SISTEMA JSFC

Annual Report
2015

JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

To whom it may concern

April 27, 2016

Responsibility Statement

To the best of my knowledge (a) the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of Sistema JSFC and the undertakings included in the consolidation taken as a whole; and (b) the management report includes a fair review of the development and performance of the business and the financial position of Sistema JSFC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Yours sincerely,

Mikhail Shamolin
President and Chief Executive Officer

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1. MAIN EVENTS

Developments after the transfer of Bashneft shares to the government

In January 2016, criminal charges against Sistema's majority shareholder and chairman of the Board of Directors Vladimir Evtushenkov over his acquisition of shares in oil and energy companies in Bashkortostan were dismissed due to a lack of evidence that any crime had been committed.

In March 2015, Sistema JSFC and LLC Ural-Invest signed a settlement agreement under which Ural-Invest would transfer to Sistema RUB 46.5bn in cash, constituting all of Ural-Invest's property at that moment. In April 2015 Sistema signed another agreement with Ural-Invest to receive another RUB 12.9bn in damages arising from the confiscation from Sistema of shares in OJSC ANK Bashneft.

Investments and M&A transactions

Development of Segezha Group
In February 2016, LLC LesInvest, a Segezha Group company, acquired a controlling equity interest in OJSC Lesosibirsk Woodworking Plant No.1, one of Russia's largest producers of sawn timber, fibreboards, planed timber, and furniture from Angara pine, based in the Krasnodar region. LWP No.1 processes more than a million meters of round timber annually and has access to an allowable cut of 2.9 million cu. M. a year.

Monetisation of a stake in Detsky Mir
In December 2015, Sistema's subsidiary CJSC DM Finance sold 23.1% of equity shares in OJSC Detsky Mir to the Russian-China Investment Fund (RCIF) for RUB 9.75bn. As a result, RCIF is now entitled to nominate two directors on Detsky Mir's board out of ten.

Investments in real estate
In December 2015, LLC Razvitie, a joint venture of Sistema and LSR Group, won an open tender for the right to acquire 100% of LLC ZIL-Yug for RUB 34.2bn. The terms of the tender envisage an eight-year instalment plan. Razvitie will have to make no further payments in 2016 (as it already paid a RUB 1.5bn deposit in 2015), but will pay RUB 2.5bn in 2017 and one-third of the total amount in 2023. Sistema plans to invest no more than 10% of the amount now attributed to it based on its stake in Razvitie (or no more than RUB 1.7bn), and expects to find co-investors to cover the rest of the expenses. LLC ZIL-Yug owns development rights for 109.9 hectares in the southern premises of the now-defunct automobile manufacturer ZIL (23 Avtozavodskaya St.). The development project envisages construction of 1.5. sq. m. of real estate, including 1.1m sq. m. in housing, 0.35m sq. m. in commercial real estate and 0.05m sq. m. in infrastructure. The city will finance about 40 ha of infrastructure, including new roads and landscaping of adjacent areas. Sistema's subsidiary Leader-Invest, charged with managing the project on Sistema's behalf, already has another project in the same industrial park, called Nagatino i-Land.

Merger of telecom assets in India
Sistema has signed binding documents to merge its Indian telecom business with Reliance Communications Ltd (RCom), one of India's biggest telecom operators.
The deal structure has been approved by Indian courts and envisages a demerger of the telecom business from Sistema Shyam TeleServices Ltd. (SSTL) to be further merged with RCom under the RCom brand, with SSTL holding 10% of the combined company. SSTL plans to repay its outstanding debt before closing.
Once the deal is closed, RCom will assume obligations towards the Indian Department of Telecommunications (DoT) to pay spectrum fees due from SSTL. If the DoT confirms that SSTL's spectrum may be used for the roll-out of 4G networks at no extra charge, SSTL will be entitled to an additional earn-out payment of US$ 300m.
Closing is scheduled for Q2 2016 subject to several conditions precedent, including obtaining corporate approvals from both SSTL and RCom and regulatory and judicial approvals from relevant authorities in India.
After closing, SSTL's minority shareholders may exchange their shares in SSTL for shares in RCom in proportion to their interests in SSTL pre-closing.

Acquisition of Kronshtadt Group
In October 2015 Sistema acquired 100% of shares in JSC Kronshtadt Group and assets belonging to the Group from Industrial Investors Group for RUB 4.8bn. Kronshtadt Group combines a range of Russian

innovative companies that manufacture high-tech products and world-class solutions for aircraft engineering, security, transport and development of natural resources (including in the Arctic region).
The Group has a number of key technological competences and unique intellectual potential in mathematical modelling and engineering of complex informational systems as well as engineering and production of commercial unmanned aerial vehicles (UAVs), modern comprehensive training simulators, visualisation systems, and on-board & land-based electronic navigation equipment. Because Kronshtadt Group's competences are highly complementary to RTI (another Sistema subsidiary), the companies will work in synergy to strengthen their market position and create a platform for future growth.

Increase of ownership in Medsi Group to 100%
In October 2015, Sistema acquired 25.02% of shares in CJSC Medsi Group from State Unitary Enterprise Medical Center of the Moscow Mayor and Government Administration ("GUP") for RUB 6,116bn, with half to be paid on a one-year instalment plan. The increased ownership in Medsi Group will give Sistema more flexibility in expanding the chain of private clinics, building new facilities, and making the company more manageable.

Sale of NVision Group
In July 2015, Sistema's subsidiaries - LLC Sistema Telecom Assets and OJSC RTI - sold 100% of JSC NVision Group's equity to telecoms operator PJSC MTS. The transaction value including NVision Group's debt was around RUB 15 bln.

Corporate events

In December 2015, Sistema signed a loan facility agreement with Chinese banks for an unsecured 6-year credit limit of US$ 350m. The advantageous long-term club deal is a product of many years of cooperation between Sistema and Chinese banks. The banks' in-depth knowledge of Sistema Group's business was a key success factor in the deal.

In December 2015, Sistema issued a RUB 10bn worth of registration-exempt series 001P-03 bonds. The bonds mature in 2.25 years, with no put option embedded. The first coupon rate is 12.70% p.a., and all further coupon rates will be calculated as the Bank of Russia's key interest rate plus 170 bps.

In November 2015, Sistema issued RUB 1.7bn worth of registration-exempt series 001P-02 bonds. The bonds mature in 10 years, but bondholders are provided with put options exercisable four years after the float. The coupon rate on the bonds is 10.90% p.a.

In October 2015, Sistema issued RUB 5 bln worth of registration-exempt series 001P-01 bonds. The bonds mature in 10 years, but bondholders are provided with put options exercisable three years after the float. The coupon rate on the bonds is 12.50% p.a.

In February 2015, Sistema issued RUB 10 bln worth of certificated interest-bearing non-convertible registration-exempt series BO-01 bonds with a principal value of RUB 1,000 apiece. Despite the challenging market environment, the bonds were in high demand, with the book built at a coupon rate of 17% p.a., payable semi-annually. The bonds mature in 15 years but are putable at 18 months after the issue date.

2. STRATEGY

Mission

Sistema’s mission is building a first-rate Russian investment company that can ensure long-term growth of shareholder value through efficient management of the asset portfolio and achievement of high returns on investment.

Value creation model

The model selected by Sistema as an investment company envisages portfolio monetisation by accumulation of cash from incoming dividends and sale of assets at their peak value, and further (i) distribution of profit among Sistema's shareholders through dividends, (ii) investment in the development of existing assets to increase their value, and (iii) investment in new, promising investment projects which are capable of providing high return on capital.

Key long-term goals

- Become one of Russia's leading companies by shareholder return
- Diversify investment and achieve a more even distribution of portfolio value among assets

Medium-term goals of Sistema as an investment company

- Generate cash flow to Sistema through portfolio monetisation and higher dividends from assets
- Take advantage of unique investment opportunities, including those unlocked by economic uncertainties in Russia
- Rebalance the Corporation's asset portfolio by acquiring large and medium-sized export-oriented companies capable of generating revenues in foreign currencies for Sistema's benefit
- Use current key assets to create new national leaders in their respective industries, including private healthcare, agriculture, timber processing, high-tech and real estate, to capitalise on their market position
- Restructure and support portfolio companies operating in those segments most vulnerable to current macroeconomic trends and struggling to implement their strategies

Sistema’s objectives for 2016

1. Accumulate sufficient cash by monetising assets now at the peak of their value to cut the debt of the Corporate Centre and make new efficient investments
2. Reduce MTS's share in Sistema's overall portfolio value by prioritising the development of businesses with the potential to rapidly grow equity over the short and medium term
3. Create investment platforms in Europe, Asia and the US to invest in international projects in order to raise capital from co-investors, diversify country risks and find new points of growth for Sistema's asset portfolio (export markets)

Basic principles of the investment strategy

- Generation of returns on investments above the cost of capital (IRR>WACC) with a five-to-seven-year payback period
- Focus on investments that can yield positive net cash flow to Sistema over the medium term
- Acquire assets with an acceptable debt level (Debt/OIBDA < 3.0x) to maintain the Group's stable financial position
- Pay considerable amounts of dividends to shareholders in compliance with the dividend policy

Investment criteria set forth by Sistema’s portfolio strategy

- Sectors and industries: The Corporation mostly buys assets in sectors that are complementary to the ones in which it already operates and that allow available competences to be used and synergies with the existing portfolio to be unlocked. It also invests in new economically attractive industries, including export-oriented ones, where it has expertise or industrial partners.
- Geography: The Corporation sees Russia and other CIS countries as top-priority investment locations, and also remains open to opportunities to further expand its business geography for the sake of diversification of its currency and country risks
- Asset size: Sistema focuses on large and mid-size assets with the potential to become market leaders through synergies, industry consolidation, and efficient investment and operational strategies.

Asset-management principles

- Sistema improves assets' operational efficiency through restructuring, implementing corporate governance best practices and working with industrial partners to enhance expertise and mitigate financial risks;
- The Corporation aims to maintain a balanced portfolio of stable core assets paying dividends and developing assets at active stages of growth;
- Sistema controls implementation of the strategies of its portfolio companies through involvement in their governance bodies and by appointing industrial experts as members of their boards of directors.
- Assets are split into separate portfolios based on deal originators and the industrial expertise of the portfolio managers. The most important key performance indicator (KPI) used to assess management performance is total shareholder return (TSR).

3. SHAREHOLDER CAPITAL

Sistema JSFC has 9,650,000,000 ordinary shares outstanding with a nominal value of RUB 0.09 each. Its shareholder capital amounts to RUB 868,500,000.

In February 2005, Sistema held an IPO on the London Stock Exchange (LSE). Its shares are traded on the LSE in the form of global depositary receipts (GDRs) under the ticker SSA. One GDR represents 20 ordinary shares. Sistema's ordinary shares are listed on Moscow Exchange (MOEX) under the ticker AFKS. The GDRs traded on the LSE represent about 19% of Sistema's equity, and shares traded on MOEX about 16.8%.

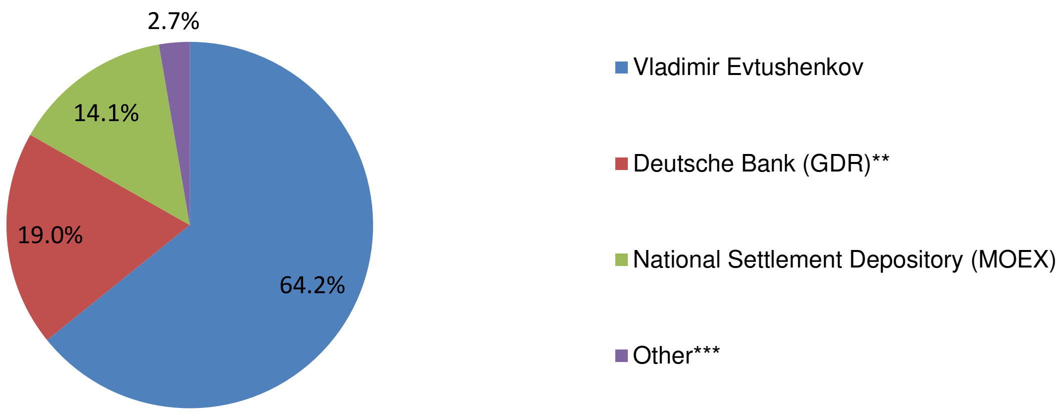
Moscow Exchange includes Sistema's shares in calculations of its main equity indexes (MICEX and RTS). Sistema's shares are also included in calculations of MOEX's MICEX FNL sector index, which includes shares of banks and financial-services companies.

Sistema's GDRs are included in the MSCI Russia index. Inclusion in MSCI indexes testifies to the company's international recognition and promotes the issuer's good reputation among major institutional investors that use these indexes when selecting securities.

Shares of OJSC MTS, a Sistema subsidiary, are traded in the form of ADRs under the ticker MBT on the New York Stock Exchange (NYSE) and as ordinary shares under the ticker MTSS on Moscow Exchange.

The Chairman of Sistema's Board of Directors, Vladimir Evtushenkov, is the principal shareholder of the company, and owns 64.2% of the equity.

*Sistema's shareholding structure**



** As of 31 December 2015.*
*** 1.4% of Sistema's authorised capital is represented by GDRs owned by Sistema Group companies.*
**** 0.3% of Sistema's authorised capital is represented by ordinary shares owned by Sistema Group companies.*

Sistema's share prices performance

Sistema's ordinary shares in 2015 grew by 54.8% in 2015, recovering after the recession year of 2014 and significantly outperforming the RTS, which declined by 15.0%. Sistema's GDRs rose by 13.2% during 2015, although much of that growth was offset by the depreciation of the ruble against the US dollar.

The closing price of Sistema's GDRs on the LSE on the first trading day of 2015 was US$ 4.80, giving Sistema a total market capitalisation of US$ 2,361.8 mln. On the last trading day of the year, the closing price was US$ 5.90, for a total market capitalisation of US$ 2,246.8 mln.

On 30 June, the closing GDR price reached the highest value during the year of US$ 8.85, and on 7 August the Company's ordinary shares peaked at RUB 21.13. The lowest closing GDR price was seen on 27 January 2015 (US$ 4.24), and for ordinary shares on 12 January 2015 (RUB 12.13). Average daily trading volume on LSE in 2015 was 527,030 GDRs, and on MOEX 11,922,240 ordinary shares.

Dividends

Sistema's dividend policy aims to both pay a predictable amount of dividends and enable investment of profits in new attractive projects.

The amount of dividends paid in 2015 was calculated based on performance in the previous financial period. Pursuant to Sistema's dividend policy effected in 2015, dividends equalled at least 10% of the Sistema's IFRS net income (net of distributed special dividends). Sistema could also distribute in special dividends at least 10% of net income as determined by the Board of Directors in the event of cash proceeds being generated by transactions such as asset sales. According to Russian law, the maximum amount of dividends that a company may distribute to shareholders is its entire non-consolidated RAS net income.

In 2016, Sistema's Board of Directors approved an updated dividend policy. The policy states that the recommended total dividend for each reporting year will be, at a minimum, the higher of either an amount equivalent to a dividend yield of 4% per Sistema ordinary share or RUB 0.67 per Sistema ordinary share.

Sistema seeks to distribute dividends twice per year. Sistema's calculation of the average dividend yield on its ordinary shares is based on the weighted average price of one ordinary share of the Company traded on Moscow Exchange in the respective reporting period: full year or six months.

In 2015 Sistema distributed RUB 4.5bn in dividends for 2014.

4. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial position as of 31 December 2015 and 2014 and results of operations for 2015 and 2014 and of the material factors that we believe are likely to affect our consolidated financial position. You should read this section together with our audited consolidated financial statements for 2015 and 2014 (further – the "Financial Statements"). References to "the Group", "we" or "us" are references to Sistema JSFC and its subsidiaries. Our reporting currency is the Russian Ruble, and our Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

In addition, this discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors.

We are one of the largest publicly-traded diversified investment companies in the Russian Federation and the CIS, managing companies serving over 100 million customers. We are focused on delivering long-term growth to our shareholders through returns on our diversified portfolio of investments and identifying new and profitable investment opportunities. Our investment portfolio is currently largely composed of stakes in Russian businesses in a variety of sectors, including telecommunications, transportation, consumer, high technology and others.

We were founded in 1993 by Vladimir Evtushenkov and his close associates and developed through the 1990s and early 2000s through participation in privatisations and the creation of several successful strategic partnerships. We completed an initial public offering in February 2005, when we listed our GDRs on the London Stock Exchange. Our ordinary shares are listed on the Moscow Exchange.

In September 2012, in line with our strategy to become an investment company and to better allow us to identify and evaluate new investment opportunities and to manage our existing investments, we announced a new organizational and management structure which combines our investments into five investment portfolios (as of the end of March, 2016).

The following table illustrates our ownership interests in our principal consolidated subsidiaries and equity holdings as of 31 December 2015.

Significant entities	Short name	Principal activity	Beneficial ownership as of December 31, 2015	2014
Sistema Joint Stock Financial Corporation	Sistema	Investing and financing		
Mobile TeleSystems	MTS	Telecommunications	53%	53%
Sistema Shyam TeleServices Limited	SSTL	Telecommunications	57%	57%
MTS Bank	MTS Bank	Banking	87%	87%
RTI	RTI	Technology	85%	85%
Detsky mir-Center	Detsky mir	Retail trading	76%	99%
Medsi	Medsi	Healthcare services	100%	75%
Targin	Targin	Oilfield services	100%	100%
Bashkirian Power Grid Company (Note 5)	BPGC	Energy transmission	91%(1)	91%(1)
Segezha Group	Segezha	Timber	100%	100%
Leader-Invest	Leader-Invest	Real estate	100%	100%
Agroholding Steppe	Steppe	Agriculture	100%	100%

(1) Voting interests as of December 31, 2015 and 2014 – 93%.

Segment Reporting

We currently have five reportable segments: MTS, SSTL, MTS Bank, RTI and Corporate. The Other category includes other operating segments including Sitronics-N, Kronshtadt Group, Detsky mir, Segezha Group, Targin, Binnopharm, Medsi, SG-trans, Agroholding Steppe, Sistema Mass-media, Intourist, Leader-Invest and Bashkirian Power Grid Company ("BPGC")and others, none of which meets the quantitative thresholds for determining reportable segments.

To measure the performance of these segments, we examine certain segment financial information, including net sales to external customers, intersegment sales, operating income and OIBDA.

Recent Developments

Additional share issue of MTS Bank – In February 2016, MTS Bank completed a private placement of additional shares, which were purchased by the Group.

Acquisition of Lesosibirsk LDK – On 15 February 2016, Segezha Group acquired 59% stake in OJSC Lesosibirsk LDK, one of the largest vertically integrated wood processing enterprise in Russia, based in Krasnoyarsk region, for USD 40 million. As of the date of these consolidated financial statements the Group does not have sufficiently reliable information to present summary financial information of Lesosibirsk LDK.

Transactions with Bashneft – In March 2016, the Group sold its remaining stake in Ufaorgsintez to Bashneft for RUB 3.5 billion.

Operating environment

Potential adverse effects of economic instability and sanctions in Russia In 2014 political and economic sanctions were introduced by the EU, US and other countries targeting certain Russian economic sectors. There is significant uncertainty regarding the extent and timing of further sanctions. Also, Russian Ruble has materially depreciated against the U.S. Dollar and Euro and ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% in December, 2014. The decline of Russian Ruble continued in 2015. The Central Bank of Russia has decreased its key rate to 11% as of December 31, 2015. However, the key rate remains higher than in the beginning of the year 2014, when it was equal to 5.5%. Russia sovereign credit ratings also were decreased.

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

Political and economic crisis in Ukraine – The armed conflict in eastern Ukraine has further exacerbated the country's already weak macroeconomic trends, which have led to reduced credit ratings, significant depreciation of its national currency and increased inflation. During 2014, the Ukrainian Parliament adopted a law allowing for the imposition of sanctions against countries, persons and companies deemed by the Ukrainian government to threaten Ukrainian national interests, national security, sovereignty or the territorial integrity of Ukraine. The National Bank of Ukraine ("NBU") passed a decree prohibiting Ukrainian companies to pay dividends to foreign investors. The decree was extended for a few times and currently acts till June 2016. These circumstances, combined with continued political and economic instability in the country, could result in further negative impact on the Group's business in Ukraine.

Such risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of 31 December 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. In 2 March 2015, the NBU adopted a resolution declaring Delta Bank to be insolvent. The Group treated this declaration as an adjusting subsequent event and recognized loss in the full amount of deposited funds (RUB 5,072 million) and related interest (RUB 66 million) as of 31 December 2014. During 2015, the Group recognised additional impairment of RUB 1,697 million for cash balances deposited in distressed Ukrainian banks. Also, in 2015 the Group entered in a factoring agreement in respect to cash balances deposited in bank Kyivska Rus, under which the factor is obliged to reimburse the Group for 45% of cash balance. As of 31 December 2015, the Group did not account for asset under this agreement, as no transfer of funds was made. As of 31 December 2015, the Group held RUB 6,612 million in current accounts and deposits in Ukrainian banks.

Key Factors Affecting Our Results of Operations

General Factors

Russian Macroeconomic Conditions and Trends

The following table sets out key economic indicators of the Russian Federation and for the periods indicated:

Macroeconomic indicator	Year Ended 31 December 2014	2015
Real GDP growth (%, period-on-period)	0.6	-3.7
Inflation		
Consumer price inflation (%)	11.4	12.9
Producer price inflation (%)	5.9	10.7
Exchange rates		
Period-end exchange rate (RUB/USD)	56.26	72.88
Average exchange rate (RUB/USD)	38.42	60.96
Nominal ruble appreciation (depreciation) against U.S. dollar (based on period-end rates)	-71.9	-29.5

Source: The Federal State Statistics Service (Rosstat).

The macroeconomic condition of the Russian economy substantially affects our results of operations. A fall in GDP, for example, would likely lead to a decline in demand for the products our subsidiaries offer, including telecommunications products and services. A fall in GDP may also lead to a decline in the prices of the products our subsidiaries sell. In addition, a decline in real disposable income may negatively impact our results of operations, should it cause a decline in demand for the key retail products our subsidiaries sell.

Inflation and exchange rate movements have a particular impact on our results of operations.

Inflation and exchange rate movements

While a significant part of our purchases are denominated in U.S. dollars or are closely tied to the U.S. dollar, a significant share of our costs, including salaries and utility costs, are sensitive to rises in the general price level in Russia. An increase in inflation, therefore, would increase our costs and thereby exert downward pressure on our profit margin and may also negatively impact domestic demand for the products of our subsidiaries. To the extent the increase in costs from higher inflation is not offset by an increase in sales, our results of operations would be negatively affected.

MTS' financial position and results of operations have been influenced by inflation in the various countries in which it conducts business, particularly Russia with an inflation rate of 12.9% for 2015. The Ukrainian economy has been characterized by high rates of inflation of 43.3%. Inflation rates in Armenia, Turkmenistan and Uzbekistan in 2015 were estimated at 4.3%, 5.97% and 5.6% respectively. We expect inflation driven increases in costs to put pressure on our margins. While we could seek to raise our tariffs to compensate for such increase in costs, competitive pressures may not permit increases that are sufficient to preserve operating margins.

The depreciation of the ruble against the U.S. dollar would likely have an overall negative effect on our financial position and results of operations. With respect to our financial position, ruble depreciation would lead to an increase in the ruble equivalent of our borrowings and other liabilities that are denominated in U.S dollars, and would subject our investments in ruble-denominated monetary assets to the risk of loss in U.S. dollar terms. As of 31 December 2015, our borrowings denominated in foreign currencies equaled RUB 214,345 million. Ruble depreciation may also make it more difficult to fund timely cash payments on debt denominated in foreign currencies. The negative impact of ruble depreciation on our financial position would be partially offset, however, by an increase in the ruble equivalent of our monetary assets denominated in foreign currencies, such as the U.S. dollar or euro. With respect to our results of operations, ruble depreciation would have an adverse effect on our costs denominated in U.S. dollars. Depreciation of the ruble against the U.S. dollar would also increase our costs denominated in rubles, both in absolute terms and relative to ruble-denominated revenues.

While we could seek to raise our prices and tariffs to compensate for the increase in costs resulting from depreciation of the ruble, competitive pressures may not permit increases that are sufficient to preserve our operating margins. In addition, because the U.S. dollar is our reporting currency and the ruble is our predominant functional currency, a decline in the ruble against the U.S. dollar resulted in a decrease in revenues in U.S. dollar terms in our consolidated financial statements.

We carry out a variety of measures to hedge against currency fluctuations, and, in particular, the depreciation of the ruble against the U.S dollar.

Capital expenditures and the implementation of large-scale investment projects

We require substantial funds to support our operations and implement large-scale investment projects at our subsidiaries. Our portfolio companies require capital expenditures for various reasons. MTS, for example, needs to make significant capital expenditures, particularly in connection with the development and the purchasing of software for our mobile and fixed line networks. Our results of operations, therefore, are impacted by our ability to raise adequate levels of debt financing and successfully complete capital investment projects in a timely manner and within budget.

In 2014 and 2015, our cash outlays for capital expenditures were 114,486 million RUR and 139,223 million RUR, respectively. In 2014 and 2015, we financed our cash requirements through a combination of operating cash flows, proceeds from disposal of investments and borrowings. In particular, we have used cash flows received through dividends from MTS to finance capital expenditures in our other subsidiaries as well as to repay our debt.

The table below sets forth capital expenditures at each of our reportable segments for the periods indicated:

	Year Ended 31 December	
Segment	**2015**	**2014**
	(in millions of Rubles)	
MTS	106,537	91,929
RTI	5,115	4,036
MTS Bank	631	1,045
SSTL	1,595	1,663
Corporation	1,870	1,080
Other	23,475	14,733
	139,223	**114,486**

Certain of our subsidiaries, such as MTS, operate in capital-intensive industries, and their results of operations depend significantly on their ability to successfully carry out large-scale investment projects. This includes the ability to select and prioritise those large-scale investment projects which are most likely to increase margins and the ability to plan and implement such projects, including attracting the significant funding necessary to ensure their completion.

MTS spent in total RUB 106,537 million in 2015 for network development in Russia and the other countries where it operates.

Acquisitions strategy

Our investment approach is based on seeking opportunities to create value for our portfolio, including through acquisitions. During 2014 and 2015, several of our acquisitions have had an impact on our results of operations and financial position. The ability to carry out large-scale acquisitions successfully and on a timely basis is largely dependent on choosing the appropriate companies to acquire, securing the necessary financing and properly integrating the acquired companies into our portfolio.

Our ability to create value is dependent on our ability to choose the appropriate acquisitions to make. For this, we rely on various financial metrics including total shareholder return, or TSR, which is compared against internal hurdle rates for specific industries and investment types when making an acquisition.

Having selected a potential value-enhancing acquisition, we often require substantial funding sources to complete the transaction. In 2014 and 2015, we spent RUB 16,430 million and RUB 14,421 million, respectively, on purchases of businesses, net of cash acquired. Historically, we have relied on the combination of operating cash flows, dividends from subsidiaries and external funding to finance our acquisitions. We expect to continue relying on these sources for future acquisitions, and, in particular, expect to seek external funding sources only for large-scale acquisitions. Therefore, our ability to make acquisitions depends on factors that affect the overall performance of our subsidiaries and conditions on the lending market, including the condition of the global and Russian economies and market interest rates.

Our results of operations are also dependent on properly integrating a newly acquired company into our portfolio. We seek to influence our portfolio companies primarily through board representation, with operational decisions taken by the management teams of each portfolio company. In certain circumstances, we may also assist our portfolio companies in relation to overall strategy, partnerships, risk management, corporate governance and internal controls, third party financing, management selection and identifying and implementing synergies with other portfolio companies.

Because of the number of significant transactions completed between 1 January 2014 and 31 December 2015, period-to-period comparisons of our results of operations need to be considered in light of the impact of such transactions.

Factors Affecting MTS Results of Operations

In addition to general economic conditions, inflationary trends and currency fluctuations discussed above, factors significantly affecting the results of operations of MTS are set forth below.

Competition and Market Penetration

Demand for wireless communications services in Russia has grown rapidly over the last 10 years due to rising disposable incomes, increased business activity and declining prices due to intensified competition among wireless communications providers. As of December 31, 2015, overall wireless penetration in Russia was approximately 168.2%, or approximately 240.3 million subscribers, according to AC&M-Consulting.

The primary mobile competitors in Russia include us, MegaFon and Vimpelcom, each of which has effective national coverage in Russia. Competition is based on network coverage and quality, the level of customer service provided, roaming and international tariffs, local tariff prices and the range of services offered.

Tariff regulation

The Federal Tariff Service regulates certain tariffs in the sphere of telecommunications, including the tariffs on the local and DLD calls by subscribers of public switched telephone networks and installation and subscription fees. The Federal Service for the Oversight of Consumer Protection and Welfare is responsible for the enforcement of sanitary regulations, including some authority over the location of telecommunications equipment, and supervises the compliance of companies with the regulations relating to the protection of consumer rights. The Federal Service for State Regisrtration, Cadastre and Cartography is responsible for registering certain telecommunications infrastructure that is considered real property in accordance with Government Decree No. 68 dated February 11, 2005. The Federal Service for Financial Monitoring (Rosfinmonitoring) is a federal executive body responsible for countering money laundering and terrorism financing. Mobile operators are to comply with Federal Law No. 115-FZ dated August 7, 2001 “On combating money laundering and terrorist financing.”

If MTS or any of MTS’ subsidiaries were to be classified by FAS (or the AMC with respect to our operations in Ukraine) as a dominant market force or as having a dominant position in the market, FAS and the Federal Tariff Service (or the AMC, as the case may be) would have the power to impose certain restrictions on our or their businesses. In particular, the authorities may impose on us tariffs at levels that could be competitively disadvantageous and/or set interconnect rates between operators that may adversely affect our revenues. Moreover, MTS refusal to adjust it tariffs according to such government-determined rates could result in the imposition of fines. Additionally, geographic restrictions on MTS expansion could reduce MTS subscriber base and prevent it from fully implementing MTS business strategy, which may materially adversely affect MTS’s business, financial position, results of operations and prospects.

Factors Affecting RTI Results of Operations

RTI is a major holding company that operates in the defence, microelectronics, comprehensive communication and security systems segments, and a leading integrator of high-tech R&D and manufacturing companies. RTI's production facilities have their own R&D infrastructure and implement projects in radio and space technologies, security and microelectronics that are unique in terms of their scale and complexity. RTI Group comprises the assets of RTI Systems Concern (defence and security systems) and NIIME and Mikron (microelectronics).

I*ndustry*

The defence sector is expected to see considerable growth in demand for high-tech products. Under the National Arms Programme through 2020, state defence spending will amount to about RUB 20tn, with up to 70% expected to be invested in acquisitions of new defence systems and equipment.

The Russian microelectronics market exceeded USD 2bn in 2015, but accounts for only 1% of the global market. Commercial microelectronics in Russia is dominated by foreign companies. Russian microelectronics companies mainly manufacture military and special-purpose products, which account for about 40% of the domestic microelectronics market. In the future, the microelectronics industry will be supported by growing demand for RFID-based solutions, including orders from the government. Major demand drivers are the semiconductor segment and the telecoms sector, which, given the import substitution programme, Western sanctions and the depreciation of the ruble, is likely to boost demand for Russian microelectronic products.

The Russian market for information and communication technologies grew in ruble terms in 2015. The company expects the average annual growth rate in this market to stand at 7% until 2018, with the segment of comprehensive security systems being the most attractive.

Sustainable growth of RTI and key events in 2015

As Russia's biggest private defence concern, RTI continues to assert its position in the sector. In 2015, it improved its standing in the Defence News Top 100 international ranking from 78th to 69th place. RTI's core business is the segment of defence solutions, which accounts for the bulk of the Group's revenue and OIBDA.

Mikron, which manufactures over 50 mln items per month, is the biggest producer of microelectronic components, RFID cards and tags in Russia and the CIS. In 2015, Mikron continued working to commercialise its solutions. It developed a prototype for the Citizen's ID chip, supplied a batch of chips for issuing in the trial area (the Southern Federal District) and developed and delivered to Goznak, the state-owned security products manufacturer, RF tags for producing identification tags to be used on products supplied within the Eurasian Economic Community.

In July 2015, Mikron renewed a contract with Mosgortrans to supply contactless tickets for public transport, under which it will deliver 12 mln tickets.

In September, Mikron and its subsidiary NIIME became residents of the Zelenograd special economic zone, where they will carry out an investment project to develop technologies and launch production of microchips using 65 nm topology. The project will be carried out in 2015-2017, with production launch scheduled for 2018. Residency in the Zelenograd special economic zone will ensure lower tax rates for the companies and make it easier for them to get customs clearance of imported components and equipment. Preferential rates of the unified social tax (14%), a lower income tax rate, zero customs duties on materials and components needed for production, and exemption from the property and transport taxes offered to residents will allow them to significantly reduce their expenses, with the funds released going towards development of new technologies and products.

Overall, in 2015 Mikron:

- issued over 350 mln transport cards;
- supplied over 5.8 mln industrial microchips to Russian customers;
- exported 750 mln chips to assembly plants in Southeast Asia and Europe;
- delivered 1.5 mln chips for biometric foreign passports;
- developed 39 types of integral industrial and commercial circuits and set up production of 45 integral circuits for different purposes.

A new division of RTI, the Mikron Design Centre, which develops microelectronic equipment, in 2015 successfully completed a pilot project for design, software development, assembly, start-up and commissioning of the Regional System for processing of unified social e-cards in Mordovia.

In April 2015, RTI acquired a 45% stake in the IKAR engineering centre, which has competencies in development of metal and composite aerostructures, such as components of airplane wings and body. RTI plans to use IKAR to create enduring composite structures for UAV and to develop system engineering.

Strategy

The strategy of the defence solutions segment is aimed at growing the business through entering promising innovative segments of government contracts, developing and modernising the core product range, developing schools of thought and the research and education system. The company focuses on development of complex information systems for aerospace defence and OTH radio positioning of air, marine and ground objects. Its key customers within the segment are law enforcement agencies and operators of strategic facilities and critical infrastructure.

The strategy of the microelectronic solutions segment aims at integrating the development and production of microelectronic components into processes to supply ready-to-use sensor equipment and provide technical support. The key objective is to ensure technological parity of Russian microelectronic solutions for the defence, space and nuclear industries.

RTI is also actively developing the comprehensive security systems segment. Its objective for the next few years is to become Russia's biggest supplier of comprehensive solutions in threat monitoring and control, as well as decision-making support systems based on technologies and products developed by RTI and its partners. One of the segment's strategic goals is increasing profitability by expanding the share of intellectual property in the end product, and developing exports.

The strategy of RTI's R&D divisions is aimed at developing the most promising breakthrough technologies to support the company's long-term leadership on target markets, and capitalisation of its solutions and competencies by bringing new high-tech segments to the market. RTI plans to develop its R&D network through the acquisition, retention and development of key competencies and interaction with leading developers in segments that are of interest to the company.

Acquisitions

Acquisitions of businesses from third parties are accounted for using the purchase method. Upon acquisition, the assets and liabilities of an acquired entity are measured at their fair value as at the date of acquisition.

In addition, in the years ended 31 December 2014 and 2015, we spent approximately RUB 3.6 billion and RUB 6.1 billion with 50% to be paid over the course of a year respectively, on acquisitions of non-controlling stakes in existing subsidiaries.
See Notes 8 and 9 of the Financial Statements for further description of these acquisitions and those which are less significant to our business.

Divestitures & Key Corporate Restructurings

<u>Deconsolidation of Bashneft</u>

Amounts reported in profit/(loss) from discontinued operations include the results of Bashneft and the effect of its deconsolidation in 2014, as well as related gains from settlements with Ural-Invest in 2015, as follows:

	2015	2014
Results of Bashneft up to deconsolidation date	-	54,948
Loss on deconsolidation of Bashneft	-	(164,163)
Gain from settlements with Ural-Invest, net of tax	49,029	-
Profit/(loss) from discontinued operations	**49,029**	**(109,215)**

In September 2014, a civil claim was filed with the Moscow Court of Arbitration by the Prosecutor General's Office of the Russian Federation seeking the transfer to the Russian Federation of all shares in Bashneft held by the Group. The civil claim asserted that the transfer of Bashneft from the property of the Russian Federation into the property of Bashkortostan in 1992-1993 had been unlawful, as no requisite consent had been obtained from the federal authorities, and therefore all subsequent transactions with Bashneft shares should be considered null and void. In November 2014, the court ruled in favour of the plaintiff and ordered the transfer of the Bashneft shares held by the Group to the Russian Federation. The transfer of the shares took place in December 2014.

