities, pharmaceuticals, healthcare, agriculture, real estate and tourism. The Company and the majority of its subsidiaries are incorporated in the Russian Federation ("RF"). The Company's registered address is building 1, 13 Mokhovaya street, 125009, Moscow.

The majority shareholder of the Company is Vladimir Evtushenkov. Minority holdings are held by certain senior executives and directors of the Company. The shares are listed on the London Stock Exchange in the form of Global Depositary Receipts ("GDRs") and on the Moscow Exchange.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements have been prepared on the assumption that the Group will continue to operate in the foreseeable future. Current liabilities of the Group as of 30 June 2018 exceeded current assets by RUB 119,692 million. The Group determines that it generates sufficient operating cash flow and has sufficient cash available to repay the Group's current liabilities, including, if necessary, unused credit facilities of RUB 353,096 million.

These financial statements do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2017 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition.

These unaudited condensed interim consolidated financial statements were approved by the Company's President and CEO and authorised for issue on 29 August 2018.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The same accounting policies, presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for 2017, except for the impact of the adoption of the new standards from 1 January 2018.

3.1. IFRS 16, Leases

IFRS 16 introduces a uniform model of lease identification and recognition for both lessors and lessees. The difference between operating and finance leases is eliminated. For all types of leases lessees should recognize: (a) assets and liabilities related to lease contracts and (b) depreciation of right-of-use assets separately from lease obligations interest in the statement of comprehensive income. IFRS 16 replaced IAS 17, *Leases* and all related interpretations.

Transition. The standard is effective for annual periods starting 1 January 2019 or after that date, the Group early adopted the standard effective 1 January 2018 concurrent with the adoption of the new standard IFRS 15*, Revenue from Contracts with Customers*.

According to the transition provisions of IFRS 16, the Group selected the modified retrospective method of transition with the cumulative effect of initially applying the standard as an adjustment to retained earnings. In accordance with this method the Group did not restate comparative information for the previous period.

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.

Accounting policy. For contracts concluded after 1 January 2018, the Group assesses whether a contract is or contains a lease at inception of a contract. The Group recognises 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 recognises 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 of the Group.

Sources of estimation uncertainty. In application of IFRS 16 the Group makes the following estimates:

- Lease term. The lease term corresponds to the non-cancellable period of each contract. The Group also considers the cases where the Group is reasonably certain of not exercising early termination options. When assessing such options management assesses residual useful life of the asset located on the leased site, investment strategy of the Group and relevant investment decisions and duration of the renewal and early termination options.
- Discount rate. When calculating the present value of the lease payments the Group uses the incremental borrowing rate. Discount rate is determined for each asset based on the incremental borrowing rate at the inception of the contract. As of 1 January 2018 the weighted average borrowing rate applied by the Group to discount its lease liabilities amounted to 9.54%.

Effect from the adoption. As a result of adoption of IFRS 16 the Group recognised right-of-use assets of RUB 199,779 million.

3.2. IFRS 15, Revenue from Contracts with Customers

IFRS 15*, Revenue from Contracts with Customers* is effective since 1 January 2018. It supersedes the existing standards IAS 18, *Revenue*, IAS 11, *Construction Contracts, IFRIC 15 Agreements for the Construction of Real Estate* and other related interpretations.

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. This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers.

In accordance with IFRS 15 the Group recognises revenue when or as a performance obligation is satisfied, i.e. when the control over goods or services that form a performance obligation of the Group is transferred to a customer.

Transition. The Group applied IFRS 15 retrospectively with the cumulative effect as an adjustment to retained earnings as at 1 January 2018.

Accounting policy. Revenue from contracts with customers specific to the reporting segments of the Group is recognised in the following way.

MTS – Revenues derived from wireless, local telephone, long distance, data and video services are recognised when services are provided. This is based upon either usage of minutes of traffic processed and volume of data transmitted or period of time (monthly subscription fees).

