

# **Sistema PJSFC**

Financial Statements for 2017  
and Independent Auditor's Report  
(Translated from the original in Russian –  
unofficial translation)

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the accompanying financial statements of Sistema Public Joint Stock Financial Corporation (hereinafter, the "Company"), which comprise:

- Balance sheet as of 31 December 2017;
- Statement of financial results for 2017;
- Appendices to the balance sheet and statement of financial results:
  - Statement of changes in equity for 2017;
  - Statement of cash flows for 2017;
  - Notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for 2017 in accordance with Russian accounting and financial reporting standards ("RASs").

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Why the matter was determined to be a key audit matter**
**How the matter was addressed in the audit**
**Valuation of investments in non-traded securities**

This matter was determined as a key audit matter because the amount of investments in non-traded securities as at 31 December 2017 is significant, and management is required to make complex and subjective judgements when assessing the need for recognizing impairment and calculating its amount.

See Notes 2.5 and 4 to the financial statements.

We obtained an understanding of the procedures and controls of the Company related to assessing the impairment indicators and making provisions for impairment of the investments in non-traded securities, as well as the valuation methodology used by the Company.

We reviewed the Company's analysis of the indicators of a steady decrease of the value of investments and its calculation of provision for impairment. On a sample basis, we reviewed the Company's approach to determining estimated value of investments. Depending on circumstances, our procedures included assessment of the management's approach to determining the estimated value of investments and testing underlying data, or independent calculation of an estimate or a range on the basis of all available information for selected investments and its comparison with the estimated value determined by the Company.

We also validated the presentation of such investments in the notes to the financial statements prepared by the Company.

**Litigation with Rosneft and Bashneft**

This matter was determined as a key audit matter because of the materiality of the amounts disputed in the litigation, and subjectivity of management judgements in recognition, valuation and disclosure of respective provisions and contingent liabilities, as well as the effect this matter has on other financial reporting areas, such as borrowings and liquidity.

See Notes 10 and 16 to the financial statements.

We reviewed the summary of litigations provided by the management, analysed legal claims, decisions passed by the courts of various instances, and the terms of the settlement agreement; we also discussed significant matters with the Company's management and internal legal counsel.

We analysed the management's assessment of the effect the litigations had on the Company's borrowings and covenants, and reviewed management's analysis of the Company's ability to continue as a going concern and settle its obligations within contractual maturity.

We validated the presentation of relevant information in the notes to the financial statements prepared by the Company.

## **Other Information**

Management is responsible for the other information. The other information comprises the information included in the annual report and the quarterly report, but does not include the financial statements and our auditor's report thereon. The annual report and the quarterly report are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report and the quarterly report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of financial statements in accordance with RASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to those charged with corporate governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, which constitute the key audit matters included herein.

The Russian original signed by

Vladimir Kozyrev  
Engagement partner

30 March 2018

The following financial statements were prepared for use in the Russian Federation in accordance with accounting principles and financial reporting practices generally accepted in the Russian Federation and are not intended to present the financial position and results of operations of the audited entity in accordance with accounting principles and practices generally accepted in any other jurisdiction.

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: Building 1, 13 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.

**Balance Sheet**  
as of 31 December 2017

Organisation **SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION**

Taxpayer identification number

Type of economic activity **Investments in securities**

Business entity type / form of ownership

**Public joint-stock company / private ownership**

Measure unit: thousand roubles

Location (address):

**13/1 Mokhovaya St., Moscow, 125009 Russia**

OKUD form

Date (day, month, year)

	Codes		
UD form	0710001		
n, year)	31	12	2017
OKPO	27987276		
INN	7703104630		
OKVED	64.99.1		
/ OKFS	12247	16	
OKEI	384		

OKPO

INN

OKVED

OKOPF / OKFS

OKEI

Notes		Code	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
	<b>ASSETS</b>				
	<b>I. NON-CURRENT ASSETS</b>				
	Intangible assets	1110	13,156	21,726	32,022
	Fixed assets	1150	1,534,127	1,610,438	1,732,950
	including:				
	Buildings	11501	1,244,762	1,268,488	1,345,513
	Other fixed assets	11502	288,917	339,932	385,867
	Fixed assets construction	11503	448	2,018	1,570
4	Investments	1170	380,185,647	345,946,535	321,103,936
	including:				
4.1	Units in mutual funds	11701	948,553	1,989,111	8,528,143
4.2	Shares and equity interests	11702	379,237,094	339,597,133	282,973,955
4.3	Debt securities	11703	-	3,360,291	11,848,444
4.4	Loans granted	11704	-	1,000,000	2,876,391
4.5	Bank deposits	11705	-	-	14,877,003
	Deferred tax assets	1180	17,574,698	6,733,029	4,043,370
	including:				
	Provisions	11801	878,067	1,680,851	1,223,334
	Tax losses carried forward	11802	16,624,093	4,985,816	2,760,240
	Other non-current assets	1190	-	-	237,769
	including:				
	Interest receivable	11901	-	-	237,769
	Total for section I	1100	399,307,628	354,311,728	327,150,047
	<b>II. CURRENT ASSETS</b>				
	Inventories	1210	43,068	142,460	82,531
	including:				
	Materials	12101	43,068	31,329	18,996
	Prepaid expenses	12102	-	111,131	63,535
	Input VAT	1220	6,507	4,701	5,172
	Accounts receivable	1230	3,869,882	7,911,688	6,676,802
	including:				
	Settlements with suppliers and contractors	12301	117,079	110,700	172,534
	Settlements with buyers and customers	12302	356,263	377,108	630,997
	Settlements in respect of taxes and levies	12303	52,388	127,469	162,471
	Settlements in respect of social insurance and social security	12304	14,639	9,852	8,751
	Settlements with employees	12305	713	-	-
	Settlements with accountable persons	12306	7,696	7,982	8,052
	Settlements with various debtors and creditors	12307	2,176,690	7,277,651	5,373,441
	Non-interest bearing notes	12308	926	926	926
	Settlements in respect of dividends and other income due	12309	1,143,488	-	319,630
	Investments (excluding cash equivalents)	1240	41,665,608	32,774,968	72,344,516
	including:				
4.3	Debt securities	12401	-	-	2,034,569
4.4	Loans granted	12402	41,665,608	24,572,149	41,926,018
4.6	Rights acquired as a result of rendering financial services	12403	-	3,712,238	-
4.5	Bank deposits	12404	-	4,490,581	28,383,929
	Cash and cash equivalents	1250	3,748,229	1,885,610	20,415,311
	including:				
	Cash on hand	12501	376	247	201
	Operating accounts	12502	903,423	1,784,869	4,755,084
	Foreign currency accounts	12503	2,832,890	93,334	581,323
	Other special accounts	12504	11,540	7,161	4,623
4.5	Bank deposits and cash equivalents	12505	-	-	15,074,080
	Other current assets	1260	182,841	14,310	12,491
	including:				
	Prepaid expenses	12601	181,794	-	-
	Total for section II	1200	49,516,135	42,733,737	99,536,823
	<b>BALANCE</b>	1600	448,823,763	397,045,465	426,686,870

Notes	Parameter	Code	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
	<b>EQUITY AND LIABILITIES</b>				
	<b>III. EQUITY AND RESERVES</b>				
	Authorised capital (share capital, authorised fund, contributions from partners)	1310	868,500	868,500	868,500
	Revaluation of non-current assets	1340	306,366	252,724	252,724
	including: Revaluation of fixed assets	13401	306,366	252,724	252,724
	Additional capital (without revaluation)	1350	37,708,280	37,708,280	37,708,280
	Reserve funds	1360	43,425	43,425	43,425
	including: Statutory reserves	13601	43,425	43,425	43,425
	Retained earnings (uncovered loss)	1370	161,805,075	207,692,978	255,198,200
	Total for section III	1300	200,731,646	246,565,907	294,071,129
	<b>IV. LONG-TERM LIABILITIES</b>				
6	Borrowings	1410	109,645,130	98,631,985	92,783,849
	including: Credits	14101	47,640,030	35,098,535	38,932,405
	Loans	14102	28,805,100	30,333,450	36,441,350
	Debt securities	14103	33,200,000	33,200,000	17,410,094
	Deferred tax liabilities	1420	28,127	31,460	34,545
7	Provisions	1430	13,426,607	21,208,685	-
	Other liabilities	1450	4,659,615	4,114,845	-
	including: Derivatives	14501	1,059,615	514,845	-
	Settlements with various debtors and creditors	14502	3,600,000	3,600,000	-
	Total for section IV	1400	127,759,479	123,986,975	92,818,394
	<b>V. SHORT-TERM LIABILITIES</b>				
6	Borrowings	1510	21,683,507	4,092,299	30,287,706
	including: Credits	15101	5,000,000	2,000,000	2,000,000
	Loans	15102	-	722,000	-
	Interest on credits	15103	94,931	82,213	76,741
	Interest on loans	15104	245,243	259,718	309,387
	Debt securities (promissory notes, bonds, etc.) issued	15105	15,618,457	618,457	26,904,514
	Interest on debt securities (promissory notes, bonds, etc.) issued	15106	724,876	409,911	997,064
	Accounts payable	1520	84,656,237	181,191	3,399,402
	including: Settlements with suppliers and contractors	15201	118,686	54,791	66,725
	Settlements with buyers and customers	15202	32	32	83
	Settlements in respect of taxes and levies	15203	38,971	17,010	23,288
	Settlements in respect of social insurance and social security	15204	41,003	29,325	19,506
	Settlements with staff in respect of payment for labour	15205	-	1,744	213
	Settlements with accountable persons	15206	1,119	1,128	1,230
	Dividends payable	15207	4,441,287	899	794
	Settlements with various debtors and creditors	15208	80,015,139	76,262	3,287,563
7	Provisions	1540	13,926,928	22,147,718	6,109,084
	Other liabilities	1550	65,966	71,375	1,155
	Derivatives	15501	65,966	71,316	-
	Total for section V	1500	120,332,638	26,492,583	39,797,347
	<b>BALANCE</b>	1700	448,823,763	397,045,465	426,686,870

Senior Vice  
President and  
CFO

(signature)

**Vsevolod Rozanov**  
(printed name)

Chief Accountant

(signature)

