

MOBILE TELESYSTEMS PJSC  
Form 6-K  
August 30, 2016  
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## **FORM 6-K**

# **UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Report of Foreign Issuer**  
**August 30, 2016**

**Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934**

**Commission file number: 333-12032**

## **Mobile TeleSystems PJSC**

(Exact name of Registrant as specified in its charter)

**Russian Federation**

(Jurisdiction of incorporation or organization)

**4, Marksistskaya Street  
Moscow 109147  
Russian Federation**

(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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**PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**Interim Condensed Consolidated Financial Statements**

As of June 30, 2016 and December 31, 2015 and for the Six Months Ended June 30, 2016 and 2015 (unaudited)

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**PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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|                                      | Notes | June 30,<br>2016 | December 31,<br>2015 |
|--------------------------------------|-------|------------------|----------------------|
| <b>ASSETS</b>                        |       |                  |                      |
| <b>NON-CURRENT ASSETS:</b>           |       |                  |                      |
| Property, plant and equipment        |       | 288,402          | 302,662              |
| Investment property                  |       | 359              | 364                  |
| Goodwill                             |       | 33,980           | 34,468               |
| Other intangible assets              |       | 76,629           | 74,596               |
| Investments in associates            | 4     | 8,545            | 9,299                |
| Other investments                    | 5     | 34,386           | 34,667               |
| Deferred tax assets                  |       | 8,816            | 9,287                |
| Accounts receivable, related parties | 9     | 3,513            | 3,335                |
| Other financial assets               |       | 17,773           | 25,203               |
| Other non-financial assets           |       | 682              | 480                  |
| <b>Total non-current assets</b>      |       | <b>473,085</b>   | <b>494,361</b>       |
| <b>CURRENT ASSETS:</b>               |       |                  |                      |
| Inventories                          |       | 12,813           | 14,510               |
| Trade and other receivables          |       | 37,252           | 34,542               |
| Accounts receivable, related parties | 9     | 2,447            | 6,326                |
| Short-term investments               | 3     | 27,978           | 49,840               |
| Advances paid and prepaid expenses   |       | 5,665            | 4,781                |
| VAT receivable                       |       | 7,041            | 9,815                |
| Income tax assets                    |       | 3,655            | 5,190                |
| Assets held for sale                 |       | 461              | 549                  |
| Cash and cash equivalents            |       | 24,956           | 33,464               |
| <b>Total current assets</b>          |       | <b>122,268</b>   | <b>159,017</b>       |
| <b>TOTAL ASSETS</b>                  |       | <b>595,353</b>   | <b>653,378</b>       |

Table of Contents**PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(CONTINUED)

*(Amounts in millions of Russian Rubles)*

|  | Notes | June 30,<br>2016 | December 31,<br>2015 |
|--|-------|------------------|----------------------|
| <b>EQUITY AND LIABILITIES</b>                |       |                  |                      |
| <b>EQUITY:</b>                               |       |                  |                      |
| Common stock                                 |       | 207              | 207                  |
| Treasury stock                               |       | (24,255)         | (24,468)             |
| Retained earnings                            |       | 168,780          | 173,200              |
| Accumulated other comprehensive income       |       | 484              | 11,176               |
| Equity attributable to owners of the Company |       | 145,216          | 160,115              |
| Non-controlling interests                    |       | 6,218            | 8,256                |
| <b>Total equity</b>                          |       | <b>151,434</b>   | <b>168,371</b>       |
| <b>NON-CURRENT LIABILITIES:</b>              |       |                  |                      |
| Borrowings                                   | 6     | 234,634          | 292,168              |
| Deferred tax liabilities                     |       | 29,094           | 27,346               |
| Provisions                                   |       | 2,221            | 2,565                |
| Other non-financial liabilities              |       | 4,182            | 4,342                |
| Other financial liabilities                  |       | 554              | 676                  |
| <b>Total non-current liabilities</b>         |       | <b>270,685</b>   | <b>327,097</b>       |
| <b>CURRENT LIABILITIES:</b>                  |       |                  |                      |
| Trade and other payables                     |       | 82,981           | 57,756               |
| Accounts payable, related parties            | 9     | 1,702            | 1,809                |
| Subscriber prepayments                       |       | 13,994           | 17,451               |
| Borrowings                                   | 6     | 49,009           | 53,701               |
| Income tax liabilities                       |       | 1,045            | 831                  |
| Provisions                                   |       | 5,691            | 7,863                |
| Other non-financial liabilities              |       | 10,821           | 8,721                |
| Other financial liabilities                  |       | 7,991            | 9,778                |
| <b>Total current liabilities</b>             |       | <b>173,234</b>   | <b>157,910</b>       |
| <b>TOTAL EQUITY AND LIABILITIES</b>          |       | <b>595,353</b>   | <b>653,378</b>       |