The Group capitalises costs of obtaining contracts (such as sales commissions) and costs of fulfilling contracts and amortises over the period expected to benefit from the contract. The Group used the practical expedient allowed by of IFRS 15 whereby such costs may be expensed if the amortization period is one year or less.

Revenue from sale of goods (mainly cellphones) is recognised when the goods are sold in retail stores.

Detsky mir – The Group recognises revenue when or as a performance obligation is satisfied, i.e. when the goods are sold in retail stores for retail revenues or delivered to customers for online sales (including in-store pick-up).

The Group sells gift cards to its customers in its retail stores. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognises income from gift cards either when the gift card is redeemed by the customer or when the gift card expires.

The Group runs a customer loyalty program "Yo-Yo" which allows customers to earn points for each purchase made in any of the Group's retail stores and via Internet in the online store. Points earned enable customers to receive a cash discount on future purchases, provided the purchase is made within one year of earning the points. Proceeds from sales to members of the loyalty programs are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. This amount is deferred and recognised as revenue when the points are redeemed. Other administrative costs of the customer loyalty program are recorded in Selling, general and administrative expenses as incurred.

MTS Bank and East-West United Bank – Revenues from interest bearing assets are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

RTI – RTI contracts with customers include project type contracts, serial production contracts and other works and services.

Project type contracts include contracts performed under specifically agreed statement of work with a customer. Revenue under these contracts is recognised over time. Revenue is determined by reference to the stage of completion of works estimated using resources method, i.e. based on the proportion of costs incurred for work performed to date relative to the estimated total contract costs. Revenue is recognised cumulatively as at reporting date as total contract revenue multiplied by percentage of completion as at reporting date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Manufactured goods under serial production contracts are mostly recurring and standardised. Such goods may be produced either based on customer orders or for storing in warehouses because in case of a refusal of one customer it may be offered to other interested parties without significant modifications. Revenue under serial production contracts is recognised when a customer obtains the right to control goods and benefit from their usage.

Sources of estimation uncertainty. Sources of estimation uncertainty under IFRS 15 include:

- Useful life of capitalised costs of obtaining contracts and costs of fulfilling contracts;
- Stage of completion of project type contracts.

Effect from the adoption. 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. Capitalised cost of obtaining contracts is included in line "Other intangible assets" in the condensed interim consolidated statement of financial position.

Another impact 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 remuneration between components of contracts with customers.

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

3.3. IFRS 9, Financial Instruments

The standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and brings together the following aspects of accounting for financial instruments: classification and measurement, impairment, derecognition and general hedge accounting. IFRS 9 introduces two categories of financial instruments measurement: at amortised cost and at fair value.

Transition. The Group did not restate 2017 comparatives in accordance with IFRS 9. Thus, 2017 comparatives are recognised in accordance with IAS 39 and cannot be compared with financial information for 2018. The Group recognised the cumulative effect arising from the transition to IFRS 9 as an adjustment to the opening balance of retained earnings.

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

Accounting policy. The Group applies new classification and measurement categories in accordance with IFRS 9. The table below compares the classification of financial assets in accordance with IAS 39 with their new classification in accordance with IFRS 9 as of 1 January 2018:

	Categories under IAS 39	Categories under IFRS 9	31 December 2017 (under IAS 39)	31 December 2017 (under IFRS 9)
Cash and cash equivalents	Not assigned to a category	Measured at amortized cost	59,959	59,959
			59,959	**59,959**
Debt and equity securities	Measured at fair value through profit or loss	Measured at fair value through profit or loss	37,414	37,414
			37,414	**37,414**
Debt and equity securities	Available-for-sale financial assets	Measured at fair value through profit or loss	16,678	16,678
Debt and equity securities	Available-for-sale financial assets	Measured at fair value through other comprehensive income	5,517	5,517
Debt securities	Available-for-sale financial assets	Measured at amortized cost	5,968	5,969
			28,163	**28,164**
Debt securities	Held-to-maturity financial assets	Measured at amortized cost	27,346	27,346
			27,346	**27,346**
Bank loans to customers	Loans and receivables	Measured at amortized cost	64,708	62,922
			64,708	**62,922**
Interbank loans due from banks	Loans and receivables	Measured at amortized cost	15,512	15,510
			15,512	**15,510**
Other loans	Loans and receivables	Measured at amortized cost	22,647	22,647
			22,647	**22,647**
Accounts receivable	Loans and receivables	Measured at amortized cost	54,836	54,475
			54,836	**54,475**
Interest rate swaps designated as cash flow hedges	Measured at fair value through profit or loss	Measured at fair value through profit or loss	8,403	8,403
			8,403	**8,403**
Total			**318,988**	**316,840**

