PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Consolidated Financial Statements

As of December 31, 2016, 2015 and for the Years Ended December 31, 2016, 2015 and 2014.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

TABLE OF CONTENTS

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015
(Amounts in millions of Russian Rubles)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	272,841	302,662
Investment property		336	364
Goodwill	12	33,685	34,468
Other intangible assets	14	75,128	74,596
Investments in associates	7	10,551	9,299
Other investments	8	36,319	34,667
Deferred tax assets	19	6,150	9,287
Accounts receivable, related parties	21	3,693	3,335
Other financial assets	17	13,877	25,203
Other non-financial assets		896	480
Total non-current assets		**453,476**	**494,361**
CURRENT ASSETS:			
Inventories	10	14,330	14,510
Trade and other receivables	9	29,805	34,542
Accounts receivable, related parties	21	4,401	6,326
Short-term investments	6	8,657	49,840
Advances paid and prepaid expenses		5,749	4,648
VAT receivable		7,098	9,815
Income tax assets		1,601	5,190
Assets held for sale		808	549
Cash and cash equivalents	5	18,470	33,464
Other assets		75	133
Total current assets		**90,994**	**159,017**
TOTAL ASSETS		**544,470**	**653,378**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016 AND 2015 (CONTINUED)

(Amounts in millions of Russian Rubles)

	Notes	December 31, 2016	December 31, 2015
EQUITY AND LIABILITIES			
EQUITY:			
Common stock	22	200	207
Treasury stock	22	(748)	(24,468)
Additional paid-in capital		191	-
Retained earnings		145,622	173,200
Accumulated other comprehensive income	22	(6,030)	11,176
Equity attributable to owners of the Company		139,235	160,115
Non-controlling interests		4,713	8,256
Total equity		**143,948**	**168,371**
NON-CURRENT LIABILITIES:			
Borrowings	15	237,113	292,168
Deferred tax liabilities	19	26,611	27,346
Provisions	16	2,350	2,565
Other non-financial liabilities		4,129	4,342
Other financial liabilities	17	2,774	676
Total non-current liabilities		**272,977**	**327,097**
CURRENT LIABILITIES:			
Trade and other payables		41,473	57,756
Accounts payable, related parties	21	1,014	1,809
Subscriber prepayments		15,460	17,451
Borrowings	15	47,207	53,701
Income tax liabilities		962	831
Provisions	16	8,075	7,863
Other non-financial liabilities		10,305	8,721
Other financial liabilities	17	3,049	9,778
Total current liabilities		**127,545**	**157,910**
TOTAL EQUITY AND LIABILITIES		**544,470**	**653,378**

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, 2016, 2015 AND 2014
(Amounts in millions of Russian Rubles, except per share amounts)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Service revenue		386,486	386,159	381,143
Sales of goods		49,206	40,480	29,535
	25	**435,692**	**426,639**	**410,678**
Cost of services		130,158	126,805	119,053
Cost of goods	10	45,574	36,555	25,445
Selling, general and administrative expenses	23	94,046	87,340	88,095
Depreciation and amortization	25	81,582	77,843	74,734
Operating share of the profit of associates	7	(3,115)	(3,456)	(3,459)
Provision for investments in distressed Ukrainian banks	28	-	1,698	5,138
Impairment of goodwill in Armenia	13	-	3,516	-
Other (income)/expenses		(222)	2,415	1,814
Operating profit		**87,669**	**93,923**	**99,858**
Finance income	24	(5,273)	(8,368)	(4,519)
Finance costs	24	27,136	26,422	17,252
Currency exchange (gain)/loss		(3,241)	6,154	17,926
Non-operating share of the loss of associates	7	1,287	3 780	6,537
Change in fair value of financial instruments		(166)	(1 014)	95
Other / expenses/(income)		317	(54)	937
Profit before tax		**67,609**	**67,003**	**61,630**
Income tax expense	19	15,138	13,931	15,909
Profit for the year from continuing operations		**52,471**	**53,072**	**45,721**
(Loss) / Profit from discontinued operations	26	(4,021)	(5,668)	5,775
Profit for the year		**48,450**	**47,404**	**51,496**
Profit / (loss) for the year attributable to:				
Owners of the Company		48,474	49,489	51,306
Non-controlling interests		(24)	(2,085)	190
Earnings per share (basic and diluted), Russian Rubles:	20	24.37 and 24.35	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, 2016, 2015 AND 2014
(Amounts in millions of Russian Rubles)

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Profit for the year	**48,450**	**47,404**	**51,496**
Other comprehensive (loss) / income			
Items that will not be reclassified subsequently to profit or loss:			
Unrecognized actuarial gain	50	86	278
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(15,104)	2,647	10,005
Net fair value (loss) / gain on financial instruments	(1,200)	(3,223)	2,664
Share of other comprehensive (loss) / income of associates			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations in associates	(1,553)	(1,182)	943
Other comprehensive (loss) / income for the year, net of income tax	**(17,807)**	**(1,672)**	**13,890**
Total comprehensive income for the year	**30,643**	**45,732**	**65,386**
Total comprehensive income / (loss) for the year attributable to:			
Owners of the Company	31,268	47,187	63,051
Non-controlling interests	(625)	(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, 2016, 2015 AND 2014
(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock			Accumulated other comprehensive income / (loss)						
	Shares	Amount	Shares	Amount	Additional paid-in capital	Investments revaluation reserve	Foreign currency translation Reserve	Remeasure-ments of the net defined benefit liability	Retained Earnings	Equity attributable to equity holders	Non-controlling interests	Total equity
Balances at January 1, 2014	**2,066,413,562**	**207**	**(77,582,378)**	**(24,482)**	**2,506**	**1,604**	**-**	**129**	**172,527**	**152,491**	**4,106**	**156,597**
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
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**2,664**	**8,803**	**278**	**51,306**	**63,051**	**2,335**	**65,386**
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 re-entrance 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 7)	-	-	-	-	2,053	-	-	-	-	2,053	133	2,186
Balances at December 31, 2014	**2,066,413, 562**	**207**	**(77,501,432)**	**(24,464)**	**5,052**	**4,268**	**8,803**	**407**	**174,556**	**168,829**	**9,793**	**178,622**
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)
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**-**	**-**	**(3,223)**	**835**	**86**	**49,489**	**47,187**	**(1,455)**	**45,732**
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 4)	-	-	-	-	252	-	-	-	-	252	14	266
Disposal of Rent Nedvizhimost (Note 4)	-	-	-	-	6,003	-	-	-	-	6,003	343	6,346
Acquisition of NIS (Note 4)	-	-	-	-	(506)	-	-	-	-	(506)	(29)	(535)
Acquisition of NVision (Note 4)	-	-	-	-	(10,371)	-	-	-	-	(10,371)	-	(10,371)
Acquisition of Stream (Note 4)	-	-	-	-	(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)	-	-	-
Balances at December 31, 2015	**2,066,413,562**	**207**	**(77,521,163)**	**(24,468)**	**-**	**1,045**	**9,638**	**493**	**173,200**	**160,115**	**8,256**	**168,371**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014 (CONTINUED)
(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated other comprehensive income / (loss)			Retained Earnings	Equity attributable to equity holders	Non-controlling interests	Total equity
	Shares	Amount	Shares	Amount		Investments revaluation reserve	Foreign currency translation reserve	Remeasure-ments of the net defined benefit liability				
Balances at December 31. 2015	**2.066.413.562**	**207**	**(77.521.163)**	**(24.468)**	**-**	**1.045**	**9.638**	**493**	**173.200**	**160.115**	**8.256**	**168.371**
Profit / (loss) for the year	-	-	-	-	-	-	-	-	48,474	48,474	(24)	48,450
Other comprehensive (loss) / income for the year, net of income tax	-	-	-	-	-	(1,200)	(13,970)	50	-	(15,120)	(601)	(15,721)
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**-**	**-**	**(1,200)**	**(13,970)**	**50**	**48,474**	**33,354**	**(625)**	**32,729**
Issuance of stock options	-	-	-	-	131	-	-	-	-	131	11	142
Dividends declared by MTS	-	-	-	-	-	-	-	-	(51,738)	(51,738)	-	(51,738)
Dividends to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(1,120)	(1,120)
Unclaimed dividends	-	-	-	-	-	-	-	-	3	3	-	3
Sale of own stock	-	-	1,074,525	213	-	-	-	-	-	213	-	213
Purchase of own stock (Note 22)	-	-	(3,067,396)	(748)	-	-	-	-	-	(748)	-	(748)
Purchase of NCI	-	-	-	-	5	-	-	-	-	5	(22)	(17)
Changes in ownership interest with no gain / loss of control - MTS Bank additional share issuance (Note 7)	-	-	-	-	(14)	-	-	-	-	(14)	-	(14)
Redemption of treasury shares (Note 22)	(68,031,987)	(7)	68,031,987	24,255	-	-	-	-	(24,248)	-	-	-
Uzbekistan deconsolidation (Note 26)	-	-	-	-	-	-	(2,086)	-	-	(2,086)	(1,787)	(3,873)
Reclassification to retained earnings	-	-	-	-	69	-	-	-	(69)	-	-	-
Balances at December 31, 2016	**1,998,381,575**	**200**	**(11,482,047)**	**(748)**	**191**	**(155)**	**(6,418)**	**543**	**145,622**	**139,235**	**4,713**	**143,948**

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, 2016, 2015 AND 2014
(Amounts in millions of Russian Rubles)

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year	48,450	47,404	51,496
Adjustments for:			
Depreciation and amortization	83,259	82,473	75,021
Impairment of goodwill in Armenia	-	3,516	-
Loss from sale of subsidiary in Uzbekistan	2,726	-	-
Non-cash gain from reentrance into Uzbekistan	-	-	(6,724)
Non-cash provision for investment in Delta Bank	-	-	5,061
Finance income	(5,273)	(8,368)	(4,519)
Finance costs	27,427	26,630	17,260
Income tax expense	14,954	13,269	15,985
Currency exchange (gain)/loss	(3,232)	6,213	17,911
Amortization of deferred connection fees	(2,287)	(2,362)	(1,912)
Share of the (profit) / loss of associates	(1,828)	324	3,080
Change in fair value of financial instruments	(166)	(1,014)	95
Inventory obsolescence expense	1,548	384	357
Allowance for doubtful accounts	2,857	3,221	3,270
Change in provisions	13,161	7,265	8,965
Other non-cash items	(3,656)	(562)	(31)
Movements in operating assets and liabilities:			
(Increase)/Decrease in trade and other receivables	(3,525)	2,781	5,412
(Increase)/Decrease in inventory	(1,816)	(5,998)	731
(Increase)/Decrease in advances paid and prepaid expenses	(812)	574	1,217
Decrease/(Increase) in VAT receivable	227	(642)	(1,058)
Decrease in trade and other payables and other current liabilities	(9,086)	(4,449)	(12,790)
Dividends received	2,801	3,269	2,650
Income tax paid	(11,687)	(9,643)	(9,906)
Interest received	3,344	4,760	3,752
Interest paid, net of interest capitalized	(26,821)	(24,957)	(16,344)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**130,565**	**144,088**	**158,979**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of subsidiaries, net of cash acquired	(5)	-	(2,755)
Purchases of property, plant and equipment (including capitalized interest in the amount of RUB 388 million, RUB 885 million and RUB 790 million, respectively)	(55,538)	(76,671)	(73,573)
Purchases of other intangible assets	(28,013)	(19,440)	(18,356)
Purchase of 3G and 4G licenses in Ukraine and Russia	(2,598)	(10,426)	-
Proceeds from sale of property, plant and equipment and assets held for sale	4,042	2,988	619
Purchases of short-term and other investments	(9,739)	(73,485)	(70,626)
Proceeds from sale of short-term and other investments	39,021	31,678	67,450
Investments in associates (Note 7)	(4,094)	-	(7,767)
Disposal of discontinued operation, net of cash disposed	(378)	-	-
NET CASH USED IN INVESTING ACTIVITIES	**(57,302)**	**(145,356)**	**(105,008)**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014 (CONTINUED)
(Amounts in millions of Russian Rubles)