In December 2014, the Group filed a claim with the Moscow Court of Arbitration for the recovery of RUB 70.7 billion losses from Ural-Invest, a legal successor of the seller of the Bashneft shares to the Group. In February 2015, the court upheld the Group's claim. In March 2015, the Group and Ural-Invest signed a settlement agreement which was subsequently approved by the court. In accordance with its terms, all assets owned by Ural-Invest, comprising cash and deposits on its bank accounts of RUB 46.5 billion were transferred to the Group, which will invest RUB 4.6 billion of this amount into the projects of Ural charitable fund. In April 2015, the Group received additional RUB 12.9 billion in cash and financial instruments. In connection with these settlements, the Group recognized financial assets of RUB 53.2 billion, net of impairment allowance of RUB 2.3 billion, and a corresponding gain of RUB 49 billion, net of tax effect of RUB 4.0 bln, presented within discontinued operations in the consolidated statement of profit or loss for 2015.

Capital transactions in the year ended December 31, 2015

***Detsky Mir* –** In December 2015, the Group sold 23.1% of Detsky Mir to the Russia-China Investment Fund ("RCIF") for a total consideration of RUB 9.75 billion. The remaining Group's ownership interest in Detsky Mir is 75.8%. The Group granted the buyer an option to put its stake in Detsky Mir to the Group at fair value in case of the non-occurrence of prescribed future events. The Group concluded that this puttable instrument should be classified as equity instrument rather than a financial liability because the occurrence of these events is considered under the control of the Group.

***Medsi* –** In October 2015, the Group acquired additional 25.02% stake in Medsi for RUB 6.1 billion and increased its stake to 100%.

***NVision* –** During 2015, in a series of transactions, the Group's subsidiaries Sistema Telecoms Assets and RTI sold 100% stake in NVision Group to MTS.

Rent-Nedvizhimost. During 2015, in a series of transactions, MTS sold 100% stake in Rent-Nedvizhimost to Business-Nedvizhimost, another subsidiary of Sistema

Capital transactions in the year ended December 31, 2014

***Additional share issue of MTS Bank* –** In December 2014, the Group participated in additional share issue of MTS Bank for RUB 13.1 billion.

***Additional share issue of Mikron* –** In May 2014, Mikron issued additional shares representing 25.1% of its share capital in exchange for 37.7% interest in SITRONICS-Nano, owned by OJSC RUSNANO. Upon completion of the transaction, the Group's effective ownership in Mikron decreased to 53.0%. Simultaneously, the Group and RUSNANO substituted their existing put and call option agreements on RUSNANO's share in SITRONICS-Nano for new put and call option agreements on its 25.1% share in Mikron. The terms of the option agreements remained unchanged.

***Intragroup transfer of Business-Nedvizhimost* –** In April 2014, MTS sold a 49% stake in Business-Nedvizhimost, a company which owns and manages a real estate portfolio in Moscow, to the Company for RUB 3.1 billion.

***Acquisition of 50% of NVision* –** In January 2014, the Group acquired an additional 38.75% stake in NVision from minority shareholders for RUB 3 billion, RUB 1.4 billion of which was paid in cash and RUB 1.6 billion in the Company's treasury shares. In December 2014, the Group acquired the remaining 11.25% stake in NVision for approximately RUB 0.6 billion.

Consolidated Financial Results Overview

The following table sets forth a summary of our financial results for the years ended 31 December 2014 and 2015. This financial information should be read in conjunction with our Financial Statements.

	Years ended December 31,			
	2014	% of revenues	2015	% of revenues
	(Amounts in millions of Russian Rubles, except percentages)			
Revenue	646,269	100.0%	708,641	100.0%
Cost of sales	(326,920)	(50.6)%	(377,516)	(53.3)%
Selling, general and administrative expenses	(138,991)	(21.5)%	(149,636)	(21.1)%
Depreciation and amortisation	(87,401)	(13.5)%	(94,915)	(13.4)%
Impairment of long-lived assets	(16,785)	(2.6)%	(7,675)	(1.1)%
Impairment of financial assets	(18,991)	(2.9)%	(7,327)	(1.0)%
Taxes other than income tax	(7,406)	(1.1)%	(4,524)	(0.6)%
Share of the profit or loss of associates and joint ventures	2,092	0.3%	4,377	0.6%
Gain from re-entry into Uzbekistan	6,734	1.0%	-	-
Gain on acquisition of Segezha Group	2,488	0.4%	-	-
Other operating expenses, net	(760)	(0.1)%	(2,377)	(0.3)%
OPERATING INCOME	60,329	9.3%	69,048	9.7%
Finance income	8,047	1.2%	18,526	2.6%
Finance expense	(33,030)	(5.1)%	(51,174)	(7.2)%
Foreign currency transaction loss	(37,135)	(5.7)%	(16,319)	(2.3)%
Profit/(loss) before income tax	(1,789)	(0.3%)	20,081	2.8%
Income tax expense	(17,314)	(2.7)%	(17,944)	(2.5)%
Profit/(loss) from continuing operations	(19,103)	(3.0%)	2,137	0.3%
Profit/(loss) from discontinued operations	(109,215)	(16.9)%	49,029	6.9%
PROFIT/(LOSS) FOR THE YEAR	(128,318)	(19.9%)	51,166	7.2%
Non-controlling interests	(27,919)	(4.3)%	(17,574)	(2.5)%
NET (LOSS) / INCOME ATTRIBUTABLE TO SISTEMA JSFC	(156,237)	(24.2%)	33,592	4.7%
OIBDA (1)	147,730	22.9%	163,963	23.1%

(1) OIBDA represents operating income before depreciation and amortisation. OIBDA is not a measure of financial performance under IFRS. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and services debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

The following table presents a reconciliation of OIBDA to operating income for the periods indicated:

	For the year ended	
	2014	2015
	(In millions of Russian Rubles, except percentages)	
Operating income	60,329	69,048
Depreciation and amortisation	(87,401)	(94,915)
OIBDA	147,730	163,963

In our comparison of period-to-period results of operations, to analyze changes, developments and trends in revenues by reference to individual segment revenues, we present our revenues on an aggregated basis, which are revenues after elimination of intra-segment (between entities in the same segment) transactions, but before intersegment (between entities in different segments) eliminations. Amounts attributable to individual companies, where appropriate, are shown prior to both intra-segment and inter-segment eliminations.

The following tables set forth a summary of revenues and operating income by reportable segment for the years ended 31 December 2014 and 2015.

Revenues by segment:

	Year ended 31 December			
	2014	**% of total revenues**	**2015**	**% of total revenues**
	(In millions of Russian Rubles, except percentages)			
MTS	410,780	63.6%	431,232	60.9%
RTI	81,028	12.5%	77,287	10.9%
MTS Bank	26,965	4.2%	25,619	3.6%
SSTL	8,480	1.3%	13,965	2.0%
Corporate	2,895	0.4%	3,417	0.5%
Other	130,432	20.2%	172,624	24.4%
Aggregated revenue	660,581	102.2%	724,144	102.2%
Intersegment eliminations	(14,312)	(2.2%)	(15,503)	(2.2%)
Total	**646,269**	**100.0%**	**708,641**	**100.0%**

Operating income/(loss) by segments:

	Year ended 31 December			
	2014	**% of total operating income**	**2015**	**% of total operating income**
	(In millions of Russian Rubles, except percentages)			
MTS	99,772	165.4%	85,645	124.0%
RTI	4,067	6.7%	4,548	6.6%
MTS Bank	(15,252)	n/a	(17,658)	n/a
SSTL	(16,592)	n/a	(3,227)	n/a
Corporate	(20,887)	n/a	(14,392)	n/a
Other	3,961	6.6%	10,257	14.9%
Aggregated operating income	55,070	91.3%	65,174	94.4%
Intersegment eliminations	5,259	8.7%	3,874	5.6%
Total	**60,329**	**100.0%**	**69,048**	**100.0%**

Explanation of Key Items in Statements of Operations

Revenues

Our sales are derived mainly from the revenues generated by MTS and RTI. In 2014 and 2015, before intersegment eliminations, revenues of MTS accounted for 63.6% and 60.9%, and RTI 12.5% and 10.9%, respectively, of our consolidated sales.

Cost of sales

Our cost of sales is primarily incurred at MTS and RTI. In 2014 and 2015, cost of sales at MTS and RTI accounted for 63% and 60%, respectively, of our cost of sales.
Cost of sales at MTS and RTI are those costs that are incurred directly in the sale and production of MTS' and RTI's principal products and services. For MTS, they mainly consist of cost of services, such as interconnect and line rental charges and roaming expenses, and the cost of handsets and accessories. For RTI, they mainly consist of the cost of subcontract works, goods, raw materials, equipment and certain other operating expenses.

Cost of sales also includes a share of rental expenses under operating leases.

Selling, general and administrative expenses

Selling, general and administrative expenses are primarily incurred at MTS, RTI and Corporate. In 2014 and 2015, selling, general and administrative expenses at MTS accounted for 59% and 58%, respectively, of our overall selling, general and administrative expenses. RTI accounted for 9% and 7% of our overall selling, general and administrative expenses in 2014 and 2015, respectively.
Our selling, general and administrative expenses consist of marketing, advertising costs, employee salaries and bonuses, social contributions payable to state funds and sundry office expenses.

Selling, general and administrative expenses also include a share of rental expenses under operating leases.

Depreciation and amortisation

Most of our depreciation and amortisation expenses are incurred at MTS. In 2014 and 2015, depreciation and amortisation at MTS accounted for 84% and 85%, respectively, of our overall depreciation and amortisation expenses.

Depreciation and amortisation expenses primarily consist of expenses related to the depreciation of property, plant and equipment and the amortisation of intangible assets.

Operating income

Operating income is revenues less operating costs, plus share of the profit or loss of associates and joint ventures, gain on re-entry in Uzbekistan and gain on acquisition of Segezha Group.

Finance expense

Interest expenses consist primarily of interest expense on loans and borrowings net of amounts capitalized.

Currency transaction profit/(losses)

Management has determined that the functional currency of most of our subsidiaries are the currencies of the countries of their domicile.

Foreign currency transaction gains/losses result from a change in exchange rates between the functional currency and the currency in which foreign currency transactions are denominated.

Income tax expense

Income tax expense comprises current and deferred income tax. During the periods under discussion, the corporate income tax rate in the Russian Federation was 20% and the income tax rate on dividends paid within Russia was 9% or 0% subject to meeting certain conditions. Our foreign subsidiaries pay income tax in their respective jurisdictions. The income tax rate in Ukraine was 18% during the reporting period.

Deferred income tax reflects the tax effect of all significant differences between the tax bases of assets and liabilities and their amounts reported in the Financial Statements. Deferred tax assets and liabilities are measured using the enacted tax rates applicable in the periods when the differences are expected to affect taxable income. See Note 13 of our Financial Statemens.

Year Ended 31 December 2015 Compared to the Year Ended 31 December 2014

Revenues

In 2015, the Group's revenues increased by 9.7% due to consolidation of Segezha Group since the fourth quarter of 2014, robust growth in MTS data traffic revenues and handset sales and continued expansion of Detsky Mir in the Russian market. Share of Sistema's non-public assets in the consolidated revenues increased from 36% in 2014 to 39% in 2015. Newly consolidated Segezha Group contributed 5% to total revenues in 2015.

Group's revenues declined in the fourth quarter of 2015 year-on-year due to uneven revenue recognition on a number of long-term contracts of RTI. Excluding the effect of RTI's revenue changes. Sistema's revenues increased mainly as a result of growth at MTS and Detsky Mir. Acquisitions of Kronshtadt and agricultural businesses in the fourth quarter of 2015 contributed to the Group's revenues RUB 1.2 billion and RUB 0.8 billion, respectively.

MTS is our largest revenue contributor. In the years ended 31 December 2014 and 2015, MTS share of our consolidated revenues amounted to 64% and 61%, respectively. MTS revenue increased by 5% year-on-year in 2015 as a result of increased sales of mobile phones as part of the rapid expansion of MTS' retail business, higher data revenues and also by growing sales in Uzbekistan. The total subscriber base increased by 3.5% to 107.8 million customers as of December 31, 2015.

Cost of sales

Cost of sales increased by RUB 50,596 million, or 15.5%, from RUB 326,920 million in the year ended 31 December 2014 to RUB 377,516 million in the year ended 31 December 2015. The increase in the cost of sales followed the increase in revenues. Cost related to banking activity increased by RUB 2,274 million or 7.1% from RUB 32,215 million in the year ended 31 December 2014 to RUB 34,489 million in the year ended 31 December 2015.

Selling, general and administrative expenses

In 2015, selling, general and administrative expenses (SG&A) grew by 7.7% to RUB 149,636 million year-on-year, which is lower than the rate of inflation in Russia over the same period, despite consolidation of Segezha Group and other new assets in 2015.

Depreciation and amortisation

Depreciation and amortisation expenses increased by RUB 7,514 million or 8.6% from RUB 87,401 million in the year ended 31 December 2014, to RUB 94,915 million in the year ended 31 December 2015 mainly as a result of growth in depreciable assets base as well as acquisitions made in the second half of 2014 and in 2015.

Impairment of long-lived assets

Impairment of *long-lived assets* decreased by RUB 9,110 million, or 54.3%, from RUB 16,785 million in the year ended 31 December 2014 to RUB 7,675 million in the year ended 31 December 2015. In the year ended 31 December 2014, we recorded an impairment loss mainly in connection with an impairment of long-lived assets in SSTL . As of 31 December 2015, the Group considered the terms of the agreement with RCOM and concluded there was no indicators of further impairment of SSTL spectrum and licenses. See also Note 11 of the Financial Statements.

Impairment of financial assets

Impairment of financial assets includes allowance for doubtful accounts, Impairment of cash and deposits in banks, Impairment of available for sale securities and impairment of loans carried at amortised cost. The decline in impairment of financial assets in comparison to 2014 made up RUB 11,664 million or 61.4%. See also Note 12 of the Financial Statements.

Share of the profit or loss of associates and joint ventures

In the year ended 31 December 2015, we recorded a gain of RUB 4,377 million in our equity in the results of affiliates. MTS-Belarus was the main contributor to the total equity income in results of affiliates.

Gain on reentry into Uzbekistan

In the year ended 31 December 2014, we recorded a gain of RUB 6,734 million upon receiving the 50.01% ownership interest in Universal Mobile Systems LLC ("UMS"), which was attributable to financial incentive to encourage the Group reentry into the Republic of Uzbekistan.

Gain on acquisition of Segezha Group

In September 2014, LesInvest, a wholly owned subsidiary of the Group, acquired 100% of the share capital of OJSC Segezha Pulp and Paper Mill and LLC Derevoobrabotka-Proekt (together with their subsidiaries – "Segezha Group"), a manufacturer of sack paper and paper sacks and exporter of timber products and ply wood, for a total cash consideration of RUB 11.3 billion. In the year ended 31 December 2014, we recorded a gain of RUB 2,488 million upon the acquisition.

Operating income

For the reasons set forth above, our operating income increased by RUB 8,719 million, or 14.5%, from RUB 60,329 million in the year ended 31 December 2014 to RUB 69,048 million in the year ended 31 December 2015.

Our consolidated operating income margin equaled 9% for the year ended 31 December 2014 and 10% for the year ended 31 December 2015. In both years, MTS was the main contributor to our operating income.

Finance income

Finance income increased by RUB 10,479 million, or 130%, from RUB 8,047 million in the year ended 31 December 2014 to RUB 18,526 million in the year ended 31 December 2015 mainly due to the growth in bank deposits in 2015.

Finance *expense*

Finance expense increased by RUB 18,144 million, or 54.9%, from RUB 33,030 million in the year ended 31 December 2014 to RUB 51,174 million in the year ended 31 December 2015. The increase of finance expense mainly driven by ruble depreciation in 2015 that impacted the liabilities under dollar denominated SSTL put option agreements .

Currency transaction gains/losses

In the year ended 31 December 2015, we recorded a foreign currency transaction loss of RUB 16,319 million, which was mainly due to the depreciation of the ruble against the U.S. dollar in 2015. The loss is mostly attributable to indebtedness denominated in foreign currencies.

Profit/(loss) before income tax

For the reasons set forth above, profit before tax increased by RUB 21,870 million, from loss of RUB 1,789 million in the year ended 31 December 2014 to profit of RUB 20,081 million in the year ended 31 December 2015.

Income tax expense

Income tax expense increased by RUB 630 million, or 3.6%, from RUB 17,314 million in the year ended 31 December 2014 to RUB 17,944 million in the year ended 31 December 2015.

The following table sets forth our income tax expense for the years ended 31 December 2014 and 2015:

	For the year ended 31 December			
	2014	**% of total income tax expense**	**2015**	**% of total income tax expense**
	(In millions of Russian Rubles, except percentages)			
Current provision	11,891	68.7%	19,944	111.1%
Deferred income tax expense /(benefit)	5,423	31.3%	(2,000)	-11.1%
Total income tax expense	**17,314**	100.0%	**17,944**	100.0%

Profit/(loss) from continuing operations

For the reasons set forth above, our *profit/(loss) from continuing operations* increased by RUB 21,240 million, from the loss of RUB 19,103 million in the year ended 31 December 2014 to the gain of RUB 2,137million in the year ended 31 December 2015.

Profit/(loss) from discontinued operations

Amounts reported in profit/(loss) from discontinued operations include the results of Bashneft and the effect of its deconsolidation in 2014, as well as related gains from settlements with Ural-Invest in 2015.
In the year ended 31 December 2015, we recorded a gain of RUB 49,029 million, while in the year ended 31 December 2014, we recorded a loss of RUB 109,215 million in connection with the deconsolidation of Bashneft. See Note 7 of the Financial Statements.

Profit/(loss) for the year

For the reasons set forth above, net income increased by RUB 179,484 million, from loss of RUB 128,318 million in the year ended 31 December 2014 to income RUB 51,166 million in the year ended 31 December 2015.

Non-controlling interest and net income attributable to JSFC Sistema

Profit attributable to non-controlling interests equaled RUB 27,919 million in the year ended 31 December 2014 and RUB 17,574 million in the year ended 31 December 2015. The decrease of profit attributable to non-controlling shareholders of our subsidiaries was driven by subsidiaries' operating results.

For the reasons set forth above, profit/(loss) attributable to JSFC Sistema increased by RUB 189,829 million from net loss of RUB 156,237 million in the year ended 31 December 2014 to net profit of RUB 33,592 million in the year ended 31 December 2015.

Segment Financial Results Overview

The following analysis concentrates on our five reportable operating segments – MTS, RTI, MTS Bank, Corporate and SSTL – and other operating segments which comprise Sitronics-N, Kronshtadt Group, Detsky mir, Segezha Group, Targin, Binnopharm, Medsi, SG-trans, Agroholding Steppe, Sistema Mass-media, Intourist, Leader-Invest and Bashkirian Power Grid Company ("BPGC"). Segment results are presented after elimination of intra-segment transactions, but prior to elimination of transactions between segments.

MTS

MTS is a leading telecommunications provider in Russia and the CIS, providing a wide range of mobile and fixed line voice and data telecommunications services, including transmission, broadband, pay-TV and various value added services, as well as selling equipment and accessories.

Capital expenditures at MTS totaled RUB 92,599 million and RUB 106,537 million, respectively, in 2014 and 2015 and were spent on network development in Russia and other countries where MTS operates.

For the years ended 31 December 2014 and 2015, MTS revenues accounted for 64% and 61%, respectively, of Sistema's consolidated revenues.

Certain Operating Data

Below we provide certain operating data useful for evaluating MTS business and results. The data focuses primarily on MTS mobile operations, particularly in Russia and Ukraine, which comprise the most significant share of MTS revenue in the periods presented, and is among the information routinely reviewed by MTS management as part of their evaluation of MTS performance.

Mobile Subscriber Data

The following table shows MTS mobile subscribers by country as of the dates indicated:

	At December 31,		
	2013	2014	2015
	(in millions)		
Subscribers[(1)]			
Russia	69.4	74.6	77.3
Ukraine[(2)]	21.5	20.2	20.4
Turkmenistan	1.7	1.7	1.6
Armenia	2.0	2.1	2.1
Uzbekistan[(3)]	n/a	0.2	1.1
Total consolidated	94.7	98.8	102.5
MTS Belarus (unconsolidated)	5.2	5.3	5.3

(1) We define a subscriber as an organization or individual, whose SIM-card shows traffic-generating activity or accrues a balance for services rendered or is replenished of topped off over the course of any three-month period, inclusive within the reporting period, and was not blocked at the end of the period.

(2) Including CDMA subscribers starting 2011.

(3) We reenterd into Uzbekistan market and started provision of services on December 1, 2014.

Mobile churn rate

We define mobile churn as the total number of subscribers who cease to be a subscriber during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request), expressed as a percentage of the average number of MTS subscribers during that period. We view the subscriber churn as a measure of market competition and customer dynamics. The following table shows MTS' Russian and Ukrainian subscriber churn for the periods indicated.

	Year Ended December 31,		
	2013	2014	2015
Subscriber Churn			
Russia	38.1 %	41.0 %	39.6 %
Ukraine	27.2 %	34.2 %	24.5 %

The churn rate is highly dependent on competition in MTS license areas and those subscribers who migrate as a result of such competition.

A vast majority of MTS subscribers are prepaid subscribers with no contractual commitment to us. As a result, these subscribers have unfettered freedom to migrate between operators at their convenience. This freedom, combined with the relative ease with which subscribers can obtain SIM cards, contributes to churn and increasing penetration levels in the markets where we operate.

The churn rate in Russia slightly decreased to 39.6% during the year ended December 31, 2015, as compared to 41.0% for the year ended December 31, 2014 as we improved the quality of customer service. We continued to offer our popular tariff plan “Super MTS” (free calls to all subscribers of MTS Russia) and “Smart” (integrated voice and data bundles), updated options for unlimited mobile Internet, further improved network quality and enhanced data rate by expanding our 3G and LTE capabilities. We expect that the extension of the MTS-Bonus loyalty program and further development of our mono-brand retail network will allow us to keep churn rate under control in 2016, stimulate value-added services usage and promote subscriber loyalty through superior customer service.

The churn rate in Ukraine decreased significantly to 24.5% for the year ended December 31, 2015, from 34.2% for the year ended December 31, 2014 due to the start of 3G services at the territory of Ukraine and partnership with Vodafone. In 2016, we expect the growth of subscriber loyalty due to further service quality improvement achieved through our partnership with Vodafone.

Mobile ARPU

We calculate mobile average monthly service revenue per subscriber by dividing MTS service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of MTS subscribers during that period and dividing by the number of months in that period. The following table shows our average monthly service revenue per Russian and Ukrainian subscriber based on our current calculation methodology and average monthly minutes of use per Russian and Ukrainian subscriber for the periods indicated.

	Year Ended December 31,	
	2014	**2015**
Average monthly service revenue per subscriber, RUB		
Russia	339.1	325.7
Ukraine	129.1	114.2
Average monthly minutes of use per subscriber		
Russia	372	381
Ukraine	554	508

Average monthly service revenue per subscriber in Russia decreased to RUB 325.7 for the year ended December 31, 2015, from RUB 339.1 for the year ended December 31, 2014 due to tariffs reduction followed by adverse changes in macro –economic situation and decrease in the disposable income of the general population. Average monthly minutes of use per subscriber in Russia increased to 381 minutes in 2015 from 372 minutes in 2014 mainly due to decrease in tariffs for on- net traffic and various roaming-related offers.

In Ukraine, average monthly service revenue per subscriber decreased to RUB 114.2 for the year ended December 31, 2015, from RUB 129.1 for the year ended December 31, 2014 due to depreciation of Ukrainian hryvna against Russian ruble in 2015. The average monthly minutes of use per subscriber decreased to 508 minutes in 2015 from 554 minutes in 2014 due to the negative impact of macroeconomic factors on overall voice traffic and difficulty in provision of services in eastern Ukraine.

Results of Operations

The following table presents the results of operations for MTS for the periods under discussion:

	Year ended 31 December			
	2014	% of revenues	2015	% of revenues
	(Amounts in millions of Russian Rubles, except percentages)			
Revenues[(1)]	410,780	100.0%	431,232	100.0%
Cost of sales	(144,660)	(35.2%)	(166,788)	(38.7%)
Selling, general and administrative expenses	(82,370)	(20.1%)	(86,925)	(20.2%)
Share of the profit or loss of associates and joint ventures	(3,080)	(0.7%)	(324)	(0.1%)
Finance income	4,519	1.1%	8,368	1.9%
Finance expense	(15,985)	(3.9%)	(25,616)	(5.9%)
Depreciation and amortisation	(73,383)	(17.9%)	(80,963)	(18.8%)
Operating income[(2)]	99,772	24.3%	85,645	19.9%
OIBDA[(3)]	173,154	42.2%	166,607	38.6%

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(1) Includes net sales to external customers and intersegment sales. Intersegment sales accounted for nil million RUB and 965 million RUB in the years ended 31 December 2014 and 2015, respectively.

(2) Including share in net losses of MTS Bank

(3) OIBDA represents operating income before depreciation and amortisation. OIBDA is not a measure of financial performance under IFRS. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and services debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods

The following table presents a reconciliation of OIBDA to operating income for the periods indicated:

	For the year ended	
	2014	2015
	(Amounts in millions of Russian Rubles)	
Operating income	99,772	85,645
Depreciation and amortisation	73,382	80,962
OIBDA	173,154	166,607

Revenues

MTS revenues for the year ended December 31, 2015, were RUB 431,232 million, an increase of 5.0% from the year ended December 31, 2014. The total subscriber base increased by 3.7% to 102.5million customers as of December 31, 2015. MTS is outperforming the market in terms of revenue growth from mobile data services with 30.0% market share as of December 31, 2015 in Moscow region. MTS had approximately 77.3 million subscribers in Russia as of December 31, 2015, and a leading 31% market share of total mobile cellular subscribers in Russia, according to AC&M-Consulting. Overall penetration in Russia was at approximately 168.2%, according to AC&M-Consulting. It had approximately 20.4 million subscribers in Ukraine as of December 31, 2015 and, according to AC&M-Consulting, a 34% market share of total mobile cellular subscribers in Ukraine. In addition, as of December 31, 2015, MTS had approximately 2.1 million subscribers in Armenia, and 1.6 million subscribers in Turkmenistan, representing a 60.4% and 25.5% market share, respectively, according to our estimates. For a description of MTS' fixed line subscriber base. The principal reason for the growth of MTS consolidated revenues for the year ended December 31, 2015, was the large increase in the usage of value-added services by MTS subscribers which was mainly attributable to the increase of data traffic driven by MTS active promotion of value-added services, an increase in mobile Internet penetration, an increase in usage of smartphones by MTS subscribers and active 3G and LTE network expansion and the consequent improvement of the quality and uptake of value-added services. Usage fees as a percentage of MTS total revenues were 23.8% in 2014 and 20.2% in 2015. Usage fees as a percentage of its total revenues have been decreasing largely due to the increase in revenues from value-added services as a percentage of MTS total revenues. *Interconnect fees*, which are fees for connecting users of other

operators' fixed line and wireless networks to the network, comprised 12.1% and 11,5% of MTS total revenues in 2014 and 2015, respectively.
Value-added services as a percentage of MTS total revenues comprised 26.9% in 2014 and 29.2% in 2015. MTS offers subscribers an array of value-added services. The increase in 2015 in revenue from value-added services was due to growth in data traffic, resulting from active marketing initiatives, sustained growth in customer data usage, increased data adoption through higher penetration of smartphones and tablets aided by aggressive smartphone pricing strategy in our retail chain and sustained investment in high-speed data networks. *Monthly subscription fees* consist of fixed monthly charges for network access and access to additional services. Monthly subscription fees as a percentage of our total revenues represented 5.8% in 2014 and 7.1% in 2015.

Cost of sales

Overall cost of sales, which includes cost of services and cost of handsets and accessories, exclusive of depreciation and amortisation, increased by RUB 22,128 million, or 15.3%, from RUB 144,660 million in the year ended 31 December 2014 to RUB 166,788 million in the year ended 31 December 2015.

Sales of goods primary consist of the sale of handsets and accessories and as a percentage of total revenue comprised 7.0% in 2014 and 9.4% in 2015. The increase in 2015 as compared to 2014 is attributable to the promotion of sales of smartphones aimed to boost smartphone penetration and attract higher quality subscribers. We expect that sales of handsets and accessories will decrease as a percentage of total revenue due to the expected increase of revenues from our value-added services. We do not subsidize handset sales in Russia. In Ukraine, we subsidize handsets for some of our contract subscribers as well as modems for GSM and CDMA users.

Interconnect and line rental charges include charges payable to other operators for access to, and use of their networks, which are necessary in the course of providing service to our subscribers. Interconnect charges as a percentage of our total revenues represented 12.6% in 2014 and 11.7% in 2015. Line rental charges as a percentage of our total revenues represented 1.9% in 2014 and 1.8% in 2015.

Charges for value added services include primary amounts payable to content providers. Cost of value added services as a percentage of our total revenues represented 2.1% in 2014 and 1.9% in 2015.

Selling, general and administrative expenses

Selling, general and administrative expenses at MTS increased by RUB 4,555 million, or 5.5%, from RUB 82,370 million in the year ended 31 December 2014 to RUB 86,925 million in the year ended 31 December 2015. Selling expenses have generally increased in prior years as subscriber numbers, market saturation and market competition have increased, as well as in connection with the further development of our brand and introduction of new value-added services.

Depreciation and amortisation

Depreciation and amortisation of property, network equipment, numbering capacity, licence costs and other intangible assets increased by RUB 7,580 million, or 10.3%, from RUB 73.383 million in the year ended 31 December 2014 to RUB 80,963 million in the year ended 31 December 2015 mainly in connection with ongoing network development and modernization program and the build-out associated with the regional networks .

Segment operating income

Operating profit of MTS declined by RUB 14,127 million or 14.2% from RUB 99,772 million in the year ended December 31, 2014 to RUB 85,645 million in the year December 31, 2015 mainly due to decrease in operating profit of "Other countries and business activities" business unit.

Currency exchange and transaction loss

Currency exchange and transaction loss for the year ended December 31, 2015, was RUB 6,213 million, compared to the loss of RUB 17,911 million for the year ended December 31, 2014. The decreases in losses recognized in the year ended December, 31 2015 as compared to those recorded in the year ended December, 31, 2014 were mainly due to deceleration of depreciation of the Russian ruble against U.S. dollar and Euro during the year ended December 31, 2015.

RTI

RTI is a leading Russian technology holding company in the fields of defense, microelectronics and high-tech R&D. RTI comprises four principal business units (BU): Defense Solutions, Complex Security Systems, Information and Communication Systems and Microelectronic Solutions. For the years ended 31 December 2014 and 2015, RTI's sales accounted for 11% and 13%, respectively, of consolidated revenues. Capital expenditures at RTI totaled RUB 4,036 million and RUB 5,115 million, respectively, in 2014 and 2015.

The following table presents the results of operations for RTI for the periods under discussion:

	Year ended 31 December			
	2014	**% of revenues**	**2015**	**% of revenues**
	(Amounts in millions of Russian Rubles, except percentages)			
Revenues[(1)]	81,028	100.0%	77,287	100.0%
Cost of sales	(62,724)	(77.4%)	(60,346)	(78.1%)
Selling, general and administrative expenses	(12,834)	(15.8%)	(10,319)	(13.4%)
Share of the profit or loss of associates and joint ventures	-	-	130	0.2%
Impairment of other assets	(2,997)	(3.7%)	(666)	-0.9%
Finance income	1,620	2.0%	2,242	2.9%
Finance expense	(5,501)	(6.8%)	(5,739)	(7.4%)
Depreciation and amortisation	(3,273)	(4.0%)	(2,482)	(3.2%)
Operating income	4,067	5.0%	4,548	5.9%
OIBDA[(2)]	7,340	9.1%	7,030	9.1%

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(1) Includes net sales to external customers and intersegment sales. Intersegment sales amounted to 12,173 million and 7,903 million in the years ended 31 December 2014 and 2015, respectively.

(2) OIBDA represents operating income before depreciation and amortisation. OIBDA is not a measure of financial performance under IFRS. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and services debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

The following table presents a reconciliation of OIBDA to operating income for the periods indicated:

	For the year ended	
	2014	**2015**
	Amounts in millions of Russian Rubles)	
Operating income	4,067	4,548
Depreciation and amortisation	3,273	2,482
OIBDA	7,340	7,030

Revenues

Revenues at RTI decreased in the year ended 31 December 2015 by 4.6% and amounted to RUB 77,287 million compared to RUB 81,028 million in the year ended 31 December 2014. The decline is due to decreased revenues of in the Information and communication technologies business unit (ICT, mainly represented by NVision) in particular as a result of disposal of NVision in 2015.

Cost of sales

Cost of sales decreased by RUB 2,378 million, or 3.8%, from RUB 62,724 million in the year ended 31 December 2014 to RUB 60,346 million in the year ended 31 December 2015.

Segment operating income

RTI recorded operating income of RUB 4,548 million in the year ended 31 December 2015 and RUB 4,067 million in the year ended 31 December 2014. RTI income growth was a result of uneven revenue recognition on a number of long-term contracts.

MTS Bank

MTS Bank provides a broad range of banking services, maintaining a diversified corporate loan portfolio and playing an active role in the Russian banking market. For the years ended 31 December 2014 and 2015, MTS Bank's revenues accounted for 4.2% and 3.6%, respectively, of our consolidated revenues

The following table presents the results of operations for MTS Bank for the periods under discussion:

	Year ended 31 December			
	2014	**% of revenues**	**2015**	**% of revenues**
	(Amounts in millions of Russian Rubles, except percentages)			
Revenues[1]	26,965	100.0%	25,619	100.0%
Cost related to banking activities	(32,215)	(119.5%)	(34,489)	(134.6%)
Selling, general and administrative expenses	(8,854)	(32.8%)	(7,980)	(31.1%)
Net interest income/(expenses)[2]	(14,507)	(53.8%)	(16,853)	(65.8%)
Depreciation and amortisation	(681)	(2.5%)	(689)	(2.7%)
Operating income/(loss)	(15,252)	(56.6%)	(17,658)	(68.9%)
OIBDA[3]	(14,571)	(54.0%)	(16,969)	(66.2%)

(1) Includes net sales to external customers and intersegment sales. Intersegment sales amounted to 139 million RUB and 462 million RUB in the years ended 31 December 2014 and 2015, respectively.

(2) MTS Bank derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing MTS Bank. Therefore, only the net amount is disclosed.

(3) OIBDA represents operating income before depreciation and amortisation. OIBDA is not a measure of financial performance under IFRS. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and services debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods

The following table presents a reconciliation of OIBDA to operating income for the periods indicated:

	For the year ended	
	2014	**2015**
	(Amounts in millions of Russian Rubles)	
Operating loss	(15,252)	(17,658)
Depreciation and amortisation	681	689
OIBDA	(14,571)	(16,969)

Revenues

MTS Bank derives a majority of its revenue from interest income.

Revenues decreased by RUB 1,346 million or 5%, from RUB 26,965 million in the year ended 31 December 2014 to RUB 25,619 million in the year ended 31 December 2015 due mainly to lower revenues reported in 2015 on the background of unfavourable market conditions and decrease of loan portfolio.

Net interest income/loss decreased by RUB 31,361 million, from RUB 14,507 million of income in the year ended 31 December 2014 to RUB 16,853 million of loss in the year ended 31 December 2015.

Loans to customers and banks (gross), including leases, decreased by RUB 53,730 million, or 28%, from RUB 189,453 million in the year ended 31 December 2014 to RUB 135,723 million in the year ended 31 December 2015.

Non-interest income decreased by RUB 5,994 million, or 92%, from RUB 6,506 million in the year ended 31 December 2014 to RUB 512 million in the year ended 31 December 2015.

Cost related to banking activities

Cost related to banking activities increased by RUB 2,274 million, or 7.1%, from RUB 32,215 million in the year ended 31 December 2014 to RUB 34,489 million in the year ended 31 December 2015 as a result of accrued provisions needed for the loan portfolio to individuals.

Selling, general and administrative expenses

Selling, general and administrative expenses slightly decreased by RUB 874 million, or 9.9%, from RUB 8,854 million in the year ended 31 December 2014 to RUB 7,980 million in the year ended 31 December 2015.

Segment operating income/(loss)

MTS Bank reported operating loss of RUB 17,658 million in the year ended 31 December 2015 whereas in the year ended 31 December 2014 the operating loss amounted to RUB 15,252 million.

