

# **OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

## **Consolidated Financial Statements**

As of December 31, 2014 and 2013 and  
for the Years Ended December 31, 2014, 2013 and 2012

# **OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

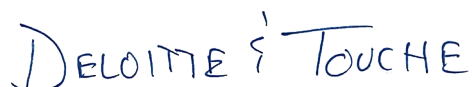
To the Board of Directors and Shareholders of Mobile TeleSystems OJSC:

We have audited the accompanying consolidated statements of financial position of Mobile TeleSystems OJSC and subsidiaries (the "Group") as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mobile TeleSystems OJSC and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2014 based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 27, 2015 expressed an unqualified opinion on the Group's internal control over financial reporting.



ZAO Deloitte & Touche CIS

Moscow, Russia

March 27, 2015, except for Note 31,  
as to which the date is April 21, 2015

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2014 AND 2013

(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

		December 31,	
	Note	2014	2013
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	6	61,410	30,612
Short-term investments, including available-for-sale securities at fair value of 576 and 4,154, respectively, and related party amounts of 760 and 9,235, respectively	7	9,849	14,633
Trade receivables, net of allowance for doubtful accounts of 2,165 and 3,753, respectively	8	32,966	34,554
Accounts receivable, related parties	25	4,525	965
Inventory and spare parts	9	7,510	8,498
Prepaid expenses, including related party amounts of 322 and 123, respectively		11,752	9,811
Deferred tax assets	24	11,206	7,933
VAT receivable		8,071	6,651
Assets related to disposal group held for sale	10	2,004	-
Other current assets		2,831	3,019
<b>Total current assets</b>		<b>152,124</b>	<b>116,676</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b> , net of accumulated depreciation of 313,623 and 293,389, including advances to related parties of 254 and 367, respectively			
	11	299,479	270,660
<b>LICENSES</b> , net of accumulated amortization of 5,226 and 3,194, respectively			
	3, 12	5,498	3,202
<b>GOODWILL</b>	3, 13	36,311	32,704
<b>OTHER INTANGIBLE ASSETS</b> , net of accumulated amortization of 65,785 and 58,153, including advances to related parties of 88 and 232, respectively			
	3, 14	56,971	38,423
<b>DEBT ISSUANCE COSTS</b> , net of accumulated amortization of 2,336 and 2,375, respectively			
		1,738	2,023
<b>INVESTMENTS IN AND ADVANCES TO ASSOCIATES</b>	15	16,277	13,393
<b>OTHER INVESTMENTS</b> , including related party amounts of 835 and 743, respectively			
	16	14,969	4,392
<b>OTHER NON-CURRENT ASSETS</b> , including asset derivatives of 21,944 and 1,837, respectively, and deferred tax assets of 3,610 and 862, respectively			
	21, 24	25,560	4,051
<b>Total assets</b>		<b>608,927</b>	<b>485,524</b>

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

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2014 AND 2013

(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

		December 31,	
	Note	2014	2013
<b>CURRENT LIABILITIES:</b>			
Accounts payable, related parties	25	4,674	3,315
Trade payables		36,337	23,864
Subscriber prepayments and deposits		19,355	17,884
Debt, current portion	17	19,435	7,564
Notes payable, current portion	17	22,701	17,462
Deferred connection fees, current portion	20	1,677	1,604
Income tax payable		1,427	997
Accrued liabilities	23	27,620	27,674
Liabilities related to disposal group held for sale		227	-
Other payables, including capital lease obligations of 538 and 38, respectively		3,986	1,498
<b>Total current liabilities</b>		<b>137,439</b>	<b>101,862</b>
<b>LONG-TERM LIABILITIES:</b>			
Notes payable, net of current portion	17	83,776	85,282
Debt, net of current portion	17	157,084	108,792
Capital lease obligations, net of current portion	18	8,857	10
Deferred connection fees, net of current portion	20	1,760	2,045
Deferred taxes	24	33,278	21,202
Retirement and post-retirement obligations		1,055	1,059
Property, plant and equipment contributions		2,327	2,428
Other long-term liabilities, including asset retirement obligations of 3,022 and 2,743, respectively	19	4,234	3,859
<b>Total long-term liabilities</b>		<b>292,371</b>	<b>224,677</b>
<b>Total liabilities</b>		<b>429,810</b>	<b>326,539</b>
Commitments and contingencies	30		
Redeemable noncontrolling interest	27	3,192	2,932
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock (2,066,413,562 shares issued as of December 31, 2014 and 2013, 777,396,505 of which are in the form of ADS as of December 31, 2014 and 2013)	26	207	207
Treasury stock (77,501,432 and 77,582,378 common shares at cost as of December 31, 2014 and 2013)		(24,464)	(24,482)
Additional paid-in capital		5,419	3,019
Accumulated other comprehensive loss		(6,294)	(15,030)
Retained earnings		191,081	188,217
<b>Total equity attributable to the Group</b>		<b>165,949</b>	<b>151,931</b>
<b>Nonredeemable noncontrolling interest</b>		<b>9,976</b>	<b>4,122</b>
<b>Total equity</b>		<b>175,925</b>	<b>156,053</b>
<b>Total liabilities and equity</b>		<b>608,927</b>	<b>485,524</b>

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

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

		Years ended December 31,		
	Note	2014	2013	2012
<b>NET OPERATING REVENUES</b>				
Services revenue and connection fees (including related party amounts of 1,372 and 1,113 and 492, respectively)		381,822	371,950	349,338
Sales of handsets and accessories		28,936	26,493	28,902
<b>Total net operating revenues</b>		<b>410,758</b>	<b>398,443</b>	<b>378,240</b>
<b>OPERATING EXPENSES</b>				
Cost of services, excluding depreciation and amortization shown separately below (including related party amounts of 1,985 and 1,186 and 692, respectively)		89,589	83,777	83,051
Cost of handsets and accessories		25,093	22,636	25,042
General and administrative expenses (including related party amounts of 2,096 and 2,047 and 2,097, respectively)	28	90,971	85,458	77,977
Allowance for doubtful accounts		3,266	3,106	2,606
Sales and marketing expenses (including related party amounts of 1,632 and 1,853 and 1,941, respectively)		21,908	22,861	21,667
Depreciation and amortization expense		74,710	73,253	67,910
Other operating expense / (income) (including related party amounts of (635) and 370 and (116), respectively)		4,468	5,594	6,193
Provision for investment in Delta Bank in Ukraine	5	5,138	-	-
Gain from reentrance into Uzbekistan	4	(6,734)	-	-
<b>Net operating income</b>		<b>102,349</b>	<b>101,758</b>	<b>93,794</b>
<b>CURRENCY EXCHANGE AND TRANSACTION LOSS / (GAIN)</b>		<b>18,024</b>	<b>5,473</b>	<b>(3,952)</b>
<b>OTHER EXPENSES / (INCOME)</b>				
Interest income (including related party amounts of 654 and 742 and 172, respectively)		(4,519)	(2,793)	(2,588)
Interest expense, net of capitalized interest (including related party amounts of 41 and nil and 367, respectively)		16,453	15,498	17,673
Equity in net loss / (income) of associates	15	2,880	(2,472)	(869)
Other expenses / (income), net (including gain of (11,087) related to Bitel settlement in 2013)	30	771	(10,636)	688
<b>Total other expenses / (income), net</b>		<b>15,585</b>	<b>(403)</b>	<b>14,904</b>
<b>Income from continuing operations before provision for income taxes</b>		<b>68,740</b>	<b>96,688</b>	<b>82,842</b>
PROVISION FOR INCOME TAXES	24	16,347	19,633	19,384
<b>NET INCOME FROM CONTINUING OPERATIONS</b>		<b>52,393</b>	<b>77,055</b>	<b>63,458</b>
<b>NET INCOME / (LOSS) FROM DISCONTINUED OPERATIONS</b>	4	-	3,733	(32,846)
<b>NET INCOME</b>		<b>52,393</b>	<b>80,788</b>	<b>30,612</b>
<b>LESS: NET INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST</b>		<b>(571)</b>	<b>(949)</b>	<b>(970)</b>
<b>NET INCOME ATTRIBUTABLE TO THE GROUP</b>		<b>51,822</b>	<b>79,839</b>	<b>29,642</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

*(Amounts in millions of Russian Rubles, except share amounts and per share amounts)*

		Years ended December 31,		
	Note	2014	2013	2012
<b>OTHER COMPREHENSIVE INCOME / (LOSS), NET OF TAX</b>				
Currency translation adjustment		8,925	(2,877)	(2,211)
Unrealized gain on derivatives, net of tax of (700) and (361) and (64)	21	2,801	1,445	255
Unrecognized actuarial gain / (loss), net of tax of (4) and (46) and 38		14	185	(152)
<b>Other comprehensive income / (loss), net of tax</b>		<b>11,740</b>	<b>(1,247)</b>	<b>(2,108)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>64,133</b>	<b>79,541</b>	<b>28,504</b>
<b>LESS: TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST</b>		<b>(3,575)</b>	<b>(1,056)</b>	<b>(772)</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE GROUP</b>		<b>60,558</b>	<b>78,485</b>	<b>27,732</b>
Weighted average number of common shares outstanding, in thousands – basic and diluted		1,988,757	1,988,849	1,988,919
Earnings per share attributable to the Group – basic and diluted, RUB				
EPS from continuing operations		26.06	38.27	31.42
EPS from discontinued operations		-	1.88	(16.51)
Total EPS		26.06	40.14	14.90

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

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated other com- prehensive loss	Retained earnings	Total equity attributable to the Group	Non- redeemable noncontrolling interest	Total equity	Redeemable noncontrolling interest
	Shares	Amount	Shares	Amount							
<b>Balances at January 1, 2012</b>	<b>2,066,413,562</b>	<b>207</b>	<b>(77,496,725)</b>	<b>(24,462)</b>	<b>110</b>	<b>(11,766)</b>	<b>148,019</b>	<b>112,108</b>	<b>2,852</b>	<b>114,960</b>	<b>2,595</b>
Net income	-	-	-	-	-	-	29,642	29,642	694	30,336	276
Other comprehensive (loss) / income, net of tax	-	-	-	-	-	(1,910)	-	(1,910)	41	(1,869)	(239)
Dividends declared by MTS	-	-	-	-	-	-	(29,257)	(29,257)	-	(29,257)	-
Dividends to noncontrolling interest	-	-	-	-	-	-	-	-	-	-	(367)
Change in fair value of noncontrolling interest of K-Telecom	-	-	-	-	-	-	(33)	(33)	-	(33)	33
Sale of own stock	-	-	2,340	0	-	-	-	0	-	0	-
Repurchase of own shares by MGTS	-	-	-	-	57	-	-	57	(319)	(262)	-
Disposal of Stream (Note 3)	-	-	-	-	116	-	-	116	-	116	-
<b>Balances at December 31, 2012</b>	<b>2,066,413,562</b>	<b>207</b>	<b>(77,494,385)</b>	<b>(24,462)</b>	<b>283</b>	<b>(13,676)</b>	<b>148,371</b>	<b>110,723</b>	<b>3,268</b>	<b>113,991</b>	<b>2,298</b>
Net income	-	-	-	-	-	-	79,839	79,839	693	80,532	256
Other comprehensive (loss) / income, net of tax	-	-	-	-	-	(1,354)	-	(1,354)	10	(1,344)	97
Issuance of stock options (Note 2)	-	-	-	-	94	-	-	94	-	94	-
Dividends declared by MTS	-	-	-	-	-	-	(39,419)	(39,419)	-	(39,419)	-
Dividends to noncontrolling interest	-	-	-	-	-	-	-	-	-	-	(293)
Acquisition of own stock	-	-	(90,881)	(20)	-	-	-	(20)	-	(20)	-
Change in fair value of noncontrolling interest of K-Telecom	-	-	-	-	-	-	(574)	(574)	-	(574)	574
Sale of own stock	-	-	2,888	0	1	-	-	1	-	1	-
Disposal of Business-Nedvizhimost (Note 3)	-	-	-	-	2,641	-	-	2,641	151	2,792	-
<b>Balances at December 31, 2013</b>	<b>2,066,413,562</b>	<b>207</b>	<b>(77,582,378)</b>	<b>(24,482)</b>	<b>3,019</b>	<b>(15,030)</b>	<b>188,217</b>	<b>151,931</b>	<b>4,122</b>	<b>156,053</b>	<b>2,932</b>



## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock		Additional	Accumulated	Retained	Total equity	Non-	Total	Redeemable
	Shares	Amount	Shares	Amount	paid-in	other com-	earnings	attributable	redeemable	equity	noncontrolling
					capital	prehensive		to the Group	noncontrolling		interest
						(loss) /			interest		interest
						income					
<b>Balances at December 31, 2013</b>	<b>2,066,413,562</b>	<b>207</b>	<b>(77,582,378)</b>	<b>(24,482)</b>	<b>3,019</b>	<b>(15,030)</b>	<b>188,217</b>	<b>151,931</b>	<b>4,122</b>	<b>156,053</b>	<b>2,932</b>
Net income	-	-	-	-	-	-	51,822	51,822	190	52,012	381
Other comprehensive income, net of tax	-	-	-	-	-	8,736	-	8,736	2,312	11,048	692
Issuance of stock options (Note 2)	-	-	-	-	167	-	-	167	-	167	-
Dividends declared by MTS	-	-	-	-	-	-	(49,325)	(49,325)	-	(49,325)	-
Dividends to noncontrolling interest	-	-	-	-	-	-	-	-	(357)	(357)	(249)
Sale of own shares	-	-	90,881	20	4	-	-	24	-	24	-
Change in fair value of noncontrolling interest of K-Telecom	-	-	-	-	-	-	564	564	-	564	(564)
Consolidation of UMS (Note 4)	-	-	-	-	-	-	-	-	3,565	3,565	-
Acquisition of own stock	-	-	(9,935)	(2)	-	-	-	(2)	-	(2)	-
Investments in shares of entities under common control	-	-	-	-	(354)	-	(245)	(599)	(3)	(602)	-
Sale of building to Sistema (Note 25)	-	-	-	-	232	-	-	232	13	245	-
Disposal of Business-Nedvizhimost (Note 25)	-	-	-	-	2,351	-	-	2,351	134	2,485	-
Other	-	-	-	-	-	-	48	48	-	48	-
<b>Balances at December 31, 2014</b>	<b>2,066,413,562</b>	<b>207</b>	<b>(77,501,432)</b>	<b>(24,464)</b>	<b>5,419</b>	<b>(6,294)</b>	<b>191,081</b>	<b>165,949</b>	<b>9,976</b>	<b>175,925</b>	<b>3,192</b>

The accompanying notes are an integral part of the consolidated financial statements.

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles)

	Years ended December 31,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	52,393	80,788	30,612
Net (income) / loss from discontinued operations	-	(3,733)	32,846
Net income from continuing operations	52,393	77,055	63,458
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization	74,710	73,253	67,910
Non-cash gain from reentrance into Uzbekistan	(6,724)	-	-
Non-cash provision for investment in Delta Bank in Ukraine	5,061	-	-
Currency exchange and transaction loss / (gain)	18,024	5,473	(3,952)
Debt issuance cost amortization	645	784	952
Amortization of deferred connection fees	(1,912)	(1,921)	(2,287)
Equity in net loss/(income) of associates	2,880	(2,472)	(869)
Allowance for doubtful accounts	3,266	3,106	2,606
Inventory obsolescence expense	357	660	759
Deferred tax expense	6,540	9,671	3,290
Other non-cash items	328	(192)	461
<b>Changes in operating assets and liabilities:</b>			
Decrease / (increase) in trade receivables	4,466	(3,474)	(8,489)
Decrease / (increase) in inventory and spare parts	731	(592)	(61)
Decrease / (increase) in prepaid expenses and other current assets	777	(2,966)	(727)
(Increase) / decrease in VAT receivable	(1,058)	(1,190)	673
(Decrease) / increase in trade payables, accrued liabilities and other current liabilities	(3,616)	8,136	9,365
(Decrease) / increase in liability for Bitel	-	(7,238)	241
Dividends received	2,650	1,831	1,526
<b>Net cash provided by operating activities – continuing operations</b>	<b>159,518</b>	<b>159,924</b>	<b>134,856</b>
<b>Net cash used in operating activities – discontinued operations</b>	<b>-</b>	<b>(547)</b>	<b>(2,733)</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>159,518</b>	<b>159,377</b>	<b>132,123</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of subsidiaries, net of cash acquired	(2,755)	-	(1,937)
Purchases of property, plant and equipment	(74,243)	(67,146)	(79,836)
Purchases of intangible assets	(18,356)	(14,429)	(7,947)
Proceeds from sale of property, plant and equipment	619	418	395
Purchases of short-term investments	(35,923)	(37,623)	(33,474)
Proceeds from sale of short-term investments	47,619	27,785	31,548
Purchase of other investments	(34,613)	(703)	(2,100)
Proceeds from sales of other investments	19,831	-	2,029
Investments in and advances to associates	(7,767)	(5,088)	-
<b>Net cash used in investing activities – continuing operations</b>	<b>(105,588)</b>	<b>(96,786)</b>	<b>(91,322)</b>
<b>Net cash provided by / (used in) investing activities – discontinued operations</b>	<b>-</b>	<b>115</b>	<b>(2,045)</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(105,588)</b>	<b>(96,671)</b>	<b>(93,367)</b>

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles)

	Years ended December 31,		
	2014	2013	2012
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash payments for the acquisitions of subsidiaries from entities under common control and noncontrolling interests	(26)	-	(261)
Contingent consideration paid on acquisition of subsidiaries	-	-	(20)
Proceeds from issuance of notes	2	25,651	-
Repayment of notes	(23,152)	(6,195)	(25,561)
Notes and debt issuance cost	(360)	(193)	-
Reimbursement of debt issuance cost	-	959	-
Capital lease obligation principal paid	(227)	(202)	(213)
Dividends paid	(49,921)	(39,706)	(29,626)
Proceeds on disposal of Business-Nedvizhimost, net of cash disposed	-	3,068	-
Cash on sale of building to Sistema	508	-	-
Cash deconsolidated on the loss of control over Stream	-	-	(227)
Proceeds from loans	69,421	353	17,955
Loan principal paid	(29,437)	(38,996)	(37,394)
Other financing activities	21	116	1
<b>Net cash used in financing activities – continuing operations</b>	<b>(33,171)</b>	<b>(55,145)</b>	<b>(75,346)</b>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(33,171)</b>	<b>(55,145)</b>	<b>(75,346)</b>
Effect of exchange rate changes on cash and cash equivalents	10,195	1,037	(985)
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>30,954</b>	<b>8,598</b>	<b>(37,575)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the year</b>	<b>30,612</b>	<b>22,014</b>	<b>59,589</b>
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<b>61,566</b>	<b>30,612</b>	<b>22,014</b>
Less: cash and cash equivalents from discontinued operations, end of the year	-	-	(411)
<b>CASH AND CASH EQUIVALENTS from continuing operations, end of the year</b>	<b>61,566</b>	<b>30,612</b>	<b>21,603</b>
Less: cash and cash equivalents within disposal group held for sale	(156)	-	-
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<b>61,410</b>	<b>30,612</b>	<b>21,603</b>
<b>SUPPLEMENTAL INFORMATION:</b>			
Income taxes paid	9,906	11,590	17,050
Interest paid	17,134	15,979	19,104
<b>Non-cash investing and financing activities:</b>			
Amounts owed for capital expenditures	21,935	3,908	3,502
Payables related to business acquisitions	99	11	277
Capital lease obligations	9,395	48	212

The accompanying notes are an integral part of the consolidated financial statements.

