



**SISTEMA**  
**PUBLIC JOINT-STOCK FINANCIAL CORPORATION**

Annual General Meeting of Shareholders of Sistema PJSFC, 24 June 2017,  
Moscow, 13.1 Mokhovaya Str.

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**Accounting reports of  
Sistema PJSFC  
for 2016**

# **Sistema PJSFC**

Financial Statements for 2016  
and Auditor's Report

## **AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of Sistema Public Joint Stock Financial Corporation, which comprise:

- Balance sheet as of 31 December 2016;
- Statement of financial results for 2016;
- Appendices to the balance sheet and statement of financial results:
  - Statement of changes in equity for 2016;
  - Statement of cash flows for 2016;
  - Notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Russian accounting and financial reporting standards, and for the system of internal controls necessary for preparation of financial statements that are free of material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on fair presentation of the financial statements based on our audit. We conducted our audit in accordance with federal rules (standards) of auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our judgment which is based on the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the system of internal control relevant to the preparation and fair presentation of the financial statements 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 system of internal control.

The audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the fair presentation of the financial statements.

## Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Sistema Public Joint Stock Financial Corporation as of 31 December 2016, the results of its financial performance and its cash flows for 2016 in accordance with Russian accounting and financial reporting standards.

The Russian original signed by

Raikhman M.V., partner

ZAO Deloitte and Touche CIS

31 March 2017

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.

Audited entity: Sistema PJSFC

Certificate of State Registration No. 025.866.  
Issued by the Moscow Registration Chamber on 16 July 1993.

Primary state registration number (OGRN): 1027700003891

Certificate of registration in the Unified State Register of Legal Entities: 77 No. 011222220,  
issued on 11 November 2002 by the Moscow Inter-District Inspectorate of the Russian Federal Tax Service No. 46.

Location: 13/1 Mokhovaya St., Moscow, 125009 Russia.

Independent Auditor: 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 2016**

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**

Codes			
OKUD form			
0710001			
Date (day, month, year)	31	12	2016
OKPO			
27987276			
INN			
7703104630			
OKVED			
64.99.1			
OKOPF / OKFS		12247	16
OKEI		384	

Notes	Parameter	Code	As of 31 December 2016	As of 31 December 2015	As of 31 December 2014
	<b>ASSETS</b>				
	<b>I. NON-CURRENT ASSETS</b>				
	Intangible assets	1110	21,726	32,022	18,370
	Fixed assets	1150	1,610,438	1,732,950	2,504,601
	including:				
	Buildings	11501	1,268,488	1,345,513	2,001,503
	Other fixed assets	11502	339,932	385,867	411,780
	Fixed assets construction	11503	2,018	1,570	91,318
3	Investments	1170	345,946,535	321,103,936	278,462,198
	including:				
3.1	Units in mutual funds	11701	1,989,111	8,528,143	1,619,881
3.2	Shares and equity interests	11702	339,597,133	282,973,955	263,347,763
3.3	Debt securities	11703	3,360,291	11,848,444	6,000,000
3.4	Loans granted	11704	1,000,000	2,876,391	7,494,554
3.5	Bank deposits	11705	-	14,877,003	-
	Deferred tax assets	1180	6,733,029	4,043,370	13,802,753
	including:				
	Provisions	11801	1,680,851	1,223,334	162,559
	Prepaid expenses	11802	4,985,816	2,760,240	13,586,811
	Other non-current assets	1190	-	237,769	-
	including:				
	Interest receivable	11901	-	237,769	-
	Total for section I	1100	354,311,728	327,150,047	294,787,923
	<b>II. CURRENT ASSETS</b>				
	Inventories	1210	142,460	82,531	17,416
	including:				
	Materials	12101	31,329	18,996	8,660
	Prepaid expenses	12102	111,131	63,535	8,756
	Input VAT	1220	4,701	5,172	4,635
	Accounts receivable	1230	7,911,688	6,676,802	5,112,563
	including:				
	Settlements with suppliers and contractors	12301	110,700	172,534	122,496
	Settlements with buyers and customers	12302	377,108	630,997	372,892
	Settlements in respect of taxes and levies	12303	127,469	162,471	984,470
	Settlements in respect of social insurance and social security	12304	9,852	8,751	8,159
	Settlements with accountable persons and other settlements with employees	12305	7,982	7,874	9,507
	Settlements with various debtors and creditors	12306	7,277,651	5,373,441	3,294,021
	Non-interest bearing notes	12307	926	926	926
	Settlements in respect of dividends and other income due	12308	-	319,630	319,630
3	Investments (excluding cash equivalents)	1240	32,774,968	72,344,516	42,759,353
	including:				
3.3	Debt securities	12401	-	2,034,569	613,295
3.4	Loans granted	12402	24,572,149	41,926,018	42,146,058
3.6	Rights acquired as a result of rendering financial services	12403	3,712,238	-	-
3.5	Bank deposits	12404	4,490,581	28,383,929	-
	Cash and cash equivalents	1250	1,885,610	20,415,311	3,568,632
	including:				
	Cash on hand	12501	247	201	144
	Operating accounts	12502	1,784,869	4,755,084	848,684
	Foreign currency accounts	12503	93,334	581,323	2,713,692
	Other special accounts	12504	7,161	4,623	6,112
3.5	Bank deposits	12505	-	15,074,080	-
	Other current assets	1260	14,310	12,491	4,662
	Total for section II	1200	42,733,737	99,536,823	51,467,261
	<b>BALANCE</b>	1600	397,045,465	426,686,870	346,255,184