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

Table of Contents**PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS***(Amounts in millions of Russian Rubles, except per share amounts)*

|   | Notes | Six months<br>ended June 30,<br>2016 | Six months<br>ended June 30,<br>2015 |
|---|-------|--------------------------------------|--------------------------------------|
| Service revenue   |       | 195,007                              | 188,831                              |
| Sales of goods  |       | 21,219                               | 14,042                               |
|   | 10    | <b>216,226</b>                       | <b>202,873</b>                       |
| Cost of services  |       | 68,374                               | 63,400                               |
| Cost of goods   |       | 20,053                               | 11,729                               |
| Selling, general and administrative expenses            |       | 47,579                               | 44,745                               |
| Depreciation and amortization                           |       | 41,080                               | 40,669                               |
| Operating share of the profit of associates             | 4     | (1,462)                              | (1,643)                              |
| Other (income) / expenses                               |       | (482)                                | 2,309                                |
| <b>Operating profit</b>                                 |       | <b>41,084</b>                        | <b>41,664</b>                        |
| Finance income  |       | (3,005)                              | (4,763)                              |
| Finance costs   |       | 16,057                               | 12,609                               |
| Currency exchange gains                                 |       | (3,270)                              | (107)                                |
| Non-operating share of the loss of associates           | 4     | 1,020                                | 804                                  |
| Change in fair value of financial instruments           |       | 178                                  | (91)                                 |
| Other expenses/(income)                                 |       | 96                                   | (114)                                |
| <b>Profit before tax</b>                                |       | <b>30,008</b>                        | <b>33,326</b>                        |
| Income tax expense                                      | 8     | 6,720                                | 6,649                                |
| <b>Profit for the period</b>                            |       | <b>23,288</b>                        | <b>26,677</b>                        |
| Profit / (loss) for the period attributable to:         |       |                                      |                                      |
| Owners of the Company                                   |       | 23,563                               | 27,961                               |
| Non-controlling interests                               |       | (275)                                | (1,284)                              |
| Earnings per share (basic and diluted), Russian Rubles: |       | 11.85 and 11.84                      | 14.06 and 14.05                      |

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





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|   | Six months<br>ended June 30,<br>2016 | Six months<br>ended June 30,<br>2015 |
|---|--------------------------------------|--------------------------------------|
| Profit for the period   | 23,288                               | 26,677                               |
| <b>Other comprehensive loss</b>   |                                      |                                      |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                   |                                      |                                      |
| Exchange differences on translating foreign operations                                  | (8,412)                              | (10,016)                             |
| Net fair value loss on financial instruments  | (1,736)                              | (3,402)                              |
| <b>Share of other comprehensive income of associates and joint ventures</b>             |                                      |                                      |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                   |                                      |                                      |
| Exchange differences on translating foreign operations in associates and joint ventures | (1,190)                              | (2,026)                              |
| <b>Other comprehensive loss for the period, net of income tax</b>                       | <b>(11,338)</b>                      | <b>(15,444)</b>                      |
| <b>Total comprehensive income for the period</b>  | <b>11,950</b>                        | <b>11,233</b>                        |
| Total comprehensive income / (loss) for the period attributable to:                     |                                      |                                      |
| Owners of the Company   | 12,871                               | 12,837                               |
| Non-controlling interests   | (921)                                | (1,604)                              |

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

Table of Contents**PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY***(Amounts in millions of Russian Rubles, except share amounts)*

