Mobile TeleSystems Public Joint-Stock Company

Financial Statements for 2018
and Independent Auditor's Report
(Translated from the original in Russian –
unofficial translation)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Mobile TeleSystems Public Joint-Stock Company

Opinion

We have audited the accompanying financial statements of Mobile TeleSystems Public Joint-Stock Company (the "Company"), which comprise:

- Balance sheet as of 31 December 2018;
- Statement of financial results for 2018;
- Appendices to the balance sheet and statement of financial results:
    - Statement of changes in equity for 2018;
    - Statement of cash flows for 2018;
    - Notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for 2018 in accordance with Russian accounting and financial reporting standards ("RASs").

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 Financial Statements section of our report. We are independent of the Company 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 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.

Emphasis of Matter – Change in Accounting Policy

As disclosed in Note 2 to the financial statements, in 2018 the Company changed its accounting policy and applied International Financial Reporting Standards ("IFRSs") to account for certain classes of transactions when accounting principles established by the federal accounting standards led to inconsistency of the Company's accounting policy with IFRSs. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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
Accuracy and timeliness of revenue recognition The Company's revenue is a material amount formed from a large number of individually insignificant transactions. The Company is using complex information systems, including automated billing systems and integrated accounting systems, to recognize revenue. We considered this matter as a key audit matter due to the complexity of information systems involved in the process of revenue recognition and the risks of revenue recognition, arising from the constant change of tariff plans, marketing offers and discounts provided to customers. See Notes 2 and 18 to the financial statements.	Our audit procedures to test revenue included: • Analysis of IT environment that ensures functioning of billing and other IT systems related to accounting, including control procedures for monitoring of changes and segregation of users' duties, and testing of these controls; • Assessment of development and implementation, testing of controls operating in the process of revenue recognition, including: recording and registration of phone calls, their duration, provision of data and value added services; authorization of changes in tariff plans and input of this information into the billing systems; correctness of the application of incentive arrangements and discounts; • End-to-end testing of reconciliation of data on the duration and volume of provided telecommunication services received from the moment of their initial registration by switching equipment to billing and other IT systems and further to accounting records, including verification of significant manual adjustments made when transferring data from billing and other IT systems to the general ledger; • Test calls and checking the correctness of the fact of connections, their duration and correctness of tariff plans applied; • Analysis of incentive arrangements and discounts for their correct accounting and its compliance with the accounting policy of the Company; • Sample based verification of the information on active tariffs entered in the billing systems to the approved tariff orders and published tariff plans. We have also reviewed the Company's accounting policy with respect to recognition of revenue from the provision of services to subscribers and insured that the existing policy is appropriate for new types of operations and applied correctly.
Investigation in respect of discontinued operations in Uzbekistan As disclosed in Note 31 to the financial statements, subsequent to the year end, the Company reached a resolution with the U.S. Department of Justice ("DOJ") and a settlement with the U.S. Securities and Exchange Commission ("SEC") relating to previously disclosed investigations concerning the Company's former subsidiary in	Our audit procedures included: • review of signed agreements with the authorities obtaining an understanding of the settlement including any post settlement obligations; • reading the minutes of the Board meetings; • inquiry of and discussions with the Company's compliance function and external legal counsel about circumstances and considerations to be made in order to assess the settlement; and

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Uzbekistan. In connection with the agreements, the Company will pay the aggregate amount of USD 850 million (RUB 59.1 billion at the exchange rate as of 31 December 2018). We focused on this area because assessing the recorded provision during 2018 required significant judgements and estimates to be made by management and the settlement reached with the authorities has a significant impact on the financial position of the Company.	• evaluating the classification and measurement of recognized provision as well as the adequacy of disclosures.
Valuation of investments in subsidiaries and associates As disclosed in Notes 2 and 7 to the financial statements, starting from 1 January 2018 the Company retrospectively applied equity method for accounting of its investments in subsidiaries and associates. We considered this matter as a key audit matter due to the material amount of investments in subsidiaries and associates and also due to the fact that the application of the equity method, as well as the determination of objective impairment indicators and, if necessary, impairment testing, requires from management performing complicated calculations and applying judgement.	We have obtained an understanding of the processes and controls of the Company over the recognition, accounting and valuation of impairment of investments in subsidiaries and associates. Our audit procedures included: • sample based verification of valuation of investments in subsidiaries and associates by the means of (1) comparing the initial cost of the investment at the date of acquisition with supporting documents, (2) comparing of changes in the Company's share in profit or loss and other comprehensive income of an investee with the financial statements of subsidiaries and associates for the entire period from the date of acquisition to the reporting date, (3) verification of the calculation of the carrying value of investments prepared by the management of the Company; • assessment of the correctness of the determination of objective impairment indicators of investments in subsidiaries and associates performed by management and verification of the impairment test calculation prepared by management for those investments where the impairment indicators was identified. The verification of the impairment calculation included a comparison of the fair value of the investment with the carrying value of the investment, as well as an analysis of the assumptions and judgments applied by management in determining fair value. We also checked completeness and evaluated the compliance of the disclosures in the financial statements with the requirements of the applicable reporting standards.
Valuation of right-of-use assets and lease liabilities As disclosed in Notes 2 and 6 to the financial statements, the Company has adopted IFRS 16, *Leases*, as at 1 January 2018. The Company applied a transition option provided by the	We tested the Company's internal controls over the formation of a registry of lease agreements and the identification of key inputs required in the measurement of right-of-use assets and lease liabilities. Our procedures also included an analysis as to whether the Company's accounting policy was in

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
standard not to restate the comparative periods as a result of its adoption. We consider this to be a key audit matter because the early adoption of the standard required the Company to modify existing business processes, IT systems and control procedures had a material impact on the financial statements and required the Company's management to apply significant judgment, in particular, when determining whether the contract is, or contains, a lease, the lease term and discount rates.	line with IFRS 16, as well as verification of its appropriate application by means of a sample-based analysis of Company's accounting for particular lease contracts, which included an analysis of: determining whether the contract is, or contains, a lease; identification of lease components within the contract as a lease separately from non-lease components of the contract; correctness of the identification and classification of lease payments and the assessment of right-of-use assets and lease liabilities; assessment of the discount rate; assessment of the lease term; compliance of methods used in measurement of right-of-use asset and lease liability with the requirements of the new standard; accuracy of management's calculations. We also reviewed the completeness and assessed the consistency of disclosures in the financial statements with the requirements of the new standard on leases.

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 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 financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 financial statements of the current period, which constitute the key audit matters included herein.

The Russian original signed by

Vladimir Kozyrev
Engagement leader

31 March 2019

The following financial statements were prepared for use in the Russian Federation in accordance with accounting principles and financial reporting practices generally accepted in the Russian Federation and are not intended to present the financial position and results of operations of the audited entity in accordance with accounting principles and practices generally accepted in any other jurisdiction.

The Entity: Mobile TeleSystems Public Joint-Stock Company

Certificate of state registration № P-7882.16., issued by the State Registration Chamber under the Ministry of Justice of the Russian Federation on 1 March 2000.

Primary State Registration Number: 1027700149124

Certificate of registration in the Unified State Register № 1027700149124 of 2 September 2002, issued by Moscow Inspectorate of the Russian Ministry of Taxation.

Address: 4 Marksistskaya St., Moscow, 109147

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-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

BALANCE SHEET
as at 31 December 2018

			CODES
		Form No. 1 OKUD	0710001
		Date (day, month, year)	31/12/2018
Entity	**Mobile TeleSystems Public Joint-Stock Company**	OKPO	52686811
Taxpayer identification number		INN	7740000076
Type of activity	**Telecommunications based on wireless technologies**	OKVED	61.20
Legal status/ form of ownership	**Public joint-stock company/ Joint private and foreign ownership**	OKOPF/ OKFS	12247/34
Measurement unit	**RUB million**	OKEI	385
Address	**4 Marksistskaya St., Moscow, 109147**		

Item description	Note	31 December 2018	31 December 2017	31 December 2016
ASSETS				
I. NON-CURRENT ASSETS				
Intangible assets	4	13 421	11 674	12 586
Cost-to-obtain contracts		16 798	-	-
Non-exclusive rights to use assets	4	44 871	41 989	37 392
Property, plant and equipment	5	173 851	167 765	173 143
Right-of-use assets	6	110 331	-	-
Construction-in-progress	5	21 745	14 582	11 691
Investments in subsidiaries and associates	3,7	283 323	225 354	216 868
Other investments	8	32 241	22 562	56 240
Other non-current assets	9	7 100	9 731	11 927
Total Section I		**703 681**	**493 657**	**519 847**
II. CURRENT ASSETS				
Inventories		460	376	505
Value-added tax receivable		4 894	4 433	3 711
Accounts receivable	10	30 502	32 647	26 623
Investments (other than cash equivalents)	8	35 996	54 228	9 794
Cash and cash equivalents	11	69 147	16 613	6 277
Other current assets		131	41	115
Total Section II		**141 130**	**108 338**	**47 025**
TOTAL ASSETS		**844 811**	**601 995**	**566 872**
EQUITY AND LIABILITIES				
III. EQUITY AND RESERVES				
Share capital	12	200	200	200
Treasury shares		(4)	-	-
Additional paid-in capital (excluding revaluation)	3	7 349	10 230	10 167
Accumulated other comprehensive income/ (loss)		444	(7 300)	(4 138)
Reserve capital		31	31	31
Retained earnings	3	99 408	128 465	108 398
Total Section III		**107 428**	**131 626**	**114 658**
IV. NON-CURRENT LIABILITIES				
Borrowings	13	428 386	290 584	305 895
Deferred tax liabilities	17	14 291	13 495	15 100
Provisions	15	2 573	917	1 092
Accounts payable	14	2 773	1 599	4 036
Lease obligations	6	107 889	-	-
Contract liabilities	16	195	-	-
Deferred income		-	168	206
Total Section IV		**556 107**	**306 763**	**326 329**
V. CURRENT LIABILITIES				
Borrowings	13	42 449	88 710	63 454
Accounts payable	14	52 985	69 910	56 900
Lease obligations	6	8 256	-	-
Contract liabilities	16	16 851	-	-
Deferred income		-	2 604	2 207
Provisions	15	60 735	2 382	3 324
Total Section V		**181 276**	**163 606**	**125 885**
TOTAL EQUITY AND LIABILITIES		**844 811**	**601 995**	**566 872**

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSC

A.V. Dvoretskikh
Chief Accountant of Mobile TeleSystems PJSC

31 March 2019

STATEMENT OF FINANCIAL RESULTS
for 2018

			CODES
		Form No. 2 OKUD	0710002
		Date (day, month, year)	31/12/2018
Entity	**Mobile TeleSystems Public Joint-Stock Company**	OKPO	52686811
Taxpayer identification number		INN	7740000076
Type of activity	**Telecommunications based on wireless technologies**	OKVED	61.20
Legal status/ form of ownership	**Public joint-stock company/ Joint private and foreign ownership**	OKOPF/ OKFS	12247/34
Measurement unit	**RUB million**	OKEI	385

Item description	**Note**	**2018**	**2017**
Revenue	18	331 236	323 793
Cost of sales	19	(157 826)	(161 311)
Gross profit		**173 410**	**162 482**
Selling expenses	19	(46 725)	(48 117)
Administrative expenses	19	(32 427)	(32 053)
Operating profit		**94 258**	**82 312**
Interest income		8 957	4 340
Interest expense	13	(33 029)	(30 627)
Interest expense – lease obligations	6	(10 031)	-
Share of the net profit of subsidiaries and associates	7	25 870	19 765
Other income	20	15 827	17 605
Other expenses	21	(81 550)	(11 296)
Profit before income tax		**20 302**	**82 099**
Current income tax	17	(12 369)	(13 772)
including permanent tax (assets)/liabilities	17	6 769	(3 521)
Change in deferred tax liabilities	17	176	761
Change in deferred tax assets	17	1 364	112
Income tax and tax penalties for prior years	17	(313)	(137)
Net profit		**9 160**	**69 063**
ADDITIONAL INFORMATION			
Result of other transactions not included in current year net profit		7 744	(3 162)
Comprehensive financial result for the period		16 904	65 901
Basic earnings per share, RUB	24	4.58	34.56
Diluted earnings per share, RUB	24	4.58	34.56

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSC

A.V. Dvoretskikh
Chief Accountant of Mobile TeleSystems PJSC

31 March 2019

STATEMENT OF CHANGES IN EQUITY
for 2018

			CODES
		Form No. 3 OKUD	0710003
		Date (day, month, year)	31/12/2018
Entity	**Mobile TeleSystems Public Joint-Stock Company**	OKPO	52686811
Taxpayer identification number		INN	7740000076
Type of activity	**Telecommunications based on wireless technologies**	OKVED	61.20
Legal status / form of ownership	**Public joint-stock company/ Joint private and foreign ownership**	OKOPF/ OKFS	12247/34
Measurement unit	**RUB million**	OKEI	385

1. Changes in equity

Item description	Share capital	Treasury shares	Additional paid in capital	Accumulated other comprehensive income	Reserve capital	Retained-earnings	Total
Total as at 31 December 2016	**200**	**-**	**10 167**	**(4 138)**	**31**	**108 398**	**114 658**
Net profit	X	X	X	X	X	69 063	69 063
Dividends	X	X	X	X	X	(51 957)	(51 957)
Foreign currency translating reserve of foreign standalone division	X	X	(1)	X	X	X	(1)
Change in equity due to reorganization	X	X	X	X	X	1 637	1 637
Equity method effect for investments in subsidiaries and associates (Note 7)	X	X	64	(3 162)	X	1 324	(1 774)
Total as at 31 December 2017	**200**	**-**	**10 230**	**(7 300)**	**31**	**128 465**	**131 626**
Net profit	X	X	X	X	X	9 160	9 160
Dividends	X	X	X	X	X	(51 954)	(51 954)
Foreign currency translating reserve of foreign standalone division	X	X	(1)	X	X	X	(1)
Equity method effect for investments in subsidiaries and associates (Note 7)	X	X	(185)	7 744	X	3 033	10 592
Change in equity due to reorganization	X	X	X	X	X	103	103
Adjustment on initial application of new standards	X	X	X	X	X	10 601	10 601
Transactions under common control	X	X	(2 695)	X	X	X	(2 695)
Purchase of own stock	-	(4)	X	X	X	X	(4)
Total as at 31 December 2018	**200**	**(4)**	**7 349**	**444**	**31**	**99 408**	**107 428**

2. Adjustments on application of a new accounting policy and correction of prior year errors

Item description	As at 31 December 2016	Changes in equity for 2017: Due to net profit	Changes in equity for 2017: Due to other factors	As at 31 December 2017
Equity – total				
Before adjustments:	**35 026**	**127 250**	**(50 156)**	**112 120**
Adjustment on:				
application of a new accounting policy	79 632	(58 187)	(1 939)	19 506
After adjustments	**114 658**	**69 063**	**(52 095)**	**131 626**
thereof:				
Retained earnings:				
Before adjustments	**34 759**	**127 250**	**(50 155)**	**111 854**
Adjustment on:				
application of a new accounting policy	73 639	(58 187)	1 159	16 611
After adjustments	**108 398**	**69 063**	**(48 996)**	**128 465**
Additional paid in capital:				
Before adjustments	**36**	**-**	**(1)**	**35**
Adjustment on:				
application of a new accounting policy	10 131	-	64	10 195
After adjustments	**10 167**	**-**	**63**	**10 230**
Other comprehensive income:				
Before adjustments	**-**	**-**	**-**	**-**
Adjustment on:				
application of a new accounting policy	(4 138)	**-**	(3 162)	(7 300)
After adjustments	**(4 138)**	**-**	**(3 162)**	**(7 300)**

3. Net assets

Item description	31 December 2018	31 December 2017	31 December 2016
Net assets	107 428	131 626	114 658

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSC

A.V. Dvoretskikh
Chief Accountant of Mobile TeleSystems PJSC

31 March 2019

STATEMENT OF CASH FLOWS
for 2018

			CODES
		Form No. 4 OKUD	0710004
		Date (day, month, year)	31/12/2018
Entity	**Mobile TeleSystems Public Joint-Stock Company**	OKPO	52686811
Taxpayer identification number		INN	7740000076
Type of activity	**Telecommunications based on wireless technologies**	OKVED	61.20
Legal status/ form of ownership	**Public joint-stock company/ Joint private and foreign ownership**	OKOPF/ OKFS	12247/34
Measurement unit	**RUB million**	OKEI	385

Item description	**2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows - total		
including:	**297 301**	**285 807**
Proceeds from customers	276 201	282 371
Interest received on cash equivalents	1 749	479
Other cash inflows	19 351	2 957
Cash outflows - total	**(168 021)**	**(201 102)**
including:		
Payments for acquired goods, services, raw materials and other current assets	(72 682)	(108 051)
Payments to employees	(31 918)	(28 888)
Interest paid	(42 181)	(27 854)
Income tax paid	(13 500)	(15 546)
Other taxes and duties paid	(7 717)	(11 016)
Other payments	(23)	(9 747)
Net cash flow from operating activities	**129 280**	**84 705**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows - total	**62 962**	**39 880**
including:		
Proceeds from sales of property, plant and equipment and other non-current assets	72	88
Proceeds from sales of securities and other financial instruments	-	-
Dividends received	26 235	28 428
Interest received	7 028	2 434
Proceeds from repayment of loans given to other entities	6 935	8 871
Proceeds from reorganization of subsidiaries in the form of merger	3	17
Proceeds from repayment of deposits	22 689	42
Cash outflows - total	**(159 768)**	**(82 905)**
including:		
Deposit placement	(12 000)	-
Purchase of subsidiaries and other financial investments	(53 609)	(23 466)
Cost to obtain contracts, paid	(9 492)	-
Purchase of property, plant and equipment (including investment property) and intangible assets	(74 963)	(57 794)
Loans given to other entities	(9 704)	(1 645)
Net cash used in investing activities	**(96 806)**	**(43 025)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows - total	**171 176**	**98 052**
including:		
Proceeds from borrowings provided by other entities	171 176	98 052
Cash outflows - total	**(152 722)**	**(128 895)**
including:		
Repayment of borrowings (excluding interest)	(94 426)	(75 032)
Dividends paid (including withholding income tax)	(51 954)	(52 039)
Lease obligation principal paid	(5 468)	-
Borrowing costs	-	(58)
Cash flow on guarantee agreement related to foreign currency hedge	(874)	(1 766)
Net cash used in financing activities	**18 454**	**(30 843)**
Net cash flow for the reporting period	50 928	10 837
Cash and cash equivalents at the beginning of the reporting period	**16 613**	**6 277**
Cash and cash equivalents at the end of the reporting period	**69 147**	**16 613**
Effect of foreign exchange rate changes on cash and cash equivalents	1 606	(501)

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSC

A.V. Dvoretskikh
Chief Accountant of Mobile TeleSystems PJSC

31 March 2019

NOTES TO THE FINANCIAL STATEMENTS OF Public Joint-Stock Company Mobile TeleSystems for 2018

1. GENERAL MATTERS

Mobile TeleSystems Public Joint-Stock Company ("the Company" or "MTS PJSC") provides mobile and fixed-line communication services on the territory of the Russian Federation ("RF"). The Company is one of the leading mobile operators in the RF.