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of notes	(20,364)	(24,018)	(23,153)
Proceeds from issuance of notes	10,000	5	-
Notes and debt issuance cost paid	(16)	(1,244)	(360)
Finance lease obligation principal paid	(334)	(409)	(227)
Dividends paid	(52,805)	(50,786)	(49,921)
Cash flows from transactions with entities under common control	3,063	(4,821)	508
Proceeds from loans	50,696	63,162	69,179
Repayment of loans	(69,532)	(16,132)	(29,235)
Cash flows under credit guarantee agreement related to foreign-currency hedge (Note 18)	(2,984)	6,706	-
Repurchase of common stock	(748)	(6)	(2)
Other financial activities	(14)	(52)	(1)
NET CASH USED IN FINANCING ACTIVITIES	**(83,038)**	**(27,595)**	**(33,212)**
Effect of exchange rate changes on cash and cash equivalents	(5,219)	761	10,195
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(14,994)**	**(28,102)**	**30,954**
CASH AND CASH EQUIVALENTS, beginning of the year, including cash and cash equivalents within assets held for sale of nil, nil and 156, respectively	**33,464**	**61,566**	**30,612**
CASH AND CASH EQUIVALENTS, end of the year	**18,470**	**33,464**	**61,566**
Less cash and cash equivalents within assets held for sale	-	-	156
CASH AND CASH EQUIVALENTS, end of the year	**18,470**	**33,464**	**61,410**

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

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 2016 and 2015, and for the years ended 31 December 2016, 2015 and 2014 were authorized for issue by President on March 21, 2017.

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, integration services as well as selling equipment and accessories. The Group's principal operations are located in Russia, Ukraine, Turkmenistan 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 – These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 ("RUB million"), unless indicated otherwise.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

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.

(Amounts in millions of Russian Rubles unless otherwise stated)

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, 2016, 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's 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.

As of December 31, 2016 and December 31, 2015, the Company had investments in the following significant entities:

	Accounting method	**December 31, 2016**	**December 31, 2015**
RTC	Consolidated	100.0%	100.0%
MTS Ukraine	Consolidated	100.0%	100.0%
MTS Turkmenistan	Consolidated	100.0%	100.0%
Sibintertelecom	Consolidated	100.0%	100.0%
NVision Group	Consolidated	100.0%	100.0%
Sitronics Telecom Solutions	Consolidated	100.0%	100.0%
NVision Czech Republic	Consolidated	100.0%	100.0%
Sputnikovoe TV	Consolidated	100.0%	100.0%
Stream	Consolidated	100.0%	100.0%
Dega	Consolidated	100.0%	100.0%
MTS Bermuda(1)	-	-	100.0%
Stream Digital(2)	Consolidated	100.0%	-
Metro-Telecom	Consolidated	95.0%	95.0%
MGTS Group	Consolidated	94.7%	94.7%
K-Telecom	Consolidated	80.0%	80.0%
Navigation Information Systems Group	Consolidated	77.7%	77.7%
UMS(3)	-	-	50.01%
MTS International Funding Limited(4) ("MTS International")	Consolidated	SE	SE
MTS Belarus	Equity	49.0%	49.0%
MTS Bank	Equity	26.6%	27.0%
Zifrovoe TV	Equity	20.0%	20.0%
OZON Holdings Limited	Equity	10.8%	10.8%

(1) A wholly-owned subsidiary established to repurchase the Group's ADSs. Liquidated in May 2016.

(2) A wholly-owned subsidiary, through which the Group currently repurchases its own shares.

(3) On August 5, 2016 the Group sold its stake in UMS (please refer to Note 26)

(4) A 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 15). 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, 2016, the functional currencies of Group entities were as follows:

- For entities incorporated in the Russian Federation, 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 disposed Universal Mobile Systems ("UMS") – the Uzbek Som;
- For MTS Belarus – the Belorussian Ruble;
- For NVision Czech Republic – the Czech Crown.

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. Dollar 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:

Network and base station equipment:	
Network infrastructure	5-44 years
Other	1.5-21 years
Land and buildings:	
Buildings	20-150 years
Leasehold improvements	the term of the lease
Office equipment, vehicles and other:	
Office equipment	3-21 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.

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 (CGU) 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, as well as debt securities) 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.

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 investment in debt securities. Investment in debt securities are classified as financial assets at fair value through profit and loss, if they held for trading, otherwise they are classified as available for sale 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 financials 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.

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 the 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 non-controlling 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 consolidated 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 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 to employees' bonuses and other rewards, decommissioning and restoration obligation, tax provisions as well as legal claims.

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

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	8 months - 7 years
Residential wireline voice phone subscribers	15 years
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.

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.

Netting – The Group offsets its financial assets and financial liabilities only if it has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Standards, interpretations and amendments adopted on January 1, 2016

None of the standards, interpretations and amendments adopted by the Group on January 1, 2016 had a significant effect on the Group's consolidated financial statements.

(Amounts in millions of Russian Rubles unless otherwise stated)

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:

Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses (1)
Amendments to IAS 7	Disclosure Initiative (1)
IFRS 9	Financial Instruments (2)
Amendments to IFRS 2	Classification and measurement of Share-based Payment Transactions (2)
IFRS 15	Revenue from contracts with Customers (2)
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts(2)
Amendments to IAS 40)	Transfers of Investment Property(2)
IFRIC 22	Foreign Currency Transactions and advances Consideration
IFRS 16	Leases (3)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (4)
Amendments IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle

(1) Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted
(2) Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted
(3) Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted
(4) Effective date is not currently determined

IFRS 9, *Financial Instruments*. IFRS 9 governs the classification and measurement of financial assets and liabilities, derecognition, impairment and hedge accounting matters. The adoption of these amendments is not expected to have a material impact 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 main effect on the Group's consolidated financial statements from implementation of the new standard will relate to future capitalization and recognition of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period.

The Group will utilize the option for simplified initial application, so that contracts that are not completed by January 1, 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transaction will be recognized as an adjustment to the opening balance of equity in the year of initial application. Prior period's comparatives will not be restated.

The Group is continuing to analize the effects of the new standard implementation, though a reliable estimate of the quantitative effects will only be possible once the project has been completed.

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, though a reliable estimate of the quantitative effects is not possible at the present time.

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 management 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 useful lives estimated by management, thereby resulting in a different carrying value of 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 11 and 14 for further information.

Impairment of non-current assets

The Group has made significant investments in property, plant 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

All of the Group's operations are in countries with emerging markets. The political and economic situation in these countries may change rapidly and potentially have a significant impact on these countries.Changing state of 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 12 and 13 for further information about 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 17 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 16 and Note 28 for further information.

4. BUSINESS ACQUISITIONS AND DISPOSALS

Acquisition and disposal in 2016

Acquisition of Smarts-Yoshkar-Ola – In September 2016, the Group acquired 100% of the shares of Smarts-Yoshkar-Ola CJSC ("Smarts-Yoshkar-Ola"), operating in the Republic of Mari El and holding rights to use 1800 MHz radio frequencies. The acquisition enhances the Group's spectrum resources in the Republic of Mari El. The acquisition was accounted for using the acquisition method.

The following table summarizes the purchase price allocation for SMARTS-Yoshkar-Ola, finalized as of December 31, 2016:

	Smarts-Yoshkar-Ola
Cash	5
Current assets	5
Licenses	323
Other non-current assets	14
Current liabilities	(30)
Non-current liabilities	(69)
Gain on bargain purchase (included in other operating income in the consolidated statement of profit or loss)	(235)
Deferred payment	(3)
Consideration paid in cash	**10**

(Amounts in millions of Russian Rubles unless otherwise stated)

The consideration paid was initially determined by a contract concluded between the Group and the seller (SMARTS Group) in 2014. To determine the fair value of assets acquired, the Group used comparative prices of the first radio frequencies auction held in Russia in 2015, which gave rise to the recognition of a gain from bargain purchase.

The details on disposal of 50.01% share in LLC “Universal Mobile Systems" are disclosed in Note 26.

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. In 2016 promissory notes of LLC Stream Digital were returned to the Group as non-cash payment for 49% interest of Rent Nedvizhimost from a subsidiary of Sistema. 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, 2016 and 2015 the Group has accounted for indemnification asset in amount of RUB 299 million and RUB 386 million respectively 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

(Amounts in millions of Russian Rubles unless otherwise stated)

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

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.

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

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. As of December 31, 2016 additional consideration liability was fully settled by the Group.

(Amounts in millions of Russian Rubles unless otherwise stated)

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 arised 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.

Pro forma results of operations – The following pro forma financial data for the years ended December 31, 2016, 2015 and 2014 give effect to the business combinations as they had been completed at the beginning of the year.

Pro forma:	**2016 (SMARTS-Yoshkar-Ola)**	**2015 (NVision Group, NIS and Stream)**	**2014 (SMARTS-Ivanovo, SMARTS-Ufa and Penza-GSM)**
Net revenues	435,694	434,757	411,375
Net income	48,465	46,887	50,701

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, 2015, or 2016, 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. The company acquired in 2016 contributed revenue in the amount of RUB 1 million and net loss in the amount of RUB 15 million to consolidated statement of profit or loss for the year ended December 31, 2016.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2016 and December 31, 2015 comprised the following:

	December 31, 2016	**December 31, 2015**
Cash and cash equivalents at banks and on hand in:		
Russian rubles	7,657	7,523
US dollars	3,904	4,296
Ukraine hryvna	1,538	1,612
Turkmenian manat	1,252	778
Euro	1,173	4,738
Uzbek som	-	628
other	394	393
Short-term deposits with an original maturity of less than 92 days:		
Ukraine hryvna	1,990	2,869
Russian rubles	504	2,123
US dollars	50	8,236
Euro	-	199
other	8	69
Total cash and cash equivalents	**18,470**	**33,464**

(Amounts in millions of Russian Rubles unless otherwise stated)

There were certain limitations on cash disposition in Ukraine as of December 31, 2016 (for details see Note 28). Cash balances in Ukraine amounted to RUB 3,617 million and RUB 6,612 million as of December 31, 2016 and 2015, respectively.