Notes	Parameter	Code	As of 31 December 2016	As of 31 December 2015	As of 31 December 2014
	<b>LIABILITIES</b>				
	<b>III. EQUITY AND LIABILITIES</b>				
	Authorised capital (share capital, authorised fund, contributions from partners)	1310	868,500	868,500	868,500
	Revaluation of non-current assets	1340	252,724	252,724	736,569
	including:				
	Revaluation of fixed assets	13401	252,724	252,724	736,569
	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	1370	207,692,978	255,198,200	224,898,714
	Total for section III	1300	246,565,907	294,071,129	264,255,488
	<b>IV. LONG-TERM LIABILITIES</b>				
5	Borrowings	1410	98,631,985	92,783,849	62,438,972
	including:				
	Credits	14101	35,098,535	38,932,405	18,000,000
	Loans	14102	30,333,450	36,441,350	28,129,200
	Debt securities	14103	33,200,000	17,410,094	16,309,772
	Deferred tax liabilities	1420	31,460	34,545	38,315
6	Provisions	1430	21,208,685	-	-
	Other liabilities	1450	514,845	-	-
	including:				
	Derivatives	14501	514,845	-	-
	Total for section IV	1400	120,386,975	92,818,394	62,477,287
	<b>V. SHORT-TERM LIABILITIES</b>				
5	Borrowings	1510	4,092,299	30,287,706	15,024,318
	including:				
	Credits	15101	2,000,000	2,000,000	10,200,000
	Loans	15102	722,000	-	-
	Interest on credits	15103	82,213	76,741	66,852
	Interest on loans	15104	259,718	309,387	238,817
	Debt securities (promissory notes, bonds, etc.) issued	15105	618,457	26,904,514	4,296,967
	Interest on debt securities (promissory notes, bonds, etc.) issued	15106	409,911	997,064	221,682
	Accounts payable	1520	3,781,191	3,399,402	3,692,882
	including:				
	Settlements with suppliers and contractors	15201	54,791	66,725	82,616
	Settlements with buyers and customers	15202	32	83	3,496
	Settlements in respect of taxes and levies	15203	17,010	23,288	23,397
	Settlements in respect of social insurance and social security	15204	29,325	19,506	343,423
	Settlements with staff in respect of payment for labour	15205	1,744	213	-
	Settlements with accountable persons	15206	1,128	1,230	1,489
	Dividends payable	15207	899	794	515
	Settlements with various debtors and creditors	15208	3,676,262	3,287,563	3,237,946
6	Allowances	1540	22,147,718	6,109,084	805,209
	Other liabilities	1550	71,375	1,155	-
	including:				
	Derivatives	15501	71,316	-	-
	Total for section V	1500	30,092,583	39,797,347	19,522,409
	<b>BALANCE</b>	1700	397,045,465	426,686,870	346,255,184

President and CFO \_\_\_\_\_  
(Signature)

**Vsevolod Rozanov**  
(printed name)

Chief  
Accountant \_\_\_\_\_  
(Signature)

**Irina Borisenkova**  
(printed name)

31 March 2017

**Statement of Financial Results  
for January - December 2016**

for January - December 2016		Codes			
		OKUD form	0710002		
		Date (day, month, year)	31	12	2016
Organisation	SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION		OKPO	27987276	
Taxpayer identification number			INN	7703104630	
Type of economic activity	Investments in securities		OKVED	64.99.1	
Business entity type / form of ownership	Public joint-stock company / private ownership		OKOPF / OKFS	12247	16
Measure unit:	thousand roubles		OKEI	384	

Notes	Parameter	Code	For January - December 2016	For January - December 2015
	Revenue	2110	36,665,582	30,843,245
	including:			
	Equity holdings in other companies	21101	36,635,669	30,794,973
7	Cost of sales	2120	-	(19,675)
	Gross profit	2100	36,665,582	30,823,570
7	Administrative expenses	2220	(11,460,300)	(10,190,853)
	including:			
	Payroll and social security contributions	22201	(10,309,229)	(9,123,279)
	Profit from sales	2200	25,205,282	20,632,717
	Interest income	2320	5,285,355	8,908,439
5	Interest expense	2330	(11,362,516)	(9,073,920)
	Other income	2340	81,398,676	97,047,630
	including:			
	Income from sale of fixed assets	23401	8,883	6,950
	Income from sale of securities	23402	37,162,279	2,539,003
3.7	Income from restored allowances	23403	2,717,706	5,812,668
	Foreign exchange gains	23404	1,754,084	-
4	Revaluation of quoted investments	23405	32,403,297	14,823,902
	Sale (purchase) of foreign currency	23406	1,798,536	605,028
9	Recovery of losses by court order	23407	-	70,726,702
	Excess of contractual values of equity holdings over their book values	23408	4,317,347	2,355,850
	Income related to collection of receivables as a financial service	23409	1,122,120	1,000
	Other expenses	2350	(138,572,228)	(71,367,743)
	including:			
	Expenses related to sale of fixed assets	23501	(107)	(5,137)
	Expenses related to sale of securities	23502	(38,010,658)	(6,313,175)
3.7	Expenses related to recognised allowances	23503	(41,786,537)	(45,277,227)
6	Expenses related to recognised provisions	23504	(55,478,236)	-
9	Charity and financial support	23505	(713,126)	(6,520,578)
9	Derecognition of payables from LLC Ural-Invest following signing of a settlement agreement	23506	-	(9,127,157)
	Excess of contractual values of equity holdings over their book values	23507	-	(831,493)
	Expenses related to collection of receivables as a financial service	23508	-	(1,813,500)
	Expenses related to financial derivatives	23509	(1,097,385)	-
	(Loss)/income before tax	2300	(38,045,431)	46,147,123
8	Current income tax	2410	(1,477)	-
	including permanent tax liabilities	2421	(12,244,714)	(6,685,183)
8	Change in deferred tax liabilities	2430	3,084	3,770
8	Change in deferred tax assets	2450	2,689,659	(9,759,383)
	Other	2460	(2,018,557)	(1,930,282)
	including:			
8	Taxes payable in respect of dividends and other income due	24601	(2,018,541)	(1,930,282)
	Fines and penalties for violation of tax and other laws	24602	(17)	-
	Net income / (loss)	2400	(37,372,722)	34,461,228

Notes	Parameter	Code	For January - December 2016	For January - December 2015
	<b>FOR REFERENCE</b>			
	Gain/(loss) from revaluation of non-current assets not included in the net income/ (loss) for the period	2510	-	(483,845)
	Gross financial result for the period	2500	(37,372,722)	33,977,383
12	Basic (loss)/ earnings per share (in roubles)	2900	(3.9)	3.6
12	Diluted (loss)/ earnings per share (in roubles)	2910	(3.9)	3.6

Chief Executive Officer and CFO

(Signature)

**Vsevolod Rozanov**

(printed name)

Chief Accountant

(Signature)

**Irina Borisenkova**

(printed name)

