

# **PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

## **Consolidated Financial Statements**

As of December 31, 2015, 2014 and January 1, 2014  
and for the Years Ended December 31, 2015 and 2014

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2015, 2014 AND JANUARY 1, 2014 (Amounts in millions of Russian Rubles)

	Notes	December 31, 2015	December 31, 2014	January 1, 2014
<b>ASSETS</b>				
NON-CURRENT ASSETS:				
Property, plant and equipment	12	302,662	299,023	269,838
Investment property		364	290	2,233
Goodwill	13	34,468	36,311	32,704
Other intangible assets	15	74,596	62,209	41,625
Investments in associates	8	9,299	15,217	11,232
Other investments	9	34,667	17,065	6,320
Deferred tax assets	20	9,287	6,186	2,334
Income tax assets		-	-	1,358
Accounts receivable, related parties	22	3,335	-	-
Other financial assets	18	25,203	21,950	1,831
Other non-financial assets		480	-	-
<b>Total non-current assets</b>		<b>494,361</b>	<b>458,251</b>	<b>369,475</b>
CURRENT ASSETS:				
Inventories	11	14,510	7,509	8,498
Trade and other receivables	10	34,542	34,463	37,016
Accounts receivable, related parties	22	6,326	4,525	965
Short-term investments	7	49,840	9,942	14,633
Advances paid and prepaid expenses		4,648	4,278	3,149
VAT receivable		9,815	8,071	6,651
Income tax assets		5,190	8,656	7,051
Assets held for sale		549	2,136	29
Cash and cash equivalents	6	33,464	61,410	30,612
Other assets		133	63	139
<b>Total current assets</b>		<b>159,017</b>	<b>141,053</b>	<b>108,743</b>
<b>TOTAL ASSETS</b>		<b>653,378</b>	<b>599,304</b>	<b>478,218</b>

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2015, 2014 AND JANUARY 1, 2014 (CONTINUED) (Amounts in millions of Russian Rubles)

	Notes	December 31, 2015	December 31, 2014	January 1, 2014
<b>EQUITY AND LIABILITIES</b>				
EQUITY:				
Common stock	23	207	207	207
Treasury stock	23	(24,468)	(24,464)	(24,482)
Additional paid-in capital		-	5,052	2,506
Retained earnings		173,200	174,556	172,527
Accumulated other comprehensive income	23	11,176	13,478	1,733
Equity attributable to owners of the Company		160,115	168,829	152,491
Non-controlling interests		8,256	9,793	4,106
<b>Total equity</b>		<b>168,371</b>	<b>178,622</b>	<b>156,597</b>
NON-CURRENT LIABILITIES:				
Borrowings	16	292,168	248,549	192,664
Deferred tax liabilities	20	27,346	24,809	14,739
Provisions	17	2,565	2,838	4,535
Other non-financial liabilities		4,342	4,584	4,863
Other financial liabilities	18	676	522	3,321
<b>Total non-current liabilities</b>		<b>327,097</b>	<b>281,302</b>	<b>220,122</b>
CURRENT LIABILITIES:				
Trade and other payables		57,756	52,584	39,260
Accounts payable, related parties	22	1,809	4,674	3,315
Subscriber prepayments		17,451	19,355	17,884
Borrowings	16	53,701	41,416	24,460
Income tax liabilities		831	1,368	997
Provisions	17	7,863	8,684	7,469
Liabilities related to disposal group held for sale		-	227	-
Other non-financial liabilities		8,721	5,852	8,114
Other financial liabilities	18	9,778	5,220	-
<b>Total current liabilities</b>		<b>157,910</b>	<b>139,380</b>	<b>101,499</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>653,378</b>	<b>599,304</b>	<b>478,218</b>

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

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Service revenue		390,690	381,245
Sales of goods		40,542	29,535
	26	<b>431,232</b>	<b>410,780</b>
Cost of services		130,592	119,567
Cost of goods	11	36,580	25,450
Selling, general and administrative expenses	24	89,302	88,275
Depreciation and amortization		82,473	75,021
Operating share of the profit of associates	8	(3,457)	(3,458)
Provision for investments in distressed Ukrainian banks	29	1,698	5,138
Gain from re-entrance into Uzbekistan		-	(6,734)
Impairment of goodwill in Armenia	14	3,516	-
Other expenses		2,669	1,819
<b>Operating profit</b>		<b>87,859</b>	<b>105,702</b>
Finance income	25	(8,368)	(4,519)
Finance costs	25	26,630	17,260
Currency exchange loss		6,213	17,911
Non-operating share of the loss of associates	8	3,781	6,538
Change in fair value of financial instruments		(1,014)	95
Other (income) / expenses		(56)	936
<b>Profit before tax</b>		<b>60,673</b>	<b>67,481</b>
Income tax expense	20	13,269	15,985
<b>Profit for the year</b>		<b>47,404</b>	<b>51,496</b>
Profit / (loss) for the year attributable to:			
Owners of the Company		49,489	51,306
Non-controlling interests		(2,085)	190
Earnings per share (basic and diluted), Russian Rubles:	21	24.88 and 24.87	25.80 and 25.78

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

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (Amounts in millions of Russian Rubles)

	Year ended December 31, 2015	Year ended December 31, 2014
Profit for the year	47,404	51,496
<b>Other comprehensive (loss) / income</b>		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Unrecognized actuarial gain	86	278
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	1,465	10,948
Net fair value (loss) / gain on financial instruments	(3,223)	2,664
<b>Other comprehensive (loss) / income for the year, net of income tax</b>	<b>(1,672)</b>	<b>13,890</b>
<b>Total comprehensive income for the year</b>	<b>45,732</b>	<b>65,386</b>
Total comprehensive income / (loss) for the year attributable to:		
Owners of the Company	47,187	63,051
Non-controlling interests	(1,455)	2,335

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

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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

					Additional paid-in capital	Accumulated other comprehensive income / (loss)			Retained earnings	Equity attributable to equity holders	Non- controlling interests	Total equity
	Common stock		Treasury stock			Investments revaluation reserve	Foreign currency translation reserve	Remeasure- ments of the net defined benefit liability				
	Shares	Amount	Shares	Amount								
<b>Balances at January 1, 2014</b>	<b>2,066,413,562</b>	<b>207</b>	<b>(77,582,378)</b>	<b>(24,482)</b>	<b>2,506</b>	<b>1,604</b>	<b>-</b>	<b>129</b>	<b>172,527</b>	<b>152,491</b>	<b>4,106</b>	<b>156,597</b>
Profit for the year	-	-	-	-	-	-	-	-	51,306	51,306	190	51,496
Other comprehensive income for the year, net of income tax	-	-	-	-	-	2,664	8,803	278	-	11,745	2,145	13,890
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,664</b>	<b>8,803</b>	<b>278</b>	<b>51,306</b>	<b>63,051</b>	<b>2,335</b>	<b>65,386</b>
Issuance of stock options	-	-	-	-	167	-	-	-	-	167	-	167
Dividends declared by MTS	-	-	-	-	-	-	-	-	(49,325)	(49,325)	-	(49,325)
Dividends to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(356)	(356)
Unclaimed dividends over 3 years	-	-	-	-	-	-	-	-	48	48	-	48
Effect from reentrance into Uzbekistan	-	-	-	-	-	-	-	-	-	-	3,565	3,565
Sale of own stock	-	-	90,881	20	4	-	-	-	-	24	-	24
Purchase of own stock	-	-	(9,935)	(2)	-	-	-	-	-	(2)	-	(2)
Acquisition of NCI in Teleservice	-	-	-	-	(23)	-	-	-	-	(23)	(3)	(26)
Increase in MTS Bank equity	-	-	-	-	112	-	-	-	-	112	-	112
Sale of building to Sistema	-	-	-	-	233	-	-	-	-	233	13	246
Sale of Business Nedvizhimost (Note 5)	-	-	-	-	2,053	-	-	-	-	2,053	133	2,186
<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>5,052</b>	<b>4,268</b>	<b>8,803</b>	<b>407</b>	<b>174,556</b>	<b>168,829</b>	<b>9,793</b>	<b>178,622</b>
Profit / (loss) for the year	-	-	-	-	-	-	-	-	49,489	49,489	(2,085)	47,404
Other comprehensive (loss) / income for the year, net of income tax	-	-	-	-	-	(3,223)	835	86	-	(2,302)	630	(1,672)
<b>Total comprehensive (loss) / income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,223)</b>	<b>835</b>	<b>86</b>	<b>49,489</b>	<b>47,187</b>	<b>(1,455)</b>	<b>45,732</b>
Issuance of stock options	-	-	-	-	158	-	-	-	-	158	-	158
Dividends declared by MTS	-	-	-	-	-	-	-	-	(50,061)	(50,061)	-	(50,061)
Dividends to non-controlling interest	-	-	-	-	-	-	-	-	(480)	(480)	(257)	(737)
Sale of own stock	-	-	9,935	2	-	-	-	-	-	2	-	2
Purchase of own stock	-	-	(29,666)	(6)	-	-	-	-	-	(6)	-	(6)
Disposal of Intellect Telecom (Note 5)	-	-	-	-	252	-	-	-	-	252	14	266
Disposal of Rent Nedvizhimost (Note 5)	-	-	-	-	6,003	-	-	-	-	6,003	343	6,346
Acquisition of NIS (Note 5)	-	-	-	-	(506)	-	-	-	-	(506)	(29)	(535)
Acquisition of NVision (Note 5)	-	-	-	-	(10,371)	-	-	-	-	(10,371)	-	(10,371)
Acquisition of Stream (Note 5)	-	-	-	-	(997)	-	-	-	-	(997)	-	(997)
Changes in ownership interest with no gain/loss of control – MGTS and NIS	-	-	-	-	105	-	-	-	-	105	(153)	48
Reclassification to retained earnings	-	-	-	-	304	-	-	-	(304)	-	-	-
<b>Balances at December 31, 2015</b>	<b>2,066,413,562</b>	<b>207</b>	<b>(77,521,163)</b>	<b>(24,468)</b>	<b>-</b>	<b>1,045</b>	<b>9,638</b>	<b>493</b>	<b>173,200</b>	<b>160,115</b>	<b>8,256</b>	<b>168,371</b>

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

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (Amounts in millions of Russian Rubles)

	Year ended December 31, 2015	Year ended December 31, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit for the year	47,404	51,496
<b>Adjustments for:</b>		
Depreciation and amortization	82,473	75,021
Impairment of goodwill in Armenia	3,516	-
Non-cash gain from reentrance into Uzbekistan	-	(6,724)
Non-cash provision for investment in Delta Bank	-	5,061
Finance income	(8,368)	(4,519)
Finance costs	26,630	17,260
Income tax expense	13,269	15,985
Currency exchange loss	6,213	17,911
Amortization of deferred connection fees	(2,362)	(1,912)
Share of the loss of associates	324	3,080
Change in fair value of financial instruments	(1,014)	95
Inventory obsolescence expense	384	357
Allowance for doubtful accounts	3,221	3,270
Change in provisions	7,265	8,965
Other non-cash items	(562)	(31)
<b>Movements in operating assets and liabilities:</b>		
Decrease in trade and other receivables	2,781	5,412
(Increase) / decrease in inventory	(5,998)	731
Decrease in advances paid and prepaid expenses	574	1,217
Increase in VAT receivable	(642)	(1,058)
Decrease in trade and other payables and other current liabilities	(4,449)	(12,790)
Dividends received	3,269	2,650
Income tax paid	(9,643)	(9,906)
Interest received	4,760	3,752
Interest paid, net of interest capitalized	(24,957)	(16,344)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>144,088</b>	<b>158,979</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of subsidiaries, net of cash acquired	-	(2,755)
Purchases of property, plant and equipment (including capitalized interest in amount of RUB 885 million and RUB 790 million, respectively)	(76,671)	(73,573)
Purchases of other intangible assets	(19,440)	(18,356)
Purchase of 3G and 4G licenses in Ukraine and Russia	(10,426)	-
Proceeds from sale of property, plant and equipment and assets held for sale	2,988	619
Purchases of short-term investments	(33,014)	(36,013)
Proceeds from sale of short-term investments	31,572	47,619
Proceeds from sale of other investments	106	19,831
Purchases of other investments	(40,471)	(34,613)
Investments in associates	-	(7,767)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(145,356)</b>	<b>(105,008)</b>



# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (CONTINUED) (Amounts in millions of Russian Rubles)

	Year ended December 31, 2015	Year ended December 31, 2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of notes	(24,018)	(23,153)
Notes and debt issuance cost paid	(1,244)	(360)
Finance lease obligation principal paid	(409)	(227)
Dividends paid	(50,786)	(49,921)
Cash flows from transactions under common control	(4,821)	508
Proceeds from loans	63,162	69,179
Repayment of loans	(16,132)	(29,235)
Cash inflow under credit guarantee agreement related to foreign-currency hedge (Note 19)	6,706	-
Other financial activities	(53)	(3)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(27,595)</b>	<b>(33,212)</b>
Effect of exchange rate changes on cash and cash equivalents	761	10,195
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(28,102)</b>	<b>30,954</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the year</b> , including cash and cash equivalents within assets held for sale 156 and nil, respectively	<b>61,566</b>	<b>30,612</b>
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<b>33,464</b>	<b>61,566</b>
Less cash and cash equivalents within assets held for sale	-	156
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<b>33,464</b>	<b>61,410</b>

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

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

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### 1. GENERAL INFORMATION AND DESCRIPTION OF BUSINESS

Public Joint-Stock Company Mobile TeleSystems (“MTS PJSC”, or “the Company”) is a company incorporated under the laws of the Russian Federation and having its registered address at 4, Marksistskaya Street, 109147, Moscow, Russian Federation.

The consolidated financial statements of the Company and its subsidiaries (“the Group” or MTS) as of 31 December 2015, 2014 and January 1, 2014, and for the years ended 31 December 2015 and 2014 were authorized for issue by the General Director on March 21, 2016.

**Business of the Group** – MTS PJSC 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 PJSC’s majority shareholder is Joint-Stock Financial Corporation Sistema or “Sistema”, whose controlling shareholder is Vladimir P. Yevtushenkov.

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 PJSC have been traded on the Public 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 PJSC.

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

**Basis of preparation** – The Group has previously prepared its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). Its last issued consolidated financial statements prepared in accordance with US GAAP are those as of December 31, 2014 and for the year then ended.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as of December 31, 2015 and for the year then ended.

These financial statements are the Group’s first consolidated financial statements prepared in accordance with IFRSs, and accordingly IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 4. The Note 4 includes reconciliations of equity and comprehensive income for comparative periods and at the date of transition reported under US GAAP to those reported for those periods and at the date of transition under IFRS.

These consolidated financial statements are prepared on a historical cost basis, unless disclosed otherwise. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Amounts in the consolidated financial statements are stated in millions of Russian Rubles, unless indicated otherwise.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

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**Basis of consolidation** – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved only where the Company has the power over the entity, is exposed and has rights to variable returns, and is able to use power to affect its amount of variable returns. The results of the controlled entities acquired or disposed of during the reporting period are included in the consolidated financial statements from the date, the Group achieves control over the entity, or until the date on which the Company ceases to control the entity. If necessary, the accounting policies of controlled entities' are aligned with the accounting policy applied by the Group. All intra-group balances, income, expenses and cash flows are eliminated on consolidation.

Those entities where the Group exercises significant influence are recognized as associates and accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. These entities are recognized at cost at the time of acquisition and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income. The carrying amount of the investment in such entities may include goodwill as the positive difference between the cost of the investment and Group's proportionate share in the fair values of the entity's identifiable assets and liabilities. The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss is recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use. The Group presents its share in profits or losses in associates within operating profit if those interests are viewed as part of Group's core operations. As of December 31, 2015, only MTS Belarus was considered to be a part of Group's core operating activity. Shares in profits and losses of other Group's associates were presented as non-operating items.

The Group has joint operations with MTS Bank, a Group associate, relating to the development of the MTS Dengi project and Vimpelcom, relating to construction of LTE base stations. Joint operations are characterized by the fact that the operators that have joint control over the arrangement have a right to the assets, and obligations for the liabilities, relating to the arrangement. Respectively, each operator accounts for its share of the joint assets and its agreed share of any liabilities, and recognizes its share of the output, revenues and expenses incurred under the arrangement.