|  | Common stock              |            | Treasury stock      |                 | Additional<br>paid-in<br>capital | Investments<br>revaluation<br>reserve | Foreign<br>currency<br>translation<br>reserve | Remeasurements<br>of the net<br>defined<br>benefit liability |                | Retained<br>earnings | Equity<br>attributable to<br>equity holders | Non-controlling<br>interests |
|--|---------------------------|------------|---------------------|-----------------|----------------------------------|---------------------------------------|---|--|----------------|----------------------|---|------------------------------|
|  | Shares                    | Amount     | Shares              | Amount          |                                  |                                       |   |  |                |                      |   |                              |
| <b>Balances at<br/>January 1,<br/>2015</b>   | <b>2,066,413,<br/>562</b> | <b>207</b> | <b>(77,501,432)</b> | <b>(24,464)</b> | <b>5,052</b>                     | <b>4,268</b>                          | <b>8,803</b>                                  | <b>407</b>   | <b>174,556</b> | <b>168,829</b>       | <b>9,793</b>                                |                              |
| Profit / (loss) for<br>the period  |                           |            |                     |                 |                                  |                                       |   |  | 27,961         | 27,961               | (1,284)                                     |                              |
| Other<br>comprehensive<br>loss for the<br>period, net of<br>income tax                 |                           |            |                     |                 |                                  | (3,402)                               | (11,722)                                      |  |                | (15,124)             | (320)                                       |                              |
| <b>Total<br/>comprehensive<br/>(loss) / income<br/>for the period</b>                  |                           |            |                     |                 |                                  | <b>(3,402)</b>                        | <b>(11,722)</b>                               |  | <b>27,961</b>  | <b>12,837</b>        | <b>(1,604)</b>                              |                              |
| Issuance of<br>stock options   |                           |            |                     |                 | 79                               |                                       |   |  |                |                      | 79  |                              |
| Dividends<br>declared by<br>MTS  |                           |            |                     |                 |                                  |                                       |   |  | (38,903)       | (38,903)             |   |                              |
| Dividends to<br>non-controlling<br>interest  |                           |            |                     |                 |                                  |                                       |   |  | (82)           | (82)                 | (257)                                       |                              |
| Disposal of<br>Intellect<br>Telecom  |                           |            |                     |                 | 252                              |                                       |   |  |                | 252                  | 14  |                              |
| Disposal of Rent<br>Nedvizhimost   |                           |            |                     |                 | 6,003                            |                                       |   |  |                | 6,003                | 342   |                              |
| Acquisition of<br>NIS  |                           |            |                     |                 | (506)                            |                                       |   |  |                | (506)                | (29)  |                              |
| Changes in<br>ownership<br>interest with no<br>gain/loss of<br>control MGTS<br>and NIS |                           |            |                     |                 |                                  |                                       |   |  |                |                      | 89  |                              |
| <b>Balances at<br/>June 30, 2015</b>   | <b>2,066,413,562</b>      | <b>207</b> | <b>(77,501,432)</b> | <b>(24,464)</b> | <b>10,880</b>                    | <b>866</b>                            | <b>(2,919)</b>                                | <b>407</b>   | <b>163,532</b> | <b>148,509</b>       | <b>8,348</b>                                |                              |
| <b>Balances at<br/>January 1,<br/>2016</b>   | <b>2,066,413,562</b>      | <b>207</b> | <b>(77,521,163)</b> | <b>(24,468)</b> |                                  | <b>1,045</b>                          | <b>9,638</b>                                  | <b>493</b>   | <b>173,200</b> | <b>160,115</b>       | <b>8,256</b>                                |                              |
|  |                           |            |                     |                 |                                  |                                       |   |  | 23,563         | 23,563               | (275)                                       |                              |

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Profit / (loss) for  
the period

|  |                      |            |                     |                 |                |            |               |                |                |              |
|--|----------------------|------------|---------------------|-----------------|----------------|------------|---------------|----------------|----------------|--------------|
| Currency translation adjustment, net of income tax             |                      |            |                     | (8,956)         |                |            |               | (8,956)        | (646)          |              |
| Change in fair value of derivatives, net of income tax         |                      |            |                     | (1,736)         |                |            |               | (1,736)        |                |              |
| <b>Total comprehensive (loss) / income for the period</b>      |                      |            |                     | <b>(1,736)</b>  | <b>(8,956)</b> |            | <b>23,563</b> | <b>12,871</b>  | <b>(921)</b>   |              |
| Issuance of stock options                                      |                      | (101)      |                     |                 |                |            |               | (101)          | 3              |              |
| Dividends declared by MTS                                      |                      |            |                     |                 |                |            | (27,879)      | (27,879)       |                |              |
| Dividends to non-controlling interest                          |                      |            |                     |                 |                |            |               |                | (1,120)        |              |
| Unclaimed dividends  |                      |            |                     |                 |                |            | 2             | 2              |                |              |
| Sale of own stock  |                      | 1,024,587  | 214                 |                 |                |            |               | 214            |                |              |
| Purchase of own stock  |                      | (6,986)    | (1)                 |                 |                |            |               | (1)            |                |              |
| Changes in ownership interest with no gain/loss of control MTS |                      |            |                     |                 |                |            |               |                |                |              |
| Bank additional share issuance                                 |                      |            |                     | (5)             |                |            |               | (5)            |                |              |
| Reclassification to retained earnings                          |                      |            |                     | 106             |                |            | (106)         |                |                |              |
| <b>Balances at June 30, 2016</b>                               | <b>2,066,413,562</b> | <b>207</b> | <b>(76,503,562)</b> | <b>(24,255)</b> | <b>(691)</b>   | <b>682</b> | <b>493</b>    | <b>168,780</b> | <b>145,216</b> | <b>6,218</b> |

