SISTEMA JSFC
AND SUBSIDIARIES

Condensed Interim Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2015

SISTEMA JSFC AND SUBSIDIARIES

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REPORT ON REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Sistema Joint Stock Financial Corporation and subsidiaries as of 30 June 2015 and the related condensed interim consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Deloitte & Touche

Moscow, Russian Federation
27 August 2015

SISTEMA JSFC AND SUBSIDIARIES

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

	Note	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
Revenue		331,704	291,147
Cost of sales		(169,595)	(134,039)
Selling, general and administrative expenses		(68,444)	(64,751)
Depreciation and amortisation		(46,637)	(41,973)
Impairment losses		(3,959)	(6,836)
Taxes other than income tax		(3,766)	(3,334)
Share of the profit or loss of associates and joint ventures		1,758	436
Other (expense)/income		(548)	3,864
Operating income		**40,513**	**44,514**
Finance income		7,993	3,619
Finance costs		(24,065)	(15,164)
Foreign currency exchange (loss)/gain		(223)	94
Profit before tax		**24,218**	**33,063**
Income tax expense		(9,938)	(11,507)
Profit from continuing operations		**14,280**	**21,556**
Profit from discontinued operations	5	43,816	29,790
Profit for the period		**58,096**	**51,346**
Attributable to:			
Shareholders of Sistema JSFC		47,623	29,043
Non-controlling interests		10,473	22,303
Earnings per share (basic and diluted), Russian Rubles:			
From continuing operations		0.40	1.31
From continuing and discontinued operations		5.05	3.12

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

SISTEMA JSFC AND SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In millions of Russian Rubles)

	Six months ended 30 June	
	2015 (unaudited)	**2014 (unaudited)**
Profit for the period	58,096	51,346
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss:		
Exchange losses on translating foreign operations	(12,998)	(10,754)
Net fair value (loss)/gain on revaluation of financial instruments available-for-sale	(2,919)	164
Other comprehensive loss, net of tax	(15,917)	(10,590)
Total comprehensive income	**42,179**	**40,756**
Attributable to:		
Shareholders of Sistema JSFC	38,743	22,397
Non-controlling interests	3,436	18,359

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

SISTEMA JSFC AND SUBSIDIARIES

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

	Note	30 June 2015 (unaudited)	31 December 2014	1 January 2014
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment		389,960	396,431	652,019
Investment property		12,351	10,229	5,237
Goodwill		45,784	45,992	43,457
Other intangible assets		101,696	97,792	72,517
Investments in associates and joint ventures		20,110	20,219	30,925
Deferred tax assets		23,863	26,058	13,055
Other financial assets	6	158,779	126,798	105,929
Other assets		14,222	10,115	13,130
Total non-current assets		**766,765**	**733,634**	**936,269**
CURRENT ASSETS:				
Inventories		56,847	47,582	61,029
Trade and other accounts receivable		68,058	78,961	81,348
Advances paid and prepaid expenses		19,944	22,335	39,609
Current income tax assets		4,489	8,723	7,370
Other taxes receivable		22,893	19,918	23,496
Other financial assets	6	128,177	102,794	148,854
Other assets		1,395	1,011	1,203
Cash and cash equivalents		106,452	119,967	104,464
		408,255	401,291	467,373
Assets classified as held for sale		659	-	-
Total current assets		**408,914**	**401,291**	**467,373**
TOTAL ASSETS		**1,175,679**	**1,134,925**	**1,403,642**

SISTEMA JSFC AND SUBSIDIARIES

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

	Note	30 June 2015 (unaudited)	31 December 2014	1 January 2014
EQUITY AND LIABILITIES				
EQUITY:				
Share capital		869	869	869
Treasury shares		(7,370)	(6,913)	(12,118)
Additional paid-in capital		69,925	72,202	72,977
Retained earnings		132,912	89,719	267,645
Accumulated other comprehensive (loss)/ income		(8,156)	724	1,875
Equity attributable to shareholders of Sistema		188,180	156,601	331,248
Non-controlling interests		64,344	76,380	137,006
Total equity		**252,524**	**232,981**	**468,254**
NON-CURRENT LIABILITIES:				
Borrowings	8	382,947	336,425	349,874
Put options over non-controlling interests	9	7,338	47,531	32,481
Bank deposits and liabilities		31,131	9,445	25,284
Deferred tax liabilities		39,139	38,291	61,026
Provisions		4,408	4,191	14,521
Other financial liabilities		19,765	23,180	12,277
Other liabilities		8,060	7,565	10,502
Total non-current liabilities		**492,788**	**466,628**	**505,965**
CURRENT LIABILITIES:				
Borrowings	8	97,936	126,008	81,689
Put options over non-controlling interests	9	44,165	3,192	-
Trade and other accounts payable		107,655	117,186	139,912
Bank deposits and liabilities		81,720	122,669	126,479
Advances received		33,284	23,294	26,264
Subscriber prepayments		17,304	20,424	20,252
Income tax payable		468	1,025	233
Other taxes payable		16,024	11,589	26,422
Dividends payable	7	23,328	75	495
Provisions		8,483	9,854	7,677
Total current liabilities		**430,367**	**435,316**	**429,423**
TOTAL EQUITY AND LIABILITIES		**1,175,679**	**1,134,925**	**1,403,642**