**Irina Borisenkova**  
(printed name)

30 March 2018

**Statement of Financial Results**  
for January - December 2017

Organisation **SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION**

Taxpayer identification number

Type of economic

activity **Investments in securities**

Business entity type / form of ownership

**Public joint-stock company /private ownership**

Measure unit: thousand roubles

OKUD form

Date (day, month, year)

Codes		
0710002		
31	12	2017
27987276		
7703104630		
64.99.1		
12247	16	
384		

OKPO

INN

OKVED

OKOPF / OKFS

OKEI

Notes	Parameter	Code	for January - December 2017	For January - December 2016
	Revenue	2110	19,096,033	36,665,582
	including:			
	Equity holdings in other companies	21101	19,078,345	36,635,669
	Cost of sales	2120	-	-
	Gross profit	2100	19,096,033	36,665,582
8	Administrative expenses	2220	(7,063,287)	(11,460,300)
	including:			
	Payroll and social security contributions	22201	(5,894,471)	(10,309,229)
	Profit from sales	2200	12,032,746	25,205,282
	Income from shareholding in other companies		-	-
	Interest income	2320	3,804,765	5,285,355
6	Interest expense	2330	(10,221,884)	(11,362,516)
	Other income	2340	87,004,418	81,398,676
	including:			
	Income from sale of fixed assets	23401	3,609	8,883
	Income from sale of property rights except rights of claim	23402	271,595	-
	Income from sale of securities	23403	16,574,896	37,162,279
4.7	Income from restored allowances	23404	4,528,375	2,717,706
	Foreign exchange gains	23405	1,648,361	1,754,084
5	Revaluation of quoted investments	23406	44,509,006	32,403,297
	Sale (purchase) of foreign currency	23407	-	1,798,536
	Excess of contractual values of equity holdings over their book values	23408	19,271,579	4,317,347
	Income from collection of receivables as a financial service (Cl. 3 Art. 279 of the Russian Tax Code) (incl. debt repayment by debtor)	23409	-	1,122,120
	Other expenses	2350	(132,928,216)	(138,572,228)
	including:			
	Expenses related to sale of fixed assets	23501	(2,328)	(107)
	Expenses related to sale of property rights except rights of claim	23502	(432,854)	-
	Expenses related to sale of securities	23503	(6,424,710)	(38,010,658)
4.7	Expenses related to recognised allowances	23504	(41,168,467)	(41,786,537)
	Sale (purchase) of foreign currency	23505	(1,609,723)	-
	Charity and financial support	23506	(82,031)	(713,126)
10	Recovery of losses by court order	23507	(80,000,000)	-
	Expenses related to financial derivatives	23508	(1,087,534)	(1,097,385)
7	Expenses related to recognised provisions	23509	-	(55,478,236)
	(Loss)/Income before tax	2300	(40,308,171)	(38,045,431)
9	Current income tax	2410	(32,187)	(1,477)
	including permanent tax liabilities / (assets)	2421	4,935,511	(12,244,714)
9	Change in deferred tax liabilities	2430	3,333	3,084
9	Change in deferred tax assets	2450	16,841,669	2,689,659
	Other	2460	(8,014,047)	(2,018,557)
	including:			
	Taxes payable in respect of dividends and other income due	24601	(2,014,047)	(2,018,541)
	Non-recognition of deferred tax assets with regard to tax losses carried forward	24602	(6,000,000)	-
	Fines and penalties for violation of tax and other laws	24604	-	(17)
	Net (loss)/income	2400	(31,509,403)	(37,372,722)



Notes	Parameter	Code	for January - December 2017	for January - December 2016
	<b>FOR REFERENCE</b>			
	Gain/(loss) from revaluation of non-current assets not included in the net income /(loss) for the period	2510	53,642	-
	including:			
	Gain/(loss) from revaluation of fixed assets not included in the net income/(loss) for the period	25101	53,642	-
	Gain/(loss) from revaluation of intangible assets not included in the net income/(loss) for the period	25102	-	-
	Gain/(loss) from other operations not included in the net income/(loss) for the period	2520	-	-
	Gross financial result for the period	2500	(31,455,761)	(37,372,722)
13	Basic (loss)/ earnings per share (in roubles)	2900	(3.3)	(3.9)
13	Diluted (loss)/ earnings per share (in roubles)	2910	(3.3)	(3.9)

Senior Vice  
President and  
CFO

\_\_\_\_\_  
(signature)

**Vsevolod Rozanov**  
(printed name)

Chief Accountant

\_\_\_\_\_  
(signature)

**Irina Borisenkova**  
(printed name)

\_\_\_\_\_  
30 March 2018

**Statement of Changes in Equity  
for January - December 2017**

Organisation	<b>SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION</b>	OKUD form	<b>0710003</b>		
Taxpayer identification number		Date (day, month, year)	<b>31</b>	<b>12</b>	<b>2017</b>
Type of economic activity	<b>Investments in securities</b>	OKPO	<b>27987276</b>		
Business entity type / form of ownership	<b>Public joint-stock company /private ownership</b>	INN	<b>7703104630</b>		
Measure unit:	thousand roubles	OKVED	<b>64.99.1</b>		
		OKOPF / OKFS	<b>12247</b>	<b>16</b>	
		OKEI	<b>384</b>		

**1. Equity flows**

Parameter	Code	Authorised capital	Treasury stock	Additional capital	Reserve capital	Retained earnings / (uncovered loss)	Total
Equity as of 31 December 2015	3100	868,500	-	37,961,004	43,425	255,198,200	294,071,129
For 2016							
Equity increase, total:	3210	-	-	-	-	-	-
Equity decrease, total:	3220	-	-	-	-	(47,505,222)	(47,505,222)
including:							
net loss	3221	X	X	X	X	(37,372,722)	(37,372,722)
dividends	3227	X	X	X	X	(10,132,500)	(10,132,500)
Equity as of 31 December 2016	3200	868,500	-	37,961,004	43,425	207,692,978	246,565,907
For 2017							
Equity increase, total:	3310	-	-	53,642	-	-	53,642
including:							
revaluation of assets	3312	X	X	53,642	X	-	53,642
Equity decrease, total:	3320	-	-	-	-	(45,887,903)	(45,887,903)
net loss	3321	X	X	X	X	(31,509,403)	(31,509,403)
dividends	3327	X	X	X	X	(14,378,500)	(14,378,500)
Equity as of 31 December 2017	3300	868,500	-	38,014,646	43,425	161,805,075	200,731,646

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**2. Net assets**

Parameter	Code	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Net assets	3600	200,731,646	246,565,907	294,071,129

Senior Vice  
President and CFO

(signature)

**Vsevolod Rozanov**  
(printed name)

Chief  
Accountant

(signature)

**Irina Borisenkova**  
(printed name)

30 March 2018

**Statement of Cash Flows**  
**for January - December 2017**

Organisation **SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION**

Taxpayer identification number

Type of economic activity **Investments in securities**

Business entity type / form of ownership

**Public joint-stock company /private ownership**

Measure unit: thousand roubles

OKUD form

Date (day, month, year)

OKPO

INN

OKVED

OKOPF / OKFS

OKEI

Codes		
<b>0710004</b>		
<b>31</b>	<b>12</b>	<b>2017</b>
<b>27987276</b>		
<b>7703104630</b>		
<b>64.99.1</b>		
<b>12247</b>	<b>16</b>	
<b>384</b>		

Parameter	Code	for January - December 2017	for January - December 2016
<b>Cash flow from operating activities</b>			
Total cash inflows	4110	16,448,492	35,164,387
including:			
proceeds from sale of products, goods, works and services	4111	22,520	37,944
dividends	4114	15,920,810	34,619,480
other receipts	4119	505,162	506,963
Total cash outflows	4120	(24,096,187)	(22,218,371)
including:			
payments to suppliers (contractors) for raw and consumable materials, works and services	4121	(1,732,242)	(1,379,182)
remuneration to employees	4122	(9,960,223)	(7,823,657)
payments of interest on borrowing	4123	(9,906,152)	(11,663,053)
income tax	4124	(1,487)	(1,542)
other payments	4129	(2,496,083)	(1,350,937)
Net cash flow from operating activities	4100	(7,647,695)	12,946,016
<b>Cash flow from investing activities</b>			
Total cash inflows	4210	65,202,717	145,122,498
including:			
proceeds from sale of non-current assets (except for investments)	4211	4,327	9,196
proceeds from sale of shares and equity interests in other companies	4212	20,558,610	18,771,443
proceeds from repayment of loans and sale of debt securities (rights to claim cash payments from other parties)	4213	37,827,722	82,006,980
dividends, interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	4214	2,510,919	7,725,645
proceeds from bank deposits	4215	4,300,246	36,609,233
other receipts	4219	893	1
Total cash outflows	4220	(75,343,098)	(154,904,420)
including:			
payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	4221	(38,974)	(3,706)
payments related to acquisition of shares and equity interests in other companies	4222	(17,427,924)	(97,981,051)
payments related to acquisition of debt securities (rights to claim cash payments from other parties), provision of loans to other parties	4223	(57,585,030)	(56,898,840)
other payments	4229	(291,170)	(20,823)
Net cash flow from investing activities	4200	(10,140,381)	(9,781,922)

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Parameter	Code	for January - December 2017	for January - December 2016
<b>Cash flow from financial activities</b>			
Total cash inflows	4310	46,998,342	49,960,147
including:			
receipt of borrowings	4311	32,000,000	33,462,000
proceeds from issue of bonds, promissory notes, other debt securities, etc.	4314	14,998,175	16,497,937
other receipts	4319	167	210
Total cash outflows	4320	(27,206,395)	(72,653,811)
including:			
dividends and other income distribution payments to owners (shareholders)	4322	(9,934,823)	(10,128,882)
payments (redemption) of promissory notes and other debt securities; repayment of borrowings	4323	(16,722,000)	(61,731,150)
other payments	4329	(549,572)	(793,778)
Net cash flow from financial activities	4300	19,791,947	(22,693,664)
<b>Net cash flow for the reporting period</b>	4400	2,003,871	(19,529,570)
<b>Opening balance of cash and equivalents</b>	4450	1,885,610	20,415,311
<b>Closing balance of cash and equivalents</b>	4500	3,748,229	1,885,610
Effect of changes in foreign exchange rates against the rouble	4490	(141,252)	999,869

Senior Vice President  
and CFO

(signature)

**Vsevolod Rozanov**  
(printed name)

Chief Accountant

(signature)

**Irina Borisenkova**  
(printed name)

30 March 2018

**NOTES TO THE FINANCIAL STATEMENTS OF SISTEMA PJSFC FOR 2017**

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**1. GENERAL INFORMATION**

Sistema Public Joint Stock Financial Corporation, hereinafter referred to as the "Company", was registered by the Moscow Registration Chamber on 16 July 1993 (State Registration Certificate No. 025.866).