State Registration Certificate No. P-7882.16 was issued by the State Registration Chamber under the Ministry of Justice of the RF on 1 March 2000.

Legal and actual address: Russian Federation, 109147, Moscow 4 Marksistskaya St.

MTS PJSC has branches and structural divisions registered in the following regions in the RF:

Moscow city, the Moscow Region; the Oryol Region, Oryol; the Belgorod Region, Belgorod; the Lipetsk Region, Lipetsk; the Kursk Region, Kursk; the Voronezh Region, Voronezh; the Bryansk Region, Bryansk; Tula; Smolenskiy Region, Smolensk; Ryazanskiy Region, Ryazan; Vladimirskiy Region, Vladimir; the Kaluzhskiy Region, Kaluga; the Yaroslavskiy Region, Yaroslavl; the Tverskoy Region, Tver; the Kostromskoy Region, Kostroma; the Ivanovskiy Region, Ivanovo; the Tambovskiy Region, Tambov; St.-Petersburg; the Pskovskiy Region, Pskov; the Komi Republic, Syktyvkar; the Arkhangelsk Region, Arkhangelsk; the Vologda Region, Vologda; the Kaliningrad Region, Kaliningrad; the Murmanskiy Region, Murmansk; the Novgorodskiy Region, Veliky Novgorod; the Republic of Karelia, Petrozavodsk; the Nizhny Novgorod Region, Nizhny Novgorod; the Kirov Region, Kirov; the Republic of Tatarstan, Kazan; the Udmurt Republic, Izhevsk; the Chuvash Republic, Cheboksary; the Republic of Mordovia, Saransk; the Mariy El Republic, Yoshkar-Ola; the Penzenskiy Region, Penza; the Samarskiy Region, Samara; the Saratovskiy Region, Saratov; the Orenburgskiy Region, Orenburg the Ulyanovsk Region, Ulyanovsk; the Republic of Bashkortostan, Ufa; the Krasnodar Region, Krasnodar; the Krasnodar Region, Novorossiysk; the Krasnodar Region, Sochi; the Astrakhan Region, Astrakhan; the Volgograd Region, Volgograd; the Stavropol Region, Stavropol; the Rostov Region, Rostov on-Don; the Kabardino-Balkaria Republic, Nalchik; the Karachay-Cherkessia Republic, Cherkessk; the Republic of Ingushetia, Nazran; the Republic of North Osetia-Alania, Vladikavkaz; the Republic of Dagestan, Makhachkala; the Chechen Republic, Grozny; the Sverdlovsk Region, Ekaterinburg; the Perm Region,Perm; the Chelyabinsk Region, Chelyabinsk; the Kurgan Region, Kurgan; the Tyumen Region, Tyumen; the Khanty-Mansi Autonomous District, Surgut; the Yamalo-Nenets Autonomous District, Noyabrsk; the Novosibirsk Region, Novosibirsk; the Omsk Region, Omsk; the Kemerovo Region, Kemerovo; the Altai Region, Barnaul; the Krasnoyarsk Region, Krasnoyarsk; the Tomsk Region, Tomsk; the Republic of Khakassia, Abakan; the Altai Republic, Gorno-Altaisk; the Tyva Republic, Kyzyl; the Primorsky Region, Vladivostok; the Khabarovsk Region, Khabarovsk; the Amur Region, Blagoveshchensk; the Zabaikalskiy Region, Chita; the Republic of Sakha (Yakutia), Yakutsk; the Irkutsk Region, Irkutsk; the Kamchatka Region, Petropavlovsk-Kamchatsky; the Magadan Region, Magadan; the Buryat Republic, Ulan-Ude; the Sakhalin Region, Yuzhno-Sakhalinsk.

MTS PJSC also has a representative office in the Republic of Belarus.

The average number of staff at the Company in 2018 and 2017 was 27 100 and 28 238 respectively.

The entity keeping record of title to securities is JSC Independent Registrar Company.

Company's information is published in the Attachment to the Newsletter of the Federal Financial Markets Service of Russia.

1.1. Primary source of the Company's revenue

The Company generates revenue primarily from rendering the following services:

- Mobile communication services;
- Lease of communication channels;
- Fixed local, long-distance and international communication services;
- Telematic services;
- Other services.

1.2. Negative factors (risks) that affected the financial results of the Company's operations in the reporting year

Emerging markets, including the RF, are subject to diverse risks that differ from those of more developed markets, including economic, political, social, legal, and legislative risks. Laws and regulations affecting businesses in the RF may change rapidly and may be subject to arbitrary interpretations. The future economic direction of the RF is largely dependent upon fiscal and monetary measures undertaken by the government, together with legal, regulatory and political developments.

Since the RF produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the world oil and gas price movements. Management is unable to reliably estimate further price movements and the impact that they may have on the Company's financial position.

Starting from March 2014, the USA and the European Union imposed sanctions on a number of Russian officials, businessmen and organizations. International credit rating agencies downgraded the RF's long-term foreign currency sovereign rating. Currently there remains uncertainty with respect to the scale and timing of further sanctions.

In 2018 the Central Bank of the RF lowered the key rate to 7.25%, but since the 17 December 2018 the key rate was set at 2017 level – 7.75%. However, further lowering is complicated by challenging economic situation and high inflation risks.

Further turmoil in global financial markets or tightening and prolongation of sanctions against Russia may result in the reduced ability of Russian business to access the international capital and export markets, capital outflows, weakening of the Ruble and other adverse economic consequences, which could have a negative impact on the Company's business, including ability to obtain financing on commercially reasonable terms. Management believes it is taking the appropriate measures to support the sustainability of the Company in the current circumstances. MTS PJSC has a hedging strategy in place, which partly mitigates the variability of cash outflows as a result of changes in exchange rates of the ruble when making payments denominated in foreign currencies.

During 2014, the Ukrainian Parliament adopted a law allowing for the imposition of sanctions against countries, individuals and entities, which according to the Ukrainian government impose threat to the national interest, security, sovereignty and territorial integrity of Ukraine. The National Bank of Ukraine also introduced a ban on dividend payments to foreign investors. The ban was prolonged numerous times and in accordance with its edition effective as at 31 December 2018 the dividends payments from income received in 2015 and 2016 are allowed but subject to certain limitations. Earlier in 2015, a number of large Ukrainian banks were declared insolvent. These circumstances, combined with continued political and economic instability in the country could result in further negative impacts on the Company's investments in its subsidiaries in Ukraine.

1.3. Liquidity risk

Liquidity risk represents the risk of insufficient funds. In accordance with the Company's policy, the borrowings are made centrally through a combination of short-term and long-term credit facilities. These borrowings in conjunction with cash from operating activities are used to meet the estimated financing needs. The Company's management estimated the risk on its debt refinancing as low.

Management manages the liquidity risk on long-term debt liabilities supporting the loan portfolio with various periods of maturity and necessary amount of net debt, thus minimizing the risk of debt refinancing. The debt repayment periods vary from one to seven years.

As at 31 December 2018 the current liabilities exceeded the current assets by RUB 40 146 million. Management considers that the Company has access to sufficient amount of liquidity due to proceeds of cash from operating activities and credit lines in the amount of RUB 145 889 million (Note 13 Borrowings).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Company are prepared in accordance with the accounting and reporting requirements of the RF, accounting standards enacted on the territory of the RF by the Decree of the Government of the RF of 25 February 2011 №107, which approved the "Regulation on the recognition of International Financial Reporting Standards and Explanations of International Financial Reporting Standards for use in the Russian Federation".

The basis for the application of International Financial Reporting Standards (hereinafter IFRS) was the decree of the Ministry of Finance of Russia dated 28 April 2017 №69n, which amended certain provisions of the Accounting Regulations of PBU 1/2008 "Accounting Policy of the Organization", approved by decree of the Ministry of Finance of Russia dated 6 October 2008 №106n

This amendment allows entities that publish their financial statements in accordance with IFRS to use IFRS accounting policies for the preparation of their statutory financial statements. In particular, the entity may not apply the accounting and reporting requirements established by Federal Accounting Standards ("FSBU") in case these requirements are not consistent with IFRS accounting policies.

The Company uses Oracle e-Business Suite as the principal software suite to maintain its financial and tax accounting records.

2.1. Going concern assumption

In preparation of the financial statements, the Company's management assumed that the Company will continue as a going concern in the foreseeable future and has neither intention nor obligation to discontinue or significantly reduce its activities, and that therefore its obligations will be discharged in due course.

2.2. Chart of accounts

The Company applies working chart of accounts built on segregation of all accounting items into groups based on common characteristics shared by items.

The Company accounts for assets, liabilities and business transactions in accordance with the working chart of accounts.

The structure of a chart of accounts ensures the consistency of accounting data with the financial statements.

2.3. Stockcount

The procedure and timing of stockcount of assets and liabilities and the list of items subject to stockcount are determined by the Company's management, except where there is a need to take an obligatory stockcount. Obligatory stockcount is prescribed by the Russian legislation and federal and industry standards.

A count of property, plant and equipment ("PP&E") is performed for each PP&E group in different reporting periods, but at least once every 3 years for each PP&E group.

The count held as at 1 October 2018 included the following PP&E groups:

- Buildings, including buildings in lease;
- Leasehold improvements
- Telecommunications facilities, including telecommunications facilities in lease;
- non-expendable property with the cost less than RUB 20 thousand;
- Other technical equipment and machinery;
- Other types of property, plant and equipment.

A count of intangible assets ("IA") is performed once every 3 years.

The last count was performed on 1 October 2017.

The count of other assets and liabilities was performed as at 1 October and 31 December 2018 (depending on the type of assets and liabilities) as scheduled by the Order of the President of MTS PJSC No. 01/00275 P On Performing Stockcount of Assets and Inspection of Liabilities Before Preparation of the Annual Financial Statements dated 21 August 2018.

2.4. Assets and liabilities denominated in foreign currencies

When accounting for foreign currency transactions, the Company uses the Central Bank of the RF official exchange rates of the Russian ruble ("RUB") against other currencies at the dates of the transaction (unless another exchange rate is agreed by the parties).

Assets and liabilities denominated in foreign currencies are translated into RUB as at:

- The transaction date; and
- The last day of the reporting period
- As of the maturity date of the assets (liabilities)

Advances are not subsequently adjusted for movements in exchange rates.

Foreign exchange differences are recognized in other income / expenses.

Foreign currency gains and losses are recognized on the net basis as other income or expenses in the statement of financial results.

2.5. Current and non-current assets and liabilities

Assets and liabilities classified in the financial statements as current are expected to be used (settled) within 12 months after the reporting date.

Other assets and liabilities are reported as non-current.

2.6. Accounting for property, plant and equipment

The historical cost of property, plant and equipment comprises:

- Purchase price (including import duties and non-refundable purchase taxes, less trade discounts);
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be used in the manner intended by management;
- The initial estimate of dismantling costs and the cost of returning network infrastructure sites to their original condition;
- Capitalized borrowing costs.

The inclusion of borrowing costs in the historical cost of property, plant and equipment is mandatory for assets, which require a significant period of more than 6 months to prepare for their intended use.

The historical cost of property, plant and equipment items detected during the stockcount is its current market value at the date of recognition.

If capital investments into real estate items have been already incurred but the title to such items has not been registered yet in the manner prescribed by the legislation, such real estate items are recognized as property, plant and equipment regardless of the fact of their state registration (except for land plots). Such items are depreciated in accordance with the general policy from the first day of the month following the month of recognition.

Changes in the historical cost of property, plant and equipment items may be made as a result of their major improvement that extends useful lives and/or enhancement of original performance parameters. Changes in the historical cost of a property, plant and equipment item may relate to the replacement of its significant component or partial liquidation.

Repair, maintenance and day-to-day servicing costs are treated as expenses for the period and expensed as incurred.

Property, plant and equipment are not revalued.

Items of property, plant and equipment are depreciated starting from the first day of the month following the month in which items are recognized for accounting purposes and until items are depreciated in full or derecognized.

Depreciation is charged on a straight-line basis over the estimated useful life, whether the asset is used during this period or not.

Non-depreciable items of property, plant and equipment include those items, which do not change their consumer characteristics over time (for example, land plots).

Depreciation rates for property, plant and equipment are determined in accordance with the Company’s property, plant and equipment register.

	Useful lives, years	
Groups of property, plant and equipment	**From (minimum)**	**To (maximum)**
Buildings	20	150
Constructions and transmission facilities	5	44
Machinery and equipment	1.5	20
Vehicles	2	7
Manufacturing and other tools	2	20
Land and natural resources	n/a	n/a
Other types of property, plant and equipment	2	44

Useful lives of property, plant and equipment are revised on an as-needed basis, but at least at the end of each reporting period. If reviewed useful life differs from previous estimates, the changes are recognized prospectively.

Component accounting is applied to complex items of property, plant and equipment. The components of such complex items may have different useful lives.

Depreciation of property, plant and equipment items ceases from the first day of the month following the month of item disposal.

2.7. Accounting for intangible assets

The Company recognizes intangible assets when they meet recognition criteria for intangible assets with useful lives of over 12 months.

Software costs with useful lives of less than 12 months in the amount of up to RUB 1 million are written off to current period expenses on a one-time basis. Expenses in the amount of over RUB 1 million are recognized on the straight-line basis during the period over which the right of use is made available.

Intangible assets acquired for consideration are initially measured at cost, including:

- Asset purchase price, including import duties and non-refundable purchase taxes, less any trade discounts;
- Any costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

Brands, mastheads, publishing titles, customer lists and items similar in substance that are internally generated are not recognized as intangible assets.

Expenditure incurred after the recognition of an acquired intangible asset is recognized as an expense for the period. Certain expenses (for example, expenses related to the acquisition of updates, software development) may be accounted for on a stand-alone basis provided that the general criteria for recognition of an intangible asset is met.

Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization.

The Company determines whether the useful life of an intangible asset is finite or indefinite. Intangible assets with indefinite useful lives are not amortized. Such assets are subject to annual impairment review. Intangible assets with finite useful lives are amortized on a straight-line basis.

Useful lives of intangible assets are determined on the basis of dates specified in contractual documents or regulatory approvals. If the useful life is not specified by relevant document, it is determined on the basis of a technical expert's opinion.

In the absence of expert opinion or information on the useful life in purchase documents, the following depreciation periods apply (provided that the asset has finite useful life):

- Software - 2 years;
- Trademark (service mark) - 10 years;
- Fixed-line numbering capacity - 10 years;
- Mobile numbering capacity - 5 years;
- Other intangible assets - 2 years.

Useful lives of intangible assets purchased under agreements with an option for prolongation are determined taking into account a possible extension of the agreement provided that the amount of estimated costs of the prolongation is insignificant (compared to the amounts of the agreement).

Useful lives of intangible assets are revised on an as-needed basis, but at least at the end of each reporting period.

2.8. Accounting for investments

Accounting for investments in share capital of subsidiaries and associates

In the reporting year the Company departed from the accounting methods provided for by the Accounting Standard PBU 19/02, *Investments*, because such methods cause inconsistency between the Company's accounting policies and the requirements of International Financial Reporting Standards and applied IAS 28, *Investments in Associates and Joint Ventures,* to accounting for the investments to the share capitals of its subsidiaries and associates.