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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### 1. DESCRIPTION OF BUSINESS

**Business of the Group** – Open Joint-Stock Company Mobile TeleSystems (“MTS OJSC”, or “the Company”) was incorporated on March 1, 2000, through the merger of MTS CJSC and Rosico TC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow license area in 1994 and then began expanding through Russia and the CIS. MTS OJSC’s majority shareholder is Joint-Stock Financial Corporation Sistema or “Sistema”.

In these notes, “MTS” or the “Group” refers to Mobile TeleSystems OJSC and its subsidiaries.

The Group provides a wide range of telecommunications services including voice and data transmission, internet access, pay TV, various value added services through wireless and fixed lines, as well as selling equipment and accessories. The Group’s principal operations are located in Russia, Ukraine, Turkmenistan, Uzbekistan and Armenia.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol “MBT”. Since 2003 common shares of MTS OJSC have been traded on the Open Joint-Stock Company “Moscow Exchange MICEX-RTS” (“Moscow Exchange”).

Since 2009, the Group has been developing its own retail network, operated by Russian Telephone Company CJSC (“RTC”), a wholly owned subsidiary of MTS OJSC.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

**Accounting principles** – The Group’s entities maintain accounting books and records in local currencies of their domicile in accordance with the requirements of respective accounting and tax legislation. The accompanying consolidated financial statements have been prepared in order to present MTS’ financial position and its results of operations and cash flows in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and are expressed in terms of Russian Rubles.

The accompanying consolidated financial statements differ from the financial statements used for statutory purposes in that they reflect certain adjustments, not recorded on the entities’ books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, acquisition accounting, depreciation and valuation of property, plant and equipment, intangible assets and investments.

**Basis of consolidation** – The consolidated financial statements include the accounts of the Company, as well as entities where the Company has operating and financial control, most often through the direct or indirect ownership of a majority voting interest. Those ventures where the Group exercises significant influence but does not have operating and financial control are accounted for using the equity method. Investments in which the Group does not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method and included in long-term investments in the consolidated statements of financial position. The consolidated financial statements also include accounts of variable interest entities (“VIEs”) in which the Group is deemed to be the primary beneficiary. An entity is generally a VIE if it meets any of the following criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity’s operations or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity’s activities involve or are conducted on behalf of the investor with disproportionately few voting rights. All significant intercompany transactions, balances and unrealized gains and losses on transactions have been eliminated.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

As of December 31, 2014 and 2013, the Company had investments in the following significant legal entities:

	Accounting method	December 31,	
		2014	2013
MTS Turkmenistan	Consolidated	100.0%	100.0%
MTS Bermuda <sup>(1)</sup>	Consolidated	100.0%	100.0%
MTS Finance	Consolidated	100.0%	100.0%
MTS Ukraine	Consolidated	100.0%	100.0%
RTC	Consolidated	100.0%	100.0%
Sibintertelecom	Consolidated	100.0%	100.0%
TVT <sup>(2)</sup>	Consolidated	-	100.0%
Sputnikovoe TV	Consolidated	100.0%	100.0%
Sistema Telecom <sup>(2)</sup>	Consolidated	-	100.0%
Elf Group <sup>(2)</sup>	Consolidated	-	100.0%
Intercom <sup>(2)</sup>	Consolidated	-	100.0%
Zheleznogorsk City Telephone Communications ("ZhelGorTeleCom") <sup>(2)</sup>	Consolidated	-	100.0%
Pilot <sup>(2)</sup>	Consolidated	-	100.0%
TVKiK <sup>(2)</sup>	Consolidated	-	100.0%
Dega	Consolidated	100.0%	100.0%
SMARTS	Consolidated	100.0%	-
Metro-Telecom	Consolidated	95.0%	95.0%
MGTS	Consolidated	94.6%	94.6%
K-Telecom	Consolidated	80.0%	80.0%
UMS	Consolidated	50.01%	-
MTS International Funding Limited ("MTS International")	Consolidated	VIE	VIE
Intellect Telecom	Equity	47.3%	47.3%
Stream	Equity	45.0%	45.0%
MTS Belarus	Equity	49.0%	49.0%
MTS Bank	Equity	27.0%	26.3%
OZON Holdings Limited	Equity	10.8%	-

<sup>(1)</sup> A wholly-owned subsidiary established to repurchase the Group's ADSs.

<sup>(2)</sup> Merged with MTS OJSC on October 1, 2014.

The Group consolidates MTS International, a private company organized and existing as a private limited company under the laws of Ireland, which qualifies as a variable interest entity under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, Consolidation.

The Group is the primary beneficiary of MTS International. MTS International was established for the purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group. In 2010 and 2013, MTS International issued \$750 million 8.625% notes due in 2020 and \$500 million 5.0% notes due in 2023, respectively (Note 17). In 2014 the Group repurchased Notes due in 2020 and 2023 with a nominal value of \$126.9 million (RUB 5,043 million) and \$21.5 million (RUB 781 million), respectively. The notes are guaranteed by MTS OJSC in the event of default. While the Group does not hold any equity in MTS International, it has concluded that it is the primary beneficiary by virtue of the fact that it has the power to direct the activities of MTS International that most significantly impact its performance and by virtue of the guarantee that exists which means the Group has the obligation to absorb losses of MTS International that could potentially be significant to MTS International.

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The table below summarizes the assets and liabilities of MTS International as of December 31, 2014 and 2013:

	December 31,	
	2014	2013
Cash and cash equivalents	3	1
Intercompany receivable from MTS OJSC <sup>(1)</sup>	70,535	41,035
<b>Total assets</b>	<b>70,538</b>	<b>41,036</b>
Interest payable <sup>(2)</sup>	212	123
Notes payable due 2020 and 2023 <sup>(3)</sup>	70,323	40,912
Other payables	3	1
<b>Total liabilities</b>	<b>70,538</b>	<b>41,036</b>

<sup>(1)</sup> Eliminated in the Group consolidated statements of financial position.

<sup>(2)</sup> Relates to MTS International Notes due 2020 and 2023, thereof RUB 187 million and RUB 123 million are included in accrued liabilities in the Group consolidated statements of financial position as of December 31, 2014 and 2013, respectively.

<sup>(3)</sup> RUB 61,977 million and RUB 40,912 million are included in notes payable, net of current portion, in the Group consolidated statements of financial position as of December 31, 2014 and 2013, respectively (Note 17).

The MTS International Notes due 2020 and 2023 and related interest payable are fully covered by intercompany receivables from MTS OJSC. MTS International does not perform any other activities except those required for notes servicing. The Group bears all costs incurred by MTS International in connection with the notes' maintenance activities. Such costs for the years ended December 31, 2014, 2013 and 2012 amounted to RUB 4,080 million, RUB 2,535 million and RUB 2,011 million, respectively, and were included in interest expense reported by the Group in the consolidated statements of operations and comprehensive income.

**Functional currency translation methodology** – As of December 31, 2014, the functional currencies of Group entities were as follows:

- For entities incorporated in the Russian Federation, MTS Bermuda, MTS Finance, Dega and MTS International – the Russian Ruble ("RUB");
- For MTS Ukraine – the Ukrainian Hryvna;
- For MTS Turkmenistan – the Turkmenian Manat;
- For K-Telecom – the Armenian Dram;
- For UMS – the US Dollar;
- For MTS Belarus – the Russian Ruble.

Remeasurement of the financial statements into functional currencies, where applicable, and translation of financial statements into Russian Rubles has been performed as follows:

For entities whose records are not maintained in their functional currencies, monetary assets and liabilities have been remeasured at the period-end exchange rates. Non-monetary assets and liabilities have been remeasured at historical rates. Revenues, expenses and cash flows have been remeasured at average rates. Remeasurement differences resulting from the use of these rates have been accounted for as currency exchange and translation gains and losses in the accompanying consolidated statements of operations and comprehensive income.

For entities whose records are maintained in their functional currency, which is other than the reporting currency, all year-end assets and liabilities have been translated into U.S. Dollars at the period-end exchange rate set by local central banks. Subsequently U.S. Dollars balances have been translated into Russian Rubles at the period-end exchange rate set by the Central Bank of Russia. Revenues and expenses have been translated at the average exchange rate for the period using cross-currency exchange rate via U.S. Dollar as described above. Translation differences resulting from the use of these rates are reported as a component of accumulated other comprehensive income in the consolidated statements of financial position.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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**Management estimates** – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include the allowance for doubtful accounts and inventory obsolescence, valuation allowance for deferred tax assets for which it is more likely than not the assets will not be realized, the valuation of assets acquired and liabilities assumed in business combinations and income tax benefits, the recoverability of investments and the valuation of goodwill, intangible assets, other long-lived assets, redeemable noncontrolling interest, certain accrued liabilities and financial instruments.

**Cash and cash equivalents** – Cash and cash equivalents represent cash on hand and in bank accounts and short-term investments, including term deposits, having original maturities of less than three months. The carrying value of these investments approximates their fair value.

**Short-term investments** – Short-term investments mainly represent investments in loans, time deposits, which have original maturities in excess of three months and are repayable in less than twelve months, as well as investments in a mutual investment fund and debt securities. The investment in the mutual investment fund and debt securities were classified as available for sale and carried at fair value with unrealized gains and losses recorded as part of other comprehensive income. Deposits and loans are carried at amortized cost (Note 7).

**Other investments** – Other investments consist primarily of long-term deposits, which are repayable in more than a year, loans and equity holdings in private companies. Deposits and loans are classified as held to maturity and carried at amortized cost. The Group reviews these investments for indicators of impairment on a regular basis. Investments in shares of companies over which the Group has no significant influence are carried at cost. The Group does not evaluate cost-method investments for impairment unless there is an indicator of impairment.

**Property, plant and equipment** – Property, plant and equipment, including improvements, are stated at cost. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life. Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

**Other intangible assets** – Other intangible assets primarily consist of billing, telecommunication, accounting and office software as well as numbering capacity and customer base. These assets are assets with finite useful lives. They are recognized at cost and amortized on a straight-line basis over their estimated useful lives.

**Accounts receivable** – Accounts receivable are stated net of allowance for doubtful accounts.

**Allowance for doubtful accounts** – The Group provides an allowance for doubtful accounts based on management's periodic review with respect to the recoverability of trade receivables, advances given, loans and other receivables. Such allowance reflects specific cases, collection trends or estimates based on evidence of collectability. For changes in the allowance for doubtful accounts receivable see Note 8.

**Inventory and spare parts** – Inventory is stated at the lower of cost or market value. Inventory cost is determined using the weighted average cost method. Handsets and accessories held for sale are expensed when sold. The Group regularly assesses its inventories for obsolete and slow-moving stock.

**Value-added tax ("VAT")** – Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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**Income taxes** – Income taxes of the Group's Russia-incorporated entities have been computed in accordance with Russian legislation. The corporate income tax rate in Russia is 20%. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their respective jurisdictions. Deferred tax assets and liabilities are recognized for differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making such determination, the Group considers all available information, including future reversals of existing taxable temporary differences, projected taxable income, tax strategies and recent financial results.

Uncertain tax positions are recognized in the consolidated financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is more than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes.

The Group recognizes interest and penalties related to unrecognized tax benefits within income taxes.

**Assets held for sale** – The Group classifies assets and liabilities as held for sale when all the following conditions have been met: (i) management having the authority to approve the action, commits to a plan to sell the asset (disposal group); (ii) the asset (disposal group) is available for immediate sale in its present condition; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale is probable and transfer of the assets (disposal group) is expected to qualify for recognition as a completed sale, within one year; (v) the asset (the disposal group) is being marketed at a reasonable price; and (vi) it is unlikely that the plan will be changed significantly or withdrawn. Held for sale assets are measured at the lower of carrying amount or fair value less cost to sell.

**Asset retirement obligations** – The Group calculates asset retirement obligations and an associated asset retirement cost when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group recorded the present value of asset retirement obligations as other long-term liabilities in the consolidated statements of financial position.

**License costs** – License costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over the period of validity, which varies from three to fifteen years.

**Goodwill** – For acquisitions before January 1, 2009 goodwill represents the excess of the consideration paid over the fair value of the net identifiable assets acquired in business combinations and is not amortized. For acquisitions after January 1, 2009 goodwill is determined as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. The Group determines whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with FASB ASC 350, Intangibles – Goodwill and Other, and comparing the carrying amount of the reporting unit to its fair value. If an impairment of goodwill has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. During the year ended December 31, 2012 the Group recognized goodwill impairment in amount of RUB 3,523 million related to Uzdunrobota litigation (Note 4) which is included in net income / (loss) from discontinued operations in the consolidated statements of operations and comprehensive income.



## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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**Impairment of long-lived assets** – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to their carrying amount. When the undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the assets down to fair value, measured by estimating the discounted net future cash flows expected to be generated from the use of the assets. None of the Group's long-lived assets were impaired in 2014 and 2013. An impairment loss in the amount of RUB 16,514 million for the year ended December 31, 2012 was recognized by the Group subsidiaries in Uzbekistan as a result of the events described in Note 4 and included in net income / (loss) from discontinued operations.

**Subscriber prepayments** – The Group requires the majority of its customers to pay in advance for telecommunications services. All amounts received in advance of services provided are recorded as a subscriber prepayment liability and are not recognized as revenues until the related services have been provided to the subscriber.

**Treasury stock** – Shares of common stock repurchased by the Group are recorded at cost as treasury stock and reduce the shareholders' equity in the Group's consolidated financial statements.

**Revenue recognition** – Revenue includes all revenues from the ordinary business activities of the Group. Revenues are recorded net of value-added tax and recognized in the accounting period in which they are earned in accordance with the realization principle.

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

Content revenue is presented net of related costs when the Group acts as an agent of the content providers while gross revenue and related costs are recorded when the Group acts as a primary obligor in the arrangement.

Upfront fees received for connection of new subscribers, installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the estimated average subscriber life, as follows:

Mobile subscribers	1 year – 12.5 years
Residential wireline voice phone subscribers	15 years
Residential subscribers of broadband internet service	1 year
Other fixed line subscribers	3-5 years

The Group calculates an average life of mobile subscribers for each region in which it operates and amortizes connection fees based on the average life specific to that region.

**Regulated services** – Regulated services provided by the Group primarily consist of local telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services. Changes in the rate structure for such services are subject to the Federal Tariff Service approval.

Revenue from regulated tariff services represented approximately 5.2%, 5.7% and 6.5% of the consolidated revenue for the years ended December 31, 2014, 2013 and 2012, respectively. This does not include revenue attributable to discontinued operations (Note 4).

**Leasing arrangements** – The Group classifies lease arrangements as capital or operating leases depending on their nature. Rentals payable under operating leases are charged to the statement of operations and comprehensive income on a straight line basis over the term of the relevant lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is recognised as an asset and a liability in the statement of financial position.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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**Customer incentives** – Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both trade receivables and service revenue.

The Group regularly provides special incentives to its retail customers. Generally the Group sells mobile devices of worldwide known brands with an offer of free telecommunication services for a time period from one to twelve months. Such arrangements with a customer provide for two deliverables – a mobile device delivered immediately and mobile services to be consumed in the future. Both deliverables in the arrangement qualify as separate units of accounting. The consideration received from a customer is allocated between the deliverables based on their standalone value on the market, which is deemed to be a vendor-specific objective evidence of selling price. Revenue on the devices sales is recognized at the moment of their sale, and the revenue on provision of free telecommunication services is deferred and recognized in line with their consumption by a subscriber. Revenue generated from multiple-element arrangements in the amount of RUB 961 million and RUB 3,276 million were recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2014 and 2013, respectively. The amount recognized for the year ended December 31, 2012 was not significant. The Group's multiple-element arrangements stipulate no performance-, cancellation-, termination- and refund-type provisions.

**Prepaid cards** – The Group sells prepaid cards to subscribers separately from the handset. Prepaid cards, used as a method of cash collection, are accounted for as customer advances. These cards allow subscribers to make a predetermined allotment of wireless phone calls and / or take advantage of other services offered by the Group, such as short messages and value-added services. Revenue from the sale of prepaid cards is deferred until the service is rendered to the customer, whereby the customer uses the airtime or the card expires.

**Roaming discounts** – The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group accounts for discounts received from and granted to roaming partners in accordance with FASB ASC 650, Revenue Recognition. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Group accounts for discounts received as a reduction of roaming expenses and discounts granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statements of financial position.

**Sales and marketing expenses** – Sales and marketing expenses consist primarily of dealers' commissions and advertising costs. Dealers' commissions are linked to revenues received during the six-month period from the date a new subscriber is activated by a dealer. The Group expenses these costs as incurred. Advertising costs for the years ended December 31, 2014, 2013 and 2012, were RUB 8,313 million, RUB 8,463 million and RUB 7,908 million, respectively.

