MOBILE TELESYSTEMS PJSC
Form 20-F
April 21, 2017

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

o **Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

or

ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2016**

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

or

o **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Date of event requiring this shell company report
Commission file number 333-12032

MOBILE TELESYSTEMS PUBLIC JOINT STOCK COMPANY

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

RUSSIAN FEDERATION
(Jurisdiction of incorporation or organization)

4 Marksistskaya Street, Moscow 109147 Russian Federation
(Address of Principal Executive Offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING 2 SHARES OF COMMON STOCK	NEW YORK STOCK EXCHANGE
COMMON STOCK, PAR VALUE 0.10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE[1]

Securities registered or to be registered pursuant to Section 12(g) of the Act:

NONE
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report 1,190,401,654 ordinary shares, par value 0.10 Russian rubles each and 398,248,937 American Depositary Shares as of December 31, 2016.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. o Yes ý No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: ý No: o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated file, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ý	Accelerated Filer o	Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board ý	Other o

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes ý No

(1) Listed, not for trading or quotation purposes, but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.

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Unless otherwise indicated or unless the context requires otherwise, references in this document to (i) "MTS," "the Group," "we," "us," or "our" refer to Mobile TeleSystems Public Joint Stock Company and its subsidiaries; (ii) "MTS Ukraine" is to Private Joint Stock Company "MTS Ukraine" (formerly CJSC Ukrainian Mobile Communications), our Ukrainian subsidiary which works under Vodafone brand; (iii) "Uzdunrobita" is to our former subsidiary in Uzbekistan, which was deconsolidated in 2013; (iv) "MTS-Turkmenistan" our Turkmenistan subsidiary and "BCTI" are to Barash Communication Technologies, Inc., our former Turkmenistan subsidiary; (v) "Comstar" or "Comstar-UTS" are to COMSTAR United TeleSystems, our former fixed line subsidiary, which was merged into MTS PJSC in 2011; (vi) "MGTS" is to Public Joint Stock Company Moscow City Telephone Network, our Moscow public switched telephone network ("PSTN") fixed line subsidiary; and (vii) "K-Telecom" or "VivaCell-MTS" are to K-Telecom Closed Joint-Stock Company, our Armenian subsidiary; and (viii) "UMS" is to Universal Mobile Systems LLC, our former subsidiary in Uzbekistan which was deconsolidated in 2016; (ix) NVision our subsidiaries which provides integration services and (x) "Sistema" is to Sistema Public Joint Stock Financial Corporation, our majority shareholder. We refer to Mobile TeleSystems LLC, our 49% owned equity investee in Belarus, as "MTS Belarus." We refer to MTS Bank PJSC, our 26.6% owned equity investee as "MTS Bank." As MTS Belarus and MTS Bank are equity investees, our revenues and subscriber data do not include MTS Belarus and MTS Bank.

In this document, references to "U.S. dollars," "dollars," "$" or "USD" are to the lawful currency of the United States, "Russian rubles," "rubles" or "RUB" are to the lawful currency of the Russian Federation, "hryvnias" are to the lawful currency of Ukraine, "soms" are to the lawful currency of Uzbekistan, "manats" are to the lawful currency of Turkmenistan, "dram" are to the lawful currency of Armenia and "€," "euro" or "EUR" are to the lawful currency of the member states of the European Union that adopted a single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the treaty on the European Union, signed at Maastricht on February 7, 1992. References in this document to "shares" or "ordinary shares" refers to our ordinary shares, "ADSs" refers to our American depositary shares, each of which represents two ordinary shares, and "ADRs" refers to the American depositary receipts that evidence our ADSs. Prior to May 3, 2010, each ADS represented five ordinary shares of our common stock. "CIS" refers to the Commonwealth of Independent States. "CBR" refers to the Central Bank of Russia.

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The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the CBR. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

	Rubles per U.S. dollar			
Years ended December 31,	**High**	**Low**	**Average[1]**	**Period End**
2012	34.04	28.95	30.97	30.37
2013	33.47	29.93	31.98	32.73
2014	67.79	32.66	39.34	56.26
2015	72.88	49.18	60.96	72.88
2016	83.59	60.27	67.03	60.66

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

	Rubles per U.S. dollar	
	High	**Low**
July 2016	67.05	62.99
August 2016	67.05	63.55
September 2016	65.87	63.16
October 2016	63.40	62.05
November 2016	65.86	63.20
December 2016	65.24	63.27
January 2017	60.66	59.15
February 2017	60.31	56.77
March 2017	59.22	56.38

Source: CBR.

The exchange rate between the ruble and the U.S. dollar quoted by the CBR for April 21, 2017 was 56.42 rubles per U.S. dollar.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document may constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 (the "U.S. Securities Act"), and Section 21E of the U.S. Securities Exchange Act of 1934 (the "U.S. Exchange Act"). The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their businesses. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

MTS desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation and other relevant law. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. The words "believe," "expect," "anticipate," "intend," "estimate," "forecast," "project," "predict," "plan," "may," "should," "could" and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, "Item 3. Key Information D. Risk Factors," "Item 4. Information on Our Company B. Business Overview," "Item 5. Operating and Financial Review and Prospects" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and include statements regarding:

our strategies, future plans, economic outlook, industry trends and potential for future growth;

our liquidity, capital resources and capital expenditures;

our payment of dividends;

our capital structure, including our indebtedness amounts;

our ability to generate sufficient cash flow to meet our debt service obligations;

our ability to achieve the anticipated levels of profitability;

our ability to timely develop and introduce new products and services;

our ability to obtain and maintain interconnect agreements;

our ability to secure the necessary spectrum and network infrastructure equipment;

our ability to meet license requirements and to obtain and maintain licenses and regulatory approvals;

our ability to maintain adequate customer care and to manage our churn rate; and

our ability to manage our rapid growth and train additional personnel.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters

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discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- growth in demand for our services;
- changes in consumer preferences or demand for our products;
- availability of external financing on commercially acceptable terms;
- the developments of our markets;
- the highly competitive nature of our industry and changes to our business resulting from increased competition;
- the impact of regulatory initiatives;
- the rapid technological changes in our industry;
- cost and synergy of our recent acquisitions;
- the acceptance of new products and services by customers;
- the condition of the economies of Russia, Ukraine and certain other countries of the CIS;
- risks relating to legislation, regulation and taxation in Russia, Ukraine and certain other CIS countries, including laws, regulations, decrees and decisions governing each of the telecommunications industries in the countries where we operate, currency and exchange controls relating to entities in Russia, Ukraine and other countries where we operate and taxation legislation relating to entities in Russia, Ukraine and other countries where we operate, and their official interpretation by governmental and other regulatory bodies and by the courts of Russia, Ukraine and the CIS;
- political stability in Russia, Ukraine and certain other CIS countries; and
- the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports filed by us with the U.S. Securities and Exchange Commission (the "SEC").

All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. Readers are cautioned not to place undue reliance on these forward-looking statements. Except to the extent required by law, neither we, nor any of our respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

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PART I

Item 1. *Identity of Directors, Senior Management and Advisors*

Not applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not applicable.

Item 3. *Key Information*

A. Selected Financial Data

We adopted International Financial Reporting Standards ("IFRS") starting from the fiscal year ended December 31, 2015 by applying IFRS 1, First-Time Adoption of International Financial Reporting Standards. The date of transition to IFRS is January 1, 2014. Our consolidated financial statements for the years ended December 31, 2014 were originally prepared in accordance with U.S. GAAP and were restated in accordance with IFRS. An explanation of how the transition to IFRS from U.S. GAAP has affected our reported financial position, financial performance and cash flows is provided in Note 4 to our consolidated financial statements for the year ended December 31, 2015.

Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have only provided financial statements and financial information for three fiscal years ended December 31, 2016, 2015 and 2014 as presented under IFRS.

Because of the sale of our stake in UMS in August 2016, the results of UMS were reported as discontinued operations in the accompanying consolidated statements of profit or loss for all periods presented. The consolidated statements of financial postiion and consilidated statements of cash flows for all periods presented were not retrospectively restated as a result of the sale of UMS. Please see Note 26 to our audited consolidated financial statements.

The selected financial data should be read in conjunction with our audited consolidated financial statements, included elsewhere in this document, "Item 3. Key Information D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects." Certain industry and operating data are also provided below.

	Years Ended December 31,		
	2014	2015	2016
	(Amounts in millions of Russian rubles, except share and per share amounts, industry and operating data and ratios)		
Consolidated statements of profit or loss data:			
Services revenue	381,143	386,159	386,486
Sales of goods	29,535	40,480	49,206
Total operating revenues	**410,678**	**426,639**	**435,692**
Operating expenses:			
Cost of services	119,053	126,805	130,158
Cost of goods	25,445	36,555	45,574
Selling, general and administrative expenses	88,095	87,340	94,046
Depreciation and amortization	74,734	77,843	81,582
Operating share of the profit of associates	(3,459)	(3,456)	(3,115)
Provision for investment in distressed Ukrainian banks	5,138	1,698	
Impairment of goodwill in Armenia		3,516	
Other expenses/ (income)[1]	1,814	2,415	(222)

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	Years Ended December 31,		
	2014	2015	2016
	(Amounts in millions of Russian rubles, except share and per share amounts, industry and operating data and ratios)		
Operating profit	**99,858**	**93,923**	**87,669**
Finance income	(4,519)	(8,368)	(5,273)
Finance costs	17,252	26,422	27,136
Non-operating share of the loss of associates	6,537	3,780	1,287
Change in fair value of financial instruments	95	(1,014)	(166)
Other expenses/(income), net	937	(54)	317
Currency exchange loss/(gain)	17,926	6,154	(3,241)
Profit before tax	**61,630**	**67,003**	**67,609**
Income tax expense	15,909	13,931	15,138
Profit for the period from continuing operations	**45,721**	**53,072**	**52,471**
(Income)/Loss from discontinued operations, net of tax	**(5,775)**	**5,668**	**4,021**
Profit for the period	**51,496**	**47,404**	**48,450**
Attributable to:			
Owners of the company	51,306	49,489	48,474
Non-controlling interests	190	(2,085)	(24)
Dividends declared[2]	51,247	52,011	51,958
Earnings per share, basic, RUB	25.80	24.88	24.37
Earnings per share, diluted, RUB	25.78	24.87	24.35
Earnings per share from continuing operations, basic, RUB	22.67	26.31	26.06
Earnings per share from continuing operations, diluted, RUB	22.66	26.29	26.04
Earnings per share from discontinued operations, basic, RUB	3.13	(1.43)	(1.69)
Earnings per share from discontinued operations, basic and diluted, RUB	3.13	(1.42)	(1.69)
Annual Dividends declared per share, RUB	24.80	25.17	25.99
Semi annual Dividends declared per share, RUB	6.20	5.61	11.99
Number of common shares outstanding	1,988,912,130	1,988,892,399	1,986,899,529
Weighted average number of common shares outstanding basic	1,988,757,022	1,988,728,000	1,989,281,930
Weighted average number of common shares outstanding diluted	1,989,977,971	1,990,195,552	1,990,693,983
Consolidated statement of cash flows data:			
Cash provided by operating activities	158,979	144,088	130,565
Cash used in investing activities	(105,008)	(145,356)	(57,302)
(of which capital expenditures)[3]	(91,929)	(106,537)	(86,149)
Cash used in financing activities	(33,212)	(27,595)	(83,038)
Consolidated statement of financial position (end of period):			
Cash, cash equivalents and short-term investments	71,352	83,304	27,127
Property, plant and equipment, net	299,023	302,662	272,841
Total assets	599,304	653,378	544,470
Total debt (long-term and short-term)[4]	289,965	345,869	284,320

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	Years Ended December 31,		
	2014	2015	2016
	(Amounts in millions of Russian rubles, except share and per share amounts, industry and operating data and ratios)		
Total shareholders' equity	178,622	168,371	143,948
Common stock less treasury stock	(24,257)	(24,261)	(548)
Financial ratios (end of period):			
Total debt/total capitalization[5]	61.9%	67.3%	66.8%
Mobile industry and operating data:[6]			
Mobile penetration in Russia (end of period)	168%	176%	179%
Mobile penetration in Ukraine (end of period)	136%	134%	136%
Mobile subscribers in Russia (end of period, thousands)[7]	74,562	77,277	80,032
Mobile subscribers in Ukraine (end of period, thousands)[7]	20,221	20,431	20,856
Overall market share in Russia (end of period)	31%	31%	31%
Overall market share in Ukraine (end of period)	34%	35%	36%

(1) "Operating expenses" consist mainly of allowance for doubtful accounts, gain/losses on disposal of property, plant and equipment and intangible assets as well as any gain/losses resulting from stock-taking.

(2) Dividends declared in each of the years ended December 31, 2014, 2015 and 2016 consisted of dividends in respect of the prior fiscal year (i.e., in respect of each of the years ended December 31, 2013, 2014 and 2015, respectively) and semiannual dividends in respect of the current fiscal year (RUB 12,812 million, RUB 11,592 million and RUB 23,961, respectively). Amounts include dividends on treasury shares RUB 1,996 million, RUB 435 million and RUB 220 million in respect of the years ended December 31, 2014, 2015 and 2016, respectively. At a meeting held on April 12, 2017, the Board recommended that an annual general meeting of shareholders approve annual dividends of RUB 15.6 per ordinary MTS share (RUB 31.2 per ADS), or a total of approximately RUB 31.2 billion, based on the full-year 2016 financial results.

(3) Capital expenditures include purchases of property, plant and equipment and intangible assets.

(4) Includes notes payable, bank loans, capital lease obligations and other debt.

(5) Calculated as book value of total debt divided by the sum of the book values of total shareholders' equity and total debt at the end of the relevant period. See footnote 4 above for the definition of "total debt."

(6) Source: AC&M-Consulting and GSMA Intelligence. Operating data is presented for mobile operations only. None of this data is derived from our audited consolidated financial statements.

(7) We define a subscriber as an organization or individual, whose SIM-card shows traffic-generating activity or accrues a balance for services rendered or is replenished of topped off over the course of any three-month period, inclusive within the reporting period, and was not blocked at the end of the period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our securities involves a certain degree of risk. You should carefully consider the following information about these risks, together with other information contained in this document, before you decide to buy our securities. If any of the following risks actually occur, our business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of our securities could also decline and you could lose all or part of your investment. In addition, please read "Cautionary Statement Regarding Forward-Looking Statements" where we describe additional uncertainties associated with our business and the forward looking statements included in this document.

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Risks Relating to Business Operations in Emerging Markets

Emerging markets such as the Russian Federation, Ukraine and other CIS countries are subject to greater risks than more developed markets, including significant legal, economic, tax and political risks.

Investors in emerging markets such as the Russian Federation, Armenia, Ukraine, Turkmenistan and other CIS countries should be aware that these markets are subject to greater risk than more developed markets, including in some cases, significant legal, economic, tax and political risks. Investors should also note that emerging economies such as the economies of the Russian Federation, Ukraine and other CIS countries are subject to rapid change and that the information set out herein may become outdated relatively quickly.

Global financial or economic crises or even financial turmoil in any large emerging market country tend to adversely affect prices in equity markets of most or all emerging market countries as investors move their money to more stable, developed markets. Over the past few years, the Russian equity markets have been highly volatile, principally due to the impact of the global economic slowdown resulting from various factors, including the European sovereign debt crisis, the Chinese economic decline and the dramatic fall in oil prices, as well as the crisis in Ukraine and deteriorating conditions of the Russian economy. As has happened in the past, financial problems such as significant ruble depreciation, capital outflows and a decrease in other leading economic indicators or an increase in the perceived risks associated with investing in emerging economies due to, *inter alia*, geopolitical disputes such as the crisis in Ukraine, could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as funding sources are withdrawn. Furthermore, in doing business in various countries of the CIS, we face risks similar to (and sometimes more significant than) those that we face in Russia and Ukraine. For example, see " Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations" and " The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations." Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in our securities.

Risks Relating to Our Business

The telecommunications services market is characterized by rapid technological change, which could render our services obsolete or non-competitive and result in the loss of our market share and a decrease in our revenues.

The telecommunications industry is subject to rapid and significant changes in technology and is characterized by the continuous introduction of new products and services. The mobile telecommunications industry in Russia is also experiencing significant technological change, as evidenced by the introduction in recent years of new standards for radio telecommunications, such as Wi-Fi, Worldwide Inter-operability for Microwave Access ("Wi-Max"), Enhanced Data Rates for Global Evolution ("EDGE"), Universal Mobile Telecommunications System ("UMTS"), and Long Term Evolution ("LTE"), as well as ongoing improvements in the capacity and quality of communications, shorter development cycles for new products and enhancements and changes in customer requirements and preferences. Such continuing technological advances make it difficult to predict the extent of the future competition we may face and it is possible that existing, proposed or as yet undeveloped technologies will become dominant in the future and render the technologies we use less profitable or

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even obsolete. New products and services that are more commercially effective than our products and services may also be developed. Furthermore, we may not be successful in responding in a timely and cost-effective way to keep up with these developments. Changing our products or services in response to market demand may require the adoption of new technologies that could render many of the technologies that we are currently implementing less competitive or obsolete. To respond successfully to technological advances and emerging industry standards, we may require substantial capital expenditures and access to related or enabling technologies in order to integrate the new technology with our existing technology.

We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies.

The wireless telecommunications services markets in which we operate are highly competitive, particularly in Russia and Ukraine. We also face increased competition in our cable TV and fixed line business, while the market for fixed line communications services in Russia is rapidly evolving and becoming increasingly competitive. Competition is generally based on price, product functionality, range of service offerings and customer service.

Generally, increased levels of competition, including from the potential entry of new mobile operators, government-backed operators, mobile virtual network operators and alternative fixed line operators in the markets where we operate, as well as the strengthening of existing operators, increased use of Internet protocol telephony and other services, provided via the internet, may adversely affect our ability to increase the number of subscribers. This in turn could result in reduced operating margins and a loss of market share, as well as necessitating different pricing, service or marketing policies, which may have a material adverse effect on our business, financial condition and results of our operations.

Competition in the Russian market

Our principal wireless competitors in Russia are Public Joint Stock Company "Vimpel-Communications" ("VimpelCom"), Public Joint Stock Company MegaFon ("MegaFon"), as well as the federal cellular operator established in 2014 by the combination of Tele2 Russia and the mobile assets of Public Joint Stock Company Long-Distance and International Telecommunications "Rostelecom" ("Rostelecom"). As of December 31, 2016, MTS' market share in Russia amounted to 31% (while the market shares of MegaFon, VimpelCom and Tele2 were 30%, 23% and 15% respectively), according to the AC&M-Consulting cellular statistics. We also face competition from several regional operators.

We also face competition in the fixed line telecommunication business, in particular from Rostelecom. According to TMT Consulting, Rostelecom controls 69% of all fixed line telecommunications services in Russia.

In addition, we believe that Rostelecom, as a state-controlled company, is currently able to influence telecommunications policy and regulation in Russia and may cause substantial increases in interconnect rates for access to fixed line operators' networks by mobile cellular operators. Similarly, Rostelecom may cause substantial decreases in interconnect rates for access to mobile cellular operators' networks by fixed line operators, which could cause our revenues to decrease and may materially adversely affect our business, financial condition and results of operations. See also " If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues and margins."

Competition in the foreign markets of our operation

The economic part of the Association Agreement with the European Union signed by Ukraine on June 27, 2014, may adversely affect our own business, financial condition and results of operations due

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to a possible increase in competition. The implementation of the Association Agreement requires harmonization of Ukrainian legislation and adoption of certain EU regulations on telecommunications services. In this regards, no assurance can be given as to the exact nature of the intended changes, their potential implementation and possible impact on our business.

The competitive situation for our services in Ukraine is influenced by the launch of 3G/UMTS services. Through cooperation with Vodafone, MTS Ukraine started operating in Ukraine under the Vodafone brand. The competitive situation may be also influenced by the introduction of a mobile number portability ("MNP") service (however the terms of MNP implementation are still unknown), launch of LTE networks as well as possible entry of new virtual mobile operators into the market. Provisions regarding MNP are already in force in Russia.

In Belarus, our associate MTS Belarus faces increasing competition and aggressive pricing from Best CJSC, a subsidiary of System Capital Management and Turkcell Iletisim Hizmetleri A.S. ("Turkcell") operating in Belarus under the "life:)" brand. Additionally, in 2011, the government of Belarus announced its intention to hold a public tender to privatize a 51% ownership interest in MTS Belarus with an opening price of approximately RUB 29.4 billion. The public tender was scheduled to be held on December 23, 2011, but was cancelled due to a lack of bidders. The latest attempt to find an investor for the 51% state-owned stake in MTS Belarus took place in February 2014. However, it did not proceed due to the same reason, a lack of bidders. A date for the next tender has not yet been specified. The terms of the share disposal have not yet been determined, although it may be conducted either through a public tender or by entering into a direct contract with a particular purchaser. If we are unable to acquire this ownership interest at a commercially reasonable price, or if it is acquired by one of our competitors, it may impact our competitive position and results of operations in Belarus.

We also face competition in Armenia. On July 22, 2015, Orange announced its decision to leave the Armenian market and 100% of Orange Armenia's shares were sold to an Armenian internet service provider, Ucom. The transaction was approved by the Public Services Regulatory Commission of the Republic of Armenia on August 20, 2015.

Following the resumption of our operations in Turkmenistan we continue to face price competition from our main competitor Altyn Asyr on international roaming rates and also capacity restrictions that impact on the development of our third-generation "3G" mobile data network in Turkmenistan. MTS-Turkmenistan is required to route both international traffic signals as well as domestic traffic signals entirely through the telecommunications network infrastructure of the state owned telecom operator Turkmentelekom. However, in spite of our further requests for additional network capacity in accordance with our interconnection agreements with Turkmentelekom, there has not been a corresponding increase in capacity made available to us to accommodate the volume of MTS-Turkmenistan's traffic signals. In addition, Turkmentelekom may also refuse to lease communication lines needed for the day-to-day operation of MTS-Turkmenistan's 3G network. As a result, the data service of MTS-Turkmenistan could become less attractive for the subscribers, which could adversely affect the results of our operations in Turkmenistan.

We are subject to anti-corruption laws in the jurisdictions in which we operate, including anti-corruption laws of Russia and the US Foreign Corrupt Practices Act (the "FCPA"), and we may be subject to the UK Bribery Act of 2010 (the "UK Bribery Act"). Our failure to comply therewith could result in penalties which could harm our reputation and have a material adverse effect on our business, financial condition and results of operations.

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits, along with various other anti-corruption laws. We may also be subject to the UK Bribery Act. The UK Bribery Act is broader in scope than the FCPA in that it directly addresses

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commercial bribery in addition to bribery of public officials and it does not recognize certain exceptions, notably facilitation payments that are permitted by the FCPA.

We operate primarily in Russia and other countries of the former Soviet Union, many of which pose elevated risks of corruption violations. We and certain of our subsidiaries are in frequent contact with persons who may be considered "foreign public officials" under the FCPA and UK Bribery Act, and therefore, are subject to an increased risk of potential FCPA and UK Bribery Act violations. If we are not in compliance with the FCPA, the UK Bribery Act and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, results of operations, financial condition and liquidity.

As disclosed in our public filings, in March 2014, we received requests for the provision of information from the United States Securities and Exchange Commission and the United States Department of Justice relating to an investigation of the Group's former subsidiary in Uzbekistan. See also Note 28 to our audited consolidated financial statements. MTS is cooperating with those agencies and has provided and is continuing to provide information in response to their requests. We cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant. Any investigation of any potential violations of the FCPA, the UK Bribery Act or other anti-corruption laws by the US, the UK or foreign authorities could have an adverse impact on our business, financial condition and results of operations.

Our controlling shareholder has the ability to take actions that may conflict with the interests of other holders of our securities.

We are controlled by Sistema, which owns 48.94% of our total charter capital (50.03% excluding treasury shares). If not otherwise required by Russian law and/or our charter, resolutions at a shareholders' meeting are adopted by a simple majority in a meeting at which shareholders holding more than half of the issued share capital are present or represented. Accordingly, Sistema has the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds, either directly or indirectly, a majority of our shares, Sistema will control the appointment of a majority of directors and removal of all directors. Sistema is also able to control or significantly influence the outcome of any vote on matters which require three-quarters majority vote of a shareholders' meeting, such as amendments to the charter, proposed reorganizations, substantial asset sales, and other major corporate transactions, among other things. Thus, Sistema can take actions that may conflict with the interests of other security holders. In addition, under certain circumstances, a disposition by Sistema of its controlling stake in our company could harm our business. See also " Risks Relating to our Financial Condition If a change in control occurs, our noteholders and other debt holders may require us to redeem notes or other debt, which could have a material adverse effect on our financial condition and results of operations."

Sistema has a significant amount of outstanding debt. As of December 31, 2016, Sistema had consolidated indebtedness of approximately RUB 19,512 million of short-term debt, RUB 63,596 million comprising the short-term portion of its long-term debt, and RUB 395,017 million of long-term debt (net of the short-term portion). At the corporate level, Sistema had approximately RUB 189 million of short-term debt, RUB 2,359 million comprising the short-term portion of its long-term debt, and RUB 94,477 million of long-term debt (net of the short-term portion). Therefore, Sistema will require significant funds to meet its obligations, which may come in part from dividends paid by its subsidiaries, including us.

Our shareholders approved semi-annual dividends for 2014 in the amount of RUB 12,812 million. In 2015, our shareholders approved annual dividends for 2014 in the amount of RUB 40,418.86 million and semi-annual dividends for 2015 in the amount of RUB 11,592.58 million. In 2016, our shareholders

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approved annual dividends for 2015 in the amount of RUB 27,997.42 million and semi-annual dividends for 2016 in the amount of RUB 23,960.60 million.

Annual dividends are calculated at the exchange rate on the date when dividends are declared at the General Meeting of Shareholders. The indentures relating to our outstanding notes and other debt do not restrict our ability to pay dividends. As a result of paying dividends, our reliance on external sources of financing may increase, our credit rating may decrease, and our cash flow and ability to repay our debt obligations, or make capital expenditures, investments and acquisitions could be materially adversely affected. Furthermore, our credit ratings can be and have been affected in the past by Sistema's activity and credit ratings.

Failure to effectively implement our geographic expansion strategy as well as difficulties with operational management of the acquired businesses could hamper our continued growth and profitability.

Our continued growth depends, in part, on our ability to identify attractive opportunities in markets that will grow and on our ability to manage the operations of acquired or newly established businesses. Our acquisitions may occur in countries that represent new operating environments for us and, in many instances, may be located a great distance from our corporate headquarters in Russia. We therefore may have less control over their activities. We may also face uncertainties with respect to the operational and financial needs of these businesses, and may, in the course of our acquisitions, incur additional debt to finance the acquisitions and/or take on substantial existing debt of the acquired companies. In addition, it is possible that the countries into which we may expand will be emerging markets and, as with countries of our current presence, subject to greater political, economic, social and legal risks than more developed markets.

For example, see " Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations" and " The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations." Our failure to identify attractive opportunities for expansion into new markets and to manage the operations of acquired or newly established businesses in these markets could hamper our continued growth and profitability, and have a material adverse effect on our financial condition, results of operations and prospects.

Acquisitions and mergers may pose significant risks to our business.

We have expanded our business through a number of acquisitions. We will continue to evaluate opportunities to acquire, invest in or merge with other existing operators or license holders in the CIS and in growing markets outside the CIS, as well as other complementary businesses. In 2014 and 2015, our acquisition focus covered regional mobile operators, as well as one of the largest system integrators and complex IT solutions providers in Russia, NVG JSC ("Nvision Group"). In 2016, we acquired 100% of shares of "SMARTS Yoshkar-Ola" JSC and participated in MTS Bank's additional share issuance.

These and other business combinations entail a number of risks that could materially and adversely affect our business, financial condition, results of operations and prospects, including the following:

- assumption of the acquired target's liabilities and contingencies;
- failure to realize any of the anticipated benefits or synergies from any acquisitions or investments we complete;
- problems integrating the acquired businesses, technologies or products into our operations;
- incurrence of debt to finance acquisitions and higher debt service costs related thereto;

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- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- risks associated with businesses and markets in which we lack experience, including political, economic, social, legal and regulatory risks and uncertainties;
- competition risks;
- potentially incorrect assessment of the value of any acquired target resulting from the facts we could not have known at the time of evaluation (subsequently discovered facts);
- more onerous government regulation;
- potential loss of key assets of the acquired company;
- potential loss of key employees of the acquired company;
- potential write-offs of acquired assets; and
- lawsuits arising out of disputes over ownership of acquired assets and/or the enforcement of indemnities relating to the title to such assets.

For example, in 2014, an impairment charge related to equity investment in MTS Bank was recognized in the non-operating share of the loss of the associates in the accompanying consolidated statement of profit or loss. See Note 7 to our audited consolidated financial statements. See also Note 7 to our audited consolidated financial statements for information on the Group's share in the net losses of MTS Bank. For other examples, including impairment of goodwill in Armenia, see Note 13 to our audited consolidated financial statements.

See also " Legal Risks and Uncertainties The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations" and " Risks Relating to our Financial Condition We may be adversely affected by the current economic environment."

In addition, companies that we acquire may not have internal policies, including accounting policies and internal control procedures that are compatible, compliant or easily integrated with ours.

If any of our future business combinations is structured as a merger with another company, or we merge with or absorb a company subsequent to its acquisition by us, such a merger would be considered a corporate reorganization under Russian law. In turn, this would provide our creditors with a statutory-based right to file a claim seeking to accelerate their claims or terminate the respective obligations, as well as seek damages. To prevail, the creditors would need to prove in court that we will not perform our obligations in due course and the amount of damages suffered. Secured creditors would be required to further prove that the security provided by us, our shareholders or third parties is not sufficient to secure our obligations. Creditors whose claims are secured by pledges do not have the right to claim additional security.

As of December 31, 2016, we held 26.6% stake in MTS Bank. As a participant of the state recapitalization program, in the end of 2015 MTS Bank received federal loan bonds for total value of RUB 7.25 billion from the Deposit Insurance Agency. In 2016, Sistema and MTS participated in the additional share issuance of MTS Bank in proportion to our direct ownership stakes. In February 2016, MTS signed a binding agreement with MTS Bank, through which we acquired 946,347 ordinary shares of the MTS Bank's additional shares issuance for RUB 1.3 billion. In November 2016, we acquired 2,637,310 ordinary shares of the MTS Bank's additional shares issuance for RUB 2.77 billion.

In April 2014, we acquired a 10.82% stake in OZON Holdings Limited ("OZON"), the Russian e-commerce company, through an additional share issuance for RUB 2,702 million. The acquisition is aimed at providing exclusive access to OZON's sales channels for MTS's products and services as well

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as to further enhance our online presence. If we are not successful in expanding our distribution network and developing more effective customer touch points and services, this may have an adverse impact on our business.

In May and December 2014, we acquired from third-party investors 35.59% and 3.52% stakes, respectively, in Teleservice JSC ("Teleservice"), a broadband and Pay-TV provider in Voronezh. Upon completion of the transactions, MTS Group's stake in Teleservice increased to 93.4%.

In the fourth quarter of 2014, our subsidiary "Telecom Povolzhye" limited liability company (LLC "TP") acquired three regional assets of Smarts Group aiming to strengthen leadership in Bashkortostan market as well as to expand our operations in Penza and Ivanovo regions.

In September 2016, we also signed a purchase contract for 100% of shares of "SMARTS Yoshkar-Ola" JSC for a price of RUB 13 million.

On January 22, 2015, our subsidiary MGTS closed deals on sale of 49.95% stake in Joint Stock Company "Intellect Telecom" and acquisition of the controlling stake in Public Joint Stock Company "Navigation-information systems" comprising of 89.536% of the charter capital. In 2015, we acquired 100% of the shares of NVision Group, one of the largest system integrators and complex IT solutions providers in Russia. These acquisitions will allow us to obtain control over our billing system, reduce our billing and IT related expenses, develop our proprietary technological platform for machine-to-machine (M2M) solutions and enhance our presence in the areas of telematics solutions for transport, insurance and security systems. Generally, additional risks relating to acquired companies' liabilities and non-achievement of initial financial and operational targets might arise in connection with these acquisitions. See also Note 4 to our audited consolidated financial statements.

We may also be involved in various litigation to protect our title or other rights related to acquired businesses and incur some unpredicted loss.

In addition, a merger, as well as any corporate reorganization and any business combination that constitutes a "major transaction" under Russian law, would trigger the right of our shareholders who abstain from voting on or vote against such reorganization or transaction to sell, and our obligation to buy, their shares in an amount representing up to 10% of our net assets as calculated under Russian Accounting Standards. See " Legal Risks and Uncertainties Shareholder rights provisions under Russian law could impose additional obligations and costs on us, which could have a material adverse effect on our business, financial condition, results of operations and prospects."

If we cannot successfully develop our network, we will be unable to expand our subscriber base and maintain our profitability.

Our ability to increase our subscriber base depends upon the success of our network expansion. We have expended considerable amounts of resources to enable both organic expansion and expansion through acquisitions and plan to continue to do so. Limited information regarding the markets into which we have or are considering expanding, either through acquisitions or new licenses, complicates accurate forecasts of future revenues from those regions, increasing the risk that we may overestimate these revenues. In addition, we may not be able to integrate previous or future acquisitions successfully or operate them profitably. Any difficulties encountered in the transition and integration process and in the operation of acquired companies could have a material adverse effect on our results of operations.

The build-out of our network is also subject to risks and uncertainties, which could delay the introduction of services in some areas and increase the cost of network construction, including difficulty in obtaining base station sites on commercially attractive terms. In addition, telecommunications equipment used in Russia, Ukraine and other CIS countries is subject to governmental certification, and periodic renewals of the same. We are also required to receive permits for the operation of telecommunications equipment as well as governmental certification and/or permission for the import

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and export of certain network equipment, which can result in procurement delays and slow network development. The failure of any equipment we use to receive timely certification or re-certification could hinder our expansion plans.

For example, the import and export of products containing cryptographic hardware is subject to special documentation requirements and approvals. As telecommunication networks comprise various components with cryptographic hardware, we must comply with these requirements in order to import such components. Moreover, where imported equipment does not contain cryptographic hardware, the federal customs service requires manufacturers to provide written confirmation regarding the absence of such hardware. The range of goods requiring the provision of "certificates of conformance" by suppliers and manufactures prior to their import into Russia has also been expanded to cover most of our key network components, and imported radioelectronic equipment is required to be licensed by the Russian Ministry of Industry and Trade. Similar requirements regarding the import and export of cryptographic hardware exist in Ukraine.

Furthermore, as a result of the downturn in the global financial markets, certain banks have curtailed their lending programs, which may limit our ability to obtain external financing and, in turn, result in the reduction of our capital expenditure program. To the extent we fail to expand our network on a timely basis, we could experience difficulty in expanding our subscriber base. See also " Risks Relating to our Financial Condition If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition, results of operations and prospects."

Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

Mobile penetration in Russia and Ukraine reached 179% and 128%, respectively, as of December 31, 2016, according to AC&M-Consulting. Until recently, customer growth has been the principal source of revenue growth. Currently, however, increasing competition, market saturation and technological development lead to the increased importance of data services in the Russian market and, to a lesser extent, the markets of other CIS countries. As a result, data services became the key driver of our revenue growth and, therefore, we will need to continue to develop new competitive services, including value-added, 3G, LTE, and others, as well as consider vertical integration opportunities through the development or acquisition of dealers in order to provide us with sources of revenue in addition to standard voice services. Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our failure to further develop and sustain our distribution network as well as the reduction, consolidation or acquisition of independent dealers may lead to a decrease in our subscriber growth rate, market share and revenues.

Following the restructuring of Euroset Group, the largest mobile handset retailer and leading dealer for major mobile network operators in Russia, as a result of which MegaFon and VimpelCom acquired equal shares of 50%, we developed our proprietary distribution network, signed an additional agreement with Svyaznoy and were working to increase our relationship with small regional dealers. In November 2014, Svyaznoy experienced changes in its ownership structure. In summer 2015, MTS announced termination of payments admission and contract sales via Svyaznoy. On September 29, 2015, Svyaznoy Logistika JSC filed a suit against us and our subsidiary Sibintertelecom JSC for not having paid agent commissions related to the previously sold contracts. The settlement agreement among Svyaznoy Logistika JSC, MTS and Sibintertelecom was approved by the Moscow Arbitrazh Court on February 11, 2016, which resulted in termination of the lawsuit. On December 23, 2015, Trellas Enterprise Limited LLC filed a suit against us claiming compensation in amount of

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RUB 77,653.8 million for the use of Svyaznoy trademark. The lawsuit was terminated on February 11, 2016, due to the plaintiff's withdrawal of the claim.

Currently we are enhancing our retail sales network and developing distribution channels through cooperation with national, regional and local dealers. If we are not successful in expanding and sustaining our proprietary network and maintaining and further developing our distribution network of national, regional and local retailers, our subscriber growth rate, market share and revenues may decrease, which would have an adverse effect on our business, financial condition, results of operations and prospects. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Sales and Marketing Sales and Distribution."

Governmental regulation of SMP operators in Ukraine could adversely affect our results of operations.

The interconnect fees charged by us and our competitors for terminating calls connecting to any of our respective networks are subject to regulation by the National Commission for the State Regulation of Communications and Informatization (the "NCCIR"). See "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Interconnect" for additional information.

Following the introduction of the "significant market power" (SMP) term to the Telecommunications Law in 2011, in June 2012, the definition of SMP was changed by an amendment to the Telecommunications Law which came into effect on January 8, 2013. From this date qualification as a SMP has been assessed with reference to the market as defined by NCCIR (and not only by reference to the traffic termination market). As previously, criteria *i.e.* the SMP market share remained the same as in previous version of the Telecommunications Law an operator qualifies as a SMP in a particular market if its share of gross revenue from the provision of traffic transfer services on fixed or mobile telecommunications networks during the last 12 months exceeded 25% of total gross revenues of all telecommunications operators for the same services during the same period.

In the fourth quarter of 2016, new draft laws "On Electronic Communications" (instead of previously rejected homonymous draft laws) were registered in the Verkhovna Rada of Ukraine. The draft laws provide for, *inter alia*, introduction of a "virtual operator" term, tougher regulation of operators with significant market power, submission of tariffs in certain electronic communication services markets for approval by the national regulator, mandatory registration of subscribers by providers of electronic communications services (this implies provision of individuals' personal data to communication services providers in case contracts are concluded in other than written form), mutual use of operators' infrastructure, as well as financing of radio frequency monitoring within radio frequency ranges set for public use at the expense of the state budget. A number of the initiatives mentioned above have been also included into the draft law of Ukraine "On state administration and regulation in the sphere of electronic communications." In addition, a draft resolution related to segregation of powers between NCCIR and the central executive authority body in charge of communications sphere was registered. The draft law "On Electronic Communications" was populated to include provisions empowering the central executive authority body in charge of communications sphere with ability to control and freely access the networks and regulations relating to networks operation terms during wartime / emergencies, etc. If this draft law or any law with similar provisions is adopted and comes into force, this may influence our revenues which would have an adverse effect on our business, financial condition and results of operations. See also " Legal Risks and Uncertainties Changes in Ukrainian telecommunications legislation have caused uncertainty in relation to the regulation of the Ukrainian telecommunications industry and may adversely affect our business, financial condition and results of operations."

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If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues and margins.

Our ability to provide commercially viable services depends on our ability to continue to interconnect cost-effectively with zonal, intercity and international fixed line and mobile operators in Russia, Ukraine and other countries in which we operate. Fees for interconnecting are established by agreements with network operators and vary depending on the network used, the nature of the call and the call destination. In Ukraine interconnect rates for the termination of traffic on the network of SMP operators are established by NCCIR.

From 2014 NCCIR has planned to substantially lower interconnect rates for the termination of traffic on the network of SMP operators. By the resolution dated August 4, 2015 "On introduction of traffic transmission rates over the network of telecommunication operators with significant competitive advantage on traffic transmission services market," NCCIR approved new rates valid from October 1, 2015. As a result, interconnect rates both for termination of national traffic on fixed line telecommunication networks and termination of traffic on mobile networks were lowered, the rates for termination of traffic on local networks remained unchanged. The "Rules for setting traffic transmission rates to the networks of telecommunication operators with significant market advantage" were adopted by NCCIR and sent for state registration by the Ministry of Justice of Ukraine on June 7, 2016 (after they had been approved by the relevant government bodies). The rules were registered, published and came into force on July 26, 2016. Based on the rules mentioned above, new rates for access to the networks of SMP operators both at national and international levels were introduced and approved by NCCIR on August 30, 2016 and came into force on January 1, 2017.

The reduction of interconnect rates for termination of traffic on the networks of SMP operators may adversely affect MTS Ukraine revenues.

Although Russian legislation requires that operators of public switched telephone networks that are deemed to be "substantial position," operators cannot refuse to provide interconnects or discriminate against one operator over another, we believe that in practice, some operators attempt to impede wireless operators by delaying interconnect applications and establishing technical conditions for interconnecting that can be met only by certain operators.

Any difficulties or delays in interconnecting cost-effectively with other networks could hinder our ability to provide services at competitive prices or at all, causing us to lose market share and revenues, which would have a material adverse effect on our business and results of operations. See also " If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

In addition, as part of the restructuring of Svyazinvest, a fourth national mobile operator in Russia was established by the combination of "Tele2 Russia" and the mobile assets of Rostelecom in 2014 and started its operations in 2015 under the Tele2 brand. As Svyazinvest controlled regional fixed line operators in all regions of Russia (other than Moscow), a mobile operator established as part of the Svyazinvest group (mobile assets were consolidated into LLC "T2 RTK Holding") may receive preferential terms for interconnecting with these operators, which would allow it greater flexibility in setting tariffs and put us at a competitive disadvantage. It is currently unclear how the establishment of the fourth federal mobile operator may influence our interconnect agreements and our expenses. See also " We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies."

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We may not realize the benefits we expect to receive from our investments in 3G and 4G wireless services, which could have a material adverse effect on our business and results of operations.

In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MegaFon, VimpelCom and us a license to provide 3G services in the Russian Federation. In July 2012 these three companies and Rostelecom were awarded licenses to provide 4G services. Following the integration of Rostelecom's mobile assets and Tele2 Russia in 2014, Tele2 Russia got control over licenses to provide 3G and 4G services. The 3G license allows us to provide mobile radio telephone services using the International Mobile Telecommunications-2000 ("IMT-2000/UMTS") standard. The 4G license allows us to provide services using the LTE standard. 4G wireless services are expected to provide faster, higher quality data transfer and streaming capabilities as compared to 2G and 3G and may pose additional competition for 3G providers. Historically, mobile operators that have developed 3G and 4G networks have experienced various difficulties and challenges, including a limited supply of compatible handsets, limited international roaming capabilities, as well as 3G and 4G software and network-related problems. We may experience similar problems or encounter new difficulties when developing our 3G and 4G networks and may be unable to fully resolve them. For example, we cannot be certain that:

- we will be able to build-out our 4G network in a timely manner or within the time frame stipulated by the license terms;
- our 3G and 4G network and services will deliver the quality and level of service that our customers demand or prefer;
- we will be able to provide all contemplated 3G and 4G services at reasonable prices and within a reasonable timeframe;
- manufacturers and content providers will develop and offer new marketable products and services for our 3G and 4G network on a timely basis;
- demand for our 4G services will not be lower than expected;
- our 3G and 4G network will be commercially viable in all of the locations we are required to operate pursuant to our 3G and 4G licenses;
- our competitors will not offer similar services at lower prices; and
- changes in governmental policies, rules, regulations or practices will not affect our network rollout or our business operations.

See also " If we cannot successfully develop our network, we will be unable to expand our subscriber base and maintain our profitability."

In addition, Russian military authorities also use frequencies in the 3G and 4G spectrum, which may limit the availability of 3G and 4G frequencies for commercial use in certain areas. During the construction of our 3G and 4G network, there is also a risk that the frequencies assigned to us for commercial use may overlap with frequencies used by the Russian military. For example, conflicts over the availability of frequency reserved for military use in Moscow caused delay in the commercial launch of 3G services in Moscow by all 3G license holders, although some of these frequencies were cleared for commercial use in 2009. If additional overlap were to occur, it could cause problems or delays in the development and operation of our 3G and 4G network in Russia.

Potential competition from other 3G and 4G providers, together with any substantial problem with the rollout of our 3G and 4G network and provision of 3G and 4G services in the future, could materially adversely affect our business, financial condition and results of operations.

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In December 2013 and in July 2014, the State Commission for Radio frequencies introduced several modifications to the conditions of using the frequency band for mobile radio communication networks. These changes resulted in implementation of the principle of technological neutrality for frequency bands 900 MHz (UMTS and LTE) and 1800 MHz (LTE), and also included the imposition of certain additional obligations on network operators. Pursuant to these modifications, in the event that we receive new bandwidth allocation, and also as a result of the renewal of the current decisions of the State Commission for Radio Frequencies or in case of using frequencies on the terms of technological neutrality principle, we are obliged to provide network coverage to settlements with lower subscriber numbers, where the commercial rationale for doing so may otherwise be limited. Such changes lead to additional costs for the construction of our 3G and 4G wireless network and consequently may adversely affect our business, financial condition and results of operations.

If we are unable to successfully develop and/or deploy 4G wireless services in the countries in which we operate or one of the operators in the market obtains significant technological and/or commercial advantage over us in 4G wireless services, it may have a material adverse effect on our business and results of operations in the long term.

The next step in the development of telecommunications in the countries where we operate is the deployment of 4G/LTE networks. The cost of 4G/LTE network development and quality of services (data speed, quality of coverage) depends on the band and the width of frequency range given to an operator.

In September 2011, the Russian government announced its intention to auction frequencies for LTE use on a national level in 2012. Additionally, outside of the auction process, the State Radio Frequencies Commission granted Scartel (operating the Yota retail brand) a paired range of LTE frequencies (2x30 MHz), in the 2.5-2.7 GHz band for use on the whole territory of Russia in exchange for 4G frequencies held by Scartel for Wi-Max technology with a total width of 70MHz. Four sets of frequencies in the 791-862 MHz band were planned to be sold during the auction in 2012, after which the winners of the frequencies would receive frequencies in the 2.5-2.7 GHz band. The remaining frequencies 40 MHz of the 2.5-2.7 GHz band were allocated evenly during the tender among four major market participants (us, VimpelCom, MegaFon and Rostelecom).

Initially it was planned that all operators would receive equal access to the Scartel infrastructure, which would allow each operator to reduce its 4G/LTE network development costs. In March 2011, MTS, MegaFon, VimpelCom and Rostelecom signed a non-binding memorandum of understanding with Scartel, according to which MTS, MegaFon, VimpelCom and Rostelecom were to receive access to Scartel's 4G network infrastructure (which was yet to be built) and were to receive options to purchase shares in Scartel in 2014 at a price determined by an independent appraisal. MTS considered a preliminary value assessment of Scartel to be unduly high.

In July 2012, Alisher Usmanov and Scartel shareholders (Telconet Capital and Rostechnologyi) formed a telecommunications holding company, Garsdale. In exchange for an 82% interest in Garsdale, AF Telecom, which is controlled by Alisher Usmanov, contributed 50% of MegaFon's shares into Garsdale's share capital. Rostechnologyi and Telconet Capital, which held 25.1% and 74.9% stakes in Scartel, respectively, contributed 100% of Scartel into Garsdale's share capital, in return for which they received an 18% stake in Garsdale, which was split equally between Rostechnologyi and Telconet Capital. On 12 July 2012, the Federal Service for Supervision of Communications, Information Technology and Mass Media ("Roskomnadzor") awarded each of MegaFon, VimpelCom, Rostelecom and us a license to provide 4G services using LTE and its subsequent modifications in the frequency range of 791-862 MHz.

On October 1, 2013, MegaFon acquired Maxiten Co Limited, which in turn owned 100% of the shares in Scartel and Yota Ltd. from Garsdale. The transaction was approved by the general

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shareholders meeting of MegaFon and by the Federal Antimonopoly Service ("FAS"). At present, MegaFon holds a 4G/LTE network through Scartel as well as controlling the continuous spectrum of frequencies 2 × 40 MHz in the band of LTE FDD 2600 MHz. As a result of this transaction, MegaFon obtained a competitive advantage in terms of LTE network development costs and may also obtain an advantage in LTE network performance. In addition, as a result of the deal, MegaFon consolidated financial and operational indicators of Scartel/Yota which increased its formal market share in the mobile communications market.

On September 18, 2013, the mobile operator Altyn Asyr, our major competitor in Turkmenistan, brought into operation a 4G network using LTE technology. In July 2015, MTS Turkmenistan was granted a telecommunication license valid until 2018. The license provides for the possibility of rendering 4G services, however, launch and service quality are limited with frequency band and width of the frequency range, which may lead to the loss of revenues from its data service and could have an adverse effect on the results of our operations.

Furthermore, the limited number of available frequencies may prevent us from realizing the full benefits we expect to receive from the development of a 4G network, because our network capacity would be constrained and our ability to expand limited. Moreover, if we cannot develop a commercially viable 4G network, and one of our competitors does, that competitor would have an advantage over us, which in turn may have a material adverse effect on our business.

According to the Decree of the President of Ukraine No. 445/2015 dated July 21, 2015, "On Ensuring Conditions for the Introduction of the Fourth-Generation Mobile Communication System," the Cabinet of Ministers of Ukraine was assigned to develop and approve the 2015-2017 Action Plan for the introduction of the fourth-generation mobile communication system in Ukraine in 2017, in cooperation with NCCIR and other state authorities. The Action Plan was approved by Cabinet of Ministers of Ukraine in the end of 2015 and provides for material changes to technologies in the end of 2017, significant material resources for the introduction of such new technologies may be required from operators which could have a material adverse effect on our business and results of operations.

Service disruptions on our networks could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

We are able to deliver services only to the extent that our information communication infrastructure and data processed therein is protected from unlawful actions, including hacker and targeted attacks, technical malfunctions, power failures, natural disasters, etc. Any system failure, accident or security breach that causes interruptions in our operations could impair our ability to provide services to our customers and materially adversely affect our business and results of operations. In addition, to the extent that any disruption or security breach results in a loss of or damage to customers' data or applications, or inappropriate disclosure of confidential information, we may incur liability as a result, including costs to remedy the damage caused by these disruptions or security breaches.

While we maintain back-up systems for our telecommunications equipment, network management, operations and maintenance systems, these systems may not ensure recovery in the event of a network failure. In particular, in the event of extensive software and/or hardware failures, significant disruptions to our systems could occur, leading to our inability to provide services. The quality of our services in roaming (including roaming between networks) also depends, *inter alia*, on the network quality of our roaming partners which is out of our control. Disruptions in our provision of services could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

Our computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, loss of power, telecommunications

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failures, interconnect failures, physical or software break-ins, viruses and similar events. Although our computer and communications hardware is insured against fires, storms and floods, we do not carry business interruption insurance to protect us in the event of a catastrophe, even though such an event could have a material adverse effect on our business.

Failure to fulfill the terms of our licenses could result in their suspension or termination, which could have a material adverse effect on our business and results of operations.

Each of our mobile licenses requires service to be offered by a specific date and some contain further requirements as to network capacity and territorial coverage to be reached by specified dates. In addition, all of our mobile licenses require us to comply with various telecommunications regulations relating to the use of radio frequencies and numbering capacity allocated to us, network construction, interconnect rules and technical requirements relating to compliance with law enforcement authorities' requests, among others. The license requirements applicable to our fixed line businesses include participation in a federal communications network, adherence to technical standards, investment in network infrastructure, employment of Russian technical personnel and the provision of certain services to the federal government and PSTN subscribers at regulated tariffs, among others. If we fail to comply with the requirements of Russian, Ukrainian or other applicable legislation or we fail to meet any terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated which could significantly limit our operations. In addition to the impact on our operations, the suspension or loss of certain licenses could also cause an event of default under certain of our debt obligations and certain of our debt to be accelerated. A suspension or termination of our licenses or other necessary governmental authorizations could therefore have a material adverse effect on our business and results of operations.

For example, in February 2015, MTS Ukraine won the bid for the use of the 1950-1965/2140-2155 MHz frequency bands in a tender allocating 3G licenses. On March 24, 2015, MTS Ukraine paid the entire amount due for the license and received the UMTS license that is valid for a period of 15 years.

According to the tender terms, all regional centers of Ukraine have to be covered with 3G communication (within the bands granted to the successful bidder) within 18 months from the date of the license issuance, all settlements with a population of over 10,000 have to be covered with 3G communication within the period of 6 years.

Our inability to comply with the license conditions may negatively affect our business. In addition, supplementary investment might be required for conversion of radio frequencies and deployment of 3G services. Either of the foregoing may have a material adverse effect on our business, financial condition, results of operations and prospects.

Failure to renew our licenses or receive renewed or new licenses with similar terms to our existing licenses could have a material adverse effect on our business and results of operations.

Our telecommunications licenses have their expiration dates in various years from 2017 to 2030. These licenses may be renewed upon application to the relevant governmental authorities. Government officials in Russia and the other CIS countries in which we operate consider the compliance with license requirements as well as the conditions of using the allocated frequency range when deciding whether to renew a license. License renewals may be subject to additional conditions, such as payment obligations or the mandatory modernization of our network.

In addition, we may be subject to penalties or our licenses may be suspended or terminated for non-compliance with the new license requirements. The suspension or loss of certain licenses could significantly limit our operations and cause certain of our debt to be accelerated.

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The license to construct and maintain the telecommunication network and provide services with them was granted to MTS Ukraine on July 12, 2010 and terminated on December 3, 2013. On October 15, 2013, NCCIR refused to renew the license and recommended that MTS Ukraine receive a new license to provide operations in telecommunications sphere. Receiving a new license involves additional costs in comparison with the renewal of the current one and MTS Ukraine filed a lawsuit against NCCIR seeking to declare the failure to renew the license as unlawful. On November 19, 2013, the claims of MTS Ukraine were satisfied and on January 28, 2014, NCCIR prolonged the terms of MTS Ukraine's license for 5 years. At the same time, on January 27, 2014 NCCIR filed an appeal against the decision of the District Administrative Court of Kiev.

Taking into account possible long-term lawsuits on extension of the license for rendering cellular network services in 2G standard, MTS Ukraine asked NCCIR to provide a new license with no restrictions in special conditions (technologically neutral), which may be used for different technologies GSM, UMTS and LTE. On January 27, 2015, NCCIR made a decision on granting the license for a 15-year period. Obtaining such license will make it possible for MTS Ukraine to reduce expenses and simplify the process of introduction of new technologies.

On January 22, 2015, the High Administrative Court of Ukraine considered the appeal submitted by NCCIR and cancelled decisions of the Court of Appeals and the District Administrative Court and issued a new court decision rejecting the claim of MTS Ukraine. In March 2015, the High Administrative Court of Ukraine satisfied the application of NCCIR to overturn the execution of the decision on prolongation of our license for rendering cellular network services in 2G standard. Later the High Administrative Court made a ruling on refusal to overturn the execution of the decision and ordered retrial on the grounds of breach of procedural rules in the first instance court. On April 22, 2016, MTS Ukraine filed an appeal claim against this decision, which was rejected by the Court of Appeals on May 30, 2016. On June 29, 2016, MTS Ukraine filed a cassation petition to the High Administrative Court of Ukraine that issued a ruling on the cassation petition consideration. The date of consideration has not been scheduled yet.

Failure to renew our telecommunications licenses or receive renewed or new licenses with similar terms to existing licenses could significantly limit our operations, which could have a material adverse effect on our business, financial condition and results of operations.

Until March 2014, telecommunications operators carried out activities and received licenses in Crimea in compliance with Ukrainian legislation. However, following the referendum in Crimea on March 16, 2014 in favor of joining the Russian Federation and consequent developments in the region, various countries recognized Crimean secession whereas others did not, therefore, our licensing status in Crimea, as well as the ability to receive continuous cash flow was subject to uncertainty. In addition, due to technical issues that have curtailed our ability to provide telecommunication services to our customers, we suspended our operations in Crimea on August 6, 2014. In October 2014, MTS Ukraine sold base stations, network infrastructure, IT and telecom equipment and certain other assets located in Crimea through an open tender procedure.

See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations" and " A deterioration in relations between Russia and other former Soviet republics as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

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If frequencies currently assigned to us are revoked or if we fail to obtain renewals of our frequency allocations, our network capacity will be constrained and our ability to expand limited, resulting in a loss of market share and lower revenues.

There is a limited number of frequencies available for wireless operators in each of the regions in which we operate or hold licenses to operate. We are dependent on access to adequate spectrum allocation in each market in which we operate in order to maintain and expand our subscriber base. If frequencies are not allocated to us in the future in the required quantities, as well as with the geographic span and for time periods that would allow us to provide wireless services on a commercially feasible basis throughout all of our license areas, our business, financial condition, results of operations and prospects may be materially adversely affected.

According to the decision of the State Commission for Radio Frequencies No. 13-22-01 dated December 11, 2013, the terms of radio frequency bands usage by radio electronic facilities for mobile communication were supplemented with a requirement to provide the settlements of over 1,000 people with communication services within seven years (depending on the used frequency range). If we are not able to fulfill these requirements, our authorizations for the use of radio frequency spectrum might be either terminated or not prolonged in extrajudicial procedure.

A loss of allocated spectrum, which is not replaced by other adequate allocations, could also have a substantial adverse impact on our network capacity. In addition, frequency allocations are often issued for periods that are shorter than the terms of the licenses, and such allocations may not be renewed in a timely manner or at all. If our frequencies are revoked or we are unable to renew our frequency allocations, our network capacity would be constrained and our ability to expand limited, resulting in a loss of market share and lower revenues.

An increase in the fees for frequency spectrum usage could have a negative effect on our financial results.

The terms of our licenses in Russia and the CIS require that we make payments for frequency spectrum usage. Any significant increase in the fees payable for the frequency channels that we use or additional frequency channels that we need in Russia or the CIS could have a negative effect on our financial results. A number of projects implemented by MTS in 2016, as well as a number of normative acts previously adopted by the Ministry of Communications resulted in expansion of the frequency range, that have to be paid for.

On December 31, 2014, a new procedure of payment for frequency spectrum usage came into force. According to the newly adopted amendments, the fees for frequency spectrum usage are calculated based on the total frequency band allocated to each operator in each region with such frequency spectrum usage determined with reference to the decision of the State Commission for Radio Frequencies, frequency allocation decisions or to the license conditions.

Furthermore, the order of the Ministry of Communications No. 279 dated September 4, 2014 introduced corresponding amendments into the "Methodology of calculation of a single fee and annual fee for the use of the radio spectrum of the Russian Federation," approved by the order of the Ministry of Communications dated June 30, 2011 No. 164. Fees are directly calculated according to this methodology. Under the new order, rates and coefficients are subject to revision at least once every two years. There were no changes in rates and coefficients in 2015 and 2016. In case the rates are raised in 2017, this could result in additional costs.

Commencing January 1, 2015 the fee for radio spectrum usage in Ukraine has been transformed into a rent payment. When adopting a state budget for 2016, the Verkhovna Rada introduced a number of amendments to the Tax Code of Ukraine, including the increase in rent payment for radio spectrum usage by 13.35% commencing January 1, 2016.

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The laws of Ukraine "On State Budget of Ukraine for 2017" and "On amendments to the Tax Code for Budget Stability in 2017" that provide, *inter alia*, reconsideration of both, rent payments for radio frequency usage and fees payable for frequency licensing, were adopted on December 21, 2016 and December 20, 2016, respectively. The amount of rent payments is expected to increase, which may affect the financial and operating results of MTS Ukraine.

If we are unable to maintain our favorable brand image, we may be unable to attract new subscribers and retain existing subscribers, which may lead to loss of market share and revenues.

Developing and maintaining awareness of our brands is critical to informing and educating the public about our current and future services and is an important element in attracting new subscribers. We believe that the importance of brand recognition is increasing as our markets become more competitive. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products and services at competitive prices. Brand promotion activities may not yield increased operating revenues, and even if they do, such operating revenues may not offset the operating expenses we incur in building our brands. Furthermore, our ability to attract new subscribers and retain existing subscribers depends, in part, on our ability to maintain what we believe to be our favorable brand image. Negative publicity or rumors regarding our company, our shareholders and affiliates or our services could negatively affect this brand image, which could lead to loss of market share and revenues. Our failure to successfully and efficiently promote and maintain our brands may limit our ability to attract new subscribers and retain our existing subscribers and materially adversely affect our business and results of operations.

We engage in transactions with related parties, which may present conflicts of interest, potentially resulting in the conclusion of transactions on terms not determined by market forces.

We have purchased interests in various companies from Sistema and entered into agreements with affiliates within the Sistema group for the provision of advertising services ("Maxima Advertising" JSC), connectivity facilities and telephone numbering capacity (MGTS), IT services and hardware purchases ("STS" JSC, SITRONICS CAMS JSC, "SST" LLC and NVG JSC), banking services (MTS Bank, formerly Moscow Bank of Reconstruction and Development ("MBRD")), telecommunication services (Stream LLC), medical services ("Medsi Group" JSC), tourism services (VAO "INTOURIST"), the billing system development and IT integration services (NVG JSC, "STS" JSC), maintenance of the residential and commercial real estate ("SITTEL" CJSC) and other services. Related party transactions with Sistema and other companies within Sistema group may present conflicts of interest, potentially resulting in the conclusion of transactions on terms not determined by market forces. See "Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions."

In the event that our past or future interested party transactions are successfully challenged, our business, financial condition, results of operations and prospects could be materially adversely affected.

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. We and our subsidiaries in the past have carried out, and continue to carry out, transactions that may be considered to be "interested party transactions" under Russian law, requiring in some cases consent or approval by disinterested directors, disinterested independent directors, disinterested shareholders or owners of voting shares depending on the nature of the transaction and parties involved. The provisions of Russian law No. 208 "On Joint-Stock Companies" dated December 26, 1995, as amended (the "Joint Stock Companies Law"), related to "interested party transactions" have recently been amended and may be subject to different interpretations taking into account, inter alia, the lack of court practice in relation to the new amendments. As a result, it is possible that our and our subsidiaries' interpretation and application of these provisions could be subject to challenge. Any such challenges, if successful, could result in the

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invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In the event that our minority shareholders or the minority shareholders of our subsidiaries do not consent to or approve certain transactions or other matters requiring their consent or approval we could be limited in our operational flexibility and our business, financial condition, results of operations and prospects could be materially adversely affected.

Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders' meeting to consent or approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the assets of the company, purchase of offered shares by the company and certain share issuances. Also 95% and unanimous vote is required to approve certain matters, for example, certain charter amendments regarding shareholders' rights. A majority of disinterested shareholders participating in the voting is required to consent to or approve an 'interested party transaction' in certain cases. In the event that our minority shareholders or minority shareholders of our subsidiaries do not consent to or approve such transactions or other matters requiring their consent or approval, we could be limited in our operational flexibility and our business, financial condition, results of operations and prospects could be materially adversely affected.

Our competitive position and future prospects depend on our senior managers and other key personnel and our inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel. Moreover, competition in Russia and in the other countries where we operate for personnel with relevant expertise is intense due to the relatively small number of qualified individuals. As a result, we attempt to structure our compensation packages in a manner consistent with the evolving standards of the labor markets in these countries. We are not insured against the detrimental effects to our business resulting from the loss or dismissal of our key personnel. In addition, it is not common practice in Russia and the other countries where we operate to purchase key-man insurance policies, and we do not carry such policies for our senior management and other key personnel. The loss or decline in services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

The entry of mobile virtual network operators into the Russian mobile communications market could increase competition and subscriber churn, resulting in a possible loss of our market share and decreased revenue.

On December 29, 2008, the Ministry of Communications and Mass Media adopted an order establishing the requirements for mobile virtual network operators ("MVNOs"). MVNOs are companies that provide mobile communications services but do not own the radio frequencies and, often, the network infrastructure required to do so. According to the order, MVNOs in Russia must be licensed, and their use of frequencies and infrastructure and rendering of services is to be done pursuant to agreements entered into between MVNOs and existing frequency holders. There is no requirement that existing frequency holders have to obligatory transact and enter into agreements with the MVNOs.

The aim of the Ministry in establishing the legal framework for MVNOs to operate is to increase competition in the Russian mobile services market, which is currently dominated by us, VimpelCom and MegaFon. While existing frequency holders, including us, may receive revenues from MVNOs for the use of our frequencies and network infrastructure, we expect these revenues to be lower than the

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revenues we would receive if providing services directly to subscribers. In addition, in the event we lose subscribers to MVNOs that lease their frequencies and infrastructure from an operator other than us, we will be deprived of the revenue streams from both the subscribers and the MVNOs. The MVNOs may also establish aggressive tariffs, which could result in increased subscriber churn and/or driving down the tariffs of all mobile operators.

In December 2011, Scartel reached an agreement with MegaFon and Rostelecom to allow them to provide LTE services through Scartel's network in exchange for permitting Scartel to use the two companies' network infrastructure. In February 2012, Scartel and MegaFon received the necessary licenses to allow MegaFon to provide such services over the Scartel LTE network.

In February 2014, the Russian Government approved a "Development of competition in telecommunications" roadmap, which provides for the preparation of a report on realization of the MVNO business model. Following the Government Commission on Communication meeting, which was held on June 6, 2014, regarding "development of "virtual operators" institute of mobile radio telephone communication in the Russian Federation," the deputy Minister on Communication noted that MNVO operators should be regulated by the market and that no additional restrictive regulation is required. At the same time, the Ministry of Communication of the Russian Federation proposed to develop and adopt an order stipulating requirements on rendering data transmission services and telematics communication services when using a business model of virtual data transmission networks. As of April 1, 2017, this order of the Ministry of Communications of the Russian Federation has not been adopted.

In April 2014, it was announced that Scartel launched the federal mobile operator (under the Yota brand), providing subscribers with 2G, 3G and 4G coverages. The operator provides voice and SMS services on MegaFon's network via MVNO. In September 2014, MGTS started to provide mobile services in Moscow on the basis of our infrastructure.

In the fourth quarter of 2016, Rostelecom launched a MVNO based on the infrastructure of Tele2. In addition, according to press reports, the Russian bank Sberbank and the Russian social network VKontakte are also planning to launch MVNOs in 2017.

It is currently unclear how the emergence of new MVNO operators in the market or any of the foregoing trends might affect market competition and subscriber churn, but this could have a material adverse effect on our business, financial condition, results of operations and prospects.

A finding by FAS that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operation.

Our businesses have grown substantially through the acquisition and formation of companies, many of which required the prior approval of, or subsequent notification to, FAS or its predecessor agencies. In part, relevant legislation in certain cases restricts the acquisition or formation of companies by groups of companies or individuals acting in concert without such prior FAS approval. While we believe that we have complied with the applicable legislation for our acquisitions and formation of new companies, this legislation is sometimes vague and subject to varying interpretations. If FAS were to conclude that our acquisition or formation of a new company was done in contravention of applicable legislation or finds our actions insufficient to rectify past violations of antimonopoly laws or issues new warnings and requests in the future, it could impose administrative sanctions and require the divestiture of such company or other assets, which could have a material adverse effect on our business, financial condition and results of operations.

During recent years FAS has been investigating mobile operators, including us, for suspected violations of antimonopoly laws.

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For examples, see "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Antimonopoly Proceedings."

If FAS fids that we have violated or otherwise acted in contravention of antimonopoly legislation, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

A finding by the Antimonopoly Committee of Ukraine (the "AMC") that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations.

Under Ukrainian legislation, a company which is found to have acted in contravention to antimonopoly legislation, may be subject to fines and claims from the AMC. From time to time we may become subject to investigations by AMC and subsequently, should such investigations identify any violations, subject to penalties, including fines.

Based on the complaint filed by Astelit LLC concerning illegal establishment of regional tariffs, in April 2016 the AMC initiated proceedings relating to violation of legislation on the protection of economic competition. The case is awaiting consideration.

In July 2016, the AMC sent requests to the big three operators asking to provide it with the information on establishment of settlement rates for international roaming and interconnect with foreign telecommunication operators.

In August 2016, the AMC began an investigation in relation to monopoly restrictions that affect content services market.

If we are found by the AMC to have violated antimonopoly legislation in these or any other matters, we may be subject to fines, which may have a material adverse effect on our business, financial condition and results of operation. In addition, we may be required to adjust current marketing practices. See also " Governmental regulation of SMP operators in Ukraine could adversely affect our results of operations" and "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Competition" for additional information.

If we are found to have a dominant position in the markets where we operate and are determined to have abused this position, the FAS may influence our subscriber tariffs and impose certain restrictions on our operations.

Under Russian legislation, a company controlling between 35%-50% or over 50% of a market may be found by FAS as dominant in such market. In case of collective dominance of legal entities, a company could be also categorized by FAS as dominant even if its share of the corresponding market is less than 35%. Current Russian legislation does not clearly define "market" in terms of the types of services or the geographic area. In 2016, as a result of amendments into the Federal Law No. 135 "On the Protection of Competition" the register of business entities having more than 35% of a certain commodity market or otherwise occupying a dominant position on the market in which listed us as occupying a dominant position in certain markets was repealed. At the same time FAS is still allowed to conduct market analysis in order to establish the dominant position of a business entity.

Companies recognized as natural monopolies are also considered to have a dominant position on the respective market. One of our subsidiaries, MGTS, was categorized as a natural monopoly in the Moscow telecommunications market. As a result, MGTS' tariffs are subject to regulation by FAS. In addition, as a subject of natural monopoly, MGTS is obliged to comply with the rules of non-discriminatory third party access to its infrastructure. See also " MGTS is subject to extensive

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regulation of tariffs, and these tariffs may not fully compensate us for the cost of providing required services."

In the event that we are found in the future to have a dominant position in the markets where we operate and are either determined to have abused the dominant position or found to have committed concerted actions on the market / to have concluded antimonopoly agreement, FAS would have the right to impose certain restrictions on our operations in such markets. See "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in the Russian Federation Competition, Interconnect and Pricing" for additional information.

In case we are found to have violated antimonopoly legislation, we can also be subject to penalties and a turn-over based fine may be imposed on us in relation to certain violations. The level of fine is from 1% to 15% of revenue on the market where the violation was conducted (with 8% being the base level of the fine), but not more than 2% of gross revenues.

Additionally, MTS Ukraine, was found to be a company with a SMP position in the telecommunications market and is subject to certain regulator (NCCIR) imposed restrictions, including limitations on the interconnect rates it can charge other operators. See " Governmental regulation of SMP operators in Ukraine could adversely affect our results of operations" and "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Competition" for additional information.

If we or any of our subsidiaries were to be found by competition authority to be business entities occupying a dominant market position, competition authority would have the power to impose certain restrictions on our or their businesses. In particular, the authorities may impose on us tariffs at levels that could be competitively disadvantageous. If we or any of our subsidiaries were to be found by FAS to be business entities occupying a dominant market position with a market share exceeding 70% and are determined to abuse the dominant position, the Russian Government would have the right to determine the rules of nondiscriminatory access to goods or services offered by us. Additionally, geographic restrictions on our expansion could reduce our subscriber base and prevent us from fully implementing our business strategy, which may materially adversely affect our business, financial condition, results of operations and prospects.

If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.

In addition to the regulation of dominant operators by FAS, the Federal Law on Communications provides for the special regulation of telecommunications operators occupying a "substantial position," i.e., operators which, together with their affiliates, have 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic in a geographically defined zone within the Russian Federation. These regulations provide for governmental regulation of the key terms of such operators' interconnect agreements, including the interconnect tariffs. In addition, such operators are required to develop standard key terms of interconnect agreements and publish them as a public offer made to all operators who intend to interconnect to the networks of those operators. Refusal of such operators to conduct an interconnect agreement is prohibited, except in the cases that contradict license terms or other regulatory acts on the unified communication network in the Russian Federation. For additional information, see "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in the Russian Federation."

At present, the foregoing regulations apply only to fixed line operators in Russia and therefore apply to our fixed line business. Draft legislation was introduced in 2008 that would extend the law to

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apply to mobile operators. Although the proposed law was not adopted, the risk that similar legislation will be introduced and adopted in the future remains. If legislation which extends the foregoing regulations to apply to mobile operators is adopted, and we and any of our mobile operator subsidiaries operating in Russia are identified as operators occupying a "substantial position," regulators may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our revenues, financial condition and results of operations.

In addition, MGTS is categorized as fixed line operator occupying a substantial position in the Moscow telecommunications market and therefore its interconnect tariffs are subject to state regulation. In February 2013, Comstar-UTS was excluded from the List of "substantial operators" in Moscow and MTS was not included therein. There is however a probability that we could be categorized as fixed line operator occupying a substantial position in Moscow due to our affiliation with MGTS and because of our integration with Comstar-UTS. As a result of the state regulation of the relevant interconnection rates, substantial operators may be unable to increase these in line with economic developments or any increases of our relevant costs, resulting in a material adverse effect on our financial condition and results of operations. See also " MGTS is subject to extensive regulation of tariffs, and these tariffs may not fully compensate us for the cost of providing required services."

MGTS is subject to extensive regulation of tariffs, and these tariffs may not fully compensate us for the cost of providing required services.

In addition to holding a substantial position in the Moscow telecommunication market, MGTS is included in the Register of natural monopolies in the telecommunications market. Consequently, tariffs for basic services rendered to public switched telephone networks subscribers (fees for providing access to a local telecommunication network, monthly fees for granting subscriber line in a constant use, monthly fees for providing local telephone connection) are subject to regulation.

Although MGTS is permitted to petition FAS for increases in tariffs based on such criteria as inflation, increased costs and the need for network investments, it is possible that future requested increases may not be granted or that FAS may not adequately take such factors into account in setting tariffs. If the permissible tariffs applicable to MGTS do not compensate MGTS for the cost of providing services, the business and results of operations could be materially adversely affected. See also " If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

Changes to the rules and regulations involving roaming charges in Russia may adversely affect our financial condition and results of operations.

Several draft laws were submitted for consideration to the State Duma, which were intended to change the regulation of roaming services in Russia by eliminating/ reducing intra-network roaming tariffs for incoming and outgoing calls. In January 2016, the State Duma rejected the initiative in its first reading. However, if similar draft laws are proposed and adopted in the future, we believe that our revenues from the provision of roaming services would decline, which could have a material adverse effect on our financial condition and results of operations.

See also " A finding by FAS that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operation."

Compliance with the new regulations on International Mobile Equipment Identity ("IMEI") numbers may present us with technical difficulties and may lead to the expenditure of significant resources.

A draft law that enables each mobile communications subscriber to register the user terminal free-of-charge on a database maintained by the operator, chiefly to prevent their unlawful use was

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previously considered in Ukraine. Aimed at discouraging theft, the draft law obligated operators to suspend or block the traffic transmission of the terminal upon the application of subscriber. In July 2015, the draft law was withdrawn from consideration. A similar draft law was rejected by the Russian State Duma. If a similar initiative is proposed in the future, we may be required to develop a system to monitor IMEI numbers, and we may need to establish and maintain a database of IMEI numbers, which would necessitate the expenditure of significant technical and financial resources.

The accession of Russia into the World Trade Organization ("WTO") may lead to legislative and business changes.

On August 22, 2012, the Russian Federation became a member of the WTO. This may lead to potentially significant changes in Russian legislation including, among others, regulation of foreign investments in Russian companies, competition laws, telecommunications laws, changes in the taxation system and customs regulations in Russia. In addition, the implementation of the WTO rules may lead to the increase of competition on the markets where we operate. Although during 2012-2016 Russia adopted certain changes to its legislation related to the accession to the WTO, for example, intellectual property regulation, it is unclear yet if and when all necessary legislative changes related to the accession will take place. If further new legislation is implemented in Russia as a result of its accession to the WTO, this could have a material adverse effect on our financial condition and results of operations.

We may be required to make significant investments beyond those that are currently planned to preserve our competitive advantage in response to the rapid evolution of fixed network technology (inter alia our subsidiaries, for example MGTS).

MGTS accomplishes a number of projects aimed at developing communication networks and expanding availability of telecommunication services for customers. Possible deficiency of free cash during the current economic downturn might lead to freeze of investment programs for development of new products and services, upgrade of the existing network, decrease in quantity of construction objects, cutbacks in development programs in New Moscow and Moscow region. The company finished the project on construction of broadband optical networks employing Gigabit-capable Passive Optical Network ("GPON") technology with direct connection of subscribers to an optical network. The applied part of the GPON project progress is the creation of a digital platform of IMS core, which enables MGTS to render an enlarged range of services, including services for B2G segment.

MGTS invested approximately RUB 11.980 billion in 2014, RUB 8.861 billion in 2015 and RUB 7.119 billion in 2016 to upgrade its infrastructure. MGTS attracts contractors for construction and upgrade of its network. Due to unfavorable market conditions some of MGTS contractors may face lack of own current assets and / or external finance sources which in may in some cases lead to contractor's inability to fulfill contract obligations or even bankruptcy. This may negatively affect the terms of MGTS projects implementation and lead to higher expenses for arrangement of purchases from other market participants. If MGTS is not able to expand and upgrade its network infrastructure in a timely manner and to offer new services or if it is required to make significant investments beyond those that are currently planned, our business, financial condition, results of operations and prospects could be materially adversely affected.

Our intellectual property rights are costly and difficult to protect.

We regard our copyrights, trademarks, trade secrets and similar intellectual property, including our rights to certain domain names, as important to our continued success. We rely upon trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. Nonetheless, intellectual property rights are especially difficult to protect in the markets where we operate. In these markets, the

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regulatory agencies charged with protecting intellectual property rights are inadequately funded, legislation is underdeveloped, piracy is commonplace and enforcement of court decisions is difficult.

A special court for intellectual property began operating in July 2013 as a new body in the system of Arbitrazh court for dealing with cases relating to protection of intellectual property.

Litigation may be necessary to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Any such litigation may result in substantial costs and diversion of resources, and, if decided unfavorably to us, could have a material adverse effect on our business and results of operations. We also may incur substantial acquisition or settlement costs where doing so would strengthen or expand our intellectual property rights or limit our exposure to intellectual property claims of third parties. See also "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Other litigation."

Due to adoption of the Federal Law No. 35 dated March 12, 2014, which introduced significant amendments to the fourth part of the Civil Code of the Russian Federation, the rules of intellectual property rights regulation changed. Lack of extensive law enforcement practice of the changed provisions of the Civil Code may cause difficulties in protection of our rights and legitimate interests.

Changes that are being implemented in current sales and customer care processes of MTS, creation of new information technology services, migration of fixed B2B and B2C subscribers to a single information technology solution may destabilize our information technology solutions, which could have a material adverse effect on our business and results of operations.

Changes in current sales and customer care processes, creation of new information technology services, migration of fixed B2B and B2C subscribers to a single information technology solution may increase our operational risks and expenses and inconvenience subscribers. The failure or breakdown of key components of our infrastructure in the future, including our billing system and its susceptibility to fraud, could have a material adverse effect on our business and results of operations.

If leaks of confidential information, including information relating to our subscribers, occur it may negatively impact our reputation and our brand image and lead to a loss of market share, which could materially adversely affect our business, financial condition, results of operations and prospects.

Although we make efforts to protect confidential information, breaches of security and leaks of confidential information, including information relating to our subscribers, may negatively impact our reputation and our brand image and result in a loss of market share or otherwise have a material adverse effect on our business, financial condition and results of operations. For example, in January 2003, part of our database of subscribers, containing private subscriber information, was illegally copied and stolen. In addition, in May 2003, certain subscriber databases of several operators in the North-West Region, including those of us, MegaFon, Delta Telecom and two other operators, were stolen. In each case, the stolen databases were thereafter available for sale in Russia. Despite the measures taken, we cannot completely exclude the possibility of such incidents in the future. See also " Legal Risks and Uncertainties Our failure to comply with new personal data protection laws and with the regulations of state authorities regarding information security in the telecommunications networks in Russia may have a material adverse effect on our business, financial condition and results of operations."

Alleged medical risks of cellular technology may subject us to negative publicity or litigation, decrease our access to base station sites, diminish subscriber usage and hinder access to additional financing.

Electromagnetic emissions from transmitter masts and mobile handsets may harm the health of individuals exposed for long periods of time to these emissions. The actual or perceived health risks of

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transmitter masts and mobile handsets could materially adversely affect us or our subsidiaries by reducing subscriber growth, reducing usage per subscriber, increasing the number of product liability lawsuits, increasing the difficulty in obtaining or maintaining sites for base stations and/or reducing the financing available to the wireless communications industry. Each of these potential circumstances may adversely affect our business, financial condition, results of operations and prospects.

Under the draft law on "Defending against negative electromagnetic emissions from base stations of mobile network" which was proposed in Ukraine in December 2013, a mobile phone base station was classified as a potentially hazardous object. To date the draft law is excluded from the agenda. The installation of base stations was assumed to be made taking into account an environmental impact assessment at the expense of operators and a base station's operations could be terminated if a hazardous effect on health was established. If a similar initiative is proposed and adopted in the future it may lead to an increase in the costs of deploying base stations and raise the maintenance costs of MTS Ukraine.

Risks Relating to our Financial Condition

We may be adversely affected by the current economic environment.

As a result of the credit market crisis (including uncertainties with respect to financial institutions and the global capital markets), decreased prices for major export commodities (including oil and metals) and other macro-economic challenges currently affecting many of the economies in which we operate, our subscribers' disposable incomes and our vendors' cash flows may be adversely impacted. Consequently, subscribers may modify or decrease their usage of our services or fail to pay the outstanding balances on their accounts, and vendors may significantly increase their prices, eliminate vendor financing or reduce their output.

We may also experience increases in accounts receivable and bad debt among corporate subscribers, some of whom may face liquidity problems and potential bankruptcy, as well as the potential bankruptcy of our corporate partners. The deterioration of economies in the countries of our operation may lead, *inter alia*, to insolvency of financial institutions, which in turn may impact our business and financial condition.

The strained political situation in Ukraine coupled with an economic downturn resulted in financial difficulties in the banking system, including notably liquidity risks. As we hold the bulk of excess hryvnia and foreign currency cash in Ukrainian banks, a banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Ukraine, which could have a material adverse effect on our business, financial condition and results of operations. For example, we incurred a charge to operating income for the fourth quarter 2014 due to losses stemming from the insolvency of DeltaBank in Ukraine. During the year ended December 31, 2015, the Group created additional reserve for cash balances deposited in distressed Ukrainian banks which was included as a component of operating expenses in the accompanying consolidated statement of profit or loss. See also Note 28 to our audited consolidated financial statements.

See also " Inflation could increase our costs and adversely affect our results of operations."

A decline in subscriber usage, an increase in bad debts, material changes in equipment pricing or financing terms or the potential bankruptcy of our corporate subscribers or partners may have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, a deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as a difference between the fair value of the assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. The weakening macroeconomic conditions in the countries in which we operate and/or a

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significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. Future write downs relating to the value of the goodwill or portion of such value could have a material adverse effect on our financial condition and results of operations.

Continued turmoil in the credit markets could cause our business, financial condition, results of operations and the value of our shares and ADSs to suffer.

Sanctions introduced by the United States and the European Union with respect to the Russian Federation coupled with an economic downturn and decline in global oil prices caused significant capital outflow, ruble depreciation, rise of credit rates in the domestic market and lack of available financing. A majority of Russian companies continue to experience difficulties accessing their cash equivalents, trading investment securities, drawing on revolvers, issuing debt and raising capital generally. For the period of 2015, 2016 and 2017, the Central Bank of Russia cut the key rate from 17% to 9.75%, however its further reduction is aggravated by stressful economic situation and high inflationary risks.

A continuation or repetition of this downturn in the global financial markets as well as toughening or extension of international sanctions against Russia and resulting volatility of the trading price of our shares and ADSs may negatively impact our ability to obtain financing on commercially reasonable terms either on foreign or domestic markets and could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our inability to generate sufficient free cash flow to satisfy our debt service obligations or to refinance debt on commercially reasonable terms, could materially adversely affect our business, financial condition, results of operations and prospects.

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our notes and bank loans. As of December 31, 2016, our consolidated total debt, including capital lease obligations, was RUB 284,320 million. Our finance cost for the year ended December 31, 2016 was RUB 27,136 million, net of amounts of interest expense capitalized.

Our ability to service, repay and refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our financial indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, potentially causing cross-defaults under and acceleration of our other indebtedness. The existing debt service is becoming more complicated due to our dependence on floating interest rates on the financial markets.

We may not be able to generate sufficient cash flow or access international or domestic capital markets or incur additional loans to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may be required to refinance all or a portion of our indebtedness on or before maturity for a number of reasons; for example, the terms of some of our loan agreements may require us to prepay the loan in certain circumstances, such as a deterioration in our credit rating, we are delisted or our retained earnings drop below a certain level. This, in turn, may force us to sell assets, reduce or delay capital expenditures or seek additional capital. Refinancing or additional financing may not be available on commercially reasonable terms or at all, and we may not be able to sell our assets or, if sold, the proceeds therefrom may not be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially adversely affect our business, financial condition, results of operations and prospects. See "Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources."

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Ruble volatility and regulatory changes in foreign currency regulation could increase our costs, decrease our available funds, or make it more difficult for us to comply with financial covenants and to repay our debts and would affect the value of dividends received by holders of ADSs.

Over the period of 2014-2016, there has been a significant weakening of the ruble against the U.S. dollar, which can be explained by external geopolitical factors, limited financial markets, decrease in oil prices, international ratings agencies' downgrades of Russia's sovereign rating, reduction in internal consumption and other factors.

For example, on December 31, 2014, the official exchange rate published by the CBR was 56.26 rubles per U.S. dollar. The ruble continued to depreciate against the U.S. dollar reaching 72.88 rubles per one U.S. dollar on December 31, 2015, whereas on December 31, 2016, it amounted to 60.66 rubles per one U.S. dollar. See also " Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble could adversely impact our revenues reported in Russian rubles as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our costs in terms of the Russian ruble and local currencies."

The stability of the ruble will depend on many political and economic factors. These include the ability of the government to finance the state budget without recourse to monetary emissions, to control the level of interest rates and inflation. Furthermore, changes in foreign currency regulation may affect our ability to fund payments denominated in foreign currency and result in us entering into supplementary agreements with our foreign counterparts.

A significant portion of our capital expenditure and liabilities and borrowings are either denominated in or tightly linked to the U.S. dollar. Conversely, a majority of our revenues are denominated in rubles. As a result, devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in rubles, both in absolute terms and relative to our revenues, and make it more difficult to comply with the financial ratios contained in our various loan agreements or fund cash payments on our indebtedness on time. It also reduces the U.S. dollar value of tax savings arising from tax incentives for capital investment and the depreciation of our property, plant and equipment, since their basis for tax purposes is denominated in rubles at the time of the investment. Increased tax liability would also increase total expenses, which would have an adverse impact on our results.

We also anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by the depositary and distributed to holders of the ADSs. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. Depreciation of the ruble against the U.S. dollar could therefore materially adversely affect our financial condition, results of operations and prospects and the value of the ADSs. See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble could adversely impact our revenues reported in Russian rubles as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our costs in terms of the Russian ruble and local currencies.

A significant portion of our expenditures and liabilities, including capital expenditures and borrowings (including our U.S. dollar denominated notes), are either denominated in, or closely linked to, the U.S. dollar and/or euro, while substantially all of our revenues are denominated in local currencies of the countries where we operate. If the Russian ruble and local currencies decline against the U.S. dollar and/or euro and price increases cannot keep pace, we could have difficulty repaying or refinancing our U.S. dollar and/or euro-denominated indebtedness, including our U.S. dollar denominated notes. At the same time, the devaluation of local currencies against the Russian ruble can

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adversely affect our revenues reported in Russian rubles and increase our costs in terms of local currencies. In addition, local regulatory restrictions on the purchase of hard currency in the majority of CIS countries (for example, Ukraine or Turkmenistan) may delay our ability to purchase equipment and services necessary for network expansion which, in turn, may cause difficulty in expanding our subscriber base in that countries. Further, a portion of our cash balances is held in jurisdictions outside Russia, and as a result of exchange controls in those jurisdictions, these cash balances may not always be readily available for our use.

The Ukraine's economic crisis combined with political unrest and events in the Eastern part of Ukraine led to the weakening of the hryvnia, with it rising from 15.77 hryvnias per U.S. dollar on December 31, 2014 to 24.00 and 27.19 hryvnias per one U.S. dollar on December 31, 2015 and on December 31, 2016 respectively, reflecting capital outflow in response to the continuing political instability in Ukraine. See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

The Belarusian ruble depreciated against the U.S. dollar reaching 11,850 Belarusian rubles per one U.S. dollar on December 31, 2014, to 18,569 Belarusian rubles per one U.S. dollar on December 31, 2015. On July 1, 2016, Belarus redenominated its currency on a scale 10,000:1. As of December 31, 2016, the official exchange rate published by the National Bank of the Republic of Belarus amounted to 1.96 Belarusian rubles per U.S. dollar. The possible devaluation of the Belarusian ruble in the future may adversely affect our revenues from this market.

See also " Inflation could increase our costs and adversely affect our results of operations," "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We have to make significant capital expenditures, particularly in connection with the development, construction and maintenance of, and the purchasing of necessary software for our mobile and fixed line networks. We spent RUB 91,929 million in 2014 and RUB 96,111 million (excluding costs of RUB 3.382 billion related to the acquisition of a 4G license in Russia) in 2015 and RUB 83,551 million (excluding costs of RUB 2.598 billion for the acquisition of 4G license in Russia) in 2016 for the fulfillment of our capital spending plans. In addition, the acquisition of 3G and 4G licenses and frequency allocations and the build-out of our 3G, 4G and broadband Internet networks will require additional capital expenditures. However, future financings and cash flow from our operations may not be sufficient to meet our planned needs in the event of various unanticipated potential developments, including the following:

- a lack of external financing sources;
- changes in the terms of existing financing arrangements;
- construction of the wireless networks at a faster rate or higher capital cost than anticipated;
- pursuit of new business opportunities or investing in existing businesses that require significant investment;
- acquisitions or development of any additional wireless licenses;
- slower than anticipated subscriber growth;
- slower than anticipated revenue growth;
- regulatory developments;

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changes in existing interconnect arrangements; or

a deterioration in the economies of the countries where we operate.

In 2014-2016 the United States and European Union announced sanctions applying to a number of Russian and Ukrainian individuals and associated institutions which were considered to have contributed to the situation in Ukraine and Crimea. The sanctions may be extended and our ability to gain external funding may be affected. See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations" and " A deterioration in relations between Russia and other former Soviet republics as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

Our indebtedness and the limits imposed by covenants in our debt obligations could limit our ability to obtain additional financing and thereby constrain our ability to invest in our business and place us at a possible competitive disadvantage. Also, currently we are not able to raise equity financing through newly issued depositary receipts such as ADSs, due to Russian securities regulations providing that no more than 25% of a Russian company's shares may be circulated abroad through sponsored depositary receipt programs. Prior to December 31, 2005 and at the time of our initial public offering, this threshold was 40% and our current ADSs program is near its full capacity. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Inflation could increase our costs and adversely affect our results of operations.

The Russian and Ukrainian economies have been characterized by high rates of inflation, which over the past few years have been mainly driven by weakening of national currencies, restrictions on foreign trade and acceleration in food prices. According to the Federal Statistics Service, inflation reached 11.4% and 12.9% in Russia in 2014 and 2015, respectively. Inflation in Russia in 2016 amounted to 5.38%, which was significantly lower as compared to 12.9% in 2015. Over previous periods, there has been a trend towards inflation-driven increases in certain of our costs, which are sensitive to rises in the general price level in Russia. In addition, high inflation level in Russia may lead, *inter alia*, to higher marketing expenditures by us in order to remain competitive, which could affect our operating margins.

In 2015, growth of consumer prices in Ukraine reached 43.3% compared to 24.9% in 2014, according to the "Inflation Report" of the National Bank of Ukraine. In 2016, inflation in Ukraine reached 12.4%, according to the "Inflation Report" of the National Bank of Ukraine as of January 2017. Key reasons of high inflation rate in Ukraine are weakening of the national currency, increase in prices for energy carriers and utility payments.

At the end of 2014, 2015 and 2016, inflation in Belarus amounted to 16.2%, 12.0% and 10.6%, respectively.

High rates of inflation in Russia, Ukraine and other countries of our operation could increase our costs and decrease our operating margins. See also "Item 5. Operating and Financial Review and Prospects A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Inflation."

See also " Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble could adversely impact our revenues reported in Russian rubles as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or

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euro could adversely impact our costs in terms of the Russian ruble and local currencies" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

If Apple Sales International lodges a claim against us as a result of our failure to fulfill our iPhone handset purchase commitment, this could have a material adverse effect on our financial condition and results of operations.

In 2008, we entered into an unconditional purchase agreement with Apple Sales International to buy certain quantities of iPhone handsets at list prices at the dates of the respective purchases for the three year period. The purchase agreement terminated on September 30, 2012. Pursuant to the agreement, we were also to incur certain iPhone promotional costs. We did not fulfill our total purchase installment contemplated by the agreement. As a result of not having fulfilled our required purchase commitments under our agreement with Apple Sales International, it is possible that Apple Sales International may bring a claim against us, which could have a material adverse effect on our financial condition and results of operations. A reasonable estimate of any potential loss with respect to the remotely possible claim cannot be made.