The Company was included in the Unified State Register of Legal Entities with the primary state registration number (OGRN) 1027700003891.

Full name of the Company in the Russian language: Публичное акционерное общество «Акционерная финансовая корпорация «Система».

Short name of the Company in the Russian language: ПАО АФК «Система».

Full name of the Company in the English language: Sistema Public Joint Stock Financial Corporation.

Short name of the Company in the English language: Sistema PJSFC.

Legal and actual address: 13/1 Mokhovaya street, 125009 Moscow, Russian Federation.

The controlling shareholder of the Company is Vladimir Evtushenkov. Some of the senior executives and members of the Board of Directors of the Company are minority shareholders. Shares of the Company are traded on the London Stock Exchange in the form of depositary receipts and on the Moscow Exchange.

The main type of the Company's business activities is equity holdings in other companies.

The Company operates in accordance with the Civil Code of the Russian Federation, Federal Law "On Joint-Stock Companies" and other laws and regulations of the Russian Federation and the Company's Charter.

The average number of the Company's employees in 2017 and 2016 was 321 and 295 people respectively.

JSC Reyestr is the company in charge of keeping records on the rights to securities.

**2. ORGANISATION OF FINANCIAL ACCOUNTING**

The Company's financial statements are prepared in accordance with the existing Russian financial accounting and reporting rules.

The Company's accounting process was organised in compliance with the requirements of the Russian accounting regulations, the rules and regulations issued by the Ministry of Finance of the Russian Federation and by the regulatory authorities entitled to issue accounting regulations in accordance with federal laws.

In 2017, the accounting process was conducted in accordance with the procedures set forth in the Accounting Policy of the Company approved by the President's Order No. У-108/16 dated 30 December 2016.

## **2.1. Applicability of the going concern assumption**

The financial statements of the Company were prepared by the Company's management on the basis of the assumption that the Company continues its operations in the foreseeable future. The Company's net loss in 2017 amounted to RUB 31,509 million, short-term liabilities as of 31 December 2017 exceeded current assets by RUB 70,817 million, mainly due to the execution of the Settlement Agreement in December 2017 (see Note 10). After the reporting date, the Company raised financing to fulfil its obligations under the Settlement Agreement (see Note 16). The forecast of cash flows for at least twelve months after the end of the reporting period as prepared by the Company's management confirms that the Company is able to settle its current liabilities in compliance with the terms of agreements.

## **2.2. Chart of accounts**

The Company has developed and is using a chart of accounts based on a standard chart of accounts for companies approved by the Ministry of Finance of the Russian Federation on 31 October 2000 with order No. 94н, and is using sub-accounts making it possible to ensure that its financial statements are consistent with the accounting and tax regulations and standards of the Russian Federation.

## **2.3. Stocktaking**

Stocktaking is conducted in accordance with the "Methodological guidelines on the stocktaking of assets and financial liabilities" approved by the Ministry of Finance of the Russian Federation on 13 June 1995 with Order No. 49.

The stocktaking of assets and liabilities was conducted as of 31 December 2017 with the exception of the stocktaking of intangible assets, fixed assets, valuables and inventories, investments in fixed assets, settlements with buyers and customers and settlements with suppliers, other debtors and creditors, which was conducted as of 1 November 2017.

## **2.4. Foreign currency assets and liabilities**

The accounting of foreign currency transactions is done on the basis of the official rouble rate set by the Central Bank of Russia (CB RF) and valid as of the date of the relevant transaction. Assets and liabilities with values denominated in foreign currencies are recorded as amounts estimated on the basis of the official rouble rate set by the CB RF and valid as of 31 December 2017, 2016, and 2015.

The rules and procedures for accounting for foreign currency assets and liabilities are set out in Accounting Standard (PBU) 3/2006 "Accounting for foreign currency assets and liabilities". In accordance with Accounting Standard (PBU) 3/2006, foreign currency assets and liabilities must be converted to roubles as of:

- The last date of the reporting month;
- The date of the respective transaction.

Foreign exchange differences are presented in the statement of financial results in other income and expenses on a net basis.

## **2.5. Accounting for investments**

The initial measurement of investments acquired for a consideration is recognised as the total amount of expenses incurred in the course of their acquisition less VAT and other recoverable taxes (unless otherwise required by Russian law governing taxes and duties).

The initial measurement of investments acquired under contracts envisaging fulfilment of obligations in a non-monetary form is recognised as the value of the assets transferred or due to be transferred by the Company. The value of the assets transferred or due to be transferred is determined based on the market value.

Investments which current market value may be reliably determined are recorded in the financial statements at their current market value and adjusted on a quarterly basis. The difference between the current assessed market values of investments as of the reporting date and their previous values are recognised as other income and expenses on a net basis.

Such revaluation of investments which current market value may be reliably measured is performed on the last date of the reporting quarter. Should the last day of the quarter not be a business day, the revaluation is performed on the last trading day in such quarter.

If securities of any issuer owned by the Company are traded on several stock exchanges, the Company determines their current market value based on the trading statistics of the New York Stock Exchange. If such securities are not listed on the New York Stock Exchange, the Company determines their current market value based on the trading statistics of the London Stock Exchange. If such securities are not listed on any international stock exchanges, the Company determines their current market value based on the trading statistics of the Moscow Exchange.

Investments which current market value may not be reliably determined are presented in the financial statements at their historical cost.

Valuation methods used for the disposal of investments:

- Investments in the form of non-issue grade securities, contributions in authorised (share) capitals of other companies (with the exception of the shares of joint-stock companies), accounts receivable acquired as a result of assignment, contributions of the Company under simple partnership agreement, loans and deposits in lending organisations granted to other companies are estimated at their initial acquisition value at the time of disposal;
- Investments in issue-grade securities with no current market price determined are estimated on a FIFO basis at the time of their disposal;
- Investments whose current market value is determined are estimated at disposal at the value of the last valuation performed.

As of 31 December of each reporting year, if there are any indicators of impairment of investments, an impairment review is conducted and, if necessary, allowance is made in the accounts for the impairment of investments in accordance with Accounting Standard (PBU) 19/02 "Accounting for financial investments". Allowance is recorded if the review confirms that there is a steady and significant reduction in the value of investments, which falls below the amount of financial benefits that the Company expects to receive from these investments.

## **2.6. Revenue recognition**

The Company's income, depending on its nature, source and business area, is divided into:

- Revenue from operating activities;
- Other income.

The Company recognises the following types of income as revenue from operating activities:

- Equity holdings in other companies (organisations) resulting in receipt of dividends;
- Leasing of its assets;
- Providing guarantees for the liabilities of third parties to their creditors.

The following types of income are recognised by the Company as "other income":

- Revaluation of listed shares (on a net basis);
- Sale (purchase) of foreign currency (on a net basis);
- Foreign exchange differences (on a net basis);
- Redemption of debt securities;
- Sales of shares, interests and stakes;
- Sales of fixed assets, intangible assets and materials;
- Other operations.

Income from shareholdings in other companies (organisations) resulting in the generation of dividends is recorded in the accounts as of the date of the passing of decision by a general meeting of shareholders of an issuer on dividend payout.

Interest and discount (including coupon yield) on investments, provided that the conditions set in Accounting Standard (PBU) 9/99 "Income of organisations" are met, are recognised as income as of the date of the Company obtaining the right to them, and:

- Interest (discount) payable on debt securities is accrued at the end of the reporting period (month);
- Interest (discount) on "after sight" promissory notes is accrued from the date of acquisition of the promissory note within a year from the date of the promissory note;
- Interest (discount) on "after sight but not earlier than" promissory notes is accrued from the date of acquisition of the promissory note within the period before the stipulated "not earlier than" date plus one year.

## **2.7. Accounting for expenses**

The Company's expenses, depending on their nature, source and business area, are divided into:

- Expenses from operating activities;
- Other expenses.

The following expenses are recognised by the Company as "other expenses":

- Revaluation of listed shares (on a net basis);
- Sale (purchase) of foreign currency (on a net basis);
- Foreign exchange differences (on a net basis);
- Sales of shares, interests and stakes;
- Sale, disposal and other write-offs of fixed assets and other assets not specified above, other than cash, goods or products;
- Allocations to allowances made in accordance with accounting standards;
- Granting free-of-charge financial aid;
- Fines and penalties for violation of contract terms;
- Accounts receivable whose limitation period expired and other bad debts;
- Other operations.

## **2.8. Accounting for loans and credits**

Expenses related to liabilities under received loans and credits include:

- Interest charged on the amount of the loan (credit) payable to the lender (creditor) in the amount and on the terms specified in loan (credit) agreements;
- Additional loan and credit expenses.

Additional loan and credit expenses include:

- Amounts payable for informational and consulting services;
- Amounts payable for the appraisal of loan (credit) agreement;
- Other expenses directly related to obtaining loans (credits).

Additional loan and credit expenses are recorded as part of other expenses as incurred.

Interest payable to a lender (creditor) is evenly included in other expenses irrespective of the payment terms stipulated in loan (credit) agreements.

## 2.9. Accounting for allowances and provisions

**Allowances.** Accounts include charges for the following types of allowances:

- For impairment of investments (annually);
- For doubtful debts (quarterly).

The following procedure is used for creating allowances:

**Allowances for impairment of investments** are created at the end of the year for the amount of the difference between the carrying value and the estimated value of the investments for which it is not required to determine their current market value and the review of which confirmed a steady fall in value below the value of economic benefits that the Company expects to receive from such investments. Depending on the circumstances and information available, the Company determines an estimated value by engaging an independent appraiser or by using the net assets method and factoring in the estimated probability of investment recovery.

**Allowances for doubtful debt** are made for the following types of debt:

- Doubtful debts of buyers and customers for provided services;
- Other doubtful debtors.

Doubtful debts are the accounts receivable of the Company that are neither settled within the timeframes stipulated in the relevant agreement nor secured by any guarantees.

**Provisions.** The Company's accounts and reports include the following types of provisions:

- Payment of quarterly and annual remuneration;
- Payment of compensation for unused leaves;
- Agreements the costs of which exceed proceeds expected from their execution.