31 March 2017



**Statement of Changes in Equity  
for January - December 2016**

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

Codes		
OKUD form <b>0710003</b>		
Date (day, month, year)	<b>31</b>	<b>12</b> <b>2016</b>
OKPO	<b>27987276</b>	
INN	<b>7703104630</b>	
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	Total
Equity as of 31 December 2014	3100	868,500	-	38,444,849	43,425	224,898,714	264,255,488
For 2015							
Equity increase, total:	3210	-	-	-	-	34,834,986	34,834,986
including:							
net income	3211	X	X	X	X	34,834,986	34,834,986
Equity decrease, total:	3220	-	-	(483,845)	-	(4,535,500)	(5,019,345)
including:							
revaluation of assets	3222	X	X	(483,845)	X	-	(483,845)
dividends	3227	X	X	X	X	(4,535,500)	(4,535,500)
Equity as of 31 December 2015	3200	868,500	-	37,961,004	43,425	255,198,200	294,071,129
For 2016							
Equity increase, total:	3310	-	-	-	-	-	-
Equity decrease, total:	3320	-	-	-	-	(47,505,222)	(47,505,222)
including:							
net loss	3321					(37,372,722)	(37,372,722)
dividends	3327	X	X	X	X	(10,132,500)	(10,132,500)
Equity as of 31 December 2016	3300	868,500	-	37,961,004	43,425	207,692,978	246,565,907

**3. Net assets**

Parameter	Code	As of 31 December 2016	As of 31 December 2015	As of 31 December 2014
Net assets	3600	246,565,907	294,071,129	264,255,488

Senior Vice President \_\_\_\_\_  
(Signature)

**Vsevolod Rozanov**  
(printed name)

Chief Accountant \_\_\_\_\_  
(Signature)

**Irina Borisenkova**  
(printed name)

31 March 2017

**Statement of Cash Flows  
for January - December 2016**

for January - December 2016		Codes		
		0710004		
Date (day, month, year)		31	12	2016
Organisation	<b>SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION</b>	OKPO	27987276	
Taxpayer identification number		INN	7703104630	
Type of economic activity	<b>Investments in securities</b>	OKVED	64.99.1	
Business entity type / form of ownership	<b>Public joint-stock company /private ownership</b>	OKOPF / OKFS	12247	16
Measure unit:	thousand roubles	OKEI	384	

Parameter	Code	For January - December 2016	For January - December 2015
<b>Cash flow from operating activities</b>			
Total cash inflows	4110	35,164,387	29,689,335
including:			
proceeds from sale of products, goods, works and services	4111	37,944	55,124
dividends	4114	34,619,480	28,864,689
other receipts	4119	506,963	769,522
Total cash outflows	4120	(22,218,371)	(14,630,099)
including:			
payments to suppliers (contractors) for raw and consumable materials, works and services	4121	(1,379,182)	(1,392,636)
remuneration to employees	4122	(7,823,657)	(4,297,027)
payments of interest on borrowings	4123	(11,663,053)	(8,163,268)
income tax	4124	(1,542)	(3,652)
other payments	4129	(1,350,937)	(773,516)
Net cash flow from operating activities	4100	12,946,016	15,059,236
<b>Cash flow from investing activities</b>			
Total cash inflows	4210	145,122,498	71,526,934
including:			
proceeds from sale of non-current assets (except for investments)	4211	9,196	7,195
proceeds from sale of shares and equity interests in other companies	4212	18,771,443	1,727,835
proceeds from repayment of loans and sale of debt securities (rights to claim cash payments from other parties)	4213	82,006,980	41,242,501
dividends, interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	4214	7,725,645	5,577,830
proceeds from bank deposits	4215	36,609,233	8,647,596
other receipts	4219	1	14,323,976
Total cash outflows	4220	(154,904,420)	(102,826,161)
including:			
payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	4221	(3,706)	(48,313)
payments related to acquisition of shares and equity interests in other companies	4222	(97,981,051)	(50,797,188)
payments related to acquisition of debt securities (rights to claim cash payments from other parties), provision of loans to other parties	4223	(56,898,840)	(39,118,888)
cash flows to bank deposits	4225	-	(12,621,896)
other payments	4229	(20,823)	(239,875)
Net cash flow from investing activities	4200	(9,781,922)	(31,299,227)

Parameter	Code	For January - December 2016	For January - December 2015
<b>Cash flow from financial activities</b>			
Total cash inflows	4310	49,960,147	49,395,165
including:			
receipt of borrowings	4311	33,462,000	22,698,224
proceeds from issue of bonds, promissory notes, other debt securities, etc.	4314	16,497,937	26,696,663
other receipts	4319	210	279
Total cash outflows	4320	(72,653,811)	(17,735,117)
including:			
dividends and other income distribution payments to owners (shareholders)	4322	(10,128,882)	(4,534,196)
payments (redemption) of promissory notes and other debt securities; repayment of borrowings	4323	(61,731,150)	(13,200,075)
other payments	4329	(793,779)	(846)
Net cash flow from financial activities	4300	(22,693,664)	31,660,048
<b>Net cash flow for the reporting period</b>	4400	(19,529,570)	15,420,056
<b>Opening balance of cash and equivalents</b>	4450	20,415,311	3,568,632
<b>Closing balance of cash and equivalents</b>	4500	1,885,610	20,415,311
Effect of changes in foreign exchange rates against the rouble	4490	999,869	1,426,623

Senior Vice President at \_\_\_\_\_  
(Signature)

**Vsevolod Rozanov**  
(printed name)

Chief Accountant \_\_\_\_\_  
(Signature)

**Irina Borisenkova**  
(printed name)

31 March 2017

### 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: 1125009, Russian Federation, Moscow, 13/1 Mokhovaya St.

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

The main types of the Company's business activities are:

- equity holdings in other companies;
- leasing out assets (properties) for a fee;
- issuing guarantees.

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 2016 and 2015 was 295 and 281 people respectively.

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

### ORGANISATION OF FINANCIAL ACCOUNTING

The Company's financial statements were compiled 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 2016, 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. U-104/15 dated 31 December 2015.

#### ***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 was going to continue its operations in the foreseeable future and that the Company did not have any intention or need to wind up or significantly scale down its operations and, therefore, all the liabilities of the Company would be settled in due course.

### ***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. 94n, 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.

### ***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 2016 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, that was conducted as of 1 November 2016.

### ***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 2016, 2015, and 2014.

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.

### ***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).

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.

