

SISTEMA PJSFC AND SUBSIDIARIES

**Condensed Interim Consolidated
Financial Statements (unaudited)**

For the six months ended 30 June 2016

SISTEMA PJSFC AND SUBSIDIARIES

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SISTEMA PJSFC AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the condensed interim consolidated financial statements that present fairly the financial position of Sistema Public Joint Stock Financial Corporation and its subsidiaries (the "Group") as of 30 June 2016, and the results of its operations, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

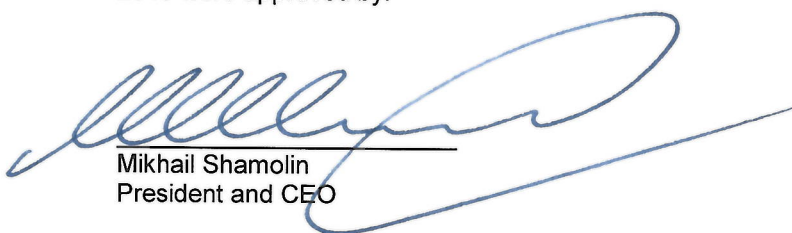
In preparing the condensed interim consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and assumptions that are reasonable and prudent;
- Stating whether IAS 34 has been followed, subject to any material departures disclosed and explained in the condensed interim consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

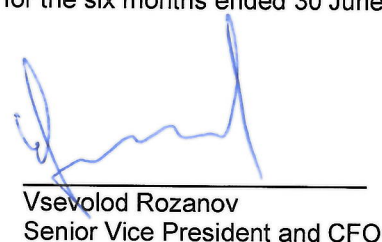
Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the condensed interim consolidated financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The condensed interim consolidated financial statements of the Group for the six months ended 30 June 2016 were approved by:



Mikhail Shamolin
President and CEO



Vsevolod Rozanov
Senior Vice President and CFO

30 August 2016

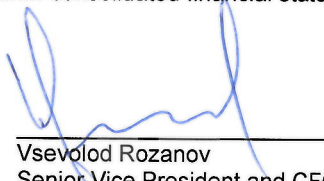
SISTEMA PJSFC AND SUBSIDIARIES

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

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Revenue	350,445	331,705
Cost of sales	(179,749)	(169,581)
Selling, general and administrative expenses	(75,797)	(69,047)
Depreciation and amortisation	(49,573)	(46,945)
Impairment of long-lived assets	(328)	(678)
Impairment of financial assets	(1,836)	(3,546)
Taxes other than income tax	(2,959)	(3,766)
Share of the profit or loss of associates and joint ventures	2,258	1,758
Other income	1,043	565
Other expenses	(2,641)	(1,484)
Operating income	40,863	38,981
Finance income	5,836	8,633
Finance costs	(32,257)	(24,065)
Currency exchange gain/(loss)	6,504	(223)
Profit before tax	20,946	23,326
Income tax expense	(8,879)	(9,979)
Profit from continuing operations	12,067	13,347
Profit from discontinued operations	-	43,816
Profit for the period	12,067	57,163
Attributable to:		
Shareholders of Sistema PJSFC	2,636	46,690
Non-controlling interests	9,431	10,473
	12,067	57,163
Earnings per share (basic and diluted), Russian Rubles:		
From continuing operations	0.28	0.30
From continuing and discontinued operations	0.28	4.95

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


Mikhail Shamolin
President and CEO


Vsevolod Rozanov
Senior Vice President and CFO

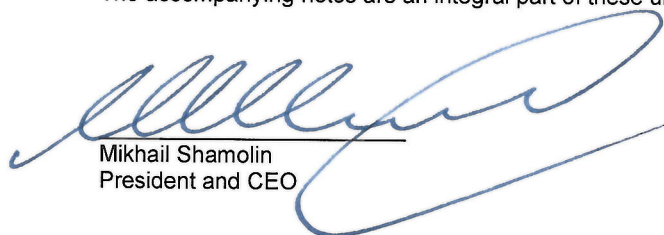
30 August 2016

SISTEMA PJSFC AND SUBSIDIARIES

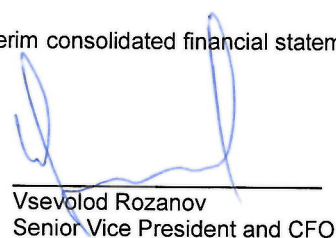
CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in millions of Russian Rubles)

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Profit for the period	12,067	57,163
Other comprehensive loss		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation loss on foreign operations in subsidiaries	(5,877)	(11,197)
Currency translation loss on foreign operations in associates and joint ventures	(939)	(1,801)
Net fair value loss on revaluation of financial instruments available-for-sale	(1,752)	(2,919)
Other comprehensive loss, net of tax	(8,568)	(15,917)
Total comprehensive income	3,499	41,246
Attributable to:		
Shareholders of Sistema PJSFC	(1,422)	37,810
Non-controlling interests	4,921	3,436
	3,499	41,246

