PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements

As of June 30, 2015 and for the
Six-Month Period then Ended
(unaudited)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Amounts in millions of Russian Rubles)

	Notes	June 30, 2015	December 31, 2014	January 1, 2014
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment		291,118	299,023	269,838
Investment property		314	290	2,233
Goodwill		36,100	36,311	32,704
Other intangible assets		69,274	62,209	41,625
Investments in associates	6	12,383	15,217	11,232
Other investments	7	40,089	17,065	6,320
Deferred tax assets		5,633	6,186	2,334
Income tax assets		836	-	1,358
Accounts receivable, related parties	11	3,154	-	-
Other financial assets	9	17,348	21,950	1,831
Other non-financial assets		10	-	-
Total non-current assets		**476,259**	**458,251**	**369,475**
CURRENT ASSETS:				
Inventories		9,984	7,509	8,498
Trade and other receivables		35,504	34,463	37,016
Accounts receivable, related parties	11	5,394	4,525	965
Short-term investments	5	46,319	9,942	14,633
Advances paid and prepaid expenses		3,485	4,278	3,149
VAT receivable		9,653	8,071	6,651
Income tax assets		3,858	8,656	7,051
Assets held for sale		659	2,136	29
Cash and cash equivalents		44,120	61,410	30,612
Other assets		48	63	139
Total current assets		**159,024**	**141,053**	**108,743**
TOTAL ASSETS		**635,283**	**599,304**	**478,218**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Amounts in millions of Russian Rubles)

	Notes	30 June, 2015	31 December, 2014	1 January, 2014
EQUITY AND LIABILITIES				
EQUITY:				
Common stock		207	207	207
Treasury stock		(24,464)	(24,464)	(24,482)
Additional paid-in capital		10,880	5,052	2,506
Retained earnings		163,532	174,556	172,527
Accumulated other comprehensive (loss) / income		(1,646)	13,478	1,733
Equity attributable equity holders		148,509	168,829	152,491
Non-controlling interests		8,348	9,793	4,106
Total equity		**156,857**	**178,622**	**156,597**
NON-CURRENT LIABILITIES:				
Borrowings	8	270,055	248,549	192,664
Deferred tax liabilities		23,912	24,809	14,739
Provisions		2,957	2,838	4,535
Other non-financial liabilities		4,617	4,584	4,863
Other financial liabilities		521	522	3,321
Total non-current liabilities		**302,062**	**281,302**	**220,122**
CURRENT LIABILITIES:				
Trade and other payables		87,712	54,612	39,473
Accounts payable, related parties	11	2,816	4,674	3,315
Subscriber prepayments		14,848	19,355	17,884
Borrowings	8	48,921	41,416	24,460
Income tax liabilities		468	1,368	997
Provisions		8,005	8,684	7,155
Liabilities related to disposal group held for sale		13	227	-
Other non-financial liabilities		10,512	5,852	8,215
Other financial liabilities		3,069	3,192	-
Total current liabilities		**176,364**	**139,380**	**101,499**
TOTAL EQUITY AND LIABILITIES		**635,283**	**599,304**	**478,218**

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(Amounts in millions of Russian Rubles, per share amounts)

	Notes	Six months ended June 30, 2015	Six months ended June 30, 2014
Service revenue		188,831	184,174
Sales of handsets and accessories		14,042	12,251
		202,873	**196,425**
Cost of services		63,400	57,062
Cost of handsets and accessories		11,729	10,820
Selling, general and administrative expenses	12	44,745	42,702
Depreciation and amortization		40,669	36,429
Operating share of the profit of associates		(1,643)	(1,014)
Other expenses	14	2,309	1,040
Operating profit		**41,664**	**49,386**
Finance income		(4,763)	(2,316)
Finance costs		12,609	8,480
Currency exchange gains		(107)	(435)
Non-operating share of the loss of associates		804	219
Change in fair value of financial instruments		(91)	(943)
Other (income) / expenses		(114)	190
Profit before tax		**33,326**	**44,191**
Income tax expense	10	6,649	9,364
Profit for the period		**26,677**	**34,827**
Profit / (loss) for the period attributable to:			
Equity holders		27,961	34,519
Non-controlling interests		(1,284)	308
Earnings per share (basic and diluted), Russian Rubles:		14.06	17.36

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Amounts in millions of Russian Rubles)

	Six months ended June 30, 2015	**Six months ended June 30, 2014**
Profit for the period	26,677	34,827
Other comprehensive (loss) / income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(12,042)	(9,647)
Net fair value (loss) / gain on financial instruments	(3,402)	1,173
Other comprehensive loss for the period, net of income tax	**(15,444)**	**(8,474)**
Total comprehensive income for the period	**11,233**	**26,353**
Total comprehensive income / (loss) for the period attributable to:		
Equity holders	12,837	26,045
Non-controlling interests	(1,604)	308

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(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 interest	Total equity
	Shares	Amount	Shares	Amount		Investments revaluation reserve	Foreign currency translation reserve	Remeasure-ments of the net defined benefit liability				
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 period	-	-	-	-	-	-	-	**-**	**34,519**	**34,519**	**308**	**34,827**
Other comprehensive income / (loss) for the period, net of income tax	-	-	-	-	-	1,173	(9,647)	-	-	(8,474)	**-**	(8,474)
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**-**	**-**	**1,173**	**(9,647)**	**-**	**34,519**	**26,045**	308	**26,353**
Issuance of stock options	-	-	-	-	**42**	-	-	-	-	42	-	**42**
Dividends declared by MTS	-	-	-	-	-	-	-	-	(36,994)	(36,994)	-	(36,994)
Dividends to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(357)	(357)
Sale of own stock	-	-	**90,881**	**20**	**4**	-	-	-	-	24	-	**24**
Acquisition of NCI in Teleservice	-	-	-	-	(23)	-	-	-	-	(23)	(3)	(26)
Sale of Business Nedvizhimost	-	-	-	-	**2,279**	-	-	-	-	**2,279**	**146**	**2,426**
Balances at June 30, 2014	**2,066,413,562**	**207**	**(77,491,497)**	**(24,462)**	**4,808**	**2,777**	**(9,647)**	**129**	**170,052**	**143,864**	**4,200**	**148,064**
Balances at January 1, 2015	**2,066,413, 562**	**207**	**(77,501,432)**	**(24,464)**	**5,052**	**4,267**	**8,804**	**407**	**174,556**	**168,829**	**9,793**	**178,622**
Profit / (loss) for the period	-	-	-	-	-	-	-	-	27,961	27,961	(1,284)	26,677
Other comprehensive loss for the period, net of income tax	-	-	-	-	-	(3,402)	(11,722)	-	-	(15,124)	**(320)**	(15,444)
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**-**	**-**	**(3,402)**	**(11,722)**	**-**	**27,961**	**12,837**	(1,604)	**11,233**
Issuance of stock options	-	-	-	-	79	-	-	-	-	79	-	79
Dividends declared by MTS	-	-	-	-	-	-	-	-	(38,903)	(38,903)	-	(38,903)
Dividends to non-controlling interest	-	-	-	-	-	-	-	-	(82)	(82)	(257)	(339)
Disposal of Intellect Telecom (Note 4)	-	-	-	-	252	-	-	-	-	252	14	266
Disposal of Rent Nedvizhimost (Note 4)	-	-	-	-	6,003	-	-	-	-	6,003	342	6,345
Acquisition of NIS (Note 4)	-	-	-	-	(506)	-	-	-	-	(506)	(29)	(535)
Increase of share capital of NIS	-	-	-	-	-	-	-	-	-	-	89	89
Balances at June 30, 2015	**2,066,413, 562**	**207**	**(77,501,432)**	**(24,464)**	**10,880**	**865**	**(2,918)**	**407**	**163,532**	**148,509**	**8,348**	**156,857**

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in millions of Russian Rubles)