### ***Revenue recognition***

The Company's income, depending on its nature, source and business area, are 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 are 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 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.

### ***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.

### ***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.



## ***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.

## ***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 is 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 is 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). Excess income tax payments are not included in deferred tax assets (in the balance sheet, they are recorded as other accounts receivable).

## INVESTMENTS

### Units in mutual funds

Investments in units in mutual funds as of 31 December 2016, 2015 and 2014 are presented as follows:

	(RUB thousand)		
	31 December		
	2016	2015	2014
Closed-end mutual fund "Creditny 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	4,036,314	-
OMBF "Rezervny" managed by LLC Sistema Capital	-	2,744,893	-
Less impairment allowance	(521,574)	(568,147)	(695,202)
<b>Total</b>	<b>1,989,111</b>	<b>8,528,143</b>	<b>1,619,881</b>

In 2015, the Company acquired stakes in OMBF "Rezervny" and OMBF "Rezervny. Foreign Currency Investments" managed by LLC Sistema Capital. 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.

### Shares and equity interests

Investments in the shares and equity interests of subsidiaries and affiliates as of 31 December 2016, 2015 and 2014 are presented as follows:

	(RUB thousand)		
	31 December		
	2016	2015	2014
PJSC MTS (Note 4)	175,355,534	143,282,613	128,496,822
TCF Projects Pte.Ltd (i)	70,282,093	69,176,591	64,984,242
FCD Projects Pte.Ltd (i)	43,595,908	10,872,328	-
PJSC MTS Bank (ii)	39,211,767	27,782,202	27,782,202
OJSC RTI	22,944,442	19,169,283	21,587,069
Sistema Finance S.A. (iii)	20,753,907	10,825,964	10,825,964
Sistema Shyam Teleservices Limited	19,357,845	19,357,845	19,357,845
JSC Steppe Agro Holding (iv)	17,200,018	8,900,030	30
JSC Medsi Group (v)	14,714,916	14,714,916	1,630,589
JSC Business Nedvizhimost (vi)	13,293,932	9,943,938	6,305,941
LLC Sistema Telecom Assets	8,663,340	8,663,340	8,663,340
LLC Kronstadt Group (vii)	7,980,499	3,726,724	-
LLC Segezha Group (viii)	7,560,561	-	-
JSC Leader Invest	6,401,138	6,401,138	6,401,138
OJSC SG-trading	4,924,701	4,924,701	4,924,701
OJSC VAO Intourist	4,782,733	4,782,733	4,782,733
JSC Mosdachtrest	3,899,126	3,899,126	3,899,126
PJSC Detsky Mir	3,290,002	3,290,391	4,215,747
JSC Sistema Venture Capital	2,423,756	2,423,756	2,423,756
JSC SG-trans (ix)	-	5,866,633	5,866,633
JSC Targin (x)	-	4,101,441	4,101,441
Ozon Holdings Limited (xi)	-	2,707,148	2,707,148
Ecu Gest Holding S.A. (iii)	-	2,129,596	5,322
OJSC NIS (xii)	-	-	4,043,168
Other	11,554,461	12,838,206	8,472,008
Less allowance for impairment	(158,593,546)	(116,806,688)	(78,129,202)
<b>Total</b>	<b>339,597,133</b>	<b>282,973,955</b>	<b>263,347,763</b>

(i) In 2015-2016, the Company invested in TCF Projects Pte.Ltd and FCD Projects Pte.Ltd to finance repayment of the debt of Sistema Shyam Teleservices Limited.

(ii) In 2016, the Company acquired 10,004,647 additionally issued ordinary shares in 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 December 2015, the Company acquired 222,500 additionally issued ordinary shares in JSC Steppe Agro Holding (previous name JSC Krasnodar Agro) for RUB 8.9 billion. In 2016, the Company acquired 207,500 additionally issued ordinary shares in JSC Steppe Agro Holding for RUB 8.3 billion.
- (v) In Q4 2015, the Company acquired 25.02% and 24.98% in Medsi Group for RUB 6.1 billion (50% was paid under a one-year instalment plan) and RUB 7 billion, respectively, which made it possible to increase the Company's equity interest in Medsi Group to 100%.
- (vi) In June 2015, the Company acquired 46,827 additionally issued ordinary shares in JSC Business Nedvizhimost for a consideration of buildings and 100% of equity in PJSC Detsky Mir Retail Assets.  
As a result of the contribution of property/title to the authorised capital of JSC Business Nedvizhimost, the Company recognised RUB 2.2 billion in gains, reported in line 23408 of the Statement Financial Results for 2015 "Excess of contractual values of equity holdings over their book values". In December 2016, the Company acquired 83,846 additionally issued ordinary shares in JSC Business Nedvizhimost for RUB 3.3 billion.
- (vii) In November 2015, the Company acquired 74.04% in LLC Kronstadt Group for a consideration of property titles (shares in and promissory notes issued by JSC Kronstadt Group acquired in 2015) with a total worth of RUB 3.7 billion. In June and December 2016, the Company made additional contributions to the authorised capital of LLC Kronstadt Group in a total amount of RUB 4.25 billion, increasing its direct shareholding to 91.79%.
- (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.
- (xii) In January 2015, the Company's entire equity holding in PJSC NIS was sold to PJSC MGTS for RUB 44 million. The sale had no impact on the net income for 2015, as the Company had accrued an allowance for the impairment of the investment in NIS shares in 2014.

### **Debt securities**

Debt securities as of 31 December 2016, 2015 and 2014 are presented as follows:

(RUB thousand)					
	Maturity	Interest rate (31 December 2016)	31 December		
			2016	2015	2014
<b>RUB-denominated:</b>					
Promissory notes issued by RTI Microelectronics	ASNE 01.01.2027	11.0%	3,360,291	-	-
Promissory notes issued by LLC Segezha Group			-	6,000,000	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	-
JSC NIIDAR NPK			-	1,278,682	-
JSC Mosdachtrest			-	-	613,295
Other			353,774	520,804	353,774
Less allowance for impairment			(353,774)	(1,801,974)	(353,774)
<b>Total</b>			<b>3,360,291</b>	<b>13,883,013</b>	<b>6,613,295</b>
Long-term			3,360,291	11,848,444	6,000,000
Short-term			-	2,034,569	613,295
<b>Total</b>			<b>3,360,291</b>	<b>13,883,013</b>	<b>6,613,295</b>