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



Mikhail Shamolin
President and CEO



Vsevolod Rozanov
Senior Vice President and CFO

30 August 2016

SISTEMA PJSFC AND SUBSIDIARIES

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

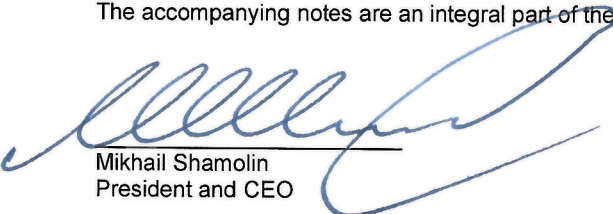
	Note	30 June 2016 (unaudited)	31 December 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment		419,641	423,626
Investment property		12,807	14,085
Goodwill	5	49,454	47,723
Other intangible assets		117,983	118,188
Investments in associates and joint ventures		24,834	22,219
Deferred tax assets		26,278	25,966
Loans receivable and other financial assets	7	105,939	112,236
Deposits in banks		38,153	45,696
Other assets		15,595	15,328
Total non-current assets		810,684	825,067
CURRENT ASSETS:			
Inventories		79,906	74,638
Accounts receivable		78,054	74,276
Advances paid and prepaid expenses		19,387	17,544
Current income tax assets		4,660	6,051
Other taxes receivable		18,270	20,993
Loans receivable and other financial assets	7	70,431	78,020
Deposits in banks		31,828	76,117
Restricted cash	8	9,009	-
Cash and cash equivalents		89,460	122,775
Other assets		1,845	2,101
Total current assets		402,850	472,515
TOTAL ASSETS		1,213,534	1,297,582

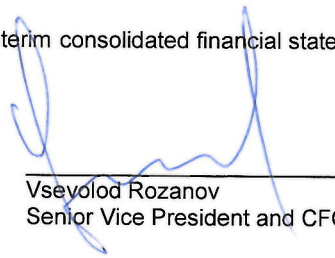
SISTEMA PJSFC AND SUBSIDIARIES

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

		30 June 2016 (unaudited)	31 December 2015
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		869	869
Treasury shares		(6,745)	(4,806)
Additional paid-in capital		85,810	80,778
Retained earnings		114,954	118,615
Accumulated other comprehensive loss		(11,137)	(7,079)
Equity attributable to shareholders of Sistema		183,751	188,377
Non-controlling interests		54,899	62,013
Total equity		238,650	250,390
NON-CURRENT LIABILITIES:			
Borrowings	10	347,571	414,103
Bank deposits and liabilities		14,240	7,275
Deferred tax liabilities		46,665	42,826
Provisions		3,676	4,190
Liability to Rosimushchestvo	11	34,950	-
Other financial liabilities		21,621	28,224
Other liabilities		11,658	11,172
Total non-current liabilities		480,381	507,790
CURRENT LIABILITIES:			
Borrowings	10	138,538	142,657
Liabilities under put option agreements	11	11,497	65,684
Accounts payable		128,934	137,055
Bank deposits and liabilities		101,484	115,529
Advances received		28,173	24,953
Subscriber prepayments		16,700	20,955
Income tax payable		1,045	831
Other taxes payable		16,095	14,524
Dividends payable	9	21,054	210
Provisions		8,509	10,151
Liability to Rosimushchestvo	11	15,438	-
Other financial liabilities		7,036	6,853
Total current liabilities		494,503	539,402
TOTAL EQUITY AND LIABILITIES		1,213,534	1,297,582