Indentures relating to some of our notes contain, and some of our loan agreements and Sistema's loan agreements contain, restrictive covenants, which limit our ability to incur debt and to engage in various activities.

Covenants in the agreement relating to our Eurobonds due 2023 limit our ability to create liens on our properties, merge or consolidate with another person or convey our properties and assets to another person. Additionally, the indentures governing our U.S. dollar-denominated notes due 2020 contain covenants limiting our ability to incur debt, create liens on our properties, enter into sale and lease-back transactions, merge or consolidate with another person or convey our properties and assets to another person, as well as our ability to sell or transfer any of our or our subsidiaries' GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. Some of our loan agreements contain similar and other covenants, including, in relation to the incurrence of indebtedness, creation of liens and disposal of assets. We may also incur additional credit obligations providing for similar covenants. Failure to comply with these covenants may cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations.

In addition, Sistema, which owns 48.94% of our total charter capital directly and through its subsidiaries (50.03% excluding treasury shares) and consolidates our results in its financial statements, is subject to various covenants in its credit facilities. These covenants impose restrictions on Sistema and its restricted subsidiaries (including us) with respect to, *inter alia*, incurrence of indebtedness, creation of liens and disposal of assets. In the indentures, Sistema undertakes that it will not, and will not permit its restricted subsidiaries (including us) to, incur indebtedness unless a certain indebtedness level/EBITDA (as defined therein) ratio is met. In addition to us, Sistema has various other businesses that require capital and, therefore, the consolidated Sistema group's capacity to incur indebtedness otherwise available to us could be diverted to its other businesses. Sistema may also enter into other agreements in the future that may further restrict it and its subsidiaries (including us) from engaging in these and other activities. We expect Sistema to exercise control over us in order for Sistema, as a consolidated group, to meet its obligations under its current and future financings and other agreements, which could materially limit our ability to obtain additional financing required for the implementation of our business strategy. The inability to implement our business strategy may have a material adverse effect on our financial condition and results of operations.

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If a change in control occurs, our noteholders and other debt holders may require us to redeem notes or other debt, which could have a material adverse effect on our financial condition and results of operations.

Under the terms of our outstanding notes, if a change in control occurs, our noteholders will have the right to require us to redeem notes not previously called for redemption. The price we will be required to pay upon such event will be 101% of the principal amount of the notes, plus interest accrued prior to the redemption date. A change in control will be deemed to have occurred in any of the following circumstances:

- with respect to the notes due 2020, any person acquires beneficial or legal ownership of, or control over, more than 50% of our issued shares, ownership of or control over more than 50% of the voting interests in our share capital or obtains the power to elect not less than half of our directors, provided that the following transactions would not be deemed to result in a change of control;

- any acquisition by Sistema or its subsidiaries that results in the 50% threshold being exceeded;

- any acquisition by us, our subsidiary or our employee benefit plan; and

- a contribution by Sistema of all or part of its ownership interest in us into a partnership, joint venture or other indirect holding vehicle as long as any other person who is an owner of or party interested in that partnership, joint venture or other indirect holding vehicle does not acquire beneficial ownership of or control over more than 50% of our issued shares, does not acquire ownership of or control over more than 50% of the voting interests in our share capital and does not obtain the power to elect not less than half of our directors.

Some of our loan agreements contain similar change of control provisions. If a change in control occurs, and our noteholders and other debt holders exercise their right to require us to redeem all of their notes or debt, such event could have a material adverse effect on our financial condition and results of operations.

In addition, under certain of our debt agreements, an event of default may be deemed to have occurred and/or we may be required to make a prepayment if Sistema disposes of its stake in our company and a third party takes a controlling position in our company. The occurrence of any such event of default or failure to make any required prepayment which leads to an event of default could trigger cross default/cross acceleration provisions under certain of our other debt agreements. In such event, our obligations under one or more of these agreements could become immediately due and payable, which would have a material adverse effect on our business and our shareholders' equity. If Sistema were to dispose of its stake in us, our company may be deprived of the benefits and resources that it derives from Sistema, which could harm our business.

Risks Relating to Our Countries of Operation Economic Risks

Economic instability in the countries where we operate could adversely affect our business.

Since the dissolution of the Soviet Union in 1991, the economies of Russia and other CIS countries where we operate have experienced periods of considerable instability and have been subject to abrupt downturns. Most notably, following the Russian government's default on its ruble denominated securities in August 1998, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in the immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation, a substantial decline in the prices of Russian debt and equity securities, and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the subsequent near collapse of the Russian banking sector, with the termination of banking licenses of a number of major Russian banks. This crisis had a severe impact on the economies of Russia and the other CIS countries.

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The economies of Russia and the other CIS countries where we operate currently experience negative trends. In 2016 the decline of GDP in Russia was 0.2% in comparison with 3.7% in 2015 according to Federal State Statistics service. According to a forecast of the Ministry of Economic Development, Russian GDP will increase by 0.6% in 2017.

A financial downturn, as well as any future economic downturns or slowturns in Russia or the other CIS countries where we operate could lead to decreased demand for our services, decreased revenues and negatively affect our liquidity and ability to obtain debt financing, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

The Russian banking system remains underdeveloped, the number of creditworthy banks in Russia is limited and another banking crisis could place severe liquidity constraints on our business.

Russia's banking and other financial systems are less developed or regulated as compared to other countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

In recent years, there has been a rapid increase in lending by Russian banks, which has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading Russian banks (including the banks with which we conduct banking transactions) to hold increasingly large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the CBR has from time to time revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Recently a number of banks and credit institutions have lost their licenses due to deficiency of capital and failure to meet the CBR requirements. During a banking crisis, Russian companies may be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that may occur during such a crisis.

The recent disruptions in the global markets have generally led to reduced liquidity and increased cost of funding in Russia. Borrowers have generally experienced a reduction in available financing both in the inter-bank and short-term funding market, as well as in the longer term capital markets and bank finance instruments. The non-availability of funding to the banking sector in the Russian Federation has also negatively affected the anticipated growth rate of the Russian Federation. During the course of 2014 and the first quarter of 2015, the credit rating of the Russian Federation was placed for review and downgraded by each of Moody's, Fitch Ratings and Standard & Poor's several times. As of April 1, 2017, Russia has a Ba1 sovereign credit rating with a stable outlook from Moody's, BBB- long-term sovereign rating with a stable outlook from Fitch Ratings and BB+/B foreign currency sovereign credit rating with a positive outlook from Standard & Poor's. See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

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The Russian government and the CBR provide financial support only to a limited number of banks, which may result in the liquidation of other banks and financial institutions. In 2014-2016, the CBR revoked the licenses of a number of Russian banks for reasons associated with implementing high-risk lending policies, loss of liquidity and non-compliance with anti-money laundering legislation. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability.

There is currently a limited number of sufficiently creditworthy Russian banks and few ruble denominated financial instruments in which we can invest our excess ruble cash. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

The physical infrastructure in Russia, Ukraine and the other countries where we operate is in poor condition, which could disrupt our normal business activities and adversely impact our results.

The physical infrastructure in Russia, Ukraine and the other countries where we operate largely dates back to Soviet times and has not been adequately funded and maintained over the past two decades. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. For example, in August 2009, a major accident occurred at Russia's largest power plant, the Sayano-Shushenskaya hydroelectric power station, resulting in flooding of the engine and turbine rooms, a transformer explosion and the death of 75 people. Power generation from the station ceased completely following the incident, which led to a major power outage in the nearby residential areas and at certain industrial facilities as well as pollution of the rivers and soil as a result of an oil spill from the transformer.

In addition, the road conditions throughout our countries of operation are poor with many roads not meeting minimum quality standards, causing disruptions and delays in the transportation of goods to and within these countries. The Russian and Ukrainian governments are actively considering plans to reorganize their national rail, electricity and communications systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of the physical infrastructure in Russia, Ukraine and the other countries where we operate harms the national economies, adds costs to doing business in these countries and generally disrupts normal business activities. These difficulties can impact us directly; for example, we keep portable electrical generators to help us maintain base station operations in the event of power outages. Further deterioration of the physical infrastructure in Russia and Ukraine, as well as the other countries where we operate, could have a material adverse effect on our business, financial condition and results of operations. In addition, the increased charges and tariffs that may result from the government reorganization may also have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in the global economy may materially adversely affect the economies of the countries where we operate and our business in these countries.

The economies of the countries where we operate are vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, Ukraine and elsewhere in the CIS, and businesses in these countries could face severe liquidity constraints, further adversely affecting their economies. Additionally, because Russia and Turkmenistan produce and export large amounts of oil and gas, the Russian and Turkmen economies are especially vulnerable to the price of oil and gas on the world market and a decline in

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the price of oil and gas could slow or disrupt the Russian and Turkmen economies. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia and Ukraine are also major producers and exporters of metal products and their economies are vulnerable to world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the European Union or by other principal export markets.

The disruptions recently experienced in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets, including us, may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs. To the extent that the current market downturn continues or worsens, it may lead to constraints on our liquidity and ability to obtain debt financing, which may have a material adverse effect on our business, financial conditions and results of operations.

Political and Social Risks

Political and governmental instability in Russia and other countries of our operations could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

The political and economic situation in Russia has been negatively affected by the global financial crisis, the economic sanctions imposed by the United States and the EU and the on-going volatile economic conditions. Other countries where we operate may pose similar challenges. For example, the referendum in Crimea in favor of joining the Russian Federation and consequent developments in the region contribute to political tension and uncertainty in Ukraine, see also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations." Current and future changes in the Russian and other CIS governments, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs. A deterioration of the socio-political situation in Russia could also trigger an event of default under some of our loan agreements.

Potential conflict between central and regional authorities could create an uncertain operating environment hindering our long-term planning ability.

The Russian Federation is a federation of sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities could result in the enactment of conflicting legislation at various levels and may lead to political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus may hinder our long-term planning efforts and create uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

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Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, which can halt normal economic activity and disrupt the economies of neighboring regions. For example, violence and attacks relating to the Chechen conflict have spread to other parts of Russia and several terrorist attacks have been carried out in other parts of Russia, including Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia. Any of these factors could materially adversely affect our business and the value of our shares and ADSs. In Ukraine, political instability and the tensions in eastern Ukraine may have negative effect on business operations.

See also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

A deterioration in relations between Russia and other former Soviet republics as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Relations between Russia and certain other former Soviet republics are or have in the past been strained. For example, in August 2008, an armed conflict erupted between Russia and Georgia over the self-appointed republics South Ossetia and Abkhazia, culminating in Russia's recognition of their independence from Georgia. The political and economic relationships between Ukraine and Russia have also been strained in recent years, culminating in the current geopolitical crisis with respect to Crimea.

See also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations" and " Risks Relating to our Financial Condition Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble could adversely impact our revenues reported in Russian rubles as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our costs in terms of the Russian ruble and local currencies."

In connection with the ongoing events in Ukraine, the United States and the European Union have imposed sanctions on certain Russian and Ukrainian persons and entities. No individual or entity within our group has been designated with sanctions introduced either by the United States or the European Union. However, additional designations may be made, or additional categories of sanctions may be created, at any time, and we can give no assurance that any member of our group, or individuals holding positions in our group, will not be affected by future sanctions designations. Non-compliance with any potential sanctions could result in, among other things, the inability of the relevant group entities to contract with the U.S. and/or E.U. governments or their agencies, civil or criminal liability of sanctioned entities and/or related personnel under U.S. and/or E.U. law, the imposition of significant fines, and potential reputational damage.

Further tensions between Russia and other countries and any escalation of related tensions, the imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a negative effect on the Russian economy, the financial condition of our partners and suppliers, our ability to conduct trade and financial transactions, our ability to obtain financing on commercially reasonable terms, and the level and volatility of the trading price of our shares and ADSs.

The Ukrainian Cabinet of Ministers initiated adoption of the Law "On Sanctions" by the Verkhovna Rada of Ukraine which came into force on September 12, 2014. The law provides for special economic and other restrictive measures (sanctions) against foreign states, foreign legal entities

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and individuals involved in activities threatening the national security, sovereignty and territorial integrity of Ukraine and the rights and freedoms of its citizens. The law stipulates 25 types of sanctions which include, among others:

- asset freezing;
- temporary limitation of a right to use or dispose of property;
- cancellation or suspension of licenses and other permits, including special permits for subsoil use;
- prohibition to use radio frequency resources in Ukraine; and
- termination or suspension of rendering telecommunication services or utilizing telecommunications networks of general use.

A draft law expanding the list of sanctions, stipulated by the Law "On sanctions" was introduced on July 13, 2015. It includes, *inter alia*, seizure of the objects of the Russian proprietary rights as well as objects of private property of its residents in case of social necessity for the state's benefit. In addition, the Presidential Decree No. 549/2015 dated September 16, 2015 approved the decision of the National Security and Defense Council of Ukraine as of September 2, 2015 "On application of personal special economic and other restrictive measures (sanctions)" whereby the list of individuals and legal entities to which sanctions were applied for a one-year term was specified. Based on the Presidential Decree No. 467 dated October 17, 2016 sanctions against individuals and legal entities effective from September 16, 2015 were prolonged for one more year; the previous sanction list was extended to cover more individuals and legal entities, including, among others, the major beneficial owner of MTS Ukraine (individual). Although we believe that under current legislation, the introduction of these personal sanctions by public authorities of Ukraine does not imply they apply to the companies directly or indirectly controlled by such individual or to any of his affiliated parties, including MTS Ukraine that has not been subject to any similar sanctions by Ukrainian authorities, however taking into account uncertainties in the future law enforcement practice, it cannot be ruled out that introduction of the aforementioned personal sanctions will have an adverse effect on business, financial position and results of MTS Group in Ukraine.

Pursuant to the Law of Ukraine "On the legal status of martial law" dated June 8, 2015, military command together with military administrations are permitted to temporarily limit certain rights, freedoms and legal interests of individuals and legal entities within specific territories where martial law is introduced. On June 28, 2015, amendments to the Law of Ukraine "On licensing of certain types of economic activity" came into force expanding the terms of license cancellation, including adoption of an "act on documentary proof of control over licensee actions by other states, carrying out armed aggression against Ukraine or whose actions create preconditions either for military conflict or use of military force against Ukraine."

Furthermore, a number of draft laws were introduced in Ukraine during 2015 and 2016 in connection with sanctions, such as, for example, the draft law "On amendments to the Law of Ukraine "On the protection of economic competition" aimed to improve the procedures of control over concentration of economic entities provides for special economic and other restrictive measures (sanctions) to a concentration's participant according to the Law of Ukraine "On Sanctions" and the draft law "On amendments to Article 9 of the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations" provides for an obligation of an economic entity to publish information relating to its beneficial owner in the Unified state register (in case the beneficial owner is a resident of a country, carrying out armed aggression against Ukraine). In addition, the draft law "On amendments to some legislative acts relating to labeling of products (services) produced by suppliers tied with an aggressor country" stipulates that the suppliers of goods (services) might be obliged to mark the advertising of products (services) with the information on their ties with

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an aggressor country. The draft laws have not been considered by functional committee of the Verkhovna Rada and the Parliament of Ukraine yet.

In November 2016, NBU adopted a resolution that is aimed to, *inter alia*, impose restrictions on operations with persons/ institutions targeted by sanctions.

Furthermore, in March 2017 NBU introduced sanctions aimed at Ukrainian subsidiaries of a number of Russian banks in order to prohibit financials operations, including payment of dividends, in favor of the parent banks.

There is still significant uncertainty regarding how these measures might affect MTS Ukraine and the Group, extent or timing of any further sanctions, or the ultimate impact of these sanctions on our operations. Potentially these measures and any further measures and sanctions may have a negative effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

See also " Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations" and " The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations" and " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations.

Economic crisis, deterioration of key aspects of the economy and the lack of investment into the social infrastructure, has, amongst other things, led to the instability of the political situation in Ukraine where we have significant operations. Furthermore, the refusal of the Ukrainian Government to enter into an association agreement with the European Union in November 2013, incited mass protests in Kiev and other regions of the country. These protests caused, amongst other things, a downgrade of Ukraine's international ratings and significant depreciation of the national currency, see " Risks Relating to our Financial Condition Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble could adversely impact our revenues reported in Russian rubles as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our costs in terms of the Russian ruble and local currencies."

On March 16, 2014, a referendum in favor of joining the Russian Federation was held in Crimea with the consequent declaration of independence from Ukraine and accession to the Russian Federation by the parliament of Crimea.

The armed conflict in Eastern Ukraine that has taken place since April 2014 has destabilized the region and caused uncertainty in our operation in the region of the armed conflict. It has also led to damage of our network equipment in the region followed by related losses. Should the economic and political situation in Eastern Ukraine become further destabilized, should local operators enter the market or other external factors affect the region, this may adversely affect our business, financial condition, corporate image and results of operations as well as cause regulatory uncertainties.

These events have resulted in heightened tensions between Ukraine and the Russian Federation and have strained relationships of the Russian Federation with the United States and the European Union, which may adversely impact our business. Furthermore, should tensions between the Russian Federation and Ukraine continue or increase, or should the economic and political situation in Ukraine become further destabilized, our business interests in Ukraine and other impacted regions may be

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adversely affected or targeted. The continued impact of these events and any continuing or escalating military action, public protests, unrest, political instability or further sanctions could have a further adverse effect on our business in Ukraine, our financial condition and reputation.

See also " A deterioration in relations between Russia and other former Soviet republics as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

Crime and corruption could disrupt our ability to conduct our business and thus materially adversely affect our operations.

The political and economic changes in recent years in the countries where we operate have resulted in significant dislocations of authority. In addition, the local and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, some members of the media in the countries we operate in regularly publish disparaging articles in return for payment. The depredations of organized or other crime, demands of corrupt officials or claims that we have been involved in official corruption could result in negative publicity, disrupt our ability to conduct our business and could thus materially adversely affect our business, financial condition, results of operations and prospects.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our operations.

A decrease in the price of oil, as well as increased unemployment rates, the failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, including restrictions on foreign involvement in the economies of the countries where we have operations; and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of revenues, materially adversely affecting our operations. See also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

Legal Risks and Uncertainties

Weaknesses relating to the legal system and legislation in the countries where we operate create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of our shares and ADSs.

Each of the countries we operate in is still developing the legal framework required to support the market economy. The following risk factors relating to these legal systems create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies:

- inconsistencies between and among the constitution, federal and regional laws and subordinate legislation (presidential decrees and governmental, ministerial and local orders, decisions and resolutions) and other acts;

- the lack of judicial and administrative guidance on interpreting certain legislation as well as conflicting interpretations of supreme general jurisdiction and arbitrazh courts;

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- the relative inexperience of judges and courts in interpreting certain aspects of legislation;
- the lack of an independent judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy and liquidation procedures and court practice that create possibilities of abuse.

The recent nature of much of the legislation in the CIS countries, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of these legal systems in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, legislation in these countries often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and contracts, or to defend ourselves against claims by others. Moreover, it is possible that regulators, judicial authorities or third parties may challenge our internal procedures and bylaws, as well as our compliance with applicable laws, decrees and regulations.

The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations.

If we are unable to protect our business entities in the countries in which we operate from the withdrawal or suspension or regulatory scrutiny, this may adversely affect our business, financial condition and results of operations. For example, in June 2012, the authorities of the Republic of Uzbekistan began 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. Total amount of damages was calculated and determined on the basis of all the aforementioned claims against Uzdunrobita and 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, Uzdunrobita filed a petition for voluntary bankruptcy to the Tashkent Economic Court on the grounds of its inability to meet further obligations.

On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated a liquidation process. Uzdunrobita was later liquidated. In 2012, we filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes ("ICSID"), part of the World Bank Group, in Washington, D.C.

On July 31, 2014, we and the Republic of Uzbekistan signed a settlement agreement (the "Settlement Agreement") and MTS agreed to reenter the Uzbekistan market through a joint enterprise with MTS holding a 50.01% in the charter capital of the joint enterprise, while the remaining 49.99% belongs 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 is governed by English law and provides 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).

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On September 24, 2014, in accordance with the Settlement Agreement, the authorities of the Republic of Uzbekistan granted the joint enterprise 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 the joint enterprise so it could operate and offer full telecommunications services throughout Uzbekistan. The joint enterprise has also received guaranties for investment protection and return of investments in accordance with the laws of the Republic of Uzbekistan.

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

On December 1, 2014, the joint enterprise, named UMS, launched sales of SIM cards through its proprietary network of 20 stores and through another 230 independent locations throughout Uzbekistan and started provision of 2G/3G telecommunication services on the entire territory of Uzbekistan.

On August 5, 2016, we sold our 50.01% stake in UMS 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 loss on disposal of investment in Uzbekistan was recorded in the financial report for the third quarter of 2016. See Note 26 to our audited consolidated financial statements.

See also " Political and Social Risks A deterioration in relations between Russia and other former Soviet republics as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs" and " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations.

In December 2010, the Group suspended its operations in Turkmenistan following notification by the Ministry of Communications of Turkmenistan of a decision to suspend licenses held by BCTI, the Group's wholly-owned subsidiary in Turkmenistan, for a period of one month starting from December 21, 2010. On January 21, 2011, the period of license suspension expired, however, permission to resume operations was not granted.

The Group operated in Turkmenistan under a trilateral agreement signed in November 2005 by BCTI, MTS and the Ministry of Communications of Turkmenistan valid for a period of five years with a possibility to extend its term. In accordance with certain provisions of this agreement, BCTI shared net profits derived from its operations in the country with the Ministry of Communications of Turkmenistan.

Following the decision to suspend BCTI's licenses, Turkmenistan government authorities took further steps, including unilateral termination of interconnect agreements between BCTI and state-owned telecom operators, to prevent the Group from providing services to its customers.

On May 24, 2012 we concluded an agreement with the state-owned telecom operator Turkmentelekom relating to our terms of operations in Turkmenistan which resulted from negotiations between the Turkmenistan government and ministries. The agreement has a five year term and can be extended for next five years provided certain terms and conditions are satisfied. Under this agreement we are obliged to pay Turkmentelekom a monthly amount calculated as 30% of our net profit in Turkmenistan based on accounting rules of Turkmenistan.

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On July 25, 2012, we, our subsidiary BCTI, the republic of Turkmenistan, the Ministry of Communications of Turkmenistan, the state-owned company Turkmentelecom and mobile operator Altyn Asyr signed a settlement agreement (including the dismissal of all international lawsuits) concerning the suspension of our operations in Turkmenistan in December 2010.

In August 2012, we restarted our mobile communication network in Turkmenistan and resumed providing services to subscribers who had not canceled their contracts. Since October 1, 2012 we resumed our operations in Turkmenistan entirely and started entering into contracts with new subscribers.

Russian and Ukrainian companies can be forced into liquidation on the basis of formal non-compliance with certain legal requirements.

Certain provisions of Russian law may allow government authorities to seek a court order for the liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation.

For example, under Russian corporate law, if the net assets of a Russian joint stock company calculated on the basis of Russian accounting standards are lower than its charter capital as at the end of its third or any subsequent financial year, the company must either decrease its charter capital or be placed in liquidation. If the company fails to comply with these requirements, governmental or local authorities can seek the involuntary liquidation of such company in court, and the company's creditors will have the right to accelerate their claims or demand early performance of the company's obligations as well as demand compensation of any damages.

The existence of negative assets may not accurately reflect the actual ability to pay debts as they fall due. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, *i.e.*, their ability to pay debts as they fall due, is not otherwise adversely affected by such negative net assets. Some Russian courts, in deciding whether or not to order the liquidation of a company for having negative net assets, have looked beyond the fact that the company failed to fully comply with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. Nonetheless, creditors have the right to accelerate claims, and file damages claims, and governmental or local authorities may seek the liquidation of a company with negative net assets. Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum charter capital required by law, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum charter capital at the time of liquidation.

The amount of net assets in accordance with the local accounting standards of some of our subsidiaries is less than the minimum charter capital required by law. Although these subsidiaries continue to meet all of their obligations to creditors, there is a minimal risk of their liquidation while the net assets remain below the minimum legal requirements.

There have also been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used as a basis to seek the liquidation of a legal entity. Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, such liquidation could lead to significant negative consequences for our group. Ukrainian law also contains provisions similar to Russian law, whereby a company's failure to comply with certain legal requirements concerning its formation, net assets or operation may be grounds for its liquidation.

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Insufficient adherence to the independence and competitiveness of the judicial process, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of our securities from obtaining effective redress in a court proceeding.

The judicial bodies in the countries where we operate are not always completely independent or immune from economic and political influences, and are often understaffed and underfunded. Judges and courts are often inexperienced in the area of business, corporate and industry (telecommunications) law. Judicial precedents generally have no binding effect on subsequent decisions, and not all court decisions are readily available to the public or organized in a manner that facilitates understanding. The judicial systems in these countries can also be slow or unjustifiably swift. Enforcement of court orders can, in practice, be very difficult to achieve. All of these factors make judicial decisions in these countries difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies. Furthermore, recognition and enforcement of arbitral awards in countries where we operate is subject to compliance with corresponding rules of civil procedure and applicable laws, and courts in the countries where we operate may interpret applicable regulations in a manner which would result in denial of such recognition and enforcement.

These uncertainties also extend to property rights. For example, during Russia and Ukraine's transformation from centrally planned economies to market economies, legislation has been enacted in both countries to protect private property against uncompensated expropriation and nationalization. However, there is a risk that due to the lack of experience in enforcing these provisions and due to political factors, these protections would not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business, financial condition, results of operations and prospects.

Selective or arbitrary government action could have a material adverse effect on our business, financial condition, results of operations and prospects.

Governmental authorities in the countries where we operate have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations.

Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions. Moreover, the government also has the power in certain circumstances, by regulation or government acts, to interfere with the performance of, nullify or terminate contracts.

In Turkmenistan, we commenced operations in June 2005 through our wholly owned subsidiary, BCTI, and operated under a trilateral agreement by and among the Ministry of Communication of Turkmenistan, BCTI and us. However, when this agreement expired on December 21, 2010, the Ministry of Communication of Turkmenistan refused to prolong the agreement. After several international lawsuits and negotiations regarding adjustments of disputes we restarted our network in Turkmenistan on August 30, 2012 and resumed our operations on October 1, 2012. Similar actions in other countries where we operate could have a material adverse effect on results of our operations. See also " The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations" and " The inability of our subsidiaries in the countries in which we are present to

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maintain control over their operations and assets may adversely affect our business, financial condition and results of operations."

In addition, the Russian tax authorities have aggressively brought tax evasion claims relating to Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to transmit television channels or operate telecommunications equipment, or the findings of government inspections or increased governmental regulation of our operations, could result in a disruption in our business and substantial additional compliance costs and sanctions.

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, approvals, authorizations and permits, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, approvals, authorizations and permits and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may conclude that we or our subsidiaries have violated laws, decrees or regulations, and we may be unable to refute such conclusions or remedy the violations. See also " The regulatory environment for telecommunications in Russia, Ukraine and other countries where we operate or may operate in the future is uncertain and subject to political influence or manipulation, which may result in negative and arbitrary regulatory and other decisions against us on the basis of other than legal considerations and in preferential treatment for our competitors."

Primarily due to delays in the issuance of permits, approvals and authorizations by regulatory authorities, it is frequently not possible to procure all of the permits for each of our base stations or other aspects of our network before we put the base stations into commercial operation or to amend or maintain all of the permits when we make changes to the location or technical specifications of our base stations. At times, there can be a significant number of base stations or other communications facilities and other aspects of our networks for which we do not have final permits to operate and there can be delays in obtaining the final permits, approvals and authorizations for particular base stations or other communications facilities and other aspects of our networks. Furthermore, we are constantly in the process of registration and re-registration of ownership over certain infrastructure facilities, for example, MGTS carries out measures aimed at registration of ownership rights to the cable line structures (CLS). At the same time, MGTS is not insured against the risks of challenging the ownership rights by third parties. MGTS performs legal registration of its ownership rights to minimize the risk. In case of receiving reasonable claims, MGTS reconciles cable line objects to distinguish the ownership rights. MGTS is ready to assert its rights to CLS in court when necessary.

In addition, we may be unable to transmit certain television channels if entities that provide television content to us do not possess the requisite licenses. In case such providers of television content do not obtain the required licenses, or have their existing licenses suspended or terminated, our selection of potential television channels for transmission could be significantly limited. The Federal Law No. 257 "On Amending Federal Law "On Mass Media" and Federal Law "On Communications" dated July 13, 2015 introduced a number of amendments to the national mandatory free television channels list. Requirements on sequence of channels, sound and image quality and signal reception points of national mandatory free television channels were adopted in September 2015. The inability of operators to comply with such requirements may lead to suspension or termination of a license. Furthermore, we could be subject to fines and other penalties, including forced suspension of our cable

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network operators' activity for up to 90 days. In some cases of our service provision (for example, those employing GPON technology) power failures in subscribers' households may lead to non-compliance with rules regulating local telephony communication services. Any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

Our failure to comply with existing laws and regulations of the countries where we operate or to obtain all approvals, authorizations and permits required to operate telecommunications equipment, or the findings of government inspections including the State Labor Inspection Service may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, approvals, authorizations and permits, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Moreover, an agreement or transaction entered into in violation of law may be invalidated and/or unwound by a court decision. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could result in a disruption of our business and substantial additional compliance costs and could materially adversely affect our business, financial condition, results of operations and prospects. In addition, we may assume risks of potential claims from subscribers and regulating authorities regarding former activities of the acquired or merged businesses.

Generally, communication networks are vulnerable to physical or software break-ins, viruses, unauthorized interferences and similar events. Should such events occur with respect to our network elements, we may become subject for additional inspection by the regulatory authorities. Although we obtain all necessary permissions and certificates for the operation of our equipment and provide measures to protect confidential information, our failure to fully comply with all legislation requirements could result in the imposition of fines or penalties, additional government regulations, substantial additional compliance costs, disruption of our business including its suspension or termination, and other adverse effects.

In 2014, NCCIR conducted two unplanned inspections with respect to MTS Ukraine. The inspections resulted in the issuance of orders, one of which was disputed by MTS Ukraine in court proceedings. The Court of Appeals Instance made a decision in favor of MTS Ukraine and cancelled the NCCIR order, however, NCCIR repeatedly appealed the case. In August 2016, NCCIR repeatedly filed a cassation petition to the Supreme Court of Ukraine. The Supreme Court rejected the claim of NCCIR by its decision dated October 6, 2016.

In addition, in 2015 the Prosecutor General's Office of Ukraine started criminal proceedings on the fact of "unauthorized intervention" in the operation of MTS Ukraine telecommunication network in Crimea on 15 and 16 March, 2014. The outcome of the investigation is currently unclear. Possible legal risks or risks concerning our license terms and conditions arising from the proceedings might adversely affect our business, financial condition and results of operations.

The level of development of corporate and securities laws and regulations in Russia could limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are less developed in Russia than, for example, in the United States and Western Europe. Securities laws, including those relating to corporate governance, insider trading, disclosure and reporting requirements, are relatively new, while other laws concerning anti-fraud and directors' and officers' liabilities remain underdeveloped. The Russian securities market is regulated by the CBR and FAS where the latter oversees anti-monopoly matters and advertisement relating to securities.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct capital markets transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is

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often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. As a result, we may be subject to fines and/or other enforcement measures despite our best efforts at compliance, which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore on July 1, 2016, provisions of the Federal Law No. 210 stipulating the new procedure for corporate actions became effective which, *inter alia*, provides for a possibility of remote participation at a general meetings of security holders (e-voting) for those shareholders who hold their shares either directly on a share register or through a depositary. This new procedures may lead to delays in voting process and inconsistencies and may entail additional risks due to their novelty to the Russian market.

There is little minority shareholder protection in Russia.

Minority shareholder protection under Russian law principally derives from (a) supermajority shareholder approval requirements for certain corporate actions, (b) the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions, and (c) shareholders' right to challenge decisions of the company's management bodies in certain circumstances. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. In practice, enforcement of these protections has been poor. Shareholders of some companies have also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder in the future may not operate us and our subsidiaries for the benefit of minority shareholders, and this could have a material adverse effect on the value of our shares and ADSs.

While the Federal Law on Joint Stock Companies provides that shareholders owning not less than 1% of the company's stock may bring an action for damages caused to a company by its CEO, member of the Board of Directors or its Management Board and certain other officials acting on behalf of the company, minority shareholders may have difficulties with proving such damages with the court and as a consequence their claims may be denied by the court. In 2009, legislation was adopted which contemplates class action litigation. Although there have been several disputes in the past few years, Russian courts do not have a clear and consistent approach in regards to class action litigation. Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of our shares and ADSs.

According to Russian legislation, shareholders/participants of Russian companies have an opportunity to demand either liquidation of a company in a judicial proceeding or exclusion of other shareholder/ participant (except for public joint stock companies) from the company.

According to the amendments to the Civil Code of the Russian Federation which came into effect on September 1, 2014, shareholders and participants of Russian companies have, *inter alia*, the following rights which can be executed via judicial proceedings:

a) to demand the liquidation of a company in case of failure to achieve targets for which it was created, including a case when an operation of a company becomes impossible or is substantially hampered; and

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b) to demand exclusion of a shareholder/participant (except for the public joint stock companies, including MTS) whose actions/inactivity either cause significant harm or hampers the company's operations.

In this regard, considering the lack of practice in applying these regulations, we cannot rule out the possibility of filing of such claims against us. Should such claims be brought, this may have a negative impact on our business, financial condition and results of operations.

Shareholder liability under Russian legislation could cause us to become liable for both obligations of our subsidiaries and losses of the legal entities in which we have a practical possibility of determining actions.

The Civil Code of the Russian Federation, the Joint Stock Companies Law and the Federal Law "On Limited Liability Companies" generally provide that shareholders in a Russian joint stock company or members of a limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is deemed an "effective parent." The entity whose decisions are capable of being so determined is deemed an "effective subsidiary." The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and

the effective parent gives binding instructions or consent for a transaction to the effective subsidiary (except for voting of the effective parent in a shareholders' meeting of its effective subsidiary and approval by the effective parent's governing body of a transaction if such approval is required under the charter of the effective parent or the effective subsidiary).

However, joint and several responsibility of the effective parent is excluded in case of voting of the effective parent on the approval of the transaction at a general shareholders' meeting of the effective subsidiary, as well as the approval of the transaction by the executive body of the effective parent, if the need for such approval is envisaged in the charter of the effective subsidiary and (or) the effective parent.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or failure to act of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for debts of our subsidiaries and losses of the legal entities in which we have a practical possibility of determining actions if we caused such losses. This liability could have a material adverse effect on our business, results of operations and financial condition.

Shareholder rights provisions under Russian law could impose additional obligations and costs on us, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Russian law provides that shareholders that vote against or did not participate in voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

decisions with respect to a reorganization;

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the approval by shareholders of a "major transaction," which involves property in excess of 50% of the balance sheet value of the company's assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated (including those which are simultaneously interested-party transactions) , except for transactions undertaken in the ordinary course of business;

the amendment of our charter in a manner that limits shareholder rights;

the amendment of our charter in a manner that excludes reference to the entity's public status, approved simultaneously with a decision on applying to the CBR on release from obligation to disclose information under the laws of the Russian Federation on securities; and

a decision on applying for delisting of shares and convertible securities from a stock exchange.

For example, from 2004 through December 31, 2016, we merged over 60 of our wholly owned subsidiaries into MTS. As a part of our reorganization during 2013 a total of 90,881 MTS ordinary shares representing 0.004% of our issued share capital were repurchased for RUB 19.7 million and during 2014 a total of 9,935 MTS ordinary shares representing 0.0005% of our issued share capital were repurchased for RUB 2.1 million. In the course of reorganization in 2015 we repurchased 29,666 MTS ordinary shares representing 0.0014% of our issued share capital for RUB 5.9 million. In 2016, we, acting through our 100% owned subsidiary, Stream Digital, LLC, purchased 3,060,409 MTS ordinary shares for a total consideration of RUB 700,833,661. In the beginning of 2017, we further purchased 32,061,256 MTS ordinary shares for RUB 9,297,764,240.

Our obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects. Under Russian law, if we are unable to sell the repurchased shares at a price equal to or exceeding the market price within one year after the date of repurchase, we have to reduce our charter capital accordingly.

The Strategic Foreign Investment Law imposes certain restrictions on us and our existing and potential foreign shareholders, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

On May 7, 2008, the Federal Law "On the Procedure for Foreign Investment in Commercial Organizations of Strategic Importance for the Defense and Security of the State," or the Strategic Foreign Investment Law, came into force in Russia. This law sets forth certain restrictions relating to foreign investments in Russian companies of "strategic importance." Among others, companies with a dominant position in the Russian telecommunications market are considered to be strategically important and foreign investments in such companies are subject to regulations and restrictions to these companies set out by the Strategic Foreign Investment Law. For purposes of the Strategic Foreign Investment Law, a mobile telecommunications provider is deemed to be dominant if its market share in the Russian market exceeds 25%, as may be determined by FAS. In addition, a company may be considered to be strategically important due to our offering of services involving the use of cryptographic technologies.

Starting from the effective date of the Strategic Foreign Investment Law, a foreign investor seeking to obtain direct or indirect control over a strategically important company is required to have the respective transaction pre-approved by a special governmental commission on control of foreign investments. On December 6, 2014, the amendments to the Strategic Foreign Investment Law came into effect. The law stipulates that foreign investors are obliged to obtain prior approval of transactions envisaging the acquisition of right of ownership, possession or use of property classified as the fixed production assets of a strategic company and the value of which represents 25% or more of the balance sheet value of the assets of such company as of the last reporting date, according to accounts. In

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addition, foreign investors are required to notify this authorized governmental body about any transactions undertaken by them resulting in the acquisition of 5% or more of the charter capital of strategically important companies. Within 180 days from the effective date of the Strategic Foreign Investment Law, foreign investors having 5% or more of the charter capital of strategically important companies were required to notify the authorized governmental body about their current shareholding in such companies. Commencing December 6, 2014, a foreign investor is also obliged to notify the authorized governmental body about the fact of conducting the pre-approved transactions.

As we are classified as a strategically important company, our current and future foreign investors are subject to the notification requirements described above and our current and potential investors may be limited in their ability to acquire a controlling stake in, or otherwise gain control over, us. Such increase in governmental control or limitation on foreign investment could impair the value of your investment and could hinder our access to additional capital.

Regulatory changes in Russia, including the reduction of settlement rate, regulation of other inter-carrier and subscriber tariffs and others, as well as regulatory changes at the international level may have a material adverse effect on our financial condition and results of operations.

Following an amendment to the Federal Law on Communications, which became effective July 1, 2006, fixed line operators began charging their subscribers for calls to mobile phone users and started to transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is established by the regulator and is known as the "settlement rate." The Ministry of Communications and Mass Media is considering altering the approach to inter-carrier settlements in Russia and the subsequent lowering of the settlement rate. Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins. In September 2013, the Government commission on telecommunications supported the proposal of the Ministry of Communications and Mass Media to simplify the process of traffic transmission within one sub-federal region, as well as to simplify the process of traffic transmission within the voice and data networks while transmitting voice information within one sub-federal region of the Russian Federation. The exact changes to the current regulations may be significant, including the regulation of interconnect leading to operators' inability to determine the autonomous pricing of interconnect rates.

In November 2014, the Government of Russia considered a proposal on reconsideration of the interconnect regulation approach submitted by the Ministry of Communications. It is unclear yet how this proposal may be implemented, however it may potentially lead to reduction in traffic transmission revenues/ increase in traffic transmission costs. The final decision on the implementation of this proposal has not been made yet.

The agreement on the conditions of inter-carrier mutual settlements while delivering international communication services in CIS-countries was signed on the CIS Heads of Government Council meeting held in Dushanbe on October 30, 2015 (the "Agreement"). The enforcement of certain provisions of the Agreement may adversely affect our operation in terms of the execution of inter-carrier mutual settlements among CIS-operators. In order to be implemented, the corresponding provisions should be introduced to the Russian legislation. To date, the provisions have not been implemented yet.

In December 2013 and in July 2014, the State Commission for Radio frequencies introduced a number of modifications to the conditions of using the frequency band for 3G and 4G. These changes resulted in implementation of the principle of technological neutrality for frequency bands 900 MHz (UMTS and LTE) and 1800 MHz (LTE). The Government Regulation No. 480 dated May 24, 2014, requiring that tenders shall be held mainly in the form of auctions, came into force on June 6, 2014. These changes may strengthen competition in the market as well as add costs for development of the network infrastructure.

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The draft law "On Security of Critical Information Infrastructure" may classify our information systems as critical information infrastructure of the Russian Federation, which would involve the need to comply with additional information security requirements and could lead to considerable modernization costs.

According to press reports, a proposal on carrying international traffic from the country's territory through the networks of nationwide operators is being considered. The list of nationwide operators has not been specified yet. In case such initiative is implemented and MTS is not included in the list of nationwide operators, this may lead to an increase in our traffic transmission costs.

According to Government Regulation No. 1240 dated November 24, 2014, starting from January 1, 2015, federal public bodies were vested with a right to make decisions on using data transmission network of government bodies, which is a part of infrastructure ensuring information and technological interaction with the information systems used for rendering state and municipal electronic services for the purposes of exercising public functions. To date, the single operator of infrastructure of electronic state services is Rostelecom. Adoption of the Regulation may adversely affect our revenues with regard to the B2G market segment due to competitive disadvantage.

On December 9, 2014, Government Regulation No. 1342 adopted the rules of rendering the telephone communications services, that include several amendments. These include an obligation for operators to inform the subscribers of any changes in tariff plans via SMS, the limited ability of operators to charge subscribers for switching to another tariff plan as well as the possibility of subscribers to demand back the advance payments made without termination of contract. Adoption of the rules could materially adversely affect our revenues.

With the entry into force of the Treaty on the Eurasian Economic Union (EEU) on January 1, 2015, a supra-national antimonopoly body empowered to control compliance with general competition rules on cross-border markets and to apply antitrust measures was established. Should violations with respect to companies operating on cross-border markets be identified, this might lead both, to imposition of fines in accordance with the legislation of the EEU and adoption of the decisions for compulsory execution.

The amendments introduced to Article 5 of the Federal Law No. 115 "On Combating Legalization (Laundering) of Criminally Gained Income and Financing of Terrorism" dated August 7, 2001, entered into force on March 1, 2015. The list of organizations carrying out cash/other property operations, to whom the law requirements are applied, was expanded according to those amendments. In addition to telecommunication operators entitled to independently render mobile radio telecommunication services, the telecommunication operators occupying "substantial position" in public switched telephone networks entitled to independently provide data transmission services and render services on the basis of contracts with individual subscribers, have been also included in the list. A telecommunication operator which meets the specified criteria is obliged to provide the Federal Financial Monitoring Service with the information on cash/other property operations (that is subject to compulsory control or that seems suspicious while implementing the rules of internal control), as well as to take measures for freezing (blocking) of cash/other property (in case there is an information on its involvement in extremist activities or terrorism). Lack of law enforcement practice may cause difficulties in interpreting the above-mentioned amendments and lead to additional burden for telecommunication operators.

In June 2015, the Government of Russia introduced the draft amendments to the Federal Law "On Communications" and Federal Law "On Mass Media" providing for use of telecommunication network facilities for the prompt informing of population in case of emergencies. According to the draft law, operators are obliged to transmit warning signals to telecommunication services users in order to provide them with the information of the utmost urgency relating to immediately arising/arisen life or health threats.

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In addition, in June 2015, mass media reported that the Ministry of Communications prepared the draft order pursuant to which telecommunication operators may be obliged to accumulate and store information concerning the personnel actions on communication facilities management (for a 3-year period) and provide it to the Federal Security Service at its request. The intelligence agencies may thus get an access to the data relating to foreign contractors of operators. The compliance with the requirements (in case the order is adopted) may lead to additional costs for the implementation of legislative norms. On April 4, 2016, the Ministry of Communications of the Russian Federation adopted the order No. 135 "On the approval of requirements for communication networks operation with respect to the use of services provided by third parties." The order comes into force on July 26, 2017. According to the requirements, a telecommunication operator is obliged (on a quarter basis) to provide the Federal Security Service with the data on foreign companies and foreign citizens that are engaged to provide works or services related to exploitation and management of its communication network. In addition, a telecommunication operator is obliged to store information concerning all actions on communication facilities executed by servicing staff or third parties engaged in exploitation and management of communication networks both from workplaces and with the use of a remote access. Consultations are underway with the Ministry of Communications of the Russian Federation to determine the exact list of communication facilities and actions, information on which has to be stored. The amount of forthcoming costs is to be determined based on the consultations results.

The Federal Law No. 374 "On the introduction of amendments to certain legislative acts of the Russian Federation with respect to setting up of additional counter-terrorism measures and public security enforcement" was adopted on July 6, 2016. Pursuant to the law, operators are obliged to store information on the facts of receiving, transferring, delivery and/or processing of voice information and text messages, as well as images, sounds, video- and other messages of telecommunication services users (for a 3-year period) and the contents of such communications, including voice data, text messages, pictures, sounds, video or other communications (for up to 6 months). The Government of the Russian Federation approves rules, terms and volume of information to be stored. The norm of the law relating to the storage of messages contents enters into force on July 1, 2018. Material additional costs might be needed to comply with these requirements. The Government draft regulation "On rules, terms and volume of voice information, text messages, images, sounds, video- and other messages of telecommunication services users to be stored" was prepared and published for public consultation by the Ministry of Communications on December 23, 2016. As of April 1, 2017, this draft regulation is undergoing a review and consultation by the state bodies.

Currently the Russian Civil Code is undergoing the process of substantial revisions with new provisions being introduced relating to a number of spheres including property, and a number of others. At present, the potential interpretation of these amendments by state authorities (including the courts), along with their impact on our activities are unknown.

Russian companies are obliged to pay various and significant taxes including income tax, VAT, real estate tax, excise tax, payroll tax and others. Along with tax liabilities there are different obligatory non-tax payments. These include payments into Universal Service Fund, which currently amounts to 1.2% of our annual revenue on telecommunications services. Furthermore, potential regulatory changes that may be enacted in the future, such as the introduction of new rules regulating MVNOs, new rules concerning our pricing policy and others, could weaken our competitive position in the mobile telecommunications market. Changes in tax laws and non-tax regulations may lead to the growth of our tax burden and may, as a result, materially adversely affect our financial condition and results of operations.

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The failure of our subsidiaries that are subject to regulations as natural monopolies to comply with the requirements of the Federal Law No. 223 "On Procurement Process," inter alia, in case of collective tendering can lead to penalties on our subsidiaries.

One of our subsidiaries, MGTS, is categorized as a natural monopoly in the Moscow telecommunications market. According to the Federal Law No. 223 "On Procurement Process," natural monopolies are obliged to conduct the procurement process in accordance with the principles of transparency and non-discrimination and unjustified limitation of competition. If our subsidiaries that are under additional regulations as natural monopolies are found failing to comply with the law on procurement process, *inter alia* in case of collective tendering with us, our subsidiaries can be subject to penalties. See also " Risks Relating to Our Business If we are found to have a dominant position in the markets where we operate and are determined to have abused this position, the FAS may influence our subscriber tariffs and impose certain restrictions on our operations."

Our failure to comply with new personal data protection laws and with the regulations of state authorities regarding information security in the telecommunications networks in Russia may have a material adverse effect on our business, financial condition and results of operations.

The activity of a telecommunication operator in the field of information security in the Russian Federation is represented by a variety of regulatory legal acts, such as, Federal Laws "On Communications," "On Information, Information Technology and Information Security," "On Personal Data," "On Trade Secret," "On Electronic Signature," as well as sub-decrees of the Government, the Federal Service for Technical and Export Control, the Federal Security Service, the Ministry of Communications, Roskomnadzor and others.

As a result of changes in personal data protection regulations, we face significant technical, financial and managerial undertakings. For example, we are required to treat subscribers' personal data with the level of protection afforded to state secrets, obtain state certification of our installed information protection facilities from the Federal Service for Technical and Export Control and the Federal Security Service, obtain licenses for carrying out activity in the field of technical and cryptographic security of personal data from the Federal Service for Technical and Export Control and the Federal Security Service (in case the activity is carried out not only for our own needs). We are also now directly liable for the actions of third parties to whom we forward personal data for processing. Moreover, we must now make public our data protection policies, which currently constitute a trade secret, and which may increase the risk of data protection violations if revealed. Furthermore, the modernization of our information protection systems and the optimization and reengineering of our personal data processing systems will require us to incur significant expenses. At the same time, the regulations established by the Russian government on November 1, 2012 introduced onerous data protection requirements around data processing within the informational systems (for example, to ensure that our system and application software do not have any undeclared capabilities). In addition, in 2016 the requirements relating to licensed types of activities and licensing terms were expanded. In case a license for providing monitoring services of information security facilities and informatization systems, granted by the Federal Service for Technical and Export Control, is not provided or its issue is delayed a company might be unable to provide third parties with the relevant commercial services.

If the resources required to develop and implement data protection systems meeting the new standards are greater than expected, or we fail to comply with the data protection laws despite our best efforts to do so, our business, financial condition and results of operations could be materially adversely affected.

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Developments concerning regulation on personal data such as, for example, ban on processing of Russian citizens' personal data in databases located outside Russia and obligation to provide information concerning all Russian citizens' personal data to "Roskomnadzor" may pose additional compliance risks for telecommunications operators.

According to the Federal Law No. 242 ("Federal Law No. 242"), operators are obliged to record, systemize, accumulate, store, clarify (update, modify) and retrieve Russian citizens' personal data using databases located only within Russia (subject to a limited number of exceptions), as well as to provide Roskomnadzor with the information on location of databases containing all citizens' personal data.

The Federal Law No. 242 may cause restrictions on the provision of information services as well as impose penalties on operators for failure to comply with the legal requirements (some of which may be subject to broad interpretation) for a number of reasons including the following:

FL-242 prohibits a number of processing actions abroad with respect to personal data of Russian citizens and may, therefore, be interpreted as prohibiting operators to effect cross-border personal data transmission (processing) in the necessary volume and for the necessary period of time which may cause the inability to provide information services for Russian citizens connected with cross-border personal data processing and/or involvement of foreign partners.

Telecommunication operator's activity while rendering communication services implies exchange of personal data of Russian citizens with foreign partners. Uncertainties with respect to the Russian legislation do not allow to unambiguously define legitimacy of such activity following the adoption of this law.

No standard definition of a database exists at law. According to definitions of a database given in the Article 1260 of the Civil Code and GOST 20886, different documents and virtual objects (for example, MS Office files) may be referred to as a database. The information resources of our company, including personal data, may be stored in a virtual environment (including as part of cloud computing), which may significantly hinder the determination of the exact location of each virtual object and complicate provision of information on such location within the period stipulated by Federal Law No. 152 "On Personal Data." Therefore, the combination of such objects and their location in a complex information structure may be prone to ambiguous interpretation.

Partners may violate the procedures for certain prohibited activities with personal data of Russian citizens that is being recorded and systemized by them on behalf of a personal data operator.

The Federal Law No. 242 entered into force on September 1, 2015. Our failure to comply with the legal requirements may lead to the imposition of penalties.

Changes in Ukrainian telecommunications legislation have caused uncertainty in relation to the regulation of the Ukrainian telecommunications industry and may adversely affect our business, financial condition and results of operations.

In November 2012, NCCIR issued the decision regarding the rules governing the provision of MNP service, which enables the subscribers to retain their telephone number after switching from one operator of mobile communications to another. MNP law came into legal force on July 5, 2013 with the beginning of switching to other operators from December 20, 2013. On December 30, 2013 a resolution that postponed the beginning of service provision to July 2014 came into legal force, however, implementation of MNP service was cancelled later on by a court decision. On July 31, 2015, NCCIR approved the procedure for MNP service rendering and introduced amendments to the basic requirements of agreements for the provision of telecommunication services. The decision entered into force on September 8, 2015, after which NCCIR appointed the Ukrainian State Center of Radio

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Frequencies ("USCRF") as an administrator of the Centralized database of the ported numbers. The terms of MNP service launch will be set by the special decision of NCCIR which has not been passed yet.

Legislative changes regulating telecommunications industry may materially adversely affect our business, financial condition and results of operations. See "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Legislation."

The Russian taxation system is underdeveloped and any imposition of significant additional tax liabilities could have a material adverse effect on our business, financial condition or results of operations.

The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in our shares and ADSs. See also "Item 10. Additional Information E. Taxation."

In general, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, corporate income tax, value added tax, property taxes, excise duties, payroll-related taxes and other taxes.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. In some instances, although it may be viewed as contrary to Russian constitutional law, the Russian tax authorities have applied certain new tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period multiple times.

On October 12, 2006, the Plenum of the High Arbitrazh Court of the Russian Federation issued Resolution No. 53 formulating the concept of "unjustified tax benefit," which is described in the Resolution by reference to circumstances, such as absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the recharacterization of the transaction. There has been very little further guidance on the interpretation of this concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions taken by taxpayers in Russian courts. While the intention of this Resolution might have been to combat abuse of tax laws, in practice, there is no assurance that the tax authorities will not seek to apply this concept in a broader sense.

Generally, tax returns in Russia remain open and subject to tax audit by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent further review of that year, or any tax return applicable to that year, during the eligible three-year period by a superior tax authority or, in certain limited instances, by a tax authority which conducted an initial review.

On July 14, 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three-year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax audit. Additionally, according to amendments to the Tax Code of the Russian Federation, effective January 1, 2007, the three-year statute of limitations may be extended if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" or "hindered" or "created insurmountable obstacles" in respect of a tax audit and to ultimately seek review and possibly apply penalties beyond the three-year terms. According to Presidium of High Arbitrazh Court Resolution No. 4134/11 of

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September 27, 2011, the statute of limitations for tax penalties is calculated starting from the day immediately following the expiration of the tax period when the violation was committed.

On March 17, 2009, the Constitutional Court of the Russian Federation issued a decision preventing the Russian tax authorities from carrying out a subsequent tax audit of a tax period if, following the initial audit of such tax period, a court decision was made concerning a tax dispute between the relevant taxpayer and the relevant tax authority arising out of such tax period, and such decision has not been revised or discharged. The Constitutional Court of the Russian Federation then issued Decision No. 138-O-P on January 28, 2010, which confirmed the above approach. Subsequently, the Presidium of High Arbitrazh Court held in several cases that under certain circumstances (in particular, when the case has not been considered in substance) a superior tax body is still entitled to conduct a tax audit with respect to re-opened tax periods and taxes already reviewed during the initial tax audit; however, the circumstances under which the audit is conducted should differ from the initial ones (No. 14585/09 of March 16, 2010, No. 17099/09 of May 25, 2010, No. 7278/10 of October 20, 2010).

There is no guarantee that the tax authorities will not review our compliance with applicable tax law beyond the three-year limitation period. Any such review could, if it concluded that we had significant unpaid taxes relating to such periods, have a material adverse effect on our business, financial condition, results of operations and prospects.

As of January 1, 2012, changes to the Tax Code of the Russian Federation enable Russian taxpayers which are part of a group to consolidate their financial results for profit tax purposes. It is yet unclear how the new legislative provisions will be applied by the tax authorities as currently only limited regulatory guidance is available on this matter. In addition to imposing certain criteria that must be met in order to create a consolidated tax paying group, the law also limits certain transactions within the group (*e.g.* corporate restructurings). In 2014, we concluded an agreement with tax authorities, according to which the consolidated taxpaying group had to start functioning since 2016. However, pursuant to the law adopted in November 2015, the contracts on the set up of the consolidated taxpaying group are not subject to registration during 2016 - 2017 and the contracts registered during 2014 - 2015 are considered by tax authorities as not registered. In the absence of any official interpretation, it is currently difficult to estimate the implementation of new law on the agreements already registered by tax authorities. In addition, intercompany dividends are subject to a withholding tax of 0% or 13% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules), if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties), if being distributed to foreign companies.

The Russian tax authorities may take a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may nonetheless be subject to challenges in the future. The foregoing factors raise the risk of the imposition of arbitrary or onerous taxes on us, which could adversely affect the value of our shares and ADSs.

Current Russian tax legislation is, in general, based upon the formal manner in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking a "substance and form" approach, which may cause additional tax exposures to arise in the future. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how any new measures would operate, any such introduction may affect our overall tax efficiency and may result in significant additional taxes becoming payable. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

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In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose us to significant fines and penalties and to enforcement measures, despite our best efforts at compliance, and could result in a greater than expected tax burden.

See also "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Tax Audits and Claims."

Lack of law enforcement practice of the Russian anti-offshore policy may have adverse impact on our business, financial condition and results of operations.

In the past few years, the Russian Federation like a number of other countries in the world has been actively involved in a discussion of measures against tax evasion by the use of low tax jurisdictions as well as aggressive tax planning structures.

The rules of controlled foreign companies (CFC) came into force on January 1, 2015. The rules oblige Russian taxpayers being controlling persons of a foreign company to submit to the tax authorities both standard notifications on participation in CFC and tax declarations. Profit generated commencing in 2015, including retained earnings, is subject to taxation in the Russian Federation. The innovations could impose additional tax on the undistributed profits of any foreign entity controlled by us (in proportion to such controlling stake) at the rate of 20%. These innovations caused amendments to the Tax Code providing for liability in case of non-disclosure or incomplete disclosure of information on CFCs and the non-payment or underpayment of relevant tax.

In addition, implementation of new concept of beneficial ownership, with regard to taxation of payment of passive income (dividends, royalty, interest, capital gain), may negatively affect possibility to apply benefits set by the double tax treaties, in case such payments pass through intermediary entities. This may potentially lead to increase of tax burden with regard to such payments.

On November 4, 2014, the President of the Russian Federation signed the Federal law No. 325 "On ratification of the Convention on Mutual Administrative Assistance in Tax Matters."

Ratification of this Convention will enable the Russian Federation to receive tax information from all participating countries which include, among others, a number of offshore jurisdictions.

Lack of law enforcement practice may cause difficulties in interpreting the above-mentioned laws by the Russian tax authorities. It is also currently unclear how the enacted laws could affect our counterparties, which may be registered in off shore jurisdictions.

In case the impact of legislative initiatives is significant for some of our counterparties it may lead to potential influence on our results of operations.

The tax system in Ukraine is undergoing a reform and various tax laws are subject to different interpretations.

Besides the new Tax Code, which came into force on January 1, 2011, Ukraine currently has a number of laws related to various taxes imposed by both central and regional authorities. Applicable taxes include value added tax ("VAT"), corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time compared to more developed market economies and are constantly changed and amended. Accordingly, few precedents regarding tax issues are available.

Although the Ukrainian Constitution prohibits retroactive enforcement of any newly enacted tax laws and the Law on Taxation System specifically requires legislation to adopt new tax laws at least six

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months prior to them becoming effective, such rules have largely been ignored. In addition, tax laws are often vaguely drafted, making it difficult for us to determine what actions are required for compliance.

Furthermore, with the entry into force of the new Tax Code of Ukraine (the "TCU"), there is uncertainty in regards to tax accounting of payments for the use of computer software. As part of its business, MTS Ukraine purchases limited end-user rights for the use of computer software. Currently, there are no clear rules for the classification of the payments made by MTS Ukraine for these purchases. Under the TCU, these payments may be treated as payments for intangible assets or as payments for fixed assets. Tax authorities of different levels have provided inconsistent tax clarifications on this matter. The tax rate applicable to these payments will vary according to their classification.

Also, rules established by the TCU for recalculation of the input tax credit for non-current assets are unclear. Uncertain transfer pricing rules and their inconsistent application by the Ukrainian tax authorities and courts may also adversely affect MTS Ukraine's operations. MTS Ukraine's transactions with its related parties as well as certain transactions with non-Ukrainian entities that are not MTS Ukraine's related parties may be affected by the application of the transfer pricing rules. No "safe harbor" margin is provided under Ukrainian legislation if the sale price deviates from the arm's length price.

On December 28, 2014, the Act on Improvement of Tax Control on Transfer Pricing was approved. From January 1, 2015, business transactions that have an impact on taxable profits with related parties non-Ukrainian entities or non-related entities of states, where the Corporate Profits Tax rate is less than 13%, are controlled if the value of all transactions with the same counterparty exceeds (from January 1, 2017) 10 million hryvnias (net of VAT).

Due to the poor quality of the applicable tax legislation and its inconsistent interpretation, it is possible that MTS Ukraine's prices could be subject to challenge and adjustment for corporate income tax or VAT purposes. Profit repatriation arrangements, such as the level of royalties for trademarks or loan interest paid by MTS Ukraine from Ukraine abroad, may also be challenged for the same reasons. If such price adjustments are implemented, MTS Ukraine's effective tax rate may increase and its financial results may be adversely affected.

Differing opinions regarding the legal interpretation of tax laws often exist both among and within governmental ministries and organizations, including the tax administration, creating uncertainties and areas of conflict for taxpayers and investors.

Tax declarations/returns, together with other legal compliance areas (*e.g.*, customs and currency control matters), may be subject to review and investigation by various administrative divisions of the tax authorities, which are authorized by law to impose severe fines, penalties and interest charges. These circumstances create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems. Generally, tax declarations/returns in Ukraine remain open and subject to inspection for a three-year period and, for issues of transfer pricing for a seven-year period. However, this term may not be observed or may be extended under certain circumstances, including in the context of a criminal investigation.

The changes introduced into the Tax Code of the Ukraine during 2012 created a duty to pay advance installments on tax on profits on a monthly basis and retained the duty to pay advance installments on dividend payments. Before 2013, tax on profits charged for the accounting period was reduced by the amount of advance installments made on dividend payments. In 2013, such reductions were not taken into account and we were obliged to pay the new monthly advance installment on the tax on profits as well as the advance installments on the dividend payments, which increased our tax expenses. However, following a new law issued on July 31, 2013 it became possible to reduce the tax on profits by the amount of advance installments on dividend payments but commencing March 1, 2014 when the 2013 and 2014 tax return was filed. But the form of tax return applied for 2013, 2014 and

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2015 did not provide for such reduction. The State Fiscal Service provided similar clarifications on the possibility to reduce the tax on profits in tax report for 2015 by the amount of advance installments made on dividend payments in previous years. In 2016, the issue relating to advance installments was partially settled, although the issues on overpayments of profit tax based on the places of former registration of several subsidiaries of MTS Ukraine remain unresolved. In the beginning of 2017, the State Fiscal Service stated that overpayments of profit tax based on the places of subsidiaries registration would be included in account settlements with the principal enterprise, however this scheme has not been legislatively consolidated. Starting from January 1, 2015, advance installment on dividend payments are paid based on the amount of dividends payable exceeding taxable profit declared for the corresponding period.

The approach to the calculation of the profits tax has changed recently. The tax is currently calculated based on financial results declared in the financial statements, i.e. according to the accounting principles. There were temporary tax differences for specific operations until January 1, 2015, i.e. the revenues reflected in the financial statements for 2015 were also reflected in tax accountings until January 1, 2015, which could lead to double taxation. MTS Ukraine is working with the relevant state authorities to avoid double taxation. The amendments introduced to the legislation on January 1, 2017 provide that tax base may be reduced by the amount of revenue that was repeatedly taken into account after January 1, 2015. However, provisions stating that this norm could be applied from January 1, 2015 (not from the date of the law's entry into force, on January 1, 2017) have not been adopted by the Verkhovna Rada of Ukraine. In the first quarter of 2017 MTS Ukraine filed adjustment reports for 2015, 2016 years to reduce the tax on profits by the amount of revenue that was repeatedly taken into account.

On March 27, 2014, the Act on Finance Crisis Prevention was passed in Ukraine. Several provisions in the Tax Code have been changed by the act which may affect our business in Ukraine, in particular, doubling of the fees for frequency usage.

On December 28, 2014, the Act on tax reform was passed, that changes TCU by introducing the new VAT base and the electronic VAT administration system. From January 1, 2015 the VAT base for taxable supplies cannot be lower than the purchase price for purchased goods/services and/or the cost for produced services (cannot be lower than the normal price from January 1, 2016); and/or the net balance value of non-current assets. From February 1, 2015 till October 1, 2015 the electronic VAT administration system operated in a test regime: all VAT invoices were issued in electronic form and registered in the unified register. Failure to register a VAT invoice issued since October 1, 2015 on time is subject to 20-50% fines depending on the overdue period. Since July 1, 2015, the registration of VAT invoices is available if the supplier has sufficient input VAT and/or has a sufficient balance in its State Treasury electronic VAT account accumulated with cash from supplier's bank account. In addition, starting from January 1, 2016 10-100% fines for errors on VAT invoices were introduced.

While we believe that we are currently materially in compliance with the tax laws affecting our operations in Ukraine, it is possible that relevant authorities may take differing positions with regard to interpretative issues, which may result in a material adverse effect on our results of operations and financial condition.

Vaguely drafted Russian transfer pricing rules, and lack of reliable pricing information may impact our business and results of operations.

Russian transfer pricing legislation became effective in the Russian Federation on January 1, 1999. This legislation allowed the tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to all "controlled" transactions, provided that the transaction price differed from the market price by more than 20%. "Controlled" transactions included transactions with related parties, barter transactions, foreign trade transactions and transactions with significant price fluctuations

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(*i.e.*, if the price with respect to such transactions differs from the prices on similar transactions conducted within a short period of time by more than 20%). Special transfer pricing provisions were established for operations with securities and derivatives. Russian transfer pricing rules were vaguely drafted, generally leaving wide scope for interpretation by Russian tax authorities and courts. There has been very little guidance (although some court practice is available) as to how these rules should be applied. These transfer pricing rules apply with respect to transactions that occurred before January 1, 2012.

New transfer pricing rules became effective on January 1, 2012. The implementation of these new rules should help to align domestic rules with OECD principles. The new rules are expected to considerably toughen the previously effective law by, among other things, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer and obliging the taxpayer to keep in certain cases specific documentation. In addition, the amendments:

- introduce the possibility for major taxpayers to enter into an advance pricing agreement with the tax authorities;
- introduce the 'arm's length' principle as a fundamental principle of the Russian transfer pricing rules;
- establish a new list of controlled transactions (which would cover cross-border transactions with certain commodities, cross-border transactions with related parties and tax haven residents, and certain intra-Russian transactions with related parties);
- extend the list of related parties;
- extend the list of transfer pricing methods (including the Transactional Net Margin Method and the Profit Split method) with the choice of method depending on the allocation of functions performed, risks assumed and assets used by the parties to a transaction (instead of a rigid priority of methods under prior legislation);
- replace the existing permitted deviation threshold with the 'arm's length' range of market prices (profitability);
- introduce double-side adjustments in relation to domestic transactions; and
- introduce special transfer pricing audits by federal tax authorities and specific transfer pricing penalties (more severe that in case of other, non-transfer pricing related, tax assessments).

If the Russian tax authorities were to impose significant additional tax liabilities through the introduction of transfer pricing adjustments, they could have a material adverse impact on our business, financial condition and results of operations. Adoption of the new transfer pricing rules may increase the risk of transfer pricing adjustments being made by the tax authorities. In addition to the usual tax risks and tax burden imposed on Russian taxpayers, the uncertainties of the new transfer pricing rules complicate tax planning and related business decisions. It will also require us to ensure compliance with the new transfer pricing documentation requirements proposed in such rules. Uncertainty of the new rules may also require us to expend significant additional time and material resources for implementation of our internal compliance procedures. Tax authorities could impose additional tax liability as well as 20% penalties on the underpaid tax in case the prices or profitability are outside the market range and if the required transfer pricing documentation has not been prepared, which could have a material adverse effect on our results of operations and financial condition.

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The regulatory environment for telecommunications in Russia, Ukraine and other countries where we operate or may operate in the future is uncertain and subject to political influence or manipulation, which may result in negative and arbitrary regulatory and other decisions against us on the basis of other than legal considerations and in preferential treatment for our competitors.

We operate in an uncertain regulatory environment. The legal framework with respect to the provision of telecommunications services in Russia and Ukraine and the other countries where we operate or may operate in the future is not well developed, and a number of conflicting laws, decrees and regulations apply to the telecommunications sector.

Moreover, regulation is conducted largely through the issuance of licenses and instructions, and governmental officials have a high degree of discretion. In this environment, political influence or manipulation could be used to affect regulatory, tax and other decisions against us on the basis of other than legal considerations. In addition, some of our competitors may receive preferential treatment from the government, potentially giving them a substantial advantage over us.

An adverse change in the infrastructure regulation in Russia could result in additional costs on us.

From January 1, 2013, telecommunications operators are required to enter into agreements with owners of roads whose public access areas host telecommunication equipment. These agreements have to contain certain provisions prescribed by the Russian Ministry for Transportation and the Russian Ministry for Economic Development and Trade. To date, no list of such provisions has been adopted. There is a risk of imbalance in the commercial interests of the operators and road owners in case such list is adopted.

Consequently, any adverse changes in legislation relating to the regulation of interaction between the owners of roads and telecommunications companies could have a material adverse effect on our business, financial condition, results of operations and prospects.

Telecom operators will be obliged to sign agreements with both, owners of the roads and with owners of land located within road areas where telecommunication equipment is installed. On September 5, 2014, the Ministry of Transport adopted Order No. 240 "On approval of the procedure for determination of fees for public easements in respect of land plots within the boundaries of road rights-of-way (except for private roads) for laying, moving, conversion and operations of utility lines." The Order establishes annual payment in the amount of 0.12% of the cadastral cost of the land plot.

After the Ministry of Transport of the Russian Federation in coordination with the Ministry of Economic Development adopts the Order setting out key terms of agreements between telecommunications operators and owners of the roads, telecommunications operators will be obliged to enter into these agreements. Federal public bodies are currently considering a draft of the Order.

Risks Relating to the Shares and ADSs and the Trading Market

Government regulations may limit the ability of investors to deposit shares into our ADS facility.

The ability of investors to deposit shares into our ADS facility may be affected by current or future governmental regulations. For example, under Russian securities regulations, no more than 25% of a Russian company's shares may be circulated abroad through sponsored depositary receipt programs. Prior to December 31, 2005, and at the time of our initial public offering, this threshold was 40%. Although we believe that the new lower threshold does not apply to our ADSs, in the future, we may be required to reduce the size of our ADS program or amend the depositary agreement for the ADSs.

Because our ADS program is regularly at or near capacity, purchasers of our shares may not be able to deposit these shares into our ADS facility, and ADS holders who withdraw the underlying

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shares from the facility may not be able to re-deposit their shares in the future. As a result, effective arbitrage between our ADSs and our shares may not always be possible. Our shares are listed and traded on the Moscow Exchange. Due to the limited public free float of our common stock, the public market for our shares is significantly less active and liquid than for our ADSs. The cumulative effect of these factors is that our shares may from time to time, and for extended periods of time, trade at a significant discount to our ADSs.

Failure to comply with requirements on the disclosure of certain information on ADSs and ADS holders may restrict your ability to vote.

Pursuant to the Russian securities laws, depositaries, and as a result, ADS holders, are not able to vote in connection with the shares underlying ADSs on behalf of the ADS holders unless they provide certain information to the issuer. At a minimum, this information includes the identity of the holder of the ADSs, registration details including a state registration number (for legal entities), and the number of shares attributable to each ADS holder.

Nevertheless, the legislation stipulates that the issuer, CBR, Russian courts and pretrial investigation agencies may request such lists of depositary receipt holders from the holder of depositary program depo account. The holder of depositary program depo account shall take all reasonable measures in order to provide such information. In case of non-compliance with the above requirements, the CBR may suspend, or impose limitations on, transactions with securities held in the relevant accounts of Russian custodians for a period of up to six months. As a result, the shares underlying the ADSs may be blocked and it may be impossible to deposit or withdraw the shares into or from the depositary program. In addition, uncertainties with respect to exercise of certain rights attaching to shares underlying ADS holders could complicate the exercise of right to, and the ability to derive benefits from, the shares represented by ADSs.

The market price of our ADSs has been and may continue to be volatile.

The market price of our ADSs experienced, and may continue to experience, significant volatility. For information on the closing price of our ADSs on the New York Stock Exchange, see "Item 9. Offer and Listing Details A.4. Market Price Information."

Numerous factors, including many over which we have no control, may have a significant impact on the market price of our ADSs, including, among other things:

- periods of regional or global macroeconomic instability;
- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates or other material comments by securities analysts relating to us, our competitors or our industry in general;
- the value of local currencies in the markets where we operate compared to the US dollar;
- announcements by other companies in our industry relating to their operations, strategic initiatives, financial condition or financial performance or to our industry in general;
- announcements of acquisitions or consolidations involving industry competitors or industry suppliers;
- sales or perceived sales of additional ordinary shares or ADSs by us or our significant shareholders; and

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impact and development of any investigation or lawsuit, currently pending or threatened, or that may be instituted in the future.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of our ADSs, regardless of our operating performance.

Voting rights with respect to the shares represented by our ADSs are limited by the terms of the deposit agreement for our ADSs and relevant requirements of Russian law.

ADS holders will have no direct voting rights with respect to the shares represented by the ADSs. They are able to exercise voting rights with respect to the shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint Stock Companies Law and our charter require us to notify shareholders no less than 30 days prior to the date of any meeting and at least 50 days prior to the date of an extraordinary meeting to elect our Board of Directors. Our ordinary shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

ADS holders by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depositary. The depositary has undertaken, in turn, as soon as practicable thereafter, to mail to ADS holders the notice of such meeting, voting instruction forms and a statement as to the manner in which instructions may be given by ADS holders. To exercise their voting rights, ADS holders must then instruct the depositary how to vote the shares represented by the ADSs they hold. Because of this additional procedural step involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of the shares and we cannot assure ADS holders that they will receive voting materials in time to enable them to return voting instructions to the depositary in a timely manner. ADSs for which the depositary does not receive timely voting instructions will not be voted.

Given the above, we cannot provide any assurance that holders and beneficial owners of ADSs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the depositary, (ii) receive notice to enable the timely cancellation of ADSs in respect of shareholder actions or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

See also " Failure to comply with requirements on the disclosure of certain information on ADSs and ADS holders may restrict your ability to vote."

ADS holders may be unable to repatriate distributions made on the shares and ADSs.

We anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the depositary's fees and expenses. The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited by size, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is a limited market for the conversion of rubles into foreign currencies outside of Russia and limited market in which to hedge ruble and ruble-denominated investments.

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ADS holders may be subject to Russian regulatory restrictions.

Prior to the amendments to the Russian securities laws introduced in 2011, a depositary bank could be considered the owner of the shares underlying the ADS, and as such could be subject to the mandatory public tender offer rules, anti-monopoly clearance rules, governmental consents or reporting requirements in respect of acquisition of shares and other limitations contemplated by Russian law. The amendments to the Russian securities laws introduced in 2011 provide that a depositary bank is not an owner of underlying shares, and as such, these requirements should apply to ADS holders.

ADS holders may be unable to benefit from the United States Russia income tax treaty.

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15%. The tax burden may be reduced to 5% or 10% under the United States Russia income tax treaty for eligible U.S. holders; a 5% rate may potentially apply for U.S. holders who are legal entities owning 10% or more of the company's voting shares, and a 10% rate applies to dividends paid to eligible U.S. holders in other cases, including dividend payments to individuals and legal entities owning less than 10% of the company's voting shares. However, according to the recent amendments to the Tax Code, U.S. holders will only be able to utilize the 5% reduced rate through tax reimbursement procedures, as the tax agent is required to use the baseline tax rate established by the code or the applicable tax treaty, whichever is appropriate. See also "Item 10. Additional Information E. Taxation United States Russia Income Tax Treaty Procedures."

The Russian tax rules in relation to ADS holders (that would affect U.S. holders) are characterized by significant uncertainties and limited interpretive guidance. Recent amendments to the tax rules have clarified the status of the ADS holders as beneficial owners of the income from the underlying shares by establishing that the custodian holding the depo account with the shares underlying the ADSs acting as the tax agent and determines amounts of the withholding tax based on the information about the ADS holders and their tax residency status as provided by the program depositary. However, the application of the baseline tax rate for ADS holders and any double tax treaty relief is available only if the tax treaty residence of the holder is provided to the custodian along with the other information prescribed by the Tax code. In relation to ADS holders such information is to be provided by the ADS holders to the depositary, who relays it to the custodian, who acts as the tax agent and withholds the taxes when making transferring the dividends to the depositary. It is currently unclear how the depositary will collect the necessary information from ADS holders. Thus, while a U.S. holder may technically be entitled to benefit from the provisions of the United States Russia income tax treaty, in practice such relief may be difficult or impossible to obtain. See also "Item 10. Additional Information E. Taxation" for additional information.

Capital gain from the sale of shares and ADSs may be subject to Russian income tax.

Income received by a foreign company from the sale, exchange or other disposal (assuming that such income is not related to a permanent establishment of a foreign company in Russia) of shares (participation interest) in an organization in which over 50% of the assets consist of immovable property located in Russia, as well as financial instruments derived from such shares, is treated as income derived from a source in the Russian Federation and is subject to withholding tax at a rate of 20%. However, gains arising from the disposition of the securities which are traded on an organized stock exchange are not treated as Russian-source income, and should not be subject to taxation in Russia.

The amount of such income is typically determined as the sales price of shares (participation interest). However, if documentary support for the acquisition cost of the shares (participation interest) is available, the tax may instead be assessed on the basis of the difference between the sales price and the acquisition cost (including other related costs) if documentary evidence of such costs is submitted

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to the tax agent. The Russian Tax Code also establishes special rules for calculating the tax base for the purposes of transactions with securities. However, an exemption applies if immovable property located in Russia constitutes more than 50% of a company's assets and the securities are traded on a foreign stock exchange. The determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia does not currently and will not constitute more than 50% of our assets as at the date of the sale of ADSs by non-residents.

Where the ADSs are sold by legal entities or organizations to persons other than a Russian company or a foreign company or an organization with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Under the United States Russia income tax treaty, capital gains from the sale of shares and/or ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term "fixed assets" is used in the Russian version of the treaty) were to consist of immovable property located in Russia.

The taxation of income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law does not give a definition of how the "source of income" should be determined with respect to the sale of securities, other than that income from the sale of securities which takes place "in Russia" should be considered as Russian source income. As there is no further definition of what should be considered to be a sale "in Russia," the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares, the location of the registrar recording the transfer of legal title to the relevant securities or other similar criteria.

Non-residents who are individuals are taxable on Russian-source income. Provided that gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by U.S. holders who are individuals not resident in Russia for tax purposes will not be considered Russian source income, then such income should not be taxable in Russia. However, gains arising from the disposition of the same securities and derivatives "in Russia" by U.S. holders who are individuals not resident in Russia for tax purposes may be subject to tax either at the source in Russia or based on an annual tax return, which they may be required to submit with the Russian tax authorities. See also "Item 10. Additional Information E. Taxation."

The lack of a developed practice relating to share registration system in Russia and other countries where we operate may result in improper record ownership of our shares, including the shares underlying the ADSs, and other problems connected with the rights attributed to the relevant shares such as dividend payments.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, the central registration system in Russia is under development. Since October 1, 2014, share registers of all joint stock companies are maintained by licensed registrars. Regulations were issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar, however companies are no longer able to maintain the registers themselves. Nevertheless, in practice registrars tend to have relatively low levels of capitalization and insufficient insurance coverage.

On December 7, 2011 amendments to the relevant legislation were adopted, substantially reforming the registration system by introducing the CSD. In the course of this reform of the share

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keeping system, numerous different depositaries with accounts in the registers of companies were replaced by a single central depositary, whose primary function is the custody of shares in all major companies. These changes became effective on January 1, 2012 and are still being implemented. On November 6, 2012, FSFM officially appointed the National Settlement Depositary as the central depositary. Since the central depositary opened its account in MTS' register in March 2013, all the other custodians are restricted from opening their accounts in the register. Currently the central depositary is the only custodian with an account in MTS' register and other custodians hold custodial accounts with the central depositary.

In addition, certain amendments to the Civil Code of the Russian Federation entered into force on October 1, 2013 regarding the transfer and restitution of securities that are aimed at protection of rights of security holders and on September 1, 2014 regarding the regulation of legal entities and their corporate governance. However, a centralized share registration system is currently undergoing a reform in Russia, therefore transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets.

The National Securities and Stock Market Commission of Ukraine, by its decision No. 391 "On procedure of payment of dividends by a joint stock company" dated April 12, 2016 stated that joint stock companies might carry out dividend payments either through the depository system of Ukraine or directly to shareholders. The specific method of the dividend payment is determined by a relevant decision of the general shareholders meeting with respect to the entire issue of securities of the joint stock company. The Regulation No. 591 of the National Bank of Ukraine "On amendments to Certain Legislative Acts of the National Bank of Ukraine" that entered into force on September 23, 2014 was prolonged by the corresponding regulations of the NBU (the latest regulation expired on June 8, 2016). The regulations set the restriction on a number of operations in foreign currency, including repatriation of dividends to the foreign investor.

According to the NBU Board Resolutions No. 342, 386, 410 "On Resolving the Situation in the Money and Foreign Exchange Markets of Ukraine" adopted in 2016, key currency restrictions have been re-extended until introduction of new resolutions of the NBU. The dividends may be repatriated with certain limitations. The Resolution of the NBU dated November 22, 2016 continued gradual mitigation of temporary restrictions on the currency market, by expanding opportunities for the clients of resident banks to purchase foreign currency in the interbank market.

See also " Failure to comply with requirements on the disclosure of certain information on ADSs and ADS holders may restrict your ability to vote."

Foreign judgments may not be enforceable against us.

Our presence outside the United States may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. Substantially all of our directors and executive officers named in this document reside outside the United States. All or a substantial portion of our assets and the assets of our officers and directors are located outside the United States. As a result, you may not be able to effect service of process within the United States on us or on our officers and directors. Similarly, you may not be able to obtain or enforce U.S. court judgments against us, our officers and directors, including actions based on the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.

There is no treaty between the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These

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limitations may deprive you of effective legal recourse for claims related to your investment in our shares and ADSs. The deposit agreement provides for actions brought by any party thereto against us to be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, provided that any action under the U.S. federal securities laws or the rules or regulations promulgated thereunder may, but need not, be submitted to arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors and Russian courts' inability to enforce such orders and corruption.

Other Risks

We have not independently verified information we have sourced from third parties.

We have sourced certain information contained in this document from third parties, including private companies and Russian government agencies, and we have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of more developed countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, the veracity of some official data released by the Russian government may be questionable.

Because no standard definition of an average monthly service revenue per user ("ARPU"), average monthly usage per user ("MOU") or churn exists in the telecommunications industry, comparisons between certain operating data of different companies may be difficult to draw.

The methodology for calculating subscriber numbers, ARPU, MOU and churn varies substantially in the telecommunications industry, resulting in variances in reported numbers from that which would result from the use of a uniform methodology. Therefore, comparisons of certain operating data between different telecommunications companies may be difficult to draw.

The adoption of new IFRSs may affect our reported financial results and financial position.

Accounting standards under IFRS may change over time. The cost of implementation and compliance with new standards are hard to predict, however they may be significant for the company. Implementation of and compliance with new accounting standards by the Group could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

See also Note 2 to our audited consolidated financial statements.

Item 4. *Information on Our Company*

A. History and Development

Mobile TeleSystems CJSC ("MTS CJSC") our predecessor, was formed in 1993. The founding shareholders included MGTS and three other Russian telecommunications companies, which collectively held 53% of our original share capital, and two German companies, Siemens AG and T-Mobile Deutschland GmbH, an affiliate of Deutsche Telekom AG, which collectively held the remaining 47%. Sistema currently owns 48.94% of our share capital (50.03% excluding treasury shares). See "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders."

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Our legal name is Mobile TeleSystems Public Joint Stock Company (MTS PJSC) and we are incorporated under the laws of the Russian Federation. Our head office is located at 5 Vorontsovskaya Street, Bldg. 2, Moscow 109147, Russian Federation, and the telephone number of our investor relations department is +7 495 223-2025. The address of our incorporation is 4 Marksistskaya Street, Moscow 109147, Russian Federation. We maintain a website at www.mtsgsm.com. The information on our website is not a part of this report. We have appointed Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19715 as our authorized agent for service of process for any suit or proceeding arising out of or relating to our shares, ADSs or the deposit agreement.

MTS PJSC is the new legal name of Mobile TeleSystems Open Joint Stock Company (MTS OJSC) registered on July 1, 2015 in order to comply with the regulations of Chapter 4 of the Civil Code of Russian Federation (as amended). MTS OJSC was created on March 1, 2000, through the merger of MTS CJSC and RTC CJSC, a wholly owned subsidiary. Our charter was registered with the State Registration Chamber on March 1, 2000, which is our date of incorporation, and with the Moscow Registration Chamber on March 22, 2000. Our initial share issuance was registered by the Russian Federal Commission on the Securities Market on April 28, 2000.

We completed our initial public offering on July 6, 2000, and listed our shares of common stock, represented by ADSs on the New York Stock Exchange (the "NYSE") under the symbol "MBT." Each ADS represents two underlying shares of our common stock. Prior to May 3, 2010, each ADS represented five shares of our common stock.

In September 2001, we won a tender held by the Telecommunications Ministry of the Belarus Republic to form a joint venture with a GSM 900/1800 license to operate in Belarus. On June 26, 2002, MTS Belarus received all of the governmental approvals and licenses required to commence operations in Belarus and it began operations on June 27, 2002. In 2003 through a number of purchases we acquired a 100% stake in MTS Ukraine for RUB 11,872 million. Starting from 2007 until 2015, we operated under the MTS brand in Ukraine. In 2015, as part of our strategic partnership with Vodafone, we introduced Vodafone brand in Ukraine.

In August 2004, we acquired a 74% stake in Uzdunrobita, the largest wireless operator in Uzbekistan, for $126.4 million (RUB 3,693 million) in cash. We acquired the remaining 26% stake in June 2007 pursuant to a put option agreement for $250.0 million (RUB 6,481 million) in cash. In May 2006, we started operations under the MTS brand in Uzbekistan. In July 2012, we suspended providing services in Uzbekistan per the order from the State Agency for Communications and Information ("SACI") of Uzbekistan on the temporary suspension of the operating license of Uzdunrobita for a period of 10 business days which was subsequently extended to three months. On August 13, 2012, the Tashkent Economic Court granted the petition of the SACI to withdraw all operating licenses of Uzdunrobita. Simultaneously various Uzbek government agencies claimed multiple violations by Uzdunrobita, which having passed through numerous court hearings resulted in heavy penalties which Uzdunrobita has been unable to satisfy. Uzdunrobita has submitted its application initiating self-bankruptcy procedures to relevant Uzbek court. On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated liquidation procedures. As a result, we lost control over the subsidiary and deconsolidated Uzdunrobita. In July 2014 the disputes between us and Republic of Uzbekistan were resolved. The parties signed the Settlement Agreement and according to its terms all mutual claims were eliminated. Furthermore, a new mobile operator, UMS, was established by governmental authorities of Republic of Uzbekistan. On September 24, 2014, an ownership interest of 50.01% in UMS was transferred to us as an incentive for reentrance into the country by the State Unitary Enterprise "Center of radio communications, radio broadcasting and television," the second shareholder of an operator, on behalf of the Republic of Uzbekistan. We started operations in Uzbekistan in December 2014. On August 5, 2016, we sold our 50.01% stake in UMS to the State Unitary Enterprise "Center of radio communications, radio broadcasting and television."

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Please see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations" regarding recent suspension of our services in Uzbekistan and "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Uzbekistan."

In two separate purchases in June and November 2005, we acquired 100% of BCTI, the leading wireless operator in Turkmenistan, for $46.7 million (RUB 1,343 million) in cash. Since October 2006, we have operated under the MTS brand in Turkmenistan. On December 21, 2010, the Ministry of Communication of Turkmenistan suspended our primary operating license and we ceased providing mobile telecommunications services in Turkmenistan. In August 2012, we restarted our mobile communication operations in Turkmenistan via MTS-Turkmenistan and resumed providing services for subscribers who did not cancel their contracts. Since October 1, 2012, we resumed our operations in Turkmenistan entirely and started entering into contracts with new subscribers. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations."

In September 2007, we acquired an 80% stake in International Cell Holding Ltd., a 100% indirect owner of K-Telecom, the leading wireless operator in Armenia, for €260.0 million (RUB 9,142 million), and entered into a call and put option agreement initially valid until 2012 (and later extended until 2016) for the remaining 20%. K-Telecom operates in the GSM-900/1800 standard, covering the entire territory of Armenia. It historically operated under the VivaCell brand, and was re-branded as VivaCell-MTS in September 2008.

In October 2009, we acquired a 50.91% stake in Comstar, a leading fixed line operator in Russia, from Sistema, and subsequently increased our ownership interest to 61.97% (or 64.03% excluding treasury shares) in December 2009 and to 70.97% (or 73.33% excluding treasury shares) in September 2010 through a voluntary tender offer. On December 23, 2010, the extraordinary general meetings of shareholders of Comstar and MTS approved a merger, which was completed on April 1, 2011. As a result, Comstar ceased to exist as a separate legal entity and MTS became the legal successor of Comstar in respect of all its rights and obligations.

Prior to April 1, 2011, Comstar operated in both the Moscow and other fixed line communications markets, offering voice telephony, broadband Internet and pay-TV, operator interconnect and other services to its subscribers. As of now we still continue to provide these services. One of Comstar subsidiaries was MGTS, Moscow's incumbent fixed line operator with "last mile" access (the final phase of delivering connectivity from a communications provider to a customer) to approximately 96% of the households in Moscow. In 2011, we completed the re-branding of Comstar with our main MTS brand. MGTS continues to provide services under its own brand.

In 2009, we started to develop our sales and distribution network both organically and through the acquisition of several national and regional retail chains. We organized our retail operations under a wholly owned subsidiary, Russian Telephone Company ("RTC"). RTC handles all functions relating to our retail operations, including the management of points-of-sale, the purchase and sale of handsets and accessories and subscriber enrollment at our retail outlets.

Between 2009 and 2014 we acquired controlling stakes in various regional fixed line operators as we are determined to develop broadband Internet through regional expansion.

In April 2013, we acquired a 25.095% stake in MTS Bank for 5.09 billion rubles through an additional share issuance by the bank. As of December 31, 2016 our interest comprised 26.6%.

In December 2014, we acquired controlling stakes in Penza-GSM, SMARTS- Ivanovo and SMARTS-Ufa, operating in Penza, Ivanovo and the Bashkortostan Republic, respectively. The acquired

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companies hold rights to use 900 and 1800 MHz radio frequencies within the regions mentioned. The acquisition enhances our spectrum resources in the above mentioned regions. The purchase price comprised of cash consideration and a deferred payment, payable in 18 months after the acquisition date.

In April 2014, we acquired a 10.82% stake in OZON, a leading Russian e-commerce company, through the purchase of OZON Holdings Limited's additional share issuance for RUB 2,702 million. Cooperation with OZON creates new distribution channels available to us through its extensive online retail platforms.

In December 2015, we have completed the acquisition of NVision Group and its subsidiaries for RUB 11.2 billion. Through this transaction, we have obtained proprietary rights over our billing systems which will allow us to reduce the time-to-market for new products and better manage billing and IT-related expenses. NVision Group is also one of the largest system integrators and complex IT solutions providers in Russia.

In September 2016, we acquired controlling stake in Smarts-Yoshkar-Ola, a company, operating in the Republic of Mari El and holding rights to use 1800 MHz radio frequencies. The acquisition enhances our spectrum resources in the Republic of Mari El.

Capital Expenditures

We spent in total RUB 86,149 million in 2016 for network development in Russia and the other countries where we operate, which included RUB 55,538 million in cash expenditures on property, plant and equipment, and RUB 30,611 million for the purchase of intangible assets (thereof RUB 2,598 million for acquisition of 4G licenses in Russia). We expect to spend approximately RUB 80.0 billion (excluding potential capital expenditures for acquisition of 4G or 3G licenses) in 2017 for the on-going roll out of Long-Term Evolution ("LTE") networks throughout Russia, maintenance capital expenditures, replacement of outdated equipment of MGTS, as well as introduction and development of network monitoring and controlling systems, further build out of 3G networks in Ukraine, maintenance capital expendures in Turkmenistan and Armenia. We plan to finance our capital expenditures primarily through operating cash flows, and to the extent necessary, through additional external financing. The actual amount of our capital expenditures for 2017 may vary depending on subscriber growth, demand and network development, as well as currency volatility, vendor terms and the availability of external financing. The capital expenditure estimate for 2017 excludes expenditures that may be made in connection with acquisitions. A breakdown of our capital expenditures in 2016 by country is set forth below.

We spent RUB 5 million, nill and 2,755 million and in 2016, 2015 and 2014, respectively, for acquisitions of subsidiaries, net of cash acquired from third parties. In addition, in 2015, we spent RUB 9,446 million, net of cash acquired, for acquisition of subsidiaries under common control.

