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xt-indent:-10pt;"> **Total other investments to related parties 2,176 2,721**

Other investments in shares

Sistema Venture Capital, a subsidiary of Sistema

117 117

Other

32 40

Total investments in shares of related parties

149 157

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Table of Contents**PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in millions of Russian Rubles unless otherwise stated)****21. RELATED PARTIES (Continued)**

Finance income, which arose from investment transactions with related parties for the year ended December 31, 2016, 2015 and 2014 was the following:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Finance income from related parties:			
MTS Bank, the Group associate	285	447	654
Business Nedvizhimost, a subsidiary of Sistema	491	346	
Sistema-Capital, a subsidiary of Sistema (assets management)	128		
Sistema, parent company	53	188	135
Other related parties	28	86	15
Total finance income from related parties	985	1,067	804

Public Joint-Stock Company "MTS Bank" ("MTS Bank") The Group has a loan agreement and maintains certain bank accounts with MTS Bank, an associate of the Group. As of December 31, 2016 and December 31, 2015, the Group's cash position at MTS Bank amounted to RUB 5,638 million and RUB 2,564 million, respectively, including short-term deposits in the amount of RUB 532 million and RUB 323 million, respectively.

Sistema In November 2009, the Group accepted a promissory note, issued by Sistema, as repayment of the loan principal and interest accrued to date under an agreement with Sistema-Hals. The note is interest free and repayable in 2017. As of December 31, 2016 and December 31, 2015 the amount receivable of RUB 574 million and RUB 528 million, respectively, was included in short-term and other investments in the accompanying consolidated statements of financial position.

In October 2014, the Group acquired 2,501,350 Sistema Notes due 2016 (series 04) and 1,000 Sistema International Funding S.A. Bonds due in 2019 for RUB 519 million and RUB 32 million, respectively. The acquired bonds were classified as available for sale and accounted for at fair value with changes recognized in other comprehensive income. In March 2015 and May 2015 upon scheduled redemption, the Group received principal and coupon in the amount of RUB 409 million. In March 2016 the Group received principal and coupon of Sistema Notes due 2016 (series 04) in the amount of RUB 201 million.

Business Nedvizhimost In February 2015 and further in May 2015, the Group sold its 100% stake in Rent Nedvizhimost to Business Nedvizhimost, subsidiary of Sistema, for RUB 8,500 million in total.

As of December 31, 2016 accounts receivable amounted to RUB 3,693 million due before December 31, 2018 and bears interest of 12% p.a. As of December 31, 2015 accounts receivable amounted to RUB 7,511 million.

NVision Group In December 2015 the Group completed acquisition of shares of NVision Group excluding several non-core subsidiaries (see Note 4).

During the year ended December 31, 2015 and till the date of acquisition the Group purchased from NVision Group, telecommunication equipment, software and billing systems (FORIS) for approximately RUB 5,469 million and incurred expenses under an IT consulting agreement in the amount of RUB 710 million.

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(Amounts in millions of Russian Rubles unless otherwise stated)

21. RELATED PARTIES (Continued)

During the year ended December 31, 2014 the Group acquired from NVision Group, telecommunication equipment, software and billing systems (FORIS) for approximately RUB 9,819 million and incurred expenses under an IT consulting agreement in the amount of RUB 846 million.

Sistema-Capital In April 2016 the Group entered into trust agreement with the asset management company Sistema-Capital. As of December 31, 2016 the balance of assets under trust management amounted to RUB 3,721 million.

Remuneration of key management personnel Key management personnel of the Group are members of the Board of Directors and Management Board. During the year ended December 31, 2016, 2015 and 2014, their total remuneration amounted to RUB 760 million, RUB 835 million and RUB 694 million, respectively. These amounts comprised RUB 470 million, RUB 514 million and RUB 402 million in base salaries and RUB 290 million, RUB 321 million and RUB 292 million in bonuses paid pursuant to a bonus plan, respectively.