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

## Loans granted

Loans granted as of 31 December 2016, 2015 and 2014 are presented as follows:

			(RUB thousand)		
	Maturity	Interest rate (31 December 2016)	2016	31 December 2015	2014
<b>USD-denominated:</b>					
Sistema Holding Ltd.	OD	0.50%	3,882,042	18,796,448	9,502,044
PJSC MTS Bank			-	2,630,008	2,255,309
			3,882,042	21,426,456	11,757,353
<b>RUB-denominated:</b>					
JSC Sistema Finance	OD	10.50%	7,624,000	2,140,000	-
LLC Sistema Hotel Management	OD	11.10%	2,900,000	-	-
LLC Sistema Telecom Assets	OD	10.50%	2,000,000	-	-
JSC Mosdachtrest	OD	13.00%	1,600,000	1,600,000	-
JSC Sistema Venture Capital	OD	12.70%	1,071,793	-	-
PJSC MTS Bank	31.10.2021	1.25%	1,000,000	1,000,000	1,000,000
LLC Kronstadt Group	OD	13.00%	975,270	975,270	-
JSC Leader Invest	OD	10.00%	857,023	857,023	-
JSC Sitronics	OD	4.50%	735,528	5,848,293	3,180,000
JSC Leader Invest	OD	13.00%	714,448	414,448	335,448
LLC Segezha Group			-	4,836,000	6,000,000
Steppe Agro Holding			-	3,274,560	-
CJSC RTI Microelectronics			-	548,084	3,553,854
CLIPPERS FINANCE S.A.			-	-	6,035,274
NVision Group			-	-	4,500,000
Steppe Agro Holding			-	-	3,397,087
OJSC Sitronics-N			-	-	3,000,000
OJSC NPK NIIDAR			-	-	2,727,000
Other			4,332,401	5,422,462	7,324,509
Less allowance for impairment			(2,120,356)	(3,540,187)	(3,169,913)
			21,690,107	23,375,953	37,883,259
<b>Total</b>			<b>25,572,148</b>	<b>44,802,409</b>	<b>49,640,612</b>
Long-term			1,000,000	2,876,391	7,494,554
Short-term			24,572,149	41,926,018	42,146,058
<b>Total</b>			<b>25,572,149</b>	<b>44,802,409</b>	<b>49,640,612</b>

Note: OD means "on demand".

### **Bank deposits**

Bank deposits as of 31 December 2016, 2015 and 2014 are presented as follows:

	(RUB thousand)		
	31 December		
	2016	2015	2014
<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	-
	4,245,983	27,185,247	-
<b>RUB-denominated:</b>			
Vneshprombank	909,153	909,153	-
Urals Bank of Reconstruction and Development	244,598	1,984,108	-
PJSC VTB Bank	-	16,476,770	-
Ufa branch of Bank Uralsib	-	4,037,327	-
Bank Otkritie	-	3,265,157	-
Absolut Bank	-	2,500,000	-
Petrocommerce branch of Bank Otkritie	-	1,100,000	-
Other	-	1,786,403	-
Less allowance for impairment	(909,153)	(909,153)	-
	244,598	31,149,765	-
<b>Total</b>	<b>4,490,581</b>	<b>58,335,012</b>	<b>-</b>
Long-term	-	14,877,003	-
Short-term	4,490,581	28,383,929	-
Cash equivalents	-	15,074,080	-
<b>Total</b>	<b>4,490,581</b>	<b>58,335,012</b>	<b>-</b>

### **Rights acquired as a result of rendering financial services**

Rights acquired as a result of rendering financial services as of 31 December 2016, 2015 and 2014 are presented as follows:

	(RUB thousand)		
	31 December		
	2016	2015	2014
PJSC MTS Bank	3,712,238	-	-
LLC AlfaPlast	-	-	641,700
LLC Geocom	-	-	613,800
CJSC ConsultMedia	-	-	558,000
Less allowance for impairment	-	-	(1,813,500)
<b>Total</b>	<b>3,712,238</b>	<b>-</b>	<b>-</b>

### ***Allowance for impairment of investments***

The data on allowances for impairment of investment, the amount of allowances made and used in 2016 and 2015 are recorded as follows:

	As of 31 December 2014	Allowance created/ recovered	Allowance used	As of 31 December 2015	Allowance created/ recovered	Allowance used	(RUB thousand) As of 31 December 2016
<b>Units in mutual funds</b>							
CEIF Kreditny 1	695,202	(127,055)	-	568,147	(46,573)	-	521,574
	<b>695,202</b>	<b>(127,055)</b>	<b>-</b>	<b>568,147</b>	<b>(46,573)</b>	<b>-</b>	<b>521,574</b>
<b>Shares and equity interests</b>							
Sistema Shyam Teleservices Limited	19,357,845	-	-	19,357,845	-	-	19,357,845
TCF Projects Pte. Ltd	54,212,952	14,781,432	-	68,994,384	182,207	-	69,176,591
FCD Projects Pte. Ltd	-	10,872,328	-	10,872,328	25,769,190	-	36,641,518
PJSC MTS Bank	-	11,945,362	-	11,945,362	11,978,806	-	23,924,168
JSC SG-trading	-	4,042,159	-	4,042,159	(38,869)	-	4,003,290
PJSC NIS	3,999,168	-	(3,999,168)	-	-	-	-
Other	559,237	1,035,373	-	1,594,610	3,900,120	(4,596)	5,490,134
	<b>78,129,202</b>	<b>42,676,654</b>	<b>(3,999,168)</b>	<b>116,806,688</b>	<b>41,791,454</b>	<b>(4,596)</b>	<b>158,593,546</b>
Loans granted	3,169,913	370,274	-	3,540,187	(289,022)	(1,130,810)	2,120,356
Debt securities	353,774	1,448,200	-	1,801,974	-	(1,448,200)	353,774
Rights acquired as a result of rendering financial services	1,813,500	-	(1,813,500)	-	-	-	-
Deposits	-	909,153	-	909,153	-	-	909,153
<b>Total</b>	<b>84,161,591</b>	<b>45,277,227</b>	<b>(5,812,668)</b>	<b>123,626,150</b>	<b>41,455,859</b>	<b>(2,583,606)</b>	<b>162,498,403</b>

In 2016 and 2015, 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.