6. SHORT-TERM INVESTMENTS

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

	Category	December 31, 2016	December 31, 2015
Deposits	Loans and receivables	3,850	42,492
Assets in Sistema-Capital trust management (Notes 17, 21)	Financial asset at fair value through profit or loss	3,721	-
Loans	Loans and receivables	1,021	7,082
Notes	Available for sale	65	266
Total short-term investments		**8,657**	**49,840**

7. 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, 2016	December 31, 2015
MTS Belarus	Belarus	telecommunications	4,303	5,407
MTS Bank	Russia	banking	3,592	1,120
Equity investments in other unquoted companies	Russia	e-commerce, digital TV, etc.	2,656	2,772
Total investments in associates			**10,551**	**9,299**

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, 2016	December 31, 2015
Assets		
Non-current assets	9,414	11,404
Current assets	6,800	6,153
Liabilities		
Non-current liabilities	(0)	(2)
Current liabilities	(7,433)	(6,519)
Total identifiable net assets	**8,781**	**11,036**
The Group's share in associate	49%	49%
The Group's share of identifiable net assets	4,303	5,407
Carrying amount of the Group's interest	**4,303**	**5,407**

(Amounts in millions of Russian Rubles unless otherwise stated)

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,		
	2016	**2015**	**2014**
Revenue	(22,256)	(20,886)	(23,616)
Net profit for the year	(6,356)	(7,054)	(7,057)
The Group's share of the profit of the associate for the year	**(3,115)**	**(3,456)**	**(3,459)**
Other comprehensive loss for the year (currency translation adjustment)	2,292	3,110	-*
Total comprehensive income for the year	(4,064)	(3,944)	(7,057)
The Group's share of total comprehensive income of the associate for the year	**(1,991)**	**(1,933)**	**(3,467)**
Dividends received	**2,795**	**3,269**	**2,650**

*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, 2016	**December 31, 2015**
Total assets	166,594	184,915
Total liabilities	(137,627)	(164,662)
Non-controlling interests	(3,339)	(4,161)
Total identifiable net assets attributable to the Group	**25,628**	**16,092**
The Group's share in associate	26,6%	27%
The Group's share of identifiable net assets	6,817	4,345
Impairment of investment in associate	(3,225)	(3,225)
Carrying amount of the Group's interest	**3,592**	**1,120**

In 2014, an impairment charge of RUB 3,225 million related to the Group's equity investments 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 reflected the assessment of the development prospects influenced by 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 (Operating Income Before Depreciation and Amortization) margin of 5%.

No impairment charge was recognized in 2015 and 2016.

(Amounts in millions of Russian Rubles unless otherwise stated)

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,		
	2016	**2015**	**2014**
Total interest income	(16,555)	(20,455)	(25,107)
Total interest expense	8,364	9,691	9,868
Net loss for the year	4,495	15,371	12,585
The Group's share of the loss of the associate for the year	**1,179**	**4,078**	**3,108**
Other comprehensive loss / (income) for the year	1,614	(1,251)	(3,611)
Total comprehensive loss for the year	6,109	14,120	8,974
The Group's share of the total comprehensive loss for the year	**1,608**	**3,737**	**2,410**

In February 2016, MTS Bank placed 3,588,304 additional ordinary shares. The Group acquired 946,347 shares in the placement for a total consideration of RUB 1,325 million. As the result of the transaction, the Group's share in MTS Bank decreased from 27.0% to 26.8%.

In November 2016, MTS Bank placed 10,000,000 additional ordinary shares. The Group acquired 2,637,310 shares in the placement for a total consideration of RUB 2,769 million. As the result of the transaction, the Group's share in MTS Bank decreased from 26.8% to 26.6%.

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.

In December 2013, the Group sold a 51% stake in Business-Nedvizhimost CJSC to Sistema for RUB 3.2 billion. Business-Nedvizhimost owned and managed 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.

The following table is the aggregate financial information of investments in the other individually immaterial associates, held by the Group:

	Year ended December 31,		
	2016	**2015**	**2014**
Net loss/(profit) for the year	1,172	(1,079)	2,047
The Group's share of the loss/(profit) of the associate for the year	**108**	**(297)**	**205**
Other comprehensive income for the year	-	-	(2,175)
Total comprehensive loss/(income) for the year	1,172	(1,079)	(128)
The Group's share of total comprehensive loss/(income) of the associate for the year	**108**	**(297)**	**(32)**

(Amounts in millions of Russian Rubles unless otherwise stated)

8. OTHER INVESTMENTS

The Group's other investments comprised the following:

	Category	December 31, 2016	December 31, 2015
Deposits	Loans and receivables	27,056	30,677
Loans/Unquoted Notes	Loans and receivables	8,004	2,787
Other	-	1,259	1,203
Total other investments		**36,319**	**34,667**

In December 2010, the Group granted a $90.0 million (RUB 2,777 million at the date of transaction) loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche, the holders of a 20% noncontrolling stake in K-Telecom, the Group's subsidiary in Armenia. Simultaneously, the Group signed an amendment to the put and call option agreement for the acquisition of noncontrolling stake. According to the amendment, the call exercise price shall be reduced by deducting any outstanding balance on the loan amount and all accrued and unpaid interest and any other sums due and outstanding under the loan agreement at the time of exercise (Note 27). Also loan was prolonged to December 31, 2018 according to amendment concluded in December 2016 to loan agreement. The amount of loan and related interest included in other investments as of December 31, 2016 totaled to RUB 5,802 million and in short-term investments as of December 31, 2015 and January 1, 2015 totaled to RUB 6,775 million and RUB 5,533 million, respectively.

9. TRADE AND OTHER RECEIVABLES

Trade and other receivables as of December 31, 2016 and December 31, 2015 comprised the following:

	December 31, 2016	December 31, 2015
Subscribers	11,360	12,412
Roaming	8,083	11,807
Dealers	2,723	2,084
Interconnect	2,517	3,195
Other trade receivables	4,805	6,118
Other receivables	2,477	1,854
Allowance for doubtful accounts	(2,160)	(2,928)
Trade and other receivables	**29,805**	**34,542**

The analysis of the age of trade and other accounts receivables that are past due as at December 31, 2016 and December 31, 2015 but not impaired:

	December 31, 2016	December 31, 2015
Neither past due nor impaired	24,100	29,095
Past due, but not impaired:		
Less than 60 days	3,225	2,710
61-150 days	1,205	1,203
More than 150 days	1,275	1,534
Total	**29,805**	**34,542**

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table summarizes changes in the allowance for doubtful accounts receivable for the years ended December 31, 2016, 2015 and 2014:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Balance, beginning of the year	**(2,928)**	**(2,166)**	**(3,754)**
Allowance for doubtful accounts	(2,863)	(3,269)	(3,060)
Accounts receivable written off	3,459	2,507	4,648
Disposal of subsidiary	172	-	-
Balance, end of the year	**(2,160)**	**(2,928)**	**(2,166)**

10. INVENTORIES

Inventory and spare parts as of December 31, 2016 and December 31, 2015 comprised the following:

	December 31, 2016	December 31, 2015
Handsets and accessories	11,597	11,861
SIM cards and prepaid phone cards	1,165	400
Software and equipment for installation and resale	703	927
TV equipment for resale	320	527
Advertising and other materials	280	508
Spare parts for telecommunication equipment	265	287
Total inventory and spare parts	**14,330**	**14,510**

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

Spare parts for base stations included in inventory are expected to be utilized within twelve months of the year end.

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, 2016, 2015 and 2014, cost of goods comprised the following expenses:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Amount of inventories recognized as an expense	44,026	36,568	25,852
Inventory obsolescence provision	2,159	865	356
Reversal of obsolescence provision	(611)	(878)	(763)
Total cost of goods	**45,574**	**36,555**	**25,445**

The reversal of the inventory obsolescence provision relates to handsets and accessories sold in the course of the Group's promotion campaigns. Inventories have been sold with positive margin.

(Amounts in millions of Russian Rubles unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2016, December 31, 2015 and January 1, 2015 was as follows:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
Cost					
January 1, 2015	**498,575**	**25,867**	**48,322**	**44,074**	**616,838**
Additions	4,319	540	317	59,794	64,970
Put into use	68,661	1,042	4,590	(74,293)	-
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)
Foreign exchange differences	(3,698)	224	(150)	(31)	(3,655)
December 31, 2015	**542,530**	**27,321**	**49,692**	**28,966**	**648,509**
Additions	1,350	32	-	47,340	48,722
Put into use	47,894	1,550	5,278	(54,722)	-
Disposal of UMS	(4,152)	(1,309)	(452)	(2,444)	(8,357)
Transfer to assets held for sale	(1,557)	-	(5)	-	(1,562)
Disposal	(20,321)	(426)	(3,201)	(374)	(24,322)
Other	(118)	(200)	269	55	6
Foreign exchange differences	(17,568)	(1,525)	(2,331)	(1,455)	(22,879)
December 31, 2016	**548,058**	**25,443**	**49,250**	**17,366**	**640,117**
Accumulated amortisation and impairment					
January 1, 2015	**(274,372)**	**(6,957)**	**(36,486)**	**-**	**(317,815)**
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
Foreign exchange differences	4,180	(184)	125	-	4,121
December 31, 2015	**(300,509)**	**(7,455)**	**(37,883)**	**-**	**(345,847)**
Charge for the year	(53,371)	(1,262)	(5,323)	-	(59,956)
Disposal of UMS	1,121	62	214	-	1,397
Transfer to assets held for sale	846	-	5	-	851
Disposal	19,126	134	2,768	-	22,028
Other	(222)	(182)	227	-	(177)
Foreign exchange differences	12,061	551	1,816	-	14,428
December 31, 2016	**(320,948)**	**(8,152)**	**(38,176)**	**-**	**(367,276)**
Net book value					
January 1, 2015	**224,203**	**18,910**	**11,836**	**44,074**	**299,023**
December 31, 2015	**242,021**	**19,866**	**11,809**	**28,966**	**302,662**
December 31, 2016	**227,110**	**17,291**	**11,074**	**17,366**	**272,841**

Charge of amortization for 2014 year for Network and base station equipment, Landing and buildings and Office equipment, vehicles and other was RUB 51,155 million, RUB 887 million and RUB 6,781 million, respectively.

