PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Consolidated Financial Statements

As of December 31, 2018 and
for the Year Ended December 31, 2018
and Independent Auditor's Report

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Mobile TeleSystems PJSC

Opinion

We have audited the consolidated financial statements of Mobile TeleSystems PJSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated the statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Accuracy and timeliness of revenue recognition The Group's consolidated revenue is a material amount formed from a large number of individually insignificant transactions. The Group 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 Note 7 to the consolidated financial statements.	Our audit procedures to test revenue included: 1. 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; 2. 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; 3. 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; 4. Test calls and checking the correctness of the fact of connections, their duration and correctness of tariff plans applied; 5. Analysis of incentive arrangements and discounts for their correct accounting and its compliance with the accounting policy of the Group; 6. 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 Group'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 34 to the consolidated financial statements, subsequent to the year end, the Group 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	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 Group’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
concerning the Group's former subsidiary in Uzbekistan. In connection with the agreements, the Group will pay the aggregate amount of USD 850 mln (RUB 59.1 bln at the exchange rate as at 31 December 2018). We focused on this area because assessing the recorded provision during 2018 required management judgement and the settlement reached with the authorities has a significant impact on the financial position of the Group.	• evaluating the classification and measurement of recognized provision as well as the adequacy of disclosures.
Early adoption of IFRS 16, *Leases* As disclosed in Note 2 to the consolidated financial statements the Group has early adopted IFRS 16, *Leases*, as at 1 January 2018. The Group applied a transition option provided by the 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 Group to modify existing business processes, IT systems and control procedures had a material impact on the consolidated financial statements and required the Group's management to apply significant judgment, in particular, when determining whether the contract is, or contains, a lease, the lease term and discount rates.	We tested the Group'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 Group's accounting policy was in line with IFRS 16, as well as verification of its appropriate application by means of a sample-based analysis of Group'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 consolidated financial statements with the requirements of the new standard on leases.
Acquisition of MTS Bank As disclosed in Note 5 to the consolidated financial statements, in 2018, the Group increased its stake in MTS Bank to the controlling and included its assets, liabilities and financial results in the consolidated financial statements of the Group. We consider this to be a key audit matter because this acquisition is a	We obtained understanding of the Group's processes and controls related to the identification, approval, assessment and accounting for significant unusual transactions, and tested these controls. Our procedures also included obtaining and reviewing legal documents to fully understand the terms of the transaction and its accounting implications, as well as evaluating the analysis of how IFRSs is applied to this transaction prepared by the Group's management, including whether the Group obtains control over the investee and

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
significant transaction with a related party outside the ordinary course of business of the Group.	whether the acquisition date is determined appropriately, in the context of all facts and circumstances.
Impairment of loans to customers of MTS Bank We consider this to be a key audit matter because upon its adoption on 1 January 2018, IFRS 9, *Financial Instruments*, resulted in significant changes made for the methodology and assessment process for impairment of loans to customers. Applied models and techniques for calculating expected credit losses require the use of data from both external and internal sources, as well as application of complex and subjective judgments by the Group's management. Key areas of judgment and estimates related to the determination of allowances for expected credit losses on loans to customers include: • Determination of the stage of impairment of loans that are assessed on an individual basis, based on the determination of whether there has been a significant increase in credit risk; • Assessment of the probability of default of loans that are assessed on an individual basis at the first and second stages of loans impairment; • Assessment of the probability of default and loss given the default of loans that are assessed on a collective basis. See Notes 2 and 29 to the consolidated financial statements.	We obtained understanding of the Group's processes and controls related to the identification of impaired loans to customers and calculation of allowances for expected credit losses on loans to customers. We assessed the methodology, models and techniques used by the Group's management to determine expected credit losses for compliance with requirements of IFRS 9, *Financial Instruments*. For loans that are assessed on an individual basis, we assessed the completeness of the criteria considered by management for evaluation of significant increase in credit risk. On a sample basis, using all available information on selected borrowers, we assessed the correctness of the stage of impairment and assessed management's judgments that there are no indicators of significant changes in credit risk for certain loans. We obtained validation reports of model, which was used to determine the probability of default on an individual basis for the first and second stages of loans impairment. We engaged internal actuarial specialists to assess the validation reports. We have engaged internal actuarial specialists to evaluate the mechanism and logic of the models used, including assessment of the segmentation for portfolios of loans with similar characteristics. In some cases, we made alternative calculations and compared obtained results with the calculations of management. We assessed the completeness and accuracy of data, used in collective models for calculating expected credit losses, including historical data, as well as correctness of macroeconomic forecasts used by the Group, to the external sources. We also reviewed the completeness and assessed the consistency of the disclosures in the consolidated financial statements with the requirements of IFRS 9.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Vladimir Kozyrev
Engagement leader

