

SISTEMA PJSFC AND SUBSIDIARIES

Condensed Interim Consolidated
Financial Statements (unaudited)
For the six months ended 30 June 2017

SISTEMA PJSFC AND SUBSIDIARIES

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SISTEMA PJSFC AND SUBSIDIARIES

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 2017, 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*.

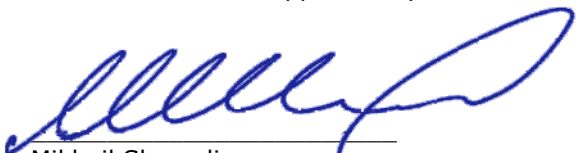
In preparing the condensed interim consolidated financial statements, management is responsible for:

- 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.

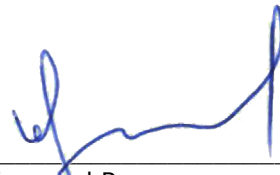
Management is also responsible for:

- 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 2017 were approved by:



Mikhail Shamolin
President and CEO



Vsevolod Rozanov
Senior Vice President and CFO

29 August 2017

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 2017 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 interim financial information 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

We draw attention to note 4 to the condensed interim consolidated financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the entities of the Group by Rosneft and Bashneft. Our conclusion is not modified in respect of this matter.

Vladimir Kozlov
Vladimir Kozlov
Engagement Partner
Deloitte
29 August 2017



The Entity: Sistema Public Joint Stock Financial Corporation

Certificate of state registration № 025.866, issued by the Moscow Registration Chamber on 16.07.1993

Primary State Registration Number: 1027700003891

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

Address: 13/1 Mokhovaya st., Moscow, Russia, 125009

Audit Firm: ZAO Deloitte & Touche CIS

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

Primary State Registration Number: 1027700425444

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

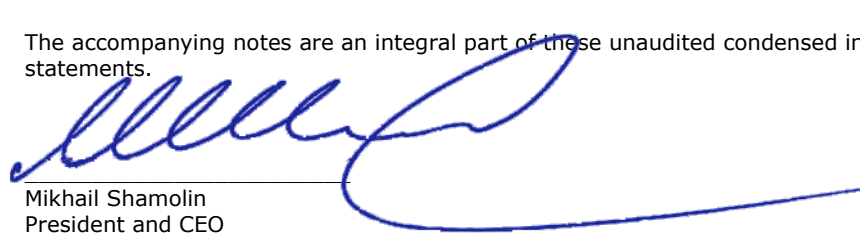
Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

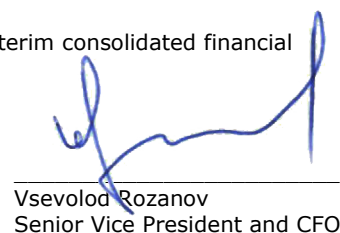
SISTEMA PJSFC AND SUBSIDIARIES

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

	Six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)
Continuing operations		
Revenue	330,792	332,705
Cost of sales	(157,960)	(165,867)
Selling, general and administrative expenses	(75,277)	(75,034)
Depreciation and amortisation	(48,372)	(47,007)
Impairment of long-lived assets	(312)	(163)
Impairment of financial assets	(2,242)	(1,844)
Taxes other than income tax	(3,172)	(2,699)
Share of the profit or loss of associates and joint ventures	1,142	2,258
Gain on acquisitions	-	1,175
Other income	3,234	890
Other expenses	(4,112)	(2,573)
Operating income	43,721	41,841
Finance income	3,790	5,790
Finance costs	(26,128)	(31,638)
Currency exchange gain	735	6,512
Profit before tax	22,118	22,505
Income tax expense	(8,922)	(8,977)
Profit from continuing operations	13,196	13,528
Discontinued operations		
Loss from discontinued operations	(125)	(1,031)
Profit for the period	13,071	12,497
Attributable to:		
Shareholders of Sistema PJSFC	258	3,066
Non-controlling interests	12,813	9,431
	13,071	12,497
Earnings per share (basic and diluted), Russian Rubles:		
From continuing operations	0.04	0.34
From continuing and discontinued operations	0.03	0.32