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


Mikhail Shamolin
President and CEO


Vsevolod Rozanov
Senior Vice President and CFO

30 August 2016

SISTEMA PJSFC AND SUBSIDIARIES

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

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Currency reserve	Accumulated other comprehensive (loss)/income	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2015	869	72,202	(6,913)	89,444	(1,800)	2,218	156,020	77,687	233,707
Profit for the period	-	-	-	46,690	-	-	46,690	10,473	57,163
Other comprehensive loss, net of tax	-	-	-	-	(7,544)	(1,336)	(8,880)	(7,037)	(15,917)
Total comprehensive income/(loss) for the period	-	-	-	46,690	(7,544)	(1,336)	37,810	3,436	41,246
Purchase of own shares	-	-	(457)	-	-	-	(457)	-	(457)
Accrued compensation cost	-	1,170	-	-	-	-	1,170	-	1,170
Capital transactions of subsidiaries	-	(2,845)	-	-	-	-	(2,845)	2,487	(358)
Dividends declared by Sistema PJSFC	-	-	-	(4,430)	-	-	(4,430)	-	(4,430)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(17,959)	(17,959)
30 June 2015	869	70,527	(7,370)	131,704	(9,344)	882	187,268	65,651	252,919
1 January 2016	869	80,778	(4,806)	118,615	(7,532)	453	188,377	62,013	250,390
Profit for the period	-	-	-	2,636	-	-	2,636	9,431	12,067
Other comprehensive loss, net of tax	-	-	-	-	(4,223)	165	(4,058)	(4,510)	(8,568)
Total comprehensive income for the period	-	-	-	2,636	(4,223)	165	(1,422)	4,921	3,499
Settlements under long-term motivation program	-	(142)	142	-	-	-	-	-	-
Accrued compensation cost	-	602	-	-	-	-	602	-	602
Purchases of own shares	-	-	(2,081)	-	-	-	(2,081)	-	(2,081)
Capital transactions of subsidiaries (Note 6)	-	4,599	-	-	-	-	4,599	799	5,398
Business combinations (Note 5)	-	(27)	-	-	-	-	(27)	2,154	2,127
Dividends declared by Sistema PJSFC (Note 9)	-	-	-	(6,297)	-	-	(6,297)	-	(6,297)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(14,988)	(14,988)
30 June 2016	869	85,810	(6,745)	114,954	(11,755)	618	183,751	54,899	238,650

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

SISTEMA PJSFC AND SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Russian Rubles)

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	12,067	57,163
Profit from discontinued operations	-	(43,816)
	12,067	13,347
Adjustments for:		
Depreciation and amortisation	49,573	46,945
Share of the profit or loss of associates and joint ventures	(2,258)	(1,758)
Finance income	(5,836)	(8,633)
Finance costs	32,257	24,065
Income tax expense	8,879	9,979
Currency exchange (gain)/loss	(6,504)	223
Loss on disposal of property, plant and equipment	55	338
Loss from fair value adjustment of financial instruments through profit or loss	425	18
Gain on disposal of subsidiaries	-	(202)
Amortisation of connection fees	(491)	(569)
Impairment loss on loans receivable	3,207	6,863
Dividends received from associates and joint ventures	1,181	1,471
Non-cash compensation to employees	602	1,170
Impairment of long-lived assets	328	678
Impairment of financial assets	1,836	3,546
Other non-cash items	3,336	555
	98,657	98,036
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	7,387	18,573
Bank deposits and liabilities	(7,081)	(19,264)
Restricted cash (Note 8)	(9,009)	-
Financial assets at fair value through profit or loss	(836)	3,032
Accounts receivable	(3,070)	9,773
Advances paid and prepaid expenses	(1,289)	2,017
Other taxes receivable	3,190	(2,975)
Inventories	(4,727)	(9,669)
Accounts payable	(4,285)	(428)
Subscriber prepayments	(3,763)	(2,552)
Other taxes payable	1,485	4,445
Advances received and other liabilities	988	8,188
Interest paid	(31,804)	(19,177)
Income tax paid	(6,383)	(7,003)
Net cash provided by operating activities	39,460	82,996

SISTEMA PJSFC AND SUBSIDIARIES

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

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(37,414)	(53,148)
Proceeds from sale of property, plant and equipment	1,365	1,479
Proceeds from settlement with Ural-Invest	-	10,821
Payments for purchases of intangible assets	(17,278)	(21,041)
Payments for businesses, net of cash acquired	(5,432)	-
Payments for investments in associates and joint ventures	(1,980)	(1,323)
Payments for financial assets, long-term	(11,763)	(46,363)
Proceeds from sale of financial assets, long-term	3,971	1,405
Payments for financial assets, short-term	(11,681)	(25,026)
Proceeds from sale of financial assets, short-term	53,588	11,859
Interest received	5,808	7,868
Other	1,504	288
Net cash used in investing activities	(19,312)	(113,181)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	31,857	74,703
Principal payments on borrowings	(80,220)	(49,262)
Debt issuance costs	-	(1,137)
Acquisition of non-controlling interests in existing subsidiaries	(2,078)	-
Payments to purchase treasury stock	(2,082)	(457)
Proceeds from transactions with non-controlling interests	8,789	-
Cash outflow under credit guarantee agreement related to foreign-currency hedge	(1,034)	-
Net cash (used in)/provided by financing activities	(44,768)	23,847
Impairment of cash and cash equivalents	-	(1,697)
Effect of foreign currency translation on cash and cash equivalents	(8,695)	(4,868)
Net decrease in cash and cash equivalents	(33,315)	(12,903)
Cash and cash equivalents at the beginning of the period	122,775	119,967
Cash and cash equivalents at the end of the period	89,460	107,064

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

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL

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

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

These financial statements do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2015 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition.