The amount of the compensation from third parties for items of property, plant and equipment that were accidentally damaged during construction in Moscow for the years ended December 31, 2016, 2015 and 2014 totaled RUB 1,350 million, RUB 1,010 million and RUB 571 million, respectively, and was included in the accompanying consolidated statements of profit or loss as component of other operating income.

(Amounts in millions of Russian Rubles unless otherwise stated)

12. GOODWILL

The change in the net carrying amount of goodwill for the years ended December 31, 2016 and 2015 by operating segments was as follows:

	Russia convergent	Moscow fixed line	Ukraine	Armenia	Total
Balance at January 1, 2015					
Gross amount of goodwill	30,275	1,083	151	6,268	37,777
Accumulated impairment loss	(1,466)	-	-	-	(1,466)
	28,809	**1,083**	**151**	**6,268**	**36,311**
Measurement period adjustments (Note 4)	(9)	-	-	-	(9)
Impairment loss	-	-	-	(3,516)	(3,516)
Currency translation adjustment	-	-	(22)	1,704	1,682
Balance at December 31, 2015					
Gross amount of goodwill	30,266	1,083	129	7,972	39,450
Accumulated impairment loss	(1,466)	-	-	(3,516)	(4,982)
	28,800	**1,083**	**129**	**4,456**	**34,468**
Currency translation adjustment	-	-	(34)	(749)	(783)
Balance at December 31, 2016					
Gross amount of goodwill	30,266	1,083	95	7,223	38,667
Accumulated impairment loss	(1,466)	-	-	(3,516)	(4,982)
	28,800	**1,083**	**95**	**3,707**	**33,685**

13. 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 factors, 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 a five-year operations 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.

During the year ended December 31, 2016 no impairment charges were recorded in respect of the Group’s goodwill balances.

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.

(Amounts in millions of Russian Rubles unless otherwise stated)

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

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, 2016	December 31, 2015
Russia convergent	34.6%-37.0%	32.3%-34.9%
Armenia	42.0%-45.0%	44.7%-46.1%
Moscow fixed line	42.2%-51.0%	48.2%-53.4%
Ukraine	40.6%-46.5%	35.4%-41.3%

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

CGU	December 31, 2016	December 31, 2015
Russia convergent	18.8%	17.6%
Armenia	11.9%	12.0%
Moscow fixed line	17.5%	15.0%
Ukraine	19.9%	24.4%

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, 2016	December 31, 2015
Russia convergent	1%	1%
Armenia	nil	nil
Moscow fixed line	1%	1%
Ukraine	3%	3%

The discount rate, applied to measure free cash flow is the weighted average cost of capital according to the finance structure established for each CGU.

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

CGU	December 31, 2016	December 31, 2015
Russia convergent	15.1%	13.9%
Armenia	15.5%	17.7%
Moscow fixed line	13.7%	18.4%
Ukraine	21.6%	26.6%

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.

(Amounts in millions of Russian Rubles unless otherwise stated)

14. OTHER INTANGIBLE ASSETS

Net book value of other intangible assets as at December 31, 2016, December 31, 2015 and January 1, 2015 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***	
Cost							
January 1, 2015	**13,278**	**8,294**	**91,367**	**8,679**	**3,763**	**9,033**	**134,414**
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)
Foreign exchange differences	3,470	-	(372)	-	(29)	668	3,737
December 31, 2015	**28,490**	**9,326**	**93,134**	**7,537**	**3,208**	**9,767**	**151,462**
Additions	3,382	245	27,658	-	65	232	31,582
Arising on business combinations (Note 4)	323	-	-	-	-	-	323
Disposal of UMS	-	-	(1,891)	-	-	(3,687)	(5,578)
Disposal	(2)	(582)	(10,509)	(164)	(160)	(2,842)	(14,259)
Other	44	(40)	(87)	-	(4)	(40)	(127)
Foreign exchange differences	(5,101)	-	(3,763)	-	(39)	(1,187)	(10,090)
December 31, 2016	**27,136**	**8,949**	**104,542**	**7,373**	**3,070**	**2,243**	**153,313**
Accumulated amortisation and impairment							
January 1, 2015	**(7,245)**	**(3,317)**	**(52,422)**	**(4,155)**	**(3,524)**	**(1,542)**	**(72,205)**
Charge for the year	(1,447)	(1,202)	(16,933)	(692)	(147)	(3,770)	(24,191)
Arising on business combinations	-	-	(424)	-	-	(188)	(612)
Disposal	1	268	18,528	1,228	619	158	20,802
Other	64	(10)	(172)	-	28	99	9
Foreign exchange differences	(1,246)	-	866	-	28	(317)	(669)
December 31, 2015	**(9,873)**	**(4,261)**	**(50,557)**	**(3,619)**	**(2,996)**	**(5,560)**	**(76,866)**
Charge for the year	(2,092)	(1,170)	(18,002)	(620)	(46)	(1,389)	(23,319)
Disposal of UMS	-	-	494	-	-	2,162	2,656
Disposal	2	582	10,193	164	160	2,836	13,937
Other	(7)	20	43	-	(13)	(42)	1
Foreign exchange differences	2,007	-	2,697	-	34	668	5,406
December 31, 2016	**(9,963)**	**(4,829)**	**(55,132)**	**(4,075)**	**(2,861)**	**(1,325)**	**(78,185)**
Net book value							
January 1, 2015	**6,033**	**4,977**	**38,945**	**4,524**	**239**	**7,491**	**62,209**
December 31, 2015	**18,617**	**5,065**	**42,577**	**3,918**	**212**	**4,207**	**74,596**
December 31, 2016	**17,173**	**4,120**	**49,410**	**3,298**	**209**	**918**	**75,128**

Charge of amortization for 2014 year for Licenses, Right to use radio frequencies, Billing and other software, Client base, Numbering capacity and Other was RUB 809 million, RUB 991 million, RUB 12,729 million, RUB 689 million, RUB 713 million and RUB 268 million, respectively.

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.

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group's operating licenses do not provide for automatic renewal. All licenses covering the territories of the Russian Federation expired as of December 31, 2016 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 five 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 Turkmenistan is valid until 2029.

Contractual obligations to purchase intangible assets are disclosed in the Note 28.

15. BORROWINGS

The Group's borrowings comprise the following:

	December 31, 2016	December 31, 2015
Notes	78,186	100,034
Bank and other loans	195,088	234,040
Finance lease obligations	11,046	11,795
Total borrowings	**284,320**	**345,869**
Less: current portion	(47,207)	(53,701)
Total borrowings, non-current	**237,113**	**292,168**

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

	Currency	Interest rate (actual at December 31, 2016)	December 31, 2016	December 31, 2015
MTS International Notes due 2023 (Note 2)	USD	5.00%	28,218	33,908
MTS International Notes due 2020 (Note 2)	USD	8.625%	18,537	42,238
MTS PJSC Notes due 2017	RUB	8.70%	9,995	9,990
MTS PJSC Notes due 2031	RUB	9.40%	9,986	-
MTS PJSC Notes due 2023	RUB	8.25%	9,984	9,971
MTS PJSC Notes due 2020	RUB	9.25%	1,448	2,110
MTS PJSC Notes due 2016	RUB	8.75%	-	1,788
Other Notes due 2015-2022	RUB	0.25%-10%	18	29
Total notes			**78,186**	**100,034**
Less: current portion			(11,389)	(3,855)
Total notes, non-current			**66,797**	**96,179**

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 2017
MTS PJSC Notes due 2023	March 2018
MTS PJSC Notes due 2031	August 2018

The Group discloses these notes as maturing in 2017 (MTS PJSC Notes due 2020) and in 2018 (MTS PJSC Notes due 2023; MTS PJSC Notes due 2031) 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

In November 2016, the Group changed the coupon rate for MTS PJSC Notes due 2020 from 10.75% to 9.25%. 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 662 million.

As of December 31, 2016 the Group had the following outstanding repurchase transactions with a due date on January 09, 2017:

	№ of Notes	Due amount	Unrealized premium	Total
MTS PJSC Notes due 2018	2,777,440	2,588	-	2,588
				2,588

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

	№ of Notes	Due amount	Unrealized premium	Total
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
				10,003

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

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

	Maturity	Interest rate (actual at December 31, 2016)	December 31, 2016	December 31, 2015
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2017-2020	LIBOR + 1.15% (2.468%)	25,394	39,449
Citibank	2017-2024	LIBOR + 0.9% (2.218%)	12,812	17,511
Skandinavska Enskilda Banken AB	2017	LIBOR + 0.23%-1.8% (1.543%-3.118%)	1,163	3,939
			39,369	**60,899**
EUR-denominated:				
Credit Agricole Corporate Bank and BNP Paribas	2017-2018	EURIBOR + 1.65% (1.43%)	876	1,639
LBBW	2017	EURIBOR +1.52% (1.30%)	296	737
			1,172	**2,376**
RUB-denominated:				
Sberbank	2017-2021	8.45%- Central Bank key rate + 0.90% (10.90%)	144,813	154,660
Gasprombank	2017	10.9%	4,000	-
Notes in REPO	2017	10.24%-10.39%	2,588	10,003
Citibank	2017	9.9%	2,400	-
Other	2017-2025	Various	533	1,409
			154,334	**166,072**
Other currencies:				
Various financial institutions	2017-2020	Various	213	4,693
			213	**4,693**
Total bank and other loans			**195,088**	**234,040**
Less: current portion			(35,188)	(49,282)
Total bank and other loans, non-current			**159,900**	**184,758**

(Amounts in millions of Russian Rubles unless otherwise stated)

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 $75 million (RUB 4,549 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, 2016.

Available credit facilities – As of December 31, 2016, the Group's total available unused credit facilities amounted to RUB 40,858 million and related to the following credit lines:

	Currency	Maturity	Interest rate	Available till	Available amount
Sberbank	RUB	To be agreed	Central Bank key rate + max.5.00%	June 2019	15,000
Gasprombank	EUR	2021	CBR[1] auction rate + 0.6%	Sep 2017	6,381
China Development Bank	USD	2022	6M Libor + 3.25%	May 2017	6,065
China Development Bank	CNY	2022	6M Shibor + 3.52%	May 2017	5,412
Rosselhozbank	RUB/USD/EUR	31 days	To be agreed	November 2017	5,000
Absolut Bank	RUB	2019	CBR[1] auction rate + 1.25%-1.8%	December 2019	3,000
Total					**40,858**

[1] CBR – Central Bank of Russia

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, 2021 and thereafter:

	As of December 31, 2016	
	Notes	**Bank loans and other debt**
Payments due in the year ending December 31,		
2017	11,448	35,632
2018	20,006	46,927
2019	-	69,963
2020	18,614	23,396
2021	12	15,844
Thereafter	28,301	4,620
Total	**78,381**	**196,382**
Less: unamortized debt issuance costs	(195)	(1,294)
Total debt	**78,186**	**195,088**

(Amounts in millions of Russian Rubles unless otherwise stated)

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

	December 31, 2016	December 31, 2015
Network and base station equipment	6,906	6,352
Office equipment, vehicles and other	66	54
Leased assets, net	**6,972**	**6,406**

Additions under finance lease agreements for the years ended December 31, 2016, 2015 and 2014 amounted to RUB 1,117 million, RUB 1,735 million and RUB 6,228 million respectively. Depreciation of the assets under finance leases for the year ended December 31, 2016, 2015 and 2014 amounted to RUB 603 million, 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 year ended December 31, 2016, 2015 and 2014 amounted to RUB 855 million, RUB 756 million and RUB 370 million, respectively, and was included in finance costs in the accompanying consolidated statement of profit or loss.