Russia

We spent RUB 76,383 million in 2016 for network development in Russia, including RUB 48,160 million in cash expenditures on property, plant and equipment, and RUB 28,223 million for the purchase of intangible assets (RUB 2,598 million thereof for acquisition of 4G licenses).

Ukraine

We spent RUB 7,483 million in 2016 for network development in Ukraine, including RUB 5,559 million in cash expenditures on property, plant and equipment, and RUB 1,924 million for the purchase of intangible assets.

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Turkmenistan

We spent RUB 448 million in 2016 for network development in Turkmenistan, including RUB 421 million in cash expenditures on property, plant and equipment, and RUB 27 million for the purchase of intangible assets.

Armenia

We spent RUB 960 million in 2016 for network development in Armenia, including RUB 559 million in cash expenditures on property, plant and equipment, and RUB 401 million for the purchase of intangible assets.

Uzbekistan

We spent RUB 874 million in 2016 for network development in Uzbekistan, including RUB 838 million in cash expenditures on property, plant and equipment, and RUB 36 million for the purchase of intangible assets. The subsidiary in Uzbekistan was sold in August 2016.

Belarus

MTS Belarus spent RUB 3,182 million in 2016 for network development, including RUB 2,679 million in cash expenditures on property, plant and equipment, and RUB 503 million for the purchase of intangible assets. We do not include the capital expenditures of MTS Belarus in our capital expenditures described above as its results are not consolidated in our financial statements.

B. Business Overview

We are a leading telecommunications provider in Russia and the CIS, providing a wide range of mobile and fixed line voice and data telecommunications services, including data transfer, broadband, pay-TV and various value-added services, as well as selling equipment and accessories. According to AC&M Consulting, we are the largest provider of mobile cellular communications services in Russia and the second largest in Ukraine in terms of mobile subscribers. According to our own estimates, we are also the largest provider of mobile cellular communication services in Armenia in terms of mobile subscribers.

As of December 31, 2016, we had a mobile subscriber base of approximately 104.6 million (approximately 80.0 million in Russia, 20.9 million in Ukraine, 2.1 million in Armenia and 1.7 million in Turkmenistan), which is an increase of 3% compared to December 31, 2015. As of December 31, 2015, we had a mobile subscriber base of approximately 101.4 million (approximately 77.3 million in Russia, 20.4 million in Ukraine, 2.1 million in Armenia and 1.6 million in Turkmenistan, which is an increase of 3% compared to 98.7 million as of December 31, 2014.

We are also the largest operator in the Moscow residential broadband market in terms of subscribers, with a 32% market share as of December 31, 2016, based on TMT consulting data. Our revenues for the year ended December 31, 2016, were RUB 435,692 million, an increase of 2.1% from the year ended December 31, 2015. Our revenues for the year ended December 31, 2015, were RUB 426,639 million, an increase of 3.9% from RUB 410,678 million for the year ended December 31, 2014. Our net income for the year ended December 31, 2016, was RUB 48,450 million, an increase of 2.2% from the year ended December 31, 2015. Our net income for the year ended December 31, 2015, was RUB 47,404 million, a decrease of 8% from RUB 51,496 million for the year ended December 31, 2014.

Russia is our principal market, both in terms of subscribers and revenues. For the year ended December 31, 2016 approximately 91% of our revenues came from operations in Russia; approximately

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6% of our revenues came from operations in Ukraine; and approximately 3% of our revenues came from operations in other countries, respectively.

As of December 31, 2016, approximately 76% of our mobile subscriber base was in Russia and approximately 20% was in Ukraine. According to AC&M-Consulting, as of December 31, 2016, we had a 31% and 36% market share of total mobile subscribers in Russia and Ukraine, respectively.

The table below sets forth our total mobile subscribers as of the end of the last five years:

Period	Subscribers[(1)] (in million)
2012	95.8[(2)]
2013	94.7[(3)]
2014	98.6[(2)]
2015	101.4[(2)]
2016	104.6[(2)]

(1) Excludes MTS Belarus subscribers as its results of operations are not consolidated in our financial statements. For the years ended December 31, 2010, 2011, 2012 and 2013 we defined a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of Prepaid tariffs) or whose account does not have a negative balance for more than this period. Starting from 2014, we define a subscriber as an organization or individual, whose SIM-card shows traffic-generating activity or accrues a balance for services rendered or is replenished of topped off over the course of any three- month period, inclusive within the reporting period, and was not blocked at the end of the period. The number of subscribers was restated based on subscriber definition introduced in 2014 only for the year ended December 31, 2013.

(2) Excludes Uzbekistan subscribers.

(3) Excludes Uzbekistan subscribers and restated to reflect 3 months active subscribers.

In 2012, we ceased to provide mobile cellular communications services in Uzbekistan as all operating licenses of our subsidiary, Uzdunrobita, were withdrawn by the State Agency for Communications and Information of Uzbekistan on August 13, 2012. We restarted our operations in Uzbekistan in December 2014 through new entity, UMS. In August 2016 we sold our 50.01% stake in UMS and ceased our operations in Uzbekistan. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations."

In Turkmenistan, our primary operating license was suspended on December 21, 2010, and we ceased providing mobile telecommunications services in that country for two years. In 2012, our operating license was reinstated and as a result our operations in Turkmenistan were resumed. Our subscriber base amounted to approximately 1.7 million subscribers as of December 31, 2016. For more information, see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations."

According to our estimates, overall mobile cellular penetration in Russia was approximately 176% as of December 31, 2016, which is 3% increase from 179% as at December 31, 2015, which in turn was 11% increase from 168% as at December 31, 2014. According to GSMA Intelligence, mobile cellular penetration in Ukraine was approximately 136.3% as of December 31, 2016, which represents an increase, compared to 134.1% as of December 31, 2015 and 136.1% as of December 31, 2014 respectively. According to our estimates, mobile cellular penetration in Armenia was approximately 119% as of December 31, 2016, as compared to approximately 112.5% as of December 31, 2015 and approximately 111.0% as of December 31, 2014. Mobile penetration in Turkmenistan was approximately

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104.4% as of December 31, 2016, as compared to 100.8% as of December 31, 2015, and 104.3% as of December 31, 2014, according to our estimates.

Our consolidated mobile subscriber base changed insignificantly in the first two months of 2017. Specifically, according to our estimates at March 1, 2017, we had approximately 104.3 million subscribers, including approximately 79.8 million in Russia, 20.8 million in Ukraine, 2.1 million in Armenia, and 1.7 million in Turkmenistan.

MTS Belarus had approximately 5.22 million subscribers and a leading market share of 44.4% as at December 31, 2016, according to our estimates. As of December 31, 2015, according to our estimates, MTS Belarus had approximately 5.30 million subscribers and a leading market share of 45.5%. As of December 31, 2014 according to our estimates, MTS Belarus had approximately 5.31 million subscribers and a leading market share of 46.1%. Belarus, a country with a population of approximately 9.5 million, had a mobile cellular penetration rate of approximately 124% as of December 31, 2016, according to our estimates.

As of December 31, 2016, we had mobile licenses to operate and commercial mobile operations throughout the entire territory of Russia with a population of approximately 146 million people, throughout the entire territory of Ukraine with a population of approximately 43 million people, throughout the entire territory of Turkmenistan with a population of approximately 5 million people and throughout the entire territory of Armenia with a population of approximately 3 million people. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Failure to renew our licenses or receive renewed or new licenses with similar terms to our existing licenses could have a material adverse effect on our business and results of operations" and " Failure to fulfill the terms of our licenses could result in their suspension or termination, which could have a material adverse effect on our business and results of operations."

In 2012, 2013 and 2014, we significantly expanded our operations in an effort to meet the challenges of our evolving markets and further the goals of our strategy set out in more detail below. Through our acquisition of a controlling stake in Comstar in October 2009, we have become a leading fixed line services provider in Russia.

We offer fixed line communications services in over 185 cities across Russia, covering a population of over 53 million people.

Our Moscow fixed line operations contemplate communications services provided through incumbent operator MGTS. Our Moscow fixed line operations included 3.1 million unique residential subscribers as of December 31, 2016. We are the largest operator in the Moscow residential broadband market, with a 32% market share. MGTS holds licenses and regulatory approvals to provide local telephony, DLD/ILD voice telephony, interconnect to other operators, Internet and data transmission and other services.

Our fixed line operations in other cities include the following communications services: voice, data and Internet and pay-TV services for corporate and residential subscribers, as well as the provision of interconnect services to other communications operators and numbering capacity to their subscribers. As of December 31, 2016, we had 3.0 million unique residential subscribers according to our estimates. Fixed line services are also provided in Ukraine and Armenia with digital telephony communications services, data transmission, Internet access and the renting of channels.

We have also continued to develop our proprietary sales and distribution network organically.

To maintain and increase our market share and brand awareness, we use a combination of print media, radio, television, direct mail and outdoor advertising, focusing on brand and image advertising, as well as promotion of particular tariff plans.

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Business Strategy

Our key strategic goal is leadership in all markets of presence, delivering the best-in-the-market experience to our subscribers, including high-speed Internet access at home and on the go, cable and satellite TV entertainment with access to best content portfolio and top quality mobile and fixed voice services. We do our best to be at the forefront of LTE development in Russia and CIS and we are focused on building the fastest and most reliable 4G wireless networks and providing the best service to our customers by bringing access to the connected world.

In order to achieve our goals to become a market leader in telecommunications we developed the new strategy in 2016, which is focused on digitalization is the progress of our "3D" strategy and evolved from "Data Differentiation Dividends" into "Data Digital Dividends." The decision to prioritise digitalization as our key areas of focus is driven by worldwide movement towards the digital era. Digitalization creates new demands for market players, stimulates them to search for new approaches to interaction with clients, radically changes the ways companies act, their management methods and corporate culture.In this regard, we see perspectives, new points of efforts which we can focus on to turn them into the points of growth and profitability.

"Data" stays the core of our business, the backbone, allowing us to expand into adjacent business-areas, widen our products portfolio, enabling us to be in-line with customers' data-driven lifestyles. We bring the best available technology to our subscribers both individuals and corporations, such as building high-speed 4G LTE networks which allows us to meet growing needs for data consumption. We ensure customers have the best possible connectivity experience at their homes, workplaces and places in between.

"Digital" is the main point where we plan to evolve in the nearest future. The basis for it was laid earlier by implementing "Differentiation" (the predecessor of "Digital" in our strategy), when we expanded our activity into such areas as retail, financial services, machine-to-machine, Big Data (large and complex data sets), E-Commerce and others. Implementation of the new digital strategy, will allow us not only to improve the arreas where we operate, but also to focus on dealing with and making revenue out of: information, knowledge, applications, content, loyalty management. At the same time going digital for us includes also the evolution of our corporate management and corporate culture to make them more proactive, flexible, ambitious, audacious and development-oriented.

"Dividends" is the result of our activities, of our efforts to make our operations effective both revenue- and profitability-wise. We continuously improve the operational efficiency of MTS, develop the organizational capabilities of our company, constantly work on organizational effectiveness and keep it responsive to market challenges and customer needs. We sustain high levels of business profitability and aim to enhance shareholder returns. We beleive that the processes of digitalization will open a number of opportunities for further major efficiency improvements.

We strongly believe that the evolution of our strategy and our approach to further development will enable us to stay at the forefront of the telecommunication industry in all markets of our presence, to provide our customers with best user experience, to be a valuable and credible business-partner, trustworthy and effective investment for our shareholders.

Implementation of the strategy is subject to a number of risks. See "Item 3. Key Information D. Risk Factors" for a description of these and other risks we face.

Current Operations

We are a provider of wireless and fixed line communications services in Russia, Ukraine, Armenia, Turkmenistan and Belarus.

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Subsidiaries

For a list of our major subsidiaries and our ownership percentages in these subsidiaries, see "Item 4. Information on our Company C. Organizational Structure."

Mobile Operations

Network Infrastructure Mobile Core

As of December 31, 2016 MTS Mobile core network in Russia includes the following nodes:

- Mobile switching centre-server (MSC-S): 106 nodes, servicing 60 mln. subs.;
- Media gateway (MGW): 129 nodes, maximum capacity 3.6 mln. Erl.; and
- Subscriber Data Management (SDM) includes 35 nodes (Home Location Register (HLR) / Home Subscriber Server (HSS)).

17 Serving GPRS Support Node/Mobility Management Entity (SGSN/MME) and Serving/Packet Data Network Gateway (S/P-GW) nodes are used to handle packet data services.

16 Signalling Relay Function (SRF) nodes deployed on network for handling Mobile Number Portability (MNP) services.

The following network expansion and modernization projects were executed in the course of 2016:

MSC-S/MGW and S/P-GW nodes were expanded as a result of to voice and data traffic growth;

- Network modernization: obsoleted MSS APZ212 50 and MGW GMPv3 Ericsson nodes were replaced by new MSS BSP-C and MGW GMPv4/MRS Ericsson in 22 regions;
- 12 Diameter Routing Agent (DRA) nodes were migrated to Oracle Diameter Signaling Router platform (DSR platform); and
- New IP communication services (Rich Communication Services (RCS) and Wi-Fi Calling) were launched on Nokia IMS core in Moscow.

Services Offered

Network Access

We primarily offer mobile cellular voice and data communication services to our subscribers on the basis of various tariff plans designed for different market segments. In general, most of our tariff plans combine per minute usage charges, value-added services and, in some cases, monthly network access fees. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Tariffs."

Automatic Roaming

Roaming allows our customers, both subscribers and guest roamers, to receive and make international, local and long-distance calls while traveling outside of their home network. Roaming is provided through individual agreements between us and other GSM operators. Unlike many non-GSM providers that require additional equipment or prior notification, our roaming service is instantaneous, automatic and requires no additional equipment.

As of December 31, 2016, we had bilateral roaming contracts with 794 wireless operators in 228 countries, including 16 regional operators in Russia. We continually seek to expand our roaming capability and are currently in negotiations with additional operators.

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Value-Added Services

We offer various value-added services to our customers. These services may be included in the tariff plan selected by the subscriber or subscribers may pay additional monthly charges and, in some cases, usage charges for them. Some basic value-added services that we offer include:

Basic telephony	**Customer care**	**Other services**
Call Divert/Forwarding	Itemization of Monthly Bills	MTS-News (ICB Service)
Caller ID Display and anti-Caller ID Display	Information and Directory Service	My subscriptions
Conference Calling	Automatic Customer Care System and Customer Care System via the Internet	Second Memory (Cloud storage)
	My MTS service app	
	Mobile internet	
Voicemail		Ring Back Tone
Call Barring	General Packet Radio Service ("GPRS")	Unstructured Supplementary Services Data ("USSD")
Call Waiting	3G, 4G (LTE)	MTS-Music
Missed Call Alert	Data share plan	MTS-TV
Intelligent call assistant	Real IP	VoD (Video on Demand)
Collect call	WEB	MTS-Books
Black List	E-shop	Location-Based Service ("LBS")
International Access Service	APN remote access point	Mobile banking
	Fixed Mobile Convergence	SIM-browser
Messaging		
SMS P2P, A2P	MTS-Modem	
MMS	MTS-Tablet	

Application MTS-Connect	Mobile Office
SMS Pro (SMS black list, autoreply, forward, storage)	Wi-Fi

We also provide many voice and SMS-based value-added services in cooperation with various content providers.

GPRS, EDGE services

We launched our commercial 2G network in 1994 based on GSM-900 technology. From 1999, we significantly improved our 2G network capacity based on GSM- 1800 technology. From 2001, we implemented wireless data communication services based on GPRS technology with download data rate up to 85.6 Kbit/s. In 2005, we modernized our GSM network to support EDGE technology and tripled data services rates. Today we continue supporting and modernizing our 2G network and we put the prime focus at the development of our 3G and LTE networks in order to provide our subscribers with

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high-speed broadband wireless services. As of December 31, 2016, we provided GSM, GPRS and EDGE services with more than 38,000 2G sites over the geographic area with more than 94% of population of Russia.

3G Technology

In April 2007, we received a nationwide 3G/UMTS (Universal Mobile Telecommunications System) license in Russia. The license is valid till May 21, 2017 and covers the entire territory of Russia with frequencies 1950-1965 MHz and 2140-2155 MHz . In February 2017 the 3G/UMTS license in Russia were prolonged by the Federal Service for Supervision of Communications, Information Technoligy and Mass Media till May 21, 2022. We currently have commercial 3G networks launched in all regions of Russia with the exception of Crimea. By the end of 2016, we installed 38,915 3G sites throughout Russia.

Starting from 2010, we implement HSPA+ technology, which supports up to 21 Mbit per second data transmission speed. In addition, we launched second and third 3G carriers to improve capacity and activated Dual Carrier technology, which supports up to 42 Mbit per second data transmission speed in more than 36,100 sites in Russia.

Since 2011 we use 3G femtocell network. Femtocells are small low-power wireless base stations in the licensed 2100 MHz spectrum. They connect to a mobile operator's network using residential DSL or cable broadband connections and can support multiple standard mobile devices. Femtocells deliver a strong signal and high-quality voice service to standard mobile devices in homes, small and large offices, outdoor public spaces, metro hotspots and rural areas. A femtocell network also provides for high speed of data upload and download. In 2016 we launched offer of femtocells for consumers as B2C market segment. The total number of femtocells installed in Russia reached 5,547 by the end of 2016.

In February 2015, we obtained UMTS spectrum in 2100 MHz band in Ukraine through an open tender held by the National Commission for the State Regulation of Communications and Informatization. Upon completion of critical network upgrades, we started providing our own 3G services in major Ukrainian cities under the Vodafone brand starting from November 2015. HSPA+ (QAM64 and Dual Carrier) technology, which is available in our 3G network from the start, allows to download speeds up to 42 Mbit\s.

As of the end of 2016 we have almost 5000 UMTS-2100 base stations, offering 3G services in major Ukrainian cities and providing 3G network coverage to 54% of the population. We are planning to invest significant amount of funds in the expansion of 3G network coverage and capacity, as well as in accompanying network modernizations and upgrades in 2017 and later in conformity with license requirements and market demands.

Transmission network upgrades in Ukraine in 2017 will include migration to 200 Gbps IP backbone, new Mobile Backhaul nodes and IP Microwave hops. Additional fiber-optic lines will be built locally to sustain growing traffic. We'll also continue replacing outdated 2G RAN and CS Core equipment, making our network more efficient and ready for future implementation of LTE technology.

In October 2007, K-Telecom, our subsidiary in Armenia was allocated frequencies to offer 3G services throughout the entire territory of Armenia. The frequencies were allocated for a 10-year period. In 2009, we commercially launched our 3G network in Armenia. In 2011, K-Telecom started to provide telecommunications services based on HSPA+ technology in Yerevan, six northern regions and in some southern regions of the country. At present HSPA+ technology with QAM64 and Dual Carrier features is available to almost 99% of the Armenian population. In 2016 we launched 90 new 3G base stations. In 2017 we are planning to refarm of GSM 900 MHz spectrum and activation of UMTS-900 on selected sites which will increase 3G network coverage and capacity. We will also continue

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improving indoor coverage and capacity upgrades in hot spots by implementing combined 3G\LTE small cells and indoor solutions.

In Turkmenistan, we currently provide services based on 3G services with HSPA+ technology for business and private customers in all regional centers throughout the country. In 2015, we launched 49 3G base stations. However, due to lack of required Internet channel bandwidth which we lease from the state-controlled telecom service provider further 3G network expansion depends on the resolution of the issue. In 2016 we launched 28 3G base stations.In 2017 we are planning to increase 3G network coverage provided the availability of the resources (long-distance transmission and Internet access capacity), leased from the state-controlled provider.

LTE Technology

In July 2012, the Russian Ministry of Communications and Mass Media announced the results of a tender for national-wide LTE-FDD frequencies. MTS is among the four companies, including Rostelecom, MegaFon, and VimpelCom which obtained LTE-FDD frequencies in 700, 800 and 2600 MHz bands.

In September 2012, we began offering LTE-based commercial services in Moscow region.

In 2014, we started DCS 1800 spectrum refarming to LTE and rolled out LTE-1800 network, while expanding LTE 800/2600 coverage. In February 2016 MTS won Russian Ministry of Communications and Mass Media tender for nationwide LTE-TDD license and obtained LTE-TDD frequencies in following band: 2595 - 2620 MHz for the whole territory of Russia, except Moscow region (obtained earlier). We plan to use LTE-TDD as a capacity layer to cope with increase of network utilization due to growth of data traffic. As of December 31, 2016, we had 28,246 LTE sites in 83 regions of Russia. In 2017, we are going to further roll out LTE 800, 1800 and 2600 MHz frequency bands and implement LTE-Advanced with Carrier Aggregation and Voice over LTE services.

In Yerevan, the capital of Armenia, we commenced a commercial test of the first 4G/LTE network in December 2010. Since 2014, we provide full LTE outdoor coverage for two major cities Gyumri and Vanadzor and expand LTE coverage in Yerevan. Circuit Switch Fall Back (CSFB) functionality is available to all our LTE subscribers.In 2016 we launched 60 eNodeBs, expanding LTE network, which amounts as of the end of December 2016 to 320 sites. We've also tested the refarming of DCS-1800 MHz frequency band to LTE. We'll activate LTE-1800 services, using existing infrastructure, in conformity with local market demand.

Other Services

In addition to cellular communication services, we offer corporate clients a number of telecommunications services such as design, construction and installation of local voice and data networks capable of interconnecting with fixed line operators, installation and maintenance of cellular payphones, lease of digital communication channels, access to open computer databases and data networks, including the Internet, and provision of fixed, local and long- distance telecommunications services, as well as video conferencing.

Strategic Partnership with Vodafone

In October 2008, we announced a strategic agreement with Vodafone aimed at drawing on Vodafone's expertise in building and developing 3G networks and mobile broadband products, working with leading global equipment providers and deploying innovative client relationship management ("CRM") practices to enhance quality and further improve the efficiency of our operations. In addition, the agreement allows us exclusive access to a range of products, services and devices from Vodafone for our markets of operation in Russia, Ukraine, Turkmenistan and Armenia.

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In 2015, the Group extended its strategic partnership agreement with Vodafone to introduce the Vodafone brand in Ukraine. In 2016 under the partnership, MTS Ukraine and Vodafone continued to roll out 3G networks and to develop a number of new services, which have proved extremely popular in Europe, including bundled offers, competitive long-distance international calls and worry-free roaming when abroad, in the Ukrainian market. Other areas of cooperation remain in full force.

Sales and Marketing

Target Customers

Our service model is based on the provision of services to differentiated levels of customers to meet the needs of distinctive customer segments as such segments have developed. Today, we are considered a mass-market mobile network operator with a wide range of subscribers in all customer segments. However, we are constantly expanding our brand eco-system which now also includes our fixed broadband business, satellite TV branch as well as banking and financial services division. As part of our core business strategy, we provide a wide range of products and services to various customer segments.

In 2016, we focused our efforts on developing our network quality, improving client service and promoting benefits of Smart tariff plans.

Advertising and Marketing

Our advertising and public relations initiatives include:

- brand and image advertising and public relations to position us as the leading mobile cellular operator in Russia, Ukraine, Belarus, Turkmenistan and Armenia;
- category and loyalty campaigns to inform our current and potential customers of the advantages of the high quality and variety of our services and the extensive coverage we offer; and
- product and tariff related advertising and promotions, pricing discounts for various target audiences to demonstrate value for money and cover specific needs.

The key themes for our advertising campaigns in 2016 included promotion of "My MTS" mobile app providing customers with up-to-date information about their tariff and services and possibilities to manage it, "Smart" V&D (voice & data) tariff plans and offers, high-speed and quality 4G network, financial services, new technologies, devices and advantageous data-offers for active internet users, including households, which we target with our fixed broadband and satellite TV offers.

In order to build brand awareness and stimulate demand we use a combination of various advertising formats, including television, outdoor, newspaper, magazine and radio. Increasingly, we also advertise on-line and in mobile (with the help of traditional as well as innovative and novel projects) to market and promote our products and services to the broad audiences of current and potential customers. Additionally, our indirect advertising includes sponsorship of selected television programs, sport events, music shows and other popular events. We also coordinate the advertising policies of our dealers and partners, such as MTS Bank, to capitalize on the increased volume of joint advertising and preserve the integrity and high-quality image of the MTS brand.

In line with our strategy to find new ways of effective communications especially in digital channel we launched several unique promo sites, special activations with partner web-sites and other format of online advertising (video bloggers, online games, tests, advertorials, product placements etc) in 2016. In addition, we focused on educating our customers by producing educational videos, communicating through social networks and promo sites.

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To support our key directions we undertook the following initiatives in 2016 in Russia and in selected other countries in which we operate:

Brand and New Positioning

In 2016 we continued our positioning with the tagline "You Know That You Can" as well as our visual style, which symbolizes going beyond limits, boldness and authenticity through the use of dynamic craft-style visuals. However we elaborated MTS positioning by adding new business goals, which have led to development of the three communication focuses: network quality, client service and leadership. In order to convey the leadership, MTS used celebrities and public figures who achieved success and keep developing and opening new horizons.

Dance on TNT sponsorship To support our positioning and leadership, we continued a productive cooperation with a major entertainment TV channel in Russia, TNT, and its super popular TV Show "Dance on TNT" (*campaign of 2015 brought us two Effie Russia awards in categories "Media Idea" and "Engaged Community").* MTS launched a multimedia campaign based on the theme of the show. We also created special web-site dance.mts.ru devoted to the unique dancing content. In addition we partnered with a range of websites and created exclusive content (for example in partnership with entertainment web-site megogo.ru we offered users of the web-site to replace advertising with dance videos). We addressed all people interested in dance and made them believe that they can learn to dance.

Network Quality (4G and HD-Voice)

Network quality has always been one of our key priorities and an important attribute influencing net-promoter score of the company. We constantly strive to improve the quality of our network, we continue to develop the infrastructure and implement new technologies. To maintain and improve the perception of our network quality we continued communications support for our high-speed 4G LTE mobile internet as well as voice and internet coverage through advertising campaigns and localized and targeted placements to amplify the high-quality message. This year we launched three major campaigns: "4G is everywhere. 27 000 base stations the widest 4G coverage network in Russia," "With MTS you won't be lost! 30 000 base stations provide MTS clients with coverage all over Russia" and digital campaign "Super-fast connection." In addition, a unique TV campaign was conducted in Moscow, where MTS proved to provide the best network (*according to The Federal Service for Supervision of Communications, Information Technology, and Mass Media).*

Client Service

In 2016 we launched a new mobile app "My MTS" providing customers with up-to-date information about their tariff and services and possibilities to manage it. To support this product two federal TV campaigns were launched within a year.

Smart tariff plans

In 2016, we proceeded to communicate the benefits of Smart voice & data (V&D) tariff plans as a key focus in our product strategy and launched a new truly unlimited tariff plan Smart Bezlimitische. This new tariff plan was targeted to the mass audience. In our advertising campaign we played with metaphor of huge spaces of the Russian territory and limitlessness of the tariff plan. The campaign was so effective and viral that MTS decided to continue autumn campaign with exact same product offer.

Mobile payment and financial services

The financial world is changing at a great pace. We understand the trends and pioneer various mobile financial services on the Russian market. In 2016, we further strengthened our positions on the

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mobile payment arena and launched innovative mobile payment service "Koshelek MTS Dengi." This service allows users pay for products and services via their smartphone (any OS), token any bank card, transfer money etc. "Koshelek MTS Dengi" undergoes constant improvements leading to launches of innovative services in 2017.

We are very active in pushing forward innovative technologies such as NFC payments. In several cities in Russia, including Moscow, one can now pay for subway (metro) with a simple touch of their phone equipped with an MTS SIM-card.

In 2016 we also launched convergent offer "Use bank card MTS Smart Dengi and pay no monthly fee for Smart tariff plans" introducing new card MTS Smart Dengi.

Devices

In 2016 the majority of devices-related communications campaigns were targeted at supporting the 4G-smartphones sales (of different price categories) in MTS retail. Most of these campaigns were developed and implemented in cooperation with major device vendors such as Samsung, Huawei, LeEco, etc. as well as Google.

Business to business offers

In 2016, we retained and strengthened our leadership in the corporate market via a full-scale image campaign across various communication channels, including TV, radio, online, print. The advertising campaign did not simply say "we are the best" but featured our major corporate clients who talked about their experience working with MTS. Our clients, the leading companies representing various businesses (Aeroflot, Raiffeisenbank, TASS, Gulfstream security systems, INTOUCH Insurance), let us showcase their internal processes based on the MTS products and explain how these solutions help them grow.

Another initiative was a series of video case studies with various corporate clients from different industries which were broadcasted on the major business TV channels in the framework of the Business with High IQ series where MTS' clients shared their experience in implemented tailor-made telecom solutions provided by MTS.

Other products and services

MTS launched new app MTS Music with more than 20 million music tracks. Impressive TV campaign in the beginning of the year promoted free access to the Smart tariff users.

In Moscow we continued to communicate the benefits of the GPON technology (the fastest fixed broadband in Moscow through optic cable) which allows us to provide highest-quality Broadband and TV services. In other regions with more sensitivity to pricing, we applied a more relevant "value for money" strategy.

2016 saw the launch of the two MTS satellite TV campaigns. This year our communication focused of the availability of the MTS satellite TV through the whole Russia.

At the end of 2016, Father Frost (Russian Santa Claus) was trained to give presents during the whole year. Our funny New Year TV campaign promoted special offer "Get Smart Bezlimitische now and get presents each month of the new year."

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Global recognition

In 2014, MTS was included in the BrandZ Top 100 Most Valuable Global Brands 2014 ranking for the seventh consecutive year, as well as being recognized as the most valuable Russian telecom brand and made it to top 10 leading telecommunications brands in the world.

Sales and Distribution

We have historically enrolled the vast majority of our subscribers through a network of independent dealers that operate numerous points-of-sale in places with high consumer activity, such as supermarkets, shopping centers, transportation hubs and markets. In 2009, in response to changes in the independent retail market, we began to develop our own proprietary retail network to more effectively control sales of SIM-cards and provide a platform to sell handsets and accessories. We organized our retail operations under a wholly owned subsidiary, RTC. RTC handles all functions relating to our retail operations, including the management of points-of-sale, the purchase and sale of handsets and accessories and subscriber enrollment at our retail outlets. It also requires us to secure optimal locations for our points-of-sale and monitors the effectiveness of their operations.

At the same time, in 2010, we focused on improving cooperation with a certain few of the large national and regional mobile handset retailers, such as Euroset and Svyaznoy, through which we had previously sold our products and serviced. In 2009, VimperlCom acquired a minority stake in Euroset, while in 2012, its ownership structure changed to accomodate an investment by Megafon, which equalized ownership with VimpelCom at 50/50. Throughout 2013 Euroset prioritized sales of its owners at the expense of MTS which impaired our ability to attract higher-quality subscribers and impacted profitability. Thus, MTS terminated its agreement with Euroset in May 2014.

In 2013, we entered into an agreement with Svyaznoy to distribute SIM-cards and our sales through its outlets increased significantly during the year. We also continued to develop our monobrand retail chain, and in 2014, we could boast of attracting over half of our subscribers through our own proprietary distribution network. In 2014, Svyaznoy was the second in sales volume among MTS sales channels. In November 2014, Svyaznoy experienced changes in its ownership which led to the deterioration of MTS sales and an increase in competitors' sales beginning April 2015. While volumes declined throughout 2015, as of August 2015, MTS entirely ceased sales at Svyaznoy outlets. MTS designed a range of activities including the development of proprietary distribution network and stimulation of sales growth in regional distributors channel to compensate for the losses in subscriptions and achieve sales targets. We now realize over 69% of our SIM-card sales through our own monobrand retail chain while our retail arm is an increasingly important component of our differentiation strategy and ability to offer affordable handsets and accessories to our customers. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Our failure to further develop and sustain our distribution network as well as the reduction, consolidation or acquisition of independent dealers may lead to a decrease in our subscriber growth rate, market share and revenues."

In 2015, we continued to implement our strategy in retail operations by increasing the efficiency and optimizing the structure of our proprietary sales and distribution network. We expect to continue enhancing the efficiency and structure of this sales network, including through the optimization of points-of-sale locations, with the aim of maintaining our market position.

Our proprietary distribution network consists of MTS-branded franchise points-of-sale (third-party dealers operating under the MTS brand) and MTS-branded points-of-sale owned by us. As of December 31, 2014, we operated 4,245 points- of-sale, including 1,326 franchise points-of-sale and 2,919 points-of-sale owned by us. As of December 31, 2015, we operated 5,133 points- of-sale, including 1,681 franchise points-of-sale and 3,452 points-of-sale owned by us.

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In 2016, we continued the development of our owned monobrand retail network by increasing a number of points-of-sale. MTS proved the significantly growth of points-of-sale as compared to main competitors. Thus, MTS is the largest retail network of the mobile operator in Russian Federation. As of December 31, 2016, we operated 6,174 points- of-sale, including 1,839 franchise points-of-sale and 4,335 points-of-sale owned by us.

For newly acquired mobile subscribers in Russia, we link commissions payable to a dealer on a monthly basis to the amount of revenues we receive during six- to 12-month period from the date a subscriber is activated by a dealer. In addition, we have established caps, or a maximum commission amount payable to our dealers. The dealer commissions in Russia currently range between RUB 80 and RUB 1,760 per subscription.

In Ukraine, we link dealer commissions to the tariff package sold, category of subscriber, subscriber revenue, the duration of a subscriber being active, city of subscription and sales channel. We have different commission structures based on whether the subscriber is Prepaid or Postpaid. For each new subscriber, a dealer typically receives a one-time commission payment at the time the contract is signed or monthly payments based on the revenue generated from the subscriber. The dealer commissions in Ukraine for Postpaid tariffs consist of one-time commissions of 89 RUB to 107 RUB, that depends on the region of activation and we are entitled to retain the full commission amount if the subscriber stops using our services within five months following the month of activation. In addition, we may also pay monthly commission in an amount ranging from 30% to 36% of the revenues generated by the subscriber for a period from 6 to 12 months depending on the region of activation and dealer's plan achievement. We also pay monthly dealer commissions of 223 RUB for high quality, long-term subscribers, as well as a monthly amount of between 7,808 RUB and 111,539 RUB to exclusive dealers who sell exclusively MTS Ukraine products and services. Prepaid tariff commissions for activation of a subscriber are linked to the territory where a dealer operates. The period during which we pay a dealer commission depends on our market share in that territory and may vary from 4 to 8 months, and equals to the amount of 50% of the subscriber's monthly invoice.

We believe that our method for paying commissions provides dealers with greater incentives to add new subscribers, reduces the risk of dealer fraud and improves our cash-flow management.

Competition

The Russian wireless telecommunications market

Demand for wireless communications services in Russia has grown rapidly over the last years due to increased business activity, declining prices due to intensified competition among wireless communications providers and growth of new emerging consumers of telecom services such as IoT. As of December 31, 2016, overall wireless penetration in Russia was approximately 174.3%, or approximately 256 million subscribers, according to our estimates.

The following table sets forth key data on Russia's wireless telecommunications market as of the dates indicated:

	As of December 31,		
	2014	**2015**	**2016**
Subscribers[(1)]	240.3	251.9	255.6
Subscriber penetration	168%	176%	179%

According to our estimates

(1) Based on registered subscribers (SIM cards only). There is no uniform definition of active subscribers in the Russian wireless market.

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The primary mobile providers in Russia include us, MegaFon and VimpelCom, each of which has effective national coverage in Russia. Competition is based on network coverage and quality, the level of customer service provided, roaming and international tariffs, local tariff prices and the range of services offered. For a description of the risks we face from increasing competition, see "Item 3. Key Information D. Risk Factors Risks Relating to Our Business We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies."

The following table illustrates the number of wireless subscribers for each network operator in Russia as of December 31, 2014, 2015 and 2016:

Operator	As of December 31, 2014	2015	2016
	(amounts in millions)		
MTS	74.6	77.3	80.0
MegaFon	69.7	74.8	75.6
Vimpelcom	57.2	59.8	58.3
T2 RTK Holding (Tele2+Rostelecom)	35.1	37.3	39.0
Others	3.7	2.7	2.7

According to our estimates

MegaFon. MegaFon, which operates GSM 900/1800, UMTS (3G) and LTE (4G) networks, is one of our primary competitors in Russia, and it is the second largest GSM wireless operator in Russia in terms of subscribers. According to our estimates, MegaFon had a subscriber base of approximately 75.6 million subscribers in Russia, which represented a 30% market share as of December 31, 2016.

VimpelCom. In addition to MegaFon, we also compete with VimpelCom, which is the third largest GSM 900/1800/UMTS (3G)/LTE (4G) wireless operator in Russia in terms of subscribers.

According to our estimates, VimpelCom had a subscriber base of approximately 58.3 million in Russia at December 31, 2016. At December 31, 2016, VimpelCom had a 23% market share of total wireless subscribers in Russia.

T2 RTK Holding. In February 2014, Tele2 and Rostelecom announced a merger which created a new federal wireless provider. The license portfolio of the new company covers all Russia which effectively permits the roll out of federal-scale networks. Although the operator lacks GSM 900/1800 or 2G frequencies in Moscow and Moscow region, the operator possesses sufficient frequencies to roll out 3G and 4G networks in each federal region, including Moscow. By the end of 2016, the number of regions penetrated by combined operator exceeded 65. According to our estimates, Tele2 had a subscriber base of approximately 39.6 million in Russia and 15% market share as at December 31, 2016.

The most important event for operator was the launch of 3G/4G network in Moscow region in October 2015. The operator's services are now available on the territory where 97% of Moscow Region residents live. In 2016, Tele2 have actively rolled out 3G and 4G networks, launched new tariffs, options and services which enabled to provide customers with services similar to those of the market leaders.

Other Operators. The number of subscribers of other operators is about 2.4 million customers as of December 31, 2016.

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The Ukrainian wireless telecommunications market:

The history of mobile communications in Ukraine began in 1993. The first company in the mobile market of Ukraine was UMC (Ukrainian Mobile Communication), afterwards it became MTS Ukraine. In 1997, the mobile operator Kyivstar launched services under GSM 900/1800 standard. While Astelit, another GSM 900/1800 standard operator and joint venture between Turkcell İletişim Hizmetleri A.Ş. and local Ukrainian shareholders, began operations in 2005. The two largest wireless telecommunications providers in Ukraine (in terms of subscribers) are MTS Ukraine and Kyivstar sharing 81.0% of the market, with 36.0% and 45.0%, respectively, as of December 31, 2016, according to official financial and operational reports of operators.

In Ukraine, we compete primarily with Kyivstar, which provides services to approximately 26.1 million subscribers as of December 31, 2016. Kyivstar offers wireless services using GSM 900/1800 and UMTS technologies under the "Kyivstar" brand and fixed line services by the fiber-to-the-building technology ("FTTB") under the brand "Kyivstar Home Internet." Astelit offers services in GSM 900/1800 and UMTS standards under the "lifecell" brand.

In August 2016 MTS Ukraine has launched new Prepaid tariff plans under Vodafone brand with greater volumes than before: "Vodafone Red XS," "Vodafone Red S," "Vodafone Red M," "Vodafone Red L" that operate throughout Ukraine and vary in value of included services and monthly fees. Moreover, there is a new voice only tariff plan "Vodafone Light+." Also, there are new tariffs for Internet of Things "Vodafone IoT." They are represented by 6 tariff plans: "Vodafone IoT M," "Vodafone IoT L," "Vodafone IoT 3G S," "Vodafone IoT 3G M," "Vodafone IoT 3G L," "Vodafone IoT 3G XL." Moreover, there are new "Vodafone Red S+," "Vodafone Red M+" and "Vodafone Red L+" special tariff plans that are proposed for subscribers, who buy smartphones under Vodafone brand.

In 2016 MTS Ukraine has launched new unique services Vodafone TV, Vodafone Books and Vodafone Music.

In April 2016 Kyivstar has launched new Prepaid tariff plans. There are voice only tariff plans: "Talks," "Talks +" and Voice and Data tariff plans: "Online," "Online +," "Online Extra," In November 2016 Kyivstar has launched new tariff "All together" for mobile network, home Internet and TV.

In January 2016 there was a rebranding of Astelit: Life:) became Lifecell. In November, 2016 Lifecell has launched new tariff plan "3G+ Freedom." It is the first flat-rate tariff in Ukraine.

Despite the ongoing economic crisis as well as complex and unpredictable situation in the eastern Ukraine, our subscriber base increased in 2016 by 0.43 million subscribers. Our average price per minute (APPM) increased by 1% RUB (increased by 9% UAH) YoY in 2016. ARPU increased by 2.6% RUB (increased by 9.8% UAH) and MOU increased by 2% YoY (using the official average monthly rate, refined approach to the calculation of the average annual subscriber base).

Overall wireless penetration in Ukraine in Q4 2016 decreased to 131.8%, or approximately 56.1 million subscribers, as compared to 132.0%, or approximately 56.4 million subscribers, in Q4 2015, according to our estimates.

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The following table shows the number of subscribers of the top mobile operators in Ukraine as of the dates indicated and the coverage area of MTS Ukraine and our competitors in Ukraine:

Operator[1]	As of December 31, 2014	2015	2016
	(amounts in millions)		
Kyivstar	26.2	25.4	26.1
MTS Ukraine	20.2	20.4	20.9
Astelit	10.3	10.6	9.2

(1) Number of three-month active subscribers.

Source: Subscriber information based on operators' official financial and operational reports, taking into account the number of three-month active subscribers.

The Armenian wireless telecommunications market

As of December 31, 2016, overall wireless penetration in Armenia is estimated around 119%, or about 3.55 million active subscribers, according to 2016 published Socio-Demographic Data in Armenia (about 2.99 million population) and estimated number of subscribers of the competitors.

The following table illustrates number of active subscribers and the coverage area of VivaCell-MTS and competitors ArmenTel and Ucom, as of indicated dates.

Operator	As of December 31, 2015	2016	Coverage Area
	(amounts in thousands)		
VivaCell-MTS	2,115.14	2,092.36	Nationwide
ArmenTel (Vimpelcom)	843.95	881.18	Nationwide
Ucom	636.37	588.89	Nationwide

Sources: https://beeline.am; https://www.ucom.am; http://mts.am

As of December 31, 2016, VivaCell-MTS reported total 2.09 million 3-month active subscriber base, reflecting decrease of 1.08%, y-o-y. Market share from 3-month active subscriber base was approximately 59%.

The Turkmenistan wireless telecommunications market

As of December 31, 2016, overall wireless penetration in Turkmenistan was approximately 100.4%, or approximately 5.5 million subscribers, according to our estimates.

The following table shows the number of subscribers as of the dates indicated and the coverage area of MTS-Turkmenistan and our competitors in Turkmenistan:

Operator	As of December 31, 2015	2016	Coverage Area
	(amounts in millions)		
MTS-Turkmenistan	1.6	1.7	Nationwide
Altyn Asyr	3.8	3.8	Nationwide

Source: Subscriber information based on our estimates.

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MTS-Turkmenistan offers wireless services using GSM 900, GSM 1800, and UMTS 2100 technologies. As of December 31, 2016, MTS-Turkmenistan had approximately 1.7 million subscribers and a 30.3% market share according to our estimates. In Turkmenistan, we compete with Altyn Asyr, a state-owned cellular operator which launched an LTE network in September, 2013 and was the only GSM/UMTS operator from December 21, 2010 till August 30, 2012.

Tariffs

We customize our marketing efforts and pricing policies in each region of Russia and our other countries of operation by considering such factors as average income levels, the competitive environment and subscriber needs, all of which vary from region to region. Consistent with our marketing strategy, we have developed tariff plans to appeal to a broader market. The following table shows the mix between Prepaid and other subscribers, such as contract and corporate customers, for Russia and Ukraine for the periods indicated:

	As of December 31,		
	2014	**2015**	**2016**
Russia			
Prepaid	67%	55%	49%
Contract and corporate	33%	45%	51%
Ukraine			
Prepaid	91%	91%	91%
Other	9%	9%	9%

We currently have a unified system of tariff plans offered to subscribers throughout Russia. The unified system is aimed at achieving such benefits as clarity, simplicity and transparency for prospective subscribers by offering the same set of tariff categories throughout Russia. Under each tariff category, we offer different tariff plans with different connection fees, per minute call charges and a wide range of value-added services.

By advertising on a national rather than regional or local level, we have been able to streamline and reduce our advertising and marketing expenses through unified advertising campaigns throughout Russia. Furthermore, we are able to convey to consumers a more uniform perception of our brand and services.

Tariff Plans in Russia

Currently, each of our tariff plans in Russia combines per minute usage charges, value-added services in packages and different monthly network access fees (with the exception of the prepaid tariff plans) designed for different market segments. Our tariff plans are designed to be simple and appeal to particular segments of the market taking into account such factors as customer needs and consumption levels. Our tariff plans are currently divided into five categories "Prepaid," "Smart," "Unlimited," "Data" and "Corporate" with each category designed to target specific segments as follows:

Prepaid: Prepaid tariff plans are geared towards consumers who use their mobile phones for personal communication. These plans do not have monthly subscription fees and the per-minute fee charges depend largely on the tariff plan chosen. We offer a family-oriented tariff plan, "Super MTS," which allows family members to make up to 20 minutes of calls per day within the network for free. The "Super MTS" tariff plan varies depending on the region of the customer and it is a tariff plan which we believe will remain a competitive tariff plan over a long period of time. We also offer a tariff plan, "Red Energy," developed for different market segments, featuring flat price for calls within our network and calls to other networks. Subscribers to our prepaid plans can reduce the price of their calls by using tariff options which

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have a subscription fee. After our customers subscribe to a particular prepaid plan, they have the option of switching to a different prepaid plan by sending an SMS message (USSD request) to a designated number.

Smart: "Smart" is the family of integrated voice and data tariff plans for customers with active mobile data usage. "Smart" has a monthly fee for a bundle of all-net minutes and Internet. On-net calls above the bundle are free. Versions of "Smart" ("Smart mini," "Smart," "Smart Bezlimitische," "Smart+" and "Smart Top") differ by amount of minutes and megabytes included in the bundle and the corresponding monthly fee.

Unlimited: "Unlimited" tariff plans are designed for heavy users who call primarily within their domestic region. Subscribers of unlimited tariff plans are provided an unlimited number of local minutes, an opportunity to pay through our credit payment system and access to personal customer care service. In the Moscow region, for those subscribers issued a local number, monthly fees start from RUB 2,711.9 and those using a federal number pay from 2,288.1 per month. The "Ultra" tariff plan includes unlimited calls to MTS numbers as long as the recipient and the caller are in the same region (defined as "home region"), free domestic calls from the MTS network to any number regardless of carrier up to a certain limit of minutes, no roaming charges within Russia, 20 gigabytes of mobile Internet access and 5000 SMS messages within the network.

Data: For active users of mobile Internet devices (*e.g.,* USB-modems, 3G and 4G capable devices) we offer a set of options on "MTS Connect" tariff plan.

Corporate: We offer different tariff plans in each region targeted to meet the demands of our corporate clients, each plan allowing them to optimize their communication expenses in accordance with their individual consumption patterns. These plans feature specialized customer care, payment through our credit system and volume and tenure discounts. In addition, we provide customized pricing offers and technical solutions to our biggest clients.

Our tariffs vary from plan to plan. The description of tariffs and charges are, in each case, exclusive of VAT. As of December 31, 2016, the per-minute tariff for local calls within the MTS network varied from zero per minute to RUB 2.54 per minute. Different rates apply to local calls to other networks and vary from RUB 0.72 per minute to RUB 3.39 per minute. Higher rates apply to domestic long distance calls and rates for international calls vary from RUB 0.85 per minute for calls to the CIS to RUB 59.32 per minute for calls to other parts of the world. Periodically, we run various promotional campaigns, either on the federal or regional level, in which we provide temporary discounts to our regular prices.

Tariff Plans in Ukraine

We offer unified tariffs throughout Ukraine with special conditions and segmented tariff plans that focus on the differentiation of subscribers' needs in the various market segments under brands MTS Ukraine and Vodafone. Our tariffs in Ukraine are oriented towards the following three main segments: (i) Postpaid Business, (ii) Postpaid Private and (iii) Prepaid

MTS Ukraine has the following Postpaid tariff plans:

Postpaid Business, under Vodafone brand: Propositions for corporate clients "Vodafone Red Business" operate throughout Ukraine and offer all services in accordance with the "worry free" principles. Vodafone offers wide range of tariff plans for corporate clients to meet all their business needs: "Red Business VIP," "Red Business XXL," "Red Business XL," "Red Business L+," "Red Business L," "Red Business M," "Red Business S," "Red Business XS." All tariffs (excl. "Red Business XS") offer all-in-one services: unlimited calls within corporation, Vodafone Ukraine and MTS Ukraine customers; GB of mobile EDGE/3G internet and

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unlimited traffic for social networks; bundled minutes for calls and SMS/MMS to other networks in Ukraine and other 62 countries of the world. Also subscribers can use the same volume of the services in roaming as well as in Ukraine, when they have activated "Roam like home" service for an additional fee for 30 days. Moreover, there are new tariffs for Internet of Things "Vodafone IoT." They are represented by 6 tariff plans: "Vodafone IoT M," "Vodafone IoT L," "Vodafone IoT 3G S," "Vodafone IoT 3G M," "Vodafone IoT 3G L," "Vodafone IoT 3G XL." All tariffs offer mobile EDGE/3G Internet, CSD and SMS/MMS to other networks in Ukraine and 62 countries of the world. There is an opportunity to activate "Roam like home" service for 30 days, which gives profitable conditions in roaming for additional fee.

Postpaid Business, under MTS Ukraine brand: A set of Postpaid Business corporate tariff plans "Smart Office," which have unlimited calls within the network and bundle of mobile internet, bundled minutes of calls and SMS to other mobile operators, special prices for international calls, no connection fees and per minute charging intervals. MTS Ukraine offers a unique product "ULTRA" for the top management that has unlimited calls and SMS in the network, bundle of mobile internet and special prices for international calls and roaming. We also have a special tariff plans for the machine-to-machine (M2M) segment "Telematika," "Navigator," "Monitor," which combine service packages for M2M-cards, personalized service, special tariffs for data roaming, special heavy duty SIM cards and consulting support services.

Postpaid Private under Vodafone brand: Mass-market proposition "Vodafone Red XL" and CRM PoP tariffs "Vodafone Red S," "Vodafone Red Light" (for individual proposal only) operate throughout Ukraine. They offer all-in-one services in accordance with the "worry free" principles and are suitable for active voice and data users. Also there are "Vodafone Red S+," "Vodafone Red M+" and "Vodafone Red L+" - special tariff plans that are proposed for subscribers, who buy smartphones under Vodafone brand.

Postpaid Private under MTS Ukraine brand: A set of Postpaid Private tariff plans designed for mass-market subscribers "Simply Super Contract," "Smartphone 3G Contract" and "Tablet 3G." We also offer special Postpaid tariffs and privileges that are available only to customers migrating from Prepaid tariff plans. The main advantages of Postpaid over Prepaid include the customer's ability to obtain all services on credit, more convenient roaming and customer service.

MTS Ukraine has the following Prepaid tariff plans:

Tariffs under Vodafone brand: There is a set of Prepaid tariff plans designed for mass-market subscribers. At the first part of the year they were represented by 3 tariffs: "Vodafone Red S 2015," "Vodafone Red M 2015" and "Vodafone Red L 2015" that operate throughout Ukraine and vary in value of included services and monthly fees. Since August 1, 2016 there are new tariff plans with greater volumes of services: "Vodafone Red XS," "Vodafone Red S," "Vodafone Red M," "Vodafone Red L" All this services are fully available also in roaming at most popular European countries with special roaming service for 7 days "Roam like home." Moreover, there is a voice oriented Pay-Per-Use tariff "Light" with unlimited calls within the network. There is also a new Pay Per Month tariff "Light +" with unlimited calls within the network, bundled 15 minutes to any other Ukrainian networks and 100 MB 3G Internet.

Tariff under MTS Ukraine brand: The flagship tariff plan "Smartphone 3G" is specially designed to appeal to both voice and data oriented middle income customers that are mostly young people using smartphones. We also offer data only tariff plan "Tablet 3G" which is targeted directly at the users of tablet devices, has Pay-Per-Use charging and offers Nano/Mini/Micro universal SIM card free of charge for any devices. Moreover, there are voice oriented Pay-Per-Use tariffs with special conditions designed to attract mainly mass-market subscribers. The "Simply Super" tariff line offers a set of services on a Pay-Per-Use (PPU) basis without

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fixed daily payments, it is daily limited in net minutes' package and without daily limited Mobile internet.

As of December 31, 2016, the standard per minute tariff for calls to mobile network operators in Ukraine varied from RUB 1,12 per minute to RUB 3,35 per minute. Tariffs for calls to fixed lines in Ukraine varied from RUB 1,12 per minute to RUB 3,35 per minute. The standard per minute tariff for calls within the MTS Ukraine network ranged from RUB nil per minute with limitations in minutes per day or month to RUB 2,23 per minute. International tariffs ranged from RUB nil per minute for calls to some countries in tariffs under Vodafone brand within bundled minutes in Vodafone Red tariffs to RUB 290 per minute in standard international tariffs for satellites. All tariffs for MTS Ukraine subscribers are quoted in hryvnias. The tariffs set forth above are translated from hryvnias to Russian rubles using the official exchange rate of 0.448273 hryvnias per RUB 1 as of December 31, 2016.

Customer Payments and Billing

We enroll new prepaid subscribers in an advance payment program, under which the subscriber prepays a specific amount of money to use our services. As of December 31, 2016, 82% of our consolidated subscriber base was enrolled in the advance payment program and 18% used a credit based system.

Our advance payment system monitors each subscriber account and sends an advance warning on the subscriber's mobile telephone when the balance on the subscriber's account decreases below a certain threshold.

Under the credit payment system, customers are billed monthly in arrears for their network access and usage. We limit the amount of credit extended to customers based on the customer's payment history, type of account and past usage. As of December 31, 2016, subscribers using the credit system of payment had credit limits of up to RUB 68.38 million for key corporate customers in Russia. When a credit limit is reached, we block the telephone number until the balance is settled. There are no credit limits established for certain exceptional, high loyalty customers.

We provide "in full confidence" service, which allows our Prepaid customers who subscribe to this service to continue using services when the balance on the subscriber's account becomes negative. As of December 31, 2016, subscribers using the "in full confidence" service had a maximum credit limit of RUB 28.7 thousands. Customer service representatives can set individual credit limits for subscribers based on their payments and charge history (*i.e.,* average balance usage) during the prior three months. When the credit limit is reached, our billing system blocks the phone number until the balance is settled. Similar to the credit payment system, the subscribers are billed monthly in arrears for usage. The invoice, which can be delivered to the customer by e-mail, fax, regular post and Internet, should be settled within 24 days. If the invoice is not paid five to seven days prior to the due date, the system sends an additional reminder. The telephone number is blocked on the 25th day if the invoice is not settled.

In Russia, we offer our subscribers various ways to pay for our services, including cash or credit card, wire transfer, prepaid cards and express payment cards.

We implemented Foris billing system in Russia in 2008. The Foris billing system allows us to offer all of our subscribers a uniform and consistently high level of service. It also supports the monitoring of account usage in real time. In addition, the system provides us with the ability to offer flexible tariff plans with various usage discounts and subscriber loyalty bonuses. Furthermore, we are able to provide our corporate subscribers with more sophisticated customized billing solutions. For example, our corporate subscribers who use multiple phone numbers in different regions of Russia now receive a single invoice, whereas our previous billing system could not support such a service.

In Armenia, we use the "Eskadenia" billing system.

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In Ukraine, our Postpaid corporate and high-end subscribers receive an invoice which must be paid by a specified date. If the subscriber fails to pay, we block the phone number until the balance is settled. Our contract subscribers, who make an advance payment, are able to continue using our services once they reach a zero balance or until their accounts reach the credit limit specified in their service agreements. When the limit for such a subscriber is reached, we suspend our services until the balance is settled. We determine account terms and credit limits for each subscriber based on the subscriber's account age, payment history and tariff plan.

In Ukraine we provide services to our Prepaid customers for as long as the balance on their accounts remains above zero and/or the tariff plans allow to use free-of-charge services without having the positive balance on the account.

In Ukraine we offer our subscribers various ways to pay for our services, including cash or card payment at the cash desk of the bank, through the recharge terminals, bank transfer from the current account (for legal entities), via internet and payment card of fixed nominal value

Customer Service

In order to attract and retain customers, we must ensure a high level of service at all points of customer assistance, care and billing. In each region where we operate, we have contact centers that provide customer service 24 hours a day, seven days a week. Contact centers provide different services to our clients through various channels (telephone, email, chat). Customer service representatives respond to various issues such as phone lock due to lack of payment, handset operation, roaming capabilities, service coverage and billing. A particular group of customer service representatives handles customer complaints and helps those who want to change their service terms. We use automatic systems and independent analysis for monitoring availability and customer satisfaction level of service in our contact centers regularly. We conduct outbound campaigns with the assistance of our employees in the outbound contact center and the laboratory of the customer relationship management inasmuch as we need to improve customer loyalty and promote our services.

In 2016, a new channel for supporting our customers started online chat on a web-site in several regions of the Russian Federation (except Moscow and St. Petersburg). "Marketing IVR" service was reformed within MTS Russian Federation for all customers. When calling the Contact Centre, customers are invited to take advantage of offers of the company which correspond to their needs with respect to the consumption of data traffic and other services.

In November 2016, we started outsourcing call-center agents for the 1st line support for landline business customer, which will decrease our costs for the 1st line by 30%.

In 2016, a back-office group for claims service was centralized at one site. The number of agents has decreased by 30%. Procedures for these types of services were changed and decreased the average time of processing claims in 40%.

In 2016, we launched a new mobile application for Android and iOS. The application allows mobile customers to manage their services directly from their smartphones.

The total number of customer complaints relating to technical failures within the network decreased by 8% year-on-year due to increased efficiency relating to handling of such failures, automation systems for monitoring customer complaints in the CRM and other measures. Currently, if there is a technical failure causing a decrease in the quality of services, MTS necessarily informs customers about such failures via SMS, thereby eliminating the application of a customer with the same problem.

In April 2017, we plan to lunch new services based on speech recognition for our clients in IVR, a pilot project showed an ability to reduce the number of calls into the contact center and increase the percentage of customers who have their problems solved up 10%.

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In 2017, we plan to launch chat in mobile application, chat-bot system, which will solve customer questions without call-center agents.

In Ukraine we made the customer assistance process more personalized by anticipating customer needs. We have enhanced the quality of our customer service as a result of the complete integration of our IVRs and billing. We have improved IVRs menu that enhance its utility. We continued to work on the improvement and expansion of self-service channels for subscribers. As part of online "self-service" we continued developing "self-care" functions through the web and IVRs (which provide, among other things, details of the subscriber's account, tariff plan specifications, amounts charged on credit cards, management of on-line service and charge details for contract subscribers). We also developed special services, such as shortened phone numbers, for broadband users and premium customers who require assistance. We increased the number of services available to our customers in contact centers. We have a mobile version of the Internet Helper for smartphones. In 2013, we launched a new mobile application for Android OS. The application allows users to manage their account directly from their smartphones.

In 2016, we continued to develop operational CRM system. As a part of this process we have migrated from local network for contact center to cloud technologies. We started user friendly customer service (without strong standards) in contact center, whereby we were awarded with a Gold Medal for Best Customer Service in the ContactCenterWorld The Global Association for Contact Center & Customer Services. We have also launched gifts for waiting at IVR before connection with contact center representative. Start of operation under Vodafone brand caused great impact for customer service from 4th quarter of 2015 and will continue to have an even greater influence later.

In 2016, the mobile application for Android OS and iOS was developed, final completions of internal systems are carrying out. We performed equipment procurements within the New Contact Center project for Genesys platform implementation, which responds to all modern requirements in customer care. Also we paid the considerable attention to the solution of customer questions from the first contact in the most short time. The solution of requests from the first contact grew from 76% to 82%, and more than 81% customers complaints are solved in 24 hours. The Interactive Voice Response system was updated according to needs of customers and now more than 71% of customers are solve their questions via the IVR. Internet requests servicing was provided not only in Facebook official group and web site, but also was expanded on all space of social media (Facebook, Vkontakte, Forums, Internet editions etc.).

In 2017, we plan to focus on the customer loyalty and process automation. For that, we will launch mobile app, operational CRM (Customer Relationship Management) and non-voice servicing channels within the New Contact Center project. We will continue to simplify servicing processes, implement omnichannel customer service and reduce complaints handling period.

Network Infrastructure Technology Strategy

Our technology strategy is formed in accordance with overall company's business strategy and intended to support the existing business operations, as well as to introduce new technologies allowing to launch new services in the future. Our technology strategy considers world technology trends in telecommunications.

The main focus of the technology strategy is Radio Access Network development by deploying LTE networks in all available bands and by transferring fast growing user data traffic from 2G and 3G networks to LTE through different technological and marketing techniques. LTE deployment nowadays mainly utilizes 1800 MHz (76% of LTE rollout was LTE 1800 in 2016). We are planning to utilize all available frequency bands for LTE by 2020, including LTE 2600 TDD spectrum (Band 38 3GPP) which became available after winning the government auction in 2016.

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Our technology strategy implies consistent innovative technologies introduction to reach high level of network effectiveness: SON (Self Organizing Network) introduction in Moscow finished in 2016, SON tests for rest of Russia has started; end to end configuration management system (E2E CM) has launched for RAN, Core and Transport networks in 2016; Big Data driven projects for radio network planning has started in 2016, products will be launched in 2017.

We are looking forward to deploy IoT and 5G networks in future therefore we started testing IoT and 5G solutions in common with key infrastructure vendors in 2016 for better understanding key requirements and needs for following deployment.

Network Infrastructure Site Construction and Sharing

In October 2014 MTS and VimpelCom has signed a contract about shared LTE networks deployment and operation. According to this contract one shared LTE network should be deployed for servicing subscribers of both companies.

During 2015 and 2016 scope of the projects has expanded: shared networks are deployed in 43 of 85 regions of Russia.

By the end of 2016 MTS had 2,429 LTE base stations shared with VimpelCom in 20 regions and VimpelCom had 1602 LTE base stations shared with MTS in other 20 regions of Russia. Total amount of shared infrastructure nodes is 4,031 base stations servicing in 1800 MHz and 2600 MHz bands.

In addition to network deployment investments and operational costs savings target architecture of the Site Sharing project includes frequency resources shared usage: by the end of 2016 networks in two regions of Russia run in shared 2600 band spectrum usage mode (MOCN concept). The area of MOCN implementation will be expanded in 2017 and 2018 and 1800 MHz band will be shared as well in addition to 2600 MHz band. We are planning to add LTE TDD networks (3GPP Band 38) to a Project scope starting from 2018.

Network Infrastructure and Frequency Allocation

We use switching and other network equipment supplied by Nokia Solutions and Networks, Ericsson, Huawei, Alcatel-Lucent, Samsung and other major network equipment manufacturers.

In the Moscow license area, we have been allocated frequencies spanning 2 × 11.4 MHz of spectrum in the GSM 900 frequency band and 2 × 24.6 MHz of spectrum in the GSM 1800 frequency band for operation of a dual GSM 900/1800 network and UMTS900 network. In St. Petersburg and the Leningrad region, we have been allocated frequencies spanning 2 × 9.6 MHz of spectrum in the GSM 900 frequency band (including 2 × 1.6 MHz in the E-GSM band) and 2 × 18.2 MHz of spectrum in the GSM 1800 frequency band for operation of a dual GSM 900/1800 network.

We have different amounts of spectrum in the 900 MHz band for GSM 900 and UMTS networks and in the 1800 MHz band for GSM 1800 and LTE networks in almost every region of the Russian Federation.

We have been allocated frequencies 1950-1965 MHz, 2010-2015 MHz and 2140-2155 MHz in the UMTS core frequency bands spanning 2×15 MHz (for FDD mode) and 5 MHz (for TDD mode) for UMTS network deployment for the entire territory of the Russian Federation.

We have been allocated frequency bands 2540-2550 MHz and 2660-2670 MHz spanning 2 × 10 MHz and frequency bands 798. 5-806 MHz and 839.5-847 MHz spanning 2 × 7.5 MHz for LTE FDD network deployment for the entire territory of the Russian Federation. In addition, we have been allocated frequency band 2595-2620 MHz spanning 25 MHz for LTE TDD network deployment for the entire territory of the Russian Federation.

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We have frequencies allocated to us for the operation of GSM 900 and GSM 1800 frequency bands in all regions of Ukraine. The radio frequencies allocated to us for the operation of GSM 900 span from 2 × 4.4 MHz of spectrum in Chernigov region to 2 × 5.8 MHz in the Nikolaev, Lugansk, Chernovtsy and Kirovograd regions and in Kiev. We also have been allocated frequencies spanning from 2 × 20.0 MHz in the Kiev region to 2 × 26.6 MHz in the Dnepropetrovsk region for operation of GSM 1800 base stations. In addition, we have been allocated frequencies spanning from 453.35-457.1 MHz and 463.35-467.1 MHz in the CDMA-450 core frequency and bands spanning 3 × 1.25 MHz for CDMA-450 network deployment for the entire territory of the Ukraine. In 2015, we were allocated frequencies1950-1965 MHz and 2140-2155 MHz for UMTS network deployment for the entire territory of Ukraine.

We believe that we have been allocated adequate spectrum in each of our license areas.

Network Infrastructure Virtual Infrastructure

In 2016 VMware solution was chosen as a strategic platform for NFV (Network function virtualization) services deployment for all products in MTS Group.

The following projects have been launched in 2016:

- IMS (IP Multimedia Subsystem) for 5G on NFV platform;
- Virtual SMSC (SMS Center), deployment has finished; and
- Network nodes monitoring and control system virtualization.

IaaS (Infrastructure as a Service) pilot projects were executed in 2016, commercial servicing will be started in 2017.

A new multi-purpose module data-center construction has started in Nizhny Novgorod for future deployment of virtual platforms for telecommunication services and cloud services as well.

Network Infrastructure Energy Infrastructure

The main target in Energy Infrastructure is to decrease operational costs for electric energy.

According to legislative acts of Russian Federation electric energy payment categories were introduced in 2012. This payment category can be chosen by a consumer in a case of introduction electric energy accounting system, which allows hourly monitoring of electric energy usage and reporting to energy company with accepted procedure.

Considering these conditions MTS has decided to deploy Electric Energy Accounting Automatic System (EEAAS). This trial projects of different EEAAS solutions were executed in different regions of Russia (Moscow, Nizhny Novgorod, Vologda, Saint Petersburg, Novosibirsk, Ekaterinburg and Republic of Karelia) in 2014-2015.

EEAAS deployment projects was accepted in 2016 based on the analysis of those trials and system implementation started in 2016.

Introduction of the EEAAS will allow us to:

- Reduce electricity payments and thus reduce operational costs;
- Increase level of precise accounting;
- Implement energy usage management and control; track energy usage dynamics site by site.

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Execution of this project results in decreasing electric energy payments: economy reached 21% in 2016 in regions where EEAAS solution has been deployed. We are planning to deploy EEAAS isolutions in all regions of Russia.

Base Station Site Procurement and Maintenance

The process of obtaining appropriate sites requires that our personnel coordinate, among other things, site-specific requirements for engineering and design, leasing of the required space, obtaining all necessary governmental permits, construction of the facility and equipment installation. In Russia, we use special radio planning software supplied by TEOCO Corporation to assess new sites so that the network design and site development are coordinated. This software can create digital cellular coverage maps of our licensed areas, taking into account the peculiarities of the urban landscape, including the reflection of radio waves from buildings and moving automobiles and supports all necessary technologies, such as 2G, 3G, LTE and Wi-Fi. To use these tools more effectively we purchase high quality 3D digital maps for more precise planning. Used together, these software tools enable us to plan base station sites without the need for numerous field trips and on-site testing, saving us considerable time and money in our network build-out.

Base station site contracts are essentially cooperation agreements that allow us to use space for our base stations and other network equipment. The terms of these agreements range from one to 49 years, with the term of the majority of these agreements being one to five years. Under these agreements, we have the right to use premises located in attics or on top floors of buildings for base stations and space on roofs for antennas. In areas where a suitable base station site is unavailable, we construct towers to accommodate base station antennas, mainly on leased plots of land. We anticipate that we will be able to continue to use our existing GSM 900 base station sites and to co-locate GSM 1800, UMTS 2100 and UMTS 900 base stations at some of the same sites. In 2016, we continued to rollout LTE network and started the large-scale development of LTE1800 network, the latter amounted to 78.1% of the newly installed LTE base stations.

Network Monitoring Equipment

We constantly control and monitor the performance of our network, call completion rate and other major key technical performance indicators. We use monitoring systems to optimize our network and to locate and identify the cause of failures or problems, and also to analyze our network performance and obtain network statistics. We have agreements with different suppliers for technical support services that allow us to obtain their assistance in trouble shooting and correcting problems with our network within the warranty period.

To provide high quality service to our subscribers in Russia, we have a global network operation center ("GNOC") in Krasnodar. The GNOC experts have the technical ability to monitor network problems and unusual situations online in 60 regional branches of MTS in Russia including the region "Moscow" around the clock. Our maintenance department, staffed 24 hours per day, performs daily network integrity checks and responds to reported problems. Our technicians inspect base stations and carry out preventative maintenance at least once every six months.

The GNOC in Krasnodar allows us to centralize such functions as monitoring and controlling of equipment, network planning and optimization, and also helps to solve incidents related to service interruptions. The GNOC strengthens our network's reliability and safety, as well as creates the necessary conditions to launch and implement new technologies and network standards.

We also have local operation and maintenance center in Voronezh which takes the form of outsourcing partnership with Nokia Solutions and Networks and is used for network monitoring in the 16 regional branches which had been included in macro-region "Center" before July 2016.

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In November 2015, a Global Fixed Network Operation Center ("GFNOC") was launched in Nizhny Novgorod, thus completing the centralization process of the MTS mobile and fixed network management. The GFNOC combined functions of monitoring and controlling the equipment in all 153 cities of Russia where MTS offers broadband Internet access, TV and fixed line telephony services. For the subscribers connected to these services the GFNOC acts as a single entry point for technical support. Under the GFNOC project a centralized unit was also set up which is responsible for the quality of the services provided to corporate customers with bundled packages of mobile and fixed communications.

With the Global Fixed Network Operation Center deployed, we put together all resources for management of the quality of provided mobile and fixed line voice services, data transmission via mobile and fixed networks, leased dedicated digital circuits and VPN channels and digital TV.

In 2016, we also opened satellite TV operation and maintenance center in Moscow, which is used for monitoring head-end station and satellite TV services.

Our networks in Ukraine, Turkmenistan, Armenia and Belarus are monitored by our local operation and maintenance centers in each country. In addition to the monitoring of network performance, those centers analyze network quality parameters, provide troubleshooting, regular and extraordinary reporting to the management and our headquarters.

The handling of any significant network problems and outages is monitored and coordinated at our headquarters in Moscow, where we also manage the cross- functional coordination of our networks in all countries of operation.

Interconnect Arrangements and Telephone Numbering Capacity

We operate various types of communications networks, including mobile cellular, DLD/ILD and local fixed line and zonal fixed line networks.

Cellular operators must interconnect with fixed zonal, wireless, long distance and international telephone operators to obtain access to their networks and, via these operators, to the networks of other operators around the world. Cellular and fixed line operators must also obtain telephone numbering capacity to allocate to their subscribers. There are two categories of telephone numbers: "federal" 11-digit numbers (non-geographical numbering plan for cellular operators) and "local" seven-digit numbers (geographical numbering plan for fixed-line operators which can also be used as additional numbering capacity for mobile operators). In Moscow, both "federal" and "local" numbers have been used in the 11-digit format since the beginning of 2011. We have entered into various agreements for the provision of local telephone numbering capacity with several local telecommunications operators in Moscow and in other regions of Russia and in Ukraine. We have also built our own local networks in certain cities within Russia (including Moscow) to provide local telephone numbering capacity to our subscribers. Federal telephone numbering capacity is allocated by the government and we provide interconnect services to other operators in all regions of Russia. Our fixed line zonal and local networks in Russia are interconnected with other operators. Zonal/local interconnect typically entails payment of a one-time connection fee per point of interconnect (E1) and a usage charge based on minutes of traffic. Operators with a Substantial Market Power may also charge a guarantee monthly usage fee in case traffic is less than 30 kmin per E1.

The Ministry of Communications and Mass Media has allocated special numbering codes for federal 11-digit telephone numbers on a non-geographical basis to all the cellular operators. We believe that sufficient numbering capacity has been allocated to us for the development of our network. However, a combination of regulatory, technological and financial factors has led to the limited availability of local 7-digit telephone numbering capacity in Moscow and the Moscow region. Moscow's "495" code and the Moscow region's "496" code have already reached numbering capacity limits. As a result, the new "499" code was introduced in order to increase the Moscow numbering capacity, the

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"498" code was introduced to increase Moscow region numbering capacity and since 2011 "local" numbers have been used in Moscow in 11-digit format.

To meet subscriber's demand and provide for an adequate inventory of numbering capacity, we previously entered into contracts with local fixed line providers for allocation of numbering capacity to us. However, the Ministry of Communications and Mass Media subsequently took the view that numbering capacity assigned to one operator could not be rented to other operators. Accordingly, we have entered into arrangements whereby fixed line operators make their numbers available to our subscribers via agency contracts between the subscribers and us acting on behalf of such fixed line operators. Our right to use numbering capacity ranges from five years to an unlimited period of time. As a result of our merger with Comstar, we have decreased the use of local numbering capacity of other operators. As of December 31, 2016, we had numbering capacity (federal and local) for approximately 34.26 million subscribers in the Moscow license area.

To provide our subscribers in Russia with DLD/ILD services, we have interconnect agreements with national operators Rostelecom, MTT (an affiliate of Sistema until March 18, 2009), VimpelCom and other national transit operators. We have also built and operate our own DLD/ILD network, which allows us to interconnect directly to foreign operators and thereby decrease our interconnect costs. Most interconnect fees for connecting users of other operators' fixed line and wireless networks to our network are based on a one-time connection fee and usage by minute which varies depending on the destination called.

Russian legislation provides that fixed line operators with a substantial market power cannot refuse to provide interconnect or discriminate against one operator in relation to another, and the interconnect rates of operators with a Substantial Market Power are regulated by the government. See "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in the Russian Federation Competition, Interconnect and Pricing" and "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues and margins."

Interconnect and traffic transit between the networks of mobile operators in Russia occurs through direct channels connecting the switches of the different mobile operators within the same city; through the network of transit long distance operators, which connect the networks of different mobile operators in different cities or through our own DLD/ILD network. For domestic long distance traffic transit we use our DLD/ILD network and networks of different national operators, including among others: MTT, Rostelecom and VimpelCom. For ILD traffic transit we primarily use our DLD/ILD network which is interconnected with 40 international carriers. We also have an interconnect between the DLD/ILD MTS network and the ILD networks of our subsidiaries, MTS Ukraine and K-Telecom, in order to provide transit for international traffic.

In Ukraine, mobile operators are allocated numbering capacity by the NCCIR (National Commission for the State Regulation of Communications and Informatization). We believe that sufficient numbering capacity has been allocated to us in Ukraine for the development of our mobile network. We also believe that we have been allocated sufficient fixed line numbering capacity with respect to the cities in which we are developing our fixed line networks.

Handsets

Nearly all of our handset sales consist of tri-band GSM 900/1800/1900 and dual-band UMTS 900/2100 handsets, except for certain models in the low cost segment and touch-phones. These handsets, which function in the GSM 900, GSM 1800 and PCS-1900 standards, provide users with greater automatic roaming possibilities in Russia, Europe, the United States and Canada. In 2013, we

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launched LTE 800 and LTE 2600. In 2014, we launched LTE 1800 and activated current functionality in LTE devices. After network upgrade to DC-HSPA (43,2 Mb/s) all HSPA+ & DC- HSPA devices in the network increase their working speeds.

From 2009, RTC, our wholly-owned subsidiary, started handling all functions relating to our retail operations, including the purchase and sale of handsets and accessories and subscriber enrollment at our retail outlets. RTC has entered into arrangements with Sony, Microsoft, Samsung, HTC, Alcatel, Fly, Philips, Huawei, ZTE and others to purchase handsets. In 2015, we continued our cooperation with A-brand smartphone vendors. We also offer an array of mobile telephone accessories. Since 2009 we have been successfully selling MTS branded phones and since 2015 our main focus of MTS branded devices are LTE smartphones.

Fixed Line Services

We offer fixed line communications services in over 185 cities across Russia, covering a population of over 53 million people.

Our Moscow fixed line operations incompass communications services provided through incumbent operator MGTS. Through MGTS, we own "last mile" access to approximately 3.9 million households in Moscow, excluding territory of New Moscow, representing approximately 95% of the overall number of households according to our estimates. MGTS provides regulated and unregulated services, including:

- local and zonal telephony services at tariffs regulated by the Russian government;
- DLD/ILD voice telephony through licensed operators;
- MVNO mobile telephony and Internet;
- Internet services;
- pay-TV services;
- video-surveillance;
- alarm signaling;
- interconnect and rent data channels to other operators;
- rent of fixed line infrastructure; and
- internet and data transmission services and numbering capacity to subscribers of other communications operators through agency agreements concluded with such operators.

Our other fixed line operations include the following communications services: voice, data and Internet and pay-TV services for corporate and residential subscribers, as well as the provision of interconnect services to other communications operators and numbering capacity to their subscribers. Based on TMT Consulting data, as of December 31, 2016, we are the largest operator in the Moscow residential broadband market in terms of subscribers, with a 32% market share. We also operate in Ukraine and Armenia, where we provide digital telephony communications services, data transmission, Internet access and the renting of channels. For a list of the telecommunications licenses held by us, see "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Licenses."

Customers and Services Offered Moscow Fixed Line Operations

We provide fixed line communications services through our subsidiary, MGTS, which is the incumbent fixed line PSTN operator in Moscow. MGTS owns Moscow's PSTN infrastructure, including switches, a transmission network, underground ducts, and owns or holds leases to properties housing its offices and equipment.

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As of December 31, 2016, MGTS had approximately 3,8 million active lines in service, a cable network of over 92,449 km, a fiber optic network of over 39,374 km and 2,250 payphones. Currently, MGTS has focused its efforts on the deployment of GPON, IP/MPLS technologies and an IMS core. The old SDH equipment is being removed which results in the decreased number of E1 streams, a reduction in the copper network and the respective extension of the fiber- optic network. MGTS also develops new services for IP TV, and MVNO as the convergent service for mobile and fixed telephony.

The total installed capacity of the telephone network reached 3.7 million numbers on the TDM area (Time Division Multiplexing) and 5.18 million numbers on the IMS area (IP Multimedia Subsystem) as of December 31, 2016.

Residential subscribers accounted for approximately 83% of MGTS' total lines, corporates for 9% and public sector subscribers for 8%, as of December 31, 2016.

MGTS holds licenses and regulatory approvals to provide, among others, the following services:

- local telephony;
- DLD/ILD voice telephony through licensed DLD/ILD operators, including us;
- interconnect to other operators;
- Internet and data transmission, including leased DLD/ILD services;
- IP TV for B2C and B2B subscribers;
- MVNO mobile telephony and Internet;
- inquiry and information, including telephone directories;
- local telephony with use of payphones;
- telematic communications services;
- telecommunications services associated with providing of communication channel;
- telecommunications services associated with voice data transmission;
- telecommunications services associated with cablecasting;
- movable radiotelephony services; and
- measures and (or) services for the protection of State secrets.

As the only licensed PSTN operator in Moscow, MGTS is considered a natural monopoly under Russian antimonopoly regulations. Consequently, substantial part of services provided by MGTS are subject to governmental regulation. The Federal Antimonopoly Service of the Russian Federation regulates MGTS' tariffs for voice telephony services provided to its PSTN subscribers, including monthly subscription fees, installation fees and local call charges. Revenues from regulated services are accounted for approximately 49% of service operating revenues of our Moscow fixed line operations in 2016, 51% in 2015 and 54% in 2014. The percentage decline is connected with gradual growth of operating revenues from non-regulated services as a proportion of the overall operating revenues in 2016, 2015 and 2014. The Federal Antimonopoly Service of the Russian Federation sets the tariffs MGTS can charge taking into account cost of services, network investment and a certain profit margin, and the current tariffs fully compensate MGTS for the cost of services provided to residential and government subscribers. According to Russian legislation, MGTS is allowed to petition the Federal Antimonopoly Service of the Russian Federation for tariff increases upon certain conditions, such as inflation or increases in the cost of services. Historically, MGTS has petitioned the relevant Russian government agency for tariff increases once or twice per year. The Federal Antimonopoly Service of the Russian Federation has permitted MGTS to increase its tariffs several times. MGTS also provides a

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number of unregulated services. According to Russian legislation, DLD/ILD services provided by licensed non-monopoly operators, data transmission services, value-added services and a number of other services are not subject to tariff regulation. Among others, MGTS provides the following unregulated services:

- various value-added services, including call forwarding, call waiting, call holding, caller ID, provision of second direct inward dialing (DID) number;
- Internet access for residential subscribers and corporates;
- IP TV for B2C and B2B subscribers;
- MVNO mobile telephony and Internet;
- alarm signaling;
- domestic maintenance services, including electric installation, sanitary engineering, cleaning, computer emergency, and consumer electronics installation;
- video-surveillance; and
- rent of space for telecommunications equipment of other operators connected to MGTS' network.

MGTS does not have license to provide DLD/ILD communications services directly to its subscribers but must route such traffic through a licensed DLD/ILD operator. As a result, DLD/ILD traffic originated by MGTS subscribers is carried either by us, with these services included in MGTS' monthly bill, or by other providers of DLD/ILD services, who bill MGTS subscribers directly or pay MGTS an agency fee for processing their bills.

The following table presents certain operating data for our Moscow fixed line operations as of and for the years ended December 31, 2015 and 2016.

Moscow fixed line operations	**December 31, 2015**	**December 31, 2016**
Installed telephone lines on TDM (000s)[1]	4,264	3,731
Installed telephone lines on IMS (000s)[1]	5,180	5,180
Residential		
Number of subscribers (000s)	3,276	3,148
CPP traffic (millions of minutes)	722	526
ARPU (RUB)	443	466
Corporate[2]		
Number of active lines (000s)	691	654
Number of subscribers (000s)	81	79
CPP traffic (millions of minutes)	455	369
ARPU (RUB)	11,817	11,559

(1) Telephone lines on TDM and IMS can be installed at one household.

(2) Includes state-owned enterprises and government agencies.

MGTS' subscriber segments and the services provided to each subscriber segment are further described below.

Residential and corporate subscribers

MGTS provides basic regulated voice services to residential and corporate subscribers using its PSTN facilities and copper or optical "last mile" access. Tariffs for these services are established by the Federal Antimonopoly Service of the Russian Federation.

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In addition to basic voice services, MGTS provides its residential and corporate subscribers with digital telecommunications services, Internet, IP TV, MVNO mobile telephony and Internet and VPN deployment services, rental of high-speed communication channels, intelligent voice and various other services.

The following table illustrates MGTS' regulated tariff development in the period from March 1, 2013, to March 1, 2017:

MGTS Regulated Tariffs	March 1, 2013	March 1, 2014	March 1, 2015	March 1, 2016	March 1, 2017
Residential[1]					
Line rental					
RUB per month	205	205	205	205	205
Per minute tariff plan local connection fee					
RUB per minute	0.48	0.54	0.54	0.60	0.60
Unlimited tariff plan connection fee (unlimited connection)					
RUB per month	276	282	282	294	294
Combined tariff plan fee for fixed amount of minutes[2]					
RUB per month	184	205	205	224	224
Combined tariff plan fee for each additional minute					
RUB per minute	0.46	0.52	0.52	0.58	0.58
Corporate (non-governmental)[1]					
Line rental (USD per month)					
RUB per month	220	220	220	220	220
Per minute tariff plan local connection fee					
RUB per minute	0.48	0.54	0.54	0.60	0.60
Unlimited tariff plan connection fee (unlimited connection)					
RUB per month	385	391	391	416	416
Combined tariff plan fee for fixed amount of minutes[2]					
RUB per month	184	205	205	224	224
Combined tariff plan fee for each additional minute					
RUB per minute	0.46	0.52	0.52	0.58	0.58
Corporate (governmental and state-funded organizations)[1]					
Line rental					
RUB per month	215	215	215	215	215
Per minute tariff plan local connection fee					
RUB per minute	0.48	0.54	0.54	0.60	0.60
Unlimited tariff plan connection fee (unlimited connection)					
RUB per month	385	391	391	416	416
Combined tariff plan fee for fixed amount of minutes[2]					
RUB per month	184	205	205	224	224
Combined tariff plan fee for each additional minute					
RUB per minute	0.46	0.52	0.52	0.58	0.58

(1) Tariffs for residential subscribers are shown including VAT; tariffs for non-governmental corporate subscribers and governmental/state-funded organizations are shown excluding VAT.

(2) This plan included 400 minutes per month.

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Operators

MGTS provides interconnect, traffic transmission and leased line services to other communications operators. Interconnect is carried out on the local and zonal levels in accordance with terms and conditions that are publicly disclosed. MGTS also provides additional services to operators interconnecting to MGTS' network, including access to emergency service, information and customer care numbers.

MGTS has also established an active presence in the data transmission market. Through its PDTN, MGTS can establish VPNs for other operators as well as provide other data network services. Operators can also rent space and utility systems from MGTS to house their network equipment.

Customers and Services Offered Other Fixed Line Operations

We provide fixed line communications services to corporate, operator and residential subscribers in over 185 cities throughout Russia. Specifically, we offer local voice, DLD/ILD voice, data and Internet and pay-TV services to our subscribers. Some of the interconnect tariffs we charge other telecommunications operators for in Moscow and certain other cities are regulated by the Russian government. We believe our fixed line subscribers typically evaluate our service and product offerings based on such factors as price, technology, security, reliability and customer service.

The following table presents certain operating data for our other fixed line operations in Russia as of and for the years ended December 31, 2015 and 2016.

Other fixed line operations	**December 31, 2015**	**December 31, 2016**
Residential		
Number of subscribers (000s)[1]	3,283	3,006
ARPU (RUB)	290	321
Corporate[2]		
Number of subscribers (000s)	134	134
ARPU (RUB)	4,920	4,759

(1) Subscribers to broadband Internet, pay-TV, Wi- Max, voice and other services.

(2) Includes state-owned enterprises and government agencies.

Corporate subscribers

We target corporate subscribers covering a range of industries, such as business centers, hotels, financial institutions, professional services firms, consumer goods companies, manufacturers and companies involved in extractive industries, among others. These subscribers vary in size, ranging from large multinational and Russian corporations with thousands of employees to small-and medium-sized enterprises with up to several hundred employees. As of December 31, 2016, we had approximately 44,000 voice and 74,000 Internet corporate subscribers.

As further described below, we offer voice, data transmission and Internet and various value-added services to our corporate subscribers.

Voice Services. We provide a full range of other fixed line voice services to corporates in Moscow, the Moscow region and other selected regions of Russia, which include local, zonal, and DLD/ILD services using our transmission network and leased capacity between major Russian cities. We also provide integrated voice and data services, voice over frame relay and certain integrated services digital network ("ISDN") services.

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Data Transmission and Internet Services. We offer high quality data transmission services to corporates, which allow for data exchange between their various branches or offices located within Russia and internationally. For data transmission services, our network is capable of transferring data at speeds of up to 10 Gbps and utilizes various technologies, such as 10 GE, GE, ATM, TDM, VPN-MPLS/VPLS, GPON, Microwave radio relay (MRR), xDSL, LTE and Wi-Fi to provide high quality solutions at a relatively low cost. We endeavor to ensure the reliability of network connections by utilizing a full reservation approach to back up all elements of the network.

In addition, we offer a wide range of Internet services to corporates, including broadband Internet access, VoIP, VPNs and data center services using the following technologies: (1) NGN (up to 10 Gbps), (2) GPON (up to 1 Gbps), (3) xDSL (up to 100 Mbps), (4) radio Ethernet (up to 300 Mbps), (5) MRR (up to 1 Gbps), (6) Wi-Fi (up to 150 Mbps), and (7) LTE (up to 100 Mbps). We also provide continuous flexibility to upgrade their network capacity to handle additional Internet services. For example, we often integrate data transmission and Internet services for our clients as they expand their operations and need to interconnect and exchange data with newly opened offices and/or branches.

We also provide security services, such as Anti DDoS-protection and various AntiVirus solutions.

We offer a broad range of Internet packages that vary in terms of data transfer speeds and pricing, with higher tariffs for faster uploading and downloading capabilities. Corporates with GPON broadband Internet packages generally experience data transfer speeds between 1 Mbps and 1 Gbps. In addition, we offer a premium broadband Internet service over our NGN in which subscribers enjoy data transfer speeds between 1 Mbps and 10 Gbps. The NGN provides subscribers with the benefit of the same uploading and downloading data transfer speeds, whereas Internet subscribers using an xDSL/GPON connection upload at speeds that are much slower than the one at which they can download.

We also utilize MGTS' PDTN to provide high-speed reliable Internet services and create VPNs for our corporates.

Leased Channels. We provide corporate clients with the ability to rent high speed data channels. These "leased channels" are dedicated lines of data transmission.

Value-Added Services. We provide corporates with several value-added services, including Autosekretar and integrated solutions. The Autosekretar service is based on our proprietary IN and is designed to help our corporates manage the reception and servicing of a large volume of incoming calls. The unique multi- channel telephone number assigned to customers will not change even if the customer moves to a different location in Moscow, and does not require the customer to install any equipment. In addition, this service allows all incoming calls to be transferred to other fixed or mobile telephone numbers in Russia or in other countries. The IN identifies a subscriber by phone number, phone card or password, which allows our customers to bill their subscribers for services and, if necessary, block access for subscribers who have a negative balance on their account.

In addition, we serve as general contractor for the provision of a full range of integrated solutions to subscribers wishing to establish a modern integrated communications infrastructure. Each solution is customized for subscriber- specific needs. In developing these customized networks, we are able to offer the following range of services: site survey, cost analysis and optimum project planning, assistance with government-related documentation, supply of equipment and operational, technical and maintenance support on an ongoing basis. Once the infrastructure is established or renovated, as the case may be, we typically provide digital voice communications, voice intelligent services, high-speed Internet services, videoconferencing and other data transmission services. We intend to expand our service offerings to include customer premises management and network-centric IT solutions.

Fixed mobile convergence. Based on our fixed and mobile networks, we offer fixed-to-mobile convergence services to corporate clients providing use of their mobile phone as an extension of their

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private branch exchange ("PBX"). We also provide access to corporate IP-networks from a mobile phone via GPRS/EDGE/3G/4G.

Equipment Sales. We offer and sell equipment manufactured by different manufacturers.

Operators

We are the largest mobile operator in Russia in terms of subscribers, according to AC&M-Consulting. We also operate fixed-line local and zonal networks in Moscow and other cities for provision of telephony services to fixed-line subscribers and additional local numbers to mobile subscribers. In order to lower the costs of intercity and international traffic transition, we put into operation an intercity international network in December 2008.

According to our estimates, together with MGTS, we had approximately 77% of the total active numbering capacity in Moscow as of December 31, 2016. We now have approximately 204 local fixed nodes in 62 regions of Russia, including Moscow, and 40 zonal fixed networks to provide telephony services to subscribers. Our integrated intercity/international network is interconnected to more than 60 international operators. As of December 31, 2016, we had total more than 1,680 interconnect agreements with national and international operators for interconnection of our networks, including fixed, mobile and Intercity/International networks.

Residential subscribers

We offer voice, Internet and pay-TV services to residential subscribers.

Voice Services. We provide voice services to residential and corporate subscribers. Like corporate subscribers, residential subscribers in each of the regions that we are present in seek a full range of high quality voice services equivalent to those provided in Western Europe. In addition to "basic" voice telephony services, we provide a number of additional services, such as call forwarding, call transferring, call waiting, conference, voicemail and Caller ID, among others.

Internet Services. We offer broadband Internet services to residential subscribers throughout Russia. As of December 31, 2016, we had 9% market share in the Russian Federation together with Moscow where we had a 32% share, based on TMT Consulting data. Depending on the Internet connection speed, we charge residential subscribers a subscription fee of RUB 300-RUB 1,600 per month in Moscow and a subscription fee of RUB 300-RUB 1,900 in other regions of Russia. We do not charge a connection fee in Moscow and in most of the Russian regions.

Pay-TV. We operate a TV service based on IPTV service over ADSL and GPON technologies in Moscow. In addition, we offer pay-TV services based on DVB-C (digital television via cable connection), analog cable transmission and MMDS (wireless cable) technologies in most of the regions in which we are present. Since November 2013, we connect our subscribers only to the TV with digital quality. Special auxiliary equipment (set-top box) allows pay-TV subscribers to access more than 170 channels of digital quality, including 40 channels of HD quality from a home television. International and Russian channels are included as part of the base services package.