#### 4. LISTED SECURITIES

The value of the Company's investments in shares that have a market value as of 31 December 2016, 2015 and 2014 is presented as follows:

	(RUB thousand)	
	MTS	Other
<b>Balance 31 December 2014</b>		
Number of shares	636,224,752	n/a
Market price per share, RUB	201.97	n/a
	<b>128,496,822</b>	<b>110,362</b>
Revaluation	14,785,791	38,111
Disposal	-	-
<b>Balance as of 31 December 2015</b>		
Number of shares	636,224,752	n/a
Market price per share, RUB	225.21	n/a
	<b>143,282,613</b>	<b>148,473</b>
Revaluation	32,446,509	(43,212)
Disposal	(373,588)	-
<b>Balance as of 31 December 2016</b>		
Number of shares	634,674,257	n/a
Market price per share, RUB	276.29	n/a
	<b>175,355,534</b>	<b>105,261</b>

Gain on revaluation of listed securities amounted to RUB 32,403,297 thousand in 2016 and RUB 14,823,902 thousand in 2015.

#### BORROWINGS

The repayment terms of key types of borrowings as of 31 December 2016 are presented as follows:

	(RUB thousand )			
	up to 1 year	1 year - 5 years	over 5 years	Total
Credits	2,000,000	35,098,535		37,098,535
Bond issues	-	33,200,000	-	33,200,000
Loans	722,000	30,333,450	-	31,055,450
Debt securities (promissory notes, bonds, etc.) issued	618,457	-	-	618,457
<b>Total</b>	<b>3,340,457</b>	<b>98,631,985</b>	<b>-</b>	<b>101,972,442</b>

Outstanding bonds are presented as follows:

				(RUB thousand)
	Maturity	31 December		
		2016	2015	2014
Bonds Reg. no. 4B02-03-01669-A-001P	12.03.2018	10,000,000	10,000,000	-
Bonds Reg. no. 4B02-05-01669-A-001P	21.02.2020*	10,000,000	-	-
Bonds Reg. no. 4B02-04-01669-A-001P	06.11.2020*	6,500,000	-	-
Bonds Reg. no. 4B02-01-01669-A-001P	09.10.2018*	5,000,000	5,000,000	-
Bonds Reg. no. 4B02-02-01669-A-001P	08.11.2019*	1,700,000	1,700,000	-
Bonds Reg. no. 4-03-01669-A		-	14,958,545	14,958,545
Bonds Reg. no. 4B02-01-01669-A		-	10,000,000	-
Bonds Reg. no. 4-04-01669-A		-	1,495,969	4,488,101
<b>Total</b>		<b>33,200,000</b>	<b>43,154,514</b>	<b>19,446,646</b>

\* date of irrevocable offer

Outstanding loans are presented as follows:

		(RUB thousand)		
	Maturity	31 December		
		2016	2015	2014
Sistema International Funding S.A.	17.05.2019	30,328,450	36,441,350	28,129,200
JSC Steppe Agro Holding	OD	722,000	-	-
JSC Sistema Finance	19.01.2019	5,000	-	-
<b>Total</b>		<b>31,055,450</b>	<b>36,441,350</b>	<b>28,129,200</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 recorded as follows:

		(RUB thousand)		
	Maturity	31 December		
		2016	2015	2014
PJSC VTB Bank	07.09.2018	12,000,000	12,000,000	-
PJSC Sberbank	27.12.2019	12,000,000	-	-
PJSC Sberbank	10.04.2018	2,000,000	4,000,000	6,000,000
PJSC Sberbank	10.04.2017	2,000,000	-	-
PJSC Sberbank		-	2,000,000	-
China Development Bank	15.11.2021*	9,098,535	10,932,405	-
PJSC Sberbank		-	12,000,000	12,000,000
Raiffeisenbank		-	-	5,700,000
PJSC Sberbank		-	-	4,500,000
<b>Total</b>		<b>37,098,535</b>	<b>40,932,405</b>	<b>28,200,000</b>

\* scheduled final maturity

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. As of 31 December 2016, the Company is in full compliance with the terms and requirements of outstanding bonds, loan agreements and facility agreements.

Interest accrued on borrowings in 2016 and 2015 totalled RUB 11,106,950 thousand and RUB 8,879,635 thousand, respectively.

As of 31 December 2016, the Company has access to RUB 87.1 billion in committed credit facilities and target treasury lines.



## PROVISIONS

Changes of provisions in 2016, 2015 and 2014 are presented as follows:

(RUB thousand)				
	Under agreements (i)	Payment of bonuses	Payment for unused leaves	Total
Balance as of 31 December 2014	-	22,428	782,781	805,209
Increase of provisions	-	4,963,469	771,898	5,735,367
Use of provisions	-	(22,428)	(409,064)	(431,492)
Balance as of 31 December 2015	-	4,963,469	1,145,615	6,109,084
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)
Balance as of 31 December 2016	34,959,732	7,592,853	803,818	43,356,403
Long-term	21,208,685	-	-	21,208,685
Short-term	13,751,047	7,592,853	803,818	22,147,718
Total	34,959,732	7,592,853	803,818	43,356,403

- (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.

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, the Company created provisions for their execution in the total amount of RUB 55.5 billion.

## EXPENSES ON ORDINARY OPERATIONS

Expenses on ordinary operations broken down by cost items in 2016 and 2015 are presented as follows:

	2016	(RUB thousand) 2015
Payroll expenses	8,945,276	7,833,003
Social security charges	1,363,953	1,290,276
Depreciation	170,201	177,683
Cost of materials	23,349	23,365
Other expenses	957,521	886,201
<b>Total</b>	<b>11,460,300</b>	<b>10,210,528</b>

## INCOME TAX

Changes of the income tax for 2016 and 2015 are presented as follows:

	2016	(RUB thousand) 2015
<b>(Loss)/income before tax</b>	<b>(38,045,431)</b>	<b>46,147,123</b>
including		
dividends taxed at 0%	20,089,247	14,779,149
dividends taxed at 13%	16,545,225	16,015,824
losses taxed at 20%	(74,679,903)	15,352,150
<b>Theoretical expense (on)/from income tax</b>	<b>(12,917,439)</b>	<b>5,000,712</b>
Permanent tax liabilities/ (assets)	12,244,714	6,685,183
Including		
Revaluation of quoted investments	(6,480,659)	(2,964,780)
Recognition of allowances	7,835,600	7,741,960
Recognition of provisions	11,095,647	-
Other	(205,874)	1,908,003
Change in deferred tax assets	2,689,659	(9,759,383)
Change in deferred tax liabilities	3,084	3,770
Tax on income in form of dividends	(2,018,541)	(1,930,282)
<b>Current income tax</b>	<b>(1,477)</b>	-
incl. for controlled foreign entities	(1,477)	-

