SISTEMA PJSFC AND SUBSIDIARIES

Consolidated Financial Statements for 2019
and Independent Auditor's Report

SISTEMA PJSFC AND SUBSIDIARIES

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SISTEMA PJSFC AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Sistema Public Joint Stock Financial Corporation and its subsidiaries (the "Group") as of 31 December 2019, and the results of its operations, cash flows and changes in equity for 2019, in compliance with International Financial Reporting Standards ("IFRSs").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for 2019 were approved by:

Andrey Dubovskov President and CEO	Vladimir Travkov Vice President, Finance and Investments (CFO)

6 April 2020

AO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Sistema Public Joint Stock Financial Corporation

Opinion

We have audited the consolidated financial statements of Sistema Public Joint Stock Financial Corporation ("Sistema") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Diversified structure of the Group Sistema is a holding company that owns mainly controlling stakes in its subsidiaries, whose results are included in the consolidated financial statements. The large number of entities of the Group and diversified nature of their operations require the Group's management to design and implement group wide controls, including monitoring and control activities to ensure timely, reliable and complete financial information received from its subsidiaries. Audit procedures regarding the financial information of the subsidiaries included in the consolidated financial statements may be performed by us or by the auditors of those subsidiaries ("components") acting under our supervision. As the group auditor, we are fully responsible for conducting the audit and forming our audit opinion. We focused on this matter because the diversified structure of the Group has a significant impact on our audit approach, and the nature and extent of our involvement in component auditors' work is significant.	We obtained an understanding of the group-wide controls over the consolidation process and the preparation of the consolidated financial statements, including instructions of the Group's management to its subsidiaries. Our audit approach was developed considering the Group's diversified structure and associated risks of material misstatement of the consolidated financial statements. It included determination of necessary procedures and audit scope in relation to each component's financial information, depending on its significance for the Group and identification of risks of misstatement of their financial information. The nature and extent of our involvement in the component auditors' work was also dependent on our assessment of their professional competence in the context of allocated scope. To obtain reasonable assurance of fair presentation of the components' financial information, we assessed risks and determined audit procedures performed by the component auditors, and evaluated the results of the procedures. This included a critical analysis of the component auditors' documentation, discussion of significant matters with the component auditors, component or Group management and, if applicable, designing and performing additional audit procedures. We also performed procedures with respect to consolidation adjustments to the financial information of the subsidiaries in order to assess their nature, completeness and accuracy.
Significant non-routine transactions In light of its strategy, the Group regularly conducts complex acquisitions and disposals, debt restructurings and other significant non-routine transactions. We focus on these matters because the appropriate accounting treatment of such transactions is often complex and requires exercise of significant judgement. In the current period, this included, for example, a disposal of 51% in Leader Invest and acquisition of 25% in Etalon Group in February 2019 and a secondary public offering of Detsky mir in November 2019. See Note 6 to the consolidated financial statements.	Our procedures included reviewing legal documents to fully understand the terms and conditions of each transaction and therefore the associated accounting implications and evaluating documentation of management's positions on how IFRSs were applied to the transactions. In relation to the previously mentioned specific transactions, we analyzed legal documents and evaluated the appropriateness of management's conclusions on whether the Group had obtained or retained control over the investees in the context of investee's governance structure, size of the Group's shareholding relative to other shareholders, dispersion of other vote holdings and other factors relevant to determining whether the Group has current ability to direct relevant activities of the investees. We also assessed the appropriateness of fair value measurements related to the investments in these investees.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report and quarterly report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report and quarterly report are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report and quarterly report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

ВКозырев

Vladimir Kozyrev
Engagement partner

Акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

6 April 2020

The Entity: Sistema Public Joint Stock Financial Corporation

Certificate of state registration № 025.866, issued by the Moscow Registration Chamber on 16.07.1993

Primary State Registration Number: 1027700003891

Certificate of registration in the Unified State Register № 77 011222220 of 11.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 46

Address: building 1, 13 Mokhovaya st., Moscow, Russia, 125009

Audit Firm: AO Deloitte & Touche CIS

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(In millions of Russian Rubles, except for per share amounts)

	Notes	2019	2018
Continuing operations			
Revenue	9	656,861	625,032
Cost of sales		(301,918)	(277,711)
Selling, general and administrative expenses		(129,013)	(118,973)
Depreciation and amortisation		(115,283)	(112,500)
Impairment of long-lived assets	10	(11,639)	(1,030)
Impairment of financial assets	11	(6,994)	(5,623)
Taxes other than income tax		(4,962)	(5,829)
Share of the profit or loss of associates and joint ventures, net	18	(4,398)	1,682
Other income		11,478	7,139
Other expenses		(7,715)	(3,609)
Operating income		**86,417**	**108,578**
Finance income		7,527	7,765
Finance costs		(87,341)	(60,600)
Currency exchange profit/(loss)		10,453	(17,325)
Profit before tax		**17,056**	**38,418**
Income tax expense	12	(26,999)	(29,353)
(Loss)/profit from continuing operations		**(9,943)**	**9,065**
Discontinued operations			
Profit/(loss) from discontinued operations	6	67,551	(47,369)
Net profit/(loss) for the year		**57,608**	**(38,304)**
Attributable to:			
Shareholders of Sistema PJSFC		28,597	(45,896)
Non-controlling interests		29,011	7,592
		57,608	**(38,304)**
Profit/(loss) per share (basic and diluted), in Russian Rubles:	30		
From continuing operations		(3.61)	(2.36)
From continuing and discontinued operations		3.02	(4.84)

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

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and Investments (CFO)

6 April 2020

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In millions of Russian Rubles)

	2019	2018
Net profit/(loss) for the year	57,608	(38,304)
Other comprehensive income/(loss):		
Items that may be reclassified subsequently to profit or loss:		
Effect on sale of VF Ukraine	7,947	-
Currency translation loss on foreign operations in subsidiaries	(7,246)	17,429
Currency translation (loss)/gain on foreign operations in associates and joint ventures	(207)	324
Net fair value loss on financial instruments	(197)	(3,947)
Items that will not be reclassified subsequently to profit or loss:		
Unrecognised actuarial gain	211	167
Other comprehensive income, net of tax	508	13,973
Total comprehensive gain/(loss)	**58,116**	**(24,331)**
Attributable to:		
Shareholders of Sistema PJSFC	24,844	(35,973)
Non-controlling interests	33,272	11,642
	58,116	**(24,331)**

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

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and Investments (CFO)

6 April 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(In millions of Russian Rubles)

	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	14	400,083	422,321
Investment property	15	13,660	23,310
Goodwill	16	55,388	59,488
Other intangible assets	17	91,138	112,125
Right-of-use assets	26	154,865	194,247
Investments in associates and joint ventures	18	79,917	34,507
Deferred tax assets	12	26,752	32,648
Other financial assets	19	116,973	95,557
Deposits in banks		82	186
Other assets		19,438	15,618
Total non-current assets		**958,296**	**990,007**
Current assets			
Inventories	21	45,329	97,131
Contract assets	9	6,474	7,297
Accounts receivable	22	54,703	63,517
Advances paid and prepaid expenses		14,038	16,984
Current income tax assets		4,711	4,195
Other taxes receivable		19,259	18,641
Other financial assets	19	87,138	106,329
Deposits in banks		1,659	15,506
Restricted cash	20	5,689	8,614
Cash and cash equivalents		63,669	114,183
Other assets		2,562	3,090
		305,231	**455,487**
Assets held for sale	6	-	19,911
Total current assets		**305,231**	**475,398**
Total assets		**1,263,527**	**1,465,405**

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
(In millions of Russian Rubles)

	Notes	31 December 2019	31 December 2018
Equity and liabilities			
Equity			
Share capital	23	869	869
Treasury shares	23	(5,971)	(4,759)
Additional paid-in capital		75,045	73,375
Accumulated loss		(36,020)	(63,572)
Accumulated other comprehensive income	24	7,452	11,204
Equity attributable to shareholders of Sistema		41,375	17,117
Non-controlling interests		24,353	45,911
Total equity		**65,728**	**63,028**
Non-current liabilities			
Borrowings	25	491,416	592,442
Lease liabilities	26	149,565	183,161
Bank deposits and liabilities	27	6,051	3,414
Deferred tax liabilities	12	36,172	40,161
Provisions	29	5,748	4,368
Liability to Rosimushchestvo		-	8,097
Other financial liabilities	28	3,526	1,473
Other liabilities		5,607	6,546
Total non-current liabilities		**698,085**	**839,662**
Current liabilities			
Borrowings	25	129,454	105,893
Lease liabilities	26	16,060	24,206
Accounts payable		89,203	126,917
Bank deposits and liabilities	27	160,511	129,872
Income tax payable		921	2,775
Other taxes payable		16,065	20,409
Dividends payable		15,569	4,415
Provisions	29	14,910	73,244
Liability to Rosimushchestvo		7,231	8,113
Contract liabilities and other liabilities	9	46,321	50,141
Other financial liabilities	28	3,469	9,904
		499,714	**555,889**
Liabilities directly associated with assets classified as held for sale	6	-	6,826
Total current liabilities		**499,714**	**562,715**
Total equity and liabilities		**1,263,527**	**1,465,405**

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

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and
Investments (CFO)

6 April 2020

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	Accumulated loss	Accumulated other comprehensive (loss)/income: Currency reserve	Accumulated other comprehensive (loss)/income: Other	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2018	**869**	**67,856**	**(5,816)**	**(17,375)**	**(3,346)**	**5,678**	**47,866**	**74,957**	**122,823**
Effect of new standards	-	-	-	746	-	(1,051)	(305)	1,769	1,464
1 January 2018 (revised)	**869**	**67,856**	**(5,816)**	**(16,629)**	**(3,346)**	**4,627**	**47,561**	**76,726**	**124,287**
(Loss)/profit for the period	-	-	-	(45,896)	-	-	(45,896)	7,592	(38,304)
Other comprehensive income/(loss), net of tax	-	-	-	-	13,570	(3,647)	9,923	4,050	13,973
Total comprehensive (loss)/income	-	-	-	(45,896)	13,570	(3,647)	(35,973)	11,642	(24,331)
Settlements under long-term motivation program of Sistema PJSFC	-	(1,057)	1,057	-	-	-	-	-	-
Accrued remuneration to the management of subsidiaries	-	1,511	-	-	-	-	1,511	337	1,848
Settlements under long-term motivation program of subsidiaries	-	(815)	-	-	-	-	(815)	-	(815)
Capital transactions of subsidiaries (Note 8)	-	5,880	-	-	-	-	5,880	(13,971)	(8,091)
Dividends declared by Sistema PJSFC (Note 23)	-	-	-	(1,047)	-	-	(1,047)	-	(1,047)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(28,823)	(28,823)
31 December 2018	**869**	**73,375**	**(4,759)**	**(63,572)**	**10,224**	**980**	**17,117**	**45,911**	**63,028**

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
(In millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	Accumulated loss	Accumulated other comprehensive (loss)/income: Currency reserve	Accumulated other comprehensive (loss)/income: Other	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2019	**869**	**73,375**	**(4,759)**	**(63,572)**	**10,224**	**980**	**17,117**	**45,911**	**63,028**
Profit for the period	-	-	-	28,597	-	-	28,597	29,011	57,608
Effect on sale of VF Ukraine	-	-	-	-	3,974	-	3,974	3,973	7,947
Other comprehensive income/(loss), net of tax	-	-	-	-	(7,664)	(62)	(7,727)	288	(7,439)
Total comprehensive (loss)/income	-	-	-	28,597	(3,690)	(62)	24,844	33,272	58,116
Sale of own shares	-	(238)	430	-	-	-	193	-	193
Purchase of own shares	-	-	(1,642)	-	-	-	(1,642)	-	(1,642)
Acqusition and sale of subsidiaries	-	-	-	-	-	-	-	(410)	(410)
Settlements under long-term motivation program of subsidiaries	-	352	-	-	-	-	352	436	788
Capital transactions of subsidiaries (Note 8)	-	1,556	-	-	-	-	1,556	(14,655)	(13,099)
Dividends declared by Sistema PJSFC (Note 23)	-	-	-	(1,045)	-	-	(1,045)	-	(1,045)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(40,201)	(40,201)
31 December 2019	**869**	**75,045**	**(5,971)**	**(36,020)**	**6,534**	**918**	**41,375**	**24,353**	**65,728**

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

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions of Russian Rubles)

	2019	2018
Cash flows from operating activities		
Net profit/(loss) for the year	57,608	(38,304)
Adjustments for:		
Provision related to SEC investigation in Uzbekistan	-	55,752
Depreciation and amortisation	135,070	132,019
Share of the profit or loss of associates and joint ventures, net	4,398	(1,715)
Profit from sales of stakes in associates and joint ventures	(828)	-
Finance income	(7,527)	(8,421)
Finance costs	93,064	68,024
Income tax expense	28,227	32,809
Currency exchange (loss)/gain	(14,170)	20,069
Gain from disposal of subsidiaries	(53,986)	-
Profit on disposal of property, plant and equipment	(3,029)	(5,173)
Expected credit losses allowance on loans to customers	4,330	704
Dividends received from associates and joint ventures	6,279	3,777
Non-cash compensation to employees	1,601	1,511
Impairment of long-lived assets	11,639	1,360
Impairment of financial assets	6,921	5,935
Other non-cash items	4,406	5,299
	274,003	273,646
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	(33,778)	(2,995)
Bank deposits and liabilities	36,062	14,136
Restricted cash	2,925	(23)
Financial assets at fair value through profit or loss	4,125	2,974
Accounts receivable	(9,950)	(8,174)
Advances paid and prepaid expenses	781	(1,679)
Other taxes receivable	(1,337)	(2,386)
Inventories	(6,503)	(27,402)
Accounts payable	2,590	6,093
Subscriber prepayments	384	3,500
Other taxes payable	(2,652)	6,288
Advances received and other liabilities	9,830	(537)
Fees in connection with investigation in Uzbekistan	(55,607)	-
Payments in accordance with the Settlement Agreement	-	(80,000)
Interest paid	(83,064)	(67,421)
Income tax paid	(31,540)	(27,392)
Net cash provided by operating activities	**106,269**	**88,628**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(In millions of Russian Rubles)

	2019	2018
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(92,178)	(93,754)
Payments for a data center by MTS	-	(7,559)
Proceeds from sale of subsidiaries, net of cash	59,328	-
Proceeds from sale of property, plant and equipment	6,598	6,533
Payments to obtain and fulfill contracts	(4,693)	(5,645)
Payments for purchases of intangible assets	(25,444)	(30,286)
Payments for businesses, net of cash acquired	(2,775)	(4,324)
Payments for investments in associates and joint ventures	(17,417)	(12,036)
Proceeds from sale of investments in affiliated companies	15,301	113
Payments for financial assets, long-term	(20,825)	(17,316)
Proceeds from sale of financial assets, long-term	5,367	10,155
Payments for financial assets, short-term	(10,436)	(23,514)
Proceeds from sale of financial assets, short-term	36,174	43,280
Interest received	5,354	9,356
Other	1,720	(2,938)
Net cash used in investing activities	**(43,926)**	**(127,935)**
Cash flows from financing activities		
Proceeds from borrowings	310,672	398,905
Principal payments on borrowings	(342,138)	(234,937)
Debt issuance costs	(138)	(702)
Principal payments of lease liabilities	(24,303)	(21,044)
Acquisition of non-controlling interests in existing subsidiaries	(22,751)	(21,424)
Proceeds from sale of treasury shares	233	-
Proceeds from transactions with non-controlling interests	89	740
Dividends paid	(30,124)	(29,952)
Repurchase of own shares	(1,642)	-
Cash outflow under credit guarantee agreement related to foreign currency hedge	-	(981)
Net cash (used in)/provided by financing activities	**(110,102)**	**90,605**
Effect of foreign currency translation on cash and cash equivalents	(2,755)	3,408
Net increase/(decrease) in cash and cash equivalents	**(50,514)**	**54,706**
Cash and cash equivalents at the beginning of the year, including cash of discontinued operations	114,183	59,959
Cash and cash equivalents of discontinued operations at the end of the year	-	(482)
Cash and cash equivalents at the end of the year	**63,669**	**114,183**

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

1. GENERAL

Sistema Public Joint Stock Financial Corporation or Sistema PJSFC (the "Company", together with its subsidiaries, the "Group") invests in, and manages a range of companies which operate in various sectors of economy, including telecommunications, retail, high technology, finance, pulp and paper, utilities, pharmaceuticals, healthcare, agriculture, real estate and tourism. The Company and the majority of its subsidiaries are incorporated in the Russian Federation ("RF"). The Company's registered address is building 1, 13 Mokhovaya street, 125009, Moscow.

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

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on the assumption that the Group will continue to operate in the foreseeable future. As of 31 December 2019, short-term liabilities of the Group exceeded its current assets by RUB 194,483 million. The Group determines that it generates sufficient operating cash flow and has sufficient cash available to repay the Group's current liabilities, including, if necessary, unused credit facilities of RUB 536,797 million. The cash flows forecast prepared by the management of the Group for a period of at least twelve months after the end of the reporting period demonstrates the Group's ability to pay off current liabilities within the terms set by the contractual obligations.

These consolidated financial statements were approved by the Company's President and CEO and authorised for issue on 6 April 2020.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

This note sets out significant accounting policies that relate to the Group's consolidated financial statements as a whole and describes the critical accounting judgements that management has identified as having a potentially material impact on the Group's consolidated financial statements. When an accounting policy is generally applicable to a specific note to the accounts, the policy is described within that note.

Summary of significant accounting policies

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company and their subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income is attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests. Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of the Group and the majority of its subsidiaries operating in Russia is the Russian Ruble ("RUB"). The presentation currency of the consolidated financial statements of the Group is also the Russian Ruble.