	Six months ended June 30, 2015	Six months ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	26,677	34,827
Adjustments for:		
Depreciation and amortization	40,669	36,429
Finance income	(4,763)	(2,316)
Finance costs	12,609	8,480
Income tax expense	6,649	9,364
Currency exchange gain	(107)	(435)
Amortization of deferred connection fees	(569)	(576)
Share of the profit of associates	(839)	(795)
Change in fair value of financial instruments	(91)	(943)
Inventory obsolescence expense	86	162
Allowance for doubtful accounts	1,483	1,733
Change in provisions	4,752	4,851
Other non-cash items	(294)	(59)
Movements in operating assets and liabilities:		
(Increase) / decrease in trade and other receivables	(4,824)	2,698
(Increase) / decrease in inventory	(2,516)	1,030
Decrease in advances paid and prepaid expenses	3,113	716
(Increase) / decrease in VAT receivable	(1,599)	280
Increase / (decrease) in trade and other payables and other current liabilities	2,103	(6,614)
Dividends received	1,471	1,303
Income tax paid	(4,207)	(5,898)
Interest received	2,062	1,292
Interest paid, net of interest capitalized	(9,849)	(7,691)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**72,016**	**77,838**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(40,921)	(23,062)
Purchases of intangible assets	(12,720)	(5,447)
Purchase of 3G licenses in Ukraine	(7,044)	-
Proceeds from sale of property, plant and equipment and assets held for sale	1,326	231
Purchases of short-term investments	(28,790)	(29,187)
Proceeds from sale of short-term investments	4,422	23,383
Purchases of other investments	(39,867)	(15,283)
Proceeds from sale of other investments	97	730
Investments in associates	-	(2,702)
NET CASH USED IN INVESTING ACTIVITIES	**(123,497)**	**(51,337)**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(Amounts in millions of Russian Rubles)

	Six months ended June 30, 2015	Six months ended June 30, 2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes	(479)	(16,619)
Notes and debt issuance cost paid	(1,213)	(25)
Finance lease obligation principal paid	(224)	(20)
Dividends paid	(82)	(56)
Cash flows from transactions under common control	4,252	-
Proceeds from loans	43,818	20,000
Repayment of loans	(9,009)	(5,944)
Other financial activities	5	(2)
NET CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES	**37,068**	**(2,666)**
Effect of exchange rate changes on cash and cash equivalents	**(2,924)**	**(998)**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(17,337)**	**22,837**
CASH AND CASH EQUIVALENTS, beginning of the period, including cash and cash equivalents within assets held for sale 156 and nil, respectively	**61,566**	**30,612**
CASH AND CASH EQUIVALENTS, end of the period	**44,229**	**53,449**
Less cash and cash equivalents within assets held for sale	(109)	-
CASH AND CASH EQUIVALENTS, end of the period	**44,120**	**53,449**

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

1. DESCRIPTION OF BUSINESS

Business of the Group – Public Joint-Stock Company Mobile TeleSystems ("MTS PJSC", or "the Company") was incorporated on March 1, 2000, through the merger of MTS CJSC and Rosico TC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow license area in 1994 and then began expanding through Russia and the CIS. MTS PJSC's majority shareholder is Joint-Stock Financial Corporation Sistema or "Sistema", whose controlling shareholder is Vladimir P. Yevtushenkov.

In these notes, "MTS" or "the Group" refers to the Company and its subsidiaries.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation – The Group has previously prepared its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Its last issued consolidated financial statements prepared in accordance with US GAAP are those as of December 31, 2014 and for the year then ended. The Group will prepare its first annual consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as of December 31, 2015 and for the year than ended.

These are the Group's first IFRS interim condensed consolidated financial statements for part of the period covered by the first IFRS annual consolidated financial statements, and IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, has been applied. These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 3. The Note includes reconciliations of equity and comprehensive income for comparative periods and of equity at the date of transition reported under US GAAP to those reported for those periods and at the date of transition under IFRS.

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

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

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 effective date of acquisition or until the date on which the Company ceases to control the entity. If necessary, the accounting policies of controlled entities' are aligned with the accounting policy applied by the Group. All intra-group balances, income, expenses and cash flows are eliminated on consolidation.

Those entities where the Group exercises significant influence are recognized as associates and accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. These entities are recognized at cost at the time of acquisition and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income. The carrying amount of the investment in such entities may include goodwill as the positive difference between the cost of the investment and Group's proportionate share in the fair values of the entity's identifiable assets and liabilities. If necessary, the entities' accounting policies are aligned with the accounting policy applied by the Group. 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 June 30, 2015, only MTS Belarus was considered to be a part of Group's core operating activity. Shares in profits and losses of other Group's associates were presented as non-operating items.

The Group has joint operations with MTS Bank, the Group associate, relating to development of 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 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 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

As of June 30, 2015, December 31, 2014 and January 1, 2014, the Company had investments in the following significant legal entities:

	Accounting method	June 30, 2015	December 31, 2014	January 1, 2014
MTS Turkmenistan	Consolidated	100.0%	100.0%	100.0%
MTS Bermuda(1)	Consolidated	100.0%	100.0%	100.0%
MTS Finance	Consolidated	100.0%	100.0%	100.0%
MTS Ukraine	Consolidated	100.0%	100.0%	100.0%
RTC	Consolidated	100.0%	100.0%	100.0%
Sibintertelecom	Consolidated	100.0%	100.0%	100.0%
TVT(2)	Consolidated	-	-	100.0%
Sputnikovoe TV	Consolidated	100.0%	100.0%	100.0%
Sistema Telecom(2)	Consolidated	-	-	100.0%
Elf Group(2)	Consolidated	-	-	100.0%
Intercom(2)	Consolidated	-	-	100.0%
Zheleznogorsk City Telephone Communications (“ZhelGorTeleCom”)(2)	Consolidated	-	-	100.0%
Pilot(2)	Consolidated	-	-	100.0%
TVKiK(2)	Consolidated	-	-	100.0%
Dega	Consolidated	100.0%	100.0%	100.0%
SMARTS Group	Consolidated	100.0%	100.0%	-
Metro-Telecom	Consolidated	95.0%	95.0%	95.0%
MGTS Group	Consolidated	94.6%	94.6%	94.6%
Navigation Information Systems Group	Consolidated	84.7%	-	-
K-Telecom	Consolidated	80.0%	80.0%	80.0%
UMS	Consolidated	50.01%	50.01%	-
MTS International Funding Limited(3) (“MTS International”)	Consolidated	SE	SE	SE
Intellect Telecom	Equity	-	47.3%	47.3%
Stream	Equity	45.0%	45.0%	45.0%
MTS Belarus	Equity	49.0%	49.0%	49.0%
MTS Bank	Equity	27.0%	27.0%	26.3%
OZON Holdings Limited	Equity	10.8%	10.8%	-

(1) A wholly-owned subsidiary established to repurchase the Group’s ADSs
(2) Merged with MTS PJSC on October 1, 2014.
(3) A private company organized and existing as a private limited company under the laws of Ireland. The Group does not have any equity in MTS International. It was established for the purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group. In 2010 and 2013, MTS International issued $750 million 8.625% notes due in 2020 and $500 million 5.0% notes due in 2023, respectively (Note 8). 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 accounted for as of the date of these transactions; comparative information is not restated. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the counterparty’s financial statements with the resulting gain or loss recognized directly in equity.

Functional currency translation methodology – As of June 30, 2015, the functional currencies of Group entities were as follows:

- For entities incorporated in the Russian Federation, MTS Bermuda, MTS Finance, Dega and MTS International – the Russian Ruble (“RUB”);
- For MTS Ukraine – the Ukrainian Hryvna;
- For MTS Turkmenistan – the Turkmenian Manat;
- For K-Telecom – the Armenian Dram;
- For Universal Mobile Services (“UMS”) – the Uzbek Sum;
- For MTS Belarus – the Belorussian Ruble.