SSTL

For the years ended 31 December 2014 and 2015, SSTL's revenues accounted for 1.3% and 2%, respectively, of our consolidated revenues. Capital expenditures at SSTL totaled RUB 1,595 million and RUB 1,663 million, respectively, in 2014 and 2015.

The following table presents the results of operations for SSTL for the periods under review:

	Year ended 31 December			
	2014	% of revenues	2015	% of revenues
	(Amounts in millions of Russian Rubles, except percentages)			
Revenues[1]	8,480	100.0%	13,965	100.0%
Cost of sales	(6,034)	(71.2%)	(9,201)	(65.9%)
Selling, general and administrative expenses	(4,451)	(52.5%)	(5,423)	(38.8%)
Impairment of long-lived assets other than goodwill and provisions for other assets	(11,277)	(133.0%)	(235)	(1.7%)
Finance income	287	3.4%	335	2.4%
Finance expense	(3,469)	(40.9%)	(6,596)	(47.2%)
Depreciation and amortisation	(2,320)	(27.4%)	(832)	(6.0%)
Operating loss	(16,592)	(195.6%)	(3,227)	(23.1%)
OIBDA (negative) [2]	(14,272)	(168.3%)	(2,395)	(17.2%)

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(1) Consists of net sales to external customers. SSTL recorded no intersegment sales in the years ended 31 December 2014 and 2015.

(2) OIBDA represents operating income before depreciation and amortisation. OIBDA is not a measure of financial performance under IFRS. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and services debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

The following table presents a reconciliation of OIBDA to operating income for the periods indicated:

	For the year ended	
	2014	2015
	(Amounts in millions of Russian Rubles)	
Operating loss	(16,592)	(3,227)
Depreciation and amortisation	2,320	832
OIBDA (negative)	(14,272)	(2,395)

Revenues

Revenues at SSTL increased by RUB 5,484 million, or 64.7%, from RUB 8,480 million in the year ended 31 December 2014 to RUB 13,965 million in the year ended 31 December 2015 mainly driven by Ruble depreciation in 2015 and higher data service revenues.

Cost of sales

Cost of sales increased by RUB 3,167 million, or 52.5%, from RUB 6,034 million in the year ended 31 December 2014 to RUB 9,201 million in the year ended 31 December 2015 following revenue growth.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by RUB 972 million, or 21.8%, from RUB 4,451 million in the year ended 31 December 2014 to RUB 5,423 million in the year ended 31 December 2015 due mainly to Ruble depreciation.

Finance expense

Interest expense increased by RUB 3,128 million, or 90.2%, from RUB 3,469 million in the year ended 31 December 2014 to RUB 6,596 million in the year ended 31 December 2015 due to an increase in SSTL's average indebtedness in 2015 as compared to 2014 and Ruble depreciation in 2015.

Impairment of long-lived assets

In the year ended 31 December 2014 we concluded that the SSTL fixed assets with a carrying value of RUB 11,277 million were impaired and recognized a loss in the consolidated statement of operations. As of 31 December 2015, the Group considered the terms of the agreement with RCOM and concluded there was no indicators of further impairment of SSTL spectrum and licenses.

Depreciation and amortisation

Depreciation and amortisation decreased by RUB 1,488 million, or 64.1%, from RUB 2,320 million in the year ended 31 December 2014 to RUB 832 million in the year ended 31 December 2015.

Segment operating income

For the reasons set forth above, SSTL operating losses decreased by RUB 13,365 million, or 80.6%, from a loss of RUB 16,592 million in the year ended 31 December 2014 to a loss of RUB 3,227 million in the year ended 31 December 2015 due to the increase in data revenues, optimization of sales and marketing costs and reduction in interconnect charges.

Corporate

Operating loss in our corporate segment decreased from RUB 20,887 million in the year ended 31 December 2014 to RUB 14,392 million in the year ended 31 December 2015.

Other

Our other operating segments include the following assets: Sitronics-N, Kronshtadt Group, Detsky mir, Segezha Group, Targin, Binnopharm, Medsi, SG-trans, Agroholding Steppe, Sistema Mass-media, Intourist, Leader-Invest and Bashkirian Power Grid Company ("BPGC").

For the years ended 31 December 2014 and 2015, revenues from other operating segments accounted for 20.18% and 24.36%, respectively, of our consolidated revenues. Capital expenditures in other operating segments totaled RUB 23,475 million and RUB 15,355 million in 2014 and 2015, respectively.

The following table presents the results of operations for other operating segments for the periods under discussion:

	Year ended 31 December			
	2014	% of revenues	2015	% of revenues
	(Amounts in millions of Russian Rubles, except percentages)			
Revenues[1]	130,432	100.0%	172,624	100.0%
Cost of sales	(91,785)	(70.4%)	(116,034)	(67.2%)
Selling, general and administrative expenses	(21,071)	(16.2%)	(30,318)	(17.6%)
Equity in net income of investees	(1,366)	(1.0%)	4,570	2.6%
Finance income	1,943	1.5%	2,994	1.7%
Finance expense	(4,151)	(3.2%)	(6,704)	(3.9%)
Depreciation and amortisation	(7,031)	(5.4%)	(9,427)	(5.5%)
Operating income	3,961	3.0%	10,257	5.9%
OIBDA[2]	10,992	8.4%	19,684	11.4%

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(1) Includes net sales to external customers and intersegment sales. Intersegment sales amounted to RUB 1,024 million and RUB 5,027 million in the years ended 31 December 2014 and 2015, respectively.

(2) OIBDA represents operating income before depreciation and amortisation. OIBDA is not a measure of financial performance under IFRS. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and services debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

The following table presents a reconciliation of OIBDA to operating income for the periods indicated:

	For the year ended	
	2014	2015
	(Amounts in millions of Russian Rubles)	
Operating income/(loss)	3,961	10,257
Depreciation and amortisation	7,031	9,427
OIBDA	10,992	19,684

Revenues

Revenues of our other operating segments increased RUB 42,191 million, or 32.3%, from RUB 130,432 million in the year ended 31 December 2014 to RUB 172,624 million in the year ended 31 December 2015 mainly due to consolidation of Segezha Group and continued expansion of Detsky mir in Russian market. Segezha Group contribution in consolidated revenue of 2015 made up RUB 33,436 million.

Bashkirian Power Grid Company (BPGC) is a large regional company providing electricity transmission services between central Russia and the Urals, and power transmission and distribution services to consumers in the Republic of Bashkortostan. BPGC's revenue increased by 5.4% year-on-year in 2015 from RUB 14,061 million to RUB 14,816 million mainly as a result of organic growth of electricity usage and an increase in the number of connections.

Detsky Mir is a leading Russian operator in children's goods retail, maintaining a chain of over 150 stores. Sales at Detsky Mir increased by RUB 16,098 million, or 33.2%, from RUB 45,446 million in the year ended 31 December 2014 to RUB 60,544 million in the year ended 31 December 2015 as a result of growth in like-for-like sales and continued expansion of the retail space by 26% to 491,000 sq.m.

Medsi is one of Russia's leading national networks of private clinics, providing healthcare services in Moscow and other Russian regions. Sales at Medsi decreased by RUB 1,537 million, or 15.7%, from RUB 9,764 million in the year ended 31 December 2014 to RUB 8227 million in the year ended 31 December 2015 mainly as a result of the ending of a state contract in 2014.

Binnopharm is a pharmaceuticals company managing one of the largest full-cycle facilities in Russia for the manufacturing of bio-technology drugs in line with GMP (Good Manufacturing Practice) international quality standards. Sales at Binnopharm decreased by RUB 825 million, or 33.2%, from RUB 2,485 million in the year ended 31 December 2014 to RUB 1,660 million in the year ended 31 December 2015. A decline in revenue was a result of a planned reduction of the low-margin distribution business and lowered price for the vaccine of its own production.

Targin is an oil services company focused on onshore drilling and work over operations, equipment servicing and manufacturing, transportation and construction. Sistema acquired control over Targin (formerly known as Bashneft-Service Assets) from Bashneft in October 2013. Targin's revenue declined by RUB 1,978 million or 7.2%, from RUB 27,516 million in the year ended 31 December 2014 to RUB 25,538 million in the year ended 31 December 2015. Targin's revenues decreased for the reporting year following disposal of its construction segment. Revenue from key business segments (excluding the construction segment) in 2015 increased by 7.1% largely driven by growth in Targin's core drilling segment, where drilling volumes were up 18% for the year.

Segezha Group is a manufacturer of sack paper and exporter of timber products and ply wood. In September 2014, LesInvest, a wholly owned subsidiary of the Group, acquired 100% of the share capital of OJSC Segezha Pulp and Paper Mill and LLC Derevoobrabotka-Proekt. Segezha revenue contributed to our consolidated revenue RUB 33,436 million or 4.7% in the year ended 31 December 2015. Segezha Group ("Segezha") reported strong growth in revenues primarily due to increased sales in its core segments, as well as the strengthening of global currencies in relation to the Russian ruble. The share of export sales in overall revenue amounted to 79% in 2015.

Intourist sales decreased by 15.7% the year ended 31 December 2015 and amounted to RUB 2,454 million.

Cost of sales

Cost of sales increased by RUB 24,249 million, or 26.4%, from RUB 91,785 million in the year ended 31 December 2014 to RUB 116,034 million in the year ended 31 December 2015 following the reasons discussed in revenue section above.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by RUB 9,247 million, or 43.9%, from RUB 21,071 million in the year ended 31 December 2014 to RUB 30,318 million in the year ended 31 December 2015.

Depreciation and amortisation

Depreciation and amortisation increased by RUB 2,396 million, or 34,1%, from RUB 7,031 million in the year ended 31 December 2014 to RUB 9,427 million in the year ended 31 December 2015 mainly due to Segezha Group consolidation.

Segment operating income/(loss)

For the reasons discussed above, our other operating segments, in aggregate, recorded an operating income of RUB 10,257 million in 2015 as compared to RUB 3,961 million in 2014.

Liquidity and Capital Resources

Sistema JSFC and its subsidiaries use a variety of sources to finance operations, both external and internal. In addition to net cash provided by operations, short- and long-term borrowings to fund capital expenditures and strategic investments are used. Short- and long-term funding sources may change with time, but currently include notes issued in the international and Russian capital markets and credit facilities with international and Russian banks, denominated both in rubles and foreign currencies.

We expect to repay all long-term debts as they become due from our operating cash flows, including distributions received from subsidiaries, or through re-financings. See Note 31 to our Financial Statements for a description of our indebtedness.

Dividend policy

Our parent company, Sistema JSFC, is a holding company, and its ability to repay its debts depends in large part on the receipt of dividends, distributions and other payments from our subsidiaries, proceeds from the sale of our subsidiaries and from additional borrowings.

Because most of our operating subsidiaries are incorporated in Russia, their ability to pay dividends to Sistema JSFC is limited by the provisions of the Russian law. For example, the Russian law requires that, among other things, dividends can only be paid in an amount not exceeding net profits as determined under Russian accounting standards. In addition, dividends may only be paid if the value of the company's net assets is not less than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company, if any, as determined under Russian accounting standards. Our subsidiaries located in other jurisdictions are likely to be subject to similar or other limitations on their ability to declare and pay dividends as a result of regulatory, fiscal and other restrictions.

In June 2014, Sistema declared and paid dividends for the year ended 31 December 2013 of RUB 19.9 billion ($574.3 million), or RUB 2.06 per share. In June 2015, an annual general meeting of shareholders approved the total dividend payment of RUB 4,540 million for 2014 year (including dividends on treasury shares of RUB 119 million), representing RUB 0.47 per ordinary share or RUB 9.4 per GDR.

Stock-Option Plans

During the years ended December 31, 2015 and 2014 the Company's Board of Directors established two-year motivational programs for senior and mid-level management. Participants of the programs upon fulfillment of certain performance conditions and subject to continuing employment with the Group will be granted the Company's ordinary shares. As a result, the Group recognized an expense of RUB 2,866 million and RUB 2,838 million in the consolidated statements of profit or loss for 2015 and 2014, respectively. The fair value of awards granted was measured based on the fair value of the Company's ordinary shares. The awards are equity-settled and are recognized in additional paid-in capital.

Cash Flows

A summary of our cash flows is presented in the table below for the periods indicated:

	Year ended 31 December	
	2014	**2015**
	(Amounts in millions of Russian Rubles)	
Cash flows		
Net cash provided by operating activities	264,468	156,072
Net cash used in investing activities	(247,085)	(180,244)
Net cash used in financing activities	(2,644)	31,947
Effect of foreign currency translation on cash and cash equivalents	764	(3,270)
Impairment of cash and cash equivalents	-	(1,697)
Net increase/ (decrease) in cash and cash equivalents	15,503	2,808

Net cash provided by operating activities

Net cash provided by operating activities in the reporting year decreased by RUB 108,396 million, or 41.0% from RUB 264,468 million in the year ended December 31, 2014 to RUB 156,072 million in year ended December 31, 2015. This decrease was caused by changes in working capital by approximate 10,703 million RUB and deconsolidation of Bashneft in 2014 by RUB 97,963 million.

Net cash used in investing activities

Net cash used in investing activities decreased from RUB 247,085 million in the year ended 31 December 2014 to RUB 180,244 million in the year ended 31 December 2015. This decrease was largely due to proceeds from settlement with Ural-Invest amounted to RUB 10,821 million and cash disposed at deconsolidation of Bashneft in 2014 by RUB 52,818 million.

In the reporting year, the Group spent RUB 17,498 million on purchasing of subsidiaries and affiliates, net of cash acquired whereas it spent RUB 66,398 million in 2014 for the same purposes (of which RUB 42,515 investments of Bashneft).

Also, there was the active placements of funds in long-term and short-term deposits and other financial assets in 2015. In the reporting year, the Group's net purchases of financial assets, long-term and short-term, (including proceeds) amounted to RUB 56,310 million, whereas the same net proceeds including Bashneft in 2014 were accordingly RUB 9,117 million.
The Group's capital expenditure in 2015 amounted to RUB 139,223 million compared to RUB 157,185 million. Increase in capital expenditures of MTS by RUB 14,608 million in 2015 partly compensated the dropout of capital expenditures of Bashneft that amounted to RUB 42,698 million in 2014.

Net cash used in financing activities

In the reporting year, net cash provided by the Group in financing activities amounted to RUB 31,947 million compared to the previous year's net cash flow used in financing activity amounted to RUB 2,644 million. Such dynamics is partly due to cash inflow of RUB 6,706 million under credit guarantee agreement related to foreign-currency hedge by MTS in 2015 and proceeds from sale of 23.1% of Detsky Mir to the Russia-China Investment Fund for RUB 9.75 billion as well as lower volume of transactions with non-controlling interests.

Working Capital

Working capital is defined as current assets less current liabilities. Group's current liabilities exceeded its current assets by RUB 67,789 million. We believe that we generate sufficient operating cash flows and adequate funding is available to fulfil the Group's short-term obligations, if needed, including unused credit facilities of RUB 122,421 million and long-term deposits of RUB 45,696 million available for withdrawal.

Capital Requirements

Sistema JSFC and each of its subsidiaries require funding to finance the following:

- Capital expenditures, which consist of purchases of property, plant and equipment and intangible assets;
- Acquisitions;
- Repayment of debt;
- Changes in working capital;
- General corporate activities, including dividends;
- Potential payments of obligations under other contractual obligations.

We anticipate that capital expenditures, acquisitions and repayment of long-term debt will represent the most significant uses of funds for several years to come.

Our capital expenditures in the years ended 31 December 2015 and 2014 were RUB 139,223 million and RUB 114,486 million, respectively. We expect to continue to finance most of our capital expenditure needs through our operating cash flows, and to the extent required, additional indebtedness, such as borrowings or additional capital raising activities.

In addition to our capital expenditures, we spent RUB 6.1 billion and RUB 3.6 billion in the years ended 31 December 2015 and 2014 respectively on acquisitions of non-controlling interests in existing subsidiaries. See Notes 8 and 9 of the Financial Statements for further description of our acquisitions. We may continue to expand our business through acquisitions. Our cash requirements relating to potential acquisitions can vary significantly based on market opportunities.

As of 31 December 2015 and 2014 short-term debt equaled RUB 142,657 million and RUB 126,008 million respectively. As of 31 December 2015 and 2014, short-term debt accounted for 26% and 27%, respectively, of our overall debt.

Capital Resources

We plan to finance our capital requirements through operating cash flows and financing activities, as described above.

Cash

As of 31 December 2014 and 2015, excluding our assets from banking activities, we had cash and cash equivalents of RUB 72,501 million and RUB 76,239 million,.

As of 31 December 2014 and 2015, the current portion of our assets from banking activities amounted to RUB 47,466 million and RUB 46,536 million, respectively.

Loans and Borrowings

As of 31 December 2015, our indebtedness consisted mainly of notes and corporate bonds and loans from banks and financial institutions. Total indebtedness as of 31 December 2015 was RUB 556,760 million, consisting of RUB 414,102 million in long-term debt, RUB 142,658 million in short-term loans payable. The table below sets forth our loans from banks and financial institutions as of 31 December 2015. See Note 25 to our Financial Statements for further description of our material debt obligations.

	Maturity	Interest rate (actual at 31 December 2015)	31 December 2015	31 December 2014
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2016-2020	LIBOR 6m+1.15%	39,449	37,062
China Development Bank	2016-2021	LIBOR 6m+3.15%; 1.92%	21,026	9,859
Citibank	2016-2024	LIBOR 6m+0.9%	17,511	-
Bank of China	2016	1.91% - 3.83%	10,391	9,372
Bank of Moscow	2016-2018	LIBOR 3m+7.5%	4,032	4,644
Skandinavska Enskilda Banken AB	2016-2017	LIBOR 6m+0.225% - 1.8%	3,938	5,115
Other			275	1,650
			96,622	**67,702**
EUR-denominated:				
Credit Agricole Corporate Bank and BNP Paribas	2016-2018	EURIBOR 6m+1.65%	1,639	1,864
Bank of Moscow	2016-2017	EURIBOR 6m+6.2%	1,076	1,538
LBBW	2016-2017	EURIBOR 6m+1.52%	737	943
Other			729	686
			4,181	**5,031**
RUB-denominated:				
Sberbank	2016-2022	8.45%-17,75%	203,363	169,366
VTB	2016-2020	8.90%-19.70%; CBR+2,02%-3,15% (10,27%-11,40%)	19,795	4,864
Gazprombank	2016-2018	9.75% - 20,0%	11,187	14,243
Alfa Bank	2016-2018	13.2%-14.5%	4,970	1,527
Bank of Moscow	2016-2018	CBR+3.0% (11.25%); Mosprime 3m+3,75%-8.85% (15.54%-20.64%);	4,958	7,257
Other			16,279	15,237
			260,552	**212,494**
Other currencies			5,369	2,140

Total bank loans	**366,724**	**287,367**

As of 31 December 2015 and 2014, the Group's notes consisted of the following:

	Currency	Interest rate as of 31 December 2015	31 December 2015	31 December 2014
MTS International Notes due 2020	USD	8.625%	42,238	34,933
MTS International Notes due 2023	USD	5.00%	33,908	26,812
Sistema International Notes due 2019	USD	6.95%	32,027	26,159
Sistema JSFC Bonds due 2016	RUB	8.75%	13,896	8,211
Sistema JSFC Bonds due 2018	RUB	12.70%	10,000	-
Sistema JSFC Bonds due 2030	RUB	17.00%	8,206	-
Sistema JSFC Bonds due 2025	RUB	12.50%	5,000	-
MTS Notes due 2023	RUB	8.25%	9,971	9,958
MTS Notes due 2017	RUB	8.70%	9,637	9,655
MTS Notes due 2020	RUB	10.75%	2,110	14,990
MTS Notes due 2016	RUB	8.75%	1,788	1,788
MTS Notes due 2015	RUB	-	-	7,541
SSTL Bonds due 2019	INR	-	-	11,072
Other			2,974	4,768
Total notes			**171,755**	**155,887**

The following table presents the aggregate scheduled maturities of debt outstanding as of 31 December 2015:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Borrowings	142,657	88,932	97,104	81,859	74,243	71,965

Commitments and Contingencies

For a detailed discussion of our commitments and contingencies, see Note 38 of our Financial Statements.

Operating leases

We enter into various agreements to lease space for telecommunications equipment, transmission channels, mobile towers, retail outlets and offices.
The leases have various terms and renewal rights, none of which is individually significant to the Group. Future minimum lease payments under non-cancellable operating leases comprise (in million RUB):

Payments due in the year ended 31 December	
2016	16,085
2017	11,271
2018	11,421
2019	11,450
2020	11,405
Thereafter	16,033
Total	**77,665**

Capital commitments

At 31 December 2015, the Group had capital commitments of RUB 31,594 million (31 December 2014: RUB 47,257 million) relating to the acquisitions of property, plant and equipment.

Commitments on loans and unused credit lines - As of 31 December 2015, MTS Bank had RUB 5,064 million of commitments on loans and unused credit facilities available to its customers (31 December 2014: RUB 7,139 million).

Guarantees – At 31 December 2015, MTS Bank guaranteed loans for several companies which totalled RUB 5,423 million (31 December 2014: RUB 12,189 million; 1 January 2014: RUB 13,191 million), including related parties of RUB 589 million (31 December 2014: RUB 364 million; 1 January 2014: RUB 60 million). These guarantees would require payment by the Group in the event of default on payment by the respective debtor. Such guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with IAS 37, and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Telecommunication 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 31 December 2015 MTS-Ukraine has paid UAH 358 million (RUB 865 million as of the payment date) for conversion of frequencies and is liable to pay UAH 267 million (RUB 705 million as of 31 December 2015) adjusted for the rate of inflation in Ukraine in the years 2017-2018.

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

Restriction on transactions with the shares of BPGC – In 2014, in the course of a litigation, which the Group is not a party to, the court imposed restrictions on transactions with the shares of BPGC owned by the Group. The restrictions do not limit the Group's voting rights, rights to receive dividends or any other shareholders rights.

Taxation – Russia and other CIS countries currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or non-existent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia and the CIS countries that are more significant than those typically found in countries with more developed tax systems. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. As of 31 December 2015, provisions for additional taxes and customs settlements comprised RUB 832 million (31 December 2014: RUB 833 million). However, the relevant authorities may have different interpretations, and the effects on the financial statements could be significant.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group's foreign subsidiaries, if recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016.

Legal proceedings – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Group operates. At 31 December 2015, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 1.6 billion.

Credit Ratings

Our credit ratings impact our ability to obtain short- and long-term financing, and the cost of such financing. In determining our credit ratings, the rating agencies consider a number of factors, including our operating cash flows, total debt outstanding, commitments, interest requirements, liquidity needs and availability of liquidity. Other factors considered may include our business strategy, corporate governance, the condition of our industry and our position within the industry. Although we understand that these and other factors are among those considered by the rating agencies, each agency might calculate and weight each factor differently.

The credit ratings of our parent company, MTS and MTS-Bank as of April 11, 2016 were as follows:

Name of issuer	Rating Agency	Date of Rating	Rating	Outlook
Sistema	S&P	24 July 2015	BB	Stable
Sistema	Moody's	22 January 2016	Ba3	Stable
Sistema	Fitch	18 March 2015	BB-	Stable
MTS	S&P	04 February 2015	BB+	Negative
MTS	Moody's	24 April 2015	Ba1	Negative
MTS	Fitch	18 March 2015	BB+	Stable
MTS-Bank	Fitch	18 March 2015	B+	Stable
MTS-Bank	Moody's	05 November 2015	B3	Negative

Market Risks

We are exposed to a variety of market risks, including foreign currency risk, interest rate risk, credit risk and liquidity risk. We actively seek to minimize the potential adverse effects of these risks on our financial performance, and, in particular, use derivative instruments, including swap, forward and option contracts to manage foreign currency and interest rate risks. We do not use derivatives for trading purposes.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect finance costs. The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by conducting certain hedging activities. For more information see our Note 32.

As of 31 December 2015, approximately RUB 151,550 million, or 27% of our total indebtedness was variable interest rate debt, while RUB 405,209 million, or 73% of our total indebtedness was fixed interest rate debt.

For indebtedness with variable interest rates, the table below presents principal cash flows and related weighted average interest rates by contractual maturity dates as of 31 December 2015.

	Currency	2016	2017	2018	2019	2020	Thereafter	Total	Weighted average interest rate (actual interest rate at December 31, 2015)
					(amounts in millions of RUB)				
Variable debt									
Sberbank	RUB	—	—	12,000	12,000	12,000	14,000	50,000	12.70%
Sberbank	RUB	—	5,000	5,000	—	—	—	10,000	13.20%
Skandinavska Enskilda Banken AB	USD	2,131	987	—	—	—	—	3,118	1.07%
Skandinavska Enskilda Banken AB	USD	426	426	—	—	—	—	852	2.65%
LBBW	EUR	372	372	—	—	—	—	744	1.48%
Credit Agricole Corporate Bank and BNP Paribas	EUR	552	552	552	—	—	—	1,656	1.61%
Citibank	USD	2,172	2,172	2,172	2,172	2,172	5,794	18,463	1.75%
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	USD	9,092	9,091	9,092	7,276	5,459	—	40,010	2.00%
Unicredit	RUR	2,425	—	—	—	—	—	2,425	15.51%
Unicredit	EUR	—	—	—	—	729	—	729	0.25%
Raiffeisenbank	RUR	—	1,197	—	—	—	—	1,197	16.39%
Bank of Moscow	RUR	—	—	4,958	—	—	—	4,958	17.23%
Bank of Moscow	USD	—	—	4,032	—	—	—	4,032	8.11%
Bank of Moscow	EUR	—	1,076	—	—	—	—	1,076	6.24%
VTB	RUR	—	—	—	1,206	1,700	—	2,906	13.68%
Bank of America N.A. (Transferred from SG)	USD	260	—	—	—	—	—	260	2.10%
China Development Bank	USD	—	—	—	—	—	10,932	10,932	4.00%
Total variable debt		**17,430**	**20,873**	**37,806**	**22,654**	**22,060**	**30,726**	**151,550**	

Credit Risk

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash and cash equivalents, assets from banking activities, short-term financial assets, net accounts receivable and long-term financial assets.

Credit risk with regard to assets from banking activities is managed by evaluating the creditworthiness of our customers.

Credit risk with respect to short-term and long-term investments is managed by assessing the creditworthiness of each borrower, taking into account the type of security that can be pledged, as well as the purpose of each investment or loan.

Credit risk connected with other current assets is managed by assessing the creditworthiness of each customer, taking into account its financial position, past experience and other factors.

The carrying amount of our financial assets represents our maximum credit exposure. The following table sets forth the maximum exposure to credit risk as at the periods indicated:

	Year ended 31 December	
	2015	2014
	(Amounts in millions of Russian Rubles)	
Cash and cash equivalents	122,775	119,967
Short term financial assets	154,137	102,794
Accounts receivable, net	74,276	78,961
Other non-current assets	15,328	10,115
Long-term financial assets	157,932	126,798
Total	**524,448**	**438,635**

Liquidity Risk

Liquidity risk is the risk that we will not be able to settle all liabilities as they become due. Our approach to managing liquidity is to ensure, as far as possible, that we will always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation. Our liquidity in the future will primarily depend on our ability to maintain adequate cash flows from operations to meet our debt obligations as they become due, on our ability to obtain adequate external financing to meet our committed future capital expenditures and on the extent to which we will be obligated to make payments under certain judgments and other contractual obligations. Our operating cash flows could be adversely affected by numerous factors beyond our control, including but not limited to, fluctuations in exchange rates and inflation, the price of acquisitions, the change in telecommunications tariffs, taxation, or increased competition. Our ability to obtain external financing depends on numerous factors, including but not limited to, our financial performance and creditworthiness as well as our relationships with lenders.

Critical Accounting Policies

First-time adoption of IFRS - These are the Group's first consolidated financial statements prepared in accordance with IFRS. In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in consolidated financial statements prepared in accordance with US GAAP (its previous GAAP). 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 out in Note 39 of our statement**.**

The Note 3 of our Financial Statements sets out significant accounting policies that relate to the Group's consolidated financial statements as a whole and describes the critical accounting judgements that management has identified as having a potentially material impact on the Group's consolidated financial statements. When an accounting policy is generally applicable to a specific note to the accounts, the policy is described within that note.

Recently adopted accounting pronouncements – The Group has not early adopted any of the new or revised IFRSs that have been issued but are not yet effective in 2015. Significant new standards or amendments include:

IFRS 9, *Financial Instruments* – The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements. IFRS 9 governs the classification and measurement of financial assets and liabilities, derecognition, impairment and hedge accounting matters. Particularly, in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under
IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. The Group anticipates that the adoption of IFRS 9 may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of its effect until a detailed review has been completed.

IFRS 15, *Revenue from Contracts with Customers* – This standard, effective for annual periods beginning on or after 1 January 2018 (earlier application permitted), provides a single, principle-based five-step model for determination and recognition of revenue to be applied to all contracts with customers. It supersedes the existing standards IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and related interpretations. The Group is currently evaluating the impact of this new standard and the transition alternatives.

IFRS 16, *Leases* – The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, with certain exemptions, and to present the rights and obligations associated with these leases in the statement of financial position. Therefore, upon adoption of this standard, lessees will no longer be required to make a distinction between finance and operating lease. For all leases, a lessee will recognise a lease liability in its statement of financial position for an obligation to make future lease payments. At the same time, a lessee will capitalise a right of use to the underlying asset. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 (earlier application is permitted, if IFRS 15 has also been applied). The Group is currently evaluating the impact of these amendments on the consolidated financial statements.

The Group does not expect that future adoption of other new or revised IFRSs that have been issued but are not yet effective will have a material impact on the Group's consolidated financial statements.

Upon transition to IFRS, the Group changed its presentation currency from the US Dollar to the Russian Ruble following the requirements of the Russian legislation. The Group believes that this change will also provide better transparency with respect to reporting the Group's financial and operating performance as it more closely reflects the profile of the Group's revenues and operating income, a major portion of which is generated in Russian Rubles. Equity and comprehensive income previously reported under US GAAP in US Dollars have been translated into Russian Rubles.

5. RISKS

The Corporation may face a variety of risks in the course of its business operations as a result of processes and factors over which Sistemahas little or no influence. That said, the Corporation can take measures to reduce the negative consequences of such factors in the event that a certain risk occurs. This makes efficient assessment of existing risks, the probability of their occurrence and efficient risk management an important part of Sistema's strategy.

The Corporation has introduced an integrated enterprise risk management (ERM) system based on international standards, recommendations, and risk management practices. The ERM system is designed to provide a reasonable guarantee that the Corporation can achieve its strategic goals and to ensure that risks will be kept at a level acceptable to shareholders and management.

Sistema Group's integrated ERM system

As part of Sistema's quarterly ERM procedures, the Group's risk managers compile individual risk registers for each subsidiary and a consolidated risk register for the Group. As part of this they prioritise risks and aggregate them into portfolios, develop a risk map and analyse its key trends, and analyse the potential impact of material risks on the financial performance of individual subsidiaries and Sistema Group as a whole using simulation and financial modelling methods.

To address the risks listed in the Group's risk register, the company has developed risk management (mitigation) and response plans covering specific mitigation measures. These plans are modified, adjusted and then approved by Sistema's Risk Subcommittee.

Risk management reports are submitted for review to relevant collective governance bodies at least once a quarter. Each risk management report contains a revaluation of risks, an assessment of the effectiveness of risk mitigation and response plans, and a list of potential risk areas (areas requiring attention) identified for future periods.

External Risks

Risks related to changes in the political and economic situation in Russia are material to Sistema, because most of the Corporation's business is conducted in the country. In addition, many of its subsidiaries operate in transitional economies including Ukraine, Uzbekistan, Armenia, Belarus, Turkmenistan and India, and therefore are also exposed to material external risks.

Financial risks

The business of Sistema is inextricably connected to the state of the global economy and financial markets, and in particular is sensitive to movements in prices of oil, gas and other commodities that Russia exports. Further weakening of the rouble against the US dollar and the euro amid a slump in oil prices, sanctions imposed on Russia and increased capital flight may result in higher costs and lower revenues or may impede Sistema's subsidiaries in achieving their financial targets and repaying debt.

Foreign investors leaving Russia and downgrades of the sovereign credit rating by international rating agencies, as well as restrictions on foreign companies in Russia as a result of sanctions, may have a negative impact on Sistema Group's joint ventures (partnerships) and new investment projects.

Growing inflation may result in higher expenses, putting pressure on profit margins, and may also affect domestic demand for products and services provided by Sistema Group companies.

In the medium term, if sanctions are maintained and the access of Russian banks and businesses to foreign debt remains restricted, this may significantly increase the current liquidity deficit in the market and result in further interest rate raises, making it difficult for Sistema Group to raise funding for its operations and to refinance the debt of the Corporation and its portfolio companies.

An unfavourable macroeconomic environment in many countries where Sistema's assets operate may make it necessary to re-evaluate goodwill at some of these assets.

Currency control and restrictions on capital repatriation may adversely affect Sistema's business by posing barriers to capital flows and reduce the value of Sistema's investments in Russia.

Potential bankruptcy of one or several Russian or foreign banks due to restricted access to financing may result in a reduction in the sources of borrowing for the Corporation and portfolio companies, and may lead to direct losses of funds deposited in the accounts of such banks.

Political and social risks

The influence of geopolitical risks on the Corporation and its portfolio companies has significantly intensified over the reporting period, as protectionism and economic sanctions are increasingly being used as a tool for achieving geopolitical goals.

The risk of inter-state conflicts has risen significantly since the beginning of 2014, both in terms of probability and in terms of potential effect on various areas of Sistema Group's activities. For example, insurance companies may set higher insurance premiums for Sistema Group or refuse to insure against specific risks, which may lead to a deterioration of the Group's financial results.

Imposition of sanctions against Russia or Russian companies may result in disruption to international payment systems, which in turn may prevent the Corporation and its portfolio companies from making settlements and reduce Sistema's investment appeal.

A potential rise in social unrest in the regions where the Corporation operates may threaten its profits.

Legal risks

There is a risk of unpredictable court rulings and administrative decisions being passed with respect to the business of Sistema Group, which may have an adverse effect. This risk is caused by numerous factors, including:

- possible discrepancies and ambiguities in: (i) federal and other laws; (ii) bylaws issued by executive authorities of states where Sistema Group operates; (iii) regional and local laws, rules and requirements;
- gaps in legislation and lack of court and administrative guidelines regarding the interpretation of some laws, as well as conflicting court guidelines and rulings.
- influence of political, social and commercial factors on the judicial system;
- potential selective or arbitrary actions of government authorities.

Gaps in Russia's existing corporate and securities legislation may create barriers to raising funds in the future.

A lack of clarity regarding the applicability to Sistema's business of the Federal Law on the Procedure for Foreign Investment in Companies of Strategic Importance to National Defence and State Security and regulations of the Customs Union of Russia, Belarus and Kazakhstan may have a negative impact on the business of Sistema Group, given that the Group has foreign shareholders.

There is a risk of amendments to legislation in countries where Sistema Group companies operate, due to potential changes that may be introduced by foreign states or international organisations to legislation or regulations governing international trade and investments. For example, Russia's accession to the World Trade Organisation may result in certain unpredictable legislative and other changes in markets where Sistema's companies operate.

Since Russian corporate law makes shareholders liable for the obligations of their affiliates, Sistema may incur financial losses related to the liabilities of its portfolio companies.

Minority shareholders of Sistema's subsidiaries may contest or vote against related-party or other transactions, which could limit Sistema's ability to close investment deals and restructure businesses.

If Russia's Federal Anti-Monopoly Service concludes that Sistema or one of its material subsidiaries has violated existing anti-monopoly legislation, this may result in serious administrative sanctions involving losses for the Corporation. The Federal Anti-Monopoly Service may also prevent the Corporation and its portfolio companies from closing and/or servicing certain transactions, which would also limit Sistema's capacity to conclude investment deals and restructure businesses.

Taxation

Tax laws, regulations and practices of jurisdictions where Sistema's assets operate are intricate, opaque and prone to frequent modifications and ambiguous interpretations. If the Corporation's actions are interpreted as being in breach of tax law, this may produce an adverse effect on the business of Sistema Group.

Russia's law on transfer pricing may make it necessary to introduce adjustments to price-setting practices at Sistema Group's companies and result in additional tax liabilities related to some transactions.

On 1 January 2015, new rules were introduced relating to taxation of undistributed profits of controlled foreign companies, the concept of a beneficiary owner, and new criteria to establish tax residency of legal entities. These rules were revised several times throughout 2015, with all amendments having retroactive effect. As a result of the need to apply new taxation rules, the Group's companies may face new tax liabilities due to the uncertainty regarding interpretation of tax law and lack of relevant precedents.