Investments in shares of the companies over which the Group does not have control or an ability to exercise significant influence are accounted for under the cost method. The Group does not evaluate cost-method investments for impairment unless there is an indicator of impairment.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

As of December 31, 2015, December 31, 2014 and January 1, 2014, the Company had investments in the following significant entities:

	Accounting method	December 31, 2015	December 31, 2014	January 1, 2014
MTS Turkmenistan	Consolidated	100.0%	100.0%	100.0%
MTS Bermuda <sup>(1)</sup>	Consolidated	100.0%	100.0%	100.0%
MTS Ukraine	Consolidated	100.0%	100.0%	100.0%
RTC	Consolidated	100.0%	100.0%	100.0%
Sibintertelecom	Consolidated	100.0%	100.0%	100.0%
TVT <sup>(2)</sup>	Consolidated	-	-	100.0%
Sputnikovoe TV	Consolidated	100.0%	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%	100.0%
SMARTS Group <sup>(3)</sup>	Consolidated	-	100.0%	-
NVision Group	Consolidated	100.0%	-	-
Stream	Consolidated/Equity	100.0%	45.0%	45.0%
Metro-Telecom	Consolidated	95.0%	95.0%	95.0%
MGTS Group	Consolidated	94.7%	94.6%	94.6%
K-Telecom	Consolidated	80.0%	80.0%	80.0%
Navigation Information Systems Group	Consolidated	77.7%	-	-
UMS	Consolidated	50.01%	50.01%	-
MTS International Funding Limited <sup>(4)</sup> ("MTS International")	Consolidated	SE	SE	SE
MTS Belarus	Equity	49.0%	49.0%	49.0%
Intellect Telecom	Equity	-	47.3%	47.3%
MTS Bank	Equity	27.0%	27.0%	26.3%
Zifrovoe TV	Equity	20.0%	-	-
OZON Holdings Limited	Equity	10.8%	10.8%	-

(1) A wholly-owned subsidiary established to repurchase the Group's ADSs

(2) Merged with MTS PJSC on October 1, 2014.

(3) Merged with MTS PJSC on December 15, 2015.

(4) A private company organized and existing as a private limited company under the laws of Ireland. The Group does not have any equity in MTS International. It 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 16). The notes are guaranteed by MTS PJSC in the event of default. 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. Accordingly, the Group concluded that it exercises control over the entity.

**Acquisitions from entities under common control** – Business combinations arising from transfers of interests in entities that are under common control with the Group are consolidated prospectively starting from the date, the control over those entities is passed to the Group. The assets and liabilities acquired are recognized at the carrying values recoded previously in the counterparty's financial statements with the resulting gain or loss recognized directly in equity.

**Functional currency translation methodology** – As of December 31, 2015, the functional currencies of Group entities were as follows:

- For entities incorporated in the Russian Federation, MTS Bermuda, 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 Universal Mobile Systems ("UMS") – the Uzbek Sum;
- For MTS Belarus – the Belorussian Ruble.

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Foreign-currency transactions are translated into the functional currency at the exchange rates at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are translated at the closing rate, whereas non-monetary items are stated at the exchange rate at the date of their recognition. Exchange rate differences are recognized in profit or loss.

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 other comprehensive income.

**Management estimates** – The preparation of the consolidated financial statements 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 allowance for doubtful accounts and inventory obsolescence, the valuation of assets acquired and liabilities assumed in business combinations, the recoverability of investments and the valuation of goodwill, property, plant and equipment and intangible assets, liability under put option agreement, certain provisions and financial instruments.

**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, as follows:

<b>Network and base station equipment:</b>	
Network infrastructure	3-44 years
Other	5-21 years
<b>Land and buildings:</b>	
Buildings	20-150 years
Leasehold improvements	the term of the lease
<b>Office equipment, vehicles and other:</b>	
Office equipment	2-21 years
Vehicles	3-7 years
Other	2-25 years

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between any sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

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.

**Borrowing costs** – Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset during the construction phase that necessarily takes a substantial period of time are capitalized as part of property, plant and equipment until the asset is substantially ready for its intended use. The Group considers a construction period of more than six months to be substantial.

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

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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**Goodwill** – Goodwill represents an excess of consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets of the acquired entity. Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated. The impairment test is carried out on a regular basis at the end of each financial year, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced. Impairment losses for goodwill must not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the cash-generating unit.

**Impairments of intangible assets and property, plant and equipment** – Impairments are identified by comparing the carrying amount with the recoverable amount. If no future cash flows generated independently of other assets can be allocated to individual assets, recoverability is assessed on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, at the end of each period the Group assesses whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill no longer exists or may be decreased. If the impairment loss is reversed, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

**Assets and disposal groups held for sale** – The Group classifies assets and disposal groups as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the assets (or disposal group) are available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and their sale is highly probable to occur within a year. Held for sale assets and disposal groups are measured at the lower of carrying amount or fair value less cost to sell.

**Inventories and spare parts** – Inventories are stated at the lower of cost or net realizable 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.

**Income taxes** – Income taxes of the Group’s Russia-incorporated entities have been computed in accordance with Russian legislation and are based on the taxable profit for the period. The corporate income tax rate in Russia is 20%. The withholding tax rate on dividends paid within Russia is 13%. The foreign subsidiaries of the Group are paying withholding taxes in their respective jurisdictions. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding 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.

**Financial instruments** – A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade and other receivables, investments (mainly deposits with original maturity of more than three months, originated loans and notes) and derivative financial assets. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds, trade and other payables, bank loans, finance lease obligations and derivative financial liabilities. Financial instruments are recognized as soon as the Group becomes a party to the contractual regulations of the financial instrument.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

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Financial assets and financial liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for a financial asset or liability accounted for at fair value through profit or loss, in which case transaction costs are expensed. Subsequently they are measured either at amortized cost or fair value depending on classification of those assets and liabilities based on their purpose. Financial assets can be classified as 1) financial assets at fair value through profit or loss; 2) held-to-maturity investments; 3) available for sale financial assets; 4) loans and receivables. Financial liabilities can be classified as 1) financial liabilities at fair value or 2) other financial liabilities.

**Cash and cash equivalents** – Cash and cash equivalents represent cash on hand and in bank accounts, as well as short-term bank deposits, which have original maturities of less than three months. Such investments are measured at amortized cost.

**Trade and other receivables** – Trade and other receivables are stated at their nominal value as reduced by appropriate 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.

**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.

**Other investments** – Other investments consist primarily of long-term deposits, which are repayable in more than a year, loans, notes and equity holdings in private companies. Deposits, loans and notes not quoted in active market are classified as loans and receivables and carried at amortized cost. The notes quoted in active market are classified based on Group's intention and ability to hold these notes to maturity either as held to maturity or available for sale. The Group reviews these investments for indicators of impairment on a regular basis.

**Trade payables and other non-derivative financial liabilities** are measured at amortized cost.

**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 financial assets or liabilities in the consolidated statement of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews related fair value hierarchy classifications on a quarterly basis. The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments.

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met.

**Fair value hedges** – Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

**Cash flow hedges** – The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income.

The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Gains or losses accumulated in other comprehensive income are immediately reclassified into consolidated statement of profit or loss when related hedged transactions affects earnings.

For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are recorded immediately in profit or loss.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**Fair value of financial instruments** – Fair value of 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.

**Liability under put option agreement** – 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. Upon initial recognition, the commitment to purchase non-controlling interests is recognized as a financial liability for the present value of the redemption amount, which approximates its fair value. Subsequent changes in the value of the commitment are recognized in profit or loss for the reporting period.

**Finance leases** – Leases are classified as finance whenever the terms of the lease transfer substantially all risks and rewards incidental to ownership of the leased asset to the Group. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the lease term. The corresponding liability is recognized in the statement of financial position within borrowings. The discount rate used in the calculating the present value of minimum lease payments is the interest rate implicit in the lease. If there is no interest rate in the lease, the Group's incremental borrowing rate is used.

**Share-based payment programs** – Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period and offset against capital reserves. For cash-settled share-based payment transactions, the fair value of the obligation is newly determined at each reporting date and at the settlement date, and the changes in the fair value are recognized in profit or loss, until the liability is settled.

**Retirement benefits** – MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement, which form a defined benefit plan. The cost of providing benefits is determined using projected unit credit method with actuarial valuation being carried out at the end of each reporting period.

**Provisions** – Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the managements' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. The main provisions the Group holds are in relation of employees' bonus and other rewards, decommissioning and restoration obligation, tax provisions as well as legal claims.

**Provision for decommissioning and restoration** – The Group calculates provision for decommissioning and restoration 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 provision for decommissioning and restoration as non-current provisions in the consolidated statement of financial position.



## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

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**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 measured at the fair value of the consideration received or receivable and recorded net of value-added tax. The Group recognizes revenue when the amount of revenue and related costs can be measured reliably; when it is probable that future economic benefit will flow to the Group; and when specific criteria have been met, as described below.

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	7 months-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.

**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. The consideration received from a customer is allocated between the deliverables based on their standalone value on the market. 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 upon consumption by a subscriber.

**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 subscriber prepayments. 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.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**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 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 rebates 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 statement 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.

#### Standards, interpretations and amendments in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but not yet effective:

IFRS 9	Financial Instruments <sup>1)</sup>
IFRS 15	Revenue from contracts with Customers <sup>2)</sup>
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>3)</sup>
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization <sup>3)</sup>
Amendments IFRSs	Annual Improvements to IFRSs 2012-2014 cycle <sup>3)</sup>
Amendments to IAS 19	Defined Benefit Plans: Employee Contribution <sup>3)</sup>
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses <sup>3)</sup>
Amendments to IAS 1	Disclosure Initiative <sup>3)</sup>
IFRS 16	Leases <sup>4)</sup>

<sup>1)</sup> Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted

<sup>2)</sup> Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted

<sup>3)</sup> Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted

<sup>4)</sup> Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted

**IFRS 9, *Financial Instruments*.** IFRS 9 governs the classification and measurement of financial assets and liabilities, derecognition, impairment and hedge accounting matters. The Group is currently evaluating the impact of these amendments on the Group's consolidated financial statements.

**IFRS 15, *Revenue from Contracts with Customers*.** This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces the existing standards IAS 18, *Revenue*, and IAS 11, *Construction Contracts*. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the standard, an entity recognizes revenue when (or as) a performance obligation is satisfied, i. e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The Group is currently evaluating the impact of these amendments and the transition alternatives on the consolidated financial statements.

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**IFRS 16, Leases.** This standard principally requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. Going forward, lessees will therefore no longer required to make the distinction between finance and operating leases. For all leases, the lessee will recognize a lease liability in its statement of financial position for the obligation to make future lease payments. At the same time, the lessee will capitalize a right of use to the underlying asset which is generally equivalent to the present value of the future lease payment plus directly attributable expenditures. The standard also includes new provisions on the definition of a lease and its presentation, on disclosures in the notes, and on sale and leaseback transactions. The Group is currently evaluating the impact of these amendments on the consolidated financial statements.

Other mentioned IFRS pronouncements do not have a material impact on the Group's consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

#### Critical accounting estimates

A critical accounting estimate is an estimate that is both important to the presentation of the Group's financial position and requires management's most difficult, subjective or complex judgments, often as a result of the need to determine estimates and develop assumptions about the outcome of matters that are inherently uncertain.

Management evaluates such estimates on an on-going basis, based upon historical results, historical experience, trends, consultations with experts, forecasts of the future, and other methods which management considers reasonable under the circumstances. Management considers the accounting estimates discussed below to be its critical accounting estimates, and, accordingly, provides an explanation of each.

#### Depreciation and amortization of non-current assets

Depreciation and amortization expenses are based on management estimates of useful life, residual value and amortization method of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and our views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for the new technologies. Critical estimates in the evaluations of useful lives for intangible assets include, but are not limited to, the estimated average customer relationship based on churn, the remaining license period and the expected developments in technology and markets.

The useful lives of property and equipment and intangible assets are reviewed at least annually, taking into consideration the factors mentioned above and all other important relevant factors. The actual economic lives of intangible assets may be different from our estimated useful lives, thereby resulting in a different carrying value of our intangible assets with finite lives.

The Group continues to evaluate the amortization period for intangible assets with finite lives to determine whether events or circumstances warrant revised amortization periods. A change in estimated useful lives is a change in accounting estimate, and depreciation and amortization charges are adjusted prospectively. See Notes 12 and 15 for further information.

# **PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **Impairment of non-current assets**

The Group has made significant investments in property and equipment, intangible assets, goodwill and other investments.

Pursuant to IAS 36, goodwill and other intangible assets with indefinite useful lives and intangible assets not yet brought into use must be tested for impairment annually or more often if indicators of impairment exist. Other assets are tested for impairment when circumstances indicate that there may be a potential impairment.

Estimating recoverable amounts of assets and CGUs must, in part, be based on management's evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). Changing the assumptions selected by management, in particular, the discount rate and growth rate assumptions used to estimate the recoverable amounts of assets, could significantly impact the Group's impairment evaluation and hence results.

All of the Group's operations is in countries with emerging markets. The political and economic situation in these countries may change rapidly and recession may potentially have a significant impact on these countries. On-going recessionary effects in the world economy, and increased macroeconomic risks, impact our assessment of cash flow forecasts and the discount rates applied.

There are significant variations between different markets with respect to growth, mobile penetration, Average Revenue Per User ("ARPU"), market share and similar parameters, resulting in differences in operating margins. The future developments of operating margins are important in the Group's impairment assessments, and the long-term estimates of these margins are highly uncertain.

See Notes 13 and 14 for further information about the goodwill and impairment test.

### **Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 18 for further information.

### **Provisions and contingencies**

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. In addition, significant uncertainty exists in relation of employee bonuses and other rewards, which depend on their individual performance and Group's results. Management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable.

See Note 17 and Note 29 for further information.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 4. IFRS FIRST-TIME ADOPTION

The date of transition to IFRS is January 1, 2014. For periods up to and including the year ended December 31, 2014, the Group prepared its consolidated financial statements in accordance with US GAAP.

The accounting principles described in Note 2 were applied when preparing the consolidated financial statements as of December 31, 2015 and for the year then ended, comparative information and the opening statement of financial position as of the date of transition to IFRS. An explanation of how the transition from US GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set further in this note.

As a first-time adopter of IFRS, the Group applied IFRS 1, *First-Time Adoption of International Financial Reporting Standards*. The Standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS effective at December 31, 2015.

The Group has applied the mandatory exceptions and certain optional exemptions as set out below:

**Business combinations** – The Group has not applied IFRS 3, *Business Combinations*, retrospectively to business combinations occurred before the date of transition to IFRS. As a result, assets recognized and liabilities assumed in past business combinations under US GAAP have remained unchanged at the date of transition.

**Provision for decommissioning and restoration** – The Group has elected to use the IFRS 1 exemption relating to recognition of historical changes in the measurement of decommissioning liabilities and therefore measures those in accordance with IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, as of January 1, 2014.

**Borrowing costs** – The Group has applied the transitional provisions in IAS 23, *Borrowing costs*, and capitalizes borrowing costs on qualifying assets as of the date of transition, and where the construction was commenced as of and after the date of transition to IFRS. Borrowing costs capitalized under US GAAP prior to the date of transition have not been adjusted.

**Currency translation differences** – The Group has used the IFRS 1 exemption relating to IAS 21, *The Effects of changes in foreign currency rates*. As a result, the cumulative translation differences for all foreign operations of the Group were set to be zero at the date of transition. The gain or loss on a subsequent disposal of any foreign operation will include only translation differences that arose after the date of transition.

**Estimates** – The estimates as of the transition date are consistent with those made under US GAAP.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Amounts in millions of Russian Rubles unless otherwise stated)*

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**Changes in the presentation** – The Group changed the presentation of certain items in the consolidated statements of financial position, profit or loss and comprehensive income as compared to the presentation used under US GAAP. The most significant changes in the presentation related to:

- Interest receivable and payable are presented as part of trade and other receivables or payables instead of being part of other current assets and accrued liabilities;
- VAT payable is included in other current non-financial liabilities instead of being a part of accrued liabilities;
- Income tax assets are presented as a separate items instead of being part of prepaid expenses, other non-current assets, respectively;
- Derivative assets and liabilities are presented as part of other financial assets and liabilities instead of being a part of other current or non-current assets and other long-term liabilities;
- The liability related to the put option over non-controlling interests is included in other non-current / current financial liabilities instead of being a separate line item; under US GAAP the change in fair value of this liability was recognized in equity, while under IFRS this change is recognized in profit or loss as a change in the fair value of financial instruments;
- Provisions for decommissioning and restoration is included in provisions instead of being part of other long-term liabilities;
- Tax provisions other than income tax are excluded from accrued liabilities and presented within current provisions;
- Employee-related liabilities (except for bonus and stock option related liabilities), accruals for services are presented within trade and other payables instead of being part of accrued liabilities. Bonus and stock option related obligation are included in current provisions;
- Retirement and post-retirement obligations are included in non-current provisions instead of being a separate line item;
- Current deferred connection fees as well as taxes other than VAT and income tax are presented as other current non-financial liabilities, instead of being a separate line item or a part of accrued liabilities;
- Non-current deferred connection fees as well as property, plant and equipment contributions are presented within other non-current non-financial liabilities instead of being separate line items;
- Prepayments related to taxes other than income and custom services are included in advances paid and prepaid expenses instead of being part of other current assets;
- Licenses are included in other intangible assets instead of being a separate line item;
- Investment property is presented as a separate line item instead of being a part of property plant and equipment;
- Notes payable and debt are presented aggregately in borrowings instead of being separate line items;
- Personnel costs related to employees assigned to the operation and maintenance of the network, repair costs as well as rent and incidental cost for network sites are included in cost of services instead of being part of general and administrative expenses;
- Other operating expense/income are reduced to reflect only items relating to disposal of property, plant and equipment or intangible assets, impairments (including bad debt allowance and inventory obsolescence reserve), any write offs or gains resulting from annual stock taking, compensation of losses.
- Changes in current income tax assets and liabilities, interest receivable and payable are presented gross in the statement of cash flows. Accordingly, related expenses or income as well as cash payments and receipts are presented in separate line items. For US GAAP purposes, these changes were presented net in changes in operating assets and liabilities lines; and
- Changes in provisions, recognized in the statement of profit or loss for the reporting period, are stated as a separate line item of statement of cash flows instead of being included in the change of trade payables, accrued and other liabilities.