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

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

Management estimates – The preparation of 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	3-44 years
Other	5-21 years
Land and buildings:	
Buildings	20-150 years
Leasehold improvements	the term of the lease
Office equipment, vehicles and other:	
Office equipment	2-21 years
Vehicles	3-7 years
Other	2-25 years

The estimated useful lives, residual values 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 or retirement 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 6 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 acquired. Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated. The impairment test is carried out on a regular basis at the end of each financial year, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced in the amount of the difference. 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 it 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 held for sale – The Group classifies assets and disposal groups as held for sale when all the following conditions have been met: 1) The assets will be sold in a sale transaction; 2) The assets are available for immediate sale; 3) The sale is highly probable; 4) The sale is expected to take place within one 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 income tax rate on dividends paid within Russia is 13%. The foreign subsidiaries of the Group are paying income 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 tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Financial instruments – A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade and other receivables, investments (mainly deposits with original maturity of more than three months, originated loans and notes) and derivative financial assets. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds, trade and other payables, bank loans, finance lease payables 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 and are stated at their nominal value as reduced by appropriate allowance for doubtful accounts.

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

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

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

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 and 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.

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

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

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

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

Liability under put option agreement – To optimize the structure of business acquisitions and to defer payment of the purchase price, the Group enters into put and call option agreements to acquire the remaining noncontrolling stakes in newly acquired subsidiaries. Upon initial recognition, the commitment to purchase non-controlling interests is recognized as a financial liability for the present value of the redemption amount under the put option. 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 shorter of the estimated useful life or the lease term. The corresponding liability is recognized in the statement of financial position within borrowings. The discount rate used in the calculating the present value of minimum lease payments is the interest rate implicit in the lease. If there is no interest rate in the lease, the Group 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 – The Group contributes to the local state pension and social funds on behalf of all its employees.

In Russia, all social contributions paid during the six months ended June 30, 2015 are represented by payments to governmental social funds, including the Pension Fund of the Russian Federation, the Social Security Fund of the Russian Federation and the Medical Insurance Fund of the Russian Federation. The contributions are expensed as incurred.

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 carries out at the end of each reporting period.

In Ukraine, Uzbekistan, Turkmenistan and Armenia the subsidiaries of the Group are required to contribute a specified percentage of each employee's payroll up to a fixed limit to the local pension, unemployment and social security funds.

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

Provision for decommissioning and restoration – The Group calculates provision for decommissioning and restoration when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group recorded the present value of provision for decommissioning and restoration as non-current provisions in the consolidated statement of financial position.

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

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

Revenue recognition – Revenue includes all revenues from the ordinary business activities of the Group. Revenues are measured at the fair value of the consideration received or receivable and recorded net of value-added tax. The Group recognizes revenue when the amount of revenue and related costs can be measured reliably; when it is probable that future economic benefit will flow to the Group; and when specific criteria have been met, as described below.

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

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

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

Mobile subscribers	7 months-5 years
Residential wireline voice phone subscribers	15 years
Residential subscribers of broadband internet service	1 year
Other fixed line subscribers	3-5 years

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

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

(Amounts in millions of Russian Rubles unless otherwise stated)

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.

Standards, interpretations and amendments in issue but not yet effective

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

IFRS 9	Financial Instruments [1)]
IFRS 15	Revenue from contracts with Customers [2)]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations [3)]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization [3)]
Amendments to IAS 19	Defined Benefit Plans: Employee Contribution [4)]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle [5)]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle [4)]

1) Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted
2) Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted
3) Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted
4) Effective for annual periods beginning on or after July 1, 2014, with earlier application permitted
5) Effective for annual periods beginning on or after July 1, 2014, with limited exceptions. Earlier application is permitted

IFRS 9, *Financial Instruments*. IFRS 9 governs the classification and measurement of financial assets and liabilities, derecognition, impairment and hedge accounting matters. The amendments do not 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 Group is currently evaluating the impact of these amendments and the transition alternatives on the consolidated financial statements.

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

3. IFRS FIRST-TIME ADOPTION

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

Accounting principles described in Note 2 were applied when preparing the interim condensed consolidated financial statements as of June 30, 2015 and for the six months then ended, comparative information and the opening statement of financial position as of the date of transition to IFRS. An explanation of how the transition from previous GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set further in this note.

As a first-time adopter of IFRS, the Group applied IFRS 1, *First-Time Adoption of International Financial Reporting Standards*. The Standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS effective at June 30, 2015.

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

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

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

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

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

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

Changes in the presentation – The Group changed the presentation of certain items in the interim condensed consolidated statement of financial position and total comprehensive income as compared to the presentation used under US GAAP. The most significant changes in the presentation related to:

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

(Amounts in millions of Russian Rubles unless otherwise stated)

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

	Notes	US GAAP	Adjustments	Reclassi-fication	IFRS
ASSETS					
Property, plant and equipment	H, I, J, K	268,427	1,411	-	269,838
Investment property		2,233	-	-	2,233
Goodwill		32,704	-	-	32,704
Other intangible assets		41,625	-	-	41,625
Investments in associates	A, M	13,394	(62)	(2,100)	11,232
Other investments	A	4,392	(172)	2,100	6,320
Deferred tax assets	B	862	-	1,472	2,334
Income tax assets		1,358	-	-	1,358
Other financial assets		1,831	-	-	1,831
Other non-current assets	C	2,022	-	(2,022)	-
Total non-current assets		**368,848**	**1,177**	**(550)**	**369,475**
Inventories		8,498	-	-	8,498
Trade and other receivables		37,016	-	-	37,016
Accounts receivable, related parties		965	-	-	965
Short-term investments		14,633	-	-	14,633
Advances paid and prepaid expenses		3,149	-	-	3,149
VAT receivable		6,651	-	-	6,651
Income tax assets		7,051	-	-	7,051
Assets held for sale		29	-	-	29
Cash and cash equivalents		30,612	-	-	30,612
Other assets	B	8,072	-	(7,933)	139
Total current assets		**116,676**	**-**	**(7,933)**	**108,743**
TOTAL ASSETS		**485,524**	**1,177**	**(8,483)**	**478,218**
EQUITY AND LIABILITIES					
Common stock		207	-	-	207
Treasury stock		(24,482)	-	-	(24,482)
Additional paid-in capital		3,020	(514)	-	2,506
Retained earnings	D	188,218	677	(16,368)	172,527
Accumulated other comprehensive (loss) / income	D	(15,030)	395	16,368	1,733
Equity attributable to equity holders		151,933	558	-	152,491
Non-controlling interests		4,122	(16)	-	4,106
Total equity		**156,055**	**542**	**-**	**156,597**
Borrowings	C	194,083	-	(1,419)	192,664
Deferred tax liabilities	B	21,201	(2)	(6,460)	14,739
Provisions	J, L	4,137	398	-	4,535
Other non-financial liabilities		4,863	-	-	4,863
Other financial liabilities		3,321	-	-	3,321
Total non-current liabilities		**227,605**	**396**	**(7,879)**	**220,122**
Trade and other payables	L,N	39,768	(295)	-	39,473
Accounts payable, related parties		3,315	-	-	3,315
Subscriber prepayments		17,884	-	-	17,884
Borrowings	C	25,064	-	(604)	24,460
Income tax liabilities		997	-	-	997
Provisions		7,155	-	-	7,155
Other non-financial liabilities	N	7,681	534	-	8,215
Total current liabilities		**101,864**	**239**	**(604)**	**101,499**
TOTAL EQUITY AND LIABILITIES		**485,524**	**1,177**	**(8,483)**	**478,218**

(Amounts in millions of Russian Rubles unless otherwise stated)

Reconciliation of equity as of June 30, 2014:

	Notes	US GAAP	Adjustments	Reclassi-fication	IFRS
ASSETS					
Property, plant and equipment	H, I, J, K	263,471	19	-	263,490
Investment property		2,252	-	-	2,252
Goodwill		32,752	-	-	32,752
Other intangible assets		40,802	-	-	40,802
Investments in associates	A, M	15,351	(95)	(2,100)	13,156
Other investments	A	18,046	(172)	2,100	19,974
Deferred tax assets	B	754	75	951	1,780
Income tax assets		658	-	-	658
Other financial assets		3,293	-	-	3,293
Other non-current assets	C	1,711	-	(1,711)	-
Total non-current assets		**379,090**	**(173)**	**(760)**	**378,157**
Inventories		7,281	-	-	7,281
Trade and other receivables		31,289	-	-	31,289
Accounts receivable, related parties		4,211	-	-	4,211
Short-term investments		20,778	-	-	20,778
Advances paid and prepaid expenses		3,005	-	31	3,036
VAT receivable		6,312	-	-	6,312
Current income tax assets		5,426	-	(41)	5,385
Assets held for sale		43	-	-	43
Cash and cash equivalents		53,449	-	-	53,449
Other assets	B	8,139	-	(7,993)	146
Total current assets		**139,933**	**-**	**(8,003)**	**131,930**
TOTAL ASSETS		**519,023**	**(173)**	**(8,763)**	**510,087**
EQUITY AND LIABILITIES					
Common stock		207	-	-	207
Treasury stock		(24,462)	-	-	(24,462)
Additional paid-in capital		5,570	(762)	-	4,808
Retained earnings	D	186,229	191	(16,368)	170,052
Accumulated other comprehensive (loss) / income	D	(23,896)	787	16,368	(6,741)
Equity attributable to equity holders		143,648	216	-	143,864
Non-controlling interests		4,216	(16)	-	4,200
Total equity		**147,864**	**200**	**-**	**148,064**
Borrowings	C	213,771	-	(1,178)	212,593
Deferred tax liabilities	B	23,826	-	(7,043)	16,783
Provisions	J, L	4,211	(515)	-	3,696
Other financial liabilities		2,623	-	-	2,623
Other liabilities		4,581	-	-	4,581
Total non-current liabilities		**249,012**	**(515)**	**(8,221)**	**240,276**
Trade and other payables	L, N	75,814	(223)	-	75,591
Accounts payable, related parties		2,627	-	-	2,627
Subscriber prepayments		14,739	-	-	14,739
Borrowings	C	10,381	-	(501)	9,880
Income tax liabilities		1,601	-	(41)	1,560
Provisions		6,576	-	-	6,576
Other non-financial liabilities	N	10,409	365	-	10,774
Total current liabilities		**122,147**	**142**	**(542)**	**121,747**
TOTAL EQUITY AND LIABILITIES		**519,023**	**(173)**	**(8,763)**	**510,087**

(Amounts in millions of Russian Rubles unless otherwise stated)

Reconciliation of equity as of December 31, 2014:

	Notes	US GAAP	Adjust-ments	Reclassi-fication	IFRS
ASSETS					
Property, plant and equipment	H, I, J, K	299,189	(166)	-	299,023
Investment property		290	-	-	290
Goodwill		36,311	-	-	36,311
Other intangible assets		62,469	(260)	-	62,209
Investments in associates	A, M	16,277	1,286	(2,346)	15,217
Other investments	A	14,969	(172)	2,268	17,065
Deferred tax assets	B	3,610	(165)	2,741	6,186
Income tax assets		-	-	-	-
Other financial assets		21,950	-	-	21,950
Other non-current assets	C	1,738	-	(1,738)	-
Total non-current assets		**456,803**	**523**	**925**	**458,251**
Inventories		7,510	(1)	-	7,509
Trade and other receivables		34,464	(1)	-	34,463
Accounts receivable, related parties		4,525	-	-	4,525
Short-term investments		9,848	94	-	9,942
Advances paid and prepaid expenses		4,247	-	31	4,278
VAT receivable		8,071	-	-	8,071
Current income tax assets		8,720	(5)	(59)	8,656
Assets held for sale		2,058	-	78	2,136
Cash and cash equivalents		61,410	-	-	61,410
Other assets	B	11,269	-	(11,206)	63
Total current assets		**152,122**	**87**	**(11,156)**	**141,053**
TOTAL ASSETS		**608,925**	**610**	**(10,231)**	**599,304**
EQUITY AND LIABILITIES					
Common stock		207	-	-	207
Treasury stock		(24,464)	-	-	(24,464)
Additional paid-in capital		5,420	(368)	-	5,052
Retained earnings	D	191,081	(157)	(16,368)	174,556
Accumulated other comprehensive (loss) / income	D	(6,295)	3,405	16,368	13,478
Equity attributable to equity holders		165,949	2,880	-	168,829
Non-controlling interests		9,976	(183)	-	9,793
Total equity		**175,925**	**2,697**	**-**	**178,622**
Borrowings	C	249,717	-	(1,168)	248,549
Deferred tax liabilities	B	33,280	(5)	(8,466)	24,809
Provisions	J, L	4,267	(1,429)	-	2,838
Other non-financial liabilities		4,584	-	-	4,584
Other financial liabilities		522	-	-	522
Total non-current liabilities		**292,370**	**(1,434)**	**(9,634)**	**281,302**
Trade and other payables	L, N	54,981	(369)	-	54,612
Accounts payable, related parties		4,674	-	-	4,674
Subscriber prepayments		19,355	-	-	19,355
Borrowings	C	42,674	(720)	(538)	41,416
Current income tax liabilities		1,427	-	(59)	1,368
Provisions		8,684	-	-	8,684
Liabilities related to disposal group held for sale		227	-	-	227
Other non-financial liabilities	N	5,416	436	-	5,852
Other financial liabilities		3,192	-	-	3,192
Total current liabilities		**140,630**	**(653)**	**(597)**	**139,380**
TOTAL EQUITY AND LIABILITIES		**608,925**	**610**	**(10,231)**	**599,304**

(Amounts in millions of Russian Rubles unless otherwise stated)

Reconciliation of statement of profit or loss for the six months ended June 30, 2014:

	Notes	US GAAP	Adjustments	Reclas-sifications	IFRS
Service revenue	E, N	184,442	(5)	(263)	184,174
Sales of handsets and accessories	E, N	11,980	8	263	12,251
		196,422	**3**	**-**	**196,425**
Cost of services	F, L	57,167	3	(108)	57,062
Cost of handsets and accessories		10,820	-	-	10,820
Selling general and administrative expenses		42,711	(9)	-	42,702
Depreciation and amortization expense	H, I, J, K	36,273	156	-	36,429
Operating share of the profit of associates	G, M	-	359	(1,373)	(1,014)
Other expenses	I	1,042	(2)	-	1,040
Operating profit		**48,409**	**(504)**	**1,481**	**49,386**
Finance income		(2,316)	-	-	(2,316)
Finance costs	F, J, K	8,011	361	108	8,480
Currency exchange gains		(435)	-	-	(435)
Non-operating share of the (profit) / loss of associates	G	(1,154)	-	1,373	219
Change in fair value of financial instruments		(164)	(779)	-	(943)
Other expenses		190	-		190
Profit before tax		**44,277**	**(86)**	**-**	**44,191**
Income tax expense		9,723	(359)	-	9,364
Profit for the period		**34,554**	**273**	**-**	**34,827**
Profit for the period attributable to:					
Equity holders		34,114	405	-	34,519
Non-controlling interests		440	(132)	-	308

Reconciliation of statement of comprehensive income for the six months ended June 30, 2014:

	Notes	US GAAP	Adjustments	Reclas-sifications	IFRS
Profit for the period		34,554	273	-	34,827
Other comprehensive (loss) / income					
Items that will not be reclassified subsequently to profit or loss:		-			
Remeasurement of defined benefit obligation		9	(9)	-	-
Items that may be reclassified subsequently to profit or loss:		-			
Exchange differences on translating foreign operations		(10,012)	365	-	(9,647)
Net fair value gain on financial instruments		1,173	-	-	1,173
Other comprehensive loss for the period, net of income tax		**(8,830)**	**356**	**-**	**(8,474)**
Total comprehensive income for the period		**25,724**	**629**	**-**	**26,353**
Total comprehensive income for the period attributable to:					
Equity holders		25,248	797	-	26,045
Non-controlling interests		476	(168)	-	308

(Amounts in millions of Russian Rubles unless otherwise stated)

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

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

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

	Notes	US GAAP	Adjustments	Reclas-sifications	IFRS
Profit for the period		52,393	(897)	-	51,496
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation		14	264	-	278
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		8,925	2,020	-	10,945
Net fair value gain on financial instruments		2,801	(137)	-	2,664
Other comprehensive income for the period, net of income tax		**11,740**	**2,147**	-	**13,887**
Total comprehensive income for the period		**64,133**	**1,250**	-	**65,383**
Total comprehensive income for the period attributable to:					
Equity holders		60,558	2,494	-	63,052
Non-controlling interests		3,575	(1,244)	-	2,331

Reclassifications:

A – Loans to Associates

Loans to associates are treated as other investments instead of investments in associates.