Sources of estimation uncertainty

In the application of the Group's accounting policies management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Lease liabilities. The Group uses management's judgement to estimate:

- Lease term. The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal options. The Group also considers the cases where the Group is reasonably certain of not exercising early termination options. When assessing such options management assesses residual useful life of the asset located on the leased site, investment strategy of the Group and relevant investment decisions and duration of the renewal and early termination options.

- Discount rate. When calculating the present value of the lease payments the Group uses the incremental borrowing rate. Discount rate is determined for each asset based on the incremental borrowing rate for the respective company of the Group at the inception of the contract.

Stage of completion of project type contracts. The Group uses management's judgement to estimate stage of completion to recognize revenue under project type contracts. This estimate is based on costs forecasts and calculations and historical experience on similar projects.

Impairment of financial assets. The Group regularly reviews its financial assets to assess for impairment. The Group uses management's judgement to estimate allowance for Expected Credit Losses (ECL) for financial assets at amortized cost. ECL are measured in a way that reflects the unbiased and probability-weighted amount, the time-value of money and reasonable and supportable information at the reporting date pertaining to past events, current conditions and forecasts of future economic conditions.

ECL are measured as probability-weighted present value of all cash shortfalls over the expected life of each financial asset. For receivables from financial services, ECL are mainly calculated using a statistical model based on three major risk parameters: probability of default, loss given default and exposure of default.

The estimation of these risk parameters incorporates all available relevant information, not only historical and current loss data, but also reasonable and supportable forward-looking information reflected by the future expectation factors. This information includes macroeconomic factors (unemployment rate, inflation rate) and forecasts of future economic conditions. Significant changes in risk parameters could affect the estimated amount of ECL.

Impairment of long-lived assets. IFRS requires management to perform impairment tests annually for indefinite lived assets and, for finite lived assets, if events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment testing requires management to judge whether the carrying value of assets can be supported by the higher of the fair value of the asset or the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires assumptions to be made in respect of highly uncertain matters.

Recoverable amount of cash-generating units is estimated based on value in use. In assessing value in use, the estimated future cash flows are discounted to their 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 asset for which the estimates of future cash flows have not been adjusted.

The growth rate in the post-forecast period is determined on the basis of the nominal GDP growth rate for each country and adjusted for the specific risk inherent in each generating unit.
The discount rate used to calculate value in use is the weighted average cost of capital, calculated on the basis of the average capital structure for the economic sector. The cost of equity is determined on the basis of the risk-free rate for long-term government bonds issued in the country in which the generating unit operates. These rates are adjusted for the risk premium reflecting the risk of investing in ordinary shares and the specific risk of each cash-generating unit.

Deferred tax assets. Deferred tax asset is recognized for all temporary deductible differences, provided in case that there is a taxable profit in respect of the temporary deductible differences could be utilized. The valuation of probability is based on management estimation of future taxable profit.

Fair value measurements. Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Where the fair value of assets and liabilities recorded in the consolidated 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. Information about assets and liabilities measured at fair value on recurring basis is disclosed in Note 33.

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

Useful lives of property, plant 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 development may change over time. The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Provisions and contingencies. The Group is subject to various legal proceedings, disputes, claims and regulatory reviews related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable. See Notes 29 and 38 for further information.

Significant judgments in applying accounting policies

In the application of the Group's accounting policies management is required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized in the consolidated financial statements. In 2019, these judgements include determination of whether or not the control exists as the result of disposal of 51% of Leader Invest and the acquisition of a 25% in Etalon Group in February 2019 (Note 6), as well as the secondary public offering of Detsky Mir in November 2019 (Note 6).

Standards, interpretations and amendments adopted on 1 January 2019

On 1 January 2019 the Group adopted the following standards, interpretations and amendments:

Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features With Negative Compensation
Amendments IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

None of them had a material impact on the Group's consolidated financial statements.

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 are not yet effective:

Amendments to Conceptual Framework	Conceptual Framework in IFRS standards (1)
Amendments to IFRS 3	Definition of a Business (1)
Amendments to IAS 1 and IAS 8	Definition of Material (1)
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform and its Effects on Financial Reporting (1)
IFRS 17	Insurance Contracts (2)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (3)
Annual Improvements to IFRSs (2010-2012 Cycle Amendments to IAS 1)	Classification of Liabilities as Current or Non-Current (4)

(1) Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.
(2) Effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.
(3) The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.
(4) Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.

These IFRS pronouncements are not expected to have a material impact on the Group's consolidated financial statements.

4. SEGMENT INFORMATION

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

The Group's reportable segments are Mobile TeleSystems ("MTS"), Segezha Group, RTI, Ozon Holdings Limited ("Ozon") and Corporate. MTS is one of the leading telecommunications group in Russia and the CIS, offering mobile and fixed voice, broadband, internet access, pay TV, financial services, as well as content and entertainment services in Russia and Armenia. Segezha Group is an Russian vertically integrated forest industry holding that performs a full cycle of timber harvesting and advanced wood processing operations. RTI is a Russian industrial holding, which develops and manufactures high-tech products and infrastructure solutions in the fields of radio communication and space technology, threat monitoring and control solutions, microelectronics and system integration. Ozon is one of the largest Russian e-commerce internet platform. Corporate segment comprises the Company and entities, which hold and manage the Company's interests in its subsidiaries, joint ventures and associates. The Other category includes other operating segments including East-West United Bank (EWUB), Sitronics, Kronshtadt Group, Medsi, Agroholding "Steppe", Sistema Venture Capital, Intourist, Bashkirian Power Grid Company ("BPGC"), Business Nedvizhimost, Detsky mir and Etalon Group, none of which meets the quantitative thresholds for determining reportable segments.

Detsky mir was excluded from reportable segments presentation as a result of its disposal in December 2019 (Note 6). This exclusion was retrospectively presented in 2018.

The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 3) and other relevant notes. The Group's CODM evaluates performance of the segments on the basis of operating income and OIBDA. OIBDA is defined as operating income before depreciation and amortisation of property, plant and equipment, other intangible assets and right-of-use assets.

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

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment for 2019 and 2018:

	External revenues		**Inter-segment revenue**		**Segment operating income/(loss)**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
MTS	472,449	457,558	3,657	4,576	114,146	105,984
Segezha Group	58,428	57,847	67	43	8,333	8,178
RTI	24,655	22,701	85	185	(1,770)	921
Ozon	-	-	-	-	(7,834)	(1,115)
Corporate	2,435	2,351	906	845	(18,781)	(11,946)
Total reportable segments	557,967	540,457	4,715	5,649	94,094	102,022
Other	98,894	84,575	2,939	3,262	(1,404)	9,534
	656,861	**625,032**	**7,654**	**8,911**	**92,690**	**111,556**
Inter-segment eliminations					(6,273)	(2,978)
Operating income					**86,417**	**108,578**
Finance income					7,527	7,765
Finance costs					(87,341)	(60,600)
Currency exchange loss					10,453	(17,325)
Profit before tax					**17,056**	**38,418**

The following is an analysis of the Group's depreciation and amortisation, additions to non-current assets (comprising property, plant and equipment, investment property, other intangible assets and right-of-use assets), impairment of certain long-lived assets and other non-cash items (comprising impairment of current assets and financial assets and gain on acquisition) by reportable segment:

	Additions to non-current assets		**Depreciation and amortisation**		**Impairment of non-current assets**		**Other non-cash items**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
MTS	129,795	139,913	96,279	95,656	(148)	158	3,427	3,168
RTI	1,012	2,496	1,644	1,739	280	450	1,946	582
Segezha Group	5,681	6,310	5,660	4,676	(477)	-	32	265
Corporate	213	-	399	565	2,624	-	136	914
Other	22,221	13,945	11,301	9,864	9,360	422	1,453	694
	158,922	**162,664**	**115,283**	**112,500**	**11,639**	**1,030**	**6,994**	**5,623**

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

The following is an analysis of the Group's segment assets and liabilities by reportable segment:

	31 December 2019	31 December 2018
Segment assets		
MTS	838,327	931,891
RTI	51,858	65,505
Segezha Group	75,597	72,723
Corporate	153,675	115,494
Total reportable segments	**1,119,457**	**1,185,613**
Other	241,194	355,806
Total segment assets	**1,360,651**	**1,541,419**
Inter-segment eliminations	(97,124)	(76,014)
Consolidated total assets	**1,263,527**	**1,465,405**
Segment liabilities		
MTS	787,613	838,525
RTI	75,292	86,409
Segezha Group	61,998	59,665
Corporate	215,741	249,141
Total reportable segments	**1,140,644**	**1,233,740**
Other	143,152	242,975
Total segment liabilities	**1,283,796**	**1,476,715**
Inter-segment eliminations	(85,997)	(74,338)
Consolidated total liabilities	**1,197,799**	**1,402,377**

As of 31 December 2019 and 2018, the amount of investment in MTS Belarus, an associate of MTS, included in its reportable segment assets was RUB 4,502 million and RUB 4,051 million, respectively. The amount of investment in Ozon as of 31 December 2019 and 2018 was RUB 11,854 million and RUB 9,533 million, respectively. Other associates and joint ventures represent separate operating segments and are reported in the Other category.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		**Non-current assets**	
	2019	**2018**	**31 December 2019**	**31 December 2018**
Russia	584,165	567,277	709,365	752,968
Other	72,696	57,755	16,753	63,087
	656,861	**625,032**	**726,118**	**816,055**

5. INVESTIGATIONS INTO FORMER OPERATIONS IN UZBEKISTAN

In March 2019, MTS reached a resolution with the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") relating to the previously disclosed investigation of the its former subsidiary in Uzbekistan.

MTS consented to the issued administrative cease-and-desist order (the "Order") by the SEC.

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

Under the agreements with the DOJ and SEC, MTS agreed to pay a total penalty of USD 850 million (RUB 59.1 billion as of 31 December 2018) to the United States, which was comprised of a criminal fine, criminal forfeiture and civil penalty. MTS provided a provision of USD 850 million (RUB 55.8 billion as of the date of accrual), which was recognized as a part of discontinued operations in the consolidated statements of profit or loss for the year ended 31 December 2018. In March 2019, MTS paid the total penalty of USD 850 million (RUB 55.6 billion as of the payment date).

Under the deferred prosecution agreement ("DPA") and the Order, MTS agreed to appoint and in September 2019 appointed an independent compliance monitor. Pursuant to the DPA and the Order, the monitorship will continue for a period of three years starting from the appointment date, and the term of the monitorship may be terminated early or extended depending on certain circumstances, as ultimately determined and approved by the DOJ and SEC.

6. DISCONTINUED OPERATIONS

The Group enters into transactions to sell shares of subsidiaries, which result in the Group losing control over its subsidiaries. The results of disposed subsidiaries during the reporting period are included in the consolidated financial statements prior to the date of loss of control over subsidiaries. Information on the sale of shares in subsidiaries and their impact on the Group's results is provided below.

The amounts recognized in loss from discontinued operations are as follows:

	2019	**2018**
Provision related to investigations into former operations in Uzbekistan (Note 5)	-	(59,050)
Loss on disposal of VF Ukraine	(5,499)	-
Currency translation on disposal of VF Ukraine	(62)	-
VF Ukraine results before disposal date	6,093	5,157
Profit on Microelectronics assets disposal	4,144	-
Microelectronics assets results before disposal date	(355)	1,687
Gain on disposal of Leader Invest	20,248	-
Lider Invest results before disposal date	(317)	(626)
Currency translation on SEC penalties	3,443	-
Loss on disposal of SSTL	-	(360)
Gain on disposal of Detskiy Mir	35,094	-
Detskiy Mir results before disposal date	4,762	5,823
Profit/(loss) from discontinued operations	**67,551**	**(47,369)**
Attributable to:		
Shareholders of Sistema PJSFC	62,801	(23,498)
Non-controlling interests	4,750	(23,871)

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

Leader Invest – In February 2019, the Group sold 51% of the stake of JSC Leader Invest to Etalon Group for RUB 15.2 billion. In August 2019, an agreement was signed to sell the remaining 49% stake for RUB 14.6 billion. In February 2019, the Group acquired 25% stake in Etalon Group for USD 226.6 million. Given the governance structure of Etalon Group, size of the Group's shareholding relative to other shareholders, dispersion of other vote holdings and other factors the Group does not have current ability to direct relevant activities of Etalon Group and thus Etalon Group is not controlled as at 31 December 2019.

Loss of control over Detsky mir and transfer from subsidiaries to associates – In November 2019, as a result of secondary public offering, Sistema PJSFC sold 18.7% of Detsky mir equity capital for RUB 12.5 billion. As a result of the transaction, the share of Sistema PJSFC in the authorized capital of the company composed to 33.4%. Given the governance structure of Detsky mir, size of the Group's shareholding relative to other shareholders, dispersion of other vote holdings and other factors, the Group does not have current ability to direct relevant activities of Detsky mir and thus Detsky mir is not controlled by the Group as of 31 December 2019. The remaining stake in Detsky mir is reflected in the Group financial statements as an investment in an associate. The carrying value of the investment at the end of 2019 is amounted to RUB 21.8 billion.

VF Ukraine – In November 2019, the Group signed an agreement to sell Preludium BV, which owned 100% of the authorized capital of VF Ukraine PrJSC, PTT Telecom Kiev, VF Retail LLC and ITSF LLC, which carried out the Group's activities in Ukraine. The deal took place in December 2019. The fair value of the consideration received amounted to RUB 44,386 million, including cash of RUB 41,567 million, contingent consideration of RUB 2,045 million in case of achievement of certain indicators in the periods from 2019 to 2022 and deferred payment of RUB 773 million no later than 1 September 2020.

Contribution of microelectronics assets into a joint venture – In December 2018, RTI board of directors approved the contribution of microelectronics assets into a JV with Rostec. The Group concluded that microelectronics assets were available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups and their sale is highly probable as of 31 December 2018. The Group classified microelectronic assets as assets held for sale as at 31 December 2018, and presented their results for 2017 and 2018 as discontinued operations. In May 2019, the authorized capital of LLC Element was increased as a result of the contributions of assets by participants. RTI JSC contributed microelectronics assets with a fair value of RUB 8.3 billion.

The results of the companies are presented as part of discontinued operations in the accompanying consolidated profit and loss statement for all periods presented.

The gain/(loss) on disposal is as follows:

	2019			
	Microelectronics assets	**Leader Invest**	**Detsky mir**	**VF Ukraine**
Net (assets)/liabilities as at disposal date	(4,361)	(8,608)	187	(41,938)
Share in Element LLC as at disposal date	(50)	-	-	-
Non-controlling interest as at disposal date	241	-	(96)	(3,973)
Accumulated other comprehensive loss				(3,974)
Fair value of equity method investments	-	13,727	22,461	-
Fair value of consideration received	8,314	15,129	12,542	44,386
Gain/(loss) from disposal	**4,144**	**20,248**	**35,094**	**(5,499)**

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

The results of the disposed subsidiaries included in discontinued operations in the consolidated statements of profit or loss for 2019 and 2018 are as follows:

	Microelectronics assets		**Leader Invest**		**Detsky mir**		**VF Ukraine**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Revenue	4,461	12,242	1,444	12,677	111,221	110,874	36,675	28,826
Expenses	(4,800)	(10,521)	(1,794)	(12,674)	(105,756)	(103,824)	(28,564)	(22,094)
Profit/(loss) before income tax	(339)	1,721	(350)	3	5,465	7,050	8,111	6,732
Income tax (expense) / benefit	(16)	(34)	33	(629)	(703)	(1,227)	(2,018)	(1,575)
Results for the period / up to disposal date	**(355)**	**1,687**	**(317)**	**(626)**	**4,762**	**5,823**	**6,093**	**5,157**

Cash flows from discontinued operations included in the consolidated statements of cash flows for 2019 and 2018 are as follows:

	Microelectronics assets		**Leader Invest**		**Detsky mir**		**VF Ukraine**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Net cash provided by/(used in) operating activities	1,362	498	(180)	3,615	10,463	9,742	17,343	16,773
Net cash (used in)/provided by investing activities	(248)	(562)	-	666	(3,050)	(3,794)	(13,046)	(15,724)
Net cash provided by/(used in) financial activities	8,016	(335)	247	(1,762)	(9,362)	(5,639)	(1,114)	(1,057)
Total net cash used	**9,130**	**(399)**	**67**	**2,519**	**(1,949)**	**309**	**3,183**	**(8)**

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

Assets held for sale as of 31 December 2018 consisted of the following:

	31 December 2018
Assets	
CURRENT ASSETS:	
Cash and cash equivalents	482
Restricted cash	2,150
Trade and other accounts receivable	2,628
Other financial assets	4
Contract assets	673
Advances paid and prepaid expenses	798
Inventories	3,881
Other current assets	188
Total current assets	**10,804**
NON-CURRENT ASSETS:	
Property, plant and equipment	7,602
Other intangible assets	1,017
Other assets	301
Deferred tax assets	187
Total non-current assets	**9,107**
Total assets	**19,911**

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

Liabilities directly associated with assets classified as held for sale as of 31 December 2018 consisted of the following:

	31 December 2018
Liabilities	
Current liabilities	
Trade and other accounts payable	2,181
Contract liabilities and other liabilities	3,022
Income tax payable	13
Other tax payable	296
Borrowings	99
Lease liabilities	248
Other liabilities	328
Total current liabilities	**6,187**
Non-current liabilities:	
Lease liabilities	295
Borrowings	12
Deferred tax liabilities	221
Other liabilities	111
Total non-current liabilities	**639**
Total liabilities	**6,826**

7. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method, with assets and liabilities of acquired entities being measured at their fair values as of the date of acquisition. Goodwill is determined as the excess of the consideration transferred plus the fair value of any non-controlling interests in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The excess of the fair values of the identifiable net assets acquired over the cost of the business combination plus the fair value of any non-controlling interests in the acquiree at the acquisition date is credited to income ("negative goodwill").