**Retirement benefit and social security costs** – The Group contributes to the local state pension and social funds on behalf of all its employees.

In Russia all social contributions paid during the year ended December 31, 2014 are represented by payments to governmental social funds, including the Pension Fund of the Russian Federation, the Social Security Fund of the Russian Federation and the Medical Insurance Fund of the Russian Federation. The contributions are expensed as incurred. The amount of social contributions recognized by the Group in Russia amounted to RUB 8,064 million, RUB 7,535 million and RUB 6,512 million in 2014, 2013 and 2012, respectively.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement. The cost of such benefits includes interest costs, current service costs, amortization of prior service costs and net actuarial loss / gain. The expense is recognized during an employee's years of active service with MGTS. The recognition of expense for retirement pension plans is impacted by estimates made by management such as discount rates used to value certain liabilities, expected return on assets, future rates of compensation increase and other related assumptions. The Group accounts for pension plans in accordance with FASB ASC 715, Compensation – Retirement Benefits.

In Ukraine, Uzbekistan, Turkmenistan and Armenia the subsidiaries of the Group are required to contribute a specified percentage of each employee's payroll up to a fixed limit to the local pension, unemployment and social security funds. Payments to the pension fund in Ukraine amounted to RUB 1,535 million, RUB 2,803 million and RUB 2,493 million for the years ended December 31, 2014, 2013 and 2012, respectively. Amounts contributed to the pension funds in Uzbekistan, Turkmenistan and Armenia were not significant.

**Redeemable noncontrolling interest** – From time to time, to optimize the structure of business acquisitions and to defer payment of the purchase price, the Group enters into put and call option agreements to acquire the remaining noncontrolling stakes in newly acquired subsidiaries. As these put and call option agreements are not freestanding, the underlying shares of such put and call options are classified as redeemable securities and are accounted for at redemption value which is the fair value of redeemable noncontrolling interests as of the reporting date. The fair value of redeemable noncontrolling interests is measured using discounted future cash flows techniques, subject to applicable caps. The noncontrolling interest is measured at fair value using a discounted cash flow technique utilizing significant unobservable inputs ("Level 3" significant unobservable inputs of the hierarchy established by the U.S. GAAP guidance). Changes in the redemption value of redeemable noncontrolling interests are accounted for in the Group's retained earnings. Redeemable noncontrolling interests are presented as temporary equity in the consolidated statements of financial position.

**Financial instruments and hedging activities** – The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them as either other current or other non-current assets or liabilities in the consolidated statements of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews its fair value hierarchy classifications on a quarterly basis. Changes in significant observable valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. During the years ended December 31, 2014, 2013 and 2012, no reclassifications occurred. The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments ("Level 2" of the hierarchy established by the U.S. GAAP guidance).

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statements of operations and comprehensive income together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. Gains and losses associated with the related hedged items are recognized in the consolidated statements of operations and comprehensive income, depending on their nature.

The gain or loss relating to the ineffective portion is recognized immediately in earnings in the consolidated statements of operations and comprehensive income.

For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are included in the consolidated statements of operations and comprehensive income (Note 21).

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

The Group does not use financial instruments for trading or speculative purposes.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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**Fair value of financial instruments** – The fair value of financial instruments, consisting of cash and cash equivalents, short-term investments, receivables and payables, which are included in current assets and liabilities, approximates the carrying value of these items due to the short-term nature of these amounts. The fair value of issued notes as of December 31, 2014 is disclosed in Note 17 and is based on quoted prices in active markets (“Level 1” of the hierarchy established by the U.S. GAAP guidance). The fair value of variable rate debt approximates its carrying value as of December 31, 2014. The fair value of fixed rate bank loans is disclosed in Note 22 and is measured by discounting future cash flows using current market rates.

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities;
- Level 3 – No observable pricing inputs in the market.

Financial assets and financial liabilities are classified in three-tier hierarchy based on the lowest level of input that is significant to the fair value measurements. The Group’s assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

**Stock-based compensation** – The Group accounts for stock-based compensation under FASB ASC 718, Compensation – Stock Compensation. Under the provisions of this guidance, companies must calculate and record the cost of equity instruments, such as stock options awarded to employees for services received, in the statements of operations and comprehensive income. The cost of the equity instruments is to be measured based on the fair value of the instruments on the date they are granted (with certain exceptions) and recognized over the period during which the employees are required to provide services in exchange for equity instruments. Compensation cost related to phantom stock options granted to the Group’s employees recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2014, 2013 and 2012 amounted to and RUB 1,017.2 million, RUB 483.0 million and RUB 1,445.8 million, respectively.

**Concentration of credit risk** – Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, trade accounts receivable, loans and derivatives. The Group maintains cash and cash equivalents, investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographical regions, and the Group’s policy is designed to limit exposure to any one institution. As part of its risk management processes, the Group performs periodic evaluations of the relative credit ratings of financial institutions (refer to Note 5 for description of political and economic risks in Ukraine).

Concentrations of credit risk with respect to trade receivables are limited due to a highly diversified customer base, which includes a large number of individuals, private businesses and state-financed institutions.

**New and recently adopted accounting pronouncements** – In May 2014, FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group is required to adopt the amendments in the reporting period starting after December 15, 2017. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Group is currently evaluating the impact of these amendments and the transition alternatives on the consolidated financial statements.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 3. BUSINESS ACQUISITIONS AND DISPOSALS

##### Acquisitions in 2014

**Acquisition of Smarts companies** – In December 2014 the Group acquired controlling stakes in Penza-GSM, SMARTS-Ivanovo and SMARTS-Ufa, operating in Penza, Ivanovo and the Bashkortostan Republic, respectively. The acquired companies hold rights to use 900 and 1800 MHz radio frequencies. The acquisition enhances the Group's spectrum resources in the above regions. The purchase price comprised of cash consideration and a deferred payment, payable in 18 months after the acquisition date. The acquisition was accounted for using the purchase method of accounting.

The following table summarizes the preliminary purchase price allocation for regional mobile operators acquired during the year ended December 31, 2014:

	SMARTS-Ivanovo	SMARTS-Ufa	Penza-GSM	Total
Month of acquisition	December	December	December	
Region of operations	Central region	Volga region	Volga region	
Ownership interest acquired	100%	100%	100%	
Current assets	24	47	97	168
Property, plant and equipment	68	94	196	358
Rights to use radio frequencies	455	434	571	1,460
Goodwill	41	182	1,407	1,630
Customer base	21	13	44	78
Other non-current assets	-	-	165	165
Current liabilities	(88)	(268)	(327)	(683)
Non-current liabilities	(95)	(101)	(123)	(319)
Contingent consideration	(2)	(2)	(96)	(100)
Consideration paid	424	399	1,934	2,757

The purchase price allocation of SMARTS-Ivanovo, SMARTS-Ufa and Penza-GSM was not finalized as of the date of these financial statements as the Group had not completed the valuation of individual assets of each company acquired. The Group's consolidated financial statements reflect the allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed. The excess of the consideration paid over the value of net assets in the amount of RUB 1,630 million was preliminarily allocated to goodwill and was attributable to the "Russia convergent" segment.

Under the terms of purchase agreements the Group is obliged to pay additional consideration of RUB 150 million in 18 months after the acquisition date. The consideration could be reduced by the amount of tax expenses related to activities prior to the acquisition date. As of the acquisition date, the Group recorded a provision for tax liabilities in the amount of RUB 24 million and respectively reduced the additional consideration. The purchase price allocation as of the acquisition date reflected preliminary estimation of the fair value of the contingent consideration.

Rights to use radio frequencies recognized as a result of the acquisition are amortized over a period of their remaining useful life as of the acquisition date ranging from 7 to 8 years. Customer base recognized as a result of the acquisition is amortized over the period of its estimated average useful life of 31 months.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

**Pro forma results of operations (unaudited)** – The following unaudited pro forma financial data for the years ended December 31, 2014, 2013 and 2012, give effect to the 2014 acquisitions of SMARTS-Ivanovo, SMARTS-Ufa and Penza-GSM as though these business combinations had been completed at the beginning of 2012.

	2014	2013	2012
Pro forma:			
Net revenues	411,353	399,161	378,938
Net income	51,598	79,738	29,665

The pro forma information is based on various assumptions and estimates. The pro forma information is neither necessarily indicative of the operating results that would have occurred if the Group acquisitions had been consummated as of January 1, 2012, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual results of operations of these companies are included into the consolidated financial statements of the Group only from the respective dates of acquisition.

Since their respective acquisition dates, companies acquired in 2014 contributed revenue in the amount of RUB 3 million and net loss in the amount of RUB 4 million to consolidated statement of operations and comprehensive income for the year ended December 31, 2014.

#### Disposal in 2013

**Disposal of Business-Nedvizhimost** – In December 2013, the Group sold a 51% stake in Business-Nedvizhimost CJSC to Sistema for RUB 3.2 billion. Business-Nedvizhimost owns and manages 76 real estate sites and 44 real estate facilities throughout Moscow with a total area of roughly 178,000 sq. m. After the loss of control over the subsidiary, the Group deconsolidated Business-Nedvizhimost and applied for its 49% interest the equity method of accounting. In April 2014, the Group sold the remaining 49% stake to Sistema for RUB 3.1 billion. The disposal was accounted for as a transaction under common control directly in equity.

#### Acquisitions and disposals in 2012

**Acquisitions of controlling interests in regional fixed line operators** – In 2012, as part of its program of regional expansion, the Group acquired controlling interests in a number of fixed line operators in certain regions of Russia. The purchase price for these acquisitions was paid in cash. The acquisitions were accounted for using the acquisition method of accounting.

The following table summarizes the purchase price allocation for regional fixed line operators acquired during the year ended December 31, 2012:

	Elf Group	Intercom	ZhelGorTele-Com	Pilot & TVKiK	Total
Month of acquisition	August	August	October	October	
Region of operations	Central region	Volga region	Central region	Central region	
Ownership interest acquired	100%	100%	100%	100%	
Current assets	6	9	4	3	22
Property, plant and equipment	49	11	3	21	84
Goodwill	172	62	115	55	404
Customer base	45	29	54	22	150
Current liabilities	(44)	(15)	(13)	(6)	(78)
Non-current liabilities	(9)	(6)	(11)	(4)	(30)
Fair value of contingent consideration	(28)	(10)	(5)	-	(43)
<b>Consideration paid</b>	<b>191</b>	<b>80</b>	<b>147</b>	<b>91</b>	<b>509</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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The Group's consolidated financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed.

Customer base intangibles recognized as a result of the acquisitions are being amortized over a period ranging from 7 to 9 years depending on the type of subscribers.

The recognition of goodwill in the amount of RUB 404 million from the acquisitions is due to the economic potential of the markets in which the acquired companies operate and synergies arising from the acquisitions. Goodwill is attributable to the "Russia convergent" segment.

**Tascom** – In May 2012, the Group acquired a 100% stake in Tascom CJSC ("Tascom"), a market leader in providing telecommunication services to corporate clients in Moscow and the Moscow region, for RUB 1,437 million. The seller has indemnified the Group against all losses which arise in connection with liability for taxation matters relating to the pre-acquisition period. As of the acquisition date the Group recorded a provision for tax liabilities and a related indemnification asset in the amount of RUB 236 million relating to this warranty. As of December 31, 2014 the amount of the indemnification asset and related provision for tax liabilities was reduced to RUB 43 million.

The Group also should pay to the seller any amounts received for the services rendered by Tascom prior to the acquisition date, capped at RUB 400 million – this contingent consideration arrangement was recorded at fair value of RUB 170 million which was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance). The fair value was measured as the best estimate of all possible outcomes. During 2012-2013, the contingent consideration in the amount of RUB 170 million was completely paid to the seller.

The acquisition was accounted for using the acquisition method of accounting. The summary of the purchase price allocation for the acquisition was as follows:

Current assets	489
Property, plant and equipment	586
Goodwill	1,083
Customer base	168
Other non-current assets	188
Current liabilities	(800)
Non-current liabilities	(107)
Fair value of contingent consideration	(170)
<b>Consideration paid</b>	<b>1,437</b>

The excess of the consideration paid over the value of net assets acquired in the amount of RUB 1,083 million was allocated to goodwill which was attributable to the "Moscow fixed line" segment and is not deductible for income tax purposes. Goodwill is mainly attributable to the expected synergies from increase of market share and reduction of capital expenditures to be made by the Group to construct optical fiber network.

**Disposal of Stream** – In May 2012, MTS and Sistema signed a shareholders agreement with respect to the management of Stream LLC ("Stream"), which owns and manages Stream.ru. In addition Sistema contributed RUB 496.1 million into Stream's charter capital giving it an ownership of 55% of Stream, thereby reducing MTS's direct ownership in Stream from 100% to 45%. After a loss of control over the subsidiary, the Group deconsolidated Stream and accounted for its interest using the equity method. The disposal was accounted for as transaction under common control directly in equity.

## **OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)**

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#### **4. OPERATIONS IN UZBEKISTAN**

In June 2012, the authorities of the Republic of Uzbekistan commenced repeat audits of previously audited financial and operating activities of MTS' wholly owned subsidiary Uzdunrobita. On July 17, 2012, Uzdunrobita suspended its services in Uzbekistan pursuant to the order of the State Agency for Communications and Information of Uzbekistan (the "SACI") temporarily suspending the operating license of Uzdunrobita for a period of ten business days. This suspension was subsequently extended to three months due to the decision of the Tashkent Economic Court of July 30, 2012.

On August 6 and 7, 2012, fourteen regional antimonopoly departments of the Republic of Uzbekistan simultaneously held hearings and declared that Uzdunrobita had violated antimonopoly laws, consumer protection laws and laws governing advertisements. In total, the claims of the regional antimonopoly departments against Uzdunrobita amounted to approximately RUB 2,558 million. This amount was subsequently reduced by the superior antimonopoly regulator to RUB 416 million in the aggregate. The disputes with the antimonopoly authorities were dismissed after payments were made by Uzdunrobita pursuant to the Appeal Decision (as defined below).

On August 13, 2012, the Tashkent Economic Court granted the petition of the SACI to terminate all operating licenses of Uzdunrobita permanently. This decision was subsequently upheld by the appeals and cassation instance courts on August 27, 2012 and April 4, 2013, respectively.

Notwithstanding the fact that a tax audit of Uzdunrobita's operations for the period of 2007-2010 was completed in February 2012 and did not reveal any serious violations, further tax audits were conducted and purported to find alleged violations of licensing regulations as well as income and other tax legislation resulting in the imposition of additional taxes and fines totaling approximately RUB 28,776 million. This amount was subsequently reduced to RUB 21,390 million in the aggregate.

During September-October of 2012, RUB 201 million were seized from Uzdunrobita's bank accounts by the Uzbek State and applied to settle its alleged liabilities under these claims.

On September 17, 2012, the Tashkent City Criminal Court issued a ruling in favor of the Uzbek state authorities authorizing the confiscation of all assets of Uzdunrobita based on a criminal court's verdict which the Tashkent City Criminal Court issued against four employees of Uzdunrobita. Previously, Uzbek law enforcement agencies arrested all of Uzdunrobita's assets, including cash held in local bank accounts.

On November 8, 2012, the Appellate Instance of the Tashkent City Criminal Court allowed Uzdunrobita's appeal challenging the decision of the Tashkent City Criminal Court dated September 17, 2012.

The appeals court found that all damages (taxes, sanctions, unpaid licenses duties and damages to customers) incurred by the State were to be compensated by Uzdunrobita. The amount of damages was calculated on the basis of all of the aforementioned claims against Uzdunrobita, which amounted to RUB 18,375 million to be paid in eight equal monthly instalments (the "Appeal Decision").

In accordance with applicable Uzbek laws, Uzdunrobita petitioned the Deputy General Prosecutor to challenge the Appeal Decision before the Supreme Court of Uzbekistan and grant a stay of enforcement of the Appeal Decision. However, such petitions were rejected by the General Prosecutor's Office on January 8, 2013.

Following this rejection, Uzdunrobita immediately filed a further petition to appeal to the Supreme Court of Uzbekistan with the Chairman of the Supreme Court of Uzbekistan. On January 23, 2013, the Company was notified that the matter had been submitted by the Supreme Court for consideration by the Chairman of the Tashkent City Court. On May 2, 2013, the Chairman of the Tashkent City Court rejected Uzdunrobita's petition.



## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

In order to comply with the Appeal Decision, Uzdunrobita paid two scheduled installments in November and December 2012 totaling RUB 4,584 million. On January 14, 2013, subsequent to the payment of a portion (RUB 242 million) of the third installment due in January 2013 with all cash remaining in Uzdunrobita's bank accounts, Uzdunrobita filed a petition for voluntary bankruptcy with the Tashkent Economic Court due to its inability to meet its further obligations arising out of the Appeal Decision. On January 18, 2013, the Court initiated bankruptcy proceedings and appointed an external temporary supervisor over Uzdunrobita, and scheduled a further bankruptcy hearing which took place on April 22, 2013.

Considering the adverse impact of such circumstances on the Group's ability to conduct operations in Uzbekistan, the Group tested goodwill and other long-lived assets attributable to Uzbekistan for impairment upon first receiving notification of the investigations. As a result, an impairment loss on the long-lived assets presented in the table below was recorded in the consolidated statements of operations and comprehensive income for the year ended December 31, 2012. In 2013 these losses were assigned to discontinued operations:

	<b>Impairment loss</b>
Property, plant and equipment	8,438
Licenses	2,709
Rights to use radio frequencies	2,523
Numbering capacity	1,190
Software and other intangible assets	1,654
Goodwill	3,523
<b>Total impairment loss related to goodwill and long-lived assets</b>	<b>20,037</b>

The Group used a probability-weighted valuation technique to determine the fair value of the long-lived assets as of December 31, 2012, which was determined based on unobservable inputs ("Level 3" of the hierarchy established by U.S. GAAP guidance). In calculating the future cash flows for use in the assessment of the fair value of long-lived assets, the Group used forecasts for the Uzbekistan telecommunication market and Uzdunrobita's position in that market. The forecasts were based on all available internal and external information, including growth projections and industry experts' estimates.