These unaudited condensed interim consolidated financial statements were approved by the Company's President and CEO and authorised for issue on 30 August 2016.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The same accounting policies, presentation and methods of computation have been followed in these condensed interim financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2015.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for 2015 prepared in accordance with IFRS.

4. SEGMENT INFORMATION

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

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

	External revenues		Inter-segment revenue		Segment operating income/(loss)	
	2016	2015	2016	2015	2016	2015
MTS	215,859	202,225	367	647	40,272	41,728
Detsky Mir	33,735	24,744	-	-	1,640	907
RTI	20,117	35,263	22	3,421	481	803
MTS Bank	10,330	13,627	130	293	(1,098)	(3,531)
SSTL	7,404	6,651	-	-	(858)	(2,068)
Corporate	920	960	511	439	(4,270)	(3,345)
Total reportable segments	288,365	283,470	1,030	4,800	36,167	34,494
Other	62,080	48,235	684	2,215	4,599	3,780
	350,445	331,705	1,714	7,015	40,766	38,274
Inter-segment eliminations					97	707
Operating income					40,863	38,981
Finance income					5,836	8,633
Finance costs					(32,257)	(24,065)
Foreign currency exchange gain/(loss)					6,504	(223)
Profit before tax					20,946	23,326

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

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

5. BUSINESS COMBINATIONS

Business combinations in 2016

The information on business combinations which took place during six months ended 30 June 2016 is summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
Lesosibirsk LDK No. 1	Pulp and paper	February	60%	Segezha Agroholding	3,085
Agriculture businesses	Agriculture	April-May	99%-100%	Steppe	2,446
Total					5,531

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

	Lesosibirsk LDK No. 1	Agriculture businesses
Cash consideration	3,085	2,446
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Property, plant and equipment	10,556	393
Current assets	2,798	957
Deferred tax liabilities	(930)	-
Other non-current liabilities	(5,769)	(21)
Current liabilities	(1,513)	(1,198)
Non-controlling interests	(2,057)	(96)
Goodwill	-	2,481

The excess of the consideration paid over the value of net assets of agricultural businesses was allocated to goodwill, which mainly arised from expected synergies on economies of scale related to operating and capital expenditures.

At the date of finalisation of these condensed interim consolidated financial statements, the necessary market valuations and other calculations, including goodwill calculation had not been finalised and the amounts of identifiable assets acquired and liabilities assumed have therefore only been provisionally determined based on the best estimate of the likely fair values.

Pro forma financial data for 6 months of 2016 which gives effect to the acquisitions as if they had occurred as of 1 January 2016 is not presented because the effects of these business combinations, individually and in aggregate, were not material to the Group's consolidated results of operations.

Business combinations in 2015

During the six months ended 30 June 2016 the Group obtained new information about facts and circumstances that existed as of acquisition dates of business combinations in 2015 and recognised adjustments to the provisional amounts. The consolidated financial statement of financial position as of 31 December 2015 was retroactively adjusted as if the purchase price allocation had been adjusted at acquisition dates.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

6. CAPITAL TRANSACTIONS OF SUBSIDIARIES

The Group enters into transactions to acquire or dispose ownership interests in its existing subsidiaries that do not result in the Group losing control over the subsidiaries. Also, the entities of the Group enter into transactions with each other to transfer ownership interests in subsidiaries within the Group. Such transactions are accounted for as equity transactions.

The information on capital transactions of subsidiaries which took place during six months ended 30 June 2016 and their impacts on the Group's equity is summarized below:

	Increase/ (decrease) of additional paid-in capital	Increase/ (decrease) of non- controlling interests
Disposal of 1.45% in MTS	5,325	2,587
Disposal of 10% and 3% in RTI	1,714	(565)
Acquisition of 39% of Lesosibirsk LDK No. 1	-	(1,937)
Additional share issue of MTS Bank	17	(17)
Other	(2,457)	731
Total impact	4,599	799

Disposal of 1.45% in MTS – In June 2016, the Group sold 14,965,592 American Depositary Shares of MTS, representing 1.45% of MTS share capital, to a non-affiliated buyer for a consideration of USD 123.5 million (RUB 8 billion). As of 30 June 2016, the remaining Group's ownership interest in MTS was 51.93%.

Disposal of 10% and 3% in RTI – In April 2016, the Group sold 10% of RTI share capital to PJSC Sovcombank for a total cash consideration of RUB 1 billion. In March 2016, the Group also exchanged 3% in RTI for 1.5% in JSC RTI-Systems (subsidiary of RTI). The remaining Group's ownership interest in RTI is 72%.