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

Reconciliation of equity as of January 1, 2014 (date of transition to IFRS):

	Notes	US GAAP	Adjustments	Reclassi- fication	IFRS
<b>ASSETS</b>					
Property, plant and equipment	H, I, J, K	268,427	1,411	-	269,838
Investment property		2,233	-	-	2,233
Goodwill		32,704	-	-	32,704
Other intangible assets		41,625	-	-	41,625
Investments in associates	A, M	13,394	(62)	(2,100)	11,232
Other investments	A	4,392	(172)	2,100	6,320
Deferred tax assets	B	862	-	1,472	2,334
Income tax assets		1,358	-	-	1,358
Other financial assets		1,831	-	-	1,831
Other non-financial assets	C	2,022	-	(2,022)	-
<b>Total non-current assets</b>		<b>368,848</b>	<b>1,177</b>	<b>(550)</b>	<b>369,475</b>
Inventories		8,498	-	-	8,498
Trade and other receivables		37,016	-	-	37,016
Accounts receivable, related parties		965	-	-	965
Short-term investments		14,633	-	-	14,633
Advances paid and prepaid expenses		3,149	-	-	3,149
VAT receivable		6,651	-	-	6,651
Income tax assets		7,051	-	-	7,051
Assets held for sale		29	-	-	29
Cash and cash equivalents		30,612	-	-	30,612
Other assets	B	8,072	-	(7,933)	139
<b>Total current assets</b>		<b>116,676</b>	<b>-</b>	<b>(7,933)</b>	<b>108,743</b>
<b>TOTAL ASSETS</b>		<b>485,524</b>	<b>1,177</b>	<b>(8,483)</b>	<b>478,218</b>
<b>EQUITY AND LIABILITIES</b>					
Common stock		207	-	-	207
Treasury stock		(24,482)	-	-	(24,482)
Additional paid-in capital		3,020	(514)	-	2,506
Retained earnings	D	188,218	677	(16,368)	172,527
Accumulated other comprehensive (loss) / income	D	(15,030)	395	16,368	1,733
Equity attributable to owners of the Company		151,933	558	-	152,491
Non-controlling interests		4,122	(16)	-	4,106
<b>Total equity</b>		<b>156,055</b>	<b>542</b>	<b>-</b>	<b>156,597</b>
Borrowings	C	194,083	-	(1,419)	192,664
Deferred tax liabilities	B	21,201	(2)	(6,460)	14,739
Provisions	J, L	4,137	398	-	4,535
Other non-financial liabilities		4,863	-	-	4,863
Other financial liabilities		3,321	-	-	3,321
<b>Total non-current liabilities</b>		<b>227,605</b>	<b>396</b>	<b>(7,879)</b>	<b>220,122</b>
Trade and other payables	L, N	39,555	(295)	-	39,260
Accounts payable, related parties		3,315	-	-	3,315
Subscriber prepayments		17,884	-	-	17,884
Borrowings	C	25,064	-	(604)	24,460
Income tax liabilities		997	-	-	997
Provisions		7,469	-	-	7,469
Other non-financial liabilities	N	7,580	534	-	8,114
<b>Total current liabilities</b>		<b>101,864</b>	<b>239</b>	<b>(604)</b>	<b>101,499</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>485,524</b>	<b>1,177</b>	<b>(8,483)</b>	<b>478,218</b>

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

Reconciliation of equity as of December 31, 2014:

	Notes	US GAAP	Adjust- ments	Reclassi- fication	IFRS
<b>ASSETS</b>					
Property, plant and equipment	H, I, J, K	299,189	(166)	-	299,023
Investment property		290	-	-	290
Goodwill		36,311	-	-	36,311
Other intangible assets		62,469	(260)	-	62,209
Investments in associates	A, M	16,277	1,286	(2,346)	15,217
Other investments	A	14,969	(172)	-	17,065
Deferred tax assets	B	3,610	(165)	2,741	6,186
Income tax assets		-	-	-	-
Other financial assets		21,950	-	-	21,950
Other non-financial assets	C	1,738	-	(1,738)	-
<b>Total non-current assets</b>		<b>456,803</b>	<b>523</b>	<b>925</b>	<b>458,251</b>
Inventories		7,510	(1)	-	7,509
Trade and other receivables		34,464	(1)	-	34,463
Accounts receivable, related parties		4,525	-	-	4,525
Short-term investments		9,848	94	-	9,942
Advances paid and prepaid expenses		4,247	-	31	4,278
VAT receivable		8,071	-	-	8,071
Current income tax assets		8,720	(5)	(59)	8,656
Assets held for sale		2,058	-	78	2,136
Cash and cash equivalents		61,410	-	-	61,410
Other assets	B	11,269	-	(11,206)	63
<b>Total current assets</b>		<b>152,122</b>	<b>87</b>	<b>(11,156)</b>	<b>141,053</b>
<b>TOTAL ASSETS</b>		<b>608,925</b>	<b>610</b>	<b>(10,231)</b>	<b>599,304</b>
<b>EQUITY AND LIABILITIES</b>					
Common stock		207	-	-	207
Treasury stock		(24,464)	-	-	(24,464)
Additional paid-in capital		5,420	(368)	-	5,052
Retained earnings	D	191,081	(157)	(16,368)	174,556
Accumulated other comprehensive (loss) / income	D	(6,295)	3,405	16,368	13,478
Equity attributable to owners of the Company		165,949	2,880	-	168,829
Non-controlling interests		9,976	(183)	-	9,793
<b>Total equity</b>		<b>175,925</b>	<b>2,697</b>	<b>-</b>	<b>178,622</b>
Borrowings	C	249,717	-	(1,168)	248,549
Deferred tax liabilities	B	33,280	(5)	(8,466)	24,809
Provisions	J, L	4,267	(1,429)	-	2,838
Other non-financial liabilities		4,584	-	-	4,584
Other financial liabilities		522	-	-	522
<b>Total non-current liabilities</b>		<b>292,370</b>	<b>(1,434)</b>	<b>(9,634)</b>	<b>281,302</b>
Trade and other payables	L, N	52,953	(369)	-	52,584
Accounts payable, related parties		4,674	-	-	4,674
Subscriber prepayments		19,355	-	-	19,355
Borrowings	C	42,674	(720)	(538)	41,416
Current income tax liabilities		1,427	-	(59)	1,368
Provisions		8,684	-	-	8,684
Liabilities related to disposal group held for sale		227	-	-	227
Other non-financial liabilities	N	5,416	436	-	5,852
Other financial liabilities		5,220	-	-	5,220
<b>Total current liabilities</b>		<b>140,630</b>	<b>(653)</b>	<b>(597)</b>	<b>139,380</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>608,925</b>	<b>610</b>	<b>(10,231)</b>	<b>599,304</b>



# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

Reconciliation of statement of profit or loss for the year ended December 31, 2014:

	Notes	US GAAP	Adjustments	Reclassi- fications	IFRS
Service revenue	E, N	381,822	5	(582)	381,245
Sales of goods	E, N	28,936	17	582	29,535
		<b>410,758</b>	<b>22</b>	-	<b>410,780</b>
Cost of services	F, L	119,792	-	(225)	119,567
Cost of goods		25,450	-	-	25,450
Selling general and administrative expenses		88,288	(13)	-	88,275
Depreciation and amortization expense	H, I, J, K	74,710	311	-	75,021
Operating share of the profit of associates	G, M	-	200	(3,658)	(3,458)
Provision for investment in distressed Ukrainian banks		5,138	-	-	5,138
Gain from reentrance into Uzbekistan		(6,734)	-	-	(6,734)
Other expenses	I	1,765	54	-	1,819
<b>Operating profit</b>		<b>102,349</b>	<b>(530)</b>	<b>3,883</b>	<b>105,702</b>
Finance income		(4,519)	-	-	(4,519)
Finance costs	F, J, K	16,453	582	225	17,260
Currency exchange gains		18,024	(113)	-	17,911
Non-operating share of the loss of associates	G	2,880	-	3,658	6,538
Change in fair value of financial instruments		(165)	260	-	95
Other expenses		936	-	-	936
<b>Profit before tax</b>		<b>68,740</b>	<b>(1,259)</b>	-	<b>67,481</b>
Income tax expense		16,347	(362)	-	15,985
<b>Profit for the year</b>		<b>52,393</b>	<b>(897)</b>	-	<b>51,496</b>
Profit for the year attributable to:					
Owners of the Company		51,822	(516)	-	51,306
Non-controlling interests		571	(381)	-	190

Reconciliation of statement of comprehensive income for the year ended December 31, 2014:

	Notes	US GAAP	Adjustments	Reclassi- fications	IFRS
Profit for the year		52,393	(897)	-	51,496
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Unrecognized actuarial gain	L	14	264	-	278
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations	H, M	8,925	2,023	-	10,948
Net fair value gain on financial instruments		2,801	(137)	-	2,664
<b>Other comprehensive income for the year, net of income tax</b>		<b>11,740</b>	<b>2,150</b>	-	<b>13,890</b>
<b>Total comprehensive income for the year</b>		<b>64,133</b>	<b>1,253</b>	-	<b>65,386</b>
Total comprehensive income / (loss) for the year attributable to:					
Owners of the Company		60,558	2,493	-	63,051
Non-controlling interests		3,575	(1,240)	-	2,335

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

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#### **Reclassifications:**

##### *A – Loans to Associates*

Under IFRS, loans to associates are treated as other investments instead of investments in associates.

##### *B – Deferred Taxes*

Deferred tax assets and liabilities are treated only as non-current under IFRS. Netting is performed for deferred tax assets and liabilities relating to income taxes levied by the same taxation authority on the same taxable entity where the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

##### *C – Debt issuance costs*

In accordance to IFRS fees paid on the establishment of loan facilities are recognized as transaction costs which are presented as a reduction of the related liability. Under US GAAP debt issuance costs were capitalized as an asset and included in other non-financial assets.

##### *D – Currency translation differences*

Please refer to exemption on currency translation differences described above.

##### *E – Revenue for multiple element arrangements*

Under US GAAP, revenue recognition is based on fixed or determinable pricing criteria, which results in contingent amounts generally not being recorded as revenue until the contingency is resolved. IFRS looks to probability of economic benefits associated with the transaction flowing to the entity and the ability to reliably measure the revenue in question, including any contingent revenue. This results in different treatment of revenue generated from sales of a bundle of mobile devices with an offer of free telecommunication services. In accordance with US GAAP, the provision of service revenue was seen as contingent so that major part of revenue from the bundle was allocated to services and deferred until rendering. IFRS requires allocation of the consideration for bundles to goods and services proportionately based on fair value.

##### *F – Decommissioning and restoration costs*

Decommissioning and restoration costs are treated as finance costs instead of cost of services.

##### *G – Share of the profit of loss of associates*

Share of the profit of MTS Belarus is treated as item of operating profit instead of being included in non-operating items.

#### **Adjustments:**

##### *H – Reversal of Turkmenistan impairment*

Under US GAAP reversal of impairments is prohibited. While under IFRS if certain criteria are met, the reversal of impairments, other than those of goodwill, is permitted. MTS recognized impairment losses for goodwill and long-lived assets in Turkmenistan due to suspension of its operations in 2010. As a result of negotiations with the Government of Turkmenistan, MTS resumed its operations in Turkmenistan in July 2012. Impairment losses of Turkmenistan assets other than those of goodwill were reversed at the date of transition.

## **PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** **(Amounts in millions of Russian Rubles unless otherwise stated)**

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#### *I – Change in functional currency*

Effective from 1 January 2007, the Company's functional currency was changed from the US dollar to the Russian Ruble. Under US GAAP, the change in the functional currency to the Ruble was accomplished by restating the carrying amount of certain non-monetary balances (mainly property, plant and equipment) as if the Ruble had been the functional currency when these assets were acquired. Under IFRS, such a change of functional currency would have been performed by translating all balances using the foreign exchange rate at the date of the change in functional currency.

#### *J – Provision for decommissioning and restoration*

According to US GAAP, provision for decommissioning and restoration was measured based on the estimated cost of decommissioning, discounted to its net present value upon recognition. However, adjustments to the discount rate are not reflected in the provisions under US GAAP unless there was an upward revision in the future cost estimates. The Group has taken the exemption for which IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities, applies and has revalued the provision for decommissioning and restoration as of 1 January 2014 using current discount rate at the date. In the subsequent periods, the provision for decommissioning and restoration is remeasured using the current discount rate as of the end of each reporting period.

#### *K – Capitalization of interest*

According to IFRS, borrowing costs are capitalized for qualifying assets that require a substantial period of time to get ready for its intended use or sale. US GAAP does not require such a period to be substantial. The Group defined that only assets that require more than six months to get ready for their intended use or sale are qualifying assets and remeasured the value of related capitalized interest for the reporting periods after the date of transition.

#### *L – Retirement obligation in MGTS*

IFRS requires prior service cost arising from changes to employees' benefit plans to be recognized immediately in profit or loss whereas US GAAP assumes to initially recognize service cost in accumulated other comprehensive income and then amortize into profit or loss over the plan participants' remaining service periods or life expectancy. Under IFRS all actuarial gains and losses are recognized immediately in accumulated other comprehensive income and should not be recycled to profit or loss in future periods, US GAAP requires cumulative balance to be amortized through the income statement after the initial recognition under the corridor amortization approach. IFRS unlike US GAAP requires to recognize the liability including social taxes. Accordingly, the Group retrospectively recalculated retirement obligation in MGTS.

#### *M – Hyperinflation accounting*

IFRS requires the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy are restated by applying a general price index and translated at closing rates. US GAAP requires that the financial statements of a foreign entity in a highly inflationary economy are remeasured as if the functional currency were the reporting currency. The Group restated the results of its associate – MTS Belarus – which operated in hyperinflationary economy till December 31, 2014, in accordance with requirements of IFRS and adjusted its share in profit of the associate, respectively.

#### *N – Loyalty programs*

The Group accounted for award credits granted to the subscribers participating in the loyalty programs by accruing the estimated costs of providing free or discounted goods or services to those subscribers that are expected to redeem accumulated award credits (commonly referred to as the "incremental cost" model in US GAAP). The incremental cost model is not permitted under IFRS. In accordance with IFRS, the Group estimates the fair value of the awards to the customers and defers this amount of revenue until the unused award credits are redeemed or expired. The amount of deferred revenue is measured by reference to the fair value of the award credits to the customer.

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

### 5. BUSINESS ACQUISITIONS AND DISPOSALS

#### Acquisition and disposals in 2015

**Acquisition of Stream** – In December 2015, the Group increased its share in Stream from 45% to 100%, after Sistema Mass Media, subsidiary of Sistema, exchanged ownership of 55% in Stream for rights for its own debt in amount of RUB 561 million and promissory notes of LLC Stream Digital (fully-owned subsidiary of Stream) of RUB 1,089 million due on demand and bearing interest of 9% p.a. Stream operates as content aggregator, providing VAS services mainly to the Group. The acquisition was accounted for as a transaction under common control directly in equity.

**Acquisition of Nvision Group** – In the first stage of the transaction, carried in July 2015, the Group has acquired 100% of the shares of SITRONICS Telecom Solutions CJSC, Nvision program solutions, Nvision Czech Republic a.s. and some smaller subsidiaries of Nvision Group, from subsidiaries of Sistema. Through this transaction, the Group has obtained proprietary rights over billing system, exploited by the Group, which will allow reducing time-to-market for new products and billing and IT-related expenses. In December 2015, the Group has completed acquisition of 100% share in the holding company Nvision Group JSC (“Nvision Group”), from subsidiaries of Sistema. Nvision Group is also one of the largest system integrators and complex IT solutions providers in Russia. Total consideration amounted to RUB 11,213 million, including RUB 73 million in notes and RUB 11,140 million in cash. As of December 31, 2015 the Group has accounted for indemnification asset in amount of RUB 386 million related to tax provisions of acquired companies. The acquisition was accounted for as a transaction under common control directly in equity.