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the acquisition occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which could be up to one year from the acquisition date, the Group retrospectively adjusts the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

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

Business combinations in 2019

The information on business combinations which took place in 2019 is summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
Rikt JSC	Telecommunications	June	97%	MTS	360
Severlesprom LLC	Logging	June	100%	Segezha	140
Klinika na petrogradskoj storone LLC	Medicine	December	100%	Medsi	41
Итого					**541**

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

	Rikt JSC	Severlesprom LLC	Klinika na petrogradskoj storone LLC
Total consideration satisfied by:			
Cash	360	140	41
Fair value of businesess less NCI	**360**	**140**	**41**
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	118	-	86
Other intangible assets	172	-	-
Other non-current assets	14	219	3
Other current assets	27	23	14
Current liabilities	(37)	(14)	(45)
Non-current liabilities	(39)	(88)	(50)
Net assets	**255**	**140**	**8**
Non-controlling interest	**-**	**-**	**-**
Goodwill	105	-	33
Fair value of businesess less NCI	**360**	**140**	**41**

The excess of the consideration paid over the value of net assets was allocated to goodwill mainly arising from the following:

Rikt JSC	Expected synergy effect
Severlesprom LLC	Expected synergy effect
Klinika na petrogradskoj storone LLC	Assembled workforce, market position, expected synergies

At the reporting date, all of the necessary market valuations and other calculations of the acquisition cost of Rikt JSC, Severlesprom LLC and Klinika na petrogradskoj storone LLC have been finalized.

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

Business combinations in 2018

In 2018 MTS, Agroholding "Steppe" and Segezha Group acquired several companies related to their operating segments for RUB 6,328 million, RUB 1,725 million and RUB 963 million respectively.

The acquisition cost estimate of the agriculture businesses, IT-Grad 1 Cloud LLC ("IT-Grad") and Voloma-Invest LLC ("Voloma-Invest") has been completed in 2019.

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

	KS	MDTZK	Progtech	IT-Grad	Agriculture businesses	Voloma-invest
Total acquisition cost including:						
Cash consideration	267	3,190	392	1,515	350	649
Subsidiary equity instruments-based consideration	-	-	-	-	1,375	-
Fair value of contingent consideration	54	-	3	907	-	-
	321	**3,190**	**395**	**2,422**	**1,725**	**649**
Fair value of previously held equity intrest in the acquiree	**-**	**-**	**-**	**-**	**-**	**274**
	321	**3,190**	**395**	**2,422**	**1,725**	**923**
Acquired asset and liabilities						
Other intangible assets	166	1,506	123	643	103	1,053
Othe non-current assets	43	145	172	32	1,724	648
Current assets	156	744	43	57	555	238
Current liabilities	(383)	(868)	(80)	(59)	(1,031)	(196)
Non-current liabilities	(140)	(370)	(76)	(128)	(238)	(570)
	(158)	**1,157**	**182**	**545**	**1,113**	**1,173**
Non-controlling interests	-	-	-	-	-	(210)
Goodwill	479	2,033	213	1,877	612	-
Companies value less non-controlling interest	**321**	**3,190**	**395**	**2,422**	**1,725**	**963**

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

The excess of the consideration paid over the value of the acquired net assets was allocated to goodwill for the following reasons:

MDTZK LLC	Acquisition of one of the market leaders in ticket sales and expected synergy effect
KS LLC	Acquisition of one of the market leaders in ticket sales and expected synergy effect
Progtech	Expected synergy effect
Agriculture businesses	Expected synergy effect and formed work team
IT-Grad	Expected synergy effect and market position

Pro forma results of operations

Pro forma financial information for 2019 and 2018 which gives effect to the acquisitions as if they had occurred as of 1 January 2019 is not presented because the effects of these business combinations, individually and in aggregate, were not material to the Group's consolidated results of operations.

Loss and revenue for 2019 attributable to financial results of business acquired in 2019 is not material.

The following table summarises the details of purchase of subsidiaries, net of cash acquired, reported in the statements of cash flows:

	2019	**2018**
Cash consideration	541	7,327
Payables at the end of the year	-	(1,302)
Cash acquired	(2)	(737)
Contingent liability	-	(964)
Payments for acquisitions of subsidiaries in previous periods	2,236	-
Acquisitions of subsidiaries less cash acquired	**2,775**	**4,324**

8. CAPITAL TRANSACTIONS OF SUBSIDIARIES

The Group enters into transactions to acquire or dispose ownership interests in its existing subsidiaries that do not result in the Group losing control over the subsidiaries. Also, the entities of the Group enter into transactions with each other to transfer ownership interests in subsidiaries within the Group. Such transactions are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests ("NCI") are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity in additional paid-in capital ("APIC") and attributed to shareholders of the Company.

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

Transactions in 2019

The information on capital transactions of subsidiaries which took place in 2019 and their impacts on the Group's equity is summarised below:

	Increase/ (decrease) of additional paid-in capital	Decrease of non-controlling interests
MTS shares tender offer	(527)	(7,949)
Purchase of own shares of the Agroholding Steppe	66	(2,116)
Sale of additional stake of MTS Bank to MTS	2,328	(2,328)
The effect of the buyback of a minority stake in Binnopharm	(195)	(468)
Intragroup transactions effect	566	(566)
Other	(682)	(1,228)
Total impact	**1,556**	**(14,655)**

MTS Share Acquisition Program – As a part of the implementation of the share acquisition plan approved in 2018, MTS acquired 57,719,394 ordinary shares, including acquisition of 28,929,344 ordinary shares from Sistema Finance SA, the subsidiary of the Group, in the amount of RUB 7.45 billion.

Sale of an additional stake in MTS Bank to MTS – In February, Sistema PJSFC and its 100% subsidiary Sistema Telecom Assets LLC sold a 39.5% stake in MTS Bank to Mobile TeleSystems BV, a 100% subsidiary of PJSC MTS for RUB 11.4 billion. As a result of the transaction, the effective ownership interest of MTS-Bank decreased to 52.4%.

In December, Sistema PJSFC sold a 4.5% stake in MTS Bank to Mobile TeleSystems B.V., a 100% subsidiary of MTS PJSC for RUB 1.4 billion. As a result of the transaction, Sistema JSFC completely withdrew from the shareholders of MTS-Bank PJSC.

Purchase of own shares of the Agroholding "Steppe" – In March 2019, the Agroholding "Steppe" bought out its RUB 2 billion stake from a minority shareholder. As a result, the Group's share in the Agroholding "Steppe" increased to 92.8%.

The effect of additional stake repurchase in Binnopharm – Sistema PJSFC increased its stake in Binnopharm from 74% to 89% as part of the creation of the joint pharmaceutical company Alium. Sistema's stake in Binnopharm increased as a result of the repurchase of the stake from a minority shareholder as part of a planned transaction to merge OBL Pharm and Binnopharm.

Transactions in 2018

The information on capital transactions of subsidiaries which took place in 2018 and their impacts on the Group's equity is summarised below:

	Increase of additional paid-in capital	Decrease of non-controlling interests
MTS shares tender offer	971	(11,284)
Changes in share capital of subsidiaries	1,390	(32)
Intragroup sale of the stake in MTS Bank	1,552	(1,552)
Other	1,967	(1,103)
Total impact	**5,880**	**(13,971)**

MTS shares tender offer – Under the MTS tender offer to repurchase its ordinary shares (including shares represented by American depository shares), MTS purchased a total of 82,669,046 shares at a price per share from RUB 191 to RUB 338, for a total cost of RUB 22.6 billion, including 45,269,718 shares from Sistema Finance S.A., a subsidiary of the Group, for an aggregate purchase price of RUB 12.3 billion.

Changes in share capital of subsidiaries:

- In December 2018, the Group purchased 25% of PJSC "VAO "Intourist" from a minority shareholder for a cash consideration of RUB 0.5 billion. Following the acquisition, the Group's ownership interest in "VAO "Intourist" is 91.24%.
- In November 2018, Agroholding "Steppe" acquired several companies in exchange for an additional issue of its own shares. The fair value of the consideration is for RUB 1.9 billion. As a result of the transaction, the Group's ownership in Agroholding "Steppe" decreased to 84.63% (Note 7).
- In July 2018, the Company acquired 19% of EWUB from MTS Bank for a cash consideration of RUB 1.2 billion. As a result of the transaction, Sistema's effective ownership in EWUB increased to 100%.

Intragroup transfer of MTS Bank – In July 2018, the Company sold 28.63% of MTS Bank for a cash consideration of RUB 8.3 billion to MTS. As a result of the transaction, the Company's effective ownership in MTS Bank decreased to 72.29%.

9. REVENUE

The Group receives its revenue primarily from the sale of goods and rendering services in Russia.

Revenue from contracts with customers specific to the reporting segments of the Group is recognized in the following way.

MTS – Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage of minutes of traffic processed and volume of data transmitted or period of time (monthly subscription fees). Products and services may be sold separately or in bundle packages. The most significant part of revenue relates to prepaid contracts. Revenue from the sale of prepaid credit is deferred until such time as the customer consumes the services or the credit expires.

The Group capitalizes costs of obtaining contracts (such as sales commissions) and costs of fulfilling contracts and amortizes over the period expected to benefit from the contract. The Group used the practical expedient allowed by of IFRS 15 whereby such costs may be expensed if the amortization period is one year or less.

Revenue from sales of goods (mainly cellphones and other mobile devices) is recognized when the significant risks and rewards of ownership have been transferred to the customer.

Revenue from providing financial services mainly relates to interest bearing assets of MTS Bank. Such revenue is recognized on an accrual basis using the effective interest method.

RTI – RTI contracts with customers include project type contracts, serial production contracts and other works and services.

Project type contracts include contracts performed under specifically agreed statement of work with a customer. Revenue under these contracts is regognized over time. Revenue is determined by reference to the stage of completion of works estimated using input method, i.e. based on the proportion of costs incurred for work performed to date relative to the estimated total contract costs. Revenue is recognized cumulatively as at reporting date as total contract revenue multiplied by percentage of completion as at reporting date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

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

Manufactured goods under serial production contracts are mostly recurring and standardized. Such goods may be produced either based on customer orders or for storing in warehouses because in case of a refusal of one customer it may be offered to other interested parties without significant modifications. Revenue under serial production contracts is recognized when a customer obtains the right to control goods and benefit from their usage.

Segezha Group – Segezha Group receives revenue from the sale of goods (paper and packaging, lumber, plywood and other goods) and from the provision of services for the delivery of finished products to the buyer after the transfer of control over the goods. Sales are recognized at the time when control of goods is transferred, i.e. when the goods are delivered to the buyer in accordance with the terms of delivery (Incoterms 2010), the buyer has complete freedom of action with respect to the goods and when there is no unfulfilled obligation that may affect the acceptance of the goods by the buyer. Delivery is deemed to have been made when the goods have been delivered to a certain place, the risks of wear and loss passed to the buyer, and the buyer accepted the goods in accordance with the contract, the validity of the acceptance provisions has expired or the Group has objective evidence that all acceptance criteria have been met.

The following is analysis of the Group's revenue from continuing operations for 2019:

	Reportable segments					
	MTS	**Segezha**	**RTI**	**Corporate**	**Other**	**Total**
Type of goods/services						
Mobile and fix line services	370,140	-	-	-	-	370,140
Sale of goods	67,793	-	-	-	-	67,793
Works under specification	-	-	19,696	-	2,714	22,410
Production	-	58,428	4,501	-	31,043	93,972
Financial services	29,051	-	-	-	1,118	30,169
Other services	-	-	-	2,435	54,364	56,799
Other	5,465	-	458	-	9,655	15,578
	472,449	**58,428**	**24,655**	**2,435**	**98,894**	**656,861**
Revenue from goods or services transferred to customers						
At a point in time	75,038	58,428	4,873	2,435	94,432	235,206
Over time	397,411	-	19,782	-	4,462	421,655
	472,449	**58,428**	**24,655**	**2,435**	**98,894**	**656,861**

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

The following is analysis of the Group's revenue from continuing operations for 2018:

	Reportable segments					
	MTS	**Segezha**	**RTI**	**Corporate**	**Other**	**Total**
Type of goods/services						
Mobile and fix line services	365,146	-	-	-	-	365,146
Sale of goods	68,768	-	-	-	-	68,768
Works under specification	-	-	15,891	-	4,800	20,691
Production	-	57,847	5,642	-	26,283	89,772
Financial services	20,851	-	-	-	1,378	22,229
Other services	-	-	-	2,351	47,197	49,548
Other	2,793	-	1,168	-	4,917	8,878
	457,558	**57,847**	**22,701**	**2,351**	**84,575**	**625,032**
Revenue from goods or services transferred to customers						
At a point in time	72,039	57,847	6,730	2,351	79,983	218,950
Over time	385,519	-	15,971	-	4,592	406,082
	457,558	**57,847**	**22,701**	**2,351**	**84,575**	**625,032**

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as of 31 December 2019 as follows:

	2020	**2021-2025**	**2026-2030**	**Total**
Mobile telecommunication services	(18,260)	(581)	(8)	(18,849)
Other services	(2,925)	(56,544)	-	(59,469)
Loyalty programme	(343)	-	-	(343)
	(21,528)	**(57,125)**	**(8)**	**(78,661)**

Contract assets and liabilities

Contract balances include trade receivables related to the recognized revenue, contract assets and contract liabilities.

Trade receivables represent an unconditional right to receive consideration (primarily in cash).

Contract assets represent accrued revenues that have not yet been billed to customers due to certain contractual terms other than the payments terms.

Contract assets of MTS represent accrued revenue in a bundled offering which combines the sale of a mobile device and the provision of mobile services for a fixed-period. The mobile device is invoiced at a reduced price leading to the reallocation of a portion of amounts invoiced for mobile communication services to the supply of the mobile phone. The excess of the amount allocated to the mobile phone over the price invoiced is recognized as a contract asset and thus transferred to trade receivables as the service is rendered.

Contract assets also relate to the MTS's rights to consideration for work completed but not yet billed for integration services projects.

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

Contract assets and liabilities of RTI are recorded under project type contracts. RTI has the right to consideration for the performed services before their completion and acceptance by a client. This right is recognized as a contract asset which increases as a result of increasing percentage of completion. Project type contracts typically provide customer prepayments which are a contract liability for the Group.

Contract liabilities represent amounts paid by customers to the Group before receiving the goods or services promised in the contract. Contract liabilities consisted of advances received from customers and also amounts invoiced and paid for goods or services that are yet to be transferred.

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers as of 31 December 2019 and 2018:

	31 December 2019	**31 December 2018**
Accounts receivable	37,434	30,884
Contract assets	6,474	7,297
Total assets	**43,908**	**38,181**
Less: current portion	(40,351)	(38,171)
Total non-current assets	**3,557**	**10**
Contract liabilities	(30,361)	(33,014)
Thereof:		
Mobile telecommunication services	(20,964)	(21,835)
Project type works	(9,054)	(10,859)
Loyalty programmes	(343)	(320)
Total liabilities	**(30,361)**	**(33,014)**
Less: current portion	21,527	22,565
Total non-current liabilities	**(8,834)**	**(10,449)**

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

Changes in the contract assets and the contract liabilities balances during the 2019 and 2018 are as follows:

	2019		2018	
	Contract assets	**Contract liabilities**	**Contract assets**	**Contract liabilities**
Balance as of 1 January	**7,297**	**(33,014)**	**5,788**	**(28,824)**
Revenue recognized that was included in the contract liability balance at the beginning of the period	-	24,865	-	16,273
Increase due to cash received, excluding amount recognized as revenue during the period	1	(25,768)	1,517	(22,319)
Transfer to assets held for sale	(21)	-	(674)	2,159
Effect of changes in estimates	(803)	-	666	-
Business combinations	-	3,556	-	(303)
Balance as of 31 December	**6,474**	**(30,361)**	**7,297**	**(33,014)**

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as of 31 December 2019 as follows:

- For mobile telecommunication services, revenue in amount of RUB 18,260 million will be recognized during 2020. Afterwards revenue will be recognized in the amount of RUB 589 million.
- For project type works, revenue of RUB 2,924 million will be recognized during 2020, revenue of RUB 56,544 – until 2024.
- For loyalty programs, revenue of RUB 343 million will be recognized during 2020.

Cost to obtain and fulfill a contract

The Group capitalizes certain incremental costs incurred in acquiring or fulfilling a contract with a customer if the management expects these costs to be recoverable.

Costs of acquiring a contract include commissions paid to a third-party distributors as well as the associated remuneration of the Group's commercial employees for obtaining a contract with a customer. These costs are amortized on a straight-line basis over the average subscriber life.

Costs to fulfil a contract mainly relate to costs of equipment transferred to the subscribers required for the provision of services. These costs are amortized on a straight-line basis for the shorter of equipment useful life or average subscriber life.

The Group uses a practical expedient from IFRS 15 which allows to expensing of contract costs as incurred when the expected contract duration is one year or less.

As of 31 December 2019 and 31 December 2018, the balances of cost to obtain and fulfil contracts capitalized by the Group amounted to:

	31 December 2019	**31 December 2018**
Cost to obtain contracts	7,241	6,899
Cost to fulfil contracts	1,846	1,720

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

As of 31 December 2019 and 31 December 2018, the accumulated amortization expense related to cost to obtain and fulfill contracts amounted to RUB 7,615 million and RUB 16,909 million, respectively. Amortization expense related to cost to obtain and fulfill contracts recognized for the year ended 31 December 2019 amounted to RUB 3,940 million. There was no impairment loss relating to the costs capitalized.