Acquisition of 39% in Lesosibirsk LDK No. 1 – In April 2016, in a series of transactions the Group acquired additional stake in Lesosibirsk LDK No. 1 for a total cash consideration RUB 2 billion and increased its stake from 60% to 99%.

Additional share issue of MTS Bank – In February 2016, the Group participated in additional share issue of MTS Bank for RUB 5 billion.

7. LOANS RECEIVABLE AND OTHER FINANCIAL ASSETS

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

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At 30 June 2016, financial assets, other than those shown separately on the face of the statement of financial position, comprise:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Financial assets at fair value through profit or loss (FVTPL)		
Debt and equity securities	30,446	28,954
Loans and receivables carried at amortised cost		
Bank loans to customers	69,850	78,846
Interbank loans due from banks	4,564	7,966
Other loans and receivables	38,865	37,249
	<u>113,279</u>	<u>124,061</u>
Available-for-sale financial assets (AFS)		
Debt and equity securities	8,131	12,214
Held-to-maturity financial assets (HTM)		
Debt and equity securities	6,945	-
Hedging instruments at fair value		
Interest rate swaps designated as cash flow hedges	17,569	25,027
	<u>176,370</u>	<u>190,256</u>
Current	70,431	78,020
Non-current	105,939	112,236

At 30 June 2016, financial assets attributable to the Group's banking activities (MTS Bank and its subsidiaries) comprise:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Cash and cash equivalents	43,177	46,536
Bank loans to customers	115,171	125,522
Interbank loans due from banks	4,813	8,200
Financial assets at FVTPL	23,113	20,581
AFS financial assets	6,668	6,765
HTM financial assets	6,945	-
Other	229	2,261
Less: allowance for loan losses	(45,570)	(46,910)
	<u>154,546</u>	<u>162,955</u>

The movement in the allowance for loan losses during six months ended 30 June 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Allowance for loan losses, 1 January	46,910	31,558
Additions charged to the operating results	3,207	6,863
Amounts written off against the allowance	(3,879)	(3,438)
Currency translation adjustment	(668)	(114)
Allowance for loan losses, 30 June	<u>45,570</u>	<u>34,869</u>

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8. RESTRICTED CASH

According to the amendments to the law "On State Defense Orders", cash received under state defense orders has to be held on special accounts and its spending is restricted to activities related to these orders. As of 30 June 2016, RTI has RUB 9 billion of cash on special accounts which was presented in Restricted cash within current assets.

9. DIVIDENDS

Dividends declared to the holders of the Company's ordinary shares are included in the financial statements in the period in which the dividends are approved by the shareholders.

On 25 June 2016, an annual general meeting of shareholders approved the total dividend payment of RUB 6,470 million for 2015 year (including dividends on shares owned by subsidiaries of the Company in amount of RUB 173 million), representing RUB 0.67 per ordinary share or RUB 13.4 per GDR.

10. BORROWINGS

The Group's borrowings primarily comprise bank loans and issuances in the capital markets. The Group regularly enters into variable-to-fixed interest rate swap agreements to manage exposure to changes in variable interest rates related to a portion of its obligations, as well as into cross-currency interest-rate swap agreements to mitigate the impact of both, interest rate and exchange rate fluctuations, for a certain portion of its USD- and Euro-denominated borrowings.

At 30 June 2016, the Group's borrowings comprise:

	30 June 2016	31 December 2015
Bank loans	330,769	366,724
Corporate bonds	139,319	171,755
Finance lease obligations	14,659	16,085
Other	1,362	2,196
	486,109	556,760
Current	138,538	142,657
Non-current	347,571	414,103

At 30 June 2016, the schedule of repayments of borrowings for the next five years and thereafter is as follows:

Within one year	138,538
In one to two years	99,733
In two to three years	105,239
In three to four years	61,920
In four to five years	25,900
In more than five years	54,779
	486,109