The Group applies expected credit losses model for impairment analysis of financial assets classified at amortised cost. The Group applies the simplified approach permitted by IFRS 9 for its trade and other receivables which requires recognition of expected credit losses from initial recognition of trade receivables.

Sources of estimation uncertainty. The Group uses management's judgement to estimate allowance for expected credit losses for financial assets at amortised cost.

Effect from the adoption. The main impact of IFRS 9 is in the way the Group accounts for the impairment of financial assets. Application of expected credit losses model under IFRS 9 resulted in earlier recognition of credit losses for its customer loan portfolio and trade receivables of 2,152 million. Also as a result of IFRS 9 adoption the Group recognised RUB 2,433 million gain relating to modification of its financial liabilities.

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

The total impact of changes described above on the consolidated statement of financial position as of 1 January 2018 is as follows:

Corrected lines	**31 December 2017**	**Impact of IFRS 9**	**Impact of IFRS 15**	**Impact of IFRS 16**	**1 January 2018**
Property, plant and equipment	411,467	-	(966)	(9,529)	400,972
Right-of-use assets	-	-	-	199,779	199,779
Other intangible assets	97,666	-	8,628	-	106,294
Investments in associates and joint ventures	20,783	-	(37)	-	20,746
Deferred tax assets	35,809	22	148	254	36,233
Loans receivable and other financial assets	104,395	(1,791)	-	-	102,604
Other assets	18,169	-	1,186	(1,051)	18,304
Total non-current assets	**767,034**	**(1,769)**	**8,959**	**189,453**	**963,677**
Inventories	81,401	-	(7,366)	(32)	74,003
Contract asset	-	-	7,614	-	7,614
Accounts receivable	54,836	(361)	(142)	(1)	54,332
Advances paid and prepaid expenses	15,324	-	8	(5)	15,327
Total current assets	**370,615**	**(361)**	**114**	**(38)**	**370,330**
Total assets	**1,137,649**	**(2,130)**	**9,073**	**189,415**	**1,334,007**
Retained earnings	(17,375)	520	2,635	(157)	(14,377)
Accumulated other comprehensive loss	2,332	(1,051)	-	-	1,281
Equity attributable to shareholders of Sistema	47,866	(531)	2,635	(157)	49,813
Non-controlling interests	74,957	898	1,877	18	77,750
Total equity	**122,823**	**367**	**4,512**	**(139)**	**127,563**
Borrowings	381,561	(3,189)	-	-	378,372
Lease obligations	12,090	-	-	166,163	178,253
Deferred tax liabilities	38,160	486	806	218	39,670
Other liabilities	7,537	-	(1,004)	(1,051)	5,482
Total non-current liabilities	**496,107**	**(2,703)**	**(198)**	**165,330**	**658,536**
Borrowings	139,403	206	-	-	139,609
Lease obligations	2,765	-	-	24,642	27,407
Accounts payable	114,402	-	45	(355)	114,092
Contract liabilities and other non-finacial liabilities	48,789	-	4,714	(63)	53,440
Total current liabilities	**518,719**	**206**	**4,759**	**24,224**	**547,908**
Total equity and liabilities	**1,137,649**	**(2,130)**	**9,073**	**189,415**	**1,334,007**

Lease liabilities as of 31 December 2017 include financial lease obligations recognised in accordance with IAS 17, *Leases*. Contract liabilities and other non-financial liabilities as of 31 December 2017 include advanced received and subscriber prepayments.