10. IMPAIRMENT OF LONG-LIVED ASSETS

Impairment of long-lived assets recognized in the consolidated statement of profit or loss for 2019 includes impairment of property, plant and equipment, goodwill and other intangible assets

	2019	**2018**
Impairment of investment property of Bisiness Nedvizhimost	2,959	-
Impairment of non-current assets of Kronshtadt Group	2,422	-
Impairment of investment property of other operation segments	2,740	-
Impairment of other non-current assets	3,350	506
Impairment of goodwill	168	524
Total impairment of long-lived assets	**11,639**	**1,030**

Impairment of investment property of Business Nedvizhimost ("Rental property") – The Group identified impairment indicators of Rental property and engaged an independent appraiser to conduct an assessment of the recoverable amount of the investment property. The valuation was performed in accordance with the International Valuation Standards and was based on the recent market transactions conducted on market conditions with similar real estate.

Impairment of Kronshtadt Group's non-current assets – As of 31 December 2019, as a result of continuing operating losses incurred by the Kronstadt Group, the Group conducted an assessment of the recoverable amount of long-term assets related to the Kronstadt Group segment. The recoverable amount was defined based on the value-in-use of the cash-generating units of the Kronstadt Group. In determining value-in-use, the estimated future cash flows were discounted using a pre-tax discount rate that takes into account the current market assessment of the time value of money and the specific risks of the cash-generating units.

The calculation of the future cash flows is estimated based on a business plan until 2025.
The estimation of the future cash flows requires the use of assumptions on a number of variable factors, including expectations of the following indicators: OIBDA margin, future capital expenditures timing and amount, terminal growth rate and discount rate reflecting the corresponding level of risk (16%).

Impairment of investment property of other operating segments – During 2019, the Group identified impairment indicators of investment property in several operating segments and engaged an independent appraiser to conduct an assessment of the recoverable amount of investment property. The valuation was performed in accordance with the International Valuation Standards and was based on the recent market transactions conducted on market conditions with similar real estate.

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

11. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets for 2019 and 2018 comprise the following:

	2019	2018
Allowance for expected credit losses of accounts receivable	5,408	5,423
Impairment of loans carried at amortised cost	1,260	-
Impairment of other financial assets	326	200
Total impairment of financial assets	**6,994**	**5,623**

12. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the countries where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets are not recognized when management believes that it is more than 50% probable that deferred tax assets or some portion of them will not be realized. At the same time, the Group takes into account all available evidence, including projected future taxable profit, tax planning strategies and recent financial transactions.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

The Group's income tax expense for 2019 and 2018 comprise the following:

	2019	2018
Current income tax expense	(27,994)	(25,632)
Deferred income tax benefit/(expense)	995	(3,721)
Total income tax expense recognised in the current year relating to continuing operations	**(26,999)**	**(29,353)**

Income tax expense calculated by applying the Russian statutory income tax rate to income from continuing operations before income tax differs from income tax expense recognized in the consolidated statements of profit or loss as a consequence of the following adjustments:

	2019	2018
Profit before tax	**17,056**	**38,418**
Income tax expense calculated at 20%	(3,411)	(7,684)
Adjustments due to:		
Earnings distribution from subsidiaries and associates	(5,548)	(3,440)
Increase of unrecognised deferred tax assets	(14,071)	(20,420)
Other non-deductible expenses	(4,277)	(1,274)
Different tax rate of subsidiaries	331	157
Non-taxable income	191	309
Other	(214)	2,999
Income tax expense	**(26,999)**	**(29,353)**

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

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statements of financial position:

2019	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Acquisitions /disposals**	**Closing balance**
Deferred tax (liabilities)/ assets in relation to:					
Accrued expenses and accounts payable	5,578	1,163	-	(941)	5,800
Property, plant and equipment	(20,774)	(2,792)	(1,216)	(605)	(25,387)
Intangible assets	(9,043)	161	(34)	(33)	(8,949)
Cost capitalization	(1,321)	(149)	-	22	(1,448)
Deferred connection fees	954	186	-	90	1,230
Inventory obsolescence	915	1	-	(828)	88
Allowance for expected credit losses	341	33	-	(393)	(19)
Deferred revenues	145	-	-	(144)	1
Undistributed earnings of subsidiaries and joint ventures and associates	(5,949)	(175)	237	-	(5,887)
Right-of-use asset	2,699	1,030	-	(301)	3,428
Tax losses carried forward	16,843	251	176	(557)	16,713
Debt modification	(1,075)	642	-	-	(433)
Other	3,174	644	521	1,104	5,443
Total	**(7,513)**	**995**	**(316)**	**(2,586)**	**(9,420)**

2018	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Effect of new standards**	**Acquisitions /disposals**	**Closing balance**
Deferred tax (liabilities)/ assets in relation to:						
Accrued expenses and accounts payable	6,144	(1,161)	51	119	425	5,578
Property, plant and equipment	(23,730)	787	142	1,632	395	(20,774)
Intangible assets	(10,577)	1,827	9	-	(302)	(9,043)
Cost capitalization	-	(31)	-	(1,290)	-	(1,321)
Deferred connection fees	562	(340)	15	717	-	954
Inventory obsolescence	964	(49)	-	-	-	915
Allowance for doubtful accounts and loans receivable	826	(570)	85	-	-	341
Deferred revenues	122	23	-	-	-	145
Undistributed earnings of subsidiaries and joint ventures and associates	(5,992)	437	(394)	-	-	(5,949)
Right of use asset	2,363	1,736	-	(1,400)	-	2,699
Tax losses carried forward	25,404	(8,662)	100	94	(93)	16,843
Modification of debt	-	(478)	-	(597)	-	(1,075)
Other	1,563	2,100	(669)	180	-	3,174
Total	**(2,351)**	**(4,381)**	**(661)**	**(545)**	**425**	**(7,513)**

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

As of 31 December 2019 and 2018 the Group reported the following deferred income tax assets and liabilities in the consolidated statements of financial position:

	31 December 2019	31 December 2018
Deferred tax assets	26,752	32,648
Deferred tax liabilities	(36,172)	(40,161)
Net deferred tax liabilities	**(9,420)**	**(7,513)**

As of 31 December 2019 and 2018 the tax losses carried forward, for which deferred tax assets were recognized, amounted to RUB 83,565 million and RUB 84,215 million, respectively.

The Group accrued uncertain income tax positions as a component of income tax payable of RUB 825 million and RUB 850 million as of 31 December, 2019 and 2018, respectively.

Federal law №401-FZ dated 30 November 2016 allowed for the indefinite carry forward of tax losses, whereas this was previously restricted to 10 years. Also the law specified that the tax base for the years 2017-2020 may not be reduced by tax losses carried forward in an amount exceeding 50% of the base. The following table summarizes temporary differences, for which deferred tax assets were not recognized in the consolidated statements of financial position as of 31 December 2019 and 2018:

Jurisdiction	**Carry-forward period**	**2019**	**2018**
India	2019-2027	115,322	133,691
Russia	Unlimited	232,836	219,879
Total		**348,158**	**353,570**

13. EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses consist of salaries, bonuses and social security contributions. Employee benefits expenses included in cost of sales, selling, general and administrative expenses and result from discontinued operations for 2019 and 2018 comprised RUB 142,100 million and RUB 134,031 million, respectively.

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

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost. Cost includes major expenditures for improvements and replacements, which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance, including preventive maintenance, are charged to the consolidated statement of profit or loss as incurred.

The cost of major overhauls and replacements, which extend useful lives of the assets or increase their revenue generating capacity, are capitalised to the cost of the assets.

Depreciation for property, plant and equipment is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	20-50 years
Leasehold improvements	the term of the lease
Base stations	7-15 years
Other network equipment	up to 31 years
Power and utilities	up to 35 years
Other	up to 15 years

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Group considers a construction period of more than six months to be substantial. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Property, plant and equipment, net of accumulated depreciation and impairment, as of 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Carrying amount		
Switches, transmission devices, network and base station equipment	212,735	230,241
Buildings and leasehold improvements	77,049	82,755
Power and utilities	29,117	28,123
Land	21,932	21,710
Other	59,250	59,492
Total	**400,083**	**422,321**

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

	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve-ments	Power and utilities	Land	Other	Total
Cost						
Balance as of 1 January 2018	**583,674**	**105,513**	**41,014**	**19,959**	**119,265**	**869,425**
Additions	51,557	13,573	4,446	358	27,331	97,265
Disposals	(26,444)	(1,294)	(59)	(135)	(3,632)	(31,564)
Business combinations	123	770	-	1,520	245	2,658
Reclassified from investment property	-	1,500	-	-	-	1,500
Reclassified to assets held for sale	(752)	(5,923)	-	-	(7,303)	(13,978)
Currency translation adjustment	12,929	1,638	-	8	2,103	16,678
Reclassified to/from right-of-use assets	(10,124)	-	-	-	(4,404)	(14,528)
Other	(1,728)	(831)	(124)	-	(404)	(3,087)
Balance as of 31 December 2018	**609,235**	**114,946**	**45,277**	**21,710**	**133,201**	**924,369**
Additions	52,340	9,727	3,773	336	21,450	87,626
Disposals	(26,870)	(1,068)	(372)	(373)	(4,277)	(32,960)
Business combinations	484	61	-	180	249	974
Reclassified from investment property	-	3,328	-	114	1,132	4,574
Reclassified to assets held for sale	(1,573)	555	-	-	-	(1,018)
Sales of companies	(62,196)	(15,634)	-	(158)	(19,599)	(97,587)
Currency translation adjustment	1,889	(1,702)	-	(26)	(158)	3
Reclassified to/from right-of-use assets	-	-	-	-	773	773
Other	702	711	167	149	319	2,048
Balance as of 31 December 2019	**574,011**	**110,924**	**48,845**	**21,932**	**133,090**	**888,802**

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

	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve-ments	Power and utilities	Land	Other	Total
Accumulated depreciation and impairment						
Balance as of 1 January 2018	**(348,171)**	**(28,153)**	**(14,745)**	**-**	**(66,889)**	**(457,958)**
Disposals	25,554	405	30		3,108	29,097
Reclassified to assets held for sale	223	1,696	-	-	4,457	6,376
Depreciation expense	(50,062)	(5,916)	(2,439)	-	(12,408)	(70,825)
Currency translation adjustment	(9,148)	(970)	-	-	(1,587)	(11,705)
Reclassified to/from right-of-use assets	2,070	-	-	-	-	2,070
(Impairment)/recovery of impairment	-	308	-	-	49	357
Other	540	439	-	-	(439)	540
Balance as of 31 December 2019	**(378,994)**	**(32,191)**	**(17,154)**	**-**	**(73,709)**	**(502,048)**
Disposals	26,163	377	34	-	3,172	29,746
Disposals from sales of companies	40,717	6,596	-	-	11,389	58,702
Acquisitions of business	(290)	(5)	-	-	(104)	(399)
Reclassified from investment property	-	(247)	-	-	(131)	(378)
Reclassified to assets held for sale	762	(76)	-	-	(1)	685
Depreciation expense	(47,905)	(6,190)	(2,608)	-	(13,628)	(70,331)
Currency translation adjustment	(767)	867	-	-	113	213
Reclassified to/from right-of-use assets	-	-	-	-	452	452
(Impairment)/recovery of impairment	-	(3,022)	-	-	(1,728)	(4,750)
Other	(962)	16	-	-	335	(611)
Balance as of 31 December 2019	**(361,276)**	**(33,875)**	**(19,728)**	**-**	**(73,840)**	**(488,719)**

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

15. INVESTMENT PROPERTY

Investment property primarily includes cottages, office and commercial space and business centres owned by the companies of the Group operating in real estate segment, mainly Business Nedvizhimost.

Investment property is stated at cost less accumulated depreciation and impairment losses.

Depreciation for investment property is computed under the straight-line method utilising average estimated useful lives of the assets of 25 years. Accumulated depreciation as of 31 December 2019 and 2018 amounted to RUB 4,955 million and RUB 4,208 million, respectively.

	2019	2018
Balance at the beginning of the year	**23,310**	**24,664**
Reclassified to property, plant and equipment	(4,196)	(1,500)
Additions	1,202	4,657
Disposals	(469)	(755)
Depreciation expense	(481)	(747)
Impairment (Note 10)	(5,699)	-
As part of disposed companies	(329)	-
Reclassified to other assets	-	(3,053)
Reclassified from/(to) inventories	322	44
Balance at the end of the year	**13,660**	**23,310**

Included in revenue is investment property rental income for 2019 of RUB 2,130 million (2018: RUB 1,820 million). Operating expenses arising from the investment property that generated rental income during 2019 totalled RUB 538 million (2018: RUB 1,108 million).

In estimating the fair value of the investment property, the Group classified the properties within Level 3 of the fair value hierarchy. As of 31 December 2019 and 2018, the Group determined the fair values of the investment property at RUB 42,182 million and RUB 61,488 million, respectively.

The fair values as of 31 December 2019 and 2018 were determined either based on discounted cash flows or by reference to market values of similar properties in the relevant region. The main inputs to the fair value measurement are the post-tax discount rate, revenue growth rates, OIBDA margin and adjustments to market values of similar properties. OIBDA determined as operating profit, adjusted on depreciation and amortization.

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

16. GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

The carrying amounts of goodwill attributable to operating segments are as follows:

	MTS	RTI	Steppe	Segezha Group	Other	Total
Balance as of 1 January 2018						
Gross amount of goodwill	50,046	8,323	6,315	3,454	6,350	74,488
Accumulated impairment loss	(7,046)	(8,219)	-	(241)	(5,150)	(20,656)
	43,000	**104**	**6,315**	**3,213**	**1,200**	**53,832**
Business combinations	4,602	-	612	306	-	5,520
Impairment	(524)	-	-	-	-	(524)
Currency translation adjustment	748	-	-	-	-	748
Disposal					(88)	(88)
Balance as of 31 December 2018						
Gross amount of goodwill	55,396	8,323	6,927	3,760	6,262	80,668
Accumulated impairment loss	(7,570)	(8,219)	-	(241)	(5,150)	(21,180)
	47,826	**104**	**6,927**	**3,519**	**1,112**	**59,488**
Business combinations	105	-	-	-	33	138
Impairment	-	-	-	-	(168)	(168)
Currency translation adjustment	(423)	-	-	-	-	(423)
Disposals	(114)	-	-	-	(527)	(641)
Reclassified to right-of-use assets	-	-	-	(2,765)	-	(2,765)
Other	-	-	-	(306)	65	(241)
Balance as of 31 December 2019						
Gross amount of goodwill	54,964	8,323	6,927	689	5,833	76,736
Accumulated impairment loss	(7,570)	(8,219)	-	(241)	(5,318)	(21,348)
	47,394	**104**	**6,927**	**448**	**515**	**55,388**

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

The Group performs impairment test for the goodwill assigned to cash-generating units (CGUs) at least annually and when there are any indications that the carrying amount of the CGU is impaired. When the carrying amount of the CGU to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this CGU is impaired.

MTS – For the purposes of impairment testing, goodwill attributable to the MTS segment is allocated to CGUs as of 31 December 2019 and 2018 is as follows:

	31 December 2019	31 December 2018
Russia Convergent	30,804	30,658
Moscow fixed line	1,336	1,377
Ukraine	-	106
Other	6,535	6,966
Unallocated	8,719	8,719
Total	**47,394**	**47,826**

The "Russia Convergent" CGU represents mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia, except for "Moscow fixed line", which represents the results of fixed line operations carried out in Moscow by MGTS, a subsidiary of MTS. Russia convergent also includes sales of equipment and accessories. "Ukraine" represents operations carried out by subsidiary of MTS in Ukraine, disposed in 2019 (Note 6). Goodwill allocated to these CGUs has arisen on acquisitions made by MTS. The Group does not allocate goodwill recognized as a result of its purchases of MTS shares by the Group to CGUs as it is monitored for internal management purposes at the level of the MTS segment as a whole. Unallocated amount of goodwill is tested for impairment with the reference to the market capitalisation of MTS.

The recoverable amounts of the CGUs are determined based on their value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

Future cash flows calculations are based on a five-year operation plan. Estimation of future cash flows requires assumptions to be made in respect of uncertain factors, including management's expectations of OIBDA margins, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks involved.

At the end of 2019, according to impairment test results, none of the cash generating units was impaired. Assets in Ukraine were sold in December 2019 and were excluded from the list of cash generating units. As a result of the impairment test performed on 31 December 2018, MTS recognized impairment losses in the amount of RUB 677 million, in respect of goodwill and non-current assets of the Cloud Retail CGU, of which RUB 524 million was attributed to goodwill.

The key assumptions used in the value in use calculations are as follows:

- Forecasting future cash flows was based on a five-year business plan. The estimation of future cash flows requires the use of assumptions regarding a number of variable factors.
- OIBDA margin used for the CGUs located in the Russian Federation and Armenia was in the range of 42.4% – 56.6%, in the Czech Republic in the range of 3.2% – 3.9%. (31 December 2018: 42.4% – 59.2% and 4.9% – 5.5%, respectively, Ukraine in the range of 50% – 51.6%).
- Capital expenditure for calculation of operational value was used as a percentage of the revenue of the CGUs located in the Russian Federation and Armenia in the range of 15.6% – 19.8%, in the Czech Republic – 1.2% (31 December 2018: 16.9% -21.6% and 1.3% respectively, Ukraine – 18.4%).

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

- The terminal growth rate was used according to the CGU located in the Russian Federation and Armenia in the range of 0.01% – 1%, in the Czech Republic – 2%. To calculate the value in use for the Ukraine segment in 2018 the growth rate used was 3%.
- Pre-tax nominal discount rate for CGUs located in the Russian Federation – 14.1%, Armenia – 13.5%, Czech Republic – 6.1% (31 December 2018: in the Russian Federation in the range of 14.5% – 16.0%, Armenia – 15.2%, Czech Republic – 8.7%, Ukraine – 20.8%) was calculated with reference to the weighted average cost of capital and reflects management's assessment of the risks inherent in these production units.

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.