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


Mikhail Shamolin
President and CEO


Vsevolod Rozanov
Senior Vice President and CFO

29 August 2017

SISTEMA PJSFC AND SUBSIDIARIES

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

	Six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)
Profit for the period	13,071	12,497
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss:		
Currency translation gain/(loss) on foreign operations in subsidiaries	668	(5,877)
Currency translation loss on foreign operations in associates and joint ventures	(323)	(939)
Net fair value gain/(loss) on revaluation of financial instruments	1,878	(1,752)
Other comprehensive income/(loss), net of tax	2,223	(8,568)
Total comprehensive income	15,294	3,929
Attributable to:		
Shareholders of Sistema PJSFC	2,399	(992)
Non-controlling interests	12,895	4,921
	15,294	3,929

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



Mikhail Shamolin
President and CEO



Vsevolod Rozanov
Senior Vice President and CFO

29 August 2017

SISTEMA PJSFC AND SUBSIDIARIES

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


	Note	30 June 2017 (unaudited)	31 December 2016
Assets			
<i>Non-current assets</i>			
Property, plant and equipment		399,592	408,131
Investment property		23,590	22,647
Goodwill		52,119	52,224
Other intangible assets		105,570	107,716
Investments in associates and joint ventures	8	20,134	19,537
Deferred tax assets		24,120	24,185
Loans receivable and other financial assets	9	94,533	100,023
Deposits in banks		81	27,274
Other assets		16,641	14,387
Total non-current assets		736,380	776,124
<i>Current assets</i>			
Inventories		90,755	82,690
Accounts receivable		55,992	60,888
Advances paid and prepaid expenses		20,109	19,389
Current income tax assets		3,127	2,580
Other taxes receivable		18,232	18,176
Loans receivable and other financial assets	9	86,952	62,588
Deposits in banks		48,220	9,173
Restricted cash		10,052	10,098
Cash and cash equivalents		97,943	60,190
Other assets		2,588	2,195
Total current assets		433,970	327,967
Total assets		1,170,350	1,104,091


SISTEMA PJSFC AND SUBSIDIARIES

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

		30 June 2017 (unaudited)	31 December 2016
Equity and liabilities			
<i>Equity</i>			
Share capital		869	869
Treasury shares		(6,032)	(6,575)
Additional paid-in capital		97,213	87,369
Retained earnings		83,914	91,290
Accumulated other comprehensive loss		(11,611)	(13,752)
Equity attributable to shareholders of Sistema PJSFC		164,353	159,201
Non-controlling interests		47,676	57,770
Total equity		212,029	216,971
<i>Non-current liabilities</i>			
Borrowings	11	441,361	395,017
Liabilities under put option agreements		2,474	2,243
Bank deposits and liabilities		8,124	6,432
Deferred tax liabilities		41,566	40,753
Provisions		3,523	3,411
Liability to Rosimushchestvo		20,659	21,282
Other financial liabilities		20,508	23,337
Other liabilities		10,477	8,742
Total non-current liabilities		548,692	501,217
<i>Current liabilities</i>			
Borrowings	11	88,017	83,109
Accounts payable		105,251	110,879
Bank deposits and liabilities		97,990	99,888
Advances received		31,091	26,069
Subscriber prepayments		16,190	17,900
Income tax payable		688	962
Other taxes payable		14,279	16,391
Dividends payable	10	25,715	249
Provisions		9,884	10,752
Liability to Rosimushchestvo		12,125	11,783
Other financial liabilities		8,399	7,921
Total current liabilities		409,629	385,903
Total equity and liabilities		1,170,350	1,104,091