Our pricing structure is designed to appeal to large numbers of consumers with various interests and purchasing power, and varies significantly between regions. We charge a subscription fee of RUB 100-RUB 1,341 per month in Moscow and a subscription fee of up to RUB 150-RUB 400 in other regions of Russia, depending on the number of channels included in the package. We also offer bundled Internet and pay-TV services for RUB 400-RUB 1,700 per month in Moscow and RUB 450- RUB 2,100 in certain other regions of Russia, depending on the speed of the Internet connection, the number of pay-TV channels being provided and level of competition in a particular region.

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Sales and Marketing

Moscow fixed line operations

In light of modernization and re-equipment of network to GPON technology, MGTS shifted its main focus to the growth of GPON-based services penetration and subscriber loyalty increase. To accomplish this task MGTS launched a number of convergent tariff packages with high-speed fixed and mobile internet, implemented the first own loyalty program and extended video surveillance services. In order to increase ARPU and retain subscribers MGTS introduced the contractual tariff, which includes Internet access and voice for 700 RUR and smartphone Samsung Galaxy J120 for 1 RUR per month. Besides the traditional telecom services MGTS has started the provision of household services, highlighting this area as a separate business.

By the end of 2016, 1.7 million subscribers were transferred to GPON. In 2017, MGTS will continue its strategy of transformation into the multi-service operator, who provides traditional telecom and innovative Internet-based services

Other fixed line operations

Our target customers include corporate, operator and residential subscribers.

To promote our product and service offerings, we use various communication channels for advertising and marketing, including direct marketing, printed mass media, television, Internet, radio, directories, outdoor advertising, advertising in the subway, special promotions and cross promotions. Through these various advertising and marketing channels, we intend to further develop our brand recognition. Our marketing strategy is designed to create a unified brand for each of our various product and service offerings with the aim of becoming a single source for all of our subscribers' communications needs.

We also actively promote our services to existing subscribers with special bundled product offerings aimed at servicing their communication requirements and enhancing subscriber loyalty. Our advertising and marketing materials are aimed primarily at the promotion of MTS brand. All fixed-line products are offered and marketed under this brand. However, when we enter new markets and acquire existing companies, we have to use both brands in advertising MTS brand and the acquired brand. This is done to decrease churn as customers tend to express strong loyalty towards local brands. We then gradually decrease presence of the acquired brand and this allows us to make MTS a market leader in a given region in future. Our advertising and marketing efforts are designed to convey a positive image of us to the market as a leading communications operator focused on customer satisfaction.

Competition

We compete with a number of fixed line telecommunications operators servicing Moscow, St. Petersburg and other major Russian cities. Moscow is the largest and most competitive of these markets. Our primary competitors include:

VimpelCom, which is also one of our primary competitors in the Russian mobile communications market, offers voice, data and Internet services to corporates, operators and residential subscribers in major cities throughout Russia, Ukraine, Kazakhstan and Uzbekistan. We compete with VimpelCom in the corporate, operator and residential fixed line telecommunications markets in Moscow and in certain other regions of Russia where we are present, including, among others, St. Petersburg, Rostov, Nizhny Novgorod, Ekaterinburg and Krasnodar.

Rostelecom, Russia's largest national fixed line telecommunications operator with presence in all Russian regions. We compete with Rostelecom in the corporate, operator and residential fixed

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line telecommunications markets in all regions where we operate in Russia. We also compete with Rostelecom in the mobile telecommunications market.

Akado Group, provider of pay-TV, broadband Internet and digital telephony in Moscow. We compete with the Akado Group primarily in the residential fixed line telecommunications markets in Moscow and Ekaterinburg.

MegaFon, which acquired operators Synterra and Net-by-Net, and offers services in the operator, corporate and residential fixed line telecommunications markets in Moscow, St.-Petersburg, and other regions.

Er-Telecom, voice telephony, broadband and TV operator. We compete with Er-Telecom in the corporate and residential fixed line telecommunications market in St.-Petersburg, Novosibirsk, Omsk, N.Novgorod, Ekaterinburg, Kazan, Novosibirsk, Chelyabinsk and other regions.

Corporate subscribers

The following table sets forth the corporate subscriber market shares of the primary fixed line operators in Moscow as of December 31, 2016:

MTS	12%
MGTS	11%
VimpelCom	20%
Akado	7%
Rostelecom	18%
Other	32%
Total	**100%**

Source: our estimates.

In the corporate subscriber segment, we generally compete on the basis of network quality, individual and bundled service offerings, customer service, installation time, geographical presence and pricing.

Residential subscribers

Voice services

The following table sets forth the market shares of the primary fixed line operators for voice services in Russia as of December 31, 2016:

Company	**Russia**
MTS	14%
Rostelecom	69%
Other	17%
Total	**100%**

Source: TMT Consulting.

As Moscow's only PSTN operator, MGTS faces limited competition in the market for residential local telephony services in Moscow. As of December 31, 2016, MGTS provided local voice telephony services for approximately 95% of all residential subscribers in Moscow, according to TMT Consulting.

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In the other voice services market, we generally compete based on the availability of bundled packages comprising broadband Internet access and pay-TV services, value-added services, network quality, installation time and customer service.

Internet

According to TMT Consulting, as of December 31, 2016, broadband Internet penetration of households was 56% in Russia. The following table sets forth the market shares of the primary operators in the residential broadband Internet market in Russia as of December 31, 2016:

Company	Russia
MTS	9%
TTK	5%
VimpelCom	7%
Er-Telecom	10%
Rostelecom (including OJSC «National Cable Networks»)	37%
Other	32%
Total	**100%**

Source: TMT Consulting.

Pay-TV

According to TMT Consulting, as of December 31, 2016, pay-TV penetration was 73% in Russia. The following table sets forth the market shares of the primary operators in the TV market in Russia as of December 31, 2016:

Company	Russia
MTS (excluding Sputnikovoe TV)	7%
Rostelecom	23%
Tricolor TV	30%
Er-Telecom	7%
Orion Express	7%
Other	26%
Total	**100%**

Source: TMT Consulting.

In the TV market, we generally compete on the basis of pricing, channel selection and content, individual and bundled service offerings, customer service and installation time.

Tariffs

We establish prices for our unregulated services and different subscriber segments based on certain common considerations, policies and goals. For example, we generally seek to establish competitive prices based on market rates for the services we offer and below market prices when our lower-than-average costs or economies of scale allow us to do so. We also offer subscribers bundled service packages with several services offered together at a discount to the cost of ordering each individual service separately and to promote additional services to our existing subscribers. In addition, we often offer promotions to our various subscriber segments waiving or discounting installation fees in order to attract new subscribers or promote new services.

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With regard to corporates, we generally aim to derive the bulk of our operating revenues from monthly payments. Thus, depending on the scale and type of services ordered, we will often discount or waive installation fees.

For services offered to other communications service providers, we aim to generate most of our operating revenues from monthly payments and by offering an array of value-added services.

We develop tariffs for service offerings to residential subscribers with the aim of attracting new subscribers, as well as expanding the services used by existing subscribers in order to generate higher ARPU.

Network Infrastructure

Network Infrastructure Transmission Networks

Backbone and Internet Networks

Mobile, fixed and inter-carrier aggregated traffic increased in 2016: downlink (towards uses) data throughput reached 1.9 Tbps (1.1 Tbps in 2015), uplink (from uses) data throughput reached 752 Gbps (500 Gbps in 2015).

In 2016, we successfully trialed 400G technology with ECI Apollo on a line between Ekaterinburg and Novosibirsk (1500 km). Further deployment of this solution will allow us to increase effectiveness of a DWDM network usage without significant investments in the future. It also will allow to optimize network infrastructure, increase backbone network capacity if needed and reduce operational costs due to decreasing rent and electric energy costs.

The size of MTS fiber-optic networks increased by 41,000 km in 2016 and reached 213,000 km at all due to deployment of the following lines: Vologda-Kostroma-Yaroslavl, Kaluga-Bryansk, Moscow-Tver-Rzhev-Vyazma, Bratsk-Irkutsk, Orsk-Magnitogorsk, North-Urals Ring (through Nadym-Nyagan-Severouralsk-Nizhny Tagil), Blagoveschensk-Novobureysky (reserve line for Blagoveschensk through China territory), Nizhny Kuranah-Olyokminsk-Lensk-Mirny. As a result of these developments, MTS nowadays owns the biggest backbone fiber-optic network among all "Big Three" operators.

Additionally, in 2016 the following network upgrade and modernization projects were held:

- Reserving existing Saint Petersburg Helsinki line (FICIX) (100% reserve with 2 independent routes), this line handles data traffic to Europe and North America;

- Modernization of Frankfurt on the Main (DE-CIX) and Amsterdam (AMS-IX) backbone nodes.

In 2016, Backbone and Internet Network Competence Center was established in Novosibirsk, the main task of the Center is to control X-ring networks, which carry data traffic from the MBH equipment to PC Core of regions.

Convergent network

According to deployment plans following projects were executed in 2016:

- New MBH nodes were deployed: 1,872; replacement of obsoleted MBH equipment is ongoing.

- Micro wave links were deployed: 2,966; according to transport network strategy evolution unlicensed in Russia E-band micro wave link was used for linking base stations (1 Gbps and above), E-band link share increased from 3.5% to 11.5% in 2016, E-band share among other technologies will rise in 2017. 10 Gbps E-band equipment trials were held in 2016, first network deployments are planned in 2017.

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We are negotiating launch of the shared network deployment and links interchange projects with other operators and has signed the memorandum of understanding with respect to the potential projects. Memorandum defines a list of directions (parts of fiber-optic communication links) which are mutually interesting for both participants. Summarized length of provided communication links is approximately equal on both sides.

Management and monitoring systems virtualization is ongoing. Unified system for link facilities based on GE Small World solution in test mode launched in 2016. The start of a commercial operation is planned for 2017.

As a part of evolution of IPBB (IP Backbone) network equipment modernization is ongoing. The projects assumes replacement Cisco 7600 nodes for ASR9000 nodes due to an end of a support of 7600 nodes.

In 2017 we are planning to implement SDH networks dismantling projects and to transfer a data traffic to MBH and DWDM networks.

Satellite Network

In accordance with MTS deployment strategy we aquired backbone and intra-regional networks for reducing satellite lines rent costs following terrestrial satellite communication stations networks were deployed:

Backbone satellite network for servicing Siberia and Far East areas that have no ground backbone links.

Intra-regional VSAT networks for base stations linking located in remote areas of 8 regions in Siberia and Far East. By the end of 2016 107 VSAT stations were deployed. Magadan oblast VSAT network is planned to be deployed.

Public Switching Telephone networks (PSTN)

The network infrastructure we maintain in Moscow is substantially different to the infrastructures we use in the regions. In Moscow, primarily we have organically grown, while our regional development has largely been through the acquisition of companies with different business models and a focus on different services. As a result, the network infrastructures in the regions outside Moscow and the technologies used to support such infrastructures are different from the network infrastructure established in Moscow and which we currently own. Now telephone network in Moscow and Moscow region has a capacity of more than 1,000,000 telephone numbers.

As of December 31, 2016, in Moscow and the Moscow region we have a wireless broadband network included 500 base and subscriber stations in the 5-6 GHz frequency band.

All of our PSTN switching centers (TDM and Soft switch) are connected to a digital transport network, which uses SDH and IP technology. The network ensures connectivity with a digital equipment of PSTNs of other operators.

The SDH network will be supported and operated as support to existing clients,but we also provide the moving traffic and clients from SDH/TDM technology to IP.

The management of the transport network and digital PSTN is carried out remotely from network operation centers.

For the provision of Internet access, IP-telephony and other services, we have our own IP network, the core of which is constructed as IP MPLS rings with routers connected to each other by means of 10 GE channels. In addition, separate routers are used for inter-carrier connections and are connected to the core routers by means of 10 GE interfaces.

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Russian regions

As of December 31, 2016 we provided cable Internet access to about 9.1 million households and cable TV access to 9.73 million households. Among the access equipment used are Ethernet switches, IP DSLAM and Optical Receivers. We mainly use FTTB technology for Internet (8,4 million households) and CATV access, which can provide speeds up to 1 Gb/s per building and about 250 channels CATV (analog and digital). In 2011, we started to roll-out DVB-C technology for a cable TV service. Currently, we have digital TV service (DVB-C&DVB-S2) in 187 cities and localities with 2.1 million of subscribers. In 2014, we started to roll-out an advanced hybrid TV service (DVBC/DVB-S2/IPTV+IP/VOD, CatchUp). By December 2016, we launched Hybrid TV platform with a IPTV commercial service in Moscow and Moscow Region (MGTS), DVB-C/IP Hybrid commercial service in 30 regional cities and DVB-S2/IP Hybrid commercial service all over Russia. Total number of connected hybrid TV users is about 0.3 million. In 2015, we also completed "TV Everywhere" project, which provided integration between platforms of mobile and fixed cable TV in regions in terms of cross-functional tariff proposal. We plan to finalize roll-out of DVB-C/IP Hybrid solution with target up to 90 regional cities connected to the service and to launch first set of upgrades to the product including further extension of VoD and external interactive services together with different Internet partners (Platbox, Wikipedia etc.) in the second quarter of 2017. In 2017 we are also panning to continue natural OTT pilot project for fixed and mobile devices merging current services of mobile and fixed digital TV in one TV product and further development of Digital TV and Hybrid solutions with second set of commercial upgrades, 4K/HEVC launch, as well as extending set of services available on STBs by moving into application-oriented architecture of client SW using Android OS.

In Moscow and regions as an Internet traffic supplier, we mainly use MTS own IP Backbone network described in the "transport network" section.

The acquisition of Comstar provided us with an opportunity to use MTS fiber optic lines for fixed network development. Optical network construction in cities is carried out on the basis of fixed and mobile business needs. When we modernize and construct new networks, we deploy fixed and mobile equipment on the basis of "collocation" method

Principal suppliers

Our principal suppliers are: NVision Group, subsidiary of the Group and integrator; Huawei, Iscratel, Oracle PSTN switching equipment and SBC; Ericsson, Garmonica, Cisco Systems equipment of Digital TV station; Irdeto, Verimatrix CAS TV systems; Ericsson Hybrid TV platform; Cisco Systems, Huawei, D-Link FTTB core and access; Juniper Networks, Huawei, ECI Telecom, Tellabs and Alcatel Lucent for a transport network equipment.

All of our equipment is supplied directly through authorized dealers

Seasonality

Our results of operations are impacted by certain seasonal trends. Generally, revenue is higher during the second and third quarter due to increased mobile phone use by subscribers who travel in the summer from urban areas to more rural areas where fixed line penetration is relatively low, as well as an increase in roaming revenues and guest roaming revenues during these quarters. Quarterly trends can also be influenced by a number of factors, including new marketing campaigns and promotions, and may not be consistent from year to year.

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Regulation of Telecommunications in the Russian Federation and Ukraine

Regulation in the Russian Federation

In the Russian Federation, the federal government regulates telecommunications services. The principal law regulating telecommunications in the Russian Federation is the Federal Law on Communications, which provides, among other elements, for the following:

- licensing of telecommunications services;
- requirements for obtaining a radio frequency allocation;
- equipment certification;
- equal rights for individuals and legal entities, including foreign individuals and legal entities, to offer telecommunications services;
- fair competition;
- freedom of pricing other than pricing by companies with a substantial position in public telecommunication networks; and
- liability for violations of Russian legislation on telecommunications.

The Federal Law on Communications came into force on January 1, 2004, and replaced the law of 1995 regulating the same subject matter. The Federal Law on Communications creates a framework in which government authorities may enact specific regulations. Regulations enacted under the legislative framework in place prior to the enactment of the Federal Law on Communications continue to be applied to the extent they do not conflict with the Federal Law on Communications. The lack of interpretive guidance from the regulatory authorities regarding the new regulations and the uncertainty surrounding their compatibility with the regulations still in effect impedes our ability to assess effectively the full impact of the new regulations under the Federal Law on Communications on our business.

The Federal Law on Communications, which confers broad powers to the state to regulate the communications industry, including the allocation of frequencies, the establishment of fees for frequency use and the allocation and revocation of numbering capacity, significantly modifies the system of government regulation of the provision of communications services in Russia. In particular, licenses to provide communications services in territories where frequency and numbering capacity are limited may be issued only on the basis of a tender, whereas according to the Government Decree No. 480 dated May 24, 2014, licenses to provide communication services with frequency spectrum only on auction basis. In addition, the Federal Law on Communications provides for the establishment of a "universal services reserve fund" which is funded by a levy imposed on all operators of public networks, including us.

Regulatory Authorities

The Russian telecommunications industry is regulated by several governmental agencies. These agencies form a complex, multi-tier system of regulation that resulted, in part, from the implementation of the Federal Law on Communications, as well as from the large-scale restructuring of the Russian government in March 2004 and subsequent restructuring in May 2008. The system of regulation is still evolving and further changes are expected. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Countries of Operation Political and Social Risks Political and governmental instability in Russia and other countries of our operations could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

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The Ministry of Communications and Mass Media is the federal executive body that develops and supervises the implementation of governmental policy in the area of communications and coordinates and controls the activities of its subordinate agencies. The Ministry has the authority to issue certain regulations implementing the federal law on communications and other federal laws.

The Federal Service for Supervision of Communications, Information Technologies and Mass Media is a federal executive body that supervises and controls certain areas of communications and information technologies, including:

- the issuance of licenses and permissions in the area of communications and information technologies;
- the registration of radio-electronic and high-frequency equipment;
- the assignment of radio frequencies based on decisions taken by the State Radio Frequencies Commission and registration of such assignments;
- the technical supervision of networks and network equipment throughout Russia;
- the monitoring of compliance by network operators with applicable regulations, terms of their licenses and terms of the use of frequencies allocated and assigned to them;
- the enforcement of equipment certification requirements;
- the examination of electromagnetic compatibility of equipment with existing civil radio-electronic equipment;
- the organization of tenders with respect to licenses in the sphere of communications;
- the control of activity in processing of personal data; and
- creation, building and maintenance of a unified automated information system Unified Register of Domain Names, Internet Website Page Locators and Network Addresses which Allow to Identify Internet Websites Containing Information Prohibited for Distribution in the Russian Federation.

The Federal Communications Agency is a federal executive body that implements governmental policy, manages state property and provides public services in the area of communications, including the allocation of numbering capacity and the certification of equipment for compliance with technical requirements.

The State Radio Frequencies Commission is an inter-agency coordination body acting under the Ministry of Communications and Mass Media which is responsible for the regulation of the radio frequency spectrum, develops long-term policy for frequency allocation in the Russian Federation and decides on the allocation of frequency bands.

The Federal Antimonopoly Service (FAS) is a federal executive body that supervises competition regulations and enforces the Federal Law on Protection of Competition and the Federal Law on Natural Monopolies and the regulations enacted thereunder. FAS controls certain activity of natural monopolies, including monitoring their execution of certain obligatory contracts, and can issue mandatory orders as provided for in the Federal Law on Natural Monopolies. In addition, FAS regulates certain tariffs in the sphere of telecommunications, including the tariffs on the local, intra zone and DLD calls by subscribers of public switched telephone networks and installation and subscription fees.

Other regulatory authorities. The Federal Service for the Oversight of Consumer Protection and Welfare is responsible for the enforcement of sanitary regulations, including some authority over the location of telecommunications equipment, and supervises the compliance of companies with the

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regulations relating to the protection of consumer rights. The Federal Service for State Registration, Cadastre and Cartography is responsible for registering certain telecommunications infrastructure that is considered real property in accordance with Government Decree No. 68 dated February 11, 2005. The Federal Service for Financial Monitoring (Rosfinmonitoring) is a federal executive body responsible for countering money laundering and terrorism financing. Mobile operators are to comply with Federal Law No. 115-FZ dated August 7, 2001 "On combating money laundering and terrorist financing."

Licensing of Telecommunications Services and Radio Frequency Allocation

Telecommunications licenses are issued based on the Federal Law on Communications and Government Decree No. 480 dated May 24, 2014 on Bidding Process (Auctions, Tenders) for Receipt of Telecommunications License. Under these regulations, licenses may be issued and renewed for periods ranging from three to twenty-five years. Several different licenses to conduct different communication services may be issued to one entity. Provided the licensee has conducted its activities in accordance with the applicable law and terms of the license, renewals may be obtained upon application to the Federal Service for Supervision of Communications, Information Technologies and Mass Media. Officials of the Federal Service for Supervision of Communications, Information Technologies and Mass Media have broad discretion with respect to both issuance and renewal procedures.

A company must complete a multi-stage process before the commercial launch of its communications network. A company must:

- receive a license from the Federal Service for Supervision of Communications, Information Technologies and Mass Media to provide communications services;

- obtain approval to use specific frequencies within the specified band from the State Radio Frequencies Commission if providing wireless telecommunications services; and

- obtain permission from the Federal Service for Supervision of Communications, Information Technologies and Mass Media for network operations. To receive this permission, a wireless telecommunications services provider must develop a frequency assignment and site plan, which is then reviewed and certified by the Federal Service for Supervision of Communications, Information Technologies and Mass Media for electromagnetic compatibility of the proposed cellular network with other radio equipment operating in the license area. The Federal Service for Supervision of Communications, Information Technologies and Mass Media has discretion to modify this plan, if necessary, to ensure such compatibility. Effective January 1, 2004, licenses may be transferred in case of mergers or other reorganizations of the licensee upon application by a transferee as a new license holder. Additionally, the Ministry of Communications and Mass Media has declared that agreements on the provision of telecommunications services must be concluded and performed by the license holder.

If the terms of a license are not fulfilled or the service provider violates applicable legislation, the license may be suspended or terminated. Licenses may be suspended for various reasons, including:

- detection of violations which may cause damage to rights, interests, life or health of individuals or to interests of government administration including, but not limited to, presidential and government telecommunication networks, defense, security and protection of legal order in the Russian Federation;

- annulment of a frequency allocation if it results in the inability to render communications services;

- failure in a timely requirements of the licensing authority, which commits to eliminate detected violations, including provisions that had been granted under reprimand to suspend the license.

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In addition, licenses may be terminated for various reasons by a court, including:

- failure to remedy in a timely manner a violation that led to the suspension of the license;
- provision of inaccurate information in documents on the basis of which a license was issued; and
- failure to fulfill obligations undertaken in the process of a tender or auction.

The license may also be terminated by the Federal Service for Supervision of Communications, Information Technologies and Mass Media in a number of cases, including liquidation of a license holder. A suspension or termination of a license may be appealed in court.

Frequencies are allocated for a maximum term of ten years, which may be extended upon the application of a frequency user. Under the Federal Law on Communications, frequency allocations may be changed for purposes of state management, defense, security and protection of legal order in the Russian Federation with the license holder to be compensated for related losses. Further, frequency allocations may be suspended or terminated for a number of reasons, including failure to comply with the conditions on which the frequency was allocated.

The following one-time license fee is payable irrespective of the number of regions covered by the license: RUB 7,500 for services involving, among other things, the use of a frequency spectrum and the lease of communication channels. The license fee for a license received through a tender or auction is determined by the terms of such tender or auction.

Furthermore, the Federal Law on Communications provides for the establishment of a "universal services reserve fund" for the purpose of supporting communications companies operating in less developed regions of Russia through the financing, construction and maintenance of telecommunications networks in low-profit and unprofitable sectors. This reserve fund is aimed at eliminating the practice of cross-subsidies by compensating operators for certain mandatory, loss-making local services in rural and sparsely populated areas. It is funded by a levy imposed on all operators of public networks, including us, in the amount of 1.2% of revenues from telecommunications services less the amount of taxes paid by subscribers. The universal service fund concept has been used in some developed countries and in Eastern Europe.

The Federal Law on Communications empowers the Russian government to determine and annually review the list of licensing requirements applicable to various communication services being licensed. The list of licensing requirements was enacted by Government Decree No. 87 dated February 18, 2005, as amended. Licenses also generally contain a number of other detailed conditions, including a date by which service must begin, technical standards and certain other terms and conditions. We have either commenced service by the applicable deadline or received an extension of the applicable deadline for all of our licenses.

Equipment Certification

Government Decree No. 532 adopted on June 25, 2009, sets forth the types of communications equipment that is subject to mandatory certification. Communications equipment must be certified, or its compliance with the established requirements must be declared and proven in the interconnected communications network of the Russian Federation, which includes all fixed line and wireless networks open to the public. All our networks must be certified. The Federal Communications Agency issues certificates of compliance with technical requirements to equipment suppliers based on the Agency's internal review. In addition, a Presidential decree requires that licenses and equipment certifications should be obtained from the Federal Security Service to design, produce, sell, use or import encryption devices. Some commonly used digital cellular telephones are designed with encryption capabilities and must be certified by the Federal Security Service.

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Further, certain high-frequency equipment, a list of which was approved by Government Decree No. 539 dated October 12, 2004 (as amended), manufactured or used in the Russian Federation, requires special permission from the Federal Service for Supervision of Communications, Information Technologies and Mass Media. Failure to receive such certification could result in the mandatory cessation of the use of such equipment. In accordance to Government Decree No. 1252 dated November 27, 2014, the equipment can be shared by operators according to their agreement and certificate of the Federal Service for Supervision of Communications, Information Technologies and Mass Media. In accordance with the Federal Law No. 204 dated June 23, 2016, the radio frequency spectrum can be shared by operators according to their agreement. In the case of shared-use of the radio frequency spectrum for the provision of telecommunications services each operator should have proper telecommunications services license.

Competition, Interconnect and Pricing

The Federal Law on Communications requires federal regulatory agencies to encourage competition in the provision of communication services and prohibits the abuse of a dominant position to limit competition. The Federal Law on Communications provides that telecommunications tariffs may be regulated in cases provided for by legislation. The Federal Law on Communications and Presidential Decree No. 221, enacted on February 28, 1995, as amended, on Measures for Streamlining State Regulation of Prices (Tariffs) allow for regulation of tariffs and other commercial activities of telecommunications companies that are "natural monopolies." Government Decree No. 637, dated October 24, 2005 (as amended by the Government Decree No. 941, dated September 4, 2015) authorized FAS to set the following tariffs for the natural monopolies in the communications market, including:

- provision of access to a local telephone network;
- permanent use of a subscriber's line; and
- local, intra-zone and DLD calls.

In addition, the Federal Law on Natural Monopolies No. 147 dated August 17, 1995 establishes the legal basis for federal regulation of natural monopolies, including those in the communications market, and provides for governmental control over tariffs and certain activities of the natural monopolies. The Federal Law on Natural Monopolies outlines the types of transactions for which a regulated entity must obtain prior FAS approval and establishes the general principle that regulated entities may not refuse to provide regulated services to certain types of consumers. Regulated entities are also subject to continuous reporting requirements, including submitting plans for capital investments.

FAS maintains a Register of Natural Monopolies whose tariffs are controlled and regulated by the state. A telecommunications operator may be included in this register upon a decision by FAS based on analysis of the operator's activities and the market conditions.

Our subsidiary, MGTS, was added to the Register of Natural Monopolies in 2000 and, therefore, is subject to the requirements of the Federal Law on Natural Monopolies including, *inter alia*, the following:

- FAS regulates and controls tariffs for services provided by MGTS, including installation fees, monthly subscription fees (for subscribers to the unlimited tariff plan) and local call charges (for subscribers who do not use the unlimited tariff plan);
- MGTS must obtain prior FAS approval for any transaction involving the acquisition, disposal or lease of assets not related to the regulated activity, if the value of such assets exceeds 10% of MGTS' share capital, additional capital, retained profits and reserves;

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MGTS is required to maintain separate accounting records for each type of activity;

MGTS is required to publicly disclose information on tariffs, products, material conditions of contracts with customers, capital expenditure programs and certain other information; and

MGTS is required to comply with Federal law No. 223-FZ dated July 18, 2011 "On Procurement of Goods, Works, Services by Certain Types of Legal Entities" while procurement of goods and services.

It should also be noted that our subsidiary Comstar-Regions was added to the Register of Natural Monopolies in 2009, but on November 24, 2015 it was excluded therefrom and on December 5, 2015, it merged into MTS.

In addition, companies which are found to have dominant position on relevant markets maybe subject to certain FAS restrictions in conducting their business, including in relation to pricing, acquisitions, geographical expansion, and associations and agreements with competitors.On January 5, 2016, the new version of the Federal law No. 135-FZ "On protection of the competition" came into force and the regulations in relation to the register of companies holding market share excess 35% were repealed. Nowadays, dominant position should be determined regarding each case without a register. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we are found to have a dominant position in the markets where we operate and are determined to have abused this position, the FAS may influence our subscriber tariffs and impose certain restrictions on our operations."

The Federal Law on Communications also provides for the special regulation of telecommunications operators occupying a "substantial position," *i.e.,* operators which together with their affiliates have, in the Russian Federation generally or in a geographically defined specific numerical zone, 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic. MGTS was added to the register of telecommunications operators occupying a substantial position and, therefore, is subject to the requirements of the Federal Law on Communications relating to operators occupying a substantial position in the public switched telephone networks including, *inter alia*, the following:

MGTS must develop interconnect rules and procedures in accordance with the requirements set forth by the federal government;

MGTS must ensure that interconnect agreements with operators who intend to interconnect to our networks are entered on the same terms and conditions as the agreements between MGTS, us and our affiliates; MGTS also cannot refuse to provide interconnect or discriminate against one operator over another;

MGTS must comply with the mandatory orders of the Federal Service for Supervision of Communications, Information Technologies and Mass Media issued if non-compliance with law was identified as a result of monitoring of MGTS' interconnect terms; and

MGTS must comply with the tariffs for interconnect and traffic transit where determined by the Federal Communications Agency.

The Federal Law on Communications and implementation rules adopted by Government Decrees No. 161 dated March 28, 2005, and No. 627 dated October 19, 2005, also provides for government regulation of interconnect tariffs established by operators occupying a substantial position. In addition, such operators, including MGTS, are required to develop standard interconnect contracts and publish them as a public offer for all operators who intend to use such interconnect services.

Notwithstanding the above, fixed line operators not considered to occupy a substantial position and not included in the Register of Natural Monopolies, as well as mobile operators, are free to set their

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own tariffs. Also see "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

Calling Party Pays

In March 2006, the Federal Law on Communications was amended to incorporate a "calling party pays" scheme effective as of July 1, 2006. Prior to the implementation of the "calling party pays" principle, subscribers of fixed line operators could initiate calls to mobile phone users free of charge. Under the current system, fixed line operators charge their subscribers for such calls and transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is regulated by the Federal Service for Supervision of Communications, Information Technologies and Mass Media and is known as the settlement rate. Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins.

Communications Services rules and Mobile Number Portability

On December 15, 2014, Government Decree No. 1342 concerning fixed and mobile services rules was adopted. This act, *inter alia*, has changed rules and conditions of MNP process (retaining telephone number after switching from one mobile operator to another) of certain types of legal entities and state customers. The period of switching numbers for mentioned subscribers was decreased and the procedure was simplified.

Introduction of renewed procedure on MNP in respect of particular legal entities and state customers affects the mobile services market in Russia and leads to intensification of competition.

Anti-terror law

The Federal Law No. 374 dated July 6, 2016, amended some legislative acts and established additional measures to counter terrorism and to maintain public safety.

In accordance with the abovementioned amendments to the Federal Law on Communications (coming into force on July, 2018) the telecommunications operators will have to store and to provide to the authorities upon request the information on the facts of receiving, transmitting, delivering and (or) processing of voice information, text messages, images, sounds, video, or other communications by their subscribers, as well as relevant messages themselves.

The implementation of these amendments may have a material effect on telecommunications operators' financials and performance (see also "Item 3. Key Information D. Risk Factors").

Regulation in Ukraine

Regulatory Authorities

Administration of State Service of Special Communications and Information Protection of Ukraine. This body is responsible mainly for establishing and overseeing technical policies and standards in the sphere of telecommunications. Previously these functions were carried out by the State Communications Administration.

The NCCIR. The functions of the NCCIR were formerly carried out by the NCRC (National Commission for Communications Regulation of Ukraine). Established by a Decree of the President of Ukraine in August 2004, the NCRC was vested with the powers of the central regulatory body in the sphere of telecommunications on January 1, 2005 pursuant to the Telecommunications Law described

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below. It consisted of seven members and a chairperson. The NCRC commenced its activity in April 2005 when the chairperson and its members were appointed as required by the Telecommunications Law.

The NCRC has been responsible for issuing licenses for telecommunications services and use of radio frequencies commencing January 1, 2005, as well as various other responsibilities of the SCA from that date. According to the amendments to the Telecommunications Law introduced in July 2011, the NCRC was replaced in August 2011 with the NCCIR. The NCCIR is currently responsible for issuing licenses for telecommunications services and use of radio frequencies, and other functions of former NCRC.

The Ukraininan State Center of Radio Frequencies of Ukraine (the "UCRF"). While licenses for radio frequencies for wireless communications are issued by the NCCIR, *UCRF* is the authority responsible for all technical issues related to the use of radio frequency resources and, in such proxy, is also involved in the issuance of radio frequency licenses. In particular, the *UCRF* determines frequency availability and technical aspects of frequency allocation, as well as provides the NCCIR with an expert opinion in relation to each application for radio frequency. The *UCRF* also independently issues individual permissions for the use of radio-electronic and radio-emitting equipment, its development, import, sale and purchase, and maintains a data base of IMEI codes of mobile telephones.

The Antimonopoly Committee of Ukraine (the "AMC") is charged with the administration of competition legislation and the protection and regulation of economic competition in Ukraine, including economic competition among industry participants in the telecommunications sector.

Legislation

The principal legislation regulating the telecommunications industry consists of the Law on Telecommunications dated November 18, 2003, (the "Telecommunications Law"), and the Radio Frequencies Law dated June 1, 2000, (the "Radio Frequencies Law").

The Telecommunications Law provides for, among other things, equal rights for private entrepreneurs and legal entities to offer telecommunications services, fair competition and freedom of pricing. The Telecommunications Law also sets forth the legal, economic and organizational framework for the operation of companies, associations and government bodies forming part of the telecommunications networks. The licensing of telecommunications services, the requirements for equipment certification and liability for violations of Ukrainian legislation on telecommunications are also determined by this legislation. The Telecommunications Law also governs the relations between the state and local governmental bodies, telecommunications operators and users of telecommunications services and radio frequencies.

The Telecommunications Law addresses various areas of telecommunications services in Ukraine, including numbering requirements, tariff and settlement regulations, interconnect, public telecommunications services, market access rules and licensing issuance and renewal. The Telecommunications Law also significantly expands the definition of the telecommunications services market, including in its scope Internet Protocol telecommunications, transmission of data and facsimile communications.

The Telecommunications Law also restructured the regulatory bodies governing the area of telecommunications. It provided for the creation of the NCRC, which, between January 1, 2005, and July 5, 2011, had been responsible for many of the functions formerly handled by the SCA. In August 2011, the NCRC was replaced with the NCCIR, which is authorized, *inter alia*, to issue regulations for telecommunications services, issue telecommunications licenses to operators and providers, issue frequency licenses, request information from operators, providers and authorities, impose administrative penalties and maintain the register of the operators and providers. The NCCIR is also authorized to

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conduct hearings and to resolve disputes among operators concerning the interconnect of telecommunications networks.

In July 2010, the Telecommunications Law was amended with provisions on mobile number portability and national roaming obligations. In April 2013 the NCCIR (formerly NCRC) adopted regulations which allow subscribers to retain their mobile telephone numbers when switching from one mobile telecommunications operator to another.

On August 25, 2011, the NCCIR enacted national roaming regulations. Accordingly, telecommunications operators were permitted to conclude agreements on national roaming and prescribed to provide this service as described in the regulations (*e.g.*, must inform users on roaming prices and maintain quality of service on the same level for own subscribers and subscribers of operators with whom roaming agreements are signed). Foreign investments in Ukrainian telecommunications operators are not limited; however, in order to provide telecommunications services in Ukraine an entity must be located on the territory of Ukraine and registered in accordance with Ukrainian legislation.

The Radio Frequencies Law sets forth comprehensive rules regarding the allocation, assignment, interrelation and use of radio frequencies, the licensing of the users of radio frequencies and other relevant issues.

Licensing of Telecommunications Services and Radio Frequency Allocation

Commencing January 1, 2005, the NCCIR (formerly NCRC) has assumed responsibility for issuing telecommunications licenses and frequency licenses pursuant to the Telecommunications Law and the 2004 amendments to the Radio Frequencies Law. Licenses are issued for the following types of telecommunications services:

- fixed-line telephone communications services (local, intercity, international);
- fixed-wireless telephone communications services (local, intercity, international);
- mobile telephone communications services; and
- technical maintenance and exploitation of telecommunications networks.

Other telecommunications services do not require licenses.

An operator that is granted a telecommunications license may not commence the provision of wireless telecommunications services until it receives a frequency license. The issuance of a frequency license is, in turn, subject to the availability of radio frequencies in the respective regions of Ukraine. Frequency licenses are issued for specific bandwidths within certain frequency spectrums in specific regions. The GSM and UMTS spectrum is presently considered to be the most commercially attractive for telecommunications operators. It is currently deemed to be virtually impossible to obtain a license for GSM frequencies in major Ukrainian cities because most of the GSM radio frequencies in such cities are already licensed to the existing GSM operators, including us.

Under applicable legislation, licenses for telecommunications services may be issued and renewed for periods of not less than 5 years, with the actual period generally ranging from 10 to 15 years. Renewal of a license is made by an application submitted to the NCCIR at least four months prior to the expiration of the license term. NCCIR officials have broad discretion with respect to both the issuance and the renewal of licenses. The Telecommunications Law further provides that the NCCIR must grant licenses on a first come-first served basis within 30 days from submission of an application. If resources are limited or consumer interests so require, the NCCIR may adopt a decision to limit the number of licenses. In this event, the law requires that such decision is made public along with the rationale and that the licenses be allocated through a tender.

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In accordance with the Radio Frequencies Law, the NCCIR issues a frequency license concurrently with the issuance of a telecommunications license for the type of services requiring use of radio frequency resources. A telecommunications operator that has the respective telecommunications license may apply for licenses for additional radio frequency bands. Frequency licenses may not be issued for a period shorter than the term of 5 years.

Under applicable legislation, a public tender or an auction for a radio frequency license must be held by the NCCIR if demand for radio frequency resources exceeds available resources. Radio frequency licenses issued on the basis of a public tender or an auction for the same type of radio technology must include identical conditions regarding the radio frequency bands and development period. Telecommunications operators are allowed to apply to the NCCIR for redistribution of the radio frequency resources previously allocated to them.

Applicable legislation prohibits the transfer of a license by the licensee, including by means of assignment or pledge of a license as collateral, and agreements regarding the provision of telecommunications services must be executed and performed by the actual licensee.

Licenses generally contain a number of detailed conditions, including the date by which service must be commenced, terms of network deployment and territory coverage, the requirement to use only certified equipment, the technical standards which must be considered and the requirement to comply with all environmental regulations. Frequency licenses issued after January 1, 2005 also contain the date by which the radio frequency resources must be fully utilized.

Telecommunications operators' activities are subject to strict regulations, especially regarding electromagnetic compatibility; construction and technical maintenance of a telecommunications network must be carried out in accordance with specific regulations applicable in Ukraine. Telecommunications operators must submit periodic reports to the NCCIR on the amount and quality of services provided under the telecommunications license. We believe that we are in compliance with the applicable laws and regulations related to our Ukrainian licenses.

Some licenses also provide that services for persons entitled to certain social benefits must be provided at or below certain minimum thresholds established by Ukrainian legislation in effect at that time.

If the terms of a license are not fulfilled or the service provider violates legislation, the license may be suspended or terminated. Both telecommunications services licenses and radio frequency licenses may be terminated for various reasons, including:

provision of inaccurate information in the application for a license;

repeated refusal to allow the representatives of the NCCIR to make inspections;

failure to remedy in a timely manner the circumstances which resulted in a violation of the license terms;

repeated violation of the license terms;

transfer or assignment of the license to a third party; and

other grounds set forth by Ukrainian laws.

Radio frequency licenses may also be terminated for the following reasons:

failure to commence using radio frequency resources within the time period specified in the license;

termination of use of radio frequency resources specified in the license for more than one year;

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failure to use radio frequency resources to the full extent within the time period specified in the license; and

failure to pay monthly fees for the use of allocated radio frequencies for six months or more.

Decisions of the NCCIR with respect to the termination of licenses may be appealed to a court.

MTS' Ukraine license to construct and maintain the telecommunication network and provide services using such network was due to expire on December 3, 2013. In October 2013, MTS Ukraine submitted an application to the NCCIR requesting the renewal of the license. On October 15, 2013, the NCCIR refused to renew the license and recommended that MTS Ukraine receive a new license to provide operations in the telecommunications sphere. On October 21, 2013, MTS Ukraine filed a lawsuit against the NCCIR with a demand to renew the license. On November 19, 2013, a court decision was issued in favour of MTS Ukraine. The decision obliged the NCCIR to renew the license. The NCCIR appealed against the court decision. On January 15, 2014, the court of appeal issued a judgement in which the court refused to sustain the NCCIR appeal. On January 28, 2014, the NCCIR renewed MTS Ukraine license until December, 2018. On January 27, 2014, the NCCIR filed an appeal against the court of appeals' order which was denied by the Court. The cassation procedure was started by Court of Cassation. According to decision of the Highest Administrative Court dated January 22, 2015, the satisfaction of claim dated November 19, 2013 in favor of MTS Ukraine was denied making the resolution of January 28, 2014 to prolong the license for MTS Ukraine illegitimate. In 2016, the case was sent to the new trial. The first instance Court (03/25/2016) and Appeal Court (05/31/2016) refused in satisfaction of the MTS Ukraine demand to prolong the license for MTS Ukraine. On the base of the resolution of the Superior Court of Ukraine from the July 11, 2016, cassation procedure is opened. The case is in progress.

At the same time MTS Ukraine has bought new license for providing all available mobile services in 2G and 3G networks and the NCCIR issued a license for MTS Ukraine as of January 27, 2015, which is valid until 2030.

In accordance with the terms of obtaining a license for 3G frequency, MTS Ukraine has signed conversion agreements with special users of radio frequency resource. Within an 18-month period MTS plans to expand its 3G network in all regional centers of Ukraine. Currently, MTS Ukraine complies with all license requirements and makes all necessary payments under the license.

4G/LTE

Under the instruction of the President of Ukraine on the introduction of 4G network, the Cabinet of Ministers adopted a decree "On approval of the action plan for introduction of mobile communication of the fourth generation". The decree establishes a tender process for 4G frequency in the second half of 2017, which primary requires carrying out a research and analysis of the existing radio frequency resource. This research will be assigned to foreign consultants with payment to be imposed on telecommunications operators. The foreign consultant was chosen Analyses Mason LTD (London, UK).

At December 2015, the NCCIR founded a special working group for supporting research and analysis of the existing radio frequency resource. The research finished at December 05, 2016. The NCCIR received recommendation for the launch 4G/LTE in existing radio frequency resource by means of reforming of the spectrum, spectrum release and tendering. In accordance with recommendations of research the NCCIR will be preparing amendments to legislation on management of the radio frequency resource. The NCCIR is planning to make the first tender at October, 2017. The first recommended diapasons for 4G/LTE are 1800, 2300, 2600 MHz. The final process of the licensing 4G/LTE will be determined at the 2017.

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Equipment Certification

For installation on a telecommunications network either the manufacturer or the vendor must provide the operator with a document of confirmation to the normative documents compliance and documentary confirmation of inclusion in the registry of technical equipment that can be used in the telecommunication network. The Administration of State Service on Special Communications and Information Protection of Ukraine sets the technical standards for equipment designed for use in telecommunications networks in Ukraine.

The Radio Frequencies Law provides that users of radio frequency resources must obtain permits for the operation of radio-electronic and radio-emitting equipment, except for equipment used on a permit-free basis in accordance with this law. In order to obtain such operation permit, a company is required to file an application with the *UCRF*. The Radio Frequencies Law also requires producers and importers of radio-electronic and radio-emitting equipment to be used on the territory of Ukraine to register such equipment in the special list which NCCIR maintains.

Competition

The Telecommunications Law provides that one of the purposes of the licensing of telecommunications services is to encourage competition and de-monopolization in the telecommunications industry.

Ukrainian antimonopoly legislation prohibits a company operating in Ukraine from abusing its dominant position in its market to gain, inter alia, an unfair or anti-competitive advantage in the provision of its services or products. A legal entity is deemed to be in a dominant position if such entity has no competitor in the market or is not subject to substantial competition due to restricted access or entry barriers for other business entities. Further, Ukrainian antimonopoly legislation provides that a company shall be deemed dominant if its market share in the respective product market exceeds 35% unless such company proves that it faces significant competition in the respective product market. A telecommunications operators which are found by the AMC as having a dominant position in the markethave to use the rates for national and international interconnect, which are established by the NCCIR.

According to AC&M-Consulting, MTS Ukraine had a 36% market share of the wireless communications market in Ukraine as of December 31, 2016.

Please see also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business A finding by the AMC that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations" for details of the AMC investigations in respect of international roaming services and national mobile communications services.

Tariffs

According to the Ukrainian laws, NCCIR regulates the following tariffs:

- maximum tariffs on public telecommunication services;
- tariffs on leasing of communication channels for operators with dominant market position;
- maximum tariffs on leasing channels of cable duct system;
- calculation rates for services of crossing traffic to the telecommunication networks of telecommunications operators with substantial market advantage on the markets of certain telecommunication services.

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Under the Law of Ukraine on Telecommunications the Cabinet of Ministers of Ukraine is not authorized to regulate prices for telecommunication services.

Although there are no additional regulations limiting level of maximum tariffs on wireless telecommunications services, if the Antimonopoly Committee believes competition laws are violated, it can assert that tariffs unfair and injurious to market competition. In such cases, the AMC may, *inter alia*, request the telecommunications operator whom AMC considers as one violating the laws to remedy the situation, in particular, to amend its tariff scheme, and impose fines on the company for an violation.

Subject to the above, wireless operators are free to set tariffs at levels they consider appropriate.

Interconnect

Interconnect activity is regulated by the NCCIR. Operators may provide offers for interconnect to the NCCIR, and the NCCIR is required to publish on an annual or regular basis a catalog of such offers. Operators with a dominant position on the market and operators having significant market power (SMP-operators) are obliged to submit interconnect offers to the NCCIR for each catalog.

Interconnect is made pursuant to interconnect agreements between network operators as prescribed by the regulatory authorities. Such agreements are required under the law to contain certain provisions. An operator with a dominant position, as well as SMP-operator, cannot refuse an offer to conclude an interconnect agreement with another operator, if the offeror has offered points of interconnect that were previously published by the NCCIR in the catalog of interconnect proposals.

The NCCIR is authorized to conduct hearings and to resolve disputes among operators concerning the interconnection of telecommunications networks. Decisions of the NCCIR are binding upon the parties in the dispute but a party to the dispute may appeal such a decision in court.

In May 2009, the AMC issued a finding that eight mobile operators, including MTS Ukraine and its closest competitors, have a dominant position in relation to the market for interconnecting to each of their respective networks. In February 2010, the NCRC established regulated interconnect fees for termination of calls on the networks of operators that have a dominant position. See " Competition."

In October 2011, the NCCIR defined all of operators, including MTS Ukraine, that have operated in the Ukrainian market in the period from 2009 through 2010 as having significant market power for termination traffic on their fixed and mobile networks. Effective 1 January 2012, the NCCIR regulates the interconnection rates for all SMP fixed and mobile operators, including MTS Ukraine. The interconnection rates charged by long-distance operators are set up equal to rates charged by mobile operators.

The NCCIR regularly analyses the telecommunication market to determine operators with significant market power in this market. In October 2015 the NCCIR published the results of the latest market analysis according to which 276 fixed and all six mobile operators, including MTS Ukraine, were defined as SMP-operators. On August 30, 2016 the NCCIR adopted the next regulatory act which establishes new interconnect rates for termination traffic on the networks of SMP-operators, effective since January 1, 2017. As a result that the interconnect rates will be decrease from UAH 0.23 (RUB 0.513080) to UAH 0.15 (RUB 0.334618) for long- distance and mobile operators. Please see also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues and margins" for details of NCCIR' s plans to substantially lower interconnect rates for the termination of traffic.

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Licenses

Mobile Services

The following table shows, as of December 31, 2016, information with respect to the license areas in which we and our subsidiaries and affiliates provide or expect to provide GSM services:

	GSM 900		GSM 1800	
License region	**Licensee**	**Expiry date**	**Licensee**	**Expiry date**
Moscow License Area				
Moscow	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Moscow region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
St. Petersburg License Area				
St. Petersburg	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Leningrad region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Russian Regional License Areas				
European Russia				
Adygeya Republic	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Arkhangelsk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Astrakhan region	MTS PJSC	December 11, 2018	MTS PJSC	October 18, 2021
Bashkortostan Republic	MTS PJSC	August 22, 2017	MTS PJSC	August 22, 2017
Belgorod region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Bryansk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Chuvashia Republic	MTS PJSC	December 30, 2018	MTS PJSC	December 30, 2018
Chechen Republic	MTS PJSC	June 10, 2019	MTS PJSC	April 28, 2021
Dagestan Republic	MTS PJSC	December 30, 2018	MTS PJSC	December 30, 2018
Ivanovo region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Ingushetia Republic	MTS PJSC	December 30, 2018	MTS PJSC	December 30, 2018
KabardinoBalkar Republic	MTS PJSC	June 10, 2019	MTS PJSC	December 30, 2018
Kaliningrad region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Kalmykia Republic	MTS PJSC	January 25, 2021	MTS PJSC	December 30, 2018
Kaluga region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
KarachaevoCherkesia Republic	MTS PJSC	December 30, 2018	MTS PJSC	December 30, 2018
Karelia Republic	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Kirov region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Komi Republic	MTS PJSC	August 22, 2017	MTS PJSC	August 22, 2017
Kostroma region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Krasnodar region	MTS PJSC	May 30, 2017	MTS PJSC	May 30, 2017
Kursk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Lipetsk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Mari El Republic	MTS PJSC	January 15, 2017	MTS PJSC	January 15, 2017
Mari El Republic			Smarts-Yoshkar-Ola JSC	January 26, 2022
Mordovia Republic	MTS PJSC	December 30, 2018	MTS PJSC	December 30, 2018
Murmansk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Nenetsk Autonomous region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Nizhny Novgorod region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Novgorod region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Orel region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Orenburg region	MTS PJSC	April 28,2018	MTS PJSC	April 28, 2018

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	GSM 900		GSM 1800	
License region	**Licensee**	**Expiry date**	**Licensee**	**Expiry date**
Orenburg region			MTS PJSC	October 21, 2025
Penza region	MTS PJSC	May 6, 2021		
Penza region	MTS PJSC	September 2, 2017	MTS PJSC	September 2, 2017
Perm region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Perm region	MTS PJSC		MTS PJSC	October 21, 2025
Pskov region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Rostov region	MTS PJSC	July 1, 2020	MTS PJSC	July 1, 2020
Ryazan region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Samara region	MTS PJSC	December 30, 2017	MTS PJSC	December 30, 2017
Saratov region	MTS PJSC	July 11, 2017	MTS PJSC	July 11, 2017
Severnaya Osetia-Alania Republic	MTS PJSC	September 1, 2021	MTS PJSC	September 1, 2021
Severnaya Osetia-Alania Republic			MTS PJSC	October 21, 2025
Smolensk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Stavropol region	MTS PJSC	December 30, 2018	MTS PJSC	December 30, 2018
Tambov region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Tatarstan Republic	MTS PJSC	June 26, 2017	MTS PJSC	June 26, 2017
Tula region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Tver region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Udmurt Republic	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Ulyanovsk region	MTS PJSC	May 6, 2021	MTS PJSC	December 30, 2018
Vladimir region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Volgograd region			MTS PJSC	October 4, 2021
Vologda region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Voronezh region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Yaroslavl region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Asian Russia				
Altaisk region	MTS PJSC	September 8, 2020	MTS PJSC	September 8, 2020
Altai Republic	MTS PJSC	December 30, 2018	MTS PJSC	December 30, 2018
Altai Republic	MTS PJSC	July 19, 2021		
Amur region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Amur region			MTS PJSC	October 21, 2025
Buryatiya Republic	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Chelyabinsk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Zabaykalsky region	Sibintertelecom JSC	June 5, 2019	Sibintertelecom JSC	June 5, 2019
Zabaykalsky region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Chukotsk Autonomous region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Jewish Autonomous region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Irkutsk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Kamchatka region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Kemerovo region	MTS PJSC	December 30, 2018	MTS PJSC	December 30, 2018
Khabarovsk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Khakassiya Republic	MTS PJSC	September 13, 2021	MTS PJSC	September 13, 2021
Khanty Mansiysk Autonomous region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Krasnoyarsk region	MTS PJSC	May 7, 2018	MTS PJSC	May 7, 2018
Kurgan region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Magadan region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Novosibirsk region	MTS PJSC	February 21, 2017	MTS PJSC	February 21, 2017
Omsk region	MTS PJSC	December 20, 2021	MTS PJSC	December 20, 2021
Primorsky region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018

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	GSM 900		GSM 1800	
License region	**Licensee**	**Expiry date**	**Licensee**	**Expiry date**
Sakha Republic (Yakutia)	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Sakhalin region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Sverdlovsk region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Tomsk region	MTS PJSC	June 5, 2018	MTS PJSC	June 5, 2018
Tyumen region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Tyva Republic	MTS PJSC	July 19, 2021	MTS PJSC	December 30, 2018
Yamalo-Nenetsk Autonomous region	MTS PJSC	April 28, 2018	MTS PJSC	April 28, 2018
Ukraine				
Ukraine	MTS Ukraine PRJSC	March 23, 2030	MTS Ukraine PJSC	March 23, 2030
Armenia				
Armenia	K-Telecom CJSC	November 4, 2019	K-Telecom CJSC	November 4, 2019
Turkmenistan				
Turkmenistan	MTS Turkmenistan	July 26, 2018	MTS Turkmenistan	July 26, 2018
Belarus				
Belarus	Mobile Telesystems LLC	April 30, 2022	Mobile Telesystems LLC	April 30, 2022

IMT-2000/UMTS/CDMA

License Region	**Licensee**	**Expiry date**
Asian Russia	MTS PJSC	May 21, 2017
European Russia	MTS PJSC	May 21, 2017
Moscow License Area	MTS PJSC	May 21, 2017
St. Petersburg License Area	MTS PJSC	May 21, 2017
Moscow, Moscow region	MTS PJSC	April 28, 2018
St. Petersburg, Leningrad region	MTS PJSC	April 28, 2018
European Russia		
Arkhangelsk region	MTS PJSC	April 28, 2018
Bashkortostan Republic	MTS PJSC	August 22, 2017
Kaliningrad region	MTS PJSC	April 28, 2018
Karelia Republic	MTS PJSC	April 28, 2018
Murmansk region	MTS PJSC	April 28, 2018
Nenetsk Autonomous region	MTS PJSC	April 28, 2018
Novgorod region	MTS PJSC	April 28, 2018
Pskov region	MTS PJSC	April 28, 2018
Vologda region	MTS PJSC	April 28, 2018
Asian Russia		
Khabarovsk region	MTS PJSC	April 28, 2018
Khanty Mansiysk Autonomous region	Comstar-KHMAO JSC	May 23, 2018
Primorsky region	MTS PJSC	April 28, 2018
Turkmenistan	MTS-Turkmenistan	July 26, 2018
Armenia	K-Telecom CJSC	November 4, 2019
Belarus	Mobile Telesystems LLC	April 30, 2022
Ukraine	MTS Ukraine PRJSC	September 28, 2026
Ukraine	MTS Ukraine PRJSC	March 23, 2030

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LTE

License Region	Licensee	Expiry date
Asian Russia	MTS PJSC	July 25, 2022
Asian Russia	MTS PJSC	April 15, 2026
European Russia	MTS PJSC	July 25, 2022
European Russia	MTS PJSC	April 15, 2026
Moscow License Area	MTS PJSC	July 25, 2022
Moscow License Area	MTS PJSC	December 29, 2021
St. Petersburg License Area	MTS PJSC	July 25, 2022
St. Petersburg License Area	MTS PJSC	April 15, 2026
Moscow, Moscow region	MTS PJSC	April 28, 2018
St. Petersburg, Leningrad region	MTS PJSC	April 28, 2018
Asian Russia		
Altai Republic	MTS PJSC	December 30, 2018
Altaisk region	MTS PJSC	September 8, 2020
Amur region	MTS PJSC	April 28, 2018
Amur region	MTS PJSC	October 21, 2025
Buryatiya Republic	MTS PJSC	April 28, 2018
Chelyabinsk region	MTS PJSC	April 28, 2018
Chukotsk Autonomous region	MTS PJSC	April 28, 2018
Zabaykalsky region	MTS PJSC	April 28, 2018
Irkutsk Autonomous region	MTS PJSC	April 28, 2018
Jewish Autonomous region	MTS PJSC	April 28, 2018
Kamchatka region	MTS PJSC	April 28, 2018
Kemerovo region	MTS PJSC	December 30, 2018
Khabarovsk region	MTS PJSC	April 28, 2018
Khakassiya Republic	MTS PJSC	September 13, 2021
Khanty Mansiysk Autonomous region	MTS PJSC	April 28, 2018
Krasnoyarsk Territory	MTS PJSC	May 7, 2018
Kurgan region	MTS PJSC	April 28, 2018
Magadan region	MTS PJSC	April 28, 2018
Novosibirsk region	MTS PJSC	February 21, 2017
Omsk region	MTS PJSC	December 20, 2021
Primorsky region	MTS PJSC	April 28, 2018
Sakha Republic (Yakutia)	MTS PJSC	April 28, 2018
Sakhalin region	MTS PJSC	April 28, 2018
Sverdlovsk region	MTS PJSC	April 28, 2018
Tomsk region	MTS PJSC	June 5, 2018
Tyumen region	MTS PJSC	April 28, 2018
Tyva Republic	MTS PJSC	December 30, 2018
YamaloNenetsk Autonomous region	MTS PJSC	April 28, 2018
European Russia		
Adygeya Republic	MTS PJSC	April 28, 2018
Arkhangelsk region	MTS PJSC	April 28, 2018
Bashkortostan Republic	MTS PJSC	August 22, 2017
Belgorod region	MTS PJSC	April 28, 2018
Bryansk region	MTS PJSC	April 28, 2018
Chechen Republic	MTS PJSC	April 28, 2021

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License Region	Licensee	Expiry date
Chuvashia Republic	MTS PJSC	December 30, 2018
Dagestan Republic	MTS PJSC	December 30, 2018
Ivanovo region	MTS PJSC	April 28, 2018
Kaliningrad region	MTS PJSC	April 28, 2018
Kaluga region	MTS PJSC	April 28, 2018
KarachaevoCherkesia Republic	MTS PJSC	December 30, 2018
Karelia Republic	MTS PJSC	April 28, 2018
Kirov region	MTS PJSC	April 28, 2018
Komi Republic	MTS PJSC	August 22, 2017
Kostroma region	MTS PJSC	April 28, 2018
Krasnodar territory	MTS PJSC	May 30, 2017
Kursk region	MTS PJSC	April 28, 2018
Lipetsk region	MTS PJSC	April 28, 2018
Mari El Republic	MTS PJSC	January 15, 2017
Murmansk region	MTS PJSC	April 28, 2018
Nenetsk Autonomous region	MTS PJSC	April 28, 2018
Nizhny Novgorod region	MTS PJSC	April 28, 2018
Novgorod region	MTS PJSC	April 28, 2018
Orel region	MTS PJSC	April 28, 2018
Orenburg region	MTS PJSC	April 28, 2018
Orenburg region	MTS PJSC	October 21, 2025
Perm region	MTS PJSC	April 28, 2018
Perm region	MTS PJSC	October 21, 2025
Pskov region	MTS PJSC	April 28, 2018
Rostov region	MTS PJSC	July 1, 2020
Ryazan region	MTS PJSC	April 28, 2018
Samara region	MTS PJSC	December 30, 2017
Saratov region	MTS PJSC	July 11, 2017
Severnaya Osetia Alania Republic	MTS PJSC	September 1, 2021
Severnaya Osetia Alania Republic	MTS PJSC	October 21, 2025
Smolensk region	MTS PJSC	April 28, 2018
Stavropol territory	MTS PJSC	December 30, 2018
Tambov region	MTS PJSC	April 28, 2018
Tatarstan Republic	MTS PJSC	June 26, 2017
Tula region	MTS PJSC	April 28, 2018
Tver region	MTS PJSC	April 28, 2018
Udmurt Republic	MTS PJSC	April 28, 2018
Ulyanovsk region	MTS PJSC	December 30, 2018
Vladimir region	MTS PJSC	April 28, 2018
Volgograd region	MTS PJSC	October 4, 2021
Vologda region	MTS PJSC	April 28, 2018
Voronezh region	MTS PJSC	April 28, 2018
Yaroslavl region	MTS PJSC	April 28, 2018
Armenia	K-Telecom CJSC	November 4, 2019

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Mobile Virtual Network

License Region	Licensee	Expiry date
Penza region	MTS PJSC	April 22, 2020
Ivanovo region	MTS PJSC	June 4, 2020
Moscow, Moscow region	MGTS PJSC	August 2, 2018
Zabaykalsky region	Sibintertelecom JSC	September 8, 2020

Each of our licenses requires service to be started by a specific date. We have met this target or received extensions to these dates in those regional license areas in which we have not commenced operations. Neither the government nor other parties have taken or attempted to take legal actions to suspend, terminate or challenge the legality of any of our licenses. We have not received any notice of violation of any of our licenses, and we believe that we are in compliance with all material terms of our licenses.

Fixed Line Services

The following table shows, as of December 31, 2016, information with respect to our fixed line licenses:

Licensee	License Region(s)	License number	Expiry Date
International, national, intra-zonal and local communications services			
MTS PJSC	Ryazan region	138952	December 23, 2020
MTS PJSC	Sverdlovsk region	140009	March 15, 2021
City Telecom CJSC	Moscow	99294	October 24, 2017
Smarts-Yoshkar-Ola JSC	Mari El Republic	128311	January 26, 2017
MTS PJSC	Saratov region	97004	March 15, 2017
MTS PJSC	Penza region	97010	March 15, 2017
MTS PJSC	Tambov region	97011	March 15, 2017
MTS PJSC	Kaluga region	97036	March 15, 2017
MTS PJSC	Sverdlovsk region	97037	March 15, 2017
MTS PJSC	Kirov region	97043	March 15, 2017
MTS PJSC	Ivanovo region	146068	October 24, 2021
MTS PJSC	Kurgan region	117814	February 17, 2019
MTS PJSC	Bashkortostan Republic	135028	November 21, 2020
Comstar-KHMAO JSC	Khanty Mansiysk Autonomous region	136645	December 1, 2020
Comstar-KHMAO JSC	Khanty Mansiysk Autonomous region	136647	December 1, 2020
MTS PJSC	St. Petersburg, Leningrad region, Arkhangelsk region, Karelia Republic, Murmansk region, Novgorod region, Vologda region	94373	April 17, 2017
MTS PJSC	Altai Republic	96181	February 17, 2017
MTS PJSC	Irkutsk region	97008	March 15, 2017
MTS PJSC	Khabarovsk Territory	97012	March 15, 2017
MTS PJSC	Primorsky Territory	97026	March 15, 2017
MTS PJSC	Kaliningrad region	104022	December 17, 2017
MGTS PJSC	Moscow	112865	December 11, 2018
MGTS PJSC	Moscow region	125848	April 17, 2019
MTS PJSC	Zabaykalsky Territory	127170	May 6, 2020
MGTS PJSC	Moscow, Moscow region	127698	July 28, 2020
MTS PJSC	Orenburg region	97025	March 15, 2017

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Licensee	License Region(s)	License number	Expiry Date
MTS PJSC	Udmurt Republic	97009	March 15, 2017
MTS PJSC	Russian Federation	104893	February 16, 2020
MTS PJSC	Krasnoyarsk Territory	146087	October 24, 2021
MTS PJSC	Yaroslavl region	146077	October 24, 2021
MTS PJSC	Astrakhansk region	146080	October 24, 2021
MTS PJSC	Rostov region	146084	October 24, 2021
MTS PJSC	Krasnodar territory	146067	October 24, 2021
MTS PJSC	Chelyabinsk region	146074	October 24, 2021
MTS PJSC	Perm region	146078	October 24, 2021
MTS PJSC	Kurgan region	146086	October 24, 2021
MTS PJSC	Khanty Mansiysk Autonomous region	146083	October 24, 2021
MTS PJSC	Tomsk region	146094	October 24, 2021
MTS PJSC	Novosibirsk region	146071	October 24, 2021
MTS PJSC	Altaisk territory	146073	October 24, 2021
MTS PJSC	Samara region	146090	October 24, 2021
MTS PJSC	Tatarstan Republic	146082	October 24, 2021
MTS PJSC	Nizhny Novgorod region	146075	October 24, 2021
MTS PJSC	Kirov region	146089	October 24, 2021
MTS PJSC	Komi Republic	146079	October 24, 2021
MTS PJSC	Sakha Republic (Yakutia)	146076	October 24, 2021
MTS PJSC	Khabarovsk Territory	146066	October 24, 2021
MTS PJSC	Amur region	146092	October 24, 2021
MTS PJSC	Khakassiya Republic	140458	June 6, 2021
MTS PJSC	Moscow region	135027	November 21, 2020
MTS PJSC	Moscow	137566	February 16, 2021
MTS PJSC	Moscow region	94371	March 30, 2017
MTS PJSC	Kaluga region	129946	July 3, 2020
MTS PJSC	Moscow	94369	March 30, 2017
MTS PJSC	Moscow	94370	March 30, 2017
MTS PJSC	Moscow region	146093	October 12, 2021
MTS PJSC	Belgorod region	103569	October 3, 2017
MTS PJSC	Orel region	103568	October 3, 2017
MGTS PJSC	Moscow	108069	July 10, 2018
MTS PJSC	Rostov region	110869	August 1, 2018
MTS PJSC	Severnaya Osetia Alania Republic	110870	August 1, 2018
MTS PJSC	Krasnodar territory	110871	August 1, 2018
MTS PJSC	Volgograd region	146085	November 17, 2021
MTS PJSC	Irkutsk region	146069	October 24, 2021
MTS PJSC	Sakhalin region	146081	October 24, 2021
MTS PJSC	Primorsky Territory	146070	October 24, 2021
MTS PJSC	Bashkortostan Republic	131715	September 8, 2020
MTS PJSC	Bashkortostan Republic	92587	March 5, 2017
MTS PJSC	Orenburg region	146072	October 24, 2021
MTS PJSC	Kemerovo region	113543	December 26, 2018
MTS PJSC	Astrakhansk region	114620	January 19, 2019
MTS PJSC	Kemerovo region	114621	January 19, 2019
MTS PJSC	Arkhangelsk region	114622	January 19, 2019
MTS PJSC	Vologda region	114623	January 19, 2019
MTS PJSC	Kaliningrad region	114624	January 19, 2019

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Licensee	License Region(s)	License number	Expiry Date
MTS PJSC	Karelia Republic	114628	January 19, 2019
MTS PJSC	Murmansk region	114625	January 19, 2019
MTS PJSC	Novgorod region	114629	January 19, 2019
MTS PJSC	St. Petersburg	114626	January 19, 2019
MTS PJSC	Komi Republic	114627	January 19, 2019
MTS PJSC	Volgograd region	115176	March 4, 2019
MTS PJSC	Omsk region	146088	October 4, 2021
MTS PJSC	Udmurt Republic	146091	October 4, 2021
MTS PJSC	Omsk region	145060	October 4, 2021
MTS PJSC	Nizhny Novgorod region	123658	October 1, 2019
MTS PJSC	Ryazan region	129950	July 3, 2020
MTS PJSC	Orel region, Voronezh region	101773	October 24, 2017
MTS PJSC	Belgorod region, Bryansk region, Kursk region, Lipetsk region	104896	February 7, 2018
MTS PJSC	Severnaya Osetia Alania Republic	97615	June 5, 2017
MTS PJSC	Dagestan Republic	97616	June 5, 2017
MTS PJSC	Tomsk region	104900	February 27, 2018
MTS PJSC	Altaisk territory	104899	February 27, 2018
MTS PJSC	Krasnoyarsk Territory	104895	February 27, 2018
MTS PJSC	Novosibirsk region	104898	February 27, 2018
MTS PJSC	Tver region	104894	February 27, 2018
MTS PJSC	Smolensk region	104897	February 27, 2018
MTS PJSC	Buryatiya Republic	105547	April 18, 2018
MTS PJSC	Saratov region	105548	April 18, 2018
MTS PJSC	Chuvashia Republic	109493	April 11, 2018
MTS PJSC	Mari El Republic	109494	April 11, 2018
MTS PJSC	Penza region	116023	March 14, 2017
MTS PJSC	Tyumen region, YamaloNenetsk Autonomous region	135962	December 1, 2020
MTS PJSC	Tyumen region, YamaloNenetsk Autonomous region	134773	August 31, 2017
MTS PJSC	Ulyanovsk region	110736	February 28, 2017
MTS PJSC	Tambov region	110744	February 28, 2017
MTS PJSC	Ivanovo region	122269	November 24, 2019
MTS PJSC	Perm region	135956	December 15, 2020
MTS PJSC	Ulyanovsk region	135960	December 15, 2020
MTS PJSC	Chelyabinsk region	135967	December 15, 2020
MTS PJSC	Samara region	123559	December 31, 2019
MTS PJSC	Kursk region	122729	December 18, 2019
MTS PJSC	Leningrad region	147354	December 7, 2021
MTS PJSC	Tatarstan Republic	124924	May 23, 2018

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Licensee	License Region(s)	License number	Expiry Date
	Telematic Services		
MTS PJSC	Komi Republic , Perm region, Orenburg region, Orel region, Nizhny Novgorod region, Lipetsk region, Moscow, Kostroma region, Smolensk region, Kirov region, Kaluga region, Ivanovo region, Bryansk region, Belgorod region, Moscow region, Kursk region, Voronezh region, Tyumen region, Sverdlovsk region, Omsk region, Kurgan region, Khanty Mansiysk Autonomous region, Chelyabinsk region, Pskov region, Yaroslavl region, Ryazan region, Vladimir region, Udmurt Republic, Tver region, Tula region, Tambov region, YamaloNenetsk Autonomous region, Amur region	137567	February 15, 2021
City Telecom CJSC	Moscow	99296	October 24, 2017
Smarts-Yoshkar-Ola JSC	Mari El Republic	131214	June 4, 2020
MTS PJSC	Russian Federation except Moscow, Moscow region, Krym Republic, Sevastopol	142346	April 15, 2026
MTS PJSC	Bashkortostan Republic	140459	June 21, 2021
MTS PJSC	Krasnoyarsk Territory	108065	May 7, 2018
MGTS PJSC	Moscow, Moscow region	145447	December 11, 2021
"Strim" Ltd	Russian Federation	145493	September 22, 2021
MTS PJSC	Tyva Republic	128521	July 28, 2020
MTS PJSC	Krasnodar territory	129951	July 15, 2020
MTS PJSC	Chuvashia Republic, Mordovia Republic	131717	September 14, 2020
MTS PJSC	Dagestan Republic, Ingushetia Republic, KabardinoBalkar Republic, KarachaevoCherkesia Republic, Severnaya Osetia Alania Republic	131721	September 14, 2020
Sibintertelecom JSC	Zabaykalsky Territory	132674	September 14, 2020
MTS PJSC	Rostov region	134507	October 26, 2020
MTS PJSC	Khabarovsk Territory	127169	June 17, 2020
MTS PJSC	Novosibirsk region	138258	April 13, 2021
MTS PJSC	Khakassiya Republic	128525	June 17, 2020
MTS PJSC	Tomsk region	128519	June 17, 2020
MTS PJSC	Sakha Republic (Yakutia)	128518	July 15, 2020
MTS PJSC	Tatarstan Republic	129944	July 15, 2020
MTS PJSC	St. Petersburg, Leningrad region, Arkhangelsk region, Kaliningrad region, Karelia Republic, Murmansk region, Nenetsk Autonomous region, Novgorod region, Vologda region	145056	October 4, 2021
MTS PJSC	Altaisk territory	147352	December 1, 2021
MTS PJSC	Altai Republic	96857	May 22, 2017
MTS PJSC	Penza region	125651	April 1, 2020

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Licensee	License Region(s)	License number	Expiry Date
MTS PJSC	Chukotsk Autonomous region, Jewish Autonomous region, Irkutsk region, Kamchatka region	130984	August 13, 2020
MTS PJSC	Mari El Republic	131716	September 14, 2020
MTS PJSC	Volgograd region	127684	May 30, 2020
MTS PJSC	Primorsky Territory	135961	December 21, 2020
MTS PJSC	Buryatiya Republic, Kamchatka region, Magadan region, Sakhalin region	128536	June 17, 2020
MTS PJSC	Zabaykalsky Territory	118159	June 5, 2019
MTS PJSC	Stavropol territory	127678	May 26, 2020
MTS PJSC	Samara region	127680	May 26, 2020
MTS PJSC	Saratov region	127688	May 31, 2020
MTS PJSC	Ulyanovsk region	127681	May 31, 2020
MTS PJSC	Kemerovo region	128530	May 31, 2020
MTS PJSC	Astrakhansk region	129949	July 15, 2020
MTS PJSC	Adygeya Republic	129947	July 15, 2020
MTS PJSC	Kalmykia Republic	129957	July 28, 2020
MTS PJSC	Chechen Republic	104023	December 6, 2017
MTS PJSC	Russian Federation	101246	July 25, 2022
Multikabel'nye sety balashikhi LLC	Moscow region	149925	June 19, 2021
Teleservice JSC	Voronezh region	135894	November 21, 2020
	Leased Communications Circuits		
Smarts-Yoshkar-Ola JSC	Mari El Republic	131215	June 4, 2020
City Telecom CJSC	Moscow	99295	October 24, 2017
MTS PJSC	Jewish Autonomous region	124558	November 14, 2019
MTS PJSC	Yamalo-Nenetsk Autonomous region, Tyumen region, Sverdlovsk region, Kurgan region, Khanty Mansiysk Autonomous region, Chelyabinsk region, Amur region, Udmurt Republic, Tambov region, Perm region, Orenburg region	138262	April 13, 2021
Comstar-KHMAO JSC	Khanty Mansiysk Autonomous region	136356	October 6, 2020
MTS PJSC	Russian Federation	147355	December 29, 2021
MTS PJSC	Tatarstan Republic	108060	May 7, 2018
MTS PJSC	Kalmykia Republic, Severnaya Osetia Alania Republic	108061	May 7, 2018
MTS PJSC	Krasnoyarsk Territory	108062	May 7, 2018
MTS PJSC	Bashkortostan Republic	108063	May 7, 2018
MTS PJSC	Kemerovo region, Tomsk region	108064	May 7, 2018
MTS PJSC	Tyva Republic	128529	July 28, 2020
MTS PJSC	Chuvashia Republic	129943	July 28, 2020
MTS PJSC	Adygeya Republic, Krasnodar territory	129948	July 15, 2020
MTS PJSC	Kaluga region, Pskov region, Ryazan region, Smolensk region, Tula region, Vladimir region	134506	October 7, 2020
MTS PJSC	Ivanovo region, Kirov region, Nizhny Novgorod region, Yaroslavl region	134509	October 13, 2020
MTS PJSC	Mordovia Republic	135965	December 23, 2020

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Licensee	License Region(s)	License number	Expiry Date
MTS PJSC	Altaisk territory, Altai Republic, Novosibirsk region	128528	July 28, 2020
MTS PJSC	Khakassiya Republic	128533	June 17, 2020
MTS PJSC	Kaliningrad region	92589	March 1, 2017
MTS PJSC	St. Petersburg, Leningrad region, Arkhangelsk region, Karelia Republic, Murmansk region, Nenetsk Autonomous region, Novgorod region, Vologda region	92586	March 1, 2017
MTS PJSC	Omsk region	147357	December 27, 2021
MTS PJSC	Chukotsk Autonomous region	119985	August 6, 2019
MTS PJSC	Belgorod region, Bryansk region, Kursk region, Lipetsk region, Orel region, Voronezh region	119295	July 2, 2019
MTS PJSC	Rostov region, Rostov region	110872	October 2, 2018
MTS PJSC	Mari El Republic	134511	October 5, 2020
MTS PJSC	Khabarovsk Territory, Sakha Republic (Yakutia), Zabaykalsky Territory	135026	November 21, 2020
MTS PJSC	Magadan region	96042	May 21, 2017
MTS PJSC	Irkutsk region	96040	May 21, 2017
MTS PJSC	Kamchatka region, Koryakski Autonomous region	96043	May 21, 2017
MTS PJSC	Sakhalin region	130986	August 25, 2020
MTS PJSC	Buryatiya Republic	130983	August 25, 2020
MTS PJSC	Primorsky Territory	127171	May 10, 2020
MTS PJSC	Moscow, Moscow region, Komi Republic, Kostroma region, Tver region	111802	November 24, 2018
MTS PJSC	Penza region	135963	December 1, 2020
MTS PJSC	Aginski Buryatski Autonomous District	135959	December 1, 2020
Sibintertelecom JSC	Zabaykalsky Territory	119279	June 5, 2019
MTS PJSC	Samara region, Saratov region, Ulyanovsk region	127686	May 31, 2020
MTS PJSC	Astrakhansk region, Stavropol territory	127683	May 31, 2020
MTS PJSC	Dagestan Republic	96041	May 21, 2017
MTS PJSC	Ingushetia Republic, KabardinoBalkar Republic, KarachaevoCherkesia Republic, Volgograd region	105546	April 18, 2018
MGTS PJSC	Moscow, Moscow region	131496	December 11, 2018
Sputnikovoe TV	Russian Federation	129794	August 2, 2018
	Data Transmission Services		
City Telecom CJSC	Moscow	99297	October 24, 2017
Smarts-Yoshkar-Ola JSC	Mari El Republic	131213	June 4, 2020
MTS PJSC	Russian Federation except Moscow, Moscow region, Krym Republic, Sevastopol	142344	April 15, 2026
MGTS PJSC	Moscow	125847	December 11, 2018
MTS PJSC	Krasnoyarsk Territory	108058	May 7, 2018
MGTS PJSC	Moscow region	125854	April 17, 2019
MTS PJSC	Tyva Republic	128517	July 28, 2020
MTS PJSC	Kalmykia Republic	129942	July 28, 2020

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Licensee	License Region(s)	License number	Expiry Date
MTS PJSC	Krasnodar territory	129952	July 15, 2020
MTS PJSC	Chuvashia Republic, Mordovia Republic	131718	September 14, 2020
MTS PJSC	Dagestan Republic, Ingushetia Republic, KabardinoBalkar Republic, KarachaevoCherkesia Republic, Severnaya Osetia Alania Republic	131719	September 14, 2020
Sibintertelecom JSC	Zabaykalsky Territory	132676	September 14, 2020
MTS PJSC	Rostov region	138261	April 3, 2021
MTS PJSC	Bashkortostan Republic	129955	June 30, 2020
MTS PJSC	Khabarovsk Territory	127172	May 31, 2020
MTS PJSC	Altai Republic	128534	July 15, 2020
MTS PJSC	Novosibirsk region	128526	July 15, 2020
MTS PJSC	Khakassiya Republic	128522	June 17, 2020
MTS PJSC	Tomsk region	128535	June 17, 2020
MTS PJSC	Sakha Republic (Yakutia)	128527	June 17, 2020
MTS PJSC	Tatarstan Republic	129953	July 15, 2020
MTS PJSC	Perm region, Chelyabinsk region, Khanty Mansiysk Autonomous region, Kurgan region, Omsk region, Sverdlovsk region, Tyumen region, YamaloNenetsk Autonomous region	93682	April 17, 2017
MTS PJSC	Orenburg region	93684	April 17, 2017
MTS PJSC	Kirov region, Nizhny Novgorod region, Udmurt Republic	93685	April 17, 2017
MTS PJSC	Moscow, Moscow region	93680	April 17, 2017
MTS PJSC	Amur region	93681	April 17, 2017
MTS PJSC	Belgorod region, Bryansk region, Kursk region, Lipetsk region, Orel region, Voronezh region	93686	April 17, 2017
MTS PJSC	Ivanovo region, Kaluga region, Kostroma region, Ryazan region, Smolensk region, Tambov region, Tula region, Tver region, Vladimir region, Yaroslavl region	93687	April 17, 2017
MTS PJSC	St. Petersburg, Leningrad region, Arkhangelsk region, Kaliningrad region, Karelia Republic, Komi Republic, Murmansk region, Nenetsk Autonomous region, Novgorod region, Pskov region, Vologda region	93683	April 17, 2017
MTS PJSC	Penza region	125652	April 1, 2020
MTS PJSC	Chukotsk Autonomous region, Jewish Autonomous region, Irkutsk region, Kamchatka region	130982	August 13, 2020
MTS PJSC	Zabaykalsky Territory	118158	June 5, 2019
MTS PJSC	Mari El Republic	131720	September 14, 2020
MTS PJSC	Altaisk territory	111800	October 31, 2018
MTS PJSC	Volgograd region	127682	June 30, 2020
MTS PJSC	Buryatiya Republic, Kamchatka region, Magadan region, Sakhalin region	128520	June 17, 2020

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Licensee	License Region(s)	License number	Expiry Date
MTS PJSC	Primorsky Territory	135957	December 21, 2020
MTS PJSC	Stavropol territory	127685	May 26, 2020
MTS PJSC	Samara region	127689	May 26, 2020
MTS PJSC	Kemerovo region	128523	May 31, 2020
MTS PJSC	Saratov region	127687	May 31, 2020
MTS PJSC	Ulyanovsk region	127679	May 31, 2020
MTS PJSC	Astrahansk region	129956	July 15, 2020
MTS PJSC	Adygeya Republic	129945	July 15, 2020
MTS PJSC	Chechen Republic	104020	December 6, 2017
MTS PJSC	Russian Federation	101248	July 25, 2022
Multikabel'nye sety balashikhi LLC	Moscow region	149923	June 19, 2021
Teleservise JSC	Voronezh region	135893	December 21, 2020
	Data Transmission Services for Voice		
City Telecom CJSC	Moscow	122706	December 18, 2019
MTS PJSC	Russian Federation except Moscow, Moscow region, Krym Republic, Sevastopol	142345	April 15, 2026
Smarts-Yoshkar-Ola JSC	Mari El Republic	131212	June 4, 2020
MTS PJSC	Bashkortostan Republic	138260	April 11, 2021
MTS PJSC	Arkhangelsk region	117815	February 17, 2019
MTS PJSC	Krasnoyarsk Territory	117816	February 17, 2019
MTS PJSC	Novosibirsk region	117817	February 17, 2019
MTS PJSC	Leningrad region	117818	February 17, 2019
MTS PJSC	Nizhny Novgorod region	117819	February 17, 2019
MTS PJSC	Omsk region	117820	February 17, 2019
MTS PJSC	Smolensk region	117821	February 17, 2019
MTS PJSC	Novgorod region	117822	February 17, 2019
MTS PJSC	Tula region	117823	February 17, 2019
MTS PJSC	Volgograd region	117824	February 17, 2019
MTS PJSC	Kemerovo region	117825	February 17, 2019
MTS PJSC	Yaroslavl region	131138	June 4, 2020
Comstar-KHMAO JSC	Khanty Mansiysk Autonomous region	136646	December 1, 2020
MTS PJSC	Mordovia Republic	97001	March 15, 2017
MTS PJSC	Saratov region	97002	March 15, 2017
MTS PJSC	Tomsk region	97003	March 15, 2017
MTS PJSC	Mari El Republic	97005	March 15, 2017
MTS PJSC	Amur region	97006	March 15, 2017
MTS PJSC	Altaisk territory	97013	March 15, 2017
MTS PJSC	Buryatiya Republic	97014	March 15, 2017
MTS PJSC	Kalmykia Republic	97015	March 15, 2017
MTS PJSC	KarachaevoCherkesia Republic	97016	March 15, 2017
MTS PJSC	Pskov region	97017	March 15, 2017
MTS PJSC	Kamchatka region	97018	March 15, 2017
MTS PJSC	Komi Republic	97021	March 15, 2017
MTS PJSC	Murmansk region	97023	March 15, 2017
MTS PJSC	Kostroma region	97024	March 15, 2017
MTS PJSC	Altai Republic	97027	March 15, 2017
MTS PJSC	Vologda region	97028	March 15, 2017

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Licensee	License Region(s)	License number	Expiry Date
MTS PJSC	Dagestan Republic	97029	March 15, 2017
MTS PJSC	Orenburg region	97030	March 15, 2017
MTS PJSC	Sakha Republic (Yakutia)	97031	March 15, 2017
MTS PJSC	Stavropol territory	97032	March 15, 2017
MTS PJSC	Tyva Republic	97033	March 15, 2017
MTS PJSC	Chechen Republic	97035	March 15, 2017
MTS PJSC	Zabaykalsky Territory	97038	March 15, 2017
MTS PJSC	Kirov region	97039	March 15, 2017
MTS PJSC	Khakassiya Republic	97040	March 15, 2017
MTS PJSC	KabardinoBalkar Republic	97041	March 15, 2017
MTS PJSC	Ulyanovsk region	97042	March 15, 2017
MTS PJSC	Adygeya Republic	97044	March 15, 2017
MTS PJSC	Ingushetia Republic	97045	March 15, 2017
MTS PJSC	Kaliningrad region	97046	March 15, 2017
MTS PJSC	Karelia Republic	97047	March 15, 2017
MTS PJSC	Penza region	97048	March 15, 2017
MTS PJSC	Severnaya Osetia Alania Republic	97049	March 15, 2017
MTS PJSC	Khabarovsk Territory	97050	March 15, 2017
MTS PJSC	Chuvashia Republic	97051	March 15, 2017
MTS PJSC	Khanty Mansiysk Autonomous region, Sverdlovsk region	108752	March 25, 2018
MTS PJSC	Nenetsk Autonomous region	108753	March 25, 2018
MTS PJSC	Tatarstan Republic	108754	March 25, 2018
MTS PJSC	Ryazan region, Vladimir region	108755	March 25, 2018
MTS PJSC	Chukotsk Autonomous region, Jewish Autonomous region	108756	March 25, 2018
MGTS PJSC	Moscow	135506	February 16, 2021
MTS PJSC	Magadan region	97007	March 15, 2017
MTS PJSC	Chelyabinsk region	97034	March 15, 2017
MTS PJSC	Kurgan region	97022	March 15, 2017
MTS PJSC	Moscow	94372	March 30, 2017
MTS PJSC	Kaluga region	134512	October 26, 2020
MTS PJSC	Moscow region	134508	October 26, 2020
MTS PJSC	Ivanovo region	134510	October 31, 2020
MTS PJSC	Rostov region	137565	February 16, 2021
MTS PJSC	Irkutsk region, Primorsky Territory, Sakhalin region	135029	December 12, 2020
MTS PJSC	Belgorod region, Bryansk region, Kursk region, Lipetsk region, Orel region, Voronezh region	130985	July 28, 2020
MGTS PJSC	Moscow region	125849	January 26, 2017
MTS PJSC	Astrahansk region	122731	December 18, 2019
MTS PJSC	Krasnodar territory	110717	August 17, 2017
MTS PJSC	Perm region	110716	February 27, 2018
MTS PJSC	Russian Federation	101245	July 25, 2022
MTS PJSC	Tambov region	122730	December 18, 2019
MTS PJSC	Tyumen region, YamaloNenetsk Autonomous region	135966	December 1, 2020
MTS PJSC	St. Petersburg	124994	January 28, 2020

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Licensee	License Region(s)	License number	Expiry Date
MTS PJSC	Udmurt Republic	110729	February 27, 2018
MTS PJSC	Samara region	123560	December 31, 2019
MTS PJSC	Tver region	122267	November 24, 2019
	Mobile Radio Services		
MTS PJSC	Orenburg region	145058	October 2, 2021
MTS PJSC	Rostov region	110721	August 31, 2017
MTS PJSC	YamaloNenetsk Autonomous region	135964	December 15, 2020
MTS PJSC	Khanty Mansiysk Autonomous region	138956	December 15, 2020
MGTS	Moscow, Moscow Region	112630	August 02, 2018
	Telecommunications Services for Cablecasting		
MTS PJSC	Russian Federation	122268	November 24, 2019
MGTS	Moscow	137356	January 27, 2021
MGTS	Moscow region	137355	June 18, 2018
Multikabel'nye sety balashikhi LLC	Moscow region	149924	June 19, 2021
Teleservice JSC	Voronezh region	138177	March 15, 2021
	Telecommunications Services for Broadcasting		
Sputnikovoe TV	Russian Federation except Nenetsk Autonomous region, Chukotsk Autonomous region, Kamchatka region, Magadan region	123687	October 1, 2019
	Cable Radio (communication services for the purpose of wire broadcasting)		
MTS PJSC	Nizhny Novgorod region	123659	October 1, 2019
MTS PJSC	Sverdlovsk region	138953	May 23, 2019
MTS PJSC	Kirov region	149715	November 16, 2021
MTS PJSC	Perm region	129415	April 22, 2020
MTS PJSC	Chelyabinsk region	137711	November 20, 2020

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C. Organizational Structure

The table below presents our significant subsidiaries and investees, the places of incorporation and our effective ownership interests therein as of December 31, 2016.

Subsidiary	Accounting Method	Ownership Interest	Place of Incorporation/ Organization
Russian Telephone Company	Consolidated	100.0%	Russia
MTS Ukraine	Consolidated	100.0%	Ukraine
MTS Turkmenistan	Consolidated	100.0%	Turkmenistan
Sibintertelecom	Consolidated	100.0%	Russia
NVision Group	Consolidated	100.0%	Russia
Sitronics Telecom Solutions	Consolidated	100.0%	Russia
Nvision Czech Republic	Consolidated	100.0%	Czech Republic
Sputnikovoe TV	Consolidated	100.0%	Russia
Stream LLC	Consolidated	100.0%	Russia
Dega Retail Holding Limited	Consolidated	100.0%	British Virgin Islands
Stream Digital LLC[1]	Consolidated	100.0%	Russia
Metro-Telecom	Consolidated	95.0%	Russia
MGTS	Consolidated	94.7%	Russia
K-Telecom	Consolidated	80.0%	Armenia
Navigation Information Systems Group	Consolidated	77.7%	Russia
MTS International Funding[2]	Consolidated	SE	Ireland
MTS Belarus	Equity	49.0%	Belarus
MTS Bank	Equity	26.6%	Russia
Zifrovoe TV	Equity	20.0%	Russia
OZON	Equity	10.8%	Cyprus

(1) A wholly owned subsidiary, through which we repurchase our own shares.

(2) A private limited company organized and existing under the laws of Ireland for the sole purpose of financing a loan to MTS. The company is a structured entity of the Group.

See also Note 2 to our audited consolidated financial statements.

D. Property, Plant and Equipment

Property, Plant and Equipment

We own and occupy premises in Moscow at 4 Marksistskaya Street Bldgs. 1-4, 34 Marksistskaya Street Bldg. 10, 1/3 Vorontsovskaya Street Bldgs. 2 and 2a, 5 Vorontsovskaya Street Bldgs. 1 and 2, 13/ 14 Vorontsovskaya Street Bldg. 4, 8 Vorontsovskaya Street Bldg. 4A, 12/12 Pankratievsky Pereulok, 2/10 Perviy Golutvinskiy Pereulok Bldg. 1 and 2, 4 Perviy Golutvinskiy Pereulok Bldg. 1, 9 Magnitogorskaya Street , 6 Vtoroy Vyazovskiy Proezd Building 1-3, 2A Konstantina Simonova Street, 19 Dmitrovskoye shosse Bldg. 2, 103 Prospect Mira, 42 Profsoyuznaya Street Bldg. 1, Panfilovskiy prospect Zelenograd Bldg 1101A, 24/2 Malaya Dmitrovka Street, 5/9 Malaya Dmitrovka Street, Sheremetyevo Airport, 58/1 Ryazanskiy prospect, 60 Varshavskoe shosse, 27 Smolenskaya-Sennaya square Bldg 2, 27 Smolenskaya-Sennaya square Bldg 3, 6 Ostrovitjanova Street, 2 Mozhayskoe shosse, which we use for administration, sales and other service centers as well as the operations of mobile switching centers.

We also lease buildings in Moscow for similar purposes, including marketing and sales and other service centers. In addition, through our subsidiary MGTS, we own approximately 132 buildings located

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throughout Moscow, which serve as sales and customer service offices, house MGTS' telecommunication equipment and are leased to third parties. We also own office buildings in some of our regional license areas and in Ukraine, and we lease office space on an as- needed basis. We believe that our properties are adequate for our current needs and additional space is available to us if and when it is needed.

The primary elements of our network are base stations, base station controllers, transcoders and mobile switching centers. Base stations occupy sites leased at selected locations in all the areas in which we provide network coverage. GSM, 3G and 4G technologies are based on an "open architecture," which means that equipment from one supplier can be combined with that of another supplier to expand the network. Thus, there are no technical limitations to using equipment from different suppliers.

Item 4A. ***Unresolved Staff Comments***

None.