The Company departed from the following accounting methods provided for by the Accounting Standard PBU 19/02, *Investments*. The Company did not assess the current market value of the investments to the share capitals of its subsidiaries and associates the current market value of which could be determined as prescribed by paragraph 20 PBU 19/02, and the value of such investments was not restated. The Company did not recognize the investments to the share capital of its subsidiaries and associates with indeterminable current market value as at the reporting date at historical cost. As disclosed below, the Company recognized all investments to to the share capital of its subsidiaries and associates using the equity method in accordance with IAS 28, *Investments in Associates and Joint Ventures*. Such investments are recognized at their actual cost at the date of acquisition, their cost is subsequently restated considering the company's share in the profit and other comprehensive income of its subsidiaries and associates on the basis of the financial statements of the subsidiaries and the associates prepared in accordance with IFRS, received dividends and recognized impairment losses.

The Company applies retrospective approach, adjusts the opening retained earnings and restates the comparative information for the previous reporting periods.

Subsidiaries are entities that are controlled by the Company. Associates are entities the activities of which are not controlled by the Company, but the Company exercises significant influence over them. Significant influence is the power to participate in the financial and operating policy decisions of the organization but is not control or joint control of those policies. Investments in subsidiaries and associates are accounted for using the equity method.

The investments are accounted for at actual cost as at the date of acquisition, their cost is subsequently restated considering the Company's share in the profit or loss and other comprehensive income of its subsidiaries and associates.

The carrying value of investments into such entities may include goodwill as the positive difference between the cost of the investments and the fair value of the Company's share in the identifiable assets and liabilities of such entities. The Company discloses profit or loss from the activities of the entities accounted for by the equity method within the Share of the net profit of subsidiaries and associates line item of the statement of financial results.
The Company presents other comprehensive income and expense from the activities of the entities accounted for by the equity method within the item "Result from other transactions not included in net profit for the period" in the statement of financial results and, respectively, in "Cumulative other comprehensive income" in the balance sheet.

The Company recognizes dividends from its subsidiaries and associates in the balance sheet within accounts receivable at the moment it receives the right to the dividends; the received dividends adjust the cost of the investments in subsidiaries and associates.

The investments to the share capitals of its subsidiaries and associates are reviewed for impairment on a regular basis (at least annually). In this case the carrying amount of each investment is tested for impairment if there is any indication that the assets may be impaired. If the carrying amount of the investment exceeds its realizable value, the difference is recognized as impairment loss. Realizable value is the largest of the value in use or the fair value less costs to sell.

Accounting for other investments, other than investments in share capital of subsidiaries and associates

The historical cost of investments acquired for consideration includes actual costs incurred net of value added tax and other recoverable taxes (unless otherwise prescribed by the legislation of the RF).

For debt securities for which no current market value can be determined, the difference between historical cost and par value according to the terms of their issue is recognized on a straight line basis over the life of the investments as other income or expenses in the statement of financial results.

Investments for which current market value can be determined are presented in the financial statements at market value as at the end of the reporting period through adjustment of their value as at the previous reporting date. The difference is recognized in other income/other expenses. Such revaluation is performed on a quarterly basis.

The other investments are reviewed for impairment on a regular basis (at least annually). The Company makes an allowance for the impairment of the investments if, after a review, there is an evidence of impairment of investments. The amount of the specified allowance is determined as the difference between the recorded and estimated value of the respective investments.

2.9. Accounting for inventories

The following items are recognized as inventories:

- Raw materials and supplies;
- Merchandise; and
- Finished goods.

The cost of inventories acquired for consideration includes actual costs incurred by the Company for acquisition, net of value added tax ("VAT") and other recoverable taxes (unless otherwise prescribed by the Russian legislation).

Discounts/bonuses provided by suppliers form an integral part of the cost of inventories during their sale.

The cost of inventories denominated in foreign currency is translated as at the date of purchase/costs incurred.

Accounting for the acquisition of equipment, materials, and goods is performed using accounts 15 *Procurement of inventories* and 16 *Variances in cost of inventories*. Inventories are recognized in the inventories and equipment accounts at purchase price. Inventories are recognized at purchase price. If no price is specified in the purchase documents, the market value of acquired inventories is determined, based on the prices set by suppliers of similar inventories.

Variances between the standard cost of inventories and their actual purchase price are recognized in account 16 *Variances in cost of inventories*. At the end of the month, variances recognized in account 16 are transferred (or reversed in case of a negative variance) to the accounts used to expense respective inventories (cost of sales, selling expenses, overheads, shortages, etc.) pro rata to the cost of the inventories sold or used. The procedures for the valuation and write-off of inventories are set out in the Company's internal documents.

Upon input into operation or other disposal of inventories, they are measured at average cost, which is based on the estimation of inventory cost at the time of its disposal.

To reduce accounting effort, personal protective clothing and shoes are expensed upon distribution to the Company's staff.

Finished goods are recorded in account 43 *Finished Goods* at their actual production cost without using account 40 *Production of Goods and Services*.

Merchandise is recorded in account 41 *Goods at book value*.

At the end of each reporting month the Company measures inventories at the lower of:

- Actual cost, or
- Net realizable value.

If the actual cost of inventories exceeds their net realizable value the Company creates allowance for obsolescence of such inventories.

The write-down of inventories to net realizable value is recognized as an expense in the statement of financial results.

Inventories, which are obsolete, have fully or partially lost their original quality or which current market value has decreased, are reported in the balance sheet at the end of the reporting period net of the allowance for inventory obsolescence.

2.10. Accounting for cash and cash equivalents

Cash and cash equivalents comprise highly liquid investments with original maturities of less than three months that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value are disclosed in the Cash and cash equivalents of balance sheet..

2.11. Accounting for revenue

Based on the nature, conditions of receipt and type of operations, the Company's income is divided into:

- Revenue (operating income);
- Other operating income;
- Income other than operating income.

Revenue (income from operating activities) includes:

- Revenue from communication services:
  - Subscription and time-based fees;
  - Air-time revenue;
  - Fixed local, long-distance, and international communication services;
  - Data transmission services;
  - Pay-TV;
  - Additional services;
  - Roaming services;
  - Connection fees;
  - Interconnection services;
  - Service provider fees;
  - Lease of telecommunication channels;
  - Other communication services.
- Revenue from trade and intermediary services;
- Revenue from property lease.

The share of revenue from communication services and connection fees in 2018 and 2017 amounted to 97.5% and 98.3% respectively.

Other operating income includes:

- Income from sales of property, plant and equipment, intangible assets and other assets;
- Income from the recovery of a previously recognized allowance for impairment of assets;
- Income recognized based on stock count results;
- Income from compensation of damages inflicted on the Company and penalties receivable; and
- Other income.

Non-operating income comprises:

- Gain from revaluation of securities (other than investments in share capitals of subsidiaries and associates) to current market value;
- Loan interest income and income from other similar contracts (other debt obligations, including securities);
- Share of net profit of subsidiaries and associates;
- Gain from swaps;
- Positive exchange gain;
- Other income.

Revenue recognition

In the reporting period the Company departed from the accounting methods provided for by Accounting Standard PBU 9/99, *Income of an Organization,* and Accounting Standard PBU 10/99, *Expenses of an Organization,* regarding revenue recognition, because such methods cause inconsistency between the Company's accounting policies and the requirements of International Financial Reporting Standards and applied IFRS 15, *Revenue from Contracts with Customers*, in full to its contracts with customers (revenue). The examples of such inconsistencies are as follows:

- On a number of contracts for provision of TV and audio content the Company did not recognize in full the revenue at the moment the services were provided to a customer as stipulated by p. 6 of PBU 9/99. As disclosed below, in accordance with IFRS 15 the Company recognizes its revenue in the amount of commission fee for rendering of services if it is an agent to the contract.
- The Company did not record dealer commission fees as selling and distribution expenses of the reporting year as stipulated by p. 9 of PBU 10/99. As disclosed below, in accordance with IFRS 15 the Company capitalizes its contract origination expenses including commissions paid to external dealers. Amortization expenses from commission capitalization are recorded on a straight line basis during the average subscriber's life.

IFRS 15, *Revenue from Contracts with Customers*

The standard sets a single comprehensive approach to the recognition and measurement of revenue from contracts with customers. The core principle of IFRS 15 is that a company shall recognize revenue to depict the transfer of goods or services to customers as stipulated by the Contract in an amount equivalent to the consideration expected to be received by the company in exchange for those goods or services.

The main effect on the financial statements of the Company from the application of IFRS 15 comprises capitalization of certain expenses for origination and execution of contracts with customers.

The Company adopted the standard using the simplified approach to IFRS 15 transition; therefore, revenue under contracts not completed as at 1 January 2018 was recognized as if the standard was in effect at the time when they were originally signed. The cumulative effect from the application of the standard comprises RUB 14 641 million (RUB 11 800 million net of income tax) and is recognized as adjustment of the retained earnings balance. The comparative information for the previous periods was not restated. The effects from applying IFRS 15 to the Company's balance sheet at 31 December 2018 and the Company's statement of financial results for 2018 are provided in Note 3.

Accounting for revenue

The Company recognizes revenue on supplied goods and rendered services on contracts with customers if the amount of revenue can be measured reliably and the receipt of future economic benefits from the transactions is probable. Revenue is the fair value of the consideration to the receipt less VAT and discounts.

In general the Company receives revenue from mobile and fixed-line communication (connection fees, air-time, message transfer, interconnection services, broadband and mobile internet services, TV and music content, roaming services). Goods and services can be sold either separately or within bundle offers. The major part of revenue comes from prepaid contracts.

Revenue from connection, air-time, message transfer, interconnection services, broadband and mobile internet services is recognized as the services are consumed and the amount of such revenue is calculated on the basis of the amount of used traffic (in minutes or units of transferred data) or duration of services provision (if there is month subscription).
The revenue from prepaid services is deferred until a customer consumes them or the prepaid period for their usage expires.

Revenue from services on TV and music content provision is recognized as the content is provided to the customer either in full amount, or in the amount of the commission for the services depending on whether the Company is the principal or an agent to the contract.

For packaged offers, the Company recognizes separately the revenue for each unit of goods or services if the goods or the services are identifiable, i.e. give value to the customer on their own. The remuneration for the package is allocated between separate components of the package on the basis of the fair value of each item included into the package of goods or services. In this case the fair value shall be determined as the market selling price outside the package considering any possible volume-based discounts.

The Company provides retrospective volume-based discounts when rendering roaming services to international and local providers. For estimating the variable part of the remuneration for the specified discounts the Company uses forecasts based on historical data on traffic which are reviewed on a monthly basis considering all available information.
The arising obligation on providing a discount is recognized as decrease in the revenue included into trade and other accounts receivable in the balance sheet.

2.12. Accounting for expenses

The Company divides the main types of expenses into the following expense functions:

- Cost of sales (communication services, goods sold);
- Administrative expenses;
- Selling expenses;
- Other expenses.

The cost of sales includes direct expenses attributable to rendering communication services, sale of subscriber equipment and accessories.

The cost of sales includes the following types of expenses:

- Interconnect cost;
- Lease of communication channels;
- Roaming expenses;
- Cost of subscriber equipment and accessories;
- Production personnel payroll;
- Lease of production resources;
- Repair and maintenance of communication equipment;
- Content-related expenses;
- Other direct expenses.

Selling, administrative and other operating expenses comprise:

- Advertising and marketing;
- Dealer commission fees;
- Payment processing fees;
- Administrative and selling personnel payroll;
- Repair and maintenance;
- Utilities (heating, electricity, water);
- Billing and data processing;;
- Legal and notary services;
- Environmental expenses;
- Advisory services;
- Other employee expenses (training, material aid, gifts, corporate events, etc.);
- Universal Service Fund contributions;
- Property insurance;
- Taxes;
- Other expenses.

Expenses related to production, performance of work and provision of services are grouped by cost elements.

Other expenses include:

- Disposal of property, plant and equipment, intangible assets and other assets;
- Loss recognized based on inventory count results
- Compensation of damages;
- Allowance for doubtful debts and inventory impairment; and
- Loan interest expense and expenses under other similar contracts (other debt obligations, including securities);
- Loss on swaps;
- Foreign exchange losses; and
- Other non-operating expenses.

2.13. Accounting for loans and borrowings

Loans and borrowings are initially recognized at cost net of significant borrowing costs (over RUB 1 million) directly attributable to the receipt, issue and placement of debt securities.

Such costs in excess of RUB 1 million are charged to other expenses on a straight-line basis over the term of the loan or the loan agreement.

If borrowing costs are not significant (less than RUB 1 million) they are recognized as interest expense as incurred.

Long-term liabilities are reclassified to short-term liabilities when, under a loan agreement, their maturity is less than 365 days from the reporting date.

Interest payable to a lender is capitalized as part of the cost of the investment asset or interest payable on a straight-line basis regardless of the loan conditions

2.14. Accounting for allowances and provisions

The Company creates the following allowances:

- Allowance for doubtful accounts (monthly);
- Allowance for impairment of investments excluding investments in subsidiaries and associates (quarterly);
- Allowance for inventory obsolescence (monthly).

The Company recognizes the following provisions:

- Provision for unused vacations (included in accounts payable);
- Provision for performance bonuses (included in accounts payable);
- for the forthcoming expenses for the restoration (reclamation) of land after works on dismantling fixed assets;
- Provision for litigation;
- Tax provisions;
- Provision for discounts provided on roaming services; and
- Other provisions meeting the recognition criteria.

Doubtful accounts are the Company's receivables which have not been repaid at the date specified in a contractual agreement and are not secured by related guarantees.

Accounts receivable may be deemed uncollectible (before expiry of the limitation period) based on the results of a Company investigation, provided that the specified procedures are performed, if costs required to collect these receivables exceed potential economic benefits.

The allowance for impairment of investments in securities for which the current market value is not determinable is made at the end of the quarter in the amount of the excess of the recorded value over the estimated value of the investments, if there is an evidence of a sustained significant decline in investment value.

The allowance for inventory obsolescence is made in the amount of the difference between the net realizable value (estimated selling price of goods net of selling costs) and an actual cost of inventories, provided that the latter is higher than the net realizable value. Allowance is also created in case of inventory physical damage, partial or full technical obsolescence. Expense for allowance is included in other operating expenses.

The Company concludes roaming discount agreements with a number of mobile operators. According to the agreements, the Company is obliged to provide and entitled to receive discounts that are generally dependent on the volume of inter operator roaming traffic. The Company uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Company recognizes provisions, if all of the following conditions are met:

- There is a present obligation (legal or constructive) arising as a result of a past event;
- It is highly probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- Obligation amount can be reliably estimated.

The provision (allowance) is recognized at the end of the reporting period in the amount representing the best estimate of the consideration required to settle the present obligation.

Asset retirement obligations are calculated when the Company has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. Obligations of the Company relate primarily to the costs of removing its equipment from leased sites.
The Company recorded the present value of its asset retirement obligations in its financial statements in the Provisions line item of Section IV, Non-current liabilities, of the balance sheet.

2.15. Deferred tax

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of:

- Temporary differences between the carrying amount of assets and liabilities in the balance sheet and the corresponding tax bases;
- The carryforward of unused tax credits (including a decrease in the taxable base of future periods by the amount of losses incurred in the reporting (previous) period).

Deferred tax does not arise due to permanent differences between financial and tax accounting data. Permanent differences affect only the period in which they arise and are not recognized separately in the financial statements - a record is made in the accounting records reflecting the current income tax calculated on the basis of taxable profit, i.e. including permanent differences.

Deferred tax assets and liabilities are calculated using the balance sheet method, implying the comparison of the carrying amount of assets and liabilities with their tax base.

Deferred tax assets and liabilities are calculated by applying to deductible and taxable temporary differences an income tax rate that:

- Is consistent with the expected manner of recovery or settlement; and
- Is expected to apply in the period in which the liability is to be settled or the asset to be realized.

The Company recognizes income deferred tax liability on temporary differences in the value of financial investment in subsidiriaries and associates if it is certain that such difference will be offset by future distribution of dividends of foreign subsidiaries and associates or as a result of the sale of companies.

Deferred tax assets and liabilities are reported on the net basis, unless separate tax base formation is required.

2.16. Leases

In the reporting year the Company departed from the accounting methods provided for by the Accounting Standard PBU 10/99, *Expenses of an Entity,* in relation to the accounting for lease contracts, because such methods cause inconsistency between the Company's accounting policies and the requirements of International Financial Reporting Standards, and applied fully IFRS 16, *Leases,* to the accounting of lease contracts. An example of such inconsistencies was:

- The Company did not charge the expenses of leasing sites for telecommunications equipment (on land, towers, roofs or inside buildings), network infrastructure, as well as buildings and premises for administrative and technical needs within the cost, selling and administrative expenses of the reporting year, as prescribed by paragraph 9 of PBU 10/99. As disclosed below, in accordance with IFRS 16, the Company recognizes assets in the form of the right to use lease objects and the corresponding lease liabilities under all lease contracts, according to which the Company has the right to control the use of identified assets for a fee for a fixed period of time, except short-term lease contracts (up to 12 months).

IFRS 16, *Leases*

The Company decided to use a modified retrospective method for transition to the accounting for leases in accordance with IFRS 16, recording the effect of the initial application on retained earnings at the beginning of the year. In accordance with this method, the Company does not record comparative information in the financial statements under IFRS 16. This approach is applied consistently to all lease agreements.