Agroholding "Steppe" – The recoverable amounts of the CGUs were determined based on their value in use. Cash flow models were prepared in Russian rubles. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flow beyond the 5-year period were extrapolating using growth rates stated below. The growth rate do not exceed the long-term average growth rate for the business sector of the economy in which CGU operates.

Key assumptions used for value-in-use calculations are determined on the basis of market analysis which is performed regularly. The table below presents key assumptions used for value-in-use calculations:

	2019	**2018**
Terminal cash flows growth rate	4%	4%
Discount rate	14%	14%
Range of average annual market price growth rate	4-5%	4-5%

Segezha Group – The recoverable amount of CGU is determined based on the value-in-use. The calculation included cash flow projections based on eight-year financial plans and a discount rate of 12.6% (31 December 2018: 12.2%). The terminal growth rate is 4% per annum.

The model used for the impairment test is sensitive to changes in assumptions and estimates made by management. The result is especially sensitive to changes in the discount rate and forecasted exchange rates.

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

17. OTHER INTANGIBLE ASSETS

Other intangible assets are mainly represented by billing and telecommunication software and other software, operating licenses, acquired customer bases of MTS.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses. Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets that are acquired separately.

All finite-life intangible assets are amortised using the straight-line method utilising estimated useful lives of the assets as follows:

Operating licenses	1-20 years
Billing and telecommunication software	1-20 years
Radio frequencies	1-15 years
Customer base	4-31 years
Cost to obtain contracts	2-5 years
Software and other	1-10 years

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Trademarks with indefinite contractual life are not amortised, but are reviewed, at least annually, for impairment.

Intangible assets other than goodwill as of 31 December 2019 and 2018 consisted of the following:

	31 December 2019	**31 December 2018**
Carrying amounts of:		
Amortised intangible assets:		
Billing and telecommunication software	55,560	55,465
Operating licenses	10,103	25,605
Radio frequencies	1,590	2,061
Acquired customer base	842	2,300
Software and other	9,377	13,166
Cost to obtain contracts	7,123	6,899
	84,595	**105,496**
Unamortised intangible assets:		
Trademarks	6,543	6,629
Total	**91,138**	**112,125**

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

	Billing and telecom software	Operating licenses	Customer bases	Radio frequencies	Software and other	Trade - marks	Cost to obtain contracts	Total
Cost								
Balance as of 1 January 2018	**112,269**	**36,443**	**12,504**	**7,851**	**25,837**	**6,624**	**19,320**	**220,848**
Additions	20,884	7,513	59	19	2,845	-	3,961	35,281
Disposals	(8,215)	(223)	(63)	(1,223)	(439)	-	-	(10,163)
Reclassified to assets held for sale	-	(1,066)	-	-	(712)	-	-	(1,778)
Business combinations	68	-	1,530	-	1,482	-	-	3,080
Currency translation adjustment	2,977	4,656	-	-	158	5	79	7,875
Прочее	89	-	-	-	(103)	-	(118)	(132)
Balance as of 31 December 2018	**128,072**	**47,323**	**14,030**	**6,647**	**29,068**	**6,629**	**23,242**	**255,011**
Additions	27,921	1,119	-	(38)	2,451	-	10,290	41,743
Disposals	(11,564)	(84)	(2,879)	(865)	(411)	-	(18,281)	(34,084)
Business combinations	6	-	(37)	-	63	-	-	32
Sales of companies	(15,770)	(19,150)	-	-	(5,318)	(80)	(1,842)	(42,160)
Currency translation adjustment	718	197	-	(29)	19	-	108	1,013
Reclassified to other non-current assets	-	-	-	-	(1,226)	-	-	(1,226)
Other	93	3	-	(1)	462	(6)	-	551
Balance as of 31 December 2019	**129,476**	**29,408**	**11,114**	**5,714**	**25,108**	**6,543**	**13,517**	**220,880**
Accumulated depreciation and impairment								
Balance as of 1 January 2018	**(57,277)**	**(16,838)**	**(10,355)**	**(4,761)**	**(14,382)**	**-**	**(12,368)**	**(115,981)**
Disposals	7,994	193	63	971	392	-	-	9,613
Amortisation expense	(20,941)	(3,315)	(1,438)	(796)	(1,835)	-	(3,876)	(32,201)
Reclassified to assets held for sale	-	338	-	-	423	-	-	761
Impairment	(124)	-	-	-	(447)	-	-	(571)
Currency translation adjustment	(2,187)	(2,114)	-	-	(27)	-	(99)	(4,427)
Other	(72)	18	-	-	(26)	-	-	(80)
Balance as of 31 December 2018	**(72,607)**	**(21,718)**	**(11,730)**	**(4,586)**	**(15,902)**	**-**	**(16,343)**	**(142,886)**
Disposals	11,065	25	2,813	831	354	-	18,281	33,369
Amortisation expense	(24,394)	(3,430)	(1,361)	(372)	(1,722)	-	(6,887)	(38,166)
Sales of companies	12,657	5,155	6	-	2,648	-	1,210	21,676
Impairment	-	-	-	(26)	(1,008)	-	-	(1,034)
Currency translation adjustment	(615)	664	-	29	(5)	-	(82)	(9)
Other	(22)	(1)	-	-	(96)	-	(2,573)	(2,692)
Balance as of 31 December 2019	**(73,916)**	**(19,305)**	**(10,272)**	**(4,124)**	**(15,731)**	-	**(6,394)**	**(129,742)**

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

MTS operating licenses – In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications (the "Ministry"). In addition to the licenses received directly from the Ministry, the Group has been granted access to various telecommunication licenses through acquisitions of subsidiaries. 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 start date of service, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

The Group's operating licenses do not provide for automatic renewal. As of 31 December 2019, all expired licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. The weighted-average period until the next renewal of licenses in the Russian Federation is two and a half years.

The license for the provision of telecommunication services in Armenia is valid until 2034.

18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

Investments in associates and joint ventures as of 31 December 2019 and 2018 consisted of the following:

	2019		2018	
	Voting power	**Carrying value**	**Voting power**	**Carrying value**
Detsky mir (Note 6)	33.38%	21,807		-
Etalon (Note 6)	23.67%	13,342		-
Ozon	42.99%	11,854	34.96%	9,533
Element LLC	50.00%	10,042		-
MTS Belarus	49.00%	4,502	49.00%	4,051
OBL Pharm	26.26%	4,280	12.80%	1,832
Michurinskiy project	50.00%	2,591	50.00%	1,381
Real estate projects	48%-50%	1,352	48%-50%	4,823
Sintez	28.49%	204		-
Razvitie		-	50.00%	2,238
Other		9,943		10,649
Total		**79,917**		**34,507**

Detsky mir – Detsky mir, together with its branches, is the largest retail chain selling goods for children in Russia. The main activities are the sale of children's clothing and baby food through online stores. The group is developing the sale of pet food through retail chains and online stores. Detsky mir is registered in Russian Federation.

Etalon Group – Etalon Group is one of the largest development and construction companies, includes companies in Russia and abroad. Carries out development projects in the markets of St. Petersburg and Moscow, the holding company is registered in the Republic of Cyprus.

Investments in Ozon – During 2019, Sistema PJSFC continued to invest in Ozon. In February 2019, Sistema acquired an 18.7% stake in Ozon Holdings Limited from MTS, in addition, in the first half of the current year, the Company bought back shares from third parties, as a result of which the direct ownership share increased at the end of the second quarter up to 21.9%.
At the end of December, Sistema JSFC's share grew by 4.8 percentage points as a result of the conversion of debt into capital. Sistema PJSFC together with its subsidiary Sistema Venture Capital JSC owns 42.99% of Ozon's voting shares as of 31 December 2019. The carrying value of investment in Ozon as of 31 December 2019 is RUB 11.9 billion. The Group's share in loss of Ozon for 2019 is RUB 7.8 billion. Ozon is one of the largest Russian online stores, selling goods in various categories: electronics, household appliances, household goods and others. It has its own logistics network, marketplace technology, and a comprehensive web platform. Ozon is registered in the Republic of Cyprus.

Element LLC – In December 2018, the Board of Directors of RTI JSC approved the contribution of assets in the field of microelectronics as a contribution to the joint venture of Element LLC with the State Corporation Rostec. During 2019, RTI contributed microelectronics assets and purchased an additional stake in Element LLC in total amount of RUB 9.9 billion. The share in Element LLC at the end of 2019 equaled to 50%, the carrying value is about to RUB 10 billion. The joint national center of competence in the field of microelectronic component base is being created on the basis of the joint venture. Element LLC operates and is registered in the Russian Federation.

Investments in Pharmaceutical Enterprise Obolenskoe JSC – In 2019, a consortium of investors including the Russian Direct Investment Fund ("RDIF"), the Russian-Chinese Investment Fund ("RCIF") and several other funds (hereinafter collectively as the "Investors Consortium") acquired a stake in Ristango Holding Limited, a holding company through which in 2018 the Group and VTB Bank acquired a stake in Obolenskoye Pharmaceutical Enterprise JSC ("OBL Pharm"). As a result, a new shareholders agreement was signed. The Investors Consortium received the right to sell its stake in the Ristango Holding Limited Group in January 2026 for RUB 5.4 billion, which will be reduced by the amount of dividends received by the Investors Consortium during the period of ownership. The contracts which stipulates the acquisition of VTB stake in Ristango Holding Limited for RUB 6.7 billion in December 2021 is still in place. The fair value of the financial instruments at 31 December 2019 approximates nil. The calculation of the fair value of the financial instrument with the Investors Consortium is based on the Black-Scholes model using the discounted cash flow method to calculate the fair value of the interest in Ristango Holding Limited. The fair value of the forward contract with VTB Bank is defined as the difference between the purchase price and the fair value of the interest in Ristango Holding Limited determined using the discounted cash flow method.

In October 2019, the merger of OBL Pharm and Binnopharm JSC under the Alium brand was completed. As part of the business combination procedures, the Group increased its ownership interest in Binnopharm JSC from 74% to 89% by purchasing part of the shares from minority shareholders. The Group contributed its share in Binnopharm JSC as a consideration for the additional share issuance of OBL Pharm. The share of Sistema PJSFC in the company as of reporting date is 26.3%.

In ***real estate projects***, the Group retained its ownership interests as at 31 December 2019 and continues to account for them as investments in joint ventures and associates.

Purchase of Sintez and Biocom – In August 2019, Sinocom Investments Limited ("Sinocom"), a joint holding company of the Group and a financial partner, acquired a 46.5% stake in the authorized capital of Kurgan company of Medicines and Products "Sintez" JSC ("Sintez") and a 75.1% stake in the authorized capital of Biocom JSC ("Biocom") from the third party for RUB 11.8 billion. Further, Sintez acquired a 75.1% stake in Biocom from Sinocom for RUB 3.6 billion using its own funds and bank financing.

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

The Group and the financial partner entered into an agreement to acquire its stake in Sinocom in August 2022 for RUB 8.1 billion. The fair value of the financial instrument at 31 December 2019 approximates nil. The fair value was defined as the difference between the purchase price and the fair value of the interest in Sinocom Investments Limited as determined by the discounted cash flow method.

The Group concluded that, in accordance with the Sinocom articles of association and the acquisition documents, the Group does not have the exclusive right to manage the current activities of Sintez and Biocom, and therefore investments in these companies are accounted for using the equity method.

The percentage of voting shares of the Group in Sintez as of 31 December 2019 is calculated taking into account the percentage of voting shares in the holding company Sinocom Investment Limited and composed 28.49%. The Group's share in the profit and loss of Sintez of 1.54% was calculated based on investors contributions and the proportion of voting shares in Sinocom.

Sale of Razvitie LLC – In 2019, Sistema PJSFC sold its 50% stake in Razvitie LLC as part of the sale of Leader Invest JSC.

The financial position and results of operations of significant associates and joint venture as of and for the years ended 31 December 2019 and 2018 were as follows:

	2019							
	MTS Belarus	**Ozon**	**Real estates projects**	**Etaloln**	**Detskiy Mir**	**Sintez**	**OBL Pharm**	**Michurinskiy project**
Non-current assets	19,496	19,829	27,295	13,429	46,760	16,624	10,727	3,347
Current assets	11,536	18,902	3,458	158,949	45,901	7,333	5,969	12,587
Total assets	**31,032**	**38,731**	**30,753**	**172,378**	**92,661**	**23,957**	**16,696**	**15,934**
Non-current liabilities	(9,849)	(8,350)	(14,062)	(51,527)	(36,719)	(3,331)	(4,520)	(8,309)
Current liabilities	(11,995)	(29,688)	(6,606)	(67,447)	(57,609)	(4,060)	(4,792)	(981)
Total liabilities	**(21,844)**	**(38,038)**	**(20,668)**	**(118,974)**	**(94,328)**	**(7,391)**	**(9,312)**	**(9,290)**
Equity attributable to owners of the Company	**9,188**	**693**	**10,085**	**53,404**	**(1,667)**	**16,566**	**7,384**	**6,644**
Group's ownership interest	49.00%	42.99%	48.00%	23.67%	33.38%	1.54%	26.26%	50.00%
Fair value adjustment on the date of obtaining significant influence	-	11,556	(172)	702	22,364	(52)	2,341	(731)
Impairment	-	-	(3,317)	-	-	-	-	-
Carrying amount of the Group's interest	**4,502**	**11,854**	**1,352**	**13,343**	**21,807**	**204**	**4,280**	**2,591**
Total revenues	32,593	60,038	2,391	74,809	17,543	4,366	7,568	9,039
Total profit/(loss) for the year	9,354	(21,585)	(1,387)	(802)	1,780	170	748	2,419
The Group's share in profit/(loss)	**4,583**	**(7,834)**	**(666)**	**(655)**	**594**	**3**	**194**	**1,210**
Total comprehensive income/(loss)	8,512	(21,585)	(1,387)	(802)	1,780	170	748	2,419
The Group's share in comprehensive income/ (loss) for the year	**4,171**	**(7,834)**	**(666)**	**(655)**	**594**	**3**	**194**	**1,210**

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

	2018					
	MTS Belarus	**Ozon**	**Real estates projects**	**Razvitie**	**OBL Pharm**	**Michu-rinskiy project**
Non-current assets	17,659	8,466	18,937	4,003	5,898	2,444
Current assets	11,652	11,705	612	467	4,951	6,852
Total assets	**29,311**	**20,171**	**19,549**	**4,470**	**10,849**	**9,296**
Non-current liabilities	(7,089)	(511)	(8,042)	-	(5,441)	(4,828)
Current liabilities	(13,955)	(14,263)	(1,047)	(2)	(1,971)	(243)
Total liabilities	**(21,044)**	**(14,774)**	**(9,089)**	**(2)**	**(7,412)**	**(5,071)**
Equity attributable to owners of the Company	**8,267**	**5,397**	**10,460**	**4,468**	**3,437**	**4,225**
Group's ownership interest	49.00%	34.96%	48%-50%	50.00%	12.80%	50.00%
Fair value adjustment on the date of obtaining significant influence	-	7,646	(198)	4	1,392	(732)
Carrying amount of the Group's interest	**4,051**	**9,533**	**4,823**	**2,238**	**1,832**	**1,381**
Total revenues	27,695	37,263	31	-	6,863	2,076
Total profit/(loss) for the year	7,752	(4,509)	(259)	21	1,544	222
The Group's share in profit/(loss)	**3,799**	**(1,115)**	**(124)**	**11**	-	111
Total comprehensive income/(loss)	8,400	(4,509)	(259)	21	1,544	222
The Group's share in comprehensive income/ (loss) for the year	**4,116**	**(1,115)**	**(130)**	**11**	**-**	**111**

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

The following is a summary of the financial information for Element LLC (the material joint venture of the Group) as of 31 December 2019:

	31 December 2019
Assets	
Current assets, including:	21,276
cash and cash equivalents	2,231
restricted cash	3,378
Non-current assets	20,650
Total assets	**41,926**
Liabilities	
Current liabilities, including:	10,689
Trade and other paybles	3,625
Non-current liabilities	11,603
Total liabilities	**22,292**
Non-controlling interest	**1,600**
Equity attributable to owners of the Company	**18,034**
Group's ownership interest	50%
Fair value adjustment on the date of obtaining significant influence	1,025
Carrying amount of the Group's interest	**10,042**

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

The financial results of the activities of Element LLC (the material joint venture of the Group) for 2019 were as follows :

	June-December 2019
Revenue	14,365
Operating expenses, including:	(12,885)
Amortization	(1,161)
Operating income	**1,480**
Non-operating (expenses)/income, including:	(660)
Finance income	35
Finance costs	(667)
Profit before tax	**820**
Income tax expense	(256)
Net profit for the period of ownership	**564**
Attributable to:	
Owners of the Company	418
Non-controlling interest	146
The Group's share in profit of Element LLC	**225**
Total comprehensive income/(loss)	391
The Group's share in comprehensive income/(loss) for the year	**198**

The following is a summary of the aggregated financial information of other associates and joint ventures that are not individually material:

	2019	2018
Group's share of profit/(loss) from continuing operations	(2,052)	(505)
Group's share of total comprehensive income/(loss)	(1,613)	(817)
Aggregate carrying amount of the Group's interests in these associates and joint ventures	9,942	10,649

19. OTHER FINANCIAL ASSETS

The Group's financial assets, other than cash and cash equivalents, deposits in banks and accounts receivable shown separately on the face of the consolidated statements of financial position, primarily comprise assets of MTS Bank and East-West United Bank, the Group's subsidiaries engaged in banking activities, and investments of the Corporate segment.

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

The Group applies expected credit losses model for impairment analysis of financial assets classified at amortized cost. The Group applies the simplified approach permitted by IFRS 9 for its trade and other receivables which requires recognition of expected credit losses from initial recognition of trade receivables.

Financial assets are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset, except for a financial asset accounted for at fair value through profit or loss, in which case transaction costs are expensed. Subsequently such financial assets are measured either at amortized cost or fair value depending on the classification of those assets.