Securities markets

Deterioration of the geopolitical situation, the imposition of sanctions on Russian companies, a worsening of the macroeconomic environment and capital and investor flight from the Russian market led to a reduction in valuations of Russian companies in 2014-2015. In these circumstances, Sistema's access to investor funding through securities markets may be restricted further as a result of the imposition of sectoral sanctions against Russian companies in segments where Sistema operates and/or due to investors adopting a cautious approach to Russian companies in general. In particular, Sistema's ability to raise funding via bond issues may be limited, which could lead to a lack of working capital and cash available for investment and affect the Corporation's financial performance.

Risks related to activities of Sistema

Implementation of business strategy

The Corporation's strategy aims to develop a balanced and diversified asset portfolio in sectors and regions where Sistema has expertise and competitive advantages, while attracting leading international and Russian partners. Although it has a well-formulated strategy, Sistema cannot guarantee achievement of its goals, efficient management of portfolio companies or benefits from new investment opportunities. Failure to achieve the goals set in its strategy may undermine Sistema's financial results.

The development of Sistema Group companies depends on numerous factors, including receipt of necessary permits from state authorities, sufficient demand from consumers, successful development of technologies, efficient risk and cost management, timely completion of R&D and introduction of new products and services. Weaknesses in any of these areas may have a detrimental effect on the development of Sistema Group companies and the Corporation's financial figures.

Acquisition, integration, disposal or restructuring of assets

Sistema implements its strategy via acquisitions, disposals and restructuring of assets. New investment opportunities come with certain risks, including failure to find relevant targets or their not being available for acquisition, inadequate due diligence of the target company's operations and/or financial situation, and potential overvaluation of assets. These risks can also affect Sistema's financial performance.

Acquisition of assets may increase pressure on Sistema's cash position and create a need for raising external funding.

Delays in the implementation of investment deals or failure to close them may obstruct the achievement of Sistema's strategic goals and affect its performance, financial position and investment appeal.

Sistema may struggle to implement an efficient system for managing and controlling new assets. The main risks in this area include:

- inability to efficiently integrate operating assets and personnel of the acquired company;
- inability to establish and integrate necessary control mechanisms, including those related to logistics and distribution;
- conflicts among shareholders;
- hostility and/or unwillingness to cooperate on the part of the management and personnel of the acquired asset;
- loss of customers by the acquired asset.

If any of the above risks materialise, the relevant asset may lose part of its value and/or report a deterioration in financial performance.

When disposing of its assets the Corporation may face the following risks:

- delays in closing or failure to close the deal due to inability to obtain corporate or state approvals;
- mistakes in asset valuation;
- assuming excessive obligations towards the buyer;
- loss of synergies with other assets staying in the portfolio.

If one or more of these risks materialise, the Corporation may lose potential profit and thus report poorer financial performance.

Management and key personnel

The implementation of Sistema's strategy in many respects depends on the efforts and professionalism of the management team. Failure to hire a sufficiently competent and motivated management team can jeopardise Sistema's business, performance, financial position and growth prospects.

Cash flows from subsidiaries and affiliates

The Corporation's financial performance depends on the ability of Sistema Group companies to generate the cash flows needed to service its financial liabilities, including repayment of debt and interest, and to make other investment activities in the future. Such cash-generation capacity may be restricted due to regulatory, tax or any other barriers, which may have an adverse effect on the Corporation’s financial position and liquidity.

Overdependence on MTS

Sistema's financial results in many respects depend on the success of its core asset, MTS. Therefore, any deterioration in the financial performance of MTS may lead to a deterioration in Sistema's financial results. Any events that damage the business of MTS may also negatively influence the current state of Sistema's business and its future prospects and lead to poorer financial figures.

Borrowings

Cash flows from portfolio companies may be insufficient to fund all of the Corporation's investments scheduled for a particular time. This can make it necessary to borrow funds and thus slow down strategy implementation.

Loan covenants

Loan and debt securities agreements signed by Sistema and its portfolio companies contain certain restrictive covenants. These covenants restrict further borrowings, encumbrance of property with pledges, asset sales and transactions with affiliates. They may also restrict certain aspects of Sistema's operations, such as financing of capital expenses, or limit its capacity to repay debts and service other liabilities. Any breach of covenants, however inadvertent, may entitle creditors of the Corporation and/or its portfolio companies to demand early repayment of loans, which would threaten the Corporation's financial performance.

Licences and permits
Operations of Sistema Group's companies are regulated by different government bodies and agencies issuing and renewing licences, approvals and permits, and also depend on applicable laws, regulations and standards. Regulating authorities to a large extent rely on their own judgment when interpreting and implementing legal requirements, issuing and extending licences, approvals and permits, and monitoring compliance with such licences. There is no guarantee that the existing licences and permits, including those issued to the Group's companies, will be extended; that new licences and permits will be issued; or that the companies will be able to comply with the terms of such licences. There is no guarantee either that existing or future licences or permits will not be suspended or revoked on some grounds. Any of these circumstances could have material negative consequences for the business of Sistema.

Privatised companies
Sistema's portfolio contains several privatised assets including MGTS, Intourist, BPGC, Targin, RTI and several other businesses in the technology sector. Some of Sistema's subsidiaries own privatised assets. It is also probable that the Corporation and/or its portfolio companies will take part in privatisations in the future. Since Russia's privatisation-related legislation remains somewhat unclear and inconsistent, and contradicts some other provisions (e.g., there are contradictions between federal and regional provisions on privatisation), privatisation of companies or assets can potentially be contested, however selectively.

If the legitimacy of a privatisation of a company or an asset is contested and Sistema or its portfolio company is unable to defend its position, it may lose its holdings in the relevant company or its assets, which may have a material negative impact on the business, financial situation, performance and growth prospects of the Corporation.

Anti-corruption rules
Sistema's operations are regulated by anti-corruption legislation in relevant jurisdictions, including Russian law, the UK Bribery Act and/or the US Foreign Corrupt Practices Act (FCPA). Any investigation into potential violations of the FCPA, the UK Bribery Act or other anti-corruption laws of the US, UK or other jurisdictions may affect the reputation, business, financial situation and performance of Sistema.

Competition
All business segments where Sistema operates are open to competition. Telecoms, high-tech, banking, retail, media, tourism, private healthcare and pharma markets in Russia and elsewhere are highly competitive. Inability of Sistema Group's companies to compete efficiently may have a material negative impact on the business, performance, financial situation and growth prospects of the Corporation.

Brand quality and reputation
Developing and maintaining brand awareness for the Group's companies is crucial to shaping public opinion about their existing and future products and services. Sistema believes that company brand is becoming increasingly vital in highly competitive markets. Successful development and improvement of brand awareness depends in large part on the efficiency of marketing and the ability to provide quality products and services at competitive prices. Effort and money spent on brand development may prove greater than the income they yield, which could mean potential financial losses for Group companies.

6. Corporate Governance

Corporate Governance Principles

Maintaining an efficient system of corporate governance and ensuring transparency in accordance with international best practices are crucial elements of Sistema JSFC's strategy as an investment company. Pursuing such policies enables Sistema to attract partners and investors to work together in an atmosphere of mutual trust and to increase returns on equity by implementing highly effective management solutions. To achieve these goals, Sistema's corporate governance policy is based on the following fundamental principles:

- transparency and clarity of all governance processes for investors and partners;
- a transparent dividend policy;
- professionalism of the Board of Directors and its active involvement in strategic planning, management and supervision of business processes;
- development of procedures for making investment decisions and ensuring compliance with such procedures;
- paying particular attention to all related-party transactions; and
- continuous development of the individual corporate governance systems within Sistema Group companies.

Sistema is guided by these principles in all of its activities, including strategic and financial management, HR and social policy, reporting, control and audit, and risk management.

The principles and procedures involved in Sistema's corporate governance are set out in its Charter and in a number of publicly available by-laws; taken together, these determine the structure and the scope of the Corporation's governance and control bodies. The Corporate Governance and Ethics Code sets forth Sistema's additional commitments in the area of transparency, social responsibility and ethical business principles.

Sistema makes every effort to ensure that its corporate governance practices are in line with the recommendations specified by the Bank of Russia's Corporate Governance Code (Letter of the Bank of Russia No. 06-52/2463[1] of 10 April 2014) and the guidelines set out in the UK Corporate Governance Code.[2] The conformity of Sistema's corporate governance practices with the standards set out in the the above-mentioned documents is analysed in Annexes 5 and 6 to this report. In cases where Sistema's corporate governance practices diverge from the standards recommended in the above documents, the Corporation explains how it ensures that the balance of interests envisaged in the applicable corporate governance standards is observed.

Sistema conducts regular monitoring of its corporate governance system to ensure compliance with the Moscow Exchange Listing Rules, which have been mandatory for the Company since its securities (shares and bonds) were admitted to trading.

Sistema's key governing bodies are the General Meeting of Shareholders, the Board of Directors, the President and the Management Board. The Board of Directors and the President have committees that conduct a more in-depth analysis of proposed decisions that fall within their respective remits and make recommendations for Sistema's governing bodies.

General Meeting of Shareholders

Principles of operation

The General Meeting of Shareholders is Sistema's supreme governing body. Its activities and powers are governed by the laws of the Russian Federation on joint-stock companies and by the provisions of the Corporation's Charter and by-laws, in particular the Terms of Reference of the General Meeting of Shareholders of Sistema JSFC.

[1] The text of the Corporate Governance Code is available at: http://www.cbr.ru/sbrfr_new/files/legislation/letters/2014/Inf_apr_1014.pdf.
[2] The text of the UK Corporate Governance Code is available at: https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf.

The procedures applied at General Meetings are intended to make sure that the rights of shareholders are safeguarded and that all applicable legal requirements as well as best international practices in corporate governance, are observed.

All materials for General Meetings are made available to shareholders in both Russian and English and are published on Sistema's website (www.sistema.ru; www.sistema.com). In addition to a notice regarding an upcoming meeting, shareholders also receive their ballots. The venues for Sistema's General Meetings of Shareholders are usually located in the vicinity of the Corporation's head office and, over the last three years (2013-2015), have been held at Sistema's head office.

Observance of shareholders' rights

Sistema aims to ensure maximum protection of shareholders' right to take part in the management of the Corporation by means of participating in General Meetings of Shareholders, voting on agenda items and receiving returns on their investment in the form of dividends.

To secure shareholders' right to take part in General Meetings in accordance with the Corporation's Charter, a notice of an upcoming General Meeting of Shareholders and ballots are sent to all shareholders in advance (at least 30 days prior to the date of the meeting). All materials related to the agenda items to be discussed at a General Meeting of Shareholders are published on the Company’s website in both Russian and English (www.sistema.ru; www.sistema.com) within the same time frame. The notice for a General Meeting of Shareholders, ballots and all other materials are also sent to nominal shareholders in electronic form.

Ballots may be filled out by shareholders in advance and mailed to Sistema JSFC (to the address specified on the ballot) prior to the meeting. Votes of shareholders that cast their ballots in this way will be taken into account at the time of the vote count. Shareholders are also allowed to vote in electronic form (provided that this service is available with their depositary).

Holders of Sistema global depositary receipts (GDRs) may vote on agenda items at a General Meeting of Shareholders by means of a proxy vote in line with the established procedure via a depositary bank servicing Sistema’s GDR programme. In 2015, Sistema's depositary bank was Deutsche Bank AG, which the Company is planning to replace in 2016.

The votes of GDR holders – information about such votes is disclosed to the depositary – are collected by the depositary bank via clearing systems and are included in the general ballot with all the votes cast for or against a proposed draft resolution or abstaining.

Every shareholder can also attend General Meetings of Shareholders in person or participate via a representative and vote on agenda items directly at the meeting (if such a meeting is held with the joint presence of shareholders).

The results of voting on the agenda items of a General Meeting of Shareholders conducted in the form of joint presence must be announced before the meeting closes. The results of voting are also made available to the shareholders on the Corporation's website one day after the minutes of the General Meeting of Shareholders have been drawn up.

An important guarantee of shareholders’ right to participate in running the Company is their right to access documents that the Corporation is obliged to keep in line with the provisions of the Federal Law on Joint-Stock Companies. To exercise this right, a shareholder must send a written request to Sistema’s Corporate Secretary asking for access to specific documents. Once a time frame for provision of the documents is agreed upon, the shareholder will be granted access to the requested documents. In the case of confidential documents, shareholders must sign a written non-disclosure agreement, thus providing a guarantee that the rights of all the Corporation’s shareholders will be protected. If a shareholder requires copies of documents , he or she shall bear the costs incurred by the Corporation (RUB 10 per page).

Holders of material blocks of shares (at least 2% of the authorised capital) are entitled to make proposals for the agenda of a General Meeting of Shareholders and to nominate candidates for the Corporation's governing and oversight bodies.[3] Proposals made in respect of the agenda of the Annual General Meeting (AGM) of Sistema Shareholders, including any notes attached thereto in accordance with the Terms of Reference of the General Meeting of Shareholders of Sistema JSFC and the Corporation's other internal regulations, shall be accepted in writing within 100 days after the end of the respective financial year.[4] The candidates nominated by shareholders for the Corporation's governing and oversight bodies shall be provisionally reviewed by the Nomination, Remuneration and Corporate Governance Committee of Sistema's Board of Directors.

In order to ensure shareholders' right to receive a share of the Corporation's profits in the form of dividends, the Corporation announces the amount of dividends recommended by the Board of Directors in advance along with the date on which the shareholder register is to be determined for payment purposes. Therefore, shareholders always have the opportunity to take expected dividend payments into account when disposing of their shares.

Dividend policy

Sistema's dividend policy aims to both pay a predictable amount of dividends and enable investment of profits in new attractive projects.

The amount of dividends paid in 2015 was calculated based on performance in the previous financial period. Pursuant to Sistema's dividend policy effected in 2015, dividends equalled at least 10% of the Sistema's IFRS net income (net of distributed special dividends). Sistema could also distribute in special dividends at least 10% of net income as determined by the Board of Directors in the event of cash proceeds being generated by transactions such as asset sales. According to Russian law, the maximum amount of dividends that a company may distribute to shareholders is its entire non-consolidated RAS net income.

In 2016, Sistema's Board of Directors approved an updated dividend policy. The policy states that the recommended total dividend for each reporting year will be, at a minimum, the higher of either an amount equivalent to a dividend yield of 4% per Sistema ordinary share or RUB 0.67 per Sistema ordinary share.

Sistema seeks to distribute dividends twice per year. Sistema's calculation of the average dividend yield on its ordinary shares is based on the weighted average price of one ordinary share of the Company traded on Moscow Exchange in the respective reporting period: full year or six months.

General Meetings of Shareholders held in 2015 and their results

An Extraordinary General Meeting of Shareholders was scheduled to be held by absentee vote on 17 February 2015. The agenda of the meeting included the following items:

1) Approval of the revised Terms of Reference of the General Meeting of Shareholders of Open Joint-Stock Company Sistema JSFC;
2) Approval of the revised Terms of Reference of the Board of Directors of Open Joint-Stock Company Sistema JSFC.

The meeting was cancelled due to a lack of a quorum and was not reconvened.

Sistema's Annual General Meeting of Shareholders was held on 27 June 2015. The meeting's agenda included the following items:

1) Approval of meeting procedures;
2) Approval of the annual report and annual financial statements, including the Corporation's profit and loss account for 2014;
3) Distribution of income, approval of the amount of dividends payable on the Corporation's shares, the form and procedure for the dividend payment, the date for determining the shareholders entitled to dividends;

[3] Holders of 10% or more of the Corporation's voting shares also have the right to request that an Extraordinary General Meeting of Shareholders be convened.

[4] In the event the agenda of an Extraordinary General Meeting of Shareholders includes an item on the election of the Board of Directors, holders of sufficient blocks of shares have the right to nominate candidates to the Board of Directors. Proposals to this effect must be received by the Corporation no later than 30 days before the date of such a meeting.

4) Election of members of the Corporation's Audit Commission;
5) Election of members of the Board of Directors;
6) Approval of the Company's auditors;
7) Approval of the revised Terms of Reference of the General Meeting of Shareholders of Sistema JSFC;
8) Approval of the revised Terms of Reference of the Board of Directors of Sistema JSFC;
9) Approval of the revised Policy on Remuneration and Compensation payable to members of the Board of Directors of Sistema JSFC; and
10) Determination of the number of members of the Board of Directors of Sistema JSFC.

The Annual General Meeting of Shareholders (i) approved the annual report and financial statements for 2014; (ii) allocated RUB 4,535,500,000.00 for dividend payout, which amounted to RUB 0.47 per ordinary share of Sistema JSFC; (iii) elected the Audit Commission and the Board of Directors; (iv) approved the appointment of auditors; (v) took a decision to approve the revised versions of the Terms of Reference of the General Meeting of Shareholders, the Terms of Reference of the Board of Directors and the Policy on Remuneration and Compensation payable to members of the Board of Directors of Sistema JSFC.

The Annual General Meeting of Shareholders was attended by shareholders that together held 81.57% of votes, including GDR holders with 9.47% of votes.

Board of Directors
Sistema's Board of Directors is responsible for the Corporation's strategic governance: it formulates strategic and financial development plans, establishes the principles and criteria for investing, conducts assessments of executive performance and risks, approves principles for corporate governance procedures, approves specific transactions and supervises the Corporation's work in general. The Terms of Reference of the Board of Directors are set out in the Charter of Sistema JSFC.

Membership of the Board of Directors
Sistema's Board of Directors as of 31 December 2015 was elected at the Annual General Meeting of the Company's Shareholders held on 27 June 2015. Independent members of the Board of Directors form a majority (54%).

Membership of Sistema's Board of Directors
elected on 27 June 2015

1.	Vladimir Evtushenkov	*Chairman of the Board*
2.	Sergey Boev	*Deputy Chairman of the Board*
3.	Brian Dickie[5]	
4.	Andrey Dubovskov	
5.	Felix Evtushenkov	
6.	Dmitry Zubov	
7.	Patrick Clanwilliam[1]	
8.	Robert Kocharyan[1]	
9.	Jeannot Krecké[6]	

[5] Independent directors meeting the independence criteria established by the Moscow Exchange Listing Rules.

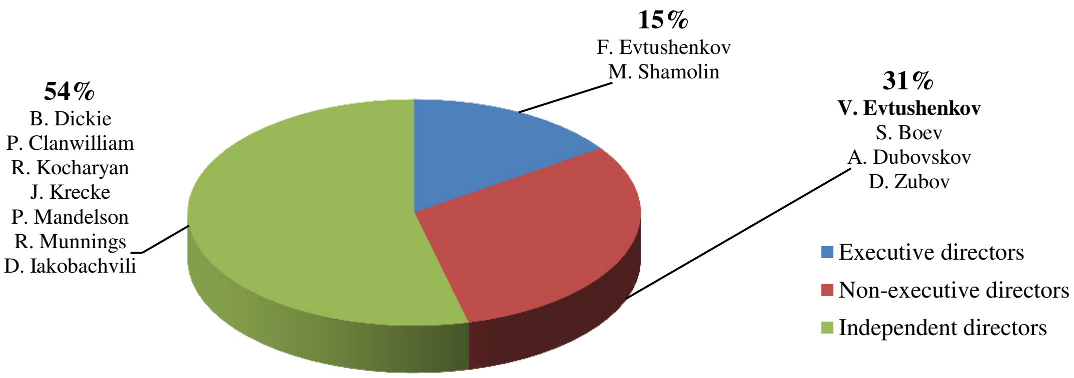
10. Peter Mandelson[1]

11. Roger Munnings[1]

12. Mikhail Shamolin

13. David Iakobachvili[1]

Membership of Sistema's Board of Directors



Changes to the membership of the Board of Directors

Aleksandr Goncharuk, Marc Holtzman and Serge Tchuruk, who had been members of the Board of Directors in the 2014-2015 corporate year, left the Board. New members elected at the general meeting of shareholders on 27 June 2015 included the President of PJSC MTS, Andrey Dubovskov, independent director Patrick Clanwilliam and member of the Management Board and Investment Portfolio Manager of Sistema JSFC Felix Evtushenkov.

Meetings of the Board of Directors

Meetings of Sistema's Board of Directors are held regularly in compliance with the approved work schedule for the year. The Board's work schedule is determined on the basis of Sistema's strategic planning and reporting cycle. Additional matters (such as approval of transactions) are included on the agendas of scheduled Board meetings in the ordinary course of business. Extraordinary Board meetings are organised whenever an urgent matter needs to be considered. It is the Board Chairman's responsibility to determine the Board's work plan and to include additional items in the plan.

In 2015, the Board of Directors held 11 sessions: eight scheduled in-person meetings and three unscheduled meetings in the form of absentee voting. The Board reviewed a total of 91 agenda items during the year:

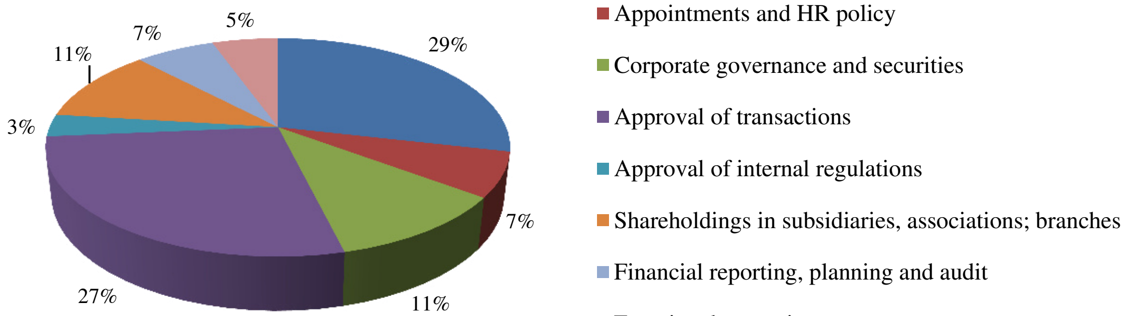
	2015	2014
Number of in-person meetings	**8**	9
Number of meetings by absentee voting	**3**	1
Number of items in accordance with the Board's work plan	**40**	39
Number of items reviewed at Board meetings	**91**	100

[6] Independent directors meeting the independence criteria established by the Moscow Exchange Listing Rules.

During the reporting period, the Board of Directors considered the following key items:

1) Sistema's development strategy;
2) Sistema's asset portfolio structure;
3) Sistema Group's strategic planning cycle;
4) The Company's investment policy and priority investment areas in 2015-2016;
5) Sistema's strategy for development and value creation for its key portfolio assets:
   - telecoms;
   - oilfield services;
   - banking;
   - transport;
   - high-tech;
   - real estate;
   - healthcare;
   - pharmaceuticals;
   - power grid;
   - agriculture
   - hotels;
   - timber processing and pulp and paper;
   - consumer (retail), including e-commerce;
6) Sistema's performance results and budget execution;
7) Sistema's budget planning, approval of its consolidated budget and key performance indicators for management for 2016;
8) Functional strategy in finance management and financial planning;
9) Placement of securities (registration exempt bonds);
10) Risk and opportunity management within the Corporation;
11) Report of the Internal Control and Audit Department;
12) HR issues, HR management and personnel motivation;
13) Investor and public relations functional strategy;
14) Reduction of Sistema's discount;
15) Functional strategy on corporate security;
16) Assessment of corporate governance, including the self-assessment results of Sistema's Board of Directors and Board Committees;
17) Corporate social responsibility;
18) Mandatory corporate procedures, including the calling of the Annual General Meeting of Shareholders and developing the work plan for the Board of Directors;
19) Membership of Board Committees;
20) Approval of internal regulations;
21) Approval of transactions; and
22) Holdings in investment funds.

Items reviewed by the Board of Directors in 2015



Most of the items included on the agenda of Sistema's Board of Directors in 2015 were related to the Company’s business strategies and its portfolio companies, approval of transactions (including equity holdings in the companies of Sistema Group) and corporate governance. The prevalence of such items reflects the Corporation's focus on investment activities. The Board of Directors places a particular emphasis on reviewing investment projects and formulating a portfolio strategy against the backdrop of sluggish economic growth, as well as developing portfolio companies and their corporate governance systems.

Preparation for meetings and quorum of the Board of Directors

The procedures for meetings of the Board of Directors are aimed at ensuring efficient use of the time and experience of the Board members in order to enable them to take important decisions on the Corporation's strategic development. Materials on the agenda are provided to Board members at least 10 days before the meeting, which gives members sufficient time to formulate an informed opinion about the items on the agenda. Most agenda items (including approval of transactions) have to be provisionally discussed at meetings of the Board Committees.

Members of the Board routinely meet those scheduled to speak at meetings and also members of the management at a business dinner the evening before a meeting. In the course of these meetings, Board members have an opportunity to receive additional explanations on each agenda item and clarify the provisional voting positions of the parties.

Sessions of the Board of Directors normally take place with good attendance by Board members. The average quorum of meetings in 2015 was 86.7%.

Participation of Sistema Board members in meetings of the Board of Directors and its Committees in 2015

	Board of Directors	Strategy Committee	Audit, Finance and Risk Committee	Nomination, Remuneration and Corporate Governance Committee	Ethics and Control Committee	Investor Relations and Dividend Policy Committee
			Attendance			
Vladimir Evtushenkov	10/11[7]	11/11				
Sergey Boev	9/11	7/11	12/12		5/7	
Aleksandr Goncharuk[8]	0/4	0/6		0/5	0/4	
Brian Dickie	11/11			8/8	6/7	
Andrey Dubovskov[9]	6/7	4/5				

[7] The first number denotes the number of meetings attended by the Board member, while the second number is the total number of meetings the member could have participated in.
[8] This member left the Board of Directors on 27 June 2015.
[9] This member joined the Board of Directors on 27 June 2015.

Felix Evtushenkov[3]	6/7	4/5			1/3	
Dmitry Zubov	11/11			5/8		
Patrick Clanwilliam[3]	7/7					1/1
Robert Kocharyan	11/11	5/11		8/8	6/7	
Jeannot Krecké	11/11		6/6	4/5		6/6
Peter Mandelson	9/11		7/12			3/5
Roger Munnings	11/11		12/12	8/8	7/7	6/6
Marc Holtzman[2]	0/4		0/6			0/5
Serge Tchuruk[2]	3/4		1/6		1/4	
Mikhail Shamolin	11/11	10/11				1/6
David Iakobachvili	11/11	10/11	11/12	2/3		6/6

Committees of the Board of Directors

Sistema's Board of Directors has five committees:

- Strategy Committee;
- Audit, Finance and Risk Committee;
- Nomination, Remuneration and Corporate Governance Committee;
- Ethics and Control Committee; and
- Investor Relations and Dividend Policy Committee.

Starting from 2011, only members of the Board of Directors may be elected to the Board's Committees, with some rare exceptions. When forming the Committees, the Company primarily takes into account the expertise of Board members in relevant fields.

The main role of the Committees is to provide assistance to the Board in preparing and adopting decisions in its respective functional areas, as well as to ensure that matters brought for consideration by the Board of Directors are scrutinised prior to Board meetings. The meetings of the Committees (except the Strategy Committee) usually take place on the day preceding the day of a Board meeting.

Board Committees have broad procedural powers, may engage independent external experts, obtain any information from the Company's executive management that falls within their remit and may use any other Company resources, as well as set tasks for the Company's management.

Strategy Committee

The Strategy Committee comprises seven Sistema Board members and one external business strategy expert: **Vladimir Evtushenkov** (Committee Chairman), Sergey Boev, Andrey Dubovskov, Felix Evtushenkov, Robert Kocharyan, Mikhail Shamolin, David Iakobachvili and Vladimir Chirakhov (CEO of Detsky Mir).

The Committee discusses and analyses strategic issues related to the management of Sistema Group, and monitors the strategic planning cycles of Sistema JSFC and its subsidiaries, including:

- reviewing the strategy planning methodology;
- preliminary approval of the Corporation's strategy and strategic goals;
- consideration of M&A transactions and large investment projects.

The Committee is responsible for a provisional review of:

- all M&A transactions within Sistema Group with a value exceeding US$100 mln;
- all Sistema Group projects related to entering new regions or industries;
- all Sistema Group projects with significant government participation.

In 2015, the Committee held 11 meetings at which 16 items related to the development of Sistema's portfolio companies were considered.

Audit, Finance and Risk Committee
The Audit, Finance and Risk Committee includes five Board members: **Roger Munnings** (Committee Chairman), Sergey Boev, Jeannot Krecké, Peter Mandelson and David Iakobachvili.

Roger Munnings, Chairman of the Audit, Finance and Risk Committee, has vast experience in the field of financial audit.

The Committee performs in-depth reviews and analyses of matters related to managing Sistema in the following areas:

- preparation and audit of the Company's financial statements;
- interaction with external auditors;
- assessment of the risk management system and compliance with the applicable legal requirements in financial reporting, audit and planning;
- budgeting and financial modelling;
- internal audit;
- functioning of a whistle-blowing system aimed at reporting potential instances of wrongdoing;
- provisional appraisal of transactions submitted to the Board of Directors.

In 2015, the Audit, Finance and Risk Committee held 16 meetings (including three joint meetings with the Ethics and Control Committee) and reviewed 66 items, including:

- 32 items related to appraisal of individual transactions submitted for consideration by the Sistema Board of Directors;
- 13 items related to the preparation and audit of financial statements and supervision of these processes;
- seven items related to financial planning and risk management;
- six items related to interaction with external auditors, their selection and assessment of their work;
- five items related to internal control and audit processes and the whistle-blowing system; and
- three housekeeping matters.

The Audit, Finance and Risk Committee of Sistema's Board of Directors conducts an appraisal of the quality of audit services based on the audit of Sistema's financial statements and gives preliminary recommendations in respect of selecting auditors for the Corporation and determining the fee for their services. Based on the Committee's opinion, the Board of Directors gives recommendations to the General Meeting of Shareholders with respect to nominating a candidate for the position of the Corporation's external auditor.

Nomination, Remuneration and Corporate Governance Committee

The Nomination, Remuneration and Corporate Governance Committee includes five Board members: **Robert Kocharyan** (Committee Chairman), Brian Dickie, Dmitry Zubov, Roger Munnings and David Iakobachvili. The President of Sistema JSFC, Mikhail Shamolin, attends Committee meetings as a permanent invitee but does not take part in voting on matters submitted for the Committee's consideration.

The purpose of the Committee is to facilitate the preparation and implementation of the Corporation's HR policy, to support and develop an efficient corporate governance system that meets international standards and to improve the quality of the Corporation's decisions. The Committee performs in-depth reviews and analyses of issues related to managing Sistema in the following areas:

- preliminary review of candidates:
  - for the Board of Directors;
  - for top management positions at Sistema and its portfolio companies;
  - for the boards of directors of portfolio companies;
  - for the position of the Corporation's Corporate Secretary;
- incentive and remuneration policy for the Corporation's employees;
- assessment of the management's performance and setting parameters for remunerating the Corporation's employees; and
- the Corporation's corporate governance system and those of its portfolio companies, protection of shareholders' interests and rights.

In 2015, the Nomination, Remuneration and Corporate Governance Committee held eight meetings (including one joint meeting with the Ethics and Control Committee) and reviewed 28 items, including:

- 10 items related to corporate governance at Sistema JSFC;
- nine items related to HR processes and preliminary review of candidates for top management positions at Sistema JSFC and nominees to the boards of directors and CEO positions at portfolio companies;
- seven items related to the effectiveness of the incentive scheme, performance assessment and remuneration systems for Sistema's employees;
- two items related to provisional reviews of the Company's draft internal regulations.

Sistema's Nomination, Remuneration and Corporate Governance Committee determines the Board's self-assessment procedure. An assessment is carried out for 10 key criteria in order to identify those areas of the Board's work that are in need of improvement. The Committee uses the results of this self-assessment to formulate an annual plan aimed at developing Sistema's corporate governance systems, which is then submitted to the Board of Directors for approval.

The most recent assessment of the Board of Directors' work was performed in May 2015. The Board's performance was rated as 4.02 (compared to 4.19 in 2014) on a five-point scale.

Based on this assessment of the Board's performance, the work plan to improve corporate governance systems in 2016 reflects the following areas: (i) amending the Corporation's internal regulations to add a requirement that material transactions (both for the Corporation and for Sistema Group as a whole) should be submitted for the consideration of the Board of Directors; and (ii) implementing measures aimed at ensuring greater involvement of Board members in the assessment of the top management's performance at the companies that make up Sistema Group. These activities are to be completed by the end of 2016.

In 2015, the Committee's role in nominating candidates for the Corporation's Board of Directors was redefined. The Committee performs a preliminary assessment of candidates in terms of their independence and capacity to contribute to the work of the Board of Directors and Sistema JSFC as a whole. Therefore, it is recommended that shareholders nominating new Board members make sure that such nominees are interviewed by the Committee within a reasonable time frame. To form an opinion about a candidate, the Committee may take into account various factors, including professional experience, expert knowledge and/or functional skills, business and professional reputation, independence and ability to form independent opinions, as well as whether the Board is in need of the candidate's skills, expertise and experience and whether the candidate will be able to devote sufficient time and energy to the performance of his/her duties as a Board member. The Committee then provides its opinion(s) about the nominee to the person who made the nomination. This opinion or assessment may include the Committee's recommendation with regard to election of the candidate to the Company's Board.

The Committee conducts regular monitoring of Sistema's potential HR needs and succession pool.

Ethics and Control Committee

The Ethics and Control Committee includes five Board members: **Sergey Boev** (Committee Chairman), Brian Dickie, Felix Evtushenkov, Robert Kocharyan and Roger Munnings.

The Committee performs in-depth reviews and analyses of issues related to managing Sistema in the following areas:

- internal control and audit (jointly with the Audit, Finance and Risk Committee);
- corporate security;
- monitoring compliance with the requirements of the Corporation's Ethics Code;
- the Corporation's corruption prevention system, as well as those of the companies within Sistema Group.

In 2015, the Ethics and Control Committee held seven meetings at which 21 items were reviewed, including the following:

- five items related to internal audits conducted at Sistema Group companies, as well as the quality of the internal control environment;
- four items related to the functional strategy in the area of internal control;
- four items related to the system of corruption prevention;
- two items related to corporate security and fraud prevention; and
- six housekeeping matters.

Investor Relations and Dividend Policy Committee

The Investor Relations and Dividend Policy Committee includes five Board members: **David Iakobachvili** (Committee Chairman), Patrick Clanwilliam, Jeannot Krecké, Roger Munnings and Mikhail Shamolin.

The Committee performs in-depth reviews and analyses of issues related to managing Sistema in the following areas:

- maintaining effective relations with the financial community and government agencies, as well as increasing Sistema's investment appeal;
- Sistema's dividend policy, including the development of recommendations for the Corporation's Board of Directors with respect to the amount of payable dividends; and
- protection of the rights and interests of Sistema's shareholders.

In 2015, eight meetings of the Investor Relations and Dividend Policy Committee were held at which 11 items were considered, including:

- six items related to market monitoring and measures aimed at capitalisation growth;
- three items related to interaction with the investment community and recommendations for the amount of dividends payable;
- one item related to corporate social responsibility; and
- one housekeeping matter.

President

The President of Sistema JSFC is a permanent chief executive officer whose main tasks are executive management and settlement of matters outside the remit of the General Meeting of Shareholders, the Board of Directors and the Management Board for the purposes of ensuring the Corporation's profitability, as well as safeguarding shareholders' rights and legitimate interests. The President reports to Sistema's Board of Directors and the General Meeting of Shareholders.

Mikhail Shamolin has been Sistema's President since 10 March 2011. On 15 March 2014, the Board of Directors passed a resolution to extend his appointment as the Company's President for three more years.

Mikhail Shamolin President of Sistema JSFC, Chairman of the Management Board.	Mr Shamolin was born in 1970 in Moscow. In 1992, he graduated from the Moscow Automobile and Road Technical Institute, and, in 1993, from the Russian Presidential Academy of Public Administration. In 1996-1997, he took a finance and management course for senior executives at the Wharton School of Business. In 1998-2004, he worked for McKinsey&Co, an international consultancy company. In 2004-2005, he was Managing Director for Ferroalloys at Interpipe Corp (Ukraine). In 2005-2011, he was Vice President for Sales and Customer Service, then Vice President, Head of MTS Russia and President of MTS. Mr Shamolin was appointed President of Sistema JSFC on 10 March 2011. On 15 March 2014, the Board of Directors reappointed him to a new three-year term. Mr Shamolin sits on the Board of Trustees of the Sistema Charitable Foundation.