Separate to the impairments recognized, a liability of RUB 12,706 million relating to the claims was recorded with an associated charge to the consolidated statements of operations and comprehensive income for the year ended December 31, 2012.

On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated six-month liquidation procedures. In accordance with the terms of local liquidation procedures, Uzdunrobita's CEO was relieved of his duties and all of the oversight and governance over Uzdunrobita was transferred to the liquidation administrator. As a result the Group lost control over the subsidiary and deconsolidated Uzdunrobita.

The results of operations of Uzdunrobita are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income and consolidated statements of cash flows for all periods presented. The consolidated statement of financial position was not retrospectively adjusted on discontinued operations. The gain on disposal recognized in the amount of RUB 3,682 million related to the recycling from accumulated other comprehensive income of the cumulative translation adjustment attributable to Uzdunrobita. The results of discontinued operations of Uzdunrobita for the year ended December 31, 2013 and 2012 were as follows:

	<b>2013</b>	<b>2012</b>
Total revenues	-	8,357
Income / (loss) before income tax	1,109	(34,171)
Income tax (expense) / benefit	(1,058)	1,325
Gain on disposal, net of tax	3,682	-
<b>Income / (loss) from discontinued operations, net of tax</b>	<b>3,733</b>	<b>(32,846)</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 *(Amounts in millions of Russian Rubles, unless otherwise stated)*

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In July 2013, two rounds of auctions were set and held in relation to the sale of assets of Uzdurobita and all of its branches. All auctions were recognized as having failed due to the absence of applications by any interested bidders.

The Group filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes ("ICSID"), which is part of the World Bank Group, in Washington, D.C. The claim was registered on November 15, 2012. A tribunal was formed on August 29, 2013 and the first procedural hearings took place in November 2013.

In July 2014 the dispute between MTS and the Republic of Uzbekistan was resolved. The parties signed a settlement agreement (the "Settlement Agreement") and according to its terms all mutual claims were eliminated. The Settlement Agreement is governed by English law and provides for resolution of any disputes arising out of the Settlement agreement in the International Court of Arbitration under the International Chamber of Commerce in Paris. ICSID has discontinued international arbitration proceedings between the Group and the Republic of Uzbekistan following the submission of a joint application by both parties

The Settlement Agreement primarily addressed two separate elements – the aforementioned elimination of all mutual claims filed by MTS and the Republic of Uzbekistan and, certain guarantees granted to MTS in connection with its re-entry into the Republic of Uzbekistan. Consideration received, in total, had a fair value of RUB 6,734 million (see below for further details).

Following unsuccessful tenders on sale of Uzdurobita equipment, the representatives of the Republic of Uzbekistan and MTS commenced negotiations in relation to MTS' return to the market. The government authorities provided certain guarantees to MTS in relation to the protection of any future investment in the Republic of Uzbekistan to encourage the return of MTS to the market. Also, the Republic of Uzbekistan established a legal entity, Universal Mobile Systems LLC ("UMS"), with such entity having no legal connection to the previously liquidated entity, Uzdurobita. UMS was granted 2G, 3G and LTE licenses valid till 2029, and received frequencies, numbering capacity and other permits required for the launch of operations. On September 24, 2014, a 50.01% ownership interest in UMS was transferred to the Group by the State Unitary Enterprise "Center of radio communications, radio broadcasting and television" on behalf of the Republic of Uzbekistan. Independent appraisers hired by the Group determined the total fair value of UMS to be RUB 9,062 million as of the transfer date.

Based on the aforementioned fair value assessment of a 50.01% stake in UMS, the Group recognized a gain from reentrance into Uzbekistan pursuant to the Settlement Agreement in the amount of RUB 6,734 million. Management concluded that this consideration related to, in its entirety, a financial incentive to encourage re-entry into the Republic of Uzbekistan and as such, recognition in continuing operations was appropriate. No element was allocated to the non-satisfaction and elimination of mutual claims as this was deemed to have minimal value.

The allocation of consideration received between elements where the settlement of litigation is involved is highly judgmental. In this case, management considered, among other things the terms of the settlement arrangement as well as the development of the negotiations process itself, in which members of MTS management were involved.

The Group consolidates UMS in accordance with FASB ASC 810, Consolidation, starting September 24, 2014, representing the date of transfer of ownership. Below is the summary of fair value allocation regarding the incentive arrangement:

Current assets	26
Property, plant and equipment	3,848
Other intangible assets	5,161
Other non-current assets	1,327
Current liabilities	(30)
Non-current liabilities	(25)
Non-controlling interest	(3,573)
Gain from reentrance into Uzbekistan	(6,734)
<b>Consideration paid</b>	<b>-</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The fair value of non-controlling interest as of the date of consolidation in the amount of RUB 3,573 million was determined based on a discounted cash flow technique utilizing significant unobservable inputs ("Level 3" significant unobservable inputs of the hierarchy established by the U.S. GAAP guidance). The key assumptions in the fair value calculations included a discount rate of 24.1% and average price per minute of voice services amounting to RUB 0.56.

#### 5. POLITICAL AND ECONOMIC CRISIS IN UKRAINE

During the year ended December 31, 2014, a deterioration in the political environment of Ukraine has led to general instability, economic deterioration and armed conflict in eastern Ukraine. The deterioration has further exacerbated the country's already weak macroeconomic trends, which have led to reduced credit ratings, significant depreciation of its national currency and increased inflation. During 2014, the Ukrainian Parliament adopted a law allowing for the imposition of sanctions against countries, persons and companies deemed by the Ukrainian government to threaten Ukrainian national interests, national security, sovereignty or the territorial integrity of Ukraine. The National Bank of Ukraine (NBU) passed a decree prohibiting Ukrainian companies to pay dividends to foreign investors. These circumstances, combined with continued political and economic instability in the country, could result in further negative impact on our business including our financial position and results of operations (refer to Note 29 for segment data on Ukraine). Such risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of December 31, 2014, the Group held RUB 21,203 million in current accounts and deposits in Ukrainian banks, including RUB 5,072 million in Delta Bank. In December 2014, Delta Bank delayed customer payments and put limits on cash withdrawals. On March 2, 2015, NBU adopted a resolution declaring Delta Bank to be insolvent. The Group treated this declaration as a recognized subsequent event and reserved the full amount of deposited funds (RUB 5,072 million) and related interest (RUB 66 million) as of December 31, 2014.

#### 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2014 and 2013 comprised the following:

	December 31,	
	2014	2013
Russian Ruble current accounts	9,767	5,900
Russian Ruble deposit accounts	19,272	14,215
U.S. Dollar current accounts	11,412	1,336
U.S. Dollar deposit accounts	7,404	7,503
Euro current accounts	3,579	395
Euro deposit accounts	1,901	136
Hryvna current accounts	1,471	87
Hryvna deposit accounts	4,973	276
Uzbek som current accounts	341	-
Turkmenian manat current accounts	1,162	697
Armenian dram current accounts	72	67
Armenian dram deposit accounts	56	-
<b>Total cash and cash equivalents</b>	<b>61,410</b>	<b>30,612</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 7. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2014 comprised the following:

Type of investment	Classification	Annual interest rate	Maturity date	Amount
Loan receivable from Mr. P. Fattouche and Mr. M. Fattouche (Note 16)	Held to maturity	6%	December 2015 January 2015 –	5,533
Deposits	Held to maturity	4-16%	December 2015	3,534
Sistema Notes due in 2016 (series 04) (related party) (Note 25)	Available for sale	7.65%	-	534
Loan receivable from Navigation Information Systems (related party) (Note 25)	Held to maturity	8.5-10.0%	March 2015 – July 2015	132
Loan receivable from Moscow Business Incubator (related party) (Note 25)	Held to maturity	10.5%	December 2015	52
Sistema International Funding S.A. Bonds due 2019 (related party) (Note 25)	Available for sale	6.95%	-	42
Other loans	Held to maturity	-	-	22
<b>Total short-term investments</b>				<b>9,849</b>

Short-term investments as of December 31, 2013 comprised of the following:

Type of investment	Classification	Annual interest rate	Maturity date	Amount
Deposits	Held to maturity	4.2-14.0%	February 2014 – July 2014	5,377
Deposits at MTS Bank (related party) (Note 25)	Held to maturity	8.7%	June 2014	5,081
Mutual investment fund "Reservnyi", managed by DIK (related party) (Note 25)	Available for sale	-	Upon request	4,154
Other loans	Held to maturity	-	-	21
<b>Total short-term investments</b>				<b>14,633</b>

The Group considers credit risk for short-term investments to be low due to the strong financial position of counterparties.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 8. TRADE RECEIVABLES, NET

Trade receivables as of December 31, 2014 and 2013 comprised the following:

	December 31,	
	2014	2013
Roaming	13,892	15,875
Subscribers	10,722	12,548
Interconnect	3,802	2,847
Dealers	1,931	2,127
Other	4,784	4,910
Allowance for doubtful accounts	(2,165)	(3,753)
<b>Trade receivables, net</b>	<b>32,966</b>	<b>34,554</b>

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
<b>Balance, beginning of the year</b>	<b>3,753</b>	<b>3,461</b>	<b>3,122</b>
Allowance for doubtful accounts charge	2,933	3,366	2,257
Accounts receivable written off	(4,521)	(3,074)	(1,918)
<b>Balance, end of the year</b>	<b>2,165</b>	<b>3,753</b>	<b>3,461</b>

#### 9. INVENTORY AND SPARE PARTS

Inventory and spare parts as of December 31, 2014 and 2013 comprised the following:

	December 31,	
	2014	2013
Handsets and accessories	5,971	7,436
SIM cards and prepaid phone cards	897	395
Spare parts for telecommunication equipment	301	305
Advertising and other materials	341	362
<b>Total inventory and spare parts</b>	<b>7,510</b>	<b>8,498</b>

Other materials mainly consist of stationary, fuel and auxiliary materials.

Obsolescence expense for the years ended December 31, 2014, 2013 and 2012 amounted to RUB 357 million, RUB 660 million and RUB 759 million, respectively, and was included in general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income. Spare parts for base stations included in inventory are expected to be utilized within the twelve months following the statements of financial position date.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 10. DISPOSAL GROUP HELD FOR SALE

	December 31,	
	2014	2013
Assets related to planned sale of 51% stake in Rent Nedvizhimost	2,004	-
<b>Total assets related to disposal group held for sale</b>	<b>2,004</b>	<b>-</b>
Liabilities related to planned sale of 51% stake in Rent Nedvizhimost	(227)	-

**Disposal of Rent Nedvizhimost** – In February 2015, the Group lost control over Rent Nedvizhimost CJSC as a result of the sale of a 51% stake to Business-Nedvizhimost, a subsidiary of Sistema, for RUB 4.3 billion of which 3.8 billion is due before December 31, 2018 and bears interest of 12%-interest p.a. The results of this transaction will be included in the financial statements of the Group for the year ended December 31, 2015. Following the sale of its 51% stake, the Group retained a 49% stake in Rent Nedvizhimost allowing it to exercise significant influence over the operating and financing activities of the entity. Consequently, the results of operations and cash flows of Rent Nedvizhimost were not reported as discontinued operations in the consolidated financial statements. The related assets and liabilities of a disposal group were classified as “held for sale” and measured at carrying value as of December 31, 2014. Balances were attributable to “Moscow fixed line” reportable segment and comprised of the following:

Current assets	238
Non-current assets	1,766
<b>Total assets related to disposal group held for sale</b>	<b>2,004</b>
Current liabilities	187
Non-current liabilities	40
<b>Total liabilities related to disposal group held for sale</b>	<b>227</b>

**Disposal of network equipment in Crimea** – In October 2014, the Group’s subsidiary MTS Ukraine sold base stations, network infrastructure, IT and telecom equipment and certain other assets located in Crimea, through an open tender procedure, to two private investors for RUB 922 million (EUR 17.7 million as of the date of transaction). Previously, on August 6, 2014, MTS suspended its operations in Crimea due to technical issues, which have curtailed its ability to provide telecommunications services for its customers. The gain recognized upon the sale of the base stations, network infrastructure, IT and telecom equipment amounting to RUB 317 million was recognized as operating income in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2014.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 11. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2014 and 2013 was as follows:

	Useful lives, years	December 31,	
		2014	2013
Network, base station equipment and related leasehold improvements (including leased assets of 6,427 and nil, respectively)	5-17	499,101	445,857
Office equipment, computers and other	3-15	43,640	42,121
Buildings and related leasehold improvements (including leased assets of nil and 28, respectively)	20-59	24,362	25,496
Vehicles (including leased assets of 73 and 942, respectively)	3-7	3,271	3,139
Property, plant and equipment, at cost (including leased assets of 6,500 and 970, respectively)		<b>570,374</b>	<b>516,613</b>
Accumulated depreciation (including leased assets of 438 and 793, respectively)		(313,623)	(293,389)
Construction in progress and equipment for installation		42,728	47,436
<b>Property, plant and equipment, net</b>		<b>299,479</b>	<b>270,660</b>

Depreciation expense during the years ended December 31, 2014, 2013 and 2012 amounted to RUB 58,511 million, RUB 58,599 million and RUB 54,766 million, respectively.

#### 12. LICENSES

In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the local communication authorities.

As of December 31, 2014 and 2013, the value of the Group's telecommunications licenses was as follows:

	December 31,	
	2014	2013
Armenia	8,782	5,982
Russia	1,825	291
Ukraine	117	123
<b>Licenses, at cost</b>	<b>10,724</b>	<b>6,396</b>
Accumulated amortization	(5,226)	(3,194)
<b>Licenses, net</b>	<b>5,498</b>	<b>3,202</b>

Amortization expense for the years ended December 31, 2014, 2013 and 2012 amounted to 598 million, RUB 544 million and RUB 662 million, respectively.

The Group's operating licenses do not provide for automatic renewal. As of December 31, 2014, all licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. The weighted-average period until the next renewal of licenses in the Russian Federation is four years.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The license for the provision of telecommunications services in Ukraine was renewed in 2013 and is valid until 2026. The license for the provision of telecommunication services in Armenia is valid until 2019. The license in Turkmenistan was suspended by the Turkmenistan Ministry of Communications in December 2010 which resulted in the cessation of the Group's operational activity in Turkmenistan. However, in July 2012, the Turkmenistan Ministry of Communications granted the Group GSM and 3G licenses for a three-year term and the Group recommenced its operations in Turkmenistan. For a description of matters related to licenses for the provision of telecommunication services in Uzbekistan see Note 4.

Based on the cost of amortizable operating licenses existing at December 31, 2014 and current exchange rates, the estimated future amortization expenses for the five years ending December 31, 2019 and thereafter are as follows:

Estimated amortization expense in the year ended December 31,	
2015	970
2016	973
2017	970
2018	970
2019	849
Thereafter	766
<b>Total</b>	<b>5,498</b>

The actual amortization expense reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

Operating licenses contain a number of requirements and conditions specified by legislation. The requirements generally include targets for service start date, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

### 13. GOODWILL

The change in the net carrying amount of goodwill for the years ended December 31, 2014 and 2013 by reportable and operating segments was as follows:

	Russia convergent	Moscow fixed line	Ukraine	Uzbekistan <sup>(1)</sup>	Other	Total
<b>Balance at January 1, 2013</b>						
Gross amount of goodwill	28,668	1,083	162	3,523	3,981	37,417
Accumulated impairment loss	(1,466)	-	-	(3,523)	-	(4,989)
	<b>27,202</b>	<b>1,083</b>	<b>162</b>	<b>-</b>	<b>3,981</b>	<b>32,428</b>
Disposals	(23)	-	-	-	-	(23)
Currency translation adjustment	-	-	12	-	287	299
<b>Balance at December 31, 2013</b>						
Gross amount of goodwill	28,645	1,083	174	-	4,268	34,170
Accumulated impairment loss	(1,466)	-	-	-	-	(1,466)
	<b>27,179</b>	<b>1,083</b>	<b>174</b>	<b>-</b>	<b>4,268</b>	<b>32,704</b>
Acquisitions (Note 3)	1,630	-	-	-	-	1,630
Currency translation adjustment	-	-	(23)	-	2,000	1,977
<b>Balance at December 31, 2014</b>						
Gross amount of goodwill	30,275	1,083	151	-	6,268	37,777
Accumulated impairment loss	(1,466)	-	-	-	-	(1,466)
	<b>28,809</b>	<b>1,083</b>	<b>151</b>	<b>-</b>	<b>6,268</b>	<b>36,311</b>

<sup>(1)</sup> The results of operations in Uzbekistan are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income for the years ended December 31, 2013 and 2012.



## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 14. OTHER INTANGIBLE ASSETS

Intangible assets as of December 31, 2014 and 2013 comprised the following:

		December 31, 2014			December 31, 2013		
	Useful lives, years	Gross carrying value	Accumu- lated amortiza- tion	Net carrying value	Gross carrying value	Accumu- lated amortiza- tion	Net carrying value
<b>Amortized intangible assets</b>							
Billing and telecommunication software	1 to 20	67,238	(41,853)	25,385	53,225	(37,265)	15,960
Office software	1 to 10	12,713	(5,695)	7,018	9,309	(3,582)	5,727
Rights to use radio frequencies	1 to 15	11,444	(5,684)	5,760	9,850	(4,905)	4,945
Acquired customer base	4 to 31	7,690	(3,166)	4,524	8,757	(3,622)	5,135
Accounting software	1 to 5	3,637	(2,641)	996	4,330	(3,021)	1,309
Numbering capacity	2 to 15	3,746	(3,508)	238	3,623	(2,849)	774
Credit line	1 to 3	3,238	-	3,238	-	-	-
Other	1 to 15	10,671	(3,238)	7,433	7,090	(2,909)	4,181
<b>Total amortized intangible assets</b>		<b>120,377</b>	<b>(65,785)</b>	<b>54,592</b>	<b>96,184</b>	<b>(58,153)</b>	<b>38,031</b>
Prepayments for intangible assets		2,379	-	2,379	392	-	392
<b>Total other intangible assets</b>		<b>122,756</b>	<b>(65,785)</b>	<b>56,971</b>	<b>96,576</b>	<b>(58,153)</b>	<b>38,423</b>

Amortization expense for the years ended December 31, 2014, 2013 and 2012 amounted to RUB 15,601 million, RUB 14,110 million and RUB 12,482 million, respectively. Based solely on the cost of amortizable intangible assets existing at December 31, 2014 the estimated future amortization expenses for the five years ending December 31, 2019 and thereafter are as follows:

<b>Estimated amortization expense in the year ending December 31,</b>	
2015	16,901
2016	13,740
2017	9,601
2018	5,036
2019	2,301
Thereafter	7,013
<b>Total</b>	<b>54,592</b>

The actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives, exchange rates and other relevant factors.