## SETTLEMENT WITH LLC URAL-INVEST

In September 2014, the Prosecutor General 's Office of the Russian Federation filed a lawsuit with the Arbitration Court of Moscow for the Russian Federation to seeking the transfer of the shares of Bashneft then owned by the Company. The claim asserted that the transfer of the property from the Russian Federation to the Republic of Bashkortostan in 1992-1993 had been unlawful, as no requisite consent had been obtained from the federal authorities, and therefore all subsequent transactions with the Bashneft shares should be considered null and void. On 7 November 2014, the court ruled for the ordinary and preference Bashneft shares then held by the Company to be transferred from the Company to the Russian Federation. The shares were transferred in December 2014.

In December 2014, the Company filed a lawsuit with the Moscow Court of Arbitration against LLC Ural-Invest, the successor of the counterparties from whom the Company had bought shares of Bashneft, seeking recovery of losses caused by the transfer of shares in Bashneft of a RUB 70.7 billion. The Court upheld the Company's lawsuit in April 2015.

In March 2015, Sistema and Ural-Invest signed a settlement agreement, later approved by the court. Pursuant to the agreement, all assets held by LLC Ural-Invest, including cash and financial instruments of RUB 48.5 billion, were handed over to the Company, which proceeded to contribute RUB 4.6 billion of the funds received to Ural Charity Fund.

In April 2015, the Company received an additional RUB 12.9 billion in cash and financial instruments.

In the Company's balance sheet deposits and debt securities received under the settlement agreement are recorded as long- and short-term investments, including interests charged as of the date of transfer of the relevant titles and still outstanding as of 31 December 2015.

The following gains and losses are recognized in the statement of financial results :

- other gains of RUB 70.7 billion as result of upholding by the Company's lawsuit against Ural-Invest seeking recovery of losses by the Arbitration Court (line 23407);
- other losses of RUB 9.1 billion which represent the difference between the loss to be recovered to the Company pursuant to the decision of the Arbitration Court and the value of assets received under the settlement agreement (line 23509);
- other losses of RUB 6.5 billion as result of the transfer of assets to Ural Charity Fund (line 23505);

The statement of cash flows (SCF) for 2015 presented the following cash flows:

- the receipt of the title to cash and deposits with maturity up to 92 days (cash equivalents) was recognized in line 4219 "Other receipts /Investment activities" of RUB 14.3 billion. The recovery of these cash equivalents is not presented in the SCF according to Accounting Standard (PBU) 23/2011;
- the receipt of title to long- and short-term deposits is not presented in the SCF according to Accounting Standard (PBU) 23/2011. The recovery of these deposits is presented in line 4215 "Cash flow from bank deposits/Investment activities".

## BOARD OF DIRECTORS AND MANAGEMENT BOARD

Members of the Board of Directors in 2016:

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
Brian Dickie	Independent director (until 25/06/2016)
Andrey Dubovskov	Non-executive director
Felix Evtushenkov	Member of the Board of Directors, First Vice President, Investment Portfolio Manager
Dmitry Zubov	Non-executive director (until 25/06/2016)
Patrick Clanwilliam	Independent Director
Robert Kocharyan	Independent director, chairman of the Nomination, Remuneration and Corporate Governance Committee
Jeannot Krecké	Independent Director
Peter Mandelson	Independent Director
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 2016:

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
Nikolay Vasilkov	Vice President, Head of Strategy Function (until 12/03/2016)
Elena Vitchak	Vice President, Head of HR Department
Alexander Gorbunov	Vice President, Telecom Assets Manager
Artyom Zasursky	Vice President, Head of Strategy Function (from 21/05/2016)
Valentin Korchunov	Vice President, Investment Portfolio Manager
Leonid Monosov	Vice President, Investment Portfolio Manager
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 IT and Security Department

The total amount of remuneration paid to the members of the Board of Directors and Management Board for 2016 and 2015 (including compulsory retirement and health insurance contributions) is presented as follows:

	<b>2016</b>	<b>(RUB thousand) 2015</b>
Short-term bonuses	4,597,040	3,747,687
Remuneration in the form of issuer's option plans and shares	1,739,800	929,796
<b>Total</b>	<b>6,336,840</b>	<b>4,677,483</b>

## RELATED PARTIES

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

### *Related party transactions*

	<b>2016</b>	<b>(RUB thousand) 2015</b>
<b>Interest expenses from loans and deferred payment</b>		
JSC Sistema Finance	60,630	-
Steppe Agro Holding	1,950	-
CJSC MGTS Nedvizhimost	-	106,616
<b>Total</b>	<b>62,580</b>	<b>106,616</b>

		(RUB thousand)	
<b>Interest income</b>		<b>2016</b>	<b>2015</b>
LLC Segezha Group		939,571	1,346,819
JSC Sistema Finance		471,736	511,100
Business Nedvizhimost		449,491	57,295
JSC Steppe Agro Holding		443,277	426,651
RTI Microelectronics		328,184	185,299
JSC Mosdachtrest		230,101	130,389
LLC Kronstadt Group		197,414	72,368
JSC Leader Invest		148,696	127,880
NPK NIIDAR		127,169	317,702
JSC Sitronics		130,535	197,324
Rangecroft Limited		103,493	100,895
PJSC MTS Bank		103,249	40,622
Sistema Holding Ltd.		58,022	59,210
JSC NVision Group		-	495,516
OJSC Sitronics-N		-	66,925
Other		120,018	361,013
<b>Total</b>		<b>3,850,956</b>	<b>4,497,008</b>
<b>Sale of goods, works and services</b>		<b>2016</b>	<b>2015</b>
CJSC DM Finance		13,429	-
LLC Sistema Capital		5,014	2,137
LLC STA Capital		140	2,948
LLC LP Management		-	8,252
CJSC Business Nedvizhimost		-	7,675
Other		1,236	1,388
<b>Total</b>		<b>19,819</b>	<b>22,400</b>
<b>Dividends received</b>		<b>2016</b>	<b>2015</b>
PJSC MTS		16,541,844	16,013,777
Sistema Finance S.A.		5,386,793	-
CJSC DM Finance		5,256,000	-
LLC Sistema Telecom Assets		4,999,990	-
PJSC Detsky Mir		3,213,293	2,202,319
OJSC Sistema Invest		-	12,000,040
Other		237,749	576,790
<b>Total</b>		<b>35,635,669</b>	<b>30,792,926</b>
<b>Sale of other property</b>		(RUB thousand)	
	<b>Type of earnings</b>	<b>2016</b>	<b>2015</b>
LLC Sistema Capital	sale of shares, interests and stakes	7,653,586	1,683,835
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	1,076,323	44,000
<b>Total</b>		<b>18,014,768</b>	<b>1,727,835</b>