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

Mikhail Shamolin
President and CEO

27 August 2015

SISTEMA JSFC AND SUBSIDIARIES

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

					Accumulated other comprehensive (loss)/income				
	Share capital	**Additional paid-in capital**	**Treasury shares**	**Retained earnings**	**Currency reserve**	**Other**	**Equity attributable to shareholders of Sistema**	**Non-controlling interests**	**Total equity**
1 January 2014	**869**	**72,977**	**(12,118)**	**267,645**	**-**	**1,875**	**331,248**	**137,006**	**468,254**
Profit fot the period	-	-	-	29,043	-	-	29,043	22,303	51,346
Other comprehensive loss, net of tax	-	-	-	-	(6,122)	(524)	(6,646)	(3,944)	(10,590)
Total comprehensive income for the period	**-**	**-**	**-**	**29,043**	**(6,122)**	**(524)**	**22,397**	**18,359**	**40,756**
Settlements under long-term motivation program	-	(1,830)	1,830	-	-	-	-	-	-
Accrued compensation cost	-	1,481	-	-	-	-	1,481	-	1,481
Transactions with non-controlling interests in subsidiaries	-	802	1,260	-	-	-	2,062	(18,474)	(16,412)
Dividends declared by Sistema JSFC	-		-	(19,308)	-	-	(19,308)	-	(19,308)
Dividends declared by subsidiaries	-		-	-	-	-	-	(24,931)	(24,931)
30 June 2014	**869**	**73,430**	**(9,028)**	**277,380**	**(6,122)**	**1,351**	**337,880**	**111,960**	**449,840**
1 January 2015	**869**	**72,202**	**(6,913)**	**89,719**	**(1,558)**	**2,282**	**156,601**	**76,380**	**232,981**
Profit fot the period	-	-	-	47,623	-	-	47,623	10,473	58,096
Other comprehensive loss, net of tax	-	-	-		(7,544)	(1,336)	(8,880)	(7,037)	(15,917)
Total comprehensive income for the period	**-**	**-**	**-**	**47,623**	**(7,544)**	**(1,336)**	**38,743**	**3,436**	**42,179**
Accrued compensation cost	-	568	-	-	-	-	568	-	568
Purchase of own stock	-	-	(457)	-	-	-	(457)	-	(457)
Transactions with non-controlling interests in subsidiaries	-	(2,845)	-	-	-	-	(2,845)	2,487	(358)
Dividends declared by Sistema JSFC	-	-	-	(4,430)	-	-	(4,430)	-	(4,430)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(17,959)	(17,959)
30 June 2015	**869**	**69,925**	**(7,370)**	**132,912**	**(9,102)**	**946**	**188,180**	**64,344**	**252,524**

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

SISTEMA JSFC AND SUBSIDIARIES

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

	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	58,096	51,346
Profit from discontinued operations	(43,816)	(29,790)
	14,280	21,556
Adjustments for:		
Depreciation and amortization	46,637	41,973
Share of the profit or loss of associates and joint ventures	(1,758)	(436)
Finance income	(7,993)	(3,619)
Finance costs	24,065	15,164
Income tax expense	9,938	11,507
Foreign currency exchange loss/(gain)	223	(94)
Loss on disposal of property, plant and equipment	338	-
Net loss/(gain) from fair value adjustment of financial instruments through profit or loss	18	(1,611)
Gain on disposal of subsidiaries	(202)	(4,777)
Amortization of connection fees	(569)	(575)
Allowance for loan losses	6,863	5,209
Dividends received from affiliates	1,471	1,404
Non-cash compensation to employees	568	1,481
Impairment losses (less impairment of cash in MTS of RUB 1,697 mln in 2015)	2,262	6,836
Other non-cash items	(376)	145
	95,765	94,163
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	18,573	25,649
Bank deposits and liabilities	(19,264)	(45,953)
Financial assets at fair value through profit or loss	3,032	5,061
Trade and other accounts receivable	9,133	(255)
Advances paid and prepaid expenses	2,017	19,364
Other taxes receivable	(2,975)	(20,198)
Inventories	(9,669)	(57)
Trade and other accounts payable	(428)	(22,847)
Subscriber prepayments	(2,552)	(2,665)
Other taxes payable	4,445	849
Advances received and other liabilities	8,790	35,943
Interest paid	(19,177)	(13,082)
Income tax paid	(7,003)	(7,092)
Net cash provided by operating activities of continuing operations	80,687	68,880
Net cash provided by operating activities of discontinued operations	-	47,122
Net cash provided by operating activities	**80,687**	**116,002**