B – Deferred Taxes

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

C – Debt issuance costs

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

D – Currency translation differences

Please refer to exemption on currency translation differences described above.

E – Revenue for multiple element arrangements

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

F – Decommissioning and restoration costs

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

G – Share of the profit of loss of associates

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

Adjustments:

H – Reversal of Turkmenistan impairment

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

I – Change in functional currency

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

J – Provision for decommissioning and restoration

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

K – Capitalization of interest

According to IFRS, borrowing costs are capitalized for qualifying assets that require a substantial period of time to get ready for its intended use or sale. US GAAP does not require such a period to be substantial. The Group defined that only assets that require more than 6 months to get ready for their intended use or sale are qualifying assets and remeasured the value of related capitalized interest for the reporting periods after the date of transition.

L – Retirement obligation in MGTS

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

M – Hyperinflation accounting

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

N – Loyalty programs

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

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

4. BUSINESS ACQUISITIONS AND DISPOSALS

Acquisition and disposals in 2015

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 100% subsidiary Rent Nedvizhimost to Business Nedvizhimost, 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 this remaining 49% interest to Business Nedvizhimost for RUB 4.2 billion. These disposals were accounted for as transactions under common control directly in equity.

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.

5. SHORT-TERM INVESTMENTS

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

	Classification	June 30, 2015	December 31, 2014	January 1, 2014
Deposits	Loans and receivables	34,172	3,534	10,458
Mutual Investment Fund "Reservniy" (Note11)	Available for sale	-	-	4,154
Loans	Loans and receivables	11,905	5,832	21
Notes	Available for sale	242	576	-
Total short-term investments		**46,319**	**9,942**	**14,633**

6. INVESTMENTS IN ASSOCIATES

The Group's investments in associates comprised the following:

	Country of operations	Operating activity	June 30, 2015	December 31, 2014	January 1, 2014
MTS Bank	Russia	banking	3,813	4,857	5,476
MTS Belarus	Belarus	telecommunications	5,492	7,318	4,951
Equity investments in other unquoted companies	Russia	e-commerce, leasing, content provider, etc.	3,078	3,042	805
Total investments in associates			**12,383**	**15,217**	**11,232**

The Group's share in the profit of MTS Belarus was included in operating profit in the accompanying consolidated statement of profit or loss in amount of RUB 1,643 million and RUB 1,014 million for the six months ended June 30, 2015 and 2014, respectively. The Group's share in the net losses of other associates was included in non-operating (income) / expenses in the accompanying consolidated statement of profit or loss in amount of RUB 804 million and RUB 219 million for the six months ended June 30, 2015 and 2014, respectively.

(Amounts in millions of Russian Rubles unless otherwise stated)

7. OTHER INVESTMENTS

The Group's other investments comprised the following:

	Classification	June 30, 2015	December 31, 2014	January 1, 2014
Deposits	Loans and receivables	36,802	13,671	-
Loans	Loans and receivables	2,308	2,475	5,046
Notes	Held to maturity	506	446	1,145
Other	At cost	473	473	129
Total other investments		**40,089**	**17,065**	**6,320**

8. BORROWINGS

The Group's borrowings comprise the following:

	June 30, 2015	December 31, 2014	January 1, 2014
Notes	104,920	106,178	102,378
Bank and other loans	205,224	174,392	114,698
Finance lease obligations	8,832	9,395	48
Total borrowings	**318,976**	**289,965**	**217,124**
Less: current portion	(48,921)	(41,416)	(24,460)
Total borrowings, long-term	**270,055**	**248,549**	**192,664**

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

	Currency	Interest rate	June 30, 2015	December 31, 2014	January 1, 2014
MTS International Notes due 2020 (Note 2)	USD	8.625%	34,209	34,933	24,401
MTS International Notes due 2023 (Note 2)	USD	5.00%	26,261	26,812	16,244
MTS PJSC Notes due 2020	RUB	8.15%	14,996	14,990	14,978
MTS PJSC Notes due 2017	RUB	8.70%	9,987	9,984	9,979
MTS PJSC Notes due 2023	RUB	8.25%	9,965	9,958	9,945
MTS PJSC Notes due 2015	RUB	7.75%	7,538	7,541	7,545
MTS PJSC Notes due 2016	RUB	8.75%	1,788	1,788	1,788
MTS PJSC Notes due 2018	RUB	12.00%	141	136	3,844
MTS PJSC Notes due 2015 (A series)	RUB	0.67%	11	12	12
MTS PJSC Notes due 2015-2016 (B series)	RUB	0.54%	12	12	12
MTS PJSC Notes due 2021-2022 (V series)	RUB	0.25%	12	12	12
MTS PJSC Notes due 2014	RUB	7.60%	-	-	13,618
Total notes			**104,920**	**106,178**	**102,378**
Less: current portion			(22,644)	(22,636)	(17,396)
Total notes, long-term			**82,276**	**83,542**	**84,982**

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

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group discloses these notes as maturing in 2015 (MTS PJSC Notes due 2018 and 2020) and in 2018 (MTS PJSC Notes due 2023) in the aggregated maturities schedule as the noteholders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons.

The fair values of notes based on the market quotes as of June 30, 2015 at the stock exchanges where they are traded were as follows:

	Stock exchange	% of par	Fair value
MTS International Notes due 2020	Frankfurt stock exchange	107.10	36,759
MTS International Notes due 2023	Frankfurt stock exchange	88.85	23,424
MTS PJSC Notes due 2020	Moscow Exchange	98.44	14,767
MTS PJSC Notes due 2017	Moscow Exchange	94.44	9,444
MTS PJSC Notes due 2023	Moscow Exchange	94.06	9,406
MTS PJSC Notes due 2015	Moscow Exchange	99.00	7,463
MTS PJSC Notes due 2016	Moscow Exchange	98.00	1,752
MTS PJSC Notes due 2018	Moscow Exchange	99.99	141
Total notes			**103,156**

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

	Maturity	Interest rate (actual at June 30, 2015)	June 30, 2015	December 31, 2014	January 1, 2014
USD-denominated:					
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2015-2020	LIBOR + 1.15% (1.59%)	33,250	37,062	24,957
Citibank	2015-2024	LIBOR + 0.9% (1.34%)	13,828		
Skandinavska Enskilda Banken AB	2015-2017	LIBOR + 0.23%-1.8% (0.67%-2.24%)	4,021	5,115	4,137
Other	-	-	-	81	642
			51,099	**42,258**	**29,736**
EUR-denominated:					
Credit Agricole Corporate Bank and BNP Paribas	2015-2018	EURIBOR + 1.65% (1.7%)	1,469	1,864	1,511
LBBW	2015-2017	EURIBOR +1.52% (1.57%)	708	943	816
Bank of China	-	-	-	-	2,337
			2,177	**2,807**	**4,664**
RUB-denominated:					
Sberbank	2015-2021	8.45%-13.2%	149,608	124,535	79,795
Notes in REPO	-	-	-	3,425	-
Other	2015-2025	Various	579	375	395
			150,187	**128,335**	**80,190**
UZS-denominated:					
Aloqabank	2019-2022	12%	1,707	758	-
Uzbektelecom	2015	10%	54	58	-
			1,761	**816**	**-**
AMD-denominated:					
ASHIB	-	-	-	176	108
			-	**176**	**108**
Total bank loans			**205,224**	**174,392**	**114,698**
Less: current portion			(25,910)	(18,241)	(7,027)
Total bank loans, long-term			**179,314**	**156,151**	**107,671**

(Amounts in millions of Russian Rubles unless otherwise stated)

Borrowing costs and interest capitalized – Borrowing costs include interest incurred on existing indebtedness. Interest costs for assets that require a period of time to prepare them for their intended use are capitalized and amortized over the estimated useful lives of the related assets. The capitalized interest costs for the six months ended June 30, 2015 and 2014 were RUB 504 million and RUB 417 million, respectively. Debt issuance costs are recognized as transaction costs, which are presented as a reduction of the related liability.