27 March 2019

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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018
(Amounts in millions of Russian Rubles)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	20	276,443	263,063
Investment property		2,177	407
Right-of-use assets	25	149,007	-
Goodwill	21	39,107	34,281
Other intangible assets	23	95,962	79,397
Investments in associates	16	10,735	9,452
Other investments	17	16,873	1,953
Deferred tax assets	12	11,190	5,545
Accounts receivable, related parties	31	2,545	2
Trade accounts receivable	18	2,600	-
Bank deposits and loans to customers	29	30,653	-
Other financial assets	28	4,729	8,890
Other non-financial assets		5,038	2,048
Total non-current assets		**647,059**	**405,038**
CURRENT ASSETS:			
Inventories	19	18,654	9,995
Trade and other receivables	18	34,543	28,017
Accounts receivable, related parties	31	6,385	11,358
Bank deposits and loans to customers	29	32,385	-
Short-term investments	15	47,863	50,757
Advances paid and prepaid expenses		4,208	3,894
VAT receivable		7,415	7,165
Income tax assets		3,887	2,838
Assets held for sale		2,694	1,276
Cash and cash equivalents	14	84,075	30,586
Other financial assets	28	25,487	146
Other non financial assets		1,338	-
Total current assets		**268,934**	**146,032**
TOTAL ASSETS		**915,993**	**551,070**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 (CONTINUED)
(Amounts in millions of Russian Rubles)

	Notes	December 31, 2018	December 31, 2017
EQUITY AND LIABILITIES			
EQUITY:			
Common stock	32	200	200
Treasury stock	32	(44,808)	(22,644)
Additional paid-in capital		-	381
Retained earnings		110,946	151,043
Accumulated other comprehensive loss	32	(1,064)	(8,854)
Equity attributable to owners of the Company		65,274	120,126
Non-controlling interests		12,291	4,079
Total equity		**77,565**	**124,205**
NON-CURRENT LIABILITIES:			
Borrowings	24	365,072	228,040
Lease obligations	25	144,740	11,056
Bank deposits and liabilities	29	2,633	-
Deferred tax liabilities	12	24,439	23,773
Provisions	27	3,391	2,309
Contract liabilities	7	558	765
Other non-financial liabilities		1,643	3,203
Other financial liabilities	28	481	1,048
Total non-current liabilities		**542,957**	**270,194**
CURRENT LIABILITIES:			
Trade and other payables		53,623	47,314
Accounts payable, related parties	31	1,301	1,102
Contract liabilities	7	21,597	17,696
Borrowings	24	3,063	63,673
Lease obligations	25	15,812	801
Bank deposits and liabilities	29	108,821	-
Income tax liabilities		1,792	1,150
Provisions	27	70,911	9,852
Other non-financial liabilities		13,903	12,047
Other financial liabilities	28	4,648	3,036
Total current liabilities		**295,471**	**156,671**
TOTAL EQUITY AND LIABILITIES		**915,993**	**551,070**

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

President and CEO

_____________________ Alexey V. Kornya

March 27, 2019

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in millions of Russian Rubles, except per share amounts)

	Notes	2018	2017	2016
Service revenue		410,890	390,761	386,486
Sales of goods		69,403	52,150	49,206
Revenue	6, 7	**480,293**	**442,911**	**435,692**
Cost of services		112,401	123,779	130,158
Cost of goods	19	63,869	45,623	45,574
Selling, general and administrative expenses	8	87,946	95,186	94,046
Depreciation and amortization	6	104,588	79,912	81,582
Operating share of the profit of associates	16	(3,799)	(3,210)	(3,115)
Impairment of non-current assets	22	149	3,775	-
Impairment of financial assets		3,694	2,923	2,698
Other income		(4,740)	(1,177)	(2,920)
Operating profit	6	**116,185**	**96,100**	**87,669**
Finance income	9	(5,981)	(5,548)	(5,273)
Finance costs	9	38,165	26,064	27,136
Currency exchange loss / (gain)		3,594	(1,301)	(3,241)
Non-operating share of the loss of associates	16	909	436	1,287
Change in fair value of financial instruments		(5,384)	(110)	(166)
Other expenses		1,031	992	317
Profit before tax		**83,851**	**75,567**	**67,609**
Income tax expense	12	16,969	18,977	15,138
Profit for the year from continuing operations		**66,882**	**56,590**	**52,471**
Loss / (gain) from discontinued operations	10, 34	59,050	-	(4,021)
Profit for the year		**7,832**	**56,590**	**48,450**
Profit / (loss) for the year attributable to:				
Owners of the Company		6,848	56,042	48,474
Non-controlling interests		984	548	(24)
Earnings per share from continuing operations (basic and diluted), Russian Rubles:	13	35.17 and 35.13	28.68 and 28.66	26.06 and 26.04
Earnings per share from discontinued operations (basic and diluted), Russian Rubles:	13	(31.52) and (31.48)	-	(1.69) and (1.69)