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

Table of Contents**PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***(Amounts in millions of Russian Rubles)*

|   | Six months<br>ended<br>June 30, 2016 | Six months<br>ended<br>June 30, 2015 |
|---|--------------------------------------|--------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                                      |                                      |
| Profit for the period   | 23,288                               | 26,677                               |
| <b>Adjustments for:</b>   |                                      |                                      |
| Depreciation and amortization   | 41,080                               | 40,669                               |
| Finance income  | (3,005)                              | (4,763)                              |
| Finance costs   | 16,057                               | 12,609                               |
| Income tax expense  | 6,720                                | 6,649                                |
| Currency exchange gain  | (3,270)                              | (107)                                |
| Amortization of deferred connection fees                                      | (491)                                | (569)                                |
| Share of the profit of associates   | (442)                                | (839)                                |
| Change in fair value of financial instruments                                 | 179                                  | (91)                                 |
| Inventory obsolescence expense  | 621                                  | 86                                   |
| Allowance for doubtful accounts   | 1,131                                | 1,483                                |
| Change in provisions  | 6,317                                | 4,752                                |
| Other non-cash items  | (793)                                | (294)                                |
| <b>Movements in operating assets and liabilities:</b>                         |                                      |                                      |
| Increase in trade and other receivables                                       | (7,458)                              | (4,824)                              |
| Decrease/(increase) in inventory  | 950                                  | (2,516)                              |
| Decrease in advances paid and prepaid expenses                                | 843                                  | 3,113                                |
| Decrease/(increase) in VAT receivable   | 461                                  | (1,599)                              |
| (Decrease)/Increase in trade and other payables and other current liabilities | (3,337)                              | 2,103                                |
| Dividends received  | 1,181                                | 1,471                                |
| Income tax paid   | (2,960)                              | (4,207)                              |
| Interest received   | 2,081                                | 2,062                                |
| Interest paid, net of interest capitalized                                    | (15,479)                             | (9,849)                              |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                              | <b>63,674</b>                        | <b>72,016</b>                        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                  |                                      |                                      |
| Purchases of property, plant and equipment                                    | (25,545)                             | (40,921)                             |
| Purchases of other intangible assets  | (14,126)                             | (12,720)                             |
| Purchase of 4G and 3G licenses in Russia and Ukraine                          | (2,598)                              | (7,044)                              |
| Proceeds from sale of property, plant and equipment and assets held for sale  | 1,300                                | 1,326                                |
| Purchases of short-term and other investments                                 | (7,482)                              | (68,657)                             |
| Proceeds from sale of short-term and other investments                        | 22,042                               | 4,519                                |
| Investments in associates   | (1,326)                              |                                      |

|  |                 |                  |
|--|-----------------|------------------|
| <b>NET CASH USED IN INVESTING ACTIVITIES</b> | <b>(27,735)</b> | <b>(123,497)</b> |
|--|-----------------|------------------|

Table of Contents**PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS****(CONTINUED)***(Amounts in millions of Russian Rubles)*

|   | Six months<br>ended<br>June 30, 2016 | Six months<br>ended<br>June 30, 2015 |
|---|--------------------------------------|--------------------------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                      |                                      |
| Repayment of notes  | (17,904)                             | (479)                                |
| Notes and debt issuance cost paid   |                                      | (1,213)                              |
| Finance lease obligation principal paid   | (168)                                | (224)                                |
| Dividends paid  |                                      | (82)                                 |
| Cash flows from transactions under common control   | 3,063                                | 4,252                                |
| Proceeds from loans   | 1,036                                | 43,818                               |
| Repayment of loans  | (26,035)                             | (9,009)                              |
| Cash inflow under credit guarantee agreement related to foreign-currency hedge  | (1,034)                              |                                      |
| Other financial activities  |                                      | 5                                    |
| <b>NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES</b>  | <b>(41,042)</b>                      | <b>37,068</b>                        |
| Effect of exchange rate changes on cash and cash equivalents  | (3,405)                              | (2,924)                              |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>(8,508)</b>                       | <b>(17,337)</b>                      |
| <b>CASH AND CASH EQUIVALENTS, beginning of the period, including cash and cash equivalents within assets held for sale nill and 156, respectively</b> | <b>33,464</b>                        | <b>61,566</b>                        |
| <b>CASH AND CASH EQUIVALENTS, end of the period</b>   | <b>24,956</b>                        | <b>44,229</b>                        |
| Less cash and cash equivalents within assets held for sale  |                                      | (109)                                |
| <b>CASH AND CASH EQUIVALENTS, end of the period</b>   | <b>24,956</b>                        | <b>44,120</b>                        |