SISTEMA JSFC AND SUBSIDIARIES

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

	Six months ended 30 June	
	2015 (unaudited)	**2014 (unaudited)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(53,148)	(31,168)
Proceeds from sale of property, plant and equipment	1,479	316
Payments for purchases of intangible assets	(21,041)	(6,636)
Purchase of investments in associates and joint ventures	(1,323)	(6,138)
Purchase of financial assets, long-term	(46,363)	(16,292)
Proceeds from sale of financial assets, long-term	1,405	3,000
Purchase of financial assets, short-term	(25,026)	(39,735)
Proceeds from sale of financial assets, short-term	11,859	31,316
Interest received	7,868	3,697
Proceeds from sale of subsidiaries, net of cash disposed	8	3,865
Increase in restricted cash	280	-
Net cash used in investing activities of continuing operations	(124,002)	(57,775)
Net cash provided by/(used in) investing activities of discontinued operations	10,821	(54,058)
Net cash used in investing activities	**(113,181)**	**(111,833)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	74,703	46,536
Principal payments on borrowings	(49,262)	(31,784)
Debt issuance costs	(1,137)	-
Payments to purchase treasury stock	(457)	-
Acquisition of non-controlling interests in existing subsidiaries	-	(1,799)
Dividends paid	-	(56)
Proceeds from capital transactions with shares of existing subsidiaries	-	1,457
Net cash used in financing activities of continuing operations	23,847	14,354
Net cash used in financing activities of discontinued operations	-	48,728
Net cash received from financing activities	**23,847**	**63,082**
Effect of foreign currency translation on cash and cash equivalents	(4,868)	(4,272)
Net (decrease)/increase in cash and cash equivalents	**(13,515)**	**62,979**
Cash and cash equivalents at the beginning of the period, including discontinued operations	119,967	104,464
Cash and cash equivalents at the end of the period, including discontinued operations	106,452	167,443
Less: cash and cash equivalents of discontinued operations at the end of the period	-	(50,832)
Cash and cash equivalents at the end of the period	**106,452**	**116,611**

The accompanying notes are an integral part of these unaudited condensed interim 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 tech, finance, retail, pulp and paper, utilities, pharmaceuticals, healthcare, railway transportation, agriculture, mass media and tourism. The Company and the majority of its consolidated subsidiaries are incorporated in the Russian Federation (“RF”).

The controlling shareholder of the Company is Vladimir P. Evtushenkov. Minority holdings are held by certain top executives and directors of the Company. The rest of 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

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

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

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 13, 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 unaudited condensed interim consolidated financial statements were approved by the Company’s President and CEO and authorised for issue on 27 August 2015.

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.

Significant accounting policies

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 (“the functional currency”). The functional currency of the Company and the majority of its subsidiaries operating in Russia is the Russian Ruble (“RUB”). The presentational currency of the consolidated financial statements of the Group is also the Russian Ruble.

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 into 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.

***Changes in the Group's ownership interests in existing subsidiaries*.** Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests 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 and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value for subsequent accounting under IAS 39, *Financial Instruments: Recognition and Measurement*.

Business combinations. Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except deferred tax assets or liabilities are recognised and measured in accordance with IAS 12, *Income Taxes*.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 or IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Revenue recognition. 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.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

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, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Critical accounting judgements and estimates

In the application of the Group's accounting policies management is required to make judgements, 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.

Revenue recognition. 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.

Allowance for impairment of loans and receivables. The Group regularly reviews its accounts receivable, loans to customers, due from banks and other loans 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 allowance for 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 would require the Group to record provisions which 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.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political 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 allowances 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 reviews. 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 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 and valuation processes. Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Information about such assets and liabilities measured at fair value on recurring basis is disclosed in Note 10.

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.

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
Network and base station equipment	3-31 years
Power and utilities	3-47 years
Other plant, machinery and equipment	3-15 years

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

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

Billing and telecommunication software	1-20 years
Operating licenses	3-20 years
Acquired customer base	1-8 years
Acquired radio frequencies	2-15 years
Software and other	1-10 years

Trademarks and numbering capacity with indefinite contractual life are not amortized, but are reviewed, at least annually, for impairment.

4. SEGMENT INFORMATION

As a diversified holding company, the Company invests in a range of companies which meet its investment and return criteria. The chief operating decision maker is the Company's Management Board. Information reported to the Company's Management Board for the purpose of resource allocation and the assessment of segment performance is focused on each individual investment holding. 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. 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 comprise other operating segments none of which meets the quantitative thresholds for determining reportable segments.

The accounting policies of the operating segments are the same as those described in the significant accounting policies. The Group's evaluates performance on the basis of operating income.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment for the six months ended 30 June:

	External revenues		**Inter-segment revenue**		**Segment operating income**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
MTS	202,225	195,635	647	790	41,728	49,731
RTI	35,263	22,233	3,421	4,185	803	4,327
MTS Bank	13,627	13,908	293	111	(3,531)	(1,342)
SSTL	6,651	3,762	-	-	(2,068)	(2,382)
Corporate	960	787	439	604	(2,742)	(5,211)
Other	72,978	54,822	2,215	591	5,616	322
	331,704	291,147	7,015	6,281	39,806	45,445
Inter-segment eliminations					707	(931)
Operating income					**40,513**	**44,514**
Finance income					7,993	3,619
Finance costs					(24,065)	(15,164)
Foreign currency exchange (loss)/gain					(223)	94
Profit before tax					**24,218**	**33,063**

Although operations of certain Group's subsidiaries and their financial results, historically, have been subject to certain seasonal trends between the first and second half of the financial year, the Group's consolidated financial results have not, historically, been subject to significant seasonal trends.