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

President and CEO

__________________ Alexey V. Kornya

March 27, 2019

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in millions of Russian Rubles)

	2018	2017	2016
Profit for the year	**7,832**	**56,590**	**48,450**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Unrecognized actuarial gain / (loss)	167	(40)	50
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	7,416	(2,469)	(15,104)
Net fair value (loss) / gain on financial instruments	(103)	495	(1,200)
Share of other comprehensive income / (loss) of associates			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations in associates	319	(810)	(1,553)
Other comprehensive income / (loss) for the year, net of income tax	**7,799**	**(2,824)**	**(17,807)**
Total comprehensive income for the year	**15,631**	**53,766**	**30,643**
Total comprehensive income / (loss) for the year attributable to:			
Owners of the Company	14,638	53,218	31,268
Non-controlling interests	993	548	(625)

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

President and CEO

____________________ Alexey V. Kornya

March 27, 2019

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated other comprehensive income / (loss)			Retained earnings	Equity attributable to equity holders	Non-controlling interests	Total equity
	Shares	Amount	Shares	Amount		Cash flow hedging reserve	Foreign currency translation reserve	Remeasure-ments of the net defined benefit liability				
Balances at January 1, 2016	**2,066,413,562**	**207**	**(77,521,163)**	**(24,468)**	**-**	**1,045**	**9,638**	**493**	**173,200**	**160,115**	**8,256**	**168,371**
Profit / (loss) for the year	-	-	-	-	-	-	-	-	48,474	48,474	(24)	48,450
Other comprehensive (loss) / income for the year, net of income tax	-	-	-	-	-	(1,200)	(13,970)	50	-	(15,120)	(601)	(15,721)
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**-**	**-**	**(1,200)**	**(13,970)**	**50**	**48,474**	**33,354**	**(625)**	**32,729**
Issuance of stock options	-	-	-	-	131	-	-	-	-	131	11	142
Dividends declared by MTS	-	-	-	-	-	-	-	-	(51,738)	(51,738)	-	(51,738)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,120)	(1,120)
Unclaimed dividends	-	-	-	-	-	-	-	-	3	3	-	3
Sale of own stock	-	-	1,074,525	213	-	-	-	-	-	213	-	213
Purchase of own stock (Note 32)	-	-	(3,067,396)	(748)	-	-	-	-	-	(748)	-	(748)
Purchase of non-controlling interests	-	-	-	-	5	-	-	-	-	5	(22)	(17)
Changes in ownership interest with no gain / loss of control - MTS Bank additional share issuance	-	-	-	-	(14)	-	-	-	-	(14)	-	(14)
Redemption of treasury shares (Note 32)	(68,031,987)	(7)	68,031,987	24,255	-	-	-	-	(24,248)	-	-	-
Disposal of UMS, the Group's subsidiary in Uzbekistan (Note 10)	-	-	-	-	-	-	(2,086)	-	-	(2,086)	(1,787)	(3,873)
Reclassification to retained earnings	-	-	-	-	69	-	-	-	(69)	-	-	-
Balances at December 31, 2016	**1,998,381,575**	**200**	**(11,482,047)**	**(748)**	**191**	**(155)**	**(6,418)**	**543**	**145,622**	**139,235**	**4,713**	**143,948**
Profit / (loss) for the year	-	-	-	-	-	-	-	-	56,042	56,042	548	56,590
Other comprehensive (loss) / income for the year, net of income tax	-	-	-	-	-	495	(2,620)	(40)	-	(2,165)	-	(2,165)
Disposal of East-West United Bank by MTS Bank, the Group's associate (Note 16)	**-**	**-**	**-**	**-**	**-**	**-**	(659)	**-**	**-**	(659)	-	(659)
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**-**	**-**	**495**	**(3,279)**	**(40)**	**56,042**	**53,218**	**548**	**53,766**
Exercise of stock options	-	-	851,275	-	240	-	-	-	-	240	-	240
Dividends declared by MTS	-	-	-	-	-	-	-	-	(50,621)	(50,621)	-	(50,621)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,175)	(1,175)
Purchase of own stock (Note 32)	-	-	(75,708,384)	(21,896)	-	-	-	-	-	(21,896)	-	(21,896)
Purchase of non-controlling interests	-	-	-	-	(2)	-	-	-	-	(2)	(7)	(9)
Changes in ownership interest with no gain / loss of control	-	-	-	-	(48)	-	-	-	-	(48)	-	(48)
Balances at December 31, 2017	**1,998,381,575**	**200**	**(86,339,156)**	**(22,644)**	**381**	**340**	**(9,697)**	**503**	**151,043**	**120,126**	**4,079**	**124,205**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)
(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock			Accumulated other comprehensive income / (loss)						
	Shares	Amount	Shares	Amount	Additional paid-in capital	Cash flow hedging reserve	Foreign currency translation reserve	Remeasure-ments of the net defined benefit liability	Retained earnings	Equity attributable to equity holders	Non-controlling interests	Total equity
Balances at December 31, 2017	**1,998,381,575**	**200**	**(86,339,156)**	**(22,644)**	**381**	**340**	**(9,697)**	**503**	**151,043**	**120,126**	**4,079**	**124,205**
Adjustment on initial application of IFRS 15 (net of tax) (Note 2)	-	-	-	-	-	-	-	-	2,528	2,528	17	**2,545**
Adjustment on initial application of IFRS 9 (net of tax) (Note 2)	-	-	-	-	-	-	-	-	1,367	1,367	-	**1,367**
Adjusted balance at January 1, 2018	-	-	-	-	-	-	-	-	**154,938**	**124,021**	**4,096**	**128,117**
Profit for the year	-	-	-	-	-	-	-	-	6,848	6,848	984	7,832
Unrecognized actuarial gain	-	-	-	-	-	-	-	167	-	167	-	167
Currency translation adjustment							7,726			7,726	9	7,735
Change in fair value of derivatives, net of income tax	-	-	-	-	-	(103)		-	-	(103)	-	(103)
Total comprehensive (loss) / income for the year	-	-	-	-	-	**(103)**	**7,726**	**167**	**6,848**	**14,638**	**993**	**15,631**
Issuance of stock options	-	-	-	-	675	-	-	-	-	675	-	675
Exercise of stock options	-	-	1,369,303	403	(403)	-	-	-	-	-	-	-
Dividends declared by MTS	-	-	-	-	-	-	-	-	(48,921)	(48,921)	-	(48,921)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-		(1,165)	(1,165)
Purchase of own stock (Note 32)	-	-	(82,669,046)	(22,567)	(4)	-	-	-	-	(22,571)	-	(22,571)
Purchase of non-controlling interests	-	-	-	-	(97)	-	-	-	-	(97)	47	(50)
Acquisitions under common control	-	-	-	-	(2,471)	-	-	-	-	(2,471)	8,320	5,849
Reclass to retained earnings	-	-	-	-	1,919	-	-	-	(1,919)	-	-	-
Balances at December 31, 2018	**1,998,381,575**	**200**	**(167,638,899)**	**(44,808)**	**-**	**237**	**(1,971)**	**670**	**110,946**	**65,274**	**12,291**	**77,565**