Management Board

Sistema's Management Board determines the methods for implementing the Corporation's development strategy, formulates development plans, determines investment mechanisms and monitors compliance therewith, appraises the performance of staff and previews reports to be submitted to the Corporation's Board of Directors.

In 2015, the Management Board conducted 31 meetings and reviewed 72 agenda items in the following key areas:

1) Preliminary review of matters to be submitted to the Board of Directors, including:
   - Sistema's development strategy;
   - Sistema's asset portfolio structure;
   - Sistema Group's strategic planning cycle;
   - development and value creation strategies for Sistema's key assets;
   - Sistema's functional strategies;
   - performance against budgets and budget planning;
   - corporate social responsibility at Sistema JSFC;
   - approval of internal regulations; and
   - approval of specific deals.
2) Debt and liquidity management;
3) Risk management and preparation of risk maps;
4) Participation in investment projects; and

5) Review of deals requiring no approval from the Board of Directors or the General Meeting of Shareholders.

In September 2015, the Board of Directors re-elected the Management Board upon expiry of the term of the previous Management Board. Sistema's current Management Board comprises 14 members.

Members of the Management Board of Sistema JSFC[10]

1.	Mikhail Shamolin	*Chairman of the Management Board*
2.	Nikolay Vasilkov[11]	
3.	Elena Vitchak	
4.	Alexander Gorbunov	
5.	Felix Evtushenkov	
6.	Valentin Korchunov	
7.	Leonid Monosov	
8.	Oleg Mubarakshin	
9.	Vsevolod Rozanov	
10.	Ali Uzdenov	
11.	Mikhail Cherny	
12.	Evgeny Chuikov	
13.	Sergey Shishkin	
14.	Vladimir Shukshin	

Changes made to Sistema's Management Board in 2015

The Management Board went through a number of changes throughout 2015:

Nikolay Vasilkov	7 February 2015	Elected as a Board member. Appointed Vice President, Head of the Strategy Function of Sistema JFSC.
Michael Hecker	10 February 2015	Membership terminated.
Anton Abugov	27 June 2015	Membership terminated.

[10] As of 31 December 2015. Short biographies of the members and information about their shareholdings in Sistema JSFC are available in Annex 1.
[11] Mr Vasilkov's membership on the Board was terminated after the reporting period, in March 2016.

Christopher Baxter	27 June 2015	Membership terminated.
Andrey Terebenin	13 September 2015	Membership terminated.
Evgeny Chuikov	13 September 2015	Elected as a Board member. Appointed Vice President, Head of the Corporate Communications Function of Sistema JFSC.
Vladimir Shukshin	13 September 2015	Elected as a Board member.
Alexander Gorbunov	11 December 2015	Elected as a Board member. Appointed Vice President of Sistema JFSC.
Valentin Korchunov	11 December 2015	Elected as a Board member. Appointed Vice President, Investment Portfolio Manager of Sistema JFSC.
Mikhail Cherny	11 December 2015	Elected as a Board member. Appointed Vice President, Investment Portfolio Manager of Sistema JFSC.
Sergey Shishkin	11 December 2015	Elected as a Board member. Appointed Vice President, Head of the Corporate Governance Function of Sistema JFSC.
Sergey Drozdov	11 December 2015	Membership terminated.

President's committees
The following President's committees contribute to managerial decision-making at Sistema:

- Finance and Investment Committee;
- Tender Committee;
- HR Committee;
- Security Committee;
- Internal Control Committee; and
- Discipline Committee.

The President's committees are permanent consultative collective bodies tasked with producing detailed analyses of current affairs and processes within their remit and assisting the President in decision-making.

Finance and Investment Committee

The Finance and Investment Committee performs the following tasks:

- review of all of the Corporation's investment projects and isolated projects on the part of portfolio companies at different stages from project idea to completion;
- approval of financial models, business plans and key performance indicators related to investment projects;
- making recommendations regarding the viability of projects, exit scenarios and sources of financing; and
- analysing credit terms for the Corporation and portfolio companies.

The Committee consists of seven members. The Chairman of the Committee is the Corporation's President, Mikhail Shamolin, and the Deputy Chair is Senior Vice President and Head of the Finance and Investment Function Vsevolod Rozanov.

In 2015, the Committee met 56 times.

The Committee has a Risk Subcommittee that is responsible for assessing the risks facing Sistema and its subsidiaries and monitoring performance against risk management action plans.

The Risk Subcommittee consists of nine members, chaired by Sistema's Managing Director for Risks and Procurement, Nadezhda Nosova.

In 2015, the Risk Subcommittee met 10 times.

Tender Committee

The Tender Committee performs the following tasks:

- organising tenders for goods, works and services;
- ensuring the acquisition of goods, works and services on the best terms available;
- ensuring the transparency of purchasing procedures; and
- facilitating the prevention of corruption and other wrongdoing in the area of purchasing.

The Committee consists of eight members. The Chairman of the Committee is Senior Vice President and Head of Sistema's Finance and Investment Function Vsevolod Rozanov. The Deputy Chair is Managing Director for Risks and Procurement Nadezhda Nosova.

In 2015, the Tender Committee met 36 times.

HR Committee

The HR Committee performs the following tasks:

- reviewing and making proposals with regard to HR policies and internal regulations at the Corporation and its portfolio companies;
- coordinating the activities of the Corporation's HR units and those of its portfolio companies;
- assessing candidates seeking executive positions; and
- assessing the efficiency and performance of the Corporation's employees.

The Committee consists of eight members. The Chairman of the Committee is Sistema's President, Mikhail Shamolin. The Deputy Chair is Senior Vice President and Head of the HR Department Elena Vitchak.

In 2015, the Committee met 18 times.

Security Committee
The Security Committee reviews matters pertaining to security at the Corporation and its subsidiaries.

The Committee consists of 31 members. The Chairman of the Committee is Vice President and Head of the Sistema's Security and IT Department Vladimir Shukshin.

In 2015, the Committee met four times.

Internal Control Committee
The Internal Control Committee reviews matters pertaining to the coordination of the Corporation's internal control units and those of its portfolio companies.

The Committee consists of 24 members. The Chairman of the Committee is Vice President and Head of Sistema's Internal Control and Audit Department Alexey Guryev.

In 2015, the Committee met six times.

Discipline Committee
The Discipline Committee reviews matters pertaining to compliance with labour law, internal regulations and instructions from governing bodies. The Committee is also tasked with issuing opinions on whether there is cause for disciplinary penalties in specific cases where wrongdoing is suspected.

The Committee consists of six members. The Chairman of the Committee is the Corporation's President, Mikhail Shamolin, and the Deputy Chair is Vice President and Head of the Sistema's Internal Control and Audit Department Alexey Guryev.

In 2015, the Committee met three times.

Specific characteristics of the risk management, internal control and internal audit systems

Risk management
Sistema's risk management system uses a two-tier approach where specific risks identified in the Corporation and its portfolio companies are further integrated to assess their impact on Sistema Group as a whole.

The integrated risk management system (ERM) used within the Corporation addresses the following tasks:

- identification of risks at all levels of the management (from top management to line managers), which includes finding risk owners and making risk passports;
- primary assessment of the materiality of identified risks and their analysis (VaR methodology);
- ranging risks by management levels;
- assessment of the aggregate influence of material risks on the Corporation's key financial indicators (Monte Carlo modelling);
- development of plans to mitigate identified risks at all management levels;
- regular monitoring of performance against mitigation plans and assessment of their effectiveness; and
- risk monitoring, quarterly reports about risks facing the Corporation.

Sistema's risk management procedures are implemented by a dedicated Risk Management Unit.

The Corporation's risks are monitored on a quarterly basis by Sistema's Management Board and Risk Subcommittee, who review the effects of mitigation and response measures taken and reassess persisting and/or new risks.

Sistema's senior executives make regular reports on risk management within the Corporation to the Audit, Finance and Risk Committee and annual reports to Sistema’s Board of Directors.

Internal control system

Internal control procedures employed by the Corporation involve all levels of governance, including the Board of Directors, its Committees and management of the Corporation, as well as the Internal Control and Audit Department.

In February 2015, Sistema's Board of Directors approved the Policy on the Internal Control System, a top-level document designed to formalise the organisation of internal control as a continuous integrated process involving all of the Corporation's subdivisions and governance bodies.

The key objectives of the internal control system are:

- creating control mechanisms that will ensure the efficiency of business processes and the implementation of the Corporation’s investment projects;
- ensuring the safety of the Corporation's assets and efficient use of its resources;
- protecting the interests of the Corporation's shareholders and preventing and resolving conflicts of interest;
- creating conditions for timely preparation and submission of reliable reports and other information that is legally required to be publicly disclosed; and
- ensuring the Corporation's compliance with applicable laws and requirements of regulators.

In accordance with the 'three lines of defence' principle, the efficiency of the Corporation's internal control system is ensured at three levels (in addition to the Board of Directors and the Corporation’s top management):

- Level 1: Heads of Functions and employees of the Corporation are responsible for assessing and managing risks and for building an efficient internal control system;
- Level 2: The Risk Subcommittee, Financial Control Unit, Procurement Control Unit, Security Service, Compliance Control Unit (project support, execution discipline) are responsible for overseeing the implementation of efficient risk management and internal control procedures and for ensuring compliance with standards and regulations;
- Level 3: The Internal Control and Audit Department conducts independent assessments of the efficiency of the internal control system, the risk management procedures and the corporate governance system.

All of the Corporation's employees who are responsible for various control procedures bear responsibility for the efficiency of such controls and risk management steps as outlined in their job descriptions and internal regulations.

Internal Audit

The body in charge of internal control at the Corporation and its S/As is the Internal Control and Audit Department, which reports to the Board of Directors (functionally) and Sistema's President (administratively). The head of the Department is appointed and dismissed by the President based on resolutions passed by the Corporation's Board of Directors after preliminary approval by the Board's Ethics and Control Committee. The Head of the Department is a certified internal auditor with 15+ years of experience in the field.

The main objectives of the Internal Control and Audit Department are:

- helping shareholders and management improve the internal control system by performing regular audits of the efficiency of the Corporation's internal control, risk management and corporate governance systems;
- contributing to the achievement of the Corporation's strategic goals in the most efficient ways possible;

- supplying the Corporation' management and shareholders with objective information on existing internal risks and their probability;
- enhancing the awareness of the Corporation's management about the performance of Sistema Group companies; and
- monitoring the achievement of the goals of the shareholders of the Corporation and Sistema Group companies.

To meet these objectives, the Internal Control and Audit Department carries out the following functions:

- performing independent audits of individual operations, processes and units;
- assessing the efficiency of the internal control system;
- assessing the efficiency of the risk management system;
- assessing the efficiency of the corporate governance system, preventing violation of the law and the Corporation's regulations, ensuring observance of professional and ethical standards and preparing recommendations for the improvement thereof;
- developing recommendations to remedy deficiencies identified and monitoring remediation thereof;
- examining and evaluating documents provided with regard to specific investment projects for compliance with current regulations; performing scheduled and unscheduled monitoring of performance against project targets;
- ensuring uninterrupted functioning of the hotline for whistle-blowers;
- administering investigations, including internal ones;
- monitoring compliance with the Corporation's internal regulations;
- monitoring the execution of assignments issued by the Management Board and the President of the Corporation; and
- monitoring and investigating instances potentially qualifying as disciplinary violations and/or violations of execution discipline and/or conflict within the Corporation or Sistema Group companies.

The Internal Control and Audit Department has all the resources and authority required to perform the above functions.

The Internal Control and Audit Department interacts closely with independent auditors, coordinates audits and offers consultations in the course of the preparation of the Department's annual audit plans in regard of the assessment of the efficiency of internal controls applied to financial statements, as well as during discussions and assessments of identified risks.

In 2015, the Internal Control and Audit Department conducted 34 scheduled and unscheduled audits to assess the efficiency of internal control and risk management systems. These audits did not uncover any weaknesses or risks that could affect the sustainability of the Corporation's business as a whole.

Reports on the results of the activities performed by the Internal Control and Audit Department in H1 2015 and FY2015 were submitted to the Audit, Finance and Risk Committee and to the Ethics and Control Committee of Sistema's Board of Directors.[12] A report on the work performed by the Internal Control and Audit Committee in 2015 was made to Sistema's Board of Directors on 12 March 2016.

External Audit

In compliance with the decision of the Audit, Finance and Risk Committee, the Corporation uses the following procedures to appoint independent auditors for Sistema’s financial and accounting reports. The Committee performs annual assessments of the quality of the audit services provided. If the quality of the services provided by the current auditor is deemed insufficient, the Audit Committee arranges a tender to hire a new auditor. If the quality is deemed sufficient, Sistema reaches out to the current auditor to negotiate a fee for the services to be provided for the next audit period. To ensure the auditor’s impartiality and objectivity, however, Sistema’s Audit, Finance and Risk Committee has decided that a tender for auditing services must be held at least once every five years.

[12]At a joint meeting of the two committees.

Development of the corporate governance system in 2015

In 2015, 13 members were elected to the Corporation's Board of Directors, seven of whom qualify as independent directors according to the rules of Moscow Exchange and the Russian Corporate Governance Code.

The current Board comprises the following independent directors:

- Brian Dickie;
- Patrick Clanwilliam;
- Robert Kocharyan;
- Jeannot Krecké;
- Peter Mandelson;
- Roger Munnings; and
- David Iakobachvili.

All of the Corporation's independent directors have vast experience in managing large organisations and possess strong professional reputations. Independent directors make up the majority of the Board, which ensures the objectivity of their judgments and freedom from the influence of the Corporation's management and shareholders when making important decisions.

One of the independent directors, Patrick Clanwilliam, was nominated by a group of the Corporation's minority shareholders. Upon his introduction to the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors put him on the list of Board candidates for voting by the General Meeting of Shareholders.

In 2015, the Corporation distributed dividends in accordance with its current Dividend Policy. The dividends totalled RUB 4,535,500,000.00, or RUB 0.47 per ordinary share in Sistema JSFC (RUB 9.40 per GDR). The dividend yield as of the dividend decision (27 June 2015) totalled 2.36%.

The Corporation aligned its corporate governance system with current legal requirements and the new Moscow Exchange Listing Rules. In particular, it modified the definition of "independent director" in the Terms of Reference of Sistema's Board of Directors and introduced numerous procedural and substantive amendments to the powers of Sistema's Board committees.

In 2015, Sistema issued formal regulations to govern the nomination of candidates for the Board of Directors, containing, in particular, a detailed description of the role of the Nomination, Remuneration and Corporate Governance Committee in the process. The Committee is tasked with preliminary assessment of candidates in terms of their independence and capacity to contribute to the work of the Board of Directors. We recommend that shareholders nominating new Board members make sure that such nominees are interviewed by the Committee within a reasonable time frame. The Committee then provides the person having made the nomination with its opinion(s) about the nominee, which may include the Committee's recommendation as to whether to elect the candidate to the Board.

The Corporation has broadened the requirements to be imposed on its employees, especially senior management, with regard to observance of ethical business standards and prevention of conflicts of interest. The new mandatory ethics assessment procedure, effective October 2015, requires employees to fill in special Ethics and Conflict of Interest Declarations.

REMUNERATION

Remuneration and compensation payable to members of Sistema's Board of Directors for the first half of 2015 were calculated in accordance with the Policy on Remuneration and Compensation Payable to Members of the Board of Directors of the Corporation approved by the General Meeting of shareholders on 30 June 2006 (Minutes No.1-06), as amended by the General Meeting of shareholders on 16 February 2009 (Minutes No.1-09). The Policy provided for the following forms of remuneration:

- remuneration for participation in meetings of the Board of Directors and its Committees, including reimbursement of expenses related to participation in Board meetings;
- remuneration for acting as Chairman or Deputy Chairman of the Board of Directors, and for chairing Board Committees;
- remuneration based on performance during the year (US$250,000 or US$325,000 depending on whether a director is a tax resident of Russia), half of which was paid in shares;
- additional remuneration if the Corporation's market capitalisation increased over the year, amounting to 0.1% of the incremental capitalisation.

On 27 June 2015, the General Meeting of shareholders approved a new version of the Policy on Remuneration and Compensation Payable to Members of the Board of Directors of the Corporation. Under the updated Policy, a new system of Board compensation comes into effect from corporate year 2015-2016 onward, and comprises the following elements:

1. Basic remuneration of RUB 13.7 mln or RUB 17.8 mln (depending on whether a director is a tax resident of Russia). Basic remuneration is paid to Board members in cash in equal quarterly installments.
2. Remuneration for acting as Chairman (RUB 350,000 per quarter) or Deputy Chairman of the Board of Directors (RUB 140,000 per quarter) and for chairing Board Committees (RUB 70,000 per quarter). Remuneration for additional duties is paid to Board members in cash on a quarterly basis.
3. Additional remuneration of RUB 13.7 mln or RUB 17.8 mln (depending on whether a director is a tax resident of Russia), payable if one of the following investment targets is met: (i) the arithmetic mean of TSR and iTSR exceeds or equals CoE[13], or (ii) TSR exceeds or equals the change in the Morgan Stanley Capital International Russia Standard index (ΔMSCI); and at the same time iTSR exceeds or equals CoE.

Members of the Board of Directors are reimbursed for expenses associated with performance of their duties, including participation in meetings of the Board of Directors and Board Committees.

The Policy on Remuneration and Compensation Payable to Members of the Board of Directors of Sistema JSFC also includes liability insurance for Board members.

The Corporation does not grant loans to members of the Board of Directors.

Remuneration policy regarding management

In 2015, the short-term (up to one year) incentive scheme for senior managers of Sistema JSFC consisted of:

- a fixed monthly salary determined in line with the internal system of job categories (grades);
- bonuses paid for project implementation and generation of cash income. Remuneration is paid based on employees' individual performance and positive cash flow generated by projects of Sistema's Investment Portfolios and Functions and Departments. Payments may amount to up to 20% of cash income generated in excess of the target.

In 2015, the long-term (more than one year) incentive scheme for senior managers of Sistema JSFC was part of a three-year incentive programme (2015-2017). The programme is aimed at increasing Sistema's shareholder value and creating additional incentives for long-term employment and good corporate relations between the Corporation and its management. Participants are assigned a certain number of

[13] This target was met in 2015, since the arithmetic mean of TSR and iTSR for the year is 26.9% and CoE is 14.6%. CoE stands for the minimum rate of return that a company ought to provide to its shareholders for the risk they take. CoE is calculated as the sum of a risk-free rate of return (e.g. the return on government bonds) and a premium for the risk related to investing in the stock market, taking into account the capital structure of the asset and country-specific risks.

phantom shares that are transferred to them in installments, upon achievement of targets set by Sistema's shareholders. Share transfers take place annually over the course of five years from the launch of the programme.

No extra compensation above the level stipulated by Russian labour legislation is paid to the President or other senior executives in case of termination of employment.

Sistema does not pay remuneration to members of executive bodies for serving on the Management Board.

The Corporation does not grant loans to senior executives.

Remuneration paid to Sistema's Board and management in 2015[14]

Members of Sistema's Board of Directors received the following remuneration for 2015:

Cash remuneration	RUB 630,769,427[15]	Remuneration for work as the Board of Directors and for additional duties performed for the Board, as well as salaries and bonuses for 2015.[16]
Remuneration in the form of Sistema's ordinary shares	RUB 187,381,041	Shares granted to Board members for the 2014-2015 corporate year[17] and remuneration under the long-term incentive programme.
Reimbursement of expenses incurred by Board members in connection with their duties	RUB 2,771,634	

Members of Sistema's Management Board[18] received the following remuneration for 2015:

Cash remuneration	RUB 2,639,907,058	This amount includes fixed salaries and bonuses for 2015.[19]
Remuneration in the form of Sistema's ordinary shares	RUB 632,975,030	The shares were paid under the long-term incentive programme.

14 All figures in this section are given before applicable income tax.

15 The amount represents total remuneration paid to all members of the board for the 2014-2015 corporate year, being the ruble equivalent of fixed amounts in US dollars, calculated at the Russian Central Bank's exchange rate on the date of payment (see above in this section).

16 Excluding members of Sistema's Board of Directors who were also members of its Management Board.

17 The ruble equivalent of fixed amounts in US dollars, calculated at the Russian Central Bank's exchange rate on the date of payment (see above in this section).

18 Including the President of Sistema JSFC.

19 Bonuses for 2015 were paid to Sistema's employees in January 2016.

SISTEMA JSFC
AND SUBSIDIARIES

Consolidated Financial Statements for 2015
and Independent Auditor's Report

SISTEMA JSFC AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Sistema Joint Stock Financial Corporation

We have audited the accompanying consolidated financial statements of Sistema Joint Stock Financial Corporation and subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss, comprehensive income or loss, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sistema Joint Stock Financial Corporation and subsidiaries as at 31 December 2015, and their financial performance and cash flows for 2015 in accordance with International Financial Reporting Standards.

Deloitte & Touche

7 April 2016
Moscow, Russian Federation

Raikhman M.V., Partner
(Certificate no. 01-001195 dated 14 January 2013)

ZAO Deloitte & Touche CIS

The Entity: JSFC Sistema

Certificate of state registration № 025.866, issued by the Moscow Registration Chamber on 16.07.1993

Primary State Registration Number: 1027700003891

Certificate of registration in the Unified State Register № 1027700003891 of 11.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 46

Address: 13/1 Mokhovaya st., Moscow, Russia, 125009

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39

Certificate of membership in "NP "Audit Chamber of Russia" (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(In millions of Russian Rubles, except for per share amounts)

	Note	2015	2014
Revenue	10	708,641	646,269
Cost of sales	14	(377,516)	(326,920)
Selling, general and administrative expenses	14	(149,636)	(138,991)
Depreciation and amortisation		(94,915)	(87,401)
Impairment of long-lived assets	11	(7,675)	(16,785)
Impairment of financial assets	12	(7,327)	(18,991)
Taxes other than income tax		(4,524)	(7,406)
Share of the profit or loss of associates and joint ventures	19	4,377	2,092
Gain on reentry into Uzbekistan	37	-	6,734
Gain on acquisition of Segezha Group	8	-	2,488
Other income		1,915	6,786
Other expenses		(4,292)	(7,546)
Operating income		**69,048**	**60,329**
Finance income		18,526	8,047
Finance costs		(51,174)	(33,030)
Currency exchange loss		(16,319)	(37,135)
Profit/(loss) before tax		**20,081**	**(1,789)**
Income tax expense	13	(17,944)	(17,314)
Profit/(loss) from continuing operations		**2,137**	**(19,103)**
Profit/(loss) from discontinued operations	7	49,029	(109,215)
Profit/(loss) for the year		**51,166**	**(128,318)**
Attributable to:			
Shareholders of Sistema JSFC		33,592	(156,237)
Non-controlling interests		17,574	27,919
		51,166	**(128,318)**
Earnings/(loss) per share (basic and diluted), Russian Rubles:			
From continuing operations	30	(1.64)	(3.66)
From continuing and discontinued operations	30	3.57	(16.71)

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

Mikhail Shamolin
President and CEO

Vsevolod Rozanov
Senior Vice President and CFO

7 April 2016

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OR LOSS
(In millions of Russian Rubles)

		2015	2014
Profit/(loss) for the year		**51,166**	**(128,318)**
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation loss on foreign operations		(8,023)	(1,214)
Net (decrease)/increase of fair value of financial instruments		(3,223)	4,711
Items that will not be reclassified subsequently to profit or loss:			
Unrecognized actuarial gain		86	278
Other comprehensive (loss)/income, net of tax	24	(11,160)	3,775
Total comprehensive income/(loss)		**40,006**	**(124,543)**
Attributable to:			
Shareholders of Sistema JSFC		26,095	(157,694)
Non-controlling interests		13,911	33,151
		40,006	**(124,543)**

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

Mikhail Shamolin
President and CEO

Vsevolod Rozanov
Senior Vice President and CFO

7 April 2016

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(In millions of Russian Rubles)

	Note	31 December 2015	31 December 2014	1 January 2014
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	15	429,163	400,648	649,215
Investment property	16	14,085	10,229	8,041
Goodwill	17	43,861	45,992	43,457
Other intangible assets	18	118,188	97,950	72,517
Investments in associates and joint ventures	19	22,219	20,219	30,925
Deferred tax assets	13	25,966	23,699	13,055
Loans receivable and other financial assets	20	112,236	112,756	102,929
Deposits in banks		45,696	14,042	3,000
Other assets		15,328	10,115	13,130
Total non-current assets		**826,742**	**735,650**	**936,269**
CURRENT ASSETS:				
Inventories	21	73,736	47,582	61,029
Accounts receivable	22	74,276	78,961	81,348
Advances paid and prepaid expenses		17,544	22,335	39,609
Current income tax assets	13	6,051	8,723	7,370
Other taxes receivable		20,993	19,918	23,496
Loans receivable and other financial assets	20	78,020	92,126	127,706
Deposits in banks		76,117	10,668	21,148
Other assets		2,101	1,011	1,203
Cash and cash equivalents		122,775	119,967	104,464
Total current assets		**471,613**	**401,291**	**467,373**
TOTAL ASSETS		**1,298,355**	**1,136,941**	**1 403,642**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
(In millions of Russian Rubles)

	Note	31 December 2015	31 December 2014	1 January 2014
EQUITY AND LIABILITIES				
EQUITY:				
Share capital	23	869	869	869
Treasury shares	23	(4,806)	(6,913)	(12,118)
Additional paid-in capital		80,778	72,202	72,977
Retained earnings		118,615	89,444	264,994
Accumulated other comprehensive (loss)/income	24	(7,079)	418	1,875
Equity attributable to shareholders of Sistema JSFC		188,377	156,020	328,597
Non-controlling interests		62,013	77,687	138,357
Total equity		**250,390**	**233,707**	**466,954**
NON-CURRENT LIABILITIES:				
Borrowings	25	414,103	336,425	349,874
Liabilities under put option agreements	28	-	47,531	32,481
Bank deposits and liabilities	26	7,275	15,543	25,284
Deferred tax liabilities	13	43,599	38,130	61,026
Provisions	29	4,190	4,341	14,521
Other financial liabilities	27	28,224	24,684	12,666
Other liabilities		11,172	8,866	11,413
Total non-current liabilities		**508,563**	**475,520**	**507,265**
CURRENT LIABILITIES:				
Borrowings	25	142,657	126,008	81,689
Liabilities under put option agreements	28	65,684	3,192	-
Accounts payable		137,055	115,158	135,912
Bank deposits and liabilities	26	115,529	115,067	126,479
Advances received		24,953	23,294	26,264
Subscriber prepayments		20,955	20,424	20,252
Income tax payable	13	831	1,025	233
Other taxes payable		14,524	11,589	26,422
Dividends payable	23	210	75	495
Provisions	29	10,151	9,854	11,677
Other financial liabilities	27	6,853	2,028	-
Total current liabilities		**539,402**	**427,714**	**429,423**
TOTAL EQUITY AND LIABILITIES		**1,298,355**	**1,136,941**	**1,403,642**

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

Mikhail Shamolin
President and CEO

Vsevolod Rozanov
Senior Vice President and CFO

7 April 2016

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Accumulated other comprehensive (loss)/income: Translation reserve	Accumulated other comprehensive (loss)/income: Other	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2014	**869**	**72,977**	**(12,118)**	**264,994**	**-**	**1,875**	**328,597**	**138,357**	**466,954**
Profit/(loss) for the year	-	-	-	(156,237)	-	-	(156,237)	27,919	(128,318)
Other comprehensive income/(loss), net of tax	-	-	-	-	(1,800)	343	(1,457)	5,232	3,775
Total comprehensive income/(loss)	-	-	-	(156,237)	(1,800)	343	(157,694)	33,151	(124,543)
Settlements under long-term motivation program	-	(3,944)	3,944	-	-	-	-	-	-
Accrued compensation cost (Note 14)	-	2,838	-	-	-	-	2,838	-	2,838
Capital transactions of subsidiaries (Note 9)	-	331	1,261	-	-	-	1,592	(17,752)	(16,160)
Dividends declared by Sistema JSFC	-	-	-	(19,313)	-	-	(19,313)	-	(19,313)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(30,611)	(30,611)
Business combinations and disposal of subsidiaries	-	-	-	-	-	-	-	3,565	3,565
Deconsolidation of Bashneft (Note 7)	-	-	-	-	-	-	-	(49,023)	(49,023)
31 December 2014	**869**	**72,202**	**(6,913)**	**89,444**	**(1,800)**	**2,218**	**156,020**	**77,687**	**233,707**
Profit for the year	-	-	-	33,592	-	-	33,592	17,574	51,166
Other comprehensive loss, net of tax	-	-	-	-	(5,732)	(1,765)	(7,497)	(3,663)	(11,160)
Total comprehensive income/(loss)	-	-	-	33,592	(5,732)	(1,765)	26,095	13,911	40,006
Settlements under long-term motivation program	-	(2,564)	2,564	-	-	-	-	-	-
Accrued compensation cost (Note 14)	-	2,866	-	-	-	-	2,866	-	2,866
Purchases of own shares	-	-	(457)	-	-	-	(457)	-	(457)
Capital transactions of subsidiaries (Note 9)	-	8,274	-	-	-	-	8,274	(6,452)	1,822
Dividends declared by Sistema JSFC	-	-	-	(4,421)	-	-	(4,421)	-	(4,421)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(23,476)	(23,476)
Business combinations and disposal of subsidiaries	-	-	-	-	-	-	-	343	343
31 December 2015	**869**	**80,778**	**(4,806)**	**118,615**	**(7,532)**	**453**	**188,377**	**62,013**	**250,390**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions of Russian Rubles)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	51,166	(128,318)
Adjustments for (including discontinued operations):		
Depreciation and amortisation	94,915	109,200
Share of the profit or loss of associates and joint ventures	(4,377)	(1,985)
Finance income	(18,526)	(12,398)
Finance costs	51,174	45,000
Income tax expense	17,944	17,314
Currency exchange loss	16,319	35,944
Loss on sale of property, plant and equipment	461	789
Gain from settlements with Ural-Invest, net of tax effect	(49,029)	-
Loss from deconsolidation of Bashneft	-	164,163
Gain from fair value adjustment of financial instruments through profit or loss	(1,076)	-
Gain on sale of subsidiaries	(1,262)	(4,777)
Gain on acquisition of Segezha Group	-	(2,488)
Gain on reentry into Uzbekistan	-	(6,734)
Amortisation of connection fees	(2,362)	(1,912)
Impairment loss on loans receivable	21,788	16,257
Dividends received from associates and joint ventures	3,622	2,704
Non-cash compensation to employees	3,292	3,052
Impairment of long-lived assets	7,675	16,785
Impairment of financial assets	7,327	26,761
Other non-cash items	2,447	2,738
	201,498	282,095
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	14,279	38,758
Bank deposits and liabilities	(7,806)	(19,649)
Financial assets at fair value through profit or loss	(966)	12,868
Accounts receivable	7,845	(3,744)
Advances paid and prepaid expenses	5,814	9,707
Other taxes receivable	(776)	(24,171)
Inventories	(24,926)	(7,767)
Accounts payable	19,050	29,319
Subscriber prepayments	2,892	2,672
Other taxes payable	2,805	(1,119)
Advances received and other liabilities	1,451	20,578
Interest paid	(48,304)	(45,749)
Income tax paid	(16,784)	(29,330)
Net cash provided by operating activities	**156,072**	**264,468**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(In millions of Russian Rubles)

	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchases of property, plant and equipment	(106,561)	(136,558)
Proceeds from sale of property, plant and equipment	3,682	3,064
Proceeds from settlement with Ural-Invest	10,821	-
Cash disposed at deconsolidation of Bashneft	-	(52,818)
Payments for purchases of intangible assets	(32,662)	(20,626)
Purchases of investments in associates and joint ventures	(3,077)	(8,614)
Purchases of financial assets, long-term	(56,584)	(36,679)
Proceeds from sale of financial assets, long-term	1,482	24,132
Purchases of financial assets, short-term	(41,425)	(56,184)
Proceeds from sale of financial assets, short-term	42,103	77,848
Interest received	18,283	11,116
Payments for businesses, net of cash acquired	(14,421)	(57,713)
Proceeds from sale of subsidiaries, net of cash disposed	-	5,947
Increase in restricted cash	(1,885)	-
Net cash used in investing activities	**(180,244)**	**(247,085)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	177,606	221,238
Principal payments on borrowings	(129,478)	(125,655)
Payments to purchase treasury stock	(456)	-
Debt issuance costs	(1,162)	-
Purchases of non-controlling interests	(3,452)	(20,643)
Dividends paid	(27,535)	(79,041)
Proceeds from capital transactions with non-controlling interests	9,718	1,457
Proceeds under credit guarantee agreement related to foreign-currency hedge	6,706	-
Net cash provided by/(used in) financing activities	**31,947**	**(2,644)**
Impairment of cash and cash equivalents (Note 38)	(1,697)	-
Effect of foreign currency translation on cash and cash equivalents	(3,270)	764
Net increase in cash and cash equivalents	**2,808**	**15,503**
Cash and cash equivalents at the beginning of the year	119,967	104,464
Cash and cash equivalents at the end of the year	**122,775**	**119,967**

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

1. GENERAL

Sistema Joint Stock Financial Corporation (the "Company", together with its subsidiaries, the "Group") invests in, and manages a range of companies which operate in various sectors of economy, including telecommunications, high technology, finance, retail, pulp and paper, utilities, pharmaceuticals, healthcare, railway transportation, agriculture, mass media, tourism and drilling. The Company and the majority of its subsidiaries are incorporated in the Russian Federation ("RF"). The Company's registered address is 13 Mokhovaya street, 125009, Moscow.

The controlling shareholder of the Company is Vladimir Evtushenkov. Minority holdings are held by certain top executives and directors of the Company. The shares are listed on the London Stock Exchange in the form of Global Depositary Receipts ("GDRs") and on the Moscow Exchange.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

For all periods up to and including the year ended 31 December 2014, the Group prepared its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These consolidated financial statements for 2015 are the first annual financial statements the Group has prepared in accordance with IFRS. 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 39, which 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 have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. As at 31 December 2015, the Group's current liabilities exceeded its current assets by RUB 67,789 million. The Group believes that it generates sufficient operating cash flows and adequate funding is available to fulfil the Group's short-term obligations, if needed, including unused credit facilities of RUB 122,421 million and long-term deposits of RUB 45,696 million available for withdrawal.

These consolidated financial statements were approved by the Company's President and CEO and authorised for issue on 7 April 2016.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

This note sets out significant accounting policies that relate to the Group's consolidated financial statements as a whole and describes the critical accounting judgements that management has identified as having a potentially material impact on the Group's consolidated financial statements. When an accounting policy is generally applicable to a specific note to the accounts, the policy is described within that note.

Summary of significant accounting policies

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company and their subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests. Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which an entity operates (functional currency). The functional currency of the Company and the majority of its subsidiaries operating in Russia is the Russian Ruble ("RUB"). The presentation currency of the consolidated financial statements of the Group is also the Russian Ruble.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the Group has made in the process of applying its accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Agreement with RCOM. Note 5 describes that the Group signed an agreement with RCOM regarding the demerger of the telecommunication business of SSTL in November 2015. The Group concluded that as of 31 December 2015 SSTL does not qualify for being reported as held for sale or a discontinued operation because the closing of the transaction is still subject to applicable approvals, which are not considered perfunctory.

Settlement with Ural-Invest. As disclosed in Note 7, during 2015 the Group signed settlement agreements with and received cash and financial instruments from Ural-Invest. The Group reported the gain from these settlements in discontinued operations because they are considered directly related to the disposal of Bashneft in 2014 reported in discontinued operations.

Put options on non-controlling interests in subsidiaries. As described in Notes 9 and 28, from time to time, to optimize the structure of business acquisitions and to defer payment of the purchase price or to attract a co-investor into the business, the Group enters into put option agreements to acquire the non-controlling interests in its subsidiaries. Classification of these puttable instruments as either equity instruments or financial liabilities requires significant judgment. The Group classifies most of such puttable instruments as liabilities (SSTL, MTS Armenia, Mikron) because they are contingent upon occurrence or non-occurrence of events which are out of control of the Group. The puttable non-controlling interest in Detskiy mir is classified as equity, as discussed in Note 9.

Sources of estimation uncertainty

In the application of the Group's accounting policies management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of loans and receivables. The Group regularly reviews its accounts receivable, loans to customers, due from banks and other loans and receivables to assess for impairment. The Group's allowances for impairment of such assets are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses could have a material impact on its financial statements in future periods.

The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on customer performance in the past, on observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. The Group uses management's judgement to adjust observable data for a group of loans to reflect current circumstances not observed in historical data.