## 2.10. Deferred income tax

In accordance with Accounting Standard (PBU) 18/02 "Accounting for income tax estimates" the Company's accounts and reports reflect a deferred income tax (deferred tax assets and deferred tax liabilities), i.e. amounts that may influence the amount of the current income tax in the subsequent reporting periods.

Income tax is calculated in compliance with the Russian Tax Code. Tax rate on dividends received from Russian legal entities equals 13%. Tax rate on dividends received from foreign legal entities equals 15%. Tax rate on income in the form of accumulated coupon yields on government and municipal securities equals 15%. The interest rate on dividends received from subsidiaries in which the Company has continuously held at least 50% over at least 365 calendar days, equals 0%. Tax rate on other types of income equals 20%.

Deferred tax assets and income tax liabilities are shown using book value method, taking into account the timing differences between tax accounting and financial accounting (PBU 18/02). The Company recognises deferred tax assets in the reporting period in which the deductible timing differences arise, provided that there is a probability that the Company will receive taxable income in subsequent reporting periods. Deferred tax assets are recorded in the financial statements taking into account all deductible timing differences, except in case there is a probability that a deductible timing difference will not be reduced or fully eliminated in subsequent reporting periods. Income tax overpayments are not included in deferred tax assets (in the balance sheet they are recorded as "Other accounts receivable").



### 3. ADJUSTMENT OF COMPARATIVES

In 2017, the Company identified an incorrect classification of accounts payable (under a share purchase agreement) with respect to their repayment period: long-term accounts payable of RUB 3.6 billion were recorded in short-term liabilities.

In compliance with cl. 9 of Accounting Standard (PBU) 22/2010 "Correction of errors in accounting and financial statements", the Company corrected the above error and reflected it in the financial statements retrospectively, as a result the comparative figures at the beginning of the reporting year were adjusted as follows:

- Other long-term liabilities (line 1450) were increased by RUB 3,600,000 thousand from RUB 514,845 thousand to RUB 4,114,845 thousand;
- Accounts payable in short-term liabilities (line 1520) were reduced by RUB 3,600,000 thousand from RUB 3,781,191 to RUB 181,191 thousand.

### 4. INVESTMENTS

#### 4.1. Units in mutual funds

Investments in units in mutual funds as of 31 December 2017, 2016 and 2015 are presented as follows:

	(RUB thousand)		
	2017	31 December 2016	2015
Closed-end mutual fund "Kreditny 1" managed by LLC Nadezhnoye Upravleniye	2,315,083	2,315,083	2,315,083
Open-end mutual bonds fund (OMBF) "Rezervny. Foreign Currency Investments" managed by LLC Sistema Capital	195,602	195,602	4,036,314
OMBF "Rezervny" managed by LLC Sistema Capital	-	-	2,744,893
Less allowance for impairment	(1,562,132)	(521,574)	(568,147)
<b>Total</b>	<b>948,553</b>	<b>1,989,111</b>	<b>8,528,143</b>

In 2016, the Company submitted for redemption all of its units in OMBF "Rezervny" and most of its units in OMBF "Rezervny. Foreign Currency Investments" managed by LLC Sistema Capital. Redemption of the units yielded a total of RUB 1,067,981 thousand in income.

## 4.2. Shares and equity interests

Investments in the shares and equity interests of subsidiaries and affiliates as of 31 December 2017, 2016 and 2015 are presented as follows:

	(RUB thousand)		
	31 December		
	2017	2016	2015
PJSC MTS (Note 5)	186,259,770	175,355,534	143,282,613
Sistema Asia Pte.Ltd (i)	70,282,093	70,282,093	69,176,591
FCD Projects Pte.Ltd (i)	43,595,908	43,595,908	10,872,328
PJSC MTS Bank (ii)	39,211,767	39,211,767	27,782,202
PJSC Detsky Mir (Note 5)	36,941,982	3,290,002	3,290,391
JSC Business Nedvizhimost (v, vi)	33,966,227	13,293,932	9,943,938
JSC RTI	22,944,442	22,944,442	19,169,283
Sistema Finance S.A. (iii)	20,753,907	20,753,907	10,825,964
Sistema Shyam Teleservices Limited	19,357,845	19,357,845	19,357,845
JSC Steppe AgroHolding (iv)	17,200,030	17,200,018	8,900,030
JSC Medsi Group	14,550,250	14,714,916	14,714,916
JSC Leader Invest (v)	13,147,941	6,401,138	6,401,138
LLC Sistema Telecom Assets	8,663,340	8,663,340	8,663,340
LLC Kronstadt Group (vii)	8,240,811	7,980,499	3,726,724
PJSC Mikron (xii)	8,100,880	-	-
LLC Segezha Group (viii)	7,527,006	7,560,561	-
East-West United Bank S.A. (xiii)	3,720,781	1,120,481	1,120,481
JSC Sitronics	2,556,256	567,854	567,854
JSC Sistema Venture Capital	2,423,756	2,423,756	2,423,756
JSC SG-trading (xiv)	-	4,924,701	4,924,701
OJSC VAO Intourist (vi)	-	4,782,733	4,782,733
JSC Mosdachtrest (vi)	-	3,899,126	3,899,126
JSC SG-trans (ix)	-	-	5,866,633
JSC Targin (x)	-	-	4,101,441
Ozon Holdings Limited (xi)	-	-	2,707,148
Ecu Gest Holding S.A. (iii)	-	-	2,129,596
Other	7,580,088	9,866,126	11,149,871
Less allowance for impairment	(187,787,986)	(158,593,546)	(116,806,688)
<b>Total</b>	<b>379,237,094</b>	<b>339,597,133</b>	<b>282,973,955</b>

- (i) In 2015-2016, the Company invested in TCF Projects Pte.Ltd (renamed Sistema Asia Pte.Ltd on 31 May 2017) and FCD Projects Pte.Ltd to finance repayment of the debt of Sistema Shyam Teleservices Limited and operations of other Sistema Group companies.
- (ii) In 2016, the Company acquired 10,004,647 additionally issued ordinary shares in PJSC MTS Bank for RUB 11.4 billion.
- (iii) In July 2016, the Company acquired 4,800,000 additionally issued ordinary shares of Sistema Finance S.A. for EUR 48 million and 9,000,000 additionally issued ordinary shares of Sistema Finance S.A. for a consideration of 2,980 ordinary shares of Ecu Gest Holding S.A. As a result of the contribution of property rights to the authorised capital of Sistema Finance S.A., the Company recognised RUB 4.3 billion in gains, reported in line 23408 of the Statement of Financial Results for 2016 "Excess of contractual values of equity holdings over their book values".
- (iv) In 2016, the Company acquired 207,500 additionally issued ordinary shares in JSC Steppe AgroHolding for RUB 8.3 billion.
- (v) In January 2017, the Company acquired 1,060 additionally issued ordinary shares in JSC Leader Invest for a consideration of 100% of equity in JSC Lobachevskogo 120. As a result of the contribution of the property rights to the authorised capital of JSC Leader Invest, the Company recognised RUB 1.4 billion in gains, reported in line 23408 of the Statement of Financial Results for 2017 "Excess of contractual values of equity holdings over their book values".
- In September 2017, the reorganisation of JSC Leader Invest in the form of its merger with JSC Business Aktiv spun off from JSC Business Nedvizhimost was completed.

- (vi) In December 2016, the Company acquired 83,846 additionally issued ordinary shares in JSC Business Nedvizhimost for RUB 3.3 billion.  
In September 2017, the Company acquired 498,144 additionally issued ordinary shares in JSC Business Nedvizhimost for RUB 25.9 billion, transferring its entire equity holding in JSC Mosdachtrest and OJSC VAO Intourist as part of the consideration. As a result of the contribution of property rights to the authorised capital of JSC Business Nedvizhimost, the Company recognised RUB 17.9 billion in gains, reported in line 23408 of the Statement of Financial Results for 2017 "Excess of contractual values of equity holdings over their book values".
- (vii) In June and December 2016, the Company made additional contributions to the authorised capital of LLC Kronstadt Group in the total amount of RUB 4.25 billion, increasing its direct shareholding to 91.785%.
- (viii) In September 2016, the Company made an additional contribution to the authorised capital of LLC Segezha Group in the amount of RUB 7.6 billion.
- (ix) In August 2016, the Company sold its entire shareholding in JSC SG-trans (50%) for RUB 6 billion.
- (x) In December 2016, the Company sold 100% of shares in JSC Targin for RUB 4.1 billion.
- (xi) In September 2016, the Company sold its entire shareholding in Ozon Holding Limited (10.8%) to its subsidiary Sistema Finance S.A. for RUB 2.7 billion.
- (xii) In June 2017, the Company acquired 20.42% of shares in PJSC Mikron for RUB 8.1 billion (under the option agreement with JSC Rusnano).
- (xiii) In May 2017, the Company acquired 47% of shares in East-West United Bank S.A. from PJSC MTS Bank for RUB 2.6 billion.
- (xiv) In September 2017, the Company sold 100% of shares in JSC SG-trading to LLC Premier Oil.