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

5. DECONSOLIDATION OF BASHNEFT AND SETTLEMENTS WITH URAL-INVEST

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 the discontinued operations in the consolidated statement of profit and loss for six months ended 30 June 2014 are as follows:

Revenue	324,227
Expenses	(286,414)
Profit before tax	37,813
Income tax expense	(8,023)
Profit, net of tax	29,790

As of 1 January and 30 June 2014, assets and liabilities pertaining to Bashneft and included in the consolidated statements of financial position were as follows:

	1 January 2014	30 June 2014
Property, plant and equipment	288,285	347,240
Other	29,447	10,533
Intragroup balances	(3,806)	(4,056)
Non-current assets	**313,926**	**353,717**
Cash and cash equivalents	20,470	50,832
Trade and other accounts receivable	28,501	32,859
Inventories	23,462	27,721
Other	75,979	53,714
Intragroup balances	(50,391)	(20,958)
Current assets	**98,021**	**144,168**
Borrowings	(79,194)	(141,624)
Other	(47,367)	(65,676)
Intragroup balances	984	882
Non-current liabilities	**(125,577)**	**(206,418)**
Trade and other accounts payable	(44,228)	(38,874)
Borrowings	(12,017)	(24,145)
Other	(32,460)	(58,993)
Intragroup balances	4,954	33,465
Current liabilities	**(83,751)**	**(88,547)**

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 46.7 billion net of impairment allowance and a corresponding gain of RUB 43.8 billion net of tax effect presented within discontinued operations in the consolidated statement of profit and loss for six months ended 30 June 2015.

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

6. OTHER FINANCIAL ASSETS

The Group's financial assets, other than cash and cash equivalents and trade and other accounts receivables shown separately on the face of the statement of financial position, primarily comprise assets of MTS Bank, the Group's subsidiary engaged in banking activities, and investments at the corporate level.

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 recognized 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 other category.	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.

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 on receivables.

At 30 June 2015, financial assets, other than those shown separately on the face of the statement of financial position, comprise:

	30 June 2015	31 December 2014	1 January 2014
Financial assets at FVTPL			
Derivative financial instruments	17,349	21,944	1,889
Debt and equity securities	24,325	26,223	34,397
	41,674	**48,167**	**36,286**
Loans and receivables carried at amortised cost			
Deposits	110,353	24,710	24,148
Bank loans to customers	93,009	115,419	142,262
Interbank loans due from banks	5,569	6,587	4,614
Other loans and receivables	25,330	25,685	28,618
	234,261	**172,401**	**199,642**

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

	30 June 2015	31 December 2014	1 January 2014
AFS financial assets			
Debt and equity securities	11,021	9,024	18,855
	11,021	**9,024**	**18,855**
	286,956	**229,592**	**254,783**
Current	128,177	102,794	148,854
Non-current	158,779	126,798	105,929
	286,956	**229,592**	**254,783**

At 30 June 2015, financial assets attributable to the Group's banking activities (MTS Bank and its subsidiaries) comprise:

	30 June 2015	31 December 2014	1 January 2014
Cash and cash equivalents	21,876	47,466	37,061
Bank loans to customers	127,102	146,142	158,507
Interbank loans due from banks	6,345	7,422	5,277
Financial assets at FVTPL	18,366	20,735	18,051
AFS financial assets	6,540	4,931	5,052
Other	2,170	4,836	4,160
Less: allowance for loan losses	(34,869)	(31,558)	(16,907)
	147,530	**199,974**	**211,201**

The movement in the allowance for loan losses during six minths ended June 30, 2015 and 2014 was as follows:

	Loans to banks	Bank loans to customers	Total
1 January 2014	663	16,244	16,907
Additions charged to the operating results	107	4,743	4,850
Amounts written off against the allowance	(220)	(1,093)	(1,313)
Currency translation adjustment	11	8	19
30 June 2014	**561**	**19,902**	**20,463**
31 December 2014	834	30,724	31,558
Additions charged to the operating results	1	6,862	6,863
Amounts written off against the allowance	-	(3,438)	(3,438)
Currency translation adjustment	(59)	(55)	(114)
30 June 2015	**776**	**34,093**	**34,869**

7. 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 by the shareholders.

On 27 June 2015, an annual general meeting of shareholders approved the total dividend payment of RUB 4,540 million (including dividends on treasury shares of RUB 110 million), representing a payment of RUB 0.47 per ordinary share or RUB 9.4 per GDR.

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

8. BORROWINGS

The Group's borrowings primarily comprise bank loans and issuances in the capital markets. The Group regularly enters into variable-to-fixed interest rate swap agreements to manage exposure to changes in variable interest rates related to a potion 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.

At 30 June 2015, the Group's borrowings comprise:

	30 June 2015	31 December 2014	1 January 2014
Bank loans	305,250	287,367	219,211
Corporate bonds	159,702	155,887	207,383
Finance lease obligations	12,689	13,468	2,635
Other	3,242	5,711	2,334
	480,883	**462,433**	**431,563**
Current	97,936	126,008	81,689
Non-current	382,947	336,425	349,874
	480,883	**462,433**	**431,563**

At 30 June 2015, the schedule of repayments of borrowings for the next five years and thereafter is as follows:

Within one year	97,936
In one to two years	83,160
In two to three years	83,272
In three to four years	80,716
In four to five year	74,170
In more than five years	61,629
	480,883

Bank loans – As at 30 June 2015, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 30 June 2015)	30 June 2015	31 December 2014	1 January 2014
USD-denominated:					
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2015-2020	LIBOR + 1.15% (1.59%)	33,250	37,062	24,957
Citibank	2015-2024	LIBOR + 0.9% (1.34%)	13,828	-	-
China Development Bank	2015-2018	LIBOR + 1.5% (1.94%)	8,703	9,859	5,965
Bank of China	2015-2021	LIBOR + 1.5%-3.5% (1.94%-3.94%)	8,030	9,372	5,427
Bank of Moscow	2015-2018	LIBOR 3m + 7.5% (7.78%)	4,584	4,644	2,702
Skandinavska Enskilda Banken AB	2015-2017	LIBOR + 0.23%-1.8% (0.67%-2.24%)	4,021	5,115	4,137
Other			536	1,650	24,195
			72,952	**67,702**	**67,383**