Item 5. ***Operating and Financial Review and Prospects***

The following discussion of our financial condition and results of operations is intended to help the reader understand us, our operations and our present business environment and should be read in conjunction with our consolidated financial statements, related notes and other information included elsewhere in this document. In particular, we refer you to the risks discussed in "Item 3. Key Information D. Risk Factors" for information regarding governmental, economic, fiscal, monetary or political policies or factors that could materially adversely affect our operations or your investment in our shares and ADSs. In addition, this section contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Item 3. Key Information D. Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements." Our reporting currency is the Russian ruble and our consolidated financial statements have been prepared in accordance with IFRS.

A. Operating Results

Overview

We are a leading telecommunications provider in Russia and the CIS, providing a wide range of mobile and fixed line voice, data telecommunications and digital services, including transmission, broadband, pay-TV, various value-added services as well as integratrion services and selling equipment and accessories. According to AC&M-Consulting, we are the largest mobile operator in Russia and the second largest in Ukraine in terms of mobile subscribers. We are also the largest operator in Armenia in terms of mobile subscribers, according to our estimates. As of December 31, 2016, we had a mobile subscriber base of approximately 104.6 million.

We are also the largest operator in the Moscow residential broadband market in terms of subscribers, with a 32% market share as of December 31, 2016, based on TMT consulting data.

Our revenues for the year ended December 31, 2016 increased by 2.1% to RUB 435,692 million due to sustained growth in data usage throughout key markets and increased handset sales in Russia. Our operating income for the year ended December 31, 2016 decreased by 6.7% to RUB 87,670 million due to additional expenses in retail as well as generally increased costs in Russia due to macroeconomic pressure. Our profit for the year ended December 31, 2016 decreased slightly by 2.1% to RUB 48,474 million generally repeating our operating income dynamics. Our profit was also affected by an increase in finance costs related to repurchase of our Eurobonds due in 2020 and

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decreased finance income. Those effects were partially offset by the strengthening of the ruble coupled with improved performance of our non-operating affiliates (mainly MTS Bank).

Our revenues for the year ended December 31, 2015 increased by 3.9% to RUB 426,639 from RUB 410,678 for the year ended December 31, 2014 due to increase in usage of value added services by our subscribers. Our operating income for the year ended December 31, 2015 totaled to RUB 93,923 million, a decrease of 5.9% from RUB 99,858 for the year ended December 31, 2014. The decrease was mainly attributable to impairment of goodwill in Armenia (RUB 3,516) as well as higher depreciation and amortization expenses resulting from renewal of our billing and other software and continued development of GPON project in Russia. Our profit for the year ended December 31, 2015 decreased by 3.5% to RUB 49,489 million from RUB 51,306 million for the year ended December 31, 2014 . In addition to the operating income trend, our profit was affected by increase of finance costs (RUB 9,170 million) and loss from discontinued operations related to our subsidiary in Uzbekistan (RUB 11,443 million). The described negative effects were partially offset by decrease in currency exchange and transaction loss (RUB 11,772 million), higher finance income (RUB 4,849 million), lower non-operating share of loss of our non-operating affiliates (RUB 2,757 million) and positive change in fair value of liability related to put option agreement in Armenia (RUB 1,273 million).

We require significant funds to support our subscriber growth, primarily for increasing network capacity, maintaining and modernizing our mobile and fixed line networks, developing our network in the regions and continuing the build-out of our LTE, 3G and broadband Internet networks.

Our cash outlays for capital expenditures for the years ended December 31, 2014, December 31, 2015 and 2016 were RUB 91,929 million, RUB 106,537 and RUB 86,149 million, respectively.

We have financed our cash requirements through our operating cash flows and borrowings. Net cash provided by operating activities for the years ended December 31, 2014, December 31, 2015 and 2016 was RUB 158,979, RUB 144,087 million and RUB 130,565 million, respectively.

Our borrowings consist of notes and bank loans. Our notes comprise of U.S. dollar and ruble denominated notes. As of December 31, 2016 and December 31, 2015 U.S. dollar denominated notes totaled to RUB 46.8 billion and RUB 76.1 billion, and ruble denominated notes amounted to RUB 31.4 billion and RUB 23.9 billion , respectively. Our bank loans consist of U.S. dollar, euro and ruble-denominated borrowings totaling approximately RUB 195.1 billion as of December 31, 2016 and RUB 234.0 billion as of December 31, 2015.

We repaid approximately RUB 90.2 billion of indebtedness in 2016. As of December 31, 2016, the total amount available to us under our credit facilities amounted to RUB 40.9 billion. We had total indebtedness of approximately RUB 284.3 billion as of December 31, 2016, including capital lease obligations, compared to approximately RUB 345.9 billion as of December 31, 2015.

Our total finance costs for the years ended December 31, 2014, December 31, 2015 and 2016 was RUB 17,252 million, RUB 26,423 million and RUB 27,136 million, net of amounts of interest capitalized, respectively. See Note 15 to our audited consolidated financial statements for a description of our indebtedness.

Our reporting currency is Russian rubles. Our and our subsidiaries' functional currencies are the ruble in Russia, the hryvnia in Ukraine, the manat in Turkmenistan, the dram in Armenia and the som in Uzbekistan (before UMS (as difined below) was deconsolidated). See " Certain Factors Affecting our Financial Position and Results of Operations Currency fluctuations" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

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Segments

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.

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 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, Belarus and headquarters.

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 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.

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Total revenues of our segments for the years ended December 31, 2014, 2015 and 2016 were as follows:

	Year Ended December 31,		
	2014	2015	2016
	(in millions of Russian rubles)		
Total revenues			
Russia convergent	340,732	357,518	363,678
Moscow fixed line	40,824	39,606	39,667
Ukraine	32,810	28,194	29,187
Other	11,094	17,214	25,514
Eliminations[(1)]	(14,782)	(15,893)	(22,354)
Total revenues as reported	410,678	426,639	435,692

(1) Represents the elimination of inter-company transaction results, primarily interconnect, roaming, rent of channels and telecommunications infrastructure and integration.

Certain Operating Data

Below we provide certain operating data not included in our financial statements that we believe is useful for evaluating our business and results. The data focuses primarily on our mobile operations, particularly in Russia and Ukraine, which comprise the most significant share of our revenue in the periods presented, and is among the information routinely reviewed by our management as part of their regular evaluation of our performance.

Mobile Subscriber Data

The following table shows our mobile subscribers by country as of the dates indicated:

	At December 31,		
	2014	2015	2016
	(in millions)		
Subscribers[(1)]			
Russia	74.6	77.3	80.0
Ukraine	20.2	20.4	20.9
Turkmenistan	1.7	1.6	1.7
Armenia	2.1	2.1	2.1
Total consolidated	98.6	101.4	104.7
MTS Belarus (unconsolidated)	5.3	5.3	5.2

(1) We define a subscriber as an organization or individual, whose SIM-card shows traffic-generating activity or accrues a balance for services rendered or is replenished of topped off over the course of any three-month period, inclusive within the reporting period, and was not blocked at the end of the period.

We had approximately 80.0 million subscribers in Russia as of December 31, 2016, and a leading 31% market share of total mobile cellular subscribers in Russia, according to AC&M-Consulting. Overall penetration in Russia was at approximately 178.9%, according to AC&M-Consulting. We had approximately 20.9 million subscribers in Ukraine as of December 31, 2016 and, according to AC&M-Consulting, a 36% market share of total mobile cellular subscribers in Ukraine. In addition, as of December 31, 2016, we had approximately 2.1 million subscribers in Armenia, and 1.7 million subscribers in Turkmenistan, representing a 59% and 30% market share, respectively, according to our

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estimates. For a description of our fixed line subscriber base, see "Item 4. Information on Our Company B. Business Overview Fixed Line Services."

Revenues

Our principal sources of revenue are:

- mobile service revenues, which include usage and interconnect fees, value-added services fees, monthly subscription fees, roaming fees and connection fees;
- fixed service revenues from individual and corporate subscribers, which include monthly subscription fees, traffic charges, connection fees, revenues from broadband Internet connection and data transmission services, revenues from pay-TV and from sales of end-user telecommunications equipment. Fixed service revenues also include revenues received from operators, which comprise revenues from the renting out of channels and traffic charges and revenues from the renting out of telecommunications infrastructure;
- revenues from sales of handsets, accessories and other goods; and
- Integration services, including the resale of software products.

Our mobile service subscriber tariffs in Russia and Ukraine are not currently regulated by any organization or governmental authority. The interconnect fees we charge to other operators for terminating calls interconnecting to our mobile network are not regulated in Russia, but are regulated in Ukraine. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Governmental regulation of SMP operators in Ukraine could adversely affect our results of operations," " If we are found to have a dominant position in the markets where we operate and are determined to have abused this position, the FAS may influence our subscriber tariffs and impose certain restrictions on our operations" and " If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

Certain of our fixed service tariffs are regulated, including tariffs charged by Moscow incumbent operator MGTS for installation fees, monthly subscription fees and local call charges, as well as interconnect and traffic transit tariffs. The interconnect tariffs charged by us are also regulated by the Federal Agency on Communications.

Service revenues

We have changed the revenues breakdown description by combining revenues from usage fees, value added fees and monthly subscription fees into "subscription, voice and data revenues." We believe the new presentation is more accurate and reflects the revenues from bundled services offers. The change in the revenue breakdown description does not effect in any changes in revenue amounts.

Subscription, voice and data revenues primarily include monthly fees paid by our users of tariff plans which contain fixed volume of services such as minutes of usage, sms, internet traffic and other services. The over-the-limit consumption of services are charged to our subscribers depending on a tariff plan. Subscription, voice and data revenues as a percentage of our total revenues were 56.1% in 2015 and 56.0% in 2016. We expect subscription, voice and data revenues as a percentage of our total operating revenue to remain stable in 2017.

Interconnect fees, which are fees for connecting users of other operators' fixed line and wireless networks to our network, comprised 11.6% and 11,4% of our total revenues in 2015 and 2016, respectively. In absolute terms, interconnect fees remained stable and we expect it to remain stable in 2017.

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Roaming fees for guest subscribers include amounts charged to other cellular operators for their subscribers *i.e.*, guest roamers, utilizing our network while traveling in our service area. We bill other cellular operators for calls of guest roamers carried on our network. Roaming fees for guest subscribers as a percentage of our total revenues remained stable and comprised 0.7% and 0.8% in 2015 and 2016, respectively. We generally expect roaming fees to remain stable as a percentage of our total revenues. See "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Antimonopoly Proceedings."

Roaming fees for our own subscribers include amounts charged to our subscribers while traveling out of our service area. Roaming fees for own subscribers as a percentage of our total revenues represented 6.9% in 2015 and 5.6% in 2016. We expect that our roaming fees will decrease slightly as a percentage of our total operating revenue, due to individually insignificant changes in ther types of revenue

Connection fees consist of charges incurred by subscribers for the initial connection to our network and sign-up for value-added services. We defer connection fees and recognize them as revenues over the estimated average subscriber life in our network or over the period of service rendering. Connection fees represented 0.4% and 0.2% of our total revenues in 2015 and 2016, respectively. We expect connection fee revenues to remain at a low level as a percentage of our total revenues.

Fixed service revenues which consist primarily of fixed line telephony services, broadband internet and pay-TV services, comprised 13.4% and 13.0% of our total revenues in 2015 and 2016, respectively. In absolute terms, we expect an increase in the number of internet and TV users to stimulate further growth of fixed service revenues due to the development of our GPON project and consequent improvement in quality and uptake of services provided.

Sales of goods

Sales of goods primary consist of the sale of handsets and accessories and sales of software products and as a percentage of total revenue comprised 9.5% in 2015 and 10.4% in 2016. The increase in 2016 as compared to 2015 is attributable to the acquisition of NVision Grpoup which regularly resale software products. We expect that sales of goods will remain stable as a percentage of total revenue, as smartphones and devices sales support the usage of our voice and data tariff plans. We do not subsidize handset sales in Russia. In Ukraine, we subsidize handsets for some of our contract subscribers as well as modems for GSM and CDMA users. See " Cost of goods" below.

Cost of Services

Interconnect and line rental. Interconnect and line rental charges include charges payable to other operators for access to, and use of their networks, which are necessary in the course of providing service to our subscribers. Interconnect charges as a percentage of our total revenues represented 11.7% in 2015 and 11.1% in 2016. Line rental charges as a percentage of our total revenues represented 1.7% in 2015 and 1.7% in 2016.

We expect that interconnect expenses payable by us to other operators for termination of traffic generated by our subscribers will continue to increase. Primarily, this increase will likely be attributable to the growth in the volume of traffic resulting from our efforts to encourage greater usage through the introduction of new services, which may be supported by marketing campaigns.

We expect line rental costs to increase based on the number of base stations, base station controllers, the number and capacity of rented lines.

Roaming expenses. Roaming expenses consist of amounts charged by other cellular operators under agreements for roaming services provided to our subscribers while outside our service area. Roaming expenses as a percentage of our total revenues represented 3.2% in 2015 and 3.6% in 2016.

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The increase of roaming expenses as a percentage of our total revenues was largely due to the increase in roaming traffic.

Other direct costs. Our other direct costs primary consist of:

- production staff's salary, bonuses and social contributions;
- rental charges for network placement;
- network repair and maintenance;
- electricity charges; and
- payments for radio frequencies usage.

Our other direct costs as a percentage of our total revenues represented 11.0% in 2015 and 11.5% in 2016. The increase is mainly attributable to rise of the salary and social contributions expenses resulting from higher number of employees (including those retained through business combinations). In addition electricity and rental charges for placement of technical facilities grew as a result of inflation and increasing number of sites rented. Other direct costs as a percentage of revenue are expected to increase over time as a result of inflation.

Cost of goods

This type of expense includes primarily the cost of handsets and accessories sold to subscribers, the cost of SIM cards provided to our customers, the cost of software products sold and inventory obsolescence provision. Cost of handsets, accessories sold and SIM cards provided to customers as a percentage of our total revenues represented 8.5% in 2015 and 10.5% in 2016. The increase in 2016 was primarily attributable to the continuing growth in our handsets sales stimulated by aggressive smartphone pricing strategy aimed to counteract competitors' efforts to markedly increase their share of distribution in the market and drive further migration to higher value tariffs. We do not subsidize handset sales other than in Ukraine, where we subsidize handsets on a limited basis to contract subscribers as well as modems for CDMA users.

Generally, we provide SIM cards to our customers free of charge. The cost of SIM cards amounted to RUB 0,974 million in 2015 and RUB 0,940 million in 2016.

Selling, general and administrative expenses

Our selling expenses comprise of all costs relating to the activities that do not directly increase the value of our products and services, but serve to secure sales. These costs consist primarily of:

- expenses for advertising and promotion;
- dealer commissions for the acquisition of new subscribers and cash collection;
- personnel, utilities and maintenance costs incurred in the area of sales.

Selling expenses have generally increased in prior years as subscribers number, market saturation and market competition have increased, as well as in connection with the further development of our brand and introduction of new value-added services. In 2016 and 2015, selling expenses comprised 12.3% and 11.8% of our total revenue, respectively. The increase of selling expenses in 2016 was mainly attributable to expansion of our retail network, number of opened stores increased by 25% in comparison to 2015.

We retain some degree of flexibility to increase or decrease these expenses in any given period based on our requirements, strategy and the general economic environment. For the structure of our

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dealer commissions in Russia and Ukraine please see "Item 4. Information on Our Company B. Business Overview Mobile Operations Sales and Marketing Sales and Distribution."

Our general and administrative expenses comprise of expenses attributable to the core administrative functions that cannot be allocated directly to the production or selling process. These consist primarily of:

- personnel costs;
- billing and data processing expenses;
- taxes other than income taxes, *e.g*. property taxes;
- office maintenance expenses and rental of administrative premises;
- consulting expenses; and
- other expenses of administrative nature.

General and administrative expenses as a percentage of our total revenues represented 8.7% in 2015 and 9.3% in 2016. The increase of general and administrative expenses was mainly due to increase in our personnel costs and the release of provisions for VAT and custom duties recognized in 2015. General and administrative expenses as a percentage of revenue are expected to increase over time as a result of inflation.

Sundry Operating Income/Expenses

Our sundry operating income/expenses include:

- operating share of associates' profit;
- provision for investments in distressed banks (impairment charges incurred in 2015);
- impairment for goodwill and long-lived assets;
- other operating expenses such as allowance for doubtful accounts, gain/losses on disposal of property, plant and equipment and intangible assets as well as any gain/losses resulting from stock-taking.

Sundry operating income/expenses as a percentage of our total revenues represented 0.6% and 0.1% as of December 31, 2015 and 2016, respectively. In 2016 sundry operating income amounted to RUB 222 million against operating expenses of RUB 2,480 in 2015. The income was mainly attributable to gain on sale of property, plant and equipment as well as compensation received from other operators for the transfer of our radio frequencies. Furthermore, the decrease of sundry operating expenses was due to reduction of allowance for doubtful accounts.

Depreciation of Property, Network Equipment and Amortization of Intangible Assets

Our expense for depreciation of property, network equipment and amortization of intangible assets as a percentage of our total revenues increased to 18,7% for the year ended December 31, 2016 as compared to 18.2% of our total revenues for the year ended December 31, 2015. This increase was in line with our expectations, and we expect further increases in connection with our ongoing network development and modernization program and the build-out associated with our regional networks.

Finance costs

Our finance costs for 2016 increased by RUB 713 million or 2.70% compared to 2015 and amounted to RUB 27,136 million. The increase was primarily attributable to the partial early

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redemption of our Eurobond due in 2020. We expect our finance costs to remain relatively stable in 2017.

Provision for Income Taxes

Taxation on income of Russian companies is regulated by a number of laws, government decrees and implementation instructions.

The income tax base for Russian companies is defined as income received from sales of goods and services reduced by the amount of expenses incurred in such operations with certain exceptions.

The statutory income tax rate in Russia is 20%. The statutory income tax rate in Ukraine is 18%. The effective tax rate applicable to our consolidated group in the year ended December 31, 2016, 2015 and 2014 was 22.4%, 20,8% and 25,8%, respectively. The effective tax rate differs from the statutory rate insignificantly, mainly as a result of items not liable for tax purposes, effect of the lower tax rates of subsidiaries and effect of the change in fair value of derivative financial instruments.

Certain Factors Affecting our Financial Position and Results of Operations

Change of reporting standards

Beginning from January 1, 2015, we prepare our consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board. For periods up to and including the year ended December 31, 2014, we prepared our consolidated financial statements in accordance with U.S. GAAP. The date of transition to IFRS is January 1, 2014.

Currency fluctuations

A majority of our capital expenditure and a part of our liabilities and borrowings are either denominated in or tightly linked to the U.S. dollar or euro. A significant part of our financial assets and liabilities, denominated in U.S. dollars, excluding trade accounts receivables and payables, is hedged through financial instruments with various banks. We conduct our operations within the Russian Federation, Ukraine, Turkmenistan and Armenia, and we are therefore subject to currency fluctuations. The local currencies of these countries fluctuate significantly against the U.S. dollar and euro. As a result of the fluctuations we may incur significant currency exchange gains/losses which may adversely affect our net income.

Inflation

Our financial position and results of operations as reflected in our audited consolidated financial statements included elsewhere in this document have been influenced by inflation.

The Russian economy has been characterized by high rates of inflation:

Year	Inflation rate
2014	11.4%
2015	12.9%
2016	5.4%

Source: Federal State Statistics Service.

The Ukrainian economy has been characterized by high rates of inflation:

Year	Inflation/(deflation) rate
2014	12.1%
2015	48.7%
2016	13.9%

Source: State Statistics Committee of Ukraine.

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Inflation rates in Armenia and Turkmenistan in 2016 were estimated at 4.0% and 6.17%, respectively.

We expect inflation-driven increases in costs to put pressure on our margins. While we could seek to raise our tariffs to compensate for such increase in costs, competitive pressures may not permit increases that are sufficient to preserve operating margins. See "Item 3. Key Information D. Risk Factors Risks Relating to our Financial Condition Inflation could increase our costs and adversely affect our results of operations."

Acquisitions

Our results of operations for the periods presented are significantly affected by acquisitions. Results of operations of acquired businesses are included in our audited consolidated financial statements for the periods after their respective dates of acquisition. See "Item 3. Key Information A. Selected Financial Data."

Below is a list of our major acquisitions during 2014, 2015 and 2016.

Company	Type	Date of acquisition	Stake acquired	Purchase price
2014				
Ozon Holdings Limited	e-commerce retailer	April 2014	10.8%	2,702
SMARTS-Ivanovo	Regional mobile operator	December 2014	100%	428
SMARTS-Ufa	Regional mobile operator	December 2014	100%	400
Penza-GSM	Regional mobile operator	December 2014	100%	2,039
				5,569
2015				
Navigation Information Systems Group	Systems integrator for GLONASS satellite projects	January 2015	89.5%	44
NVision Group	System integrator and complex IT solutions provider	July - December 2015	100%	11,213
Stream	Content aggregator	December 2015	55%	1,650
				12,907
2016				
Smarts-Yoshkar-Ola	Regional mobile operator	September 2016	100%	13
				13

Results of Operations

Our management identified the following reportable segments: Russia convergent, Moscow fixed line and Ukraine. See " Segments."

Intercompany eliminations presented below consist primarily of sales transactions between segments conducted in the normal course of operations.

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Financial information by reportable segments is presented below:

	Year Ended December 31,		
	2014	2015	2016
Total revenues			
Russia convergent	340,732	357,518	363,678
Moscow fixed line	40,824	39,606	39,667
Ukraine	32,810	28,194	29,187
Other	11,094	17,214	25,514
Eliminations[1]	(14,782)	(15,893)	(22,354)
Total revenues as reported	410,678	426,639	435,692
Costs of services, excluding depreciation and amortization shown separately below, and cost of goods			
Russia convergent	129,531	145,479	151,649
Moscow fixed line	12,965	12,702	12,985
Ukraine	11,941	11,327	13,297
Other	3,749	8,235	17,253
Eliminations[1]	(13,688)	(14,383)	(19,452)
Cost of services and cost of goods as reported	144,498	163,360	175,732
Sundry operating expenses[2]			
Russia convergent	1,948	4,382	1,677
Moscow fixed line	(127)	(1,842)	(2,106)
Ukraine	4,908	1,743	(33)
Other	(3,283)	(149)	(3,047)
Eliminations[1]	47	39	172
Sundry operating expenses as reported	3,493	4,173	(3,337)
Selling, general and administrative expenses			
Russia convergent	65,299	63,700	67,694
Moscow fixed line	6,809	7,294	7,038
Ukraine	5,773	5,210	6,019
Other	11,237	12,434	15,107
Eliminations[1]	(1,023)	(1,298)	(1,812)
Selling, general and administrative expenses as reported	88,095	87,340	94,046
Depreciation and amortization expenses			
Russia convergent	57,647	61,266	60,285
Moscow fixed line	7,609	7,715	10,900
Ukraine	6,779	5,199	6,304
Other	2,771	3,743	4,232
Eliminations[1]	(72)	(80)	(139)

Depreciation and amortization expenses as reported	74,774	77,843	81,582
Operating profit			
Russia convergent	86,310	82,691	82,375
Moscow fixed line	13,568	13,737	10,850
Ukraine	3,409	4,715	3,599
Other	(3,383)	(7,049)	(8,032)
Eliminations[(1)]	(46)	(171)	(1,123)
Operating profit as reported	99,858	93,923	87,669

(1) Represents the elimination of inter-company transaction results, primarily interconnect, roaming, rent of channels and telecommunications infrastructure and integration.

(2) For the purposes of this analysis "Sundry operating expenses" consist of allowance for doubtful accounts, impairment of long-lived assets and goodwill, other operating expenses/(income), operating share of profit of associates and provision for investments in distressed banks.

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Year Ended December 31, 2016 compared to Year Ended December 31, 2015

Revenues and cost of services and cost of goods

Consolidated revenues for the year ended December 31, 2016, increased by RUB 9,053 million, or 2.1%, to RUB 435,692 million from RUB 426,639 million for the year ended December 31, 2015. The principal reason for the growth of our consolidated revenues for the year ended December 31, 2016, was the large increase in the usage of voice and data tariffs by our subscribers (by RUB 4,811 million), which was mainly attributable to the increase in mobile internet penetration, an increase in usage of smartphones by our subscribers, active 3G and LTE network expansion and the consequent improvement of the quality and uptake of value-added services. The increase of our consolidated revenues for the year ended December 31, 2016 was also supported by the growth in revenues from sales of handsets and accessories by RUB 5,023 million and by the increase of revenues from sales of software products by RUB 3,718 million. The increase in sales of handsets and accessories by RUB 5,023 million resulted from active marketing initiatives and continued expansion of our retail operations. The increase in sales of software products is attributable to the acquisition of NVision group at the end of 2015.

The decrease of our revenues from roaming fees of own subscribers by RUB 5,262 million in the year ended December 31, 2016 is attributable to promotion of tariff plans with reduced price per minute and overall decrease of consumption due to adverse changes in macroeconomic situation in Russia and Ukraine. Our consolidated mobile subscriber base increased and amounted to 104.6 million as of December 31, 2016 as compared to 101.4 million as of December 31, 2015. The decrease in the mobile churn rate in Russia to 39.0% from 39.6% in 2015 had an immaterial impact on our consolidated revenues.

Consolidated cost of services and cost of goods for the year ended December 31, 2016 increased by RUB 12,372 million and amounted to RUB 175,372 million as compared to RUB 163,360 million for the year ended December 31, 2015 and comprised 40.3% and 38.3% as a percentage of consolidated revenues for the year ended December 31, 2016 and 2015, respectively. The increase was mainly attributable to the growth of cost of handsets and accessories by RUB 4,753 million, cost of software products by RUB 3,135, roaming expenses by RUB 1,941 million, salary and social contribution expenses by RUB 1,435 million, charges for network placement and electricity by RUB 1,883 million. The cost of handsets and accessories grew as percentage of consolidated revenues by 1.0% as a result of promoting sales of smartphones and aggressive pricing policy aimed to boost smartphone penetration. The increase in cost of software products is attributable to the acquisition of NVision Group at the end of 2015. The increase in roaming expenses is mainly attributable to the increase in traffic. The rise of the salary and social contributions resulted from the increase in number of employees. Electricity and rental charges for network placement increased due to inflation and growth of the number of rented sites.

Russia convergent revenues for the year ended December 31, 2016, increased by 1.7% to RUB 363,678 million from RUB 357,518 million for the year ended December 31, 2015. The increase in Russia convergent revenues in the year ended December 31, 2016, was primarily due to the growth of revenues from voice and data tariffs by RUB 3,095 million, revenues from sales of handsets and accessories by RUB 4,738 million, revenues from sales of software products by RUB 2,093. Revenue from voice and data tariffs increased due to active promotion of such tariffs, significant volume of Internet traffic included and the constant improvement of services provided. Revenues from sales of handsets and accessories increased to RUB 44,738 million in the year ended December 31, 2016 from RUB 40,000 million in the year ended December 31, 2015 due to pricing strategy aimed to push subscribers data adoption and attract new subscribers. Revenues from sales of software products increased due to the acquisition of NVision group at the end of 2015. The decrease of our revenues from roaming fees from own subscribers by RUB 5,204 million as compared to the year ended

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December 31, 2015 is attributable to overall decrease of consumption due to adverse changes in macroeconomic situation in Russia.

Russia convergent cost of services and cost of goods for the year ended December 31, 2016, increased by 4.2% to RUB 151,649 million from RUB 145,479 million for the year ended December 31, 2015. The increase of Russia convergent cost of services and cost of goods was mainly attributable to the growth of cost of handsets, accessories and other goods by RUB 4,371 million, cost of software products by RUB 1,554 million and of charges for network placement and electricity by RUB 1,421 million. The growth in cost of handsets, accessories and other goods resulted from the increase in volume of sales of handsets and accessories sales by 11.8% in the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in the cost of software products sold is attributable to the acquisition of NVision Group in the end of 2015. Electricity and rental charges for network placement increased due to inflation and growth of the number of rented sites. The growth of the Russia mobile cost of services and cost of goods was offset by reduction of interconnect expenses by RUB 2,756 million due to the decline of outgoing traffic volumes and cost of value added services by RUB 597 million resulted from the change in the structure of value added services sold in favor of high margin services.

Moscow fixed line revenues for the year ended December 31, 2016, remained relatively stable and amounted to RUB 39,667 million as compared to RUB 39,606 million.

Moscow fixed line cost of services and cost of goods for the year ended December 31, 2016, increased by 2.2% to RUB 12,985 million from RUB 12,702 million for the year ended December 31, 2015. The increase was primarily attributable to the growth of rent expenses by RUB 257 million as a result of rental rates indexation.

Ukraine revenues increased by 3.5% to RUB 29,187 million in the year ended December 31, 2016, from RUB 28,194 million in the year ended December 31, 2015, primarily due to the active marketing campaigns to promote Vodafone brand and maintain subscribers' loyalty.

Ukraine cost of services and cost of goods increased by 17.4% to RUB 13,297 million in the year ended December 31, 2016, from RUB 11,327 million in the year ended December 31, 2015. The increase was attributable to the growth of roaming expenses by RUB 1,600 million due to the significant traffic growth attributable to the dramatic tariffs decrease.

Other countries and business activities revenues for the year ended December 31, 2016, increased to RUB 25,514 million from RUB 17,214 million for the year ended December 31, 2015. The growth of revenue by RUB 8,299 million resulted from the acquisition of NVision Group in the end of 2015.

Other countries and business activities cost of goods for the year ended December 31, 2016, increased to RUB 17,253 million from RUB 8,235 million for the year ended December 31, 2015 due to the acquisition of NVision Group in the end of 2015.

Sundry operating expenses

Consolidated sundry operating expenses for the year ended December 31, 2016, decreased by RUB 7,510 million. We generated income of RUB 3,337 million and expense of RUB 4,173 million for the year ended December 31, 2016 and 2015, respectively. These amounts comprised (0.8)% and 1.0% as a percentage of consolidated revenue for the year ended December 31, 2016 and 2015. In the year ended December 31, 2015 consolidated sundry operating expenses included impairment of goodwill in Armenia in the amount of RUB 3,516 million and impairment charges related to distressed Ukrainian banks in the amount of RUB 1,698 million. In the year ended December 31, 2016 consolidated sundry operating income included compensation from other operators for the transfer of our radio frequencies in the amount of RUB 848 million (income). The decrease in bad debt provision in Russia in the year ended December 31, 2016 also contributed to the decrease in consolidated sundry operating expenses.

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Russia convergent sundry operating expenses for the year ended December 31, 2016, decreased by 62% or RUB 2,705 million to RUB 1,677 million from RUB 4,382 million for the year ended December 31, 2015 and comprised 0.5% and 1.2% of Russia convergent revenues for the year ended December 31, 2016 and 2015, respectively. In the year ended December 31, 2016 Russia convergent sundry operating expenses included compensation from other operators for submitted radio frequencies in the amount of RUB 848 million (income). The decrease in bad debt provision in Russia corresponding with decrease in trade receivables in the year ended December 31, 2016 also contributed to the decrease in Russia convergent sundry operating expenses.

Moscow fixed line sundry operating income for the year ended December 31, 2016, increased by RUB 264 million to RUB 2,106 million from RUB 1,842 million for the year ended December 31, 2015. Moscow fixed line sundry operating income as a percentage of Moscow fixed line revenues increased to 5.3% for the year ended December 31, 2016, from 4.7% for the year ended December 31, 2015. The increase of Moscow fixed line sundry operating income was mainly attributable to the compensation received for cable communication lines accidentally demolished by other entities.

Ukraine sundry operating expenses for the year ended December 31, 2016, decreased by RUB 1,776 million to income of RUB 33 million from expense of RUB 1,743 million for the year ended December 31, 2015. Ukraine sundry operating expenses as a percentage of Ukraine revenues comprised (0.1)% for the year ended December 31, 2016 and 6.2% for the year ended December 31, 2015. Ukraine sundry operating expenses for the year ended December 31, 2015 included impairment charges related to distressed Ukrainian banks in the amount of RUB 1,698 million.

Other countries and business activities sundry operating income for the year ended December 31, 2016, increased by RUB 2,898 million to RUB 3,047 million from RUB 149 million for the year ended December 31, 2015. In the year ended December 31, 2015 other countries and business activities sundry operating income was decreased by impairment of goodwill in Armenia in the amount of RUB 3,516 million.

Selling, general and administrative expenses

Consolidated selling, general and administrative expenses for the year ended December 31, 2016, increased by 7.7%, or RUB 6,706 million, to RUB 94,046 million from RUB 87,340 million for the year ended December 31, 2015. Salary expenses and related social contributions increased by RUB 4,321 million amounting to 10.2% of consolidated revenues for the year ended December 31, 2016 compared to 9.4% of consolidated revenues for the year ended December 31, 2015 due to indexation of salaries and increase in number of employees. Rent expenses as a percentage of consolidated revenues increased to 2.1% for the year ended December 31, 2016 compared to 1.6% for the year ended December 31, 2015 mainly due to expansion of own retail network. Taxes other than income tax as a percentage of consolidated revenues increased to 0.9% for the year ended December 31, 2016 compared to 0.5% for the year ended December 31, 2015 mainly due to recognition of a gain from release of provision for custom duties and VAT in 2015. Dealers commissions as a percentage of consolidated revenues decreased to 1.5% for the year ended December 31, 2016 compared to 2.1% for the year ended December 31, 2015 mainly due to expansion of own retail network.

Russia convergent selling, general and administrative expenses for the year ended December 31, 2016, increased to RUB 67,694 million, or 18.6% of Russia convergent revenue, from RUB 63,700 million, or 17.8% of Russia convergent revenue, for the year ended December 31, 2015. Salary expenses and related social contributions increased by RUB 1,690 million amounting to 8.1% of Russia convergent revenues for the year ended December 31, 2016 compared to 7.7% of Russia convergent revenues for the year ended December 31, 2015 due to indexation of salaries and increase in number of employees. Taxes other than income tax as a percentage of Russia convergent revenues increased to 0.6% for the

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year ended December 31, 2016 compared to 0.1% for the year ended December 31, 2015. In the year 2015 we recorded a gain from release of provision for custom duties and VAT in the amount of RUB 2,480. Rent expenses as a percentage of Russia convergent revenues increased to 2.4% for the year ended December 31, 2016 compared to 1.9% for the year ended December 31, 2015 mainly due to expansion of own retail network. Dealers commissions as a percentage of Russia convergent revenues decreased to 1.5% for the year ended December 31, 2016 compared to 2.2% for the year ended December 31, 2015 mainly due to expansion of own retail network.

Moscow fixed line selling, general and administrative expenses for the year ended December 31, 2016, decreased by RUB 256 million, to RUB 7,038 million, or 17.7% of Moscow fixed line revenue, from RUB 7,294 million, or 18.4% of Moscow fixed line revenue, for the year ended December 31, 2015.

Ukraine selling, general and administrative expenses for the year ended December 31, 2016, increased to RUB 6,019 million from RUB 5,210 million for the year ended December 31, 2015 mainly due to growth of dealers commisision related to revenue sharing resulting from active use of services introduced in partnership with Vodafone as well as expenses related to use of Vodafone trade mark.

Other countries and business activities selling, general and administrative expenses for the year ended December 31, 2016, increased by 21.5% to RUB 15,107 million from RUB 12,434 million for the year ended December 31, 2015. Other countries and business activities selling, general and administrative expenses grew as a result of an increase in salary and related social contributions due to an annual indexation (growth of RUB 1,947 million), costs of advertising campaigns carried out by our Sputnikovoe TV subsidiary (increase by RUB 278 million), as well as expenses incurred by our operating segment System Integrator acquired at the end of 2015.

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, customer base, license costs and other intangible assets for the year ended December 31, 2016, increased by 4.8% to RUB 81,582 million from RUB 77,843 million for the year ended December 31, 2015 due to the development of our network infrastructure.

Russia convergent depreciation and amortization for the year ended December 31, 2016, decreased by 1,6% to RUB 60,285 million from RUB 61,266 million for the year ended December 31, 2015 mainly due to reduced volume of constructions of network and base stations.

Moscow fixed line depreciation and amortization for the year ended December 31, 2016 increased by 41.3% and amounted to RUB 10,900 million as compared to RUB 7,715 million for the year ended December 31, 2015. The growth resulted from the continued development of our network infrastructure.

Ukraine depreciation and amortization for the year ended December 31, 2016, increased by RUB 1,105 million to RUB 6,304 million from RUB 5,199 million for the year ended December 31, 2015. The growth is attributable to the development of 3G network in Ukraine and it was partially offset by the depreciation of hryvnia against ruble.

Other countries and business activities depreciation and amortization for the year ended December 31, 2016, increased by RUB 489 million to RUB 4,232 million from RUB 3,743 million for the year ended December 31, 2015. The increase is mainly attributable to weakening of the Russian ruble as compared to Armenian dramm.

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Operating profit

Consolidated operating profit declined by RUB 6,254 million from RUB 93,923 million in the year ended December 31, 2015 to RUB 87,669 million in the year December 31, 2016 mainly due to decrease in operating profit of Moscow fixed line and Ukraine segments.

Russia convergent operating profit for the year ended December 31, 2016, remained stable, it totaled to RUB 82,375 million and RUB 82,691 million for the year ended December 31, 2016 and 2015, respectively. Russia convergent operating profit decreased as a percentage of Russia convergent revenues from 23.1% for the year ended December 31, 2015, to 22.7% for the year ended December 31, 2016, due to decline of Russia convergent gross margin to 58.7% for the year ended December 31, 2016 from 59.4% for the year ended December 31, 2015. The decline of the Russia convergent gross margin resulted from lower margin on sale of goods due to aggressive pricing policy, inflationary rise of salaries and social contributions as well as other direct costs. In addition, Russia convergent operating profit for the year ended December 31, 2016 decreased due to inflationary rise of salaries of sales and marketing and general and adminidtrative personnel (growth of RUB 1,690 million), higher taxes other than income (change by RUB 2,030 in the year 2015 we recorded a gain from release of provision for custom duties and VAT in the amount of RUB 2,480) as well as high sales and marketing rent expenses resulting from expansion of own retail network (change by RUB 2,237 RUB). The decribed negative effects were partially offset by gain from compensation of radiofrequencies won by other operators (RUB 848 million), decrease of dealers commissions resulting from expansion of own retail network (RUB 2,516 million), decline in depreciation and amortization expenses by RUB 981 million and in provision for bad debt in the amount of RUB 807 million.

Moscow fixed line operating profit for the year ended December 31, 2016, decreased by 21.0% to RUB 10,850 million from RUB 13,737 million for the year ended December 31, 2015. Moscow fixed line operating profit declined as a percentage of Moscow fixed line revenues to 27.3% for the year ended December 31, 2016 from 34.7% for the year ended December 31, 2015 due to increased depreciation and amortization expense (growth of RUB 3,185 million or 41.2%) resulting from network development.

Ukraine operating profit for the year ended December 31, 2016, decreased by 23.7% to RUB 3,599 million for the year, ended December 31, 2016 compared to RUB 4,715 million for the year ended December 31, 2015. Ukraine operating profit reduced as a percentage of Ukraine revenues to 12.3% for the year ended December 31, 2016, from 16.7% for the year ended December 31, 2015. The decrease in operating income due to depreciation of Ukrainian Hryvnia totaled to RUB 230 million. Ukraine gross margin decreased from 59.8% for the year ended December 31, 2015 to 54.5% for the year ended December 31, 2016 due to increase in roaming expenses by 207.5% (roaming initiatives in 2016). Furthermore, Ukraine operating profit for the year ended December 31, 2015 was affected by increase of depreciation and amortization expenses (21.3% due to build out of 3G network) as well as sales and marketing expenses (24.3% due to growth of dealers commisision related to revenue sharing resulting from active use of services introduced in partnership with Vodafone as well as expenses related to use of Vodafone trade mark).

Other countries and business activities operating loss for the year ended December 31, 2016, increased by 13.9% to RUB 8,032 million from RUB 7,049 million for the year ended December 31, 2015. The increase in operating loss was mainly attributable to increase of operating loss of MTS Group Headquarter (growth of RUB 1,768 million due to higher personnel expenses), higher operating loss of our Sputnikovoe TV subsidiary (growth of RUB 591 million due to higher advertising costs (change by RUB 278 million), in addition in 2015 Sputnikovoe TV recorded gain from disposal of transponders in the amount of RUB 277 million, which positively effected 2015 operating profit) as well as increased operating loss of included NVision subsidiaries (change by RUB 461 million, last year operating loss is included from acquisition date and not for the full year as in 2016). Positive effect of

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dynamics of other countries and business activities operating loss resulted from our business in Armenia, in the financial year ended December 31, 2016 operating profit of MTS Armenia totaled to RUB 460 million against operating loss of RUB 1,595 million for the financial year ended December 31, 2015 (in 2015 we recorgnised an impairment loss for goodwill in Armenia in the amount of RUB 3,516 million).

Currency exchange and transaction gains/losses

Consolidated currency exchange and transaction gain for the year ended December 31, 2016, was RUB 3,241 million, compared to the loss of 6,154 million for the year ended December 31, 2015. The gain recognized in the year ended December, 31 2016 was mainly attributable to the appreciation of the Russian ruble against U.S. dollar and euro during the year ended December 31, 2016.

Finance costs

Consolidated finance costs for the year ended December 31, 2016, increased by RUB 714 million, or 2.70%, to RUB 27,136 million from RUB 26,422 million for the year ended December 31, 2015, primarily as a result of the partial early redemption of our Eurobonds due in 2020.

Equity in net income of associates

Non-operating share of the profit or loss of associates for the year ended December 31, 2016 decreased by RUB 2,494 million to a loss of RUB 1,287 million compared to a loss of RUB 3,781 million for the year ended December 31, 2015. The decrease results mainly from a smaller loss at MTS Bank in the year ended December 31, 2016.

Other expenses (income), net

Consolidated other expenses for the year ended December 31, 2016 increased to RUB 317 million, as compared to the income of RUB 54 million for the year ended December 31, 2015 due to decrease of the gain on sale of foreign currencies in the year ended December, 31 2016.

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2016 increased by 8.7% to RUB 15,138 million from RUB 13,931 million for the year ended December 31, 2015 mainly due to increase in the effective tax rate. The effective tax rate increased to 22.4% in the year ended December 31, 2016, from 20.8% in the year ended December 31, 2015 mainly as a result of increase in earnings distributions from subsidiaries, partly offset by decrease of expenses not deductible for tax purposes (in particular, decrease of impairment of goodwill in Armenia) and as a result of lower contribution of UMC income, taxed at lower rate.

Net loss/income attributable to the non-controlling interest

Net loss attributable to the non-controlling interest for the year ended December 31, 2016 totaled to RUB 24 million compared to RUB 2,085 million for the year ended December 31, 2015. The loss for the year ended December 31, 2015 is mainly attributable to the non-controlling interest in the amount of RUB 2,834 million recognized in relation to UMS, our subsidiary in Uzbekistan.

Net income attributable to the Group

Net income attributable to the Group for the year ended December 31, 2016, decreased by RUB 1,015 million, or 2.1%, to RUB 48,474 million, compared to RUB 49,489 million for the year ended December 31, 2015. Net income as a percentage of revenues was 11.1% in the year ended

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December 31, 2016, and 11.6% in the year ended December 31, 2015. Net income attributable to the Group for the year ended December 31, 2016, as compared to the year ended December 31, 2015, decreased primarily due the following factors: decreased operating profit (RUB 6,256 million please refer to explanation of the decrease above), lower finance income due to reduced volume of investments in deposits and loans (RUB 3,095 million), higher income tax expense (RUB 1,208 million higher taxable profit due to currency exchange gain in 2016) as well as increased finance costs (RUB 713 million, thereof 3,044 attributable to repurchase of Eurobonds 2020). Negative effects were primarily offset by currency exchange gain recorded in 2016 (effect compared to loss in 2015 RUB 9,395 million).

Year Ended December 31, 2015 compared to Year Ended December 31, 2014

Revenues and cost of services and cost of goods

Consolidated revenues for the year ended December 31, 2015, increased by RUB 15,961 million, or 3.9%, to RUB 426,639 million from RUB 410,678 million for the year ended December 31, 2014. The principal reason for the growth of our consolidated revenues for the year ended December 31, 2015, was the large increase in the usage of voice & data services by our subscribers (by RUB 7,663 million), which was mainly attributable to our active promotion of such tariffs, an increase in mobile internet penetration, an increase in usage of smartphones by our subscribers, active 3G and LTE network expansion and the consequent improvement of the quality and uptake of services. The increase of our consolidated revenues for the year ended December 31, 2015 was also supported by the growth in revenues from sales of handsets and accessories by RUB 10,945 million. The increase in sales of handsets and accessories by RUB 10,945 million resulted from active marketing initiatives and continued expansion of our retail operations.

The decrease of our revenues from roaming fees of own subscribers by RUB 4,250 million in the year ended December 31, 2015 is attributable to promotion of tariff plans with reduced price per minute and overall decrease of consumption due to adverse changes in macroeconomic situation in Russia and Ukraine. Our consolidated mobile subscriber base increased and amounted to 101.4 million as of December 31, 2015 as compared to 98.8 million as of December 31, 2014. The decrease in the mobile churn rate in Russia to 39.6% from 41.0% in 2014 had an immaterial impact on our consolidated revenues.

Consolidated cost of services and cost of goods for the year ended December 31, 2015 increased by RUB 18,862 million and amounted to RUB 163,360 million as compared to RUB 144,498 million for the year ended December 31, 2014 and comprised 38.3% and 35.2% as a percentage of consolidated revenues for the year ended December 31, 2015 and 2014, respectively. The increase was mainly attributable to the growth of cost of handsets and accessories by RUB 10,820 million, roaming expenses by RUB 4,780 million, salary and social contribution expenses by RUB 1,797 million, charges for network placement and electricity by RUB 2,948 million. The cost of handsets and accessories grew as percentage of consolidated revenues by 2.3% as a result of promoting sales of smartphones and aggressive pricing policy aimed to boost smartphone penetration. The increase in roaming expenses is mainly attributable to the appreciation of U.S. dollar and EUR against Russian ruble in the year ended December 31, 2015. The rise of the salary and social contributions resulted from the increase in number of employees. Electricity and rental charges for network placement increased due to inflation and growth of the number of rented sites.

Russia convergent revenues for the year ended December 31, 2015, increased by 4.9% to RUB 357,518 million from RUB 340,732 million for the year ended December 31, 2014. The increase in Russia convergent revenues in the year ended December 31, 2015, was primarily due to the growth of revenues from voice & data tariffs by RUB 8,796 million, revenues from sales of handsets and accessories by RUB 10,635 million Revenues from voice & data services as a percentage of Russia

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convergent revenues in the year ended December 31, 2015, grew as a result of new marketing initiatives aimed at stimulating greater usage of Internet driven tariffs among our subscribers and the overall improvement of quality of these services. Revenues from sales of handsets and accessories increased to RUB 40,000 million in the year ended December 31, 2015 from RUB 29,366 million in the year ended December 31, 2014 due to aggressive pricing strategy aimed to push subscribers data adoption and attract new subscribers. The decrease of our revenues from roaming fees from own subscribers by RUB 3,934 million as compared to the year ended December 31, 2014 is attributable to promotion of tariff plans with reduced price per minute and overall decrease of consumption due to adverse changes in macroeconomic situation in Russia.

Russia convergent cost of services and cost of goods for the year ended December 31, 2015, increased by 12.3% to RUB 145,479 million from RUB 129,531 million for the year ended December 31, 2014. The increase of Russia convergent cost of services and cost of goods was mainly attributable to the growth of cost of handsets, accessories and other goods by RUB 10,580 million, roaming expenses by RUB 4,037 million and of salary and social contributions by RUB 1,520 million. The growth in cost of handsets, accessories and other goods resulted from the increase in volume of sales of handsets and accessories sales by 36.2% in the year ended December 31, 2015 as compared to the year ended December 31, 2014. Roaming expenses grew due to the appreciation of U.S. dollar and EUR against Russian ruble in the year ended December 31, 2015 which affected our roaming expenses in ruble terms. The rise of salary and social contribution resulted mainly from the increase in number of employees. The growth of the Russia mobile cost of services and cost of goods was offset by reduction of interconnect expenses by RUB 2,058 million due to the decline of outgoing traffic volumes and cost of value added services by RUB 755 million resulted from the change in the structure of value added services sold in favor of high margin services.

Moscow fixed line revenues for the year ended December 31, 2015, decreased by 3.0% to RUB 39,606 million from RUB 40,824 million for the year ended December 31, 2014. The decrease in Moscow fixed line revenues in the year ended December 31, 2015, was primarily due to the decline in revenues from IP telephony by RUB 1,821 million which is attributable to the continued reduction in number of subscribers. The decrease was partially offset by the growth of other revenues, such as renting space in industrial buildings and cable line infrastructure for telecommunication equipment layout.

Moscow fixed line cost of services and cost of goods for the year ended December 31, 2015, decreased by 2.0% to RUB 12,702 million from RUB 12,965 million for the year ended December 31, 2014. The decrease was primarily attributable to the reduction of interconnect and line rental expenses by RUB 685 million due to overall decline in outgoing traffic volume. The decrease of cost of services and cost of goods in 2015 was partially offset by growth of rent expenses by RUB 618 million as a result of rental rates indexation.

Ukraine revenues decreased by 14.1% to RUB 28,194 million in the year ended December 31, 2015, from RUB 32,810 million in the year ended December 31, 2014, primarily due to the depreciation of Ukrainian hryvnia against Russian ruble by 16% which resulted in decrease of Ukraine revenues in ruble terms by RUB 4,576 million.

Ukraine cost of services and cost of goods decreased by 5.1% to RUB 11,327 million in the year ended December 31, 2015, from RUB 11,941 million in the year ended December 31, 2014. The moderate decrease in ruble terms was primarily attributable to the depreciation of Ukrainian hryvnia against Russian ruble by 16% which resulted in decline of Ukraine cost of services and cost of goods by RUB 1,670 million. However, as a percentage of Ukraine revenues Ukraine cost of services and cost of goods for the year ended December 31, 2015 increased to 40.2% as compared to 36.4% for the year ended December 31, 2014. The increase was attributable to the growth in outgoing interconnect traffic volumes and related expenses by RUB 447 million and to the rise of spectrum costs by RUB 725 million.

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Other countries and business activities revenues for the year ended December 31, 2015, increased to RUB 17,214 million from RUB 11,094 million for the year ended December 31, 2014. The growth of revenue by RUB 2,631 million resulted from acquisition of NVision Group in the end of 2015. Depreciation of Russian ruble against local currencies (Armenian dram and Turkmenian manat) caused the increase of revenue by RUB 3,914 million that was partially offset by the decline of local and international calling in Armenia driven by macroeconomic factors.

Other countries and business activities cost of goods for the year ended December 31, 2015, increased to RUB 8,235 million from RUB 3,749 million for the year ended December 31, 2014 mainly due to acquisition of NVision Group in the end of 2015 (RUB 2,581 million) and depreciation of Russian ruble against local currencies Armenian dram and Turkmenian manat (RUB 1,107 million).

Sundry operating expenses

Consolidated sundry operating expenses for the year ended December 31, 2015, increased by RUB 680 million to RUB 4,173 million from RUB 3,493 million for the year ended December 31, 2014 due to a number of factors described below and comprised 1.0% and 0.9% as a percentage of consolidated revenue for the year ended December 31, 2015 and 2014.

Russia convergent sundry operating expenses for the year ended December 31, 2015, increased by 125% to RUB 4,382 million from RUB 1,948 million for the year ended December 31, 2014 and comprised 1.2% and 0.6% of Russia convergent revenues for the year ended December 31, 2015 and 2014, respectively. The increase of Russia convergent sundry operating expenses was mainly attributable to the growth in bad debt provision corresponding with increase in trade receivables.

Moscow fixed line sundry operating income for the year ended December 31, 2015, increased by RUB 1,714 million to RUB 1,842 million from RUB 127 million for the year ended December 31, 2014. Moscow fixed line sundry operating income as a percentage of Moscow fixed line revenues increased to 4.7% for the year ended December 31, 2015, from 0.3% for the year ended December 31, 2014. The increase of Moscow fixed line sundry operating income as a percentage of Moscow fixed line revenues was mainly attributable to the increase of the compensation received for cable communication lines accidentally demolished by other entities and proceeds from sale of copper cable.

Ukraine sundry operating expenses for the year ended December 31, 2015, decreased by 64.5% or RUB 3,165 million to RUB 1,743 million from RUB 4,908 million for the year ended December 31, 2014. Ukraine sundry operating expenses as a percentage of Ukraine revenues decreased to 6.2% for the year ended December 31, 2015, from 15.0% for the year ended December 31, 2014 due to reduction of impairment charges related to distressed Ukrainian banks to RUB 1,698 million in the year ended December 31, 2015 from RUB 5,138 million in the year ended December 31, 2014.

Other countries and business activities sundry operating income for the year ended December 31, 2015, decreased by RUB 3,134 million to RUB 149 million from RUB 3,283 million for the year ended December 31, 2014. In the year ended December 31, 2015 other countries and business activities sundry operating income was decreased by impairment of goodwill in Armenia in the amount of RUB 3,516 million.

Selling, general and administrative expenses

Consolidated selling, general and administrative expenses for the year ended December 31, 2015, decreased by 0.9%, or RUB 755 million, to RUB 87,340 million from RUB 88,095 million for the year ended December 31, 2014. Salary expenses and related social contributions increased by RUB 3,037 million amounting to 9.4% of consolidated revenues for the year ended December 31, 2015 compared to 9.0% of consolidated revenues for the year ended December 31, 2014 due to indexation of salaries and increase in number of employees. Dealer commissions as a percentage of consolidated

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revenues declined to 2.1% for the year ended December 31, 2015 compared to 2.6% for the year ended December 31, 2014 mainly due to focus on proprietary retail network after cessation of cooperation with Svyaznoy. Advertising and marketing expenses increased by 13.6%, or RUB 1,144 million, to RUB 9,543 million for the year ended December 31, 2015, from RUB 8,399 million for the year ended December 31, 2014 due to the growth of the number of advertising campaigns aided to promote new services and attract subscribers. Taxes other than income tax as a percentage of consolidated revenues declined to 0.5% for the year ended December 31, 2015 compared to 1.4% for the year ended December 31, 2014 mainly due to reversal of tax reserves for uncertain tax positions in Russia and decreasing non-taxable expenses in Ukraine.

Russia convergent selling, general and administrative expenses for the year ended December 31, 2015, decreased to RUB 63,700 million, or 17.8% of Russia convergent revenue, from RUB 65,299 million, or 19.2% of Russia convergent revenue, for the year ended December 31, 2014. Dealer commissions as a percentage of Russia convergent revenues declined to 2.2% for the year ended December 31, 2015, compared to 2.9% for the year ended December 31, 2014 mainly due to focus on proprietary retail network after cessation of cooperation with Svyaznoy. Advertising and marketing expenses as a percentage of Russia convergent revenues increases to 2.1% for the year ended December 31, 2015, compared to 1.9% for the year ended December 31, 2014 as a result of inflation, promotion of new services and efforts to increase customer base. Salary expenses and related social contributions increased by RUB 1,690 million amounting to 7.7% of Russia convergent revenues for the year ended December 31, 2015 compared to 7.7% of Russia convergent revenues for the year ended December 31, 2014 due to indexation of salaries and increase in number of employees. Taxes other than income tax as a percentage of Russia convergent revenues declined to 0.1% for the year ended December 31, 2015 compared to 1.0% for the year ended December 31, 2014. The decrease relates to reserves for uncertain tax positions reversed in the year ended December 31, 2015.

Moscow fixed line selling, general and administrative expenses for the year ended December 31, 2015, increased to RUB 7,294 million, or 18.4% of Moscow fixed line revenue, from RUB 6,809 million, or 16.7% of Moscow fixed line revenue, for the year ended December 31, 2014. The increase of RUB 916 million resulted from rise in salary expenses and related social contributions from RUB 3,257 million, or 8.0% of Moscow fixed line revenue, for the year ended December 31, 2014 to RUB 4,173 million, or 10.5% of Moscow fixed line revenue, for the year ended December 31, 2015 mainly due to indexation. The growth of salary and social contribution expenses was offset by the reduction of the security and logistics expenses by RUB 215 million due to the disposal of our subsidiary Rent Nedvizhimost.

Ukraine selling, general and administrative expenses for the year ended December 31, 2015, decreased to RUB 5,210 million from RUB 5,773 million for the year ended December 31, 2014. Decrease related to selling, general and administrative expenses in Ukraine in the amount of RUB 807 million resulted from the depreciation of the Ukrainian hryvnia against the Russian ruble.

Other countries and business activities selling, general and administrative expenses for the year ended December 31, 2015, increased by 10.7% to RUB 12,434 million from RUB 11,237 million for the year ended December 31, 2014. The increase was mainly attributable to the appreciation of the Armenian dram and Turkmen manat against the Russian ruble (growth by RUB 584 million and RUB 315 million respectively), higher advertising costs of our Sputnikovoe TV subsidiary (growth by RUB 130 million), as well as increased expenses due to acquisition of companies included in operating segment System Integrator in December 2015 (change by RUB 205 million).

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, customer base, license costs and other intangible assets for the year ended December 31, 2015, increased by 4.2% to

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RUB 77,843 million from RUB 74,734 million for the year ended December 31, 2014. The consolidated depreciation and amortization expenses grew as a result of growth of amortization charges for intangible assets of Russia convergent by RUB 3,109 million caused by renewal of our billing and other software.

Russia convergent depreciation and amortization for the year ended December 31, 2015, increased by 6.3% to RUB 61,265 million from RUB 57,647 million for the year ended December 31, 2014 mainly due to growth of amortization charges for intangible assets caused by renewal of our billing and other software.

Moscow fixed line depreciation and amortization for the year ended December 31, 2015 slightly increased by 1.4% and amounted to RUB 7,715 million as compared to RUB 7,609 million for the year ended December 31, 2014. The growth resulted from the continued development of GPON project.

Ukraine depreciation and amortization for the year ended December 31, 2015, decreased by RUB 1,580 million to RUB 5,199 million from RUB 6,779 million for the year ended December 31, 2014. The decline of RUB 947 million is attributable to the depreciation of Ukrainian hryvnia against Russian ruble.

Other countries and business activities depreciation and amortization for the year ended December 31, 2015, increased by RUB 972 million to RUB 3,743 million from RUB 2,771 million for the year ended December 31, 2014. The increase is mainly attributable to the reentrance into Uzbekistan in September 2014.

Operating profit

Consolidated operating profit declined by RUB 5,935 million from RUB 99,858 million in the year ended December 31, 2014 to RUB 93,923 million in the year December 31, 2015 mainly due to decrease in operating profit of "Russia convergent" and "Other countries and business activities" segments.

Russia convergent operating profit for the year ended December 31, 2015, declined by 4.2% to RUB 82,692 million from RUB 86,310 million for the year ended December 31, 2014. Russia convergent operating profit also decreased as a percentage of Russia convergent revenues from 25.3% for the year ended December 31, 2014, to 23.1% for the year ended December 31, 2015, due to decline of Russia convergent gross margin to 59.3% for the year ended December 31, 2015 from 62.0% for the year ended December 31, 2014. The decline of the of Russia convergent gross margin resulted from lower margin on sale of goods due to aggressive pricing policy, inflationary rise of salaries and social contributions and growth of roaming expenses due to depreciation of Russian rubles against EUR and USD.

Moscow fixed line operating profit for the year ended December 31, 2015, increased by 1.2% to RUB 13,738 million from RUB 13,568 million for the year ended December 31, 2014. Moscow fixed line operating profit grew as a percentage of Moscow fixed line revenues to 34.7% for the year ended December 31, 2015 from 33.2% million for the year ended December 31, 2014 due to increased compensation received for cable communication lines accidentally demolished by other entities and additional income from sale of copper cable.

Ukraine operating profit for the year ended December 31, 2015, increased by 38.3% to RUB 4,715 million for the year, ended December 31, 2015 compared to RUB 3,409 million for the year ended December 31, 2014. Ukraine operating profit grew as a percentage of Ukraine revenues to 16.7% for the year ended December 31, 2015, from 10.4% for the year ended December 31, 2014. The increase of Ukraine operating profit was largely attributable to the reduction of provision for investment in distressed Ukrainian banks by RUB 3,440 million in the year ended December 31, 2015 as compared to the year ended December 31, 2014.

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Other countries and business activities operating loss for the year ended December 31, 2015, increased by 108.4% to RUB 7,049 million from RUB 3,383 million for the year ended December 31, 2014. The increase in operating loss was mainly attributable to impairment of goodwill in Armenia in the amount of RUB 3,516 million.

Currency exchange and transaction gains/losses

Consolidated currency exchange and transaction loss for the year ended December 31, 2015, was RUB 6,154 million, compared to the loss of 17,926 million for the year ended December 31, 2014. We conduct our operations within the Russian Federation, Ukraine, Turkmenistan and Armenia and we are therefore subject to currency fluctuations. The local currencies of these countries fluctuated significantly against the U.S. dollar and euro during the years ended December 31, 2015 and 2014, and the currency exchange and transaction gains/losses we incurred were primarily due to the translation effect of our U.S. dollar and euro-denominated debt and deposits as of December 31, 2015 and 2014. The decreases in losses recognized in the year ended December, 31 2015 as compared to those recorded in the year ended December, 31, 2014 were mainly due to deceleration of depreciation of the Russian ruble against U.S. dollar and Euro during the year ended December 31, 2015.

Finance costs

Consolidated finance costs for the year ended December 31, 2015, increased by RUB 9,170 million, or 53.2%, to RUB 26,422 million from RUB 17,252 million for the year ended December 31, 2015, primarily as a result of the increase in our total indebtedness.

Equity in net income of associates

Non-operating share of the profit or loss of associates for the year ended December 31, 2015 decreased by RUB 2,757 million to a loss of RUB 3,781 million compared to a loss of RUB 6,538 million for the year ended December 31, 2014. The decrease results mainly from the impairment of investment in MTS Bank in the amount of RUB 3,225 million during the year ended December 31, 2014, compensated by a larger loss at MTS Bank in the year ended December 31, 2015.

Other expenses (income), net

Consolidated other income for the year ended December 31, 2015 increased to RUB 54 million, as compared to the expenses of RUB 936 million for the year ended December 31, 2014 due to growth of the gain on sale of foreign currencies in the year ended December, 31 2015.

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2015 decreased by 12.4% to RUB 13,931 million from RUB 15,909 million for the year ended December 31, 2014 mainly as a result of decrease in income before provision for income taxes, enhanced by a decrease in the effective tax rate. The effective tax rate decreased to 20.8% in the year ended December 31, 2015, from 25.8% in the year ended December 31, 2014 mainly as a result of decrease in earnings distributions from subsidiaries, partly offset by higher level of expenses not deductible for tax purposes (in particular, impairment of goodwill in Armenia) and as a result of lower contribution of change in fair value of derivative financial instruments.

Net loss/income attributable to the non-controlling interest

Net loss attributable to the non-controlling interest for the year ended December 31, 2015 totaled to RUB 2,085 million compared to net income attributable to the non-controlling interest of RUB 190 million for the year ended December 31, 2014. The loss is mainly attributable to the

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non-controlling interest in the amount of RUB 2,834 million recognized in relation to UMS, our former subsidiary in Uzbekistan.

Net income attributable to the Group

Net income attributable to the Group for the year ended December 31, 2015, decreased by RUB 1,817 million, or 3.5%, to RUB 49,489 million, compared to RUB 51,306 million for the year ended December 31, 2014. Net income as a percentage of revenues was 11.5% in the year ended December 31, 2015, and 12.5% in the year ended December 31, 2014. Net income attributable to the Group for the year ended December 31, 2015, as compared to the year ended December 31, 2014, decreased primarily due the following factors: impairment of goodwill in Armenia (RUB 3,516 million), increased loss from discontinued operations in Uzbekistan (RUB 11,443 million), higher finance cost (RUB 9,170 million) and increased depreciation and amortization expenses (RUB 3,109 million). Negative effects were partially offset by the lower amount of impairment of investments in distressed Ukrainian banks (RUB 3,440 million), decrease in currency exchange and translation loss (RUB 11,772 million), higher finance income (RUB 3,849 million), lower non-operating share of loss of associates (RUB 2,757 million, thereof RUB 3,225 million impairment of investment in MTS Bank recognized in 2014),positive change in fair value of liability related to put option agreement in Armenia (RUB 1,273 million) and higher loss attributable to non-controlling interest (RUB 2,275 million).

B. Liquidity and Capital Resources

Our borrowings consist of notes and bank loans. Since 2001, we have raised a total of $3.0 billion (RUB 92.8 billion at the date of transactions) through seven U.S. dollar-denominated unsecured bond offerings in the international capital markets, as well as ruble-denominated bonds totaling RUB 106 billion. Our bank loans consist of U.S. dollar-, euro-, Czech crown- and ruble- denominated borrowings totaling approximately RUB 195.1 billion as of December 31, 2016. We repaid approximately RUB 90.2 billion of indebtedness in 2016. As of December 31, 2016, the total amount available to us under our credit facilities amounted to RUB 40.9 billion. We had total indebtedness of approximately RUB 284.3 billion as of December 31, 2016, including capital lease obligations, compared to approximately RUB 345.9 billion as of December 31, 2015. Our total finance costs for the years ended December 31, 2015 and 2016, was RUB 26.4 billion and RUB 27.1 billion, net of amounts of interest capitalized, respectively. See Note 15 to our audited consolidated financial statements for a description of our indebtedness.

Capital Requirements

We need capital to finance the following:

- capital expenditures, consisting of purchases of property, plant and equipment and intangible assets;
- acquisitions;
- repayment of debt and related interest payments;
- changes in working capital; and
- general corporate activities, including dividends.

We anticipate that capital expenditures, acquisitions, repayment of long-term debt and dividends will represent the most significant uses of funds for several years to come.

Our cash outlays for capital expenditures in 2014, 2015 and 2016 were RUB 91,929 million, RUB 106,537 million and RUB 86,149 million respectively. We expect to continue to finance most of our capital expenditure needs through our operating cash flows, and to the extent required, to incur

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additional indebtedness through borrowings or additional capital raising activities. Historically, a significant portion of our capital expenditures have been related to the installation and build-out of our network and expansion into new license areas. We expect that capital expenditures will remain a large portion of our cash outflows in connection with the continued installation and build-out of our network. We expect our total capital expenditures in 2017 to be approximately 20% of our total 2016 revenue. These investments are required to support the growth in our subscriber base (*i.e.,* to improve network capacity), to maintain and modernize our mobile and fixed line networks, to develop our network in the regions and to continue with the roll out of LTE networks throughout Russia as well as the development of our proprietary retail chain in Russia. We expect that the development of LTE networks will be among our most significant capital expenditures and require considerable management resources. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Services Offered 3G Technology" for additional information. Our actual capital expenditures may vary significantly from our estimates.

In December 2014 we acquired controlling interests in a number of mobile operators in certain regions of Russia (SMARTS-Ivanovo, SMARTS-Ufa and Penza-GSM) for cash payment of RUB 2,867 million. In December 2014, we increased our interest in MTS Bank from 26.3% to 27.0% through participation in an additional share issue of MTS Bank. In April 2014, we acquired a 10.82% stake in OZON Holdings Limited through the purchase of OZON Holdings Limited's additional share issuance amounting to USD 75 million (RUB 2,702 million). In January 2015, the Group acquired 89.5% of Navigation Information Systems from Sistema for RUB 44 million. In July and December 2015, we acquired 100% share in the holding company NVision Group from subsidiaries of Sistema for RUB 11.2 billion. In December 2015, the Group increased its share in Stream from 45% to 100% for RUB 1,650 million. In February 2016, we acquired 946,347 ordinary shares of MTS Bank, placed as part of an earlier approved additional issue, for a total consideration of RUB 1,325 million. In November 2016 the Group acquired 2,637,310 ordinary shares of MTS Bank of 10,000,000 shares, placed as a part of an earlier approved additional share issuance, for a total consideration of RUB 2,769 million. In September 2016, the Group acquired 100% of the shares of Smarts-Yoshkar-Ola CJSC ("Smarts-Yoshkar-Ola"), operating in the Republic of Mari El and holding rights to use 1800 MHz radio frequencies for RUB 13 million.

We also used cash provided by operating activities as well as external credit facilities to finance our capital expenditures. We plan to finance future acquisitions through operating cash flows and additional borrowings. We may continue to expand our business through acquisitions. Our cash requirements relating to potential acquisitions can vary significantly based on market opportunities.

We expect to refinance our existing debt when it becomes due. For scheduled maturities of debt principal outstanding as of December 31, 2016 see Note 15 of our audited consolidated financial statements.We generally use the proceeds from our financing activities for our corporate purposes and refinancing existing indebtedness.

Sistema, which currently controls 48.94% of our total charter capital (50.03% excluding treasury shares) and consolidates our results in its financial statements, has a significant amount of outstanding debt and requires funds for debt service. These funds may come, in part, from dividends paid by its subsidiaries, including us. Our shareholders approved semi-annual dividends for 2014 in the amount of RUB 12,812 million (including dividends on treasury shares in the amount of RUB 480.5 million). Our shareholders approved annual cash dividends for the year 2014 in the amount of RUB 40,419 million (including dividends on treasury shares in the amount of RUB 1,516 million), semi-annual dividends for 2015 in the amount of RUB 11,593 million (including dividends on treasury shares in the amount of RUB 434.8 million), annual dividends for 2015 in the amount of RUB 27,997 million (including dividends on treasury shares in the amount of RUB 119 million), semi-annual dividends for 2016 in the amount of RUB 23,961 million (including dividends on treasury shares in the amount of RUB 102 million). As of December 31, 2016 and 2015 dividends payable were RUB 87.0 and

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32.0 million, respectively, and included in the trade and other payables of the statement of financial position.

We generally intend to finance our dividend requirements through operating cash flows, and accordingly, our payment of dividends may make us more reliant on external sources of capital to finance our capital expenditures and acquisitions.

Capital Resources

We plan to finance our capital requirements through a mix of operating cash flows and financing activities, as described above. Our major sources of cash have been cash provided by operations and the proceeds of our U.S. dollar-denominated and ruble-denominated note issuances and loans. We expect that these sources will continue to be our principal sources of cash in the future.

The availability of financing is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We cannot assure you that we will be able to continue to obtain large amounts of financing in the future through debt or equity offerings, bank financings or otherwise.

As of December 31, 2016, our outstanding indebtedness consisted of the following notes and bank loans:

Notes

As of December 31, 2016, our notes consisted of the following:

	Currency	Annual interest rate (actual rate at December 31, 2016)	Amount
MTS International Notes due 2020	USD	8.625%	18,537
MTS International Notes due 2023	USD	5.00%	28,218
MTS PJSC Notes due 2017	RUB	8.70%	9,995
MTS PJSC Notes due 2023	RUB	8.25%	9,984
MTS PJSC Notes due 2020	RUB	9.25%	1,448
MTS PJSC Notes due 2018	RUB	10.00%	6
MTS PJSC Notes due 2021 - 2022 (V series)	RUB	0.25%	12
MTS PJSC Notes due 2031	RUB	9.40%	9,986
Total notes			**78,186**
Less: current portion			(11,389)
Total notes, long-term			**66,797**

The Group has an unconditional obligation to repurchase certain MTS PJSC Notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are as follows:

MTS PJSC Notes due 2020	November 2017
MTS PJSC Notes due 2023	March 2018
MTS PJSC Notes due 2031	August 2018

Subject to certain exceptions and qualifications, the indentures governing our U.S. dollar-denominated notes due 2020 contain covenants limiting our ability to incur debt, create liens, sell or transfer lease properties, enter into loan transactions with affiliates, merge or consolidate or convey our properties and assets to another person, as well as our ability to sell or transfer any of our GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if we

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experience a change in control, noteholders will have the right to require us to redeem the notes at 101% of their principal amount, plus accrued interest. We are also prohibited from having any judgment, decree or order for payment of money in an amount of $75.0 million (RUB 4,549.3 million as of December 31, 2016) for MTS International Notes due 2023 and MTS International Notes due 2020 unsatisfied for more than 60 days without being appealed, discharged or waived. If we fail to comply with these and the other covenants contained in the indentures, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

Our ruble-denominated notes contain certain covenants limiting our ability to delist the notes from the quotation lists and delay coupon payments. We may from time to time seek to repurchase or redeem our outstanding notes through cash purchases and/or exchanges for new debt securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on market conditions, our liquidity requirements, contractual restrictions and other factors.

We were in compliance with all our note covenants as of December 31, 2016.

Bank loans

As of December 31, 2016, our loans from banks and other financial institutions consisted of the following:

	Maturity	Interest rate (actual at December 31, 2016)	December 31, 2016
USD-denominated:			
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2017 - 2020	LIBOR + 1.15% (2.468%)	25,394
Citibank	2017 - 2024	LIBOR + 0.9% (2.218%)	12,812
Skandinavska Enskilda Banken AB	2017	LIBOR + 0.23% - 1.8% (1.543% - 3.118%)	1,163
			39,369
EUR-denominated:			
LBBW	2017	EURIBOR + 1.52% (1.30%)	296
Credit Agricole Corporate Bank and BNP Paribas	2017 - 2018	EURIBOR + 1.65% (1.43%)	876
			1,172
RUB-denominated:			
Sberbank[(1)]	2017 - 2021	8.45% - Central Bank key rate + 0.90% (10.90%)	144,813
Citibank	2017	9.9%	2,400
Gasprombank	2017	10.9%	4,000
KB Platina	2017	8%	250
Notes in REPO	2017	10.24% - 10.39%	2,588
Other	2017 - 2025	Various	283
			154,334
Other currencies:			
Various financial institutions	2017-2020	Various	213
			213
Total bank loans			**195,088**
Less: current portion			(35,188)
Total bank loans, long-term			**159,900**

(1) Each of our ruble-denominated Sberbank loan facilities provides that Sberbank may unilaterally change the interest rate including, without limitation, in the event of an increase in the CBR refinance rate. An increase in the interest rate is subject to a minimum 60-day prior notice from Sberbank, and a

decrease in the interest rate is subject to a 30-day notice.

See also Note 15 to our audited consolidated financial statements.

Our loans are subject to certain restrictive covenants, including, but not limited to, negative pledges, certain financial ratios, limitations on dispositions of assets and limitations on transactions with

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associates, requirements to maintain ownership in certain subsidiaries, maintain certain contracts or licenses, maintain assets of certain value and to maintain a certain level of deposits in accounts at our creditor banks. In addition, there are restrictions on the granting of loans and guarantees and the incurrence of debt the purpose of which is to facilitate us paying or making any dividend or other payment or distribution of any kind on or in respect of any of our shares or to undertake any form of capital reduction. Most of the loans also include an event of default involving an unsatisfied judgment against us in excess of $75.0 million (RUB 4,549 million as of December 31, 2016) for a period of over 60 consecutive calendar days. We were in compliance with our loan covenants as of December 31, 2016.

The following table presents the aggregate scheduled maturities of debt principal outstanding as of December 31, 2016:

	Notes	Bank loans
Payments due in the year ending December 31,		
2017	11,448	35,632
2018	20,006	46,927
2019		69,963
2020	18,614	23,396
2021	12	15,844
Thereafter	28,301	4,620
Total	**78,381**	**196,382**
Less: unamortized debt issuance costs	(195)	(1,294)
Total debt	**78,186**	**195,088**

In addition, we had capital lease obligations in the amount of RUB 11,046 million and RUB 11,795 million as of December 31, 2016 and 2015, respectively. The terms of our material debt obligations are described in Note 15 to our audited consolidated financial statements.

Subsequent to December 31, 2016, we repaid approximately RUB 17.4 billion (based on USD and euro exchange rates as of the payment dates) in short-term indebtedness.

In addition, Sistema, which currently controls 48.94% of our total charter capital (50.03% excluding treasury shares) and consolidates our results in its financial statements, is subject to various covenants in certain of its credit facilities which impose restrictions on Sistema and its restricted subsidiaries, including us, with respect to, among others, incurrence of indebtedness and liens. See "Item 3. Key Information D. Risk Factors Risks Relating to our Financial Condition Indentures relating to some of our notes contain, and some of our loan agreements and Sistema's loan agreements contain, restrictive covenants, which limit our ability to incur debt and to engage in various activities."

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Consolidated Cash Flow Summary

A summary of our cash flows and cash outlays for capital expenditures and acquisitions of subsidiaries follows:

	Years ended December 31,		
	2014	2015	2016
	(amounts in million RUB)		
Cash flows from:			
Net cash provided by operating activities	158,979	144,088	130,565
Net cash used in investing activities	(105,008)	(145,356)	(57,302)
Net cash used in financing activities	(33,212)	(27,595)	(83,038)
Effect of exchange rate changes on cash and cash equivalents	10,195	761	(5,219)
Net increase/(decrease) in cash and cash equivalents	30,954	(28,102)	(14,994)
Cash outlays for:			
Capital expenditures[(1)]	(91,929)	(106,537)	(86,149)
Acquisition of subsidiaries, net of cash acquired	(2,755)		(5)
Cash payments for the acquisition of subsidiaries under common control and non-controlling interests	(26)	(9,501)	(17)
Cash inflow from sale of subsidiaries under common control		4,625	3,063

(1) Includes acquisitions of property, plant and equipment and intangible assets

For the year, ended December 31, 2016, net cash provided by operating activities was RUB 130,565 million, a deacrease of 10.3% from the year ended December 31, 2015. The decrease was mainly attributable to increase of income tax payments (by RUB 2,044 million due to growth of taxable profit), increase of interest payments (by RUB 1,577 million, therof RUB 3,045 million related to Eurobond repurchase in June 2016), lower interest received (by RUB 1,416 million due to decreased investing in deposits), as well as changes in timing of settlements with our customers and suppliers (change in cash outflow related to trade and other receivables and trade and other payables was RUB 11,691 million).

Net cash used in investing activities for the year ended December 31, 2016 totaled to RUB 57,302 million, a reduction of 60.6% in comparison with 2015. In 2016 we reduced our capital expendures by RUB 20,388 million, as well as investing in deposits and loans by RUB 63,746 million. Positive effect of RUB 7,344 million was also attributable to cash inflows from deposits opened in prior year and closed in 2016, furthermore we received more cash from sales of property, plant and equipment and intangible assets (increase by RUB 1,054 million, thereof RUB 848 million for radiofrequences won by other operators). The only growing investing cash outflow related to investment in associates, we spent RUB 4,094 million for additional share issuance of MTS Bank.

Net cash used in financing activities for the year ended December 31, 2016 increased by RUB 55,443 million or 200.9%, and totaled to RUB 83,038 million. The growth was mainly due to increased debt repayment (change by RUB 49,746 million) and repayment under credit guarantee agreement related to foreigh currency hedge (change by RUB 9,690 million due to appreciation of Russian Ruble). Cash flows from transactions under common control had a positive effect on net cash used in financiang activities (change by RUB 7,884) as there were no new transaction on sale or purchase of subsidiaries under common control. In 2016 proceeds from loans and notes reduced by RUB 2,471 million. The amount of dividends paid by the Group in 2016 increased by RUB 2,019 million in comparison with the financial year, ended December 31, 2015.

For the year, ended December 31, 2015, net cash provided by operating activities totaled to RUB 144,088 million, a decrease of 9.4% from the year ended December 31, 2014. The decrease

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resulted mainly from the increase in the amount of interest paid (by RUB 8,613 million), higher inventory purchases (by RUB 6,729 million) as well as changes in timing of settlements with customers and suppliers.

Net cash used in investing activities for the year ended December 31, 2015 was RUB 145,356 million, an increase of 38.4% from the year ended December 31, 2014. Net cash used on purchases of property, plant and equipment and intangible assets in the year ended December 31, 2015 increased by RUB 14,608 million (thereof due to acquisition of 3G and 4G licenses in Russia and Ukraine in the amount of RUB 10,426 million). In 2015, the cash outflow relating to short term and other investments in the form of deposits and loans totaled to RUB 41,807 million, compared to cash outflow of RUB 3,176 million for 2014 (effect year on year increase in cash flow from investing activities RUB 38,631 million). Cash spent in 2014 on the acquisition of subsidiaries, amounted to RUB 2,755 million, no subsidiaries from third parties were acquired in 2015. Investments in associates decreased by RUB 7,767 million to RUB 200 thousand for the year ended December 31, 2015, from RUB 7,767 million for the year ended December, 2014 (in 2014 we acquired share in OZON for RUB 2,702 million and invested additional RUB 4,905 million in MTS Bank). In addition, in 2015 we increased cash inflow from sale of property, plant and equipment and assets held for sale by RUB 2,370 million through sale of assets of MTS Ukraine in Crimea and copper cable by MGTS.

Net cash used in financing activities in the year ended December 31, 2015 was RUB 27,595 million, compared to RUB 33,212 million used in the year ended December 31, 2014. The decrease was mainly attributable to the lower amount of debt and notes repayment (decrease in the amount of RUB 12,238 million) offset by higher cash outflow related to purchases/sales of subsidiaries under common control (increase in the amount of RUB 5,329 million). Major cash flows under such transactions related to acquisition of NVision Group (RUB 10,181 million) and to sale of Business- and Rent Nedvizhimost to Sistema (RUB 4,281 million). In addition, our proceeds from issue of notes and loans decreased by RUB 6,014 million in comparison with 2014, however we received RUB 6,706 million as a collateral payment related to cross-currency swap agreement with Barclay.

Liquidity

As of December 31, 2016, we had total cash and cash equivalents of RUB 18,470 million (RUB 8,161 million in rubles, RUB 3,954 million in U.S. dollars, RUB 1,173 million in euros, RUB 3,528 million in Ukrainian hryvnias, RUB 1,252 million in Turkmenistan manat and RUB 402 million in other currencies). In addition, as of December 31, 2016, we had short-term investments of RUB 8,657 million, mostly in form of deposits in various banks as well as debt securities (assets in Sistema-Capital trust management). We also had RUB 40,858 million available under existing credit facilities as of December 31, 2016. For a description of our outstanding external financing, see Note 15 to our audited consolidated financial statements.

As of December 31, 2016, we had a working capital deficit of RUB 39,632 million compared to a surplus of RUB 1,107 million as of December 31, 2015. The working capital deficit was mainly attributable to decline in short-term investments by RUB 41,183 million, cash and cash equivalents by RUB 14,994 million and current income tax assets by RUB 3,589 million offset by decrease in trade and other payables by RUB 16,283 million, other financial liabilities by RUB 6,729 million as well as current borrowings by RUB 6,494 million. We expect to repay all long-term debts as they become due from our operating cash flows or through re-financings. We believe that our working capital, together with our plans for external financing, will provide us with sufficient funds for our present requirements.

Russian law requires that dividends can only be paid in an amount not exceeding net profits as determined under Russian accounting standards, denominated in rubles, after certain deductions. In addition, dividends may only be paid if the value of the company's net assets is not less than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation

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value and the par value of the issued and outstanding preferred stock of the company, if any, as determined under Russian accounting standards. Our net income under Russian accounting standards for the years ended December 31, 2015 and 2016 that was distributable under Russian legislation amounted to RUB 7,255 million and RUB million 34,267, respectively.

Credit Rating Discussion

Our credit ratings impact our ability to obtain short- and long-term financing, and the cost of such financing, and credit rating downgrades may require us to prepay certain loans. In determining our credit ratings, the rating agencies consider a number of factors, including our operating cash flows, total debt outstanding, commitments, interest requirements, liquidity needs and availability of liquidity. Other factors considered may include our business strategy, the condition of our industry and our position within the industry and the strategy, activity and/or credit rating of Sistema. Although we understand that these and other factors are among those considered by the rating agencies, each agency might calculate and weigh each factor differently. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Our controlling shareholder has the ability to take actions that may conflict with the interests of other holders of our securities."

Critical Accounting Policies

Please refer to note 2 in our audited consolidated financial statements included elsewhere in this document.

Recent Accounting Pronouncements

Please refer to note 2 in our audited consolidated financial statements included elsewhere in this document.

C. Research and Development, Patents and Licenses, etc.

Not applicable.

D. Trend Information

Sales

In 2016, our revenues in Russia increased by 2.4% and in Ukraine increased by 3.5%. Our mobile subscriber base increased to 104.6 million subscribers as of December 31, 2016 from 102.5 million subscribers as of December 31, 2015. We expect our consolidated subscriber base to remain stable in 2017 as a result of continued marketing and advertising activity. We anticipate our consolidated revenues will increase in 2017 mainly based on growth in data usage, the development of our broadband business in the regions and growth in sales of handsets and accessories.

Average monthly service revenue per subscriber in Russia remained relatively stable and amounted to RUB 312.9 for the year ended December 31, 2016 as compared to 325.7 for the year ended December 31, 2015. Average monthly minutes of use per subscriber in Russia remained stable and amounted to 380 minutes in 2016 as compared to 381 minutes in 2015. We expect average monthly service revenue per subscriber in Russia to remain stable in 2017 as we plan to decrease prices and stimulate growth in usage of data services. We also believe that average monthly minutes of use per subscriber will remain stable with an increase in megabytes of use per subscriber due to our efforts aimed at stimulating data usage and on-net traffic.

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In Ukraine, our subscriber base increased to approximately 20.9 million subscribers as of December 31, 2016, from 20.4 million subscribers as of December 31, 2015. The launch of 3G services under the Vodafone brand in Ukraine was the most significant event in 2015. During 2016, company expanded actively its network and now a high-speed mobile internet is available for more than 54% of Ukrainians. In 2017, we expect revenues to remain stable under the impact of the weaker macroeconomic environment.

Our subscriber base in Armenia remained stable and amounted to 2.1 million subscribers in 2016. The average monthly service revenue per subscriber in Armenia decreased to 2,189 dram (RUB 305) from 2,706 dram (RUB 343). We expect the average monthly service revenue per subscriber in Armenia to decline mainly due to the growth of competition in these markets which may, in turn, lead to decreasing tariffs, the addition of lower-value mass market subscribers and macroeconomic trends calling for "save mode".

Our primary operating license in Turkmenistan was resumed, and all of our operations in the country fully recommenced since October 1, 2012. Our subscriber base in Turkmenistan remained stable last 5 years and slightly increased to 1.7 million subscribers as of December 31, 2016 from 1.6 million subscribers as of December 31, 2015. We expect our subscriber base and revenues to remain stable in 2017.

After reentrance we started operations in Uzbekistan in December 2014. Our subscriber base in Uzbekistan developed rapidly, increased to 1.4 million subscribers as of July 31, 2016. On August 2016, PJSC MTS announced that it has sold its 50.01% stake in the telecommunications operator Universal Mobile Systems (UMS) 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.

Russia and Ukraine are the two largest markets for us, both in terms of subscribers and revenue. In 2016, the underlying developments within these markets remained generally positive and included high mobile penetration, strong demand for mobile services, generally positive usage trends and increased consumption of data services and value-added services. We expect growth of business activity in Russia to continue throughout 2017. We also expect that the stabilizing of the political situation in Ukraine will allow us to retain our operating indicators.

We expect a challenging operating environment in 2017 due to continued macroeconomic and market volatility in the countries where we operate, increasing competition and significant changes in the mobile retail market in Russia. We also experienced significant exchange rate volatility and depreciation of local currencies in the countries where we operate against the U.S. dollar. The volatility and devaluation of local currencies against the U.S. dollar and/or euro may adversely affect our costs, including our non-cash foreign exchange loss due to the translation of our U.S. dollar- and euro-denominated debt. For further information on these risks, see " A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Currency fluctuations" and "Item 3. Key Information D. Risk Factors Risks Relating to our Financial Condition Inflation could increase our costs and adversely affect our results of operations."

However, considering current macroeconomic conditions, our management believes that we will experience medium- and long-term growth and efficiency. Due to the fact that the Russian and the Ukrainian markets are highly penetrated, we believe the next wave of revenue growth for the overall market is likely to come from customers' increasing use of data, content and other value-added services.

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Churn

We define churn as the total number of subscribers who cease to be a subscriber during the period (whether involuntarily due to non-payment or voluntarily), expressed as a percentage of the average number of our subscribers during that period.

A vast majority of our subscribers are prepaid subscribers with no contractual commitment to us. As a result, these subscribers have unfettered freedom to migrate between operators at their convenience. This freedom, combined with the relative ease with which subscribers can obtain SIM cards, contributes to churn and increasing penetration levels in the markets where we operate.

The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition. Our churn rate in Russia slightly decreased to 39.0% during the year ended December 31, 2016, as compared to 39.6% for the year ended December 31, 2015, due to growth in the number of new connections. We continued to offer our popular tariff plans "Super MTS" (free calls to all subscribers of MTS Russia) and "Smart" (integrated voice and data bundles), updated options for unlimited mobile Internet, further improved network quality and enhanced data rate through the expansion of our 3G and LTE capabilities. We expect that the extension of the MTS-Bonus loyalty program and further development of our mono-brand retail network will allow us to keep churn rate under control in 2017, stimulate data usage and promote subscriber loyalty through superior customer service.

The churn rate in Ukraine slightly increased to 25.0% for the year ended December 31, 2016, from 24.5% for the year ended December 31, 2015. In 2017, we expect subscriber loyalty to grow due to the launch of 3G-enabled data services with the support of our brand partnership with Vodafone.

E. Off-balance Sheet Arrangements

We believe that our existing off-balance sheet arrangements do not have and are not reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Obligations under derivative contracts

We regularly enter into fixed -to-variable interest rate swap agreements to manage the exposure of changes in variable interest rate related to its debt obligations. The instruments qualify for cash flow hedge accounting under IFRS requirements. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges. Interest rate swap contracts outstanding December 31, 2016 mature in 2018 and 2020.

In addition to the above, we have also entered into several cross-currency interest rate swap agreements. These contracts hedged the risk of both interest rate and currency fluctuations and assumed periodic exchanges of both principal and interest payments from RUB-denominated amounts to USD- and euro-denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges. Cross-currency interest rate swap contracts mature in 2019-2020.

F. Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, capital lease obligations (including interest) and certain committed

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obligations. The following table summarizes our future obligations under these contracts due by the periods indicated as of December 31, 2016:

	Payments due by period				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(amounts in millions of RUB)				
Contractual Obligations:[1]					
Long-Term Principal Debt Obligations	47,081	136,895	57,867	32,920	274,763
Interest Payments[2]	22,413	32,149	12,377	12,945	79,884
Capital Lease Obligations	1,432	2,971	3,108	11,061	18,572
Operating Lease Obligations	9,491	1,434	466	3,659	15,050
Purchase Obligations[3]	23,833	7,961	712	94	32,600
Provision for decommissioning and restoration				1,191	1,191
Retirement and post-retirement obligation	169	176	121	692	1,158
Payments related to business acquisitions		3			3
Uncertain Income Tax Position	756				756
Total	105,175	181,589	74,651	62,562	423,977

(1) Debt payments could be accelerated upon violation of covenants in our debt agreements.

(2) (Interest payments are calculated based on indebtedness as of December 31, 2016, scheduled maturities for the debt and interest rates effective as of December 31, 2016. We calculate interest payments on ruble-denominated notes until the dates of their respective put options, as described in Note 15 to our audited consolidated financial statements. Payments under interest rate swap agreements are excluded from the table as their amount and timing cannot be reasonably estimated.

(3) Includes future payments under purchase agreements to acquire property, plant and equipment, intangible assets, costs related thereto, inventory and services. We plan to finance our capital commitments through operating cash flow and additional borrowings.

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Item 6. ***Directors, Senior Management and Employees***

A. Directors and Senior Management

Key Biographies

Our directors and executive officers, their dates of birth and positions as of the date of this document were as follows:

Name	Year of Birth	Position
Ron Sommer	1949	Chairman of the Board of Directors, Non-Executive Director
Vsevolod Rozanov	1971	Non-Executive Director
Stanley P. Miller[1][2]	1958	Non-Executive Independent Director
Alexander E. Gorbunov	1967	Non-Executive Director
Michel Combes[1][2]	1962	Non-Executive Independent Director
Thomas Holtrop[1][2]	1954	Non-Executive Independent Director
Regina von Flemming[1]	1965	Non-Executive Independent Director
Mikhail V. Shamolin	1970	Non-Executive Director
Andrey A. Dubovskov[3]	1966	Executive Director, President and Chief Executive Officer ("CEO")
Alexey V. Kornya[3][4]	1975	Vice President Member of Management Board Chief Financial Officer ("CFO") (Finance, Investments, Mergers & Acquisitions)
Andrey E. Ushatskiy[3]	1974	Vice President Member of Management Board Chief Technology and Information Officer
Vasil I. Latsanych[3]	1972	Vice President Member of Management Board Strategy and Marketing
Ruslan S. Ibragimov[3][4]	1963	Vice President Member of Management Board Corporate and Legal Matters
Ivan A. Gaychenya	1967	Vice President Corporate Security and Regime
Mikhail A. Arkhipov[3]	1982	Vice President Member of Management Board HR
Andrey G. Smelkov[3]	1976	Vice President Member of Management Board Director of "MTS Foreign Subsidiaries" Business Unit
Valery V. Shorzhin[3]	1963	Vice-President Member of Management Board Procurement Management and Administrative Matters
Kirill A. Dmitriev[3]	1978	Vice President Member of Management Board Sales and Customer Service
Igor A. Yegorov[3]	1968	Member of Management Board Head of Moscow region

(1) Member of the Remuneration and Nomination Committee.