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Bank loans – As at 30 June 2016, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 30 June 2016)	30 June 2016	31 December 2015
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2016-2020	LIBOR 6m+1.15%	30,824	39,449
China Development Bank	2016-2021	LIBOR 6m+3.15%; 1.92%	17,350	21,026
Citibank	2016-2024	LIBOR 6m+0.9%	14,474	17,511
Bank of China	2016	1.91% - 3.83%	5,742	10,391
VTB	2016-2018	LIBOR 3m+7.5%	3,555	4,032
Skandinaviska Enskilda Banken AB	2016-2017	LIBOR 6m+0.225% - 1.8%	2,277	3,938
Other			2,668	275
			76,890	96,622
EUR-denominated:				
Credit Agricole Corporate Bank and BNP Paribas	2016-2018	EURIBOR 6m+1.65%	1,221	1,639
VTB	2016-2017	EURIBOR 6m+6.2%	641	1,076
Other			1,115	1,466
			2,977	4,181
RUB-denominated:				
Sberbank	2016-2022	8.45%-17.75%	181,569	203,363
VTB	2016-2020	8.90%-19.70%; CBR+2.02%-3.75% (12.52%-14.25%); Mosprime 3m+4%- 7.25% (14.99%- 18.24%)	23,896	24,753
Gazprombank	2016-2018	9.75% - 20.0%	8,789	11,187
Expobank	2016-2019	14.00% - 16.00%	6,500	3,500
Alfa Bank	2016-2018	13.2%-14.5%	5,462	4,970
Other			15,168	12,779
			241,384	260,552
Other currencies			9,518	5,369
Total bank loans			330,769	366,724

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Notes – As at 30 June 2016, the Group's notes consisted of the following:

	Currency	Interest rate	30 June 2016	31 December 2015
MTS International Notes due 2020	USD	8.63%	19,630	42,238
MTS International Notes due 2023	USD	5.00%	29,891	33,908
Sistema International Notes due 2019	USD	6.95%	27,258	32,027
Sistema PJSFC Bonds due 2016	RUB	8.75%	14,094	13,896
Sistema PJSFC Bonds due 2018	RUB	12.70%	10,000	10,000
Sistema PJSFC Bonds due 2030	RUB	17.00%	8,211	8,206
Sistema PJSFC Bonds due September 2025	RUB	12.50%	5,000	5,000
MTS Notes due 2023	RUB	8.25%	9,977	9,971
MTS Notes due 2017	RUB	8.70%	9,632	9,637
MTS Notes due 2020	RUB	10.75%	2,110	2,110
MTS Notes due 2016	RUB	8.75%	1,788	1,788
Sistema PJSFC Bonds due October 2025	RUB	10.90%	1,700	1,700
Other			28	1,274
Total notes			139,319	171,755

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 cost within the consolidated statement of profit or loss.

The Group has an unconditional obligation to repurchase certain notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. Such notes are disclosed maturing in the reporting period when the demand for repurchased could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The dates of the announcement for each particular note issue are as follows:

Sistema PJSFC Bonds due 2030	August 2016
MTS PJSC Notes due 2020	November 2016
MTS PJSC Notes due 2023	March 2018
Sistema PJSFC Bonds due September 2025	October 2018
Sistema PJSFC Bonds due October 2025	November 2019

Covenants – Loans and notes payable by the Group are subject to various restrictive covenants, including, but not limited to compliance with certain financial ratios, limitations on dispositions of assets and transactions within the Group and retention of principal telecom licenses. As of 30 June 2016 and 31 December 2015, the Group had RUB 14,528 million and RUB 10,222 million respectively of its RUB-denominated long-term debt which was presented within current liabilities in the consolidated statement of financial position because of non-compliance with certain financial ratios by its subsidiaries.

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11. LIABILITIES UNDER PUT OPTION AGREEMENTS

From time to time, to optimise the structure of business acquisitions and to defer payment of the purchase price or to attract a co-investor into the business, the Group enters into put option agreements to acquire the non-controlling interests in its subsidiaries.

At 30 June 2016, liabilities recorded by the Group in relation to such put options comprised:

Subsidiary	Underlying interest	Earliest demand date	30 June 2016	31 December 2015
SSTL	17.14%	March 2016	-	54,808
Mikron	7.63%	November 2016	7,663	7,050
MTS in Armenia	20.00%	December 2016	2,932	2,925
Other			902	901
Total			11,497	65,684
Current			11,497	65,684
Non-current			-	-

In June 2016, the Group has signed an agreement with the Russian Government, represented by the Federal Agency for State Property Management ("Rosimushchestvo"), whereby the Group acquires 17.14% of the shares of SSTL for the higher of USD 777 million (RUB 49,928 million as of 30 June 2016) or market value as of 26 March 2016, determined by an independent appraiser. The liability will be repaid in instalments in 2016-2020. Ownership rights for the shares will be transferred to the Group in proportion to the repaid liability balance. The Group presented the liability in separate lines in the condensed interim consolidated statement of financial position as of 30 June 2016.

12. FAIR VALUES

The following fair value hierarchy table presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 30 June 2016. Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. Level 1 classification comprises financial instruments where fair value is determined by unadjusted quoted prices in active markets for identical assets or liabilities that the Group can access at the measurement date; Level 2 – from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; Level 3 – from unobservable inputs.