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


Mikhail Shamolin
President and CEO


Vsevolod Rozanov
Senior Vice President and CFO

29 August 2017

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	Retained earnings	Accumulated other comprehensive (loss)/income		Equity attributable to shareholders of Sistema PJSFC	Non-controlling interests	Total equity
					Currency reserve	Other			
1 January 2016	869	80,778	(4,806)	112,921	(7,532)	453	182,683	62,914	245,597
Profit for the period	-	-	-	3,066	-	-	3,066	9,431	12,497
Other comprehensive loss, net of tax	-	-	-	-	(4,223)	165	(4,058)	(4,510)	(8,568)
Total comprehensive income/(loss)	-	-	-	3,066	(4,223)	165	(992)	4,921	3,929
Settlements under long-term motivation program	-	(142)	142	-	-	-	-	-	-
Accrued compensation cost	-	1,105	-	-	-	-	1,105	-	1,105
Purchase of own shares	-	-	(2,081)	-	-	-	(2,081)	-	(2,081)
Capital transactions of subsidiaries	-	4,599	-	-	-	-	4,599	799	5,398
Business combinations	-	(27)	-	-	-	-	(27)	2,154	2,127
Dividends declared by Sistema PJSFC	-	-	-	(6,297)	-	-	(6,297)	-	(6,297)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(14,988)	(14,988)
30 June 2016	869	86,313	(6,745)	109,690	(11,755)	618	178,990	55,800	234,790
1 January 2017	869	87,369	(6,575)	91,290	(14,457)	705	159,201	57,770	216,971
Profit for the period	-	-	-	258	-	-	258	12,813	13,071
Other comprehensive income, net of tax	-	-	-	-	755	1,386	2,141	82	2,223
Total comprehensive income	-	-	-	258	755	1,386	2,399	12,895	15,294
Settlements under long-term motivation program	-	(2,144)	2,144	-	-	-	-	-	-
Accrued compensation cost	-	502	-	-	-	-	502	-	502
Purchase of own shares	-	-	(1,601)	-	-	-	(1,601)	-	(1,601)
Capital transactions of subsidiaries (Note 7)	-	11,486	-	-	-	-	11,486	(5,149)	6,337
Dividends declared by Sistema PJSFC (Note 10)	-	-	-	(7,634)	-	-	(7,634)	-	(7,634)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(17,840)	(17,840)
30 June 2017	869	97,213	(6,032)	83,914	(13,702)	2,091	164,353	47,676	212,029

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	
	2017 (unaudited)	2016 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	13,071	12,497
Adjustments for:		
Depreciation and amortisation	48,372	49,573
Share of the profit or loss of associates and joint ventures	(1,142)	(2,258)
Finance income	(3,790)	(5,836)
Finance costs	26,128	32,257
Income tax expense	8,922	8,879
Currency exchange gain	(735)	(6,504)
Loss from discontinued operations	125	-
(Profit)/loss on disposal of property, plant and equipment	(283)	55
Loss from fair value adjustment of financial instruments through profit or loss	275	425
Amortisation of connection fees	(446)	(491)
Impairment loss on loans receivable	98	3,207
Dividends received from associates and joint ventures	1,486	1,181
Non-cash compensation to employees	502	1,105
Impairment of long-lived assets	312	295
Impairment of financial assets	2,242	1,844
Other non-cash items	1,416	2,428
	<u>96,553</u>	<u>98,657</u>
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	930	7,387
Bank deposits and liabilities	(207)	(7,081)
Restricted cash	46	(9,009)
Financial assets at fair value through profit or loss	(775)	(836)
Accounts receivable	3,043	(3,070)
Advances paid and prepaid expenses	(720)	(1,289)
Other taxes receivable	(911)	3,190
Inventories	(6,480)	(4,727)
Accounts payable	(9,517)	(4,285)
Subscriber prepayments	(1,264)	(3,763)
Other taxes payable	(2,184)	1,485
Advances received and other liabilities	4,281	988
Interest paid	(25,147)	(31,804)
Income tax paid	<u>(12,052)</u>	<u>(6,383)</u>
Net cash provided by operating activities	<u>45,596</u>	<u>39,460</u>