(2) Member of Audit Committee.

(3) Member of Management Board.

(4) Member of Disclosure Committee.

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Ron Sommer serves as Chairman of our Board of Directors since June 2009. He is now the Chairman of the Strategy Committee and a member of the Budget Committee. He also was the Chairman of our Strategy Committee until 2013 and then served as a member of the Strategy Committee until 2015. Mr. Sommer is also the Chairman of the Supervisory Board of MTS Ukraine. He is also a member of the Board of Directors of Tata Consultancy Services and a member of the Supervisory Board of Munich Reinsurance. Mr. Sommer served as First Vice President Head of Telecommunications Assets Operating Unit of Sistema from May 2009 until 2011. He was a member of the Board of Directors of Sistema from 2005 until 2012 and he served as Chairman of the Board of Directors of various Sistema affiliated companies. Mr. Sommer was a Chairman of the Board of Directors of SSTL until 2015. He was also a member of the International Advisory Board of The Blackstone Group until 2012. In 2009, he served as Chairman of the Board of Directors of Comstar. Between May 1995 and July 2002, he was CEO of Deutsche Telekom AG. From 1980 to 1995, he held a number of positions with Sony Corporation, including as CEO of Sony Deutschland, COO of Sony Corporation of America and COO of Sony Europe.

Vsevolod Rozanov serves as one of our Directors since June 2012, and in 2015 he was elected as the Deputy Chairman of the Board of Directors. He is also the Chairman of our Budget Committee. Until 2015 he was a member of the Corporate Conduct and Ethics Committee (renamed Corporate Governance Committee on February 25, 2015) and now he is the Chairman of the Corporate Governance Committee. Since 2013 he serves as the Vice President Head of Finance and Investments Complex in Sistema. Currently he is also a Chairman of the MTS Bank' Board of Directors, Deputy Chairman of the Board of Directors in SSTL, member of the Boards of Directors in EAST-WEST UNITED BANK S.A., "Landshaft" CJSC, "Lider Invest" OJSC, "UK Segezha Group" LLC, Sistema Finance S.A., Sistema-Capital trust management, "Mikron" PJSC, Insitel, member of Management Board in Charity Fund Sistema. Since 2014 until 2015 he was a member of "SG-Trans" CJSC and "Landshaft" CJSC' Boards of Directors and the Chairman of the Board of Directors in "DIK" LLC. Since 2014 until 2015 Mr. Rozanov was also a member of and since 2015 is the Chairman of the Board of Directors of MTS Bank. From 2008 until 2013 he served as the president of SSTL and since 2015 serves as the Deputy Chairman of the SSTL's Board of Directors. From 2006 until 2008 served as Vice President and Chief Financial Officer of MTS. In 2004 he was appointed Deputy General Director for Economics and Finance of Comstar UTS, coordinating the preparation of the company's IPO on the London Stock Exchange. From 2002 until 2004 served as Deputy General Director and Chief Financial Officer of MTU-Inform. From 1993 until 2001 held various consulting positions at the Moscow, London and Stockholm offices of Bain & Company.

Stanley P. Miller serves as one of our Directors since June 24, 2010. He also is the Chairman of our Remuneration and Appointment Committee, and a member of our Audit Committee, Strategy Committee and Corporate Governance Committee. From 1998 to 2010, Mr. Miller served as CEO at KPN, Netherlands (since 2005, KPN Mobile International). From 2006 to 2010, he served as CEO and Chairman of the Supervisory Board at E-Plus, a subsidiary of KPN and the third largest provider of mobile telephony services in Germany. From 2001 to 2010, Mr. Miller was CEO and Chairman of the Board at BASE, Belgium, a subsidiary of KPN and the third largest provider of mobile telephony services in Belgium operating under the Simyo and Ortel Mobile brands. From 1998 to 2010, he served as a member of the Board of Directors of Hutchison 3G UK Ltd, IP Global Net NV and VESTA Technologies. Mr. Miller also serves as the Chairman of the Board of Directors of AINMT (AB) Sweden, member of the Board of Directors in Arrow Creek Investments 75 (PTY) LTD South Africa and MTN Group limited.

Alexander E. Gorbunov serves as one of our Directors since February 2013, and in 2015 he was elected as the Deputy Chairman of the Board of Directors. He also is a member of our Strategy Committee and Budget Committee. In addition, Mr. Gorbunov serves on the Board of Directors of various other companies such as SSTL and OZON Holdings Limited, he is also serves as

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Vice-President managing telecom assets of Sistema. From 2010 until 2011, Mr. Gorbunov served as Executive Vice President for development of telecommunication assets at Basic Assets Business Unit of Sistema and from 2011 until 2015 as Executive Vice-President. From 2006 until 2010, he served as Vice President for Strategy and Development at Comstar. Prior to that, from 2005 to 2006, Mr. Gorbunov headed Corporate Development Department at Sistema.

Michel Combes serves as one of our Directors since February 2013. He also is a member of the Remuneration and Appointment Committee, Audit Committee and Strategy Committee. Currently he serves as Non-executive director of HDL Development, Chief Operating Officer and Board of Directors member in ALTICE NV, Chief Operating Officer of SFR Group and Management Board member of CVC 2 BV, CVC 3 BV.. Until 2015 Mr. Combes served as Chief Executive Officer of Alcatel-Lucent SA and a non-executive director and member of Audit Committee of ALTICE. Mr. Combes also served as Chairman of the Supervisory Board at Assystem until 2014 and as Non-Executive Director and a member of the Board of Directors of ISS until 2013. From 2008 until 2012, he served as Main Executive Director for Europe at Vodafone London and as Non-Executive Director at Vodafone PLC. From 2006 to 2008, Mr. Combes served as Main Executive Director at Telediffusion de France. Prior to that, from 2003 to 2006, he served as Senior Vice President and Financial Director at France telecom. Mr. Combes has also served as a Director of Vodafone, Weather (Orascom Wind), Atari, TDF, Eurotunnel, Atos and Procapital.

Thomas Holtrop serves as one of our Directors since February 2013. From 2009 until 2011, he served as a member of the Board of Directors at Comstar. He is also the Chairman of our Audit Committee, a member of Remuneration and Appointment Committee, Budget Committee . From 2005 to 2011, Mr. Holtrop served as a member of the Supervisory Board at Gruner & Jahr (Hamburg). Prior to that, from 2001 to 2004, he served as the President of T-Online International AG. Mr. Holtrop also served as a member of the Board of Directors at Deutsche Telecom AG from 2002 to 2004. Prior to that, he served as Vice President at American Express International Inc. and was a member of the Board of Directors at Bank 24 AG and Deutsche Bank 24 AG.

Regina von Flemming serves as one of our Directors since June 2015. Ms. von Flemming served as the CEO and Publisher of Axel Springer Russia from 2009 to 2015. Prior to that, she was the founder and owner of Flemming & Partner GmbH Berlin Moscow, a consultancy providing services in the areas of crisis management, start up, interim management and restructuring, interim CEO in Russia mainly for German and Russian entities. From 2000 to 2003, she worked as Vice President of the "US Russia Investment Fund" at Delta Capital, one of the first private equity funds in Russia. Prior to joining Delta Capital, she held various management roles in German companies.

Mikhail V. Shamolin serves as one of our Directors since June 2015, and earlier since October 2008 till March 2011. Since March 2011, Mr. Shamolin also serves as President and Chairman of Management Board of Sistema. He served as our President and Chief Executive Officer from May 2008 to March 2011. Mr. Shamolin serves on the board of the GSM Association since July 2008. From August 2006 to May 2008, Mr. Shamolin served as our Vice President Director of MTS Russia Business Unit. From July 2005 to August 2006, he served as our Vice President Sales and Customer Service. From 2004 to 2005, Mr. Shamolin worked at Interpipe Corp. (Ukraine) as Managing Director of the Ferroalloys Division. From 1998 to 2004, he held various consulting positions at McKinsey & Co.

Andrey A. Dubovskov serves as our President and CEO since March 2011. Mr. Dubovskov also serves as as a member of the Board of Directors at Sistema since 2015, the Chairman of the Board of Directors of RTK, a member of Supervisory Board of MTS-Ukraine and as a Chairman of the Board of Directors of MTS-Belarus since 2016. He serves as a member of the Board of Directors at SSTL until 2015 and the Chairman of the Board of Directors at MGTS since 2012. Since June 2011 he has also serves as a member of our Corporate Governance Committee, Strategy Committee. Since 2011 he has also serves as a member of the Board of Directors at MTS-Belarus and International Cell

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Holding LTD until 2016. From April 2008 to March 2011, he served as the General Director of MTS Ukraine. From March 2006 to December 2007, Mr. Dubovskov served as Director of Ural Macro-region. From January 2004 to March 2006, he served as the Director of one of our subsidiaries in Nizhniy Novgorod. Prior to joining us, Mr. Dubovskov served as the General Director of various telecommunications companies from 1998 to 2002.

Alexey V. Kornya serves as our Vice President for Finance, Investments, Mergers & Acquisitions CFO since June 2016. Since June 2010,he served as our Vice President CFO. Prior to that, he served as our Acting Vice President Finance and Investments from August 2008. Mr. Kornya serves as our Chief Financial Officer and is the Chairman of our Disclosure Committee and a member of the Budget Committee. He is a member of the Board of Directors of RTC, a member of the Board of Directors of MTS Bank and a member of the Board of Directors of SOOO CJSC, Sistema-Capital trust management. He is also a member of the Supervisory Board at MTS Ukraine. From March 2007 to December 2008, he served as our Chief Financial Controller. He served as our Financial Planning and Analysis Director from November 2004 to March 2007 and as CFO of our Urals Macro-region branch from July 2004 to November 2004.

Andrey E. Ushatsky serves as our Vice President Chief Technology and Information Officer since April 2013. Prior to that Mr. Ushatsky served as our Vice President Chief Technology Officer since April 2009. Mr. Ushatsky joined us in 1996 andserved in various technology-related positions, most recently as the Deputy Head of MTS Russia for Technology.

Vasil I. Latsanych serves as our Vice President Strategy and Marketing since June 2016. Since September 2011, heserved as our Vice President for Marketing. He served as Acting Head MTS Ukraine since March 2011 until September 2011. From October 2007 to March 2011, Mr. Latsanych served as Marketing Director of MTS Ukraine. Prior to joining us, Mr. Latsanych served as Marketing Director at Coca-Cola Bottlers Siberia and Coca-Cola Krasnoyarsk. From 1996 to 2001, Mr. Latsanych held various management positions at Coca-Cola Amatil Ukraine Ltd and Coca-Cola Beverages Ukraine.

Ruslan S. Ibragimov serves as our Vice President Corporate and Legal Affairs since January 2008. Since 2015 he is also a member of our Corporate Governance Committee. From February 2007 to January 2008, Mr. Ibragimov served as our Director Chief Legal Counsel. He joined us in June 2006 and initially served as the Director for legal matters, as well as headed our Legal Department. Prior to joining us, Mr. Ibragimov was a member of the law firm Ibragimov, Kagan and Partners from July 2002 to June 2006. From 1996 to 2002, he served as Deputy General Director and Senior Partner at RSM Top-Audit, a tax and legal consulting firm. From 1992 to 1996, Mr. Ibragimov headed legal departments at various commercial banks.

Ivan A. Gaychenya was appointed MTS Vice President for Corporate Security and Regime in December 2015. Prior to joining MTS, from 2011 to 2015, Mr. Gaychenya served as Director for Security of PJSC "Russian Grids" and PJSC "FSK UES." Prior to that, from 1995 to 2011, he has served in the military and state security forces of Russian Federation, holding operational and executive positions.

Mikhail A. Arkhipov serves as our Vice President HR starting April 2013. Prior to joining us, from 2009 to 2013, he worked at SIBUR, where he took several positions, from Head of Compensations and Benefits to HR Director. From 2008 to 2009, he held various positions at SUN Interbrew and KPMG.

Andrey G. Smelkov serves as our Vice President Director of "MTS Foreign Subsidiaries" Business Unit since October 2013. Prior to that, since 2010, he served as a Chairman of the Board in TOO "Mobile Telekom Service," Kazakhstan. Since 2008 Mr. Smelkov worked as a Head of OOO "Sky Mobile," Kyrgyztan. Prior to that, he worked as a Head of branch in OJSC VimpelCom.

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Valery V. Shorzhin serves as our Vice President-Procurement Management and Administrative Matters, Member of the Management Board since March 2014. Prior to that he served at MTS as Director-Procurement Management since 2011. He also was a Member of the MTS Management Board between 2009 and 2011. From 2008 to 2011, he served as Director of Information Technology. Prior to joining MTS, Mr. Shorzhin held the positions of Technical Director and Director for IT and Information Management of Farlep-Invest in Ukraine from December 2006. From 1996 to 2006, he held various information technology management positions at Sovintel.

Kirill A. Dmitriev serves as our Vice President Sales and Customer Service, Member of the Management Board since May 2016. He was a Member of Management Board- Head of Moscow Macro-region since April 2014. Since 2011 he held a position of Director of North-West Macro-region. Mr. Dmitriev joined MTS in 2009 as Director of Western branch of MTS Ukraine. Prior to joining MTS he served at various management positions at Baltic Beverages Holding Ukraine.

Igor A. Yegorov serves as our Head of Moscow region, Member of the Management Board since May 2016. Prior to that, he headed the MTS business in the regions of Central Russia since May 2014. He joined us in 2003 and held senior positions in the MTS operations in the Irkutsk Region and the Trans-Baikal Territory, served as Marketing Director and Commercial Director for retail markets at the MTS operation in the Far East and Eastern Siberia and was appointed Director of the Far East macroregion in October 2011.

All members of our Board of Directors were elected at the annual shareholders' meeting on June 23, 2016 and will serve until their terms expire at the next annual shareholders' meeting, which will take place on June 29, 2017. The business address of each of our directors is 4 Marksistkaya Street, Moscow 109147, Russian Federation.

B. Compensation of Directors and Senior Management

Our officers and directors were paid during 2016 an aggregate amount of approximately RUB 760 million for services in all capacities provided to us; this amount comprised RUB 470 million in base salaries and RUB 290 million in bonuses paid pursuant to a bonus plan and in other monetary compensations for the management and directors. Bonuses are awarded annually based on our financial performance.

Our management and directors are also entitled to cash-settled and equity-settled share-based payments. Related compensation accrued in 2016 amounted to RUB 481 million. For additional information, see Note 21 to our audited consolidated financial statements.

In 2009, we amended our Regulation on Remuneration and Compensation of the Members of the Board of Directors to provide that only independent non-executive directors receive compensation. Members of the Board of Directors who are independent non-executive directors receive annual base compensation of $250,000 (RUB 15 million) or $275,000 (RUB 16.5 million) in the case of an independent non-executive director who serves as Chairman of the Board of Directors.

Independent non-executive directors who also serve on Board committees receive additional compensation as follows. Members of the Strategy Committee, Remuneration and Nomination Committee, Audit Committee and Committee for Corporate Conduct and Ethics receive additional annual compensation of $15,000 (RUB 0.9 million), and a director serving as Chairman of the foregoing committees receives additional annual compensation of $25,000 (RUB 1.5 million). Members of special committees of the Board of Directors, which are committees established for undertaking preliminary consideration and making recommendations to the full Board in relation to certain assigned matters, receive additional annual compensation of $20,000 (RUB 1.2 million), and a director serving as Chairman of a special committee receives additional annual compensation of $25,000 (RUB 1.5 million). Members of all other Board committees receive additional annual compensation of $5,000 (RUB 0.3 million) and a director serving as Chairman of any other Board committee receives additional annual compensation of $10,000 (RUB 0.6 million).

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Independent non-executive members of the Board of Directors are also eligible for an annual bonus of up to a maximum of $200,000 (RUB 12 million) based on our performance and average ADS price over a specified period.

The aggregate amount of compensation received by an independent non-executive director (including annual base compensation, bonus and additional compensation for serving as a Board committee member) should not exceed $500,000 (RUB 30 million). In the event of early termination of a director, such director receives a pro rata share of the base, committee and bonus compensation based on the amount of time the director served on our Board.

We provide all of our directors with professional liability insurance and reimburse them for all documented expenses incurred in connection with their attendance at Board meetings and other expenses of up to $200,000 (RUB 12 million).

C. Board Practices

Board of Directors

Members of our Board of Directors are elected by a majority vote of shareholders at the annual shareholders' meeting using a cumulative voting system. Directors are typically elected by the annual meeting of shareholders for one year until the next annual meeting of shareholders and may be re-elected an unlimited number of times. The Joint Stock Companies Law requires that companies with more than 10,000 holders of voting shares have a board of directors consisting of not less than nine members. Our Board of Directors currently consists of nine members. The Board of Directors has the authority to make overall management decisions for us, except those matters reserved to the shareholders. Planned meetings of the Board of Directors shall be held periodically when needed, but at least 2 (two) times a quarter. See " B. Compensation of Directors and Senior Management" for a description of the compensations for the members of our Board of Directors.

Audit Committee

Our Audit Committee consists of three members appointed by the Board of Directors. The current members are Thomas Holtrop, Stanley Miller and Michel Combes, all of whom are independent members of the Board of Directors. Mr. Thomas Holtrop serves as the Chairman of the Audit Committee. The Audit Committee is primarily responsible for the integrity of our financial statements; overseeing our internal control system; overseeing our accounting and financial reporting processes and the internal and external audits of our financial statements; recommending the appointment and compensation of the independent auditors to the Board of Directors; overseeing the performance of the auditors; reviewing issues raised by the auditors, management and/or Board of Directors and, as required, making recommendations to the Board of Directors; resolving matters arising during the course of audits; and since February 25, 2015 exercises functions related to ethics matters.

According to the bylaws, the Audit Committee shall convene with our external auditors at least four times a year, but may convene more frequently if the Audit Committee chooses to do so.

Remuneration and Nomination Committee

Our Remuneration and Nomination Committee consists of four members appointed by the Board of Directors. The current members are Michel Combes, Thomas Holtrop, Regina von Flemming and Stanley Miller, who serves as the Chairman of the Remuneration and Nomination Committee. The Remuneration and Nomination Committee is primarily responsible for developing a remuneration structure and compensation levels for management executives.

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According to the bylaws, the Remuneration and Nomination Committee shall be convened by the Chairman of the Remuneration and Nomination Committee, at his sole discretion, or at the suggestion of any member of this committee, a member of the Board of Directors or our President.

President

Our President is elected by the Board of Directors for a term of three years and can be reelected for an unlimited number of terms. The rights, obligations and the times and amounts of payment for the President's services are determined by a contract between him and us, as represented by our Chairman or by a person authorized by our Board of Directors. The President is responsible for day- to-day management of our activities, except for matters reserved to our shareholders or the Board of Directors and the Management Board. The President reports to the shareholders' meeting and to the Board of Directors and is responsible for carrying out decisions made by the shareholders and by the Board of Directors and the Management Board. On March 4, 2011, Andrey A. Dubovskov was elected as our President and CEO, starting from March 5, 2011, by the Board of Directors for a term of three years, in March 2014 and in March 2017 his contract was extended for three more years.

Management Board

In October 2006, we revised our charter to establish a new governing body called the Management Board. The Management Board is an executive body which oversees certain aspects of our ongoing activities. The overall number of the Management Board members is approved by the Board of Directors at the proposal of the President with each member being elected by the Board upon nomination by the President. Each Board member is elected for a three year period and can be reelected an unlimited number of times.

The President is the Chairman of the Management Board. Currently our Management Board consists of 10 members.

Disclosure Committee

In April 2007, we established an advisory body called the Disclosure Committee. The Disclosure Committee supervises our compliance with disclosure standards in connection with all public information regarding us. These disclosure standards are based on principles of timeliness, accuracy and completeness. Members of the Disclosure Committee may be nominated by various divisions of MTS, willing to have representatives in the Disclosure Committee. Members are appointed by the President. Alexey Kornya, our CFO, is the Chairman of the Disclosure Committee. Currently, our Disclosure Committee consists of seven members, two of whom are officers of the company.

Auditing Commission

Our Auditing Commission supervises our financial and operational activities. Members of the Auditing Commission are nominated and elected by our shareholders at annual meetings of shareholders. A director may not simultaneously be a member of the Auditing Commission. As of the date of this document, our Auditing Commission has three members:

Irina R. Borisenkova, who holds the position of Chief Accountant Managing Director, Finance and Investment Complex, Sistema;

Maxim A. Mamonov, who holds the position of Director for internal control and audit of MTS.

Anatoly G. Panarin, who holds the position of head of planning of Sistema.

The members of our Auditing Commission serve until their terms expire at the next annual shareholders' meeting, which will take place in June 2017.

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Corporate Governance

We are required under the New York Stock Exchange listing rules to disclose any significant differences between the corporate governance practices that we follow under Russian law and applicable listing standards and those followed by U.S. domestic companies under New York Stock Exchange listing standards. This disclosure is posted on our website (http://www.mtsgsm.com/about/corporate_governance/). See also "Item 16G. Corporate Governance."

D. Employees

At December 31, 2016, we had 69,470 employees. Of our 63,971 employees in Russia, we estimate that 526 were executives; 13,897 were technical and maintenance employees; 38,095 were sales, marketing and customer service staff; and 11,453 were administration and finance staff. In addition, of the 63,971 employees in Russia, we estimate that 24,538 were employed in our retail unit.

As of December 31, 2016, 3,166 of our employees worked in Ukraine. Of these employees, we estimate that 20 were executives; 864 were technical and maintenance employees; 1,508 were sales, marketing and customer service staff; and 774 were administration and finance staff.

As of December 31, 2016, 698 of our employees worked in Turkmenistan. Of these employees, we estimate that 16 were executives; 156 were technical and maintenance employees; 354 were sales, marketing and customer service staff; and 172 were administration and finance staff.

As of December 31, 2016, 1,169 of our employees worked in Armenia. Of these employees, we estimate that 10 were executives; 139 were technical and maintenance employees; 678 were sales, marketing and customer service staff; and 342 were administration and finance staff.

As of December 31, 2016, 466 of our employees worked in other countries, such as Czech Republic and Belarus (employees of NVision Group subsidiaries). Of these employees, we estimate that 17 were executives; 386 were technical and maintenance employees; 5 were sales, marketing and customer service staff; and 58 were administration and finance staff.

The following chart sets forth the number of our employees at December 31, 2015 and 2016:

	Years ended December 31,	
	2015	**2016**
Russia	64,952	63,971
Ukraine	2,942	3,166
Uzbekistan	1,074	
Turkmenistan	711	698
Armenia	1,170	1,169
Other	427	466
Total	71,276	69,470

Our employees are not unionized, except for 3,450 employees of MGTS, who are members of trade unions. We have not experienced any work stoppages and we consider our relations with employees to be strong.

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E. Share Ownership

As of April 1, 2017, our directors, senior management and employees owned less than 1% of our outstanding common stock.

The following table sets forth information with respect to the beneficial ownership of our common stock as of April 1, 2017, by our current directors and executive officers. All shares of common stock have the same voting rights.

	Beneficial ownership as of April 1, 2017	
Directors and Executive officers	**Number**	**%[1]**
Andrey A. Dubovskov, Executive Director, President and CEO	350,718	0.01794%
Ron Sommer, Chairman of the Board, Non-Executive Director	101,352	0,00518%
Alexey V. Kornya, Vice President Chief Financial Officer	86,525	0,00443%
Ruslan S. Ibragimov, Vice President Corporate and Legal Matters	72,383	0.00370%
Andrey E. Ushatsky, Vice President Chief Technology and Information Officer	65,256	0.00334%
Vsevolod V Rozanov, Non-Executive Director	79,792	0.00408%
Valery V. Shorzhin, Vice-President Procurement Management and Administrative Matters	47,624	0,00244%
Kirill A. Dmitriev, Vice President Sales and Customer Service	29,135	0,00149%
Igor A. Egorov, Member of Management Board, Head of Moscow Macro-region	29,135	0,00149%
Mikhail A. Arkhipov, Vice President HR	50,043	0.00256%
Vasil I. Latsanych, Vice President Marketing	2	0,00000%
Total	911,965	0.04665%

(1) Percentage of beneficial ownership of each named director and executive officer is based on 1,954,838,272 ordinary shares outstanding as of April 1, 2017.

Our management are entitled to remuneration in the form of options granted to them for MTS ordinary shares, which will expire in a weighted average term of approximately 1.5 years. The transfer of such shares is probable and is subject to certain employment conditions. In 2016, options related compensation accrued in the amount of RUB 259 million.

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The following table sets forth information with respect to our ordinary shares in the form of share options granted to our current directors and executive officers as of April 1, 2017. All shares of common stock have the same voting rights.

	Number of ordinary shares as of April 1, 2017	
Directors and Executive officers	**Number**	**%[1]**
Andrey A. Dubovskov, Executive Director, President and CEO	445 671	0,02280%
Ron Sommer, Chairman of the Board, Non Executive Director	154 579	0,00791%
Mikhail A. Arkhipov, Vice President HR	110 766	0,00567%
Kirill A. Dmitriev, Vice President Sales and Customer Service	108 784	0,00556%
Igor A. Egorov, Member of Management Board, Head of Moscow Macro-region	80 921	0,00414%
Ruslan S. Ibragimov, Vice President Corporate and Legal Matters	134 422	0,00688%
Alexey V. Kornya, Vice President Chief Financial Officer	207 559	0,01062%
Vasil I. Latsanych, Vice President Marketing	211 090	0,01080%
Andrey G. Smelkov, Vice President Director of "MTS Foreign Subsidiaries" Business Unit	112 430	0,00575%
Andrey E. Ushatsky, Vice President Chief Technology and Information Officer	162 507	0,00831%
Valery V. Shorzhin, Vice President Procurement Management and Administrative Matters	133 090	0,00681%
Andrey V. Ershov, General Director of MGTS	135 141	0,00691%
Ralph S. Yirikian, General Director of MTS Armenia	212 018	0,01085%
Sergey Y. Kuzmin, President of NVision Group	93 170	0,00477%
Alexander A. Mosyakin, General Director of RTK	27 711	0,00142%
Sergey V. Rubtsov, General Director of MTS Turkmenistan	46 066	0,00236%
Olga V. Ustinova, General Director of MTS Ukraine	62 824	0,00321%
Total	2,438,749	0,12475%

(1) Percentage of ordinary shares in the form of share options granted to each named director and executive officer is based on 1,954,838,272 ordinary shares outstanding as of April 1, 2017.

Item 7. *Major Shareholders and Related Party Transactions*

A. Major Shareholders

The following table sets forth, as of April 1, 2017, certain information regarding the beneficial ownership of our outstanding common stock. All shares of common stock have the same voting rights.

	Beneficial ownership as of April 1, 2017	
Name	**Number**	**Percentage**
Sistema[1]	634,674,257	32.47%
Sistema Finance S.A.	122,781,534	6.28%
STA[2]	220,467,234	11.28%
ADS holders[3]	796,092,028	40,72%
Other Public Float (including our directors and executive officers)[4]	180,823,219	9.25%
Total[5]	1,954,838,272	100.0%

(1) Vladimir P. Evtushenkov has a controlling interest in Sistema, and is considered under U.S. securities laws as the beneficial owner of our shares held by Sistema, Sistema Finance SA, and Sistema Telecom Activy ("STA"). Mr. Evtushenkov is also the chairman of the board of directors of Sistema.

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(2) STA is a limited liability company formed under the laws of Russia. Sistema owns 100% of STA, which became a holder of our 11.28% beneficial ownership after VAST LLC ("VAST") and Invest-Svyaz CJSC, the previous beneficial owners of this ownership interest, were merged into STA in 2010 and 2011, respectively.

(3) As of April 1, 2017, the total number of ADSs outstanding was 398,046,014, representing underlying ownership of 796,092,028 shares, or approximately 40.72% of our outstanding common stock. The shares underlying the ADSs are deposited with JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York and the local custodian is Sberbank of Russia.

(4) We believe that our directors and executive officers as a group own less than 1% of our shares.

(5) Excludes treasury shares, as described below.

As a result of our merger with Comstar, our subsidiary, MGTS, owned 7,584,563 of our ordinary shares as of April 1, 2017. Also Stream Digital LLC owned 35,121,665 of our ordinary shares as of 1 April, 2017.

As of April 1, 2017, we held a total of 43,543,303 shares, none of which were held in the form of ADSs. These shares are excluded from the total number of shares presented in the table above.

As of April 1, 2017, Sistema's effective ownership in us was 50.03%.

B. Related Party Transactions

Transactions with Sistema and its Affiliates

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 investments in the accompanying consolidated statements of financial position.

In April 2014, we sold a 49% stake in Business-Nedvizhimost to Sistema for a price of RUB 3.1 billion to be paid by the end of July 2015 in accordance with Addendum to the sale agreement. As of December 31, 2014, the accounts receivable in our audited consolidated statements of financial position amounted to RUB 3.2 billion. Interest was accrued on the balance of unpaid accounts receivable. The amount of interest accrued as of December 31, 2014 and 2015 was RUB 125 million and RUB 106 million respectively and it was included as a component of interest income in our consolidated statements of operations and comprehensive income. In May 2015, accounts receivable were fully repaid.

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.

Doveritelnaja Investizionnaja Kompanija ("DIK")

In April and May 2013, we invested RUB 4.0 billion in Investment fund "Reservnyi" managed by "DIK," a subsidiary of Sistema. The investment was sold in April 2014 for RUB 4,165 million. The realized gain of RUB 165 million was recognized as a component of other expenses (net) in our consolidated statements of operations and comprehensive income.

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Maxima Advertising Agency

We have contracts for advertising services with Maxima, a subsidiary of Sistema, pursuant to which we incurred expenses of RUB 1,575 million, RUB 1,351 million and 1,018 million and for services provided in the years ended December 31, 2014, 2015 and 2016, respectively.

NVision Group

During the years ended December 31, 2014 and 2015, we acquired from NVision Group, a subsidiary of Sistema, telecommunications equipment, software and billing systems (FORIS) for approximately RUB 9,819 million and RUB 5,469 million, respectively, and incurred expenses of RUB 846 million, and RUB 710 million, respectively, under an IT consulting agreement.

As of December 31, 2014, the advances given to NVision Group, a subsidiary of Sistema, amounted to RUB 274 million. The advances were included into property, plant and equipment and intangible assets in the accompanying consolidated statements of financial position.

As of the end of December 2015, we acquired 100% stake in NVision Group, accordingly as of December 31, 2015, NVision Group was our subsidiary. As we and the acquired NVision Group subsidiaries were under common control with Sistema, the assets and liabilities acquired were recognized at the carrying amounts recorded previously in the counterparty's financial statements with the resulting gain or loss recognized directly in equity. The comparative information was not restated.

Smart Cards Group

During the years ended December 31, 2014, 2015 and 2016, we purchased SIM cards and prepaid phone cards for approximately RUB 267 million,RUB 160 million and RUB 39 million, respectively.

AB Safety

During the years ended December 31, 2014, 2015 and 2016, we purchased security services from AB Safety, an affiliate of Sistema, for the amount of RUB 292 million, RUB 212 million and RUB 271 million, respectively.

Investments in certain subsidiaries and affiliates of Sistema

As of December 31, 2014, 2015 and 2016, we held investments in the share capital of certain subsidiaries and affiliates of Sistema amounting to RUB 125 million, RUB 157 million and RUB 149 million, respectively, which, individually, were and are immaterial. Our main investments are in Sistema Venture Capital (former Sistema Mass Media (SMM)), in which we hold 2.356%, and the value of such investments as of December 31, 2014, 2015 and 2016, amounted to RUB 117 million.

Transactions with equity investees

Stream LLC

In July 2012 our share in the company Stream LLC decreased to 45% and therefore it has become the related party for the group. In the years ended December 31, 2014 and 2015, we signed contracts for content services and expenses amounting to RUB 1,395 million and RUB 2,132 million, respectively.

On of December 29, 2015, we increased our share in Stream LLC to 100%.

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MTS Bank

The Group has loan agreement and maintains certain bank accounts with MTS Bank, an associate of the Group. As of December 31, 2015 and December 31, 2016, the Group's cash position at MTS Bank amounted to RUB2,564 million and RUB 5,638 million, respectively, including short-term deposits in the amount of RUB 323 million and RUB 532 million, respectively. The interest accrued on the deposits and cash on current accounts for the years ended December 31, 2014, 2015 and 2016, amounted to RUB 654 million, RUB 447 million and RUB 285 million, respectively, and was included as a component of the line item "interest income" in our audited consolidated financial statements. In January 2017 MTS Bank fully repaid its 10-year subordinated loan, received from the Group in September 2012 in amount of RUB 2,100 million.

During the years ended December 31, 2014, 2015 and 2016, we received revenues from mobile and call center services with MTS Bank amounting to RUB 787 million, RUB 588 million and RUB 900 million, respectively. In addition, during the year ended December 31, 2014, 2015 and 2016 we received revenues from processing documents for bank cards issue and granting of consumer credits amounting to RUB541 million, RUB 117 million and RUB 372 million, respectively (agency fees after deduction of cross-fines). Moreover, during the years ended December 31, 2014, 2015 and 2016 we incurred commission expenses (bank commission and commission for cash collection from subscribers) amounting to RUB 135 million, RUB 147 million and RUB 354 million, respectively.

MTS Belarus

During the years ended December 31, 2014, 2015 and 2016, we accrued revenues from roaming agreements with MTS Belarus, our associate company, amounting to RUB 269 million, RUB 266 million and RUB 276 million, respectively. At the same time, during the years ended December 31, 2014, 2015 and 2016 we incurred roaming expenses with MTS Belarus amounting to RUB 395 million, RUB 394 million and RUB 161 million, respectively.

Accounts receivable and accounts payable

We had total accounts receivable of RUB 4,525 million, RUB 9,661 million and RUB 8,094 million, from, and total accounts payable of RUB 4,674 million, RUB 1,809 million and RUB 1,014 million to, related parties as of December 31, 2014, 2015 and 2016, respectively. We do not have the intent or ability to offset the outstanding accounts payable and/or accounts receivable with related parties under the term of existing agreements with them. See Note 21 to our audited consolidated financial statements for details of our accounts payable and accounts receivable.

C. Interests of Experts and Counsel

Not applicable.

Item 8. *Financial Information*

A. Consolidated Statements and Other Financial Information

8.A.1-3. See Item 18.

8.A.4-6. Not applicable.

8.A.7. Litigation

Uzbekistan

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

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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, Uzdunrobita filed a petition for voluntary bankruptcy to the Tashkent Economic Court on the grounds of its inability to meet further 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.

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

In July 2014 the dispute between MTS and the Republic of Uzbekistan was resolved. The parties signed a settlement agreement (the "Settlement Agreement") and according to its terms all mutual claims were eliminated. The Settlement Agreement is governed by English law and provides for resolution of any disputes arising out of the Settlement Agreement in the International Court of Arbitration under the International Chamber of Commerce in Paris ("ICSID"). ICSID has discontinued international arbitration proceedings between us and the Republic of Uzbekistan following the submission of a joint application by both parties.

The Republic of Uzbekistan established a legal entity, UMS, with such entity having no legal connection to the previously liquidated entity, Uzdunrobita. UMS was granted 2G, 3G and LTE licenses valid until 2029, and received frequencies, numbering capacity and other permits required for the launch of operations. On September 24, 2014, a 50.01% ownership interest in UMS was transferred to MTS by the State Unitary Enterprise Center of Radio Communications, Radio Broadcasting and Television on behalf of the Republic of Uzbekistan. We have also received certain guaranties in relation to the protection of any future investment in the Republic of Uzbekistan.

In March 2014, we received requests for the provision of information from the SEC and the United States Department of Justice ("DOJ") relating to a currently conducted investigation of the our former subsidiary in Uzbekistan.

In July 2015, activities related to our 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 we 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 our assets are affected by the Complaints.

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

For additional information please refer to Note 26 and 28 to our audited consolidated financial statements.

Other litigation

In August 2012, we received a claim regarding dismissal of international registration of four of the Group trademarks in the territory of Ukraine from an entity named MTS LLC. The claim was fully dismissed by Economic Appeal Court of Kiev in December 2013. However, in the end of 2015, following claims of MTS LLC, two regional courts of Ukraine dismissed international registration of our trademarks in the territory of Ukraine. In March 2016, we appealed the decisions of two regional courts. Our appeals were fully satisfied. In May 2016 MTS LLC submitted a claim regarding dismissal of international registration of eight of the Group trademarks in the territory of Ukraine to the Economic Court of Kiev. We submitted to the Economic Court of Kiev counterclaim regarding dismissal of registration of MTS LLC trademark and the Economic Court of Kiev suspended processing MTS LLC claim till consideration of our counterclaim. In March 2017 our counterclaim was satisfied in the court of cassation.

Tax Audits and Claims

In the ordinary course of business, we may be party to various tax proceedings, and subject to tax claims, some of which relate to the developing markets and evolving fiscal and regulatory environments in which we operate. In the opinion of management, our liability, if any, in all pending tax proceedings or tax claims will not have a material effect on our financial condition, results of operations or liquidity. We believe that we have adequately provided for tax liabilities in the accompanying consolidated financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. See also Note 28 to our audited consolidated financial statements.

In January 2014, the Russian tax authorities completed a tax audit of MGTS for the years ended December 31, 2010 and 2011. Based on the results of this audit, the Russian tax authorities determined that RUB 91.0 million in additional taxes and penalties were payable by us. MGTS appealed the resolution of this assessment to the Federal Tax Service in May 2014. The Federal Tax Service partially satisfied our petition, decreasing the amount of additional taxes, penalties and fines payable by us by RUB 61.12 million. We filed an appeal for RUB 14.94 million with the Moscow Arbitrazh Court. In February 2015, the Moscow Arbitrazh Court issued a ruling to partly grant our claim, which was subsequently confirmed by the Arbitrazh Appeal Court in April 2015.

In July 2015, the Federal Customs Service of Russia completed audit of MTS for the period from January 1, 2012 to July 22, 2014. Based on the results of this audit, no amounts were accrued in addition to the voluntary declaration we made.

In November 2015, the Russian tax authorities completed a tax audit of RTC for the years ended December 31, 2012 and 2013. Based on the results of this audit, the Russian tax authorities determined that RUB 12.72 million in additional taxes and penalties were payable by us. No appeal was submitted.

In December 2015, the Russian tax authorities completed a tax audit of Nvision Group for the years ended December 31, 2013 and 2014. Based on the results of this audit, the Russian tax authorities determined that RUB 28.43 million in additional taxes and penalties were payable by us. No appeal was submitted.

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In November 2015, the Russian tax authorities completed a tax audit of Stream for the years ended December 31, 2012 and 2013. Based on the results of this audit, the Russian tax authorities determined that RUB 3.1 million in additional taxes and penalties were payable by us. Stream appealed the resolution of this assessment. Following the appeal, tax authorities decided to perform additional tax control procedures. As a result, the assessment of RUB 3.1 million wasn't confirmed.

In October 2015, the Russian tax authorities completed a tax audit of Comstar Regions for the years ended December 31, 2012 and 2013. Based on the results of this audit, the Russian tax authorities determined that RUB 17.3 in additional taxes and penalties were payable by us. In January 2016, we appealed the resolution of this assessment to the Federal Tax Service. In April 2016, the Federal Tax Service didn't satisfy our claim. In July 2016, we filed an appeal with the Moscow Arbitrazh Court. The appeal is being processed by the Moscow Arbitrazh Court (court of first instance).

In August 2016, the Russian tax authorities completed a tax audit of Sitronics Telecom Solutions for the years ended December 31, 2012, 2013 and 2014. Based on the result of this audit, the Russian tax authorities determined that RUB 13.46 in additional taxes, fines and penalties were payable by us. No appeal was submitted.

In December 2016, the Russian tax authorities completed a tax audit of MTS for the years ended December 31, 2012 and 2013. Based on the results of this audit, the Russian tax authorities determined that RUB 586.2 million in additional taxes, fines and penalties were payable by us. We are preparing an appeal to the Federal Tax Service.

Generally, according to Russian 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, the tax declarations of MTS and its Russian subsidiaries for the preceding three fiscal years were open for further review. In December 2016, tax authorities commenced review of tax declaration of MTS for the years ended December 31, 2014, 2015 and 2016 and Sitronics Telecom Solutions for the years ended December 31, 2014, 2015 and 2016.

Antimonopoly Proceedings

In January 2014, the FAS subdivision in the Khanty Mansiysk Autonomous region-Yugra charged Comstar-Regions with violation of antimonopoly legislation by abusing its dominant position on the Internet access market by setting different prices in different municipalities of the region. FAS also issued an order to cease the violations. On January 17, 2014, the arbitrazh court of Khanty Mansiysk Autonomous region-Yugra cancelled the decisions and the order of the FAS subdivision in the Khanty Mansiysk Autonomous region- Yugra.

In January 2014, the FAS subdivision in the Rostov region charged MTS with violation of antimonopoly laws by setting a monopoly tariff on cable TV tariffs services in the Rostov-on-Don city. The investigation was ceased as no violation had been found in MTS actions.

In December 2015, the FAS subdivision in Moscow issued an instruction to MGTS to cease violations of antimonopoly laws by different pricing of network equipment lease for different consumers, which was fulfilled. In May 2016 MGTS was fined for violations for RUB 0.5 million. MGTS appealed the decision and ruling of FAS subdivision in Moscow in the arbitrazh court in Moscow, and withdrew the appeal in June 2016.

In December 2015, FAS has charged MTS, MegaFon,VimpelCom and Tele2 with violation of antimonopoly laws in respect to pricing of SMS dispatching. In April 2017 FAS found us, MegaFon and VimpelCom responsible for the aforementioned violation.

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In November 2016, the FAS subdivision in Yaroslavl has charged MTS, MegaFon and VimpelCom with violation of antimonopoly laws in respect to 4G modems pricing. The investigation is currently in progress and the next meeting is scheduled on April 28, 2017.

In January 2017, the FAS subdivision of Nizhny Novgorod charged MTS with violation of antimonopoly laws in respect to infringement of public interests transfer of subscribers to another price plan without their consent.

Please see also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business A finding by the AMC that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations" for details of the AMC investigations.

8.A.8. Dividend Distribution Policy

Our dividend policy for the years 2013, 2014 and 2015 was aimed to make dividend payments to our shareholders in the amount of at least 75% of MTS' free cash flow, but not less than RUB 40 billion. For the purposes of dividend calculation we utilized a simplified form of free cash flow which we define as Operating Cash Flow less capital expenditures.

On April 8, 2016, our Board of Directors approved new dividend policy which sets a target payout of RUB 25.0 - 26.0 per ordinary MTS share (RUB 50.0 - 52.0 per ADR) per calendar year. The policy guarantees a minimum payout of RUB 20.0 per ordinary MTS share (or RUB 40.0 per ADR). The new policy will cover 2016 - 2018. Payments will continue to be made on a semi-annual basis.

Annual and semi-annual dividend payments, if any, must be recommended by Board of Directors and approved by the General Meeting of Shareholders (GM). We anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the depositary's fees and expenses. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the dollar.

At a meeting held on April 12, 2017, the Board of Directors recommended that an AGM approves annual dividends of RUB 15.6 per ordinary MTS share (RUB 31.2 per ADS), or a total of approximately RUB 31.2 billion, based on the full-year 2016 financial results. Upon acceptance by the AGM and completion of this payment, we will have paid out up to RUB 55.1 billion based on our fiscal year 2016 financial results.

The Board of Directors set the date for our AGM for June 29, 2017. The record date for the Company's shareholders and ADS holders entitled to participate in the AGM has been set for May 26, 2017. The Board of Directors recommended that the AGM sets the record date for shareholders and ADS holders entitled to receive dividends for the 2016 fiscal year for July 10, 2017.

B. Significant Changes

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.

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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%. In March 2017 the Group also issued Notes due 2021 at par value of RUB 10,000 million and coupon rate of 8.85% per annum.

Item 9. *Offer and Listing Details*

(Only Items 9.A.4 and 9.C are applicable.)

A.4. Market Price Information

Our ADS, each representing two ordinary shares, have been listed on the NYSE since July 6, 2000 under the symbol "MBT." Our ordinary shares have been listed on MICEX (currently Moscow Exchnage) since December 2003. In addition, we issued additional ordinary shares in connection with our merger with Comstar, which have been listed on MICEX (currently Moscow Exchange) since May 2011. The shares of the additional issuance became fully fungible with our previously issued ordinary shares in July 2011. Set forth below, for the periods indicated, are the high and low closing prices per ADS as reported by the NYSE and the high and low closing prices per ordinary share as reported by the Moscow Exchange.

	ADS High	ADS Low	Ordinary Share High	Ordinary Share Low
Monthly High and Low				
March 2017	$ 11.51	$ 9.76	290.00 RUB	255.20 RUB
February 2017	$ 10.82	$ 10.27	281.00 RUB	267.60 RUB
January 2017	$ 10.78	$ 9.28	277.5. RUB	255.70 RUB
December 2016	$ 9.64	$ 8.26	266.60 RUB	239.00 RUB
November 2016	$ 7.83	$ 7.14	230.25 RUB	219.20 RUB
October 2016	$ 8.03	$ 7.17	232.55 RUB	213.30 RUB
Quarterly High and Low				
First Quarter 2017	$ 11.51	$ 9.28	290.00 RUB	255.20 RUB
Fourth Quarter 2016	$ 9.64	$ 7.14	266.60 RUB	213.30 RUB
Third Quarter 2016	$ 9.21	$ 7.58	252.40 RUB	227.50 RUB
Second Quarter 2016	$ 9.38	$ 7.79	268.30 RUB	231.90 RUB
First Quarter 2016	$ 8.18	$ 5.15	240.10 RUB	197.75 RUB
Fourth Quarter 2015	$ 7.82	$ 6.11	221.70 RUB	193.55 RUB
Third Quarter 2015	$ 9.83	$ 6.48	245.85 RUB	207.65 RUB
Second Quarter 2015	$ 12.77	$ 9.33	271.00 RUB	238.25 RUB
First Quarter 2015	$ 10.36	$ 6.87	257.4 RUB	174.7 RUB
Annual High and Low[(1)]				
2016	$ 9.64	$ 5.22	268.30 RUB	200.55 RUB
2015	$ 12.77	$ 6.11	271.00 RUB	174.70 RUB
2014	$ 21.38	$ 6.17	324.0 RUB	158.5 RUB
2013	$ 23.96	$ 17.66	351.5 RUB	246.7 RUB
2012	$ 20.07	$ 14.94	254.7 RUB	186.0 RUB

(1) Effective May 3, 2010, the ratio of our ADSs changed from 1 ADS per 5 common shares to 1 ADS per 2 common shares. The ADS prices set forth in the table above reflect the new share: ADS ratio for all periods.

C. Markets

Our common stock has been listed on the Moscow Interbank Currency Exchange (currently Moscow Exchange) since December 2003. ADSs, each representing two shares of our common stock, have been listed on the New York Stock Exchange under the symbol "MBT" since July 6, 2000. Our

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U.S. dollar-denominated notes due in 2020 and 2023 are listed on the Irish Stock Exchange. Our ruble-denominated notes are listed on the Moscow Exchange.

Item 10. *Additional Information*

A. Share Capital

Not applicable.

B. Charter and Certain Requirements of Russian Legislation

We describe below material provisions of our charter and certain requirements of Russian legislation. In addition to this description, we urge you to review our charter to learn its complete terms.

Our Purpose

Article 2.1 of our charter provides that our principal purpose is to obtain profits through the planning, marketing, establishing and operating communications network and facilities, to provide access to Internet and to render communications services on our license territories.

We are registered with the Ministry of Taxes and Duties of the Russian Federation under the state registration number 1027700149124.

General Matters

Pursuant to our charter, we have the right to issue registered common stock, preferred stock and other securities provided for by legal acts of the Russian Federation with respect to securities. Our capital stock currently consists of 1,998,381,575 common shares, each with a par value of 0.10 rubles, all of which are issued and fully paid. Under Russian legislation, charter capital refers to the aggregate par value of the issued and outstanding shares. We are also authorized to issue an additional 100,000,000 common shares with a par value of 0.10 rubles each. We have issued only common stock. No preferred shares are authorized or outstanding. Preferred stock may only be issued if corresponding amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders.

The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for the purposes hereof. Russian legislation does not allow for the voting of such treasury shares. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (*i.e.*, they are considered outstanding shares), and our subsidiaries holding such shares are able to vote and dispose of such shares without any further corporate actions by our shareholders or Board of Directors.

In March 2016, in the course of liquidation of our wholly owned subsidiary, MTS Bermuda, we obtained 67,995,335 shares. As of June 1, 2016, we had 36,652 treasury shares repurchased pursuant to our shareholders' right to demand buy-out following the merger of our subsidiaries into MTS during 2015 and 2016 in accordance with applicable laws. In June 2016, our shareholders decided to decrease our charter capital by cancellation of all outstanding 68,031,987 treasury shares (approximately 3.29% of our share capital at that time). In August 2016, we cancelled these shares, and as such our capital stock decreased from 2,066,413,562 to 1,998,381,575 shares. As of April 1, 2017, we did not have any treasury shares.

As of April 1, 2016, our subsidiaries held 9,496,163 of our shares. In April 2016, our wholly owned subsidiary Bastion LLC sold 954,386 shares to our management pursuant to our management long-term motivation program. In December 2016, our wholly owned subsidiary Stream Digital LLC purchased

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3,060,409 shares (including shares represented by ADSs) as a result of a tender offer announced in October 2016.

A second tender offer was announced in January 2017, as a result of which Stream Digital LLC purchased additional 32,061,256 shares. Thus, as of April 1, 2017, our subsidiaries held a total of 43 543 303 of our shares. See "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders." In our consolidated financial statements prepared in accordance with IFRS, these shares are considered treasury shares (*i.e.*, they are considered not outstanding).

As of the date of this document, we had more than ten thousand shareholders for purposes of the Joint Stock Companies Law.

Rights Attaching to Shares

Holders of our common stock have the right to vote at all shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all shares of our common stock have the same par value and grant identical rights to their holders. Each fully paid share of common stock, except for treasury shares, gives its holder the right to:

freely transfer the shares without our consent and the consent of other shareholders;

receive dividends;

participate in shareholders' meetings and vote on all matters within shareholders' competence;

transfer voting rights to a representative on the basis of a power of attorney;

participate in the election and dismissal of members of the Board of Directors and Auditing Commission;

exercise its pre-emptive right in certain circumstances, as determined by the Joint Stock Companies Law;

if holding, alone or with other holders, 1% or more of the voting shares, file a lawsuit against a member of the Board of Directors or member of any executive body of the company (including the company's CEO and/or the company's managing organization) to reimburse damages suffered by the company as the result of their fault;

if holding, alone or with other holders, at least 1% of the voting shares, demand from the holder of register of shareholders to provide information on shareholders of the company and shares held by such shareholders;

if holding, alone or with other holders, 2% or more of the voting stock, within 100 days after the end of our fiscal year, make proposals for the agenda of the annual shareholders' meeting and nominate candidates to the Board of Directors, the Counting Commission and the Auditing Commission;

if holding, alone or with other holders, 10% or more of the voting stock, demand from the Board of Directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the Auditing Commission or an independent auditor, and file a lawsuit against the company to convene an extraordinary shareholders' meeting if the Board of Directors fails to take a decision to convene an extraordinary shareholders' meeting or decides against convening such meeting;

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demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:

- any reorganization;
- the conclusion of a major transaction, the value of which exceeds 50% of the balance sheet value of the assets calculated under Russian Accounting Standards ("RAS"));
- any amendment of our charter or approval of a restated version of our charter in a manner that restricts the holder's rights; and
- delisting of our shares from a stock exchange;

upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;

have free access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have access to accounting documents and minutes of the management board meetings;

if holding, alone or with other shareholders at least 1% of the voting shares, demand consent for an interested party transaction; and

exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meeting approved in accordance with its competence.

Pre-emptive Rights

The Joint Stock Companies Law and our charter provide existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in the amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares, in an amount proportionate to their existing shareholdings, during a private subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a private subscription to the existing shareholders provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed in an amount proportionate to their existing shareholdings. We must provide shareholders with written notice of their pre-emptive right to purchase shares and the period during which shareholders can exercise their pre-emptive rights may not be less than 45 or, under certain circumstances, 20 or even eight business days. We cannot sell the shares or securities convertible into shares which are subject to the pre-emptive rights during this period.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the quarterly and annual dividends that we may distribute to our shareholders. We may declare dividends based on our first quarter, six month, nine month or annual results. Dividends are recommended to a shareholders' meeting by a majority vote of the Board of Directors and approved by the shareholders by a majority vote. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective quarter at the extraordinary shareholders' meeting; and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividend approved at the shareholders' meeting may not be more than the amount recommended by the Board of Directors.

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The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under RAS as long as the following conditions have been met:

- the charter capital of the company has been paid in full;
- the value of the company's net assets on the date of the adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company;
- the company has repurchased all shares from shareholders having the right to demand repurchase; and
- the company is not, and would not become, insolvent as the result of the proposed dividend payment.

The Joint Stock Companies Law and the Securities Market Law have been amended on December 29, 2012 to adopt new dividend payment rules that came into force January 1, 2014. These amendments include new rules on determining the shareholders entitled to dividend distribution whereby the list of such shareholders is fixed at date determined in the decision of the General shareholders' meeting on the distribution of dividends. The date shall be not earlier than 10 days and not later than 20 days following the date of such decision. The dividends are to be paid to private shareholders registered in the share register of the company within 25 days and to nominal holders and professional managers within 10 days from the date on which persons entitled to receive dividends are determined. If shares are held on a depo account with a depository, dividends will be transferred to such shareholders by such depositary within seven business days of receipt of funds by the depositary.

Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

- by a three-quarters majority vote of a shareholders' meeting; or
- by a court order.

Following a decision to liquidate us, the right to manage our affairs would pass to a liquidation commission appointed by a shareholders' meeting. In the event of an involuntary liquidation, the court may assign the duty to liquidate the company to its shareholders. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code of the Russian Federation gives creditors the following order of priority during liquidation:

- individuals owed compensation for injuries or deaths;
- employees and authors of intellectual property;
- federal and local governmental entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and
- other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property ("secured claims") are satisfied out of the proceeds of sale of the pledged property prior to claims of any other

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creditors except for the creditors of the first and second priorities described above, provided that claims of such creditors arose before the pledge agreements in respect of the company's property were made. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the fourth priority creditors as described above.

The Federal Law on Insolvency (Bankruptcy), however, provides for a different order of priority for creditors' claims in the event of bankruptcy.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company's charter, if any; and
- payments to holders of common and preferred shares.

Liability of Shareholders

The Civil Code of the Russian Federation and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investments. This may not be the case, however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is called an "effective parent." The company whose decisions are capable of being so determined is called an "effective subsidiary." The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions or consent for a transaction to the effective subsidiary (except for voting of the effective parent in a shareholders' meeting of its effective subsidiary and approval by the effective parent's governing body of a transaction if such approval is required under the charter of the effective parent or the effective subsidiary).

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the act or omission of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this act or omission would be insolvency of this effective subsidiary. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Alteration of Capital

Charter Capital Increase

We may increase our charter capital by:

- issuing new shares; or
- increasing the par value of previously issued shares.

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A decision on any issuance of shares or securities convertible into shares by private subscription, or an issuance by open subscription of common shares or securities convertible into common shares constituting 25% or more of the number of issued common shares, requires a three-quarters majority vote of a shareholders' meeting. Otherwise, a decision to increase the charter capital by increasing the par value of issued shares requires a majority vote of a shareholders' meeting. In certain circumstances provided in our charter, a decision to increase the charter capital may be taken by our Board of Directors. In addition, the issuance of shares above the number provided in our charter necessitates a charter amendment, which requires a three-quarters affirmative vote of a shareholders' meeting.

The Joint Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their par value. The price of newly issued shares for existing shareholders exercising their pre-emptive right to purchase shares could be less than the price paid by third parties, but not less than 90% of the price paid by third parties. Fees paid to intermediaries may not exceed 10% of the shares placement price. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

taking a decision on a share placement;

approval of a resolution on a share issuance;

prior registration of the share issuance with the CBR;

placement of shares;

filing with the CBR and registration of a report or a notice (as applicable) on results of the share issuance; and

public disclosure of information relating to the issuance of shares.

Charter Capital Decrease; Share Buy-Backs

The Joint Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for a public joint stock company. The Joint Stock Companies Law and our charter require that any decision to reduce our charter capital through the repurchase and cancellation of shares, be made by a majority vote of a shareholders' meeting and through reduction of the par value of shares, by a three-quarter majority vote of a shareholders' meeting. Additionally, within three business days of a decision to reduce our charter capital, we must notify the federal executive body in charge of the state registration of legal entities on the decision taken and publish within the same three-day period a notice regarding the charter capital reduction, as well as a second notice one month after the first notice is published. Our creditors, whose claims arose before the decision on the charter capital decrease was taken, would then have the right to demand, within 30 days of the second publication of the notice, early termination or settlement of relevant obligations by us, as well as compensation for damages.

The Joint Stock Companies Law and our charter allow our shareholders or the Board of Directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares pursuant to a board decision must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. Repurchased shares do not bear voting rights.

Shares repurchased pursuant to a decision of our shareholders' meeting to decrease the overall number of shares are cancelled at their redemption.

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The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital is paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets at the time of repurchase of our shares is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares; and
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares in accordance with Russian law, as described immediately below.

Our subsidiaries are not restricted from purchasing our shares, and our subsidiaries can vote these shares.

The Joint Stock Companies Law and our charter provide that our shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- any reorganization;
- the conclusion of a major transaction, which involves assets having value of more than 50% of the balance sheet value of the assets calculated under RAS (including those which are simultaneously interested party transactions); or
- any amendment of our charter or approval of a restated version of our charter in a manner which restricts shareholders' rights; and
- the amendment of the public company's charter which eliminates indication that the company is public, simultaneously with the decision on applying to the CBR on release from obligation to disclose information under the laws of the Russian Federation on securities and the decision on applying for delisting of shares and equity securities convertible into shares.

We may spend up to 10% of our net assets calculated under RAS on the date of the adoption of the decision which gives rise to a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis. Repurchase of the shares is made at a price agreed on by the board of directors, but it should not be less than the market price.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company ensures maintenance of a register of its shareholders, which for a public joint stock company, shall be maintained by a registrar. Registrar NIKoil OJSC had maintained our register of shareholders since May 10, 2000. In July 2014, it has been merged into Independent Registration Company JSC (known as Computershare Registrar JSC prior to October 6, 2015) which now maintains our register of shareholders by way of universal succession.

The Federal Law No. 414-FZ "On the Central Depositary" dated December 7, 2011 (the "**Central Depositary Law**"), which came into force on January 1, 2012, set out a legal framework for establishment and operation of the central depositary. On November 6, 2012, the Russian Federal Financial Markets Service granted the JSC National Settlement Depositary the status of central depositary which opened its nominee holder accounts in, among others, all securities registers of the issuers which are obliged to disclose information in accordance with Russian securities law. As we are

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required to make public disclosures, the above requirement is applicable to us, which means that the central depositary became the only person having a nominee holder account in our share register. Also, the Central Depositary Law prohibits persons maintaining securities registers from opening and depositing securities (save for limited exceptions) to other nominee holder accounts from the date of the opening of a nominee holder account with the central depositary.

Ownership of our registered shares is evidenced by entries made in the register of shareholders, on the books of the central depositary or a Russian licensed depositary. Any of our shareholders may obtain an extract from the register of our shareholders maintained by the registrar or from their respective depositary, as the case may be, certifying the number of shares that such shareholder holds. We are also entitled to obtain an extract from our shareholders' register which sets out all of our shareholders registered directly therein. In addition, we are entitled to obtain a list of nominal holders that opened depo accounts with the central depository, as well as a list of entities that have accounts opened with the nominal holders, given that such list is provided by the relevant nominal holder. However, we are unable to monitor transfers of our shares that are held on the books of depositaries registered with the central depository because underlying shareholders have no obligation to reveal and such depositaries have no obligation to notify us about such transfers. As a result, we can currently only identify our actual shareholders in a limited number of cases provided for by Russian law, including when requesting our registrar and the central depository to compile a list of shareholders of record for the General Shareholders' Meeting and when shareholders and ADS holders provide voting instructions together with disclosure of information, including ownership information, in accordance with Russian securities regulations.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depositary if shares are held by a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, except in certain instances provided for by Russian legislation, and may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 15% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 15% requirement.

Disclosure of Information

Russian securities regulations require us to make the following periodic public disclosures and filings:

- posting on our website quarterly reports, containing information about us, our shareholders and depositary, the structure of our management bodies, the members of the Board of Directors, our branches and representative offices, our shares, bank accounts and auditors, important developments during the reporting quarter, and other information about our financial and business activity;

- publishing any information (including inside information) concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on share issuances, certain corporate events, such as mandatory or voluntary tender offers, record dates, certain changes in ownership and shareholding, filing of

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any material claim against us, obtainment or revocation of material licenses, entry into certain transactions, as well as shareholders' and certain board of directors' resolutions and certain information regarding our material subsidiaries;

disclosing information on various stages of share placement, issuance and registration through publication of certain data as required by the securities regulations;

disclosing our charter and internal corporate governance documents on our website;

disclosing our annual report and annual financial statements prepared in accordance with RAS, as well as annual and interim financial statements prepared in accordance with IFRS;

posting on our website a list of our affiliated companies and individuals on a quarterly basis;

posting on our website a list of inside information; and

other information as required by applicable Russian securities legislation.

General Shareholders' Meetings

Procedure

The powers of a shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. In a public joint stock company a shareholders' meeting may not decide on issues that are not included in the list of its competence by the Joint Stock Companies Law. Among the issues which our shareholders have the power to decide are:

charter amendments;

reorganization or liquidation;

election and removal of members of the board of directors;

determination of the amount of compensation for members of the board of directors;

determination of the number, par value, class/type of authorized shares and the rights granted by such shares;

changes in our charter capital;

appointment and removal of our independent auditor and of the members of our Auditing Commission and Counting Commission;

consent or subsequent approval of certain interested party transactions and major transactions;

participation in trade or industrial groups, or other associations of commercial entities;

approval of certain internal documents and corporate records;

distribution of profits and losses, including approval of dividends;

redemption by the company of issued shares in cases provided by the Joint Stock Companies Law; and

other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per share of common stock, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a

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shareholders' meeting. However, for public joint stock companies Russian law requires a three-quarters majority vote of the voting shares present at a shareholders' meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- consent or subsequent approval of major transactions involving assets in excess of 50% of the balance sheet value of the company's assets calculated under RAS;
- the number, par value, and category (type) of authorized shares and the rights granted by such shares;
- repurchase by the company of its issued shares;
- any issuance of shares or securities convertible into shares of common stock by private subscription;
- issuance by open subscription of shares of common stock or securities convertible into common stock, in each case, constituting 25% or more of the number of issued and outstanding shares of common stock;
- decrease of the charter capital through reduction of the par value of shares; or
- filing of an application for delisting of our shares or securities convertible into shares.

The quorum requirement for our shareholders' meetings is met if holders of shares (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in case of an annual shareholders' meeting must) be scheduled and the quorum requirement is satisfied if holders of shares (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

- election of the members of the board of directors;
- approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of dividends, and losses, if any;
- appointment of an independent auditor; and
- appointment of the members of the auditing commission.

A shareholder or group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the board of directors, counting commission and auditing commission. Any agenda proposals or nominations must be provided to the company no later than 100 calendar days after the preceding financial year end.

Extraordinary shareholders' meetings may be called by the board of directors on its own initiative, or at the request of the auditing commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request. The decision to call or reject the call for an extraordinary shareholders' meeting shall be made by the board of directors within five days from the receipt date of the request and sent to the party that requested the meeting within three days after such a decision was made.

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A general meeting of shareholders may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of collecting shareholders' opinions on issues of the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of the members of the board of directors;
- election of the auditing commission;
- approval of a company's independent auditor; and
- approval of the annual report, the annual financial statements.

Notice and Participation

Pursuant to the Joint Stock Companies Law, persons registered in the register of shareholders and entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of a meeting or by absentee ballot, no less than 20 days (or 30 days if the agenda includes an item on reorganization) prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors, persons registered in the register of shareholders and entitled to participate in the general shareholder's meeting must be notified at least 50 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

If a nominal holder of the shares registers in the register of shareholders, then a notification of the shareholders' meeting shall be sent to the nominal holder. The nominal holder must notify its clients in accordance with Russian legislation or an agreement with the client. The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our shareholders register on the date established by the board of directors, which date may neither be earlier than the 10 days after the date of adoption of the board resolution to hold a general shareholders' meeting nor more than 25 days before the date of the meeting (or, in the case of an extraordinary shareholders' meeting to elect the board of directors, not later than 55 days before the date of the meeting).

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by submitting a written ballot reflecting the shareholders' voting on the agenda items;
- by delegating the right to submit such written ballot to an authorized representative; or
- by sending information on their willingness to the nominee holder for further transfer to the registrar in accordance with the requirements of the Russian securities law.

The decision of the Board of Directors to convene the General meeting of shareholders may provide for the possibility to fill the electronic voting ballots online at website on the Internet.

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Board of Directors

Our Board of Directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons to be elected to our Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter or a decision of the shareholders' meeting. Our charter provides that our Board of Directors consists of at least seven members, which number may be increased pursuant to a decision of the general meeting of shareholders. Currently, our Board of Directors consists of nine members.

The Joint Stock Companies Law prohibits a board of directors from acting on issues that fall within the competence of the general shareholders' meeting. Our Board of Directors has the power to perform the general management of the company, and to decide, among others, the following issues:

- determination of our business priorities;
- approval of our annual plans, including financial plans;
- convening annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda for the shareholders' meeting and determination of the record date for shareholders entitled to participate in a shareholders' meeting;
- placement of our bonds and other securities in cases specified in the Joint Stock Companies Law;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- appointment and removal of our President and determination of the number of the members of our Management Board and their election;
- transfer of powers of the company's CEO to a managing organization of an individual manager;
- recommendations on the amount of the dividend and the payment procedure thereof;
- recommendations on the amount of remuneration and compensation to be paid to the members of our Auditing Commission and on the fees payable for the services of an independent auditor;

use of our reserve fund and other funds;

approval of our internal documents, except for those documents whose approval falls within the competence of our shareholders or the president;

consent or subsequent approval of major and interested party transactions in certain cases provided for by the Joint Stock Companies Law;

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increasing our charter capital by issuing additional shares within the limits of the authorized charter capital, except in certain circumstances specified in our charter;

approval of our share registrar and the terms of the agreement with it; and

other issues, as provided for by the Joint Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described therein. A board meeting is considered duly assembled and legally competent to act when a majority of elected directors is present.

Our internal regulation "On the Board of Directors of Mobile TeleSystems Public Joint Stock Company" (the "Regulation") was approved by the annual shareholders' meeting on June 23, 2016. In accordance with clause 2.2.2 of the Regulation, the members of the Board of Directors have the right to:

receive information regarding our operations;

propose issues to be discussed by the Board of Directors;

review the minutes of the Board of Directors meetings;

request to include in the minutes of the meetings their personal opinion concerning issues on the agenda and decisions made with respect thereto;

receive a remuneration and/or compensation of expenses related to the execution of their duties as members of the Board of Directors in accordance with decisions of the general shareholders' meeting; and

be present at the general shareholders' meeting and answer questions regarding our operations.

In accordance with clause 2.3.2 of the Regulation, the members of the Board of Directors must:

act in our interests;

execute their duties in a confident and scrupulous manner;

act within their rights and in accordance with the purposes of the Board of Directors;

not distribute confidential information concerning us and protect such information from unlawful and improper use and publishing, and not use such confidential information in their own or third parties' commercial purposes;

participate in the work of the Board of Directors;

participate in the voting process during the Board of Directors meetings;

complete the tasks assigned by the Board of Directors;

evaluate the risks and consequences of the decisions made;

inform us on a timely basis about their participation in the management of other companies and changes in such participation;

restrain from voting on issues of personal interest;

inform the Board of Directors about future deals in which they may have a personal interest;

disclose information about the holding, disposal or acquisition of our shares and other securities;

restrain from actions, which could lead to a conflict between their personal and our interests; and

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perform other responsibilities as provided by our charter and the Regulation.

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions are defined as "interested party transactions". Such transactions include transactions involving a member of the board of directors, the company's CEO, a member of the company's management board), any person controlling the company, or any person who is able to give binding instructions to the company, if that person and/or that person's spouse, parents, children, adoptive parents or children, full and half brothers or sisters and/or their controlled entities, is/are:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- controlling persons of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of any governing body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of any governing body of a managing organization of such a company.

Pursuant to the Joint Stock Companies Law a "controlling person" is deemed to be a person (i) directly or indirectly controlling over 50% of the voting shares in another legal entity (on the basis of an instruction, a shareholders' agreement or other agreements); or (ii) having the right to appoint the sole executive body or more than half of the governing body of a controlled entity. A controlled entity is understood to be a legal entity directly or indirectly controlled by the controlling entity.

Pursuant to the changes to the Joint Stock Companies Law, which entered into force on January 1, 2017, transactions defined as "interested party transactions" do not require a mandatory prior approval by disinterested directors or shareholders of the company. However, a company shall notify members of a board of directors, management board or shareholders (if all members of the board of directors are deemed interested or a board of directors is not formed in a company) of a contemplated interested party transaction not later than 15 days prior to execution of such transaction, and the company's sole executive body, members of its board of directors and management board or a shareholder owning at least 1% of the company's voting shares may request consent for such interested party transaction.

In public joint stock companies consent or subsequent approval of the transaction shall be granted by a majority of disinterested directors of the company which within one year prior to the decision:

1) did not act as persons performing functions of the sole executive body, including its executive manager, members of the company's management board or members of the governing bodies of the company's managing organization;

2) did not have spouses, parents, children, adoptive parents and adopted children, full and half brothers and sisters acting as members of the company's management bodies, members of the governing bodies of the company's managing organization or as the company's executive manager; and

3) did not control the company or the company's managing organization (including its executive manager) or were not entitled to issue instructions binding on the company (collectively, "independent directors").

Consent or subsequent approval by a majority of shareholders who are not interested in the transaction shall be granted if:

- the value of such transaction or a number of interrelated transactions is 10% or more of the balance sheet value of the company's assets determined under RAS;

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the transaction or a number of interrelated transactions involves a sale of voting shares or preference shares, in an amount exceeding 2% of the company's issued voting stock, unless the charter of a company provides for a lesser amount of shares;

the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or

the number of independent directors is less than two, unless the charter of a company provides for a higher quorum for a board of directors meeting on this issue.

Consent or subsequent approval of interested party transactions is not required nor can be requested in the following instances:

the transactions are concluded in the ordinary course of business, provided that the company has concluded similar transactions with disinterested parties on substantially similar terms over a long time;

the company has only one shareholder that simultaneously performs the functions of the company's CEO;

all shareholders owning voting shares of the company are deemed interested in such transactions and there are no other persons interested in such transactions;

the transactions constitute the issuance of shares or securities convertible into shares, including by way of subscription;

the transactions constitute the issuance of bonds by open subscription or repurchase of bonds;

the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;

reorganization and/or merger transactions; or

the transactions that are mandatory for the company pursuant to Russian law and must be concluded on the basis of fixed prices and tariffs adopted by a competent state body

the transactions concluded on the same terms as preliminary contracts previously approved as interested party transactions;

the transactions concluded in an open tender, if such tender terms were previously approved by the Board of Directors;

the transactions the value of which does not exceed 0.1% of the company's balance sheet assets calculated according to RAS.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a number of interrelated transactions entered into beyond the ordinary course of business connected with the direct or indirect acquisition or disposal, or a possibility of disposal (whether directly or indirectly) of property (including intellectual property) having a value of 25% or more of the balance sheet value of the assets of a company determined under RAS, as well as in other cases provided by the Joint Stock Company Law.

Consent or subsequent approval of major transactions is not required nor can be requested in the following instances:

the company has only one shareholder that simultaneously performs the functions of the company's CEO;

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the transactions involving the placement of common stock, or securities convertible into common stock or transactions involving services provided in connection with such placements;

reorganization;

the transactions to be executed by the company pursuant to the federal laws and/or other regulations of the Russian Federation and priced in accordance with the regulations of the Russian government or other federal bodies authorized by the Russian government;

the transactions arising from a mandatory tender offer to purchase company's issued shares or securities convertible to shares;

the transactions concluded on the same terms as the preliminary contracts previously approved as major transactions.

Major transactions involving assets having a value ranging from 25% to 50% of the balance sheet value of the assets of a company determined under RAS require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders' meeting.

Major transactions involving assets having a value in excess of 50% of the balance sheet value of the assets of a company determined under RAS require a three-quarters majority vote of a shareholders' meeting.

Change in Control

Anti-takeover Protection

Russian legislation requires the following:

A person intending to acquire more than 30% of a public joint stock company's ordinary shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares or securities convertible into such shares.

A person that has acquired more than 30% of a public joint stock company's ordinary shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares, at the price which is not less than the price determined based on a weighted average market price of the shares over the six month period before the filing of the offer with the CBR as described below, if the shares are publicly traded, or on a price supplied by an appraiser if the shares have no or insufficient trading history. The public tender offer price may not be less than the highest price at which the offeror or its affiliated persons purchased or undertook to purchase the relevant securities over the six month period before the offer was sent to the company. From the moment of acquisition of more than 30% of the shares until the date the offer was sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). These rules also apply to acquisitions resulting in a person or a group of persons owning more than 50% and 75% of a company's issued ordinary shares and voting preferred shares.

A person that as a result of an offer described in either of the preceding paragraphs becomes (individually or with its affiliates) the owner of more than 95% of the company's ordinary shares and voting preferred shares, must buy out the remaining shares of the company as well as other securities convertible into such shares upon request of the holders of such shares or other

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securities, and may require such holders to sell such shares and other securities, at the price determined in the manner described in the preceding paragraph but not less than (i) the price of the preceding acquisition of the company's relevant securities under an offer described in either of the preceding paragraphs as a result of which the offeror and its affiliates acquired over 95% of the company's ordinary shares and voting preferred shares; or (ii) the highest price at which after the expiration date of an offer described in either of the preceding paragraphs the offeror or its affiliates purchased or undertook to purchase the relevant securities.

An offer of the kind described in either of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offer must be filed with the CBR; otherwise, notice must be filed with the CBR no later than the date of the offer. The CBR may order amendments to the terms of the offer (including price) in order to bring them into compliance with the rules.

Once such an offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the making of such an offer until 20 days after its expiry (which period may in certain cases exceed 100 days) the company's shareholders' meeting will have the sole power to make decisions on charter capital increase, issuance of securities, approval of certain major transactions, and on certain other significant matters.

The above rules may be supplemented through CBR rulemaking, which may result in a wider, narrower or more specific interpretation of these rules by the government and judicial authorities, as well as by market participants.

Approval of FAS

Pursuant to the Federal Law on Competition, until January 5, 2016, FAS had to approve in advance acquisitions of voting shares in a company involving (1) companies with a combined value of assets or combined annual revenues calculated under RAS exceeding a certain threshold, or (2) companies included in a register of business entities having more than a 35% share of a certain commodity market or otherwise occupying a dominant position on the market, and which would result in acquisition by a person (or a group of affiliates) of more than 25%, 50% or 75% of voting shares of a joint stock company, or a participation interest according 1/3, 50%, $^{2}/_{3}$ of voting rights in a limited liability company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount.

According to the amendments made by the Federal law No. 275-FZ dated October 5, 2015 starting from January 5, 2016 the regulations in relation to the abovementioned register were repealed and only the combined value of assets or combined annual revenues of the companies involved in the transaction is taken in account. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we are found to have a dominant position in the markets where we operate and are determined to have abused this position, the FAS may influence our subscriber tariffs and impose certain restrictions on our operations."

Strategic Industries Law

Pursuant to the Strategic Foreign Investment Law investments resulting in a foreign entity or a group of entities receiving control over a company with strategic importance for the national defense and security of the Russian Federation (a "strategic company") or acquisition of fixed production assets of a strategic company having value of at least 25% of its assets calculated under RAS require prior approval from the state authorities. The procedure for issuing such consent involves a special governmental commission on control of foreign investments, which was established by the Resolution of

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the Government of Russia dated July 6, 2008 as the body responsible for granting such consents, and FAS, which is authorized to process applications for consent from foreign investors. "Control" means an ability to determine, directly or indirectly, decisions taken by a strategic company, whether through voting at the general shareholders' (participants') meeting of the strategic company, participating in the board of directors or management bodies of the strategic company, or acting as the external management organization of the strategic company, or otherwise. As a result, "control" will generally be deemed to exist if an entity or a group of entities acquires more than 50% of the shares (or participation interest in share capital) of a strategic company, or if through contract or securities with voting rights it is able to appoint more than 50% of the members of the board of directors or of the management board of a strategic company.

Furthermore, if a foreign entity or group of entities holding securities of a strategic company or other entity that exercises control over this company becomes a direct or indirect holder of voting shares in an amount that is considered to give it direct or indirect control over this company in accordance with the Strategic Foreign Investment Law due to a change in allocation of voting shares pursuant to the procedures provided by Russian law (*e.g.,* as a result of a buy-back of its shares by the relevant company), then such entity or group of entities will have to apply for state approval of its control within three months after it received such control.

In addition, foreign investors are required to notify this authorized governmental agency about any transactions undertaken by them resulting in the acquisition of 5% or more of the charter capital of a strategic company and other transactions or other actions preapproved in accordance with the Strategic Foreign Investment Law.

See also "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The Strategic Foreign Investment Law imposes certain restrictions on us and our existing and potential foreign shareholders, which could have a material adverse effect on our business, financial condition, results of operations and prospects."

Disclosure of Ownership

Under Russian law, a person acquiring, directly or indirectly, 5% or more of our common shares is required to notify us and the CBR of, and we must then publicly disclose, such acquisition, as well as any subsequent acquisitions or disposals resulting in the crossing of 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% thresholds of our outstanding common shares by such person.

A holder of more than 5% of our common shares is required to file with us and the CBR information about its controlling shareholder (if any) or notify us and the CBR about the absence of any such controlling shareholders.

Our subsidiaries are required to notify us and the CBR about the acquisition of our common shares. We are required to publicly disclose the acquisition of our common shares by our subsidiaries.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. However, the procedure for notifying the Russian tax authorities by foreign companies that are not registered with such tax authorities at the time of their share acquisition remains unclear.

C. Material Contracts

The following is a description of contracts that we and/or our subsidiaries are a party to and that are or may be material to our business.

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Eurobonds

On May 28, 2013, we issued U.S. dollar-denominated Loan Participation Notes in the amount of $500 million (RUB 16.4 billion as of December 31, 2013) with an annual interest rate of 5.00% and a maturity in June 2023. The proceeds will be used for general corporate purposes. The notes were issued by MTS International Funding Limited, a private company organized and existing as a private limited company under the laws of Ireland, and are listed on the Irish Stock Exchange. Proceeds were on-lent to us pursuant to a loan agreement between us and MTS International Funding Limited.

The loan agreements relating to our notes due 2023 sets forth various occurrences, each of which would constitute an event of default. If an event of default, other than an event of default arising from events of bankruptcy, insolvency or bankruptcy-related reorganization, occurs and is continuing, either the lender, the trustee or the holders of at least 25% in principal amount of the outstanding notes may accelerate the maturity of all of the notes. If an event of default arising from events of our bankruptcy, insolvency or bankruptcy-related reorganization occurs and is continuing, then the principal of, and accrued interest on, all of the notes will automatically become immediately due and payable without any declaration or other act on the part of the lender, holders of notes or the trustee.

Covenants in the loan agreement relating to our notes due 2023 limit our ability to create liens on our properties, merge or consolidate with another person or convey our properties and assets to another person. In addition, if we experience certain types of mergers, consolidations or other changes in control, noteholders will have the right to require us to redeem the notes at 101% of their principal amount, plus accrued interest. We are also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. If we fail to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

Ruble bonds

On April 3, 2013, we issued exchange-traded Series 1 ruble bond on Moscow Exchange. The bond is worth RUB 10 billion and has a maturity of ten years. Coupons are to be paid semiannually at the rate of 8.25%. Bond holders will have the right under a five-year put option to sell the bonds to us. The proceeds from the bond placement will be used for general corporate needs.

On September 2, 2016, we issued a RUB 10 billion exchange-traded Series 2 bonds with a maturity of 15 years and a two year put option on Moscow Exchange. Coupons are to be paid semiannually at the rate of 9.4%. The proceeds from bonds will be used for general corporate needs.

D. Exchange Controls

The Federal Law on Currency Regulation and Currency Control which came into effect on June 18, 2004 sets forth certain restrictions on settlements between residents of Russia with respect to operations involving foreign securities (including ADSs), including requirements for settlement in Russian rubles.

Repatriation of Export Proceeds

Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing).

Restrictions on the remittance of dividends, interest or other payments to non-residents

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999 specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect your ability to do so.

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Currently, ruble dividends on common shares may be converted into U.S. dollars without restriction. However, the ability to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain.

E. Taxation

Certain Russian Tax Consequences

The following discussion describes the material Russian corporate income tax and personal income tax consequences to you if you are a U.S. holder of ADSs and a resident of the United States for purposes of the United States Russia income tax treaty and are fully eligible for benefits under the United States Russia income tax treaty. Subject to certain provisions of the United States Russia income tax treaty relating to limitations on benefits, a U.S. resident under the treaty is generally defined as a person liable, under the laws of the United States, to U.S. tax (other than taxes with respect to only of income from sources in the United States or capital situated therein) by reason of your domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income). The treaty provides for a procedure to resolve matters where a resident of the United States qualifies as a Russian tax resident under Russian domestic rules. The treaty also provides for the non-application of treaty benefits to certain types of entities.

Additionally, the benefits under the United States Russia income tax treaty discussed in this document generally are not available to U.S. persons who hold ADSs in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States Russia income tax treaty. Subject to certain exceptions, a U.S. person's permanent establishment under the United States Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office and a factory). Under certain circumstances, a U.S. person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the U.S. person. This summary does not address the treatment of holders described in this paragraph.

Treaty benefits may be potentially available to U.S. tax residents that are not subject to limitations on treaty benefits under the treaty, do not operate through a permanent establishment in Russia and are foreign legal entities (*i.e.,* a legal entity or organization in each case not organized under Russian law) or individuals not considered Russian tax residents under Russian law. Under current Russian law, the Russian tax residency for individuals is generally determined based on the number of days a person spends in Russia in a 12-month rolling period. Law specifies that an individual present in Russia for an aggregate period of 183 days in any consecutive 12-month period will be considered as a tax resident. Since tax year in Russia is a calendar year the final tax residency status of an individual taxpayer shall still be defined for a whole calendar year by counting the days spent in Russia within that relevant calendar year. Accordingly, to be considered a Russian tax resident, the taxpayer should spend at least 183 days in Russia in a calendar year. The following discussion is based on:

- Russian tax legislation; and
- the United States Russia income tax treaty (and judicial and administrative interpretations thereof by the Russian authorities).

All of the foregoing tax consequences are based on information in effect as of the date of this document and are subject to change, possibly on a retroactive basis, after the date of this document.

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This discussion is also based, in part, on representations of the depositary, and assumes that each obligation in the deposit agreement and any related agreements will be performed in accordance with its terms. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations.

The following discussion is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential Russian corporate income and personal income tax consequences to you of ownership of ADSs. We urge you to consult your own tax adviser regarding the specific Russian tax consequences of the ownership and disposition of ADSs under your own particular factual circumstances.

Specific uncertainties associated with the tax treatment of ADS holders

The Russian tax rules in relation to ADS holders (that would affect U.S. holders) are characterized by significant uncertainties and limited interpretive guidance. Recent amendments to the tax rules have clarified the status of the ADS holders as beneficial owners of the income from the underlying shares by establishing that the custodian holding the depo account with the shares underlying the ADSs acting as the tax agent and determines amounts of the withholding tax based on the information about the ADS holders and their tax residency status as provided by the program depositary. However, the application of the baseline tax rate for ADS holders and any double tax treaty relief is available only if the tax treaty residence of the holder is provided to the custodian along with the other information prescribed by the Tax code. In relation to ADS holders such information is to be provided by the ADS holders to the depositary, who relays it to the custodian, who acts as the tax agent and withholds the taxes when making transferring the dividends to the depositary. It is currently unclear how the depositary will collect the necessary information from ADS holders. Thus, while a U.S. holder may technically be entitled to benefit from the provisions of the United States Russia income tax treaty, in practice such relief may be difficult or impossible to obtain.

Russian tax law and procedures are also not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules without regard to the rule of law. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

Taxation of Dividends

Dividends paid to U.S. holders generally will be subject to Russian withholding tax at a 15% rate. The tax burden may be reduced to 5% or 10% under the United States Russia income tax treaty for eligible U.S. holders; a 5% rate may potentially apply for U.S. holders who are legal entities owning 10% or more of the company's voting shares, and a 10% rate applies to dividends paid to eligible U.S. holders in other cases, including dividend payments to individuals and legal entities owning less than 10% of the company's voting shares. However, according to the recent amendments to the Tax Code, U.S. holders will only be able to utilize the 5% reduced rate through tax reimbursement procedures, as the tax agent is required to use the baseline tax rate established by the code or the applicable tax treaty, whichever is appropriate. See also " United States Russia Income Tax Treaty Procedures."

Provisions of the Tax Code which were effective in 2015 have introduced 30% withholding tax rate to be applied to the dividends paid out in relation to shares underlying an ADS program where the information regarding the holders of the ADSs including the overall number of securities held in a specific tax jurisdiction is not provided by the depositary to the custodian holding the depo account with the underlying shares and acting as the tax agent.

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From a practical perspective, it may have not been possible for the depositary to collect the necessary information from all ADS holders and submit the relevant information to the custodian. Therefore, with respect to legal entities or organizations who are U.S. holders, the custodian may be obligated to withhold income tax at a rate of 30% from dividend payments made to the trustee, unless the information on the ADS holder, the respective amount of ADS held and its tax residency is provided to the depositary and thereafter to the custodian within 7 days of the date on which the shareholders entitled to dividend payout are determined according the relevant decision of the general shareholders meeting. The same amendments have also introduced an expedited refund process whereby the information regarding the ADSs not provided to the custodian can be submitted within 25 days of the date of the payment of the dividends to the depositary in order for the custodian to refund the difference between the increased 30% tax rate used and the tax rate the respective ADS holders are entitled to according to their tax residency, however this process is new and not tested and it is unclear how it will work in practice. Although non-resident holders of ADSs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities will grant a refund. See " United States Russia Income Tax Treaty Procedures."

With respect to individuals who are U.S. holders of ADSs and who are Russian tax non-residents, the custodian may also be obligated to withhold income tax at the rate of 30% from dividend payments made to the depositary. Where withholding of personal income tax is not performed, individuals who are U.S. holders of ADSs will then be required to submit an annual personal tax return to the Russian tax authorities and pay Russian income tax at a rate of 15% as under Russian law an individual should report on his or her tax liabilities in case the relevant tax was due but not withheld by a tax agent from the relevant payment. When submitting the tax return, individuals who are U.S. holders may claim an application of the reduced rates of withholding tax established by the relevant treaty, provided that the procedures described in " United States Russia Income Tax Treaty Procedures" are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome.

If the appropriate information is not provided to the depositary for transfer to the custodian in a timely manner, the custodian may have to withhold tax at the 30% rate, and U.S. holders that are legal entities qualifying for a reduced rate under the United States Russia income tax treaty then may file claims for a refund within three years with the Russian tax authorities.

For individuals claiming treaty relief, the documents substantiating the right for treaty benefits should be submitted to the Russian tax authorities within one year after the end of the year to which these benefits relate. In practice, where withholding is performed, the tax authorities may refuse to refund or credit the 15% tax withheld from payment of dividends to the depositary and, therefore, it is possible that individuals who are U.S. holders may be subject to up to a 30% effective tax rate (general tax rate for Russian tax non-residents) on their share of dividends.

The amendments to the Russian Tax Code, which came into effect from January 1, 2015, exclude dividends from the scope of payments subject to 30% withholding tax rate.

Taxation of Capital Gains

Legal entities and Organizations

Income received by a foreign company from the sale, exchange or other disposal (assuming that such income is not related to a permanent establishment of a foreign company in Russia) of shares (participation interest) in an organization in which over 50% of the assets consist of immovable property located in Russia, as well as financial instruments derived from such shares, is treated as income derived from a source in the Russian Federation and is subject to withholding tax at a rate of 20%. However, gains arising from the disposition of the securities which are traded on an organized

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stock exchange are not treated as Russian-source income, and should not be subject to taxation in Russia.

The amount of such income is typically determined as the sales price of shares (participation interest). However, if documentary support for the acquisition cost of the shares (participation interest) is available, the tax may instead be assessed on the basis of the difference between the sales price and the acquisition cost (including other related costs) if documentary evidence of such costs is submitted to the tax agent. The Russian Tax Code also establishes special rules for calculating the tax base for the purposes of transactions with securities. However, an exemption applies if immovable property located in Russia constitutes more than 50% of our assets and the securities are traded on a foreign stock exchange. The determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia does not currently and will not constitute more than 50% of our assets as at the date of the sale of ADSs by non-residents.

Where the ADSs are sold by legal entities or organizations to persons other than a Russian company or a foreign company or an organization with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Under the United States Russia income tax treaty, capital gains from the sale of shares and/or ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term "fixed assets" is used in the Russian version of the treaty) were to consist of immovable property located in Russia.

Individuals

The taxation of the income of tax non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of securities outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However, Russian tax law gives no clear indication as to how the place of sale of securities should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in Russia or out of Russia.

The sale, exchange or other disposal of the shares and ADSs by non-resident individual holders in Russia will be considered Russian source income and will be subject to tax at a rate of 30% on the difference between the sales price and the acquisition costs of such securities, as well as other documented expenses, such as depositary expenses and broker fees, among others, defined by the tax rules.

Under Russian law, the acquisition costs and related expenses can be deducted at the source of payment if the sale was made by a non-resident holder through a licensed Russian broker, trust manager or other person that carries out operations under agency or commission agreements, or other agreements in favor of a taxpayer. Such party (as defined above) should also act as a tax agent and withhold the applicable tax. Such tax agent will be required to report to the Russian tax authorities the amount of income realized by the non-resident individual and tax withheld upon the sale of the securities.

Otherwise, if the sale is made to individuals but not through a tax agent, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation). Although Russian tax law imposes tax agent responsibility only on professional

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trustees, brokers or dealers, in practice, the tax authorities may require Russian legal entities and organizations or foreign companies with any registered presence in Russia that are not professional trustees, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

Under the United States Russia income tax treaty, capital gains from the sale of the ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term "fixed assets" is used in the Russian version of the United States Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50% threshold is not met, individuals who are U.S. holders may seek to obtain the benefit of the United States Russia income tax treaty in relation to capital gains resulting from the sale, exchange or other disposition of the ADSs.

In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See " United States Russia Income Tax Treaty Procedures" below.

United States Russia Income Tax Treaty Procedures

The Russian Tax Code does not contain a requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident legal entity or organization seeking to obtain relief from or reduction of Russian withholding tax under a tax treaty must provide to a Russian company or foreign company or organization acting through its Russian registered presence, which is a tax agent (*i.e.*, the entity paying income to a non-resident) a confirmation of its tax treaty residence that complies with the applicable requirements and a Russian translation attached to it in advance of receiving the relevant income. The tax residency confirmation needs to be renewed on an annual basis and provided to the payer of income before the first payment of income in each calendar year.

A U.S. holder may obtain the appropriate certification by mailing completed forms, together with the holder's name, taxpayer identification number, the tax period for which certification is required, and other applicable information, to the United States Internal Revenue Service. The procedures for obtaining certification are described in greater detail in the instructions to Internal Revenue Service Form 8802. As obtaining the required certification from the Internal Revenue Service may take at least six to eight weeks, U.S. holders should apply for such certification as soon as possible.

In accordance with the Russian Tax Code, to rely on tax treaty benefits, a non-resident holder who is an individual must present to the tax authorities an official document confirming his residency in the home country issued by the competent authorities in his/her country of residence and also other supporting documentation including a statement confirming the income received and the tax paid in the home country, also confirmed by the relevant foreign tax authorities, duly translated and apostilled or pass through a consular legalization. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore, advance relief from or reduction of withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before any payments are made to individuals. A non-resident holder which is an individual may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received and the tax was withheld.