Management and directors are also entitled to cash-settled and equity-settled share-based payments. Related compensation accrued during the year ended December 31, 2016, 2015 and 2014 amounted to RUB 481 million, RUB 175 million and RUB 158 million, respectively.

22. STOCKHOLDERS' EQUITY

Share capital (ordinary shares) The Group had 1,998,381,575 and 2,066,413,562 authorized ordinary shares with par value 0.1 RUB as of December 31, 2016 and 2015 respectively. Preferred shares have not been issued. In 2016 annual general meeting of shareholders approved the decrease in share capital by cancelling 68,031,987 treasury shares.

As of December 31, 2016, the total shares in treasury stock comprised 11,482,047, and 1,986,899,528 shares were outstanding. As of December 31, 2015, the total shares in treasury stock comprised 77,521,163, and 1,988,892,399 shares were outstanding.

Mobile TeleSystems' Level III American Depositary Shares (ADS) were successfully placed during the Company's initial public offering on the New York Stock Exchange on June 30, 2000. Each ADS represents 2 ordinary shares. As of December 31, 2015 the Group repurchased 33,997,667 ADSs, which were used to decrease the Group's charter capital in 2016.

MTS ordinary shares have been traded on the Moscow Exchange (previously, Moscow Interbank Currency Exchange (MICEX)) since October 2003 under the ticker symbol MTSI.

In 2016, the Group launched a Tender Offer, aiming to return cash of up to RUB 4,935 million to the holders of ordinary shares and ADS. Through the Tender Offer, as of December 31, 2016, the Group has repurchased 3,060,409 ordinary shares for RUB 747 million (including 1,550,495 ordinary shares purchased from Sistema for RUB 335 million).

Nature and purpose of reserves

Additional paid in capital reserve is used to recognize equity-settled share-based payment transactions, results of capital transactions under common control; changes in ownership interest in

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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22. STOCKHOLDERS' EQUITY (Continued)

subsidiaries that do not result in gain/loss of control; the excess of cash received over the acquisition cost of treasury shares.

Foreign currency translation reserve is used to record exchange differences arising from the translation of foreign subsidiaries financial statements from functional to presentation currency.

Investments revaluation reserve is used to record the accumulated impact of derivatives designated as cash flow hedges and revaluation of investments available for sale.

Remeasurements of the net defined benefit liability is used to recognize actuarial gains and losses related to the pension program set for employees of the Group's subsidiary MGTS.

The following table represents roll forward of reserves balances for the years ended December 31, 2016, 2015 and 2014:

	Foreign currency translation reserve	Investments revaluation reserve	Remeasurements of the net defined benefit liability
Balances at January 1, 2014		1,604	129
Other comprehensive income / (loss) for the year	8,803	(10,804)	278
Less: tax benefit		1,801	
Amounts reclassified to profit for the year		14,002	
Less: tax expense		(2,335)	
Net other comprehensive income for the year	8,803	2,664	278
Balances at December 31, 2014	8,803	4,268	407
Other comprehensive income for the year	835	3,253	86
Less: tax expense		(542)	
Amounts reclassified to profit for the year		(7,121)	
Less: tax benefit		1,187	
Net other comprehensive income / (loss) for the year	835	(3,223)	86
Balances at December 31, 2015	9,638	1,045	493
Other comprehensive (loss) / income for the year	(13,970)	(11,324)	50
Less: tax benefit		2,219	
Amounts reclassified to profit for the year	(2,086)	9,897	
Less: tax expense		(1,992)	
Net other comprehensive (loss) / income for the year	(16,056)	(1,200)	50

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Balances at December 31, 2016	(6,418)	(155)	543
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In the years ended December 31, 2016, 2015 and 2014 two Group subsidiaries that are material to the Group, MGTS Group and UMS (prior to disposal), had non-controlling interests.