SISTEMA PJSFC AND SUBSIDIARIES

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

	Six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(29,418)	(37,414)
Proceeds from sale of property, plant and equipment	2,854	1,365
Payments for purchases of intangible assets	(7,542)	(17,278)
Payments for businesses, net of cash acquired	(2,391)	(5,432)
Payments for investments in associates and joint ventures	(3,167)	(1,980)
Proceeds from sale of investments in associates and joint ventures	3,846	-
Payments for financial assets, long-term	(14,578)	(11,763)
Proceeds from sale of financial assets, long-term	6,295	3,971
Payments for financial assets, short-term	(34,007)	(11,681)
Proceeds from sale of financial assets, short-term	9,796	53,588
Interest received	3,801	5,808
Other	-	1,504
Net cash used in investing activities	(64,511)	(19,312)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	140,499	31,857
Principal payments on borrowings	(88,402)	(80,220)
Debt issuance costs	(29)	-
Acquisition of non-controlling interests in existing subsidiaries	(4,819)	(2,078)
Payments to purchase treasury stock	(1,601)	(2,082)
Proceeds from transactions with non-controlling interests	13,544	8,789
Cash outflow under credit guarantee agreement related to foreign-currency hedge	(901)	(1,034)
Net cash provided by/(used in) financing activities	58,291	(44,768)
Effect of foreign currency translation on cash and cash equivalents	(1,623)	(8,695)
Net increase/(decrease) in cash and cash equivalents	37,753	(33,315)
Cash and cash equivalents at the beginning of the period	60,190	122,775
Cash and cash equivalents at the end of the period	97,943	89,460

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

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

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 13/1 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 34, Interim Financial Reporting.

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 2016 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 2017.

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 2016, except for the impact of the adoption of the following amended standards from 1 January 2017:

<u>Amendment</u>	<u>Description</u>	<u>Impact</u>
Amendments to IAS 7 Disclosure Initiative	The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.	The application of these amendments has no material impact on the Group's interim condensed consolidated financial statements, as new disclosures are not required to be presented in the condensed interim financial statements.
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.	The application of these amendments has no material impact on the Group's condensed interim consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.
Annual Improvements to IFRSs 2014-2016 Cycle	IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified as held for sale or included in the disposal group. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.	The application of these amendments has no material impact on the Group's condensed interim consolidated financial statements as related IFRS 12 disclosures are not required in its interim condensed consolidated financial statements.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those that applied to the Group's annual consolidated financial statements for 2016 prepared in accordance with IFRS.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS ***(amounts in millions of Russian Rubles, unless otherwise stated)***

4. LEGAL CLAIM OF ROSNEFT AND BASHNEFT

On 15 May 2017, Rosneft and Bashneft (the "Plaintiffs") filed a legal claim against the Company and its subsidiary Sistema-Invest with the Republic of Bashkortostan Arbitration Court seeking to recover RUB 106,630 million of damages allegedly suffered by the Plaintiffs as a result of the reorganisation of Bashneft (the "Claim"). The Republic of Bashkortostan Arbitration Court accepted the Claim.

On 23 May 2017, the Plaintiffs filed a motion with the Republic of Bashkortostan Arbitration Court to increase the amount of damages under the Claim to the amount of RUB 170,619 million due to the increase of US dollar exchange rate from May 2014 till May 2017.

On 23 June 2017, the Republic of Bashkortostan Arbitration Court as a security in the framework of the Claim made a decision to arrest the following shares owned by Sistema and Sistema-Invest: 31.76% in the share capital of MTS, 100% in the share capital of Medsi and 90.47% in the share capital of BPGC. On 26 June 2017, bailiffs of the Moscow Directorate of the Federal Bailiffs Service imposed an arrest on the abovementioned shares based on the court order of the Republic of Bashkortostan Arbitration Court of 23 June 2017. Contrary to the court order, the bailiffs imposed extra restrictive measures, which, in addition to the arrest of shares, limit the rights of the Company and Sistema-Invest to receive any income on the arrested shares. The restrictions do not preclude the Group's control over the abovementioned companies. The Company and Sistema-Invest appealed the bailiff's restrictive measures in the Moscow Arbitration Court.

On 23 August 2017, the Republic of Bashkortostan Arbitration Court made a decision to partially satisfy the Claim. According to the decision announced by the judge at the hearing, the court has ordered the Company and Sistema-Invest to pay damages of RUB 136,274 million.

The Group disagrees with the court decision, which it considers to be unlawful and unfounded, and will file an appeal with the Eighteenth Arbitration Court of Appeal in Chelyabinsk within the time limit prescribed by the law. The decision of the Republic of Bashkortostan Arbitration Court will not come into effect until such time as the appeal court makes its decision.