Financial assets are classified into the following specified categories depending on their nature and purpose: Financial assets measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVTOCI), financial assets measured at amortised costs.

If the financial assets are held for collecting contractual cash flows in the form of principal and interest on the specified dates, it is classified as carried at amortized cost.

If the financial assets are held not only for collecting contractual cash flows in the form of principal and interest on the specified dates, but also for potential sale, they are classified as measured at fair value through other comprehensive income.

All other financial assets are classified as measured at fair value through profit or loss.

At 31 December 2019 financial assets, other than those shown separately on the face of the statements of financial position, less allowance for impairment losses, comprise:

	31 December 2019	31 December 2018
Financial assets measured at fair value through profit or loss		
Debt and equity securities	47,782	51,332
Contingent consideration	2,013	-
Currency derivatives not designated as hedge instruments	52	3,049
Currency rate swaps not designated as hedge instruments	318	2,837
	50,165	**57,218**
Financial assets measured at fair value through other comprehensive income		
Cross-currency swaps designated as cash flow hedges	-	2,797
Debt and equity securities	8,999	10,153
	8,999	**12,950**
Financial assets measured at amortized cost		
Debt and equity securities	26,695	41,187
Bank loans to customers	99,228	68,227
Interbank loans due from banks	5,723	6,416
Other loans	13,301	15,888
	144,947	**131,718**
Total financial assets	**204,111**	**201,886**
Current	87,138	106,329
Non-current	116,973	95,557
	204,111	**201,886**

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

The following table summarizes changes in the allowance for financial assets other than for loan losses and accounts receivable for 2019 and 2018:

	2019	2018
Balance as of 1 January calculated under IAS 39	**-**	**11,268**
IFRS 9 transition impact	-	500
Balance as of 31 December calculated under IFRS 9	**5,951**	**11,768**
Charge for the period	66	446
Amounts written off against the allowance	(258)	(6,327)
Currency translation adjustments	(37)	64
Balance as of 31 December calculated under IFRS 9	**5,722**	**5,951**

As of 31 December 2019 and 2018, included in the above categories as well as cash and cash equivalents, financial assets attributable to the Group's banking activities (MTS Bank and its subsidiaries, East-West United Bank) comprise:

	31 December 2019	31 December 2018
Financial assets measured at fair value through profit or loss		
Debt and equity securities	14,217	13,654
	14,217	**13,654**
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	8,999	10,153
	8,999	**10,153**
Financial assets measured at amortized cost		
Cash and cash equivalents	38,777	23,500
Bank loans to customers	111,114	78,089
Interbank loans due from banks	5,723	6,416
Debt and equity securities	25,386	39,943
	181,000	147,948
Less: allowance for loan losses	(11,886)	(9,862)
	192,330	**161,893**

The movement in the allowance for loan losses during 2019 and 2018 was as follows:

Allowance for loan losses, 1 January	**9,862**	**10,459**
IFRS 9 transition impact	-	2,060
Charge for the period	3,533	705
Amounts written off against the allowance	(2,022)	(3,970)
Transfer to accounts receivable	-	(495)
Disposal	(40)	(356)
Recovery of bad debt written-off	829	780
Currency translation adjustment	(276)	679
Allowance for loan losses, 31 December	**11,886**	**9,862**

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

In accordance with IFRS 9 the Group records an allowance for expected credit losses (ECL) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due under the contract and cash flows that the Group expects to receive. The shortfall is discounted at an approximation to the asset's original effective interest rate.

The expected credit-loss approach uses three stages for allocating impairment losses:

Stage 1: expected credit losses within the next twelve months.

Stage 1 includes all contracts with no significant increase in credit risk since initial recognition and usually contains new contracts that are fewer than 31 days past due date. The portion of the lifetime expected credit losses resulting from default events possible within the next 12 months is recognized.

Stage 2: expected lifetime credit losses- not credit impaired.

If a financial asset has a significant increase in credit risk since initial recognition but is not yet credit impaired, it is moved to stage 2 and measured at lifetime expected credit loss. This is defined as the expected credit loss that results from all possible default events over the expected life of the financial instrument.

Stage 3: expected lifetime credit losses – credit impaired

If a financial asset is defined as credit impaired or in default, it is transferred to stage 3 and measured at lifetime expected credit loss. The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

Movements in provision for impairment losses on loans to legal entities for the year ended 31 December 2019 and 2018 were as follows:

	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Balance as at 1 January 2019	**356**	**605**	**5,126**	**255**	**6,342**
Transfer to Stage 1	19	(18)	(1)	-	-
Transfer to Stage 2	(46)	47	(1)	-	-
Transfer to Stage 3	(55)	(496)	551	-	-
New financial assets originated or purchased	537	2	-	119	658
Change due to change of credit risk	(45)	42	(374)	(28)	(405)
Sales of financial assets	(40)	-	-	-	(40)
Write-offs	(13)	(32)	(767)	(52)	(864)
Recovery of previously written-off assets	-	-	392	-	392
Foreign exchange difference	(2)	(15)	(254)	-	(271)
Balance as at 31 December 2019	**711**	**135**	**4,672**	**294**	**5,812**

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

	Stage 1	Stage 2	Stage 3	POCI*	Total
Balance as at 1 January 2018	**273**	**245**	**5,702**	**215**	**6,435**
IFRS 9 application	332	95	996	-	1,423
- Transfer to stage 1	3	-	(3)	-	-
- Transfer to stage 2	(22)	22	-	-	-
- Transfer to stage 3	(1)	(47)	48	-	-
New financial assets originated or purchased	182	177	-	124	373
Change due to change of credit risk	(415)	98	(369)	(84)	(104)
Sales of financial assets	-	-	(356)	-	(356)
Write-offs	-	-	(1,840)	-	(1,840)
Recovery of previously written-off assets	-	-	260	-	260
Foreign exchange difference	4	15	689	-	152
Balance as at 31 December 2018	**356**	**605**	**5,126**	**255**	**6,342**

** POCI – financial assets purchased or originated credit-impaired*

Movements in provision for impairment losses attributable to loans to individuals for the year ended 31 December 2019 and 2018 were as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 1 January 2019	**756**	**318**	**2005**	**398**	**3477**
Transfer to Stage 1	599	(465)	(134)	-	-
Transfer to Stage 2	(188)	236	(48)	-	-
Transfer to Stage 3	(2)	(1,228)	1,230	-	-
New financial assets originated or purchased	1,351	-	-	-	1,351
Change due to change of credit risk	(708)	2,062	593	-	1,947
Write-offs	-	-	(1,103)	(40)	(1,143)
Recovery of previously written-off assets	-	-	435	-	435
Balance as of 31 December 2019	**1,808**	**923**	**2,978**	**358**	**6,067**

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

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 1 January 2018	**97**	**230**	**2,803**	**358**	**3,488**
IFRS 9 effect	449	85	53	-	587
- Transfer to stage 1	450	(290)	(160)	-	-
- Transfer to stage 2	(145)	189	(44)	-	-
- Transfer to stage 3	(2)	(647)	649	-	-
New financial assets originated or purchased	585	-	-	-	585
Change due to change of credit risk	(678)	751	188	40	301
Write-offs	-	-	(2,004)	-	(2,004)
Recovery of previously written-off assets	-	-	520	-	520
Balance as of 31 December 2018	**756**	**318**	**2,005**	**398**	**3,477**

The following valuation categories represent the Group's classification of credit quality of the loans:

- *Low to fair risk* – loans of high credit quality and low probability of default, not past due or immaterially overdue;
- *Monitoring* – loans with increased probability of default including restructured loans;
- *Impaired* – impaired loans including more than 90 days overdue.

The table below summarizes information regarding the quality of loans to individuals as of 31 December 2019 and 2018:

31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Low to fair risk	66,507	138	-	-	66,645
Monitoring	-	2,801	49	358	3,208
Impaired	-	-	3,987	-	3,987
Loss allowance	(1,808)	(923)	(2,978)	(358)	(6,067)
Total	**64,699**	**2,016**	**1,058**	**-**	**67,773**

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Low to fair risk	37,139	445	-	-	37,584
Monitoring	-	534	5	-	539
Impaired	-	-	2,814	398	3,212
Loss allowance	(756)	(318)	(2,005)	(398)	(3,477)
Total	**36,383**	**661**	**814**	**-**	**37,858**

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

The table below summarizes information regarding the quality of loans to legal entities as of 31 December 2019 and 2018:

31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Low to fair risk	19,314	1,728	-	-	21,042
Monitoring	7,396	2,472	-	-	9,868
Impaired	-	-	6,055	301	6,356
Loss allowance	(711)	(135)	(4,672)	(294)	(5,812)
Total	**25,999**	**4,065**	**1,383**	**7**	**31,454**

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Low to fair risk	24,658	1,555	-	-	26,213
Monitoring	-	3,930	270	-	4,200
Impaired	-	-	6,038	260	6,298
Loss allowance	(356)	(605)	(5,126)	(255)	(6,342)
Total	**24,302**	**4,880**	**1,182**	**5**	**30,369**

Analysis by credit quality of loans to individuals outstanding as of 31 December 2019 is as follows:

31 December 2019	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans**
Collectively assessed				
Not past due	66,507	(1,664)	64,843	3%
Overdue:				
up to 30 days	1,841	(472)	1,369	26%
31 to 60 days	519	(293)	226	56%
61 to 90 days	441	(282)	159	64%
91 to 180 days	1,110	(816)	294	74%
over 180 days	2,615	(2,043)	572	78%
Total	**73,033**	**(5,570)**	**67,463**	**8%**
Individually impaired				
Not past due	495	(380)	115	77%
Overdue:				
up to 30 days	48	(15)	33	31%
31 to 60 days	-	-	-	0%
61 to 90 days	1	-	1	0%
91 to 180 days	4	-	4	0%
over 180 days	259	(102)	157	39%
Total	**807**	**(497)**	**310**	62%
Total	**73,840**	**(6,067)**	**67,773**	**8%**

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

Analysis by credit quality of loans to medium-sized enterprise outstanding as of 31 December 2019 is as follows:

As of 31 December 2019	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans**
Collectively assessed				
Not past due	1,213	(19)	1,194	2%
Overdue:				
up to 30 days	29	(9)	20	31%
31 to 60 days	30	-	30	0%
61 to 90 days	-	-	-	0%
91 to 180 days	14	(3)	11	22%
over 180 days	672	(399)	273	59%
Total collectively assessed loans	**1,958**	**(430)**	**1,528**	**22%**

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Group:

	31 December 2019	**31 December 2018**
Loans collateralized by cash deposits	4,246	-
Loans collateralized by guaranties of legal entities	16,630	17,984
Loans collateralized by pledge of real estate	15,102	14,971
Loans collateralized by pledge of own promissory notes	27	326
Loans collateralized by pledge of equipment	496	143
Loans collateralized by securities	1349	32
Loans collateralized by rights of claim	15	15
Loans collateralized by pledge of inventories	2	12
Unsecured loans	73,233	44,606
Allowance for impairment losses	(11,879)	(9,862)
Total loans to customers, net	**99,221**	**68,227**

20. RESTRICTED CASH

According to the amendments to the law "On State Defence Orders", cash received under state defence orders has to be held on special accounts and its spending is restricted to activities related to these orders. As of 31 December 2019 and 31 December 2018, RTI has RUB 5,689 million and RUB 8,614 million of cash on special accounts which was presented as restricted cash within current assets.

21. INVENTORIES

Inventory mainly include the retail network of MTS and raw materials of Segezha Group and material and technical product of RTI.

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

Inventories are stated at the lower of cost or market value. Inventories are accounted for using the weighted-average cost method. Inventory should be accounted further at the lower of net realisable value and carrying amount. The Group periodically assesses its inventories for obsolete or slow-moving stock.

The cost of raw materials includes the cost of purchase, customs duties, transportation and handling costs. Work-in-progress and finished goods are stated at production cost which includes direct production expenses and manufacturing overheads.

Inventories as of 31 December 2019 and 2018 consisted of the following:

	2019	2018
Detsky mir finished goods and goods for resale	-	34,865
Construction in progress of Leader Invest	-	14,452
Raw materials and spare parts	13,721	13,772
MTS finished goods and goods for resale	15,515	18,654
Other finished goods and goods for resale	6,983	8,400
Other work-in-progress	9,110	7,835
Subtotal	**45,329**	**97,978**
Excluding non-current inventories	-	(847)
Total	**45,329**	**97,131**

The cost of inventories recognized as an expense during the year in respect of continuing operations was RUB 90,211 million (2018: RUB 91,166 million). The cost of inventories recognized as an expense includes RUB 3,178 million (2018: RUB 4,004 million) in respect of write-downs of inventory to net realisable value and has been reduced by RUB 664 million (2018: RUB 2,315 million) in respect of the reversal of such write-downs.

22. ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the customers to the Group.

The carrying value of all trade receivables is reduced by appropriate allowances for ECL. For trade receivables the Group applies a simplified approach and calculates ECL based on lifetime expected credit losses.

Accounts receivable, net of allowances, as of 31 December 2019 and 2018 consisted of the following:

	2019	2018
Accounts receivable	61,250	70,392
Allowance for ECL	(6,547)	(6,875)
Total	**54,703**	**63,517**

Below is the age analysis of receivables that are past due but not impaired:

	2019	2018
60-90 days	1,396	1,974
more than 91 days	2,775	4,187
Total	**4,171**	**6,161**

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

Movement in the allowance is as follows:

	2019	2018
Balance at the beginning of the year	**(6,875)**	**(5,876)**
Transfer from provision of financial assets of banking activities	-	(495)
Allowance for doubtful accounts	(5,476)	(4,407)
Usage of allowance to doubtful accounts write-off	4,633	3,645
Disposal of subsidiaries	659	-
Provision recovery	291	99
Currency exchange gain	221	159
Balance at the end of the year	**(6,547)**	**(6,875)**

23. EQUITY

Share capital – As of 31 December 2019 and 2018, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,378,196,750 and 9,479,170,532 shares were outstanding, respectively.

Treasury shares – Movement of treasury shares during 2019 and 2018 years in quantity was as follows:

	2019	2018
Balance at the beginning of the year	**170,829,468**	**212,485,347**
Purchase of own shares	120,643,171	-
Purchase of own shares of the Company by empoyees	(19,669,389)	-
Settlements under long-term motivation program	-	(41,655,879)
Balance at the end of the year	**271,803,250**	**170,829,468**

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

On 30 June 2019, an annual general meeting of shareholders approved the total dividend payment of RUB 1,061.5 million for 2018 (including dividends on treasury shares of RUB 16.6 million) representing RUB 0.11 per ordinary share or RUB 2.2 per one global depository receipt.
The dividends were paid in 2019.

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

24. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income balance, net of taxes, as of 31 December 2019 and 2018:

	2019	2018
Accumulated currency translation gain	10,405	9,911
Unrealised gain on financial instruments	-	197
Unrecognised actuarial gain	303	92
Total accumulated other comprehensive income	**10,708**	**10,200**
Less: amounts attributable to non-controlling interests	(3,256)	1,004
Total accumulated other comprehensive income attributable to Sistema PJSFC	**7,452**	**11,204**

25. BORROWINGS

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

Borrowings are initially recognized at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

Finance costs in profit or loss consist of interest expense for financial liabilities not classified as at FVTPL. In 2019, finance costs did not include borrowing costs that were included in the cost of qualifying assets in amount of RUB 550 million (2018: RUB 460 million).

At 31 December 2019 and 2018, the Group's borrowings comprised:

	2019	2018
Bank loans	349,964	491,018
Corporate bonds	266,616	206,332
Other	4,290	985
	620,870	**698,335**
Current	129,454	105,893
Non-current	491,416	592,442

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

Bank loans – As of 31 December 2019 and 2018, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	**Interest rate (actual at 31 December 2019)**	**31 December 2019**	**31 December 2018**
USD-denominated:				
China Development Bank			-	10,421
Citibank			-	10,980
Other			-	5,109
			-	**26,510**
EUR-denominated:				
ING Bank	2020-2027	EURIBOR+1.5% (3.99%)	3,879	4,946
Alfa Bank	2020-2028	3.92%	13,868	15,892
Sberbank	2020-2024	3%	5,529	-
Other			1,066	1,352
			24,342	**22,190**
RUB-denominated:				
Sberbank	2020-2025	7.5%-11.2%	185,558	235,909
VTB	2020-2026	7.20%-9.85%; ЦБ+0.5%-4.8% (6.75%-11.05%)	68,877	132,421
Rosselkhozbank	2020	7.4%	5,000	-
Gazprombank	2020-2025	8.5%-9.3%	8,266	23,554
Otkrytie	2020-2025	8.20%-10.25%	17,524	19,125
Alfa Bank	2020-2028	8.75%-10.92% ЦБ+2% (8.25%)	28,931	24,795
Other			11,276	6,297
			325,432	**442,101**
Other currencies			190	217
Total bank loans			**349,964**	**491,018**

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

Corporate notes – As of 31 December 2019 and 2018, the Group's notes consisted of the following:

	Currency	Interest rate	31 December 2019	31 December 2018
MTS International 2023	USD	5.00%	27,394	31,090
Sistema International Май 2019	USD	6.95%	-	24,705
MTS International 2020	USD	8.63%	18,616	20,870
Sistema PJSFC February 2028	RUB	9.25%	244	15,000
Sistema PJSFC March 2027	RUB	8.90%	14,959	14,964
Sistema PJSFC November 2026	RUB	9.90%	9,650	9,635
Sistema PJSFC January 2028	RUB	9.80%	9,994	9,482
Sistema PJSFC October 2026	RUB	9.80%	6,123	6,115
Sistema PJSFC September 2025	RUB	12.50%	4,196	2,136
MTS Notes 2022	RUB	7.70%	14,969	14,958
MTS Notes 2023	RUB	6.85%	9,351	9,348
MTS Notes 2022	RUB	9.00%	9,995	9,993
MTS Notes 2021	RUB	8.85%	9,995	9,990
MTS Notes 2021	RUB	7.10%	9,992	9,988
MTS Notes 2025	RUB	7.25%	9,820	9,986
MTS Notes 2031	RUB	7.50%	891	1,080
MTS Notes 2020	RUB	7.90%	40	40
Detskiy Mir due 2024	RUB	9.50%	-	3,000
Sistema PJSFC February 2029	RUB	9.90%	9,661	-
Sistema PJSFC March 2029	RUB	9.90%	9,527	-
Sistema PJSFC July 2029	RUB	9.40%	9,429	-
Sistema PJSFC October 2029	RUB	7.85%	9,601	-
MTS Notes 2024	RUB	8.70%	9,764	-
MTS Notes 2022	RUB	8.40%	4,991	-
MTS Notes 2024	RUB	8.60%	7,485	-
MTS Notes 2025	RUB	8.00%	14,984	-
MTS Notes 2026	RUB	7.90%	9,998	-
MTS Notes 2023	RUB	6.85%	14,961	-
MTS Notes 2022	RUB	6.45%	9,973	-
Other			13	3,952
Итого			**266,616**	**206,332**

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

MTS PJSC Notes due 2031	March 2021
MTS PJSC Notes due 2023	March 2020
Sistema PJSFC Notes due November 2026	February 2020
Sistema PJSFC Notes due October 2026	November 2020
Sistema PJSFC Notes due January 2028	January 2021
Sistema PJSFC Notes due February 2029	March 2022
Sistema PJSFC Notes due March 2027	April 2022
Sistema PJSFC Notes due September 2025	April 2022
Sistema PJSFC Notes due March 2029	September 2022
Sistema PJSFC Notes due July 2029	July 2023
Sistema PJSFC Notes due February 2028	August 2024
Sistema PJSFC Notes due October 2029	October 2024

Covenants – Loans and notes payable by the Group are subject to various restrictive covenants and events of default, which permit lenders to demand accelerated repayment of debt. Such covenants and events include noncompliance with certain financial ratios, cancellation of principal telecom licenses, significant court rulings, encumbrances and confiscation of certain assets and other material adverse changes.