The Company applies the following simplifications at the date of transition:

1. A single discount rate is applied to a portfolio of leases with reasonably similar characteristics;
2. Initial direct costs are excluded from the valuation of the asset in the form of the right of use at the date of first-time adoption;
3. Historical information is used, in particular in determining the lease term, if the agreement contains extension or termination options.

The Company recognizes assets in the form of the right to use lease objects and the corresponding lease liabilities for all lease agreements, including sublease and lease of intangible assets, according to which the Company has the right to control the use of identified assets for a fee for a fixed period of time, except short-term lease agreements (up to 12 months) Payments under short-term lease agreements are recognized within operating expenses on a straight-line basis over the term. In determining leases, the Company uses the permitted practical simplification, which allows not to separate components that are not leases from the components of leases and recognize them as a single asset.

Lease liabilities are initially recognized at the present value of the lease payments that were not made at the date of lease commencement, using the rate of attraction of additional borrowed funds of MTS PJSC. Incremental borrowing rate of MTS PJSC is determined on the basis of the credit spreads of MTS PJSC debt instruments in relation to the zero-coupon yield curve for government securities. Lease payments include fixed payments; variable payments dependent on an index or rate; the expected disbursement amounts for residual value guarantees; the exercise price of the purchase option, if there is sufficient certainty in the exercise of this put option; as well as payments for early termination of agreements, except in cases where there is reasonable certainty that there will be no termination. Variable payments that depend on external factors (for example, sales office revenue) are recognized as expenses when incurred by MTS PJSC.

Lease liabilities are revalued when changing future lease payments due to changes in the index or rate, as well as when revising the value of the payments on residual value guarantees, or as part of the exercise or non-exercise of purchase options, agreement extension or termination options. The revaluation of the lease liability is recognized as an adjustment to the right-of-use asset or in the profit and loss statement if the present value of the asset is reduced to zero.

The initial recognition of the right-of-use asset includes the amount of the initial assessment of the lease liability, lease payments at or before the date of the lease less the benefits received for paying the lease, the initial direct costs related to the lease agreement, and the estimated costs to be incurred when dismantling, relocating or restoring the underlying asset.

Right-of use assets are amortized on a straight-line basis over the expected lease term of the assets. The lease term corresponds to the non-cancellable lease term of the lease agreement, unless there is sufficient certainty in the extension or termination of the agreement. In assessing the lease terms, MTS PJSC analyzes all the facts and circumstances that may affect the economic reasonableness of extending the lease agreements, including the lifetime of related assets, statistics on the termination of site lease agreements, the cyclical change of technology, profitability of points of sale, as well as the materiality of the expenses associated with termination of lease agreements.

The Company does not treat servitude contracts as lease agreements.

In accordance with current estimates, right-of-use assets are amortized over the following periods:

Sites for placement of network equipment and base stations inside the buildings	10 years
Sites for placement of network equipment and base stations on land	20 years
Fiber-optic lines	2 years
Retail stores	up to 8 years
Administrative offices, warehouses, parking garages	not less than 3 years
Vehicles	4 – 5 years

Right-of-use assets are tested for impairment in accordance with IAS 36, *Impairment of Assets*. This cancels the previously existing requirement for the recognition of a provision for onerous contracts.

2.17. Accounting for expenses from contracts with customers

The company capitalizes certain types of expenses from contracts with customers, if it is expected that these expenses are reimbursable.

Contract costs include commissions paid to external distributors. Such expenses are capitalized and transferred to the financial result through depreciation evenly over the subscriber's average life.

The company uses IFRS 15 and recognizes the costs of Contracts with Customers at the time they are incurred by the Company, if the contract period is one year or less.

2.18. Acquisition of entities under common control

Business combinations arising from transfers of interests in entities that are under common control with the Company are accounted prospectively starting from the date that the control over those entities is passed to the Company. The assets and liabilities acquired are recognized at the carrying values recorded previously in the counterparty's financial statements, with the resulting gain or loss recognized directly in equity.

2.19. Reporting segments

Based on the current management structure, the Company believes that it operates within one operating segment. Hence, segment information is not disclosed.

3. CHANGES IN THE DISCLOSURE OF FINANCIAL INFORMATION

3.1. Adjustments of comparative information

In the reporting year, the Company changed an order of disclosing information in the financial statement line items, and as a result the comparative amounts of the Company's financial statements were restated to ensure comparability with the amounts as at 31 December 2018:

Adjustments on application of a new accounting policy of investments

As disclosed in Note 2, since 2018 the Company has been applying the equity method to record investments in share capitals of its subsidiaries and associates in accordance with IAS 27, *Separate Financial Statements,* and IAS 28, *Investments in Associates and Joint Ventures,* on the basis of the actual results of the investee's activities.

Financial information as at 31 December 2017, restated for the effects of the accounting treatment used in the reporting period:

(RUB million)

Item description	Initial amount	Amendment	Restated amount
ASSETS			
I. NON-CURRENT ASSETS			
Investments	227 960	(227 960)	-
Investments in associates and subsidiaries	-	225 354	225 354
Other investments	-	22 562	22 562
EQUITY AND LIABILITIES			
III. EQUITY AND RESERVES			
Additional paid-in capital	35	10 195	10 230
Accumulated other comprehensive loss	-	(7 300)	(7 300)
Retained earnings	111 854	16 611	128 465
IV. NON-CURRENT LIABILITIES			
Deferred tax liabilities	13 045	450	13 495

Information of the statement of financial results for 2017, restated for the effects of the accounting treatment used in the reporting period:

(RUB million)

Item description	Initial amount	Amedment	Restated amount
Other revenue and expenses			
Dividends received from other entities	29 084	(29 084)	-
Share of the net profit of subsidiaries and associates	-	19 765	19 765
Other income	67 014	(49 409)	17 605
Other expenses	(11 485)	189	(11 296)
Change in deferred tax liabilities	409	352	761

Financial information as at 31 December 2016, restated for the effects of the accounting treatment used in the reporting period:

(RUB million)

Item description	Initial amount	Amedment	Restated amount
ASSETS			
I. NON-CURRENT ASSETS			
Investments	192 674	(192 674)	-
Investments in associates and subsidiaries	-	216 868	216 868
Other investments	-	56 240	56 240
EQUITY AND LIABILITIES			
III. EQUITY AND RESERVES			
Additional paid-in capital	36	10 131	10 167
Accumulated other comprehensive loss	-	(4 138)	(4 138)
Retained earnings	34 759	73 639	108 398
IV. NON-CURRENT LIABILITIES			
Deferred tax liabilities	14 298	802	15 100

Changes in classification:

In the reporting year, the Company has changed a classification of cash on payment systems. Such cash was reclassified in the balance sheet line items from Accounts receivable to Cash and cash equivalents in the amount of RUB 2 988 million and RUB 2 333 million as at 31 December 2017 and 2016 respectively. The analogous restatement was made in the statement of cash flows for the year 2016 in the closing cash balance and in the opening balance for 2017. Proceeds from customers and Other taxes and duties paid line items were adjusted for RUB 555 million and RUB 100 million respectively.

Financial information as at 31 December 2017, restated for the effects of the classification used in the reporting period:

(RUB million)

Item description	**Initial amount**	**Reclassification**	**Restated amount**
ASSETS			
II. CURRENT ASSETS:			
Accounts receivable	35 635	(2 988)	32 647
Cash and cash equivalents	13 625	2 988	16 613

Financial information of the statement of cash flows as at 31 December 2017, restated for the effects of the classification used in the reporting period:

Item description	**Initial amount**	**Reclassification**	**Restated amount**
CASH FLOWS FROM OPERATING ACTIVITIES[3]			
Proceeds from customers	281 816	555	282 371
Other taxes and duties paid	(11 116)	100	(11 016)
Net cash flows for the reporting period	10 182	655	10 837
Cash and cash equivalents at the beginning of the reporting period	**3 944**	**2 333**	**6 277**
Cash and cash equivalents at the end of the reporting period	**13 625**	**2 988**	**16 613**

Financial information as at 31 December 2016, restated for the effects the classification used in the reporting period:

(RUB million)

Item description	**Initial amount**	**Reclassification**	**Restated amount**
ASSETS			
II. CURRENT ASSETS:			
Trade and other receivables	28 956	(2 333)	26 623
Cash and cash equivalents	3 944	2 333	6 277

3.2. Effect of IFRS 15 first-time adoption

Expenses for origination of contracts with customers comprised RUB 17 407 million as at 1 January 2018.

The effects of IFRS 15 adoption on the balance sheet of the Company as at 31 December 2018 are as follows:

	As if IFRS 15 was not applied	Equty and financial results adjustments	Reclassification	As reported
ASSETS				
I. NON-CURRENT ASSETS::				
Cost to obtain contracts	-	16 798	-	16 798
Total non-current assets	**686 883**	**16 798**	**-**	**703 681**
II. CURRENT ASSETS:				
Total current assets	**141 130**	**-**	**-**	**141 130**
TOTAL ASSETS	**828 013**	**16 798**	**-**	**844 811**
EQUITY AND LIABILITIES				
III. EQUITY				
Retained earnings	87 870	11 538	-	99 408
Total equity	**95 890**	**11 538**	**-**	**107 428**
IV. NON-CURRENT LIABILITIES:				
Contract liabilities	-	-	195	195
Deferred tax liabilities	11 358	2 933	-	14 291
Deferred income	195	-	(195)	-
Total non-current liabilities	**553 174**	**2 933**	**-**	**556 107**
V. CURRENT LIABILITIES:				
Contract liabilities	-	2 327	14 524	16 851
Accounts payable	63 689	-	(10 704)	52 985
Deferred income	3 820	-	(3 820)	-
Total current liabilities	**178 949**	**2 327**	**-**	**181 276**
TOTAL EQUITY AND LIABILITIES	**828 013**	**16 798**	**-**	**844 811**

The effects of IFRS 15 adoption on the Company's statement of financial results for 2018 are as follows:

	As if IFRS 15 was not applied	Equty and financial results adjustments	Reclassification	As reported
Revenue	332 720	874	(2 358)	331 236
Cost of sales	(160 184)	-	2 358	(157 826)
Gross profit	**172 536**	**874**	**-**	**173 410**
Selling expenses	(46 047)	(678)	-	(46 725)
Administrative expenses	(32 427)	-	-	(32 427)
Operating profit	**94 062**	**196**	**-**	**94 258**
Profit before income tax	**20 106**	**196**	**-**	**20 302**
Change in deferred tax liabilities	215	(39)	-	176
Net profit	**9 003**	**157**	**-**	**9 160**

3.3. Effect of IFRS 16 first-time adoption

As a result of the application of the IFRS 16 standard the Company has recognised an additional lease liability and right-of-use assets in the amount of RUB 111 267 million.

As of 1 January 2018 the weighted average borrowing rate applied by the Company to discount its lease liabilities amounted to 8.83%.

Comparative historical data is not restated.

DISCLOSURE OF FINANCIAL STATEMENTS ITEMS

4. INTANGIBLE ASSETS AND NON-EXCLUSIVE RIGHTS TO USE ASSETS

4.1. Intangible assets

Movements in the historical cost of the main classes of intangible assets for 2018 and 2017 as well as accumulated amortization and net book value were as follows as at 31 December 2018, 2017 and 2016:

(RUB million)

	Exclusive rights for intellectual property	Rights to use radio frequencies and radio frequency channels	Licenses	Numbering capacity and other	Total
Historical cost as at 31 December 2016	1 657	9 138	7 829	2 050	20 674
Accumulated amortization as at 31 December 2016	(762)	(4 774)	(740)	(1 812)	(8 088)
Net book value as at 31 December 2016	**895**	**4 364**	**7 089**	**238**	**12 586**
Additions at historical cost	461	958	-	359	1 778
Disposals at historical cost	(13)	(1 058)	(3)	(297)	(1 371)
Historical cost as at 31 December 2017	2 105	9 038	7 826	2 112	21 081
Accumulated amortization as at 31 December 2017	(1 204)	(4 836)	(1 481)	(1 886)	(9 407)
Net book value as at 31 December 2017	**901**	**4 202**	**6 345**	**226**	**11 674**
Additions at historical cost	2 929	1 035	261	93	4 318
Disposals at historical cost	(12)	(1 159)	(1)	(148)	(1 320)
Historical cost as at 31 December 2018	5 022	8 914	8 086	2 057	24 079
Accumulated amortization as at 31 December 2018	(1 685)	(4 863)	(2 250)	(1 860)	(10 658)
Net book value as at 31 December 2018	**3 337**	**4 051**	**5 836**	**197**	**13 421**

4.2. Non-exclusive rights to use assets

Non-exclusive rights to use assets as at 31 December 2018, 2017 and 2016 comprised:

(RUB million)

	31 December		
	2018	**2017**	**2016**
Software	44 414	41 503	36 891
Servitude	457	486	501
Total	**44 871**	**41 989**	**37 392**

5. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

5.1. Property, plant and equipment

Movements in the historical cost of the key groups of property, plant and equipment for 2018 and 2017 as well as the historical cost, accumulated depreciation and net book value as at 31 December 2018, 2017 and 2016 comprise:

(RUB million)

	Buildings	Constructions and transmission facilities	Machinery and equipment	Vehicles	Manufacturing and other tools	Land and natural resources	Investment Property	Other types of property, plant and equipment	Total
Historical cost as at 31 December 2016	11 204	73 485	340 614	2 631	640	510	-	234	429 318
Accumulated depreciation as at 31 December 2016	(3 191)	(31 249)	(219 115)	(1 981)	(461)	-	-	(178)	(256 175)
Net book value as at 31 December 2016	**8 013**	**42 236**	**121 499**	**650**	**179**	**510**	-	**56**	**173 143**
Additions at historical cost	179	3 878	33 719	178	214	68	-	-	38 236
Disposals at historical cost	(24)	(95)	(18 858)	(341)	(58)	-	-	(28)	(19 404)
Historical cost as at 31 December 2017	11 359	77 268	355 475	2 468	796	578	-	206	448 150
Accumulated depreciation as at 31 December 2017	(3 421)	(36 016)	(238 357)	(1 920)	(515)	-	-	(156)	(280 385)
Net book value as at 31 December 2017	**7 938**	**41 252**	**117 118**	**548**	**281**	**578**	-	**50**	**167 765**
Additions at historical cost	1 113	6 162	36 873	163	185	158	2 692	87	47 433
Disposals at historical cost	(101)	(334)	(19 279)	(135)	(57)	-	-	(15)	(19 921)
Historical cost as at 31 December 2018	12 371	83 096	373 069	2 496	924	736	2 692	278	475 662
Accumulated depreciation as at 31 December 2018	(3 534)	(39 681)	(255 819)	(2 003)	(567)	-	(16)	(191)	(301 811)
Net book value as at 31 December 2018	**8 837**	**43 415**	**117 250**	**493**	**357**	**736**	**2 676**	**87**	**173 851**

Additional information about property, plant and equipment as at 31 December 2018, 2017 and 2016 was as follows:

(RUB million)

Item description	31 December 2018	2017	2016
Changes in cost of property, plant and equipment as a result of completions, additions, reconstruction and partial liquidation	1 658	1 399	1 099
Non-depreciable property, plant and equipment	737	578	510
Property, plant and equipment transferred under lease agreement (at carrying amount)	186	158	267
Real estate property put into operation but under the process of state registration	2 599	2 668	2 794

5.2. Construction-in-progress

As at 31 December 2018, 2017 and 2016, construction-in-progress comprised the following:

(RUB million)

	31 December 2018	2017	2016
Item description			
Completed work and construction services	14 075	7 304	6 237
Equipment for installation	7 670	7 278	5 454
Total	**21 745**	**14 582**	**11 691**

The Company performed an analysis of idle equipment to determine the alternatives of its further usage. The stockcount and analysis resulted in identifying equipment, which was obsolete, unfit for operation or lacking in demand. As at 31 December 2018, 2017 and 2016 the following allowances were recognized:

- Allowance for unused equipment was recorded in the Equipment for installation line in the amount of RUB 1 061 million, RUB 867 million and RUB 227 million, respectively;
- Allowance for obsolescence of completed work and construction services was recorded in the Completed work and construction services line in the amount of RUB 230 million, RUB 537 million and RUB 412 million, respectively.

6. RIGHT-OF-USE ASSETS

The Company's lease contracts largely relate to leases of cellular sites (i.e. land, cell towers or rooftop surface areas), network infrastructure, and retail stores as well as buildings used for administrative or technical purposes.

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

(RUB million)

Lease of:	31 December 2018
Network and base station equipment	93 657
Land and buildings	16 574
Office equipment, vehicles and other	100
Right-of-use assets, total	**110 331**

The depreciation of right-of-use assets for 2018, included in the expenses in the attached statement of financial results, was:

Lease of:	**(RUB million) 2018**
Network equipment and base stations	8 079
Land and buildings	4 316
Office equipment, transport vehicles and other	25
Depreciation charge, total	**12 420**

Additions of right-of-use assets during 2018 amounted to RUB 15 660 million.