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

	Maturity	Interest rate (actual at 30 June 2015)	30 June 2015	31 December 2014	1 January 2014
EUR-denominated:					
Credit Agricole Corporate Bank and BNP Paribas	2015-2018	EURIBOR + 1.65% (1.7%)	1,469	1,864	1,511
Bank of Moscow	2015-2017	EURIBOR + 6.2% (6.25%)	1,107	1,538	-
LBBW	2015-2017	EURIBOR +1.52% (1.57%)	708	943	816
Other			617	686	2,808
			3,901	**5,031**	**5,135**
RUB-denominated:					
Sberbank	2015-2021	8.45%-13.22%	190,315	169,366	105,456
Gazprombank	2015-2021	9.0%-21.00%	10,575	14,243	19,637
VTB	2015-2019	9.0%-22.75%	7,710	4,864	2,539
Bank of Moscow	2015-2018	CBR+3.75% (12.00%); Mosprime+4.5%-8.85% (17.05%-21.40%)	5,689	7,257	8,387
Other			11,842	16,764	10,547
			226,131	**212,494**	**146,566**
Other currencies			2,266	2,140	127
Total bank loans			**305,250**	**287,367**	**219,211**

Notes – As at 30 June 2015, the Group's notes consisted of the following:

	Currency	Interest rate	30 June 2015	31 December 2014	1 January 2014
MTS International Notes due 2020	USD	8.625%	34,209	34,933	24,401
MTS International Notes due 2023	USD	5.00%	26,261	26,812	16,244
Sistema International Notes due 2019	USD	6.95%	24,013	26,159	15,967
MTS PJSC Notes due 2020	RUB	8.15%	14,996	14,990	14,978
SSTL Bonds due 2019	INR	15.75%	10,923	11,072	6,768
Sistema JSFC Bonds due 2016	RUB	8.75%	10,843	8,211	10,794
MTS PJSC Notes due 2023	RUB	8.25%	9,965	9,958	9,945
MTS PJSC Notes due 2017	RUB	8.70%	9,640	9,655	9,979
Sistema JSFC Bonds due 2030	RUB	17.00%	8,091	-	-
MTS PJSC Notes due 2015	RUB	7.75%	7,538	7,541	7,545
MTS PJSC Notes due 2016	RUB	8.75%	1,788	1,788	1,788
Sistema JSFC Bonds due 2016	RUB	7.65%	1,259	3,672	13,320
Other			176	1,096	75,654
Total notes			**159,702**	**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 repurchased could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The dates of the announcement for each particular note issue are as follows:

MTS PJSC Notes due 2018	December 2015
MTS PJSC Notes due 2020	November 2015
Sistema JSFC Bonds due 2030	November 2016
MTS PJSC Notes due 2023	March 2018

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

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 deconcolidation in December (Note 5) 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 noncurrent to current liabilities as at 31 December 2014. As of 1 January 2014, 31 December 2014 and 30 June 2015, the Group also had RUB 10,140 million, RUB 7,791 million and RUB 10,115 million respectively of its RUB-denominated long-term debt which was presented within current liabilities in the consolidated statement of financial position because of non-compliance with certain financial ratios by its subsidiaries.

9. PUT OPTIONS OVER NON-CONTROLLING INTERESTS

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.

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. Such options 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 options are subsequently measured at fair value; the remeasurement is recorded as finance costs or income. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

At 30 June 2015, liabilities recorded by the Group in relation to such put options comprised:

Subsidiary	Underlying interest	Earliest demand date	30 June 2015	31 December 2014	1 January 2014
SSTL	17.14%	March 2016	40,866	40,500	22,511
K-Telecom, a subsidiary of MTS in Armenia	20.00%	December 2015	3,069	3,192	2,932
Other			7,568	7,031	7,038
Total			**51,503**	**50,723**	**32,481**

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

10. 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 30 June 2015. 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.

	30 June 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												
Securities at fair value through profit or loss	24,325	-	-	24,325	26,223	-	-	26,223	34,397	-	-	34,397
Available-for-sale securities	10,872	-	149	11,021	8,831	-	193	9,024	10,324	8,289	242	18,855
Derivative instruments	-	17,349	-	17,349	-	21,944	-	21,944	52	1,837	-	1,889
	35,197	**17,349**	**149**	**52,695**	**35,054**	**21,944**	**193**	**57,191**	**44,773**	**10,126**	**242**	**55,141**
Financial liabilities												
Derivative instruments	-	(520)	-	(520)	(682)	(3,375)	-	(4,057)	-	(421)	-	(421)
Contingent considerations	-	-	(104)	(104)	-	-	(99)	(99)	-	-	(11)	(11)
Put options over non-controlling interests	-	-	(3,069)	(3,069)	-	-	(3,192)	(3,192)	-	-	(2,932)	(2,932)
Other	(754)	(840)	-	(1,594)	-	-	-	-	-	-	-	-
	(754)	**(1,360)**	**(3,173)**	**(5,287)**	**(682)**	**(3,375)**	**(3,291)**	**(7,348)**	**-**	**(421)**	**(2,943)**	**(3,364)**

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. 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 geographical jurisdiction in which the investee operates.