Interest expense, net of amounts capitalized and amortization of debt issuance costs, for the six months ended June 30, 2015 and 2014 were RUB 12,260 million and RUB 8,103 million, respectively.

Compliance with covenants – Bank loans and notes of the Group are subject to certain covenants limiting the Group's ability to incur debt, carry on transactions with related parties, create liens on properties, dispose assets, including GSM and 3G licenses for several license areas, issue guaranties, grant loans to employees and entities, delist notes, delay coupon payments, merge or consolidate MTS PJSC with another entity or be a subject to a court decision to pay over $10 million (RUB 555 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 June 30, 2015.

Pledges – The non-revolving credit facility agreement between UMS and Aloqabank is secured by telecommunication equipment and premises with carrying value of RUB 3,299 million, RUB 2,038 million and nil as of June 30, 2015, December 31, 2014 and January 1, 2014, respectively.

Available credit facilities – As of June 30, 2015, the Group's total available unused credit facilities amounted to RUB 26,097 million and related to the following credit lines:

	Maturity	Interest rate	Available till	Available amount
Sberbank	To be agreed	Central Bank key rate + 5.00%	June 2019	15,000
China Development Bank	2022	6M Shibor + 3.52%	May 2017	5,545
China Development Bank	2022	6M Libor + 3.25%	May 2017	5,552
Total				**26,097**

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.

(Amounts in millions of Russian Rubles unless otherwise stated)

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 June 30, 2020 and thereafter:

	As of June 30, 2015	
	Notes	**Bank loans and other debt**
Payments due in the year ending June 30,		
2016	22,703	26,555
2017	1,788	43,157
2018	20,000	33,498
2019	-	41,121
2020	34,321	33,286
Thereafter	26,375	29,835
Total	**105,187**	**207,452**
Less: unamortized debt issuance costs	(267)	(2,228)
Total debt	**104,920**	**205,224**

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

	June 30, 2015	**December 31, 2014**	**January 1, 2014**
Network and base station equipment	5,882	6,044	-
Office equipment, vehicles and other	14	18	177
Leased assets, net	**5,896**	**6,062**	**177**

Depreciation of the assets under finance leases for the six months ended June 30, 2015 and 2014 amounted to RUB 285 million and RUB 237 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 six months ended June 30, 2015 and 2014 amounted to RUB 342 million and RUB 111 million, respectively.

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments as at June 30, 2015:

	June 30, 2015	
	Minimum lease payments	**Present value of minimum lease payments**
Current portion (less than 1 year)	968	366
More than 1 to 5 years	4,592	2,452
Over 5 years	7,924	6,015
Total	**13,484**	**8,833**
Less amount representing interest	(4,651)	
Present value of net minimum lease payments	**8,833**	
Less current portion of lease obligations	(366)	
Non-current portion of lease obligations	**8,467**	

(Amounts in millions of Russian Rubles unless otherwise stated)

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

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Group financial instruments are represented by various financial assets and liabilities, principal types of which are trade and other receivables and payables, cash and cash equivalents, investments, derivative instruments, notes and bank loans and put option over non-controlling interests. Carrying value of the Group's financial instruments approximates their fair value due to their short maturities and market interest rates, except for borrowings as disclosed in the table below:

	June 30, 2015		December 31, 2014		January 1, 2014	
	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
Borrowings	(310,709)	(318,976)	(266,105)	(289,965)	(221,047)	(217,124)

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

There were no transfers between the accounting categories of financial instruments during the six months ended June 30, 2015 and 2014.

The table below presents the fair value of financial instruments:

	Level of inputs	June 30, 2015	December 31, 2014	January 1, 2014
Assets				
Mutual investment fund "Reservnyi", managed by "DIK" (related parties) (Notes 5, 11)	Level 1	-	-	4,154
Sistema International Funding S.A. Bonds due 2019 (related party) (Note 5, 11)	Level 1	54	42	-
Sistema Notes due in 2016 (series 04) (related party) (Notes 7,11)	Level 1	188	534	-
Derivative instruments	Level 2	17,348	21,950	1,831
Interest rate swap		*7*	*14*	*6*
Cross-currency interest rate swap		*17,341*	*21,936*	*1,825*
Liabilities				
Liability under put option agreement	Level 3	(3,069)	(3,192)	(2,932)
Derivative instruments	Level 2	(520)	(2,550)	(421)
Interest rate swap		*(516)*	*(2,550)*	*(421)*
Cross-currency interest rate swap		*(4)*	-	-
Contingent consideration	Level 3	(104)	(99)	(11)

Changes in the Group's net assets and earnings resulted from fair value measurements of Level 3 liabilities were not significant for the six months ended June 30, 2015 and 2014. There were no significant realized and unrealized gains and losses of Level 3 liabilities for the six months ended June 30, 2015 and 2014.

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

(Amounts in millions of Russian Rubles unless otherwise stated)

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 put option over noncontrolling interest are presented in the table below:

Unobservable inputs	**June 30, 2015**	**December 31, 2014**	**January 1, 2014**
Discount rate	15%	15%	12%
Revenue growth rate	0.01-0.05% (av. 0.03%)	0.02-0.2% (av. 0.1%)	0.7%-1.2% (av. 0.9%)
OIBDA margin	46.0-48.1% (av. 47%)	44.7-46.5% (av. 45.4%)	49.4%-50.7% (av. 49.8%)

There were no transfers between levels of inputs within the hierarchy for the six months ended June 30, 2015 and 2014.

10. INCOME TAX

Income tax expense for the six months ended June 30, 2015 and 2014 was as follows:

	Six months ended June 30	
	2015	**2014**
Current income tax charge	6,808	7,170
Adjustments recognised for current tax of prior periods	54	383
Total current income tax	**6,862**	**7,553**
Deferred income tax charge	(213)	1,811
Income tax expense	**6,649**	**9,364**

The statutory income tax rates in jurisdictions in which the Group operates during six months ended June 30, 2015 and 2014 were as follows: Russia and Armenia – 20%, Ukraine – 18%, Uzbekistan – 15%, Turkmenistan – 8%. The Russian statutory income tax rate of 20% reconciled to the Group's effective income tax rate for the six months ended June 30, 2015 and 2014 is as follows:

	Six months ended June 30	
	2015	**2014**
Statutory income tax rate for the period	**20.0%**	**20.0%**
Adjustments:		
Expenses not deductible for tax purposes	3.0	0.7
Settlements with tax authorities	0.2	0.9
Different tax rate of foreign subsidiaries	(0.3)	(0.7)
Earnings distribution from subsidiaries	(3.2)	0.3
Change in fair value of derivative financial instruments	-	0.2
Other	0.3	(0.2)
Effective income tax rate	**20.0%**	**21.2%**

(Amounts in millions of Russian Rubles unless otherwise stated)