The amounts recognized in the statement of financial results in respect of lease contracts in which the company acts as a lessee for 2018 amounted to:

	(RUB million) 2018
Interest expense accrued on lease obligations	10 031
Depreciation of the rights-of-use assets	12 420
Variable lease payments not included on the measurement of lease liabilities	62
Expenses on short-term leases	2 381

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 2018:

	(RUB million) 31 December 2018
Minimum lease payments, including:	
Current portion (less than 1 year)	17 768
More than 1 to 5 years	66 396
Over 5 years	104 486
Total minimum lease payments	**188 650**
Less amount representing interest	(72 505)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	8 099
More than 1 to 5 years	34 857
Over 5 years	73 189
Lease obligations	**116 145**
Current portion	8 256
Non-current portion	107 889

Total cash outflows for leases for the year ended 31 December 2018 totaled to RUB 15 499 million, of which RUB 10 031 million was included in Interest paid line item in the statement of cash flows.

The Company's lease contracts include typical restrictions and covenants common for local business practice, such as the responsibility of the Company for regular maintenance and repair of the lease assets and their insurance, redesign and conduction of permanent improvements only with the consent of the lessor, and use of the leased asset in accordance with current legislation.

7. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

As of 31 December 2018, 2017 and 2016, the most significant subsidiaries and associates were as follows:

	Country of operations / registration	31 December 2018	2017	2016
PJSC MGTS	Russia, Moscow	94.7%	94.7%	94.7%
Allegretto Holding S.a.r.l.	Luxembourg	100%	100%	100%
LLC Stream Digital	Russia, Moscow	100%	100%	100%
Mobile TeleSystems B.V.	The Netherlands	100%	100%	100%
Mobile Telecom Holding S.a.r.l.	Luxembourg	100%	100%	-
JSC Russian Telephone Company	Russia	100%	100%	100%
LLC Telecom Projects	Russia, Moscow	100%	100%	100%
Baggio Holding B.V.	The Netherlands	100%	100%	100%
Vostok Mobile B.V.	The Netherlands	100%	100%	100%
LLC MTS-Capital	Russia, Moscow	100%	100%	100%
MCT Sibi Corp.	The USA	100%	100%	100%
ES MTS-Turkmenistan	Turkmenistan	99% (100% with indirect control through Telecom Projects LLC)	99% (100% with indirect control through Telecom Projects LLC)	99% (100% with indirect control through Telecom Projects LLC)
LLC BASTION	Russia, Moscow	100%	100%	100%
Dega Retail Holding Limited	British Virgin Islands	100%	100%	100%
ARAMAYO INVESTMENTS LIMITED	Cyprus	-	-	80%
LLC STV	Russia, Moscow	100%	100%	100%
JLLC Mobile TeleSystems	Belarus	49%	49%	49%
OZON HOLDINGS LIMITED	Cyprus	18.7%	11.2%	10.8%
LLC MC Sistema Capital	Russia, Moscow	30%	30%	-
LLC Avantage	Russia, the Moscow Region	1% (100% with indirect control through Vostok Mobile B.V.)	-	-
LLC Stream	Russia, Moscow	45% (100% with indirect control through LLC Stream Digital)	45% (100% with indirect control through LLC Stream Digital)	45% (100% with indirect control through LLC Stream Digital)
JSC Sibintertelecom	Russia, Chita	6.5% (100% with indirect control through MCT Sibi Corp.)	6.5% (100% with indirect control through MCT Sibi Corp.)	6.5% (100% with indirect control through MCT Sibi Corp.)

Movements in the investments in share capitals of subsidiaries and associates for 2018 and 2017 are presented as follows:

(RUB million)

		2017							
	31 December 2016	**Acquisitions**	**Share of the profit/(loss)**	**Impairment**	**Dividends**	**Disposals**	**Other comprehensive income**	**Other changes**	**31 December 2017**
Investment in subsidiaries									
PJSC MGTS	97 373	-	10 052	-	(21 012)	-	38	277	86 728
Allegretto Holding S.a.r.l.[8, 9]	22 391	-	4 479	-	(527)	-	(1 989)	-	24 354
LLC Stream Digital	10 580	20 000	90	-	-	-	-	1 122	31 792
Mobile TeleSystems B.V.	3 558	-	(44)	-	-	-	(532)	-	2 982
Mobile Telecom Holding S.a.r.l.[11]	-	10 361	178	-	-	-	83	-	10 622
JSC Russian Telephone Company	12 490	3 108	1 861	-	-	-	-	-	17 459
LLC Telecom Projects	13 163	-	998	-	-	-	-	-	14 161
Baggio Holding B.V.	9 193	-	255	(985)	-	-	236	-	8 699
Vostok Mobile B.V.	8 224	-	(130)	-	-	-	-	-	8 094
MCT Sibi Corp.	8 780	9	243	-	-	-	-	-	9 032
ES MTS-Turkmenistan	3 410	-	372	(3 012)	(651)	-	(119)	-	-
LLC BASTION	239	-	38	-	-	-	-	-	277
ARAMAYO INVESTMENTS LIMITED[11]	13 937	1	284	-	(3 288)	(10 361)	(573)	-	-
LLC STV	-	3 000	(2 366)	-	-	-	-	-	634
Narico Holdings Ltd.	3 108		-	-	-	(3 108)		-	-
Other	639	392	(31)	-	(11)	(258)	(28)	-	703
Total	**207 085**	**36 871**	**16 279**	**(3 997)**	**(25 489)**	**(13 727)**	**(2 884)**	**1 399**	**215 537**
Investment in associates and others									
JLLC Mobile TeleSystems	4 303	-	3 210	-	(3 575)	-	(278)	-	3 660
OZON HOLDINGS LIMITED6	2 642	48	(173)	-	-	-	-	-	2 517
LLC MC Sistema Capital	-	356	4	-	(3)	-	-	-	357
LLC Stream	763	-	429	-	-	-	-	-	1 192
JSC Sibintertelecom	1 763	-	17	-	-	-	-	-	1 780
Other	312	-	(1)	-	-	-	-	-	311
Total	**9 783**	**404**	**3 486**	**-**	**(3 578)**	**-**	**(278)**	**-**	**9 817**
Total investments in subsidiaries and associates	**216 868**	**37 275**	**19 765**	**(3 997)**	**(29 067)**	**(13 727)**	**(3 162)**	**1 399**	**225 354**

(RUB million)

	31 December 2017	2018							31 December 2018
		Acquisitions	Share of the profit/(loss)	(Impairment)/ reversal of impairment loss	Dividends	Disposals	Other comprehensive income	Other changes	
Investment in subsidiaries									
PJSC MGTS	86 728	-	11 049	-	(20 831)	-	167	309	77 422
Allegretto Holding S.a.r.l.[4]	24 354	-	3 879	(4)	(1 972)	-	5 284	50	31 591
LLC Stream Digital	31 792	-	484	-	-	-	-	2 708	34 984
Mobile TeleSystems B.V.[2]	2 982	21 968	1 085	-	-	-	-	(251)	25 784
Mobile Telecom Holding S.a.r.l.	10 622	-	1 505	-	-	-	1 573	-	13 700
JSC Russian Telephone Company	17 459	-	(1 202)	-	-	-	-	-	16 257
LLC Telecom Projects[1]	14 161	-	1 319	-	-	-	-	-	15 480
Baggio Holding B.V.	8 699	-	5 572	919	-	-	369	-	15 559
Vostok Mobile B.V.[3,5]	8 094	2 050	1 527	-	-	-	-	-	11 671
MCT Sibi Corp.	9 032	-	(152)	-	-	-	-	128	9 008
LLC BASTION	277	15 000	(264)	-	-	-	-	116	15 129
Dega Retail Holding Limited	-	4 988	(1 367)	-	-	-	-	-	3 621
LLC MTS-Capital	-	5 877	(2)	(5 875)	-	-	-	-	-
	634	-	(634)	-	-	-	-	-	-
Other	703	-	(145)	-	(13)	(146)	31	-	430
Total	**215 537**	**49 883**	**22 654**	**(4 960)**	**(22 816)**	**(146)**	**7 424**	**3 060**	**270 636**
Investment in associates and others									
JLLC Mobile TeleSystems	3 660	-	3 799	-	(3 691)	-	320	(37)	4 051
OZON HOLDINGS LIMITED[6]	2 517	3 048	(768)	-	-	-	-	-	4 797
LLC MC Sistema Capital	357	-	41	-	(8)	-	-	-	390
LLC Stream	1 192	-	187	-	-	-	-	-	1 379
JSC Sibintertelecom	1 780	-	(10)	-	-	-	-	9	1 779
Other	311	13	(33)	-	-	-	-	-	291
Total	**9 817**	**3 061**	**3 216**	**-**	**(3 699)**	**-**	**320**	**(28)**	**12 687**
Total investments in subsidiaries and associates	**225 354**	**52 944**	**25 870**	**(4 960)**	**(26 515)**	**(146)**	**7 744**	**3 032**	**283 323**

In 2018 and 2017, the following operations took place related to the investments in share capital of subsidiaries, associated and other entities of MTS PJSC:

[1] ***Acquisition of MDTZK LLC and Kulturnaya Sluzhba LLC*** – In January and February 2018 MTS PJSC, through its subsidiary LLC Telecom Projects, acquired a stake of 78.2% in the share capital Kulturnaya Sluzhba LLC, operating under the trademark Ponominalu.ru, a 100% share in the share capital in Moskovskaia Direktciia Teatralno-Kontcertnyh i Sportivno-Zrelishchnyh Kass LLC ("MDTZK"), operating under the trademark Ticketland.ru. The purchase price was RUB 321 million and RUB 3 190 million respectively. These acquisitions allow the Company to enter the event ticketing market, as well as to propose subscribers a service of purchase of electronic tickets with their integration into the loyalty program and ecosystem of mobile applications of MTS PJSC.

[2] ***Acquisition of MTS-Bank*** – In July 2018, MTS PJSC, through its subsidiary Mobile TeleSystems B.V. increased ownership share in the Company's associate MTS-Bank PJSC from 26.6% to 55.4% and obtained control over the entity. Consideration paid to Sistema PJSFC for additional share in MTS-Bank PJSC amounted to RUB 8,273 million.

[3] ***Acquisition of LLC Avantage*** – In September 2018, MTS PJSC acquired from a group of private investors a 1% share in the capital of LLC Avantage and a 99% share in the capital of LLC Avantage through its subsidiary Vostok Mobile B.V. The total amount of consideration amounted to RUB 8,166 million (including net debt). LLC Avantage owns one of the largest data processing centers in Russia in the city of Lytkarino, Moscow Region.

[4] ***Acquisition of share in YouDo*** – In September 2018, MTS PJSC, through its subsidiary Alegretto Holdings S.a.r.l. acquired a 13.7% ownership interest in Youdo Web Technologies Limited (YouDo), a Russian online service provider matching freelance labor supply to demand for everyday and business tasks, for a cash contribution of RUB 824 million (USD 12 million).

[5] ***Acquisition of IT-Grad 1 Cloud LLC*** – In December 2018, MTS PJSC, through its subsidiary Vostok Mobile B.V. acquired a 100% ownership interest in IT-Grad 1 Cloud LLC (IT-Grad), one of the largest cloud services providers on the Russian IaaS market. The acquisition allows the Company to strengthen its presence in the Russian cloud services market.

[6] ***OZON Holdings Limited*** – In 2017 and 2018 the Company acquired additional equity interests in OZON Holdings Limited through several transactions, which resulted in increase of the Company's share in OZON Holdings Limited from 10.8% to 11.2% as of 31 December 2017 and from 11.2% to 18.69% as of 31 December 2018. The details on these transactions are summarized below:

Date of transaction	Substance of transaction	Consideration paid, RUB mln	Number of ordinary shares acquired	Increase of the Company's share
September 2017	Participation in additional share issuance	19	5 193	0.16%
October 2017	Participation in additional share issuance	28	7 698	0.23%
March 2018	Participation in additional share issuance	1 158	141 498	2.5%
May 2018	Purchase from non-controlling shareholder	943	114 616	3.0%
July 2018	Purchase from non-controlling shareholder	85	11 209	0.32%
September 2018	Exercise of the put option	575	70 978	0.86%
September 2018	Purchase from non-controlling shareholder	289	31 810	0.81%

[7] ***JSC Cellular Communications of Bashkortostan*** – In July 2017, the Company acquired 100% stake in the share capital of JSC Cellular Communications of Bashkortostan. JSC Cellular Communications of Bashkortostan operates in the Republic of Bashkortostan and possesses rights for using radio frequencies in 450 and 2,100 MHz bands. The acquisition contributed to frequency resources of MTS PJSC in the Republic of Bashkortostan. A purchase consideration included cash in the amount of RUB 292 million. JSC Cellular Communications of Bashkortostan was merged with MTS PJSC on 15 November 2018 (Note 28).

[8] ***Oblachny Retail*** – In October 2017 the Company through its subsidiary Allegretto Holdings S.a.r.l. acquired 50.82% stake in the share capital of Oblachny Retail LLC (trademark LiteBox), Russian company specializing in development of software for retail sale. The Company also entered into an option agreement with the participants of Oblachny Retail LLC, according to which MTS PJSC has the right and the obligation, by demand of non-controlling participants of Oblachny Retail LLC, to repurchase their shares at a price that depends on the Company's operating results for the period from 2019 to 2020.

This transaction ensures the Company's presence in the market of "cloud" cash offices as a licensed operator of fiscal data and a provider of ready-made solutions for the cash services for business customers. A purchase consideration included cash in the amount of RUB 160 million and contingent consideration estimated in the amount of RUB 10 million to be paid within 12 months from the acquisition date. As part of the acquisition MTS PJSC also contributed RUB 420 million to the share capital of Oblachny Retail LLC.

[9] ***Praliss Enterprises*** – In December 2017, MTS PJSC through its subsidiary Allegretto Holding S.a.r.l. acquired 100% stake in Praliss Enterprises, one of the world's leading eSport clubs Gambit Esports. Entering the e-sports market is in line with the strategy of the companies of MTS Group to develop digital directions and products that are outside the traditional market of telecommunications services. The acquisition price included cash in the amount of RUB 220 million and contingent consideration to be paid within 12 months from the acquisition date and consideration to be paid in the period from 2018 to 2019 if Praliss Enterprises reaches certain performance indicators, in total equaling RUB 93 million. These acquisitions allow MTS PJSC to diversify its activities.

[10] ***LLC MC Sistema Capital*** – In September 2017, MTS PJSC purchased a 30% stake in the share capital of LLC MC Sistema Capital. The transaction was structured as contribution of cash funs to the share capital of LLC MC Sistema Capital in the amount of RUB 356 million.

[11] ***ARAMAYO INVESTMENTS LIMITED –*** In May 2016 MTS PJSC transferred the assets previously recognized on the balance sheet of International Cell Holding Ltd, a related party, as part of the contribution to the share capital of ARAMAYO INVESTMENTS LIMITED (Cyprus), which in its turn was transferred as part of the contribution to the share capital of Mobile Telecom Holding (Luxembourg) in 2017.

8. OTHER INVESTMENTS

8.1. Other long-term investments

As at 31 December 2018, 2017 and 2016, the Company's other long-term investments comprised the following:

(RUB million)

	31 December		
	2018	**2017**	**2016**
Bank deposits			
PJSC Sberbank	-	-	24 263
Total	**-**	**-**	**24 263**
Loans receivable			
JSC Russian Telephone Company[1]	5 876	-	8 110
Oblachny Retail Plus LLC	1 764	-	-
Dega Retail Holding Ltd	1 441	3 946	4 154
MTS IT LLC	1 340	-	-
PJSC Navigation Information Systems	1 262	110	-
LLC STV	805	-	140
LLC Avantage	467	-	-
JSC SITRONICS Telecom Solutions	137	-	2 890
JSC Telesevice	135	-	-
JSC NVision Group	80	-	330
LLC BASTION	-	87	100
Mr. Pierre and Mr. Moussa Fattouch	-	-	5 459
MTS-Bank PJSC	-	-	2 100
Other	135	54	85
Total	**13 442**	**4 197**	**23 368**
Allowance for impairment of long-term loans receivable (clause 8.3.)	(3 378)	(162)	(11 195)
Trust management agreement			
LLC MC Sistema Capital [2]	20 933	17 357	-
Total	**20 933**	**17 357**	**-**
Securities acquisition costs			
Advances for acquisition	1 244	1 170	1 106
Bonds [2]	-	-	18 698
Total	**1 244**	**1 170**	**19 804**
Total long-term investments	**32 241**	**22 562**	**56 240**

[1] In May 2018 the Company signed an amendment agreement which prolonged the maturity of the loan till 2021. Due to this fact, the investment was reclassified as long-term. In 2017, it was reclassified to short-term investments under the terms of the agreement.

[2] Eurobonds issued in June 2010 with 8.625% yield per annum and maturity in 2020. Issuer of bonds is a related party MTS International Funding DAC. In 2017, the bonds and cash were transferred in trust management to LLC MC Sistema Capital, a subsidiary of Sistema PJSFC, with which the Company concluded a trust management agreement in May 2016 to obtain short-term income from securities sale and purchase transactions.