**Acquisition of Navigation Information Systems** – In January 2015, the Group acquired 89.5% of Navigation Information Systems (“NIS”) 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. The acquisition was accounted for as a transaction under common control directly in equity.

**Disposal of Rent Nedvizhimost** – In February 2015, the Group sold 51% stake in its wholly-owned subsidiary Rent Nedvizhimost to a subsidiary of Sistema, for RUB 4.3 billion. The Group classified the associated assets and liabilities of the disposal group as held for sale as of December 31, 2014. After the loss of control, the Group applied for its remaining 49% interest the equity method of accounting. Further, in May 2015, the Group sold remaining 49% interest to a subsidiary of Sistema for RUB 4.2 billion. These disposals were accounted for as transactions under common control directly in equity.

The following table summarizes the details of acquisitions of subsidiaries under common control finalized in 2015:

Acquired company	Consideration paid net of cash acquired*	Non cash consideration made	Cash acquired	Assets acquired other than cash	Liabilities assumed
Nvision	10,181	73	959	12,861	12,977
NIS	(177)	-	221	589	1,360
Stream	(558)	-	558	512	2,065

\* As included in consolidated cash flow statement within cash flows from transactions under common control

The following table summarizes the details of disposal of subsidiaries under common control finalized in 2015 (only for part of transaction with loss of control):

Disposed company	Consideration received net of cash disposed*	Non cash consideration received	Cash disposed	Asset disposed other than cash	Liabilities disposed
Rent Nedvizhimost	1,193	-	157	2,013	316

\* As included in consolidated cash flow statement within cash flows from transactions under common control

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

**Disposal of Intellect-Telekom** – In January 2015, the Group sold its 47.3% equity investment in Intellect Telecom to Sistema for RUB 344 million. The Group classified the investment as held for sale as of December 31, 2014. The disposal was accounted for as a transaction under common control directly in equity.

#### 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 acquisition method.

The purchase price allocation of SMARTS-Ivanovo, SMARTS-Ufa and Penza-GSM was not finalized as of the date the 2014 financial statements were authorised for issue as the Group had not completed the valuation of individual assets of each company acquired. The Group's consolidated financial statements as of 31 December, 2014 reflected the allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed.

In 2015 the Group finalized valuation of assets of Smarts companies and the acquisition date fair value of the assets changed. The following table summarizes the purchase price allocation for Smarts companies:

	Preliminary amounts	Measure- ment period adjustment	Final amounts	SMARTS- Ivanovo	SMARTS- Ufa	Penza- GSM
Month of acquisition				December Central region	December Volga region	December Volga region
Region of operations				100%	100%	100%
Ownership interest acquired				7	7	162
Property, plant and equipment	358	(182)	176	466	621	484
Licenses	1,460	111	1,571	-	-	164
Customer base	78	86	164	101	114	1,406
Goodwill	1,630	(9)	1,621	-	-	165
Other non-current assets	165	-	165	19	8	98
Current assets	125	-	125	(86)	(269)	(325)
Current liabilities	(683)	3	(680)	(78)	(81)	(115)
Non-current liabilities	(276)	2	(274)			
Contingent consideration	(100)	-	(100)	(2)	(2)	(96)
<b>Consideration paid</b>	<b>2,757</b>	<b>11</b>	<b>2,768</b>	<b>427</b>	<b>398</b>	<b>1,943</b>

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 December 31, 2015 the Group recorded a provision for tax liabilities in the amount of RUB 23 million and respectively reduced the additional consideration. Given the effects of discounting of long-term liability, total liability for additional consideration equaled RUB 115 million as of December 31, 2015.

The excess of the consideration paid over the value of net assets acquired in the amount of RUB 1,621 million was allocated to goodwill which was attributable to the "Russia convergent" segment. Goodwill mainly arises from expected synergies on economies of scale related to operating and capital expenditures.

Licenses acquired are amortized over a period of their remaining useful life of average 15 years. Customer base acquired is amortized over the period of its estimated average useful life of 51 months.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

**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.

**Pro forma results of operations** – The following pro forma financial data for the years ended December 31, 2014, 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 2014.

	<b>2014</b>
Pro forma:	
Net revenues	411,375
Net income	50,701

The following pro forma financial data for the year ended December 31, 2015, give effect to the 2015 acquisitions of NVision Group, NIS and Stream as though these business combinations had been completed at the beginning of 2015.

	<b>2015</b>
Pro forma:	
Net revenues	434,757
Net income	46,887

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, 2014, or January 1, 2015, 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 profit or loss for the year ended December 31, 2014. Companies acquired in 2015 contributed revenue in the amount of RUB 2,133 million and net loss in the amount of RUB 447 million to consolidated statement of profit or loss for the year ended December 31, 2015.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2015, December 31, 2014 and January 1, 2014 comprised the following:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>	<b>January 1, 2014</b>
<b>Cash and cash equivalents at banks and on hand in:</b>			
Russian Rubles	7,523	9,768	5,900
US dollars	4,296	11,412	1,336
Euro	4,738	3,579	395
Ukraine Hryvna	1,612	1,471	87
Uzbek som	628	341	-
Turkmenian manat	778	1,162	-
Other	393	72	764
<b>Short-term deposits with an original maturity of less than 92 days:</b>			
Russian Rubles	2,123	19,272	14,215
US dollars	8,236	7,404	7,503
Euro	199	1,901	136
Ukraine Hryvna	2,869	4,973	276
Other	69	55	-
<b>Total cash and cash equivalents</b>	<b>33,464</b>	<b>61,410</b>	<b>30,612</b>

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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There were certain limitations on cash disposition in Ukraine and Uzbekistan as of December 31, 2015 (for details see Note 27 and 29). Cash balances in Ukraine amounted to RUB 6,612 million, RUB 15,164 million and RUB 619 million as of December 31, 2015 and 2014 and January 1, 2014, respectively. Cash balances in Uzbekistan amounted to RUB 623 million, RUB 346 million and nil, as of December 31, 2015 and 2014 and January 1, 2014, respectively.

#### 7. SHORT-TERM INVESTMENTS

The Group's short-term investments comprised the following:

	Category	December 31, 2015	December 31, 2014	January 1, 2014
Deposits	Loans and receivables	42,492	3,534	10,458
Mutual Investment Fund "Reservniy" (Note 22)	Available for sale	-	-	4,154
Loans	Loans and receivables	7,082	5,832	21
Notes	Available for sale	266	576	-
<b>Total short-term investments</b>		<b>49,840</b>	<b>9,942</b>	<b>14,633</b>

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 28). The amount of loan and related interest included in short-term investments as of December 31, 2015 and 2014 and January 1, 2014 totaled to RUB 6,775 million and, RUB 5,533 million and RUB 2,946 million, respectively.

#### 8. INVESTMENTS IN ASSOCIATES

The Group's investments in associates (all accounted for using the equity method) comprised the following:

	Country of operations	Operating activity	December 31, 2015	December 31, 2014	January 1, 2014
MTS Belarus	Belarus	telecommunications	5,407	7,318	4,951
MTS Bank	Russia	banking	1,120	4,857	5,476
Equity investments in other companies (unquoted)	Russia	e-commerce, leasing, content provider, etc.	2,772	3,042	805
<b>Total investments in associates</b>			<b>9,299</b>	<b>15,217</b>	<b>11,232</b>

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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The reconciliation of summarised financial information of MTS-Belarus to the carrying amount of the Group's interest in associate is presented as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
<b>Assets</b>			
Non-current assets	11,404	11,493	7,246
Current assets	6,153	8,738	5,752
<b>Liabilities</b>			
Non-current liabilities	(2)	(168)	-
Current liabilities	(6,519)	(5,126)	(2,894)
<b>Total identifiable net assets</b>	<b>11,036</b>	<b>14,937</b>	<b>10,104</b>
The Group's share in associate	49%	49%	49%
The Group's share of identifiable net assets	5,407	7,318	4,951
<b>Carrying amount of the Group's interest</b>	<b>5,407</b>	<b>7,318</b>	<b>4,951</b>

The Group's share in the profit of MTS Belarus was included in operating share of the profit of associates in the accompanying consolidated statement of profit or loss. The composition of the Group's share of income of MTS Belarus is as follows:

	Year ended December 31	
	2015	2014
Revenue	(20,886)	(23,616)
Net profit for the year	(7,054)	(7,057)
<b>The Group's share of the profit of the associate for the year</b>	<b>(3,457)</b>	<b>(3,458)</b>
Other comprehensive loss for the year (currency translation adjustment*)	3,110	-*
Total comprehensive income for the year	(3,944)	(7,057)
<b>The Group's share of total comprehensive income of the associate for the year</b>	<b>(1,933)</b>	<b>(3,467)</b>
<b>Dividends received</b>	<b>3,269</b>	<b>2,650</b>

\*In the year ended December 31, 2014 no currency translation adjustment was accrued in MTS Belarus IFRS financial statements due to hyperinflation accounting requirements.

The reconciliation of summarized financial information of MTS Bank to the carrying amount of the Group's interest in associate is presented below:

	December 31, 2015	December 31, 2014	January 1, 2014
Total assets	184,915	215,718	223,823
Total liabilities	(164,662)	(181,724)	(201,077)
Non-controlling interests	(4,161)	(4,061)	(1,924)
<b>Total identifiable net assets attributable to the Group</b>	<b>16,092</b>	<b>29,933</b>	<b>20,822</b>
The Group's share in associate	27%	27%	26.3%
The Group's share of identifiable net assets	4,345	8,082	5,476
Impairment of investment in associate	(3,225)	(3,225)	
<b>Carrying amount of the Group's interest</b>	<b>1,120</b>	<b>4,857</b>	<b>5,476</b>



## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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In 2014, an impairment charge of RUB 3,225 million related to equity investment in MTS Bank was recognized in the non-operating share of the loss of the associates in the accompanying consolidated statement of profit or loss. 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" in the hierarchy established by IFRS). The key assumptions in the fair value calculations included discount rate of 23.3% and average OIBDA margin of 5%.

The Group's share in the net losses of MTS Bank was included in the non-operating share of the loss of the associates in the accompanying consolidated statement of profit or loss. The composition of the Group's share of loss of MTS Bank is as follows:

	Year ended December 31	
	2015	2014
Total interest income	(20,455)	(25,107)
Total interest expense	9,691	9,868
Net loss for the year	15,371	12,585
<b>The Group's share of the loss of the associate for the year</b>	<b>4,078</b>	<b>3,108</b>
Other comprehensive income for the year	(1,251)	(3,611)
Total comprehensive loss for the year	14,120	8,974
<b>The Group's share of the total comprehensive loss for the year</b>	<b>3,737</b>	<b>2,410</b>

The Group also has interests in a number of individually immaterial associates. For one of these associates, OZON Holdings Limited, the Group owns less than 20% of the equity interests, however, the Group has determined that it has significant influence 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 following table is the aggregate financial information of investments in the other individually immaterial associates, held by the Group:

	Year ended December 31	
	2015	2014
Net (profit) / loss for the year	(1,079)	2,047
<b>The Group's share of the (profit) / loss of the associate for the year</b>	<b>(297)</b>	<b>205</b>
Other comprehensive income for the year	-	(2,175)
Total comprehensive income for the year	(1,079)	(128)
<b>The Group's share of total comprehensive income of the associate for the year</b>	<b>(297)</b>	<b>(32)</b>

## 9. OTHER INVESTMENTS

The Group's other investments comprised the following:

	Category	December 31, 2015	December 31, 2014	January 1, 2014
Deposits	Loans and receivables	30,677	13,671	-
Loans/Unquoted Notes	Loans and receivables	2,787	2,807	5,492
Quoted Notes	Available for sale	-	-	699
Other	-	1,203	587	129
<b>Total other investments</b>		<b>34,667</b>	<b>17,065</b>	<b>6,320</b>

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

#### 10. TRADE AND OTHER RECEIVABLES

Trade and other receivables as of December 31, 2015, December 31, 2014 and January 1, 2014 comprised the following:

	December 31, 2015	December 31, 2014	January 1, 2014
Subscribers	12,412	10,722	12,548
Roaming	11,807	13,892	15,875
Interconnect	3,195	3,802	2,847
Dealers	2,084	1,931	2,127
Other trade receivables	6,118	4,783	4,911
Other receivables	1,854	1,499	2,462
Allowance for doubtful accounts	(2,928)	(2,166)	(3,754)
<b>Trade and other receivables</b>	<b>34,542</b>	<b>34,463</b>	<b>37,016</b>

The analysis of the age of trade and other accounts receivables that are past due as at December 31, 2015, December 31, 2014 and January 1, 2014 but not impaired:

	December 31, 2015	December 31, 2014	January 1, 2014
Neither past due nor impaired	29,095	28,196	29,483
Past due, but not impaired:			
Less than 60 days	2,710	4,092	4,294
61-150 days	1,203	944	1,145
More than 150 days	1,534	1,231	2,094
<b>Total</b>	<b>34,542</b>	<b>34,463</b>	<b>37,016</b>

The following table summarizes changes in the allowance for doubtful accounts receivable for the years ended December 31, 2015 and 2014:

	Year ended December 31, 2015	Year ended December 31, 2014
<b>Balance, beginning of the year</b>	<b>(2,166)</b>	<b>(3,754)</b>
Allowance for doubtful accounts	(3,269)	(3,060)
Accounts receivable written off	2,507	4,648
<b>Balance, end of the year</b>	<b>(2,928)</b>	<b>(2,166)</b>

#### 11. INVENTORIES

Inventory and spare parts as of December 31, 2015, December 31, 2014 and January 1, 2014 comprised the following:

	December 31, 2015	December 31, 2014	January 1, 2014
Handsets and accessories	11,861	5,971	7,436
SIM cards and prepaid phone cards	927	897	395
Spare parts for telecommunication equipment	287	301	305
Software and equipment for resale	927	-	-
Advertising and other materials	508	340	362
<b>Total inventory and spare parts</b>	<b>14,510</b>	<b>7,509</b>	<b>8,498</b>

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

Spare parts for base stations included in inventory are expected to be utilized within the twelve months following the statements of financial position date.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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Expenses for inventory obsolescence provision were included in cost of goods in the consolidated statement of profit or loss.

For the years ended December 31, 2015 and 2014, cost of goods sold comprised the following expenses:

	Year ended December 31, 2015	Year ended December 31, 2014
Amount of inventories recognized as an expense	36,593	25,857
Inventory obsolescence provision	865	357
Reversal of obsolescence provision	(878)	(764)
<b>Total cost of goods</b>	<b>36,580</b>	<b>25,450</b>

The reversal of inventory obsolescence provision relates to handsets and accessories sold in course of the Group's promotion campaigns.

## 12. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2015, December 31, 2014 and January 1, 2014 was as follows:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
<b>Cost</b>					
<b>January 1, 2014</b>	<b>448,152</b>	<b>25,137</b>	<b>44,523</b>	<b>47,882</b>	<b>565,694</b>
Additions	79,162	2,844	7,917	(4,020)	85,903
Arising on business combinations	3,084	974	313	525	4,896
Transfer to assets held for sale	(4,005)	(59)	(169)	(1)	(4,234)
Disposal	(24,536)	(1,765)	(5,949)	(943)	(33,193)
Other	(309)	(34)	-	(116)	(459)
Currency translation adjustment	(3,113)	854	(257)	747	(1,769)
<b>December 31, 2014</b>	<b>498,435</b>	<b>27,951</b>	<b>46,378</b>	<b>44,074</b>	<b>616,838</b>
Additions	73,117	1,445	4,907	(14,499)	64,970
Arising on business combinations	(164)	1,414	1,687	(48)	2,889
Transfer to assets held for sale	(1,059)	(2)	(6)	-	(1,067)
Disposal	(23,667)	(1,680)	(5,192)	(587)	(31,126)
Other	(437)	(84)	124	57	(340)
Currency translation adjustment	(4,361)	887	(150)	(31)	(3,655)
<b>December 31, 2015</b>	<b>541,864</b>	<b>29,931</b>	<b>47,748</b>	<b>28,966</b>	<b>648,509</b>
<b>Accumulated amortisation and impairment</b>					
<b>January 1, 2014</b>	<b>(253,925)</b>	<b>(7,516)</b>	<b>(34,415)</b>	<b>-</b>	<b>(295,856)</b>
Charge for the year	(51,155)	(887)	(6,781)	-	(58,823)
Arising on business combinations	(607)	(7)	(79)	-	(693)
Transfer to assets held for sale	3,363	152	165	-	3,680
Disposal	22,310	1,195	5,864	-	29,369
Other	70	57	(31)	-	96
Currency translation adjustment	3,904	140	368	-	4,412
<b>December 31, 2014</b>	<b>(276,040)</b>	<b>(6,866)</b>	<b>(34,909)</b>	<b>-</b>	<b>(317,815)</b>
Charge for the year	(51,967)	(930)	(5,385)	-	(58,282)
Arising on business combinations	-	(1,015)	(1,438)	-	(2,453)
Transfer to assets held for sale	490	1	3	-	494
Disposal	21,269	1,623	5,068	-	27,960
Other	(109)	7	230	-	128
Currency translation adjustment	4,180	(184)	125	-	4,121
<b>December 31, 2015</b>	<b>(302,177)</b>	<b>(7,364)</b>	<b>(36,306)</b>	<b>-</b>	<b>(345,847)</b>
<b>Net book value</b>					
<b>January 1, 2014</b>	<b>194,227</b>	<b>17,621</b>	<b>10,108</b>	<b>47,882</b>	<b>269,838</b>
<b>December 31, 2014</b>	<b>222,395</b>	<b>21,085</b>	<b>11,469</b>	<b>44,074</b>	<b>299,023</b>
<b>December 31, 2015</b>	<b>239,687</b>	<b>22,567</b>	<b>11,442</b>	<b>28,966</b>	<b>302,662</b>

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#### 13. GOODWILL

The change in the net carrying amount of goodwill for the years ended December 31, 2015 and 2014 by operating segments was as follows:

	Russia convergent	Moscow fixed line	Ukraine	Armenia	Total
<b>Balance at January 1, 2014</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>4,268</b>	<b>32,704</b>
Acquisitions (Note 5)	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>6,268</b>	<b>36,311</b>
Measurement period adjustments (Note 5)	(9)	-	-	-	(9)
Impairment loss	-	-	-	(3,516)	(3,516)
Currency translation adjustment	-	-	(22)	1,704	1,682
<b>Balance at December 31, 2015</b>					
Gross amount of goodwill	30,266	1,083	129	7,972	39,450
Accumulated impairment loss	(1,466)	-	-	(3,516)	(4,982)
	<b>28,800</b>	<b>1,083</b>	<b>129</b>	<b>4,456</b>	<b>34,468</b>

#### 14. IMPAIRMENT REVIEW

Management of the Group performs impairment tests for the goodwill assigned to the cash-generating units at least annually and when there are any indications that the carrying amount of the cash-generating unit ("CGU") is impaired.