If a non-resident holder which is a legal entity or organization does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require (i) apostilled or legalized confirmation of the tax treaty residence of the

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non-resident at the time the income was paid, (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts under which the foreign entity received income, as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in a foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

Recent amendments to the Tax Code have established additional requirements to the reimbursement procedure referred to above, identifying further documents that need to be provided to the tax authorities. These include: 1) a document confirming the rights of the ADS holder to the ADS as of the date on which the shareholders entitled to the dividend payout are set according to the relevant decision of the General shareholders meeting, 2) a document evidencing the actual amount of income received by the ADS holder, 3) a document with information about the custodian that transferred the dividend amounts to the depositary, and 4) documents confirming the ADS holder's compliance with the requirements of the Tax Code and/or the relevant income tax treaty provisions necessary for application of a reduced rate. The procedures referred to above are new and no assurance can be given that the custodian will be able to apply the respective double tax treaties when paying dividends to non-resident holders or that ADS holders would be successful in receiving relevant tax refunds.

Neither the depositary nor us has or will have any obligation to assist an ADS holder with the completion and filing of any tax forms.

Certain United States Federal Income Tax Consequences

The following is a general description of certain material United States federal income tax consequences that apply to you if you are, for United States federal income tax purposes, a beneficial owner of ADSs that is an individual who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which is subject to U.S. federal income tax regardless of its source, or a trust, if a United States court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions, or if the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person (in each case, a "U.S. Holder"). This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service ("IRS"), all as publicly available and in effect as of the date of this document. These authorities are subject to differing interpretations and may change, possibly retroactively, resulting in U.S. federal income tax consequences different from those discussed below. No ruling has been or will be sought from the IRS with respect to the matters discussed below, and there can be no assurance that the IRS will not take a contrary position regarding the tax consequences of the acquisition, ownership or disposition of ADSs, or that any such contrary position would not be sustained by a court. If an entity treated as a partnership for United States federal income tax purposes is an owner of ADSs, the United States federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Accordingly, partnerships that hold ADSs and partners in such partnerships are urged to consult their tax advisors regarding the specific U.S. federal income tax consequences to them. The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

an insurance company;

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a tax-exempt organization;

a financial institution;

a person subject to the alternative minimum tax;

a person who is a broker-dealer in securities or a trader subject to a mark-to-market election;

an S corporation;

a person holding ADSs through a partnership or other pass-through entity;

an expatriate subject to section 877 of the Code;

an owner of, directly, indirectly or by attribution, 10% or more of the outstanding shares of our common stock; or

an owner holding ADSs as part of a hedge, straddle, synthetic security or conversion transaction.

In addition, this summary is limited to U.S. Holders holding ADSs as "capital assets" within the meaning of Section 1221 of the Code and whose functional currency is the U.S. dollar. The discussion below does not address the effect of the Medicare tax on "net investment income" or of any United States state or local tax law or foreign tax law. This discussion also does not address any tax consequences relating to the direct ownership of ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. For purposes of applying United States federal income tax law, we believe, and the following discussion assumes, that a holder of an ADS should be treated as the owner of the underlying shares of common stock represented by that ADS, although this matter is not free from doubt.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the shares underlying the ADS may be taking actions that are inconsistent with the beneficial ownership of the underlying shares. Accordingly, the analysis of the creditability of Russian withholding taxes described below and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders (discussed below) could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and our company if as a result of such actions the holders of ADSs are not properly treated as beneficial owners of underlying shares and future actions that may be taken by the U.S. Treasury. The remainder of this discussion assumes that a holder of an ADS will be treated as the beneficial owner of the underlying shares of common stock represented by such ADS for United States federal income tax purposes.

Taxation of Distributions on ADSs

Subject to the passive foreign investment company rules described below, for United States federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, paid by us with respect to ADSs will be treated as a taxable foreign source dividend on the date of actual or constructive receipt by the depositary to the extent of our current and accumulated earnings and profits, computed in accordance with United States federal income tax principles. If you are a non-corporate U.S. Holder such dividends may be "qualified dividend income" that is taxed at the lower applicable capital gains rate provided that certain conditions are satisfied, including (1) certain holding period requirements are satisfied, (2) either (a) our ADSs continue to be listed on the New York Stock Exchange (or other national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended, or the Nasdaq Stock Market) or (b) we are eligible for the benefits of the United States Russia income tax treaty, and (3) we are not, for the taxable year

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in which the dividend was paid, or in the preceding taxable year, a "passive foreign investment company" with respect to your ADSs (as discussed below). Distributions with respect to ADSs in excess of our current and accumulated earnings and profits will be applied against and will reduce your tax basis in such ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such ADSs. You should be aware that we do not intend to calculate our earnings and profits for United States federal income tax purposes and, unless we make such calculations, you should assume that any distributions with respect to ADSs generally will be treated as a dividend, even if such distributions would otherwise be treated as a return of capital or as capital gain pursuant to the rules described above. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on ADSs, which is generally available for dividends paid by U.S. corporations. U.S. Holders are strongly urged to consult their tax advisors as to the U.S. federal income tax treatment of any distribution received with respect to ADSs.

The amount of any distribution paid in rubles will equal the U.S. dollar value of such rubles, calculated using the exchange rate in effect on the date of actual or constructive receipt by the depositary, regardless of whether the payment is actually converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange rate fluctuations during the period from the date of receipt by the depositary to the date the rubles are converted into U.S. dollars will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes. Additionally, you may be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States Russia income tax treaty to the extent the United States dollar value of the refund differs from the dollar equivalent of that amount on the date of receipt of the underlying distribution.

Russian withholding tax at the rate applicable to you under the United States Russia income tax treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, may be eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States Russia income tax treaty, you may not be entitled to credits for the excess amount, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will generally be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends.

The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For United States foreign tax credit purposes, a dividend distribution with respect to the ADSs will be treated as foreign source "passive category income" but could, in the case of certain U.S. Holders, constitute "general category income." The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your tax advisors with respect to those rules.

Taxation on Sale or Other Taxable Disposition of ADSs

Subject to the passive foreign investment company rules described below, the sale or other taxable disposition of ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and your adjusted basis in such ADSs. That gain or loss will be capital gain or loss and will be long-term capital gain or loss if you have held the ADSs for more than one year. If you are a non-corporate U.S. Holder, such recognized long-term capital gain is generally subject to a reduced rate of United States federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

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Gain or loss recognized on the sale of ADSs will generally be treated as U.S. source income or loss for foreign tax credit purposes. The use of any foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of ADSs.

Passive Foreign Investment Company Considerations

A non-U.S. corporation generally will be a passive foreign investment company (a "PFIC"), in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through" rules, either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income.

We do not believe that we were a PFIC for the year ended December 31, 2016. However, our possible status as a PFIC must be determined annually and may be dependent in part on the market price of our ADSs, which may be volatile. Therefore, our possible status as a PFIC may be subject to change. Thus there can be no assurance that we will not be treated as a PFIC in our current taxable year or in the future. If we were to be treated as a PFIC, U.S. Holders generally would be required to pay additional taxes on certain distributions and gains on sales or other dispositions (including pledges) of the ADSs, at tax rates that may be higher than those otherwise applicable. You should consult your tax advisors regarding the application of the PFIC rules to your investment in the ADSs.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs and proceeds from the sale or exchange of ADSs may be subject to information reporting to the IRS and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

Additional Reporting Requirements

Certain U.S. Holders who are individuals may be required to report information relating to an interest in the ADSs, subject to certain exceptions (including an exception for ADSs held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of this requirement on their ownership and disposition of the ADSs.

FATCA

Provisions under Sections 1471 through 1474 of the Code and applicable U.S. Treasury Regulations commonly referred to as "FATCA" generally impose 30% withholding on certain "withholdable payments" and, in the future, may impose such withholding on "foreign passthru payments" made by a "foreign financial institution" (each as defined in the Code) that has entered into an agreement with the IRS to perform certain diligence and reporting obligations with respect to the foreign financial institution's U.S.-owned accounts. Prospective investors should consult their tax advisors regarding the potential impact of FATCA and any non-U.S. legislation implementing FATCA on the investment in ADSs.

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F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents that are exhibits to or incorporated by reference in this document can be read at the U.S. Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or, from outside the United States, at 1-202-942-8090. Copies may also be obtained from the SEC website at www.sec.gov. Information about Mobile TeleSystems PJSC is also available on the Internet at www.mtsgsm.com. Information included in our website does not form part of this document.

I. Subsidiary Information

Not applicable.

Item 11. ***Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to market risk from changes in interest rates and foreign currency exchange rates. We are subject to market risk deriving from changes in interest rates, which may affect the cost of our financing. Foreign exchange risks exist to the extent our revenues, costs and debt obligations are denominated in currencies other than the functional currency in the countries of our operations.

Interest Rate Risk

We are exposed to variability in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate notes. As of December 31, 2016, RUB 91,650 million, or 33.36% of our total indebtedness, excluding capital leases, was variable interest rate debt, while RUB 183,113 million, or 66.64% of our total indebtedness, excluding capital leases, was fixed interest rate debt.

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The table below presents principal cash flows and related weighted average interest rates for indebtedness by contractual maturity dates as of December 31, 2016.

Contractual Maturity Date as of December 31, 2016:

Indebtedness	Currency	2017	2018	2019	2020	2021	Thereafter	Total	Annual interest rate (Actual interest rate at December 31, 2016)
				(amounts in millions of RUB)					
Variable debt									
Sberbank	RUB		12,000	12,000	12,000	14,000		50,000	10.90%
Skandinavska Enskilda Banken AB	USD	821						821	1.54%
Skandinavska Enskilda Banken AB	USD	355						355	3.12%
LBBW	EUR	298						298	1.30%
Credit Agricole Corporate Bank and BNP Paribas	EUR	442	442					884	1.43%
Citibank	USD	1,808	1,808	1,808	1,808	1,808	4,519	13,559	2.22%
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	USD	7,566	7,566	6,055	4,543			25,730	2.47%
Total variable debt		**11,290**	**21,816**	**19,863**	**18,351**	**15,808**	**4,519**	**91,647**	
Weighted average interest rate		**7.01%**	**7.67%**	**7.90%**	**8.08%**	**8.20%**	**2.22%**	**6.85%**	
Fixed-rate notes									
MTS PJSC Notes due 2018	RUB		6					6	10.00%
MTS International Notes due 2020	USD				18,614			18,614	8.63%
MTS PJSC Notes due 2017	RUB	10,000						10,000	8.70%
MTS PJSC Notes due 2020	RUB	1,448						1,448	9.25%
MTS International Notes due 2023	USD						28,299	28,299	5.00%
MTS PJSC Notes due 2022 (V series)	RUB					12		12	0.25%
MTS PJSC Notes due 2023	RUB		10,000					10,000	8.25%
MTS PJSC Notes due 2031	RUB		10,000					10,000	9.40%
Fixed-rate bank loans									
Sberbank	RUB	15,000	15,000	20,000	5,000			55,000	8.45%
Sberbank	RUB		10,000	20,000				30,000	9.85%
Sberbank	RUB			10,000				10,000	9.65%
Ekvant	RUB	36	36	36	37	36	101	282	0.00%
Gasprombank	RUB	4,000						4,000	10.90%
Citibank	RUB	2,400						2,400	9.90%
ZTE Ukraine	UAH	12	18	15	8			53	28.00%
ZTE Corporation	USD	56	55	48				159	15.00%
KB Platina	RUB	250						250	8.00%
Repo 10% Notes due 2018	RUB	996						996	10.39%
Repo 10% Notes due 2018	RUB	1,592						1,592	10.24%
Total fixed debt		**35,790**	**45,115**	**50,099**	**23,659**	**48**	**28,400**	**183,111**	
Weighted average interest rate		**8.39%**	**8.22%**	**7.91%**	**6.61%**	**4.97%**	**4.98%**	**6.85%**	

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We would have experienced an additional interest expense of approximately RUB 704 million on an annual basis as a result of a hypothetical increase in variable rates by 1% over the current rate as of December 31, 2016. The rates of EUR and USD as of December 31, 2016 were used in calculations.

The fair value of our publicly traded fixed-rate notes as of December 31, 2016, ranged from 99.21% to 114.83% of the notional amount. As of December 31, 2016, the difference between the carrying value and the fair value of other fixed rate debt, including capital lease obligations, was immaterial. For details of our fixed-rate debt, refer to Note 15 of our audited consolidated financial statements. The fair value of variable rate debt approximates its carrying value.

We use derivative financial instruments to reduce our exposure to adverse fluctuations in interest rates. We primarily focus on reducing risk caused by the fluctuations in interest rates for our variable-rate long-term debt. According to our policy, we have entered into various variable-to-fixed interest rate swap agreements. The table below presents a summary of our variable-to-fixed interest rate swap agreements.

Type of derivative	Maturity	Notional amount (at inception)	Mark to Market Value as of December 31, 2016
		(amounts in millions of Rubles)	
Fixed-to-variable Interest Rate Swap Agreements			
Swap agreement with VTB to pay a variable interest rate of 6m LIBOR and receive a fixed interest rate of 8.25%	March 2018	2,000	(8.4)
Swap agreement with Sberbank to pay a variable interest rate of 3m LIBOR and receive a fixed interest rate of 8.45%	March 2020	7,000	(31.2)
Swap agreement with BNP Paribas to pay a variable interest rate of 6m LIBOR and receive a fixed interest rate of 8.25%	March 2018	5,000	(19.6)
Swap agreements with Rosbank to pay a variable interest rate of 6m LIBOR and receive a fixed interest rate of 8.25%	March 2018	3,000	(10.0)
Swap agreement with Merill Lynch to pay a variable interest rate of 3m LIBOR and receive a fixed interest rate of 8.45%	March 2020	3,000	(10.7)

As of December 31, 2016, approximately 18.7% of our variable interest rate debt was hedged against interest rate risks. We continue to consider other financial instruments available to us to mitigate exposure to interest rate fluctuations.

We have also entered into several cross-currency interest rate swap agreements. These contracts, which hedge the risk of both interest rate and currency fluctuations, assume periodical exchanges of both principal and interest payments from ruble-denominated amounts to U.S. dollar- and euro-denominated amounts, to be exchanged at specified rates. The rates were determined with reference to the market spot rates upon issuance. These contracts also include an interest rate swap of a fixed U.S. dollar- and euro-denominated interest rate to a fixed ruble-denominated interest rate. All of our cross-currency interest rate swaps agreements mature in 2019 and 2020.

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The table below presents a summary of our cross-currency interest rate swap agreements:

Type of derivative	Maturity	Notional amount (at inception) (amounts in millions of Rubles)	Mark to Market Value as of December 31, 2016
Cross-currency Interest Rate Swap Agreements			
Swap agreements with Barclays Bank to pay a fixed rates of 7.3675% to 7.3800% and receive a variable interest rate of 6m LIBOR	September 2020	9,718	3,397
Swap agreements with Merill Lynch to pay a fixed rates of 7.17% and receive a variable interest rate of 6m LIBOR	September 2020	3,608	1,268
Swap agreements with Sberbank to pay a fixed rates of 7.095% and receive a variable interest rate of 6m LIBOR	September 2020	3,644	1,278
Swap agreements with Rosbank to pay a fixed rates of 7.253% to 7.2575% and receive a variable interest rate of 6m LIBOR	September 2020	12,147	4,183
Swap agreements with Barclays Bank to pay a fixed rates of 8.115% to 8.295% and receive a variable interest rate of 6m LIBOR	June 2019	7,288	2,343
Swap agreements with HSBC bank Plc to pay a fixed rates of 8.13% and receive a variable interest rate of 6m LIBOR	June 2019	911	292
Swap agreement with VTB bank to pay a fixed rate of 8.2% and receive a variable interest rate of 6m LIBOR	June 2019	2,733	872

Foreign Currency Risk

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the CBR. These rates may

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differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

	Rubles per U.S. dollar			
Years ended December 31,	**High**	**Low**	**Average[1]**	**Period End**
2012	34.04	28.95	30.97	30.37
2013	33.47	29.93	31.98	32.73
2014	67.79	32.66	39.34	56.26
2015	72.88	49.18	62.01	72.88
2016	83.59	60.27	66.35	60.66

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

	Rubles per U.S. dollar	
	High	**Low**
July 2016	67.05	62.99
August 2016	67.05	63.55
September 2016	65.87	63.16
October 2016	63.40	62.05
November 2016	65.86	63.20
December 2016	65.24	60.27
January 2017	60.66	59.15
February 2017	60.31	56.77
March 2017	59.22	56.38

Source: CBR.

The exchange rate between the ruble and the U.S. dollar quoted by the CBR for April 21, 2017 was 56.42 rubles per U.S. dollar.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the hryvnia and the U.S. dollar, based on data published by the National Bank of

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Ukraine. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

	Hryvnias per U.S. dollar			
Years ended December 31,	**High**	**Low**	**Average[1]**	**Period End**
2012	7.99	7.98	7.99	7.99
2013	7.99	7.99	7.99	7.99
2014	15.85	7.99	12.19	15.77
2015	30.01	15.75	21.81	24.00
2016	27.25	23.27	25.69	27.19

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

	Hryvnias per U.S. dollar	
	High	**Low**
July 2016	24.86	24.79
August 2016	25.65	24.78
September 2016	26.85	25.77
October 2016	25.94	25.50
November 2016	26.35	25.52
December 2016	27.19	25.56
January 2017	27.72	26.29
February 2017	27.26	26.91
March 2017	27.18	26.81

Source: National Bank of Ukraine.

The exchange rate between the hryvnia and the U.S. dollar quoted by the National Bank of Ukraine for April 21, 2017 was 26.76 hryvnias per U.S. dollar.

We have exposure to fluctuations in the value of the U.S. dollar relative to the Russian ruble, Ukrainian hryvnia, Turkmen manat and Armenian dram which are the functional currencies in our countries of operation. As a result, we may face translation losses, increased debt service payments and increased capital expenditures and operating costs should these currencies depreciate against the U.S. dollar.

A significant part of our capital expenditures, borrowings and certain operating costs (roaming expenses, cost of customer equipment and other costs) are either denominated in U.S. dollars or tightly linked to the U.S. dollar exchange rate, and our U.S. dollar-denominated debt represents our primary future risk of exchange loss in U.S. dollar terms. A decline in the value of the ruble, hryvnia, manat, dram or sum versus the U.S. dollar would result in currency remeasurement losses as the amount of these currencies required to repay U.S. dollar-denominated debt increases. In addition, if any of the ruble, hryvnia, manat or dram declines against the U.S. dollar and tariffs cannot be maintained for competitive or other reasons, our revenues and operating margins could be materially adversely affected and we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness and financing our capital expenditures and operating costs.

A portion of our capital expenditures, borrowings and certain operating costs (roaming expenses, costs of customer equipment and other costs) are also denominated in euros. We currently do not hedge against the risk of decline in the ruble, hryvnia, manat, dram or sum against the euro because settlements denominated in euros are not significant.

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We would experience a currency exchange loss of RUB 6,722 million on our U.S. dollar-denominated net monetary liabilities as a result of a hypothetical 20.0% increase in the ruble/hryvnia/manat/dram/sum to U.S. dollar exchange rate at December 31, 2016. We would experience a currency exchange gain of RUB 2,274 million in the fair value of our euro-denominated net monetary liabilities as a result of a hypothetical 20.0% increase in the ruble/hryvnia/manat/dram to euro exchange rate at December 31, 2016. We are unable to estimate future loss of earnings as a result of such changes.

Item 12. ***Description of Securities Other Than Equity Securities***

(Only Items 12.D.3-4 are applicable.)

D. American Depositary Shares

3.

Fees and charges that a holder of American Depositary Receipts may have to pay, either directly or indirectly.

Category	Depositary Actions	Associated Fee
(a) Depositing or substituting the underlying shares	Each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock split declared by the Company, or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or the deposited securities	$5.00 for each 100 ADSs (or portion thereof)
(b) Receiving or distributing dividends	Distribution of stock dividends	$5.00 for each 100 ADSs (or portion thereof)
	Distribution of cash	$0.02 or less per ADS (or portion thereof)
(c) Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	$5.00 for each 100 ADSs (or portion thereof)
(d) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities or cancellation or reduction of ADSs for any other reason	$5.00 for each 100 ADSs (or portion thereof)
(e) Transferring, splitting or grouping receipts	Transfers, combining or grouping of depositary receipts	$1.50 per ADS

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Category	Depositary Actions	Associated Fee
(f) General depositary services, particularly those charged on an annual basis	Other services performed by the depositary in administering the ADRs	$0.02 per ADS (or portion thereof) per calendar year which may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADSs as of the record date or record dates set by the depositary during each calendar year and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions
	Custodian and share register related issues, including, without limitation, any inspections of the share register maintained by the Russian share registrar or other confirmation of holdings of deposited securities	$0.01 or less per ADS (or portion thereof) per year which fee shall be assessed against holders of record as of the date set by the depositary not more often than once each calendar year
(g) Expenses of the depositary	Certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges in connection with:	Charges to be assessed against holders as of the record date or dates set by the depositary and payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions
	compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;	
	depositary or its custodian's compliance with applicable law, rule or regulation;	
	stock transfer or other taxes and other governmental charges;	
	cable, telex, facsimile transmission or delivery charges;	

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Category	Depositary Actions	Associated Fee
	if applicable, transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities (which are payable by persons depositing shares or holders withdrawing deposited securities);	
	expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency);	
	any other charge payable by depositary or its agents including, without limitation, the custodian, or the agents of the depositary's agents in connection with the servicing of the shares or other deposited securities	

4. All fees and other direct and indirect payments made by the depositary to the foreign issuer of the deposited securities.

The Depositary has agreed to reimburse to us or pay on our behalf certain reasonable expenses related to our ADS program and incurred by us in connection with the program (such as NYSE listing fees, legal and accounting fees incurred with preparation of Form 20-F and ongoing SEC compliance and listing requirements, investor relations expenses, among others). The amounts the Depositary reimbursed or paid are not perforce related to the fees collected by the depositary from ADS holders.

As part of its service to us, the Depositary has agreed to waive fees for the standard costs associated with the administration of our ADS program, associated operating expenses and investor relations advice estimated to total $0.2 million.

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PART II

Item 13. ***Defaults, Dividend Arrearages and Delinquencies***

None.

Item 14. ***Material Modifications to the Rights of Security Holders and Use of Proceeds***

None.

Item 15. ***Controls and Procedures***

(a)

Disclosure Controls and Procedures.

As of the end of the period covered by this Annual Report on Form 20- F, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934).

Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective, as of December 31, 2016, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions about required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

(b)

Management's annual report on internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets:

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our board of directors;

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Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2016 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control Integrated Framework (2013).

As a result of management's evaluation of our internal control over financial reporting, management concludes that internal control over financial reporting as of December 31, 2016 was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2016, has been audited and assessed as effective by independent registered public accounting firm ZAO Deloitte & Touche CIS who has also audited and reported on our consolidated financial statements.

There were no changes in our internal control over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c)

Attestation Report of Independent Registered Public Accounting Firm.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Mobile TeleSystems PJSC:

Moscow, Russia

We have audited the internal control over financial reporting of Mobile TeleSystems PJSC and subsidiaries (the "Group") as of December 31, 2016, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting

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Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2016, of the Group and our report dated March 21, 2017 expressed an unqualified opinion on those financial statements.

/s/ ZAO Deloitte & Touche CIS
Moscow, Russia
March 21, 2017

(d)

Changes in internal control over financial reporting.

Management has evaluated, with the participation of our CEO and CFO, whether any changes in our internal control over financial reporting that occurred during the period covered by this annual report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, management has concluded that no such changes have occurred.

Item 16A. ***Audit Committee Financial Expert***

Our Board of Directors has determined that Thomas Holtrop is an "audit committee financial expert" as defined in Item 16A of Form 20-F. Mr. Holtrop is "independent" as defined in Rule 10A-3 under the Exchange Act and current New York Stock Exchange listing rules applicable to us. For a description of Mr. Holtrop's experience, please see "Item 6. Directors, Senior Management and Employees A. Directors and Senior Management Key Biographies."

Item 16B. ***Code of Ethics***

The current version of our Code of Ethics was adopted on February 18, 2016. Our Code of Ethics applies to all of our officers, directors and employees. The new Code of Ethics did not substantively alter any of its requirements as compared with the code of ethics that was in effect prior to the approval of the new Code of Ethics.

A copy of our Code of Ethics is available on our website at www.mtsgsm.com.

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Item 16C. ***Principal Accountant Fees and Services***

ZAO Deloitte & Touche CIS has served as our Independent Registered Public Accounting Firm for each of the fiscal years in the two-year period ended December 31, 2015 and 2016, respectively, for which audited financial statements appear in this Annual Report on Form 20-F. The following table presents the aggregate fees billed for professional services and other services by ZAO Deloitte & Touche CIS and its affiliates in 2015 and 2016, respectively.

	Year ended December 31,	
	2016	2015
	(in thousands of Russian rubles)	
Audit Fees	121,580	121,580
Audit-Related Fees	4,564	14,981
Tax Fees	1,461	332
All Other Fees		
Total	**127,606**	**136,893**

Audit Fees

The Audit Fees for the years ended December 31, 2016 and 2015 were for the reviews and integrated audits of our consolidated financial statements prepared in accordance with IFRS, reviews and audits of the financial statements of our public subsidiaries prepared in accordance with IFRS, statutory audits.

Audit-Related Fees

The Audit-Related Fees for the years ended December 31, 2016 and 2015 mainly included fees for agreed-upon procedures related to audited financial statements and procedures to support ongoing investigations related to our former subsidiary in Uzbekistan, Uzdunrobita.

Tax Fees

The Tax Fees for the years ended December 31, 2016 and 2015, respectively, include the fees principally related to tax compliance services.

Audit Committee Pre-Approval Policies and Procedures

The Sarbanes-Oxley Act of 2002 required us to implement a pre-approval process for all engagements with our independent public accountants. In compliance with Sarbanes-Oxley requirements pertaining to auditor independence, our Audit Committee pre-approves the engagement terms and fees of ZAO Deloitte & Touche CIS and its affiliates for all audit and non-audit services, including tax services. Our Audit Committee pre-approved the engagement terms and fees of ZAO Deloitte & Touche CIS and its affiliates for all services performed for the fiscal year ended December 31, 2016.

Item 16D. ***Exemption from the Listing Standards for Audit Committees***

Not Applicable.

Item 16E. ***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

We did not repurchase any ADSs in the year ended December 31, 2015.

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A total of 90,881 MTS ordinary shares representing 0.004% of our issued share capital were repurchased for RUB 19.7 million during 2013 pursuant to our shareholders' right to demand buy-out following our decision on merger of our subsidiaries into MTS in accordance with applicable laws. These shares were sold pursuant to the requirements of applicable Russian legislation in March 2014.

A total of 9,935 MTS ordinary shares representing 0.0005% of our issued share capital were repurchased for RUB 2.1 million in August 2014 pursuant to our shareholders' right to demand buy-out following our decision on merger of our subsidiaries into MTS in accordance with applicable laws. These shares were sold pursuant to the requirements of applicable legislation in August 2015.

A total of 29,666 MTS shares representing 0.001% of our issued share capital were repurchased for RUB 5.9 million in October 2015 pursuant to our shareholders' right to demand buy-out following our decision on merger of our subsidiaries into MTS in accordance with applicable laws. These shares were used for reduction of our issued share capital in August 2016.

A total of 6,986 MTS shares representing 0.0003% of our issued share capital were repurchased for RUB 1.1 million in February 2016 pursuant to our shareholders' right to demand buy-out following our decision on merger of our subsidiaries into MTS in accordance with applicable laws. These shares were used for reduction of our issued share capital in August 2016.

In October 2016 we announced a tender offer (the "First Tender Offer") for repurchase of MTS ordinary shares (including ordinary shares represented by ADSs) for the amount of up to RUB 4,934 million. Also, our subsidiary Stream Digital LLC and Sistema entered into a purchase agreement (the "Sistema Purchase Agreement")pursuant to which Sistema agreed not to tender and sell any shares in the First Tender Offer and instead agreed to sell to us, following completion of the First Tender Offer, a pro rata number of shares of ordinary shares based on the number of shares tendered in the First Tender Offer. As a result of the First Tender Offer in December 2016 our subsidiary, Stream Digital LLC, repurchased 1,509,914 MTS ordinary shares (including ordinary shares represented by ADSs) representing approximately 0.08% of our issued share capital for RUB 346 million. Simultaneously, Stream Digital LLC repurchased 1,550,495 MTS ordinary shares from Sistema under the Sistema Purchase Agreement representing approximately 0.08% of our issued share capital for RUB 355 million.

In January 2017 we announced a new tender offer (the "Second Tender Offer") for repurchase of MTS ordinary shares (including ordinary shares represented by ADSs) for the amount of up to RUB 4,647 million. Also, our subsidiary Stream Digital LLC and Sistema Finance S.A., a subsidiary of Sistema, entered into a purchase agreement (the "Second Sistema Purchase Agreement") pursuant to which Sistema Finance S.A. together with Sistema and Sistema's affiliated entities agreed not to tender and sell any shares in the Second Tender Offer and instead agreed to sell to us, following completion of the Second Tender Offer, a pro rata number of shares of ordinary shares based on the number of shares purchased in the Second Tender Offer.

As a result of the Second Tender Offer in March 2017 Stream Digital LLC, repurchased 16,022,364 MTS ordinary shares (including ordinary shares represented by ADSs) representing approximately 0.8% of our issued share capital for RUB 4,646 million.

Simultaneously, Stream Digital LLC repurchased repurchased 16,038,892 MTS ordinary shares from Sistema Finance S.A. under the Second Sistema Purchase Agreement representing approximately 0.8% of our issued share capital for RUB 4,651 million.

We are considering the opportunity to launch a new tender offers in future.

See also "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders."

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Item 16F. ***Change in Registrant's Certifying Accountant***

Not applicable.

Item 16G. ***Corporate Governance***

We are a company organized under the laws of the Russian Federation and qualify as a foreign private issuer as such term is defined in Rule 3b-4 of the Exchange Act. In accordance with the NYSE corporate governance rules, listed companies that are foreign private issuers are permitted in some circumstances to follow home country practice in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual that are applicable to U.S. companies. In addition, foreign private issuers listed on the NYSE must disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies listed on the NYSE. With regard to our corporate governance practices, these differences can be summarized as follows:

For U.S. companies, the NYSE standards require that a majority of directors be independent, as determined by the board. Russian law does not require that a majority of our directors be independent. Of our nine directors, four have been determined by the board to be independent in accordance with the independence standards set forth in SEC Rule 10A-3 and Section 303A.02 of the NYSE Listed Company Manual.

For U.S. companies, the NYSE standards require that the audit committee have a minimum of three members. Russian law does not contain such a requirement. Our audit committee comprises of three members.

For U.S. companies, the NYSE standards require that non-management directors meet at regularly scheduled executive sessions without management. Russian law does not contain such a requirement. However, our audit committee and remuneration and nomination committee comprises of independent directors, who meet on a regular basis in connection with their work on these committees.

For U.S. companies, the NYSE standards require that listed companies have a nominating/corporate governance committee and a compensation committee, each composed entirely of independent directors and having a written charter specifying the committee's purpose and responsibilities, as well as annual performance evaluations of the committee.

We have a corporate governance committee comprising of directors and members of management that is responsible for developing and implementing standards for corporate governance and making recommendations to the Board of Directors on developing our strategy in the area of corporate governance.

We have a remuneration and nomination committee comprising of four independent directors. This committee functions pursuant to bylaws approved by the Board of Directors specifying the committee's purpose, duties and responsibilities. The committee is primarily responsible for recommending appointments to key managerial posts, developing a set of requirements and criteria for directors and management executives and developing a remuneration structure and compensation levels for the Board of Directors, the audit committee and management executives (including the CEO). This committee is also responsible for conducting annual performance evaluations of the Board of Directors.

For U.S. companies, the NYSE standards require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions. Under Russian law, such approval from shareholders is not required, and our equity compensation plans and material revisions thereto are currently approved by the Board of Directors.

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For U.S. companies, the NYSE standards require the adoption and disclosure of corporate governance guidelines addressing certain subjects. Our corporate governance guidelines are consistent with what is required under Russian law and are set forth in our Charter, in the bylaw on our Board of Directors and in the bylaws of our various committees.

We are required under the New York Stock Exchange listing rules to disclose any significant differences between the corporate governance practices that we follow under Russian law and applicable listing standards and those followed by U.S. domestic companies under New York Stock Exchange listing standards. This disclosure is posted on our website (http://www.mtsgsm.com/information/corporate_governance/).

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PART III

Item 17. ***Financial Statements***

See instead Item 18.

Item 18. ***Financial Statements***

The following financial statements, together with the report of ZAO Deloitte & Touche CIS, are filed as part of this annual report on Form 20-F.

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Item 19. ***Exhibits***

Exhibits No.	Description
1.1	Charter of Mobile TeleSystems PJSC, restated version No. 13, as approved by the General Meeting of Shareholders of Mobile TeleSystems PJSC held on June 23, 2016 (English translation).*
1.2	Alterations and Amendments to the Charter of Mobile TeleSystems PJSC (Version No. 13), as approved by General Meeting of Shareholders of Mobile TeleSystems PJSC held on June 23, 2015 (English translation).
1.3	Code of Corporate Conduct and Business Ethics of Mobile TeleSystems PJSC approved by the Board of Directors of Mobile TeleSystems PJSC on February 18, 2016 is incorporated herein by reference to Exhibit 1.2 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
2.1	Deposit Agreement, dated as of July 6, 2000, by and among, MTS, Morgan Guaranty Trust Company of New York (as depositary), and holders of ADRs is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
2.2	Amendment No. 1 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(2) to Form F-6 (Registration No 333-12008).
2.3	Amendment No. 2 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(3) to Form F-6 (Registration No 333-121240).
2.4	Amendment No. 3 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(4) to Form F-6 (333-145190).
2.5	Amendment No. 4 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(5) to Form F-6 (Registration No. 333-166178).
2.6	Listing Prospectus of Mobile TeleSystems PJSC relating to exchange-traded interest-bearing non-convertible documentary bonds dated March 5, 2013 (English translation).
4.1	Indenture dated as of January 28, 2005 between Mobile TeleSystems Finance S.A., Mobile TeleSystems PJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.3 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004, on Form 20-F.
4.2	Indenture dated as of October 14, 2003 between Mobile TeleSystems Finance S.A., Mobile TeleSystems PJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.1 to the Annual Report filed pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.
4.3	MTS License No. 50789 for provision of mobile radiotelephone communication services using IMT-2000/UMTS mobile radiotelephone networks in the Russian Federation (English translation) is incorporated herein by reference to Exhibit 4.53 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.
4.4	MTS License No. 765 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Armenia Republic (English translation) is incorporated herein by reference to Exhibit 4.50 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.

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Exhibits No.	Description
4.5	MTS Ukraine License No. 546038 for provision of mobile communication services with the right for telecommunication networks maintenance and operation and for telecommunication channels leasing throughout Ukraine (English translation) is incorporated herein by reference to Exhibit 4.33 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.6	MTS Ukraine License No. 269377 for provision of mobile communication services with the right for telecommunication networks maintenance and operation and for telecommunication channels leasing throughout Ukraine (English translation) is incorporated herein by reference to Exhibit 4.34 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.7	MTS Ukraine License No. 286185 for construction and maintenance of communication networks with movable facilities and provision of services of network usage in Ukraine (English translation) is incorporated herein by reference to Exhibit 4.35 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.8	MTS License No. 105546 for provision of telecommunication services for provision of communication channels in the territory of Ingushetia Republic, KabardinoBalkar Republic, KarachaevoCherkesia Republic and Volgograd region (English translation) is incorporated herein by reference to Exhibit 4.40 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.9	MTS License No. 105547 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of Buryatiya Republic (English translation) is incorporated herein by reference to Exhibit 4.41 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.10	MTS License No. 105548 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of Saratov region (English translation) is incorporated herein by reference to Exhibit 4.42 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.11	MTS License No. 105966 for provision of mobile radiotelephone communication services in the territory of Belgorod Region, Bryansk Region, Vladimir Region, Voronezh Region, Ivanovo Region, Kaluga Region, Kostroma Region, Kursk Region, Lipetsk Region, Nizhny Novgorod Region, Orel Region, Ryazan Region, Smolensk Region, Tambov Region, Tver Region, Tula region and Yaroslavl region (English translation) is incorporated herein by reference to Exhibit 4.43 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.12	MTS License No. 108058 for provision of data communication services excluding data communication services for the purposes of voice data communication in the territory of the Krasnoyarsk region (English translation) is incorporated herein by reference to Exhibit 4.49 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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Exhibits No.	Description
4.13	MTS License No. 108060 for provision of telecommunication services for provision of communication channels in the territory of the Tatarstan Republic (English translation) is incorporated herein by reference to Exhibit 4.51 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.14	MTS License No. 108061 for provision of telecommunication services for provision of communication channels in the territory of the Kalmykia Republic and Severnaya Osetia Alania Republic (English translation) is incorporated herein by reference to Exhibit 4.52 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.15	MTS License No. 108062 for provision of telecommunication services for provision of communication channels in the territory of the Krasnoyarsk region (English translation) is incorporated herein by reference to Exhibit 4.53 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.16	MTS License No. 108063 for provision of telecommunication services for provision of communication channels in the territory of the Republic of Bashkortostan (English translation) is incorporated herein by reference to Exhibit 4.54 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.17	MTS License No. 108064 for provision of telecommunication services for provision of communication channels in the territory of the Kemerovo region and Tomsk region (English translation) is incorporated herein by reference to Exhibit 4.55 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.18	MTS License No. 108065 for provision of telematic communication services in the territory of the Krasnoyarsk region (English translation) is incorporated herein by reference to Exhibit 4.56 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.19	MTS License No. 108069 for provision of local telephone communication services using payphones in the territory of the Moscow (English translation) is incorporated herein by reference to Exhibit 4.57 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.20	MTS License No. 108752 for provision of data communication services for the purposes of voice data communication in the territory of the Sverdlovsk region and Khanty Mansiysk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.59 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.21	MTS License No. 108753 for provision of data communication services for the purposes of voice data communication in the territory of the Nenets Autonomous District (English translation) is incorporated herein by reference to Exhibit 4.60 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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Exhibits No.	Description
4.22	MTS License No. 108754 for provision of data communication services for the purposes of voice data communication in the territory of the Tatarstan Republic (English translation) is incorporated herein by reference to Exhibit 4.61 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.23	MTS License No. 108755 for provision of data communication services for the purposes of voice data communication in the territory of the Vladimir region and Ryazan region (English translation) is incorporated herein by reference to Exhibit 4.62 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.24	MTS License No. 108756 for provision of data communication services for the purposes of voice data communication in the territory of the Jewish Autonomous region and Chukotsk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.63 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.25	MTS License No. 136647 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Khanty Mansiysk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.65 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.26	MTS License No. 109493 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Chuvashia Republic (English translation) is incorporated herein by reference to Exhibit 4.69 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.27	MTS License No. 109494 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Mari El Republic (English translation) is incorporated herein by reference to Exhibit 4.70 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.28	MTS License No. 110716 for provision of data communication services for the purposes of voice data communication in the territory of the Perm region (English translation) is incorporated herein by reference to Exhibit 4.83 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.29	MTS License No. 110717 for provision of data communication services for the purposes of voice data communication in the territory of the Krasnodar region (English translation) is incorporated herein by reference to Exhibit 4.84 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.30	MTS License No. 110721 for provision of public network mobile radio communication services in the territory of the Rostov region (English translation) is incorporated herein by reference to Exhibit 4.87 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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Exhibits No.	Description
4.31	MTS License No. 110729 for provision of data communication services for the purposes of voice data communication in the territory of the Udmurt Republic (English translation) is incorporated herein by reference to Exhibit 4.90 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.32	MTS License No. 110869 for provision of intra-zone telephone communication services in the territory of the Rostov region (English translation) is incorporated herein by reference to Exhibit 4.101 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.33	MTS License No. 110870 for provision of intra-zone telephone communication services in the territory of the Severnaya Osetia Alania Republic (English translation) is incorporated herein by reference to Exhibit 4.102 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.34	MTS License No. 110871 for provision of intra-zone telephone communication services in the territory of the Krasnodar region (English translation) is incorporated herein by reference to Exhibit 4.103 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.35	MTS License No. 110872 for provision of telecommunication services for provision of communication channels in the territory of the Rostov region (English translation) is incorporated herein by reference to Exhibit 4.104 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.36	MTS License No. 111800 for provision of data communication services excluding data communication services for the purposes of voice data communication in the territory of the Altai Republic (English translation) is incorporated herein by reference to Exhibit 4.110 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.37	MTS License No. 111801 for provision of mobile radiotelephone communication services (GSM-900) in the territory of the Astrakhan region (English translation) is incorporated herein by reference to Exhibit 4.111 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.38	MTS License No. 111802 for provision of telecommunication services for provision of communication channels in the territory of Komi Republic, Kostroma Region, Moscow Region, Tver Region, Moscow (English translation) is incorporated herein by reference to Exhibit 4.112 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.39	MTS License No. 112630 for provision of mobile wireless communication services in the territory of the Moscow Region; Moscow (English translation) is incorporated herein by reference to Exhibit 4.116 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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Exhibits No.	Description
4.40	MGTS License No. 112865 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of Moscow (English translation) is incorporated herein by reference to Exhibit 4.117 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.41	MTS License No. 113535 for provision of mobile radiotelephone communication services (GSM-1800) in the territory of the KabardinoBalkar Republic (English translation) is incorporated herein by reference to Exhibit 4.119 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.42	MTS License No. 113537 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Moldovia Republic (English translation) is incorporated herein by reference to Exhibit 4.121 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.43	MTS License No. 113538 for provision of mobile radiotelephone communication services (GSM-1800) in the territory of the Kalmykia Republic (English translation) is incorporated herein by reference to Exhibit 4.122 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.44	MTS License No. 113541 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Ingushetia Republic (English translation) is incorporated herein by reference to Exhibit 4.125 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.45	MTS License No. 113543 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Kemerovo region (English translation) is incorporated herein by reference to Exhibit 4.127 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.46	MTS License No. 114620 for provision of intra-zone telephone communication services in the territory of the Astrakhan region (English translation) is incorporated herein by reference to Exhibit 4.133 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.47	MTS License No. 114621 for provision of intra-zone telephone communication services in the territory of the Kemerovo region (English translation) is incorporated herein by reference to Exhibit 4.134 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.48	MTS License No. 114622 for provision of intra-zone telephone communication services in the territory of the Arkhangelsk region (English translation) is incorporated herein by reference to Exhibit 4.135 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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Exhibits No.	Description
4.49	MTS License No. 114623 for provision of intra-zone telephone communication services in the territory of the Vologda Region. (English translation) is incorporated herein by reference to Exhibit 4.136 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.50	MTS License No. 114624 for provision of intra-zone telephone communication services in the territory of the Kaliningrad region (English translation) is incorporated herein by reference to Exhibit 4.137 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.51	MTS License No. 114625 for provision of intra-zone telephone communication services in the territory of the Murmansk region (English translation) is incorporated herein by reference to Exhibit 4.138 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.52	MTS License No. 114626 for provision of intra-zone telephone communication services in the territory of the St. Petersburg (English translation) is incorporated herein by reference to Exhibit 4.139 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.53	MTS License No. 114627 for provision of intra-zone telephone communication services in the territory of the Komi Republic (English translation) is incorporated herein by reference to Exhibit 4.140 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.54	MTS License No. 114628 for provision of intra-zone telephone communication services in the territory of the Karelia Republic (English translation) is incorporated herein by reference to Exhibit 4.141 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.55	MTS License No. 114629 for provision of intra-zone telephone communication services in the territory of the Novgorod region (English translation) is incorporated herein by reference to Exhibit 4.142 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.56	MTS License No. 115176 for provision of intra-zone telephone communication services in the territory of the Volgograd region (English translation) is incorporated herein by reference to Exhibit 4.144 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.57	MTS License No. 117814 for provision of intra-zone telephone communication services in the territory of the Kurgan region (English translation) is incorporated herein by reference to Exhibit 4.150 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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Exhibits No.	Description
4.58	MTS License No. 117815 for provision of data communication services for the purposes of voice data communication in the territory of the Arkhangelsk region (English translation) is incorporated herein by reference to Exhibit 4.151 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.59	MTS License No. 117816 for provision of data communication services for the purposes of voice data communication in the territory of the Krasnoyarsk region (English translation) is incorporated herein by reference to Exhibit 4.152 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.60	MTS License No. 117817 for provision of data communication services for the purposes of voice data communication in the territory of the Novosibirsk region (English translation) is incorporated herein by reference to Exhibit 4.153 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.61	MTS License No. 117818 for provision of data communication services for the purposes of voice data communication in the territory of the Leningrad region (English translation) is incorporated herein by reference to Exhibit 4.154 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.62	MTS License No. 117819 for provision of data communication services for the purposes of voice data communication in the territory of the Nizhny Novgorod region (English translation) is incorporated herein by reference to Exhibit 4.155 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.63	MTS License No. 117820 for provision of data communication services for the purposes of voice data communication in the territory of the Omsk region (English translation) is incorporated herein by reference to Exhibit 4.156 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.64	MTS License No. 117821 for provision of data communication services for the purposes of voice data communication in the territory of the Smolensk region (English translation) is incorporated herein by reference to Exhibit 4.157 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.65	MTS License No. 117822 for provision of data communication services for the purposes of voice data communication in the territory of the Novgorod region (English translation) is incorporated herein by reference to Exhibit 4.158 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.66	MTS License No. 117823 for provision of data communication services for the purposes of voice data communication in the territory of the Tula region (English translation) is incorporated herein by reference to Exhibit 4.159 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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Exhibits No.	Description
4.67	MTS License No. 117824 for provision of data communication services for the purposes of voice data communication in the territory of the Volgograd region (English translation) is incorporated herein by reference to Exhibit 4.160 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.68	MTS License No. 117825 for provision of data communication services for the purposes of voice data communication in the territory of the Kemerovo region (English translation) is incorporated herein by reference to Exhibit 4.161 Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.69	MTS License No. 122269 for provision of intrazonal telephone communication services in the territory of the Ivanovo region (English translation) is incorporated herein by reference to Exhibit 4.124 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.70	MTS License No. 123560 for provision of data transmission services for the purpose of voice transmission in the territory of the Samara region (English translation) is incorporated herein by reference to Exhibit 4.125 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.71	MTS License No. 122267 for provision of data transmission services for the purpose of voice transmission in the territory of the Tver region (English translation) is incorporated herein by reference to Exhibit 4.126 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.72	MTS License No. 124994 for provision of data transmission services for the purpose of voice transmission in the territory of St. Petersburg (English translation) is incorporated herein by reference to Exhibit 4.128 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.73	MTS License No. 123559 for provision of intrazonal telephone communication services in the territory of the Samara region (English translation) is incorporated herein by reference to Exhibit 4.130 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.74	MTS License No. 122730 for provision of data transmission services for the purpose of voice transmission in the territory of the Tambov region (English translation) is incorporated herein by reference to Exhibit 4.131 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.75	MGTS License No. 125652 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Penza region (English translation) is incorporated herein by reference to Exhibit 4.136 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.

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Exhibits No.	Description
4.76	MTS License No. 124924 for provision of intrazonal telephone communication services in the territory of the Republic of Tatarstan (Tatarstan) (English translation) is incorporated herein by reference to Exhibit 4.137 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.77	MGTS License No. 125848 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Moscow region (English translation) is incorporated herein by reference to Exhibit 4.138 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.78	MTS License No. 125651 for provision of telematic communication services in the territory of the Penza region (English translation) is incorporated herein by reference to Exhibit 4.139 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.79	MGTS License No. 125847 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of Moscow (English translation) is incorporated herein by reference to Exhibit 4.140 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.80	MGTS License No. 125854 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Moscow region (English translation) is incorporated herein by reference to Exhibit 4.142 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.81	MTS License No. 122731 for provision of data transmission services for the purpose of voice transmission in the territory of the Arkhangelsk region (English translation) is incorporated herein by reference to Exhibit 4.143 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.82	MTS License No. 122568 for provision of mobile radio telephone services in the territory of the Ulyanovsk region (English translation) is incorporated herein by reference to Exhibit 4.144 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.83	MTS License No. 122729 for provision of intrazonal telephone communication services in the territory of the Kursk region (English translation) is incorporated herein by reference to Exhibit 4.145 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.84	MTS License No. 123658 for provision of intrazonal telephone communication services (GSM-900/1800 network) in the territory of the Nizny Novgorod region (English translation) is incorporated herein by reference to Exhibit 4.147 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.

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Exhibits No.	Description
4.85	MTS License No. 122567 for provision of mobile radio telephone services (GSM-900/1800 network) in the territory of the Saratov region (English translation) is incorporated herein by reference to Exhibit 4.148 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.86	MTS License No. 122569 for provision of mobile radio telephone services (GSM-900/1800 network) in the territory of the Tomsk region (English translation) is incorporated herein by reference to Exhibit 4.149 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.87	MTS License No. 123659 for provision of communication services for the purpose of wire broadcasting in the territory of the Nizny Novgorod region (English translation) is incorporated herein by reference to Exhibit 4.151 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.88	Sputnikovoe TV License No. 123687 for provision of communication services for the purpose of broadcasting in the territory of the Adygea Republic, the Altai Republic, the Bashkortostan Republic, the Buryatiya Republic, the Dagestan Republic, the Ingushetia Republic, the KabardinoBalkar Republic, the Kalmykia Republic, the KarachaevoCherkesia Republic, the Karelia Republic, the Komi Republic, the Mari El Republic, the Mordovia Republic, the Sakha Republic (Yakutia), the Severnaya Osetia Alania Republic, the Tatarstan Republic, the Tuva Republic, the Udmurt Republic, the Khakassia Republic, the Chechen Republic, the Chuvashia Republic, the Altai region, the Zabaykalsky Territory, the Krasnodar region, the Krasnoyarsk region, the Perm region, the Primorsky Territory, the Stavropol Territory, the Khabarovsk Territory, the Amur region, the Arkhangelsk region, the Astrakhan region, the Belgorod region, the Bryansk region, the Vladimir region, the Volgograd region, the Vologda region, the Voronezh region, the Ivanovo region, the Irkutsk region, the Kaliningrad region, the Kaluga region, the Kemerovo region, the Kirov region, the Kostroma region, the Kurgan region, the Kursk region, the Leningrad region, the Lipetsk region, the Moscow region, the Nizhny Novgorod region, the Novgorod region, the Novosibirsk region, the Omsk region, the Orenburg region, the Orel region, the Penza region, the Pskov region, the Rostov region, the Ryazan region, the Samara region, the Saratov region, the Sakhalin region, the Sverdlovsk region, the Smolensk region, the Tambov region, the Tver region, the Tomsk region, the Tula region, the Tyumen region, the Ulyanovsk region, the Chelyabinsk region, the Yaroslavl region, Moscow, St Petersburg, Sevastopol, the Jewish Autonomous region, the Khanty Mansiysk Autonomous region, the YamaloNenetsk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.152 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.89	MTS License No. 124558 for provision of communications services for the provision of communication channels in the territory of the Jewish Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.153 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.90	MTS License No. 122552 for provision of mobile radio telephone services in the territory of the Samara region (English translation) is incorporated herein by reference to Exhibit 4.154 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.

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Exhibits No.	Description
4.91	MTS License No. 122553 for provision of mobile radio telephone services in the territory of the Tyva Republic (English translation) is incorporated herein by reference to Exhibit 4.156 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.92	MTS License No. 122554 for provision of mobile radio telephone services in the territory of the Stavropol Territory (English translation) is incorporated herein by reference to Exhibit 4.158 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.93	MTS License No. 122560 for provision of mobile radio telephone services (GSM-900/1800 networks) in the territory of the Krasnoyarsk region (English translation) is incorporated herein by reference to Exhibit 4.163 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.94	MTS License No. 122556 for provision of mobile radio telephone services (GSM-900/1800 networks) in the territory of the Khakassiya Republic (English translation) is incorporated herein by reference to Exhibit 4.164 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.95	MTS License No. 122566 for provision of mobile radio telephone services (GSM-900/1800 networks) in the territory of the Tatarstan Republic (English translation) is incorporated herein by reference to Exhibit 4.165 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.96	MTS License No. 120614 (GSM-900/1800 networks) for provision of mobile radio telephone services in the territory of the Adygea Republic (English translation) is incorporated herein by reference to Exhibit 4.168 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.97	MTS License No. 121166 for provision of mobile radio telephone services in the territory of Moscow, the Moscow region (English translation) is incorporated herein by reference to Exhibit 4.169 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.98	MTS License No. 122193 for provision of mobile radio telephone services (GSM-900/1800 networks) in the territory of the Komi Republic (English translation) is incorporated herein by reference to Exhibit 4.170 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.99	MTS License No. 119884 for provision of mobile radio telephone services (GSM-900/1800 networks) in the territory of the Krasnodar region (English translation) is incorporated herein by reference to Exhibit 4.171 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.100	MTS License No. 119985 for provision of communication services for the purpose of broadcasting in the territory of the Chukotsk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.172 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.

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Exhibits No.	Description
4.101	MTS License No. 122268 for provision of communication services for the purpose of cable broadcasting in the territory of the Russian Federation (English translation) is incorporated herein by reference to Exhibit 4.173 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.102	MTS License No. 119295 for provision of communication services for the provision of communication channels in the territory of the Belgorod region, the Bryansk region, the Voronezh region, the Kursk region, the Lipetsk region, the Orel region (English translation) is incorporated herein by reference to Exhibit 4.174 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.103	MTS License No. 120615 for provision of mobile radio telephone services (GSM-900/1800 networks) in the territory of the Bashkortostan Republic (English translation) is incorporated herein by reference to Exhibit 4.175 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.104	MGTS License No. 112630 for provision of mobile radio telephone services in the territory of Moscow, the Moscow region (English translation) is incorporated herein by reference to Exhibit 4.179 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.105	Sibintertelecom JSC License No. 119279 for provision of communication services for the provision of communication channels in the territory of the Zabaykalsky Territory (English translation) is incorporated herein by reference to Exhibit 4.182 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.106	MTS License No. 118158 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Zabaykalsky Territory (English translation) is incorporated herein by reference to Exhibit 4.183 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.107	MTS License No. 118159 for provision of telematic communication services in the territory of the Zabaykalsky Territory (English translation) is incorporated herein by reference to Exhibit 4.187 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.108	MTS License No. 138261 for provision of for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Rostov region (English translation) is incorporated herein by reference to Exhibit 4.194 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.109	MTS License No. 138258 for provision of for provision of telematic communication services in the territory of the Novosibirsk region (English translation) is incorporated herein by reference to Exhibit 4.195 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.110	MTS License No. 138262 for provision of communications services for the provision of communication channels in the territory of the Udmurt Republic, Perm Territory, Amur region, the Kurgan region, the Orenburg region, the Sverdlovsk region, the Tambov region, the Tumen region, the Chelyabinsk region, the Khanty Mansiysk Autonomous region, the YamaloNenetsk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.197 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.111	MTS License No. 138260 for provision of data transmission services for the purpose of voice transmission in the territory of the Republic of Bashkortostan (English translation) is incorporated herein by reference to Exhibit 4.198 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.112	MTS License No. 136447 for provision of mobile radio telephone services in the territory of the Amur region (English translation) is incorporated herein by reference to Exhibit 4.199 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.113	MTS License No. 136451 for provision of mobile radio telephone services in the territory of the Perm Territory the Komi-Permyak area (English translation) is incorporated herein by reference to Exhibit 4.200 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.114	MTS License No. 137711 for provision of communication services for the purpose of wire broadcasting in the territory of the Chelyabinsk region (English translation) is incorporated herein by reference to Exhibit 4.201 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.115	MTS License No. 137565 for provision of data transmission services for the purpose of voice transmission in the territory of the Rostov region (English translation) is incorporated herein by reference to Exhibit 4.202 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.116	MTS License No. 137567 for provision of telematic communication services in the territory of the Komi Republic, the Udmurt Republic, the Perm Territory, the Amur region, the Belgorod region, the Bryansk region, the Vladimir region, the Voronezh region, the Ivanovo region, the Kaluga region, the Kirov region, the Kostroma region, the Kurgan region, the Kursk region, the Lipetsk region, the Moscow region, the Nizhniy Novgorod region, the Omsk region, the Orenburg region, the Orel region, the Pskov region, the Ryazan region, the Sverdlovsk region, the Smolensk region, the Tambov region, the Tver region, the Tula Region, the Tyumen region, the Chelyabinsk region, the Yaroslavl region, Moscow, the Khanty Mansiysk Autonomous region, the YamaloNenetsk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.203 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.117	MTS License No. 135967 for provision of intrazonal telephone communication services in the territory of the Chelyabinsk Region (English translation) is incorporated herein by reference to Exhibit 4.206 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.118	MTS License No. 136448 for provision of mobile radio telephone services in the territory of the Orenburg Region (English translation) is incorporated herein by reference to Exhibit 4.205 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.119	MTS License No. 136449 for provision of mobile radio telephone services in the territory of the Republic of North Ossetia-Alania (English translation) is incorporated herein by reference to Exhibit 4.206 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.120	MTS License No. 136450 for provision of mobile radio telephone services in the territory of the Perm Territory, excluding the Komi-Permyak area (English translation) is incorporated herein by reference to Exhibit 4.207 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.121	MTS License No. 137566 for provision of intrazonal telephone communication services in the territory of Moscow (English translation) is incorporated herein by reference to Exhibit 4.208 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.122	MTS License No. 135957 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Primorsky Territory (English translation) is incorporated herein by reference to Exhibit 4.209 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.123	MTS License No. 135961 for provision of telematic communication services in the territory of the Primorsky Territory (English translation) is incorporated herein by reference to Exhibit 4.210 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.124	MTS License No. 135958 for provision of mobile radio telephone services in the territory of Republic of Kalmykia (English translation) is incorporated herein by reference to Exhibit 4.211 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.125	MTS License No. 135965 for provision of communications services for the provision of communication channels in the territory of the Mordovia Republic (English translation) is incorporated herein by reference to Exhibit 4.212 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.126	MTS License No. 135963 for provision of communications services for the provision of communication channels in the territory of the Aginski Buryatski Autonomous District of the Penza region (English translation) is incorporated herein by reference to Exhibit 4.213 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.127	MTS License No. 135962 for provision of intrazonal telephone communication services in the territory of the Tyumen region, YamaloNenetsk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.214 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.128	MTS License No. 135960 for provision of intrazonal telephone communication services in the territory of the Ulyanovsk region (English translation) is incorporated herein by reference to Exhibit 4.215 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.129	MTS License No. 135959 for provision of communications services for the provision of communication channels in the territory of Aginski Buryatski Autonomous District of the Zabaikalye Territory (English translation) is incorporated herein by reference to Exhibit 4.216 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.130	MTS License No. 135506 for provision of data transmission services for the purpose of voice transmission in the territory of Moscow (English translation) is incorporated herein by reference to Exhibit 4.217 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.131	MTS License No. 135026 for provision of communications services for the provision of communication channels in the territory of the Sakha Republic (Yakutia), the Khabarovsk Territory, the Zabaikalye Territory (excluding the Aginski Buryatski Autonomous District) (English translation) is incorporated herein by reference to Exhibit 4.218 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.132	MTS License No. 134508 for provision of data transmission services for the purpose of voice transmission in the territory of the Moscow region (English translation) is incorporated herein by reference to Exhibit 4.219 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.133	MTS License No. 134510 for provision of data transmission services for the purpose of voice transmission in the territory of the Ivanovo region (English translation) is incorporated herein by reference to Exhibit 4.220 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.134	MTS License No. 134507 for provision of telematic communication services in the territory of the Rostov region (English translation) is incorporated herein by reference to Exhibit 4.221 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.135	MTS License No. 135029 for provision of data transmission services for the purpose of voice transmission in the territory of the Primorye Territory, the Sakhalin region, Irkutsk region (excluding the Ust-Ordyn Buryat District) (English translation) is incorporated herein by reference to Exhibit 4.222 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.136	MTS License No. 134511 for provision of communications services for the provision of communication channels in the territory of the Mari El Republic (English translation) is incorporated herein by reference to Exhibit 4.223 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.137	MTS License No. 134506 for provision of communications services for the provision of communication channels in the territory of the Vladimir region, the Kaluga region, the Pskov region, the Ryazan region, the Smolensk region, the Tula region (English translation) is incorporated herein by reference to Exhibit 4.2241 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.138	MTS License No. 134512 for provision of data transmission services for the purpose of voice transmission in the territory of the Kaluga Region (English translation) is incorporated herein by reference to Exhibit 4.225 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.139	MTS License No. 135027 for provision of intrazonal telephone communication services in the territory of the Moscow region (English translation) is incorporated herein by reference to Exhibit 4.226 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.140	MTS License No. 135028 for provision of intrazonal telephone communication services in the territory of the Republic of Bashkortostan (English translation) is incorporated herein by reference to Exhibit 4.227 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.141	MTS License No. 134509 for provision of communications services for the provision of communication channels in the territory of the Ivanov region, the Kirov region, the Nizhny Novgorod region, the Yaroslavl region (English translation) is incorporated herein by reference to Exhibit 4.228 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.142	MTS License No. 131139 for provision of mobile radio telephone services in the territory of the Ivanovo Region (English translation) is incorporated herein by reference to Exhibit 4.229 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.143	MTS License No. 131715 for provision of local telephone communication services, excluding local telephone communication services using coin-box telephones and public access services in the territory of Ufa, the Republic of Bashkortostan (English translation) is incorporated herein by reference to Exhibit 4.230 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.144	MTS License No. 131718 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Mordovia Republic, the Chuvash Republic Chuvashia (English translation) is incorporated herein by reference to Exhibit 4.231 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.145	MTS License No. 131716 for provision of telematic communication services in the territory of the Republic of Mari El (English translation) is incorporated herein by reference to Exhibit 4.232 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.146	MTS License No. 131720 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Mari El Republic (English translation) is incorporated herein by reference to Exhibit 4.233 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.147	MTS License No. 131721 for provision of telematic communication services in the territory of the Republic of Daghestan, the Republic of Ingushetia, the KabardinoBalkar Republic, the KarachayevoCherkesia Republic, Republic of North Ossetia-Alania (English translation) is incorporated herein by reference to Exhibit 4.234 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.148	MTS License No. 131138 for provision of data transmission services for the purpose of voice transmission in the territory of the Yaroslavl Region (English translation) is incorporated herein by reference to Exhibit 4.235 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.149	MTS License No. 131719 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Republic of Daghestan, the Republic of Ingushetia, the KabardinoBalkar Republic, the KarachayevoCherkesia Republic, the Republic of North Ossetia-Alania (English translation) is incorporated herein by reference to Exhibit 4.237 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.150	MTS License No. 130985 for provision of data transmission services for the purpose of voice transmission in the territory of the Belgorod region, the Bryansk region, the Voronezh region, the Kursk region, the Lipetsk region, the Orel region (English translation) is incorporated herein by reference to Exhibit 4.238 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.151	MTS License No. 129952 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Krasnodar Territory (English translation) is incorporated herein by reference to Exhibit 4.239 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.152	MTS License No. 130986 for provision of communications services for the provision of communication channels in the territory of the Sakhalin region (English translation) is incorporated herein by reference to Exhibit 4.240 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.153	MTS License No. 130983 for provision of communications services for the provision of communication channels in the territory of the Buryatiya Republic (English translation) is incorporated herein by reference to Exhibit 4.241 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.154	MTS License No. 129956 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Astrakhan region (English translation) is incorporated herein by reference to Exhibit 4.242 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.155	MTS License No. 129955 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Republic of Bashkortostan (English translation) is incorporated herein by reference to Exhibit 4.243 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.156	MTS License No. 130201 for provision of mobile radio telephone services in the territory of the Udmurt Republic, the Perm Territory, the Kirov region, the Kurgan region, the Orenburg region, the Sverdlovsk region, the Tyumen region, the Chelyabinsk region, the Khanty Mansiysk Autonomous region, the YamaloNenetks Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.244 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.157	MTS License No. 129957 for provision of telematic communication services in the territory of the Republic of Kalmykia (English translation) is incorporated herein by reference to Exhibit 4.245 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.158	MTS License No. 130982 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Irkutsk region, the Jewish Autonomous region, the Chukotsk Autonomous region, and Koryak Autonomous Area of the Kamchatka region (English translation) is incorporated herein by reference to Exhibit 4.246 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.159	MTS License No. 130984 for provision of telematic communication services in the territory of the Irkutsk region, the Jewish Autonomous Region, the Chukotsk Autonomous region, and the Koryak District of the Kamchatka Territory (English translation) is incorporated herein by reference to Exhibit 4.247 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.160	MTS License No. 128519 for provision of telematic communication services in the territory of the Tomsk region (English translation) is incorporated herein by reference to Exhibit 4.248 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.161	MTS License No. 129943 for provision of communications services for the provision of communication channels in the territory of the Chuvash Republic Chuvashia (English translation) is incorporated herein by reference to Exhibit 4.249 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.162	MTS License No. 129947 for provision of data telematic communication services in the territory of the Republic of Adygeya (English translation) is incorporated herein by reference to Exhibit 4.250 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.163	MTS License No. 129951 for provision of telematic communication services in the territory of the Krasnodar region (English translation) is incorporated herein by reference to Exhibit 4.251 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.164	MTS License No. 129948 for provision of communications services for the provision of communication channels in the territory of the Republic of Adygeya, the Krasnodar Krai (English translation) is incorporated herein by reference to Exhibit 4.252 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.165	MTS License No. 129945 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Republic of Adygeya (English translation) is incorporated herein by reference to Exhibit 4.253 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.166	MTS License No. 129949 for provision of telematic communication services in the territory of the Astrakhan region (English translation) is incorporated herein by reference to Exhibit 4.254 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.167	MTS License No. 129942 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Republic of Kalmykia (English translation) is incorporated herein by reference to Exhibit 4.255 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.168	MTS License No. 129950 for provision of local telephone communication services, excluding local telephone communication services using coin-box telephones and public access services in the territory of the Ryazan region: Ryazan (English translation) is incorporated herein by reference to Exhibit 4.256 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.169	MTS License No. 129944 for provision of telematic communication services in the territory of the Tatarstan Republic (English translation) is incorporated herein by reference to Exhibit 4.257 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.170	MTS License No. 128529 for provision of communications services for the provision of communication channels in the territory of the Republic of Tuva (English translation) is incorporated herein by reference to Exhibit 4.258 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.171	MTS License No. 128528 for provision of communications services for the provision of communication channels in the territory of the Republic of Altai, the Altai Territory, the Novosibirsk Region (English translation) is incorporated herein by reference to Exhibit 4.259 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.172	MTS License No. 128533 for provision of communications services for the provision of communication channels in the territory of the Republic of Khakassia (English translation) is incorporated herein by reference to Exhibit 4.260 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.173	MTS License No. 128527 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Novosibirsk region (English translation) is incorporated herein by reference to Exhibit 4.262 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.174	MTS License No. 128535 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Tomsk region (English translation) is incorporated herein by reference to Exhibit 4.263 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.175	MTS License No. 128530 for provision of telematic communication services in the territory of the Republic of Khakassia (English translation) is incorporated herein by reference to Exhibit 4.264 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.176	MTS License No. 128536 for provision of telematic communication services in the territory of the Kamchatka region (excluding the excluding the Koryak Autonomous Area) (English translation) is incorporated herein by reference to Exhibit 4.265 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.177	MTS License No. 129415 for provision of communication services for the purpose of wire broadcasting in the territory of the Perm Territory (English translation) is incorporated herein by reference to Exhibit 4.266 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.178	MTS License No. 129416 for provision of mobile radio telephone services in the territory of the Penza region (English translation) is incorporated herein by reference to Exhibit 4.267 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.179	MTS License No. 128534 for provision of data transmission services, except for data transmission services for the purpose of voice transmission Republic of Altai (English translation) is incorporated herein by reference to Exhibit 4.268 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.180	MTS License No. 128520 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Buryatiya Republic, the Magadan region, the Sakhalin region, the Kamchatka region (excluding the Koryak Autonomous Area) (English translation) is incorporated herein by reference to Exhibit 4.269 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.181	MTS License No. 127687 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Saratov region (English translation) is incorporated herein by reference to Exhibit 4.270 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.182	MTS License No. 127689 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Samara region (English translation) is incorporated herein by reference to Exhibit 4.271 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.183	MTS License No. 128526 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Novosibirsk region (English translation) is incorporated herein by reference to Exhibit 4.272 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.184	MTS License No. 128517 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Republic of Tuva (English translation) is incorporated herein by reference to Exhibit 4.273 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.185	MTS License No. 128518 for provision of telematic communication services in the territory of the Sakha Republic (Yakutia) (English translation) is incorporated herein by reference to Exhibit 4.274 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.186	MTS License No. 128522 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Republic of Khakassia (English translation) is incorporated herein by reference to Exhibit 4.275 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.187	MTS License No. 128523 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Kemerovo region (English translation) is incorporated herein by reference to Exhibit 4.276 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.188	MTS License No. 128525 for provision of telematic communication services in the territory of the Republic of Khakassia (English translation) is incorporated herein by reference to Exhibit 4.277 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.189	MTS License No. 127688 for provision of telematic communication services in the territory of the Saratov region (English translation) is incorporated herein by reference to Exhibit 4.278 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.190	MTS License No. 128521 for provision of telematic communication services in the territory of the Republic of Tuva (English translation) is incorporated herein by reference to Exhibit 4.279 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.191	MTS License No. 127171 for provision of communications services for the provision of communication channels in the territory of the Primorye Territory (English translation) is incorporated herein by reference to Exhibit 4.280 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.192	MTS License No. 127686 for provision of communications services for the provision of communication channels in the territory of the Samara region, the Saratov region, the Ulyanovsk Region (English translation) is incorporated herein by reference to Exhibit 4.281 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.193	MTS License No. 127683 for provision of communications services for the provision of communication channels in the territory of the Stavropol Territory, the Astrakhan region (English translation) is incorporated herein by reference to Exhibit 4.282 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.194	MTS License No. 127172 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Khabarovsk Territory (English translation) is incorporated herein by reference to Exhibit 4.283 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.195	MTS License No. 127682 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Volgograd Region (English translation) is incorporated herein by reference to Exhibit 4.284 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.196	MTS License No. 127685 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Stavropol Territory (English translation) is incorporated herein by reference to Exhibit 4.285 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.197	MTS License No. 127679 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Ulyanovsk Region (English translation) is incorporated herein by reference to Exhibit 4.286 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.198	MTS License No. 127681 for provision of telematic communication services in the territory of the Ulyanovsk region (English translation) is incorporated herein by reference to Exhibit 4.287 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.199	MTS License No. 127169 for provision of telematic communication services in the territory of the Khabarovsk Territory (English translation) is incorporated herein by reference to Exhibit 4.288 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.289	MTS License No. 127170 for provision of local telephone communication services, excluding local telephone communication services using coin-box telephones and public access services in the territory of the Zabaikalye Territory (English translation) is incorporated herein by reference to Exhibit 4.289 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.200	MTS License No. 127680 for provision of telematic communication services in the territory of the Samara region (English translation) is incorporated herein by reference to Exhibit 4.290 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.201	MTS License No. 127678 for provision of telematic communication services in the territory of the Stavropol Territory (English translation) is incorporated herein by reference to Exhibit 4.291 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.202	MTS License No. 127684 for provision of telematic communication services in the territory of the Vologda region (English translation) is incorporated herein by reference to Exhibit 4.292 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.203	MTS License No. 129954 for provision of mobile radio telephone services in the territory of the Rostov region (English translation) is incorporated herein by reference to Exhibit 4.294 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.204	MTS License No. 134774 for provision of mobile radio telephone services in the territory of the Belgorod region, the Bryansk region, the Vladimir region, the Voronezh region, the Ivanovo region, the Kaluga region, the Kostroma region, the Vladimir region, the Kursk region, the Lipetsk region, the Nizhniiy Novgorod region, the Orel region, the Ryazan, the Smolensk region, the Tambov region, the Tver region, the Tula region, the Yaroslavl region (English translation) is incorporated herein by reference to Exhibit 4.296 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.205	MTS License No. 131722 for provision of mobile radio telephone services in the territory of the Altai Territory (English translation) is incorporated herein by reference to Exhibit 4.297 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.206	MTS License No. 134773 for provision of local telephone communication services, excluding local telephone communication services using coin-box telephones and public access services in the territory of the Tyumen Region, the YamaloNenetsk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.298 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.207	MTS License No. 135964 for provision of mobile radio telephone services in fixed communication network in the territory of the YamaloNenetsk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.299 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.208	MTS License No. 135966 for provision of data transmission services for the purpose of voice transmission in the territory of the Tyumen Region, the YamaloNenetsk Autonomous region (English translation) is incorporated herein by reference to Exhibit 4.300 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.209	MTS License No. 137354 for provision of communication services for the purpose of cable broadcasting in the territory of the Russian Federation (English translation) is incorporated herein by reference to Exhibit 4.301 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.210	MGTS License No. 127698 for provision of intrazonal telephone communication services in the territory of the Moscow region, Moscow (English translation) is incorporated herein by reference to Exhibit 4.302 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.211	MTS License No. 129953 for provision of data transmission services, except for data transmission services for the purpose of voice transmission in the territory of the Republic of Tatarstan (English translation) is incorporated herein by reference to Exhibit 4.304 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.212	MTS License No. 135956 for provision of intrazonal telephone communication services in the territory of the Perm Territory (English translation) is incorporated herein by reference to Exhibit 4.305 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.213	MTS License No. 129946 for provision of local telephone communication services, excluding local telephone communication services using coin-box telephones and public access services in the territory of the Kaluga region (English translation) is incorporated herein by reference to Exhibit 4.306 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.214	MTS License No. 0011997 for the development, production, distribution of encryption (cryptographic) means, information systems and telecommunication systems protected with encryption (cryptographic) means, performing works, rendering services in the field of information encryption services, maintenance of encryption (cryptographic) means, information systems and telecommunication systems protected with encryption (cryptographic) means (except if the maintenance of encryption (cryptographic) means, information systems and telecommunication systems protected with encryption (cryptographic) means is carried out to satisfy the needs of the legal entity or individual entrepreneur) (English translation) is incorporated herein by reference to Exhibit 4.307 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.
4.215	MTS Ukraine License No. 521949 for use of radio frequency resources of Ukraine (English translation) is incorporated herein by reference to Exhibit 4.308 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, on Form 20-F.

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Exhibits No.	Description
4.216	City Telecom CJSC License No. 99294 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of Moscow (English translation).
4.217	City Telecom CJSC License No. 99295 for provision of communication channel provision services in the territory of Moscow (English translation).
4.218	City Telecom CJSC License No. 99296 for provision of telematic communication services in the territory of Moscow (English translation).
4.219	City Telecom CJSC License No. 99297 for provision of data communication services, except for data communication services for voice transmission in the territory of Moscow (English translation).
4.220	City Telecom CJSC License No. 122706 for provision of data communication services for voice transmission in the territory of Moscow (English translation).
4.221	Smarts-Yoshkar-Ola JSC License No. 128311 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Republic of Mari El (English translation).
4.222	Sputnikovoe TV LLC License No. 129794 for provision of communication channel provision services in the territory of the Russian Federation (English translation).
4.223	Smarts-Yoshkar-Ola JSC License No. 131212 for provision of data communication services for voice transmission in the territory of the Republic of Mari El (English translation).
4.224	Smarts-Yoshkar-Ola JSC License No. 131213 for provision of data communication services, except for data communication services for voice transmission in the territory of the Republic of Mari El (English translation).
4.225	Smarts-Yoshkar-Ola JSC License No. 131214 for provision of telematic communication services in the territory of the Republic of Mari El (English translation).
4.226	Smarts-Yoshkar-Ola JSC License No. 131215 for provision of communication channel provision services in the territory of the Republic of Mari El (English translation).
4.227	MGTS License No. 135506 for provision of data communication services for voice transmission in the territory of Moscow (English translation).
4.228	MTS License No. 135957 for provision of data communication services, except for data communication services for voice transmission in the territory of the Primorsky Territory (English translation).
4.229	Sibintertelecom JSC License No. 119280 (GSM-900/1800 networks) for provision of mobile radio telephone services in the territory of Zabaykalsky Territory (English translation) is incorporated herein by reference to Exhibit 4.188 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.230	MGTS License No. 137355 for provision of telecommunications services for cable broadcasting in the territory of the Moscow Region (English translation).
4.231	MGTS License No. 137356 for provision of telecommunications services for cable broadcasting in the territory of Moscow (English translation).
4.232	Teleservice JSC License No. 138177 for provision of telecommunications services for cable broadcasting in the territory of the Voronezh Region (English translation).

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Exhibits No.	Description
4.233	MTS License No. 138260 for provision of data communication services for voice transmission in the territory of the Republic of Bashkortostan (English translation).
4.234	MTS License No. 138261 for provision of data communication services, except for data communication services for voice transmission in the territory of the Rostov Region (English translation).
4.235	MTS License No. 138949 for provision of mobile radio telephone communication services in the territory of the Penza Region (English translation).
4.236	MTS License No. 138952 for provision of intra-area telephone communications services in the territory of the Ryazan Region (English translation).
4.237	MTS License No. 138953 for provision of telecommunications services for wired radio broadcasting in the territory of the Sverdlovsk Region (English translation).
4.238	MTS License No. 138956 for provision of mobile radio communication services in the allocated telecommunications network in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation).
4.239	MTS License No. 140009 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Sverdlovsk Region (English translation).
4.240	MTS License No. 140458 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Republic of Khakassia (English translation).
4.241	MTS License No. 140459 for provision of telematic communication services in the territory of the Republic of Bashkortostan (English translation).
4.242	MTS License No. 141405 for provision of mobile radio telephone communication services in the territory of the Republic of Karelia, Arkhangelsk Region, Vologda Region, Kaliningrad Region, Leningrad Region, Murmansk Region, Novgorod Region, Pskov Region, Saint Petersburg, Nenets Autonomous District (English translation).
4.243	MTS License No. 141520 for provision of mobile radio telephone communication services in the territory of the Republic of Tuva (English translation).
4.244	MTS License No. 141521 for provision of mobile radio telephone communication services in the territory of the Republic of Altai (English translation).
4.245	MTS License No. 142343 for provision of mobile radio telephone communication services in the territory of the Russian Federation, except for Moscow, the Moscow Region, the Republic of Crimea and Sevastopol (English translation).
4.246	MTS License No. 142344 for provision of data communication services, except for data communication services for voice transmission in the territory of the Russian Federation, except for Moscow, the Moscow Region, the Republic of Crimea and Sevastopol (English translation).
4.247	MTS License No. 142345 for provision of data communication services for voice transmission in the territory of the Russian Federation, except for Moscow, the Moscow Region, the Republic of Crimea and Sevastopol (English translation).
4.248	MTS License No. 142346 for provision of telematic communication services in the territory of the Russian Federation, except for Moscow, the Moscow Region, the Republic of Crimea and Sevastopol (English translation).

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Exhibits No.	Description
4.249	MTS License No. 143709 for provision of mobile radio telephone communication services in the territory of the Republic of Bashkortostan (English translation).
4.250	MTS License No. 144269 for provision of mobile radio telephone communication services in the territory of the Republic of Khakassia (English translation).
4.251	MTS License No. 144270 for provision of mobile radio telephone communication services in the territory of the Republic of North Ossetia-Alania (English translation).
4.252	MTS License No. 145056 for provision of telematic communication services in the territory of the Republic of Karelia, Arkhangelsk Region, Vologda Region, Kaliningrad Region, Leningrad Region, Murmansk Region, Novgorod Region, Saint Petersburg, Nenets Autonomous District (English translation).
4.253	MTS License No. 145057 for provision of mobile radio telephone communication services in the territory of the Astrakhan Region (English translation).
4.254	MTS License No. 145058 for provision of mobile radio communication services in the allocated telecommunications network in the territory of the Orenburg Region (English translation).
4.255	MTS License No. 145059 for provision of mobile radio telephone communication services in the territory of the Volgograd Region (English translation).
4.256	MTS License No. 145060 for provision of intra-area telephone communications services in the territory of the Omsk Region (English translation).
4.257	MGTS License No. 145447 for provision of telematic communication services in the territory of the Moscow Region and Moscow (English translation).
4.258	Stream LLC License No. 145493 for provision of telematic communication services in the territory of the Russian Federation (English translation).
4.259	MTS License No. 146066 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Khabarovsk Territory (English translation).
4.260	MTS License No. 146067 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Krasnodar Territory (English translation).
4.261	MTS License No. 146068 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Ivanovo Region (English translation).
4.262	MTS License No. 146069 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Irkutsk Region, except for the Ust-Ordyn Buryat Autonomous District (English translation).
4.263	MTS License No. 146070 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Primorsky Territory (English translation).
4.264	MTS License No. 146071 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Novosibirsk Region (English translation).

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Exhibits No.	Description
4.265	MTS License No. 146072 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Orenburg Region (English translation).
4.266	MTS License No. 146073 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Altai Territory (English translation).
4.267	MTS License No. 146074 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Chelyabinsk Region (English translation).
4.268	MTS License No. 146075 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Nizhny Novgorod Region (English translation).
4.269	MTS License No. 146076 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Republic of Sakha (Yakutia) (English translation).
4.270	MTS License No. 146077 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Yaroslavl Region (English translation).
4.271	MTS License No. 146078 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Perm Territory (English translation).
4.272	MTS License No. 146079 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Republic of Komi (English translation).
4.273	MTS License No. 146080 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Astrakhan Region (English translation).
4.274	MTS License No. 146081 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Sakhalin Region (English translation).
4.275	MTS License No. 146082 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Republic of Tatarstan (English translation).
4.276	MTS License No. 146083 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Khanty-Mansijsk Autonomous District-Yugra (English translation).
4.277	MTS License No. 146084 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Rostov Region (English translation).
4.278	MTS License No. 146085 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Volgograd Region (English translation).
4.279	MTS License No. 146086 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Kurgan Region (English translation).

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Exhibits No.	Description
4.280	MTS License No. 146087 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Krasnoyarsk Territory, except for the Evenk Autonomous District (English translation).
4.281	MTS License No. 146088 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Omsk Region (English translation).
4.282	MTS License No. 146089 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Kirov Region (English translation).
4.283	MTS License No. 146090 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Samara Region (English translation).
4.284	MTS License No. 146091 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Udmurt Republic (English translation).
4.285	MTS License No. 146092 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Amur Region (English translation).
4.286	MTS License No. 146093 for provision of local telecommunications services via coin-box telephones in the territory of the Moscow Region (English translation).
4.287	MTS License No. 146094 for provision of local telecommunications services, except for local telecommunications services via coin-box telephones and multiple-access facilities in the territory of the Tomsk Region (English translation).
4.288	MTS License No. 147352 for provision of telematic communication services in the territory of the Altai Territory (English translation).
4.289	MTS License No. 147353 for provision of mobile radio telephone communication services in the territory of the Moscow Region and Moscow (English translation).
4.290	MTS License No. 147354 for provision of intra-area telephone communications services in the territory of the Leningrad Region (English translation).
4.291	MTS License No. 147355 for provision of communication channel provision services in the territory of the Russian Federation (English translation).
4.292	MTS License No. 147356 for provision of mobile radio telephone communication services in the territory of the Omsk Region (English translation).
4.293	MTS License No. 147357 for provision of communication channel provision services in the territory of the Omsk Region (English translation).
4.294	Smarts-Yoshkar-Ola JSC License No. 148726 for provision of mobile radio telephone communication services in the territory of the Republic of Mari El (English translation).
4.295	MTS License No. 149715 for provision of telecommunications services for wired radio broadcasting in the territory of the Kirov Region (English translation).
4.296	MTS License No. 149828 for provision of mobile radio telephone communication services in the territory of the Kemerovo Region (English translation).

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Exhibits No.	Description
4.297	MTS License No. 149829 for provision of mobile radio telephone communication services in the territory of the Chechen Republic (English translation).
4.298	MTS License No. 149830 for provision of mobile radio telephone communication services in the territory of the Chuvash Republic Chuvashia (English translation).
4.299	MTS License No. 149831 for provision of mobile radio telephone communication services in the territory of the Karachay-Cherkess Republic (English translation).
4.300	MTS License No. 149832 for provision of mobile radio telephone communication services in the territory of the Republic of Altai (English translation).
4.301	Multikabel'nye sety balashikhi LLC License No. 149923 for provision of data communication services, except for data communication services for voice transmission in the territory of in the territory of the settlement of Balashikha in the Moscow Region (English translation).
4.302	Multikabel'nye sety balashikhi LLC License No. 149924 for provision of telecommunications services for cable broadcasting in the territory of the settlement of Balashikha in the Moscow Region (English translation).
4.303	Multikabel'nye sety balashikhi LLC License No. 149925 for provision of telematic communication services in the territory of the settlement of Balashikha in the Moscow Region (English translation).
4.304	MTS form License for provision of mobile radio telephone communication services in the territory of Mari El Republic, Khabarovsk region, Novosibirsk region, Omsk region, Primorsky region, Amur region, Buryatiya Republic, Chukotsk Autonomous region, Irkutsk region, Jewish Autonomous region, Kamchatka region, Magadan region, Sakha Republic (Yakutia), Sakhalin region and Zabaykalsky Territory (English translation).
4.305	MTS form License for provision of communication channels in the territory of Kaliningrad region, St. Petersburg, Leningrad region, Arkhangelsk region, Karelia Republic, Murmansk region, Nenetsk Autonomous region, Novgorod region and Vologda region (English translation).
4.306	MTS form License for provision of intra-area telephone communication services in the territory of Saratov region, Penza region, Tambov region, Kaluga region, Sverdlovsk region, Kirov region, Altai region, Irkutsk region, Khabarovsk region, Primorsky region, Orenburg region, Udmurt Republic, Moscow region, Moscow, Bashkortostan Republic and Ulyanovsk region (English translation).
4.307	MTS form License for provision of data transmission services for voice transmission in the territory of Mordovia Republic, Saratov region, Mari El Republic, Amur region, Altaisk territory, Buryatiya Republic, Kalmykia Republic, KarachayevoCherkesia Republic, Pskov region, Kamchatka region, Komi Republic, Murmansk region, Kostroma region, Altai Republic, Vologda region, Dagestan Republic, Orenburg region, Sakha Republic (Yakutia), Stavropol territory, Tyva Republic, Chechen Republic, Zabaykalsky Territory, Kirov region, Khakassiya Republic, KabardinoBalkar Republic, Ulyanovsk region, Adygeya Republic, Ingushetia Republic, Kaliningrad region, Karelia Republic, Penza region, Severnaya Osetia Alania Republic, Khabarovsk Territory, Chuvashia Republic, Magadan region, Chelyabinsk region, Kurgan region, Moscow and Moscow region (English translation).
4.308	MTS License No. 152165 for provision of telecommunication services for the purpose of wired radio broadcasting services in the territory of the Rostov region (English translation).
8.1	List of Subsidiaries of Mobile TeleSystems Public Joint Stock Company.

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Exhibits No.	Description
12.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*

Approved General Meeting of Shareholders of Mobile TeleSystems PJSC held on June 23, 2016 and became effective upon registration with the Federal Tax Service on July 7, 2016.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 21, 2017

MOBILE TELESYSTEMS PUBLIC JOINT STOCK COMPANY

By: /s/ Andrey A. Dubovskov

Name: Andrey A. Dubovskov
Title: President and Chief Executive Officer

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Consolidated Financial Statements

As of December 31, 2016, 2015 and for the Years Ended December 31, 2016, 2015 and 2014.