The summarised financial information of MGTS Group is presented as follows:

	Year ended December 31,		
	2016	2015	2014
Non-controlling interest opening balance	(5,191)	(4,399)	(3,970)
Profit for the year attributable to non-controlling interest	(727)	(782)	(636)
Dividends to non-controlling interest	1,120	257	356
Other	11	(267)	(149)
Non-controlling interest closing balance	(4,787)	(5,191)	(4,399)

	December 31	
	2016	2015
Current assets	25,301	15,609
Non-current assets	50,130	67,364
Current liabilities	(7,653)	(6,989)
Non-current liabilities	(7,965)	(8,454)

	Year ended December 31,		
	2016	2015	2014
Revenue, gross of intercompany	(40,210)	(41,144)	(42,648)
Profit for the year, gross of intercompany	(12,167)	(13,322)	(11,388)

The summarised financial information of UMS is presented as follows (please see also Note 26):

	December 31	
	2016	2015
Current assets	1,614	
Non-current assets	7,620	
Current liabilities	(2,166)	
Non-current liabilities	(4,709)	
Non-controlling interest	(3,042)	

Dividends

As a leading telecommunications group with a home base in developing markets, MTS' primary need is to maintain sufficient resources and flexibility to meet financial and operational requirements. At the same time, the Group continually seeks ways to create shareholder value through both its commercial and financial strategies, including organic and non organic development as well as the Group's capital management practices.

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MTS continues to include dividend payments as part of its commitment to maximizing shareholder value. Decisions on dividends are proposed by the Board of Directors and voted upon thereafter at a general meeting of shareholders. In determining the Company's dividend payout, the Board of Directors considers a variety of factors, including:

Macroeconomic factors and levels of competitiveness in core markets,

Cash flow from operations,

The outlook for earnings growth,

Capital expenditure requirements,

Potential acquisition opportunities,

The state of capital markets and the Group's liquidity position, and

The Group's overall debt position.

In 2016, the Board of Directors approved a dividend policy for the calendar years 2016 - 2018, committing to a minimum cumulative dividend payout of RUB 20.0 per ordinary share through two semi-annual payments. In addition, the Group will aim for a target payout of RUB 25.0 - 26.0 per ordinary share in each calendar year.

The Group may take decisions on dividend payout based not only on annual results but also on interim results for three, six or nine months of the fiscal year. Annual and interim dividend payments, if any, must be recommended by the Board of Directors and approved by the shareholders.

In accordance with Russian laws, earnings available for dividends are limited to profits determined under Russian statutory accounting regulations, denominated in Russian Rubles, after certain deductions. The net income of MTS PJSC for the years ended December 31, 2016, 2015 and 2014 that is distributable under Russian legislation totaled RUB 50,659 million, RUB 6,590 million and RUB 28,159 million, respectively.

The following table summarizes the Group's declared cash dividends for the years ended December 31, 2016, 2015 and 2014:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Dividends declared (including dividends on treasury shares of 220, 1,950 and 1,922 respectively)	51,958	52,011	51,247
Dividends, RUB per ADS	52.00	50.34	49.60
Dividends, RUB per share	26.00	25.17	24.80

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As of December 31, 2016 and 2015 dividends payable were RUB 87.0 and 32.0 million, respectively, and included in the trade and other payables within the statement of financial position.

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Selling, general and administrative expenses for the year ended December 31, 2016, 2015 and 2014 comprised the following:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Salaries and social contributions	44,347	40,026	36,990
Advertising and marketing expenses	10,480	9,543	8,399
Utilities and maintenance	9,092	6,817	6,017
General and administrative expenses	7,007	6,762	7,024
Dealers commission	6,740	8,960	10,752
Taxes other than income tax	3,806	1,970	5,897
Universal service fund	3,412	3,441	3,379
Cash collection commission	3,311	2,906	2,832
Consulting expenses	1,618	2,392	2,189
Billing and data processing	1,485	1,829	2,056
Other	2,748	2,694	2,560
Total	94,046	87,340	88,095