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

As of 31 December 2019 the Group had long-term debt denominated in Russian rubles, presented as part of current liabilities in the consolidated statement of financial position for the following reasons:

	2019	2018
Noncompliance with other non-financial covenants	11,312	16,915
Noncompliance with certain financial ratios by the Group's subsidiaries	799	-
Total	**12,111**	**16,915**

To the date when these consolidated financial statements were authorized for issue, the lenders have not exercised their rights for early redemption.

Assets pledged as security – As of 31 December 2019 and 2018 land and buildings with carrying amounts of RUB 35,206 million and RUB 25,025 million, respectively, have been pledged to secure borrowings of the Group. The freehold land and buildings have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. As of 31 December 2019 and 2018, other assets including inventories and deposits with carrying amounts of RUB 2,943 million, RUB 2,729 million respectively have been pledged to secure borrowings of the Group.

The following shares of the Group have been pledged to secure borrowings of the Group: 87% shares of RTI, 16.01% shares of MTS and 100% shares of certain subsidiaries of Segezha Group, Agroholding "Steppe", Intourist.

26. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

For contracts concluded after 1 January 2018, the Group assesses whether a contract is or contains a lease at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements (including sub-lease and lease of intangible assets), which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expense on a straight-line basis over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate non-lease components of the contract and, instead, to account for any lease and associated non-lease components as a single arrangements.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate of the Group.

The following table presents a summary of net book value of rights-of-use assets:

	31 December 2019	31 December 2018
Sites for placement of network and base station equipment	92,942	92,501
Land and buildings	60,422	95,316
Other	1,501	6,430
Rights-of-use assets, net	**154,865**	**194,247**

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

Depreciation of the rights-of-use assets for the 2019 and 2018 was included in the depreciation and amortization of fixed assets, intangible assets and the rights-of-use assets in the accompanying consolidated statement of profit or loss. Wherein amounts of RUB 8,440 million and RUB 8,370 million, respectively, were recognized as part of the financial result from discontinued operations in the accompanying consolidated statement of profit or loss:

Depreciation of the rights-of-use assets for the twelve months ended 31 December 2019 included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss was as follows:

	2019	2018
Sites for placement of network and base station equ	6,900	7,784
Land and buildings	20,294	19,168
Other	1,466	1,201
Depreciation charge, total	**28,660**	**28,153**

Additions to the assets leased during the twelve months ended 31 December 2019 and 2018 amounted to RUB 28,976 and RUB 25,856 million, respectively.

Interest expense on lease obligations for the 2019 and 2018 is included in finance expenses in the accompanying consolidated statement of profit or loss. Wherein amounts of RUB 3,600 million and RUB 3,776 million, respectively, were recognized as part of the financial result from discontinued operations in the accompanying consolidated statement of profit or loss.

The following table presents expenses related to lease, recognised in the consolidated statement of profit and loss for 2019:

	2019	2018
Depreciation of right-of-use assets	28,660	28,153
Interest expense on lease liabilities	18,866	18,382
Impairment	436	143
Expenses relating to variable lease payments not included in the measurement of the lease liability	737	1,177

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

The following table presents future minimum lease payments under lease arrangements together with the present value of the net minimum lease payments as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Minimum lease payments, including:		
Less than 1 year	30,382	40,141
From 1 to 5 years	109,353	143,957
Over 5 years	140,368	134,653
Total minimum lease payments	**280,103**	**318,751**
Less amount representing interest	(114,478)	(111,384)
Present value of net minimum lease payments, including:		
Less than 1 year	16,060	24,206
From 1 to 5 years	67,636	89,556
Over 5 years	81,929	93,605
Total present value of net minimum lease payments	**165,625**	**207,367**
Less current portion of lease obligations	(16,060)	(24,206)
Non-current portion of lease obligations	**149,565**	**183,161**

Total cash outflows for leases for the year ended 31 December 2019 and 2018 amounted to RUB 42,810 million and RUB 39,193 million, respectively, including interest paid in amount of RUB 18,507 million (31 December 2018: RUB 18,149 million).

27. BANK DEPOSITS AND LIABILITIES

Liabilities of MTS Bank and East-West United Bank primarily consist of customer accounts and deposits. These liabilities are initially measured at fair value, net of transaction costs. Liabilities are subsequently measured at amortised cost using the effective interest method and classified based on their contractual maturity.

Bank deposits and liabilities as of 31 December 2019 and 2018 consisted of the following:

	2019	2018
Customer accounts	151,419	128,156
Bank loans received	12,305	2,435
Debt securities issued	1,421	1,235
Other liabilities	1,417	1,460
	166,562	**133,286**
Less: amounts maturing within one year	(160,511)	(129,872)
Total bank deposits and liabilities, net of the current portion	**6,051**	**3,414**

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

28. OTHER FINANCIAL LIABILITIES

Other financial liabilities as of 31 December 2019 and 2018 consisted of the following:

	31 December 2019	**31 December 2018**
Obligations to pay for the share in the Element LLC	1,568	-
Factoring operations liability	1,264	542
MTS liabilities related to hedging activities	955	-
Contingent obligation to pay purchase price	917	936
Forwards not designated as hedge instruments	366	85
MTS liabilities under put option agreement (MTS Armenia)	73	3,629
Interest rate and cross-currency swaps not designated as hedging instruments	68	265
Liability for RTI shares	-	3,600
Other	1,784	2,320
Non-current	3,526	1,473
Current	3,469	9,904
Total other financial liabilities	**6,995**	**11,377**

29. PROVISIONS

Provisions primarily consist of provisions related to employees' bonuses and other rewards, decommissioning and restoration obligations.

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 obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Provisions as of 31 December 2019 and 2018 consisted of the following:

	31 December 2019	**31 December 2018**
Employees' bonuses and other rewards	11,123	11,624
Provisions for decomissioning and restoration obligations	4,788	3,109
Tax provisions other than for income tax	541	252
Provision on SEC investigation (Note 5)	-	59,050
Other	4,206	3,577
Total	**20,658**	**77,612**
Current	14,910	73,244
Non-current	5,748	4,368

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

	Employees' bonuses and other rewards	Provisions for decomis-sioning	Tax provisions other than income tax	Provision on SEC investigation	Other	Total
Balance as of 1 January 2018	**(11,924)**	**(1,049)**	**(310)**	**-**	**(3,154)**	**(16,437)**
Effect of IFRS 15	-	-	-	-	(597)	(597)
Additional provisions recognized	(16,146)	(1,912)	(487)	(55,752)	(4,470)	(78,767)
Payments	14,846	18	336	-	1,727	16,927
Unwinding of discount and effect of changes in the discount rate	177	(223)	-	-	-	(46)
Unused amounts reversed	1,229	89	211	-	2,170	3,699
Transfet to financial liabilities	-	-	-	-	700	700
Transfer to liabilities held for sale	300	-	-	-	-	300
Currency translation adjustment	(106)	(32)	(2)	(3,298)	47	(3,391)
Balance as of 31 December 2018	**(11,624)**	**(3,109)**	**(252)**	**(59,050)**	**(3,577)**	**(77,612)**
Additional provisions recognized	(17,863)	(2,341)	(410)	-	(2,302)	(22,916)
Payments	16,796	19	41	55,607	1,529	73,992
Unwinding of discount and effect of changes in the discount rate	(12)	42	-	-	-	30
Unused amounts reversed	817	-	34	-	1,081	1,932
Transfet to financial liabilities	(303)	-	-	-	(803)	(1,106)
Transfer to liabilities held for sale	771	760	50	-	126	1,707
Currency translation adjustment	295	(159)	(4)	3,443	(260)	3,315
Balance as of 31 December 2019	**(11,123)**	**(4,788)**	**(541)**	**-**	**(4,206)**	**(20,658)**

30. EARNINGS/(LOSSES) PER SHARE

Earnings/(losses) per share is the amount of earning/(loss) for the year attributable to ordinary shares of the Company divided by the weighted average number of ordinary shares outstanding during the year.

The earnings/(losses) and weighted average number of ordinary shares used in the calculation of basic and diluted earnings/(losses) per share are as follows:

	2019	2018
Earning/(loss) for the year from discontinued operations attributable to shareholders of Sistema PJSFC	62,801	(23,498)
Loss for the year from continuing operations attributable to shareholders of Sistema PJSFC	(34,204)	(22,400)
Earnings/(losses) used in the calculation of basic and diluted earnings per share	**28,597**	**(45,898)**
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	9,473,323,272	9,476,241,839
Earnings/(losses) per share – basic and diluted	**3.02**	**(4.84)**
From continuing operations	(3.61)	(2.36)
From discontinued operations	6.63	(2.48)

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

31. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management – The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net borrowings (borrowings offset by cash and cash equivalents) and equity of the Group.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group may sell assets to reduce debt, maintain or adjust the capital structure.

The Board of Directors monitors the net borrowings to OIBDA ratio. Since these are not IFRS measures, the Group's definition of OIBDA and net borrowings may differ from that of other companies. The Group's net borrowings to OIBDA ratio was as follows:

	2019	2018
Net borrowings	557,201	584,152
OIBDA	201,701	259,543
Net borrowings to OIBDA ratio	**2.76**	**2.25**

The Group is subject to certain externally imposed capital requirements and restrictions that are incorporated into the management of capital.

MTS Bank – The CBR requires that banks comply with the minimum capital adequacy ratio of 8% calculated on the basis of statutory standalone financial statements. MTS Bank met the requirements established by the CBR. As of 31 December 2019 and 2018, MTS Bank's capital adequacy ratio was 14.1% and 11.9%, respectively.

Financial risk management objectives – The Board of Directors has overall responsibility for the establishment and ongoing management of the Group's risk management framework, and the implementation and operation of the Board's policies are handled by the Management Board.

The Management Board monitors and manages the financial risks relating to the operations of the Group through internal management reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), liquidity risk and credit risk.

Foreign currency risk – Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies and is primarily exposed to the US Dollar and Euro.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Ruble, US Dollar and Euro and by using certain derivative instruments (Note 32).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (excluding hedged items) at the year-end are as follows.

	Liabilities		Assets	
	2019	2018	2019	2018
US Dollar	77,677	155,029	30,279	49,729
Euro	27,801	25,076	17,570	20,608

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

The table below details the Group's sensitivity to the strengthening of the US Dollar and Euro against the Russian Ruble. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the year-end denominated in the respective currencies.

	Increase in US Dollar and Euro	**Decrease in profit before tax**
2019	30%	17,289
2018	20%	21,954

The effect of a corresponding strengthening of the Russian Ruble against the US Dollar and EUR is equal and opposite.

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect finance costs. The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by using certain derivative instruments (Note 32).

A change of floating rates by 1% applied to the borrowings (excluding hedged items) would not significantly impact operations of the Group.

Fixed rate loan agreements often stipulate creditor's right to increase interest rates under certain circumstances, including increase of the key rate of the Central Bank of Russia. Therefore, in addition to the effect from changes in floating interest rates, the Group is also exposed to interest rate risk arising from these agreements.

Other price risks – Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. These changes may be caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The sensitivity analysis below has been determined based on the exposure to price risks at the end of the reporting period. Sensitivity analysis was prepared on pre-tax basis.

If prices of securities as of the year-end had been higher/lower:

	Change in prices	**Profit before tax increase/ decrease**	**Other comprehensive income increase/ decrease**
2019	30%	6,841	2,160
2018	10%	2,393	813

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

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due.

The Group's liquidity position is monitored and managed at the level of operating segments. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows, by matching the maturity profiles of financial assets and liabilities and by maintaining available credit facilities.

At 31 December 2019, the schedule of repayments of undiscounted financial liabilities (except for lease liabilities which is presented in Note 26) of the Group for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Borrowings	129,454	66,382	99,845	76,864	149,690	98,635
Accounts payable	89,203	-	-	-	-	-
Bank deposits and liabilities	160,511	4,236	908	605	303	-
Liability to Rosimushchestvo	7,231	-	-	-	-	-
Other financial liabilities	3,468	3,056	250	220	-	-
Total financial liabilities	**389,867**	**73,674**	**101,003**	**77,689**	**149,993**	**98,635**

At 31 December 2019, the schedule of repayments of undiscounted financial liabilities of the Corporate segment for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Borrowings	16,095	9,994	49,343	27,239	32,523	46,750
Accounts payable	7,014	-	-	-	-	-
Liability to Rosimushchestvo	7,231	-	-	-	-	-
Total financial liabilities	**30,340**	**9,994**	**49,343**	**27,239**	**32,523**	**46,750**

For day to day liquidity requirements the Group had unused credit facilities of RUB 536,797 million as of 31 December 2019 and RUB 180,946 million as of 31 December 2018, including RUB 123,680 million and RUB 99,000 million related to Corporate segment, respectively.

Credit risk – Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group is exposed to credit risks on cash and cash equivalents, deposits, derivatives and certain other financial instruments with financial institutions, loans and receivables carried at amortised cost and debt securities.

The determination of whether a financial asset has experienced a significant increase in credit risk is based on an assessment of the probability of default, which is made at least quarterly, incorporating external credit rating information as well as internal information on the credit quality of the financial asset. For debt instruments that are not receivables from financial services, a significant increase in credit risk is assessed mainly based on past-due information.

For contract assets, trade and other receivables, a simplified approach is applied whereby ECL are initially measured over the lifetime of the instrument.

Financial assets in financial institutions – the Group maintains mixture of cash and cash equivalents, deposits, derivatives and certain other financial instruments in financial institutions. These financial institutions are located in different geographical regions and the Group's policy is designed to limit exposure to any one institution. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions.

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

As of 31 December 2019 and 2018, the Group has a significant cash balances, cash equivalents and deposits in the following financial institutions:

	31 December 2019	31 December 2018
The Central bank the Russian Federation	18,776	4,877
The Central bank of Luxemburg	12,819	13,729
VTB	5,148	33,357
Sberbank	3,852	16,613
Total	**40,595**	**68,576**

Bank loans to customers and interbank loans due to the banks – MTS Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the MTS Bank's risk management policy are not breached. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical segments.

Other loans and receivables carried at amortised cost – Concentrations of credit risk with respect to loans and trade receivables are limited given that the Group's customer base is large and unrelated. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

32. DERIVATIVE INSTRUMENTS

The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them either other current or other non-current financial assets or liabilities in the consolidated 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 and loss when related hedged transactions affect earnings.

For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are recorded immediately in profit or loss.

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

Cross-currency interest rate swap agreements – The Group has entered into several cross-currency interest rate swap agreements. The contracts are designated to manage the exposure to changes in currency exchange rate. The contracts assumed periodic exchange of principal and interest payments from RUB-denominated amounts to USD- and Euro-denominated amounts at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2023-2024.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure to changes in currency exchange rate for 26% of the Group's bank loans denominated in USD and EUR outstanding as of 31 December 2019 (2018: 48%).

The notional amounts related to currency derivative instruments amounted to RUB 18,572 million and RUB 58,949 million as of 31 December 2019 and 2018, respectively.

The Group has entered into currency forward and swaps agreements to minimize the 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 on a specific date. The rate was determined by the market spot rate upon issuance. As the result of currency forward and swap agreements, unfulfilled as of 31 December 2019 and 2018, the Group recognized RUB 701 million gain and RUB 1,937 million gain in the consolidated statement of profit and loss for the years ended 31 December 2019 and 2018, respectively.

The notional amounts of currency forward and swap instruments, unfulfilled as of 31 December 2019 and 2018, amounted to RUB 69,535 million and RUB 51,002 million, respectively.