There were no changes made during the period to valuation methods or the processes to determine classification and no transfers were made between the levels in the fair value hierarchy.

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

The fair values and carrying values of the Group's categories of financial assets and liabilities held at amortised cost are set out in the table below, except for trade and other receivables and payables and cash and cash equivalents due to their short-term nature.

	30 June 2015		31 December 2014		1 January 2014	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Deposits	110,353	110,353	24,170	24,170	24,148	24,148
Bank loans to customers	93,009	92,756	115,419	114,024	142,262	142,262
Interbank loans due from banks	5,569	5,569	6,587	6,587	4,614	4,614
Other loans and receivables	25,330	25,330	25,685	25,685	28,618	28,618
Financial liabilities						
Borrowings	480,883	467,558	462,433	423,220	431,563	437,135
Put options over non-controlling interests	48,434	48,434	47,531	47,531	29,549	29,549
Bank deposits	111,257	108,966	130,610	127,707	151,763	151,763
Other financial liabilities	19,765	19,765	23,180	23,180	12,277	12,277

11. 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 six months ended 30 June 2015, sales to related parties comprised RUB 495 million (2014: RUB 661 million), purchases from related parties comprised RUB 185 million (2014: 1,772 million). As at 30 June 2015, trade balances receivable from and payable to related parties comprised RUB 552 million and RUB 425 million, respectively (31 December 2014: RUB 308 million and RUB 233 million).

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 30 June 2015, amounts owed by or to related parties under such arrangements are as follows:

	Amounts owed by related parties		Amounts owed to related parties	
	30 June 2015	31 December 2014	30 June 2015	31 December 2014
Controlling shareholder and entities under common control	3,163	2,920	25,892	25,811
Key management personnel	-	-	11,540	4,850
Other related parties	2,658	1,196	-	-

Finance costs related to such transactions with related parties and recognized in profit and loss during six months ended 30 June 2015 amounted to RUB 1,519 million (2014: 1,859 million).

Compensation of key management personnel – During six months ended 30 June, 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	570	513
Share-based payments	336	695
Total	**906**	**1,208**

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

12. 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 30 June 2015, the Group had capital commitments of RUB 40,086 million (31 December 2014: RUB 47,257 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 six months ended 31 December 2015	8,468
2016	13,718
2017	12,778
2018	13,191
2019	13,579
Thereafter	19,813
Total	**81,547**

Commitments on loans and unused credit facilities – As of 30 June 2015, MTS Bank had RUB 4,887 million of commitments on loans and unused credit facilities available to its customers (31 December 2014: RUB 7,139 million).

Guarantees – At 30 June 2015, MTS Bank guaranteed loans for several companies which totaled RUB 6,964 million (31 December 2014: RUB 12,189 million), including related parties of RUB 483 million (31 December 2014: RUB 364 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, MTS is obliged to fully deploy LTE networks within seven years, commencing from 1 January 2013, and deliver LTE services in each population center with over 50,000 inhabitants in Russia by 2019. Also MTS is obligated to invest at least RUB 15 billion annually toward the LTE roll-out until the network is fully deployed.

In March 2015, upon winning a tender, MTS-Ukraine has acquired a nationwide license for the provision of UMTS (3G) telecommunications services. The license with the cost of UAH 2,715 million (RUB 6,015 million at the acquisition date) has been granted for 15 years. In accordance with the terms of the license, MTS-Ukraine is required to launch 3G services in Ukraine by October 2015, and provide coverage across Ukraine by April 2020. As required by 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 30 June 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) adjusted for the rate of inflation in the years 2017-2018.

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 and the United States Department of Justice ("DOJ") relating to a currently conducted investigation of the company's former subsidiary in Uzbekistan. In July 2015, activities related to the company'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 MTS 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's assets are affected by the Complaint. MTS continues to cooperate with these investigations in good faith. 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.

Restriction on transactions with the shares of Bashkirian Power Grid Company ("BPGC") and Ufaorgsintez – 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 and Ufaorgsintez, owned by the Group. The restrictions do not limit the Group's voting rights, rights to receive dividends or any other shareholders rights.

Taxation – Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding 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 at 30 June 2015, provisions for additional taxes and customs settlements comprised RUB 3,488 million (31 December 2014: RUB 3,341 million). However, the relevant authorities may have differing 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, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is now formulating its tax planning strategy with regard to the foreign subsidiaries.

Operating environment – Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. Neither the Company nor any of its subsidiaries are subject to the current sanctions, and the Group does not appear on the U.S. or E.U. lists of sanctioned parties. However, there is significant uncertainty regarding the extent or timing of any particular further economic or trade sanctions. Any continuing economic and political instability could have a negative impact on the Group's operating results. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

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 30 June 2015, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 1,144 million.

13. FIRST-TIME ADOPTION OF IFRS

As stated in Note 2, these are the Group's first condensed interim 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 nonadjusting 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 and 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;
- 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 liabilites line items are combined in trade and other 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 liabilites are split in other financial liabilities and other liabilities;
- subsciber 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 are translated into Russian Rubles in the reconciliations disclosed further.