#### 4.3. Debt securities

Debt securities as of 31 December 2017, 2016 and 2015 are presented as follows:

(RUB thousand)					
	Maturity	Interest rate	31 December		
			2017	2016	2015
<b>RUB-denominated:</b>					
Promissory notes issued by RTI Microelectronics	ASNE* 01.01.2027	11.0%	3,360,291	3,360,291	-
Promissory notes issued by LLC Segezha Group			-	-	6,000,000
Promissory notes issued by RTI Microelectronics			-	-	3,018,712
Bonds issued by LLC Leasing Company Uralsib (held in trust at JSC Management Company Uralsib)			-	-	2,999,250
Promissory notes issued by CJSC National Factoring Company (held in trust at JSC Management Company Uralsib)			-	-	1,867,539
OJSC NPK NIIDAR			-	-	1,278,682
Other			353,774	353,774	520,804
Less allowance for impairment			(3,714,065)	(353,774)	(1,801,974)
<b>Total</b>			<b>-</b>	<b>3,360,291</b>	<b>13,883,013</b>
Long-term			-	3,360,291	11,848,444
Short-term			-	-	2,034,569
<b>Total</b>			<b>-</b>	<b>3,360,291</b>	<b>13,883,013</b>

Note: \* ASNE means "after sight, but not earlier"

**4.4. Loans granted**

Loans granted as of 31 December 2017, 2016 and 2015 are presented as follows:

(RUB thousand)					
	Maturity	Interest rate	31 December		
			2017	2016	2015
<b>USD-denominated:</b>					
Sistema Holding Ltd	OD	0.50%	5,644,820	3,882,042	18,796,448
PJSC MTS Bank			-	-	2,630,008
			5,644,820	3,882,042	21,426,456
<b>RUB-denominated:</b>					
JSC Sistema Invest	OD	8.50%	17,375,000	-	-
JSC Sistema Finance	OD	10.50%	5,029,000	7,624,000	2,140,000
LLC Sistema Hotel Management	OD	11.10%	4,521,156	2,900,000	-
LLC Kronstadt Group	OD	10.85%	4,123,700	-	-
LLC Kronstadt Group	OD	13.00%	975,270	975,270	975,270
JSC Steppe AgroHolding	OD	10.60%	3,642,480	-	-
LLC Sistema Telecom Assets	OD	10.50%	2,490,410	2,000,000	-
JSC Mosdachtrest	OD	13.00%	1,600,000	1,600,000	1,600,000
JSC Leader Invest	OD	10.00%	706,221	857,023	857,023
JSC Sistema Venture Capital	OD	12.70%	493,536	1,071,793	-
PJSC MTS Bank			-	1,000,000	1,000,000
JSC Sitronics			-	735,528	5,848,293
JSC Leader Invest			-	714,448	414,448
LLC Segezha Group			-	-	4,836,000
JSC Steppe AgroHolding:			-	-	3,274,560
CJSC RTI Microelectronics			-	-	548,084
Other			3,539,499	4,332,401	5,422,462
Less allowance for impairment			(8,475,484)	(2,120,356)	(3,540,187)
			36,020,788	21,690,107	23,375,953
<b>Total</b>			<b>41,665,608</b>	<b>25,572,149</b>	<b>44,802,409</b>
Long-term			-	1,000,000	2,876,391
Short-term			41,665,608	24,572,149	41,926,018
<b>Total</b>			<b>41,665,608</b>	<b>25,572,149</b>	<b>44,802,409</b>

Note: OD means "on demand".

**4.5. Bank deposits**

Bank deposits as of 31 December 2017, 2016 and 2015 are presented as follows:

	(RUB thousand)		
	31 December		
	2017	2016	2015
<b>USD-denominated:</b>			
PJSC Sberbank	-	2,426,276	20,188,508
PJSC VTB Bank	-	1,819,707	2,186,481
BINBANK	-	-	4,810,258
<b>RUB-denominated:</b>			
LLC Vneshprombank	909,153	909,153	909,153
PJSC Urals Bank of Reconstruction and Development	-	244,598	1,984,108
PJSC VTB Bank	-	-	16,476,770
Ufa branch of PJSC Bank Uralsib	-	-	4,037,327
PJSC Bank Otkritie	-	-	3,265,157
PJSC Absolut Bank	-	-	2,500,000
Petrocommerce branch of PJSC Bank Otkritie	-	-	1,100,000
Other	-	-	1,786,402
Less allowance for impairment	(909,153)	(909,153)	(909,153)
	-	244,598	31,149,765
<b>Total</b>	<b>-</b>	<b>4,490,581</b>	<b>58,335,012</b>
Long-term	-	-	14,877,003
Short-term	-	4,490,581	28,383,929
Cash equivalents	-	-	15,074,080
<b>Total</b>	<b>-</b>	<b>4,490,581</b>	<b>58,335,012</b>

**4.6. Rights acquired as a result of rendering financial services**

Rights acquired as a result of rendering financial services as of 31 December 2017, 2016 and 2015 are presented as follows:

	(RUB thousand)		
	31 December		
	2017	2016	2015
PJSC MTS Bank	-	3,712,238	-
Less allowance for impairment	-	-	-
<b>Total</b>	<b>-</b>	<b>3,712,238</b>	<b>-</b>

#### 4.7. Allowance for impairment of investments

The data on allowances for impairment of investments, the amount of allowances made and used in 2017 and 2016 are presented as follows:

	(RUB thousand)					
	As of 31 December 2015	Allowance created	Allowance used	As of 31 December 2016	Allowance created	As of 31 December 2017
<b>Units in mutual funds</b>						
Closed-end mutual fund "Kreditny 1" managed by LLC Nadezhnoye Upravleniye	568,147	(46,573)	-	521,574	1,040,558	-
	<b>568,147</b>	<b>(46,573)</b>	<b>-</b>	<b>521,574</b>	<b>1,040,558</b>	<b>-</b>
<b>Shares and equity interests</b>						
JSC RTI	-	-	-	-	22,944,442	-
LLC Kronstadt Group	-	1,520,010	-	1,520,010	6,373,406	-
PJSC Mikron (i)	-	-	-	-	6,089,123	-
Sistema Shyam Teleservices Limited	19,357,845	-	-	19,357,845	-	-
Sistema Asia Pte.Ltd	68,994,384	182,207	-	69,176,591	-	-
FCD Projects Pte. Ltd	10,872,328	25,769,190	-	36,641,518	-	-
PJSC MTS Bank	11,945,362	11,978,806	-	23,924,168	(547,330)	-
JSC SG-trading	4,042,159	(38,869)	-	4,003,290	(4,003,290)	-
Other	1,594,610	2,380,110	(4,596)	3,970,124	1,021,351	(2,683,262)
	<b>116,806,688</b>	<b>41,791,454</b>	<b>(4,596)</b>	<b>158,593,546</b>	<b>35,880,992</b>	<b>(6,686,552)</b>
<b>Loans granted</b>						
LLC Kronstadt Group	-	-	-	-	5,098,970	-
Other	3,540,187	(289,022)	(1,130,810)	2,120,356	1,287,158	(31,000)
	<b>3,540,187</b>	<b>(289,022)</b>	<b>(1,130,810)</b>	<b>2,120,356</b>	<b>6,386,128</b>	<b>(31,000)</b>
<b>Debt securities</b>						
CJSC RTI Microelectronics	-	-	-	-	3,360,291	-
Other	1,801,974	-	(1,448,200)	353,774	-	-
	<b>1,801,974</b>	<b>-</b>	<b>(1,448,200)</b>	<b>353,774</b>	<b>3,360,291</b>	<b>-</b>
Deposits	909,153	-	-	909,153	-	-
<b>Total</b>	<b>123,626,149</b>	<b>41,455,859</b>	<b>(2,583,606)</b>	<b>162,498,403</b>	<b>46,667,969</b>	<b>(6,717,552)</b>

- (i) In June 2017, the Company acquired 20.42% of shares in PJSC Mikron for RUB 8.1 billion (under the option agreement with JSC Rusnano) and reclassified the doubtful debt allowances (RUB 4,800 million) and allowances for contracts (RUB 1,917 million) created in 2016 as allowances for impairment of investments. As of the end of 2017, the amount of these allowances was verified, and the amount of recovered allowance was RUB 628 million.

In 2017 and 2016, the Company made allowances for impairment of certain investments in shares and units in mutual funds due to a significant deviation of the estimated value of stakes held by the Company from their book value. The estimated value was determined based on the information on net assets of investment targets taking into account the estimated probability of return of investments.

## 5. LISTED SECURITIES

The value of the Company's investments in shares that have a market value as of 31 December 2017, 2016 and 2015 is presented as follows:

			(RUB thousand)
	<b>PJSC MTS</b>	<b>PJSC Detsky Mir</b>	<b>Other</b>
<b>Balance as of 31 December 2015</b>			
Number of shares	636,224,752	n/a	n/a
Market price per share, RUB	225.21	n/a	n/a
	<b>143,282,613</b>	<b>n/a</b>	<b>148,473</b>
Revaluation	32,446,509	-	(43,212)
Disposal	(373,589)	-	-
<b>Balance as of 31 December 2016</b>			
Number of shares	634,674,257	n/a	n/a
Market price per share, RUB	276.29	n/a	n/a
	<b>175,355,533</b>	<b>n/a</b>	<b>105,261</b>
Number of shares by the end of the initial offering	n/a	385,012,844	n/a
Book value of shares by the end of the initial offering	n/a	3,284,767	n/a
Revaluation	10,904,237	33,657,215	(52,446)
Disposal	-	-	-
<b>Balance as of 31 December 2017</b>			
Number of shares	634,674,257	385,012,844	n/a
Market price per share, RUB	293.47	95.95	n/a
	<b>186,259,770</b>	<b>36,941,982</b>	<b>52,815</b>

In February 2017, PJSC Detsky Mir completed an initial public offering on the Moscow Exchange, at which the Company sold 151,301,256 shares (taking into account the exercise of the overallotment option). The offering price was set at RUB 85 per share. As a result of the offering, the Company recorded RUB 12,860,607 thousand in income in line 23403 "Income from sale of securities". The Company's shareholding in PJSC Detsky Mir decreased to 52.1%.

Gain on revaluation of investments for which the market value was determined amounted to RUB 44,509,006 thousand in 2017 and RUB 32,403,297 thousand in 2016.

## 6. BORROWINGS

The repayment terms of key types of borrowings as of 31 December 2017 are presented as follows:

	<b>up to 1 year</b>	<b>1 year - 5 years</b>	<b>over 5 years</b>	<b>(RUB thousand) Total</b>
Bond issues	15,000,000	33,200,000	-	48,200,000
Loans	-	28,805,100	-	28,805,100
Debt securities (promissory notes, bonds, etc.) issued	618,457	-	-	618,457
Credits	5,000,000	47,640,030	-	52,640,030
<b>Total</b>	<b>20,618,457</b>	<b>109,645,130</b>	<b>-</b>	<b>130,263,587</b>

Outstanding bonds are presented as follows:

	<b>Maturity</b>	<b>(RUB thousand) 31 December</b>		
		<b>2017</b>	<b>2016</b>	<b>2015</b>
Bonds Reg. no. 4B02-06-01669-A-001P	01.04.2022*	15,000,000	-	-
Bonds Reg. no. 4B02-03-01669-A-001P	12.03.2018	10,000,000	10,000,000	10,000,000
Bonds Reg. no. 4B02-05-01669-A-001P	21.02.2020*	10,000,000	10,000,000	-
Bonds Reg. no. 4B02-04-01669-A-001P	06.11.2020*	6,500,000	6,500,000	-
Bonds Reg. no. 4B02-01-01669-A-001P	09.10.2018*	5,000,000	5,000,000	5,000,000
Bonds Reg. no. 4B02-02-01669-A-001P	08.11.2019*	1,700,000	1,700,000	1,700,000
Bonds Reg. no. 4-03-01669-A	-	-	-	14,958,545
Bonds Reg. no. 4B02-01-01669-A	-	-	-	10,000,000
Bonds Reg. no. 4-04-01669-A	-	-	-	1,495,969
<b>Total</b>		<b>48,200,000</b>	<b>33,200,000</b>	<b>43,154,514</b>

\* Date of an irrevocable offer. The Company has an unconditional obligation to repurchase the bonds at nominal value if required by bond holders after the announcement of the next coupon. Such bonds are disclosed as liabilities with maturity in the reporting period in which the put option can be exercised, without taking into account the Company's expectations regarding the intentions of bond holders.