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(Amounts in millions of Russian Rubles unless otherwise stated)

24. FINANCE INCOME AND COSTS

Finance income and costs for the year ended December 31, 2016; 2015 and 2014 comprised the following:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Interest expense:			
Loans and notes	22,982	25,154	16,287
Amortization of debt issuance costs	683	732	647
Finance lease obligations	855	756	370
Provisions: unwinding of discount	94	77	182
Total interest expense	24,614	26,719	17,486
Loss / (gain) on financial instruments	25	210	(142)
Other finance costs ⁽²⁾	2,885	378	698
Total finance costs	27,524	27,307	18,042
Less: amounts capitalized on qualifying assets ⁽¹⁾	(388)	(885)	(790)
Finance costs	27,136	26,422	17,252
Finance income on loans and receivables			
Interest income on bank deposits	4,277	7,187	3,960
Interest income on loans	510	728	433
Other finance income	486	453	126
Finance income	5,273	8,368	4,519
Net finance costs	21,863	18,054	12,733

(1) The annual weighted average capitalization rates of 8.3%, 8.3% and 7.44% were used to determine the amount of capitalized interest for the years ended December 31, 2016, 2015 and 2014, respectively.

(2) Including repurchase of MTS International Notes

25. SEGMENT INFORMATION

Management analyzes and reviews results of the Company's operating segments separately based on the nature of products and services, regulatory environments and geographic areas. MTS Group's management evaluates the segments' performance based on revenue and operating profit, excluding depreciation and amortization. Management does not analyze assets or liabilities by reportable segments.

The Group identified the following reportable segments:

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

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Moscow fixed line: represents the results of fixed line operations carried out in Moscow by the Group's subsidiary MGTS. MGTS is the only licensed PSTN operator in Moscow and is considered a

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natural monopoly under Russian antimonopoly regulations. Consequently, substantial part of services provided by MGTS are subject to governmental regulation.

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

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

In 2016, the Group ceased presenting Russia convergent and System Integrator as one reportable segment. Management has come to a conclusion that disaggregation may assist users of the financial statements better understand the Group's performance. Related financial information has, therefore, been retrospectively restated.

System Integrator includes NVision Group and SITRONICS Telecom Solutions, Ukraine, which develop and supply unique solutions and services in Russia's and Ukraine's information technology market.

The results of operations of UMS are reported as discontinued operations in the accompanying consolidated statements of profit or loss for all periods presented. The segment reporting for the years ended December 31, 2015 and 2014 was restated accordingly. The consolidated statement of financial position is not required to be retrospectively restated with respect to discontinued operations and therefore as of December 31, 2015 statement of financial position captions in the "Other" category of the following presentation include UMS.

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

Financial information by reportable segments is presented below:

Year ended December 31, 2016:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consolidated
Revenue							
External customers	358,750	34,796	27,026	420,572	14,995	125	435,692
Intersegment	4,928	4,871	2,161	11,960	10,394	(22,354)	
Total revenue	363,678	39,667	29,187	432,532	25,389	(22,229)	435,692
Operating profit	82,374	10,850	3,599	96,823	2,717	(11,871)	87,669
Depreciation and amortization	60,285	10,900	6,304	77,489	4,207	(114)	81,582
Other disclosure:							
Capital expenditures	61,455	7,316	7,666	76,437	3,748		80,185

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in millions of Russian Rubles unless otherwise stated)

25. SEGMENT INFORMATION (Continued)

Year ended December 31, 2015:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consolidated
Revenue							
External customers	353,167	34,770	25,590	413,527	12,957	155	426,639
Intersegment	4,351	4,836	2,604	11,791	4,102	(15,893)	
Total revenue	357,518	39,606	28,194	425,318	17,059	(15,738)	426,639
Operating profit	82,691	13,737	4,715	101,143	2,272	(9,492)	93,923
Depreciation and amortization	61,266	7,715	5,199	74,180	3,732	(69)	77,843
Other disclosure:							
Capital expenditures	64,364	9,303	19,955	93,622	5,099		98,721