The following tables present future minimum lease payments under capital leases together with the present value of the net minimum lease payments as at December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Minimum lease payments, including:		
Current portion (less than 1 year)	1,432	1,366
More than 1 to 5 years	6,079	6,243
Over 5 years	11,061	11,022
Total minimum lease payments	**18,572**	**18,631**
Less amount representing interest	(7,526)	(6,836)
Present value of net minimum lease payments, including:		
Current portion (less than 1 year)	630	564
More than 1 to 5 years	3,055	3,334
Over 5 years	7,361	7,897
Total present value of net minimum lease payments	**11,046**	**11,795**
Less current portion of lease obligations	(630)	(564)
Non-current portion of lease obligations	**10,416**	**11,231**

Leased assets include transponders which are installed on a satellite and used for provision of satellite television services, network equipment and automobiles. The lease term of the transponders is twelve years. The lease term of network equipment is fifteen years. 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

16. PROVISIONS

The following table summarizes the movement in provisions for the year ended December 31, 2016, 2015 and 2014:

	Tax provisions other than for income tax	Provision for decommissi-oning and restoration	Employee bonuses and other rewards	Other provisions	Total provisions
At 1 January 2014	**(2,388)**	**(2,970)**	**(6,611)**	**(35)**	**(12,004)**
Current 2014	(2,388)	-	(5,046)	(35)	(7,469)
Non-current 2014	-	(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)
At 31 December 2014	**(2,974)**	**(1,640)**	**(6,901)**	**(7)**	**(11,522)**
Current 2014	(2,974)	-	(5,703)	(7)	(8,684)
Non-current 2014	-	(1,640)	(1,198)	-	(2,838)
At 1 January 2015	**(2,974)**	**(1,640)**	**(6,901)**	**(7)**	**(11,522)**
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)
At 31 December 2015	**(525)**	**(1,459)**	**(8,237)**	**(207)**	**(10,428)**
Current 2015	(525)	-	(7,131)	(207)	(7,863)
Non-current 2015	-	(1,459)	(1,106)	-	(2,565)
At 1 January 2016	**(525)**	**(1,459)**	**(8,237)**	**(207)**	**(10,428)**
Arising during the year	(1,058)	(45)	(14,085)	(275)	(15,463)
Utilised	374	8	12,482	223	13,087
Discount rate adjustment and imputed interest (change in estimates)	-	(142)	(51)	-	(193)
Unused amounts reversed	742	430	1,096	34	2,302
Disposal of a subsidiary		-	91	-	91
Translation adjustments and other	10	17	152	-	179
At 31 December 2016	**(457)**	**(1,191)**	**(8,552)**	**(225)**	**(10,425)**
Current 2016	(457)	-	(7,393)	(225)	(8,075)
Non-current 2016	-	(1,191)	(1,159)	-	(2,350)

(Amounts in millions of Russian Rubles unless otherwise stated)

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

	December 31, 2016	December 31, 2015
Trade and other receivables (Note 9)	**29,805**	**34,542**
Accounts receivable, related parties (Note 21)	**8,094**	**9,661**
Cash and Cash equivalents (Note 5)	**18,470**	**33,464**
Other financial assets:		
Financial assets at fair value through profit or loss:		
Assets in Sistema-Capital trust management	3,721	-
Total financial assets at fair value through profit and loss	**3,721**	**-**
Financial assets at fair value through OCI:		
Notes	65	266
Cross-currency swap designated as cash flow hedge	13,632	25,027
Total financial assets at fair value through OCI	**13,697**	**25,293**
Loans and receivables:		
Bank deposits	30,906	73,169
Loans and receivables	8,221	9,341
Notes	804	528
Other	1,504	1,379
Total loans and receivables	**41,435**	**84,417**
Total other financial assets	**58,853**	**109,710**
Total financial assets	115,222	187,377
Total current financial assets	(61,333)	(124,172)
Total non-current financial assets	**53,889**	**63,205**

Financial liabilities

	December 31, 2016	December 31, 2015
Trade and other payables	**41,473**	**57,756**
Accounts payable, related parties (Note 21)	**1,014**	**1,809**
Financial liabilities at amortised cost:		
Loans and borrowings:		
Notes	78,186	100,034
Bank and other loans	195,088	234,040
Finance lease obligations	11,046	11,795
Total loans and borrowings	**284,320**	**345,869**
Guarantee payment received	2,907	6,853
Total financial liabilities at amortized cost	**287,227**	**352,722**
Other financial liabilities at fair value:		
Financial liabilities at fair value through profit or loss:		
Deliverable currency forward not designated as hedge	142	-
Liability under put option agreement (Note 27)	2,243	2,925
Total financial liabilities at fair value through profit and loss	**2,385**	**2,925**
Financial liabilities at fair value through OCI:		
Interest rate swaps designated as cash flow hedges	531	676
Total financial liabilities at fair value through OCI	**531**	**676**
Total other financial liabilities at fair value	**2,916**	**3,601**
Total financial liabilities	332,630	415,888
Total current financial liabilities	(92,743)	(123,044)
Total non-current financial liabilities	**239,887**	**292,844**

Group financial liabilities are 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group accounts for its financial assets and liabilities at amortized cost, except for derivative instruments, marketable securities, assets in Sistema-Capital trust management and liability under put option agreement, which are accounted for at fair value.

In May 2016, the Group entered into a trust agreement with the asset management company Sistema-Capital, a subsidiary of Sistema. The main purpose of the agreement is short-term profit-taking from operations with securities.

The fair value measurement of the Group's derivative instruments and investments in Sistema-Capital trust management is based on the observable yield curves for similar instruments and represents the estimated amount the Group would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, foreign exchange spot and forward rates.

The table below presents the fair value of financial instruments:

	Level of inputs	December 31, 2016	December 31, 2015
Assets			
Sistema Notes due in 2016 (series 04) (related party) (Notes 6, 21)	Level 1	-	191
Sistema International Funding S.A. Bonds due in 2019 (related party) (Note 6, 21)	Level 1	65	75
Derivative instruments	Level 2	13,632	25,027
Cross-currency interest rate swap		*13,632*	*25,027*
Assets in Sistema-Capital trust management (related party) (Note 6, 21)	Level 2	3,721	-
Liabilities			
Derivative instruments	Level 2	(673)	(676)
Interest rate swap		*(531)*	*(676)*
Deliverable currency forward		*(142)*	-
Liability under put option agreement	Level 3	(2,243)	(2,925)
Contingent consideration	Level 3	(3)	(115)

For the years ended December 31, 2016, 2015 and 2014, net realized gains and losses of Level 3 liabilities resulting from fair value measurements amounted to RUB 199 million gain, RUB 1,014 million gain and RUB 260 million loss, respectively and were recognized as a part of change in fair value of financial instruments' in consolidated statement of profit or loss. No unrealized gains or losses of Level 3 liabilities resulted from fair value measurements were recognized during the years ended December 31, 2016, 2015 and 2014.

For the year ended December 31, 2016, 2015 and 2014, net realized gains and losses of Level 1 liabilities resulted from fair value measurements amounted to nil, nil and RUB 165 million gain, respectively.

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, 2016	December 31, 2015
Post-tax discount rate	13%	15%
Revenue growth rate	(0.9) – (2.9)% (av. -1.8%)	(1.6) – (4.6)% (av. -2.2%)
OIBDA margin	42.0-45.0% (av. 43.5%)	44.7-46.1% (av. 45.4%)

(Amounts in millions of Russian Rubles unless otherwise stated)

The 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, gross of debt issuance cost, as disclosed in the table below:

		December 31, 2016		December 31, 2015	
	Level of inputs	Fair value	Carrying value	Fair value	Carrying value
Notes (Note 15)	Level 1	(81,462)	(78,381)	(99,704)	(100,269)
Bank and other loans	Level 3	(199,131)	(196,382)	(228,702)	(235,947)
		(280,593)	**(274,763)**	**(328,406)**	**(336,216)**

The fair value of the Group's bank and other loans is measured using a discounted cash flow technique. The discount rate used in the discounted cash flow analysis is determined on the base of the market rate for bank loans available to the Group.

While management has used available market information in estimating the fair value of its financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

There were no transfers between levels of inputs within the hierarchy during the years ended December 31, 2016, 2015 and 2014.

There were no transfers between the accounting categories of financial instruments during the years ended December 31, 2016, 2015 and 2014.

18. 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 financial position as of December 31, 2016, 2015 and 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 28.6% and 32.6% of the Group's bank loans with variable rates outstanding as of December 31, 2016 and 2015, 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 12.9% of the Group's Notes and bank loans with fixed rates outstanding as of December 31, 2016 and 2015, respectively.

The notionals related to interest rate derivative instruments amounted to RUB 49,451 million and RUB 67,338 million as of December 31, 2016 and 2015, respectively.

Sensitivity analysis

A reasonably possible increase of 100 basis points in short term interest rates would have resulted in RUB 704 million, RUB 933 million and RUB 264 million future increases of interest expense for the years ended December 31, 2016, 2015 and 2014, respectively. The same decrease in short term interest rates would have resulted in RUB 704 million, RUB 933 million and RUB 233 million future decreases of finance cost for the years ended December 31, 2016, 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 cash outflows 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 29.2% of the Group's bank loans denominated in USD- and Euro- denominated bank loans outstanding as of December 31, 2016 and 28.7% of its USD- and Euro- denominated bank loans outstanding as of December 31, 2015.

The notionals related to currency derivative instruments amounted to RUB 25,885 million and RUB 40,049 million as of December 31, 2016 and 2015, respectively.

The Group has entered into deliverable currency forward agreements to minimize foreign currency risk exposure for operating activities. The contracts assumed the purchase or sale of the agreed amount of currency at a specified exchange rate and date. The rate was determined by the market spot rate upon issuance. As the result of deliverable currency forward agreements, unfulfilled as of December 31, 2016, 2015 and 2014, the Group recognized RUB 142 mln loss, nil and nil in the consolidated statement of profit and loss for the years ended December 31, 2016, 2015 and 2014.