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

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments for the six months ended 30 June:

	External revenues		**Inter-segment revenue**		**Segment operating income/(loss)**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
MTS	220,420	210,543	1,851	978	53,522	44,887
Detsky mir	48,115	42,096	1	-	3,493	2,113
RTI	14,486	16,855	111	17	(377)	(985)
MTS Bank	9,486	7,953	1,182	728	453	319
Corporate	996	840	408	446	(3,500)	(3,647)
Total	293,503	278,287	3,553	2,169	53,591	42,687
Other	59,500	48,005	934	745	4,975	3,723
	353,003	326,292	4,487	2,914	58,566	46,410
Inter-segment eliminations					599	169
Operating income					**59,165**	**46,579**
Finance income					3,695	3,663
Finance costs					(33,279)	(24,472)
Foreign currency exchange (loss)/gain					(7,208)	241
Profit before tax					**22,373**	**26,011**

Although operations of certain Group's subsidiaries and their financial results, historically, have been subject to certain seasonal trends between the first and second half of the financial year, the Group's consolidated financial results, historically, have not been subject to significant seasonal trends.

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

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

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

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

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

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

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

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

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

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

6. BUSINESS COMBINATIONS

The information on business combinations which took place during six months ended 30 June 2018 is summarised below:

Acquiree	**Principal activity**	**Date of acquisition**	**Interest acquired**	**Acquiring segment**	**Purchase price**
MDTZK LLC	Sale of tickets for events	February	100%	MTS	3,190
Kulturnaya Sluzhba LLC	Sale of tickets for events	February	78.2%	MTS	321
Voloma-Invest LLC	Lumbering	June	100%	Segezha	564
Total					**4,075**

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

	MDTZK	**Kulturnaya Sluzhba**	**Voloma Invest**
Cash consideration	3,190	321	564
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	128	18	38
Other intangible assets	1,523	191	572
Inventories	-	-	92
Other current assets	744	156	221
Non-current liabilities	(370)	(34)	(20)
Current liabilities	(868)	(489)	(339)
Goodwill	**2,033**	**479**	**-**

At the date of these condensed interim consolidated financial statements, purchase price allocation was not finalised and has, therefore, only been provisionally determined, because the Group had not finalised valuation of identifiable assets and liabilities of acquired companies.

Pro forma financial data reflecting the results of the Group as if acquisitions had occurred as of 1 January 2018 is not presented because the effects of these business combinations, individually and in aggregate, were not material to the Group’s consolidated results of operations.

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

The following table summarises the details of purchase of subsidiaries, net of cash acquired, reported in the statements of cash flows for the six months ended 30 June:

	2018
Cash consideration	4,075
Payables at the end of the year	(564)
Cash acquired	(469)
Contingent liability	(54)
Payments for businesses, net of cash acquired	**2,988**

7. CAPITAL TRANSACTIONS OF SUBSIDIARIES

The information on capital transactions of subsidiaries which took place during six months ended 30 June 2018 and their impact on the Group's equity is summarised below:

	Increase of additional paid-in capital	**Decrease of non-controlling interests**
Acquisition of shares under MTS tender offer	1,018	(3,830)
Other	826	(894)
Total impact	**1,844**	**(4,724)**

MTS shares tender offer – Under the MTS tender offer to repurchase its ordinary shares (including shares represented by American depository shares), MTS purchased a total of 26,797,204 shares at a price per share of RUB 264 to RUB 317, for a total cost of RUB 7.2 billion from non-controlling shareholders, including purchase of 17,339,848 shares from Sistema Finance S.A., a subsidiary of the Group, for an aggregate purchase price of RUB 4.8 billion.

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Ozon – During the first half of 2018, MTS invested in Ozon Holdings Limited development RUB 2.1 billion as part of additional issue. As a result of the transaction, the total share of the company at 30 June 2018 is 26.5% and the carrying amount is RUB 6.5 billion.

