SISTEMA JSFC
AND SUBSIDIARIES

Consolidated Financial Statements for 2015
and Independent Auditor's Report

SISTEMA JSFC AND SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Sistema Joint Stock Financial Corporation and its subsidiaries (the "Group") as of 31 December 2015, and the results of its operations, cash flows and changes in equity for 2015, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and assumptions that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for 2015 were approved by:

Mikhail Shamolin President and CEO	Vsevolod Rozanov Senior Vice President and CFO

7 April 2016

ZAO Deloitte & Touche CIS
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Moscow, 125047
Russia

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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.

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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

Закрытое акционерное общество "Делойт и Туш СНГ"
для аудиторских заключений
Россия, г. Москва, ул. Лесная, д. 5

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**

SISTEMA JSFC AND SUBSIDIARIES

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.

SISTEMA JSFC AND SUBSIDIARIES

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:

			Beneficial ownership as of 31 December	
Significant entities	**Short name**	**Principal activity**	**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		2014	
	MTS	SSTL	MTS	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**

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	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**

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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.