When reviewing for indicators of impairment management of the Group considers, among other things, the relationship between its market capitalization and book value, changes in country risk premiums and other.

When the carrying amount of the cash generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash generating unit must be impaired.

The recoverable amounts of the CGUs are determined based on their value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

Future cash flows calculations are based on five-year operation plan, which is prepared and approved by the management of the Group. Estimation of future cash flows requires assumptions to be made in respect of uncertain factors, including management's expectations of the following: OIBDA margin, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks involved.

As a result of impairment test as of December 31, 2015 impairment charges of RUB 3.5 billion were recorded in a separate line item within operating profit in the consolidated statement of profit or loss in respect of the Group's investment in operating segment "Armenia". The impairment charges relate solely to goodwill. The impairment reflects the decrease of interconnect traffic and related revenue due to dramatic growth of prices for international calling from Russia to Armenia. The recoverable amount of CGU "Armenia" was RUB 18.5 billion as of 31 December 2015.

During the year ended December, 31 2014 and as of January 1, 2014, no impairment charges were recorded in respect of the Group's goodwill balances.

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### Key assumptions used for value in use calculation:

OIBDA margin and capital expenditures were primarily derived from internal sources, were based on past experience and extended to include management expectations.

The table below presents OIBDA margin utilized for value in use calculation of related CGUs:

CGU	December 31, 2015	December 31, 2014	January 1, 2014
Russia convergent	32.3%-34.9%	38.3%-39.8%	36.2%-39.1%
Armenia	44.7%-46.1%	44.7%-46.5%	49.4%-50.7%
Moscow fixed line	48.2%-53.4%	48.5%-50.1%	48.5%-50.5%
Ukraine	35.4%-41.3%	35.8%-40.0%	49.7%-52.3%

The table below presents capital expenditure as a percentage of revenue utilized for value in use calculation of related CGUs:

CGU	December 31, 2015	December 31, 2014	January 1, 2014
Russia convergent	17.6%	19.1%	18.4%
Armenia	12.0%	11.9%	12.1%
Moscow fixed line	15.0%	17.4%	31.0%
Ukraine	24.4%	12.4%	18.4%

The terminal growth rate into perpetuity has been determined based on the nominal gross domestic product rates for the country of operation, adjusted for specific characteristic of the CGUs business.

The table below presents terminal growth rate utilized for value in use calculation of related CGUs:

CGU	December 31, 2015	December 31, 2014	January 1, 2014
Russia convergent	1%	1%	3%
Armenia	nil	1%	1%
Moscow fixed line	1%	1%	3%
Ukraine	3%	1%	3%

The discount rate, applied to measure free cash flow, is the weighted average cost of capital, determined by the weighted average cost of equity and debt according to the finance structure established for each CGU. The cost of equity is calculated based on the risk free rate for long-term bonds issued by the government in the respective market. These rates adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific operating company of the Group. The cost of debt is defined as the rate effective for borrowings drawn by the Group at or near the date of impairment test.

The table below presents pre-tax rates for discounting of cash flows in functional currencies of related CGUs:

CGU	December 31, 2015	December 31, 2014	January 1, 2014
Russia convergent	13.9%	15.2%	10.1%
Armenia	17.7%	17.9%	13.6%
Moscow fixed line	18.4%	17.4%	11.0%
Ukraine	26.6%	28.7%	12.9%

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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### Sensitivity analysis

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount, except for CGU Armenia.

The carrying value of the CGU Armenia is equal to the estimated recoverable amount, any adverse change in key assumptions would, in isolation, cause a further impairment loss to be recognized.

The changes in the following table to assumptions used in the impairment review of CGU Armenia would have, in isolation, lead to an increase to the impairment loss recognized in the year ended December 31, 2015:

	Increase by 1 pps	Decrease by 1 pps
Pre-tax discount rate	(900)	1,100
OIBDA margin	600	(600)
Average capital expenditure as a percentage of revenue	(700)	700

### 15. OTHER INTANGIBLE ASSETS

Net book value of other intangible assets as at December 31, 2015 and December 31, 2014, and January 1, 2014 was as follows:

	Licenses	Right to use radio frequencies	Billing and other software	Client base	Numbering capacity	Other	Total
Useful life, years	1 to 20	1 to 15	1 to 25	4 to 31	2 to 15	1 to 10	
<b>Cost</b>							
<b>January 1, 2014</b>	<b>9,779</b>	<b>6,659</b>	<b>71,703</b>	<b>8,757</b>	<b>3,641</b>	<b>2,730</b>	<b>103,269</b>
Additions	61	1,978	24,289	-	182	359	26,869
Arising on business combinations	1,460	-	742	78	-	4,462	6,742
Disposal	(386)	(348)	(5,114)	(156)	(32)	(285)	(6,321)
Other	(5)	5	11	-	-	(12)	(1)
Currency translation adjustment	2,369	-	(264)	-	(28)	1,779	3,856
<b>December 31, 2014</b>	<b>13,278</b>	<b>8,294</b>	<b>91,367</b>	<b>8,679</b>	<b>3,763</b>	<b>9,033</b>	<b>134,414</b>
Additions	11,705	1,262	20,624	-	107	53	33,751
Arising on business combinations	111	-	779	86	-	368	1,344
Disposal	(1)	(268)	(18,888)	(1,228)	(619)	(240)	(21,244)
Other	(73)	38	(376)	-	(14)	(115)	(540)
Currency translation adjustment	3,470	-	(372)	-	(29)	668	3,737
<b>December 31, 2015</b>	<b>28,490</b>	<b>9,326</b>	<b>93,134</b>	<b>7,537</b>	<b>3,208</b>	<b>9,767</b>	<b>151,462</b>
<b>Accumulated amortisation and impairment</b>							
<b>January 1, 2014</b>	<b>(5,606)</b>	<b>(2,672)</b>	<b>(45,295)</b>	<b>(3,622)</b>	<b>(2,867)</b>	<b>(1,582)</b>	<b>(61,644)</b>
Charge for the year	(809)	(991)	(12,729)	(689)	(713)	(268)	(16,199)
Arising on business combinations	-	-	-	-	-	(27)	(27)
Disposal	348	347	5,012	156	30	265	6,158
Other	-	(1)	(5)	-	-	1	(5)
Currency translation adjustment	(1,178)	-	595	-	26	69	(488)
<b>December 31, 2014</b>	<b>(7,245)</b>	<b>(3,317)</b>	<b>(52,422)</b>	<b>(4,155)</b>	<b>(3,524)</b>	<b>(1,542)</b>	<b>(72,205)</b>
Charge for the year	(1,447)	(1,202)	(16,933)	(692)	(147)	(3,770)	(24,191)
Arising on business combinations	-	-	(424)	-	-	(188)	(612)
Disposal	2	287	18,528	1,228	622	158	20,825
Other	63	(29)	(172)	-	25	99	(14)
Currency translation adjustment	(1,246)	-	866	-	28	(317)	(669)
<b>December 31, 2015</b>	<b>(9,873)</b>	<b>(4,261)</b>	<b>(50,557)</b>	<b>(3,619)</b>	<b>(2,996)</b>	<b>(5,560)</b>	<b>(76,866)</b>
<b>Net book value</b>							
<b>January 1, 2014</b>	<b>4,173</b>	<b>3,987</b>	<b>26,408</b>	<b>5,135</b>	<b>774</b>	<b>1,148</b>	<b>41,625</b>
<b>December 31, 2014</b>	<b>6,033</b>	<b>4,977</b>	<b>38,945</b>	<b>4,524</b>	<b>239</b>	<b>7,491</b>	<b>62,209</b>
<b>December 31, 2015</b>	<b>18,617</b>	<b>5,065</b>	<b>42,577</b>	<b>3,918</b>	<b>212</b>	<b>4,207</b>	<b>74,596</b>

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group has been granted access to various telecommunication licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local communication authorities.

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

The Group's operating licenses do not provide for automatic renewal. As of December 31, 2015, all expired licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. Weighted-average period until the next renewal of licenses in the Russian Federation is four years.

The license for the provision of telecommunication 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 for the provision of telecommunication services in Uzbekistan was renewed in 2014 and is valid until 2029. The license for the provision of telecommunication services in Turkmenistan is valid until 2029.

Contractual obligations to purchase intangible assets are disclosed in the Note 29.

## 16. BORROWINGS

The Group's borrowings comprise the following:

	December 31, 2015	December 31, 2014	January 1, 2014
Notes	100,034	106,178	102,378
Bank and other loans	234,040	174,392	114,698
Finance lease obligations	11,795	9,395	48
<b>Total borrowings</b>	<b>345,869</b>	<b>289,965</b>	<b>217,124</b>
Less: current portion	(53,701)	(41,416)	(24,460)
<b>Total borrowings, non-current</b>	<b>292,168</b>	<b>248,549</b>	<b>192,664</b>

**Notes** – The Group's Notes consisted of the following:

	Currency	Interest rate (actual at December 31, 2015)	December 31, 2015	December 31, 2014	January 1, 2014
MTS International Notes due 2020 (Note 2)	USD	8.625%	42,238	34,933	24,401
MTS International Notes due 2023 (Note 2)	USD	5.00%	33,908	26,812	16,244
MTS PJSC Notes due 2017	RUB	8.70%	9,990	9,984	9,979
MTS PJSC Notes due 2023	RUB	8.25%	9,971	9,958	9,945
MTS PJSC Notes due 2020	RUB	10.75%	2,110	14,990	14,978
MTS PJSC Notes due 2016	RUB	8.75%	1,788	1,788	1,788
MTS PJSC Notes due 2021-2022 (V series)	RUB	0.25%	12	12	12
MTS PJSC Notes due 2015-2016 (B series)	RUB	0.54%	11	12	12
MTS PJSC Notes due 2018	RUB	10.00%	6	136	3,844
MTS PJSC Notes due 2015	RUB	7.75%	-	7,541	7,545
MTS PJSC Notes due 2015 (A series)	RUB	0.67%	-	12	12
MTS PJSC Notes due 2014	RUB	7.60%	-	-	13,618
<b>Total notes</b>			<b>100,034</b>	<b>106,178</b>	<b>102,378</b>
Less: current portion			(3,855)	(22,636)	(17,396)
<b>Total notes, non-current</b>			<b>96,179</b>	<b>83,542</b>	<b>84,982</b>

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Amounts in millions of Russian Rubles unless otherwise stated)*

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

MTS PJSC Notes due 2020	November 2016
MTS PJSC Notes due 2023	March 2018

The Group discloses these notes as maturing in 2016 (MTS PJSC Notes due 2020) and in 2018 (MTS PJSC Notes due 2023) in the aggregated maturities schedule as the noteholders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons.

In November 2015, the Group changed the coupon rate for MTS PJSC Notes due 2020 from 8.15% to 10.75%. Following the announcement of new coupon rates the Group repurchased MTS PJSC Notes due 2020 at the request of eligible noteholders in the amount of RUB 12,890 million.

In December 2015, the Group changed the coupon rate for MTS PJSC Notes due 2018 from 12.00% to 10.00%. Following the announcement of new coupon rates the Group repurchased MTS PJSC Notes due 2018 at the request of eligible noteholders in the amount of RUB 135 million.

As of December 31, 2015 the Group had the following outstanding repurchase transactions with a due date on January 11, 2016:

	<b>No of Notes</b>	<b>Due amount</b>	<b>Unrealized premium</b>	<b>Total</b>
MTS PJSC Notes due 2018	223,799	200	-	200
MTS PJSC Notes due 2016	5,203,825	4,921	(3)	4,918
MTS PJSC Notes due 2020	5,290,322	4,885	-	4,885
				<b>10,003</b>

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

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

The above balances are 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, 2015 at the stock exchanges where they are traded were as follows:

	<b>Stock exchange</b>	<b>% of par</b>	<b>Fair value</b>
MTS International Notes due 2020	Frankfurt stock exchange	108.25	45,832
MTS International Notes due 2023	Frankfurt stock exchange	89.05	30,280
MTS PJSC Notes due 2023	Moscow Exchange	100.00	10,000
MTS PJSC Notes due 2017	Moscow Exchange	97.15	9,715
MTS PJSC Notes due 2020	Moscow Exchange	100.00	2,110
MTS PJSC Notes due 2016	Moscow Exchange	98.48	1,761
MTS PJSC Notes due 2018	Moscow Exchange	99.99	6
<b>Total notes</b>			<b>99,704</b>



# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

**Bank and other loans** – The Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at December 31, 2015)	December 31, 2015	December 31, 2014	January 1, 2014
<b>USD-denominated:</b>					
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2016-2020	LIBOR + 1.15% (2.0%)	39,449	37,062	24,957
Citibank	2016-2024	LIBOR + 0.9% (1.75%)	17,511	-	-
Skandinaviska Enskilda Banken AB	2016-2017	LIBOR + 0.23%-1.8% (1.07%-2.65%)	3,939	5,115	4,137
Other	-	-	-	81	642
			<b>60,899</b>	<b>42,258</b>	<b>29,736</b>
<b>EUR-denominated:</b>					
Credit Agricole Corporate Bank and BNP Paribas	2016-2018	EURIBOR + 1.65% (1.61%)	1,639	1,864	1,511
LBBW	2016-2017	EURIBOR +1.52% (1.48%)	737	943	816
Bank of China	-	-	-	-	2,337
			<b>2,376</b>	<b>2,807</b>	<b>4,664</b>
<b>RUB-denominated:</b>					
		8.45%-Central Bank key rate + 2.2%			
Sberbank	2016-2021	(13.2%)	154,660	124,535	79,795
Notes in REPO	2016	11.32%	10,003	3,425	-
Other	2016-2025	Various	1,409	375	395
			<b>166,072</b>	<b>128,335</b>	<b>80,190</b>
<b>Other currencies:</b>					
Various financial institutions	2019-2022	Various	4,693	992	108
			<b>4,693</b>	<b>992</b>	<b>108</b>
<b>Total bank and other loans</b>			<b>234,040</b>	<b>174,392</b>	<b>114,698</b>
Less: current portion			(49,282)	(18,241)	(7,027)
<b>Total bank and other loans, non-current</b>			<b>184,758</b>	<b>156,151</b>	<b>107,671</b>

**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 PJSC with another entity or be a subject to a court decision to pay over \$10 million (RUB 729 million as of the reporting date), which remains 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 loans covenants as of December 31, 2015.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

**Pledges** – The non-revolving credit facility agreement between UMS and Alokabank is secured by telecommunication equipment and premises with carrying value of RUB 2,271 million, RUB 2,038 million and nil as of December 31, 2015, December 31, 2014 and January 1, 2014, respectively.