The weighted-average amortization period for billing and telecommunications software acquired during the years ended December 31, 2014 and 2013 is four years.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 15. INVESTMENTS IN AND ADVANCES TO ASSOCIATES

As of December 31, 2014 and 2013, the Group's investments in and advances to associates comprised the following:

	December 31,	
	2014	2013
MTS Belarus – equity investment	6,033	5,013
MTS Bank – equity investment	4,858	5,476
MTS Bank – loan	2,100	2,100
OZON Holdings Limited – equity investment	2,708	-
Business-Nedvizhimost – equity investment	-	410
Intellect Telecom – equity investment	78	163
Intellect Telecom – loan	168	-
Stream – equity investment	332	231
<b>Total investments in and advances to associates</b>	<b>16,277</b>	<b>13,393</b>

**Business-Nedvizhimost** – In September 2013, the Group spun off Business-Nedvizhimost CJSC from its wholly-owned subsidiary MGTS-Nedvizhimost and, in December 2013, sold a 51% stake in Business-Nedvizhimost to Sistema. After the loss of control over the subsidiary, the Group deconsolidated Business-Nedvizhimost and accounted for the investment using the equity method of accounting. In April 2014 the Group sold the remaining 49% stake in Business-Nedvizhimost to Sistema for RUB 3.1 billion, payable in arrears till July 31, 2015 and bearing interest of 9.0% p.a. The disposal was accounted for as a transaction under common control directly in equity.

**MTS Bank** – In April 2013, the Group acquired a 25.1% stake in MTS Bank PJSC (“MTS Bank”) for RUB 5,089 million. As a result of the transaction, the Group's effective ownership in MTS Bank increased to 26.3%. In September 2012, the Group provided a 10-year subordinated loan to MTS Bank in the amount of RUB 2,100 million at 8.8% p.a. In October 2014 the Group contributed RUB 1,266 million to MTS Bank. MTS Bank has no obligation to pay the amount back. In December 2014 the Group had increased its interest in MTS Bank from 26.3% to 27.0% through participation in an additional share issue of MTS Bank, and paid RUB 3,639 million for shares acquired.

In 2014, an impairment charge of RUB 3,225 million related to equity investment in MTS Bank was recognized as an element of equity in net loss / (income) of associates in the accompanying consolidated statements of operations and comprehensive income. As a result a difference arose between the amount at which the investment is carried and the amount of underlying equity in net assets.

**OZON Holdings Limited** - In April 2014 the Group acquired a 10.82% stake in OZON Holdings Limited through the purchase of OZON Holdings Limited's additional share issuance for RUB 2,702 million (\$75 million). The Group concluded that it is able to exercise significant influence over OZON Holdings Limited based on direct and indirect ownership of equity shares, representation on the investee's Board of Directors and certain veto rights related to matters intersecting with the Group's interests. The difference between the equity investment carrying amount of RUB 2,708 million and underlying equity in net assets as of December 31, 2014 of RUB 739 million represents equity-method goodwill, mainly attributable to the expected synergies from commercial arrangements and co-branding programs.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The financial position and results of operations of MTS Bank as of and for the years ended December 31, 2014 and 2013 (since acquisition) were as follows:

	2014	2013
Total assets	215,070	224,446
Total liabilities	(181,724)	(201,077)
Noncontrolling interest	(4,061)	(1,924)
Total interest income	(25,107)	(18,266)
Total interest expense	9,868	7,737
Operating loss/(profit)	14,915	(1,036)
Net loss/(income)	12,585	(868)

Summarized financial position and results of operations of other equity method investees as of and for the year ended December 31, 2014 were as follows:

	MTS Belarus	Intellect Telecom	Stream	OZON Holdings Limited
Total current assets	9,022	237	974	7,888
Total non-current assets	8,042	458	91	2,962
<b>Total assets</b>	<b>17,064</b>	<b>695</b>	<b>1,065</b>	<b>10,850</b>
Total current liabilities	(5,126)	(506)	(341)	(3,640)
Total non-current liabilities	(168)	(17)	-	(377)
<b>Total liabilities</b>	<b>(5,294)</b>	<b>(523)</b>	<b>(341)</b>	<b>(4,017)</b>
Revenue	(17,639)	(198)	(1,280)	(11,097)
Gross profit	(12,910)	(4)	(566)	(2,369)
Net (income) / loss	(7,466)	170	(226)	2,494

Revenue, gross profit and net income of Business-Nedvizhimost from January 1, 2014 till the date of its disposal amounted to RUB 196 million, RUB 90 million and RUB 17 million, respectively.

Summarized financial position and results of operations of equity method investees as of and for the year ended December 31, 2013 were as follows:

	MTS Belarus	Intellect Telecom	Stream	Business- Nedvizhimost (since deconsolidation)
Total current assets	5,867	140	485	313
Total non-current assets	6,539	483	214	749
<b>Total assets</b>	<b>12,406</b>	<b>623</b>	<b>699</b>	<b>1,062</b>
Total current liabilities	(3,161)	(267)	(206)	(181)
Total non-current liabilities	-	(14)	-	(50)
<b>Total liabilities</b>	<b>(3,161)</b>	<b>(281)</b>	<b>(206)</b>	<b>(231)</b>
Revenue	(14,310)	(357)	(738)	(13)
Gross profit	(10,271)	(66)	(253)	(8)
Net (income) / loss	(4,649)	81	(9)	(5)

For the years ended December 31, 2014, 2013 and 2012 the Group's share in the earnings or losses of associates amounted to a loss of RUB 2,880 million, gain of RUB 2,472 million and gain of RUB 869 million, respectively and was included in other expense/(income) in the accompanying consolidated statements of operations and comprehensive income.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 16. OTHER INVESTMENTS

As of December 31, 2014 and 2013, the Group's other investments comprised the following:

	Classification	Annual interest rate	Maturity date	December 31,	
				2014	2013
Deposits	Held to maturity	6.15-6.25%	2016	13,671	-
Loan receivable from Mr. P. Fattouche and Mr. M. Fattouche <sup>(1)</sup>	Held to maturity	6%	2015	-	2,946
Loan Participation Notes EMIS BV	Held to maturity	6%	2015	-	699
Promissory notes of Sistema (related party) (Note 25)	Held to maturity	0.0%	2017	618	618
Investments in ordinary shares (related party) (Note 25)	At cost	-	-	125	125
	At cost / held to maturity	-	-	555	4
Other					
<b>Total other investments</b>				<b>14,969</b>	<b>4,392</b>

<sup>(1)</sup> Reclassified to short-term investments as due in December 2015.

The Group does not discount promissory notes and loans granted to related parties, interest rates on which are different from market rates. Accordingly, fair value of such notes and loans may be different from their carrying value.

In December 2010, the Group granted a \$90.0 million (RUB 2,777 million at the date of transaction) loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche, the holders of a 20% noncontrolling stake in K-Telecom, the Group's subsidiary in Armenia. Simultaneously, the Group signed an amendment to the put and call option agreement for the acquisition of noncontrolling stake. According to the amendment, the call exercise price shall be reduced by deducting any outstanding balance on the loan amount and all accrued and unpaid interest and any other sums due and outstanding under the loan agreement at the time of exercise (Note 27). Interest accrued on the loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche for the years ended December 31, 2014, 2013 and 2012 amounted to RUB 212.8 million, RUB 172.7 million and RUB 174.1 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations and comprehensive income. The fair value of the loan approximates its carrying value.

In August 2013, the Group invested \$21.3 million (RUB 703 million at the date of transaction) in Loan Participation Notes issued by EMIS BV (effective issuer – Renaissance Capital). The Notes were sold before the maturity date due to deteriorating credit quality for \$22.3 million (RUB 764 million at the date of transaction) including realized interest of \$1 million (RUB 34 million at recognition date).

The Group considers credit risk for other investments in loans receivable and deposits to be low.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 17. BORROWINGS

**Notes** – As of December 31, 2014 and 2013, the Group's notes consisted of the following:

	Currency	Interest rate	December 31,	
			2014	2013
MTS International Notes due 2020 (Note 2)	USD	8.625%	35,057	24,547
MTS International Notes due 2023 (Note 2)	USD	5.00%	26,920	16,365
MTS OJSC Notes due 2020	RUB	8.15%	15,000	15,000
MTS OJSC Notes due 2014	RUB	7.60%	-	13,619
MTS OJSC Notes due 2017	RUB	8.70%	10,000	10,000
MTS OJSC Notes due 2023	RUB	8.25%	10,000	10,000
MTS OJSC Notes due 2015	RUB	7.75%	7,537	7,537
MTS OJSC Notes due 2016	RUB	8.75%	1,788	1,788
MTS OJSC Notes due 2018	RUB	12.00%	136	3,844
MTS OJSC Notes due 2015 (A series)	RUB	0.67%	12	12
MTS OJSC Notes due 2015-2016 (B series)	RUB	0.54%	12	12
MTS OJSC Notes due 2021-2022 (V series)	RUB	0.25%	12	12
Plus: unamortized premium			3	8
<b>Total notes</b>			<b>106,477</b>	<b>102,744</b>
Less: current portion			(22,701)	(17,462)
<b>Total notes, long-term</b>			<b>83,776</b>	<b>85,282</b>

The Group has an unconditional obligation to repurchase certain MTS OJSC Notes at par value if claimed by the noteholders subsequent to the announcement of sequential coupon. The dates of the announcement for each particular note issue are as follows:

MTS OJSC Notes due 2018	December 2015
MTS OJSC Notes due 2020	November 2015
MTS OJSC Notes due 2023	March 2018

The notes therefore can be defined as callable obligations under the FASB ASC 470, Debt, as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons. This guidance requires callable obligations to be disclosed as maturing in the reporting period, when the demand for repurchase could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The Group discloses the notes as maturing in 2015 (MTS OJSC Notes due 2018 and 2020) and in 2018 (MTS OJSC Notes due 2023) in the aggregated maturities schedule as these are the reporting periods when the noteholders will have the unilateral right to demand repurchase.

In December 2014, the Group changed the coupon rate for MTS OJSC Notes due 2018 from 7.50% to 12.00%. Following the announcement of new coupon rates the Group repurchased MTS OJSC Notes due 2018 at the request of eligible noteholders in the amount of RUB 3,710 million.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

As of December 31, 2014 the Group had the following unclosed repurchase transactions with a due date on January 14, 2015:

	Number of Notes	Due Amount	Unrealized Premium	Total
MTS OJSC Notes due 2015	2,420,000	1,670	(5)	1,665
MTS OJSC Notes due 2018	2,928,358	1,760	-	1,760
				<b>3,425</b>

The above balance is included in the short-term portion of bank loans and other debt disclosed below.

The fair values of notes based on the market quotes as of December 31, 2014 at the stock exchanges where they are traded were as follows:

	Stock exchange	% of par	Fair value
MTS International Notes due 2020	Frankfurt stock exchange	95.85	33,602
MTS International Notes due 2023	Frankfurt stock exchange	75.00	20,190
MTS OJSC Notes due 2020	Moscow Exchange	96.33	14,450
MTS OJSC Notes due 2017	Moscow Exchange	90.10	9,010
MTS OJSC Notes due 2023	Moscow Exchange	100.19	10,019
MTS OJSC Notes due 2015	Moscow Exchange	96.81	7,297
MTS OJSC Notes due 2016	Moscow Exchange	85.30	1,525
MTS OJSC Notes due 2018	Moscow Exchange	95.06	129
<b>Total notes</b>			<b>96,222</b>

**Bank loans and other debt** – As of December 31, 2014 and 2013, the Group's loans from banks and other companies consisted of the following:

	Maturity	Interest rate (actual at December 31, 2014)	December 31,	
			2014	2013
<b>USD-denominated:</b>				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Österreich AG	2015-2020	LIBOR + 1.15% (1.51%)	37,901	26,132
Skandinaviska Enskilda Banken AB	2015-2017	LIBOR + 0.23-1.8% (0.59-2.16%)	5,175	4,238
HSBC Bank plc and ING BHF Bank AG	2015	LIBOR + 0.3% (0.66%)	-	394
Other	2015	15%	164	258
			<b>43,240</b>	<b>31,022</b>
<b>EUR-denominated:</b>				
Bank of China	2015	EURIBOR + 1.95% (2.12%)	-	2,435
Credit Agricole Corporate Bank and BNP Paribas	2015-2018	EURIBOR + 1.65% (1.82%)	1,893	1,557
LBBW	2015-2017	EURIBOR +1.52% (1.69%)	956	839
			<b>2,849</b>	<b>4,831</b>
<b>RUB-denominated:</b>				
Sberbank	2015-2021	8.45-12.05%	125,000	80,000
Notes in REPO	2015	19.36%	3,425	-
SMM	2015	0-15%	556	-
Other	2015-2023	Various	456	395
			<b>129,437</b>	<b>80,395</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

	Maturity	Interest rate (actual at December 31, 2014)	December 31,	
			2014	2013
<b>AMD-denominated:</b>				
ASHIB	2015	13%	176	108
			<b>176</b>	<b>108</b>
<b>UZS-denominated:</b>				
Aloqabank	2019-2022	12%	759	-
Uzbektelecom	2015	10%	58	-
			<b>817</b>	
<b>Total bank loans and other debt</b>			<b>176,519</b>	<b>116,356</b>
Less: current portion			(19,435)	(7,564)
<b>Total bank loans and other debt, long-term</b>			<b>157,084</b>	<b>108,792</b>

In 2014, the Group negotiated changes in interest rates and maturity dates for several credit facilities. None of these modifications were considered to be substantial.

**Borrowing costs and interest capitalized** – Borrowing costs include interest incurred on existing indebtedness and debt issuance costs. Interest expense incurred during the construction phase of property, plant and equipment is capitalized as part of the value of the constructed assets until they are ready for use. The capitalized interest costs for the years ended December 31, 2014, 2013 and 2012 amounted to RUB 1,460 million, RUB 1,942 million and RUB 1,792 million, respectively. Debt issuance costs are capitalized and amortized using the effective interest method over the terms of the related loans.

Interest expense, net of amounts capitalized and amortization of debt issuance costs, for the years ended December 31, 2014, 2013 and 2012 was RUB 15,808 million, RUB 14,714 million and RUB 16,721 million, respectively.

**Compliance with covenants** – Bank loans and notes of the Group are subject to certain covenants limiting the Group's ability to incur debt, carry on transactions with related parties, create liens on properties, dispose assets, including GSM and 3G licenses for several license areas, issue guaranties, grant loans to employees and entities, delist notes, delay coupon payments, merge or consolidate MTS OJSC with another entity or be a subject to a court decision to pay over \$10 million (RUB 563 million as of the reporting date), which is remained unsatisfied for more than 60 days without being appealed, discharged or waived.

The Group is required to comply with certain financial ratios and maintain ownership in certain subsidiaries.

The noteholders of MTS International Notes due 2020 and MTS International Notes due 2023 have the right to require the Group to redeem the notes at 101% of their principal amount and related interest, if the Group experiences a change in control.

If the Group fails to meet these covenants, after certain notice and cure periods, the debtholders are entitled to accelerate the repayment of the debt.

The Group was in compliance with all existing notes and bank loan covenants as of December 31, 2014.

**Pledges** – The non-revolving credit facility agreement between UMS and Aloqabank with total amount as of December 31, 2014 of RUB 759 million is secured by telecommunication equipment and premises with carrying value of RUB 2,038 million.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

**Available credit facilities** – As of December 31, 2014, the Group's total available unused credit facilities amounted to RUB 44,378 million and related to the following credit lines:

	<u>Maturity</u>	<u>Interest rate</u>	<u>Available till</u>	<u>Available amount</u>
Sberbank	2018-2021	16%	June 2015	25,000
CitiBank Europe	2024	LIBOR 6M+ 0.9%	April 2015	16,878
ING Bank Eurasia	2015	MosPrime / LIBOR / EURIBOR + 1.50%	July 2015	2,500
<b>Total</b>				<b>44,378</b>

In addition, the Group has a credit facility made available by Citibank at MosPrime + 1.50% interest rate with the available amount set up on request and to be repaid within 182 days.

The following table presents the aggregated scheduled maturities of principal on notes and bank loans outstanding for the five years ending December 31, 2019 and thereafter:

	<u>Notes</u>	<u>Bank loans and other debt</u>
Payments due in the year ending December 31,		
2015	22,701	19,435
2016	1,788	33,821
2017	10,000	39,937
2018	10,000	28,527
2019	-	31,695
Thereafter	61,988	23,104
<b>Total</b>	<b>106,477</b>	<b>176,519</b>

#### 18. CAPITAL LEASE OBLIGATION

The following table presents a summary of assets under capital lease and accumulated depreciation as of December 31, 2014 and 2013:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Network and base station equipment	6,427	-
Vehicles	73	942
Buildings	-	28
Leased assets, at cost	6,500	970
Accumulated depreciation	(438)	(793)
<b>Leased assets, net</b>	<b>6,062</b>	<b>177</b>

Depreciation of assets under capital leases for the years ended December 31, 2014, 2013 and 2012 amounted to RUB 509 million, RUB 276 million and RUB 288 million, respectively and was included in depreciation and amortization expense in the accompanying consolidated statements of operations and comprehensive income.

Interest expense on capital lease obligations for the years ended December 31, 2014, 2013 and 2012 amounted to RUB 340 million, RUB 182 million and RUB 135 million, respectively.



## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments:

<b>Payments due for the year ended December 31,</b>	
2015	1,119
2016	1,108
2017	1,153
2018	1,159
2019	1,159
Thereafter	7,687
<b>Total minimum lease payments (undiscounted)</b>	<b>13,385</b>
Less amount representing interest	(3,990)
<b>Present value of net minimum lease payments</b>	<b>9,395</b>
Less current portion of lease obligations	(538)
<b>Non-current portion of lease obligations</b>	<b>8,857</b>

Leased assets include automobiles, network equipment and transponders which are installed on a satellite. The average lease term of the automobiles is three years. The Group has an obligation to purchase these automobiles under the respective capital lease agreements at the end of the lease term. The lease term of network equipment is fifteen years. The lease term of the transponders is twelve years. The Group is planning to use the transponders for providing satellite television services.

#### 19. ASSET RETIREMENT OBLIGATIONS

As of and for the years ended December 31, 2014 and 2013, the estimated present value of the Group's asset retirement obligations and related change in liabilities were as follows:

	<b>2014</b>	<b>2013</b>
<b>Balance, beginning of the year</b>	<b>2,743</b>	<b>2,763</b>
Liabilities incurred in the current period	73	303
Accretion expense	251	97
Revisions in estimated cash flows	26	(453)
Disposal of assets	(41)	-
Currency translation adjustment	(30)	33
<b>Balance, end of the year</b>	<b>3,022</b>	<b>2,743</b>

Revisions in estimated cash flows are attributable to the change in the estimated inflation rate and cost of dismantling of assets.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 20. DEFERRED CONNECTION FEES

Deferred connection fees as of and for the years ended December 31, 2014 and 2013, were as follows:

	2014	2013
<b>Balance, beginning of the year</b>	<b>3,649</b>	<b>3,817</b>
Payments received and deferred during the year	1,763	1,714
Amounts amortized and recognized as revenue during the year	(1,912)	(1,921)
Currency translation adjustment	(63)	39
<b>Balance, end of the year</b>	<b>3,437</b>	<b>3,649</b>
Less: current portion	(1,677)	(1,604)
<b>Non-current portion</b>	<b>1,760</b>	<b>2,045</b>

The Group defers initial connection fees paid by subscribers for the activation of network service as well as one-time activation fees received for connection to various value added services. These fees are recognized as revenue over the estimated average subscriber life (Note 2).

#### 21. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

##### Cash flow hedging

The Group regularly enters into variable-to-fixed interest rate swap agreements to manage the exposure of changes in variable interest rate related to its debt obligations. The instruments qualify for cash flow hedge accounting under U.S. GAAP requirements. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges. Interest rate swap contracts outstanding as of December 31, 2014 mature in 2015, 2018 and 2020.

In aggregate the Group entered into interest rate swap agreements designated to manage the exposure of changes in variable interest rate related to 0.12% of the Group's USD- and Euro- denominated bank loans outstanding as of December 31, 2014.

In addition to the above, the Group has also entered into several cross-currency interest rate swap agreements. These contracts hedged the risk of both interest rate and currency fluctuations and assumed periodic exchanges of both principal and interest payments from RUB-denominated amounts to USD- and Euro- denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2019-2020.

The Group entered into cross-currency interest rate swap agreements designated to manage the exposure of changes in variable interest rate and currency exchange rate for 35.1% of its USD- and Euro- denominated bank loans and Eurobonds outstanding as of December 31, 2014.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The following table presents the fair value of the Group's derivative instruments designated as hedges in the consolidated statements of financial position December 31, 2014 and 2013.

	Statements of financial position location	December 31,	
		2014	2013
<b>Asset derivatives</b>			
Cross-currency interest rate swaps	Other non-current assets	21,936	1,825
Interest rate swaps	Other non-current assets	8	12
<b>Total</b>		<b>21,944</b>	<b>1,837</b>
<b>Liability derivatives</b>			
Interest rate swaps	Other long-term liabilities	(522)	(389)
Interest rate swaps	Other payables	(2,028)	(32)
<b>Total</b>		<b>(2,550)</b>	<b>(421)</b>

The following table presents the effect of the Group's derivative instruments designated as hedges in the consolidated statements of operations and comprehensive income for the years ended December 31, 2014, 2013 and 2012. The amounts presented include the ineffective portion of derivative instruments and the amounts reclassified into earnings from accumulated other comprehensive income.

	Location of gain / (loss) recognized	Years ended December 31,		
		2014	2013	2012
Interest rate swaps	Interest income/(expense)	231	(184)	(429)
<i>Including ineffective portion</i>	<i>Interest income/(expense)</i>	<i>173</i>	<i>(28)</i>	<i>(183)</i>
Cross-currency interest rate swaps	Currency exchange and transaction gain/ (loss)	15,288	(777)	(235)
<i>Including ineffective portion</i>	<i>Currency exchange and transaction gain/(loss)</i>	<i>(2,315)</i>	<i>-</i>	<i>-</i>
<b>Total</b>		<b>15,519</b>	<b>(961)</b>	<b>(664)</b>

In May 2013, the Group repaid the full amount due under the HSBC bank credit facility granted to MTS OJSC in 2004 with an original maturity in November 2013. The voluntary prepayment of principal and interest in the amount of RUB 102 million (\$3.2 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In May 2013, the Group repaid the full amount due under the Citibank credit facility granted to MTS OJSC in 2005 with an original maturity in May 2014. The voluntary prepayment of principal and interest in the amount of RUB 686 million (\$21.8 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In April 2013, the Group repaid the full amount due under the HSBC bank credit facility granted to MTS OJSC in 2004 with an original maturity in October 2013. The voluntary prepayment of principal and interest of RUB 132 million (\$4.2 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In March 2013, the Group repaid the full amount due under the HSBC bank credit facility granted to MTS OSJC in 2004 with an original maturity in September 2013. The voluntary prepayment of principal and interest in the amount of RUB 276 million (\$8.9 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

After the termination of hedging relationships any amounts accumulated in other comprehensive income and associated with the prepaid debt have been reclassified into earnings, going forward those derivatives are marked to market through earnings.

The following table presents the amount of accumulated other comprehensive loss reclassified into earnings during the years ended December 31, 2014, 2013 and 2012 due to termination of hedging relationships.

	Location of (loss) recognized	Years ended December 31,		
		2014	2013	2012
Interest rate swaps	Interest expense	-	(33)	-
<b>Total</b>		<b>-</b>	<b>(33)</b>	<b>-</b>

The following table presents the effect of the Group's interest rate swap agreements designated as hedges in accumulated other comprehensive income for the years ended December 31, 2014, 2013 and 2012.

	2014	2013	2012
<b>Accumulated derivatives income / (loss), beginning of the year, net of tax of 293 and 4 and (60), respectively</b>	<b>1,467</b>	<b>21</b>	<b>(241)</b>
Fair value adjustments on hedging derivatives, net of tax of 2,894 and 138 and (29), respectively	14,468	691	(204)
Amounts reclassified into earnings during the period, net of tax of (2,334) and 151 and 93, respectively	(11,668)	755	466
<b>Accumulated derivatives income, end of the year, net of tax of 853 and 293 and 4, respectively</b>	<b>4,267</b>	<b>1,467</b>	<b>21</b>

As of December 31, 2014, the outstanding hedging instruments were highly effective. Approximately RUB 1,011 million of accumulated gain is expected to be reclassified into net income during the next twelve months.

Cash inflows and outflows related to hedging instruments were included in cash flows from operating and financing activities in the consolidated statements of cash flows for the years ended December 31, 2014, 2013 and 2012.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### Fair value of derivative instruments

The Group measured assets and liabilities associated with derivative agreements at fair value Level 2 on a recurring basis. There were no assets and liabilities associated with derivative agreements measured at fair value Level 1 and Level 3 as of December 31, 2014 and 2013 (Note 2 and 22).

The following fair value hierarchy table presents information regarding the Group's assets and liabilities associated with derivative agreements as of December 31, 2014 and 2013:

	Significant other observable inputs (Level 2) as of December 31, 2014	Significant other observable inputs (Level 2) as of December 31, 2013
<b>Assets</b>		
Interest rate swap agreements	8	12
Cross-currency interest rate swap agreements	21,936	1,825
<b>Liabilities</b>		
Interest rate swap agreements	(2,550)	(421)

## 22. FAIR VALUE MEASUREMENTS

According to U.S. GAAP requirements the Group records derivative instruments, redeemable noncontrolling interest, contingent consideration and available-for-sale investments at fair value on a recurring basis.

The following tables summarize those assets and liabilities measured at fair value on a recurring basis:

	Significant observable inputs (Level 1) as of December 31, 2014	Significant other observable inputs (Level 2) as of December 31, 2014	Significant unobservable inputs (Level 3) as of December 31, 2014
<b>Assets</b>			
Sistema International Funding S.A. Bonds due 2019 (related party) (Note 7, 25)	42	-	-
Sistema Notes due in 2016 (series 04) (related party) (Note 7, 25)	534	-	-
Derivative instruments (Note 21)	-	21,944	-
<b>Liabilities</b>			
Derivative instruments (Note 21)	-	(2,550)	-
Contingent consideration	-	-	(99)
Redeemable noncontrolling interest (Note 27)	-	-	(3,192)

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

	Significant observable inputs (Level 1) as of December 31, 2013	Significant other observable inputs (Level 2) as of December 31, 2013	Significant unobservable inputs (Level 3) as of December 31, 2013
<b>Assets</b>			
Mutual investment fund "Reservnyi" (Note 7 and 25)	4,154	-	-
Derivative instruments (Note 21)	-	1,837	-
<b>Liabilities</b>			
Derivative instruments (Note 21)	-	(421)	-
Contingent consideration	-	-	(11)
Redeemable noncontrolling interest (Note 27)	-	-	(2,932)

Changes in the Group's net assets and earnings resulted from recurring fair value measurements of Level 3 assets and liabilities were not significant for the years ended December 31, 2014 and 2013. There were no realized and unrealized gains and losses on Level 3 assets and liabilities for the years ended December 31, 2014 and 2013.

The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments. The redeemable noncontrolling interest was measured at fair value using a discounted cash flow technique. The fair value of contingent consideration was determined as the best estimate of all possible outcomes of the contingency. The inputs are based on all available internal and external information, including growth projections and industry experts' estimates, where applicable.

The most significant quantitative inputs used to measure the fair value of redeemable noncontrolling interest as of December 31, 2014 and 2013 are presented in the table below:

Unobservable inputs	December 31,	
	2014	2013
Discount rate	15%	12%
	0.02-0.2%	0.7-1.2%
Revenue growth rate	(av. 0.1%)	(av. 0.9%)
	44.7-46.5%	49.4-50.7%
OIBDA margin	(av. 45.4%)	(av. 49.8%)

There were no transfers between levels within the hierarchy for the years ended December 31, 2014 and 2013.

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Group records assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. In 2014, an impairment charge of RUB 3,225 million related to equity investment in MTS Bank was recognized in equity net loss / (income) of associates in the accompanying consolidated statements of operations and comprehensive income (Note 15). The impairment reflects the review of the development prospects associated with an economic downturn in Russia. The fair value of equity investment in the amount of RUB 4,857 million was determined based on a discounted cash flow technique utilizing significant unobservable inputs ("Level 3" significant unobservable inputs of the hierarchy established by the U.S. GAAP guidance). The key assumptions in the fair value calculations included discount rate of 23.3% and average OIBDA margin of 5%.

No impairment charges were recognized in the consolidated statements of operations and comprehensive income for the year ended December 31, 2013.

An impairment loss of RUB 20,037 million on Uzdunrobta goodwill and long-lived assets was recognized in the consolidated statements of operations and comprehensive income for the year ended December 31, 2012 (Note 4). In 2013 this loss was assigned to discontinued operations.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The carrying amounts of cash and cash equivalents; short-term investments; accounts receivable; accounts payable and accrued expenses approximate their fair values because of the relatively short-term maturities of these financial instruments.

The fair value of notes payable is estimated based on quoted prices for those instruments ("Level 1" of the hierarchy established by the U.S. GAAP guidance). As of December 31, 2014 and 2013, the fair value of notes payable, including the current portion, amounted to RUB 96,222 million and RUB 106,668 million, respectively.

The fair value of bank loans and other debt is estimated using discounted cash flows and market-based expectations for interest rates, credit risk and the contractual terms of the debt instruments ("Level 2" of the hierarchy established by the U.S. GAAP guidance). As of December 31, 2014 and 2013 the fair value of bank loans and other debt, including the current portion, amounted to RUB 162,914 million and RUB 116,356 million, respectively.

#### 23. ACCRUED LIABILITIES

Accrued liabilities as of December 31, 2014 and 2013 comprised the following:

	December 31,	
	2014	2013
Accruals for services	10,870	9,911
Accrued payroll and vacation	7,670	7,247
Accruals for taxes	6,703	8,355
Interest payable on debt	1,830	1,792
Accruals for payments to social funds	547	369
<b>Total accrued liabilities</b>	<b>27,620</b>	<b>27,674</b>

#### 24. INCOME TAX

The provision for income taxes for the years ended December 31, 2014, 2013 and 2012 was as follows:

	Years ended December 31,		
	2014	2013	2012
<b>Income from continuing operations before provision for income taxes</b>			
Russia	55,424	77,502	71,626
Other jurisdictions	13,316	19,186	11,216
<b>Total income from continuing operations before provision for income taxes</b>	<b>68,740</b>	<b>96,688</b>	<b>82,842</b>
<b>Current income tax expense</b>			
Russia	5,764	7,557	13,790
Other jurisdictions	4,043	2,405	2,304
<b>Total current income tax expense</b>	<b>9,807</b>	<b>9,962</b>	<b>16,094</b>
<b>Deferred income tax expense/(benefit)</b>			
Russia	8,330	8,487	2,312
Other jurisdictions	(1,790)	1,184	978
<b>Total deferred income tax expense</b>	<b>6,540</b>	<b>9,671</b>	<b>3,290</b>
<b>Total provision for income taxes</b>	<b>16,347</b>	<b>19,633</b>	<b>19,384</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The statutory income tax rates in jurisdictions in which the Group operates for the fiscal years of 2014, 2013 and 2012 were as follows: Russia, Armenia – 20.0%, Uzbekistan, Turkmenistan – 8.0%. During the years ended December 31, 2014, 2013 and 2012 the Ukraine tax rate was 18.0%, 19.0% and 21.0%, respectively.

The Russia statutory income tax rate reconciled to the Group's effective income tax rate for the years ended December 31, 2014, 2013 and 2012 was as follows:

	2014	2013	2012
<b>Statutory income tax rate for the year</b>	<b>20.0%</b>	<b>20.0%</b>	<b>20.0%</b>
Adjustments:			
(Income) / expenses not accepted for tax purposes	2.0	(0.5)	2.0
Change in unrecognized tax benefits	-	-	(0.5)
Settlements with tax authorities	0.6	(0.3)	0.4
Earnings distribution from subsidiaries	4.0	1.8	1.5
Effect of change in tax rate in Ukraine	-	(0.1)	0.2
Loss carryforward utilisation	-	-	(0.3)
Tax rate differential of foreign subsidiaries	(1.9)	(0.5)	-
Recognised change in fair value of derivative financial instruments	(1.0)	0.1	-
Other	0.1	(0.2)	0.1
<b>Effective income tax rate</b>	<b>23.8%</b>	<b>20.3%</b>	<b>23.4%</b>

Temporary differences between the tax and accounting bases of assets and liabilities gave rise to the following deferred tax assets and liabilities as of December 31, 2014 and 2013:

	December 31,	
	2014	2013
Assets / (liabilities) arising from tax effect of:		
<b>Deferred tax assets</b>		
Accrued expenses for services	7,757	6,291
Depreciation of property, plant and equipment	4,015	1,229
Deferred connection fees	929	1,115
Provision for investment in Delta Bank in Ukraine	925	-
Inventory obsolescence	192	265
Other	-	1,242
Loss carryforward	8,879	5,880
Valuation allowance	(8,438)	(5,504)
<b>Total deferred tax assets</b>	<b>14,259</b>	<b>10,518</b>
<b>Deferred tax liabilities</b>		
Depreciation of property, plant and equipment	(17,489)	(12,735)
Other intangible assets	(6,906)	(2,995)
Potential distributions from / to Group's subsidiaries / associates	(5,817)	(4,553)
Licenses acquired	(1,118)	(774)
Customer base	(905)	(1,027)
Debt issuance cost	(348)	(405)
Other	(138)	(436)
<b>Total deferred tax liabilities</b>	<b>(32,721)</b>	<b>(22,925)</b>
<b>Net deferred tax liability</b>	<b>(18,462)</b>	<b>(12,407)</b>
Net deferred tax asset, current	11,206	7,933
Net deferred tax asset, non-current	3,610	862
Net deferred tax liability, long-term	(33,278)	(21,202)



## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The Group has the following significant balances of income tax losses carryforward with related operating losses as of December 31, 2014 and 2013:

Jurisdiction	Period for carry-forward	December 31,			
		2014		2013	
		Operating losses	Tax losses	Operating losses	Tax losses
Luxembourg (MGTS Finance S.A.)	Unlimited	24,183	7,017	14,064	4,101
Russia (Comstar-Regions and other)	2015-2024	9,313	1,862	8,897	1,779
<b>Total</b>		<b>33,496</b>	<b>8,879</b>	<b>22,961</b>	<b>5,880</b>

Management established the following valuation allowances against deferred tax assets where it was more likely than not that some portion of such deferred tax assets will not be realized:

Valuation allowances	December 31,	
	2014	2013
Sale of investment in Svyazinvest	2,875	2,160
Operating loss in Luxembourg (MGTS Finance S.A.)	5,305	3,086
Other	258	258
<b>Total</b>	<b>8,438</b>	<b>5,504</b>

The following table summarizes the changes in the allowance against deferred tax assets for the years ended December 31, 2014, 2013 and 2012:

	Balance, beginning of the period	Charged to Income tax expense	Impact of foreign currency translation adjustments	Balance, end of the period
Year ended December 31, 2014	5,504	-	2,934	8,438
Year ended December 31, 2013	4,952	258	294	5,504
Year ended December 31, 2012	5,250	-	(298)	4,952

For the remaining balances for income tax losses carryforward realization is dependent on generating sufficient taxable income prior to expiration of the losses carryforward. Although realization is not assured, management believes that it is more likely than not that all of the deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of December 31, 2014 and 2013, the Group recognized deferred income tax liabilities of RUB 3,118 million and RUB 2,511 million, respectively, for income taxes on future dividend distributions from foreign subsidiaries (MTS Ukraine and K-Telecom) which are based on RUB 40,383 million and RUB 36,245 million cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations (unaudited) because such earnings are intended to be repatriated.