Taking account of all available evidence, management believes that it is more likely that no present obligation exists as at the reporting date, hence no provision has been recognized in these condensed interim consolidated financial statements.

The result of the court trial may significantly affect the financial position and financial results of the Group.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

5. SEGMENT INFORMATION

In connection with the acquisition of 47% share in East-West United Bank from MTS Bank by the Company (Note 7), information reported to the Management Board for the purpose of resource allocation and the assessment of segment performance is prepared separately for MTS Bank and East-West United Bank. As a result, the Group identified East-West United Bank as a separate operating segment, excluded its results from MTS Bank segment and included into "Other" category as it separately does not satisfy the criteria for reportability. Segment data for a prior period presented for comparative purposes was restated to reflect this change.

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)	
	2017	2016	2017	2016	2017	2016
MTS	210,543	211,552	978	367	44,887	41,314
Detsky mir	42,096	33,735	-	-	2,113	1,640
RTI	16,855	20,117	17	22	(985)	481
MTS Bank	7,953	9,262	728	135	319	(1,243)
Corporate	840	920	446	511	(3,401)	(4,773)
Total	278,287	275,586	2,169	1,035	42,933	37,419
Other	52,505	57,119	745	679	784	4,325
	330,792	332,705	2,914	1,714	43,717	41,744
Inter-segment eliminations					4	97
Operating income					43,721	41,841
Finance income					3,790	5,790
Finance costs					(26,128)	(31,638)
Foreign currency exchange gain					735	6,512
Profit before tax					22,118	22,505

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 have not, historically, been subject to significant seasonal trends.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

6. BUSINESS COMBINATIONS

The information on business combinations which took place during six months ended 30 June 2017 is summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
Agriculture business	Agriculture	March-June	100%	Steppe	2,405
Total					2,405

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

	Agriculture businesses
Cash consideration	2,405
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	3,154
Inventory	884
Other current assets	4
Non-current liabilities	(1)
Current liabilities	(1,636)
Goodwill	-

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 2017 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.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

7. CAPITAL TRANSACTIONS OF SUBSIDIARIES

The information on capital transactions of subsidiaries which took place during six months ended 30 June 2017 and their impact on the Group's equity is summarized below:

	Increase/ (decrease) of additional paid-in capital	Increase/ (decrease) of non-controlling interests
Initial public offering of Detsky mir	10,135	(107)
MTS shares tender offer	-	(4,707)
Intragroup transfer of 47% in EWUB	678	(678)
Other	673	343
Total impact	11,486	(5,149)

Initial public offering of Detsky mir – In February 2017, Detsky mir completed an initial public offering on the Moscow Exchange. The offering price was set at RUB 85 per share. The Company sold 151,301,256 shares during the offering retaining a 52.1% ownership interest in Detsky mir.

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 16,022,364 shares at a price per share of RUB 290, for a total cost of RUB 4.6 billion from non-controlling shareholders. Simultaneously, MTS purchased 16,038,892 shares from Sistema Finance S.A., a subsidiary of the Group, for an aggregate purchase price of RUB 4.7 billion.

Intragroup transfer of 47% in East-West United Bank – In May 2017, the Company acquired 47% in East-West United Bank from MTS Bank for RUB 2.6 billion and increased its effective interest to 97%.

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Michurinsky Project – During the first half of 2017, Medsi, a subsidiary of the Group, established a new entity LLC Michurinsky Project and contributed buildings to its share capital. In June 2017, a third party investor purchased a 50% interest in LLC Michurinsky Project for a cash consideration of RUB 2 billion. As a result, the Group's interest in LLC Michurinsky Project decreased to 50% and it was accounted for as an investment in a joint venture.

The fair value of the Group's 50% interest in LLC Michurinsky Project as at the date of loss of control was determined based on unobservable inputs – the price paid by the third party for the residual 50% interest (Level 3 of the fair value measurement hierarchy classification under IFRS 13, *Fair Value Measurement*).