**Available credit facilities** – As of December 31, 2015, the Group's total available unused credit facilities amounted to RUB 70,526 million and related to the following credit lines:

	Currency	Maturity	Interest rate	Available till	Available amount
Sberbank	RUB	2018	Central Bank key rate + 1.82%	May 2016 September 2017	40,000
Alokabank	UZS	2022	12%		8,276
China Development Bank	USD	2022	6M Libor + 3.25%	May 2017	7,288
China Development Bank	CNY	2022	6M Shibor + 3.52%	May 2017	6,962
Sberbank	RUB	To be agreed	Central Bank key rate + max.5.00%	June 2019 December 2019	5,000
Absolut Bank	RUB	2019	CBR <sup>1</sup> auction rate + 1.25%-1.8%		3,000
<b>Total</b>					<b>70,526</b>

<sup>1</sup> CBR – Central Bank rate

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 (gross of debt issuance costs) outstanding for the five years ending December 31, 2020 and thereafter:

	As of December 31, 2015	
	Notes	Bank loans and other debt
Payments due in the year ending December 31,		
2016	3,908	49,874
2017	10,000	49,637
2018	10,006	44,052
2019	-	42,682
2020	42,339	25,866
Thereafter	34,016	23,837
<b>Total</b>	<b>100,269</b>	<b>235,948</b>
Less: unamortized debt issuance costs	(235)	(1,908)
<b>Total debt</b>	<b>100,034</b>	<b>234,040</b>

**Finance lease obligations** – The following table presents a summary of net book value of leased property, plant and equipment:

	December 31, 2015	December 31, 2014	January 1, 2014
Network and base station equipment	6,352	6,044	-
Office equipment, vehicles and other	54	18	177
<b>Leased assets, net</b>	<b>6,406</b>	<b>6,062</b>	<b>177</b>

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

Additions under finance lease agreements for the years ended December 31, 2015 and 2014 amounted to RUB 1,735 million and RUB 6,228 million respectively. Depreciation of the assets under finance leases for the years ended December 31, 2015 and 2014 amounted to RUB 554 million and RUB 509 million, respectively, and was included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss.

Interest expense accrued on finance lease obligations for the years ended December 31, 2015 and 2014 amounted to RUB 705 million and RUB 340 million, respectively, and was included in finance costs in the accompanying consolidated statement of profit or loss.

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments as at December 31, 2015, December 31, 2014 and January 1, 2014:

	December 31, 2015	December 31, 2014	January 1, 2014
<b>Minimum lease payments, including:</b>			
Current portion (less than 1 year)	1,366	1,119	42
More than 1 to 5 years	6,243	4,579	11
Over 5 years	11,022	7,688	-
<b>Total minimum lease payments</b>	<b>18,631</b>	<b>13,386</b>	<b>53</b>
Less amount representing interest	(6,836)	(3,991)	(5)
<b>Present value of net minimum lease payments, including:</b>			
Current portion (less than 1 year)	564	539	37
More than 1 to 5 years	3,334	2,589	11
Over 5 years	7,897	6,267	-
<b>Total present value of net minimum lease payments</b>	<b>11,795</b>	<b>9,395</b>	<b>48</b>
Less current portion of lease obligations	(564)	(539)	(37)
<b>Non-current portion of lease obligations</b>	<b>11,231</b>	<b>8,856</b>	<b>11</b>

Leased assets include automobiles, network equipment and transponders which are installed on a satellite and used for provision of satellite television services. The average lease term of the automobiles is three years. The Group has an obligation to purchase these automobiles under the respective finance 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.

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

### 17. PROVISIONS

The following table summarizes the movement in provisions for the year ended December 31, 2015 and for the year ended December 31, 2014:

	Tax provisions other than for income tax	Provision for decommissi- oning and restoration	Employee bonuses and other rewards	Other provisions	Total provisions
<b>At 1 January 2014</b>	<b>(2,388)</b>	<b>(2,970)</b>	<b>(6 611)</b>	<b>(35)</b>	<b>(12,004)</b>
<b>Current 2014</b>	(2,388)	-	(5 046)	(35)	(7,469)
<b>Non-current 2014</b>	-	(2,970)	(1 565)	-	(4,535)
Arising during the year	(745)	(123)	(9 571)	(9)	(10,448)
Utilised	-	22	7 822	12	7,856
Discount rate adjustment and imputed interest (change in estimates)	-	1,355	278	-	1,633
Unused amounts reversed	159	47	1 252	25	1,483
Translation adjustments and other	-	29	(71)	-	(42)
<b>At 31 December 2014</b>	<b>(2,974)</b>	<b>(1,640)</b>	<b>(6 901)</b>	<b>(7)</b>	<b>(11,522)</b>
Current 2014	(2,974)	-	(5 703)	(7)	(8,684)
Non-current 2014	-	(1,640)	(1 198)	-	(2,838)
<b>At 1 January 2015</b>	<b>(2,974)</b>	<b>(1,640)</b>	<b>(6 901)</b>	<b>(7)</b>	<b>(11,522)</b>
Arising during the year	(481)	(107)	(10 478)	(27)	(11,093)
Utilised	24	-	8 706	7	8,737
Discount rate adjustment and imputed interest (change in estimates)	-	256	87	-	343
Unused amounts reversed	2,951	25	846	6	3,828
Arising due to subsidiary purchase	(15)	-	(456)	(186)	(657)
Translation adjustments and other	(30)	7	(41)	-	(64)
<b>At 31 December 2015</b>	<b>(525)</b>	<b>(1,459)</b>	<b>(8,237)</b>	<b>(207)</b>	<b>(10,428)</b>
Current 2015	(525)	-	(7,131)	(207)	(7,863)
Non-current 2015	-	(1,459)	(1,106)	-	(2,565)

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

### 18. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

#### Financial assets

	December 31, 2015	December 31, 2014	January 1, 2014
Trade and other receivables (Note 10)	34,542	34,463	37,016
Accounts receivable, related parties (Note 22)	9,661	4,525	965
Cash and Cash equivalents (Note 6)	33,464	61,410	30,612
Other financial assets:			
Financial assets at fair value through OCI:			
Interest rate swaps designated as cash flow hedges	-	8	12
Notes	266	576	699
Mutual Investment Fund "Reservniy" (Note 22)	-	-	4,154
Cross-currency swap designated as cash flow hedge	25,027	21,936	1,825
<b>Total financial assets at fair value through OCI</b>	<b>25,293</b>	<b>22,520</b>	<b>6,690</b>
Loans and receivables:			
Bank deposits	73,169	17,205	10,458
Loans and receivables	9,341	8,192	5,067
Notes	528	446	446
Other	1,203	588	129
<b>Total loans and receivables</b>	<b>84,241</b>	<b>26,431</b>	<b>16,100</b>
<b>Total other financial assets</b>	<b>109,534</b>	<b>48,951</b>	<b>22,790</b>
<b>Total financial assets</b>	<b>187,201</b>	<b>149,349</b>	<b>91,383</b>
<b>Total current financial assets</b>	<b>(124,172)</b>	<b>(110,348)</b>	<b>(83,238)</b>
<b>Total non-current financial assets</b>	<b>63,029</b>	<b>39,001</b>	<b>8,145</b>

#### Financial liabilities

	December 31, 2015	December 31, 2014	January 1, 2014
Trade and other payables	57,756	52,584	39,260
Accounts payable, related parties (Note 22)	1,809	4,674	3,315
Financial liabilities at amortised cost:			
Loans and borrowings:			
Notes	100,034	106,178	102,378
Bank and other loans	234,040	174,392	114,698
Finance lease obligations	11,795	9,395	48
<b>Total loans and borrowings</b>	<b>345,869</b>	<b>289,965</b>	<b>217,124</b>
Guarantee payment received	6,853	-	-
<b>Total financial liabilities at amortized cost</b>	<b>352,722</b>	<b>289,965</b>	<b>217,124</b>
Other financial liabilities at fair value:			
Financial liabilities at fair value through profit or loss:			
Interest rate swaps not designated as hedge	-	2,028	-
Liability under put option agreement	2,925	3,192	2,932
<b>Total financial liabilities at fair value through profit and loss</b>	<b>2,925</b>	<b>5,220</b>	<b>2,932</b>
Financial liabilities at fair value through OCI:			
Interest rate swaps designated as cash flow hedges	676	522	389
<b>Total financial liabilities at fair value through OCI</b>	<b>676</b>	<b>522</b>	<b>389</b>
<b>Total other financial liabilities at fair value</b>	<b>3,601</b>	<b>5,742</b>	<b>3,321</b>
<b>Total financial liabilities</b>	<b>415,888</b>	<b>352,965</b>	<b>263,020</b>
<b>Total current financial liabilities</b>	<b>(123,044)</b>	<b>(103,894)</b>	<b>(67,031)</b>
<b>Total non-current financial liabilities</b>	<b>292,844</b>	<b>249,071</b>	<b>195,989</b>

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

Group financial liabilities are basically represented by trade and other payables, notes and bank loans. The main purpose of these financial liabilities is to finance the Group's operations and capital expenditures. The Group's principal financial assets include loans and investments, trade and other receivables, cash and deposits.

The Group accounts for its financial assets and liabilities at amortized cost, except for derivative instruments, marketable securities and a liability under put option agreements, which are accounted at fair value.

The table below presents the fair value of financial instruments:

	Level of inputs	December 31, 2015	December 31, 2014	January 1, 2014
<b>Assets</b>				
Sistema Notes due in 2016 (series 04) (related party) (Notes 7, 22)	Level 1	191	534	-
Sistema International Funding S.A. Bonds due in 2019 (related party) (Note 7, 22)	Level 1	75	42	-
Mutual investment fund "Reservnyi", managed by "DIK" (related parties) (Notes 7, 22)	Level 1	-	-	4,154
Loan Participation Notes EMIS BV (Note 9)	Level 1	-	-	699
Derivative instruments	Level 2	25,027	21,944	1,837
Cross-currency interest rate swap		25,027	21,936	1,825
Interest rate swap		-	8	12
<b>Liabilities</b>				
Liability under put option agreement	Level 3	(2,925)	(3,192)	(2,932)
Derivative instruments	Level 2	(676)	(2,550)	(421)
Interest rate swap		(676)	(2,550)	(421)
Contingent consideration	Level 3	(115)	(99)	(11)

For the year ended December 31, 2015 and 2014, net realized and unrealized gains and losses of Level 3 liabilities resulted from fair value measurements amounted to RUB 1,014 million gain and RUB 260 million loss, respectively.

For the year ended December 31, 2015 and 2014, net realized and unrealized gains and losses of Level 1 liabilities resulted from fair value measurements amounted to nil and RUB 165 million gain, respectively.

The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments.

The liability under put option agreement is measured at fair value using a discounted cash flow technique. The most significant quantitative inputs used to measure the fair value of the liability under put option agreement are presented in the table below:

Unobservable inputs	December 31, 2015	December 31, 2014	January 1, 2014
Post – tax discount rate	15% (1.6) – (4.6)%	15% 0.02-0.2%	12% 0.7%-1.2%
Revenue growth rate	(av. -2.2%) 44.7-46.1%	(av. 0.1%) 44.7-46.5%	(av. 0.9%) 49.4%-50.7%
OIBDA margin	(av. 45.4%)	(av. 45.4%)	(av. 49.8%)

There were no transfers between levels of inputs within the hierarchy for the year ended December 31, 2015 and 2014.

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

	December 31, 2015		December 31, 2014		January 1, 2014	
	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
Borrowings	(340,201)	(348,012)	(267,843)	(291,703)	(223,110)	(219,141)

There were no transfers between the accounting categories of financial instruments during the year ended December 31, 2015 and 2014.

## 19. FINANCIAL RISK MANAGEMENT

As part of its business the Group is exposed to several types of financial risks: market risks, credit (or counterparty) risks, and liquidity risks. Risks mitigating activities are mainly performed at the Group headquarters by the corporate finance personnel and are subject to the approval of the Group's supervisory bodies – Board of Directors and Budget committee.

### **Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is primarily exposed to the following types of market risks: interest rate risk and currency exchange rates fluctuations. Financial instruments affected by market risk include loans and borrowings, deposits, and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as of December 31 2015, 2014 and January 1, 2014.

#### Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

- Variable interest rate

Group's bank loans denominated in US dollars and Euros primarily bear floating interest rate. To eliminate the exposure of changes in variable interest rates related to its debt obligations, the Group enters into variable-to-fixed interest rate swap agreements, so that interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective cash flow hedges. In aggregate the Group entered into variable-to-fixed interest rate swap agreements designated to manage the exposure of changes in variable interest rates related to 32.6% and 84.2% of the Group's bank loans with variable rates outstanding as of December 31, 2015 and 2014, respectively.

- Fixed interest rate risk

Group's Notes and bank loans denominated in rubles bear primarily fixed interest rates. To eliminate the exposure of changes in value of debt obligations, the Group enters into fixed-to-variable interest rate swap agreements. In aggregate the Group entered into fixed-to-variable interest rate swap agreements designated to manage the exposure of changes in value of the debt related to 12.9% and 11.7% of the Group's Notes and bank loans with fixed rates outstanding as of December 31, 2015 and 2014, respectively.

The notionals related to interest rate derivative instruments amounted to RUB 67,338 million, RUB 65,561 million and RUB 31,757 million as of December 31, 2015, 2014 and January 1, 2014, respectively.

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#### Sensitivity analysis

A reasonably possible increase of 100 basis points in short term interest rates would have resulted in RUB 933 million and RUB 264 million increases of interest expense for the years ended December 31, 2015 and 2014, respectively. The same decrease in short term interest rates would have resulted in RUB 933 million and RUB 233 million decreases of finance cost for the years ended December 31, 2015 and 2014, respectively. There will be no material impact on equity.

The interest rate sensitivity analysis was performed based on a constant position of fixed and floating rate debt.

#### Foreign currency risks

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. The Group manages its currency risk by hedging significant foreign currency cashoutflows with derivatives and by using money market instruments.

The Group has entered into several cross-currency swap agreements. The contracts designated to manage the exposure of changes in currency exchange rate. The contracts assumed periodic exchange of principal and interest payments from RUB-denominated amounts to USD- and Euro-denominated amounts 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.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure of changes in currency exchange rate for 28.7% of the Group's bank loans denominated in USD- and Euro- denominated bank loans outstanding as of December 31, 2015 and 35.1% of its USD- and Euro- denominated bank loans outstanding as of December 31, 2014:

The notionals related to currency derivative instruments amounted to RUB 40,049 million, RUB 37,820 million and RUB 26,020 million as of December 31, 2015, 2014 and January 1, 2014, respectively.

The following tables demonstrate the sensitivity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant.

	<u>Change in rate</u>	<u>USD - effect on profit before tax RUB mln,</u>	<u>EUR - effect on profit before tax RUB mln</u>
2015	+20%	(8,986)	5,664
	-20%	8,986	(5,664)
2014	+20%	(12,667)	5,093
	-20%	12,667	(5,093)

The movement in the pre-tax effect is a result of a change in monetary assets and liabilities denominated in US dollars and Euro, where the functional currency of the entity is a currency other than US dollars and Euro.

There will be no material impact on equity.

The Group's exposure to foreign currency changes for all other currencies is not material.



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#### Liquidity risk

Liquidity risk is the risk of a shortage of funds. The Group's policy is to borrow centrally using a mixture of long-term and short-term borrowing facilities. These borrowings, together with cash generated from operations are utilized to meet anticipated funding requirements.

The Group manages liquidity risk on long-term borrowings by maintaining a varied maturity profile and a required net debt position, therefore minimizing refinancing risk. Long-term borrowings mature between one and 8 years.

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Group is exposed to credit risk primarily from its investing activities.

The Group considers its exposure to credit risk as of December 31, 2015, December 31, 2014 and January 1, 2014 to be as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Bank deposits	73,169	17,205	10,458
Trade and other receivables	34,542	34,463	37,016
Derivative financial instruments	25,027	21,944	1,837
Loan and notes	10,135	9,214	6,212
Mutual investment fund "Reservniy"	-	-	4,154

In accordance with the Group's financial instruments management policy, the aggregate credit risk the Group may have with one counterparty is limited. The Group maintains mixture of cash and cash equivalents, investments, derivatives and certain other financial instruments with financial institutions. These financial institutions are located in different geographical regions and the Group's policy is designed to limit exposure to any one institutions. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions. Moreover, at December 15, 2015 Barclays bank and the Group signed an addendum to cross currency swap agreements. According to the terms of the addendum parties agreed to set credit exposure limits to one another, which permits to mitigate their credit risk by requiring other party to transfer collateral payments. As of December 31, 2015 Barclay bank transferred to the group a collateral payment in the amount of RUB 6,9 billion.

Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Therefore management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

## 20. INCOME TAX

Significant components of income tax expense for the year ended December 31, 2015 and 2014 was as follows:

	Year ended December 31,	
	2015	2014
Current income tax charge	11,865	9,478
Adjustments recognised for current tax of prior periods	283	32
<b>Total current income tax:</b>	<b>12,148</b>	<b>9,510</b>
Deferred tax	1,121	6,475
<b>Income tax expense</b>	<b>13,269</b>	<b>15,985</b>

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The statutory income tax rates in jurisdictions in which the Group operates for 2015 and 2014 were as follows: Russia and Armenia – 20.0%, Ukraine – 18%, Turkmenistan – 8%, Uzbekistan – 15%, Czech Republic -19%. The Russian statutory income tax rate of 20% reconciled to the Group's effective income tax rate for the year ended December 31, 2015 and 2014 as follows:

	Year ended December 31,	
	2015	2014
<b>Statutory income tax rate for the year</b>	20.0%	20.0%
Adjustments:		
Expenses not deductible for tax purposes	4.3	0.4
Settlements with tax authorities	0.4	0.6
Different tax rate of foreign subsidiaries	(0.3)	(0.9)
Earnings distribution from subsidiaries	(2.1)	4.3
Change in fair value of derivative financial instruments	(0.3)	(0.9)
Other	(0.1)	0.2
<b>Effective income tax rate</b>	<b>21.9%</b>	<b>23.7%</b>

As of December 31, 2015 and 2014 and January 1, 2014 the Group reported the following deferred income tax assets and liabilities in the consolidated statement of financial position:

	December 31, 2015	December 31, 2014	January 1, 2014
Deferred tax assets	9,287	6,186	2,334
Deferred tax liabilities	(27,346)	(24,809)	(14,739)
<b>Net deferred tax liabilities</b>	<b>(18,059)</b>	<b>(18,623)</b>	<b>(12,405)</b>

Movements in the deferred tax assets and liabilities for the year ended December 31, 2014 were as follows:

	January 1, 2014	Charged to profit/loss	Charged to other comprehen- sive income	Effect of acquisitions	December 31, 2014
<b>Assets / (liabilities) arising from tax effect of:</b>					
Depreciation of property, plant and equipment	(11,506)	(5,119)	807	2,399	(13,419)
Other intangible assets	(2,784)	(2,396)	(365)	(1,153)	(6,698)
Potential distributions from / to Group's subsidiaries / associates	(4,546)	(901)	(186)	-	(5,633)
Licenses	(774)	138	(180)	(302)	(1,118)
Customer base	(1,027)	122	-	-	(905)
Accrued expenses for services	6,291	1,561	(45)	-	7,807
Lease obligations	10	1,869	-	-	1,879
Loss carryforward	376	21	-	44	441
Provision for investment in Delta Bank in Ukraine	-	925	-	-	925
Deferred connection fees	1,115	(124)	(62)	-	929
Hedge and other	440	(2,571)	(700)	-	(2,831)
<b>Net deferred tax liability</b>	<b>(12,405)</b>	<b>(6,475)</b>	<b>(731)</b>	<b>988</b>	<b>(18,623)</b>

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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Movements in the deferred tax assets and liabilities for the year ended December 31, 2015 were as follows:

	December 31, 2014	Charged to profit/loss	Charged to other comprehen- sive income	Effect of acquisitions	December 31, 2015
<b>Assets / (liabilities) arising from tax effect of:</b>					
Depreciation of property, plant and equipment	(13,419)	(2,586)	260	97	(15,648)
Other intangible assets	(6,698)	410	(166)	-	(6,454)
Potential distributions from / to Group's subsidiaries / associates	(5,633)	1,199	(304)	-	(4,738)
Licenses	(1,118)	(473)	(214)	-	(1,805)
Customer base	(905)	123	-	-	(782)
Accrued expenses for services	7,807	(39)	(109)	148	7,807
Lease obligations	1,879	472	-	-	2,351
Loss carryforward	441	718	41	687	1,887
Provision for investment in Delta Bank in Ukraine	925	33	(69)	-	889
Deferred connection fees	929	(231)	(59)	-	639
Hedge and other	(2,831)	(747)	855	518	(2,205)
<b>Net deferred tax liability</b>	<b>(18,623)</b>	<b>(1,121)</b>	<b>235</b>	<b>1,450</b>	<b>(18,059)</b>

The Group recognizes deferred income tax for income taxes on future dividend distributions from foreign subsidiaries which are based on cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations.

The Group recognizes deferred tax assets in respect of tax losses carried forward to the extent that realization of tax losses against future taxable profit is probable. The amount of the deferred tax asset considered realizable, however, could be remeasured in the near term if estimates of future taxable income during the carryforward period are changed.

The following table summarizes the Group balances for recognized tax losses carried forward as of December 31, 2015 and 2014 and January 1, 2014:

Period for carry-forward	As of December 31, 2015		As of December 31, 2014		As of January 1, 2014	
	Operating losses	Tax losses	Operating losses	Tax losses	Operating losses	Tax losses
0-5 years	5,467	352	-	-	-	-
5-10 years	7,676	1,535	2,206	441	1,881	376
	<b>13,143</b>	<b>1,887</b>	<b>2,206</b>	<b>441</b>	<b>1,881</b>	<b>376</b>

Temporary differences relating to tax losses, for which deferred tax assets were not recognized in the consolidated statement of financial position as of December 31, 2015 and 2014 and January 1, 2014 amounted to RUB 11,407million, RUB 31,289 million and RUB 21,170 million, respectively, expiring in various periods ending 2020-2025.

The Group accrued following amounts for uncertain income tax positions as component of income tax payable:

	December 31, 2015	December 31, 2014	January 1, 2014
Uncertain income tax positions	551	342	615

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#### 21. EARNINGS PER SHARE

The following table sets forth the computation of earnings per share for the year ended December 31, 2015 and 2014:

	Year ended, December 31, 2015	Year ended, December 31, 2014
<b>Numerator:</b>		
Profit for the period attributable to equity holders	49,489	51,306
<b>Denominator, in thousands:</b>		
Weighted-average ordinary shares outstanding	1,988,728	1,988,757
Employee stock options	1,468	1,221
<b>Weighted-average diluted shares outstanding</b>	<b>1,990,196</b>	<b>1,989,978</b>
<b>Earnings per share – basic, RUB</b>	<b>24.88</b>	<b>25.80</b>
Earnings per share – diluted, RUB	24.87	25.78

#### 22. RELATED PARTIES

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

Accounts receivable from and accounts payable to related parties were as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
<b>Accounts receivable:</b>			
Business Nedvizhimost, a subsidiary of Sistema	7,511	-	-
MTS Belarus, the Group's associate	1,226	514	304
MTS Bank, the Group's associate	693	510	128
Sitronics KASU, subsidiary of Sistema	93	121	337
Sistema, the parent company	20	3,215	-
NVision Group, a former subsidiaries of Sistema	-	16	33
Stream, a former Group's associate	-	42	59
Other related parties	118	107	104
<b>Total accounts receivable, related parties</b>	<b>9,661</b>	<b>4,525</b>	<b>965</b>
Less non-current portion	(3,335)	-	-
<b>Accounts receivable, related parties – current</b>	<b>6,326</b>	<b>4,525</b>	<b>965</b>
<b>Accounts payable:</b>			
Sitronics KASU, subsidiary of Sistema	407	-	-
MTS Bank, the Group's associate	410	377	697
MTS Belarus, the Group's associate	380	213	208
Maxima, a subsidiary of Sistema	212	162	307
Rent-Nedvizhimost, a subsidiary of Sistema	87	-	-
Sitronics Smart Technology, subsidiary of Sistema	68	-	-
NVision Group, a former subsidiaries of Sistema	-	3,311	1,605
Stream, a former Group's associate	-	211	99
Smart Cards Group, subsidiaries of Sistema	-	72	201
Other related parties	245	328	198
<b>Total accounts payable, related parties</b>	<b>1,809</b>	<b>4,674</b>	<b>3,315</b>

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**Terms and conditions of transactions with related parties** – Outstanding balances as of December 31, 2015 were unsecured and settlements are made on a cash basis. There have been no guarantees provided or received for any related party payables or receivables. As of December 31, 2015, December 31, 2014 and January 1, 2014, the Group had no material impairment of receivables relating to amounts owed by related parties as well as expenses recognized during the years ended December 31, 2015 and 2014 in respect to bad or doubtful debts from related parties.

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.

	December 31, 2015	December 31, 2014	January 1, 2014
<b>Advances for property, plant and equipment:</b>			
Intellect Telecom, a subsidiary of Sistema	421	-	-
NVision Group, a former subsidiary of Sistema	-	249	352
Other related parties	15	5	15
<b>Total advances for property, plant and equipment</b>	<b>436</b>	<b>254</b>	<b>367</b>
<b>Advances for intangible assets:</b>			
NVision Group, a former subsidiary of Sistema	-	25	144
Geoinformatika, a subsidiary of Sistema	-	63	88
<b>Total advances for intangible assets</b>	<b>-</b>	<b>88</b>	<b>232</b>

**Investing and financing transactions** – The Group holds certain investments in related parties which are summarized as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
<b>Short-term investments</b>			
Sistema Notes due in 2016 (series 04)	191	534	-
Deposits at MTS Bank, the Group's associate	128	-	5,081
Sistema International Funding S.A. Bonds due in 2019, a subsidiary of Sistema	75	42	-
ZTV, a subsidiary of Sistema	-	94	-
Mutual investment fund "Reservniy", managed by Sistema Capital, a subsidiary of Sistema	-	-	4,154
Other loans receivable	81	184	-
<b>Total short-term investments in related parties</b>	<b>475</b>	<b>854</b>	<b>9,235</b>
<b>Other investments in loans</b>			
Loan receivable from MTS Bank, the Group associate	2,100	2,100	2,100
Promissory notes of Sistema	528	446	446
Loan receivable from Intellect Telecom, a subsidiary of Sistema	67	168	-
Other	26	92	-
<b>Total other investments in loans to related parties</b>	<b>2,721</b>	<b>2,806</b>	<b>2,546</b>
<b>Other investments in shares</b>			
Sistema Mass Media, a subsidiary of Sistema	117	117	117
Other	40	8	8
<b>Total investments in shares of related parties</b>	<b>157</b>	<b>125</b>	<b>125</b>

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**Operating transactions** – For the year ended December 31, 2015 and 2014, operating transactions with related parties were as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
<b>Revenues from related parties:</b>		
MTS Bank, the Group associate (telecommunications and call center services, bank cards distribution commission)	588	787
MTS Belarus, the Group associate (roaming and interconnect services)	266	269
Stream, a former Group's associate (SMS notifications)	141	29
NVision Group, a former subsidiaries of Sistema (fixed line services)	119	82
Medsei Group, subsidiaries of Sistema (telecommunications and call center services)	113	83
Sistema, parent company (consulting services)	61	1
Other related parties	196	121
<b>Total revenues from related parties</b>	<b>1,484</b>	<b>1,372</b>
<b>Operating expenses / (income) incurred on transactions with related parties:</b>		
Stream, a former Group's associate (content services)	2,132	1,395
Maxima, a subsidiary of Sistema (advertising)	1,351	1,575
Rent-Nedvizhimost, a subsidiary of Sistema (rent)	776	-
NVision Group, a former subsidiary of Sistema (IT consulting)	710	846
MTS Belarus, the Group associate (roaming and interconnect services)	394	395
Elavius, a subsidiary of Sistema (transportation services)	328	399
Business Nedvizhimost, a subsidiary of Sistema (rent)	224	128
AB Safety, a subsidiary of Sistema (security services)	212	292
Jet Air Group, subsidiaries of Sistema (transportation services)	180	127
Other related parties	271	(79)
<b>Total operating expenses incurred on transactions with related parties</b>	<b>6,578</b>	<b>5,078</b>

**Public Joint-Stock Company "MTS Bank" ("MTS Bank")** – The Group has loan agreement and maintains certain bank accounts with MTS Bank, an associate of the Group. As of December 31, 2015, December 31, 2014 and January 1, 2014, the Group's cash position at MTS Bank amounted to RUB 2,564 million, RUB 11,687 million and RUB 11,297 million, respectively, including short-term deposits in the amount of RUB 323 million, RUB 3,482 million and RUB 5,081 million, respectively. Interest accrued on loan receivable, the deposits and cash on current accounts for the year ended December 31, 2015 and 2014 amounted to RUB 447 million and RUB 654 million, respectively, and was included as a component of finance income in the accompanying consolidated statements of profit or loss.

During the years ended December 31, 2015 and 2014 the Group provided telecommunication, call center services and bank cards distribution services to MTS Bank and recognized the related income in the amount of RUB 588 million and RUB 787 million, respectively.

During the Year ended December 31, 2015 and 2014, the Group incurred commission expenses and cash collection fees in the amount of RUB 147 million and RUB 47 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. The note is interest free and repayable in 2017. As of December 31, 2015, December 31, 2014 and January 1, 2014, the amount receivable of RUB 528 million, RUB 446 million and RUB 446 million, respectively, was included in other investments in the accompanying consolidated statement of financial position.

In April 2014, the Group sold a 49% stake in Business-Nedvizhimost to Sistema for a consideration of RUB 3,100 million to be paid by the end of July 2015. As of December 31, 2014, the receivable in the accompanying consolidated statements of financial position amounted to RUB 3,200 million. In May 2015 it was fully repaid.

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In October 2014 the Group acquired 2,501,350 Sistema Notes due in 2016 (series 04) and 1,000 Sistema International Funding S.A. bonds due in 2019 for a consideration of 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 other comprehensive income. For the year ended December 31, 2015 and 2014, the unrealized gain recognized in other comprehensive income amounted to RUB 81 million and 6 million, respectively. The interest income accrued for the year ended December 31, 2015 and 2014 was included as a component of finance income in the accompanying consolidated statement of profit and loss and amounted to RUB 107 million and RUB 9 million, respectively. In March 2015 and May 2015 upon scheduled redemption, the Group received principal and coupon in the amount of RUB 409 million.

**Business-Nedvizhimost** – In 2015, the Group sold its 100% stake in Rent Nedvizhimost to Business Nedvizhimost for a consideration of RUB 8,500 million in total, of which accounts receivable as of December 31, 2015 amounted to RUB 7,511 million, including RUB 3,335 million bearing interest of 12% p.a. and due before December 31, 2018. Interest income for the year ended December 31, 2015 amounted to RUB 346 million and was included as a component of finance income in the accompanying consolidated statement of profit and loss.

**Smart Cards Group** – During the Year ended December 31, 2015 and 2014, the Group purchased from Smart Cards Group, subsidiaries of Sistema, SIM cards and prepaid phone cards for approximately RUB 160 million and RUB 267 million, respectively.

**NVision Group** – In December 2015 the Group completed acquisition of shares of NVision Group excluding several non-core subsidiaries (see Note 5).

During the year ended December 31, 2015 and till the date of acquisition the Group purchased from NVision Group, telecommunication equipment, software and billing systems (FORIS) for approximately RUB 5,469 million and incurred expenses under an IT consulting agreement in the amount of RUB 710 million.

During the year ended December 31, 2014 the Group acquired from NVision Group, telecommunication equipment, software and billing systems (FORIS) for approximately RUB 9,819 million and incurred expenses under an IT consulting agreement in the amount of RUB 846 million.

**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.

**Remuneration of key management personnel** – Key management personnel of the Group are members of the Board of Directors and Management Board. During the year ended December 31, 2015 and 2014, their total remuneration amounted to RUB 918 million and RUB 797 million, respectively. These amounts comprised of RUB 514 million and RUB 402 million in base salaries and RUB 404 million and RUB 395 million in bonuses paid pursuant to a bonus plan, respectively.

Management and directors are also entitled to cash-settled and equity-settled share-based payments. Related compensation accrued during the year ended December 31, 2015 and 2014 amounted to RUB 175 million and RUB 158 million, respectively.

## 23. STOCKHOLDERS' EQUITY

**Share capital (ordinary shares)** – The Group had 2,066,413,562 authorized ordinary shares with par value 0.1 RUB of which 1,988,892,399, 1,988,912,130 and 1,998,831,184 were outstanding as of December 31, 2015, December 31, 2014 and January 1, 2014, respectively. Preferred shares have not been issued.

The total shares in treasury stock comprised 77,521,163, 77,501,432 and 77,582,378 as of December 31, 2015, December 31 2014 and January 1, 2014, respectively.

Mobile TeleSystems' Level III American Depositary Receipts (ADR) were successfully placed during the Company's initial public offering on the New York Stock Exchange on June 30, 2000. Each ADS represents 2 ordinary shares. As of December 31, 2015 and 2014, the Group repurchased 33,997,667 ADSs.

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MTS ordinary shares have been traded on the Moscow Exchange (previously, Moscow Interbank Currency Exchange (MICEX)) since October 2003 under the ticker symbol MTSL.

Every ordinary registered share provides the shareholder holding it the same scope of rights, including:

- The right to take part in governing the Company and to participate in the General Meeting of Shareholders with the right to vote on all the issues within its terms of reference with the number of votes, corresponding to the quantity of ordinary shares held by it;
- The right to receive dividend from the net profit;
- The right to receive a part of the MTS' property in the case of its liquidation;
- The right to demand the redemption of all or a part of the shares owned by it in cases and according to the procedure, established by law;
- The preemption right to acquire the shares placed by the Company through public subscription and other.