European foundry – During the year 2018, the Group invested RUB 1.8 billion in the leading European manufacturer of foundry products Silbitz Group. As a result of the investment, the Group's share as of 30 June 2018 is 22%.

In other projects, the Group retained its ownership interests and, as of 30 June 2018, continues to account them as investments in joint ventures and associates.

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

9. LOANS RECEIVABLE AND OTHER FINANCIAL ASSETS

At 30 June 2018, loans receivable and other financial assets, less allowance for impairment losses, comprise:

	30 June 2018
Financial assets measured at fair value through profit or loss	
Debt and equity securities	44,738
Interest rate swaps designated as cash flow hedges	6,919
	51,657
Financial assets measured at fair value through other comprehensive income	
Debt and equity securities	7,705
	7,705
Financial assets measured at amortized costs	
Debt securities	71,200
Bank loans to customers	61,162
Interbank loans due from banks	5,396
Other loans	13,818
	151,576
Total	**210,938**
Current	119,852
Non-current	91,086
Total	**210,938**

At 30 June 2018 and 31 December 2017 (recalculated in accordance with IFRS 9), financial assets attributable to the Group's banking activities (MTS Bank and East-West United Bank) comprise:

	30 June 2018	31 December 2017 (recalculated)
Financial assets measured at fair value through profit or loss		
Debt and equity securities	14,920	16,106
	14,920	**16,106**
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	7,705	5,517
	7,705	**5,517**
Financial assets measured at amortized costs		
Cash and cash equivalents	41,681	31,758
Bank loans to customers	72,716	75,126
Interbank loans due from banks	5,438	15,553
Debt securities	39,960	33,315
	159,795	**155,752**
Less: allowance for loan losses	(11,595)	(10,459)
	170,825	**166,916**

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

The movement in the allowance for loan losses during six months ended 30 June 2018 and 2017 was as follows:

	2018	2017
Allowance for loan losses, 1 January	**10,459**	**36,905**
IFRS 9 impact	1,788	-
Additions charged to the operating results	1,497	98
Amounts written off against the allowance	(2,473)	(1,754)
Currency translation adjustment	324	(65)
Allowance for loan losses, 30 June	**11,595**	**35,184**

10. DIVIDENDS

On 30 June 2018, an annual general meeting of shareholders approved the total dividend payment of RUB 1,061.5 million for 2017 (including dividends on treasury shares of RUB 17.5 million) representing RUB 0.11 per ordinary share or RUB 2.2 per one global depository receipt.

11. BORROWINGS

At 30 June 2018, the Group's borrowings comprise:

	30 June 2018	31 December 2017
Bank loans	417,758	336,582
Corporate bonds	224,608	183,476
Other	930	906
	643,296	**520,964**
Current	176,458	139,403
Non-current	466,838	381,561
	643,296	**520,964**

At 30 June 2018, the schedule of repayments of borrowings for the next five years and thereafter is as follows:

Within one year	176,458
In one to two years	177,440
In two to three years	92,711
In three to four years	73,009
In four to five years	108,758
In more than five years	14,920
	643,296

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

Bank loans – As at 30 June 2018, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 30 June 2018)	30 June 2018	31 December 2017
USD-denominated:				
Calyon, ING Bank N.V Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2018	-	-	17,076
Citibank	2018-2024	LIBOR 6m+0.9% (3.4%)	10,736	10,592
China Development Bank	2019-2021	LIBOR 6m+3.15% (5.65%)	9,413	8,640
Other			5,025	4,996
			25,174	**41,304**
EUR-denominated:				
ING	2018-2021	EURIBOR+1.5% (3.99%); 4.30%	26,680	25,040
Other			1,301	1,284
			27,981	**26,324**
RUB-denominated:				
Sberbank	2018-2023	7.50%-14.5%	238,955	188,222
VTB	2018-2022	7.2%-12.35%; CBR+2.5%-4.8% (9.75%-12.05%)	57,631	37,733
Gazprombank	2018-2022	7.5%-11.2%; CBR+2.0% (9.25%)	42,781	21,021
Alfa Bank	2018-2027	8.9%-11.15%	19,181	15,501
Other			5,722	5,918
			364,270	**268,395**
Other currencies			333	559
Total bank loans			**417,758**	**336,582**