The notionals related to deliverable currency forward instruments, unfulfilled as of December 31, 2016 and 2015, amounted to RUB 18,339 mln and nil, respectively.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table presents the effect of the Group's swap agreements designated as cash flow hedges in accumulated other comprehensive income for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
Accumulated derivatives income, beginning of the year, net of tax of 209 and 853 and 293, respectively	**1,045**	**4,268**	**1,467**
Fair value adjustments on hedging derivatives, net of tax of (1,823) and 590 and 2,894, respectively	(9,116)	2,952	14,469
Amounts reclassified to loss / (profit) for the year during the period, net of tax of 1,594 and (1,235) and (2,334), respectively	7,968	(6,175)	(11,668)
Accumulated derivatives (loss) / income, end of the year, net of tax of (21) and 209 and 853, respectively	**(103)**	**1,045**	**4,268**

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

	Change in rate	USD - effect on profit before tax RUB mln,	EUR - effect on profit before tax RUB mln
2016	+20%	(6,722)	2,274
	-20%	6,722	(2,274)
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.

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 assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

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 7 years.

As at December 31, 2016, current liabilities exceeded current assets by RUB 36,551 million. Management believes the Group has sufficient existing and continuing access to liquidity through both operating cash flows and the availability of committed credit facilities of RUB 40,858 million (Note 15).

(Amounts in millions of Russian Rubles unless otherwise stated)

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, 2016, and 2015 to be as follows:

	December 31, 2016	December 31, 2015
Bank deposits	30,905	73,169
Trade and other receivables	29,805	34,542
Derivative financial instruments	13,632	25,027
Loan and notes	9,090	10,135
Assets in Sistema-Capital trust management	3,721	-

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 a 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.

On December 15, 2015 Barclays bank and the Group signed an addendum to existing 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, 2016 and 2015 Barclays bank transferred to the Group collateral payments in the amounts of RUB 2.9 billion and RUB 6.9 billion, respectively.

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.

19. INCOME TAX

Significant components of income tax expense for the year ended December 31, 2016, 2015 and 2014 was as follows:

	Year ended December 31,		
	2016	2015	2014
Current income tax charge	15,177	11,865	9,478
Adjustments recognised for current tax of prior periods	98	284	32
Total current income tax:	**15,275**	**12,149**	**9,510**
Deferred tax	(137)	1,782	6,399
Income tax expense on continuing operations	**15,138**	**13,931**	**15,909**

'Income tax expense on continuing operations' excludes the tax income from the discontinued operations of RUB 192 million, RUB 661 million and tax expense of RUB 75 million for the year ended December 31, 2016, 2015 and 2014, respectively; it has been included in 'profit / (loss) from discontinued operations' (Note 26).

(Amounts in millions of Russian Rubles unless otherwise stated)

The statutory income tax rates in jurisdictions in which the Group operates for 2016, 2015 and 2014 were as follows: Russia and Armenia – 20%, Ukraine – 18%, Turkmenistan – 8%, 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, 2016, 2015 and 2014 as follows:

	Year ended December 31,		
	2016	**2015**	**2014**
Statutory income tax rate for the year	**20.0%**	**20.0%**	**20.0%**
Adjustments:			
Expenses not deductible for tax purposes	2.1	3.1	0.2
Settlements with tax authorities	0.1	0.5	0.6
Different tax rate of foreign subsidiaries	(0.5)	(0.8)	(1.1)
Earnings distribution from subsidiaries	0.2	(1.9)	4.3
Change in fair value of derivative financial instruments	0.3	(0.1)	1.7
Other	0.2	-	0.1
Effective income tax rate	**22.4%**	**20.8%**	**25.8%**

As of December 31, 2016 and 2015 the Group reported the following deferred income tax assets and liabilities in the consolidated statement of financial position:

	December 31, 2016	**December 31, 2015**
Deferred tax assets	6,150	9,287
Deferred tax liabilities	(26,611)	(27,346)
Net deferred tax liabilities	**(20,461)**	**(18,059)**

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

	January 1, 2015	**Charged to profit/loss**	**Charged to other comprehen-sive income**	**Effect of acquisitions**	**December 31, 2015**
Assets / (liabilities) arising from tax effect of:					
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)
Net deferred tax (liability) / asset	**(18,623)**	**(1,121)**	**235**	**1,450**	**(18,059)**

(Amounts in millions of Russian Rubles unless otherwise stated)

Movements in the deferred tax assets and liabilities for the year ended December 31, 2016 were as follows:

	December 31, 2015	Charged to profit/loss	Charged to other comprehen-sive income	Effect of disposal	December 31, 2016
Assets / (liabilities) arising from tax effect of:					
Depreciation of property, plant and equipment	(15,648)	(325)	(653)	(2,675)	(19,301)
Other intangible assets	(6,454)	(1,241)	29	572	(7,094)
Potential distributions from / to Group's subsidiaries / associates	(4,738)	203	548	-	(3,987)
Licenses	(1,805)	(431)	137	-	(2,099)
Customer base	(782)	122	-	-	(660)
Accrued expenses for services	7,807	(1,280)	(131)	(14)	6,382
Lease obligations	2,351	(152)	-	-	2,199
Loss carryforward	1,887	383	(49)	(304)	1,917
Provision for investment in Delta Bank in Ukraine	889	-	(236)	-	653
Deferred connection fees	639	(20)	(32)	(47)	540
Hedge and other	(2,205)	3,070	131	(7)	989
Net deferred tax liability	**(18,059)**	**329**	**(256)**	**(2,475)**	**(20,461)**

The Group recognizes deferred income tax on future dividend distributions from foreign subsidiaries and associates 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. Deferred tax assets related to tax losses of the Group's subsidiaries are recognized based on the fact that certain tax planning opportunities are available to these subsidiaries that will create taxable profit in the period in which the unused tax losses can be utilized. The amount of the deferred tax asset considered realizable, however, could be remeasured if estimates of future taxable income are changed.

Federal law #401-FZ dated November 30, 2016 allowed for the indefinite carry forward of tax losses, whereas this was restricted to 10 years. Also the law specified that tax base for the years 2017-2020 may not be reduced by tax losses carried forward for the amount exceeding 50% of the base.The following table summarizes the Group's balances for recognized tax losses carried forward as of December 31, 2016 and 2015:

	As of December 31, 2016		As of December 31, 2015	
	Operating losses	Tax losses	Operating losses	Tax losses
Recognized tax losses carried forward	9,586	1,917	13,143	1,887
	9,586	**1,917**	**13,143**	**1,887**

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, 2016 and 2015 amounted to RUB 8,307 million and RUB 11,407 million, respectively.

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

	December 31, 2016	December 31, 2015
Uncertain income tax positions	756	551

Generally, uncertain income tax positions were originated from results of tax audit.

20. EARNINGS PER SHARE

The following table sets forth the computation of earnings per share for the year ended December 31, 2016, 2015 and 2014:

	Year ended, December 31, 2016	Year ended, December 31, 2015	Year ended, December 31, 2014
Numerator:			
Profit for the year from continuing operations attributable to the owners of the company	51,841	52,323	45,086
(Loss) / profit for the year from discontinued operations attributable to the owners of the company	(3,367)	(2,834)	6,220
Denominator, in thousands:			
Weighted-average ordinary shares outstanding	1,989,282	1,988,728	1,988,757
Employee stock options	1,412	1,468	1,221
Weighted-average diluted shares outstanding	**1,990,694**	**1,990,196**	**1,989,978**
Earnings per share – basic, RUB	**24.37**	**24.88**	**25.80**
Basic EPS from continuing operations	26.06	26.31	22.67
Basic EPS from discontinued operations	(1.69)	(1,43)	3.13
Earnings per share – diluted, RUB	**24.35**	**24.87**	**25.78**
Diluted EPS from continuing operations	26.04	26.29	22.66
Diluted EPS from discontinued operations	(1.69)	(1.42)	3.12

21. RELATED PARTIES

Related parties of the Group include entities under common ownership with the Group, affiliated companies and associated companies (see Note 7).

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

	December 31, 2016	December 31, 2015
Accounts receivable:		
Business Nedvizhimost, a subsidiary of Sistema	3,693	7,511
MTS Belarus, the Group's associate	2,273	1,226
MTS Bank, the Group's associate	1,726	693
Sitronics KASU, subsidiary of Sistema	51	93
Sistema, the parent company	46	20
Other related parties	305	118
Total accounts receivable, related parties	**8,094**	**9,661**
Less non-current portion	(3,693)	(3,335)
Accounts receivable, related parties – current	**4,401**	**6,326**
Accounts payable:		
MTS Belarus, the Group's associate	491	380
Maxima, a subsidiary of Sistema	184	212
MTS Bank, the Group's associate	134	410
Sitronics KASU, subsidiary of Sistema	36	407
Business Nedvizhimost, a subsidiary of Sistema	32	36
Rent-Nedvizhimost, a subsidiary of Sistema	-	87
Sitronics Smart Technology, a subsidiary of Sistema	-	68
Other related parties	137	209
Total accounts payable, related parties	**1,014**	**1,809**

(Amounts in millions of Russian Rubles unless otherwise stated)

As of December 31, 2016, the outstanding balances of related parties' transactions were unsecured. There have been no guarantees issued or received in respect to any related party receivables or payables.

As of December 31, 2016 and 2015 Group had no impairment as well as expenses recognized during years ended December 31, 2016, 2015 and 2014 in respect to bad or doubtful debts from related parties.

For the year ended December 31, 2016, 2015 and 2014, operating transactions with related parties were as follows:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Revenues from related parties:			
MTS Bank, the Group's associate (telecommunications and call center services, commission)	900	588	787
MTS Belarus, the Group's associate (roaming and interconnect services)	276	266	269
Medsi Group, subsidiaries of Sistema (telecommunications and call center services)	242	113	83
Management Company, Segezha Group, a subsidiary of Sistema (software supply)	149	-	-
Detskii Mir, subsidiary of Sistema (connection services)	129	64	39
Sistema, parent company (consulting services)	83	61	1
ZTV, Group's associate (software supply)	55	3	-
Sitronics KASU, subsidiaries of Sistema (project management, software support)	40	8	1
NVision Group, a former subsidiary of Sistema (fixed line services)	-	119	82
Stream, a former Group's associate (SMS notifications)	-	141	29
Other related parties	304	121	81
Total revenues from related parties	**2,178**	**1,484**	**1,372**
Operating expenses / (income) incurred on transactions with related parties:			
Maxima, a subsidiary of Sistema (advertising)	1,018	1,351	1,575
MTS Bank, the Group's associate (commission related (income)/expenses)	347	61	(406)
Rent-Nedvizhimost, a subsidiary of Sistema (Rent)	308	776	-
AB Safety, a subsidiary of Sistema (security services)	271	212	292
Business-Nedvizhimost, a subsidiary of Sistema (Rent)	246	224	128
Jet Air Group, subsidiaries of Sistema (aircraft maintenance)	183	180	127
MTS Belarus, the Group's associate (roaming and interconnect services)	161	394	395
Elavius, a subsidiary of Sistema (transportation services)	159	328	399
Inturavtoservis, subsidiary of Sistema (transport services)	124	44	42
Stream, a former Group associate (content services)	-	2,132	1,395
NVision Group, a former subsidiary of Sistema (IT consulting)	-	575	846
Other related parties	297	301	285
Total operating expenses incurred on transactions with related parties	**3,114**	**6,578**	**5,078**