Upon contribution of the assets to the joint venture the Group recognized a profit from disposal of fixed assets in the amount of the excess of the fair value of the Group's interest in the joint venture of RUB 2 billion over the carrying value of these assets as at date of disposal of RUB 430 million. In accordance with IAS 28, *Investments in Associates and Joint Ventures*, the share of profit related to the Group's share was eliminated in correspondence with "Investments in associates and joint ventures" line. As a result of this transaction, the Group recognized a profit of RUB 785 million included in "Other income" line in the statement of profit or loss. Carrying amount of the Group's investment in the joint venture as at 30 June 2017 is RUB 1,215 million.

Real estate projects in Europe and the Russian Federation – As at 31 December 2016, the Group owned 48% to 50% interest in companies that own European and Russian retail properties of the total carrying value of RUB 4,629 million. In April 2017, the Group sold its interest in two German projects with the carrying value of RUB 3,498 million to a third party.

The Group retained its ownership interest in other projects and continues to account it as investments in associates and joint ventures as at 30 June 2017.

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9. LOANS RECEIVABLE AND OTHER FINANCIAL ASSETS

At 30 June 2017, financial assets, other than those shown separately on the face of the condensed interim consolidated statement of financial position, comprise:

	30 June 2017	31 December 2016
Financial assets at fair value through profit or loss (FVTPL)		
Debt and equity securities	32,012	30,935
	32,012	30,935
Loans and receivables carried at amortised cost		
Bank loans to customers	58,804	62,900
Interbank loans due from banks	7,628	3,090
Other loans and receivables	17,756	18,431
	84,188	84,421
Available-for-sale financial assets (AFS)		
Debt and equity securities	17,104	16,460
	17,104	16,460
Held-to-maturity financial assets (HTM)		
Debt and equity securities	37,046	17,163
	37,046	17,163
Hedging instruments at fair value		
Interest rate swaps designated as cash flow hedges	11,135	13,632
	11,135	13,632
	181,485	162,611
Current	86,952	62,588
Non-current	94,533	100,023
	181,485	162,611

At 30 June 2017, financial assets attributable to the Group's banking activities (MTS Bank and East-West United Bank) comprise:

	30 June 2017	31 December 2016
Cash and cash equivalents	43,652	28,895
Bank loans to customers	93,739	99,556
Interbank loans due from banks	7,877	3,339
Financial assets at FVTPL	17,059	18,430
AFS financial assets	7,471	8,166
HTM financial assets	20,551	17,163
Other	867	713
Less: allowance for loan losses	(35,184)	(36,905)
	156,032	139,357

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

The movement in the allowance for loan losses during six months ended 30 June 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Allowance for loan losses, 1 January	36,905	46,910
Additions charged to the operating results	98	3,207
Amounts written off against the allowance	(1,754)	(3,879)
Currency translation adjustment	(65)	(668)
Allowance for loan losses, 30 June	35,184	45,570

10. DIVIDENDS

On 24 June 2017, an annual general meeting of shareholders approved the total dividend payment of RUB 7,817 million for 2016 (including dividends on shares owned by subsidiaries of the Company of RUB 183 million) representing RUB 0.81 per ordinary share or RUB 16.2 per one global depository receipt.

11. BORROWINGS

At 30 June 2017, the Group's borrowings comprise:

	<u>30 June 2017</u>	<u>31 December 2016</u>
Bank loans	340,910	323,838
Corporate notes	172,617	138,301
Finance lease obligations	14,907	14,361
Other	944	1,626
	529,378	478,126
Current	88,017	83,109
Non-current	441,361	395,017
	529,378	478,126

At 30 June 2017, the schedule of repayments of borrowings for the next five years and thereafter is as follows:

Within one year	88,017
In one to two years	117,985
In two to three years	151,499
In three to four years	53,521
In four to five years	58,034
In more than five years	60,322
	529,378