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

Corporate bonds – As at 30 June 2018, the Group's notes consisted of the following:

	Currency	Interest rate	30 June 2018	31 December 2017
MTS International Notes due 2023	USD	5.00%	28,074	26,188
Sistema International Notes due 2019	USD	6.95%	25,188	23,441
MTS International Notes due 2020	USD	8.63%	18,838	17,621
Sistema PJSFC Bonds due 2027	RUB	8.90%	15,000	15,000
Sistema PJSFC Bonds due 2018	RUB	12.70%	-	10,000
Sistema PJSFC Bonds due November 2026	RUB	9.90%	9,949	9,953
Sistema PJSFC Bonds due September 2025	RUB	12.50%	4,772	5,000
Sistema PJSFC Bonds due October 2026	RUB	9.80%	6,189	4,536
Sistema PJSFC Bonds due October 2025	RUB	10.90%	-	1,700
Sistema PJSFC Bonds due January 2028	RUB	9.80%	9,591	-
Sistema PJSFC Bonds due February 2028	RUB	9.25%	15,000	-
MTS Notes due 2022	RUB	7.70%	14,953	14,947
MTS Notes due 2023	RUB	6.85%	9,347	9,997
MTS Notes due 2031	RUB	9.40%	9,999	9,995
MTS Notes due 2022	RUB	9.00%	9,992	9,991
MTS Notes due 2018	RUB	7.70%	9,993	9,986
MTS Notes due 2021	RUB	8.85%	9,988	9,986
MTS Notes due 2020	RUB	7.50%	49	49
MTS Notes due 2021	RUB	7.10%	9,985	-
MTS Notes due 2025	RUB	7.25%	9,984	-
MTS Notes due 2028	RUB	6.80%	750	-
Detskiy Mir 2024	RUB	9.50%	3,000	3,000
Other			3,967	2,086
Total notes			**224,608**	**183,476**

The Group has an unconditional obligation to repurchase certain notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. Such notes are disclosed maturing in the reporting period when the demand for repurchased could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The dates of the announcement for each particular note issue are as follows:

MTS PJSC Notes due 2020	November 2018
MTS PJSC Notes due 2023	March 2020
MTS PJSC Notes due 2031	August 2018
Sistema PJSFC Notes due September 2025	October 2018
Sistema PJSFC Notes due January 2028	February 2019
Sistema PJSFC Notes due February 2028	September 2019
Sistema PJSFC Notes due November 2026	February 2020
Sistema PJSFC Notes due October 2026	November 2020
Sistema PJSFC Notes due March 2027	April 2022

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

As of 30 June 2018, the Group had RUB 20,520 million of long-term debt, which was presented within current liabilities in the consolidated statement of financial position because of non-compliance with certain financial ratios by the Group's subsidiaries (31 December 2017: RUB 27,042 million).

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

12. LEASE LIABILITIES

When measuring lease liabilities as of 31 December 2018, the Group discounted lease payments using its incremental borrowing rate at 1 January 2018. The weighted average rate applied 9.54 %.