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

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**PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. GENERAL INFORMATION AND DESCRIPTION OF BUSINESS**

Public Joint-Stock Company Mobile TeleSystems ( MTS PJSC , or the Company ) is a company incorporated under the laws of the Russian Federation and having its registered address at 4, Marksistskaya Street, 109147, Moscow, Russian Federation.

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

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

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

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

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

**Seasonality** The Group 's financial results are impacted by seasonality through the calendar year. Higher consumption of roaming services in May-September and increased demand for handsets and accessories before winter holidays enhance revenue from services and sales of goods for the second half-year. However, the Group doesn't view its



business as highly seasonal as defined by IAS 34, Interim Financial Reporting.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

*Basis of preparation* These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and should be read in conjunction with the annual consolidated statements of the Group for the year ended December 31, 2015.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its 2015 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequently to the issuance of its annual consolidated statements of the Group for the year ended December 31, 2015.

Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the annual consolidated statements of the Group for the year ended December 31, 2015 and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Group's financial position, financial performance and cash flows for the interim reporting period in accordance with IAS 34, Interim Financial Reporting. Operating results for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016.

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

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

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

The interim condensed consolidated financial statements of the Group as of June 30, 2016 and December 31, 2015 and for the six months ended June 30, 2016 and 2015 were authorized for issue by the Company's Chief Executive Officer on August 29, 2016.

**Basis of consolidation** The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved only where the Company has the power over the entity, is exposed and has rights to variable returns, and is able to use its power over the entity to affect its amount of variable returns. The results of the controlled entities acquired or disposed of during the reporting period are included in the consolidated financial statements from the date, the Group achieves control over the entity, or until the date on which the Company ceases to control the entity. If necessary, the accounting policies of controlled entities are aligned with the accounting policy applied by the Group. All intra-group balances, income, expenses and cash flows are eliminated on consolidation.

Those entities where the Group exercises significant influence are recognized as associates and accounted for using the equity method. Significant influence is the power to participate in the financial and operating policies decisions of the investee but is not to control those policies. Investments in these entities are recognized at cost at the time of acquisition and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income. The carrying amount of the investment in such entities may include goodwill as the positive difference between the cost of the investment and Group's proportionate share in the fair values of the entity's identifiable assets and liabilities. The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss is recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use. The Group presents its share in profits or losses in associates within operating profit if those interests are viewed as part of Group's core operations. As of June 30, 2016, only MTS Belarus was considered to be a part of Group's core operating activity. Shares in profits and losses of other Group's associates were presented as non-operating items.

The Group has joint operations with MTS Bank, a Group associate, relating to the development of the MTS Dengi project and with Vimpelcom, relating to construction of LTE base stations. Joint operations are characterized by the fact that the operators that have joint control over the

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arrangement have a right to the assets, and obligations for the liabilities, relating to the arrangement. Respectively, each operator accounts for its share of the joint assets and liabilities, and recognizes its share of the output, revenues and expenses incurred under the arrangement.

Investments in shares of the companies over which the Group does not have control or ability to exercise significant influence are accounted for using the cost method. The Group does not evaluate cost-method investments for impairment unless there is an indicator of impairment.

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As of June 30, 2016 and December 31, 2015, the Company had investments in the following significant entities:

|                                       | Accounting<br>method | June 30,<br>2016 | December 31,<br>2015 |
|---------------------------------------|----------------------|------------------|----------------------|
| MTS Turkmenistan                      | Consolidated         | 100.0%           | 100.0%               |
| MTS Bermuda (1)                       | Consolidated         | 100.0%           | 100.0%               |
| MTS Ukraine                           | Consolidated         | 100.0%           | 100.0%               |
| RTC                                   | Consolidated         | 100.0%           | 100.0%               |
| Sibintelecom                          | Consolidated         | 100.0%           | 100.0%               |
| Sputnikovoe TV                        | Consolidated         | 100.0%           | 100.0%               |
| Dega                                  | Consolidated         | 100.0%           | 100.0%               |
| NVision Group                         | Consolidated         | 100.0%           | 100.0%               |
| Stream                                | Consolidated         | 100.0%           | 100.0%               |
| Metro-Telecom                         | Consolidated         | 95.0%            | 95.0%                |
| MGTS Group                            | Consolidated         | 94.7%            | 94.7%                |
| K-Telecom                             | Consolidated         | 80.0%            | 80.0%                |
| Navigation Information Systems Group  | Consolidated         | 77.7%            | 77.7%                |
| UMS (2)                               | Consolidated         | 50.01%           | 50.01%               |
| MTS International Funding Limited (3) |                      |                  |                      |
| ( MTS International )                 | Consolidated         | SE               | SE                   |
| MTS Belarus                           | Equity               | 49.0%            | 49.0%                |
| MTS Bank                              | Equity               | 26.8%            | 27.0%                |
| Zifrovoe TV                           | Equity               | 20.0%            | 20.0%                |
| OZON Holdings Limited                 | Equity               | 10.8%            | 10.8%                |