### Nature and purpose of reserves

**Additional paid in capital reserve** is used to recognize equity-settled share-based payment transactions, results of capital transactions under common control; changes in ownership interest in subsidiaries that don't result in gain/loss of control; the excess of cash received over the acquisition cost of treasury shares.

**Foreign currency translation reserve** is used to record exchange differences arising from the translation of foreign subsidiaries financial statements from functional to presentation currency.

**Investments revaluation reserve** is used to record the accumulated impact of derivatives designated as cash flow hedges and revaluation of investments available for sale.

**Remeasurements of the net defined benefit liability** asset is used to recognize actuarial gains and losses related to pension program set for employees of the Group's subsidiary MGTS.

The following table represents roll forward of reserves balances for the years ended December 31, 2015 and December 31, 2014:

	Foreign currency translation reserve	Investments revaluation reserve	Remeasure- ments of the net defined benefit liability
<b>Balances at January 1, 2014</b>	-	1,604	129
Other comprehensive income / (loss) for the year	8,803	(10,804)	278
Less: tax benefit	-	1,801	-
	-	-	-
Amounts reclassified to profit for the year	-	14,002	-
Less: tax expense	-	(2,335)	-
	-	-	-
<b>Net other comprehensive income for the year</b>	<b>8,803</b>	<b>2,664</b>	<b>278</b>
<b>Balances at December 31, 2014</b>	<b>8,803</b>	<b>4,268</b>	<b>407</b>
<b>Balances at January 1, 2015</b>	-	-	-
Other comprehensive income for the year	835	3,253	86
Less: tax expense	-	(542)	-
	-	-	-
Amounts reclassified to profit for the year	-	(7,121)	-
Less: tax benefit	-	1,187	-
	-	-	-
<b>Net other comprehensive income / (loss) for the year</b>	<b>835</b>	<b>(3,223)</b>	<b>86</b>
<b>Balances at December 31, 2015</b>	<b>9,638</b>	<b>1,045</b>	<b>493</b>



## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Amounts in millions of Russian Rubles unless otherwise stated)*

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#### Dividends

As a leading telecommunications group with a home base in developing markets, MTS' primary need is to maintain sufficient resources and flexibility to meet financial and operational requirements. At the same time, the Group continually seeks ways to create shareholder value through both its commercial and financial strategies, including organic and inorganic development as well as the Group's capital management practices.

MTS continue to include dividend payments as part of commitment to maximizing shareholder value. Decisions on dividends are proposed by the Board of Directors and voted upon thereafter at a general meeting of shareholders. In determining the Company's dividend payout, the Board of Directors considers a variety of factors, including:

- Macroeconomic factors and levels of competitiveness in core markets,
- Cash flow from operations,
- The outlook for earnings growth,
- Capital expenditure requirements,
- Potential acquisition opportunities,
- The state of capital markets and the Group's liquidity position, and
- The Group's overall debt position.

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 equal to at least 75% of Free cash flow for the relevant financial period or, if greater, 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 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 and interim 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 PJSC for the years ended December 31, 2015 and 2014 that is distributable under Russian legislation totaled RUB 7,255 million and RUB 28,372 million, respectively.

The following table summarizes the Group's declared cash dividends for the years ended December 31, 2015 and 2014:

	Year ended December 31, 2015	Year ended December 31, 2014
Dividends declared (including dividends on treasury shares of 1,950 and 1,922 respectively)	52,011	51,247
Dividends, RUB per ADS	50,34	49.60
Dividends, RUB per share	25,17	24.80

As of December 31, 2015, December 31, 2014 and January 1, 2014 dividends payable were RUB 32.0 million, 19.5 million and 57.0 million, respectively, and included in the trade and other payables of the statement of financial position.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

#### 24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2015 and 2014 comprised the following:

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries and social contributions	40,553	37,070
Advertising and marketing expenses	9,831	8,410
Dealers commission	9,193	10,761
General and administrative expenses	6,883	7,067
Utilities and maintenance	6,839	6,023
Universal service fund	3,441	3,379
Cash collection commission	3,076	2,834
Taxes other than income tax	2,491	5,905
Consulting expenses	2,395	2,190
Billing and data processing	1,869	2,069
Other	2,731	2,567
<b>Total</b>	<b>89,302</b>	<b>88,275</b>

#### 25. FINANCE INCOME AND COSTS

Finance income and costs for the year ended December 31, 2015 and 2014 comprised the following:

	Year ended December 31, 2015	Year ended December 31, 2014
<b>Interest expense:</b>		
– Loans and notes	25,362	16,295
– Amortization of debt issuance costs	756	370
– Finance lease obligations	732	647
– Provisions: unwinding of discount	77	182
<b>Total interest expense</b>	<b>26,927</b>	<b>17,494</b>
Loss / (gain) on financial instruments	210	(142)
Other finance costs	378	698
<b>Total finance costs</b>	<b>27,515</b>	<b>18,050</b>
Less: amounts capitalized on qualifying assets <sup>(1)</sup>	(885)	(790)
<b>Finance costs</b>	<b>26,630</b>	<b>17,260</b>
<b>Finance income:</b>		
– Interest income on bank deposits	7,187	3,960
– Interest income on loans	728	433
– Other finance income	453	126
<b>Finance income</b>	<b>8,368</b>	<b>4,519</b>
<b>Net finance costs</b>	<b>18,262</b>	<b>12,741</b>

<sup>(1)</sup> The annual weighted average capitalization rates of 8.3% and 7.44% were used to determine the amount of capitalized interest for the years ended December 31, 2015 and 2014.

#### 26. SEGMENT INFORMATION

Management analyzes and reviews results of the Company's operating segments separately based on the nature of products and services, regulatory environments and geographic areas. MTS Group's management evaluates the segments' performance based on revenue and operating profit. Management does not analyze assets or liabilities by reportable segments.

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

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 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 "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, Satellite TV and Belarus.

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

Financial information by reportable segment is presented below:

### Year ended 31 December 2015:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consolidated
Revenue							
External customers	353,473	34,770	25,590	413,833	17,244	155	431,232
Intersegment	4,887	4,836	2,604	12,327	1,794	(14,121)	-
<b>Total revenue</b>	<b>358,360</b>	<b>39,606</b>	<b>28,194</b>	<b>426,160</b>	<b>19,038</b>	<b>(13,966)</b>	<b>431,232</b>
Operating profit	82,408	13,737	4,715	100,860	(3,596)	(9,405)	87,859
Depreciation and amortization	61,272	7,715	5,199	74,186	8,356	(69)	82,473
<b>Other disclosure:</b>							
Capital expenditures	64,364	9,303	19,955	93,622	5,099	-	98,721

### Year ended 31 December 2014:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consolidated
Revenue							
External customers	336,099	35,938	29,088	401,125	9,578	77	410,780
Intersegment	4,633	4,886	3,722	13,241	1,541	(14,782)	-
<b>Total revenue</b>	<b>340,732</b>	<b>40,824</b>	<b>32,810</b>	<b>414,366</b>	<b>11,119</b>	<b>(14,705)</b>	<b>410,780</b>
Operating profit	86,315	13,568	3,409	103,292	4,787	(2,377)	105,702
Depreciation and amortization	57,647	7,609	6,779	72,035	3,048	(62)	75,021
<b>Other disclosure:</b>							
Capital expenditures	85,786	13,649	5,103	104,538	8,234	-	112,772

The consolidated operating profit is reconciled to the consolidated profit before tax on the face of the consolidated statement of profit or loss.

Breakdown of revenues by products and services for the years ended December 31, 2015 and 2104 is presented below:

	For the year ended December 31,	
	2015	2014
Mobile services	333,698	323,451
Fixed line services	56,992	57,794
Sales of goods	40,542	29,535
<b>Total revenue</b>	<b>431,232</b>	<b>410,780</b>

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

Financial information by geographic areas is presented below:

Revenue	For the year ended December 31,	
	2015	2014
Russia	388,504	372,080
Other	42,728	38,700
<b>Total revenue</b>	<b>431,232</b>	<b>410,780</b>

  

Non-current assets <sup>(1)</sup>	As of December 31, 2015	As of December 31, 2014	As of January 1, 2014
Russia	347,173	345,197	305,383
Other	64,553	52,346	38,784
<b>Total non-current assets:</b>	<b>411,726</b>	<b>397,543</b>	<b>344,167</b>

<sup>(1)</sup> Comprises property, plant and equipment, goodwill and other intangible assets.

Revenues from external customers and non-current assets are allocated to individual countries by location of operations. No single customer represents 10% or more of the consolidated revenue.

## 27. OPERATIONS IN UZBEKISTAN

### Uzdunrobita

In June 2012, the authorities of the Republic of Uzbekistan commenced audits of the financial and operating activities of MTS' wholly-owned subsidiary Uzdunrobita. Further various claims for violation of tax, antimonopoly and industry legislation were made against Uzdunrobita, which resulted in significant amounts of fines and penalties, revocation of all licenses and suspension of services. Fines and penalties amounted to approximately RUB 18,375 million payable in equal installments over eight months.

Uzdunrobita paid two scheduled installments in November and December 2012 totaling approximately RUB 4,583.4 million. On January 14, 2013, further to its partial payment of the third installment due in January 2013 totaling approximately RUB 481 million and constituting the remaining amount of cash held in its bank accounts, Uzdunrobita filed a petition for voluntary bankruptcy to the Tashkent Economic Court on the grounds of its inability to meet further obligations.

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 in the amount of RUB 20,037 million was recorded in the consolidated statements of profit or loss for the year ended December 31, 2012. In 2013 these losses were assigned to discontinued operations.

On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated a liquidation process. Uzdunrobita was later liquidated. As a result the Group lost control over the subsidiary and deconsolidated Uzdunrobita.

In 2012, the Group filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes ("ICSID"), part of the World Bank Group, in Washington, D.C.

On July 31, 2014, MTS and the Republic of Uzbekistan signed a settlement agreement (the "Settlement Agreement") which motivated MTS to reenter the Uzbekistan market. A joint enterprise, Universal Mobile Systems LLC ("UMS"), was established with MTS holding a 50.01% in the charter capital of the entity, while the remaining 49.99% belongs to a state-owned unitary enterprise established and managed by the State Committee for Communications, Development of Information Systems and Telecommunications Technologies of the Republic of Uzbekistan. The Settlement Agreement is governed by English law and provides for resolution of any disputes arising out of the

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

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Settlement Agreement in the International Court of Arbitration under International Chamber of Commerce in Paris (ICC).

On November 2014, ICSID has discontinued international arbitration proceedings between MTS and the Republic of Uzbekistan following the submission of a joint application by both parties.

#### Universal Mobile Systems LLC ("UMS")

On September 24, 2014, in accordance with the Settlement Agreement, the authorities of the Republic of Uzbekistan granted UMS 2G, 3G and LTE licenses, provided necessary frequencies and numbering capacity, fostered entrance into lease agreements for communication channels and issued all permissions required to UMS so it could operate and offer full telecommunications services throughout Uzbekistan. UMS has also received guaranties for investment protection and return of investments in accordance with the laws 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 starting from 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>

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" in the hierarchy established by IFRS). 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.

#### Risks

The currency conversion process in Uzbekistan is subject to certain restrictions. Due to the lack of hard currency in the exchange market, entities which operate in Uzbekistan are able to convert limited amounts of cash through several authorized banks. Practically Bank conversion may take several months. As of December 31, 2015 and 2014, the cash balances in Uzbekistan amounted to RUB 623 million and RUB 346 million, respectively.

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### UMS's summary of financial information:

	For the Year ended December 31, 2015	For the Year ended December 31, 2014
Net revenues	4,610	104
Loss for year attributable to non-controlling interests	(2,834)	(444)
Loss for the year attributable to the owners of the Company	(2,843)	(520)
	As of December 31, 2015	As of December 31, 2014
Total Assets	15,977	15,079
Non-controlling interests	(3,042)	(5,261)
Total Liabilities	(6,875)	(1,452)

### 28. LIABILITY UNDER PUT OPTION AGREEMENT

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 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 liability under put option agreement amounted to RUB 2,925 million, RUB 3,192 million and RUB 2,932 million as of December 31, 2015, December 31, 2014 and January 1, 2014, respectively (Note 18).

### 29. COMMITMENTS AND CONTINGENCIES

**Capital commitments** – As of December 31, 2015, the Group had executed purchase agreements of approximately RUB 27,615 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 6,093 million and RUB 5,624 million for the year ended December 31, 2015 and 2014, respectively, are included in selling, general and administrative expenses in the accompanying consolidated statement of profit or loss. Rental expenses under the operating leases of RUB 19,549 million and RUB 17,638 million for the year ended December 31, 2015 and 2014, respectively, are included in cost of services in the accompanying consolidated statement of profit or loss. Future minimum lease payments due under these leases at December 31, 2015 are as follows:

<b>Payments due in</b>	
2016	6,111
2017	728
2018	461
2019	318
2020	228
Thereafter	1,182
<b>Total</b>	<b>9,028</b>

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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**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 non-existent. 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, 2015, tax declarations of MTS PJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review.

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. 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 Group accesses the following contingent liabilities in respect of additional tax and customs settlements:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>January 1, 2014</u>
Contingent liabilities for additional taxes other than income tax and customs settlements	419	455	299
Contingent liabilities for additional income taxes	413	378	423

**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.

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.

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

In accordance with the terms of the license, MTS-Ukraine also concluded agreements on conversion of provided frequencies with the Ministry of Defense of Ukraine, Ministry of Internal Affairs of Ukraine and State Service of Special Communications and Information Protection of Ukraine. As of December 31, 2015, MTS-Ukraine has paid UAH 358 million (RUB 865 million as of the payment date) for conversion of frequencies and is liable to pay UAH 267 million (RUB 705 million as of December 31, 2015) adjusted for the rate of inflation in the years 2017-2018.

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in millions of Russian Rubles unless otherwise stated)

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Management believes that as of December 31, 2015 the Group complied with conditions of aforementioned licenses.

**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.

**Potential adverse effects of economic instability and sanctions in Russia** – 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% in December, 2014. The decline of Russian Ruble continued in 2015. The Central Bank of Russia has decreased its key rate to 11% as of December 31, 2015. However, the key rate remains higher than in the beginning of the year 2014, when it was equal to 5.5%. Russia sovereign credit ratings also were decreased.

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.

**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. The decree was extended for a few times and currently acts till June 2016. These circumstances, combined with continued political and economic instability in the country, could result in further negative impact on the Group's business including our financial position and results of operations.

Such risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of 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 reserved the full amount of deposited funds (RUB 5,072 million) and related interest (RUB 66 million) as of December 31, 2014. During the year ended December 31, 2015, the Group created additional reserve of RUB 1,698 million for cash balances deposited in distressed Ukrainian banks (including RUB 185 million for cash balances deposited in Delta Bank, RUB 868 million for cash balances deposited in bank Kyivska Rus and RUB 645 million for cash balances deposited in Platinum Bank) that was included as a component of operating expenses in the accompanying consolidated statement of profit or loss.

Also, in 2015 the Group entered in a factoring agreement in respect to cash balances deposited in bank Kyivska Rus, under which the factor is obliged to reimburse the Group for 45% of cash balance. As of December 31, 2015 the Group did not account for asset under this agreement, as no transfer of funds was made. As of December 31, 2015, the Group held RUB 6,612 million in current accounts and deposits in Ukrainian banks.



## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Amounts in millions of Russian Rubles unless otherwise stated)*

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***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 (“SEC”) and the United States Department of Justice (“DOJ”) relating to a currently conducted investigation of the Group’s former subsidiary in Uzbekistan.

In July 2015, activities related to the Group’s former operations in Uzbekistan have been referenced in a civil forfeiture complaint (“The Complaint”), filed by DOJ in the U.S. District Court, Southern District of New York (Manhattan), directed at certain assets of an unnamed Uzbek government official. The Complaint alleges among other things that MTS and certain other parties made corrupt payments to the unnamed Uzbek official to assist their entering and operating in the Uzbekistan telecommunications market. The Complaint is solely directed towards assets held by the unnamed Uzbek official, and none of MTS’s assets are affected by the Complaint.

The Company continues to cooperate with these investigations. 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.

### 30. SUBSEQUENT EVENTS

***Liquidation of Mobile TeleSystems Finance S.A.*** – In February 2016, the Group’s subsidiary Mobile TeleSystems Finance S.A. was liquidated. The discontinuance of Mobile TeleSystems Finance S.A. operations does not have a material effect on the Group’s financial results.

***Acquisition of MTS Bank PJSC shares***– On February 25, 2016 the Group acquired 946,347 ordinary shares of MTS Bank, placed as part of an earlier approved additional issue, for a total consideration of RUB 1,325 million. As the result of the transaction, the Group’s share in the capital of MTS Bank decreased from 27.0% to 26.8%.