	30 June 2016				31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets at FVTPL	30,446	-	-	30,446	28,954	-	-	28,954
AFS securities	6,668	-	1,463	8,131	10,571	-	1,643	12,214
Hedging instruments at fair value	-	17,569	-	17,569	-	25,027	-	25,027
	37,114	17,569	1,463	56,146	39,525	25,027	1,643	66,195
Financial liabilities								
Derivative instruments	(1,348)	(1,913)	-	(3,261)	-	(2,531)	-	(2,531)
Contingent considerations	-	-	(128)	(128)	-	-	(115)	(115)
Liabilities under put option agreements	-	-	(2,932)	(2,932)	-	-	(2,925)	(2,925)
	(1,348)	(1,913)	(3,060)	(6,321)	-	(2,531)	(3,040)	(5,571)

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The fair value of financial assets and liabilities categorised into Level 3 is primarily measured using the discounted cash flows technique. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and jurisdiction in which the investee operates.

There were no changes made during six months ended 30 June 2016 to valuation methods or the processes to determine classification and no transfers were made between the levels in the fair value hierarchy. Carrying value of the Group's financial instruments accounted for at amortised cost approximates their fair value due to their short-term nature and market interest rates, except for bank loans to customers, HTM financial assets, borrowings and bank deposits and liabilities as disclosed in the table below:

	30 June 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Bank loans to customers	69,850	69,850	78,846	78,508
HTM financial assets	6,945	6,986	-	-
Financial liabilities				
Borrowings	486,109	486,368	556,760	546,492
Bank deposits and liabilities	115,724	115,381	122,804	121,945

Changes in the Group's net assets and earnings resulting from fair value measurements of Level 3 liabilities were not significant for the six months ended 30 June 2016. There were no significant realised and unrealised gains and losses of Level 3 liabilities for the six months ended 30 June 2016.

13. RELATED PARTY TRANSACTIONS

The Group has a number of related parties including its majority shareholder and entities under common control, associates and joint ventures, and key management personnel.

Trading transactions – The Group's trading transactions with related parties that are not members of the Group comprise sales and purchases of goods and services in the normal course of business. During the six months ended 30 June 2016, sales to related parties comprised RUB 280 million (2015: RUB 495 million), purchases from related parties comprised RUB 224 million (2015: RUB 185 million). As at 30 June 2016, trade balances receivable from and payable to related parties comprised RUB 2,632 million and RUB 1,698 million, respectively (31 December 2015: RUB 2,253 million and RUB 1,233 million).

Financial transactions – The Group's financial transactions with related parties primarily comprise loans and other debt instruments issued to or by the Group entities. At 30 June 2016, amounts owed by or to related parties under such arrangements are as follows:

	Amounts owed by related parties		Amounts owed to related parties	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Majority shareholder and entities under common control	3,692	5,561	42,941	42,331
Key management personnel	-	-	2,631	2,988
Other related parties	2,319	1,244	428	1,572

Finance costs related to such transactions with related parties and recognised in profit and loss during the six months ended 30 June 2016 amounted to RUB 1,759 million (2015: RUB 1,519 million).

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Compensation of key management personnel – During the six months ended 30 June, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board, was as follows:

	<u>2016</u>	<u>2015</u>
Short-term benefits	537	570
Share-based payments	281	617
Total	<u>818</u>	<u>1,187</u>

14. CONTINGENCIES AND COMMITMENTS

Capital commitments – A capital commitment is a contractual obligation to make payment in the future, mainly in relation to buy assets such as network infrastructure. These amounts are not recorded in the condensed interim consolidated statement of financial position since the Group has not yet received goods or services from suppliers. At 30 June 2016, the Group had capital commitments of RUB 43,822 million (31 December 2015: RUB 31,594 million) relating to the acquisitions of property, plant and equipment.

Operating lease commitments – The Group enters into various agreements to lease space for telecommunications equipment, transmission channels, mobile towers, retail outlets and offices. The leases have various terms and renewal rights, none of which is individually significant to the Group. Future minimum lease payments under non-cancellable operating leases comprise:

Payments due in	
the six months ended 31 December 2016	12,967
2017	13,152
2018	12,501
2019	12,787
2020	13,096
Thereafter	<u>17,281</u>
Total	<u>81,784</u>

Commitments on loans and unused credit facilities – As of 30 June 2016, MTS Bank had RUB 11,731 million of commitments on loans and unused credit facilities available to its customers (31 December 2015: RUB 5,064 million).