	1 January 2018
Operating lease commitment as at 31 December 2017 as disclosed in the Group's consolidated financial statements	88,675
Lease liabilities discounted using the incremental borrowing rate as at 1 January 2018	73,009
Finance lease liability recognised as at 31 December 2017	14,855
Reassessment of options to extend and cancel lease contracts	115,712
Other	2,084
Lease liability as at 1 January 2018	**205,660**

13. REVENUE

The following is analysis of the Group's revenue from continuing operations for the six months ended 30 June 2018:

	Reporting segments						
	MTS	**Detsky mir**	**RTI**	**MTS Bank**	**Corporate**	**Other**	**Total**
Type of goods/services							
Mobile and fixed line services	193,211	-	-	-	-	-	193,211
Sale of goods	27,209	48,115	-	-	-	-	75,324
Works under specification	-	-	7,818	-	-	1,983	9,801
Production	-	-	5,976	-	-	31,001	36,977
Financial services	-	-	-	9,486	-	731	10,217
Other services	-	-	692	-	996	20,754	22,442
Other	-	-	-	-	-	5,031	5,031
	220,420	**48,115**	**14,486**	**9,486**	**996**	**59,500**	**353,003**
Revenue from goods or services transferred to customers							
At a point in time	27,209	48,115	6,434	9,486	996	55,613	147,853
Over time	193,211	-	8,052	-	-	3,887	205,150
	220,420	**48,115**	**14,486**	**9,486**	**996**	**59,500**	**353,003**

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

14. FAIR VALUES

The following fair value hierarchy table, used to determine fair value, presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 30 June 2018 and 31 December 2017 (recalculated).

	30 June 2018				31 December 2017 (recalculated)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
At fair value through other comprehensive income	7,705	-	-	7,705	5,517	-	-	5,517
At fair value through profit or loss	24,090	16,352	11,215	51,657	35,015	17,485	9,995	62,495
	31,795	**16,352**	**11,215**	**59,362**	**40,532**	**17,485**	**9,995**	**68,012**
Financial liabilities								
Derivative instruments	-	(977)	-	(977)	-	(1,766)	-	(1,766)
Contingent considerations	-	-	(149)	(149)	-	-	(180)	(180)
Liabilities under put option agreements	-	-	(3,082)	(3,082)	-	-	(2,424)	(2,424)
Liabilities of SSTL on RCOM shares exchange	-	-	-	-	(2,348)	-	-	(2,348)
	-	**(977)**	**(3,231)**	**(4,208)**	**(2,348)**	**(1,766)**	**(2,604)**	**(6,718)**

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

	30 June 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Borrowings	643,296	642,532	520,964	540,255

Changes in the Level 3 financial assets were not significant for the six months ended 30 June 2018. There were no significant gains and losses of Level 3 liabilities for the six months ended 30 June 2018.

15. RELATED PARTY TRANSACTIONS

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

Trading transactions – During the six months ended 30 June 2018, sales to related parties comprised RUB 323 million (2017: RUB 285 million), purchases from related parties comprised RUB 65 million (2017: RUB 185 million). As at 30 June 2018, trade balances receivable from and payable to related parties comprised RUB 7,131 million and RUB 2,072 million, respectively (31 December 2017: RUB 5,227 million and RUB 1,464 million, advances paid to related parties comprised RUB 1,257 million).

Financial transactions – At 30 June 2018, amounts owed by related parties and to related parties comprised RUB 5,109 million and RUB 39,633 million, respectively (31 December 2017: RUB 3,783 million and RUB 37,859 million).

Finance costs related to such transactions with related parties and recognised in profit and loss during the six months ended 30 June 2018 amounted to RUB 1,008 million (2017: RUB 1,069 million).

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

Compensation of key management personnel – During the six months ended 30 June, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board, was as follows:

	2018	2017
Short-term benefits	440	343
Share-based payments	-	267
Total	**440**	**610**

16. CONTINGENCIES AND COMMITMENTS

Capital commitments – At 30 June 2018, the Group had capital commitments of RUB 37,358 million (31 December 2017: RUB 42,323 million) relating to the acquisitions of property, plant and equipment.

Commitments on loans and unused credit facilities – As of 30 June 2018, MTS Bank and East-West United Band had RUB 17,905 million of commitments on loans and unused credit facilities available to its customers (31 December 2017: RUB 16,051 million).

Guarantees – At 30 June 2018, MTS Bank and East-West United Bank guaranteed loans for several companies which totaled RUB 4,490 million (31 December 2017: RUB 5,580 million, including related parties of RUB 1,113 million). These guarantees would require payment by the Group in the event of default on payment by the respective debtor.