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

Bank loans – As at 30 June 2017, the Group’s loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 30 June 2017)	30 June 2017	31 December 2016
USD-denominated:				
Calyon, ING Bank N.V	2017-2020	LIBOR		
Nordea Bank AB, Raiffeisen		6m+1.15%		
Zentralbank Osterreich AG			21,131	25,394
Citibank	2017-2024	LIBOR 6m+0.9%	11,673	12,812
China Development Bank	2017-2021	LIBOR 6m+3.15%;		
		1.92%	8,863	9,099
Other			2,764	4,486
			44,431	51,791
EUR-denominated:				
ING	2017-2021	4.30%	19,947	9,190
Other			1,313	1,699
			21,260	10,889
RUB-denominated:				
Sberbank	2017-2023	8.45%-15.5%	193,888	180,161
VTB	2017-2026	9.7%-12.35%;		
		CBR+2.5%-4.8%		
		(11.5%-13.8%)	37,709	37,943
Gazprombank	2017-2022	9.6%;		
		CBR+2.3% (11.3%)	15,782	4,819
Alfa Bank	2017-2023	9.4-12.8%	13,442	10,210
Expobank	2018	CBR+1.5% (10.5%)	1,000	3,000
Other			8,781	20,451
			270,602	256,584
Other currencies			4,617	4,574
Total bank loans			340,910	323,838

Notes – As at 30 June 2017, the Group’s notes consisted of the following:

	Currency	Interest rate	30 June 2017	31 December 2016
MTS International Notes due 2020	USD	8.63%	18,066	18,537
MTS International Notes due 2023	USD	5.00%	27,490	28,217
Sistema International Notes due 2019	USD	6.95%	24,463	25,067
Sistema PJSFC Notes due 2027	RUB	8.90%	15,000	-
Sistema PJSFC Notes due 2018	RUB	12.70%	10,000	10,000
Sistema PJSFC Notes due November 2026	RUB	9.90%	9,952	9,949
Sistema PJSFC Notes due October 2026	RUB	9.80%	4,537	6,200
Sistema PJSFC Notes due September 2025	RUB	12.50%	5,000	5,000
MTS Notes due 2031	RUB	9.40%	9,990	9,986
MTS Notes due 2023	RUB	8.25%	9,990	9,984
MTS Notes due 2017	RUB	8.70%	9,998	9,995
MTS Notes due 2020	RUB	9.25%	1,448	1,448
MTS Notes due 2021	RUB	8.85%	9,984	-
MTS Notes due 2022	RUB	9.00%	9,990	-
Detsky mir Notes due 2024	RUB	9.50%	3,000	-
Sistema PJSFC Notes due October 2025	RUB	10.90%	1,700	1,700
Other			2,009	2,218
Total notes			172,617	138,301

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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 2017
MTS PJSC Notes due 2023	March 2018
MTS PJSC Notes due 2031	August 2018
Sistema PJSFC Notes due September 2025	October 2018
Sistema PJSFC Notes due October 2025	November 2019
Sistema PJSFC Notes due November 2026	February 2020
Sistema PJSFC Notes due October 2026	November 2020

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 noncompliance 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 2017, the Group had RUB 4,265 million of long-term debt, which was presented within current liabilities in the consolidated statement of financial position because of noncompliance with certain financial ratios by the Group's subsidiaries (31 December 2016: RUB 2,404 million).

Subsequent to the balance sheet date, the ongoing arrest of the Group's shares of MTS, Medsi and BPGC (Note 4) allowed certain lenders to call the debt in the total amount of RUB 10,417 million. Also, certain loan agreements contain clauses that allow the lenders to call the debt, if a material adverse change occurs. To the date when these condensed interim consolidated financial statements were authorized for issue, the lenders have not exercised the acceleration clauses.

12. FAIR VALUES

The following fair value hierarchy table presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 30 June 2017.

	30 June 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets at FVTPL	32,012	-	-	32,012	30,935	-	-	30,935
AFS securities	7,471	-	9,633	17,104	8,166	-	8,294	16,460
Hedging instruments at fair value	-	11,135	-	11,135	-	13,632	-	13,632
	39,483	11,135	9,633	60,251	39,101	13,632	8,294	61,027
Financial liabilities								
Derivative instruments	-	(2,326)	-	(2,326)	-	(2,407)	-	(2,407)
Contingent considerations	-	-	(3)	(3)	-	-	(3)	(3)
Liabilities under put option agreements	-	-	(2,474)	(2,474)	-	-	(2,243)	(2,243)
	-	(2,326)	(2,477)	(4,803)	-	(2,407)	(2,246)	(4,653)

There were no changes made during six months ended 30 June 2017 to valuation methods or the processes to determine classification and no transfers were made between the levels in the fair value hierarchy.