Variable-to-fixed interest rate swap agreements – The Group's bank loans denominated in USD and EUR bear primarily floating interest rates. To eliminate the exposure to changes in variable interest rates related to its debt obligations, the Group enters into variable-to-fixed interest rate swap agreements, so that interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective cash flow hedges. In aggregate, the Group entered into variable-to-fixed interest rate swap agreements designated to manage the exposure of changes in variable interest rates related to 0% of the Group's bank loans with variable rates outstanding as of 31 December 2019 (2018: 22%).

Fixed-to-variable interest rate swap agreements – The Group's notes and bank loans denominated in Russian Rubles bear primarily fixed interest rates. To eliminate the exposure to changes in fair value of debt obligations, the Group enters into fixed-to-variable interest rate swap agreements. In aggregate the Group entered into fixed-to-variable interest rate swap agreements designated to manage the exposure to changes in value of the debt related to 3% of the Group's notes and bank loans with fixed rates outstanding as of 31 December 2019 (2018: 3%).

The notional amounts related to interest rate derivative instruments amounted to RUB 25,387 million and RUB 44,187 million as of 31 December 2019 and 2018, respectively.

33. FAIR VALUES

The following fair value hierarchy table presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 31 December 2019 and 2018. Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. Level 1 classification comprises financial instruments where fair value is determined by unadjusted quoted prices in active markets for identical assets or liabilities that the Group can access at the measurement date; Level 2 – from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; Level 3 – from unobservable inputs.

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

	31 December 2019				31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets								
At fair value through other comprehensive income	8,999	-	-	8,999	10,153	2,797	-	12,950
Contingent consideration asset related to the sale of business	-	-	2,013	2,013	-	-	-	-
At fair value through profit or loss	22,804	7,800	17,547	48,151	23,933	16,591	16,693	57,217
	31,803	**7,800**	**19,560**	**59,163**	**34,086**	**19,388**	**16,693**	**70,167**
Financial liabilities								
Derivative instruments	-	(1,389)	-	(1,389)	-	(350)	-	(350)
Contingent considerations	-	-	(907)	(907)	-	-	(936)	(936)
Liabilities under put option agreements	-	-	(73)	(73)	-	-	(3,735)	(3,735)
	-	**(1,389)**	**(980)**	**(2,369)**	**-**	**(350)**	**(4,671)**	**(5,021)**

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

There were no changes made during the year to valuation methods or the processes to determine classification and no transfers were made between the levels in the fair value hierarchy. Carrying value of the Group's financial instruments accounted for at amortised cost approximates their fair value due to their short-term nature and market interest rates, except for borrowings as disclosed in the table below:

	31 December 2019		31 December 2018	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities				
Borrowings	620,870	629,374	698,335	696,948

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

The table below presents information regarding reconciliation of Level 3 fair value measurements as of 31 December 2019 and 2018.

	Liabilities under put option agreements	**Other financial assets**	**Other financial liabilities**	**Total**
Balance at 1 January 2018	**(2,424)**	**9,997**	**(180)**	**7,393**
Total gains/(losses):				
- in profit or loss	(719)	(551)	184	(1,086)
- in other comprehensive income	(592)	237	-	(355)
Reclasses to other categories	-	(715)	-	(715)
Disposals	-	(627)	-	(627)
Purchases	-	8,352	(940)	7,412
Balance at 31 December 2018	**(3,735)**	**16,693**	**(936)**	**12,022**
Total gains/(losses):				
- in profit or loss	(1,805)	1,016	29	(760)
- in other comprehensive income	-	(781)	-	(781)
Disposals	-	(2,420)	-	(2,420)
Repayments	5,467	-	-	5,467
Business sale result	-	2,013	-	2,013
Purchases	-	3,039	-	3,039
Balance at 31 December 2019	**(73)**	**19,560**	**(907)**	**18,580**

During 2019 and 2018, unrealized gains or losses were not recognized as a result of the assessment of level 3 liabilities at fair value.

34. RELATED PARTY TRANSACTIONS

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

Trading transactions – The Group's trading transactions with related parties that are not members of the Group comprise sales and purchases of goods and services in the normal course of business. During the year ended 31 December 2019, sales to related parties comprised RUB 805 million (2018: RUB 1,091 million), purchases from related parties comprised RUB 744 million (2018: 1,048 million). As of 31 December 2019, trade balances receivable from and payable to related parties comprised RUB 4,111 million and RUB 1,005 million, respectively (31 December 2018: RUB 5,591 million and RUB 1,242 million). Bank loans to related parties as of 31 December 2019 are amounted to RUB 2,877 million.

Dividends received – In 2019, the Group received dividends from MTS Belarus in the amount of RUB 3,587 million (2018: RUB 3,691 million), Etalon Group in the amount of RUB 884 million and Detsky mir in the amount of RUB 1,248 million.

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

Financial transactions – The Group's financial transactions with related parties primarily comprise loans, deposits and other debt instruments issued to or by the Group entities.
At 31 December 2019 and 2018, amounts owed by or to related parties under such arrangements are as follows:

	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Controlling shareholder and entities under common control	13,594	9,519	24,159	28,996
Key management personnel	-	-	4,657	6,785
Other related parties	-	-	4,634	8,168

Finance costs related to such transactions with related parties and recognized in the consolidated statement of profit or loss in 2019 amounted to RUB 1,653 million (2018: 1,690 million).

Compensation of key management personnel – In 2019 and 2018, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board was as follows:

	2019	2018
Short-term benefits	4,383	2,143
Total	**4,383**	**2,143**

35. SUBSIDIARIES

Details of the Group's most material direct subsidiaries at the end of the year are as follows:

Significant entities	Short name	Principal activity	Beneficial ownership as of 31 December 2019	2018
Mobile TeleSystems PJSC	MTS	Telecommunications	50.01%	50.01%
RTI JSC	RTI	Technology	87.00%	87.00%
Detsky mir PJSC (Note 6)	Detsky mir	Retail trading	33.38%	52.10%
Medsi Group JSC	Medsi	Healthcare services	96.94%	98.50%
Bashkirian Power Grid Company JSC	BPGC	Energy transmission	90.96%	90.96%
Segezha Group LLC	Segezha Group	Pulp and paper	98.33%	99.93%
Agroholding Steppe JSC (Note 8)	Steppe	Agriculture	92.82%	84.63%

After the loss of control (Note 6) the remaining stake in Detsky mir is classified as an associate.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Principal place of business	Profit / (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019	2018
MTS	Russia	27,116	3,422	15,783	23,570

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

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations. The consolidated financial information presented below is indicative of pre-exclusion of intra-group transactions.

	MTS	
	31 December 2019	**31 December 2018**
Current assets	194,589	268,934
Non-current assets	629,321	647,059
Total assets	**823,910**	**915,993**
Current liabilities	348,457	295,471
Non-current liabilities	439,060	542,957
Total liabilities	**787,517**	**838,428**
Equity attributable to shareholders of Sistema	17,285	41,704
Non-controlling interests	19,109	35,861
Revenue	476,105	480,293
Expenses	(421,007)	(472,461)
Profit for the year	**55,098**	**7,832**
Profit attributable to shareholders of Sistema	27,124	3,426
Profit attributable to the non-controlling interests	27,974	4,406
Other comprehensive income attributable to shareholders of Sistema	4,224	3,907
Other comprehensive income attributable to the non-controlling interests	4,207	3,892
Other comprehensive income for the year	**8,431**	**7,799**
Total comprehensive income attributable to shareholders of Sistema	31,348	7,333
Total comprehensive income attributable to the non-controlling interests	32,181	8,298
Total comprehensive income for the year	**63,529**	**15,631**
Dividends accrued to non-controlling interests	38,273	25,643
Net cash inflow from operating activities	106,653	154,390
Net cash outflow from investing activities	(29,554)	(78,389)
Net cash outflow from financing activities	(120,448)	(25,924)
Net cash (outflow)/inflow	**(43,349)**	**50,077**

36. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flows:

	2019	**2018**
Additions to the assets leased	27,951	25,856
Equipment and licenses acquired under capital leases	674	1,128
Payables related to business acquisitions	-	1,302
Deferred payment	(775)	-
Fair value of contingent consideration	(2,045)	-
Exchange of shares	2,365	-
Acquisition of a minority interest	3,629	-

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

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

				Non-cash changes				
	1 January 2019	**Cash flows from financial activities (i)**	**Cash flows from operation activities (ii)**	**Disposal/ acquisition of subsidiaries (Note 6, 7)**	**Currency exchange**	**Changes in the share capital**	**Other changes (iii)**	**31 December 2019**
Loans and borrowings	698,335	(31,604)	-	(34,695)	(12,998)	-	1,832	620,870
Capital transactions of subsidiaries	-	(15,288)	-	-	-	12,320	2,968	-
Lease liability	207,367	(24,303)	(18,507)	(44,501)	(1,273)	-	46,842	165,625
Liability under agreement with Rosimuchestvo	16,210	(7,374)	-	-	(1,604)	-	-	7,232
Dividents payable	4,415	(30,124)	-	-	-	41,283	(5)	15,569
Other financial liabilities	11,377	(1,409)	-	-	-	1,450	(4,423)	6,995
Total	**937,704**	**(110,102)**	**(18,507)**	**(79,196)**	**(15,875)**	**55,053**	**47,214**	**816,291**

				Non-cash changes				
	1 January 2018	**Cash flows from financial activities (i)**	**Cash flows from operation activities (ii)**	**Disposal/ acquisition of subsidiaries (Note 6, 7)**	**Currency exchange**	**Changes in the share capital**	**Other changes (iii)**	**31 December 2018**
Loans and borrowings	517,981	163,266	-	131	22,965	17	(6,025)	698,335
Capital transactions of subsidiaries	-	(10,354)	-	-	-	6,725	3,629	-
Lease liability	203,761	(21,044)	(18,383)	532	-	-	42,501	207,367
Cash used in discontinued liability under agreement with Rosimuchestvo	23,028	(10,330)	-	-	3,607	-	(95)	16,210
Dividents payable	4,578	(29,952)	-	-	-	29,789		4,415
Other financial liabilities	12,573	(981)	-	-	-		(215)	11,377
Total	**761,921**	**90,605**	**(18,383)**	**663**	**26,572**	**36,531**	**39,795**	**937,704**

(i) The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.
(ii) The cash flows are represented by interest paid.
(iii) Other changes include new lease agreements and interest accruals.

38. CONTINGENCIES AND COMMITMENTS

Capital commitments – A capital commitment is a contractual obligation to make payment in the future, mainly in relation to buy assets such as network infrastructure. These amounts are not recorded in the consolidated statement of financial position since the Group has not yet received goods or services from suppliers. As of 31 December 2019, the Group had capital commitments of RUB 54,340 million (31 December 2018: RUB 45,282 million) relating to the acquisitions of property, plant and equipment.

Guarantees – As of 31 December 2019, MTS Bank guaranteed loans for several companies which totalled RUB 19,788 million (31 December 2018: RUB 10,587 million). These guarantees would require payment by the Group in the event of default on payment by the respective debtor. Such guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with IAS 37, and the amount initially recognized less, where appropriate, cumulative amortisation recognized in accordance with the revenue recognition policies.

Telecommunication licenses – In July 2012, the Federal Service for Supervision of Communications, Information Technologies and Mass Communications granted MTS a license and frequencies for the provision of LTE standard telecommunication services in Russia. Under the terms of granting an LTE license, the Group is obliged to fully deploy LTE networks within seven years from 1 January 2013 and provide LTE services in all settlements of Russia with more than 50,000 inhabitants by 2019. In addition, the Group is obliged to annually invest at least RUB 15 billion in the introduction of the LTE standard until the network is fully deployed. The management believes that as of 31 December 2019, the Group is in compliance with conditions of the aforementioned licenses.

Agreement with Apple – In April 2017, the Group entered into an unconditional purchase agreement with Apple Rus LLC to buy 615,000 iPhone handsets at the prices relevant as at the dates of purchases over a period ending 30 June 2019. Pursuant to the agreement the Group is also required to arrange iPhone advertising campaign. As of 31 December 2019, the purchase of telephone sets provided for by the agreement amounted to 100% of the total number of phones according to the contract.

Restriction on transactions with the shares of BPGC – In 2014, in the course of litigation, which the Group is not a party to, the court imposed restrictions on transactions with the shares of BPGC owned by the Group. The restrictions do not limit the Group's voting rights, rights to receive dividends or any other shareholders rights.

Taxation – Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have different interpretations, and the effects on the consolidated financial statements could be significant.

Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. As of 31 December 2019, provisions for additional taxes and customs settlements comprised RUB 1,388 million (31 December 2018: RUB 1,102 million).

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

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

	31 December 2019	31 December 2018
Contingent liabilities for additional taxes other than income tax	1,715	730
Contingent liabilities for additional income taxes	2,173	2,051

In accordance with the rules on controlled foreign companies, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, should be included in the income tax base of the controlling entities in particular cases. The management of the Group does not expect any significant effect of these changes on the consolidated financial statements of the Group.

Operating Environment – Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020 oil prices dropped for more than 40%, which resulted in immediate weakening of Russian Ruble against major currencies. The impact of further economic and political developments on future operations and financial position of the Group might be significant.

Anti-terror law – On 7 July 2016, a series of anti-terror laws (also known as "Yarovaya-Ozerov packet of laws") was enacted by the signature of the President of Russia. The laws provide for mandatory storage of recorded phone conversations, text messages of subscribers, images, sounds, video and other types of messages by telecommunications operators for certain periods of time. These requirements become effective starting 1 July 2018. Compliance with laws may require construction of additional storage, processing and indexing centers. The Group expects the increase in related capital expenditures, which cannot be measured reliably.

Legal proceedings – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Group operates. At 31 December 2019, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 10,039 million.

In August 2018, the FAS Russia filed a lawsuit against MTS PJSC and other federal mobile operators in connection with different conditions in contracts for the provision of SMS-mailing services for business entities with state participation compared with the conditions established for business entities without a state participation in the authorized capital. In addition, FAS Russia in the actions of MTS PJSC saw signs of establishing a monopolistically high price for SMS-mailing services. In May 2019, the FAS Russia issued a decision according to which MTS PJSC was found to violate the provisions of the antimonopoly legislation both in terms of creating discriminatory conditions and in setting a monopolistically high price for SMS mailing, and issued an order to stop the violation of antitrust laws. MTS PJSC filed a request to invalidate the said decisions and orders of the FAS Russia to the Moscow Arbitration Court, which in November 2019 upheld the position of the FAS Russia. MTS PJSC appealed the decision of the Moscow Arbitration Court. At the moment, the likelihood of negative consequences is difficult to reliably assess.

Class action lawsuit – In March 2019, a class action lawsuit was filed with the Shayan Salim and other individuals in a similar situation with the Eastern District of New York District Court of the United States of America against MTS PJSC and its individual leaders. The lawsuit alleges violations of securities laws related to the previously disclosed findings of an investigation by United States government authorities regarding the Group's activities in Uzbekistan. The group examines the claims and intends to defend its position in the litigation. At the moment, it is not possible to assess the possible consequences and scope of claims for this lawsuit.

License fee and spectrum charges for 2002-2011 in India – In December 2019, SSTL received the Supreme Court of India judgment regarding license fee and spectrum charges for 2002-2011 in accordance with the definition and interpretation of Annual Gross Revenue (AGR) approved by the Supreme Court of India. The company calculated immaterial amount to be paid based on the aforementioned definition of AGR and taking into account the scheme of demerger with RCOM (which is currently undergoing bankruptcy procedures) of 2017. This amount was paid in February 2020. The Group does not expect any significant effect of this matter on the consolidated financial statements of the Group.

39. EVENTS AFTER THE REPORTING DATE

COVID-19 outbreak – *S*tarting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries, including Russia, to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group’s business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

Ruble bonds placement – In February 2020, Sistema PJSFC re-issued exchange-traded bonds in a total amount of RUB 10 billion during an offer on 27 February 2020, bonds worth RUB 3.5 billion were presented for redemption. Maturity date is 13 November 2026, the coupon rate is 6.85% per annum.

Acquisition of Karelian Wood Company LLC – In January 2020, Segezha Group acquired a controlling interest in Karelian Wood Company LLC for a cash consideration in a maximum amount of RUB 950 million.

Ruble bonds placement – In January 2020, Segezha Group issued exchange-traded bonds in total amount of RUB 10 billion with a coupon of 7.1% per annum.

Interest-rate swap agreements – In March 2020, the Segezha Group entered into agreements on an interest-rate swap in respect of a portion of previously placed exchange bonds. The total amount of the agreements is RUB 5 billion and RUB 2.5 billion, spot rate – 76 rubles and 84.5 rubles per euro, respectively.

Ruble bonds placement – In February 2020, MTS issued exchange-traded bonds totaling RUB 15 billion with a coupon rate of 6.6% and a maturity of seven years.

Purchase of stake in Zelenaya Tochka – In February 2020, the Group purchased 51% stake in Achemar Holdings Limited and Clarkia Holdings Limited, owners of the operational companies of “Zelenaya Tochka” Group, fixed-line operator in multiple regions of Russia. The purchase of 51% stake was accounted as an investment in joint venture.

Purchase of a medical center in Izhevsk – In January 2020, Medsi Group entered into a preliminary contract to purchase of a medical center in Izhevsk and paid the first part of the security payment in the amount of RUB 12 million.

Debt financing – In the first quarter of 2020, MTS received a loan of RUB 75 billion maturing in five years, the funds were provided as part of a revolving credit line of RUB 80 billion, which was opened in May 2018.

Convertible loans - In the first quarter 2020, the Group granted convertible loans to Ozon in the total amount of RUB 3 billion.

Commitment agreement to provide equity financing – In February 2020, the Group entered into an equity commitment agreement to provide financing in the amount of up to EUR 263 million in connection with the acquisition by a group of purchasers controlled by SCP Group SARL, related party of the Group, of the German hypermarket chain Real from Metro AG and its subsidiaries.