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

Reconciliations of equity and comprehensive income

Equity as of the date of transition to IFRS, 30 June and 31 December 2014 can be reconciled to the amounts reported under previous GAAP as follows:

		1 January 2014			30 June 2014			31 December 2014		
	Note	US GAAP	Effect of transition	IFRS	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	647,570	4,449	652,019	702,167	2,815	704,982	394,347	2,084	396,431
Investment property	L	5,237	-	5,237	10,753	-	10,753	10,229	-	10,229
Goodwill		43,457	-	43,457	43,464	(41)	43,423	45,993	(1)	45,992
Other intangible assets		72,853	(336)	72,517	72,156	-	72,156	96,843	949	97,792
Investments in associates and joint ventures		30,987	(62)	30,925	18,525	-	18,525	20,029	190	20,219
Deferred tax assets	B	11,290	1,765	13,055	12,471	391	12,862	22,102	3,956	26,058
Debt issuance costs, net	C	2,855	(2,855)	-	2,893	(2,893)	-	2,378	(2,378)	-
Other financial assets	L	91,750	14,179	105,929	113,283	8,623	121,906	95,133	31,665	126,798
Other assets	L	32,784	(19,654)	13,130	28,604	(12,349)	16,255	44,336	(34,221)	10,115
Total non-current assets		**938,783**	**(2,514)**	**936,269**	**1,004,316**	**(3,454)**	**1,000,862**	**731,390**	**2,244**	**733,634**
CURRENT ASSETS:										
Inventories	D	60,488	541	61,029	64,803	-	64,803	70,014	(22,432)	47,582
Trade and other accounts receivable	L	71,152	10,196	81,348	75,467	13,097	88,564	65,435	13,526	78,961
Advances paid and prepaid expenses	L	39,609	-	39,609	20,695	-	20,695	22,335	-	22,335
Current income tax assets	L	7,370	-	7,370	5,452	-	5,452	8,723	-	8,723
Other taxes receivable		23,571	(75)	23,496	46,474	-	46,474	19,918	-	19,918
Deferred tax asets	B	12,772	(12,772)	-	12,536	(12,536)	-	13,815	(13,815)	-
Other financial assets	L	146,800	2,054	148,854	108,016	109	108,125	102,156	638	102,794
Other assets	L	10,496	(9,293)	1,203	14,526	(12,881)	1,645	9,136	(8,125)	1,011
Cash and cash equivalents	L	104,464	-	104,464	167,443	-	167,443	119,967	-	119,967
Total current assets		**476,722**	**(9,349)**	**467,373**	**515,412**	**(12,211)**	**503,201**	**431,499**	**(30,208)**	**401,291**
TOTAL ASSETS		**1,415,505**	**(11,863)**	**1,403,642**	**1,519,728**	**(15,665)**	**1,504,063**	**1,162,889**	**(27,964)**	**1,134,925**

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

		1 January 2014			30 June 2014			31 December 2014		
	Note	US GAAP	Effect of transition	IFRS	US GAAP	Effect of transition	IFRS	US GAAP	Effect of transition	IFRS
EQUITY AND LIABILITIES										
EQUITY:										
Share capital		984	(115)	869	1,011	(142)	869	1,691	(822)	869
Additional paid-in capital		85,639	(12,662)	72,977	89,494	(16,064)	73,430	146,548	(74,346)	72,202
Treasury shares		(13,966)	1,848	(12,118)	(10,494)	1,466	(9,028)	(13,859)	6,946	(6,913)
Retained earnings	E	294,349	(26,704)	267,645	311,414	(34,034)	277,380	236,883	(147,164)	89,719
Accumulated other comprehensive income	F	(29,676)	31,551	1,875	(46,192)	41,421	(4,771)	(210,598)	211,322	724
Equity attributable to the shareholders of Sistema JSFC		337,330	(6,082)	331,248	345,233	(7,353)	337,880	160,665	(4,064)	156,601
Non-controlling interests		137,103	(97)	137,006	111,827	133	111,960	73,232	3,148	76,380
Total equity		**474,433**	**(6,179)**	**468,254**	**457,060**	**(7,220)**	**449,840**	**233,897**	**(916)**	**232,981**
Redeemable noncontrolling interests		26,351	(26,351)	-	26,756	(26,756)	-	44,600	(44,600)	-
NON-CURRENT LIABILITIES:										
Borrowings	C,G	352,306	(2,432)	349,874	436,100	(2,213)	433,887	367,595	(31,170)	336,425
Put options over non-controlling interests	H	-	32,481	32,481	-	32,848	32,848	-	47,531	47,531
Bank deposits		25,284	-	25,284	13,318	-	13,318	9,444	1	9,445
Deferred tax liabilities	B	64,034	(3,008)	61,026	72,662	(3,322)	69,340	44,311	(6,020)	38,291
Provisions	I,L	9,030	5,491	14,521	9,457	(3,516)	5,941	5,573	(1,382)	4,191
Other financial liabilities	L	-	12,277	12,277	-	13,972	13,972	-	23,180	23,180
Other liabilities	L	25,245	(14,743)	10,502	39,933	(8,559)	31,374	32,413	(24,848)	7,565
Total non-current liabilities		**475,899**	**30,066**	**505,965**	**571,470**	**29,210**	**600,680**	**459,336**	**7,292**	**466,628**
CURRENT LIABILITIES:										
Borrowings	C,G	82,180	(491)	81,689	96,197	(494)	95,703	97,254	28,754	126,008
Put options over non-controlling interest	H	-	-	-	-	-	-	-	3,192	3,192
Trade and other accounts payable	D,L	143,603	(3,691)	139,912	119,012	(2,036)	116,976	132,863	(15,677)	117,186
Bank deposits		126,479	-	126,479	92,492	-	92,492	122,671	(2)	122,669
Advances received	L	26,264	-	26,264	44,483	-	44,483	23,294	-	23,294
Subscriber prepayments		20,301	(49)	20,252	16,705	307	17,012	21,982	(1,558)	20,424
Income tax payable		233	-	233	1,162	-	1,162	1,025	-	1,025
Other taxes payable	L	24,094	2,328	26,422	32,712	(541)	32,171	12,384	(795)	11,589
Deferred tax liabilities	B	7,496	(7,496)	-	8,137	(8,137)	-	3,654	(3,654)	-
Dividends payable		495	-	495	46,033	-	46,033	75	-	75
Provisions	L	7,677	-	7,677	7,511	-	7,511	9,854	-	9,854
Total current liabilities		**438,822**	**(9,399)**	**429,423**	**464,444**	**(10,901)**	**453,543**	**425,056**	**10,260**	**435,316**
TOTAL EQUITY AND LIABILITIES		**1,415,505**	**(11,863)**	**1,403,642**	**1,519,728**	**(15,665)**	**1,504,063**	**1,162,889**	**(27,964)**	**1,134,925**