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

(2) On August 5, 2016 the Group sold its stake in UMS (Note 12).

(3) A private company organized and existing as a private limited company under the laws of Ireland. The Group does not have any equity in MTS International. It was established for the purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group. In 2010 and 2013, MTS International issued \$750 million 8.625% notes due in 2020 and \$500 million 5.0% notes due in 2023, respectively (Note 6). The notes are guaranteed by MTS PJSC in the event of default. MTS International does not perform any other activities except those required for notes servicing. The Group bears all costs incurred by MTS International in connection with the notes' maintenance activities. Accordingly, the Group concluded that it exercises control over the entity.

*Functional currency translation methodology* As of June 30, 2016, the functional currencies of Group entities were as follows:

- For entities incorporated in the Russian Federation, MTS Finance, Dega and MTS International the Russian Ruble ( RUB );
- For MTS Ukraine the Ukrainian Hryvna;
- For MTS Turkmenistan the Turkmenian Manat;
- For K-Telecom the Armenian Dram;
- For Universal Mobile Services ( UMS ) the Uzbek Sum;
- For MTS Belarus the Belorussian Ruble,
- For Nvision Czech Republic A.S. the Czech Koruna.

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

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

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**Management estimates** The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include allowance for doubtful accounts and inventory obsolescence, the valuation of assets acquired and liabilities assumed in business combinations, the recoverability of investments and the valuation of goodwill, property, plant and equipment and intangible assets, liability under put option agreement, certain provisions and financial instruments.

**Significant accounting policies** The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended December 31, 2015.

**Standards, interpretations and amendments in issue but not yet effective** The Group has not applied the following new and revised IFRSs that have been issued but not yet effective:

|                                  |   |
|----------------------------------|---|
| Amendments to IAS 12             | Recognition of Deferred Tax Assets for Unrealized Losses (1)                              |
| IFRS 9                           | Financial Instruments (2)   |
| Amendments to IFRS 2             | Classification and measurement of Share-based Payment Transactions (2)                    |
| IFRS 15                          | Revenue from contracts with Customers (2)   |
| IFRS 16                          | Leases (3)  |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (4) |

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

**IFRS 9, *Financial Instruments*.** IFRS 9 governs the classification and measurement of financial assets and liabilities, derecognition, impairment and hedge accounting matters. The Group is currently evaluating the impact of these amendments on the Group's consolidated financial statements.

**IFRS 15, *Revenue from Contracts with Customers*.** This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces the existing standards IAS 18, *Revenue*, and IAS 11, *Construction Contracts*. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the standard, an entity recognizes revenue when (or as) a performance obligation is satisfied, i. e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The Group is currently evaluating the impact of these amendments and the transition alternatives on the consolidated financial statements.

**IFRS 16, *Leases*.** This standard principally requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. Going forward, lessees will therefore no longer be required to make the distinction between finance and operating leases. For all leases, the lessee will recognize a lease liability in its statement of financial position for the obligation to make future lease payments. At the same time, the lessee will capitalize a right of use to the underlying asset which is generally equivalent to the present value of the future lease payment plus directly attributable expenditures. The standard also includes new provisions on the definition of a lease and its presentation, on disclosures in the notes, and on sale and leaseback transactions. The Group is currently evaluating the impact of these amendments on the consolidated financial statements.