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Mobile TeleSystems PJSC:

Moscow, Russia

We have audited the accompanying consolidated statement of financial position of Mobile TeleSystems PJSC and subsidiaries (the "Group") as of December 31, 2016 and 2015, and the related consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mobile TeleSystems PJSC and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 21, 2017 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ ZAO Deloitte & Touche CIS

Moscow, Russia
March 21, 2017

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016 AND 2015

(Amounts in millions of Russian Rubles)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	272,841	302,662
Investment property		336	364
Goodwill	12	33,685	34,468
Other intangible assets	14	75,128	74,596
Investments in associates	7	10,551	9,299
Other investments	8	36,319	34,667
Deferred tax assets	19	6,150	9,287
Accounts receivable, related parties	21	3,693	3,335
Other financial assets	17	13,877	25,203
Other non-financial assets		896	480
Total non-current assets		**453,476**	**494,361**
CURRENT ASSETS:			
Inventories	10	14,330	14,510
Trade and other receivables	9	29,805	34,542
Accounts receivable, related parties	21	4,401	6,326
Short-term investments	6	8,657	49,840
Advances paid and prepaid expenses		5,749	4,648
VAT receivable		7,098	9,815
Income tax assets		1,601	5,190
Assets held for sale		808	549
Cash and cash equivalents	5	18,470	33,464
Other assets		75	133
Total current assets		**90,994**	**159,017**
TOTAL ASSETS		**544,470**	**653,378**

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

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AS OF DECEMBER 31, 2016 AND 2015

(Amounts in millions of Russian Rubles)

	Notes	December 31, 2016	December 31, 2015
EQUITY AND LIABILITIES			
EQUITY:			
Common stock	22	200	207
Treasury stock	22	(748)	(24,468)
Additional paid-in capital		191	
Retained earnings		145,622	173,200
Accumulated other comprehensive income	22	(6,030)	11,176
Equity attributable to owners of the Company		139,235	160,115
Non-controlling interests		4,713	8,256
Total equity		**143,948**	**168,371**
NON-CURRENT LIABILITIES:			
Borrowings	15	237,113	292,168
Deferred tax liabilities	19	26,611	27,346
Provisions	16	2,350	2,565
Other non-financial liabilities		4,129	4,342
Other financial liabilities	17	2,774	676
Total non-current liabilities		**272,977**	**327,097**
CURRENT LIABILITIES:			
Trade and other payables		41,473	57,756
Accounts payable, related parties	21	1,014	1,809
Subscriber prepayments		15,460	17,451
Borrowings	15	47,207	53,701
Income tax liabilities		962	831
Provisions	16	8,075	7,863
Other non-financial liabilities		10,305	8,721
Other financial liabilities	17	3,049	9,778
Total current liabilities		**127,545**	**157,910**
TOTAL EQUITY AND LIABILITIES		**544,470**	**653,378**

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

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in millions of Russian Rubles, except per share amounts)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Service revenue		386,486	386,159	381,143
Sales of goods		49,206	40,480	29,535
	25	**435,692**	**426,639**	**410,678**
Cost of services		130,158	126,805	119,053
Cost of goods	10	45,574	36,555	25,445
Selling, general and administrative expenses	23	94,046	87,340	88,095
Depreciation and amortization	25	81,582	77,843	74,734
Operating share of the profit of associates	7	(3,115)	(3,456)	(3,459)
Provision for investments in distressed Ukrainian banks	28		1,698	5,138
Impairment of goodwill in Armenia	13		3,516	
Other (income)/expenses		(222)	2,415	1,814
Operating profit		**87,669**	**93,923**	**99,858**
Finance income	24	(5,273)	(8,368)	(4,519)
Finance costs	24	27,136	26,422	17,252
Currency exchange (gain)/loss		(3,241)	6,154	17,926
Non-operating share of the loss of associates	7	1,287	3 780	6,537
Change in fair value of financial instruments		(166)	(1 014)	95
Other / expenses/(income)		317	(54)	937
Profit before tax		**67,609**	**67,003**	**61,630**
Income tax expense	19	15,138	13,931	15,909
Profit for the year from continuing operations		**52,471**	**53,072**	**45,721**
(Loss) / Profit from discontinued operations	26	(4,021)	(5,668)	5,775
Profit for the year		**48,450**	**47,404**	**51,496**
Profit / (loss) for the year attributable to:				
Owners of the Company		48,474	49,489	51,306
Non-controlling interests		(24)	(2,085)	190
Earnings per share (basic and diluted), Russian Rubles:	20	24.37 and 24.35	24.88 and 24.87	25.80 and 25.78

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

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in millions of Russian Rubles)

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Profit for the year	**48,450**	**47,404**	**51,496**
Other comprehensive (loss) / income			
Items that will not be reclassified subsequently to profit or loss:			
Unrecognized actuarial gain	50	86	278
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(15,104)	2,647	10,005
Net fair value (loss) / gain on financial instruments	(1,200)	(3,223)	2,664
Share of other comprehensive (loss) / income of associates			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations in associates	(1,553)	(1,182)	943
Other comprehensive (loss) / income for the year, net of income tax	**(17,807)**	**(1,672)**	**13,890**
Total comprehensive income for the year	**30,643**	**45,732**	**65,386**
Total comprehensive income / (loss) for the year attributable to:			
Owners of the Company	31,268	47,187	63,051
Non-controlling interests	(625)	(1,455)	2,335

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

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock			Accumulated other comprehensive income / (loss)						
	Shares	Amount	Shares	Amount	Additional paid-in capital	Investments revaluation reserve	Foreign currency translation reserve	Remeasurements of the net defined benefit liability	Retained earnings	Equity attributable to equity holders	Non-controlling interests	Total equity
Balances at January 1, 2014	**2,066,413,562**	**207**	**(77,582,378)**	**(24,482)**	**2,506**	**1,604**		**129**	**172,527**	**152,491**	**4,106**	**156,597**
Profit for the year									51,306	51,306	190	51,496
Other comprehensive income for the year, net of income tax						2,664	8,803	278		11,745	2,145	13,890
Total comprehensive income for the year						**2,664**	**8,803**	**278**	**51,306**	**63,051**	**2,335**	**65,386**
Issuance of stock options					167					167		167
Dividends declared by MTS									(49,325)	(49,325)		(49,325)
Dividends to non-controlling interest											(356)	(356)
Unclaimed dividends over 3 years									48	48		48
Effect from re-entrance into Uzbekistan											3,565	3,565
Sale of own stock			90,881	20	4					24		24
Purchase of own stock			(9,935)	(2)						(2)		(2)
Acquisition of NCI in Teleservice					(23)					(23)	(3)	(26)
Increase in MTS Bank equity					112					112		112
Sale of building to Sistema					233					233	13	246
Sale of Business Nedvizhimost (Note 7)					2,053					2,053	133	2,186
	207		**(77,501,432)**	**(24,464)**	**5,052**	**4,268**	**8,803**	**407**	**174,556**	**168,829**	**9,793**	**178,622**

Balances at December 31, 2014	**2,066,413,562**											
Profit / (loss) for the year									49,489	49,489	(2,085)	47,404
Other comprehensive (loss) / income for the year, net of income tax					(3,223)	835	86			(2,302)	630	(1,672)
Total comprehensive (loss) / income for the year					**(3,223)**	**835**	**86**	**49,489**		**47,187**	**(1,455)**	**45,732**
Issuance of stock options				158						158		158
Dividends declared by MTS									(50,061)	(50,061)		(50,061)
Dividends to non-controlling interest									(480)	(480)	(257)	(737)
Sale of own stock		9,935	2							2		2
Purchase of own stock		(29,666)	(6)							(6)		(6)
Disposal of Intellect Telecom (Note 4)				252						252	14	266
Disposal of Rent Nedvizhimost (Note 4)				6,003						6,003	343	6,346
Acquisition of NIS (Note 4)				(506)						(506)	(29)	(535)
Acquisition of NVision (Note 4)				(10,371)						(10,371)		(10,371)
Acquisition of Stream (Note 4)				(997)						(997)		(997)
Changes in ownership interest with no gain/loss of control MGTS and NIS				105						105	(153)	(48)
Reclassification to retained earnings				304					(304)			
Balances at December 31, 2015	**2,066,413,562**	**207**	**(77,521,163)**	**(24,468)**		**1,045**	**9,638**	**493**	**173,200**	**160,115**	**8,256**	**168,371**

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

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014 (Continued)

(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock			Accumulated other comprehensive income / (loss)						
	Shares	Amount	Shares	Amount	Additional paid-in capital	Investments revaluation reserve	Foreign currency translation reserve	Remeasurements of the net defined benefit liability	Retained earnings	Equity attributable to equity holders	Non-controlling interests	Total equity
Balances at December 31, 2015	**2,066,413,562**	**207**	**(77,521,163)**	**(24,468)**		**1,045**	**9,638**	**493**	**173,200**	**160,115**	**8,256**	**168,371**
Profit / (loss) for the year									48,474	48,474	(24)	48,450
Other comprehensive (loss) / income for the year, net of income tax						(1,200)	(13,970)	50		(15,120)	(601)	(15,721)
Total comprehensive (loss) / income for the year						**(1,200)**	**(13,970)**	**50**	**48,474**	**33,354**	**(625)**	**32,729**
Issuance of stock options					131					131	11	142
Dividends declared by MTS									(51,738)	(51,738)		(51,738)
Dividends to non-controlling interest											(1,120)	(1,120)
Unclaimed dividends									3	3		3
Sale of own stock			1,074,525	213						213		213
Purchase of own stock (Note 22)			(3,067,396)	(748)						(748)		(748)
Purchase of NCI					5					5	(22)	(17)
Changes in ownership interest with no gain / loss of control MTS Bank additional share issuance (Note 7)					(14)					(14)		(14)
Redemption of treasury shares (Note 22)	(68,031,987)	(7)	68,031,987	24,255					(24,248)			
Uzbekistan deconsolidation (Note 26)							(2,086)			(2,086)	(1,787)	(3,873)
Reclassification to retained					69				(69)			

earnings												
Balances at December 31, 2016	**1,998,381,575**	**200**	**(11,482,047)**	**(748)**	**191**	**(155)**	**(6,418)**	**543**	**145,622**	**139,235**	**4,713**	**143,948**

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

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in millions of Russian Rubles)

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year	48,450	47,404	51,496
Adjustments for:			
Depreciation and amortization	83,259	82,473	75,021
Impairment of goodwill in Armenia		3,516	
Loss from sale of subsidiary in Uzbekistan	2,726		
Non-cash gain from reentrance into Uzbekistan			(6,724)
Non-cash provision for investment in Delta Bank			5,061
Finance income	(5,273)	(8,368)	(4,519)
Finance costs	27,427	26,630	17,260
Income tax expense	14,954	13,269	15,985
Currency exchange (gain)/loss	(3,232)	6,213	17,911
Amortization of deferred connection fees	(2,287)	(2,362)	(1,912)
Share of the (profit) / loss of associates	(1,828)	324	3,080
Change in fair value of financial instruments	(166)	(1,014)	95
Inventory obsolescence expense	1,548	384	357
Allowance for doubtful accounts	2,857	3,221	3,270
Change in provisions	13,161	7,265	8,965
Other non-cash items	(3,656)	(562)	(31)
Movements in operating assets and liabilities:			
(Increase)/Decrease in trade and other receivables	(3,525)	2,781	5,412
(Increase)/Decrease in inventory	(1,816)	(5,998)	731
(Increase)/Decrease in advances paid and prepaid expenses	(812)	574	1,217
Decrease/(Increase) in VAT receivable	227	(642)	(1,058)
Decrease in trade and other payables and other current liabilities	(9,086)	(4,449)	(12,790)
Dividends received	2,801	3,269	2,650
Income tax paid	(11,687)	(9,643)	(9,906)
Interest received	3,344	4,760	3,752
Interest paid, net of interest capitalized	(26,821)	(24,957)	(16,344)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**130,565**	**144,088**	**158,979**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of subsidiaries, net of cash acquired	(5)		(2,755)
Purchases of property, plant and equipment (including capitalized interest in the amount of RUB 388 million, RUB 885 million and RUB 790 million, respectively)	(55,538)	(76,671)	(73,573)
Purchases of other intangible assets	(28,013)	(19,440)	(18,356)
Purchase of 3G and 4G licenses in Ukraine and Russia	(2,598)	(10,426)	
Proceeds from sale of property, plant and equipment and assets held for sale	4,042	2,988	619
Purchases of short-term and other investments	(9,739)	(73,485)	(70,626)
Proceeds from sale of short-term and other investments	39,021	31,678	67,450
Investments in associates (Note 7)	(4,094)		(7,767)

Disposal of discontinued operation, net of cash disposed	(378)		
NET CASH USED IN INVESTING ACTIVITIES	**(57,302)**	**(145,356)**	**(105,008)**

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

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in millions of Russian Rubles)

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of notes	(20,364)	(24,018)	(23,153)
Proceeds from issuance of notes	10,000	5	
Notes and debt issuance cost paid	(16)	(1,244)	(360)
Finance lease obligation principal paid	(334)	(409)	(227)
Dividends paid	(52,805)	(50,786)	(49,921)
Cash flows from transactions with entities under common control	3,063	(4,821)	508
Proceeds from loans	50,696	63,162	69,179
Repayment of loans	(69,532)	(16,132)	(29,235)
Cash flows under credit guarantee agreement related to foreign-currency hedge (Note 18)	(2,984)	6,706	
Repurchase of common stock	(748)	(6)	(2)
Other financial activities	(14)	(52)	(1)
NET CASH USED IN FINANCING ACTIVITIES	**(83,038)**	**(27,595)**	**(33,212)**
Effect of exchange rate changes on cash and cash equivalents	(5,219)	761	10,195
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(14,994)**	**(28,102)**	**30,954**
CASH AND CASH EQUIVALENTS, beginning of the year, including cash and cash equivalents within assets held for sale of nil, nil and 156, respectively	**33,464**	**61,566**	**30,612**
CASH AND CASH EQUIVALENTS, end of the year	**18,470**	**33,464**	**61,566**
Less cash and cash equivalents within assets held for sale			156
CASH AND CASH EQUIVALENTS, end of the year	**18,470**	**33,464**	**61,410**

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

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions of Russian Rubles unless otherwise stated)

1. GENERAL INFORMATION AND DESCRIPTION OF BUSINESS

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

The consolidated financial statements of the Company and its subsidiaries ("the Group" or "MTS") as of 31 December 2016 and 2015, and for the years ended 31 December 2016, 2015 and 2014 were authorized for issue by President on March 21, 2017.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

Amounts in the consolidated financial statements are stated in millions of Russian Rubles ("RUB million"), unless indicated otherwise.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

Basis of consolidation The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved only where the Company has the power over the entity, is exposed and has rights to variable returns, and is able to use power to affect its amount of variable returns. The results of the controlled entities acquired or disposed of

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

during the reporting period are included in the consolidated financial statements from the date, the Group achieves control over the entity, or until the date on which the Company ceases to control the entity. If necessary, the accounting policies of controlled entities' are aligned with the accounting policy applied by the Group. All intra-group balances, income, expenses and cash flows are eliminated on consolidation.

Those entities where the Group exercises significant influence are recognized as associates and accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. These entities are recognized at cost at the time of acquisition and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income. The carrying amount of the investment in such entities may include goodwill as the positive difference between the cost of the investment and Group's proportionate share in the fair values of the entity's identifiable assets and liabilities. The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss is recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use. The Group presents its share in profits or losses in associates within operating profit if those interests are viewed as part of Group's core operations. As of December 31, 2016, only MTS Belarus was considered to be a part of Group's core operating activity. Shares in profits and losses of other Group's associates were presented as non-operating items.

The Group has joint operations with MTS Bank, a Group's associate, relating to the development of the MTS Dengi project and Vimpelcom, relating to construction of LTE base stations. Joint operations are characterized by the fact that the operators that have joint control over the arrangement have a right to the assets, and obligations for the liabilities, relating to the arrangement. Respectively, each operator accounts for its share of the joint assets and its agreed share of any liabilities, and recognizes its share of the output, revenues and expenses incurred under the arrangement.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

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

	Accounting method	December 31, 2016	December 31, 2015
RTC	Consolidated	100.0%	100.0%
MTS Ukraine	Consolidated	100.0%	100.0%
MTS Turkmenistan	Consolidated	100.0%	100.0%
Sibintertelecom	Consolidated	100.0%	100.0%
NVision Group	Consolidated	100.0%	100.0%
Sitronics Telecom Solutions	Consolidated	100.0%	100.0%
NVision Czech Republic	Consolidated	100.0%	100.0%
Sputnikovoe TV	Consolidated	100.0%	100.0%
Stream	Consolidated	100.0%	100.0%
Dega	Consolidated	100.0%	100.0%
MTS Bermuda[1]			100.0%
Stream Digital[2]	Consolidated	100.0%	
Metro-Telecom	Consolidated	95.0%	95.0%
MGTS Group	Consolidated	94.7%	94.7%
K-Telecom	Consolidated	80.0%	80.0%
Navigation Information Systems Group	Consolidated	77.7%	77.7%
UMS[3]			50.01%
MTS International Funding Limited[4] ("MTS International")	Consolidated	SE	SE
MTS Belarus	Equity	49.0%	49.0%
MTS Bank	Equity	26.6%	27.0%
Zifrovoe TV	Equity	20.0%	20.0%
OZON Holdings Limited	Equity	10.8%	10.8%

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

(2) A wholly-owned subsidiary, through which the Group currently repurchases its own shares.

(3) On August 5, 2016 the Group sold its stake in UMS (please refer to Note 26)

(4) A company organized and existing as a private limited company under the laws of Ireland. The Group does not have any equity in MTS International. It was established for the purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group. In 2010 and 2013, MTS International issued $750 million 8.625% notes due in 2020 and $500 million 5.0% notes due in 2023, respectively (Note 15). The notes are guaranteed by MTS PJSC in the event of default. MTS International does not perform any other activities except those required for notes servicing. The Group bears all costs incurred by MTS International in connection with the notes' maintenance activities. Accordingly, the Group concluded that it exercises control over the entity.

Acquisitions from entities under common control Business combinations arising from transfers of interests in entities that are under common control with the Group are consolidated prospectively starting from the date, the control over those entities is passed to the Group. The assets and liabilities acquired are recognized at the carrying values recoded previously in the counterparty's financial statements with the resulting gain or loss recognized directly in equity.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Functional currency translation methodology As of December 31, 2016, the functional currencies of Group entities were as follows:

For entities incorporated in the Russian Federation, Dega and MTS International the Russian Ruble ("RUB");

For MTS Ukraine the Ukrainian Hryvna;

For MTS Turkmenistan the Turkmenian Manat;

For K-Telecom the Armenian Dram;

For disposed Universal Mobile Systems ("UMS") the Uzbek Som;

For MTS Belarus the Belorussian Ruble;

For NVision Czech Republic the Czech Crown.

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

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

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

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

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Property, plant and equipment Property, plant and equipment, including improvements, are stated at cost. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life, as follows:

Network and base station equipment:	
Network infrastructure	5 - 44 years
Other	1.5 - 21 years
Land and buildings:	
Buildings	20 - 150 years
Leasehold improvements	the term of the lease
Office equipment, vehicles and other:	
Office equipment	3 - 21 years
Vehicles	3 - 7 years
Other	2 - 25 years

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between any sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

Borrowing costs Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset during the construction phase that necessarily takes a substantial period of time are capitalized as part of property, plant and equipment until the asset is substantially ready for its intended use. The Group considers a construction period of more than six months to be substantial.

Other intangible assets Other intangible assets primarily consist of billing, telecommunication, accounting and office software as well as numbering capacity, customer base and licenses. These assets are assets with finite useful lives. They are initially recognized at cost and amortized on a straight-line basis over their estimated useful lives.

Goodwill Goodwill represents an excess of consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets of the acquired entity. Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit (CGU) to which the goodwill is allocated. The impairment test is carried out on a regular basis at the end of each financial year, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. If the carrying

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amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced. Impairment losses for goodwill must not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the cash-generating unit.

Impairments of intangible assets and property, plant and equipment Impairments are identified by comparing the carrying amount with the recoverable amount. If no future cash flows generated independently of other assets can be allocated to individual assets, recoverability is assessed on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, at the end of each period the Group assesses whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill no longer exists or may be decreased. If the impairment loss is reversed, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Assets and disposal groups held for sale The Group classifies assets and disposal groups as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the assets (or disposal group) are available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and their sale is highly probable to occur within a year. Held for sale assets and disposal groups are measured at the lower of carrying amount or fair value less cost to sell.

Inventories and spare parts Inventories are stated at the lower of cost or net realizable value. Inventory cost is determined using the weighted average cost method. Handsets and accessories held for sale are expensed when sold. The Group regularly assesses its inventories for obsolete and slow-moving stock.

Value-added tax ("VAT") Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

Income taxes Income taxes of the Group's Russia-incorporated entities have been computed in accordance with Russian legislation and are based on the taxable profit for the period. The corporate income tax rate in Russia is 20%. The withholding tax rate on dividends paid within Russia is 13%. The foreign subsidiaries of the Group are paying withholding taxes in their respective jurisdictions. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Financial instruments A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade and other receivables, investments (mainly deposits with original maturity of more than three months, originated loans and notes, as well as debt securities) and derivative financial assets. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds, trade and other payables, bank loans, finance lease obligations and derivative financial liabilities. Financial instruments are recognized as soon as the Group becomes a party to the contractual regulations of the financial instrument.

Financial assets and financial liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for a financial asset or liability accounted for at fair value through profit or loss, in which case transaction costs are expensed. Subsequently they are measured either at amortized cost or fair value depending on classification of those assets and liabilities based on their purpose. Financial assets can be classified as 1) financial assets at fair value through profit or loss; 2) held-to-maturity investments; 3) available for sale financial assets; 4) loans and receivables. Financial liabilities can be classified as 1) financial liabilities at fair value or 2) other financial liabilities.

Cash and cash equivalents Cash and cash equivalents represent cash on hand and in bank accounts, as well as short-term bank deposits, which have original maturities of less than three months. Such investments are measured at amortized cost.

Trade and other receivables Trade and other receivables are stated at their nominal value as reduced by appropriate allowance for doubtful accounts.

Allowance for doubtful accounts The Group provides an allowance for doubtful accounts based on management's periodic review with respect to the recoverability of trade receivables, advances given, loans and other receivables. Such allowance reflects specific cases, collection trends or estimates based on evidence of collectability.

Short-term investments Short-term investments mainly represent investments in loans, time deposits, which have original maturities in excess of three months and are repayable in less than twelve months, as well as investment in debt securities. Investment in debt securities are classified as financial assets at fair value through profit and loss, if they held for trading, otherwise they are classified as available for sale with unrealized gains and losses recorded as part of other comprehensive income. Deposits and loans are carried at amortized cost.

Other investments Other investments consist primarily of long-term deposits, which are repayable in more than a year, loans, notes and equity holdings in private companies. Deposits, loans and notes not quoted in active market are classified as loans and receivables and carried at amortized cost. The notes quoted in active market are classified based on Group's intention and ability to hold these notes to maturity either as held to maturity or available for sale. The Group reviews these investments for indicators of impairment on a regular basis.

Trade payables and other non-derivative financial liabilities are measured at amortized cost.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Hedging activities The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them as either other current or other non-current financials assets or liabilities in the consolidated statement of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews related fair value hierarchy classifications on a quarterly basis. The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments.

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met.

Fair value hedges Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

Cash flow hedges The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income.

The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Gains or losses accumulated in other comprehensive income are immediately reclassified into consolidated statement of profit or loss when related hedged transactions affects earnings.

For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are recorded immediately in profit or loss.

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

Fair value of financial instruments Fair value of financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities;

Level 3 No observable pricing inputs in the market.

Financial assets and financial liabilities are classified in the three-tier hierarchy based on the lowest level of input that is significant to the fair value measurements. The Group's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Liability under put option agreement To optimize the structure of business acquisitions and to defer payment of the purchase price, the Group enters into put and call option agreements to acquire the remaining non-controlling stakes in newly acquired subsidiaries. Upon initial recognition, the commitment to purchase non-controlling interests is recognized as a financial liability for the present value of the redemption amount, which approximates its fair value Subsequent changes in the value of the commitment are recognized in profit or loss for the reporting period.

Finance leases Leases are classified as finance whenever the terms of the lease transfer substantially all risks and rewards incidental to ownership of the leased asset to the Group. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the lease term. The corresponding liability is recognized in the consolidated statement of financial position within borrowings. The discount rate used in the calculating the present value of minimum lease payments is the interest rate implicit in the lease. If there is no interest rate in the lease, the Group's incremental borrowing rate is used.

Share-based payment programs Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period and offset against capital reserves. For cash-settled share-based payment transactions, the fair value of the obligation is newly determined at each reporting date and at the settlement date, and the changes in the fair value are recognized in profit or loss, until the liability is settled.

Retirement benefits MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement, which form a defined benefit plan. The cost of providing benefits is determined using projected unit credit method with actuarial valuation being carried out at the end of each reporting period.

Provisions Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at managements' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. The main provisions the Group holds are in relation to employees' bonuses and other rewards, decommissioning and restoration obligation, tax provisions as well as legal claims.

Provision for decommissioning and restoration The Group calculates a provision for decommissioning and restoration when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group records the present value of provision for decommissioning and restoration as non-current provisions in the consolidated statement of financial position.

Subscriber prepayments The Group requires the majority of its customers to pay in advance for telecommunications services. All amounts received in advance of services provided are recorded as a

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

subscriber prepayment liability and are not recognized as revenues until the related services have been provided to the subscriber.

Treasury stock Shares of common stock repurchased by the Group are recorded at cost as treasury stock and reduce the shareholders' equity in the Group's consolidated financial statements.

Revenue recognition Revenue includes all revenues from the ordinary business activities of the Group. Revenues are measured at the fair value of the consideration received or receivable and recorded net of value-added tax. The Group recognizes revenue when the amount of revenue and related costs can be measured reliably; when it is probable that future economic benefit will flow to the Group; and when specific criteria have been met, as described below.

Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or period of time (monthly subscription fees).

Content revenue is presented net of related costs when the Group acts as an agent of the content providers while gross revenue and related costs are recorded when the Group acts as a primary obligor in the arrangement.

Upfront fees received for connection of new subscribers, installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the estimated average subscriber life, as follows:

Mobile subscribers	8 months - 7 years
Residential wireline voice phone subscribers	15 years
Other fixed line subscribers	3 - 5 years

The Group calculates an average life of mobile subscribers for each region in which it operates and amortizes connection fees based on the average life specific to that region.

Customer incentives Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both trade receivables and service revenue.

The Group regularly provides special incentives to its retail customers. Generally the Group sells mobile devices of worldwide known brands with an offer of free telecommunication services for a time period from one to twelve months. Such arrangements with a customer provide for two deliverables a mobile device delivered immediately and mobile services to be consumed in the future. The consideration received from a customer is allocated between the deliverables based on their standalone value on the market. Revenue on the devices sales is recognized at the moment of their sale, and the revenue on provision of free telecommunication services is deferred and recognized upon consumption by a subscriber.

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Prepaid cards The Group sells prepaid cards to subscribers separately from the handset. Prepaid cards, used as a method of cash collection, are accounted for as subscriber prepayments. These cards allow subscribers to make a predetermined allotment of wireless phone calls and / or take advantage of other services offered by the Group, such as short messages and value-added services. Revenue from the sale of prepaid cards is deferred until the service is rendered to the customer, whereby the customer uses the airtime or the card expires.

Roaming discounts The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Group accounts for discounts received as a reduction of roaming expenses and rebates granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statement of financial position.

Sales and marketing expenses Sales and marketing expenses consist primarily of dealers' commissions and advertising costs. Dealers' commissions are linked to revenues received during the six-month period from the date a new subscriber is activated by a dealer. The Group expenses these costs as incurred.

Netting The Group offsets its financial assets and financial liabilities only if it has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Standards, interpretations and amendments adopted on January 1, 2016

None of the standards, interpretations and amendments adopted by the Group on January 1, 2016 had a significant effect on the Group's consolidated financial statements.

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Standards, interpretations and amendments in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but not yet effective:

Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses[1]
Amendments to IAS 7	Disclosure Initiative[1]
IFRS 9	Financial Instruments[2]
Amendments to IFRS 2	Classification and measurement of Share-based Payment Transactions[2]
IFRS 15	Revenue from contracts with Customers[2]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2]
Amendments to IAS 40)	Transfers of Investment Property[2]
IFRIC 22	Foreign Currency Transactions and advances Consideration
IFRS 16	Leases[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle

(1) Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted

(2) Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted

(3) Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted

(4) Effective date is not currently determined

IFRS 9, *Financial Instruments.* IFRS 9 governs the classification and measurement of financial assets and liabilities, derecognition, impairment and hedge accounting matters. The adoption of these amendments is not expected to have a material impact on the Group's consolidated financial statements.

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

The main effect on the Group's consolidated financial statements from implementation of the new standard will relate to future capitalization and recognition of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period.

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The Group will utilize the option for simplified initial application, so that contracts that are not completed by January 1, 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transaction will be recognized as an adjustment to the opening balance of equity in the year of initial application. Prior period's comparatives will not be restated.

The Group is continuing to analize the effects of the new standard implementation, though a reliable estimate of the quantitative effects will only be possible once the project has been completed.

IFRS 16, Leases. This standard principally requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. Going forward, lessees will therefore no longer required to make the distinction between finance and operating leases. For all leases, the lessee will recognize a lease liability in its statement of financial position for the obligation to make future lease payments. At the same time, the lessee will capitalize a right of use to the underlying asset which is generally equivalent to the present value of the future lease payment plus directly attributable expenditures. The standard also includes new provisions on the definition of a lease and its presentation, on disclosures in the notes, and on sale and leaseback transactions. The Group is currently evaluating the impact of these amendments on the consolidated financial statements, though a reliable estimate of the quantitative effects is not possible at the present time.

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Critical accounting estimates

A critical accounting estimate is an estimate that is both important to the presentation of the Group's financial position and requires management's most difficult, subjective or complex judgments, often as a result of the need to determine estimates and develop assumptions about the outcome of matters that are inherently uncertain.

Management evaluates such estimates on an on-going basis, based upon historical results, historical experience, trends, consultations with experts, forecasts of the future, and other methods which management considers reasonable under the circumstances. Management considers the accounting estimates discussed below to be its critical accounting estimates, and, accordingly, provides an explanation of each.

Depreciation and amortization of non-current assets

Depreciation and amortization expenses are based on management estimates of useful life, residual value and amortization method of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and management views on the trends and pace of

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for the new technologies. Critical estimates in the evaluations of useful lives for intangible assets include, but are not limited to, the estimated average customer relationship based on churn, the remaining license period and the expected developments in technology and markets.

The useful lives of property and equipment and intangible assets are reviewed at least annually, taking into consideration the factors mentioned above and all other important relevant factors. The actual economic lives of intangible assets may be different from useful lives estimated by management, thereby resulting in a different carrying value of intangible assets with finite lives.

The Group continues to evaluate the amortization period for intangible assets with finite lives to determine whether events or circumstances warrant revised amortization periods. A change in estimated useful lives is a change in accounting estimate, and depreciation and amortization charges are adjusted prospectively. See Notes 11 and 14 for further information.

Impairment of non-current assets

The Group has made significant investments in property, plant and equipment, intangible assets, goodwill and other investments.

Pursuant to IAS 36, goodwill and other intangible assets with indefinite useful lives and intangible assets not yet brought into use must be tested for impairment annually or more often if indicators of impairment exist. Other assets are tested for impairment when circumstances indicate that there may be a potential impairment.

Estimating recoverable amounts of assets and CGUs must, in part, be based on management's evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). Changing the assumptions selected by management, in particular, the discount rate and growth rate assumptions used to estimate the recoverable amounts of assets, could significantly impact the Group's impairment evaluation and hence results.

All of the Group's operations are in countries with emerging markets. The political and economic situation in these countries may change rapidly and potentially have a significant impact on these countries.Changing state of the world economy, and increased macroeconomic risks, impact our assessment of cash flow forecasts and the discount rates applied.

There are significant variations between different markets with respect to growth, mobile penetration, Average Revenue Per User ("ARPU"), market share and similar parameters, resulting in differences in operating margins. The future developments of operating margins are important in the Group's impairment assessments, and the long-term estimates of these margins are highly uncertain.

See Notes 12 and 13 for further information about goodwill and impairment test.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 17 for further information.

Provisions and contingencies

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. In addition, significant uncertainty exists in relation of employee bonuses and other rewards, which depend on their individual performance and Group's results. Management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable.

See Note 16 and Note 28 for further information.

4. BUSINESS ACQUISITIONS AND DISPOSALS

Acquisition and disposal in 2016

Acquisition of Smarts-Yoshkar-Ola In September 2016, the Group acquired 100% of the shares of Smarts-Yoshkar-Ola CJSC ("Smarts-Yoshkar-Ola"), operating in the Republic of Mari El and holding rights to use 1800 MHz radio frequencies. The acquisition enhances the Group's spectrum resources in the Republic of Mari El. The acquisition was accounted for using the acquisition method.

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4. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

The following table summarizes the purchase price allocation for SMARTS-Yoshkar-Ola, finalized as of December 31, 2016:

	Smarts-Yoshkar-Ola
Cash	5
Current assets	5
Licenses	323
Other non-current assets	14
Current liabilities	(30)
Non-current liabilities	(69)
Gain on bargain purchase (included in other operating income in the consolidated statement of profit or loss)	(235)
Deferred payment	(3)
Consideration paid in cash	**10**

The consideration paid was initially determined by a contract concluded between the Group and the seller (SMARTS Group) in 2014. To determine the fair value of assets acquired, the Group used comparative prices of the first radio frequencies auction held in Russia in 2015, which gave rise to the recognition of a gain from bargain purchase.

The details on disposal of 50.01% share in LLC "Universal Mobile Systems" are disclosed in Note 26.

Acquisition and disposals in 2015

Acquisition of Stream In December 2015, the Group increased its share in Stream from 45% to 100%, after Sistema Mass Media, subsidiary of Sistema, exchanged ownership of 55% in Stream for rights for its own debt in amount of RUB 561 million and promissory notes of LLC Stream Digital (fully-owned subsidiary of Stream) of RUB 1,089 million due on demand and bearing interest of 9% p.a. In 2016 promissory notes of LLC Stream Digital were returned to the Group as non-cash payment for 49% interest of Rent Nedvizhimost from a subsidiary of Sistema. Stream operates as content aggregator, providing VAS services mainly to the Group. The acquisition was accounted for as a transaction under common control directly in equity.

Acquisition of Nvision Group In the first stage of the transaction, carried in July 2015, the Group has acquired 100% of the shares of SITRONICS Telecom Solutions CJSC, NVision program solutions, NVision Czech Republic a.s. and some smaller subsidiaries of NVision Group, from subsidiaries of Sistema. Through this transaction, the Group has obtained proprietary rights over billing system, exploited by the Group, which will allow reducing time-to-market for new products and billing and IT-related expenses. In December 2015, the Group has completed acquisition of 100% share in the holding company NVision Group JSC ("NVision Group"), from subsidiaries of Sistema. NVision Group is also one of the largest system integrators and complex IT solutions providers in Russia. Total consideration amounted to RUB 11,213 million, including RUB 73 million in notes and RUB 11,140 million in cash. As of December 31, 2016 and 2015 the Group has accounted for

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4. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

indemnification asset in amount of RUB 299 million and RUB 386 million respectively related to tax provisions of acquired companies. The acquisition was accounted for as a transaction under common control directly in equity.

Acquisition of Navigation Information Systems In January 2015, the Group acquired 89.5% of Navigation Information Systems ("NIS") from Sistema for RUB 44 million. NIS is the leading systems integrator for GLONASS satellite projects. The acquisition allows the Group to develop its proprietary technological platform for machine-to-machine solutions. The acquisition was accounted for as a transaction under common control directly in equity.

Disposal of Rent Nedvizhimost In February 2015, the Group sold 51% stake in its wholly-owned subsidiary Rent Nedvizhimost to a subsidiary of Sistema, for RUB 4.3 billion. The Group classified the associated assets and liabilities of the disposal group as held for sale as of December 31, 2014. After the loss of control, the Group applied for its remaining 49% interest the equity method of accounting. Further, in May 2015, the Group sold remaining 49% interest to a subsidiary of Sistema for RUB 4.2 billion. These disposals were accounted for as transactions under common control directly in equity.

The following table summarizes the details of acquisitions of subsidiaries under common control finalized in 2015:

Acquired company	Consideration paid net of cash acquired*	Non cash consideration made	Cash acquired	Assets acquired other than cash	Liabilities assumed
NVision	10,181	73	959	12,861	12,977
NIS	(177)		221	589	1,360
Stream	(558)		558	512	2,065

* As included in consolidated cash flow statement within cash flows from transactions under common control

The following table summarizes the details of disposal of subsidiaries under common control finalized in 2015 (only for part of transaction with loss of control):

Disposed company	Consideration received net of cash disposed*	Non cash consideration received	Cash disposed	Asset disposed other than cash	Liabilities disposed
Rent Nedvizhimost	1,193		157	2,013	316

* As included in consolidated cash flow statement within cash flows from transactions under common control

Disposal of Intellect-Telekom In January 2015, the Group sold its 47.3% equity investment in Intellect Telecom to Sistema for RUB 344 million. The Group classified the investment as held for sale as of December 31, 2014. The disposal was accounted for as a transaction under common control directly in equity.

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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4. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

Acquisitions in 2014

Acquisition of Smarts companies In December 2014 the Group acquired controlling stakes in Penza-GSM, SMARTS-Ivanovo and SMARTS-Ufa, operating in Penza, Ivanovo and the Bashkortostan Republic, respectively. The acquired companies hold rights to use 900 and 1800 MHz radio frequencies. The acquisition enhances the Group's spectrum resources in the above regions. The purchase price comprised of cash consideration and a deferred payment, payable in 18 months after the acquisition date. The acquisition was accounted for using the acquisition method.

In 2015 the Group finalized valuation of assets of Smarts companies and the acquisition date fair value of the assets changed. The following table summarizes the purchase price allocation for Smarts companies:

	Preliminary amounts	Measurement period adjustment	Final amounts	SMARTS-Ivanovo	SMARTS-Ufa	Penza-GSM
Month of acquisition				December	December	December
Region of operations				Central region	Volga region	Volga region
Ownership interest acquired				100%	100%	100%
Property, plant and equipment	358	(182)	176	7	7	162
Licenses	1,460	111	1,571	466	621	484
Customer base	78	86	164			164
Goodwill	1,630	(9)	1,621	101	114	1,406
Other non-current assets	165		165			165
Current assets	125		125	19	8	98
Current liabilities	(683)	3	(680)	(86)	(269)	(325)
Non-current liabilities	(276)	2	(274)	(78)	(81)	(115)
Contingent consideration	(100)		(100)	(2)	(2)	(96)
Consideration paid	**2,757**	**11**	**2,768**	**427**	**398**	**1,943**

Under the terms of purchase agreements the Group is obliged to pay additional consideration of RUB 150 million in 18 months after the acquisition date. The consideration could be reduced by the amount of tax expenses related to activities prior to the acquisition date. As of December 31, 2015 the Group recorded a provision for tax liabilities in the amount of RUB 23 million and respectively reduced the additional consideration. Given the effects of discounting of long-term liability, total liability for additional consideration equaled RUB 115 million as of December 31, 2015. As of December 31, 2016 additional consideration liability was fully settled by the Group.

The excess of the consideration paid over the value of net assets acquired in the amount of RUB 1,621 million was allocated to goodwill which was attributable to the "Russia convergent" segment. Goodwill mainly arised from expected synergies on economies of scale related to operating and capital expenditures.

Licenses acquired are amortized over a period of their remaining useful life of average 15 years. Customer base acquired is amortized over the period of its estimated average useful life of 51 months.

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4. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

Pro forma results of operations The following pro forma financial data for the years ended December 31, 2016, 2015 and 2014 give effect to the business combinations as they had been completed at the beginning of the year.

	2016 (SMARTS-Yoshkar-Ola)	2015 (NVision Group, NIS and Stream)	2014 (SMARTS-Ivanovo, SMARTS-Ufa and Penza-GSM)
Pro forma:			
Net revenues	435,694	434,757	411,375
Net income	48,465	46,887	50,701

The pro forma information is based on various assumptions and estimates. The pro forma information is neither necessarily indicative of the operating results that would have occurred if the Group acquisitions had been consummated as of January 1, 2014, 2015, or 2016, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual results of operations of these companies are included into the consolidated financial statements of the Group only from the respective dates of acquisition.

Since their respective acquisition dates, companies acquired in 2014 contributed revenue in the amount of RUB 3 million and net loss in the amount of RUB 4 million to consolidated statement of profit or loss for the year ended December 31, 2014. Companies acquired in 2015 contributed revenue in the amount of RUB 2,133 million and net loss in the amount of RUB 447 million to consolidated statement of profit or loss for the year ended December 31, 2015. The company acquired in 2016 contributed revenue in the amount of RUB 1 million and net loss in the amount of RUB 15 million to consolidated statement of profit or loss for the year ended December 31, 2016.

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5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2016 and December 31, 2015 comprised the following:

	December 31, 2016	December 31, 2015
Cash and cash equivalents at banks and on hand in:		
Russian rubles	7,657	7,523
US dollars	3,904	4,296
Ukraine hryvna	1,538	1,612
Turkmenian manat	1,252	778
Euro	1,173	4,738
Uzbek som		628
other	394	393
Short-term deposits with an original maturity of less than 92 days:		
Ukraine hryvna	1,990	2,869
Russian rubles	504	2,123
US dollars	50	8,236
Euro		199
other	8	69
Total cash and cash equivalents	**18,470**	**33,464**

There were certain limitations on cash disposition in Ukraine as of December 31, 2016 (for details see Note 28). Cash balances in Ukraine amounted to RUB 3,617 million and RUB 6,612 million as of December 31, 2016 and 2015, respectively.

6. SHORT-TERM INVESTMENTS

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

	Category	December 31, 2016	December 31, 2015
Deposits	Loans and receivables	3,850	42,492
Assets in Sistema-Capital trust management (Notes 17, 21)	Financial asset at fair value through profit or loss	3,721	
Loans	Loans and receivables	1,021	7,082
Notes	Available for sale	65	266
Total short-term investments		**8,657**	**49,840**

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7. INVESTMENTS IN ASSOCIATES

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

	Country of operations	Operating activity	December 31, 2016	December 31, 2015
MTS Belarus	Belarus	telecommunications	4,303	5,407
MTS Bank	Russia	banking	3,592	1,120
Equity investments in other unquoted companies	Russia	e-commerce, digital TV, etc.	2,656	2,772
Total investments in associates			**10,551**	**9,299**

The reconciliation of summarised financial information of MTS-Belarus to the carrying amount of the Group's interest in associate is presented as follows:

	December 31, 2016	December 31, 2015
Assets		
Non-current assets	9,414	11,404
Current assets	6,800	6,153
Liabilities		
Non-current liabilities	(0)	(2)
Current liabilities	(7,433)	(6,519)
Total identifiable net assets	**8,781**	**11,036**
The Group's share in associate	49%	49%
The Group's share of identifiable net assets	4,303	5,407
Carrying amount of the Group's interest	**4,303**	**5,407**

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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7. INVESTMENTS IN ASSOCIATES (Continued)

The Group's share in the profit of MTS Belarus was included in operating share of the profit of associates in the accompanying consolidated statement of profit or loss. The composition of the Group's share of income of MTS Belarus is as follows:

	Year ended December 31,		
	2016	**2015**	**2014**
Revenue	(22,256)	(20,886)	(23,616)
Net profit for the year	(6,356)	(7,054)	(7,057)
The Group's share of the profit of the associate for the year	**(3,115)**	**(3,456)**	**(3,459)**
Other comprehensive loss for the year (currency translation adjustment)	2,292	3,110	-*
Total comprehensive income for the year	(4,064)	(3,944)	(7,057)
The Group's share of total comprehensive income of the associate for the year	**(1,991)**	**(1,933)**	**(3,467)**
Dividends received	**2,795**	**3,269**	**2,650**

* In the year ended December 31, 2014 no currency translation adjustment was accrued in MTS Belarus IFRS financial statements due to hyperinflation accounting requirements.

The reconciliation of summarized financial information of MTS Bank to the carrying amount of the Group's interest in associate is presented below:

	December 31, 2016	December 31, 2015
Total assets	166,594	184,915
Total liabilities	(137,627)	(164,662)
Non-controlling interests	(3,339)	(4,161)
Total identifiable net assets attributable to the Group	**25,628**	**16,092**
The Group's share in associate	26,6%	27%
The Group's share of identifiable net assets	6,817	4,345
Impairment of investment in associate	(3,225)	(3,225)
Carrying amount of the Group's interest	**3,592**	**1,120**

In 2014, an impairment charge of RUB 3,225 million related to the Group's equity investments in MTS Bank was recognized in the non-operating share of the loss of the associates in the accompanying consolidated statement of profit or loss. The impairment reflected the assessment of the development prospects influenced by an economic downturn in Russia. The fair value of equity investment in the amount of RUB 4,857 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 discount rate of 23.3% and average OIBDA (Operating Income Before Depreciation and Amortization) margin of 5%.

No impairment charge was recognized in 2015 and 2016.

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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7. INVESTMENTS IN ASSOCIATES (Continued)

The Group's share in the net losses of MTS Bank was included in the non-operating share of the loss of the associates in the accompanying consolidated statement of profit or loss. The composition of the Group's share of loss of MTS Bank is as follows:

	Year ended December 31,		
	2016	**2015**	**2014**
Total interest income	(16,555)	(20,455)	(25,107)
Total interest expense	8,364	9,691	9,868
Net loss for the year	4,495	15,371	12,585
The Group's share of the loss of the associate for the year	**1,179**	**4,078**	**3,108**
Other comprehensive loss / (income) for the year	1,614	(1,251)	(3,611)
Total comprehensive loss for the year	6,109	14,120	8,974
The Group's share of the total comprehensive loss for the year	**1,608**	**3,737**	**2,410**

In February 2016, MTS Bank placed 3,588,304 additional ordinary shares. The Group acquired 946,347 shares in the placement for a total consideration of RUB 1,325 million. As the result of the transaction, the Group's share in MTS Bank decreased from 27.0% to 26.8%.

In November 2016, MTS Bank placed 10,000,000 additional ordinary shares. The Group acquired 2,637,310 shares in the placement for a total consideration of RUB 2,769 million. As the result of the transaction, the Group's share in MTS Bank decreased from 26.8% to 26.6%.

The Group also has interests in a number of individually immaterial associates. For one of these associates, OZON Holdings Limited, the Group owns less than 20% of the equity interests, however, the Group has determined that it has significant influence based on direct and indirect ownership of equity shares, representation on the investee's Board of Directors and certain veto rights related to matters intersecting with the Group's interests.

In December 2013, the Group sold a 51% stake in Business-Nedvizhimost CJSC to Sistema for RUB 3.2 billion. Business-Nedvizhimost owned and managed 76 real estate sites and 44 real estate facilities throughout Moscow with a total area of roughly 178,000 sq. m. After the loss of control over the subsidiary, the Group deconsolidated Business-Nedvizhimost and applied for its 49% interest the equity method of accounting. In April 2014, the Group sold the remaining 49% stake to Sistema for RUB 3.1 billion. The disposal was accounted for as a transaction under common control directly in equity.

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7. INVESTMENTS IN ASSOCIATES (Continued)

The following table is the aggregate financial information of investments in the other individually immaterial associates, held by the Group:

	Year ended December 31,		
	2016	**2015**	**2014**
Net loss/(profit) for the year	1,172	(1,079)	2,047
The Group's share of the loss/(profit) of the associate for the year	**108**	**(297)**	**205**
Other comprehensive income for the year			(2,175)
Total comprehensive loss/(income) for the year	1,172	(1,079)	(128)
The Group's share of total comprehensive loss/(income) of the associate for the year	**108**	**(297)**	**(32)**

8. OTHER INVESTMENTS

The Group's other investments comprised the following:

	Category	**December 31, 2016**	**December 31, 2015**
Deposits	Loans and receivables	27,056	30,677
Loans/Unquoted Notes	Loans and receivables	8,004	2,787
Other		1,259	1,203
Total other investments		**36,319**	**34,667**

In December 2010, the Group granted a $90.0 million (RUB 2,777 million at the date of transaction) loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche, the holders of a 20% noncontrolling stake in K-Telecom, the Group's subsidiary in Armenia. Simultaneously, the Group signed an amendment to the put and call option agreement for the acquisition of noncontrolling stake. According to the amendment, the call exercise price shall be reduced by deducting any outstanding balance on the loan amount and all accrued and unpaid interest and any other sums due and outstanding under the loan agreement at the time of exercise (Note 27). Also loan was prolonged to December 31, 2018 according to amendment concluded in December 2016 to loan agreement. The amount of loan and related interest included in other investments as of December 31, 2016 totaled to RUB 5,802 million and in short-term investments as of December 31, 2015 and January 1, 2015 totaled to RUB 6,775 million and RUB 5,533 million, respectively.

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9. TRADE AND OTHER RECEIVABLES

Trade and other receivables as of December 31, 2016 and December 31, 2015 comprised the following:

	December 31, 2016	December 31, 2015
Subscribers	11,360	12,412
Roaming	8,083	11,807
Dealers	2,723	2,084
Interconnect	2,517	3,195
Other trade receivables	4,805	6,118
Other receivables	2,477	1,854
Allowance for doubtful accounts	(2,160)	(2,928)
Trade and other receivables	**29,805**	**34,542**

The analysis of the age of trade and other accounts receivables that are past due as at December 31, 2016 and December 31, 2015 but not impaired:

	December 31, 2016	December 31, 2015
Neither past due nor impaired	24,100	29,095
Past due, but not impaired:		
Less than 60 days	3,225	2,710
61-150 days	1,205	1,203
More than 150 days	1,275	1,534
Total	**29,805**	**34,542**

The following table summarizes changes in the allowance for doubtful accounts receivable 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
Balance, beginning of the year	(2,928)	(2,166)	(3,754)
Allowance for doubtful accounts	(2,863)	(3,269)	(3,060)
Accounts receivable written off	3,459	2,507	4,648
Disposal of subsidiary	172		
Balance, end of the year	**(2,160)**	**(2,928)**	**(2,166)**

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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10. INVENTORIES

Inventory and spare parts as of December 31, 2016 and December 31, 2015 comprised the following:

	December 31, 2016	December 31, 2015
Handsets and accessories	11,597	11,861
SIM cards and prepaid phone cards	1,165	400
Software and equipment for installation and resale	703	927
TV equipment for resale	320	527
Advertising and other materials	280	508
Spare parts for telecommunication equipment	265	287
Total inventory and spare parts	**14,330**	**14,510**

Other materials mainly consist of stationery, fuel and auxiliary materials.

Spare parts for base stations included in inventory are expected to be utilized within twelve months of the year end.

Expenses for inventory obsolescence provision were included in cost of goods in the consolidated statement of profit or loss.

For the years ended December 31, 2016, 2015 and 2014, cost of goods comprised the following expenses:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Amount of inventories recognized as an expense	44,026	36,568	25,852
Inventory obsolescence provision	2,159	865	356
Reversal of obsolescence provision	(611)	(878)	(763)
Total cost of goods	**45,574**	**36,555**	**25,445**

The reversal of the inventory obsolescence provision relates to handsets and accessories sold in the course of the Group's promotion campaigns. Inventories have been sold with positive margin.

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11. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2016, December 31, 2015 and January 1, 2015 was as follows:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
Cost					
January 1, 2015	**498,575**	**25,867**	**48,322**	**44,074**	**616,838**
Additions	4,319	540	317	59,794	64,970
Put into use	68,661	1,042	4,590	(74,293)	
Arising on business combinations	(164)	1,414	1,687	(48)	2,889
Transfer to assets held for sale	(1,059)	(2)	(6)		(1,067)
Disposal	(23,667)	(1,680)	(5,192)	(587)	(31,126)
Other	(437)	(84)	124	57	(340)
Foreign exchange differences	(3,698)	224	(150)	(31)	(3,655)
December 31, 2015	**542,530**	**27,321**	**49,692**	**28,966**	**648,509**
Additions	1,350	32		47,340	48,722
Put into use	47,894	1,550	5,278	(54,722)	
Disposal of UMS	(4,152)	(1,309)	(452)	(2,444)	(8,357)
Transfer to assets held for sale	(1,557)		(5)		(1,562)
Disposal	(20,321)	(426)	(3,201)	(374)	(24,322)
Other	(118)	(200)	269	55	6
Foreign exchange differences	(17,568)	(1,525)	(2,331)	(1,455)	(22,879)
December 31, 2016	**548,058**	**25,443**	**49,250**	**17,366**	**640,117**
Accumulated amortisation and impairment					
January 1, 2015	**(274,372)**	**(6,957)**	**(36,486)**		**(317,815)**
Charge for the year	(51,967)	(930)	(5,385)		(58,282)
Arising on business combinations		(1,015)	(1,438)		(2,453)
Transfer to assets held for sale	490	1	3		494
Disposal	21,269	1,623	5,068		27,960
Other	(109)	7	230		128
Foreign exchange differences	4,180	(184)	125		4,121
December 31, 2015	**(300,509)**	**(7,455)**	**(37,883)**		**(345,847)**
Charge for the year	(53,371)	(1,262)	(5,323)		(59,956)
Disposal of UMS	1,121	62	214		1,397
Transfer to assets held for sale	846		5		851
Disposal	19,126	134	2,768		22,028

Other	(222)	(182)	227		(177)
Foreign exchange differences	12,061	551	1,816		14,428
December 31, 2016	**(320,948)**	**(8,152)**	**(38,176)**		**(367,276)**
Net book value					
January 1, 2015	**224,203**	**18,910**	**11,836**	**44,074**	**299,023**
December 31, 2015	**242,021**	**19,866**	**11,809**	**28,966**	**302,662**
December 31, 2016	**227,110**	**17,291**	**11,074**	**17,366**	**272,841**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Charge of amortization for 2014 year for Network and base station equipment, Landing and buildings and Office equipment, vehicles and other was RUB 51,155 million, RUB 887 million and RUB 6,781 million, respectively.

The amount of the compensation from third parties for items of property, plant and equipment that were accidentally damaged during construction in Moscow for the years ended December 31, 2016, 2015 and 2014 totaled RUB 1,350 million, RUB 1,010 million and RUB 571 million, respectively, and was included in the accompanying consolidated statements of profit or loss as component of other operating income.

12. GOODWILL

The change in the net carrying amount of goodwill for the years ended December 31, 2016 and 2015 by operating segments was as follows:

	Russia convergent	Moscow fixed line	Ukraine	Armenia	Total
Balance at January 1, 2015					
Gross amount of goodwill	30,275	1,083	151	6,268	37,777
Accumulated impairment loss	(1,466)				(1,466)
	28,809	**1,083**	**151**	**6,268**	**36,311**
Measurement period adjustments (Note 4)	(9)				(9)
Impairment loss				(3,516)	(3,516)
Currency translation adjustment			(22)	1,704	1,682
Balance at December 31, 2015					
Gross amount of goodwill	30,266	1,083	129	7,972	39,450
Accumulated impairment loss	(1,466)			(3,516)	(4,982)
	28,800	**1,083**	**129**	**4,456**	**34,468**
Currency translation adjustment			(34)	(749)	(783)
Balance at December 31, 2016					
Gross amount of goodwill	30,266	1,083	95	7,223	38,667
Accumulated impairment loss	(1,466)			(3,516)	(4,982)
	28,800	1,083	95	3,707	33,685

13. IMPAIRMENT REVIEW

Management of the Group performs impairment tests for the goodwill assigned to the cash-generating units at least annually and when there are any indications that the carrying amount of the cash-generating unit ("CGU") is impaired.

When reviewing for indicators of impairment management of the Group considers, among other factors, the relationship between its market capitalization and book value, changes in country risk premiums and other.

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13. IMPAIRMENT REVIEW (Continued)

When the carrying amount of the cash generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash generating unit must be impaired.

The recoverable amounts of the CGUs are determined based on their value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

Future cash flows calculations are based on a five-year operations plan, which is prepared and approved by the management of the Group. Estimation of future cash flows requires assumptions to be made in respect of uncertain factors, including management's expectations of the following: OIBDA margin, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks involved.

During the year ended December 31, 2016 no impairment charges were recorded in respect of the Group's goodwill balances.

As a result of impairment test as of December 31, 2015 impairment charges of RUB 3.5 billion were recorded in a separate line item within operating profit in the consolidated statement of profit or loss in respect of the Group's investment in operating segment "Armenia". The impairment charges relate solely to goodwill. The impairment reflects the decrease of interconnect traffic and related revenue due to dramatic growth of prices for international calling from Russia to Armenia. The recoverable amount of CGU "Armenia" was RUB 18.5 billion as of 31, December 2015.

During the year ended December 31, 2014 no impairment charges were recorded in respect of the Group's goodwill balances.

Key assumptions used for value in use calculation:

OIBDA margin and capital expenditures were primarily derived from internal sources, were based on past experience and extended to include management expectations.

The table below presents OIBDA margin utilized for value in use calculation of related CGUs:

CGU	December 31, 2016	December 31, 2015
Russia convergent	34.6% - 37.0%	32.3% - 34.9%
Armenia	42.0% - 45.0%	44.7% - 46.1%
Moscow fixed line	42.2% - 51.0%	48.2% - 53.4%
Ukraine	40.6% - 46.5%	35.4% - 41.3%

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13. IMPAIRMENT REVIEW (Continued)

The table below presents capital expenditure as a percentage of revenue utilized for value in use calculation of related CGUs:

CGU	December 31, 2016	December 31, 2015
Russia convergent	18.8%	17.6%
Armenia	11.9%	12.0%
Moscow fixed line	17.5%	15.0%
Ukraine	19.9%	24.4%

The terminal growth rate into perpetuity has been determined based on the nominal gross domestic product rates for the country of operation, adjusted for specific characteristic of the CGUs business.

The table below presents terminal growth rate utilized for value in use calculation of related CGUs:

CGU	December 31, 2016	December 31, 2015
Russia convergent	1%	1%
Armenia	nil	nil
Moscow fixed line	1%	1%
Ukraine	3%	3%

The discount rate, applied to measure free cash flow is the weighted average cost of capital according to the finance structure established for each CGU.

The table below presents pre-tax rates for discounting of cash flows in functional currencies of related CGUs:

CGU	December 31, 2016	December 31, 2015
Russia convergent	15.1%	13.9%
Armenia	15.5%	17.7%
Moscow fixed line	13.7%	18.4%
Ukraine	21.6%	26.6%

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount.

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14. OTHER INTANGIBLE ASSETS

Net book value of other intangible assets as at December 31, 2016, December 31, 2015 and January 1, 2015 was as follows:

	Licenses	Right to use radio frequencies	Billing and other software	Client base	Numbering capacity	Other	Total
Useful life, years	***1 to 20***	***1 to 15***	***1 to 25***	***4 to 31***	***2 to 15***	***1 to 10***	
Cost							
January 1, 2015	**13,278**	**8,294**	**91,367**	**8,679**	**3,763**	**9,033**	**134,414**
Additions	11,705	1,262	20,624		107	53	33,751
Arising on business combinations	111		779	86		368	1,344
Disposal	(1)	(268)	(18,888)	(1,228)	(619)	(240)	(21,244)
Other	(73)	38	(376)		(14)	(115)	(540)
Foreign exchange differences	3,470		(372)		(29)	668	3,737
December 31, 2015	**28,490**	**9,326**	**93,134**	**7,537**	**3,208**	**9,767**	**151,462**
Additions	3,382	245	27,658		65	232	31,582
Arising on business combinations (Note 4)	323						323
Disposal of UMS			(1,891)			(3,687)	(5,578)
Disposal	(2)	(582)	(10,509)	(164)	(160)	(2,842)	(14,259)
Other	44	(40)	(87)		(4)	(40)	(127)
Foreign exchange differences	(5,101)		(3,763)		(39)	(1,187)	(10,090)
December 31, 2016	**27,136**	**8,949**	**104,542**	**7,373**	**3,070**	**2,243**	**153,313**
Accumulated amortisation and impairment							
January 1, 2015	**(7,245)**	**(3,317)**	**(52,422)**	**(4,155)**	**(3,524)**	**(1,542)**	**(72,205)**
Charge for the year	(1,447)	(1,202)	(16,933)	(692)	(147)	(3,770)	(24,191)
Arising on business combinations			(424)			(188)	(612)
Disposal	1	268	18,528	1,228	619	158	20,802
Other	64	(10)	(172)		28	99	9
Foreign exchange differences	(1,246)		866		28	(317)	(669)
December 31, 2015	**(9,873)**	**(4,261)**	**(50,557)**	**(3,619)**	**(2,996)**	**(5,560)**	**(76,866)**
Charge for the year	(2,092)	(1,170)	(18,002)	(620)	(46)	(1,389)	(23,319)
Disposal of UMS			494			2,162	2,656
Disposal	2	582	10,193	164	160	2,836	13,937
Other	(7)	20	43		(13)	(42)	1
Foreign exchange differences	2,007		2,697		34	668	5,406
December 31, 2016	**(9,963)**	**(4,829)**	**(55,132)**	**(4,075)**	**(2,861)**	**(1,325)**	**(78,185)**

Net book value							
January 1, 2015	**6,033**	**4,977**	**38,945**	**4,524**	**239**	**7,491**	**62,209**
December 31, 2015	**18,617**	**5,065**	**42,577**	**3,918**	**212**	**4,207**	**74,596**
December 31, 2016	**17,173**	**4,120**	**49,410**	**3,298**	**209**	**918**	**75,128**

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14. OTHER INTANGIBLE ASSETS (Continued)

Charge of amortization for 2014 year for Licenses, Right to use radio frequencies, Billing and other software, Client base, Numbering capacity and Other was RUB 809 million, RUB 991 million, RUB 12,729 million, RUB 689 million, RUB 713 million and RUB 268 million, respectively.

In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group has been granted access to various telecommunication licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local communication authorities.

Operating licenses contain a number of requirements and conditions specified by legislation. The requirements generally include the targets for start date of service, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

The Group's operating licenses do not provide for automatic renewal. All licenses covering the territories of the Russian Federation expired as of December 31, 2016 were renewed. The cost to renew the licenses was not significant. Weighted-average period until the next renewal of licenses in the Russian Federation is five years.

The license for the provision of telecommunication services in Ukraine was renewed in 2013 and is valid until 2026. The license for the provision of telecommunication services in Armenia is valid until 2019. The license for the provision of telecommunication services in Turkmenistan is valid until 2029.

Contractual obligations to purchase intangible assets are disclosed in the Note 28.

15. BORROWINGS

The Group's borrowings comprise the following:

	December 31, 2016	December 31, 2015
Notes	78,186	100,034
Bank and other loans	195,088	234,040
Finance lease obligations	11,046	11,795
Total borrowings	**284,320**	**345,869**
Less: current portion	(47,207)	(53,701)
Total borrowings, non-current	**237,113**	**292,168**

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15. BORROWINGS (Continued)

Notes The Group's Notes consisted of the following:

	Currency	Interest rate (actual at December 31, 2016)	December 31, 2016	December 31, 2015
MTS International Notes due 2023 (Note 2)	USD	5.00%	28,218	33,908
MTS International Notes due 2020 (Note 2)	USD	8.625%	18,537	42,238
MTS PJSC Notes due 2017	RUB	8.70%	9,995	9,990
MTS PJSC Notes due 2031	RUB	9.40%	9,986	
MTS PJSC Notes due 2023	RUB	8.25%	9,984	9,971
MTS PJSC Notes due 2020	RUB	9.25%	1,448	2,110
MTS PJSC Notes due 2016	RUB	8.75%		1,788
Other Notes due 2015-2022	RUB	0.25% - 10%	18	29
Total notes			**78,186**	**100,034**
Less: current portion			(11,389)	(3,855)
Total notes, non-current			**66,797**	**96,179**

The Group has an unconditional obligation to repurchase certain MTS PJSC Notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are as follows:

MTS PJSC Notes due 2020	November 2017
MTS PJSC Notes due 2023	March 2018
MTS PJSC Notes due 2031	August 2018

The Group discloses these notes as maturing in 2017 (MTS PJSC Notes due 2020) and in 2018 (MTS PJSC Notes due 2023; MTS PJSC Notes due 2031) in the aggregated maturities schedule as the noteholders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons.

In November 2016, the Group changed the coupon rate for MTS PJSC Notes due 2020 from 10.75% to 9.25%. Following the announcement of new coupon rates the Group repurchased MTS PJSC Notes due 2020 at the request of eligible noteholders in the amount of RUB 662 million.

As of December 31, 2016 the Group had the following outstanding repurchase transactions with a due date on January 09, 2017:

	No of Notes	Due amount	Unrealized premium	Total
MTS PJSC Notes due 2018	2,777,440	2,588		2,588
				2,588

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15. BORROWINGS (Continued)

As of December 31, 2015 the Group had the following outstanding repurchase transactions with a due date on January 11, 2016:

	No of Notes	Due amount	Unrealized premium	Total
MTS PJSC Notes due 2018	223,799	200		200
MTS PJSC Notes due 2016	5,203,825	4,921	(3)	4,918
MTS PJSC Notes due 2020	5,290,322	4,885		4,885
				10,003

The above balances are included in the short-term portion of bank loans and other debt disclosed below.

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15. BORROWINGS (Continued)

Bank and other loans The Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at December 31, 2016)	December 31, 2016	December 31, 2015
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2017 - 2020	LIBOR + 1.15% (2.468%)	25,394	39,449
Citibank	2017 - 2024	LIBOR + 0.9% (2.218%)	12,812	17,511
Skandinavska Enskilda Banken AB	2017	LIBOR + 0.23% 1.8% (1.543% 3.118%)	1,163	3,939
			39,369	**60,899**
EUR-denominated:				
Credit Agricole Corporate Bank and BNP Paribas	2017 - 2018	EURIBOR + 1.65% (1.43%)	876	1,639
LBBW	2017	EURIBOR + 1.52% (1.30%)	296	737
			1,172	**2,376**
RUB-denominated:				
Sberbank	2017 - 2021	8.45% Central Bank key rate + 0.90% (10.90%)	144,813	154,660
Gasprombank	2017	10.9%	4,000	
Notes in REPO	2017	10.24% 10.39%	2,588	10,003
Citibank	2017	9.9%	2,400	
Other	2017 - 2025	Various	533	1,409
			154,334	**166,072**
Other currencies:				
Various financial institutions	2017 - 2020	Various	213	4,693
			213	**4,693**
Total bank and other loans			**195,088**	**234,040**
Less: current portion			(35,188)	(49,282)
Total bank and other loans, non-current			**159,900**	**184,758**

Compliance with covenants Bank loans and notes of the Group are subject to certain covenants limiting the Group's ability to incur debt, carry on transactions with related parties, create liens on

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15. BORROWINGS (Continued)

properties, dispose assets, including GSM and 3G licenses for several license areas, issue guaranties, grant loans to employees and entities, delist notes, delay coupon payments, merge or consolidate MTS PJSC with another entity or be a subject to a court decision to pay over $75 million (RUB 4,549 million as of the reporting date), which remains unsatisfied for more than 60 days without being appealed, discharged or waived.

The Group is required to comply with certain financial ratios and maintain ownership in certain subsidiaries.

The noteholders of MTS International Notes due 2020 and MTS International Notes due 2023 have the right to require the Group to redeem the notes at 101% of their principal amount and related interest, if the Group experiences a change in control.

If the Group fails to meet these covenants, after certain notice and cure periods, the debtholders are entitled to accelerate the repayment of the debt.

The Group was in compliance with all existing notes and bank loans covenants as of December 31, 2016.

Available credit facilities As of December 31, 2016, the Group's total available unused credit facilities amounted to RUB 40,858 million and related to the following credit lines:

	Currency	Maturity	Interest rate	Available till	Available amount
Sberbank	RUB	To be agreed	Central Bank key rate + max.5.00%	June 2019	15,000
Gasprombank	EUR	2021	CBR[1] auction rate + 0.6%	Sep 2017	6,381
China Development Bank	USD	2022	6M Libor + 3.25%	May 2017	6,065
China Development Bank	CNY	2022	6M Shibor + 3.52%	May 2017	5,412
Rosselhozbank	RUB/USD/EUR	31 days	To be agreed	November 2017	5,000
Absolut Bank	RUB	2019	CBR[(1)] auction rate + 1.25% 1.8%	December 2019	3,000
Total					**40,858**

(1)
CBR Central Bank of Russia

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

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15. BORROWINGS (Continued)

The following table presents the aggregated scheduled maturities of principal on notes and bank loans (gross of debt issuance costs) outstanding for the five years ending December 31, 2021 and thereafter:

	As of December 31, 2016	
	Notes	Bank loans and other debt
Payments due in the year ending December 31,		
2017	11,448	35,632
2018	20,006	46,927
2019		69,963
2020	18,614	23,396
2021	12	15,844
Thereafter	28,301	4,620
Total	**78,381**	**196,382**
Less: unamortized debt issuance costs	(195)	(1,294)
Total debt	**78,186**	**195,088**

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

	December 31, 2016	December 31, 2015
Network and base station equipment	6,906	6,352
Office equipment, vehicles and other	66	54
Leased assets, net	**6,972**	**6,406**

Additions under finance lease agreements for the years ended December 31, 2016, 2015 and 2014 amounted to RUB 1,117 million, RUB 1,735 million and RUB 6,228 million respectively. Depreciation of the assets under finance leases for the year ended December 31, 2016, 2015 and 2014 amounted to RUB 603 million, RUB 554 million and RUB 509 million, respectively, and was included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss.

Interest expense accrued on finance lease obligations for the year ended December 31, 2016, 2015 and 2014 amounted to RUB 855 million, RUB 756 million and RUB 370 million, respectively, and was included in finance costs in the accompanying consolidated statement of profit or loss.

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15. BORROWINGS (Continued)

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

	December 31, 2016	December 31, 2015
Minimum lease payments, including:		
Current portion (less than 1 year)	1,432	1,366
More than 1 to 5 years	6,079	6,243
Over 5 years	11,061	11,022
Total minimum lease payments	**18,572**	**18,631**
Less amount representing interest	(7,526)	(6,836)
Present value of net minimum lease payments, including:		
Current portion (less than 1 year)	630	564
More than 1 to 5 years	3,055	3,334
Over 5 years	7,361	7,897
Total present value of net minimum lease payments	**11,046**	**11,795**
Less current portion of lease obligations	(630)	(564)
Non-current portion of lease obligations	**10,416**	**11,231**

Leased assets include transponders which are installed on a satellite and used for provision of satellite television services, network equipment and automobiles. The lease term of the transponders is twelve years. The lease term of network equipment is fifteen years. The average lease term of the automobiles is three years. The Group has an obligation to purchase these automobiles under the respective finance lease agreements at the end of the lease term.

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16. PROVISIONS

The following table summarizes the movement in provisions for the year ended December 31, 2016, 2015 and 2014:

	Tax provisions other than for income tax	Provision for decommissioning and restoration	Employee bonuses and other rewards	Other provisions	Total provisions
At 1 January 2014	**(2,388)**	**(2,970)**	**(6,611)**	**(35)**	**(12,004)**
Current 2014	(2,388)		(5,046)	(35)	(7,469)
Non-current 2014		(2,970)	(1,565)		(4,535)
Arising during the year	(745)	(123)	(9,571)	(9)	(10,448)
Utilised		22	7,822	12	7,856
Discount rate adjustment and imputed interest (change in estimates)		1,355	278		1,633
Unused amounts reversed	159	47	1,252	25	1,483
Translation adjustments and other		29	(71)		(42)
At 31 December 2014	**(2,974)**	**(1,640)**	**(6,901)**	**(7)**	**(11,522)**
Current 2014	(2,974)		(5,703)	(7)	(8,684)
Non-current 2014		(1,640)	(1,198)		(2,838)
At 1 January 2015	**(2,974)**	**(1,640)**	**(6,901)**	**(7)**	**(11,522)**
Arising during the year	(481)	(107)	(10,478)	(27)	(11,093)
Utilised	24		8,706	7	8,737
Discount rate adjustment and imputed interest (change in estimates)		256	87		343
Unused amounts reversed	2,951	25	846	6	3,828
Arising due to subsidiary purchase	(15)		(456)	(186)	(657)
Translation adjustments and other	(30)	7	(41)		(64)
At 31 December 2015	**(525)**	**(1,459)**	**(8,237)**	**(207)**	**(10,428)**
Current 2015	(525)		(7,131)	(207)	(7,863)
Non-current 2015		(1,459)	(1,106)		(2,565)
At 1 January 2016					

	(525)	**(1,459)**	**(8,237)**	**(207)**	**(10,428)**
Arising during the year	(1,058)	(45)	(14,085)	(275)	(15,463)
Utilised	374	8	12,482	223	13,087
Discount rate adjustment and imputed interest (change in estimates)		(142)	(51)		(193)
Unused amounts reversed	742	430	1,096	34	2,302
Disposal of a subsidiary			91		91
Translation adjustments and other	10	17	152		179
At 31 December 2016	**(457)**	**(1,191)**	**(8,552)**	**(225)**	**(10,425)**
Current 2016	(457)		(7,393)	(225)	(8,075)
Non-current 2016		(1,191)	(1,159)		(2,350)

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17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

	December 31, 2016	December 31, 2015
Trade and other receivables (Note 9)	**29,805**	**34,542**
Accounts receivable, related parties (Note 21)	**8,094**	**9,661**
Cash and Cash equivalents (Note 5)	**18,470**	**33,464**
Other financial assets:		
Financial assets at fair value through profit or loss:		
Assets in Sistema-Capital trust management	3,721	
Total financial assets at fair value through profit and loss	**3,721**	
Financial assets at fair value through OCI:		
Notes	65	266
Cross-currency swap designated as cash flow hedge	13,632	25,027
Total financial assets at fair value through OCI	**13,697**	**25,293**
Loans and receivables:		
Bank deposits	30,906	73,169
Loans and receivables	8,221	9,341
Notes	804	528
Other	1,504	1,379
Total loans and receivables	**41,435**	**84,417**
Total other financial assets	**58,853**	**109,710**
Total financial assets	115,222	187,377
Total current financial assets	(61,333)	(124,172)
Total non-current financial assets	**53,889**	**63,205**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

Financial liabilities

	December 31, 2016	December 31, 2015
Trade and other payables	**41,473**	**57,756**
Accounts payable, related parties (Note 21)	**1,014**	**1,809**
Financial liabilities at amortised cost:		
Loans and borrowings:		
Notes	78,186	100,034
Bank and other loans	195,088	234,040
Finance lease obligations	11,046	11,795
Total loans and borrowings	**284,320**	**345,869**
Guarantee payment received	2,907	6,853
Total financial liabilities at amortized cost	**287,227**	**352,722**
Other financial liabilities at fair value:		
Financial liabilities at fair value through profit or loss:		
Deliverable currency forward not designated as hedge	142	
Liability under put option agreement (Note 27)	2,243	2,925
Total financial liabilities at fair value through profit and loss	**2,385**	**2,925**
Financial liabilities at fair value through OCI:		
Interest rate swaps designated as cash flow hedges	531	676
Total financial liabilities at fair value through OCI	**531**	**676**
Total other financial liabilities at fair value	**2,916**	**3,601**
Total financial liabilities	332,630	415,888
Total current financial liabilities	(92,743)	(123,044)
Total non-current financial liabilities	**239,887**	**292,844**

Group financial liabilities are represented by trade and other payables, notes and bank loans. The main purpose of these financial liabilities is to finance the Group's operations and capital expenditures. The Group's principal financial assets include loans and investments, trade and other receivables, cash and deposits.

The Group accounts for its financial assets and liabilities at amortized cost, except for derivative instruments, marketable securities, assets in Sistema-Capital trust management and liability under put option agreement, which are accounted for at fair value.

In May 2016, the Group entered into a trust agreement with the asset management company Sistema-Capital, a subsidiary of Sistema. The main purpose of the agreement is short-term profit-taking from operations with securities.

The fair value measurement of the Group's derivative instruments and investments in Sistema-Capital trust management is based on the observable yield curves for similar instruments and represents

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17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

the estimated amount the Group would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, foreign exchange spot and forward rates.

The table below presents the fair value of financial instruments:

	Level of inputs	December 31, 2016	December 31, 2015
Assets			
Sistema Notes due in 2016 (series 04) (related party) (Notes 6, 21)	Level 1		191
Sistema International Funding S.A. Bonds due in 2019 (related party) (Note 6, 21)	Level 1	65	75
Derivative instruments	Level 2	13,632	25,027
Cross-currency interest rate swap		*13,632*	*25,027*
Assets in Sistema-Capital trust management (related party) (Note 6, 21)	Level 2	3,721	
Liabilities			
Derivative instruments	Level 2	(673)	(676)
Interest rate swap		*(531)*	*(676)*
Deliverable currency forward		*(142)*	
Liability under put option agreement	Level 3	(2,243)	(2,925)
Contingent consideration	Level 3	(3)	(115)

For the years ended December 31, 2016, 2015 and 2014, net realized gains and losses of Level 3 liabilities resulting from fair value measurements amounted to RUB 199 million gain, RUB 1,014 million gain and RUB 260 million loss, respectively and were recognized as a part of change in fair value of financial instruments' in consolidated statement of profit or loss. No unrealized gains or losses of Level 3 liabilities resulted from fair value measurements were recognized during the years ended December 31, 2016, 2015 and 2014.

For the year ended December 31, 2016, 2015 and 2014, net realized gains and losses of Level 1 liabilities resulted from fair value measurements amounted to nil, nil and RUB 165 million gain, respectively.

The liability under put option agreement is measured at fair value using a discounted cash flow technique. The most significant quantitative inputs used to measure the fair value of the liability under put option agreement are presented in the table below:

Unobservable inputs	December 31, 2016	December 31, 2015
Post-tax discount rate	13%	15%
Revenue growth rate	(0.9) - (2.9)% (av. 1.8%)	(1.6) - (4.6)% (av. 2.2%)
OIBDA margin	42.0 - 45.0% (av. 43.5%)	44.7 - 46.1% (av. 45.4%)

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17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

The carrying value of the Group's financial instruments accounted for at amortized cost approximates their fair value due to their short-term nature and market interest rates, except for borrowings, gross of debt issuance cost, as disclosed in the table below:

		December 31, 2016		December 31, 2015	
	Level of inputs	Fair value	Carrying value	Fair value	Carrying value
Notes (Note 15)	Level 1	(81,462)	(78,381)	(99,704)	(100,269)
Bank and other loans	Level 3	(199,131)	(196,382)	(228,702)	(235,947)
		(280,593)	**(274,763)**	**(328,406)**	**(336,216)**

The fair value of the Group's bank and other loans is measured using a discounted cash flow technique. The discount rate used in the discounted cash flow analysis is determined on the base of the market rate for bank loans available to the Group.

While management has used available market information in estimating the fair value of its financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

There were no transfers between levels of inputs within the hierarchy during the years ended December 31, 2016, 2015 and 2014.

There were no transfers between the accounting categories of financial instruments during the years ended December 31, 2016, 2015 and 2014.

18. FINANCIAL RISK MANAGEMENT

As part of its business the Group is exposed to several types of financial risks: market risks, credit (or counterparty) risks, and liquidity risks. Risks mitigating activities are mainly performed at the Group headquarters by the corporate finance personnel and are subject to the approval of the Group's supervisory bodies Board of Directors and Budget committee.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is primarily exposed to the following types of market risks: interest rate risk and currency exchange rates fluctuations. Financial instruments affected by market risk include loans and borrowings, deposits, and derivative financial instruments. The sensitivity analyses in the following sections relate to the financial position as of December 31, 2016, 2015 and 2014.

Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

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18. FINANCIAL RISK MANAGEMENT (Continued)

Variable interest rate

Group's bank loans denominated in US dollars and Euros primarily bear floating interest rate. To eliminate the exposure of changes in variable interest rates related to its debt obligations, the Group enters into variable-to-fixed interest rate swap agreements, so that interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective cash flow hedges. In aggregate the Group entered into variable-to-fixed interest rate swap agreements designated to manage the exposure of changes in variable interest rates related to 28.6% and 32.6% of the Group's bank loans with variable rates outstanding as of December 31, 2016 and 2015, respectively.

Fixed interest rate risk

Group's Notes and bank loans denominated in rubles bear primarily fixed interest rates. To eliminate the exposure of changes in value of debt obligations, the Group enters into fixed-to-variable interest rate swap agreements. In aggregate the Group entered into fixed-to-variable interest rate swap agreements designated to manage the exposure of changes in value of the debt related to 12.9% and 12.9% of the Group's Notes and bank loans with fixed rates outstanding as of December 31, 2016 and 2015, respectively.

The notionals related to interest rate derivative instruments amounted to RUB 49,451 million and RUB 67,338 million as of December 31, 2016 and 2015, respectively.

Sensitivity analysis

A reasonably possible increase of 100 basis points in short term interest rates would have resulted in RUB 704 million, RUB 933 million and RUB 264 million future increases of interest expense for the years ended December 31, 2016, 2015 and 2014, respectively. The same decrease in short term interest rates would have resulted in RUB 704 million, RUB 933 million and RUB 233 million future decreases of finance cost for the years ended December 31, 2016, 2015 and 2014, respectively. There will be no material impact on equity.

The interest rate sensitivity analysis was performed based on a constant position of fixed and floating rate debt.

Foreign currency risks

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. The Group manages its currency risk by hedging significant foreign currency cash outflows with derivatives and by using money market instruments.

The Group has entered into several cross-currency swap agreements. The contracts designated to manage the exposure of changes in currency exchange rate. The contracts assumed periodic exchange of principal and interest payments from RUB-denominated amounts to USD- and Euro- denominated amounts at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2019-2020.

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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18. FINANCIAL RISK MANAGEMENT (Continued)

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure of changes in currency exchange rate for 29.2% of the Group's bank loans denominated in USD- and Euro- denominated bank loans outstanding as of December 31, 2016 and 28.7% of its USD- and Euro- denominated bank loans outstanding as of December 31, 2015.

The notionals related to currency derivative instruments amounted to RUB 25,885 million and RUB 40,049 million as of December 31, 2016 and 2015, respectively.

The Group has entered into deliverable currency forward agreements to minimize foreign currency risk exposure for operating activities. The contracts assumed the purchase or sale of the agreed amount of currency at a specified exchange rate and date. The rate was determined by the market spot rate upon issuance. As the result of deliverable currency forward agreements, unfulfilled as of December 31, 2016, 2015 and 2014, the Group recognized RUB 142 mln loss, nil and nil in the consolidated statement of profit and loss for the years ended December 31, 2016, 2015 and 2014.

The notionals related to deliverable currency forward instruments, unfulfilled as of December 31, 2016 and 2015, amounted to RUB 18,339 mln and nil, respectively.

The following table presents the effect of the Group's swap agreements designated as cash flow hedges in accumulated other comprehensive income for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
Accumulated derivatives income, beginning of the year, net of tax of 209 and 853 and 293, respectively	**1,045**	**4,268**	**1,467**
Fair value adjustments on hedging derivatives, net of tax of (1,823) and 590 and 2,894, respectively	(9,116)	2,952	14,469
Amounts reclassified to loss / (profit) for the year during the period, net of tax of 1,594 and (1,235) and (2,334), respectively	7,968	(6,175)	(11,668)
Accumulated derivatives (loss) / income, end of the year, net of tax of (21) and 209 and 853, respectively	**(103)**	**1,045**	**4,268**

The following tables demonstrate the sensitivity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant.

	Change in rate	USD effect on profit before tax RUB mln,	EUR effect on profit before tax RUB mln
2016	+20%	(6,722)	2,274
	20%	6,722	(2,274)
2015	+20%	(8,986)	5,664
	20%	8,986	(5,664)
2014	+20%	(12,667)	5,093
	20%	12,667	(5,093)

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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18. FINANCIAL RISK MANAGEMENT (Continued)

The movement in the pre-tax effect is a result of a change in monetary assets and liabilities denominated in US dollars and Euro, where the functional currency of the entity is a currency other than US dollars and Euro.

There will be no material impact on equity.

The Group's exposure to foreign currency changes for all other currencies is not material.

Liquidity risk

Liquidity risk is the risk of a shortage of funds. The Group's policy is to borrow centrally using a mixture of long-term and short-term borrowing facilities. These borrowings, together with cash generated from operations are utilized to meet anticipated funding requirements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The Group manages liquidity risk on long-term borrowings by maintaining a varied maturity profile and a required net debt position, therefore minimizing refinancing risk. Long-term borrowings mature between one and 7 years.

As at December 31, 2016, current liabilities exceeded current assets by RUB 36,551 million. Management believes the Group has sufficient existing and continuing access to liquidity through both operating cash flows and the availability of committed credit facilities of RUB 40,858 million (Note 15).

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Group is exposed to credit risk primarily from its investing activities.

The Group considers its exposure to credit risk as of December 31, 2016, and 2015 to be as follows:

	December 31, 2016	December 31, 2015
Bank deposits	30,905	73,169
Trade and other receivables	29,805	34,542
Derivative financial instruments	13,632	25,027
Loan and notes	9,090	10,135
Assets in Sistema-Capital trust management	3,721	

In accordance with the Group's financial instruments management policy, the aggregate credit risk the Group may have with one counterparty is limited. The Group maintains a mixture of cash and cash equivalents, investments, derivatives and certain other financial instruments with financial institutions. These financial institutions are located in different geographical regions and the Group's policy is designed to limit exposure to any one institutions. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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18. FINANCIAL RISK MANAGEMENT (Continued)

On December 15, 2015 Barclays bank and the Group signed an addendum to existing cross currency swap agreements. According to the terms of the addendum parties agreed to set credit exposure limits to one another, which permits to mitigate their credit risk by requiring other party to transfer collateral payments. As of December 31, 2016 and 2015 Barclays bank transferred to the Group collateral payments in the amounts of RUB 2.9 billion and RUB 6.9 billion, respectively.

Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Therefore management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

19. INCOME TAX

Significant components of income tax expense for the year ended December 31, 2016, 2015 and 2014 was as follows:

	Year ended December 31,		
	2016	**2015**	**2014**
Current income tax charge	15,177	11,865	9,478
Adjustments recognised for current tax of prior periods	98	284	32
Total current income tax:	**15,275**	**12,149**	**9,510**
Deferred tax	(137)	1,782	6,399
Income tax expense on continuing operations	**15,138**	**13,931**	**15,909**

'Income tax expense on continuing operations' excludes the tax income from the discontinued operations of RUB 192 million, RUB 661 million and tax expense of RUB 75 million for the year ended December 31, 2016, 2015 and 2014, respectively; it has been included in 'profit / (loss) from discontinued operations' (Note 26).

The statutory income tax rates in jurisdictions in which the Group operates for 2016, 2015 and 2014 were as follows: Russia and Armenia 20%, Ukraine 18%, Turkmenistan 8%, Czech

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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19. INCOME TAX (Continued)

Republic 19%. The Russian statutory income tax rate of 20% reconciled to the Group's effective income tax rate for the year ended December 31, 2016, 2015 and 2014 as follows:

	Year ended December 31,		
	2016	**2015**	**2014**
Statutory income tax rate for the year	**20.0%**	**20.0%**	**20.0%**
Adjustments:			
Expenses not deductible for tax purposes	2.1	3.1	0.2
Settlements with tax authorities	0.1	0.5	0.6
Different tax rate of foreign subsidiaries	(0.5)	(0.8)	(1.1)
Earnings distribution from subsidiaries	0.2	(1.9)	4.3
Change in fair value of derivative financial instruments	0.3	(0.1)	1.7
Other	0.2		0.1
Effective income tax rate	**22.4%**	**20.8%**	**25.8%**

As of December 31, 2016 and 2015 the Group reported the following deferred income tax assets and liabilities in the consolidated statement of financial position:

	December 31, 2016	**December 31, 2015**
Deferred tax assets	6,150	9,287
Deferred tax liabilities	(26,611)	(27,346)
Net deferred tax liabilities	**(20,461)**	**(18,059)**

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19. INCOME TAX (Continued)

Movements in the deferred tax assets and liabilities for the year ended December 31, 2015 were as follows:

	January 1, 2015	Charged to profit/loss	Charged to other comprehensive income	Effect of acquisitions	December 31, 2015
Assets / (liabilities) arising from tax effect of:					
Depreciation of property, plant and equipment	(13,419)	(2,586)	260	97	(15,648)
Other intangible assets	(6,698)	410	(166)		(6,454)
Potential distributions from / to Group's subsidiaries / associates	(5,633)	1,199	(304)		(4,738)
Licenses	(1,118)	(473)	(214)		(1,805)
Customer base	(905)	123			(782)
Accrued expenses for services	7,807	(39)	(109)	148	7,807
Lease obligations	1,879	472			2,351
Loss carryforward	441	718	41	687	1,887
Provision for investment in Delta Bank in Ukraine	925	33	(69)		889
Deferred connection fees	929	(231)	(59)		639
Hedge and other	(2,831)	(747)	855	518	(2,205)
Net deferred tax (liability) / asset	**(18,623)**	**(1,121)**	**235**	**1,450**	**(18,059)**

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19. INCOME TAX (Continued)

Movements in the deferred tax assets and liabilities for the year ended December 31, 2016 were as follows:

	December 31, 2015	Charged to profit/loss	Charged to other comprehensive income	Effect of disposal	December 31, 2016
Assets / (liabilities) arising from tax effect of:					
Depreciation of property, plant and equipment	(15,648)	(325)	(653)	(2,675)	(19,301)
Other intangible assets	(6,454)	(1,241)	29	572	(7,094)
Potential distributions from / to Group's subsidiaries / associates	(4,738)	203	548		(3,987)
Licenses	(1,805)	(431)	137		(2,099)
Customer base	(782)	122			(660)
Accrued expenses for services	7,807	(1,280)	(131)	(14)	6,382
Lease obligations	2,351	(152)			2,199
Loss carryforward	1,887	383	(49)	(304)	1,917
Provision for investment in Delta Bank in Ukraine	889		(236)		653
Deferred connection fees	639	(20)	(32)	(47)	540
Hedge and other	(2,205)	3,070	131	(7)	989
Net deferred tax liability	**(18,059)**	**329**	**(256)**	**(2,475)**	**(20,461)**

The Group recognizes deferred income tax on future dividend distributions from foreign subsidiaries and associates which are based on cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations.

The Group recognizes deferred tax assets in respect of tax losses carried forward to the extent that realization of tax losses against future taxable profit is probable. Deferred tax assets related to tax losses of the Group's subsidiaries are recognized based on the fact that certain tax planning opportunities are available to these subsidiaries that will create taxable profit in the period in which the unused tax losses can be utilized. The amount of the deferred tax asset considered realizable, however, could be remeasured if estimates of future taxable income are changed.

Federal law #401-FZ dated November 30, 2016 allowed for the indefinite carry forward of tax losses, whereas this was restricted to 10 years. Also the law specified that tax base for the years 2017-2020 may not be reduced by tax losses carried forward for the amount exceeding 50% of the

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19. INCOME TAX (Continued)

base.The following table summarizes the Group's balances for recognized tax losses carried forward as of December 31, 2016 and 2015:

	As of December 31, 2016		As of December 31, 2015	
	Operating losses	Tax losses	Operating losses	Tax losses
Recognized tax losses carried forward	9,586	1,917	13,143	1,887
	9,586	**1,917**	**13,143**	**1,887**

Temporary differences relating to tax losses, for which deferred tax assets were not recognized in the consolidated statement of financial position as of December 31, 2016 and 2015 amounted to RUB 8,307 million and RUB 11,407 million, respectively.

The Group accrued following amounts for uncertain income tax positions as component of income tax payable:

	December 31, 2016	December 31, 2015
Uncertain income tax positions	756	551

Generally, uncertain income tax positions were originated from results of tax audit.

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20. EARNINGS PER SHARE

The following table sets forth the computation of earnings per share for the year ended December 31, 2016, 2015 and 2014:

	Year ended, December 31, 2016	Year ended, December 31, 2015	Year ended, December 31, 2014
Numerator:			
Profit for the year from continuing operations attributable to the owners of the company	51,841	52,323	45,086
(Loss) / profit for the year from discontinued operations attributable to the owners of the company	(3,367)	(2,834)	6,220
Denominator, in thousands:			
Weighted-average ordinary shares outstanding	1,989,282	1,988,728	1,988,757
Employee stock options	1,412	1,468	1,221
Weighted-average diluted shares outstanding	**1,990,694**	**1,990,196**	**1,989,978**
Earnings per share basic, RUB	**24.37**	**24.88**	**25.80**
Basic EPS from continuing operations	26.06	26.31	22.67
Basic EPS from discontinued operations	(1.69)	(1,43)	3.13
Earnings per share diluted, RUB	**24.35**	**24.87**	**25.78**
Diluted EPS from continuing operations	26.04	26.29	22.66
Diluted EPS from discontinued operations	(1.69)	(1.42)	3.12

21. RELATED PARTIES

Related parties of the Group include entities under common ownership with the Group, affiliated companies and associated companies (see Note 7).

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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21. RELATED PARTIES (Continued)

Accounts receivable from and accounts payable to related parties were as follows:

	December 31, 2016	December 31, 2015
Accounts receivable:		
Business Nedvizhimost, a subsidiary of Sistema	3,693	7,511
MTS Belarus, the Group's associate	2,273	1,226
MTS Bank, the Group's associate	1,726	693
Sitronics KASU, subsidiary of Sistema	51	93
Sistema, the parent company	46	20
Other related parties	305	118
Total accounts receivable, related parties	**8,094**	**9,661**
Less non-current portion	(3,693)	(3,335)
Accounts receivable, related parties current	**4,401**	**6,326**
Accounts payable:		
MTS Belarus, the Group's associate	491	380
Maxima, a subsidiary of Sistema	184	212
MTS Bank, the Group's associate	134	410
Sitronics KASU, subsidiary of Sistema	36	407
Business Nedvizhimost, a subsidiary of Sistema	32	36
Rent-Nedvizhimost, a subsidiary of Sistema		87
Sitronics Smart Technology, a subsidiary of Sistema		68
Other related parties	137	209
Total accounts payable, related parties	**1,014**	**1,809**

As of December 31, 2016, the outstanding balances of related parties' transactions were unsecured. There have been no guarantees issued or received in respect to any related party receivables or payables.

As of December 31, 2016 and 2015 Group had no impairment as well as expenses recognized during years ended December 31, 2016, 2015 and 2014 in respect to bad or doubtful debts from related parties.

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21. RELATED PARTIES (Continued)

For the year ended December 31, 2016, 2015 and 2014, operating transactions with related parties were as follows:

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Revenues from related parties:			
MTS Bank, the Group's associate (telecommunications and call center services, commission)	900	588	787
MTS Belarus, the Group's associate (roaming and interconnect services)	276	266	269
Medsi Group, subsidiaries of Sistema (telecommunications and call center services)	242	113	83
Management Company, Segezha Group, a subsidiary of Sistema (software supply)	149		
Detskii Mir, subsidiary of Sistema (connection services)	129	64	39
Sistema, parent company (consulting services)	83	61	1
ZTV, Group's associate (software supply)	55	3	
Sitronics KASU, subsidiaries of Sistema (project management, software support)	40	8	1
NVision Group, a former subsidiary of Sistema (fixed line services)		119	82
Stream, a former Group's associate (SMS notifications)		141	29
Other related parties	304	121	81
Total revenues from related parties	**2,178**	**1,484**	**1,372**
Operating expenses / (income) incurred on transactions with related parties:			
Maxima, a subsidiary of Sistema (advertising)	1,018	1,351	1,575
MTS Bank, the Group's associate (commission related (income)/expenses)	347	61	(406)
Rent-Nedvizhimost, a subsidiary of Sistema (Rent)	308	776	
AB Safety, a subsidiary of Sistema (security services)	271	212	292
Business-Nedvizhimost, a subsidiary of Sistema (Rent)	246	224	128
Jet Air Group, subsidiaries of Sistema (aircraft maintenance)	183	180	127
MTS Belarus, the Group associate (roaming and interconnect services)	161	394	395
Elavius, a subsidiary of Sistema (transportation services)	159	328	399
Inturavtoservis, subsidiary of Sistema (transport services)	124	44	42
Stream, a former Group associate (content services)		2,132	1,395
NVision Group, a former subsidiary of Sistema (IT consulting)		575	846
Other related parties	297	301	285
Total operating expenses incurred on transactions with related parties	**3,114**	**6,578**	**5,078**

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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21. RELATED PARTIES (Continued)

The Group provides advances and holds certain investments in related parties which are summarized as follows:

	December 31, 2016	December 31, 2015
Advances for property, plant and equipment:		
Kapstroi Telecom, a subsidiary of Sistema	186	
Intellect Telecom, a subsidiary of Sistema		421
Other related parties	1	15
Total advances for property, plant and equipment	**187**	**436**
Short-term investments		
Sistema-Capital, a subsidiary of Sistema (assets management)	3,721	
Promissory notes of Sistema	574	
Promissory notes of Intellect Telecom, a subsidiary of Sistema	230	
Loan receivable from Intellect Telecom, a subsidiary of Sistema	72	
Sistema International Funding S.A. Bonds due in 2019, a subsidiary of Sistema	65	75
Deposits at MTS Bank, the Group's associate	33	128
Sistema Notes due in 2016 (series 04)		191
Other loans receivable		81
Total short-term investments in related parties	**4 695**	**475**
Other investments		
Loan receivable from MTS Bank, the Group's associate (see note 29)	2,116	2,100
Promissory notes of Sistema		528
Loan receivable from Intellect Telecom, a subsidiary of Sistema		67
Other	60	26
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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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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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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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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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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**

Balances at December 31, 2016	**(6,418)**	**(155)**	**543**

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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)

22. STOCKHOLDERS' EQUITY (Continued)

Non-controlling interest

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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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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22. STOCKHOLDERS' EQUITY (Continued)

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

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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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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23. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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.

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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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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25. SEGMENT INFORMATION (Continued)

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)

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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:

	For the year ended December 31,		
Revenue	**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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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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25. SEGMENT INFORMATION (Continued)

Non-current assets[1]	As of December 31, 2016	As of December 31, 2015
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 Uzbekistant. A joint

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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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26. OPERATIONS IN UZBEKISTAN (Continued)

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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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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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26. OPERATIONS IN UZBEKISTAN (Continued)

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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28. COMMITMENTS AND CONTINGENCIES (Continued)

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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28. COMMITMENTS AND CONTINGENCIES (Continued)

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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PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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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%.