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

Comprehensive income for the six months ended 30 June 2014 and the year ended 31 December 2014 can be reconciled to the amounts reported under previous GAAP as follows:

		Six months ended 30 June 2014			Year ended 31 December 2014		
	Note	**US GAAP**	**Effect of transition**	**IFRS**	**US GAAP**	**Effect of transition**	**IFRS**
Revenue	D	289,662	1,485	291,147	631,865	14,404	646,269
Cost of sales	D,L	(133,881)	(158)	(134,039)	(316,055)	(10,865)	(326,920)
Selling, general and administrative expenses	L	(61,057)	(3,694)	(64,751)	(130,350)	(8,641)	(138,991)
Depreciation and amortization		(41,688)	(285)	(41,973)	(86,818)	(417)	(87,235)
Impairment losses	A	(6,834)	(2)	(6,836)	(27,990)	(3,183)	(31,173)
Taxes other than income tax		(3,353)	19	(3,334)	(7,414)	8	(7,406)
Share of the profit or loss of associates and joint ventures		795	(359)	436	1,388	704	2,092
Other income and expense	L	1,414	2,450	3,864	(3,750)	5,068	1,318
Operating income		**45,058**	**(544)**	**44,514**	**60,876**	**(2,922)**	**57,954**
Finance income		3,613	6	3,619	8,048	(1)	8,047
Finance costs	H	(15,025)	(139)	(15,164)	(30,909)	(2,121)	(33,030)
Foreign currency exchange loss	H	729	(635)	94	(20,540)	(16,596)	(37,136)
Profit/(loss) before tax		**34,375**	**(1,312)**	**33,063**	**17,475**	**(21,640)**	**(4,165)**
Income tax expense		(11,792)	285	(11,507)	(17,065)	(249)	(17,314)
Profit/(loss) from continuing operations		**22,583**	**(1,027)**	**21,556**	**410**	**(21,889)**	**(21,479)**
Profit/(loss) from discontinued operations	M	29,790	-	29,790	(205,710)	96,495	(109,215)
Profit/(loss) for the period		**52,373**	**(1,027)**	**51,346**	**(205,300)**	**74,606**	**(130,694)**
Noncontrolling interest		(21,621)	(682)	(22,303)	(27,039)	(880)	(27,919)
Net income/(loss) attributable to Sistema JSFC		30,752	(1,709)	29,043	(232,339)	73,726	(158,613)
Other comprehensive loss for the period, net of tax	M	(24,364)	13,774	(10,590)	(148,516)	147,365	(1,151)
Total comprehensive income/(loss) for the period, net of tax		**28,009**	**12,747**	**40,756**	**(353,816)**	**221,971**	**(131,845)**

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 noncurrent 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 noncurrent 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 had 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 noncurrent 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 noncurrent to current liabilities.

H – Put options over non-controlling interests

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 statement of operations. Put options over non-controlling interests which are nominated in currencies other than functional currency result in foreign currency exchange loss being recognised in the statement of operations.

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 Liabilitie*s, and revalued the provision for decommissioning and restoration as at 1 January 2014 using 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 asstets 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 and loss and comprehensive income as compared to the presentation used under US GAAP.

M – Change of the presentation currency

As described above, simultaneously with its transition to IFRS, the Group changed its presentation currency from the US Dollar to the Russian Ruble which resulted in recalculation of other comprehensive income for the period.

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 actitivites. 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.

14. EVENTS AFTER THE REPORTING DATE

Sale of NVision Group to MTS – In July 2015, Sistema Telecoms Assets and RTI, subsidiaries of the Company, sold 100% of SITRONICS Telecom Solutions CJSC and Nvision Czech Republic a.s. to MTS, another subsidiary of the Group, for RUB 8.6 billion. The sale represents the first phase of a transaction to sell 100% of NVision Group to MTS for up to RUB 15 billion including net debt.