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

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

|   | Category   | June 30,<br>2016 | December 31,<br>2015 |
|---|--|------------------|----------------------|
| Deposits  | Loans and receivables                                | 19,115           | 42,492               |
| Assets in Sistema-Capital trust management (Notes 7, 9) | Financial asset at fair value through profit or loss | 2,603            |                      |
| Loans   | Loans and receivables                                | 6,191            | 7,082                |
| Notes   | Available for sale                                   | 69               | 266                  |
| <b>Total short-term investments</b>                     |  | <b>27,978</b>    | <b>49,840</b>        |

**4. INVESTMENTS IN ASSOCIATES**

The Group's investments in associates (all accounted for using the equity method) comprised the following:

|  | Country of<br>operations | Operating activity           | June 30,<br>2016 | December 31,<br>2015 |
|--|--------------------------|------------------------------|------------------|----------------------|
| MTS Belarus                                    | Belarus                  | telecommunications           | 4,610            | 5,407                |
| MTS Bank                                       | Russia                   | banking                      | 1,244            | 1,120                |
| Equity investments in other unquoted companies | Russia                   | e-commerce, digital TV, etc. | 2,691            | 2,772                |
| <b>Total investments in associates</b>         |                          |                              | <b>8,545</b>     | <b>9,299</b>         |

On February 25, 2016 the Group acquired 946,347 ordinary shares of MTS Bank of 3,588,347 shares, placed as a part of an earlier approved additional share issuance, for a total consideration of RUB 1,325 million. As the result of the transaction, the Group's share in the capital of MTS Bank decreased from 27.0% to 26.8%.



The Group's share in the profit of MTS Belarus was included in operating share of the profit of associates in the accompanying consolidated statement of profit or loss in amount of RUB 1,462 million and RUB 1,643 million for the six months ended June 30, 2016 and 2015, respectively.

The Group's share in the net losses of other associates was included in the line non-operating share of the loss of the associates in the accompanying consolidated statement of profit or loss in amount of RUB 1,020 million and RUB 804 million for the six months ended June 30, 2016 and 2015, respectively.

## 5. OTHER INVESTMENTS

The Group's other investments comprised the following:

|                                | Category              | June 30,<br>2016 | December 31,<br>2015 |
|--------------------------------|-----------------------|------------------|----------------------|
| Deposits                       | Loans and receivables | 30,409           | 30,677               |
| Loans/Unquoted Notes           | Loans and receivables | 2,802            | 2,787                |
| Other                          | -                     | 1,175            | 1,203                |
| <b>Total other investments</b> |                       | <b>34,386</b>    | <b>34,667</b>        |

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The Group's borrowings comprised the following:

|                                      | June 30,<br>2016 | December 31,<br>2015 |
|--------------------------------------|------------------|----------------------|
| Notes                                | 73,416           | 100,034              |
| Bank and other loans                 | 199,244          | 234,040              |
| Finance lease obligations            | 10,983           | 11,795               |
| <b>Total borrowings</b>              | <b>283,643</b>   | <b>345,869</b>       |
| Less: current portion                | (49,009)         | (53,701)             |
| <b>Total borrowings, non-current</b> | <b>234,634</b>   | <b>292,168</b>       |

*Notes* The reconciliation between opening and closing balance of the Group's Notes for the six months ended June 30, 2016 was the following:

|   | Currency | Interest rate<br>(actual at<br>June 30,<br>2016) | Carrying amount |
|---|----------|--|-----------------|
| <b>Balance at January 1, 2016</b>         |          |  | 100,034         |
| <b>Repayments</b>                         |          |  |                 |
| MTS International Notes due 2020 (Note 2) | USD      | 8.625%   | (17,904)        |
| <b>Currency exchange gain</b>             |          |  | (8,739)         |
| <b>Other movement</b>                     |          |  | 25              |
| <b>Balance at June 30, 2016</b>           |          |  | <b>73,416</b>   |
| Less: current portion                     |          |  | (3,854)         |
| <b>Total notes, non-current</b>           |          |  | <b>69,562</b>   |

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During the six months ended June 30, 2016 the Group repurchased 274 029 MTS International Notes due 2020 with nominal value of 1,000 USD. The Group has recognized an excess of notes purchase price over its principal amount of RUB 3,045 million as a finance expense within the consolidated statement of profit or loss.

The fair values of the Notes based on the market quotes as of June 30, 2016 at the stock exchanges where they are traded were as follows:

|                                  | Stock exchange           | % of par | Fair value    |
|----------------------------------|--------------------------|----------|---------------|
| MTS International Notes due 2023 | Frankfurt stock exchange | 102.50   | 30,728        |
| MTS International Notes due 2020 | Frankfurt stock exchange | 117.00   | 23,072        |
| MTS PJSC Notes due 2017          | Moscow Exchange          | 98.65    | 9,865         |
| MTS PJSC Notes due 2023          | Moscow Exchange          | 97.00    | 9,700         |
| MTS PJSC Notes due 2020          | Moscow Exchange          | 100.50   | 2,120         |
| MTS PJSC Notes due 2016          | Moscow Exchange          | 99.95    | 1,787         |
| MTS PJSC Notes due 2018          | Moscow Exchange          | 103.89   | 6             |
| <b>Total notes</b>               |                          |          | <b>77,278</b> |