Guarantees – At 30 June 2016, MTS Bank guaranteed loans for several companies which totaled RUB 3,771 million (31 December 2015: RUB 5,423 million), including related parties of RUB 354 million (31 December 2015: RUB 589 million). These guarantees would require payment by the Group in the event of default on payment by the respective debtor. Such guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Investigations into former operations in Uzbekistan – In March 2014, MTS received requests for the provision of information from the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") relating to a currently conducted investigation of the Group's former subsidiary in Uzbekistan. In July 2015, activities related to the MTS's former operations in Uzbekistan have been referenced in a civil forfeiture complaint (the "Complaint"), filed by DOJ in the U.S. District Court, Southern District of New York (Manhattan), directed at certain assets of an unnamed Uzbek government official. The Complaint alleges among other things that MTS and certain other parties made corrupt payments to the unnamed Uzbek official to assist their entering and operating in the Uzbekistan telecommunications market. The Complaint is solely directed towards assets held by the unnamed Uzbek official, and none of the Group assets are affected by the Complaint.

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

Anti-terrorism laws – On 7 July 2016, a package of anti-terrorism laws (also known as “Yarovaya-Ozerov package of laws”) was signed by the President of the Russian Federation. The package provides for mandatory storage of recorded phone conversations, text messages of subscribers, images, sounds, video and other types of messages by telecommunications operators for certain periods of time. These requirements become effective starting 1 July 2018. Compliance with the package may require construction of additional storage, processing and indexing centers and significant increase in the Group capital expenditures. This may adversely impact Group's financial indicators.

The requirements of the package of anti-terrorism laws are in the process of clarification and in-depth development. Until the law package requirements are sufficiently specified, the Group is unable to estimate its possible impact on the Group's future performance.

Taxation – Russia and other CIS countries currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or non-existent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia and the CIS countries that are more significant than those typically found in countries with more developed tax systems. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods.

Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. As of 30 June 2016, provisions for additional taxes and customs settlements comprised RUB 1,987 million (31 December 2015: RUB 832 million). However, the relevant authorities may have different interpretations, and the effects on the financial statements could be significant.

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

Potential adverse effects of economic instability and sanctions in Russia – Political and economic sanctions were introduced by the EU, US and other countries targeting certain Russian economic sectors. There is significant uncertainty regarding the extent and timing of further sanctions. Also, Russian Ruble has materially depreciated against the U.S. Dollar and Euro and ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% in December 2014. The decline of the Russian Ruble continued in 2015 and partly reversed in the first half of 2016. The Central Bank of Russia has decreased its key rate to 11% as of 31 December 2015 and further to 10.5% as of 30 June 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. MTS

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has a hedging policy in place, which partly mitigated variability of MTS cash outflows, denominated in foreign currencies.

Political and economic crisis in Ukraine – The armed conflict in eastern Ukraine has further exacerbated the country's already weak macroeconomic trends, which have led to reduced credit ratings, significant depreciation of its national currency and increased inflation. During 2014 the National Bank of Ukraine ("NBU") passed a decree prohibiting Ukrainian companies to pay dividends to foreign investors. The decree was amended as of June 30, 2016 and allows payment of dividends for the years 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 in Ukraine. Such risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of 30 June 2016, the Group held RUB 2,734 million in current accounts and deposits in Ukrainian banks.

Legal proceedings – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Group operates. At 30 June 2016, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 1,200 million.

15. EVENTS AFTER THE REPORTING DATE

Disposal of UMS LLC – On 5 August 2016, the Group sold its 50.01% stake in UMS (MTS subsidiary in Uzbekistan) to 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 carrying amounts of assets and liabilities of the UMS at the end of the reporting period were as follows:

Assets

Property, plant and equipment	6,573
Other intangible assets	3,025
Other non-current assets	2,475
Current assets	1,339

Liabilities

Non-current liabilities	4,746
Current liabilities	1,961

Total net assets

6,705

The Group will recognize loss on disposal of UMS in amount of approximately RUB 2.7 billion, which will be recorded as part of loss for the period from discontinued operations in the consolidated statement of profit or loss.

Recommendations for the payment of dividends of Sistema – In August 2016, the Board of Directors of Sistema passed a resolution to convene an extraordinary general meeting of shareholders with absentee voting to approve payment of interim dividends for the first six months of 2016. The Board of Directors recommended paying RUB 3,667 million in dividends for the first half of 2016, or RUB 0.38 per Sistema ordinary share (RUB 7.6 per GDR).

Early redemption of bonds – In August 2016, Sistema exercised an early redemption of its 15-year RUB 10 billion Sistema PJSFC Bonds due 2030 series exchange-traded bond issue. The bonds were redeemed at par value.

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Reduction of authorized capital of MTS – In August 2016, MTS announced a reduction of its authorized capital for 68,031,987 treasury shares (from 2,066,413,562 to 1,998,381,575 ordinary registered shares). MTS incorporated and registered the respective changes in its Charter.