Outstanding loans are presented as follows:

	<b>Maturity</b>	<b>(RUB thousand) 31 December</b>		
		<b>2017</b>	<b>2016</b>	<b>2015</b>
Sistema International Funding S.A.	17.05.2019	28,800,100	30,328,450	36,441,350
JSC Sistema Finance	19.01.2019	5,000	5,000	-
JSC Steppe AgroHolding	-	-	722,000	-
<b>Total</b>		<b>28,805,100</b>	<b>31,055,450</b>	<b>36,441,350</b>

In May 2012, Sistema International Funding S.A., incorporated under the laws of Luxembourg, issued a USD 500 million worth of interest-bearing certified Eurobonds maturing in 2019 with a coupon yield of 6.95% per annum. The Company received this amount from Sistema International Funding S.A. on similar terms.



Outstanding credits are presented as follows:

		(RUB thousand)		
		31 December		
	Maturity	2017	2016	2015
Bank GPB (JSC)	22.06.2020	15,000,000	-	-
PJSC Sberbank	27.12.2019	22,000,000	12,000,000	-
Bank GPB (JSC)	26.01.2018	5,000,000	-	-
PJSC Sberbank	27.04.2019	2,000,000	-	-
China Development Bank	17.12.2021*	8,640,030	9,098,535	10,932,405
PJSC VTB Bank	-	-	12,000,000	12,000,000
PJSC Sberbank	-	-	4,000,000	18,000,000
<b>Total</b>		<b>52,640,030</b>	<b>37,098,535</b>	<b>40,932,405</b>

\* scheduled final maturity

As of 31 December 2017, as a result of ongoing arrest of PJSC MTS, JSC Medsi Group and JSC BPGC shares owned by the Company and JSC Sistema Invest (Note 10), China Development Bank received the right to demand accelerated repayment of debt totalling RUB 8,640,030 thousand. After the reporting date, the creditor waived its right to accelerated repayment; therefore this debt continues to be reflected as long-term liabilities.

With certain exclusions, debt obligations include provisions that limit the ability of the Company and its subsidiaries to borrow funds, carry out merger or consolidation with another entity or transfer its property and assets to another entity, to conduct certain types of reorganisation or make certain changes to the Company's shareholding structure. In case the Company fails to comply with the obligations specified above within the time period provided for the filing of a notification of breach of obligations and remediation of such breaches, creditors are entitled to demand immediate repayment of their loans. Besides, the Company's loan agreements are subject to cross-default clauses of other loan agreements held by the Company.

Interest accrued on borrowings in 2017 and 2016 totalled RUB 10,221,884 thousand and RUB 11,106,950 thousand, respectively.

As of 31 December 2017, the Company has access to RUB 55 billion in committed credit facilities.

## 7. PROVISIONS

Changes of provisions in 2017 and 2016 are presented as follows:

	(RUB thousand)			
	<u>Under agreements (i)</u>	<u>Payment of bonuses</u>	<u>Payment for unused leaves</u>	<u>Total</u>
<b>Balance as of 31 December 2015</b>	-	<b>4,963,469</b>	<b>1,145,615</b>	<b>6,109,084</b>
Increase of provisions	55,478,236	7,592,853	515,248	63,586,337
Restoration of unused provisions	-	(109,166)	-	(109,166)
Use of provisions	-	(4,854,303)	(857,045)	(5,711,348)
Use of provisions for reducing short-term receivables	(20,518,504)	-	-	(20,518,504)
<b>Balance as of 31 December 2016</b>	<b>34,959,732</b>	<b>7,592,853</b>	<b>803,818</b>	<b>43,356,403</b>
Increase of provisions	-	3,854,395	374,168	4,228,563
Restoration of unused provisions	(469,159)	(24,926)	-	(494,085)
Use of provisions	(1,917,125)	(7,567,927)	(649,632)	(10,134,684)
Use of provisions for reducing short-term receivables	(9,602,662)	-	-	(9,602,662)
<b>Balance as of 31 December 2017</b>	<b>22,970,786</b>	<b>3,854,395</b>	<b>528,354</b>	<b>27,353,535</b>
Long-term	13,426,607	-	-	13,426,607
Short-term	9,544,179	3,854,395	528,354	13,926,928
<b>Total</b>	<b>22,970,786</b>	<b>3,854,395</b>	<b>528,354</b>	<b>27,353,535</b>

- (i) In 2011, the Russian government acquired 17.14% of shares in telecom operator Sistema Shyam Teleservices Limited (hereinafter SSTL) and simultaneously signed an option agreement with the Company to sell the shares in five years for the higher of USD 777 million or the current market value as determined by an independent valuator.

In June 2016, the Company and the Federal Agency for State Property Management acting on behalf of the Russian Federation signed an agreement on acquisition of 17.14% of shares in SSTL for USD 777 million. The Company will pay for the shares during the next 5 years in accordance with the following schedule: 30% of the amount – in 2016 (paid in full as of 31 December 2016), 25% – in 2017 and 15% in 2018, 2019 and 2020 each.

In May 2014, the Company signed option agreements with Rusnano, under which Rusnano has the right to sell its stake in PJSC Mikron to the Company during the period from 31 October 2016 till 1 November 2017 at a price of RUB 8.1 billion, and the Company has the right to buy Rusnano's stake during the period till 1 November 2017 for RUB 6.1 billion plus 7.63% per annum.

In October 2016, the Company restructured the option agreement with Rusnano, signing a share purchase agreement with respect to 20.42% of shares in PJSC Mikron for RUB 8.1 billion, out of which RUB 4.8 billion were to be paid by 28 December 2016 (paid in full as of 31 December 2016), and RUB 3.3 billion shall be paid by 29 December 2017. In 2017, the Company received shares in PJSC Mikron worth RUB 8.1 billion. The previously recorded provision in the amount of RUB 1.9 billion was reclassified as a provision for impairment of investments in PJSC Mikron.

The Company estimates that the costs of the agreements listed in this paragraph exceed proceeds expected from their execution. Therefore, guided by PBU 8/2010 "Provisions, contingent liabilities and contingent assets", in 2016 the Company created provisions for their execution in the total amount of RUB 55.5 billion.

**8. EXPENSES ON ORDINARY OPERATIONS**

Expenses on ordinary operations broken down by cost items in 2017 and 2016 are presented as follows:

	<b>2017</b>	<b>(RUB thousand) 2016</b>
Payroll expenses	5,051,141	8,945,276
Social security charges	843,330	1,363,953
Depreciation	174,396	170,201
Cost of materials	21,906	23,349
Other expenses	972,514	957,521
<b>Total</b>	<b>7,063,287</b>	<b>11,460,300</b>

**9. INCOME TAX**

Changes of the income tax for 2017 and 2016 are presented as follows:

	<b>2017</b>	<b>(RUB thousand) 2016</b>
<b>Loss before tax</b>	<b>(40,308,171)</b>	<b>(38,045,431)</b>
including:		
dividends taxed at 0%	2,574,545	20,089,247
dividends taxed at 13%	16,503,800	16,545,225
activity taxed at 20%	(59,386,516)	(74,679,903)
<b>Theoretical expense (on)/from income tax</b>	<b>(9,863,257)</b>	<b>(12,917,439)</b>
<b>Permanent tax liabilities/ (assets)</b>	<b>(4,935,511)</b>	<b>12,244,714</b>
including:		
revaluation of quoted investments	(8,901,801)	(6,480,659)
contribution of property/title to the authorised capital	(3,854,316)	(863,469)
recognition of allowances	7,421,850	7,835,600
recognition of provisions	(93,832)	11,095,647
other	492,588	657,595
<b>Change in deferred tax assets</b>	<b>16,841,669</b>	<b>2,689,659</b>
including:		
tax loss of the reporting period	17,542,340	2,221,321
other	(700,671)	468,338
<b>Change in deferred tax liabilities</b>	<b>3,333</b>	<b>3,084</b>
<b>Tax on income in form of dividends</b>	<b>(2,014,047)</b>	<b>(2,018,541)</b>
<b>Current income tax</b>	<b>(32,187)</b>	<b>(1,477)</b>
including:		
controlled foreign entities	(32,187)	(1,477)
<b>Non-recognition of deferred tax assets with regard to tax losses carried forward</b>	<b>(6,000,000)</b>	<b>-</b>

In 2017, the Company recognized an income tax loss, as a result of which the increase in deferred tax assets by RUB 17,542,340 thousand was recorded. Based on the analysis of the probability of DTA use in the medium term, the Company did not recognise a part of the DTA in the amount of RUB 6,000,000 thousand.

**10. LEGAL CLAIM OF PJSC ROSNEFT OIL COMPANY, PJSC BASHNEFT JOINT-STOCK OIL COMPANY AND THE REPUBLIC OF BASHKORTOSTAN, 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-1"), arranged by the Company in the past. The Republic of Bashkortostan Arbitration Court accepted the Claim-1 and opened case #A07-14085/2017. The amount of damages under the Claim-1 was subsequently increased to RUB 170,619 million.

On 23 June 2017, the Republic of Bashkortostan Arbitration Court made a decision to arrest the following shares owned by the Company and Sistema-Invest as a security under the Claim-1: 31.76% in the share capital of PJSC MTS, 100% in the share capital of JSC Medsi Group and 90.47% in the share capital of JSC BPGC.

On 26 June 2017, the bailiffs imposed additional restrictive measures, which, in addition to the arrest of shares, limited the rights of the Company and Sistema-Invest to receive any income on the arrested shares.