11. RELATED PARTIES

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

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

	June 30, 2015	December 31, 2014	January 1, 2014
Accounts receivable:			
Business Nedvizhimost, a subsidiary of Sistema	7,323	-	-
MTS Bank, the Group associate	481	510	128
MTS Belarus, the Group associate	408	514	304
Sitronics Group, subsidiaries of Sistema	63	121	337
Sistema, the parent company	45	3,215	-
NVision Group, subsidiaries of Sistema	34	16	33
Stream, the Group associate	20	42	59
Other related parties	174	107	104
Total accounts receivable, related parties	**8,548**	**4,525**	**965**
Less non-current portion	(3,154)	**-**	**-**
Accounts receivable, related parties – current	**5,394**	**4,525**	**965**
Accounts payable:			
NVision Group, subsidiaries of Sistema	1,042	3,311	1,605
MTS Bank, the Group associate	378	377	697
Sitronics Group, subsidiaries of Sistema	310	-	-
MTS Belarus, the Group associate	240	213	208
Stream, the Group associate	219	211	99
Maxima, a subsidiary of Sistema	170	162	307
Rent-Nedvizhimost, a subsidiary of Sistema	135	-	-
Smart Cards Group, subsidiaries of Sistema	64	72	201
Other related parties	258	328	198
Total accounts payable, related parties	**2,816**	**4,674**	**3,315**

Terms and conditions of transactions with related parties – Outstanding balances as of June 30, 2015 were unsecured and settlements are made on a cash basis. There have been no guarantees provided or received for any related party receivables or payables. As of June 30, 2015, December 31, 2014 and January 1, 2014, the Group had no material impairment of receivables relating to amounts owed by related parties as well as expenses recognized during the period of six months ended June 30, 2015 and 2014 in respect to bad or doubtful debts from related parties.

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

	June 30, 2015	December 31, 2014	January 1, 2014
Advances for property, plant and equipment:			
Intellect Telecom, a subsidiary of Sistema	497	-	-
NVision Group, a subsidiary of Sistema	211	249	352
Other related parties	2	5	15
Total advances for property, plant and equipment	**710**	**254**	**367**
Advances for intangible assets:			
NVision Group, a subsidiary of Sistema	43	25	144
Geoinformatika, a former subsidiary of Sistema	-	63	88
Total advances for intangible assets	**43**	**88**	**232**

(Amounts in millions of Russian Rubles unless otherwise stated)

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

	June 30, 2015	December 31, 2014	January 1, 2014
Short-term investments			
Loan receivable from NVision Group, a subsidiary of Sistema	6,538	-	-
Sistema Notes due 2016 (series 04)	188	534	-
Sistema International Funding S.A. Bonds due 2019, a subsidiary of Sistema	54	42	-
ZTV, a subsidiary of Sistema	98	94	-
Deposits at MTS Bank	86	-	5,081
Mutual investment fund “Reservniy”, managed by Sistema Capital, a subsidiary of Sistema	-	-	4,154
Loan receivable from Navigation Information Systems, the Group subsidiary, a former subsidiary of Sistema	-	132	-
Loan receivable from Moscow Business Incubator, a subsidiary of Sistema	-	52	-
Total short-term investments in related parties	**6,964**	**854**	**9,235**
Other investments in loans			
Promissory notes of Sistema	506	446	446
Loan receivable from MTS Bank, the Group associate	2,100	2,100	2,100
Loan receivable from Intellect Telecom, a subsidiary of Sistema	64	168	-
Sitronics Group, a subsidiary of Sistema	36	-	-
Loan receivable from Navigation Information Systems, the Group subsidiary, a former subsidiary of Sistema	-	92	-
Total other investments in loans to related parties	**2,706**	**2,806**	**2,546**
Other investments in shares			
Sistema Mass Media, a subsidiary of Sistema	117	117	117
Other	8	8	8
Total investments in shares of related parties	**125**	**125**	**125**

(Amounts in millions of Russian Rubles unless otherwise stated)

Operating transactions – For the six month ended June 30, 2015 and 2014, operating transactions with related parties are as follows:

	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenues from related parties:		
MTS Bank, the Group associate (telecommunications and call center services, bank cards distribution commission)	301	471
MTS Belarus, the Group associate (roaming and interconnect services)	144	123
Stream, the Group's associate (SMS notifications)	119	6
Medsi Group, subsidiaries of Sistema (telecommunications and call center services)	53	39
NVision Group, subsidiaries of Sistema (fixed line services)	50	37
Sistema, parent company (consulting services)	38	-
Other related parties	88	48
Total revenues from related parties	**793**	**724**
Operating expenses / (income) incurred on transactions with related parties:		
Stream, the Group associate (content services)	742	606
Maxima, a subsidiary of Sistema (advertising)	585	854
NVision Group, a subsidiary of Sistema (IT consulting)	435	496
Rent-Nedvizhimost, a subsidiary of Sistema (rent)	426	-
MTS Bank, the Group's associate (commission related income)	(14)	(234)
Elavius, a subsidiary of Sistema (transportation services)	182	197
MTS Belarus, the Group associate (roaming and interconnect services)	197	192
Business Nedvizhimost, a subsidiary of Sistema (rent)	140	26
AB Safety, a subsidiary of Sistema (security services)	113	157
Jet Air Group, subsidiaries of Sistema (transportation services)	100	66
Other related parties	320	162
Total operating expenses incurred on transactions with related parties	**3,226**	**2,522**

***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 June 30, 2015, December 31, 2014 and January 1, 2014, the Group's cash position at MTS Bank amounted to RUB 5,941 million, RUB 11,687 million and RUB 11,297 million, respectively, including short-term deposits in the amount of RUB 1,348 million, RUB 3,482 million and RUB 5,081 million, respectively. Interest accrued on loan receivable, the deposits and cash on current accounts for the six months ended June 30, 2015 and 2014 amounted to RUB 459 million and RUB 405 million, respectively, and was included as a component of finance income in the accompanying consolidated statement of profit and loss.

During the six months ended June 30, 2015, the Group provided services related to bank cards distribution and granting of consumer credits to MTS Bank customers and recognized the related income in the amount of RUB 117 million in the accompanying consolidated statement of profit and loss. The amount represents agency fees after the cross-fines deduction. During the six months ended June 30, 2014, the Group incurred expenses under the same contract in the amount of RUB 50 million which represent the excess of cross-fines over agency fees and reversal of fines accrued as of January 1, 2014 in the amount of RUB 331 million.

During the six months ended June 30, 2015 and 2014, the Group incurred commission expenses and cash collection fees in the amount of RUB 103 million and RUB 47 million, respectively.

***Sistema* –** In November 2009, the Group accepted a promissory note, issued by Sistema, as repayment of the loan principal and interest accrued to date under an agreement with Sistema-Hals. The note is interest free and repayable in 2017. As of June 30, 2015, December 31, 2014 and January 1, 2014, the amount receivable of RUB 506 million, RUB 446 million and RUB 446 million, respectively, was included in other investments in the accompanying consolidated statement of financial position.

In April 2014, the Group sold a 49% stake in Business-Nedvizhimost to Sistema for a consideration of RUB 3.1 billion to be paid by the end of July 2015. As of December 31, 2014, the receivable in the accompanying consolidated statements of financial position amounted to RUB 3.2 billion. In May 2015 it was fully repaid.

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 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. For the six months ended June 30, 2015, the unrealized gain recognized in other comprehensive income amounted to RUB 61 million. The interest income accrued for the six months ended June 30, 2015 amounted to RUB 15 million and was included as a component of finance income in the accompanying consolidated statement of profit and loss. In March 2015 and May 2015 upon scheduled redemption, the Group received principal and coupon in the amount of RUB 409 million.

Business-Nedvizhimost – In February 2015 and further in May 2015, the Group sold its 100% stake in Rent Nedvizhimost to Business Nedvizhimost, subsidiary of Sistema, for RUB 8.5 billion in total.

As of June 30, 2015 accounts receivable amounted to RUB 7.3 billion of which RUB 3.0 billion is due before December 31, 2018 and bears interest of 12% p.a. Interest income for the six months ended June 30, 2015 amounted to RUB 165 million and was included as a component of finance income in the accompanying consolidated statement of profit and loss.