**Accounts receivable**

	(RUB thousand)		
	31 December		
	2016	2015	2014
<b>Sale of goods, work, services, property rights</b>			
Individuals	397,158	-	-
CJSC RTI Microelectronics	84,139	101,097	78,037
JSC Binnopharm	8,216	8,216	8,216
Other	8,522	7,346	12,945
<b>Purchase of goods, work, services, property rights</b>			
OJSC RTI	656,900	-	-
VAO Intourist	155	19,405	155
JSC Binnopharm	34	43,198	43,198
JSC Sitronics	-	227,284	227,284
LLC Sistema Telecom Assets	-	119,606	104,227
JSC Steppe Agro Holding	-	15,370	12,818
PJSC Detsky Mir	-	12,811	12,811
JSC Leader Invest	-	1,285	30,575
Other	13,059	24,418	36,532
<b>Issuing non-interest-bearing loans and promissory notes</b>			
CJSC Region	60,842	60,842	60,842
LLC Davydovs' Estate	-	157,313	167,313
CJSC Cottagestroy-17	-	53,698	53,698
OJSC Medsi Holding	-	20,053	20,053
Other	1,585	1,585	1,585
<b>Dividends receivable</b>			
OJSC RTI	319,630	319,630	319,630
<b>Bad debt allowance</b>	(326,069)	(287,595)	(591,379)
<b>Total</b>	<b>2,572,130</b>	<b>4,035,822</b>	<b>2,787,600</b>

**Accounts payable**

	(RUB thousand)		
	31 December		
	2016	2015	2014
<b>Purchase of goods, work, services, property rights</b>			
JSC Cottagestroy-17	3,900	-	-
PJSC MTS	3,035	3,393	5,915
LLC MacNabbs	2,177	1,901	7,916
LLC Altay Resort	1,207	1,207	1,207
JSC Reyestr	892	-	120
JSC Sistema Invest	-	12,822	-
CJSC Business Nedvizhimost	-	10,154	-
CJSC MGTS Nedvizhimost	-	-	3,214,463
Other	651	849	397
<b>Sale of goods, works and services</b>	32	46	373
<b>Other</b>			
JSC Leader Invest	2,647	-	-
<b>Interest on loans received</b>			
JSC Steppe Agro Holding	1,950	-	-
JSC Sistema Finance	280	-	-
<b>Total</b>	<b>16,771</b>	<b>30,372</b>	<b>3,230,391</b>

**Investments**

Information on investments in debt securities and loans to related parties is provided in Notes 3.3 and 3.4.

**Cash flows with related parties**

	<b>2016</b>	<b>(RUB thousand) 2015</b>
<b>Cash flows from operating activities</b>		
Proceeds from sale of products, goods, works and services	21,386	49,700
Proceeds in form of dividends	33,619,480	28,862,908
Other proceeds from operating activities	213,658	10,000
Payment for goods, works and services	(476,507)	(343,530)
Payment of interest on debts	(2,355,620)	(232,608)
Other payments for operating activities	(326,546)	(4,499)
<b>Cash flows from investment activities</b>		
Proceeds from sale of fixed assets and other property	219	-
Proceeds from sale of shares and equity interests in other companies	12,648,912	1,727,835
Proceeds from repayment of loans and sale of debt securities	78,421,373	40,511,821
Received interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	5,132,883	3,776,289
Other proceeds from investment activities	2	116
Payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	(2,667)	(4,899)
Payments related to acquisition of shares and equity interests in other companies	(73,162,504)	(45,056,422)
Payments related to acquisition of debt securities, provision of loans to other entities	(53,043,602)	(38,518,888)
Other payments related to investment transactions	(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)	(6,575,220)	(3,014,687)
Repayment of borrowings	(9,275,164)	-
<b>Total</b>	<b><u>(5,718,695)</u></b>	<b><u>(12,236,864)</u></b>

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

Basic and diluted earnings/(loss) for 2016 and 2015 totalled:

	<b>2016</b>	<b>2015</b>
Base and diluted (loss)/earnings, RUB thousand	(37,372,723)	34,461,228
Weighted average number of ordinary shares in circulation	9,650,000,000	9,650,000,000
<b>Base and diluted (loss)/earnings per share, RUB</b>	<b><u>(3.9)</u></b>	<b><u>3.6</u></b>

## 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. The impact of further economic and political developments on future operations and financial position of the Group might be significant.

**Guarantees** – As of 31 December 2016, the Company acted as guarantor for borrowings in the total amount of RUB 37,119,143 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 proceeding 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.

## RISK MANAGEMENT POLICY

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

## EVENTS AFTER THE REPORTING DATE

**Initial public offering of Detsky mir on the Moscow Exchange** – On 10 February 2017, the Company's subsidiary, PJSC Detsky mir, placed its ordinary shares on the Moscow Exchange. The offering price was RUB 85 per share.

On 10 February 2017, the Company sold 145,055,738 shares in Detsky mir, which represent approximately 19.6% of its equity.

On 10 March 2017, the Company sold additional 6,245,518 shares in Detsky mir, which represent 0.8% of its equity, at the price of the initial offering.

Following the sales, the Company's direct shareholding in Detsky mir totalled 52.1%.

**Coupon payment** – On 22 February 2017, the Company paid the first coupon yield on registration exempt bonds (issue 001P-05) in the amount of RUB 246.8 million.

Senior Vice President and CFO

Vsevolod Rozanov

Chief Accountant

Irina Borisenkova

31 March 2017