8.2. Other short-term investments

As at 31 December 2018, 2017 and 2016, the Company's other short-term investments comprised the following:

(RUB million)

	31 December		
	2018	**2017**	**2016**
Bank deposits			
PJSC Sberbank	12 000	23 040	-
Total	**12 000**	**23 040**	**-**
Loans receivable			
Mr. Pierre and Mr. Moussa Fattouch	6 252	5 184	-
Dega Retail Holding Ltd	6 234	6 548	5 860
CJSC Kornet-AM	511	424	447
JSC Metro-Telecom	233	243	253
JSC SITRONICS Telecom Solutions	-	3 022	-
JSC Russian Telephone Company[1]	-	1 997	-
JSC NVision Group	-	859	-
OJSC Teleservice	-	110	-
Other	115	84	92
Total	**13 345**	**18 471**	**6 652**
Allowance for impairment of short-term loans receivable (clause. 8.3)	(1 332)	(4 750)	(792)
Debt securities			
JSC SITRONICS	220	220	220
Total	**220**	**220**	**220**
Trust management agreement			
LLC MC Sistema Capital[2]	11 763	9 671	3 714
Total	**11 763**	**9 671**	**3 714**
Repurchase agreements			
MOEX	-	7 576	-
	-	**7 576**	-
Total short-term investments	**35 996**	**54 228**	**9 794**

[1] In May 2018 the Company signed an amendment agreement which prolonged the maturity of the loan till 2021. Due to this fact, the investment was reclassified as long-term. In 2017, it was reclassified to short-term investments under the terms of the agreement.

[2] Eurobonds issued in June 2010 with 8.625% yield per annum and maturity in 2020. Issuer of bonds is a related party MTS International Funding DAC. In 2017, the bonds and cash were transferred in trust management to LLC MC Sistema Capital, a subsidiary of Sistema PJSFC, with which the Company concluded a trust management agreement in May 2016 to obtain short-term income from securities sale and purchase transactions

8.3. Allowance for impairment of other investments

In accordance with the Company's accounting policy, the Company created an allowance for impairment of other long-term and short-term investments, which, as at 31 December 2018, 2017 and 2016, comprised the following:

(RUB million)

Allowance for impairment of loans receivable and debt securities	**As at 31 December 2016**	**Recognition of an allowance**	**Allowance release and other movements**	**As at 31 December 2017**
JSC Russian Telephone Company	(8 110)	-	8 110	-
CJSC Kornet-AM	(447)	-	23	(424)
JSC NVision Group	-	(859)	-	(859)
JSC Metro-Telecom	(253)		10	(243)
PJSC Navigation Information Systems	-	(110)	-	(110)
JSC SITRONICS Telecom Solutions	(2 890)	(132)	-	(3 022)
LLC STV	(140)		140	-
Other	(147)	(107)	-	(254)
Total	**(11 987)**	**(1 208)**	**8 283**	**(4 912)**

(RUB million)

Allowance for impairment of loans receivable and debt securities	**As at 31 December 2017**	**Recognition of an allowance**	**Allowance release and other movements**	**As at 31 December 2018**
CJSC Kornet-AM	(424)	(87)	-	(511)
JSC NVision Group	(859)	-	779	(80)
JSC Metro-Telecom	(243)	-	10	(233)
PJSC Navigation Information Systems	(110)	(1 169)	-	(1 279)
JSC SITRONICS Telecom Solutions	(3 022)	-	2 885	(137)
LLC STV	-	-	-	-
Mr. Pierre and Mr. Moussa Fattouch	-	(478)	-	(478)
Oblachny Retail LLC	-	(1 764)	-	(1 764)
Other	(254)	-	26	(228)
Total	**(4 912)**	**(3 498)**	**3 700**	**(4 710)**

9. OTHER NON-CURRENT ASSETS

As at 31 December 2018, 2017 and 2016, other non-current assets comprised:

(RUB million)

	31 December		
	2018	**2017**	**2016**
Other non-current assets			
Advances given for acquisition of property, plant and equipment, software and construction services	4 318	9 257	8 191
Interest on loans receivable and deposits	2 402	313	5 052
Other non-current assets	808	165	227
Allowance for impairment of interest on loans receivable	(428)	(4)	(1 543)
Total	**7 100**	**9 731**	**11 927**

10. ACCOUNTS RECEIVABLE

Accounts receivable as at 31 December 2018, 2017 and 2016 comprised the following:

(RUB million)

	31 December		
	2018	**2017**	**2016**
Accounts receivable			
Trade receivables	18 277	17 370	18 642
Allowance for trade receivables	(4 496)	(5 063)	(5 186)
Settlements on roaming discounts	6 553	9 014	6 945
Dividends receivable from PrJSC VF Ukraine[1]	5 759	4 708	5 142
Provision for dividends receivable from PrJSC VF Ukraine1[1]	(5 759)	(4 708)	(5 142)
Dividends receivable from ES MTS-Turkmenistan[2]	1 064	1 012	863
Provision for dividends receivable from ES MTS-Turkmenistan[2]	(1 064)	(1 012)	-
Receivables from commercial representatives	235	244	247
Allowance for receivables from dealers	(209)	(208)	(212)
Advances paid	638	806	921
Allowance for advances paid	(27)	(20)	(15)
Interest on loans receivable and deposits	3 109	6 952	653
Allowance for interest on loans receivable	(90)	(692)	(74)
Settlements on taxes and duties	3 014	2 137	550
Settlements with the Social Security Fund	92	98	101
Other	3 490	2 089	3 331
Allowance for other receivables	(84)	(80)	(143)
Total	**30 502**	**32 647**	**26 623**

[1] In 2017, the Regulation of the Management Board of the National Bank of Ukraine, related to the prohibition to transfer dividends to foreign investors by Ukrainian companies, was amended in part of the permitted period to pay dividends and the amount of the monthly dividend payment. Due to the fact that the introduction of the prohibition to perform obligations suspends the limitation period, the right of MTS PJSC for dividends from PrJSC VF Ukraine is not forfeited. As at 31 December 2018, 2017 and 2016, MTS PJSC charged an allowance for the full amount of dividends receivable for 2012-2013 as there is uncertainty related to receipt of dividends from PrJSC VF Ukraine.

[2] On 29 September 2017, MTS PJSC announced the forced suspension of provision of communication services in Turkmenistan due to the fact that partnership agreements regulating the provision of services in Turkmenistan were not extended by the state telecommunication company Turkmentelecom. As at 31 December 2018, 2017, MTS PJSC charged an allowance for the full amount of dividends receivable as there is uncertainty related to receipt of dividends from MTS-Turkmenistan».

11. CASH AND CASH EQUIVALENTS

As at 31 December 2018, 2017 and 2016, cash and cash equivalents comprised:

(RUB million)

	31 December		
	2018	**2017**	**2016**
Cash and cash equivalents			
Deposits with initial maturity of less than 3 months	52 500	2 000	-
Current bank accounts	13 719	11 624	3 941
Cash in transit	2 927	2 988	2 333
Petty cash	1	1	2
Total	**69 147**	**16 613**	**6 276**

12. SHARE CAPITAL

As at 31 December 2018, 2017 and 2016, the Company's share capital comprised the following:

Types of shares	Par value, RUB	Number of shares			Including number of treasury shares acquired by subsidiaries and affiliates and the Company		
		2018	2017	2016	2018	2017	2016
Ordinary shares	0.1	1 998 381 575	1 998 381 575	1 998 381 575	167 638 899	86 338 023	9 972 030
Total		**1 998 381 575**	**1 998 381 575**	**1 998 381 575**	**167 638 899**	**86 338 023**	**9 972 030**

The shareholder structure as at 31 December 2018, 2017 and 2016 comprised the following:

	% of ownership		
	2018	2017	2016
Non-banking credit organization JSC National Settlement Depositary (nominal holder)	69.10	51.59	50.42
Sistema PJSFC	15.75	31.76	31.76
LLC Sistema Telecom Aktivy	11.03	11.03	11.03
Sistema Finance S.A.	1.98	3.48	6.28
Other shareholders	2.12	2.14	0.51
Total	**100**	**100**	**100**

The controlling owner of MTS PJSC is Vladimir Petrovich Evtushenkov.

Net assets of the Company as at 31 December 2018, 2017 and 2016 total RUB 107 428 million, RUB 131 626 million and RUB 114 658 million, respectively.

13. BORROWINGS

Maturities of the main types of debt outstanding as at 31 December 2018 are presented as follows:

(RUB million)

Borrowings	Up to 1 year	1 year to 5 years	Over 5 years	Total
Other loans	39 445	110 259	-	149 704
Bank loans	1 952	252 812	972	255 736
Notes	1 052	54 346	9 997	65 395
Total	**42 449**	**417 417**	**10 969**	**470 835**

A number of notes of the Company are subject to unconditional obligation to repurchase as the holders have the unilateral right to demand repurchase of the notes at par value prior to maturity. The notes in the accompanying financial statements are disclosed as maturing in the period, when put options may be exercised.

Some loan agreements contain provisions that limit the ability of the Company and its subsidiaries:

- borrow funds;
- enter into loan transactions with affiliates;
- merge or consolidate with another entity;
- transfer their property and assets to another entity;
- sell or transfer any of the GSM licenses for license areas in Moscow, St. Petersburg, Krasnodar and Ukraine;
- make certain types of reorganization or changes in the composition of the Company's shareholders.

If the Company fails to meet required covenants, after certain notice and cure periods, the creditors can accelerate the debt to be immediately due and payable.

A number of loan agreements contain provisions with regard to early repayment upon the creditor's demand in case of judgment against the Company and its subsidiaries requiring payment of money or recovery against property in an amount in excess of certain limits determined by the agreements and the continuance of any such judgment unsatisfied and in effect for any period of 60 consecutive calendar days without a stay of execution.

Loan agreements also contain cross default provisions with other loan agreements of MTS PJSC and its subsidiaries.

As at 31 December 2018, the Company was in full compliance with all covenants of notes and loan agreements.

Available credit facilities:

(RUB million)

	Up to 1 year	**1 year to 5 years**	**Over 5 years**	**Total**
Other loans	39 421	60 940	-	100 361
Bank loans	8 000	3 000	10 000	21 000
Notes	-	15 608	8 920	24 528
Total	**47 421**	**79 548**	**18 920**	**145 889**

The accrued expenses on loans and borrowings recognized in the Interest expense line item of the statement of financial results (interest and other additional expenses) for 2018 and 2017 amounted to RUB 33 029 million and RUB 30 627 million, respectively.

The debt issuance costs for 2018 and 2017 amounted to RUB 39 million and RUB 98 million, respectively, and are recognized in the Borrowings line item of the balance sheet.

Capitlized borrowing costs for 2018 and 2017 amounted to RUB 367 million and RUB 283 million, respectively, and are recognized in the Property, plant and equipment line item of the balance sheet.

14. ACCOUNTS PAYABLE

As at 31 December 2018, 2017 and 2016, the Company's accounts payable comprised the following:

(RUB million)

		31 December	
	2018	**2017**	**2016**
Long-term payables			
Interest on borrowings	2 377	1 147	3 504
Trade payables	396	452	532
Total long-term payables	**2 773**	**1 599**	**4 036**
Short-term payables			
Trade payables	25 065	29 087	21 016
Advances received[2]	1 311	12 419	12 702
Wages and salaries payable	7 453	7 473	5 416
Interest on borrowings	6 916	7 157	3 180
Taxes and duties payable	5 796	7 044	7 124
Discounts provided on roaming services[1]	5 677	5 927	6 080
Social contributions payable	385	363	15
Consideration on acquisition of subsidiaries	-	-	1 199
Other	382	440	168
Total short-term payables	**52 985**	**69 910**	**56 900**

[1] Discounts on roaming services provided to JSC Sibintertelecom are recorded in Accounts payable line item of the balance sheet as being supported with documents. Those discounts provided on roaming services that are determined by the Company as accounting estimates as at the reporting date are recorded in the Provisions line item of the balance sheet (Note 15).

[2] In 2018, IFRS 15 was applied, as a result - advances received from subscribers were classified as a part of the Contract liabilities. The effect of applying IFRS 15 is provided in Note 3.

15. PROVISIONS

Movements in provisions for 2018 and 2017 comprised:

(RUB million)

	Discounts provided on roaming services	Asset retirement obligations	Provision related to investigations into former operations in Uzbekistan	Other provisions	Total
Total as at 31 December 2016	**3 166**	**1 092**	**-**	**158**	**4 416**
Increase in provisions	1 700	94	-	568	2 362
Decrease in provisions	(3 166)	(269)	-	(44)	(3 479)
Total as at 31 December 2017	**1 700**	**917**	**-**	**682**	**3 299**
Increase in provisions	1 548	1 675	59 050	284	62 557
Decrease in provisions	(1 700)	(19)	-	(829)	(2 548)
Total as at 31 December 2018	**1 548**	**2 573**	**59 050**	**137**	**63 308**

Maturities of provisions as at 31 December 2018, 2017 and 2016 are presented below:

(RUB million)

Balance sheet line	**31 December 2018**	**2017**	**2016**
Long-term provisions[1]	2 573	917	1 092
Short-term provisions[2]	60 736	2 382	3 324
	63 309	**3 299**	**4 416**

[1] Long-term provisions include asset retirement obligations.

[2] Short-term provisions include provision for discounts provided on roaming services, provision related to investigations into former operations in Uzbekistan and other provisions.

16. CONTRACT LIABILITIES

Contract liabilities represent amounts paid by customers to the Company before receiving the goods and/or services promised in the contract. Contract liabilities include advances received from customers, or amounts invoiced and paid for goods or services that are yet to be transferred.

The following table provides information about contract liabilities from contracts with customers:

(RUB million)

	31 December 2018	**1 January 2018**
Contract liabilities	(17 046)	(16 756)
Thereof:		
Mobile and fixed telecommunication services	(16 762)	(16 248)
Loyalty programme	(284)	(508)
Total liabilities	**(17 046)**	**(16 756)**
Less current portion	16 851	16 589
Total non-current liabilities	**(195)**	**(167)**

Changes in the contract liabilities balances during the period are as follows:

	(RUB million) Contract liabilities
Balance as of 1 January 2018	(16 756)
Revenue recognised that was included in the contract liability balance at the beginning of the period	12 410
Increase due to cash received, excluding amount recognised as revenue during the period	(12 690)
Balance as of 31 December 2018	**(17 036)**

The Company expects to recognize revenue related to performance obligations that were unsatisfied as of 31 December 2018 as follows:

	2019	2020 -2024	(RUB million) Total
Mobile and fixed telecommunication service	(16 567)	(195)	(16 762)
Loyalty programme	(284)	-	(284)

17. INCOME TAX

Current income tax expense for 2018 and 2017 comprised:

	2018	(RUB million) 2017
Profit before income tax	**20 302**	**82 099**
Theoretical income tax expense	**4 060**	**16 420**
Permanent tax liabilities:		
non-deductible expenses	11 795	1 929
provision for contingent liabilities	-	32
dividends received from foreign subsidiaries	18	49
expenses in excess of allowable limits	-	2
allowance for impairment of investments	-	(180)
other	59	208
Total	**11 872**	**2 040**
Permanent tax assets:		
non-deductible income	(5 103)	(5 561)
Total	**(5 103)**	**(5 561)**
Increase/(decrease) in deferred tax assets:		
property, plant and equipment, including due to:		
- different periods and methods of depreciation for accounting and tax purposes	2	17
- other operations with property, plant and equipment	65	(1)
provisions	1 010	(248)
difference in methods of revenue recognition	216	347
allowance for doubtful debt	(928)	414
lease	916	-
other	83	(417)
Total	**1 364**	**112**
(Increase)/decrease in deferred tax liabilities:		
prepaid expenses and capitalized debt issuance costs	-	(23)
property, plant and equipment, due to:		
- different periods and methods of depreciation for accounting and tax purposes	298	(50)
- other operations with property, plant and equipment	(126)	170
Investments in associates and subsidiaries	(51)	352
other	55	312
Total	**176**	**761**
Total current income tax	**12 369**	**13 772**

Permanent tax assets and liabilities are recorded on a net basis in the financial statements.

The Income tax and tax penalties of prior years line item of the statement of financial results comprises the following:

	2018	(RUB million) 2017
Adjustments to income tax declarations for prior periods	-	(1)
Income tax arrears	488	302
Tax penalties of prior periods	(175)	(326)
Other tax penalties	-	162
Total	**313**	**137**

18. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue for the years ended 31 December 2018 and 2017 is disclosed in the table below:

	2018	(RUB million) 2017
Revenue		
Mobile services	301 752	296 374
Fixed line services	23 572	22 754
Integration services	255	146
Sales of goods	624	853
Other services	5 033	3 666
Total revenue	**331 236**	**323 793**
Thereof:		
Recognised over time	330 612	322 940
Recognised at point of time	624	853
Total	**331 236**	**323 793**

19. OPERATING EXPENSES

Below is the summary of the Company’s expenses on operating activities for 2018 and 2017:

	2018	(RUB million) 2017
OPERATING EXPENSES		
Depreciation and amortization	83 103	59 558
Payroll	25 263	24 826
Social contributions	6 145	6 346
Raw materials and supplies	2 269	2 407
Other expenses	120 198	148 344
Total	**236 978**	**241 481**

Other expenses line includes:

Other expenses	2018	(RUB million) 2017
Interconnection services	47 059	45 228
Dealers commission[1]	17 014	29 925
Roaming expenses	10 364	10 732
Content expenses[2]	4 478	7 524
Advertising and marketing expenses	7 788	6 993
Utilities	7 389	6 955
Technical support and maintenance of equipment	5 346	5 381
Taxes	5 763	5 266
Lease expense[3]	2 443	19 276
Other expenses	12 554	11 064
Total	**120 198**	**148 344**

[1] In 2018 IFRS 15 was applied, as a result Dealers commission was partially capitalized in accordance with the accounting policies described in Note 2. The effect of applying IFRS 15 is presented in Note 3.