Year ended December 31, 2014:

	Russia convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consolidated
Revenue							
External customers	336,099	35,938	29,088	401,125	9,476	77	410,678
Intersegment	4,633	4,886	3,722	13,241	1,541	(14,782)	
Total revenue	340,732	40,824	32,810	414,366	11,017	(14,705)	410,678
Operating profit	86,310	13,568	3,409	103,287	5,683	(9,112)	99,858
Depreciation and amortization	57,647	7,609	6,779	72,035	2,760	(61)	74,734
Other disclosure:							
Capital expenditures	85,786	13,649	5,103	104,538	8,234		112,772

The consolidated operating profit is reconciled to the consolidated profit before tax on the face of the consolidated statement of profit or loss.

Financial information by geographic areas is presented below:

Revenue	For the year ended December 31,		
	2016	2015	2014
Russia	396,531	388,504	372,080
Other	39,161	38,135	38,598
Total revenue	435,692	426,639	410,678

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(Amounts in millions of Russian Rubles unless otherwise stated)

25. SEGMENT INFORMATION (Continued)

	As of December 31, 2016	As of December 31, 2015
Non-current assets ⁽¹⁾		
Russia	341,585	347,173
Other	40,069	64,553
Total non-current assets:	381,654	411,726

(1) Comprises property, plant and equipment, goodwill and other intangible assets.

Revenues from external customers and non-current assets are allocated to individual countries based on location of operations. No single customer represents 10% or more of the consolidated revenue.

26. OPERATIONS IN UZBEKISTAN**Uzdunrobita**

In June 2012, the authorities of the Republic of Uzbekistan commenced audits of the financial and operating activities of MTS' wholly-owned subsidiary Uzdunrobita. Further various claims for violation of tax, antimonopoly and industry legislation were made against Uzdunrobita, which resulted in significant amounts of fines and penalties, revocation of all licenses and suspension of services. Fines and penalties amounted to approximately RUB 18,375 million payable in equal installments over eight months.

Uzdunrobita paid two scheduled installments in November and December 2012 totaling approximately RUB 4,583.4 million. On January 14, 2013, further to its partial payment of the third installment due in January 2013 totaling approximately RUB 481 million and constituting the remaining amount of cash held in its bank accounts, then Uzdunrobita filed a petition with the Tashkent Economic Court for voluntary bankruptcy on the grounds of its inability to meet further payment obligations.

Considering the adverse impact of such circumstances on the Group's ability to conduct operations in Uzbekistan, the Group tested goodwill and other long-lived assets attributable to Uzbekistan for impairment upon first receiving notification of the investigations. As a result, an impairment loss on the long-lived assets in the amount of RUB 20,037 million was recorded in the consolidated statements of profit or loss for the year ended December 31, 2012. In 2013 these losses were assigned to discontinued operations.

On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated a liquidation process. Uzdunrobita was later liquidated. As a result the Group lost control over the subsidiary and deconsolidated Uzdunrobita. Uzdunrobita was later liquidated.

In 2012, the Group filed a claim against the Republic of Uzbekistan with the International Center for Settlement of Investment Disputes ("ICSID"), part of the World Bank Group, in Washington, D.C.

On July 31, 2014, MTS and the Republic of Uzbekistan signed a settlement agreement (the "Settlement Agreement") on the basis of which MTS to reentered the market of Uzbekistan. A joint

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enterprise, Universal Mobile Systems LLC ("UMS"), was established with MTS holding a 50.01% in the charter capital of the entity, while the remaining 49.99% in UMS belonged to a state-owned unitary enterprise established and managed by the State Committee for Communications, Development of Information Systems and Telecommunications Technologies of the Republic of Uzbekistan. The Settlement Agreement was governed by English law and provided for resolution of any disputes arising out of the Settlement Agreement in the International Court of Arbitration under International Chamber of Commerce in Paris (ICC).