Smart Cards Group – During the six months ended June 30, 2015 and 2014, the Group purchased from Smart Cards Group, subsidiaries of Sistema, SIM cards and prepaid phone cards for approximately RUB 77 million and RUB 114 million, respectively.

NVision Group – During the six months ended June 30, 2015 and 2014, the Group acquired from NVision Group, subsidiaries of Sistema, telecommunications equipment, software and billing systems (FORIS) for approximately RUB 2,537 million and RUB 2,822 million, respectively, and incurred expenses of RUB 435 million and RUB 496 million, respectively, under an IT consulting agreement.

In April 2015 and in May 2015 the Group issued a short-term loan to NVision Group in the amount of RUB 2.4 billion and 4.0 billion, respectively. As of June 30, 2015, interest in the amount of RUB 138 million was included as a component of finance income in the accompanying consolidated statement of profit or loss.

***Remuneration of key management personnel* –** Key management personnel of the Group are members of the Board of Directors and Management Board members. During the six month ended June 30, 2015 and 2014, their total remuneration amounted RUB 532 million and RUB 498 million, respectively. These amounts comprised of RUB 207 million and RUB 140 million in base salaries and RUB 325 million and RUB 358 million in bonuses paid pursuant to a bonus plan and in other monetary compensations for the management and directors, respectively.

Management and directors are also entitled to monetary remuneration based on the quoted prices of the Group’s ADSs on the NYSE. Related compensation accrued during the six month ended June 30, 2015 and 2014 amounted to RUB 534 million and RUB 295 million, respectively.

(Amounts in millions of Russian Rubles unless otherwise stated)

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six months ended June 30, 2015 and 2014 comprised the following:

	Six months ended June 30, 2015	Six months ended June 30, 2014
Salaries and social contributions	20,755	18,710
Dealers commission	4,826	5,162
Advertising and marketing expenses	3,714	3,994
Utilities and maintenance	3,263	2,898
General and administrative expenses	2,863	3,190
Taxes other than income tax	2,780	2,601
Universal service fund	1,688	1,620
Cash collection commission	1,438	1,321
Consulting expenses	1,194	984
Billing and data processing	1,009	1,039
Other	1,215	1,183
Total	**44,745**	**42,702**

13. SEGMENT INFORMATION

The Group identified the following reportable segments:

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

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

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

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

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

Other unallocated expenses such as finance (income) / costs, non-operating share of the loss of associates, other (income) / expenses, change in fair value of financial instruments and currency exchange gains are shown for purposes of reconciling the Group’s segment measure, segment operating profit, to the Group’s consolidated total profit before tax for each of the periods presented.

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

(Amounts in millions of Russian Rubles unless otherwise stated)

Financial information by reportable segment is presented below:

Six months ended June 30, 2015

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consolidated
Revenue							
External customers	166,249	17,298	12,216	195,763	7,024	86	202,873
Intersegment	1,969	2,418	1,592	5,979	932	(6,911)	-
Total revenue	**168,218**	**19,716**	**13,808**	**201,742**	**7,956**	**(6,825)**	**202,873**
Operating profit / (loss)	38,763	6,181	1,883	46,827	(637)	(4,526)	41,664
Depreciation and amortization	30,523	3,742	2,452	36,717	3,978	(26)	40,669

Six months ended June 30, 2014

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consolidated
Revenue							
External customers	159,026	17,544	15,667	192,237	4,152	36	196,425
Intersegment	2,117	2,427	1,559	6,103	562	(6,665)	-
Total revenue	**161,143**	**19,971**	**17,226**	**198,340**	**4,714**	**(6,629)**	**196,425**
Operating profit / (loss)	40,108	6,809	4,802	51,719	1,877	(4,210)	49,386
Depreciation and amortization	28,031	3,258	3,921	35,210	1,243	(24)	36,429

A reconciliation of consolidated operating profit to the consolidated profit before tax is presented below:

	Six months ended June 30	
	2015	**2014**
Operating profit	41,664	49,386
Finance income	4,763	2,316
Finance costs	(12,609)	(8,480)
Currency exchange gains	107	435
Non-operating share of the loss of associates	(804)	(219)
Change in fair value of financial instruments	91	943
Other income / (expense), net	114	(190)
Profit before tax	**33,326**	**44,191**

14. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of June 30, 2015, the Group had executed purchase agreements of approximately RUB 34,505 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Operating leases – The Group has entered into non-cancellable agreements to lease space for telecommunications equipment, offices and transmission channels, which expire in various years up to 2064. Rental expenses under the operating leases of RUB 3,017 million and RUB 2,749 million for the six months ended June 30, 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 9,696 million and RUB 8,533 million for the six months ended June 30, 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 June 30, 2015 are as follows:

(Amounts in millions of Russian Rubles unless otherwise stated)

Payments due in	
six months ended December 31, 2015	3,950
2016	2,059
2017	621
2018	460
2019	407
Thereafter	1,904
Total	**9,401**

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

Generally, according to Russian and Ukrainian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of June 30, 2015, tax declarations of MTS PJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review.

The Group purchases supplemental software from foreign suppliers of telecommunications equipment in the ordinary course of business, which is subject to customs regulation. In addition pricing of revenue and expenses between each of the Group's subsidiaries and various discounts and bonuses to the Group's subscribers in the course of performing its marketing activities may be subject to transfer pricing rules.

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

The Group accrued the following provisions for additional tax and customs settlements:

	June 30, 2015	**December 31, 2014**	**January 1, 2014**
Provision for additional taxes other than income tax and customs settlements	3,198	2,999	2,278
Provision for additional income taxes	290	342	615

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

In May 2007, the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media awarded MTS a license to provide 3G services in Russia. The 3G license was granted subject to certain capital and other commitments.

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

In accordance with the terms of the license, MTS-Ukraine also concluded agreements on conversion of provided frequencies with the Ministry of Defense of Ukraine, Ministry of Internal Affairs of Ukraine and State Service of Special Communications and Information Protection of Ukraine. As of June 30, 2015, the MTS-Ukraine has paid UAH 358 million (RUB 865 million as of the payment date) for conversion of frequencies and is liable to pay UAH 267 million (RUB 705 million as of June 30, 2015) adjusted for the rate of inflation in the years 2017-2018.

Management believes that as of June 30, 2015 the Group complied with conditions of aforementioned licenses.

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

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. Though Russian Ruble has slightly appreciated against the U.S. Dollar and Euro by June 30, 2015, its decline resumed since July 2015. The Central Bank of Russia has decreased its key rate to 11.5% as of June 30, 2015, and further to 11% in August, 2015. However, the key rate remains higher than in the beginning of the year 2014.

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. 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 treated this declaration as a recognized subsequent event and reserved the full amount of deposited funds (RUB 5,072 million) and related interest (RUB 66 million) as of December 31, 2014. During the six months ended June 30, 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 other operating expenses in the accompanying consolidated statement of profit and loss. As of June 30, 2015, the Group held RUB 8,744 million in current accounts and deposits in Ukrainian banks, net of amounts provided.

Investigations into former operations in Uzbekistan – In March 2014, the Group received requests for the provision of information from the United States Securities and Exchange Commission (“SEC”) and the United States Department of Justice (“DOJ”) relating to a currently conducted investigation of the Group's former subsidiary in Uzbekistan.

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

The Company continues to cooperate with these investigations in good faith. 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.

15. SUBSEQUENT EVENTS

Acquisition of NVision Group – In July 2015, the Group acquired 100% of SITRONICS Telecom Solutions CJSC and Nvision Czech Republic a.s. from Sistema for RUB 8.6 billion. This acquisition represents the first phase of transaction to acquire 100% of NVision Group from Sistema for RUB 15 billion, including net debt. NVision Group is one of the largest Russian developers of complex IT-solutions and full-cycle IT-integrators and exclusively develops and owns billing systems utilized by the Group.