On 30 August 2017, the Republic of Bashkortostan Arbitration Court made a decision to partially satisfy the Claim-1. According to the decision, the court has ordered the Company and Sistema-Invest to pay damages of RUB 136,274 million, the remaining part of Claim 1 was denied.

On 19 September 2017, Sistema filed an appeal on that decision in the Eighteenth Arbitration Appeal Court (Chelyabinsk).

In early December 2017, the Republic of Bashkortostan Arbitration Court accepted legal claims of Rosneft and Bashneft (the "Claim-2") and the MLPR of the RB (the "Claim-3") seeking to recover RUB 131,639 million of damages allegedly suffered by Bashneft because of the payment of dividends in 2009-2014. Subsequently the Claim-2 and the Claim-3 were combined in one proceeding under case #A07-38665/2017..

On 12 December 2017, the Republic of Bashkortostan Arbitration Court made a decision to arrest the following assets of the Company and Sistema-Invest as a security under case #A07-38665/2017: 52.09% of shares in the authorised share capital of PJSC Detsky Mir, 90.5% of shares in the authorised share capital of JSC Agroholding Steppe, 71.87% of shares in the authorised share capital of PJSC MTS Bank, 100% of the authorised share capital of LLC Sistema Telecom Assets, 98.78% of shares in the authorised share capital of JSC Leader-Invest, 16.18% of the authorised share capital of LLC Segezha Group, 88.78% of the authorised share capital of LLC Kronshtadt Group, 45.96% of the authorised share capital of LLC Sistema Hotel Management, 27% of the authorised share capital of LLC United Bridge Construction Enterprise. The court also limited the rights of the Company and Sistema-Invest to receive income on the arrested shares and shareholdings.

On 18 December 2017, the Eighteenth Arbitration Appeal Court (Chelyabinsk) announced the resume of the decision according to which the court ruled to uphold the judgment of the Republic of Bashkortostan Arbitration Court on the Claim dated 30 August 2017 under case #A07-14085/2017 (Claim-1). According to the ruling of the court of appeal, Sistema and Sistema-Invest must pay to Bashneft RUB 136,274 million of damages allegedly suffered by Bashneft as a result of its reorganisation in 2014. The decision of the appeal court under the Claim-1 was prepared on 25 December 2017.

On 22 December 2017, Sistema, Sistema-Invest, Rosneft, Bashneft and the MLPR of the RB signed a settlement agreement under the Claim-1 (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 (JSC Sistema-Invest), RUB 40 billion before 28 February 2018 (Sistema PJSFC) and RUB 40 billion before 30 March 2018 (Sistema PJSFC).

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-1 should not be enforced.

On 26 December 2017, in accordance with the resolution of the Moscow Directorate of the Federal Bailiffs Service, the restrictions to receive income on 31.76% shares of PJSC MTS, 100% shares of JSC Medsi Group and 90.47% shares of JSC BPGC have been lifted. The above mentioned restrictions were removed as part of the implementation of the Settlement Agreement.

The Company recognized the expenses under the Settlement Agreement of RUB 80 billion in the statement of financial results for 2017 in line 23507 "Recovery of losses by court order". As of 31 December 2017, the debt under the Settlement Agreement recorded in the balance sheet in line 15208 "Settlements with various debtors and creditors" amounted to RUB 80 billion.

On 19 February 2018, the Republic of Bashkortostan Arbitration Court lifted the arrest of 52.09% of the share capital of PJSC Detsky Mir and 90.47% of the share capital of JSC BPGC. The court also removed the previously imposed limitations on the right of the Company to receive income on the securities of PJSC Detsky Mir. On 1 March 2018, the court lifted the arrest of 31.76% in the share capital of PJSC MTS.

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

On 19 March 2018, the Republic of Bashkortostan Arbitration Court lifted all other restrictive measures in relation to 100% shares of JSC Medsi Group, 90.5% of shares in the authorised share capital of JSC Agroholding Steppe, 71.87% of shares in the authorised share capital of PJSC MTS Bank, 100% of the authorised share capital of LLC Sistema Telecom Assets, 98.78% of shares in the authorised share capital of JSC Leader-Invest, 16.18% of the authorised share capital of LLC Segezha Group, 88.78% of the authorised share capital of LLC Kronshtadt Group, 45.96% of the authorised share capital of LLC Sistema Hotel Management, 27% of the authorised share capital of LLC United Bridge Construction Enterprise

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 (the Claim-2 and the Claim-3) totalling 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 JSC 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.

## 11. BOARD OF DIRECTORS AND MANAGEMENT BOARD

Members of the Board of Directors in 2017:

Vladimir Evtushenkov	Chairman of the Board of Directors, non-executive director, chairman of the Strategy Committee
Sergey Boev	Deputy Chairman of the Board, non-executive director, chairman of the Ethics and Internal Control Committee
Andrey Dubovskov	Non-executive director
Felix Evtushenkov	Member of the Board of Directors, First Vice President, Investment Portfolio Manager
Patrick Clanwilliam	Independent director (until 24/06/2017)
Anna Belova	Independent director (since 24/06/2017)
Robert Kocharyan	Independent director, chairman of the Nomination, Remuneration and Corporate Governance Committee
Jeannot Krecké	Independent director
Peter Mandelson	Independent director (until 24/06/2017)
Ron Sommer	Non-executive director (from 24/06/2017)
Roger Munnings	Independent director, chairman of the Audit, Finance and Risks Committee
Mikhail Shamolin	Member of the Board of Directors, Company President
David Iakobachvili	Independent director, chairman of the Investor Relations and Dividend Policy Committee

## Members of the Management Board in 2017:

Mikhail Shamolin	President, chairman of the Management Board, executive member of the Board of Directors
Felix Evtushenkov	Member of the Board of Directors, First Vice President, Investment Portfolio Manager
Vsevolod Rozanov	Senior Vice President, Head of Finance and Investment Function
Oleg Mubarakshin	Senior Vice President, Head of Legal Function
Ali Uzdenov	Senior Vice President, Investment Portfolio Manager
Elena Vitshak	Vice President, Head of HR Department (until 18/02/2017)
Alexander Gorbunov	Vice President, Telecom Assets Manager
Alexey Guryev	Vice President, Head of HR Department (from 08/03/2017)
Artyom Zasursky	Vice President, Head of Strategy Function
Valentin Korchunov	Vice President, Investment Portfolio Manager (until 31/03/2017)
Leonid Monosov	Vice President, Investment Portfolio Manager
Artyom Sirazutdinov	Vice President, Investment Portfolio Manager (from 01/04/2017)
Mikhail Cherny	Vice President, Investment Portfolio Manager
Evgeny Chuikov	Vice President, Head of Corporate Communications Function
Sergey Shishkin	Vice President, Head of Corporate Governance Function
Vladimir Shukshin	Vice President, Head of Security Department

The total amount of remuneration paid to the members of the Board of Directors and Management Board for 2017 and 2016 (including compulsory retirement and health insurance contributions) is presented as follows:

	<b>2017</b>	<b>(RUB thousand) 2016</b>
Short-term bonuses	2,412,885	4,597,040
Remuneration in the form of option plans and shares	529,321	1,739,800
<b>Total</b>	<b>2,942,206</b>	<b>6,336,840</b>

**12. RELATED PARTIES**

The Company's related parties are its subsidiaries and affiliates and the key management of the Company and its subsidiaries and affiliates.

**12.1. Related party transactions**

<b>Interest expenses from loans</b>	<b>2017</b>	<b>(RUB thousand) 2016</b>
JSC Sistema Finance	450	60,630
JSC Steppe AgroHolding	19,291	1,950
<b>Total</b>	<b>19,741</b>	<b>62,580</b>

## UNOFFICIAL TRANSLATION

<b>Interest income</b>		<b>2017</b>	<b>(RUB thousand) 2016</b>
JSC Sistema Finance		879,925	471,736
LLC Sistema Hotel Management		473,810	29,024
CJSC RTI Microelectronics		369,632	328,184
LLC Sistema Telecom Assets		346,142	5,438
LLC Kronstadt Group		334,283	197,414
JSC Mosdachtrest		220,812	230,101
JSC Steppe AgroHolding		211,898	443,277
JSC Leader Invest		171,432	148,696
Rangecroft Limited		121,074	103,493
JSC Business Nedvizhimost		78,533	449,491
Sistema Holding Ltd.		37,731	58,022
JSC Sitronics		21,192	142,931
PJSC MTS Bank		12,975	103,249
LLC Segezha Group		-	939,571
OJSC NPK NIIDAR		-	127,169
Other		126,967	73,160
<b>Total</b>		<b>3,406,406</b>	<b>3,850,956</b>

  

<b>Sale of goods, works and services</b>		<b>2017</b>	<b>(RUB thousand) 2016</b>
LLC Sistema Capital MC		6,799	5,014
CJSC DM Finance		1,412	13,429
LLC Sistema Capital Consulting		543	-
Other		865	1,376
<b>Total</b>		<b>9,619</b>	<b>19,819</b>

  

<b>Dividends received</b>		<b>2017</b>	<b>(RUB thousand) 2016</b>
PJSC MTS		16,501,531	16,541,844
Sistema Finance S.A.		-	5,386,793
CJSC DM Finance		-	5,256,000
LLC Sistema Telecom Assets		-	4,999,990
PJSC Detsky Mir		2,483,333	3,213,293
Other		93,481	237,749
<b>Total</b>		<b>19,078,345</b>	<b>35,635,669</b>

  

<b>Sale of other property</b>	<b>Type of earnings</b>	<b>2017</b>	<b>(RUB thousand) 2016</b>
PJSC MTS Bank	sale of shares, interests and stakes	1,116,997	-
LLC Sistema Capital MC	sale of shares, interests and stakes	-	7,653,586
CJSC RTI Microelectronics	sale of debt securities	-	3,361,940
Sistema Finance S.A.	sale of shares, interests and stakes	-	2,707,148
Taero Leasing Limited	sale of shares, interests and stakes	-	1,792,401
LLC Sistema Telecom Assets	sale of debt securities	-	1,423,370
Other	sale of shares, interests and stakes	319,243	1,076,323
Other	sale of fixed assets and inventories	1,284	-
<b>Total</b>		<b>1,437,524</b>	<b>18,014,768</b>