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

In March 2015, upon winning a tender, VF Ukraine PrJSC, a subsidiary of MTS, has acquired a nationwide license for the provision of UMTS (3G) telecommunications services. The license with the cost of UAH 2,715 million (RUB 6,015 million at the acquisition date) has been granted for 15 years. In accordance with the terms of the license VF Ukraine PrJSC is required to provide coverage across Ukraine by April 2020.

In accordance with the terms of the license, VF Ukraine PrJSC 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 VF Ukraine PrJSC 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 237 million (RUB 568 million as of 30 June 2018) adjusted for the rate of inflation in 2018.

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 30 June 2018 the Group complied with the conditions of the aforementioned licenses.

(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 30 June 2019. Pursuant to the agreement, the Group is also required to arrange iPhone advertising campaign. As of 30 June 2018 the Group made 88% of its total purchase installment contemplated by the agreement.

Restriction on transactions with the shares of BPGC – In 2014, in the course of litigation, which the Group is not a party to, the court imposed restrictions on transactions with the shares of BPGC owned by the Group. The restrictions do not limit the Group's voting rights, rights to receive dividends or any other shareholders rights.

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

In 2015, activities related to MTS'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.

MTS continues to cooperate with these investigations. MTS, the DOJ and the SEC are having discussions about a potential resolution to allegations of non-compliance with the Foreign Corrupt Practices Act (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.

Taxation – Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have different interpretations, and the effects on the financial statements could be significant.

Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. As of 30 June 2018, provisions for additional taxes and customs settlements comprised RUB 1,936 million (31 December 2017: RUB 1,216 million).

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

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

In accordance with the rules on controlled foreign companies, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, should be included in the income tax base of the controlling entities in particular cases. The management of the Group does not expect any significant effect of these changes on the consolidated financial statements of the Group.

Potential adverse effects of economic instability and sanctions in Russia – Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets. The impact of further economic and political developments on future operations and financial position of the Group might be significant.

Political and economic crisis in Ukraine – During the year ended 31 December 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 30 June 2018, the Group held RUB 5,619 million in current accounts and deposits in Ukrainian banks.

Anti-terror law – On 7 July 2016, a series of anti-terror laws (also known as "Yarovaya-Ozerov packet of laws") was enacted by the signature of the President of Russia. The laws provide for mandatory storage of recorded phone conversations, text messages of subscribers, images, sounds, video and other types of messages by telecommunications operators for certain periods of time. These requirements become effective starting 1 July 2018. Compliance with laws may require construction of additional storage, processing and indexing centers. The potential impact of the laws on the Group's consolidated financial statements is estimated to be around RUB 60 billion in related capital expenditures during the next 5 years.

Legal proceedings – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims. As at 30 June 2018, the management estimates the range of possible losses in all pending litigations or other legal proceedings, being up to RUB 1,527 million.

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

17. EVENTS AFTER THE REPORTING DATE

Acquisition of shares under MTS share repurchase plan – On 2 July 2018, MTS Board of Directors has approved the repurchase of shares of common stock and American Depositary Shares by means of a share repurchase plan that authorises open market transactions, accelerated repurchase transactions and/or privately negotiated transactions in the total aggregate amount of up to RUB 30,000 million, which includes funds used for purchasing the MTS shares from Sistema. Since the end of the reporting period, MTS acquired 11,639,882 of its own common stock shares representing 0.58% of company's share capital under the repurchase plan, including purchase of 3,947,262 shares from Sistema Finance S.A., a subsidiary of the Group.

Acquisition of controlling stake in MTS Bank – On 5 July 2018, MTS acquired 28.63% stake in MTS Bank for RUB 8,270 million from Sistema.

Proceeds from new borrowings – In July 2018, Sistema raised loans of the total amount of RUB 39,000 million from PJSC Sberbank and PJSC Financial Corporation Otkritie Bank.