[2] In 2018 IFRS 15 was applied, as a result content revenues and expenses were recognized on the net basis in accordance with the accounting methods described in Note 2. The effect of applying IFRS 15 is presented in Note 3.

[3] In 2018 IFRS 15 was applied, as a result lease expenses were capitalized in accordance with the accounting methods described in Note 2.

Below is the summary of the Company's depreciation and amortization expenses for 2018 and 2017:

	2018	2017
OPERATING EXPENSES		
Depreciation and amortization of PPE and IA	60 486	59 558
Depreciation of right-of-use assets	12 420	-
Amostization of cost to obtain contracts	10 197	-
Total	**83 103**	**59 558**

20. OTHER INCOME

Other income for 2018 and 2017 comprised:

	2018	(RUB million) 2017
Other income		
Gain from swaps	8 263	2 327
Gain from the reversal of allowance for impairment of other investments	4 008	9 529
Gain from sale of foreign currency	1 631	-
Accounts payable written off as unclaimed	492	282
Gain from sale and disposal of other property	460	161
Gain from sale and disposal of property, plant and equipment	404	269
Gain from decrease in provisions	228	7
Insurance compensations	186	37
Foreign exchange gain and loss, net	-	2 812
Other	155	2 181
Total	**15 827**	**17 605**

21. OTHER EXPENSES

Other expenses for 2018 and 2017 comprised:

	2018	(RUB million) 2017
Other expenses		
Provision related to Investigations into former operations in Uzbekistan (Note 31)	55 752	-
Foreign exchange gain and loss, net	13 454	-
Impairment loss of investments in subsidiaries and associates	4 960	3 997
Allowance for impairment of other investments	3 538	1 558
Allowance for doubtful accounts	1 830	3 136
Loss on sale and disposal of other property	482	90
Expenses related to charity activities	315	319
Loss on sale and disposal of property, plant and equipment	278	150
Write-off of value-added tax receivable	264	63
Allowance for obsolescence of long-term inventories and other non-current assets	261	954
Bank charges	142	125
Provisions	29	168
Gain from sale of foreign currency	-	243
Other	245	493
Total	**81 550**	**11 296**

22. EXCHANGE RATES

The Central Bank of Russia's exchange rates set for the reporting dates are presented below:

	31 December		
Currency	**2018**	**2017**	**2016**
US Dollar	69.4706	57.6002	60.6569
EUR	79.4605	68.8668	63.8111

(RUB million)

	2018	**2017**
Foreign exchange (loss) / gain from translation of assets and liabilities denominated in foreign currency and payable in foreign currency	(13 053)	2 795
Foreign exchange (loss) / gain from translation of assets and liabilities denominated in foreign currency and payable in rubles	(401)	17
Total	**(13 454)**	**2 812**

23. DERIVATIVE FINANCIAL INSTRUMENTS

From 2006, the Company entered into a number of derivative agreements aimed at hedging the currency/interest rate risks associated with the Company's borrowings.

The Company uses off-balance sheet accounts to summarize information on the availability and movement of such instruments, recording the financial result in the statement of financial results after the transaction is completed.

The fair value of the Company's assets as at 31 December 2018, 2017 and 2016 was as follows (in rubles at the exchange rate as at the reporting date):

(RUB million)

	31 December		
Derivative financial instruments	**2018**	**2017**	**2016**
Swaps	3 610	7 738	13 123
Forwards	1 892	-	(142)
Total	**5 502**	**7 738**	**12 981**

In 2018 and 2017, gain from swap transactions amounted to RUB 8 263 million and RUB 2 327 million, respectively, and is included in the Other income line item of the statement of financial results. The swaps mature in 2019-2024.

The Company entered into deliverable currency forward agreements to minimize foreign currency risk exposure for operating activities. The contracts assumed purchase or sale of the agreed amount of currency at a specified exchange rate and date. The foreign exchange rate is determined by the market spot rate upon performance of a transaction.

Underlying assets related to deliverable currency forwards not settled as at 31 December 2018, 2017 and 2016 amounted to RUB 49 959 million, RUB nil, RUB 18 339 million, respectively.

24. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for 2018 and 2017 were as follows:

	2018	**2017**
Profit, RUB million	9 160	69 063
Weighted average number of ordinary shares outstanding	1 998 381 409	1 998 381 409
Basic earnings per share, RUB	**4.58**	**34.56**
Diluted earnings per share, RUB	**4.58**	**34.56**

25. BOARD OF DIRECTORS

As at 31 December 2018, the Board of Directors consisted of the following members:

Ron Sommer	Chairman of the Board of Directors
Regina von Flemming	Member of the Board of Directors
Alexey Valeryevich Kornya	Member of the Board of Directors
Artem Ivanovich Zasursky	Member of the Board of Directors
Alexey Borisovich Katkov	Member of the Board of Directors
Wolfgang Schüssel	Member of the Board of Directors
Stanley Miller	Member of the Board of Directors
Vsevolod Valerievich Rozanov	Member of the Board of Directors
Thomas Holtrop	Member of the Board of Directors

The amount of compensation paid to the members of the Board of Directors in 2018 and 2017 amounted to RUB 453 million and RUB 408 million, respectively.

26. MANAGEMENT BOARD

As at 31 December 2018, the Management Board consisted of the following members:

Alexey Valeryevich Kornya	President, Chairman of the Management Board
Mariya Nikolayevna Golyandrina	Member of the Management Board, Vice President, Human Resources
Aleksandr Evgenyevich Gorbunov	Member of the Management Board, Vice President for Strategy and Development
Kirill Aleksandrovich Dmitriev	Member of the Management Board, Vice President for Digital Solutions for home
Igor Alfridovich Egorov	Member of the Management Board, Director of Moscow Region
Ruslan Sultanovich Ibragimov	Member of the Management Board, Vice-President, Corporate and Legal Issues
Andrey Mikhaylovich Kamenskiy	Member of the Management Board, Vice-President, Finance, Investment and Mergers and Acquisitions
Vyacheslav Konstantinovich Nikolayev	Member of the Management Board, Vice President, Marketing
Andrei Gennadievich Smelkov	Member of the Management Board, Vice-President, Director of MTS Foreign Companies Business Unit
Andrei Eduardovich Ushatskiy	Member of the Management Board, Vice President, Information Technology
Valery Viktorovich Shorzhin	Member of the Management Board, Vice President for Digital Business Solutions

The amount of compensation paid to the members of the Management Board in 2018 and 2017 amounted to RUB 583 million and RUB 711 million, respectively.

27. DISTRIBUTION OF RETAINED EARNINGS

The annual meetings of shareholders which took place on 28 June 2018 and 28 September 2018 voted to distribute part of the profit retained by the Company in 2017 and first half of 2018 to pay dividends to shareholders in the amount of RUB 46 762 million and RUB 5 196 million, respectively.

The annual meetings of shareholders which took place on 29 June 2017 and 29 September 2017 voted to distribute part of the profit retained by the Company in 2016 and first half of 2017 to pay dividends to shareholders in the amount of RUB 31 175 million and RUB 20 783 million, respectively.

28. REORGANIZATION OF THE COMPANY

28.1. Reorganization of the Company in 2018

On 15 November 2018 Bashkortostan Cellular Communication JSC was merged with MTS PJSC (hereinafter referred to as BCC).

Property, plant and equipment and intangible assets of the merged company were transferred to MTS PJSC at net book value; other assets and liabilities were transferred at carrying value at the date of the merger according to the transfer acts. The financial results of the merged companies are included in the financial statements of MTS PJSC from the date of their merger.

The financial result from the reorganization of MTS PJSC through the merger of BCC, not included in the net profit of the period, represented the effect of 103 million (income) and included the amount of net assets of the merged company at the date of the merger of RUB 344 million, the amount of disposed investments of the Company in the merged company at the date of the merger of RUB 241 million. The effect of the merger was recognized in the Change of equity due to reorganization line item in the statement of changes in equity.

Adjusted amounts of the Company's statement of financial results for the year ended 31 December 2018 (unaudited)

The pro-forma financial indicators for 2018 reflect the merger of BCC in 2018 as if it took place at the beginning of the reporting period.

Adjusted amounts	**(RUB million)** **2018**
Revenue	331 242
Operating profit	94 180
Net profit	9 088
Basic/diluted earnings per share, RUB	**4.55**

The pro-forma information is based on various assumptions and estimates. The pro-forma information is not necessarily indicative of the operating results that would have occurred if the Company acquisitions were completed as at 1 January 2018 and is also not necessarily indicative of future financial results. The pro-forma information does not reflect in any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual financial results of operations of these companies are included in the financial statements of the Company from the dates of merger.

28.2. Reorganization of the Company in 2017

On 31 October 2017, the Company was reorganized through the merger of LLC Telecom Povolzhye, JSC COMSTAR XMAO, JSC SMARTS-Yoshkar-Ola with MTS PJSC.

Property, plant and equipment and intangible assets of the merged company were transferred to MTS PJSC at net book value; other assets and liabilities were transferred at carrying amount at the date of the merger according to the transfer acts. The financial results of the merged companies are included in the financial statements of MTS PJSC from the date of their merger.

The financial result from the reorganization of MTS PJSC through the merger of LLC Telecom Povolzhye, JSC COMSTAR XMAO, JSC SMARTS-Yoshkar-Ola, not included in the net profit for the period, represented the effect of RUB 1 636 million and included the amount of net assets of the merged company at the date of the merger of RUB 1 856 million, the amount of disposed investments of the Company in the merged company at the date of the merger of RUB 220 million. The effect of the merger was recognized in the Change of equity due to reorganization line in the statement of changes in equity.

Adjusted amounts of the Company's statement of financial results for the year ended 31 December 2017 (unaudited)

The pro-forma financial indicators for 2017 reflect the merger of LLC Telecom Povolzhye, JSC COMSTAR XMAO, JSC SMARTS-Yoshkar-Ola in 2017 as if it took place at the beginning of the reporting period.

Adjusted amounts	(RUB million) 2017
Revenue	323 870
Operating profit	82 268
Net profit	68 653
Basic/diluted earnings per share, RUB	**34.35**

The pro-forma information is based on various assumptions and estimates. The pro-forma information is not necessarily indicative of the operating results that would have occurred if the Company acquisitions were completed as at 1 January 2017 and is also not necessarily indicative of future financial results. The pro-forma information does not reflect in any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual financial results of operations of these companies are included in the financial statements of the Company from the dates of merger.

29. RELATED PARTIES

Related parties of MTS PJSC are represented by its subsidiaries and associates, Sistema PJSFC, all the companies controlled by or significantly influenced by Sistema PJSFC, and key management personnel and other individuals or legal entities which have significant influence on the decisions concerning management of MTS PJSC and the above-mentioned companies through participation in their share capital and/or other circumstances.

29.1. Related party transactions

Sale of equipment, goods, work and services

	2018	(RUB million) 2017
JSC Russian Telephone Company	4 622	6 992
PJSC MGTS	4 132	2 664
JSC Sibintertelecom	3 048	2 486
MTS-Bank PJSC	1 995	1 154
PrJSC VF Ukraine	917	1 341
CJSC MTS Armenia	566	492
Other	1 709	2 194
Total	**16 989**	**17 323**

Purchase of equipment, goods, work and services

	2018	(RUB million) 2017
JSC Russian Telephone Company	18 505	21 900
JSC NVision Group	5 294	5 568
LLC MTS IT	4 845	59
PJSC MGTS	4 667	4 828
LLC Stream	2 456	3 331
JSC Sitronics Telecom Solutions	1 111	1 766
MTS Armenia CJSC	1 051	928
LLC Jooms Projects	900	337
PrJSC VF Ukraine	878	1 093
JSC Sibintertelecom	497	466
Other	1 215	4 105
Total	**41 419**	**44 381**

Interest income on loans receivable

(RUB million)

	2018	2017
Dega Retail Holding Ltd	809	884
JSC Russian Telephone Company	818	889
LLC MTS IT	675	-
LLC MC Sistema Capital	465	369
Other	162	214
Total	**2 929**	**2 356**

Interest expense on borrowings

(RUB million)

	2018	2017
MTS International Funding DAC	5 621	5 233
PJSC MGTS	1 945	2 526
Mobile TeleSystems B.V.	536	-
JSC MGTS-Nedvizhimost	409	892
LLC Telecom Projects	395	1 139
JSC Sibintertelecom	311	328
LLC BASTION	220	-
LLC Stream	211	152
LLC Stream Digital	166	276
Baggio Holding B.V.	106	8
Other	182	253
Total	**10 102**	**10 807**

29.2. Amounts of outstanding balances with related parties

Loans payable, including interest payable

(RUB million)

	31 December			Period of settlement for 2018 operations
	2018	2017	2016	
MTS International Funding DAC	87 100	72 217	76 050	2019-2023
PJSC MGTS	27 760	26 716	27 746	2019-2021
Mobile TeleSystems B.V.	14 632	155	140	2019
JSC Sibintertelecom	5 110	4 870	4 640	2021
LLC Telecom Projects	4 524	10 548	13 137	2019-2021
Baggio Holding B.V.	4 058	87	79	2021
JSC MGTS-Nedvizhimost	3 036	8 473	10 377	2019-2020
LLC Stream	2 739	2 498	1 516	2019
LLC Stream Digital	2 209	7 644	7 718	2021
LLC MTS IT	1 551	191	600	2019
LLC Bastion	437	-	204	2020
PRELUDIUM B.V.	167	1 124	273	2019
MTS Armenia CJSC	-	2 019	2 075	-
Dega Retail Holding Ltd	-	996	2 907	-
LLC STV	-	867	33	-
ARAMAYO INVESTMENTS LIMITED	-	-	1 385	-
LLC Telecom Povolzhye	-	-	474	-
Other	669	71	21	2019-2021
Total	**153 992**	**138 476**	**149 375**	

Loans receivable and other investments, including interest receivable

	31 December			(RUB million) Period of settlement for 2018 operations
	2018	**2017**	**2016**	
LLC MC Sistema Capital	32 696	27 028	-	2019-2023
Dega Retail Holding Ltd	10 062	11 993	10 638	2019-2020
JSC Russian Telephone Company	6 363	2 886	9 378	2021
LLC MTS IT	2 296	-	1	2021
LLC Oblachnyi Retail Plus	1 859	-	-	2020
Navigation Information Systems	1 282	110	-	2019-2021
LLC STV	828	-	-	2021
CJSC Kornet-AM	571	473	498	2019
LLC Avantage	472	-	-	2020-2021
JSC NVision Group	414	1 193	563	2021
JSC Sitronics Telecom Solutions	137	3 303	3 164	2020
MTS-Bank PJSC	-	-	2 116	-
MTS International Funding DAC	-	-	18 737	-
Other	906	573	945	2016-2020
Total	**57 886**	**47 559**	**46 040**	

Accounts receivable

		31 December		(RUB million)
	Type of transaction	**2018**	**2017**	**2016**
PrJSC VF Ukraine	Dividends receivable	5 759	4 708	5 142
MTS Belarus	Discounts provided on roaming services	4 015	4 734	2 273
PJSC MGTS	Sale of goods, works, services	1 646	1 313	796
ES MTS-Turkmenistan	Dividends receivable	1 064	1 012	863
JSC NVision Group	Sale of goods, works, services	769	858	-
JSC Russian Telephone Company	Sale of goods, works, services	633	781	1 247
JSC Sibintertelecom	Sale of goods, works, services	557	561	837
CJSC MTS Armenia	Sale of goods, works, services	257	137	80
PrJSC VF Ukraine	Sale of goods, works, services	43	337	265
JSC Sitronics Telecom Solutions	Sale of goods, works, services	1	184	-
Other[1]	Sale of goods, works, services	958	587	510
Other	Other services	53	203	56
Total		**15 755**	**15 415**	**12 069**

[1] Changes in indicators for 2017 and 2016 are related to the reclassification of a part of receivables into cash (Note 3).