On November 2014, ICSID discontinued international arbitration proceedings between MTS and the Republic of Uzbekistan following the submission of a joint application by both parties.

Universal Mobile Systems LLC ("UMS")

On September 24, 2014, in accordance with the Settlement Agreement, the authorities of the Republic of Uzbekistan granted UMS 2G, 3G and LTE licenses, provided necessary frequencies and numbering capacity, fostered entrance into lease agreements for communication channels and issued all permissions required to UMS so it could operate and offer full telecommunications services throughout Uzbekistan. UMS has also received certain guaranties for investment protection and return of investments stipulated by the laws of the Republic of Uzbekistan. Independent appraisers hired by the Group determined the total fair value of UMS to be RUB 9,062 million as of the transfer date.

Based on the aforementioned fair value assessment of a 50.01% stake in UMS, the Group recognized a gain from reentrance 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 re-entry 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.

The Group consolidated UMS starting from September 24, 2014, representing the date of transfer of ownership. Below is the summary of fair value allocation regarding the incentive arrangement:

Current assets	26
Property, plant and equipment	3,848
Other intangible assets	5,161
Other non-current assets	1,327
Current liabilities	(30)
Non-current liabilities	(25)
Non-controlling interest	(3,573)
Gain from re-entrance into Uzbekistan	(6,734)

Consideration paid

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(Amounts in millions of Russian Rubles unless otherwise stated)

26. OPERATIONS IN UZBEKISTAN (Continued)

The fair value of non-controlling interest 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.

Disposal of UMS

On August 5, 2016, the Group due to a variety of business reasons and other circumstances sold its 50.01% stake in UMS for USD 1 to another UMS shareholder the State Unitary Enterprise Centre of Radio Communication, Radio Broadcasting and Television of The Ministry of Development of Information Technologies and Communications of the Republic of Uzbekistan.

The results of UMS operations were reported as discontinued operations in the accompanying consolidated statements of profit or loss. The consolidated statements of financial position and consolidated statements of cash flows for all periods presented were not retrospectively restated on discontinued operations.

UMS's summary of financial information:**Results of discontinued operation**

	For the year ended December 31,		
	2016	2015	2014
Revenue	5,115	4,610	104
Expenses	(6,602)	(10,939)	(988)
Loss before tax	(1,487)	(6,329)	(884)
Income tax gain / (loss) (note 19)	192	661	(75)
Loss for the period	(1,295)	(5,668)	(959)
Loss on sale of discontinued operations	(2,726)		
Gain from re-entrance into Uzbekistan			6,734
(Loss) / profit from discontinued operations	(4,021)	(5,668)	5,775
Loss attributable to non-controlling interests	(654)	(2,834)	(445)
(Loss) / profit to owners of the Company	(3,367)	(2,834)	6,220
Basic (loss) / earnings per share	(1.69)	(1.43)	3.13
Diluted (loss) / earnings per share	(1.69)	(1.42)	3.12
Cash flows from (used in) discontinued operation			

	For the year ended December 31,		
	2016	2015	2014
Net cash used in operating activities	(543)	(1,121)	(558)
Net cash used in investing activities	(1,253)	(2,195)	(1)
Net cash provided by financing activities	1,234	3,492	693

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As of August 5, 2016, the carrying amounts of UMS net assets and reconciliation of the loss on disposal were as follows:

Property, plant and equipment	(6,960)
Other intangible assets	(2,922)
Other non-current assets	(2,577)
Cash and cash equivalents	(378)
Other current assets	(1,359)
Non-current liabilities	5,113
Current liabilities	2,484
Non-controlling interest	1,787
Accumulated other comprehensive income	2,086
Consideration received	
Loss on disposal of UMS	(2,726)