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group provides advances and holds certain investments in related parties which are summarized as follows:

	December 31, 2016	December 31, 2015
Advances for property, plant and equipment:		
Kapstroi Telecom, a subsidiary of Sistema	186	-
Intellect Telecom, a subsidiary of Sistema	-	421
Other related parties	1	15
Total advances for property, plant and equipment	**187**	**436**
Short-term investments		
Sistema-Capital, a subsidiary of Sistema (assets management)	3,721	-
Promissory notes of Sistema	574	-
Promissory notes of Intellect Telecom, a subsidiary of Sistema	230	-
Loan receivable from Intellect Telecom, a subsidiary of Sistema	72	-
Sistema International Funding S.A. Bonds due in 2019, a subsidiary of Sistema	65	75
Deposits at MTS Bank, the Group's associate	33	128
Sistema Notes due in 2016 (series 04)	-	191
Other loans receivable	-	81
Total short-term investments in related parties	**4 695**	**475**
Other investments		
Loan receivable from MTS Bank, the Group's associate (see note 29)	2,116	2,100
Promissory notes of Sistema	-	528
Loan receivable from Intellect Telecom, a subsidiary of Sistema	-	67
Other	60	26
Total other investments to related parties	**2,176**	**2,721**
Other investments in shares		
Sistema Venture Capital, a subsidiary of Sistema	117	117
Other	32	40
Total investments in shares of related parties	**149**	**157**

Finance income, which arose from investment transactions with related parties for the year ended December 31, 2016, 2015 and 2014 was the following:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Finance income from related parties:			
MTS Bank, the Group associate	285	447	654
Business Nedvizhimost, a subsidiary of Sistema	491	346	-
Sistema-Capital, a subsidiary of Sistema (assets management)	128	-	-
Sistema, parent company	53	188	135
Other related parties	28	86	15
Total finance income from related parties	**985**	**1,067**	**804**

Public Joint-Stock Company “MTS Bank” (“MTS Bank”) – The Group has a loan agreement and maintains certain bank accounts with MTS Bank, an associate of the Group. As of December 31, 2016 and December 31, 2015, the Group’s cash position at MTS Bank amounted to RUB 5,638 million and RUB 2,564 million, respectively, including short-term deposits in the amount of RUB 532 million and RUB 323 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, 2016 and December 31, 2015 the amount receivable of RUB 574 million and RUB 528 million, respectively, was included in short-term and other investments in the accompanying consolidated statements of financial position.

In October 2014, the Group acquired 2,501,350 Sistema Notes due 2016 (series 04) and 1,000 Sistema International Funding S.A. Bonds due in 2019 for RUB 519 million and RUB 32 million, respectively. The acquired bonds were classified as available for sale and accounted for at fair value with changes recognized in other comprehensive income. In March 2015 and May 2015 upon scheduled redemption, the Group received principal and coupon in the amount of RUB 409 million. In March 2016 the Group received principal and coupon of Sistema Notes due 2016 (series 04) in the amount of RUB 201 million.

Business Nedvizhimost - In February 2015 and further in May 2015, the Group sold its 100% stake in Rent Nedvizhimost to Business Nedvizhimost, subsidiary of Sistema, for RUB 8,500 million in total.

As of December 31, 2016 accounts receivable amounted to RUB 3,693 million due before December 31, 2018 and bears interest of 12% p.a. As of December 31, 2015 accounts receivable amounted to RUB 7,511 million.

NVision Group – In December 2015 the Group completed acquisition of shares of NVision Group excluding several non-core subsidiaries (see Note 4).

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.

Sistema-Capital – In April 2016 the Group entered into trust agreement with the asset management company Sistema-Capital. As of December 31, 2016 the balance of assets under trust management amounted to RUB 3,721 million.

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, 2016, 2015 and 2014, their total remuneration amounted to RUB 760 million, RUB 835 million and RUB 694 million, respectively. These amounts comprised RUB 470 million, RUB 514 million and RUB 402 million in base salaries and RUB 290 million, RUB 321 million and RUB 292 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, 2016, 2015 and 2014 amounted to RUB 481 million, RUB 175 million and RUB 158 million, respectively.

22. STOCKHOLDERS' EQUITY

Share capital (ordinary shares) – The Group had 1,998,381,575 and 2,066,413,562 authorized ordinary shares with par value 0.1 RUB as of December 31, 2016 and 2015 respectively. Preferred shares have not been issued. In 2016 annual general meeting of shareholders approved the decrease in share capital by cancelling 68,031,987 treasury shares.

As of December 31, 2016, the total shares in treasury stock comprised 11,482,047, and 1,986,899,528 shares were outstanding. As of December 31, 2015, the total shares in treasury stock comprised 77,521,163, and 1,988,892,399 shares were outstanding.

Mobile TeleSystems' Level III American Depositary Shares (ADS) 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 the Group repurchased 33,997,667 ADSs, which were used to decrease the Group's charter capital in 2016.

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

In 2016, the Group launched a Tender Offer, aiming to return cash of up to RUB 4,935 million to the holders of ordinary shares and ADS. Through the Tender Offer, as of December 31, 2016, the Group has repurchased 3,060,409 ordinary shares for RUB 747 million (including 1,550,495 ordinary shares purchased from Sistema for RUB 335 million).

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 do not 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 is used to recognize actuarial gains and losses related to the pension program set for employees of the Group's subsidiary MGTS.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table represents roll forward of reserves balances for the years ended December 31, 2016, 2015 and 2014:

	Foreign currency translation reserve	Investments revaluation reserve	Remeasure-ments of the net defined benefit liability
Balances at January 1, 2014	**-**	**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)	-
	-	-	-
Net other comprehensive income for the year	**8,803**	**2,664**	**278**
Balances at December 31, 2014	**8,803**	**4,268**	**407**
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	-
Net other comprehensive income / (loss) for the year	**835**	**(3,223)**	**86**
Balances at December 31, 2015	**9,638**	**1,045**	**493**
Other comprehensive (loss) / income for the year	(13,970)	(11,324)	50
Less: tax benefit	-	2,219	-
Amounts reclassified to profit for the year	(2,086)	9,897	-
Less: tax expense	-	(1,992)	-
Net other comprehensive (loss) / income for the year	**(16,056)**	**(1,200)**	**50**
Balances at December 31, 2016	**(6,418)**	**(155)**	**543**

Non-controlling interest

In the years ended December 31, 2016, 2015 and 2014 two Group subsidiaries that are material to the Group, MGTS Group and UMS (prior to disposal), had non-controlling interests.

The summarised financial information of MGTS Group is presented as follows:

	Year ended December 31,		
	2016	**2015**	**2014**
Non-controlling interest opening balance	**(5,191)**	**(4,399)**	**(3,970)**
Profit for the year attributable to non-controlling interest	(727)	(782)	(636)
Dividends to non-controlling interest	1,120	257	356
Other	11	(267)	(149)
Non-controlling interest closing balance	**(4,787)**	**(5,191)**	**(4,399)**

	December 31	
	2016	**2015**
Current assets	25,301	15,609
Non-current assets	50,130	67,364
Current liabilities	(7,653)	(6,989)
Non- current liabilities	(7,965)	(8,454)

(Amounts in millions of Russian Rubles unless otherwise stated)

	Year ended December 31,		
	2016	**2015**	**2014**
Revenue, gross of intercompany	(40,210)	(41,144)	(42,648)
Profit for the year, gross of intercompany	(12,167)	(13,322)	(11,388)

The summarised financial information of UMS is presented as follows (please see also Note 26):

	December 31	
	2016	**2015**
Current assets	-	1,614
Non-current assets	-	7,620
Current liabilities	-	(2,166)
Non- current liabilities	-	(4,709)
Non- controlling interest	-	(3,042)

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 non organic development as well as the Group's capital management practices.

MTS continues to include dividend payments as part of its 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 2016, the Board of Directors approved a dividend policy for the calendar years 2016 – 2018, committing to a minimum cumulative dividend payout of RUB 20.0 per ordinary share through two semi-annual payments. In addition, the Group will aim for a target payout of RUB 25.0 – 26.0 per ordinary share in each calendar year.

The Group may take decisions on dividend payout based not only on annual results but also 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, 2016, 2015 and 2014 that is distributable under Russian legislation totaled RUB 50,659 million, RUB 6,590 million and RUB 28,159 million, respectively.

The following table summarizes the Group's declared cash dividends for the years ended December 31, 2016, 2015 and 2014:

	Year ended December 31, 2016	**Year ended December 31, 2015**	**Year ended December 31, 2014**
Dividends declared (including dividends on treasury shares of 220, 1,950 and 1,922 respectively)	51,958	52,011	51,247
Dividends, RUB per ADS	52.00	50.34	49.60
Dividends, RUB per share	26.00	25.17	24.80

(Amounts in millions of Russian Rubles unless otherwise stated)

As of December 31, 2016 and 2015 dividends payable were RUB 87.0 and 32.0 million, respectively, and included in the trade and other payables within the statement of financial position.

23. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2016, 2015 and 2014 comprised the following:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Salaries and social contributions	44,347	40,026	36,990
Advertising and marketing expenses	10,480	9,543	8,399
Utilities and maintenance	9,092	6,817	6,017
General and administrative expenses	7,007	6,762	7,024
Dealers commission	6,740	8,960	10,752
Taxes other than income tax	3,806	1,970	5,897
Universal service fund	3,412	3,441	3,379
Cash collection commission	3,311	2,906	2,832
Consulting expenses	1,618	2,392	2,189
Billing and data processing	1,485	1,829	2,056
Other	2,748	2,694	2,560
Total	**94,046**	**87,340**	**88,095**

24. FINANCE INCOME AND COSTS

Finance income and costs for the year ended December 31, 2016; 2015 and 2014 comprised the following:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Interest expense:			
– Loans and notes	22,982	25,154	16,287
– Amortization of debt issuance costs	683	732	647
– Finance lease obligations	855	756	370
– Provisions: unwinding of discount	94	77	182
Total interest expense	**24,614**	**26,719**	**17,486**
Loss / (gain) on financial instruments	25	210	(142)
Other finance costs(2)	2,885	378	698
Total finance costs	**27,524**	**27,307**	**18,042**
Less: amounts capitalized on qualifying assets (1)	(388)	(885)	(790)
Finance costs	**27,136**	**26,422**	**17,252**
Finance income on loans and receivables			
– Interest income on bank deposits	4,277	7,187	3,960
– Interest income on loans	510	728	433
– Other finance income	486	453	126
Finance income	**5,273**	**8,368**	**4,519**
Net finance costs	**21,863**	**18,054**	**12,733**

(1) The annual weighted average capitalization rates of 8.3%, 8.3% and 7.44% were used to determine the amount of capitalized interest for the years ended December 31, 2016, 2015 and 2014, respectively.
(2) Including repurchase of MTS International Notes

(Amounts in millions of Russian Rubles unless otherwise stated)

25. 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, excluding depreciation and amortization. Management does not analyze assets or liabilities by reportable segments.