Impairment of financial assets in the consolidated financial statements has been determined on the basis of existing economic conditions. The Group is not in a position to predict what changes in conditions will take place in its markets of operations and what effect such changes might have on the adequacy of the accounting for impairment of financial assets in future periods.

Deferred tax assets. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Assessment of probability is based on management's estimates of future taxable profit and involves the exercise of significant judgement from the Group's management.

Impairment of long-lived assets. IFRS requires management to perform impairment tests annually for indefinite lived assets and, for finite lived assets, if events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment testing requires management to judge whether the carrying value of assets can be supported by the higher of the fair value of the asset or the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires assumptions to be made in respect of highly uncertain matters.

Fair value measurements. Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Information about assets and liabilities measured at fair value on recurring basis is disclosed in Note 33.

Useful lives of property, plant and equipment and intangible assets. The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Provisions and contingencies. The Group is subject to various legal proceedings, disputes, claims and regulatory reviews related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable. See Notes 29 and 38 for further information.

4. SEGMENT INFORMATION

As a diversified holding corporation, the Company invests in a range of businesses, which meet its investment and return criteria. The Company has determined that the chief operating decision maker ("CODM") is its Management Board. Information reported to the Management Board for the purpose of resource allocation and the assessment of segment performance is focused on each individual business. No operating segments have been aggregated in arriving at the reportable segments of the Group. The Group's reportable segments are businesses that offer different products and services and are managed separately.

The Group's reportable segments are Mobile TeleSystems ("MTS"), RTI, MTS Bank, Sistema Shyam TeleServices ("SSTL") and Corporate. MTS is one of the leading telecommunications group in Russia and the CIS, offering mobile and fixed voice, broadband, internet access, pay TV as well as content and entertainment services in Russia, Ukraine, Armenia, Turkmenistan and Uzbekistan. RTI is a Russian industrial holding, which develops and manufactures high-tech products and infrastructure solutions in the fields of radio communication and space technology, threat monitoring and control solutions, microelectronics and system integration. MTS Bank is a universal commercial bank with operations in Russia and Luxemburg. SSTL is a mobile operator in India. Corporate segment comprises the Company and entities, which hold and manage the Company's interests in its subsidiaries, joint ventures and associates. The Other category includes other operating segments including Sitronics-N, Kronshtadt Group, Detsky mir, Segezha Group, Targin, Binnopharm, Medsi, SG-trans, Agroholding Steppe, Sistema Mass-media, Intourist, Leader-Invest and Bashkirian Power Grid Company ("BPGC"), none of which meets the quantitative thresholds for determining reportable segments. Bashneft was a reportable segment prior to its deconsolidation in 2014 (Note 7).

The accounting policies of the operating segments are the same as those described in the significant accounting policies. The Group's CODM evaluates performance of the segments on the basis of operating income and OIBDA. OIBDA is defined as operating income before depreciation and amortisation.

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

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment for 2015 and 2014:

	External revenues		Inter-segment revenue		Segment operating income/(loss)	
	2015	2014	2015	2014	2015	2014
MTS	430,267	410,780	965	-	85,645	99,772
RTI	69,384	68,855	7,903	12,173	4,548	4,067
MTS Bank	25,157	26,825	462	139	(17 658)	(15,252)
SSTL	13,965	8,480	-	-	(3,227)	(16,592)
Corporate	2,272	1,920	1,145	976	(14,392)	(20,887)
Total reportable segments	541,045	516,860	10,475	13,288	54,916	51,108
Other	167,597	129,409	5,027	1,024	10,257	3,962
	708,641	**646,269**	**15,503**	**14,312**	**65,173**	**55,070**
Inter-segment eliminations					3,875	5,259
Operating income					**69,048**	**60,329**
Finance income					18,526	8,047
Finance costs					(51,174)	(33,030)
Currency exchange loss					(16,319)	(37,135)
Profit/(loss) before tax					**20,081**	**(1,789)**

In reviewing the performance of MTS Bank, the CODM reviews the net interest result, rather than the gross interest amounts. Net interest expense, net of interest revenue and loan loss provision, for 2015 and 2014 totalled RUB 16,854 million and RUB 14,501 million, respectively.

The following is an analysis of the Group's depreciation and amortisation, additions to non-current assets (comprising property, plant and equipment, investment property, goodwill and other intangible assets) and other non-cash items (comprising impairment of long-lived assets and financial assets and gains on reentry into Uzbekistan and acquisition of Segezha Group) by reportable segment:

	Additions to non-current assets		Depreciation and amortisation		Other non-cash items	
	2015	2014	2015	2014	2015	2014
MTS	99,477	126,040	82,473	75,021	5,216	(1,501)
RTI	4,768	4,954	2,482	3,273	431	2,778
MTS Bank	1,145	2,196	689	681	19,207	10,006
SSTL	-	1,538	832	2,320	-	11,160
Corporate	2,476	1,080	523	548	1,273	8,421
Other	41,973	32,118	7,916	5,558	4,160	1,785
	149,839	**167,926**	**94,915**	**87,401**	**30,287**	**32,649**

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

The following is an analysis of the Group's segment assets and liabilities by reportable segment:

	31 December 2015	31 December 2014	1 January 2014
Segment assets			
MTS	669,331	617,023	491,691
RTI	88,462	98,889	82,741
MTS Bank	184,971	216,950	226,492
SSTL	33,292	28,485	27,264
Corporate	201,576	106,062	114,853
Bashneft	-	-	446,144
Total reportable segments	1,177,632	1,067,409	1,389,185
Other	263,288	206,506	110,568
Total segment assets	1,440,920	1,273,915	1,499,753
Inter-segment eliminations	(142,565)	(136,974)	(96,111)
Consolidated total assets	**1,298,355**	**1,136,941**	**1,403,642**
Segment liabilities			
MTS	485,104	419,475	321,010
RTI	89,618	105,614	83,557
MTS Bank	165,801	181,782	200,583
SSTL	75,693	65,510	44,434
Corporate	204,055	142,583	106,405
Bashneft	-	-	215,266
Total reportable segments	1,020,271	914,964	971,255
Other	164,321	110,099	74,304
Total segment liabilities	1,184,592	1,025,063	1,045,559
Inter-segment eliminations	(136,627)	(121,829)	(108,871)
Consolidated total liabilities	**1,047,965**	**903,234**	**936,688**

As of 31 December 2015, 2014 and 1 January 2014, the amount of investment in MTS Belarus, an associate of MTS, included in its reportable segment assets was RUB 5,407 million, RUB 7,318 million and RUB 4,951 million, respectively. Other associates and joint ventures represent separate operating segments and are reported in Other category.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		Non-current assets		
	2015	2014	31 December 2015	31 December 2014	1 January 2014
Russia	625,180	590,649	517,787	482,112	709,091
India	13,965	8,480	21,311	18,037	21,321
Other	69,496	47,140	73,469	60,348	42,818
	708,641	**646,269**	**612,567**	**560,497**	**773,230**

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

5. AGREEMENT WITH RCOM

In November 2015, the Group signed an agreement with Reliance Communications Ltd. (RCOM) regarding the demerger of the telecommunication business of SSTL. As a result of the transaction, SSTL will receive and hold a 10% equity stake in RCOM. In addition, RCOM will assume the liability to pay the Department of Telecommunications ("DoT") instalments for SSTL's spectrum. Prior to closing of the transaction, the Group will be required to pay off SSTL's existing debt. A payment mechanism has been agreed in relation to disputed spectrum contiguity charges claimed by the DoT. The closing of the transaction is subject to applicable corporate, regulatory and other approvals.

6. INVESTIGATIONS INTO FORMER OPERATIONS IN UZBEKISTAN

In March 2014, MTS 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 MTS'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 the Group assets are affected by the Complaint.

The Group continues to cooperate with these investigations. The Group cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant.

7. DECONSOLIDATION OF BASHNEFT AND SETTLEMENTS WITH URAL-INVEST

Amounts reported in profit/(loss) from discontinued operations include the results of Bashneft and the effect of its deconsolidation in 2014, as well as related gains from settlements with Ural-Invest in 2015, as follows:

	2015	2014
Results of Bashneft up to deconsolidation date	-	54,948
Loss on deconsolidation of Bashneft	-	(164,163)
Gain from settlements with Ural-Invest, net of tax	49,029	-
Profit/(loss) from discontinued operations	**49,029**	**(109,215)**

In September 2014, a civil claim was filed with the Moscow Court of Arbitration by the Prosecutor General's Office of the Russian Federation seeking the transfer to the Russian Federation of all shares in Bashneft held by the Group. The civil claim asserted that the transfer of Bashneft from the property of the Russian Federation into the property of Bashkortostan in 1992-1993 had been unlawful, as no requisite consent had been obtained from the federal authorities, and therefore all subsequent transactions with Bashneft shares should be considered null and void. In November 2014, the court ruled in favour of the plaintiff and ordered the transfer of the Bashneft shares held by the Group to the Russian Federation. The transfer of the shares took place in December 2014.

The results of Bashneft included in discontinued operations in the consolidated statement of profit or loss for 2014 are as follows:

Revenue	587,647
Expenses	(517,207)
Profit before tax	70,440
Income tax expense	(15,492)
Profit for the year	**54,948**

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

Cash flows from discontinued operations included in the consolidated statements of cash flows are as follows:

	2015	2014
Net cash provided by operating activities of discontinued operations	-	97,693
Net cash provided/ (used) in investing activities of discontinued operations	10,821	(132,429)
Net cash provided by financing activities of discontinued operations	-	4,136

As of 1 January 2014, assets and liabilities pertaining to Bashneft and included in the consolidated statement of financial position were as follows:

Property, plant and equipment	288,285
Other	29,447
Intragroup balances	(3,806)
Non-current assets	**313,926**
Inventories	23,462
Accounts receivable	28,501
Cash and cash equivalents	20,470
Other	55,979
Intragroup balances	(30,391)
Current assets	**98,021**
Borrowings	(79,194)
Other	(47,367)
Intragroup balances	984
Non-current liabilities	**(125,577)**
Accounts payable	(44,228)
Borrowings	(12,017)
Other	(32,460)
Intragroup balances	4,954
Current liabilities	**(83,751)**

The loss on deconsolidation of Bashneft was measured as follows:

Net assets as at deconsolidation date	(213,186)
Non-controlling interests	49,023
Tax effect	-
Loss on deconsolidation of Bashneft	**(164,163)**

In December 2014, the Group filed a claim with the Moscow Court of Arbitration for the recovery of RUB 70.7 billion losses from Ural-Invest, a legal successor of the seller of the Bashneft shares to the Group. In February 2015, the court upheld the Group's claim. In March 2015, the Group and Ural-Invest signed a settlement agreement which was subsequently approved by the court. In accordance with its terms, all assets owned by Ural-Invest, comprising cash and deposits on its bank accounts of RUB 46.5 billion were transferred to the Group, which will invest RUB 4.6 billion of this amount into the projects of Ural charitable fund. In April 2015, the Group received additional RUB 12.9 billion in cash and financial instruments. In connection with these settlements, the Group recognized financial assets of RUB 53.2 billion, net of impairment allowance of RUB 2.3 billion, and a corresponding gain of RUB 49 billion, net of tax effect of RUB 4.0 bln, presented within discontinued operations in the consolidated statement of profit or loss for 2015.

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

8. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method, with assets and liabilities of acquired entities being measured at their fair values as of the date of acquisition. Goodwill is determined as the excess of the consideration transferred plus the fair value of any non-controlling interests in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The excess of the fair values of the identifiable net assets acquired over the cost of the business combination plus the fair value of any non-controlling interests in the acquiree at the acquisition date is credited to income ("negative goodwill").

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the acquisition occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which could be up to one year from the acquisition date, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

Business combinations in 2015

The information on business combinations which took place in 2015 is summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
Kronshtadt Group	Technology	October	100%	Corporate	5,342
Agriculture businesses	Agriculture	December	85%-100%	Corporate	8,728
Other					2,121
Total					**16,191**

The following table summarizes the amounts of the assets acquired and liabilities assumed relating to such acquisitions at the acquisition date:

	Kronshtadt Group	Agriculture businesses	Other
Cash consideration	5,342	8,728	2,121
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	1,947	11,229	1,552
Other intangible assets	7,213	-	-
Other non-current assets	728	69	288
Current assets	5,031	2,979	391
Deferred tax liabilities	(1,590)	(1,370)	(88)
Other non-current liabilities	(486)	(2,575)	-
Current liabilities	(7,501)	(1,261)	(531)
Non-controlling interests	-	(343)	-
Goodwill	**-**	**-**	**509**

The initial accounting for the acquisitions has only been provisionally determined at the end of the reporting period. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations, including goodwill calculation had not been finalised and the amounts of identifiable assets acquired and liabilities assumed have therefore only been provisionally determined based on the best estimate of the likely fair values.

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

Business combinations in 2014

Segezha Group – In September 2014, LesInvest, a wholly owned subsidiary of the Group, acquired 100% of the share capital of OJSC Segezha Pulp and Paper Mill and LLC Derevoobrabotka-Proekt (together with their subsidiaries – "Segezha Group"), a manufacturer of sack paper and paper sacks and exporter of timber products and ply wood, for a total cash consideration of RUB 11.3 billion. The Group sees high growth potential for the Segezha Group business, to be unlocked by improving operating efficiency and upgrading production facilities. The following table summarizes consideration paid and the amounts of the assets acquired and liabilities assumed that were recognized at the acquisition date:

	Provisional amounts	Measurement period adjustments	Recognized amounts (as adjusted)
Cash consideration	11,365	-	11,365
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	5,217	4,714	9,931
Inventories	4,258	19	4,277
Deferred tax assets	2,645	(2,348)	297
Other assets	4,303	206	4,509
Accounts payable and other liabilities	(5,058)	(103)	(5,161)
Non-controlling interests	-	-	-
Gain on acquisition	**-**	**(2,488)**	**(2,488)**

Gain on acquisition arose due to an increase of forward USD exchange rates used in the valuation of assets performed at the acquisition date as compared to exchange rates existing earlier during the year when the purchase price had been negotiated and agreed.

Other acquisitions – The information on other business combinations, which took place in 2014, is summarised below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
Agriculture businesses	Grain production	December	85%	Corporate	3,396
Regional mobile operators	Telecom	December	100%	MTS	2,768
Total					**6,164**

The following table summarizes the amounts of the assets acquired and liabilities assumed relating to other 2014 acquisitions at the acquisition date:

	Agriculture businesses	Regional mobile operators
Cash consideration	3,396	2,768
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Property, plant and equipment	3,832	176
Other intangible assets	-	1,735
Other non-current assets	41	165
Current assets	1,246	125
Other non-current liabilities	(117)	(274)
Current liabilities	(1,096)	(780)
Non-controlling interests	(510)	-
Goodwill	**-**	**1,621**

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

The excess of the consideration paid over the value of net assets of regional mobile operators acquired was allocated to goodwill attributable to the MTS segment. Goodwill mainly arised from expected synergies on economies of scale related to operating and capital expenditures.

Pro forma financial data for 2015 and 2014 which gives effect to the acquisitions as if they had occurred as of 1 January 2014 is not presented because the effects of these business combinations, individually and in aggregate, were not material to the Group's consolidated results of operations.

The following table summarizes the details of purchase of subsidiaries, net of cash acquired, reported in the statements of cash flows:

	2015	2014
Cash consideration	16,191	17,529
Amount payable at the year end	(1,296)	99
Cash acquired	(474)	(1,198)
Purchases of subsidiaries, net of cash acquired	**14,421**	**16,430**

9. CAPITAL TRANSACTIONS OF SUBSIDIARIES

The Group enters into transactions to acquire or dispose ownership interests in its existing subsidiaries that do not result in the Group losing control over the subsidiaries. Also, the entities of the Group enter into transactions with each other to transfer ownership interests in subsidiaries within the Group. Such transactions are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests ("NCI") are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity in additional paid-in capital ("APIC") and attributed to shareholders of the Company.

Transactions in 2015

The information on capital transactions of subsidiaries which took place in 2015 and their impacts on the Group's equity is summarized below:

	Increase/ (decrease) of additional paid-in capital	Increase/ (decrease) of non-controlling interests
Sale of 23.1% of Detsky Mir	9,238	180
Acquisition of 25.02% of Medsi	(2,643)	(3,473)
Intragroup transfer of NVision Group to MTS	4,211	(4,211)
Intragroup transfer of Rent-Nedvizhimost	(2,845)	2,845
Other	313	(1,793)
Total impact	**8,274**	**(6,452)**

Detsky Mir – In December 2015, the Group sold 23.1% of Detsky Mir to the Russia-China Investment Fund ("RCIF") for a total consideration of RUB 9.75 billion. The remaining Group's ownership interest in Detsky Mir is 75.8%. The Group granted the buyer an option to put its stake in Detsky Mir to the Group at fair value in case of the non-occurrence of prescribed future events. The Group concluded that this puttable instrument should be classified as equity instrument rather than a financial liability because the occurrence of these events is considered under the control of the Group.

Medsi – In October 2015, the Group acquired additional 25.02% stake in Medsi for RUB 6.1 billion and increased its stake to 100%.

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

NVision – During 2015, in a series of transactions, the Group's subsidiaries Sistema Telecoms Assets and RTI sold 100% stake in NVision Group to MTS.

Rent-Nedvizhimost – During 2015, in a series of transactions, MTS sold 100% stake in Rent-Nedvizhimost to Business-Nedvizhimost, another subsidiary of Sistema.

Transactions in 2014

The information on capital transactions of subsidiaries which took place in 2014 and their impacts on the Group's equity is summarized below:

	Increase/ (decrease) of additional paid-in capital	Increase/ (decrease) of non-controlling interests
Additional share issue of MTS Bank	-	-
Additional share issue of Mikron	1,499	(1,499)
Intragroup transfer of Business-Nedvizhimost	(1,432)	1,432
Acquisition of 50% of NVision	(5,665)	2,105
Capital transactions of Bashneft prior to deconsolidation	7,864	(22,957)
Other	(1,935)	3,167
Total impact	**331**	**(17,752)**

Additional share issue of MTS Bank – In December 2014, the Group participated in additional share issue of MTS Bank for RUB 13.1 billion.

Additional share issue of Mikron – In May 2014, Mikron issued additional shares representing 25.1% of its share capital in exchange for 37.7% interest in SITRONICS-Nano, owned by OJSC RUSNANO. Upon completion of the transaction, the Group's effective ownership in Mikron decreased to 53.0%. Simultaneously, the Group and RUSNANO substituted their existing put and call option agreements on RUSNANO's share in SITRONICS-Nano for new put and call option agreements on its 25.1% share in Mikron. The terms of the option agreements remained unchanged.

Intragroup transfer of Business-Nedvizhimost – In April 2014, MTS sold a 49% stake in Business-Nedvizhimost, a company which owns and manages a real estate portfolio in Moscow, to the Company for RUB 3.1 billion.

Acquisition of 50% of NVision – In January 2014, the Group acquired an additional 38.75% stake in NVision from minority shareholders for RUB 3 billion, RUB 1.4 billion of which was paid in cash and RUB 1.6 billion in the Company's treasury shares. In December 2014, the Group acquired the remaining 11.25% stake in NVision for approximately RUB 0.6 billion.

10. REVENUE

The Group receives primarily its revenue from the sale of goods and rendering services in Russia. Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenues under arrangements specific to the reportable segments of the Group are recognised as follows.

MTS – 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 MTS acts as an agent of the content providers while the gross revenue and related costs are recorded when MTS is 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

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

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 accounts receivable and revenue.

MTS Bank – Revenues from interest bearing assets are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

RTI – When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability for advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under inventories.

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

Revenues from the long-term contracts are recognised using the percentage-of-completion method of accounting, measured by the percent of contract costs incurred to-date to estimated total contract costs. The stage of completion of a contract is determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following is an analysis of the Group's revenue for the year from continuing operations:

	2015	2014
Rendering of services	491,775	489,307
Sale of goods	164,472	108,355
Construction contracts	52,394	48,607
	708,641	**646,269**

The following is an analysis of amounts due from/(to) customers under construction contracts:

	31 December 2015	31 December 2014	1 January 2014
Contracts in progress at the end of the year:			
Construction costs incurred plus recognised profits less recognised losses to date	84,771	48,150	28,415
Less: progress billings	(85,195)	(52,699)	(28,697)
	(424)	**(4,549)**	**(282)**
Costs and estimated earnings in excess of billings on uncompleted contracts	11,427	6,458	3,502
Billings in excess of costs and estimated earnings on uncompleted contracts	(11,851)	(11,007)	(3,784)
	(424)	**(4,549)**	**(282)**

11. IMPAIRMENT OF LONG-LIVED ASSETS

Impairment of long-lived assets includes impairment of property, plant and equipment, goodwill and other intangible assets.

	2015	2014
Impairment of goodwill (Note 17)	4,371	-
Impairment of long-lived assets in India	-	11,160
Impairment of other long-lived assets	3,304	5,625
Total impairment of long-lived assets	**7,675**	**16,785**

Impairment of long-lived assets in India – As of 31 December 2014, following the continuing operating losses incurred by SSTL, the Group carried out a review of the recoverable amount of its long-lived assets attributable to the SSTL segment. The Group concluded that the segment's fixed assets with a carrying value of RUB 11.2 billion were impaired and recognized a loss in the consolidated statement of profit or loss for 2014, which was allocated to the SSTL segment. The segment's remaining long-lived assets mostly comprised spectrum and licenses with the total carrying value of RUB 17.8 billion. The Group conducted its impairment analysis based on the available market data. The market data utilized the data of the recent spectrum auction in India. The auction demonstrated significant demand for spectrum in the 800 MHz spectrum bands in the circles of SSTL operations at prices significantly higher than the carrying value of equivalent bands owned by SSTL. Therefore, the Group has concluded that the carrying value of SSTL spectrum and licenses was not impaired as of 31 December 2014. As of 31 December 2015, the Group considered the terms of the agreement with RCOM (Note 5) and concluded there was no indicators of further impairment of SSTL spectrum and licenses.

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

12. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets for 2015 and 2014 comprise the following:

	2015	2014
Allowance for doubtful accounts	3,925	4,374
Impairment of cash and deposits in banks (Note 38)	2,129	5,138
Impairment of available for sale securities	1,273	5,679
Impairment of loans carried at amortised cost	-	3,800
Total impairment of financial assets	**7,327**	**18,991**

Provision for financial assets attributable to MTS Bank is reported in cost of sales.

13. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the countries where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets are not recognized when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making such determination, the Group considers all available positive and negative evidence, including projected future taxable income, tax planning strategies and recent financial operations.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

The Group's income tax expense for 2015 and 2014 comprise the following:

	2015	2014
Current income tax expense	19,944	11,891
Deferred income tax (benefit)/expense	(2,000)	5,423
Total income tax expense recognised in the current year relating to continuing operations	**17,944**	**17,314**

Income tax expense calculated by applying the Russian statutory income tax rate to income from continuing operations before income tax differs from income tax expense recognized in the consolidated statements of profit or loss as a consequence of the following adjustments:

	2015	2014
(Profit)/loss before tax	**(20,081)**	**1,789**
Income tax expense/(benefit) calculated at 20%	4,016	(358)
Adjustments due to:		
Equity in earnings of subsidiaries and associates	1,220	5,616
Increase of unrecognised deferred tax assets	10,612	9,137
Other non-deductible expenses	2,111	5,980
Settlements with tax authorities	243	405
Different tax rate of subsidiaries	(179)	(872)
Non-taxable income	-	(1,844)
Other	(79)	(750)
Income tax expense	**17,944**	**17,314**

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

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statements of financial position:

2015	Opening balance	Recognised in profit or loss	Recognised in OCI	Acquisitions/ disposals	Closing balance
Deferred tax (liabilities)/assets in relation to:					
Accrued expenses and accounts payable	6,439	4,476	(109)	-	10,806
Property, plant and equipment	(16,064)	(3,609)	260	(1,272)	(20,685)
Intangible assets	(10,015)	712	(380)	(1,228)	(10,911)
Deferred connection fees	929	(231)	(59)	-	639
Inventory obsolescence	895	(104)	-	-	791
Allowance for doubtful accounts and loans receivable	2,139	(1,261)	-	-	878
Undistributed earnings of subsidiaries and joint ventures and assoiates	(7,000)	64	(304)	-	(7,240)
Tax losses carried forward	13,418	(1,443)	528	-	12,503
Other	(5,172)	(681)	590	849	(4,414)
Total	**(14,431)**	**(2,077)**	**526**	**(1,651)**	**(17,633)**

2014	Opening balance	Recognised in profit or loss	Recognised in OCI	Acquisitions/ disposals	Closing balance
Deferred tax (liabilities)/assets in relation to:					
Accrued expenses and accounts payable	7,837	(981)	(45)	(372)	6,439
Property, plant and equipment	(48,433)	(9,785)	291	41,863	(16,064)
Intangible assets	(5,241)	(2,633)	(987)	(1,154)	(10,015)
Deferred connection fees	1,115	(186)	-	-	929
Inventory obsolescence	813	342	(104)	(156)	895
Allowance for doubtful accounts and loans receivable	754	2,989	-	(1,604)	2,139
Undistributed earnings of subsidiaries and joint ventures and associate	(6,840)	26	(186)	-	(7,000)
Debt issuance costs	(571)	571	-	-	-
Tax losses carried forward	5,438	7,976	-	4	13,418
Other	(2,843)	2,947	(1,103)	(4,173)	(5,172)
Total	**(47,971)**	**1,266**	**(2,134)**	**34,408**	**(14,431)**

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

	31 December 2015	31 December 2014	1 January 2014
Deferred tax assets	25,966	23,699	13,055
Deferred tax liabilities	(43,599)	(38,130)	(61,026)
Net deferred tax liabilities	**(17,633)**	**(14,431)**	**(47,971)**

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

As of 31 December 2015 and 2014 and 1 January 2014 the Group has operating losses for recognized tax losses carried forward amounted to RUB 62,509 million, RUB 67,086 million and RUB 27,186 million, respectively.

Temporary differences, for which deferred tax assets were not recognized in the consolidated statements of financial position as of 31 December 2015 and 2014 and 1 January 2014 amounted to RUB 80,816 million, RUB 75,947 million and RUB 38,566 million, respectively, expiring in various periods ending 2021-2025.

14. EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses consist of salaries, bonuses and social security contributions. Employee benefits expenses included in cost of sales and selling, general and administrative expenses for 2015 and 2014 comprised RUB 136,395 million and RUB 124,269 million, respectively.

Share options granted under the Company's employee share option plan – In 2015 and 2014 the Company's Board of Directors established two-year motivational programs for senior and mid-level management. Participants of the programs, upon fulfilment of certain performance conditions and subject to continuing employment with the Group, are granted ordinary shares in the Company.

As a result, the Group recognized an expense of RUB 2,866 million and RUB 2,838 million in the consolidated statements of profit or loss for 2015 and 2014, respectively. The fair value of awards granted was measured based on the fair value of the Company's ordinary shares. The awards are equity-settled and are recognized in additional paid-in capital.

15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost. Cost includes major expenditures for improvements and replacements, which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance, including preventive maintenance, are charged to the consolidated statement of profit or loss as incurred.

The cost of major overhauls and replacements, which extend useful lives of the assets or increase their revenue generating capacity, are capitalised to the cost of the assets.

Depreciation for property, plant and equipment is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	20-50 years
Leasehold improvements	the term of the lease
Base stations	7 years
Other network equipment	up to 31 years
Power and utilities	up to 47 years
Other plant, machinery and equipment	up to 15 years

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Group considers a construction period of more than six months to be substantial. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

Property, plant and equipment, net of accumulated depreciation, as of 31 December 2015 and 2014 and 1 January 2014 consisted of the following:

	31 December 2015	31 December 2014	1 January 2014
Carrying amount			
Switches, transmission devices, network and base station equipment	268,884	266,746	253,028
Buildings and leasehold improvements	72,241	63,029	48,305
Power and utilities	23,168	21,551	20,054
Land	17,016	8,810	5,269
Other plant, machinery and equipment	47,854	40,512	33,102
Oil production, refining and marketing	-	-	289,457
Total	**429,163**	**400,648**	**649,215**

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

	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve-ments	Power and utilities	Land	Other plant, machinery and equipment	Oil production, refining and marketing	Total
Cost							
Balance at 1 January 2014	513,561	70,897	26,416	5,269	81,472	379,030	1,076,645
Additions	76,251	3,942	3,373	233	20,893	45,258	149,950
Disposals	(25,479)	(2,983)	(93)	-	(7,270)	(487,926)	(523,751)
Business combinations	3,002	8,602	-	3,308	2,874	63,638	81,424
Reclassified to investment property	(4,005)	-	-	-	-	-	(4,005)
Currency translation adjustment	3,089	2,358	-	-	-	-	5,447
Impairment	(11,160)	-	-	-	(2,850)	-	(14,010)
Other	-	(130)	-	-	1,575	-	1,445
Balance at 31 December 2014	555,259	82,686	29,696	8,810	96,694	-	773,145
Additions	58,618	8,251	4,009	-	17,611	-	88,489
Disposals	(24,254)	(1,680)	(206)	(120)	(5,772)	-	(32,032)
Business combinations	-	5,677	-	7,319	1,732	-	14,728
Reclassified to investment property	(1,059)	-	-	-	-	-	(1,059)
Currency translation adjustment	(4,392)	2,320	-	-	501	-	(1,571)
Impairment	-	(2,520)	-	(115)	(669)	-	(3,304)
Other	(380)	(1,793)	-	1,122	(295)	-	(1,346)
Balance at 31 December 2015	**583,792**	**92,941**	**33,499**	**17,016**	**109,802**	**-**	**837,050**
Accumulated depreciation and impairment							
Balance at 1 January 2014	(260,533)	(22,592)	(6,362)	-	(48,370)	(89,573)	(427,430)
Disposals	22,310	2,223	28	-	6,123	111,372	142,056
Reclassified to investment property	3,366	-	-	-	-	-	3,366
Depreciation expense	(52,945)	(2,119)	(1,811)	-	(10,631)	(21,799)	(89,305)
Currency translation adjustment	(775)	(367)	-	-	367	-	(775)
Other	64	3,198	-	-	(3,671)	-	(409)
Balance at 31 December 2014	(288,513)	(19,657)	(8,145)	-	(56,182)	-	(372,497)
Disposals	21,160	1,623	17	-	5,068	-	27,868
Reclassified to investment property	490	-	-	-	-	-	490
Depreciation expense	(51,967)	(2,666)	(2,203)	-	(10,869)	-	(67,705)
Currency translation adjustment	3,922	-	-	-	643	-	4,565
Other	-	-	-	-	(608)	-	(608)
Balance at 31 December 2015	**(314,908)**	**(20,700)**	**(10,331)**	**-**	**(61,948)**	**-**	**(407,887)**

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

16. INVESTMENT PROPERTY

Investment property primarily includes apartment buildings, cottages, office and commercial space and business centres owned by the Group's real estate segment represented by a number of companies, including Leader-Invest, Business Nedvizhimost and Mosdachtrest.

Investment property is stated at cost less accumulated depreciation and impairment losses. Depreciation for investment property is computed under the straight-line method utilising estimated useful lives of the assets of 25 years. Accumulated depreciation as of 31 December 2015 and 2014, 1 January 2014 amounted to RUB 2,255 million, RUB 1,828 million and RUB 1,146 million, respectively.

	2015	2014
Balance at the beginning of the year	10,229	8,041
Reclassified from property, plant and equipment	569	639
Additions	4,787	3,725
Disposals	(893)	(1,748)
Depreciation expense	(607)	(428)
Balance at the end of the year	**14,085**	**10,229**

Included into revenue is investment property rental income for 2015 of RUB 2,455 million (2014: RUB 1,876 million). Operating expenses arising from the investment property that generated rental income during 2015 totalled RUB 1,143 million (2014: RUB 980 million).

In estimating the fair value of the investment property, the Group classified the properties within Level 3 of the fair value hierarchy. As of 31 December 2015 and 2014 and 1 January 2014 the Group determined the fair values of the investment property at RUB 51,266 million, RUB 50,502 million and RUB 50,972 million, respectively.

The fair values as of 31 December 2015 and 2014 and 1 January 2014 were determined either based on discounted cash flows or by reference to market values of similar properties in the relevant region. The main inputs to the fair value measurement are the discount rate, revenue growth rates, OIBDA margin and adjustments to market values of similar properties.

17. GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

The carrying amounts of goodwill attributable to each reportable segment are as follows:

	MTS	SSTL	RTI	MTS Bank	Other	Total
Balance as of 1 January 2014						
Gross amount of goodwill	43,978	9,820	8,323	2,064	841	65,026
Accumulated impairment loss	(1,466)	(9,820)	(8,219)	(2,064)	-	(21,569)
	42,512	**-**	**104**	**-**	**841**	**43,457**
Business combinations	1,621	-	-	-	-	1,621
Currency translation adjustment	897	-	-	-	17	914
Balance as of 31 December 2014						
Gross amount of goodwill	46,496	16,495	8,323	2,064	858	74,236
Accumulated impairment loss	(1,466)	(16,495)	(8,219)	(2,064)	-	(28,244)
	45,030	**-**	**104**	**-**	**858**	**45,992**

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

	MTS	SSTL	RTI	MTS Bank	Other	Total
Business combinations	-				509	509
Impairment	(3,516)	-	-	-	(855)	(4,371)
Currency translation adjustment	1,673	-	-	-	58	1,731
Balance as of 31 December 2015						
Gross amount of goodwill	48,169	20,408	8,323	2,064	570	79,534
Accumulated impairment loss	(4,982)	(20,408)	(8,219)	(2,064)	-	(35,673)
	43,187	**-**	**104**	**-**	**570**	**43,861**

The Group performs impairment tests for the goodwill assigned to cash-generating units (CGUs) at least annually and when there are any indications that the carrying amount of the cash-generating unit is impaired. When the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit is impaired.

For the purposes of impairment testing, goodwill attributable to the MTS segment is allocated to cash-generating units for the year ended 31 December as follows:

	2015	2014
Russia convergent	28,800	28,809
Armenia	4,456	6,268
Moscow fixed line	1,083	1,083
Ukraine	129	151
Unallocated	8,719	8,719
Total	**43,187**	**45,030**

The “Russia convergent” CGU represents mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia. Except for “Moscow fixed line”, which represents the results of fixed line operations carried out in Moscow by MGTS, a subsidiary of MTS. “Armenia” and “Ukraine” represent operations carried out by subsidiaries of MTS in the respective countries. Goodwill allocated to these CGUs has arisen on acquisitions made by MTS. The Group does not allocate goodwill recognised as a result of its purchases of MTS shares by the Group to CGUs as it is monitored for internal management purposes at the level of the MTS segment as a whole. Unallocated amount of goodwill is tested for impairment with the reference to the market capitalisation of MTS.

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

Future cash flows calculations are based on a five-year operation plan. Estimation of future cash flows requires assumptions to be made in respect of uncertain factors, including management’s expectations of margins, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks involved.

As a result of the impairment analysis as of 31 December 2015, the Group concluded that goodwill attributable to “Armenia” CGU is impaired by RUB 3.5 billion. The impairment reflects the decrease of interconnect traffic and related revenue due to increased prices for international calling from Russia to Armenia.

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

The key assumptions used in the value in use calculations are as follows:

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

The table below presents forecasted OIBDA margin and capital expenditure as a percentage of revenue over the following five years utilised for value in use calculation of related CGUs:

	OIBDA margin		Capital expenditure as a percentage of revenue	
CGU	**2015**	**2014**	**2015**	**2014**
Russia convergent	32.3%-34.9%	38.3%-39.8%	17.6%	19.1%
Armenia	44.7%-46.1%	44.7%-46.5%	12.0%	11.9%
Moscow fixed line	48.2%-53.4%	48.5%-50.1%	15.0%	17.4%
Ukraine	35.4%-41.3%	35.8%-40.0%	24.4%	12.4%

The terminal growth rate has been determined based on the nominal gross domestic product rates for the country of operation, adjusted for specific characteristics of the CGUs business. The discount rate is the weighted average cost of capital, being equity and debt, according to the finance structure of each CGU. The cost of equity is calculated based on the risk free rate for long-term bonds issued by the government in the respective market. These rates are adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU. The cost of debt is defined as the rate effective for borrowings drawn by the Group at or near the date of the impairment test.