27. LIABILITY UNDER PUT OPTION AGREEMENT

In September 2007, the Group acquired an 80% stake in International Cell Holding Ltd (ICH), the 100% indirect owner of K-Telecom, Armenia's mobile phone operator, and signed a call and put option agreement to acquire the remaining 20% stake. In 2016 ICH was liquidated and all its legal rights were assigned to Aramayo Investments Limited, a subsidiary of the Group. December 2010, the Group signed an amendment to the put and call option agreement. According to the amended option agreement, the price for the remaining 20% stake option will be determined by an independent investment bank subject to a cap of EUR 200 million. The put option can be exercised during the period from the next business day following the date of settlement of all liabilities under the loan agreement up to December 31, 2018. The call option can be exercised during the period from July 1, 2010 up to December 31, 2018. If both the call notice and the put notice are served on the same day then the put notice shall be deemed exercised in priority to the call notice. The liability under put option agreement amounted to RUB 2,243 million and RUB 2,925 million as of December 31, 2016 and December 31, 2015 respectively (Note 17).

28. COMMITMENTS AND CONTINGENCIES

Capital commitments As of December 31, 2016, the Group had executed purchase agreements of approximately RUB 26,448 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Operating leases The Group has entered into non-cancellable agreements to lease space for telecommunications equipment, offices and transmission channels, which expire in various years up to 2066. Rental expenses under the operating leases of RUB 7,581 million, RUB 6,093 million and RUB 5,624 million for the years ended December 31, 2016, 2015 and 2014, respectively, are included in selling, general and administrative expenses in the accompanying consolidated statement of profit or loss. Rental expenses under the operating leases of RUB 18,955 million, RUB 19,549 million and RUB 17,638 million for the years ended December 31, 2016, 2015 and 2014, respectively, are included

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in cost of services in the accompanying consolidated statement of profit or loss. Future minimum lease payments due under these leases at December 31, 2016 are as follows:

Payments due in	
2017	9,491
2018	918
2019	516
2020	301
2021	165
Thereafter	3,659
Total	15,050

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.

Generally, according to Russian and Ukrainian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2016, tax declarations of MTS PJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review.

In 2016, the Russian tax authorities completed a tax audit of MTS PJSC for the years ended December 31, 2013 and 2012. Based on the results of this audit additional taxes, penalties and fines in the amount of RUB 586 million were accrued in the consolidated financial statements for the year ended December 31, 2016. The Group is preparing an appeal to the Federal Tax Service.

Pricing of goods and services provided within the Group is subject to transfer pricing rules.

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

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The Group assessed the following contingent liabilities in respect of additional tax settlements:

	December 31, 2016	December 31, 2015
Contingent liabilities for additional taxes other than income tax	354	419
Contingent liabilities for additional income taxes	2,588	413

Licenses 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 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 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 December 31, 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 596 million as of December 31, 2016) adjusted for the rate of inflation in the years 2017-2018.

Management believes that as of December 31, 2016 the Group complied with conditions of aforementioned licenses.

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

Potential adverse effects of economic instability and sanctions in Russia In 2014 political and economic sanctions were introduced by the EU, US and other countries targeting certain Russian economic sectors. There is significant uncertainty regarding the extent and timing of further sanctions. Also, Russian Ruble has materially depreciated against the U.S. Dollar and Euro and ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% in

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28. COMMITMENTS AND CONTINGENCIES (Continued)

December, 2014. The decline of Russian Ruble continued in 2015 and partly reversed in 2016. The Central Bank of Russia has decreased its key rate to 11% as of December 31, 2015 and further to 10% as of December 31, 2016. However, the key rate remains higher than in the beginning of the year 2014, when it was equal to 5.5%. Russia sovereign credit ratings also were decreased.