**12.2. Accounts receivable**

	<b>(RUB thousand)</b>		
	<b>31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Sale of goods, work, services, property rights</b>			
Individuals	253,039	397,158	-
CJSC RTI Microelectronics	79,898	84,139	101,097
JSC Binnopharm	8,216	8,216	8,216
Other	6,386	8,522	7,346
<b>Purchase of goods, work, services, property rights</b>			
JSC NVision Group	5,218	6,235	2,472
JSC RTI	-	656,900	-
OJSC VAO Intourist	-	155	19,405
JSC Binnopharm	-	34	43,198
JSC Sitronics	-	-	227,284
LLC Sistema Telecom Assets	-	-	119,606
JSC Steppe AgroHolding	-	-	15,370
PJSC Detsky Mir	-	-	12,811
JSC Leader Invest	-	-	1,285
Other	2,330	6,824	21,946
<b>Issuing non-interest-bearing loans and promissory notes</b>			
CJSC Region	60,842	60,842	60,842
LLC Davydovs' Estate	-	-	157,313
CJSC Cottagestroy-17	-	-	53,698
OJSC Medsi Holding	-	-	20,053
Other	1,585	1,585	1,585
<b>Interest on issued loans and notes received</b>			
LLC Sistema Hotel Management	502,833	29,024	-
LLC Kronstadt Group	486,170	151,886	25,101
JSC Mosdachtrest	422,764	232,003	71,446
CJSC RTI Microelectronics	373,672	4,040	210,409
JSC Sistema Finance	234,649	230,156	29,601
JSC Steppe AgroHolding	211,898	-	2,333
JSC Leader Invest	187,915	201,232	52,537
JSC PromTorgTsentr	140,399	118,357	96,315
Rangecroft Limited	121,074	-	-
LLC Altay Resort	96,309	74,709	53,109
Sistema Holding Ltd.	51,313	14,736	242,182
JSC Sitronics	46,900	155,334	652,711
JSC Binnopharm	27,398	27,360	27,322
PJSC MTS Bank	8,057	74,872	59,956
LLC Segezha Group	-	-	1,565,404
OJSC NPK NIIDAR	-	-	18,217
Other	54,446	34,250	23,617
<b>Dividends receivable</b>			
PJSC Detsky Mir	1,143,488	-	-
Other	319,630	319,630	319,630
<b>Bad debt allowance</b>	<u>(1,543,691)</u>	<u>(326,069)</u>	<u>(287,595)</u>
<b>Total</b>	<b><u>3,302,738</u></b>	<b><u>2,572,130</u></b>	<b><u>4,035,822</u></b>



**12.3. Accounts payable**

	(RUB thousand)		
	31 December		
	2017	2016	2015
<b>Purchase of goods, work, services, property rights</b>			
JSC Cottagestroy-17	7,800	3,900	-
PJSC MTS	4,009	3,035	3,393
JSC Jet Air Group	2,570	-	-
LLC Sistema Capital MC	2,363	-	-
JSC Premier Avia	1,980	-	26
LLC Serebryany Bor Complex	1,651	438	-
LLC Altay Resort	1,207	1,207	1,207
LLC Mac-Nabbs	257	2,177	1,901
JSC Sistema Invest	-	-	12,822
JSC Business Nedvizhimost	-	-	10,154
JSC MGTS Nedvizhimost	-	-	-
Other	1,258	1,105	823
<b>Sale of goods, works and services</b>	32	32	46
<b>Other</b>			
JSC Leader Invest	-	2,647	-
<b>Interest on loans received</b>			
Steppe AgroHolding:	-	1,950	-
JSC Sistema Finance	730	280	-
<b>Total</b>	<b>23,857</b>	<b>16,771</b>	<b>30,372</b>

**12.4. Investments**

Information on investments in debt securities and loans to related parties is provided in Notes 4.3 and 4.4.

**12.5. Cash flows with related parties**

	(RUB thousand)	
	2017	2016
<b>Cash flows from operating activities</b>		
Proceeds from sale of products, goods, works and services	13,236	21,386
Proceeds in form of dividends	15,920,810	33,619,480
Other proceeds from operating activities	39,649	213,658
Payment for goods, works and services	(386,690)	(493,134)
Payment of interest on debts	(2,049,543)	(2,355,620)
Other payments for operating activities	(32,741)	(326,546)
<b>Cash flows from investment activities</b>		
Proceeds from sale of fixed assets and other property	1,700	219
Proceeds from sale of shares and equity interests in other companies	1,277,085	12,648,912
Proceeds from repayment of loans and sale of debt securities	37,684,722	78,421,373
Received interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	2,038,550	5,132,883
Other proceeds from investment activities	894	1
Payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	(15,458)	(2,667)
Payments related to acquisition of shares and equity interests in other companies	(4,525,261)	(73,162,504)
Payments related to acquisition of debt securities, provision of loans to other entities	(57,585,030)	(53,043,602)
Other payments related to investment transactions	(227,262)	(20,778)
<b>Cash flows from financing activities</b>		
Receipt of borrowings	-	9,462,000
Payment of dividends and other income distribution to owners (shareholders)	(5,148,980)	(6,575,220)
Repayment of borrowings	(722,000)	(9,275,164)
<b>Total</b>	<b>(13,716,319)</b>	<b>(5,735,323)</b>

**13. BASIC AND DILUTED (LOSS)/EARNINGS**

Basic and diluted (loss)/earnings for 2017 and 2016 totalled:

	<u>2017</u>	<u>2016</u>
Basic and diluted (loss)/earnings, RUB thousand	(31,509,403)	(37,372,722)
Weighted average number of ordinary shares in circulation	<u>9,650,000,000</u>	<u>9,650,000,000</u>
<b>Basic and diluted (loss)/earnings per share, RUB</b>	<b>(3.3)</b>	<b>(3.9)</b>

**14. CONTINGENT LIABILITIES****Operating environment**

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. 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 and led to an increase in inflation, economic recession and other negative economic consequences. The impact of further economic and political developments on future operations and financial position of the Company might be significant.

**Guarantees**

As of 31 December 2017, the Company acted as guarantor for borrowings in the total amount of RUB 58,552,277 thousand.

**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 Company 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 differing interpretations, and the effects on the financial statements could be significant.

**Other**

In the ordinary course of business, the Company is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Company and its subsidiaries operate. The Company's management believes that the outcome of such court proceedings will not have a material negative impact on the Company's financial position, financial performance or liquidity.

**15. RISK MANAGEMENT POLICY**

The Company's business risks and risk management policy are disclosed in the quarterly report.

**16. EVENTS AFTER THE REPORTING DATE*****Dividend payout for the nine months of 2017***

The Company fulfilled the obligation to pay interim dividends for the nine months of 2017 by paying the total of RUB 2,349 million in December 2017 and January 2018. Based on the written request of Vladimir Evtushenkov, the majority shareholder and Chairman of the Board of Directors of the Company, the dividends due to him in the amount of RUB 4,213 million were not paid.

***Repayment of debt on loans***

In January 2018, the Company repaid the loan in Bank GPB (JSC) in the amount of RUB 5 billion.

***Lifting arrest and restrictions of shares owned by the Company***

On 19 February 2018, the Republic of Bashkortostan Arbitration Court lifted the arrest of 52.09% of the share capital of PJSC Detsky Mir and 90.47% of the share capital of JSC BPGC. The court also removed the previously imposed limitations on the right of the Company to receive income on the securities of PJSC Detsky Mir. On 1 March 2018, the court lifted the arrest of 31.76% in the share capital of PJSC MTS.

The court passed this decision taking into account the Settlement Agreement signed by the Company with Bashneft, Rosneft and the Ministry of Land and Property Relations of the Republic of Bashkortostan.

On 19 March 2018, the Arbitration Court of the Republic of Bashkortostan lifted all other restrictive measures imposed under the claims of Rosneft, Bashneft and Bashkortostan.

The bailiffs enforced the above-mentioned court decision and lifted all previously arrests of shares and restrictions.

***Receipt of dividends***

In February 2018, the Company received dividends on shares in PJSC Detsky Mir for 9 months 2017 in the amount of RUB 1,143 million.

***Issue of registration exempt bonds***

On 2 February 2018, the Company issued registration exempt series 001P-07 bonds with the total nominal value of RUB 10 billion on the Moscow Stock Exchange under the Registration Exempt Bond Programme. The rates for coupons 1-2 were set at 9.80% p.a.

The bonds maturity is 10 years, but bond holders are provided with exercisable put options within 1 year after the float. The coupon period is 182 days.

On 7 March 2018, the Company issued registration exempt series 001P-08 bonds with the total nominal value of RUB 15 billion on the Moscow Stock Exchange under the Registration Exempt Bond Programme. The rates for coupons 1-3 were set at 9.25% p.a. The bonds maturity is 10 years, but bond holders are provided with exercisable put options within 1.5 years after the float. The coupon period is 182 days.

***Performance of the settlement agreement signed with Rosneft, Bashneft and the Ministry of Land and Property Relations of the Republic of Bashkortostan***

On 27 February and 5 March 2018, the Company transferred to Bashneft a total of RUB 80 billion and thus fully discharged its liabilities under the Settlement Agreement.

On 19 March 2018, the Arbitration Court of the Republic of Bashkortostan lifted all interim measures imposed under the claims of Rosneft, Bashneft and Bashkortostan.

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 against the Company and Sistema Invest totalling RUB 131.6 billion, which were filed in December 2017, and closed the case.

The Company and JSC 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.

***Changes in the composition of the governance bodies***

On 13 March 2018, the new President of Sistema PJSFC, Andrey Dubovskov, took the office; he previously held the position of the President of PJSC MTS.

***Coupon payment on registration exempt bonds***

On 26 February 2018, the Company paid the fifth coupon yield on registration exempt bonds (issue 001P-05) in the amount of RUB 246.8 million.

On 12 March 2018, the Company paid the ninth coupon yield on registration exempt bonds (issue 001P-03) in the amount of RUB 248.1 million.

***Borrowings***

In February and March 2018, the Company took out loans totalling RUB 80 billion in JSC Gazprombank and PJSC Sberbank secured by a 52.09% stake in PJSC Detsky Mir and a stake in PJSC MTS, which is pledged only along with the drawdown of the loan issued by PJSC Sberbank.

***Retirement of registration exempt bonds***

On 12 March 2018, the Company redeemed series 001P-03 registration exempt bonds for the amount of RUB 10 billion.

Senior Vice President and CFO

Vsevolod Rozanov

Chief Accountant

Irina Borisenkova

30 March 2018