The table below presents terminal growth rate and pre-tax rates for discounting cash flows in functional currencies utilized for value in use calculation of related CGUs:

	Terminal growth rate		Discount rate	
CGU	**2015**	**2014**	**2015**	**2014**
Russia convergent	1%	1%	13.9%	15.2%
Armenia	nil	1%	17.7%	17.9%
Moscow fixed line	1%	1%	18.4%	17.4%
Ukraine	3%	1%	26.6%	28.7%

Management believes that any reasonably possible change in any of the above key assumptions would not cause the carrying value of any cash-generating unit to materially exceed its recoverable amount, except for CGU “Armenia”.

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

The changes in the following table to assumptions used in the impairment analysis of CGU “Armenia” would have, in isolation, led to an increase to the impairment loss recognized in 2015:

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

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

18. OTHER INTANGIBLE ASSETS

Other intangible assets are mainly represented by billing and telecommunication software and other software, operating licenses, acquired customer bases and customer relationships of MTS.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses. Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets that are acquired separately.

All finite-life intangible assets are amortised using the straight-line method utilizing estimated useful lives of the assets as follows:

Operating licenses	3-20 years
Billing and telecommunication software	1-20 years
Radio frequencies	2-15 years
Customer base	1-8 years
Software and other	1-10 years

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

Trademarks with indefinite contractual life are not amortised, but are reviewed, at least annually, for impairment.

Intangible assets other than goodwill as of 31 December 2015 and 2014 and 1 January 2014 consisted of the following:

	31 December 2015	**31 December 2014**	**1 January 2014**
Carrying amounts of:			
Amortised intangible assets:			
Operating licenses	43,460	28,304	20,959
Billing and telecommunication software	40,979	37,752	25,943
Radio frequencies	5,065	4,977	3,987
Acquired customer base	4,359	5,517	7,229
Software and other	17,762	14,652	7,651
	111,625	**91,202**	**65,769**
Unamortised intangible assets:			
Trademarks	6,563	6,748	6,748
Total	**118,188**	**97,950**	**72,517**

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

	Billing and telecom. software	Operating licenses	Customer base	Radio frequencies	Software and other	Trademarks	Total
Cost or valuation							
Balance at 1 January 2014	66,845	28,305	15,334	6,659	17,887	6,748	141,778
Additions	23,489	61	-	2,028	3,987	-	29,565
Disposals	(5,114)	(386)	(156)	(496)	(169)	-	(6,321)
Business combinations	742	1,460	78	-	4,783	-	7,063
Currency translation adjustment	(1,050)	10,177	-	(416)	3,744	-	12,455
Bashneft disposal	-	-	-	-	(3,428)	-	(3,428)
Impairment	-	-	-	-	(2,775)		(2,775)
Other	11	1,936	(1,954)	519	2,247	-	2,759
Balance at 31 December 2014	84,923	41,553	13,302	8,294	26,276	6,748	181,096
Additions	19,976	11,705	-	1,262	1,679	-	34,622
Disposals	(18,888)	(1)	(1,228)	(268)	(859)	-	(21,244)
Business combinations	-	-	-	-	7,213	-	7,213
Currency translation adjustment	(372)	7,162	206	-	639	(185)	7,450
Other	(212)	38	86	38	366	-	316
Balance at 31 December 2015	**85,427**	**60,457**	**12,366**	**9,326**	**35,314**	**6,563**	**209,453**
Accumulated depreciation and impairment							
Balance at 1 January 2014	(40,902)	(7,346)	(8,105)	(2,672)	(10,236)	-	(69,261)
Disposals	5,012	348	156	347	861	-	6,724
Amortisation expense	(11,871)	(1,729)	(1,365)	(991)	(3,511)	-	(19,467)
Currency translation adjustment	595	(2,911)	(276)	-	95	-	(2,497)
Bashneft disposal	-	-	-	-	1,167	-	1,167
Other	(5)	(1,611)	1,805	(1)	-	-	188
Balance at 31 December 2014	(47,171)	(13,249)	(7,785)	(3,317)	(11,624)	-	(83,146)
Disposals	18,528	2	1,228	287	780	-	20,825
Amortisation expense	(16,075)	(2,279)	(692)	(1,202)	(6,355)	-	(26,603)
Currency translation adjustment	866	(1,534)	(758)	-	(289)	-	(1,715)
Other	(596)	63	-	(29)	(64)	-	(626)
Balance at 31 December 2015	**(44,448)**	**(16,997)**	**(8,007)**	**(4,261)**	**(17,552)**	**-**	**(91,265)**

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

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

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

The license for the provision of telecommunication services in Ukraine was renewed in 2013 and is valid until 2026. The license for the provision of telecommunication services in Armenia is valid until 2019. The license for the provision of telecommunication services in Uzbekistan was renewed in 2014 and is valid until 2029. The license for the provision of telecommunication services in Turkmenistan is valid until 2029.

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

SSTL spectrum. In March 2013, upon winning an auction, SSTL acquired 800 MHz technology neutral spectrum in eight circles of India. The total price for the spectrum amounted to Indian Rupee ("Rs") 36,395 million (20,620 million RUB at the exchange rate as of the auction date). The Group was eligible to deduct the fee paid in 2008 of Rs 16,263 million (9,213 million RUB at the exchange rate as of the auction date) against the amounts payable for the new spectrum. The balance is payable in equal annual installments during the period from 2016 to 2025 and is included into Other financial liabilities.

In October 2013, SSTL received the Unified Telecom License, valid for 20 years, and the remaining third carrier in the 800 MHz spectrum band acquired in the March 2013 auction which enabled SSTL to provide its customers with the next generation Rev B Phase II telecom services across all its remaining nine telecom circles.

19. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group holds interests in several associates, the most significant of which are MTS Belarus and OZON, and SG-trans, a joint venture where the Group shares control with a third party. All investments in associates and joint ventures are accounted for using the equity method.

Investments in associates and joint ventures as of 31 December 2015 and 2014 and 1 January 2014 consisted of the following:

	31 December 2015		31 December 2014		1 January 2014	
	Voting power	Carrying value	Voting power	Carrying value	Voting power	Carrying value
MTS Belarus	49.0%	5,407	49.0%	7,318	49.0%	4,951
OZON	21.6%	5,409	21.6%	5,401	-	-
SG-trans	50.0%	5,580	50.0%	5,409	50.0%	4,371
Bashneft-Polyus (Note 7)	-	-	-	-	74.9%	18,853
Other		5,823		2,091		2,750
Total		**22,219**		**20,219**		**30,925**

Investment in OZON – In April 2014, the Group acquired a 21.6% of ownership interest in OZON Holdings Limited ("OZON"), a leading Russian e-commerce company, through an additional share issuance for RUB 5,404 million. The Group has the right to nominate two out of eight representatives to the board of directors. Management concluded that, upon completion of the acquisition, the Group gained significant influence over OZON and therefore adopted equity method of accounting for this investment. The Group also obtained a call option for an additional 4.6% stake in OZON which expired unexercised in August 2015. The difference between the equity investment carrying amount of RUB 5,409 million and underlying equity in net assets as of 31 December 2015 of RUB 1,484 million mainly represents goodwill, primarily attributable to the expected synergies from commercial arrangements and co-branding programs.

The financial position and results of operations of significant associates and joint venture as of and for the years ended 31 December 2015 and 2014 were as follows:

	2015			2014		
	MTS Belarus	OZON	SG-trans	MTS Belarus	OZON	SG-trans
Non-current assets	11,404	2,553	28,401	11,493	2,962	30,233
Current assets	6,153	8,629	5,052	8,738	7,888	5,606
Total assets	**17,557**	**11,182**	**33,453**	**20,231**	**10,850**	**35,839**
Non-current liabilities	(2)	(260)	(20,176)	(168)	(377)	(23,325)
Current liabilities	(6,520)	(4,052)	(4,888)	(5,128)	(3,640)	(4,467)
Total liabilities	**(6,522)**	**(4,312)**	**(25,064)**	**(5,296)**	**(4,017)**	**(27,792)**

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

	2015			2014		
	MTS Belarus	**OZON**	**SG-trans**	**MTS Belarus**	**OZON**	**SG-trans**
Net assets of investee	**11,035**	**6,870**	**8,389**	**14,935**	**6,833**	**8,047**
Group's ownership interest	49%	21.6%	50%	49%	21.6%	50%
Fair value adjustment on the date of obtaining significant influence	-	3,925	1,386	-	3,925	1,386
Carrying amount of the Group's interest	**5,407**	**5,409**	**5,580**	**7,318**	**5,401**	**5,409**
Total revenues	20,886	13,222	19,438	23,616	11,097	20,531
The Group's share of revenue	**10,234**	**2,568**	**9,719**	**11,572**	**2,397**	**10,266**
Total profit/(loss) for the year	7,054	577	714	7,057	(2,494)	788
The Group's share in profit/(loss)	**3,456**	**125**	**357**	**3,458**	**(539)**	**394**
Total comprehensive income/(loss)	3,944	577	714	7,057	(2,494)	788
The Group's share in comprehensive income/(loss) for the year	**1,933**	**125**	**357**	**3,458**	**(539)**	**394**

The following is a summary of the financial information of other associates and joint ventures that are not individually material:

	2015	2014
Group's share of profit/(loss) from continuing operations	439	(1,221)
Group's share of total comprehensive income/(loss)	439	(1,221)
Aggregate carrying amount of the Group's interests in these associates and joint ventures	5,823	2,091

20. LOANS RECEIVABLE AND OTHER FINANCIAL ASSETS

The Group's financial assets, other than cash and cash equivalents, deposits in banks and accounts receivable and investments in associate and joint ventures shown separately on the face of the statements of financial position, primarily comprise assets of MTS Bank, the Group's subsidiary engaged in banking activities, and investments of the Corporate segment.

Financial assets are classified into the following specified categories depending on their nature and purpose:

Category	Description	Accounting policy
Financial assets at fair value through profit or loss (FVTPL)	Financial assets which are either held for trading or are designated as at FVTPL.	Measured at fair value with changes recognised in profit or loss.
Held-to-maturity (HTM) investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity.	Measured at amortised cost using the effective interest method less any impairment.
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.	Measured at amortised cost using the effective interest method less any impairment.
Available-for-sale (AFS) financial assets	Non-derivatives that are either designated as AFS or are not classified within the above categories.	Measured at fair value with changes recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss is reclassified to profit or loss.

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

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default loans on receivables.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 32.

At 31 December 2015 and 2014 and 1 January 2014 financial assets, other than those shown separately on the face of the statements of financial position, less allowance for impairment losses, comprise:

	31 December 2015	31 December 2014	1 January 2014
Financial assets at FVTPL			
Debt and equity securities	28,954	26,223	34,397
	28,954	**26,223**	**34,397**
Loans and receivables at amortised cost			
Bank loans to customers	78,846	115,419	142,262
Interbank loans due from banks	7,966	6,587	4,614
Other loans and receivables	37,249	25,685	28,618
	124,061	**147,691**	**175,494**
AFS financial assets			
Debt and equity securities	12,214	9,024	18,855
	12,214	**9,024**	**18,855**
Hedging instruments at fair value			
Interest rate swaps designated as cash flow hedges	25,027	21,936	1,877
Cross-currency swap	-	8	12
	25,027	**21,944**	**1,889**
	190,256	**204,882**	**230,635**
Current	78,020	92,126	127,706
Non-current	112,236	112,756	102,929
	190,256	**204,882**	**230,635**

At 31 December 2015 and 2014 and 1 January 2014, included in the above categories as well as cash and cash equivalents, financial assets attributable to the Group's banking activities (MTS Bank and its subsidiaries) comprise:

	31 December 2015	31 December 2014	1 January 2014
Cash and cash equivalents	46,536	47,466	37,061
Bank loans to customers	125,521	146,142	158,507
Interbank loans due from banks	8,200	7,422	5,277
Financial assets at FVTPL	20,581	20,735	18,051
AFS financial assets	6,765	4,931	5,052
Other	2,261	4,836	4,160
Less: allowance for loan losses	(46,910)	(31,558)	(16,907)
	162,954	**199,974**	**211,201**

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

The movement in the allowance for loan losses during 2015 and 2014 was as follows:

	2015	2014
Allowance for loan losses, beginning of the year	**31,558**	**16,907**
Additions charged to the results of operations	21,788	20,049
Write-off of loan loss provisions	(7,627)	(6,251)
Currency translation adjustment	1,191	853
Allowance for loan losses, end of the year	**46,910**	**31,558**

The analysis of bank loans to customers by sector is presented below:

Analysis by sector	**31 December 2015**	**31 December 2014**	**1 January 2014**
Individuals	59,570	73,302	69,031
Manufacturing	20,579	11,959	19,423
Real estate	12,294	15,237	9,576
Trade	7,411	12,245	15,242
Transport and communication	6,884	6,635	10,168
Food production	6,406	6,385	4,638
Finance lease	5,441	5,500	4,074
Finance sector	1,243	8,365	23,364
Culture and art	1,252	1,953	1,165
Other	4,441	4,561	1,826
Total bank loans to customers	**125,521**	**146,142**	**158,507**

Loans to individuals comprise the following:

	31 December 2015	**31 December 2014**	**1 January 2014**
Credit cards	20,664	25,779	19,190
Mortgage loans	20,829	24,092	22,030
Consumer loans	16,749	21,744	26,230
Other	1,328	1,687	1,581
	59,570	**73,302**	**69,031**
Less allowance for impairment losses	(21,459)	(20,280)	(11,375)
Total loans to individuals	**38,111**	**53,022**	**57,656**

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

21. INVENTORIES

Inventories mainly include goods for resale of Detsky Mir and the retail network of MTS and costs in excess of billings of RTI.

Inventories are stated at the lower of cost or market value. Inventories are accounted for using the weighted-average cost method. Inventory should be accounted further at the lower of net realisable value and carrying amount. The Group periodically assesses its inventories for obsolete or slow-moving stock.

The cost of raw materials includes the cost of purchase, customs duties, transportation and handling costs. Work-in-progress and finished goods are stated at production cost which includes direct production expenses and manufacturing overheads.

Costs and estimated earnings in excess of billings on uncompleted contracts include the accumulated costs of projects contracted with third parties, net of related progress billings.

Inventories as of 31 December 2015 and 2014 and 1 January 2014 consisted of the following:

	31 December 2015	31 December 2014	1 January 2014
Detsky Mir finished goods and goods for resale	17,772	11,540	9,885
MTS finished goods and goods for resale	16,054	8,236	8,858
Other finished goods and goods for resale	5,505	7,277	10,469
Raw materials and spare parts	10,257	8,049	21,931
Work-in-progress	12,721	6,022	9,916
Costs and estimated earnings in excess of billings on uncompleted contracts	11,427	6,458	3,502
	73,736	**47,582**	**64,561**
Less: long-term portion	-	-	(3,532)
Total	**73,736**	**47,582**	**61,029**

The cost of inventories recognised as an expense during the year in respect of continuing operations was RUB 81,701 million (2014: RUB 60,894 million). The cost of inventories recognised as an expense includes RUB 2,222 million (2014: RUB 2,083 million) in respect of write-downs of inventory to net realisable value, and has been reduced by RUB 878 million (2014: RUB 763 million) in respect of the reversal of such write-downs.

22. ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the customers to the Group.

Accounts receivable are stated at their net realizable value after deducting a provision for doubtful accounts. Such provision reflects either specific cases of delinquencies or defaults or estimates based on evidence of collectability.

Accounts receivable, net of provision for doubtful accounts, as of 31 December 2015 and 2014 and 1 January 2014 consisted of the following:

	31 December 2015	31 December 2014	1 January 2014
Accounts receivable	84,273	88,471	90,604
Allowance for doubtful accounts	(9,997)	(9,510)	(9,256)
Total	**74,276**	**78,961**	**81,348**

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

Below is the age analysis of receivables that are past due but not impaired:

	31 December 2015	31 December 2014	1 January 2014
60-90 days	2,894	4,291	4,294
91-120 days	2,737	2,175	3,239
Total	**5,631**	**6,466**	**7,533**

Movement in the allowance for doubtful accounts is as follows:

	2015	2014
Balance at the beginning of the year	(9,510)	(9,256)
Allowance for doubtful accounts	(3,301)	(6,771)
Amounts written off during the year as uncollectible	4,137	6,187
Currency translation gains/(losses)	(1,323)	330
Balance at the end of the year	**(9,997)**	**(9,510)**

23. EQUITY

Share capital – As of 31 December 2015 and 2014 and 1 January 2014, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,484,639,435, 9,435,902,596 and 9,274,755,045 shares were outstanding, respectively.

Treasury shares – Movement of treasury shares during 2015 and 2014 years was as follows:

	2015	2014
Balance at the beginning of the year	214,097,404	375,244,955
Purchase of own shares	27,800,000	-
Settlements under long-term motivation program	(76,536,839)	(122,129,298)
Capital transactions of subsidiaries	-	(39,018,253)
Balance at the end of the year	**165,360,565**	**214,097,404**

Dividends – Dividends declared to the holders of the Company's ordinary shares are included in the financial statements in the period in which the dividends are approved for distribution by the shareholders.

On 27 June 2015, an annual general meeting of shareholders approved the total dividend payment of RUB 4,540 million for 2014 year (including dividends on treasury shares of RUB 119 million), representing RUB 0.47 per ordinary share or RUB 9.4 per GDR.

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

24. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income balance, net of taxes, as of 31 December 2015 and 2014 and 1 January 2014:

	31 December 2015	31 December 2014	1 January 2014
Accumulated currency translation loss	(9,237)	(1,214)	-
Unrealised gain on financial instruments	4,323	7,546	2,835
Unrecognised actuarial gain	(34)	(120)	(398)
Total accumulated other comprehensive (loss)/income	**(4,948)**	**6,212**	**2,437**
Less: amounts attributable to non-controlling interests	(2,131)	(5,794)	(562)
Total accumulated other comprehensive (loss)/income attributable to Sistema JSFC	**(7,079)**	**418**	**1,875**

Income tax effect on unrealised gain on financial instruments is RUB 645 million and RUB 534 million for 2015 and 2014, accordingly. Currency translation loss and unrecognised actuarial gain did not have income tax effect in 2015 and 2014.

25. BORROWINGS

The Group's borrowings primarily comprise bank loans and corporate bonds. The Group enters into variable-to-fixed interest rate swap agreements to manage exposure to changes in variable interest rates related to a portion of its obligations, as well as into cross-currency interest-rate swap agreements to mitigate the impact of both, interest rate and exchange rate fluctuations, for a certain portion of its USD- and Euro-denominated borrowings.

Borrowings are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

Finance costs in profit or loss consist of interest expense for financial liabilities not classified as at FVTPL. In 2015, finance costs did not include borrowing costs that were included in the cost of qualifying assets in amount of RUB 885 million (2014: RUB 790 million).

At 31 December 2015 and 2014 and 1 January 2014, the Group's borrowings comprised:

	31 December 2015	31 December 2014	1 January 2014
Bank loans	366,724	287,367	219,211
Corporate bonds	171,755	155,887	207,383
Finance lease obligations	16,085	13,468	2,635
Other	2,196	5,711	2,334
Total	**556,760**	**462,433**	**431,563**
Current	142,657	126,008	81,689
Non-current	414,103	336,425	349,874

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

Bank loans – As of 31 December 2015 and 2014 and 1 January 2014, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 31 December 2015)	31 December 2015	31 December 2014	1 January 2014
USD-denominated:					
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2016-2020	LIBOR 6m+1.15%	39,449	37,062	24,957
China Development Bank	2016-2021	LIBOR 6m+3.15%; 1.92%	21,026	9,859	5,965
Citibank	2016-2024	LIBOR 6m+0.9%	17,511	-	-
Bank of China	2016	1.91% - 3.83%	10,391	9,372	5,427
Bank of Moscow	2016-2018	LIBOR 3m+7.5%	4,032	4,644	2,702
Skandinavska Enskilda Banken AB	2016-2017	LIBOR 6m+0.225% - 1.8%	3,938	5,115	4,137
Other			275	1,650	24,195
			96,622	**67,702**	**67,383**
EUR-denominated:					
Credit Agricole Corporate Bank and BNP Paribas	2016-2018	EURIBOR 6m+1.65%	1,639	1,864	1,511
Bank of Moscow	2016-2017	EURIBOR 6m+6.2%	1,076	1,538	-
LBBW	2016-2017	EURIBOR 6m+1.52%	737	943	816
Other			729	686	2,808
			4,181	**5,031**	**5,135**
RUB-denominated:					
Sberbank	2016-2022	8.45%-17,75%	203,363	169,366	105,456
VTB	2016-2020	8.90%-19.70%; CBR+2.02%-3.15% (10.27%-11.40%)	19,795	4,864	2,539
Gazprombank	2016-2018	9.75% - 20.0%	11,187	14,243	19,637
Alfa Bank	2016-2018	13.2%-14.5%	4,970	1,527	3,027
Bank of Moscow	2016-2018	CBR+3.0% (11.25%); Mosprime 3m+3.75%-8.85% (15.54%-20.64%);	4,958	7,257	8,387
Other			16,279	15,237	7,520
			260,552	**212,494**	**146,566**
Other currencies			5,369	2,140	127
Total bank loans			**366,724**	**287,367**	**219,211**

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

Notes – As of 31 December 2015 and 2014 and 1 January 2014, the Group's notes consisted of the following:

	Currency	Interest rate as of 31 December 2015	31 December 2015	31 December 2014	1 January 2014
MTS International Notes due 2020	USD	8.625%	42,238	34,933	24,401
MTS International Notes due 2023	USD	5.00%	33,908	26,812	16,244
Sistema International Notes due 2019	USD	6.95%	32,027	26,159	15,967
Sistema JSFC Bonds due 2016	RUB	8.75%	13,896	8,211	10,794
Sistema JSFC Bonds due 2018	RUB	12.70%	10,000	-	-
Sistema JSFC Bonds due 2030	RUB	17.00%	8,206	-	-
Sistema JSFC Bonds due 2025	RUB	12.50%	5,000	-	-
MTS Notes due 2023	RUB	8.25%	9,971	9,958	9,945
MTS Notes due 2017	RUB	8.70%	9,637	9,655	9,979
MTS Notes due 2020	RUB	10.75%	2,110	14,990	14,978
MTS Notes due 2016	RUB	8.75%	1,788	1,788	1,788
MTS Notes due 2015	RUB	-	-	7,541	7,545
SSTL Bonds due 2019	INR	-	-	11,072	6,768
Other			2,974	4,768	88,974
Total notes			**171,755**	**155,887**	**207,383**

The Group has an unconditional obligation to repurchase certain notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. Such notes are disclosed maturing in the reporting period when the demand for repurchase could be submitted, irrespective of the Group's expectations about the intentions of the noteholders. The dates of the announcement for each particular note issue are as follows:

MTS Notes due 2020	November 2016
Sistema JSFC Bonds due 2030	August 2016
MTS Notes due 2023	March 2018
Sistema JSFC Bonds due 2025	October 2018

Covenants – Loans and notes payable by the Group are subject to various restrictive covenants, including, but not limited to compliance with certain financial ratios, limitations on dispositions of assets and transactions within the Group and retention of principal telecom licenses. The adverse court's ruling in respect of the Bashneft shares owned by the Group and its further deconsolidation in December 2014 (Note 7) gave certain lenders the right to call the debt under several loan agreements. Since the lenders waived their rights to demand early repayment in March 2015, the Group reclassified RUB 28,636 million from non-current to current liabilities as of 31 December 2014. As of 31 December 2015, 31 December 2014 and 1 January 2014, the Group also had RUB 10,222 million, RUB 7,791 million and RUB 10,140 million respectively of RUB-denominated long-term debt which was presented within current liabilities in the consolidated statements of financial position because of non-compliance with certain financial ratios by the Group's subsidiaries.

Assets pledged as security – As of 31 December 2015 and 2014 and 1 January 2014 land and buildings with a carrying amount of RUB 26,962 million, RUB 14,694 million and RUB 9,153 million, respectively have been pledged to secure borrowings of the Group. The freehold land and buildings have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. As of 31 December 2015 and 2014 and 1 January 2014 other assets including inventories and deposits with a carrying amount of RUB 2,635 million, RUB 898 million and nil, respectively have been pledged to secure borrowings of the Group.

In addition, the Group's obligations under finance leases as of 31 December 2015 and 2014 and 1 January 2014 are secured by the lessors' title to the leased assets, which have a carrying amount of RUB 9,037 million, RUB 8,737 million and RUB 2,501 million, respectively.

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

26. BANK DEPOSITS AND LIABILITIES

Liabilities of MTS Bank primarily consist of customer accounts and deposits, interbank loans, subordinated debt, financing from the Central Bank of the RF and other debt securities issued. These liabilities are initially measured at fair value, net of transaction costs. Liabilities are subsequently measured at amortised cost using the effective interest method. Liabilities are classified based on their contractual maturity.

Bank deposits and liabilities as of 31 December 2015 and 2014 and 1 January 2014 consisted of the following:

	31 December 2015	31 December 2014	1 January 2014
Customer accounts	109,719	109,702	94,542
Subordinated debt and bonds	7,600	3,621	985
Debt securities issued	2,587	2,080	6,075
Due to the Central Bank of the RF	2,203	11,983	14,628
Deposits by other banks	695	3,224	35,533
	122,804	**130,610**	**151,763**
Less: amounts maturing within one year	(115,529)	(115,067)	(126,479)
Total bank deposits and liabilities, net of the current portion	**7,275**	**15,543**	**25,284**

27. OTHER FINANCIAL LIABILITIES

Other financial liabilities as of 31 December 2015 and 2014 and 1 January 2014 consisted of the following:

	31 December 2015	31 December 2014	1 January 2014
SSTL payable for 800 MHz spectrum (Note 18)	25,693	22,658	12,277
Credit guarantee agreement related to foreign-currency hedge	6,853	-	-
Interest rate and cross-currency swaps not designated as hedging instruments	1,855	3,072	-
MTS liabilities related to hedging activities	676	522	389
Other	-	460	-
Current	6,853	2,028	-
Non-current	28,224	24,684	12,666
Total other financial liabilities	**35,077**	**26,712**	**12,666**

In December 2015, Barclays Bank and the MTS agreed to set mutual credit exposure limits to mitigate credit risk by requiring other party to transfer collateral payments. As of 31 December 2015, a collateral transferred by Barclays to the Group comprised RUB 6.9 billion.

28. LIABILITIES UNDER PUT OPTION AGREEMENTS

From time to time, to optimize the structure of business acquisitions and to defer payment of the purchase price or to attract a co-investor into the business, the Group enters into put option agreements to acquire the non-controlling interests in its subsidiaries.

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

If put options issued by the Group over the equity of subsidiaries may only be settled by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary, the potential cash payments are initially recognised as financial liabilities at the present value of the redemption amount, and are reclassified from equity. The Group recognises the cost of writing such put options, determined as the excess of the present value of the option over any consideration received, as finance costs. Liabilities are subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable; the charge arising is recorded as finance costs. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

If put options issued by the Group over the equity of subsidiary companies are settled by exchange of an amount of cash or another financial asset dependent on valuation of a fixed number of shares in the subsidiary, the potential cash payments are recognised as financial liabilities at fair value, and are reclassified from equity. Such liabilities are subsequently measured at fair value; the remeasurement is recorded in profit or loss. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

As of 31 December 2015 and 2014 and 1 January 2014, liabilities recorded by the Group in relation to such put options comprised:

Subsidiary	Underlying ownership interest	Earliest demand date	31 December 2015	31 December 2014	1 January 2014
SSTL	17.14%	March 2016	54,808	40,500	23,322
Mikron	7.63%	November 2016	7,050	6,130	5,326
MTS Armenia	20.00%	December 2016	2,925	3,192	2,932
Other			901	901	901
Total			**65,684**	**50,723**	**32,481**
Current			65,684	3,192	-
Non-current			-	47,531	32,481

SSTL – In March 2011, the Russian government, represented by the Federal Agency for State Property Management, acquired a 17.14% stake in SSTL for approximately US$ 600 million. The Agency obtained a put option to sell its stake in SSTL to Sistema during a one year period beginning five years after the purchase of shares in SSTL. Sistema has an obligation to purchase SSTL shares from the Russian government for the higher of USD 777 million or market value determined by an independent valuator. Since initial recognition, this liability is measured at amortised cost, using the effective interest rate method.

Mikron – In May 2013, the Group acquired an additional 12.3% ownership interest in SITRONICS-Nano, previously an associate, from RUSNANO for cash consideration of RUB 2 billion increasing its voting interest to 62.1%. Simultaneously, the Group and RUSNANO amended existing call and put option agreements. Under the amended agreements, the Group had a call option to acquire RUSNANO's shares in Sitronics-Nano for RUB 6.1 billion plus 7.63% p.a. at any time till November 1, 2017. RUSNANO had a put option to sell its remaining shares in SITRONICS-Nano for RUB 8.1 billion not earlier than October 31, 2016 and not later than November 1, 2017. In May 2014, following the additional share issue of Mikron (see Note 9) the Group and RUSNANO substituted their existing put and call option agreements on RUSNANO's share in SITRONICS-Nano for new put and call option agreements on its 25.1% share in Mikron. The terms of the option agreements remained unchanged. Since initial recognition, this liability is measured at amortised cost, using the effective interest rate method.

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

29. PROVISIONS

Provisions primarily consist of provisions related to employees' bonuses and other rewards, decommissioning and restoration obligations. The provision for employee benefits represents annual or mid-annual compensation and share-based compensation.

Provisions are recognised 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 obligation. Provisions are measured at the management's 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.

Provisions as of 31 December 2015 and 2014 and 1 January 2014 consisted of the following:

	31 December 2015	31 December 2014	1 January 2014
Employees' bonuses and other rewards	9,620	7,159	6,869
Provisions for decomissioning	1,459	1,640	9,712
Tax provisions other than for income tax	525	2,974	2,388
Other	2,737	2,422	7,229
Total	**14,341**	**14,195**	**26,198**
Current	10,151	9,854	11,677
Non-current	4,190	4,341	14,521

	Employees' bonuses and other rewards	Provisions for decomis-sioning	Tax provisions other than income tax	Other	Total
Balance at 1 January 2014	**(6,869)**	**(9,712)**	**(2,388)**	**(7,229)**	**(26,198)**
Additional provisions recognized	(9,571)	(955)	(745)	(171)	(11,442)
Acquisitions	-	-	-	(1,043)	(1,043)
Payments	7,822	555	-	12	8,389
Unwinding of discount and effect of changes in the discount rate	278	359	-	-	637
Unused amounts reversed	1,252	47	159	25	1,483
Disposed	-	8,037	-	5,984	14,021
Currency translation adjustment	(71)	29	-	-	(42)
Balance at 31 December 2014	**(7,159)**	**(1,640)**	**(2,974)**	**(2,422)**	**(14,195)**
Additional provisions recognized	(11,707)	(107)	(481)	(756)	(13,051)
Acquisitions	(456)	-	(15)	(186)	(657)
Payments	8,810	-	24	622	9,456
Unwinding of discount and effect of changes in the discount rate	87	256	-	(1)	342
Unused amounts reversed	846	25	2,951	6	3,828
Currency translation adjustment	(41)	7	(30)	-	(64)
Balance at 31 December 2015	**(9,620)**	**(1,459)**	**(525)**	**(2,737)**	**(14,341)**

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

30. EARNINGS PER SHARE

Earnings per share is the amount of profit for the year attributable to ordinary shares of the Company divided by the weighted average number of ordinary shares outstanding during the year.

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2015	2014
Profit/(loss) for the year from discontinued operations attributable to shareholders of Sistema JSFC	49,029	(122,058)
Loss for the year from continuing operations attributable to shareholders of Sistema	(15,437)	(34,179)
Earnings/(losses) used in the calculation of basic and diluted earnings per share	**33,592**	**(156,237)**
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	9,420,045,036	9,350,539,484
Earnings/(losses) per share – basic and diluted	**3.57**	**(16.71)**
From continuing operations	(1.64)	(3.66)
From discontinued operations	5.20	(13.05)

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share.

	2015	2014
Share options granted under the Company's employee share option plan	129,112,727	58,698,643

31. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management – The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net borrowings (borrowings offset by cash and cash equivalents) and equity of the Group.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group may sell assets to reduce debt, maintain or adjust the capital structure.

The Board of Directors monitors the net borrowings to OIBDA ratio. Since these are not IFRS measures, the Group's definition of OIBDA and net borrowings may differ from that of other companies. The Group's net borrowings to OIBDA ratio was as follows:

	2015	2014
Net borrowings	433,985	342,485
OIBDA	163,964	147,730
Net borrowings to OIBDA ratio	**2.65**	**2.32**

The Group is subject to certain externally imposed capital requirements and restrictions that are incorporated into the management of capital:

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

MTS Bank – The CBR requires that banks comply with the minimum capital adequacy ratio of 10% calculated on the basis of statutory standalone financial statements. MTS Bank met the requirements established by the CBR. As of 31 December 2015 and 2014 MTS Bank's capital adequacy ratio was 18.3% and 16.1%, respectively.

Limitations on cash distribution – There were certain limitations on cash distribution in Ukraine (Note 38), India and Uzbekistan as of 31 December 2015. Cash balances in Ukraine, India and Uzbekistan were as follows:

	2015	2014
Ukraine	6,612	15,164
India	3,064	1,359
Uzbekistan	623	346

Financial risk management objectives – The Board of Directors has overall responsibility for the establishment and ongoing management of the Group's risk management framework and the implementation and operation of the Board's policies are handled by the Management Board.

The Management Board monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), liquidity risk and credit risk.

Foreign currency risk – Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies and is primarily exposed to the U.S. Dollar and EUR.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Ruble, US Dollar and EUR and by conducting certain hedging activities (Note 32).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (excluding hedged items) at the year end are as follows.

	Liabilities			Assets		
	31 December 2015	31 December 2014	1 January 2014	31 December 2015	31 December 2014	1 January 2014
US Dollar	266,186	232,260	203,282	161,805	100,452	106,661
EUR	21,848	27,288	10,354	56,542	54,936	14,993

The table below details the Group's sensitivity to the strengthening of the U.S. Dollar and EUR against the Russian Ruble by 20%. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the year end denominated in the respective currencies.

	31 December 2015	31 December 2014	1 January 2014
Profit or loss before tax	6,048	13,420	13,405

The effect of a corresponding strengthening of the Russian Ruble against the US Dollar and EUR is equal and opposite.

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

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect finance costs. The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by conducting certain hedging activities (Note 32).

The table below details the Group's annualised sensitivity to a change of floating LIBOR rate by 1% which would impact its operations. The analysis was applied to borrowings (excluding hedged items) based on the assumption that amount of the liability outstanding at the date of statements of financial position was outstanding for the whole period.

	2015	**2014**
Profit or loss before tax	572	306

Fixed rate loan agreements often stipulate creditor's right to increase interest rates under certain circumstances, including increase of the key rate of the Central Bank of Russia. Therefore, in addition to the effect from changes in floating interest rates, the Group is also exposed to interest rate risk arising from these agreements.

Other price risks – Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. These changes may be caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The sensitivity analysis below has been determined based on the exposure to price risks at the end of the reporting period. Sensitivity analysis was prepared on pre-tax basis.

If prices of securities as of the year end had been 10% higher/lower:

	31 December 2015	**31 December 2014**	**1 January 2014**
Profit before tax increase/decrease	2,895	2,622	3,440
OCI increase/decrease	1,057	883	1,032

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed at the level of operating segments. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows, by matching the maturity profiles of financial assets and liabilities and by maintaining available credit facilities.

At 31 December 2015, the schedule of repayments of financial liabilities of the Group for the next five years and thereafter was as follows:

	<1 year	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**5+ years**
Borrowings	142,657	88,932	97,104	81,859	74,243	71,965
Liabilities under put option agreements	65,684	-	-	-	-	-
Accounts payable	137,055	-	-	-	-	-
Bank deposits and liabilities	115,529	1,263	1,035	282	246	4,449
Other financial liabilities	6,853	4,135	142	2,025	3,438	18,484
Total financial liabilities	**467,778**	**94,330**	**98,281**	**84,166**	**77,927**	**94,898**

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

At 31 December 2015, the schedule of repayments of financial liabilities of the Corporate segment for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Borrowings	25,960	14,422	29,402	36,235	3,953	6,835
Liabilities under put option agreements	61,858	-	-	-	-	-
Accounts payable	65,555	-	-	-	-	-
Total financial liabilities	**153,373**	**14,422**	**29,402**	**36,235**	**3,953**	**6,835**

For day to day liquidity requirements the management had unused credit facilities of RUB 122,421 million as of 31 December 2015, including RUB 37,577 million related to Corporate segment.