As at 31 December 2018, 2017 and 2016, the allowance for doubtful accounts from related parties and allowance for impairment of loans receivable from related parties (including interest receivable) comprised the following:

(RUB million)

	31 December		
	2018	2017	2016
PrJSC VF Ukraine	5 759	4 708	5 142
LLC Oblachniy Retail Plus	1 859	-	-
Navigation Information Systems	1 282	110	-
ES MTS-Turkmenistan	1 064	1 012	-
JSC NVision Group	414	1 193	-
JSC Metro-Telecom	248	258	268
JSC SITRONICS Telecom Solutions	137	3 303	3 164
JSC Russian Telephone Company	-	-	9 378
Other	807	746	795
Total	**11 570**	**11 330**	**18 747**

Accounts payable

(RUB million)

		31 December		
	Type of transaction	2018	2017	2016
JSC Sibintertelecom	Discounts provided on roaming services	5 677	5 927	6 080
JSC Russian Telephone Company	Purchase of goods, works, services	3 409	4 452	4 357
MTS Belarus	Discounts provided on roaming services	675	718	491
LLC MTS IT	Purchase of goods, works, services	671	-	-
JSC NVision Group	Purchase of goods, works, services	551	540	620
PJSC MGTS	Purchase of goods, works, services	147	497	400
JSC Sitronics Telecom Solutions	Purchase of goods, works, services	139	580	135
PrJSC VF Ukraine	Purchase of goods, works, services	56	1 021	942
LLC Telecom Povolzhye	Purchases of investments	-	-	1 196
Other	Purchase of goods, works, services	709	616	805
Other	Other services	97	14	55
Total		**12 131**	**14 365**	**15 081**

Cash and cash equivalents

The Company has several bank accounts in MTS-Bank PJSC, a subsidiary of MTS PJSC. As at 31 December 2018 and 2017, the amount of cash placed in MTS-Bank PJSC as part of the line Cash and cash equivalents is RUB 13,558 million and RUB 10,582 million, respectively.

29.3. Cash flows with related parties

	2018	(RUB million) 2017
Cash flows from operating activities		
Proceeds from customers[1]	9 163	13 600
Other cash inflows	715	185
Payments for acquired goods, services, raw materials and other current assets	(27 210)	(42 272)
Interest paid	(12 586)	(10 164)
Net cash outflow from operating activities	**(29 918)**	**(38 651)**
Cash flows from investing activities		
Dividends received	26 235	28 428
Proceeds from repayment of loans given to other entities	6 935	8 871
Interest received	2 759	1 392
Purchase of subsidiaries and other financial investments	(53 609)	(23 464)
Purchase of property, plant and equipment (including investment property) and intangible assets	(18 141)	(7 356)
Cost to obtain contracts	(9 518)	-
Loans given to other entities	(9 704)	(1 645)
Net cash inflow/(outflow) from investing activities	**(55 043)**	**6 226**
Cash flows from financing activities		
Proceeds from borrowings provided by other entities	74 697	25 346
Repayment of borrowings (excluding interest)	(71 510)	(38 172)
Dividends paid (including withholding income tax)	(14 668)	(22 031)
Cash flow on guarantee agreement related to foreign currency hedge	(874)	(1 766)
Net cash outflow from financing activities	**(12 355)**	**(36 623)**

[1] Changes in indicators for 2017 and 2016 are related to the reclassification of a part of receivables to the Cash and cash equivalents line item of the balance sheet (Note 3).

29.4. Rights-of-use assets and lease obligations

Rights-of-use assets and lease obligations – The following table represents carrying value of right-of-use assets leased from related parties as of 31 December 2018:

	31 December 2018
Carrying value of right-of-use assets:	
PJSC MGTS	14 073
JSC MGTS-Nedvizhimost	431
Other related parties	509
Total carrying value of right-of-use assets	**15 013**

The following table presents summary of lease obligations which arose from lease arrangements with related parties as of 31 December 2018:

	31 December 2018
Lease obligations:	
PJSC MGTS	15 452
JSC MGTS-Nedvizhimost	550
Other related parties	722
Total lease obligations	**16 724**

29.5. Joint operations

MTS-Bank PJSC – On 28 March 2013, MTS PJSC and MTS-Bank PJSC entered into a simple partnership agreement without forming a legal entity, to derive profit through sale of products of joint activity to their customers. MTS PJSC contributed to the partnership’s common property its professional reputation and the Company’s personnel professional knowledge and skills measured at RUB 4 667 million, which form 70% of the partnership’s capital. MTS-Bank PJSC is responsible for keeping record of all the income and expenses on joint operations and determining the financial result for distribution.

In accordance with the principles of distributing, the financial result of the simple partnership for the reporting period, the Company's statement of financial results for 2018 and 2017 shows a nil income from joint arrangements.

The Company estimates that expenses incurred as part of the joint arrangement and recorded under various types of expenses of the statement of financial results for 2017 and 2016 amounted to RUB 13 million and RUB 19 million, respectively. The agreement was terminated after the purchase of MTS-Bank PJSC by a subsidiary of MTS PJSC.

PJSC VimpelCom – On 22 October 2014, MTS PJSC and PJSC VimpelCom entered into an agreement on the provision of combined services related to planning, joint development and operation of LTE communication networks.

The term of validity of the agreement is seven years, during that period the operators will share base stations and sites exploitation, their infrastructure and transmission network. At the same time, the companies may be involved in the construction of the network on their own to develop LTE individual coverage.

Assets and liabilities recognized in the balance sheet

			(RUB million)
	31 December 2018	**31 December 2017**	**31 December 2016**
Property, plant and equipment (net book value)	2 028	1 907	1 066
Amounts due from / (to) customers under joint venture agreement	1 182	(601)	720

Result from operations recognized in the statement of financial results

		(RUB million)
	2018	**2017**
Depreciation	(526)	(286)
Compensated expenses	508	500
Property operating costs	(334)	(288)

29.6. Acquisitions of businesses under common control

Acquisition of Dekart – In October 2018, the Company acquired Dekart property complex from Sistema PJSFC for a total consideration of RUB 5,242 million. The property complex comprises office facilities leased by the Company, subsidiaries of Sistema PJSFC and other counterparties, parking premises and engineering networks and operates under management agreement with Business-Nedvizhimost, a subsidiary of Sistema PJSFC. The acquisition was accounted for as a transaction under common control directly in equity.

Acquisition of Serebryaniy Bor – In December 2018, the Company acquired Serebryaniy Bor property complex from Sistema PJSFC for a total consideration of RUB 1,711 million. The property complex comprises land, nonresidential buildings leased by the Company and other counterparties, and engineering networks. The acquisition was accounted for as a transaction under common control directly in equity

Acquisition of MTS-Bank PJSC – In July 2018, the Company increased ownership share in the Company's associate MTS-Bank PJSC from 26.6% to 55.4% through its 100% subsidiary Mobile TeleSystems B.V. and obtained control over MTS-Bank PJSC. Consideration paid to Sistema PJSFC for additional share in MTS-Bank PJSC amounted to RUB 8,273 million. The acquisition was accounted for as a transaction with entities under common control directly in equity.

30. GUARANTEES ISSUED

Guarantees issued by the Company as at 31 December 2018 were as follows:

Debtor's name	Creditor's name	Date of issue	Date of expiry	Contractual currency	Contractual amount (in contractual currency)	Contractual amount (RUB million)
MTS International Funding DAC	Bondholders	22 June 2010	22 June 2020	US Dollar	752	52 215
MTS International Funding DAC	Bondholders	30 May 2013	30 May 2023	US Dollar	502	34 885
Dega Retail Holding Ltd	Deutsche Bank Aktiengesellschaft	25 November 2011	30 June 2021	US Dollar	125	8 684
JSC Russian Telephone Company	LLC Samsung Electronics Rus Company	20 October 2016	Perpetual	RUB	7 000	7 000
JSC Russian Telephone Company	Alfa Insurance JSC	01 March 2018	01 March 2019	RUB	1 300	1 300
PrJSC VF Ukraine	Vodafone Sales and Services Ltd	15 October 2015	Perpetual	EUR	10	795
JSC NVision Group	MICROSOFT IRELAND OPERATIONS LIMITED	01 February 2017	31 January 2020	US Dollar	10	695
JSC NVision Group	MICROSOFT IRELAND OPERATIONS LIMITED	25 December 2017	31 January 2020	US Dollar	8.5	591
JSC NVision Group	MICROSOFT IRELAND OPERATIONS LIMITED	27 December 2018	31 January 2020	US Dollar	7.2	500
JSC NVision Group	Hitachi Data Systems Gmbh (HDS)	28 December 2018	31 December 2020	US Dollar	3	208
JSC NVision Group	Hitachi Data Systems Gmbh (HDS)	05 September 2017	31 December 2018	US Dollar	3	208
MTS-Bank PJSC	KB Platina	29 December 2018	10 January 2019	RUB	120	120
JSC NVision Group	D-Link Trade LLC	13 April 2017	31 December 2018	US Dollar	1.5	104
ES MTS-Turkmenistan	Nokia Siemens Networks Oy/ Nokia Siemens Networks GmbH&Co.KG	22 December 2012	Perpetual	US Dollar	1	70
JSC NVision Group	Scientific and Technical Center "Orion"	23 March 2018	31 August 2019	RUB	34	34
Total						**107 409**

31. CONTINGENT LIABILITIES

Licenses – In May 2007, the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media awarded MTS PJSC a license to provide 3G services in Russia. The 3G license was granted subject to certain capital and other commitments.

In July 2012, the Federal Service for Supervision of Communications, Information Technology and Mass Communications provided MTS PJSC with a license and frequencies for the provision of LTE telecommunication services in Russia. According to the terms and conditions of the LTE license, the Company is obliged to fully deploy LTE networks within seven years starting from 1 January 2013 and provide LTE services in all Russian population centers with more than 50 000 people by 2019. Moreover, the Company is obliged to annually invest at least RUB 15 billion in the implementation of the LTE standard until the network is fully deployed.

The Management believes that as at 31 December 2018 the Company complies with all above-mentioned conditions.

Litigation – In the ordinary course of business, the Company is a party to various legal, tax and customs proceedings, and subject to claims, some of which relate to developing markets and evolving fiscal and regulatory environments within the Company's markets of operation.

In 2017, Federal Antimonopoly Service of the RF (FAS Russia) issued a warning to MTS PJSC and some other federal operators on termination of actions containing signs of violation of the antimonopoly laws in respect of establishing unreasonable differences in tariffication of communication services for subscribers in home region and outside. Following non-compliance with the warning, FAS Russia has opened antimonopoly proceeding against MTS PJSC. FAS Russia has also opened antimonopoly proceeding against MTS PJSC for establishing high prices for communication services in national roaming. In 2018, MTS PJSC changed the principles and terms of tariffication when travelling about the country. FAS Russia held MTS PJSC administratively liable and imposed administrative fines on MTS PJSC in amount of RUB 1 million in respect of each proceeding.

In August 2018, FAS Russia has charged MTS PJSC and other federal operators with violation of antimonopoly laws in respect to establishing distinguished terms and conditions for SMS pricing for the entities with state-owned equity interest as compared to the terms and conditions for the other entities and establishing unreasonably high SMS prices. Investigation is currently in process. Following the case examination a fine may be imposed on MTS PJSC or illegally obtained income may be recovered.

FAS Russia determines the amount of illegally obtained income as the difference between the amount of revenue received from applying monopolistically high prices and the amount of revenue that could have been received if "reasonable" prices were applied. There is no information regarding the level of prices that FAS Russia considers economically justified. It is not possible to make a reliable estimation of amount of fine that could be imposed.

Anti-terror law – On 7 July 2016 a series of anti-terror laws (also known as "Yarovaya-Ozerov bundle of laws") was enacted by the signature of the President of Russia. In general terms, the laws mandate that operators store and record phone conversations, text messages of subscribers, images, sounds, video and other types of communications by telecommunications operators for defined periods of time. These requirements are effective starting 1 July 2018. Compliance with the laws require the construction of additional storage, processing and indexing centers. The Company expects the increase in related capital expenditures, which cannot be measured reliably.

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

In 2015, activities related to the Company's former operations in Uzbekistan have been referenced in a civil forfeiture complaint (hereinafter, the "Complaint"), filed by DOJ in the U.S. District Court, Southern District of New York (Manhattan). The Complaint alleges among other things that MTS PJSC and certain other parties made corrupt payments to the unnamed Uzbek official to assist their entering and operating in the Uzbekistan telecommunications market. The Complaint is solely directed towards assets held by the unnamed Uzbek official, and none of the Company's assets are affected by the Complaint.

In March 2019, the Company reached a resolution with the SEC and DOJ relating to the previously disclosed investigation of the Company's former subsidiary in Uzbekistan.

The Company consented to the entry of an administrative cease-and-desist order (the "Order") by the SEC.

The United States District Court for the Southern District of New York approved a deferred prosecution agreement ("DPA") entered by the Company and a plea agreement entered into a subsidiary of the Company in Uzbekistan. Under the agreements with the DOJ, the Company agreed to pay a total criminal penalty of USD 850 million (RUB 59.1 billion as of 31 December 2018) to the United States. The Company 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.

Under the DPA and the Order, the Company agreed to appoint an independent compliance monitor. Pursuant to the DPA and the Order, the monitorship will continue for a period of three years, 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.

Taxation – Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Although the Company's management believes that the accompanying financial statements reflect fairly the Company's tax liabilities, there is a risk that the interpretation of the legislation by the tax and customs authorities, as applied to the transactions and activities of the Company, may not coincide with that of the management. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years prior to the year of tax review. Under certain circumstances, reviews may cover longer periods.

In 2017 Russian tax authorities performed tax review of MTS PJSC for 2015 and 2014. No comments were identified which could have resulted in additional expenses accrual. As a result of the audit in August 2018, MTS PJSC taxes, fines and penalties was in the amount of RUB 596 million. This decision was not appealed.

Establishment of prices when selling goods and services between the companies of MTS Group is regulated by the transfer pricing rules.

Management believes that the allowances recorded in the financial statements are sufficient to cover tax liabilities. However, the risk remains that the relevant authorities could take a position that is different from the position of the management of MTS PJSC with regard to the issues subject to varying interpretations and the effect could be significant.

The Company has the following contingent liabilities on income tax and other taxes for which it determines the outflow of economic benefits as less than possible:

(RUB million)

	31 December		
	2018	**2017**	**2016**
Contingent liabilities on other taxes	354	441	224
Contingent income tax liabilities	917	697	2 627

32. SUBSEQUENT EVENTS

32.1. New Management Board

On 7 February 2019 the new Management Board was elected:

Alexey Valeryevich Kornya	President, Chairman of the Management Board
Inessa Vasilyevna Galaktionova	Member of the Management Board, Vice President, Sales and Customer Services
Mariya Nikolayevna Golyandrina	Member of the Management Board, Vice President, Human Resources
Aleksandr Evgenyevich Gorbunov	Member of the Management Board, Vice President, Strategy and Development
Kirill Aleksandrovich Dmitriev	Member of the Management Board, Vice President, Digital Solutions for Home
Igor Alfridovich Egorov	Member of the Management Board, Director of Moscow Region
Ruslan Sultanovich Ibragimov	Member of the Management Board, Vice President, Corporate and Legal Issues
Andrey Mikhaylovich Kamenskiy	Member of the Management Board, Vice President, Finance, Investment and Mergers and Acquisitions
Vyacheslav Konstantinovich Nikolayev	Member of the Management Board, Vice President, Marketing
Andrei Gennadievich Smelkov	Member of the Management Board, Vice President, Director of MTS Foreign Companies Business Unit
Andrei Eduardovich Ushatskiy	Member of the Management Board, Vice President, Information Technology
Valery Viktorovich Shorzhin	Member of the Management Board, Vice President for Digital Business Solutions

32.2. Purchase of additional stake in MTS-Bank

On 12 February 2019, MTS PJSC through its 100% Dutch subsidiary Mobile TeleSystems B.V. purchased additional 39.48% stake in MTS-Bank PJSC from Sistema PJSFC and its subsidiary, LLC Sistema Telekom Activy, for RUB 11.4 billion. As a result of the transaction, MTS PJSC through its subsidiaries, Mobile TeleSystems B.V. and MGTS PJSC, brought the share of ownership in MTS-Bank PJSC to 94.72%.

32.3. Sale of investment in Ozon Holdings Limited

In February 2019, MTS PJSC entered into an agreement with Dega Retail Holding Ltd on the sale of shares (18.69% of the share capital) of Ozon Holdings Limited for 7,901.5 million rubles.

On 13 March 2019, Dega Retail Holding Limited,100% subsidiary of MTS PJSC, sold the entire stake of shares (18.69% of the share capital) of Ozon Holding Limited to Sistema PJSFC for 7 901.5 million.

32.4. Ruble bonds placement

In January 2019, MTS PJSC issued exchange-traded bonds totaling RUB 10 billion with a coupon rate of 8.7% and a maturity of 5 years.

32.5. Acquisition of shares under the Share Repurchase Plan

Since the end of the reporting period the Company acquired 39 809 274 shares of common stock representing 1.99% of share capital issued by MTS PJSC. The Company purchased own shares of common stock under the Share Repurchase Plan announced in 2018.

32.6. Class action complaint

In March 2019, a proposed class action complaint on behalf Shayan Salim and all other persons in the similar situation has been in the United States District Court of the Eastern District of New York of the United States of America against MTS PJSC and certain individuals of its management. The complaint is alleging certain securities laws violations relating to the recently announced resolution of the United States government investigations related to the Company’s former operations in Uzbekistan. The Company is reviewing the allegations and intends to defend its interests. It is currently impossible to measure possible implications and the amount of the claim reliably.

32.7. New dividend policy

In March 2019, the Company’s Board of Directors approved a new dividend policy for 2019 – 2020, committing to a minimum cumulative dividend payout of RUB 28.0 per ordinary share of MTS PJSC (RUB 56.0 per ADR) per calender year. Payments will continue to be made on a semi-annual basis.

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSC

A.V. Dvoretskikh
Chief Accountant of Mobile TeleSystems PJSC

31 March 2019