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**Bank and other loans** The reconciliation between opening and closing balance of the Group's loans from banks and financial institutions for the six months ended June 30, 2016 was the following:

|   | Currency | Interest rate<br>(actual at June 30,<br>2016) | Carrying<br>amount |
|---|----------|---|--------------------|
| <b>Balance at January 1, 2016</b>   |          |   | <b>234,040</b>     |
| <b>New loans</b>  |          |   |                    |
| Loans   | various  | various                                       | 1,036              |
| <b>Repayments</b>   |          |   |                    |
| Notes in REPO   | RUB      | -   | (10,005)           |
| Sberbank  | RUB      | 8.45%   | (10,000)           |
| Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen<br>Zentralbank Osterreich AG | USD      | LIBOR + 1.15% (2.07%)                         | (4,487)            |
| Other financial institutions  |          |   | (3,858)            |
| <b>Currency exchange gain</b>   |          |   | (6,984)            |
| <b>Other movement</b>   |          |   | (498)              |
| <b>Balance at June 30, 2016</b>   |          |   | <b>199,244</b>     |
| Less: current portion   |          |   | (44,469)           |
| <b>Total bank and other loans, non-current</b>                                |          |   | <b>154,775</b>     |

**Compliance with covenants** Covenants related to Group notes and bank loans did not change during six months ended June 30, 2016. The Group was in compliance with all existing covenants as of June 30, 2016.

**Pledges** The credit facility agreements of UMS are secured by telecommunication equipment and premises with carrying value of RUB 1,701 million and RUB 2,271 million as of June 30, 2016 and December 31, 2015 respectively.

**Available credit facilities** As of June 30, 2016, the Group's total available unused credit facilities amounted to RUB 27,475 million and related to the following credit lines:

|                        | Currency | Maturity     | Interest rate                        | Available till | Available amount |
|------------------------|----------|--------------|--------------------------------------|----------------|------------------|
| Aloqabank              | UZS      | 2022         | 12%                                  | September 2017 | 6,796            |
| China Development Bank | USD      | 2022         | 6M Libor + 3.25%                     | May 2017       | 6,426            |
| China Development Bank | CNY      | 2022         | 6M Shibor + 3.52%                    | May 2017       | 5,995            |
| Sberbank               | RUB      | To be agreed | Central Bank key rate +<br>max.5.00% | June 2019      | 5,000            |
| Absolut Bank           | RUB      | 2019         | CBR(1) auction rate +<br>1.25%-1.8%  | December 2019  | 3,000            |
| Uzpromstroibank        | UZS      | 2017         | 9%                                   | December 2017  | 258              |
| <b>Total</b>           |          |              |                                      |                | <b>27,475</b>    |

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(1) CBR Central Bank rate

In addition, the Group has a credit facility made available by Citibank at MosPrime + 1.50% interest rate with the available amount set up on request and to be repaid within 182 days.

**Scheduled maturities** Except for the non-scheduled reduction of Notes in respect of the purchase of MTS International Notes due 2020, there were no other changes in scheduled maturities of the Group's borrowings (gross of debt issuance costs) outstanding.

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

|                                      | <b>June 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--------------------------------------|--------------------------|------------------------------|
| Network and base station equipment   | 6,354                    | 6,352                        |
| Office equipment, vehicles and other | 81                       | 54                           |
| <b>Leased assets, net</b>            | <b>6,435</b>             | <b>6,406</b>                 |

Depreciation of the assets under finance leases for the six months ended June 30, 2016 and 2015 amounted to RUB 301 million and RUB 285 million, respectively, and was included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss.

Interest expense accrued on finance lease obligations for the six months ended June 30, 2016 and 2015 amounted to RUB 450 million and RUB 342 million, respectively, and was included in finance costs in the accompanying consolidated statement of profit or loss.

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments as at June 30, 2016 and December 31, 2015:

|   | <b>June 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---|--------------------------|------------------------------|
| <b>Minimum lease payments, including:</b> |                          |                              |
| Current portion (less than 1 year)        | 1,446                    | 1,366                        |
| More than 1 to 5 years                    | 5,854                    | 6,243                        |
| Over 5 years                              | 10,675                   | 11,022                       |
| <b>Total minimum lease payments</b>       | <b>17,975</b>            | <b>18,631</b>                |