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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 HTM financial assets, borrowings and bank deposits and liabilities as disclosed in the table below:

	30 June 2017		31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
HTM financial assets	37,046	37,228	17,163	17,092
Financial liabilities				
Borrowings	529,378	530,587	478,126	483,858
Bank deposits and liabilities	106,114	106,175	106,320	106,276

Changes in the Level 3 financial assets were not significant for the six months ended 30 June 2017. There were no significant gains and losses of Level 3 liabilities for the six months ended 30 June 2017.

13. 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 2017, sales to related parties comprised RUB 285 million (2016: RUB 280 million), purchases from related parties comprised RUB 185 million (2016: RUB 224 million). As at 30 June 2017, trade balances receivable from and payable to related parties comprised RUB 4,821 million and RUB 1,221 million, respectively (31 December 2016: RUB 5,465 million and RUB 1,199 million).

Financial transactions – At 30 June 2017, amounts owed by related parties and to related parties comprised RUB 3,552 million and RUB 36,821 million, respectively (31 December 2016: RUB 2,936 million and RUB 41,071 million).

Finance costs related to such transactions with related parties and recognised in profit and loss during the six months ended 30 June 2017 amounted to RUB 1,069 million (2016: RUB 1,759 million).

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:

	2017	2016
Short-term benefits	343	537
Share-based payments	267	570
Total	610	1,107

14. CONTINGENCIES AND COMMITMENTS

In addition to the contingencies described in Note 4, the Group has the following contingencies and commitments.

Capital commitments – At 30 June 2017, the Group had capital commitments of RUB 38,100 million (31 December 2016: RUB 31,815 million) relating to the acquisitions of property, plant and equipment.

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Operating lease commitments – Future minimum lease payments under non-cancellable operating leases comprise:

Payments due in	
the six months ending 31 December 2017	17,892
2018	17,495
2019	14,157
2020	13,237
2021	12,605
Thereafter	25,391
Total	100,777

Commitments on loans and unused credit facilities – As of 30 June 2017, MTS Bank and East-West United Bank had RUB 12,161 million of commitments on loans and unused credit facilities available to its customers (31 December 2016: RUB 6,891 million).

Guarantees – At 30 June 2017, MTS Bank and East-West United Bank guaranteed loans for several companies which totaled RUB 3,978 million (31 December 2016: RUB 3,921 million), including related parties of RUB 151 million (31 December 2016: RUB 234 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, MTS-Ukraine, 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 MTS-Ukraine is required to 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 30 June 2017) adjusted for the rate of inflation in 2018.

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

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 2017 no iPhone purchases were made by the Group.

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.

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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. The Complaints are solely directed towards assets held by the unnamed Uzbek official, and none of MTS assets are affected by the Complaints.

MTS continues to cooperate with these investigations. The Group cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant.

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 2017, provisions for additional taxes and customs settlements comprised RUB 648 million (31 December 2016: RUB 1,213 million).

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

	<u>30 June 2017</u>	<u>31 December 2016</u>
Contingent liabilities for additional taxes other than income tax	600	1,306
Contingent liabilities for additional income taxes	1,043	3,256

In 2015, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, 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.

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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. 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 30 June 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 its financial position and results of operations.

Such risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of 30 June 2017, the Group held RUB 4,255 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. 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 and significant increase in the Group capital expenditures. This may adversely impact Group's financial indicators.

The requirements of the series of anti-terror laws are in the process of clarification and in-depth development. The Group will estimate the possible impact of the anti-terror laws on the Group's consolidated financial statements, including additional provisions, when the requirements and any obligations are sufficiently specified.

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 2017, the management estimates the range of possible losses in all pending litigations or other legal proceedings, other than the litigation under the Claim (Note 4), being up to RUB 13,795 million.