As of December 31, 2014, 2013 and 2012, the Group included accruals for uncertain tax positions in the amount of RUB 285 million, RUB 518 million and RUB 321 million, respectively, as a component of income tax payable.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2014	2013	2012
<b>Balance, beginning of the year</b>	<b>518</b>	<b>321</b>	<b>526</b>
Additions based on tax position related to the current year	37	366	-
Additions based on tax positions related to prior years	22	1	66
Additions based on tax of acquired entities	-	-	10
Reduction in tax positions related to prior years	(267)	(170)	(220)
Settlements with tax authorities	(25)	-	(61)
<b>Balance, end of the year</b>	<b>285</b>	<b>518</b>	<b>321</b>

Accrued penalties and interest related to unrecognized tax benefits as a component of income tax expense for the years ended December 31, 2014, 2013 and 2012 amounted to a reversal of RUB 40 million, a reversal of RUB 53 million and a reversal of RUB 36 million, respectively, and were included in income tax expense in the accompanying consolidated statements of operations and comprehensive income. Accrued interest and penalties were included in income tax payable in the accompanying consolidated statements of financial position and totaled RUB 58 million and RUB 97 million as of December 31, 2014 and 2013, respectively. The Group does not expect the unrecognized tax benefits to change significantly over the next twelve months (Note 30).

## 25. RELATED PARTIES

Related parties include entities under common ownership and control with the Group, affiliated companies and associated companies.

As of December 31, 2014 and 2013, accounts receivable from and accounts payable to related parties were as follows:

	December 31,	
	2014	2013
<b>Accounts receivable:</b>		
Sistema, parent company (Note 15)	3,215	-
MTS Belarus, the Group associate	514	304
MTS Bank, the Group associate	510	128
Sitronics N, a subsidiary of Sistema	121	337
Stream, the Group associate	42	59
NVision Group, subsidiaries of Sistema	16	33
Other related parties	107	104
<b>Total accounts receivable, related parties</b>	<b>4,525</b>	<b>965</b>
<b>Accounts payable:</b>		
NVision Group, subsidiaries of Sistema	3,311	1,605
MTS Bank, the Group associate	377	697
MTS Belarus, the Group associate	213	208
Stream, the Group associate	211	99
Maxima, a subsidiary of Sistema	162	307
Smart Cards Group, subsidiaries of Sistema	72	201
Other related parties	328	198
<b>Total accounts payable, related parties</b>	<b>4,674</b>	<b>3,315</b>

The Group has neither the intent nor the ability to offset the outstanding accounts payable and accounts receivable with related parties under the terms of existing agreements.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### Operating transactions

For the years ended December 31, 2014, 2013 and 2012, operating transactions with related parties are as follows:

	2014	2013	2012
<b>Revenues from related parties:</b>			
MTS Bank, the Group associate (telecommunications and call center services, bank cards distribution commission)	787	378	88
MTS Belarus, the Group associate (roaming and interconnect services)	269	149	209
Medsia Group, subsidiaries of Sistema (telecommunications and call center services)	83	48	28
NVision Group, subsidiaries of Sistema (fixed line services)	82	75	77
Sitronics N, a subsidiary of Sistema (construction of fiber optic link)	7	288	26
Jet Air Group, subsidiaries of Sistema (rent)	4	60	-
Other related parties	140	115	64
<b>Total revenues from related parties</b>	<b>1,372</b>	<b>1,113</b>	<b>492</b>
<b>Operating expenses incurred on transactions with related parties</b>			
Maxima, a subsidiary of Sistema (advertising)	1,575	1,757	1,902
Stream, the Group associate (content services)	1,395	711	-
NVision Group, subsidiaries of Sistema (IT consulting)	846	1,083	1,115
MTS Bank, the Group's associate (commission related (income)/expenses)	(406)	413	55
Elavius, a subsidiary of Sistema (transportation services)	399	347	351
MTS Belarus, the Group associate (roaming and interconnect services)	395	278	424
AB Safety, a subsidiary of Sistema (security services)	292	354	344
Jet Air Group, subsidiaries of Sistema (aircraft maintenance)	127	-	-
Other related parties	455	513	423
<b>Total operating expenses incurred on transactions with related parties</b>	<b>5,078</b>	<b>5,456</b>	<b>4,614</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### Investing and financing transactions

During the years ended December 31, 2014 and 2013 the Group made certain investments in related parties. Respective balances are summarized as follows:

	December 31,	
	2014	2013
<b>Loans to, promissory notes and investments in shares of related parties:</b>		
<b>Short-term investments (Note 7)</b>		
Deposits at MTS Bank	-	5,081
Mutual investment fund "Reservnyi", managed by DIK, a subsidiary of Sistema	-	4,154
Sistema Notes due in 2016 (series 04)	534	-
Sistema International Funding S.A. Bonds due 2019, a subsidiary of Sistema	42	-
Loan receivable from Navigation Information Systems, a subsidiary of Sistema	132	-
Loan receivable from Moscow Business Incubator, a subsidiary of Sistema	52	-
<b>Total short-term investments in related parties</b>	<b>760</b>	<b>9,235</b>
<b>Other investments (Note 16)</b>		
Promissory notes of Sistema	618	618
Loan receivable from Navigation Information Systems, a subsidiary of Sistema	92	-
<b>Total other investments to related parties</b>	<b>710</b>	<b>618</b>
<b>Investments in shares (Note 16)</b>		
Sistema Mass Media, a subsidiary of Sistema	117	117
Other	8	8
<b>Total investments in shares of related parties</b>	<b>125</b>	<b>125</b>

**Public Joint-Stock Company "MTS Bank" ("MTS Bank")** – The Group has of loan agreement and maintains certain bank accounts with MTS Bank, an associated company of the Group. As of December 31, 2014 and 2013, the Group's cash position at MTS Bank amounted to RUB 11,687 million and RUB 11,297 million, respectively, including short-term deposits in the amount of RUB 3,482 million and RUB 5,081 million, respectively. Interest accrued on loan receivable, the deposits and cash on current accounts for the years ended December 31, 2014, 2013 and 2012 amounted to RUB 654 million, RUB 742 million and RUB 172 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations and comprehensive income. Interest expense on the funds raised from MTS Bank during the years ended December 31, 2014, 2013 and 2012 amounted to RUB nil, RUB nil and RUB 363 million, respectively, and was included as a component of interest expense in the accompanying consolidated statements of operations and comprehensive income.

During the years ended December 31, 2014, 2013 and 2012, the Group provided telecommunications and call center services to MTS Bank and recognized related revenues in the amount of RUB 787 million, RUB 378 million and RUB 88 million, respectively.

During the year ended December 31, 2014 the Group provided services related to bank cards distribution and granting of consumer credits to MTS Bank customers and recognized the related income in the amount of RUB 541 million in the accompanying consolidated statements of operations and comprehensive income. The amount represents agency fees after the cross-fines deduction. During the year ended December 31, 2013 the Group incurred expenses under the same contract in the amount of RUB 331 million which represent the excess of cross-fines over agency fees.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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During the years ended December 31, 2014, 2013 and 2012, the Group incurred commission expenses and cash collection fees in the amount of RUB 135 million, RUB 82 million and RUB 55 million, respectively.

**Sistema** – In November 2009, the Group accepted a promissory note, issued by Sistema, as repayment of the loan principal and interest accrued to date under an agreement with Sistema-Hals (Note 16). The note is interest free and repayable in 2017. As of December 31, 2014 and 2013, the amount receivable of RUB 618 million and RUB 618 million was included in other investments in the accompanying consolidated statements of financial position.

In April 2014 the Group sold a 49% stake in Business-Nedvizhimost to Sistema for a consideration of RUB 3.1 billion to be paid by the end of July 2015 (Note 15). As of December 31, 2014, the accounts receivable in the accompanying consolidated statements of financial position amounted to RUB 3.2 billion. The related interest accrued in the amount of RUB 125 million was included as a component of interest income in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2014.

In October 2014 the Group acquired 2,501,350 Sistema Notes due 2016 (series 04) and 1,000 Sistema International Funding S.A. Bonds due in 2019 for RUB 519 million and RUB 32 million, respectively. The acquired bonds were classified as available for sale and accounted for at fair value with changes recognized in accumulated other comprehensive income. For the year ended December 31, 2014, the unrealized gain recognized in accumulated other comprehensive income amounted to RUB 6 million. The interest income accrued for the year ended December 31, 2014 amounted to RUB 9 million and was included as a component of interest income in the accompanying consolidated statements of operations and comprehensive income.

**Leader-Invest** – In October 2014, the Group sold a building to Leader-Invest, a subsidiary of Sistema, for a cash consideration of RUB 508 million. The disposal was accounted for as a transaction under common control with a RUB 245 million gain recognized directly in equity.

**Disposal group held for sale to related party** – In February 2015, the Group sold a 51% stake in Rent Nedvizhimost to Sistema, for RUB 4.3 billion of which RUB 3.8 billion is due before December 31, 2018 and bears interest of 12%-interest p.a. As of December 31, 2014 the Group classified the assets and liabilities of Rent Nedvizhimost as held for sale (Note 10).

**Doveritelnaja Investizionnaja Kompanija (“DIK”)** – In April and May 2013, the Group invested RUB 4.0 billion in Mutual investment fund “Reservnyi” managed by DIK, a subsidiary of Sistema. The investment was sold in April 2014 for RUB 4,165 million. The realized gain of RUB 165 million was recognized as a component of other expenses (net) in the accompanying consolidated statements of operations and comprehensive income.

**Investments in ordinary shares** – As of December 31, 2014 and 2013 the Group had several investments in shares of subsidiaries and affiliates of Sistema totaling RUB 125 million and RUB 125 million, respectively, included in other investments in the accompanying consolidated statements of financial position. The most significant investment is a 2.356% stake in Sistema Mass-Media, a subsidiary of Sistema.

**Liabilities to related parties** - As of December 31, 2014 the Group held several bills of exchange and loans issued by Sistema Mass-Media in the amount of RUB 867 million. Interest accrued in the amount of RUB 41 million was included in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2014.

**Smart Cards Group** – During the years ended December 31, 2014, 2013 and 2012, the Group purchased from Smart Cards Group, subsidiaries of Sistema, SIM cards and prepaid phone cards for approximately RUB 267 million, RUB 765 million and RUB 842 million, respectively.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

**NVision Group** – During the years ended December 31, 2014, 2013 and 2012, the Group acquired from NVision Group, subsidiaries of Sistema, telecommunications equipment, software and billing systems (FORIS) for approximately RUB 9,819 million, RUB 13,394 million, RUB 12,898 million, respectively, and incurred expenses of RUB 846 million, RUB 1,083 million, RUB 1,115 million, respectively, under an IT consulting agreement.

As of December 31, 2014 and 2013, the advances given to NVision Group amounted to RUB 274 million and RUB 496 million, respectively. These amounts were included into property, plant and equipment and intangible assets in the accompanying consolidated statements of financial position.

#### 26. STOCKHOLDERS' EQUITY

**Share capital** – The Company's charter capital is composed of 2,066,413,562 ordinary shares of which 1,988,912,130 and 1,988,831,184 were outstanding as of December 31, 2014 and 2013, respectively. The total shares in treasury stock comprised 77,501,432 and 77,582,378 as of December 31, 2014 and 2013, respectively.

Each ADS represents 2 ordinary shares. As of December 31, 2014, the Group had repurchased 33,997,667 ADSs.

**Noncontrolling interest** – The Group's equity was affected by changes in the respective subsidiaries' ownership interests as follows:

	Years ended December 31,		
	2014	2013	2012
<b>Net income attributable to the Group</b>	<b>51,822</b>	<b>79,839</b>	<b>29,642</b>
<b>Transfers from the noncontrolling interest</b>			
Increase in own equity due to acquisition of own shares by MGTS	-	-	57
Decrease in own equity due to acquisition of noncontrolling interest in Teleservice	(23)	-	-
<b>Net transfers from the noncontrolling interest</b>	<b>(23)</b>	<b>-</b>	<b>57</b>
<b>Net income attributable to the Group and transfers from the noncontrolling interest</b>	<b>51,799</b>	<b>79,839</b>	<b>29,699</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

**Accumulated other comprehensive loss** – The following table represents changes in the balances of accumulated other comprehensive loss by components for the year ended December 31, 2014 and 2013:

	Currency translation adjustment	Unrealized (gains) / losses on derivatives	Unrecognized actuarial (gains) / losses	Accumulated other comprehensive (income) / loss
<b>Balance at January 1, 2013</b>	<b>13,224</b>	<b>(21)</b>	<b>473</b>	<b>13,676</b>
Other comprehensive loss / (income)	6,657	(861)	-	5,796
Less: tax expense	-	172	-	172
Amounts reclassified to net income	(3,682) <sup>(1)</sup>	(945)	(220)	(4,847)
Less: tax expense	-	189	44	233
<b>Net other comprehensive loss / (income)</b>	<b>2,975</b>	<b>(1,445)</b>	<b>(176)</b>	<b>1,354</b>
<b>Balance at December 31, 2013</b>	<b>16,199</b>	<b>(1,466)</b>	<b>297</b>	<b>15,030</b>
Other comprehensive income	(5,925)	(17,363)	(82)	(23,370)
Less: tax expense	-	2,894	16	2,910
Amounts reclassified to net income	-	14,002	70	14,072
Less: tax expense	-	(2,334)	(14)	(2,348)
<b>Net other comprehensive loss / (income)</b>	<b>(5,925)</b>	<b>(2,801)</b>	<b>(10)</b>	<b>(8,736)</b>
<b>Balance as of December 31, 2014</b>	<b>10,274</b>	<b>(4,267)</b>	<b>287</b>	<b>6,294</b>

<sup>(1)</sup> The currency translation adjustment of RUB 3,682 million included as income from discontinued operations in consolidated statement of operations and comprehensive income.

**Dividends** – In 2013, the Board of Directors approved a dividend policy, whereby the Group shall aim to make minimum dividend distribution payments to shareholders for the calendar years 2013-2015 in the amount of at least 75% of free cash flow for the relevant financial period but not less than RUB 40.0 billion per year. Free cash flow is defined by cash flows from operating activities less cash paid (received) for acquisition or disposal of property, plant and equipment, intangible assets and other adjustments.

The dividend can vary depending on a number of factors, including the outlook for earnings growth, capital expenditure requirements, cash flows from operations, potential acquisition opportunities, as well as the Group's debt position.

The Group may take decisions on dividend payout based not only on financial year-end results but also based on interim results for three, six or nine months of the fiscal year. Annual dividend payments, if any, must be recommended by the Board of Directors and approved by the shareholders.

In accordance with Russian laws, earnings available for dividends are limited to profits determined under Russian statutory accounting regulations, denominated in Russian Rubles, after certain deductions. The net income of MTS OJSC for the years ended December 31, 2014, 2013 and 2012 that is distributable under Russian legislation totaled RUB 28,373 million, RUB 55,999 million and RUB 42,949 million, respectively.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

The following table summarizes the Group's declared cash dividends in 2014, 2013 and 2012 years:

	2014	2013	2012
Dividends declared (including dividends on treasury shares of 1,922 and 1,538 and 1,140, respectively)	51,247	40,956	30,397
Dividends, RUB per ADS	49.60	39.64	29.42
Dividends, RUB per share	24.80	19.82	14.71

As of December 31, 2014 and 2013, dividends payable were RUB 19.5 million and RUB 57.0 million, respectively.

**MGTS' preferred stock** – MGTS, a subsidiary of MTS, had 15,574,492 preferred shares outstanding as of December 31, 2014 and 2013.

MGTS' preferred shares carry guaranteed non-cumulative dividend rights amounting to the higher of (a) 10% of MGTS' net profit as determined under Russian accounting regulations and (b) the dividends paid on common shares. No dividends may be declared on common shares before dividends on preferred shares are declared. If the preferred dividend is not paid in full in any year the preferred shares also obtain voting rights, which will lapse after the first payment of the dividend in full. Otherwise, preferred shares carry no voting rights except on resolutions regarding liquidation or reorganization of MGTS and changes / amendments to MGTS' charter restricting the rights of holders of preferred shares. Such resolutions require the approval of 75% of the preferred shareholders. In the event of liquidation, dividends to preferred shareholders that have been declared but not paid have priority over ordinary shareholders.

In June 2014 at MGTS' annual shareholders meeting the decision was made to pay dividends on preferred and common shares for 2013 in the amounts of RUB 1,216 million and RUB 1,217 million, respectively.

In June 2013 and 2012, at MGTS' annual shareholders meeting the decision was made not to pay dividends on preferred shares for 2012 and 2011. Therefore the holders of preferred shares obtained voting rights.

As of December 31, 2014 and 2013, dividends payable were RUB 17.8 million and RUB 48.6 million, respectively.

## 27. REDEEMABLE NONCONTROLLING INTEREST

In September 2007, the Group acquired an 80% stake in International Cell Holding Ltd, the 100% indirect owner of K-Telecom, Armenia's mobile phone operator, and signed a call and put option agreement to acquire the remaining 20% stake. In December 2010, the Group signed an amendment to the put and call option agreement. According to the amended option agreement, the price for the remaining 20% stake option will be determined by an independent investment bank subject to a cap of EUR 200 million. The put option can be exercised during the period from the next business day following the date of settlement of all liabilities under the loan agreement (Note 16) up to December 31, 2016. The call option can be exercised during the period from July 1, 2010 up to December 31, 2016. If both the call notice and the put notice are served on the same day then the put notice shall be deemed exercised in priority to the call notice. The noncontrolling interest was measured at fair value using a discounted cash flow technique and amounted to RUB 3,192 million and RUB 2,932 million as of December 31, 2014 and 2013, respectively (Note 22). The fair value was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance).



## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 28. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2014, 2013 and 2012 comprised the following:

	Years ended December 31,		
	2014	2013	2012
Salaries and social contributions	49,113	45,790	40,486
Rent	16,220	14,677	13,334
General and administrative	8,057	7,955	8,016
Repair and maintenance	6,875	6,217	6,364
Taxes other than income	5,913	6,374	5,422
Consulting expenses	2,192	1,569	1,689
Billing and data processing	2,070	2,035	1,726
Inventory obsolescence	357	660	759
Insurance	174	181	181
<b>Total general and administrative expenses</b>	<b>90,971</b>	<b>85,458</b>	<b>77,977</b>

#### 29. SEGMENT INFORMATION

The Group identified the following reportable segments:

**Russia convergent:** represents the results of mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia, including voice and data services, transmission, broadband, pay-TV and various value-added services.

**Moscow fixed line:** represents the results of fixed line operations carried out in Moscow by the Group's subsidiary MGTS. MGTS is the only licensed PSTN operator in Moscow and is considered a natural monopoly under Russian antimonopoly regulations. Consequently, substantial part of services provided by MGTS are subject to governmental regulation.

**Ukraine:** represents the results of mobile and fixed line operations carried out across multiple regions of Ukraine.

The segments are organized and managed separately based on the nature of products and services, regulatory environments and geographic areas.

The "Other" category does not constitute a reportable segment. It includes the results of a number of other operating segments that do not meet the quantitative thresholds for separate reporting, such as Armenia, Uzbekistan, Turkmenistan, Sputnikovoe TV and the headquarters.

Other unallocated expenses such as interest (income) / expense, equity in net income of associates, other (income) / expenses and currency exchange and transaction loss / (gain) are shown for purposes of reconciling the Group's segment measure, segment net operating income, to the Group's consolidated total for each of the periods presented.

The intercompany eliminations presented below primarily consist of sales transactions between segments conducted under the normal course of operations.

In 2014, the Group ceased presenting Russia convergent and Moscow fixed line as one reporting segment. Management has determined that disaggregation may help users of the financial statements better understand the Group's future performance. Related financial information has, therefore, been retrospectively restated.

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

Financial information by reportable segment is presented below:

	Years ended December 31,		
	2014	2013	2012
Net operating revenues from external customers:			
Russia convergent	336,099	317,437	303,478
Moscow fixed line	35,938	35,493	33,293
Ukraine	29,064	37,665	36,118
Other	9,657	7,848	5,351
<b>Total net operating revenues from external customers</b>	<b>410,758</b>	<b>398,443</b>	<b>378,240</b>
Including revenue from mobile services	352,964	339,883	322,517
Including revenue from fixed line services	57,794	58,560	55,723
Intersegment operating revenues:			
Russia convergent	4,633	3,638	2,513
Moscow fixed line	4,886	4,831	4,563
Ukraine	3,722	2,067	1,604
Other	1,541	1,281	1,031
<b>Total intersegment operating revenues</b>	<b>14,782</b>	<b>11,817</b>	<b>9,711</b>
Depreciation and amortization expense:			
Russia convergent	57,773	57,655	51,994
Moscow fixed line	7,609	5,182	4,251
Ukraine	6,780	8,896	9,571
Other	2,619	1,588	2,104
Intercompany eliminations	(71)	(68)	(10)
<b>Total depreciation and amortization expense</b>	<b>74,710</b>	<b>73,253</b>	<b>67,910</b>
Segment net operating income:			
Russia convergent	85,964	79,199	76,832
Moscow fixed line	13,601	15,678	14,938
Ukraine	3,390	11,745	9,647
Other	(559)	(4,810)	(7,625)
Intercompany eliminations	(47)	(54)	(8)
<b>Segment net operating income</b>	<b>102,349</b>	<b>101,758</b>	<b>93,794</b>
Net operating income	102,349	101,758	93,794
Currency exchange and transaction loss / (gain)	18,024	5,473	(3,952)
Interest income	(4,519)	(2,793)	(2,588)
Interest expense	16,453	15,498	17,673
Equity in net loss / (income) of associates	2,880	(2,472)	(869)
Other expense / (income), net	771	(10,636)	688
<b>Income from continuing operations before provision for income taxes</b>	<b>68,740</b>	<b>96,688</b>	<b>82,842</b>

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

	Years ended December, 31	
	2014	2013
Additions to long-lived assets:		
Russia convergent	86,456	55,939
Moscow fixed line	13,649	14,121
Ukraine	5,103	8,856
Other	8,234	1,951
<b>Total additions to long-lived assets</b>	<b>113,442</b>	<b>80,867</b>
	December 31,	
	2014	2013
Long-lived assets <sup>(1)</sup> :		
Russia convergent	276,896	246,422
Moscow fixed line	64,992	61,812
Ukraine	18,546	24,107
Other	37,825	12,648
<b>Total long-lived assets</b>	<b>398,259</b>	<b>344,989</b>
Total assets:		
Russia convergent	439,950	355,203
Moscow fixed line	78,468	75,929
Ukraine	42,988	38,586
Other	47,521	15,806
<b>Total assets</b>	<b>608,927</b>	<b>485,524</b>

(1) Comprises of property, plant and equipment, licenses, goodwill and other intangible assets.

Financial information by geographic areas is presented below:

	Years ended December 31,		
	2014	2013	2012
Net operating revenues from external customers:			
Russia	372,080	352,930	336,771
Other	38,678	45,513	41,469
<b>Total net operating revenues from external customers</b>	<b>410,758</b>	<b>398,443</b>	<b>378,240</b>
	December 31,		
	2014	2013	
Long-lived assets:			
Russia	347,994	308,336	
Other	50,265	36,653	
<b>Total long-lived assets</b>	<b>398,259</b>	<b>344,989</b>	

Revenues from external customers and long-lived assets are allocated to individual countries by location of operations.

None of the MTS Group's customers exceeds 10% of consolidated revenue.

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

#### 30. COMMITMENTS AND CONTINGENCIES

**Capital commitments** – As of December 31, 2014, the Group had entered into purchase agreements of approximately RUB 41,798 million to acquire property, plant and equipment, intangible assets and costs related thereto.

**Operating leases** – The Group has entered into non-cancellable agreements to lease space for telecommunications equipment, offices and transmission channels, which expire in various years up to 2064. Rental expenses under the operating leases of RUB 16,220 million, RUB 14,677 million and RUB 13,334 million for the years ended December 31, 2014, 2013 and 2012, respectively, are included in general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income. Rental expenses under the operating leases of RUB 7,860 million, RUB 7,583 million and RUB 7,207 million for the years ended December 31, 2014, 2013 and 2012, respectively, are included in cost of services in the accompanying consolidated statements of operations and comprehensive income. Future minimum lease payments due under these leases for the five years ending December 31, 2019 and thereafter are as follows:

Payments due in the years ended December 31,	
2015	5,172
2016	691
2017	384
2018	269
2019	222
Thereafter	1,700
<b>Total</b>	<b>8,438</b>

**Taxation** – Russia and other CIS countries currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia and the CIS countries that are more significant than those typically found in countries with more developed tax systems.

Generally, according to Russian and Ukrainian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2014, tax declarations of MTS OJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review. In December 2014 tax authorities commenced review of tax declarations of MTS OJSC and Comstar-Regions CJSC for the years ended December 31, 2013 and 2012.

In December 2010, the Russian tax authorities completed a tax audit of MTS OJSC for the years ended December 31, 2007 and 2008. Based on the results of this audit, the Russian tax authorities determined that RUB 353.9 million in additional taxes, penalties and fines were payable by the Group. The resolution did not come into force as the Group prepared and filed a petition with the Federal Tax Service to declare the tax authorities' resolution to be invalid. In September 2011, the Federal Tax Service partially satisfied the Group's petition, decreasing the amount of additional taxes, penalties and fines payable by the Group by RUB 173.9 million. The Group filed an appeal for RUB 84.2 million of the remaining RUB 180.0 million with the Moscow Arbitrate Court. In August 2013, the Moscow Arbitrate Court issued a ruling to partly grant the Group's claim, which was subsequently confirmed by the Arbitrate Appeal Court in November 2013. However, the Group appealed the decision of the Arbitrate Appeal Court in the Federal Arbitrate Court of Moscow District, which issued a ruling to partly grant the Group's claim in March 2014. No further actions were taken by the Group in respect of remaining RUB 137.1 million.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 *(Amounts in millions of Russian Rubles, unless otherwise stated)*

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In June 2013, the Russian tax authorities completed a tax audit of MTS OJSC for the years ended December 31, 2009, 2010 and 2011. Based on the results of this audit, the Russian tax authorities determined that RUB 253.4 million in additional taxes, penalties and fines were payable by the Group. The claim was accrued in full amount in the consolidated financial statements for the year ended December 31, 2013, including RUB 83.0 million in provision for income taxes and RUB 170.4 million in other operating expense and final amounts due were paid in January 2014. In December 2013, the Group appealed the resolution of this assessment to the Federal Tax Service. The Federal Tax Service refused to grant the appeal. The Group did not submit further appeals.

The Group purchases supplemental software from foreign suppliers of telecommunications equipment in the ordinary course of business, which is subject to customs regulation. In addition pricing of revenue and expenses between each of the Group's subsidiaries and various discounts and bonuses to the Group's subscribers in the course of performing its marketing activities may be subject to transfer pricing rules. Management believes that it has adequately provided for tax and customs liabilities in the accompanying consolidated financial statements. As of December 31, 2014 and 2013, the provision accrued for taxes other than income tax and customs settlements amounted to RUB 2,999 million and RUB 2,278 million, respectively, and was included in accrued liabilities in the accompanying consolidated statements of financial position. In addition, the accrual for unrecognized income tax benefits, potential penalties and interest recorded in accordance with FASB ASC 740, Income Taxes, totaled RUB 342 million and RUB 615 million as of December 31, 2014 and 2013, respectively, and was included in income tax payable in the accompanying consolidated statements of financial position. However, the risk remains that the relevant tax and customs authorities could take differing positions with regard to interpretive issues and the effect could be significant. The Federal Customs Service is currently reviewing MTS OJSC activities, which are subject to customs regulations, for the years ended December 31, 2014, 2013 and 2012.

**Licenses** – In July 2012, the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media allocated MTS the necessary license and frequencies to provide LTE telecommunication services in Russia. Under the terms and conditions of the LTE license, the Group is obligated to fully deploy LTE networks within seven years, commencing from January 1, 2013, and deliver LTE services in each population center with over 50,000 inhabitants in Russia by 2019. Also, the Group is obligated to invest at least RUB 15 billion annually toward the LTE roll-out until the network is fully deployed. Management believes that as of December 31, 2014 the Group is in compliance with these conditions.

In May 2007, the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media awarded MTS a license to provide 3G services in Russia. The 3G license was granted subject to certain capital and other commitments. Management believes that as of December 31, 2014 the Group complied with these conditions.

**Bitel** – In December 2005, MTS Finance acquired a 51.0% stake in Tarino Limited ("Tarino"), from Nomihold Securities Inc. ("Nomihold"), for RUB 4,322 million (\$150.0 million at exchange rate for December 2005) in cash based on the belief that Tarino was at that time the indirect owner, through its wholly owned subsidiaries, of Bitel LLC ("Bitel"), a Kyrgyz company holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

Following the purchase of the 51.0% stake, MTS Finance entered into a put and call option agreement with Nomihold for the remaining 49.0% interest in Tarino shares and a proportional interest in Bitel shares ("Option Shares"). The call option was exercisable by MTS Finance from November 22, 2005 to November 17, 2006, and the put option was exercisable by Nomihold from November 18, 2006 to December 8, 2006. The call and put option price was RUB 4,898 million (\$170.0 million at exchange rate for December 2005).

Following a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. As the Group did not regain operational control over Bitel's operations in 2005, it accounted for its 51.0% investment in Bitel at cost as at December 31, 2005. The Group appealed the decision of the Kyrgyz Supreme Court in 2006, but the court did not act within the time period permitted for appeal. The Group subsequently sought the review of this dispute over the ownership of Bitel by the Prosecutor General of Kyrgyzstan to determine whether further investigation could be undertaken by the Kyrgyz authorities.

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In January 2007, the Prosecutor General of Kyrgyzstan informed the Group that there were no grounds for involvement by the Prosecutor General's office in the dispute and that no legal basis existed for the Group to appeal the decision of the Kyrgyz Supreme Court. Consequently, the Group wrote off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in its annual consolidated financial statements for the year ended December 31, 2006. Furthermore, with the impairment of the underlying asset, a liability of RUB 4,476 million (\$170.0 million as of December 31, 2006) was recorded with an associated charge to non-operating expenses.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell the Option Shares for RUB 4,526 million (\$170.0 million at exchange rate for November 2006) to MTS Finance. In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration ("LCIA") in order to compel MTS Finance to purchase the Option Shares. Nomihold sought specific performance of the put option, unspecified monetary damages, interest, and costs. In January 2011, LCIA made an award in favor of Nomihold satisfying Nomihold's specific performance request and ordered MTS Finance to pay to Nomihold the award ("Award") including RUB 5,115 million (\$170.0 million at exchange rate for January 2011) for the Option Shares and RUB 178 million (\$5.9 million at exchange rate for January 2011) in damages, bearing interest until Award is satisfied. In addition to the RUB 4,476 million (\$170.0 million as of December 31, 2006) liability related to this case and accrued in the year ended December 31, 2006, the Group recorded an additional loss in the amount of RUB 224 million (\$7.2 million at exchange rate for the year ended December 31, 2012), RUB 94 million (\$3.2 million at exchange rate for the year ended December 31, 2011) and RUB 1,239 million (\$40.8 million at exchange rate for the year ended December 31, 2010) in the consolidated financial statements for the years ended December 31, 2012, 2011, and 2010, respectively, representing damages, other costs and interest accrued on the awarded sums. The total liability accrued amounted to RUB 7,236 million (\$221 million as of June 22, 2013).

In June 2013, an agreement was reached between Altimo, Altimo Holdings, MTS OJSC, MTS Finance, Nomihold and other associated parties to settle all disputes that have arisen from investments in Bitel ("the Agreement"). The Agreement covers matters involving a number of parties and legal proceedings, including those in the Isle of Man, London, Luxembourg and other jurisdictions. Pursuant to the Agreement all proceedings between the parties and their associated parties have been discontinued and waived, and MTS OJSC received a total payment of RUB 4,909 million (\$150 million at exchange rates at the dates of payments) ("Settlement Payment"). All parties made the necessary submissions to the respective courts and tribunals to document the settlement, which, among other actions, fully discharged any and all outstanding obligations under the Award rendered by LCIA against MTS Finance in January 2011, as well as settled the tripartite LCIA arbitration between MTS OJSC, MTS Finance and Nomihold and a tort action filed by Nomihold against MTS OJSC in the English Courts.

The Group released provision of RUB 7,236 million (\$221 million), comprising RUB 5,566 million (\$170 million) set by LCIA to exercise the put option for acquisition of the remaining 49% stake in Bitel plus RUB 1,670 million (\$51 million) in damages, interest and other costs that had been provided for in relation to the dispute with Nomihold. The release of the provision was recognized as non-operating income in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2013, being the same line item through which the initial charge was taken.

The Group recognized a gain of RUB 4,911 million (\$150 million) with respect to the Settlement Payment in the consolidated statement of operations and comprehensive income for the year ended December 31, 2013, of which RUB 1,060 million (\$32.4 million) was recognized as operating income, and RUB 3,851 million (\$117.6 million) as non-operating income on a pro-rata basis with respect to the expenses previously incurred and recognized in relation to the Bitel dispute.

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

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 (Amounts in millions of Russian Rubles, unless otherwise stated)

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**Potential adverse effects of economic instability and sanctions** - In 2014 political and economic sanctions were introduced by the EU, US and other countries targeting certain Russian economic sectors. There is significant uncertainty regarding the extent and timing of further sanctions. Also, Russian Ruble has materially depreciated against the U.S. Dollar and Euro and ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%.

These factors resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could have a negative impact on the Group's business including ability to obtain financing on commercially reasonable terms. Management believes it is taking the appropriate measures to support the sustainability of the Group's business in the current circumstances. The Group has a hedging policy in place, which partly mitigated variability of cash outflows, denominated in foreign currencies.

**Investigations into former operations in Uzbekistan** – In March 2014, the Group received requests for the provision of information from the United States Securities and Exchange Commission and the United States Department of Justice relating to an investigation of the Group's former subsidiary in Uzbekistan (Note 4). The Company cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant.

#### 31. SUBSEQUENT EVENTS

**Disposal of Intellect-Telekom** – In January 2015, the Group sold its investment in Intellect Telekom to Sistema for a cash consideration of RUB 344 million.

**Disposal of Rent-Nedvizhimost** – In February 2015, the Group sold 51% stake in Rent-Nedvizhimost to Sistema for RUB 4.3 billion. The Group classified the associated assets and liabilities as "held for sale" as of December 31, 2014 (Note 10).

**Acquisition of Navigation Information Systems** – In January 2015, the Group acquired 89.53% of Navigation Information Systems from Sistema for RUB 44 million. NIS is the leading systems integrator for GLONASS satellite projects. The acquisition allows the Group to develop its proprietary technological platform for machine-to-machine solutions.

**Acquisition of 3G license in Ukraine** – In February 2015, MTS-Ukraine won a tender to acquire a nationwide license for the provision of 3G telecommunications services. The license with the cost of UAH 2,715 million (RUB 6,015 million at the acquisition date) has been granted for 15 years. In accordance with the terms of the license MTS-Ukraine is required to launch provision of 3G services in all of the regional centers across Ukraine within 18 months upon allocation of the license.

**Insolvency of Kyivska Rus Bank in Ukraine** – On March 19, 2015, The National Bank of Ukraine adopted a resolution declaring Kyivska Rus Bank to be insolvent. As of December 31, 2014, the Group held RUB 1,170 million in deposits in the bank. Management determined that this announcement did not provide evidence related to conditions existing as of December 31, 2014, and therefore consider the announcement to be a nonrecognized subsequent event.