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 and retail operations.

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

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

The "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 Turkmenistan, Armenia, System Integrator, Satellite TV and Belarus.

In 2016, the Group ceased presenting Russia convergent and System Integrator as one reportable segment. Management has come to a conclusion that disaggregation may assist users of the financial statements better understand the Group's performance. Related financial information has, therefore, been retrospectively restated.

System Integrator includes NVision Group and SITRONICS Telecom Solutions, Ukraine, which develop and supply unique solutions and services in Russia's and Ukraine's information technology market.

The results of operations of UMS are reported as discontinued operations in the accompanying consolidated statements of profit or loss for all periods presented. The segment reporting for the years ended December 31, 2015 and 2014 was restated accordingly. The consolidated statement of financial position is not required to be retrospectively restated with respect to discontinued operations and therefore as of December 31, 2015 statement of financial position captions in the "Other" category of the following presentation include UMS.

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

Financial information by reportable segments is presented below:

Year ended December 31, 2016:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consoli-dated
Revenue							
External customers	358,750	34,796	27,026	420,572	14,995	125	435,692
Intersegment	4,928	4,871	2,161	11,960	10,394	(22,354)	-
Total revenue	**363,678**	**39,667**	**29,187**	**432,532**	**25,389**	**(22,229)**	**435,692**
Operating profit	82,374	10,850	3,599	96,823	2,717	(11,871)	87,669
Depreciation and amortization	60,285	10,900	6,304	77,489	4,207	(114)	81,582
Other disclosure:							
Capital expenditures	61,455	7,316	7,666	76,437	3,748	-	80,185

(Amounts in millions of Russian Rubles unless otherwise stated)

Year ended December 31, 2015:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consoli-dated
Revenue							
External customers	353,167	34,770	25,590	413,527	12,957	155	426,639
Intersegment	4,351	4,836	2,604	11,791	4,102	(15,893)	-
Total revenue	**357,518**	**39,606**	**28,194**	**425,318**	**17,059**	**(15,738)**	**426,639**
Operating profit	82,691	13,737	4,715	101,143	2,272	(9,492)	93,923
Depreciation and amortization	61,266	7,715	5,199	74,180	3,732	(69)	77,843
Other disclosure:							
Capital expenditures	64,364	9,303	19,955	93,622	5,099	-	98,721

Year ended December 31, 2014:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consoli-dated
Revenue							
External customers	336,099	35,938	29,088	401,125	9,476	77	410,678
Intersegment	4,633	4,886	3,722	13,241	1,541	(14,782)	-
Total revenue	**340,732**	**40,824**	**32,810**	**414,366**	**11,017**	**(14,705)**	**410,678**
Operating profit	86,310	13,568	3,409	103,287	5,683	(9,112)	99,858
Depreciation and amortization	57,647	7,609	6,779	72,035	2,760	(61)	74,734
Other disclosure:							
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.

Financial information by geographic areas is presented below:

	For the year ended December 31,		
Revenue	**2016**	**2015**	**2014**
Russia	396,531	388,504	372,080
Other	39,161	38,135	38,598
Total revenue	**435,692**	**426,639**	**410,678**

Non-current assets [1]	**As of December 31, 2016**	**As of December 31, 2015**
Russia	341,585	347,173
Other	40,069	64,553
Total non-current assets:	**381,654**	**411,726**

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

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

26. 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, then Uzdunrobita filed a petition with the Tashkent Economic Court for voluntary bankruptcy on the grounds of its inability to meet further payment 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. Uzdunrobita was later liquidated.

In 2012, the Group filed a claim against the Republic of Uzbekistan with 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'') on the basis of which MTS to reentered the market of Uzbekistant. 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% in UMS belonged 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 was governed by English law and provided for resolution of any disputes arising out of the Settlement Agreement in the International Court of Arbitration under International Chamber of Commerce in Paris (ICC).

On November 2014, ICSID 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 certain guaranties for investment protection and return of investments stipulated by 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

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 consolidated 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 re-entrance into Uzbekistan	(6,734)
Consideration paid	**-**

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.

Disposal of UMS

On August 5, 2016, the Group due to a variety of business reasons and other circumstances sold its 50.01% stake in UMS for USD 1 to another UMS shareholder - the State Unitary Enterprise Centre of Radio Communication, Radio Broadcasting and Television of The Ministry of Development of Information Technologies and Communications of the Republic of Uzbekistan.

The results of UMS operations were reported as discontinued operations in the accompanying consolidated statements of profit or loss. The consolidated statements of financial position and consolidated statements of cash flows for all periods presented were not retrospectively restated on discontinued operations.

UMS’s summary of financial information:

Results of discontinued operation

	For the year ended December 31,		
	2016	**2015**	**2014**
Revenue	5,115	4,610	104
Expenses	(6,602)	(10,939)	(988)
Loss before tax	**(1,487)**	**(6,329)**	**(884)**
Income tax gain / (loss) (note 19)	192	661	(75)
Loss for the period	**(1,295)**	**(5,668)**	**(959)**
Loss on sale of discontinued operations	(2,726)	-	-
Gain from re-entrance into Uzbekistan	-	-	6,734
(Loss) / profit from discontinued operations	**(4,021)**	**(5,668)**	**5,775**
Loss attributable to non-controlling interests	(654)	(2,834)	(445)
(Loss) / profit to owners of the Company	**(3,367)**	**(2,834)**	**6,220**
Basic (loss) / earnings per share	(1.69)	(1.43)	3.13
Diluted (loss) / earnings per share	(1.69)	(1.42)	3.12

(Amounts in millions of Russian Rubles unless otherwise stated)

Cash flows from (used in) discontinued operation

	For the year ended December 31,		
	2016	2015	2014
Net cash used in operating activities	(543)	(1,121)	(558)
Net cash used in investing activities	(1,253)	(2,195)	(1)
Net cash provided by financing activities	1,234	3,492	693

As of August 5, 2016, the carrying amounts of UMS net assets and reconciliation of the loss on disposal were as follows:

Property, plant and equipment	(6,960)
Other intangible assets	(2,922)
Other non-current assets	(2,577)
Cash and cash equivalents	(378)
Other current assets	(1,359)
Non-current liabilities	5,113
Current liabilities	2,484
Non-controlling interest	1,787
Accumulated other comprehensive income	2,086
Consideration received	**-**
Loss on disposal of UMS	**(2,726)**

27. LIABILITY UNDER PUT OPTION AGREEMENT

In September 2007, the Group acquired an 80% stake in International Cell Holding Ltd (ICH), 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 2016 ICH was liquidated and all its legal rights were assigned to Aramayo Investments Limited, a subsidiary of the Group. 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, 2018. The call option can be exercised during the period from July 1, 2010 up to December 31, 2018. 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 2,243 million and RUB 2,925 million as of December 31, 2016 and December 31, 2015 respectively (Note 17).

28. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of December 31, 2016, the Group had executed purchase agreements of approximately RUB 26,448 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 2066. Rental expenses under the operating leases of RUB 7,581 million, RUB 6,093 million and RUB 5,624 million for the years ended December 31, 2016, 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 18,955 million, RUB 19,549 million and RUB 17,638 million for the years ended December 31, 2016, 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, 2016 are as follows:

(Amounts in millions of Russian Rubles unless otherwise stated)

Payments due in	
2017	9,491
2018	918
2019	516
2020	301
2021	165
Thereafter	3,659
Total	**15,050**

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, 2016, tax declarations of MTS PJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review.

In 2016, the Russian tax authorities completed a tax audit of MTS PJSC for the years ended December 31, 2013 and 2012. Based on the results of this audit additional taxes, penalties and fines in the amount of RUB 586 million were accrued in the consolidated financial statements for the year ended December 31, 2016. The Group is preparing an appeal to the Federal Tax Service.

Pricing of goods and services provided within the Group is subject to transfer pricing rules.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements. However, the risk remains that the relevant tax authorities could take different positions with regard to interpretive issues and the effect could be significant.

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

	December 31, 2016	**December 31, 2015**
Contingent liabilities for additional taxes other than income tax	354	419
Contingent liabilities for additional income taxes	2,588	413

Licenses – 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 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 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 596 million as of December 31, 2016) adjusted for the rate of inflation in the years 2017-2018.

Management believes that as of December 31, 2016 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 and partly reversed in 2016. The Central Bank of Russia has decreased its key rate to 11% as of December 31, 2015 and further to 10% as of December 31, 2016. 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 its edition effective as of December 31, 2016 allows payment of dividends from the profit earned in 2014-2015, subject to certain restrictions. These circumstances, combined with continued political and economic instability in the country, could result in further negative impact on the Group's business including 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. As of December 31, 2016, the Group held RUB 3,617 million in current accounts and deposits in Ukrainian banks.

Anti-terror law – On July 7, 2016 a series of anti-terror laws (also known as "Yarovaya-Ozerov bundle of laws") was enacted by the signature of the President of Russia. In general terms, the laws mandate that operators store and record phone conversations, text messages of subscribers, images, sounds, video and other types of communications by telecommunications operators for defined periods of time. These requirements are to become effective starting July 1, 2018. Compliance with the laws may require the construction of additional storage, processing and indexing centers and a significant increase in the Group capital expenditures. This may adversely impact Group's financial indicators, in particular free cash flow.

The requirements of the anti-terror laws are currently being reviewed and clarified. The Group will estimate the potential impact of the laws on the Group's consolidated financial statements, including additional provisions, when requirements and any obligations are sufficiently specified.

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

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.

29. SUBSEQUENT EVENTS

Tender Offer announcement – On January 17, 2017, the Group announced details of a tender offer (the "Tender Offer") to repurchase its ordinary shares (including shares represented by ADSs) for up to RUB 4,647 million and completed the repurchase in March 2017. Under the Tender Offer, the Group purchased a total of 16,022,364 shares at a price per share of RUB 290.00, for a total cost of RUB 4,646 million. Simultaneously, the Group purchased 16,038,892 shares from Sistema Finance under the Sistema Purchase Agreement for an aggregate purchase price of RUB 4,651 million.

Early repayment of MTS Bank subordinated debt **–** In January 2017 MTS Bank, an associate of the Group, fully repaid its 10-year subordinated loan, received from the Group in September 2012 in the amount of RUB 2,100 million.

Notes issuance – In February 2017 the Group issued Notes due 2022 at par value of RUB 10,000 million and coupon rate of 9.00%.