Credit risk – Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group is exposed to credit risks on cash and cash equivalents, deposits, derivatives and certain other financial instruments with financial institutions, loans and receivables carried at amortised cost and debt securities.

Financial assets with financial institutions – The Group maintains mixture of cash and cash equivalents, deposits, derivatives and certain other financial instruments with financial institutions. These financial institutions are located in different geographical regions and the Group's policy is designed to limit exposure to any one institution. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions.

Bank loans to customers and interbank loans due from banks – MTS Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the MTS Bank's risk management policy are not breached. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical segments.

Other loans and receivables carried at amortised cost – Concentrations of credit risk with respect to loans and trade receivables are limited given that the Group's customer base is large and unrelated. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

32. 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 either other current or other non-current financial assets or liabilities in the consolidated statements 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 affect 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.

Cross-currency interest rate swap agreements – The Group has entered into several cross-currency swap agreements. The contracts are designated to manage the exposure to changes in currency exchange rate. The contracts assumed periodic exchange of principal and interest payments from RUB-denominated amounts to USD- and Euro- denominated amounts at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2019-2020.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure to changes in currency exchange rate for 19% of the Group's bank loans denominated in USD and EUR outstanding as of 31 December 2015 (2014: 24%).

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

Variable-to-fixed interest rate swap agreements – The Group's bank loans denominated in USD and EUR primarily bear floating interest rate. To eliminate the exposure to changes in variable interest rates related to its debt obligations, the Group enters into variable-to-fixed interest rate swap agreements, so that interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective cash flow hedges. In aggregate, the Group entered into variable-to-fixed interest rate swap agreements designated to manage the exposure of changes in variable interest rates related to 26% of the Group's bank loans with variable rates outstanding as of 31 December 2015 (2014: 46%).

Fixed-to-variable interest rate swap agreements – The Group's notes and bank loans denominated in Russian Rubles bear primarily fixed interest rates. To eliminate the exposure to changes in fair value of debt obligations, the Group enters into fixed-to-variable interest rate swap agreements. In aggregate the Group entered into fixed-to-variable interest rate swap agreements designated to manage the exposure to changes in value of the debt related to 7% of the Group's notes and bank loans with fixed rates outstanding as of 31 December 2015 (2014: 8%).

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

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

33. FAIR VALUES

The following fair value hierarchy table presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 31 December 2015 and 2014 and 1 January 2014. Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. Level 1 classification comprises financial instruments where fair value is determined by unadjusted quoted prices in active markets for identical assets or liabilities that the Group can access at the measurement date; Level 2 – from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; Level 3 – from unobservable inputs.

	31 December 2015				31 December 2014				1 January 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets												
At fair value through profit or loss	28,954	-	-	28,954	26,223	-	-	26,223	34,397	-	-	34,397
Available-for-sale	10,571	-	1,643	12,214	8,831	-	193	9,024	10,324	8,289	242	18,855
Derivative instruments	-	25,027	-	25,027	-	21,944	-	21,944	52	1,837	-	1,889
	39,525	**25,027**	**1,643**	**66,195**	**35,054**	**21,944**	**193**	**57,191**	**44,773**	**10,126**	**242**	**55,141**
Financial liabilities												
Derivative instruments	-	(2,531)	-	(2,531)	(682)	(3,375)	-	(4,057)	-	(421)	-	(421)
Contingent considerations	-	-	(115)	(115)	-	-	(99)	(99)	-	-	(11)	(11)
Liabilities under put option agreements	-	-	(2,925)	(2,925)	-	-	(3,192)	(3,192)	-	-	(2,932)	(2,932)
	-	**(2,531)**	**(3,040)**	**(5,571)**	**(682)**	**(3,375)**	**(3,291)**	**(7,348)**	**-**	**(421)**	**(2,943)**	**(3,364)**

The fair value of financial assets and liabilities categorised into Level 3 is primarily measured using the discounted cash flows technique. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and jurisdiction in which the investee operates.

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

There were no changes made during the year to valuation methods or the processes to determine classification and no transfers were made between the levels in the fair value hierarchy. Carrying value of the Group's financial instruments accounted for at amortised cost approximates their fair value due to their short-term nature and market interest rates, except for bank loans to customers, borrowings and bank deposits and liabilities as disclosed in the table below:

	31 December 2015		31 December 2014		1 January 2014	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Bank loans to customers	78,846	78,508	115,419	114,024	142,262	142,262
Financial liabilities						
Borrowings	556,760	546,492	462,433	423,220	431,563	437,135
Bank deposits and liabilities	122,804	121,945	130,610	127,707	151,763	151,763

The table below presents information regarding reconciliation of Level 3 fair value measurements as of 31 December 2015 and 2014 and 1 January 2014.

	Liabilities under put option agreements	Other financial assets	Other financial liabilities	Total
Balance at 1 January 2014	**(2,932)**	**242**	**(11)**	**(2,701)**
Total gains/(losses):				
- in profit or loss	(260)	-		(260)
Disposals/settlements	-	(49)	(88)	(137)
Balance at 31 December 2014	**(3,192)**	**193**	(99)	**(3,098)**
Total gains/(losses):				
- in profit or loss	1,014	-	-	1,014
- in other comprehensive income	(747)	-	-	(747)
Purchases	-	1,450	-	1,450
Disposals/settlements	-	-	(16)	(16)
Balance at 31 December 2015	**(2,925)**	**1,643**	**(115)**	**(1,397)**

The profit or loss for the year included an unrealised gain of RUB 922 million relating to financial assets that are measured at fair value at the end of each reporting period (2014: a gain of RUB 2,615 million). Such fair value gains or losses are included in other income.

34. RELATED PARTY TRANSACTIONS

The Group has a number of related parties including its controlling shareholder and entities under common control, associates and joint ventures, and key management personnel.

Trading transactions – The Group's trading transactions with related parties that are not members of the Group comprise sales and purchases of goods and services in the normal course of business. During the year ended 31 December 2015, sales to related parties comprised RUB 1,770 million (2014: RUB 931 million), purchases from related parties comprised RUB 737 million (2014: 2,167 million). As of 31 December 2015, trade balances receivable from and payable to related parties comprised RUB 2,253 million and RUB 1,233 million, respectively (31 December 2014: RUB 822 million and RUB 416 million, 1 January 2014: RUB 1,477 million and RUB 17,161 million).

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

Financial transactions – The Group's financial transactions with related parties primarily comprise loans and other debt instruments issued to or by the Group entities. At 31 December 2015 and 2014 and 1 January 2014, amounts owed by or to related parties under such arrangements are as follows:

	Amounts owed by related parties			Amounts owed to related parties		
	31 December 2015	31 December 2014	1 January 2014	31 December 2015	31 December 2014	1 January 2014
Controlling shareholder and entities under common control	5,561	2,920	322	42,331	25,811	17,218
Key management personnel	-	-	-	2,988	4,850	21
Other related parties	1,244	1,196	1,178	1,572	-	-

Finance costs related to such transactions with related parties and recognized in the consolidated statement of profit or loss in 2015 amounted to RUB 3,048 million (2014: 1,859 million).

Compensation of key management personnel – In 2015 and 2014, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board, was as follows:

	2015	2014
Short-term benefits	3,364	2,757
Share-based payments	1,251	1,217
Total	**4,615**	**3,974**

35. SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the year are as follows:

Significant entities	Short name	Principal activity	Beneficial ownership as of 31 December 2015	2014
Sistema Joint Stock Financial Corporation	Sistema	Investing and financing		
Mobile TeleSystems	MTS	Telecommunications	53%	53%
Sistema Shyam TeleServices Limited	SSTL	Telecommunications	57%	57%
MTS Bank	MTS Bank	Banking	87%	87%
RTI	RTI	Technology	85%	85%
Detsky mir	Detsky mir	Retail trading	76%	99%
Medsi	Medsi	Healthcare services	100%	75%
Targin	Targin	Oilfield services	100%	100%
Bashkirian Power Grid Company	BPGC	Energy transmission	91%(1)	91%(1)
LesInvest (Note 8)	Segezha Group	Pulp and paper	100%	100%
Leader-Invest	Leader-Invest	Real estate	100%	100%
Agroholding Steppe	Steppe	Agriculture	100%	100%

(1) Voting interests as of 31 December 2015 and 2014 – 93%.

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

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Principal place of business	Profit / (loss) allocated to non-controlling interests 2015	2014	Accumulated non-controlling interests 31 December 2015	31 December 2014	31 December 2014
MTS	Russia	23,029	24,114	72,293	76,713	70,698
SSTL	India	(2,758)	(5,244)	(29,076)	(23,607)	(14,731)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2015 MTS	2015 SSTL	2014 MTS	2014 SSTL
Current assets	159,017	7,586	141,053	5,418
Non-current assets	494,361	26,389	458,251	22,427
Total assets	**653,378**	**33,975**	**599,304**	**27,845**
Current liabilities	157,910	34,395	139,380	42,098
Non-current liabilities	327,097	41,297	281,302	22,773
Total liabilities	**485,007**	**75,692**	**420,682**	**64,870**
Equity attributable to shareholders of Sistema	96,078	(12,641)	101,909	(13,418)
Non-controlling interests	72,293	(29,076)	76,713	(23,607)
Revenue	431,232	13,965	410,780	8,480
Expenses	(383,828)	(24,445)	(359,284)	(28,421)
Profit/ (loss) for the year	**47,404**	**(10,480)**	**51,496**	**(19,941)**
Profit/(loss) attributable to shareholders of Sistema	24,375	(7,722)	27,382	(14,697)
Profit/(loss) attributable to the non-controlling interests	23,029	(2,758)	24,114	(5,244)
Other comprehensive income/(loss) attributable to shareholders of Sistema	2,536	(7,588)	9,036	(9,879)
Other comprehensive (loss)/income attributable to the non-controlling interests	(4,208)	(2,710)	4,854	(3,631)
Other comprehensive (loss)/income for the year	**(1,672)**	**(10,298)**	**13,890**	**(13,510)**
Total comprehensive income/(loss) attributable to shareholders of Sistema	26,911	(15,309)	36,418	(24,575)
Total comprehensive income/(loss) attributable to the non-controlling interests	18,821	(5,469)	28,968	(8,876)
Total comprehensive income/(loss) for the year	**45,732**	**(20,778)**	**65,386**	**(33,451)**
Dividends paid to non-controlling interests	23,241	-	22,953	-
Net cash inflow (outflow) from operating activities	144,088	(2,395)	158,979	(14,272)
Net cash outflow from investing activities	(145,356)	(53)	(105,008)	(1,802)
Net cash (outflow)/inflow from financing activities	(27,595)	4,154	(33,212)	16,515
Net cash (outflow)/inflow	**(28,863)**	**1,706**	**20,759**	**441**

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

As disclosed in Note 28, the Group wrote the put option over its 17.14% share in SSTL. As a result, 74% of SSTL loss is allocated to owners of the Company. The Company also purchased redeemable preference shares of SSTL. These factors resulted in the difference between accumulated non-controlling interests of SSTL and SSTL net assets multiplied by beneficial ownership.

36. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flows:

	2015	2014
Financial instruments received under the Settlement Agreement with Ural-Invest as at 31 December 2015 (Note 7)	37,964	-
Equipment and licenses acquired under capital leases	513	11,471
Amounts owed for capital expenditures	28,538	22,571
Payables related to business acquisitions	1,296	99
Payables related to purchases of non-controlling interests in subsidiaries	3,057	-

37. REENTRY INTO UZBEKISTAN

Following unsuccessful tenders on sale of Uzdunrobita equipment, the representatives of the Republic of Uzbekistan and MTS commenced negotiations in relation to the return of MTS to the market. In July 2014, MTS signed a settlement agreement with the Republic of Uzbekistan eliminating all mutual claims (the “Settlement Agreement”). International arbitration proceedings between MTS and the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes, Member of the World Bank Group (ICSID), were discontinued following the submission of a joint application by the both parties.

The government authorities provided certain guarantees to MTS in relation to the protection of any future investment in the Republic of Uzbekistan to encourage the return of MTS to the market. Also, the Republic of Uzbekistan established a legal entity, Universal Mobile Systems LLC (“UMS”), with such entity having no legal connection to the previously liquidated entity, Uzdunrobita. UMS was granted 2G, 3G and LTE licenses and received frequencies, numbering capacity and other permits required for the launch of operations.

In September 2014, a 50.01% ownership interest in UMS was transferred to the Group by a state-owned enterprise established and managed by the State committee for communications, development of information systems and telecommunications technologies of the Republic of Uzbekistan, which retained the remaining 49.99% in UMS. The Group concluded that, upon receiving the 50.01% ownership interest, the Group obtained control over UMS and consolidated the entity. The Group estimated the fair value of the entity’s assets and liabilities, as well as the non-controlling interests in UMS as of the date of the transfer, and recognized a gain from reentry into Uzbekistan pursuant to the Settlement Agreement in the amount of RUB 6,734 million. Management concluded that this consideration related to, in its entirety, a financial incentive to encourage reentry into the Republic of Uzbekistan and as such, recognition in continuing operations was appropriate. No element was allocated to the non-satisfaction and elimination of mutual claims as this was deemed to have minimal value. The allocation of consideration received between elements where the settlement of litigation is involved is highly judgmental. In this case, management considered, among other things the terms of the settlement arrangement as well as the development of the negotiations process itself, in which members of MTS management were involved.

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

The following table summarizes the amounts of the assets and liabilities recognized at the date of obtaining control, as well as the fair value of the non-controlling interests at that date:

Recognised amounts of identifiable assets acquired and liabilities assumed:	
Current assets	26
Property, plant and equipment	3,848
Other intangible assets	5,161
Other non-current assets	1,327
Liabilities	(55)
Non-controlling interests	(3,573)
Gain from reentry into Uzbekistan	**6,734**

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

38. CONTINGENCIES AND COMMITMENTS

In addition to contingencies described in Note 6, the Group has the following contingencies and commitments.

Capital commitments – A capital commitment is a contractual obligation to make payment in the future, mainly in relation to buy assets such as network infrastructure. These amounts are not recorded in the consolidated statement of financial position since the Group has not yet received goods or services from suppliers. At 31 December 2015, the Group had capital commitments of RUB 31,594 million (31 December 2014: RUB 47,257 million; 1 January 2014: RUB 42,858 million) relating to the acquisitions of property, plant and equipment.

Operating lease commitments – The Group enters into various agreements to lease space for telecommunications equipment, transmission channels, mobile towers, retail outlets and offices. The leases have various terms and renewal rights, none of which is individually significant to the Group. Future minimum lease payments under non-cancellable operating leases comprise:

Payments due in the year ended 31 December	
2016	16,085
2017	11,271
2018	11,421
2019	11,450
2020	11,405
Thereafter	16,033
Total	**77,665**

Commitments on loans and unused credit facilities – As of 31 December 2015, MTS Bank had RUB 5,064 million of commitments on loans and unused credit facilities available to its customers (31 December 2014: RUB 7,139 million; 1 January 2014: RUB 7,514 million).

Guarantees – At 31 December 2015, MTS Bank guaranteed loans for several companies which totalled RUB 5,423 million (31 December 2014: RUB 12,189 million; 1 January 2014: RUB 13,191 million), including related parties of RUB 589 million (31 December 2014: RUB 364 million; 1 January 2014: RUB 60 million). These guarantees would require payment by the Group in the event of default on payment by the respective debtor. Such guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with IAS 37, and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Telecommunication 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 31 December 2015, MTS-Ukraine has paid UAH 358 million (RUB 865 million as of the payment date) for conversion of frequencies and is liable to pay UAH 267 million (RUB 705 million as of 31 December 2015) adjusted for the rate of inflation in Ukraine in the years 2017-2018.

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

Restriction on transactions with the shares of BPGC – In 2014, in the course of a litigation, which the Group is not a party to, the court imposed restrictions on transactions with the shares of BPGC owned by the Group. The restrictions do not limit the Group's voting rights, rights to receive dividends or any other shareholders rights.

Taxation – Russia and other CIS countries currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or non-existent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia and the CIS countries that are more significant than those typically found in countries with more developed tax systems. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. As of 31 December 2015, provisions for additional taxes and customs settlements comprised RUB 832 million (31 December 2014: RUB 833 million, 1 January 2014: RUB 722 million). However, the relevant authorities may have different interpretations, and the effects on the financial statements could be significant.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group's foreign subsidiaries, if recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016.

Potential adverse effects of economic instability and sanctions in Russia Political and economic sanctions were introduced by the EU, US and other countries targeting certain Russian economic sectors. There is significant uncertainty regarding the extent and timing of further sanctions. Also, Russian Ruble has materially depreciated against the U.S. Dollar and Euro and ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% in December 2014. The decline of the Russian Ruble continued in 2015. The Central Bank of Russia has decreased its key rate to 11% as of 31 December 2015. However, the key rate remains higher than in the beginning of the year 2014, when it was equal to 5.5%.

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. MTS has a hedging policy in place, which partly mitigated variability of MTS cash outflows, denominated in foreign currencies.

Political and economic crisis in Ukraine – The armed conflict in eastern Ukraine has further exacerbated the country's already weak macroeconomic trends, which have led to reduced credit ratings, significant depreciation of its national currency and increased inflation. During 2014, the Ukrainian Parliament adopted a law allowing for the imposition of sanctions against countries, persons and companies deemed by the Ukrainian government to threaten Ukrainian national interests, national security, sovereignty or the territorial integrity of Ukraine. The National Bank of Ukraine ("NBU") passed a decree prohibiting Ukrainian companies to pay dividends to foreign investors. The decree was extended for a few times and currently acts till June 2016. These circumstances, combined with continued political and economic instability in the country, could result in further negative impact on the Group's business in Ukraine.

Such risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of 31 December 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. In 2 March 2015, the NBU adopted a resolution declaring Delta Bank to be insolvent. The Group treated this declaration as an adjusting subsequent event and recognized loss in the full amount of deposited funds (RUB 5,072 million) and related interest (RUB 66 million) as of 31 December 2014. During 2015, the Group recognised additional impairment of RUB 1,697 million for cash balances deposited in distressed Ukrainian banks. Also, in 2015 the Group entered in a factoring agreement in respect to cash balances deposited in bank Kyivska Rus, under which the factor is obliged to reimburse the Group for 45% of cash balance. As of 31 December 2015, the Group did not account for asset under this agreement, as no transfer of funds was made. As of 31 December 2015, the Group held RUB 6,612 million in current accounts and deposits in Ukrainian banks.

Legal proceedings – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Group operates. At 31 December 2015, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 1.6 billion.

39. FIRST-TIME ADOPTION OF IFRS

As stated in Note 2, these are the Group's first consolidated financial statements prepared in accordance with IFRS. In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in consolidated financial statements prepared in accordance with US GAAP (its previous GAAP). 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 out further in this note.

Exemptions applied

As a first-time adopter of IFRS, the Group applied IFRS 1. The standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS effective at the reporting date. 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 which occurred before the date of transition to IFRS. As a result, assets recognised and liabilities assumed in past business combinations under US GAAP have remained unchanged at the date of transition.

Cumulative translation differences – The Group has deemed the cumulative translation differences for foreign operations at the date of transition to be zero. Adjustments to give effect to this are recorded against opening equity. After the date of transition, translation differences arising on translation of foreign operations are recognised in other comprehensive income and included in a separate translation reserve within equity in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

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 capitalised under US GAAP prior to the date of transition have not been adjusted.

Provision for decommissioning and restoration – The Group has elected to use the IFRS 1 exemption relating to the 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 1 January 2014.

Estimates

Estimates made under US GAAP at the date of the opening balance sheet that are in line with IFRS are used in the IFRS opening balance sheet. Any new information relating to estimates that was received after the date of transition to IFRS is treated as a non-adjusting event after the reporting date and is not recognized in the opening balance sheet.

Changes in the presentation

The Group changed the presentation of certain items in the consolidated statements of financial position, profit or loss and comprehensive income as compared to the presentation used under US GAAP. Certain line items are described differently, although the assets and liabilities included in these line items are not affected. These changes had no impact on reported profit or equity. The most significant changes in the presentation are:

- assets from banking activities and related liabilities are presented together with other items of similar nature instead of being presented within a separate category;
- deposits in banks are presented as separate items instead of being part of short-term and long-term investments;
- short-term investments are presented as part of other financial assets instead of being a separate item;
- advances paid and prepaid expenses, current income tax assets are presented as a separate item instead of being part of other current assets;
- investment property is shown as a separate line item instead of being part of property, plant and equipment;
- derivative instruments and long-term trade receivables are presented in other financial assets instead of being part of other non-current assets;
- long-term investments are included in other financial assets instead of being separate line item;
- financial liabilities that were included in accounts payable, accrued expenses and other current liabilities line items are combined in accounts payable line item;

- advances received are presented as a separate line item instead of being a part of accrued expenses and other current liabilities line item;
- short-term loans payable and current portion of long-term debt were combined in borrowings line item;
- income tax payable is presented as a separate line item instead of being a part of taxes payable;
- provisions are presented as a separate line item instead of being a part of accrued expenses and other current liabilities line item;
- other long-term liabilities are split in other financial liabilities and other liabilities;
- subscriber prepayments, net of current portion, and property, plant and equipment contributions are included in other liabilities instead of being a separate line item;
- classification between cost of sales, selling, general and administrative expenses and other income and expense was revised.

Change of the presentation currency

Upon transition to IFRS, the Group changed its presentation currency from the US Dollar to the Russian Ruble following the requirements of the Russian legislation. The Group believes that this change will also provide better transparency with respect to reporting the Group's financial and operating performance as it more closely reflects the profile of the Group's revenues and operating income, a major portion of which is generated in Russian Rubles. Equity and comprehensive income previously reported under US GAAP in US Dollars have been translated into Russian Rubles in the reconciliations disclosed herein.

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

Reconciliations of equity and comprehensive income

Equity as of the date of transition to IFRS and 31 December 2014 can be reconciled to the amounts reported under the previous GAAP as follows:

		1 January 2014			31 December 2014		
	Note	US GAAP	Effect of transition	IFRS	US GAAP	Effect of transition	IFRS
ASSETS							
NON-CURRENT ASSETS:							
Property, plant and equipment	A,I,J,K,L	644,766	4,449	649,215	394,347	6,301	400,648
Investment property	L	8,041	-	8,041	10,229	-	10,229
Goodwill		43,457	-	43,457	45,992	-	45,992
Other intangible assets		72,853	(336)	72,517	96,843	1,107	97,950
Investments in associates and joint ventures		30,987	(62)	30,925	20,029	190	20,219
Deferred tax assets	B	11,290	1,765	13,055	22,102	1,597	23,699
Debt issuance costs, net	C	2,855	(2,855)	-	2,379	(2,379)	-
Loans receivable and other financial assets	L	88,750	14,179	102,929	81,091	31,665	112,756
Deposits in banks		3,000	-	3,000	14,042	-	14,042
Other assets	L	32,784	(19,654)	13,130	44,336	(34,221)	10,115
Total non-current assets		**938,783**	**(2,514)**	**936,269**	**731,390**	**4,260**	**735,650**
CURRENT ASSETS:							
Inventories	D	60,488	541	61,029	70,014	(22,432)	47,582
Accounts receivable	L	71,152	10,196	81,348	65,435	13,526	78,961
Advances paid and prepaid expenses	L	39,609	-	39,609	22,335	-	22,335
Current income tax assets	L	7,370	-	7,370	8,723	-	8,723
Other taxes receivable		23,571	(75)	23,496	19,918	-	19,918
Deferred tax assets	B	12,772	(12,772)	-	13,815	(13,815)	-
Loans receivable and other financial assets	L	125,652	2,054	127,706	91,488	638	92,126
Deposits in banks		21,148	-	21,148	10,668	-	10,668
Other assets	L	10,496	(9,293)	1,203	9,136	(8,125)	1,011
Cash and cash equivalents	L	104,464	-	104,464	119,967	-	119,967
Total current assets		**476,722**	**(9,349)**	**467,373**	**431,499**	**(30,208)**	**401,291**
TOTAL ASSETS		**1,415,505**	**(11,863)**	**1,403,642**	**1,162,889**	**(25,948)**	**1,136,941**

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

	Note	1 January 2014 US GAAP	1 January 2014 Effect of transition	1 January 2014 IFRS	31 December 2014 US GAAP	31 December 2014 Effect of transition	31 December 2014 IFRS
EQUITY AND LIABILITIES							
EQUITY:							
Share capital		984	(115)	869	1,691	(822)	869
Treasury shares		(13,966)	1,848	(12,118)	(13,859)	6,946	(6,913)
Additional paid-in capital		85,639	(12,662)	72,977	146,548	(74,346)	72,202
Retained earnings	E	294,349	(29,355)	264,994	236,883	(147,439)	89,444
Accumulated other comprehensive income/(loss)	F	(29,676)	31,551	1,875	(210,598)	211,016	418
Equity attributable to the shareholders of Sistema JSFC		337,330	(8,733)	328,597	160,665	(4,645)	156,020
Non-controlling interests		137,103	1,254	138,357	73,232	4,455	77,687
Total equity		**474,433**	**(7,479)**	**466,954**	**233,897**	**(190)**	**233,707**
Redeemable non-controlling interests		26,351	(26,351)	-	44,600	(44,600)	-
NON-CURRENT LIABILITIES:							
Borrowings	C,G	352,306	(2,432)	349,874	367,595	(31,170)	336,425
Liabilities under put option agreements	H	-	32,481	32,481	-	47,531	47,531
Bank deposits and liabilities		25,284	-	25,284	9,445	6,098	15,543
Deferred tax liabilities	B	64,034	(3,008)	61,026	44,311	(6,181)	38,130
Provisions	I,L	9,030	5,491	14,521	5,572	(1,231)	4,341
Other financial liabilities	L	-	12,666	12,666	-	24,684	24,684
Other liabilities	L	25,245	(13,832)	11,413	32,413	(23,547)	8,866
Total non-current liabilities		**475,899**	**31,366**	**507,265**	**459,336**	**16,184**	**475,520**
CURRENT LIABILITIES:							
Borrowings	C,G	82,180	(491)	81,689	97,254	28,754	126,008
Liabilities under put option agreements	H	-	-	-	-	3,192	3,192
Accounts payable	D,L	139,603	(3,691)	135,912	132,863	(17,705)	115,158
Bank deposits and liabilities		126,479	-	126,479	122,669	(7,602)	115,067
Advances received	L	26,264	-	26,264	23,294	-	23,294
Subscriber prepayments		20,301	(49)	20,252	21,982	(1,558)	20,424
Income tax payable		233	-	233	1,025	-	1,025
Other taxes payable	L	24,094	2,328	26,422	12,384	(795)	11,589
Deferred tax liabilities	B	7,496	(7,496)	-	3,656	(3,656)	-
Dividends payable		495	-	495	75	-	75
Provisions	L	11,677	-	11,677	9,854	-	9,854
Other financial liabilities		-	-	-	-	2,028	2,028
Total current liabilities		**438,822**	**(9,399)**	**429,423**	**425,056**	**2,658**	**427,714**
TOTAL EQUITY AND LIABILITIES		**1,415,505**	**(11,863)**	**1,403,642**	**1,162,889**	**(25,948)**	**1,136,941**

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

Comprehensive income for 2014 can be reconciled to the amounts reported under previous GAAP as follows:

		2014		
	Note	**US GAAP**	**Effect of transition**	**IFRS**
Revenue	D	631,865	14,404	646,269
Cost of sales	D,L	(316,055)	(10,865)	(326,920)
Selling, general and administrative expenses	L	(130,350)	(8,641)	(138,991)
Depreciation and amortisation	I	(86,818)	(583)	(87,401)
Impairment of long-lived assets	A	(13,602)	(3,183)	(16,785)
Impairment of financial assets		(18,991)	-	(18,991)
Taxes other than income tax		(7,414)	8	(7,406)
Share of the profit or loss of associates and joint ventures		1,388	704	2,092
Gain on reentry into Uzbekistan		6,734	-	6,734
Gain on acquisition of Segezha Group		2,488	-	2,488
Other income and expense	L	(5,881)	5,121	(760)
Operating income		**63,364**	**(3,035)**	**60,329**
Finance income		8,047	-	8,047
Finance costs	H	(30,908)	(2,122)	(33,030)
Currency exchange loss	H	(20,540)	(16,595)	(37,135)
Profit/(loss) before tax		**19,963**	**(21,752)**	**(1,789)**
Income tax expense		(17,065)	(249)	(17,314)
Profit/(loss) from continuing operations		**2,898**	**(22,001)**	**(19,103)**
Loss from discontinued operations	F	(205,710)	96,495	(109,215)
Loss for the year		**(202,812)**	**74,494**	**(128,318)**
Non-controlling interests		(27,039)	(880)	(27,919)
Net loss attributable to Sistema JSFC		(229,851)	73,614	(156,237)
Other comprehensive (loss)/income for the period, net of tax	F	(148,516)	152,291	3,775
Total comprehensive (loss)/income for the year, net of tax		**(351,328)**	**226,785**	**(124,543)**

Notes to the reconciliations of equity and total comprehensive income:

A – Impairment of long-lived assets

Under US GAAP, entities use a two-step approach to measure impairment of their long-lived assets, including property, plant and equipment. In step 1, entities perform a recoverability test by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount. If the asset fails the recoverability test, step 2 is required, and the entity must record an impairment loss calculated as the excess of the asset's carrying amount over its fair value. IFRS requires a one-step approach to measure impairment loss, calculated as the excess of the asset's carrying amount over its recoverable amount. Accordingly, an impairment loss may be recorded under IFRS but may not be recorded under US GAAP under the same set of circumstances. Upon transition to IFRS, for certain Group's assets, the differences in the approach to measure impairment in US GAAP and IFRS resulted in different carrying value of property, plant and equipment.

B – Deferred taxes

In its financial statements prepared in accordance with US GAAP, the Group presented deferred tax assets and liabilities as current and non-current on the basis of the classification of the underlying asset or liability generating the temporary difference. IFRS requires that all deferred tax assets and liabilities are classified as non-current in a statement of financial position. 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 its financial statements prepared in accordance with US GAAP, the Group presented deferrals of debt issuance costs as assets. IFRS requires that such deferrals are presented as reductions of the debt balance in a statement of financial position.

D – Long-term contracts

Under US GAAP, the Group applied a completed-contract method for certain long-term contracts when the lack of dependable estimates or inherent hazards caused forecasts to be doubtful. Under the completed-contract method, income is recognized only when a contract is completed or substantially completed. Accordingly, during the period of performance, billings and costs were accumulated on the balance sheet, but no profit or income was recorded before completion or substantial completion of the work under such contracts. IFRS requires that, when outcome of the contract cannot be estimated reliably, revenue is recognized to the extent that costs have been incurred, provided that the costs incurred are recoverable. Therefore, upon transition to IFRS, the Group's revenue increased as the Group recognized revenue under certain long-term contracts which has been previously accounted for using a completed-contract method and the Group's inventories balance as of 31 December 2014 decreased, as certain contract costs are no longer deferred.

E – Impact on retained earnings

A number of adjustments resulted in an impact on the retained earnings, most significant of which are A, F and H.

F – Currency translation differences

As explained above, upon transition to IFRS, the Group applied an exemption allowed by IFRS 1 and deemed the cumulative translation differences for foreign operations at the date of transition to be zero. Adjustments to give effect to this are recorded against opening retained earnings.

G – Non-compliance with covenants

At the end of 2014, the adverse court's ruling in respect of the Bashneft shares owned by the Group and their further disposition gave certain lenders the right to call the debt under several loan agreements. Since the lenders waived their rights to demand early repayment prior to the issuance date of the 2014 financial statements, the Group retained non-current classification for this long-term debt, as allowed by US GAAP. Since IFRS specifies that a loan must be classified as current even if a waiver was granted subsequent to the reporting date, the Group reclassified such debt from non-current to current liabilities.

H – Liabilities under put options agreements

In its financial statements prepared in accordance with US GAAP, the Group classified certain equity instruments (primarily non-controlling interests) with redemption features outside of permanent equity (i.e., in a mezzanine account between liabilities and shareholders' equity). Under IFRS, a non-controlling interest that may be put back to the Group (i.e., that includes a put option) creates a contractual obligation for the Group to deliver cash and therefore is accounted for as a liability measured at the present value of the redemption amount or at fair value. Subsequently, the Group accretes the liability to the redemption amount by recognizing finance expense through the consolidated statement of profit or loss. Put options over non-controlling interests, which are denominated in currencies other than functional currency result in foreign currency exchange loss being recognised in the consolidated statement of profit and loss.

I – Provision for decommissioning and restoration

Under US GAAP, the Group measured provision for decommissioning and restoration based on the estimated cost of decommissioning discounted to its net present value upon recognition. Adjustments to the discount rate were not reflected in the provisions unless there was an upward revision in the future cost estimates. Upon transition to IFRS, the Group applied an exemption under IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, and revalued the provision for decommissioning and restoration as of 1 January 2014 using the current discount rate at the date. The provision for decommissioning and restoration is subsequently remeasured using the current discount rate as of the end of each reporting period.

J – Impairment of long-lived assets in Turkmenistan

Under US GAAP, reversal of impairments of long-lived assets is prohibited, while under IFRS, if certain criteria are met, the reversal of impairments, other than those of goodwill, is permitted. Due to suspension of its operation in Turkmenistan in 2010, MTS recognized impairment losses for goodwill and other long-lived assets attributable to Turkmenistan. In July 2012, as a result of negotiations with the Government of Turkmenistan, MTS resumed its operations in Turkmenistan. A portion of previously recognized impairment of assets, other than goodwill, was reversed at the date of transition to IFRS.

K – Measurement of assets and liabilities of certain subsidiaries

As the Group becomes a first-time adopter later than its certain subsidiaries, upon transition, their assets and liabilities were measured at the same carrying amount as in their financial statements, after adjusting for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiaries.

L – Changes in the presentation

As described above, the Group changed the presentation of certain items in the consolidated statements of financial position, profit or loss and comprehensive income as compared to the presentation used under US GAAP.

Adjustments to the statement of cash flows – In its financial statements prepared in accordance with US GAAP, the Group classified interest received as cash flows from operating activities. Upon transition to IFRS, the Group elected to classify interest received as cash flows from investing activities. Also, the Group previously classified changes in assets and liabilities of banking activities within cash flows from investing and financing activities, respectively. Upon transition to IFRS, the Group included these items in movements in operating assets and liabilities within cash flows from operating activities.

40. NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early adopted any of the new or revised IFRSs that have been issued but are not yet effective in 2015. Significant new standards or amendments include:

IFRS 9, *Financial Instruments* – The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements. IFRS 9 governs the classification and measurement of financial assets and liabilities, derecognition, impairment and hedge accounting matters. Particularly, in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. The Group anticipates that the adoption of IFRS 9 may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of its effect until a detailed review has been completed.

IFRS 15, *Revenue from Contracts with Customers* – This standard, effective for annual periods beginning on or after 1 January 2018 (earlier application permitted), provides a single, principle-based five-step model for determination and recognition of revenue to be applied to all contracts with customers. It supersedes the existing standards IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and related interpretations. The Group is currently evaluating the impact of this new standard and the transition alternatives.

IFRS 16, *Leases* – The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, with certain exemptions, and to present the rights and obligations associated with these leases in the statement of financial position. Therefore, upon adoption of this standard, lessees will no longer be required to make a distinction between finance and operating lease. For all leases, a lessee will recognise a lease liability in its statement of financial position for an obligation to make future lease payments. At the same time, a lessee will capitalise a right of use to the underlying asset. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 (earlier application is permitted, if IFRS 15 has also been applied). The Group is currently evaluating the impact of these amendments on the consolidated financial statements.

The Group does not expect that future adoption of other new or revised IFRSs that have been issued but are not yet effective will have a material impact on the Group's consolidated financial statements.

41. EVENTS AFTER THE REPORTING DATE

For the purpose of the accompanying consolidated financial statements, subsequent events have been evaluated through 7 April 2016.

Additional share issue of MTS Bank **–** In February 2016, MTS Bank completed a private placement of additional shares, which were purchased by the Group.

Acquisition of Lesosibirsk LDK – In February 2016, Segezha Group acquired 59% stake in OJSC Lesosibirsk LDK, a vertically integrated wood processing enterprise, based in Krasnoyarsk region of Russia, for USD 40 million. As of the date of these consolidated financial statements, the Group does not have sufficiently reliable information to disclose the financial effect of this business combination.

Disposal of the remaining stake in Ufaorgsintez **–** In March 2016, the Group entered into agreements with Bashneft to sell its remaining non-controlling stake in Ufaorgsintez to Bashneft for RUB 3.5 billion and to acquire financial assets from Bashneft for RUB 5.7 billion.