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

Political and economic crisis in Ukraine During the year ended December 31, 2014, a deterioration in the political environment of Ukraine has led to general instability, economic deterioration and armed conflict in eastern Ukraine. The deterioration has further exacerbated the country's already weak macroeconomic trends, which have led to reduced credit ratings, significant depreciation of its national currency and increased inflation. During 2014, the Ukrainian Parliament adopted a law allowing for the imposition of sanctions against countries, persons and companies deemed by the Ukrainian government to threaten Ukrainian national interests, national security, sovereignty or the territorial integrity of Ukraine. The National Bank of Ukraine ("NBU") passed a decree prohibiting Ukrainian companies to pay dividends to foreign investors. The decree was extended for a few times and its edition effective as of December 31, 2016 allows payment of dividends from the profit earned in 2014-2015, subject to certain restrictions. These circumstances, combined with continued political and economic instability in the country, could result in further negative impact on the Group's business including our financial position and results of operations.

Such risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of December 31, 2014, the Group held RUB 21,203 million in current accounts and deposits in Ukrainian banks, including RUB 5,072 million in Delta Bank. In December 2014, Delta Bank delayed customer payments and put limits on cash withdrawals. On March 2, 2015, NBU adopted a resolution declaring Delta Bank to be insolvent. The Group reserved the full amount of deposited funds (RUB 5,072 million) and related interest (RUB 66 million) as of December 31, 2014. During the year ended December 31, 2015, the Group created additional reserve of RUB 1,698 million for cash balances deposited in distressed Ukrainian banks (including RUB 185 million for cash balances deposited in Delta Bank, RUB 868 million for cash balances deposited in bank Kyivska Rus and RUB 645 million for cash balances deposited in Platinum Bank) that was included as a component of operating expenses in the accompanying consolidated statement of profit or loss.

As of December 31, 2016, the Group held RUB 3,617 million in current accounts and deposits in Ukrainian banks.

Anti-terror law On July 7, 2016 a series of anti-terror laws (also known as "Yarovaya-Ozerov bundle of laws") was enacted by the signature of the President of Russia. In general terms, the laws mandate that operators store and record phone conversations, text messages of subscribers, images, sounds, video and other types of communications by telecommunications operators for defined periods of time. These requirements are to become effective starting July 1, 2018. Compliance with the laws

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28. COMMITMENTS AND CONTINGENCIES (Continued)

may require the construction of additional storage, processing and indexing centers and a significant increase in the Group capital expenditures. This may adversely impact Group's financial indicators, in particular free cash flow.

The requirements of the anti-terror laws are currently being reviewed and clarified. The Group will estimate the potential impact of the laws on the Group's consolidated financial statements, including additional provisions, when requirements and any obligations are sufficiently specified.

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

In 2015, activities related to the Group's former operations in Uzbekistan have been referenced in a civil forfeiture complaints ("The Complaints"), 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 Complaints allege 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 Complaints are solely directed towards assets held by the unnamed Uzbek official, and none of MTS's assets are affected by the Complaints.

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

29. SUBSEQUENT EVENTS

Tender Offer announcement On January 17, 2017, the Group announced details of a tender offer (the "Tender Offer") to repurchase its ordinary shares (including shares represented by ADSs) for up to RUB 4,647 million and completed the repurchase in March 2017. Under the Tender Offer, the Group purchased a total of 16,022,364 shares at a price per share of RUB 290.00, for a total cost of RUB 4,646 million. Simultaneously, the Group purchased 16,038,892 shares from Sistema Finance under the Sistema Purchase Agreement for an aggregate purchase price of RUB 4,651 million.

Early repayment of MTS Bank subordinated debt In January 2017 MTS Bank, an associate of the Group, fully repaid its 10-year subordinated loan, received from the Group in September 2012 in the amount of RUB 2,100 million.

Notes issuance In February 2017 the Group issued Notes due 2022 at par value of RUB 10,000 million and coupon rate of 9.00%.