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in millions of Russian Rubles)

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year	7,832	56,590	48,450
Adjustments for:			
Depreciation and amortization	104,588	79,912	83,259
Impairment of non-current assets	149	3,775	-
Impairment of financial assets	3,694	2,923	2,857
Non-cash loss from sale of subsidiary in Uzbekistan	-	-	2,726
Provision related to SEC investigation (Note 34)	55,752	-	-
Finance income	(5,981)	(5,548)	(5,273)
Finance costs	38,165	26,064	27,427
Income tax expense	16,969	18,977	14,954
Currency exchange loss/(gain)	6,892	(1,301)	(3,232)
Amortization of deferred connection fees	(3,904)	(2,876)	(2,287)
Share of profit of associates	(2,890)	(2,774)	(1,828)
Change in fair value of financial instruments	(5,384)	(110)	(166)
Inventory obsolescence expense	3,326	2,179	1,548
Change in provisions	13,534	14,347	13,161
Other non-cash items	(3,479)	(657)	(3,656)
Movements in operating assets and liabilities:			
Decrease / (Increase) in trade and other receivables	438	(3,514)	(3,525)
Increase in bank loans to customers and interbank loans	(15,367)	-	-
(Increase) / Decrease in inventory	(11,292)	2,200	(1,816)
Decrease / (Increase) in advances paid and prepaid expenses	1,429	1,197	(812)
Decrease / (Increase) in VAT receivable	72	(1,145)	227
Decrease in trade and other payables and other current liabilities	(11,162)	(6,715)	(9,086)
Increase in bank deposits and liabilities	4,100	-	-
Dividends received	3,726	3,590	2,801
Income tax paid	(19,777)	(22,427)	(11,687)
Interest received	10,016	3,319	3,344
Interest paid, net of interest capitalized	(37,056)	(23,366)	(26,821)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**154,390**	**144,640**	**130,565**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of subsidiaries, net of cash acquired (Note 5)	(3,444)	(367)	(5)
Purchases of property, plant and equipment (including capitalized interest in the amount of RUB 460 million, RUB 307 million and RUB 388 million, respectively)	(64,731)	(53,366)	(55,538)
Purchases of other intangible assets	(21,751)	(23,065)	(28,013)
Purchase of Avantage	(7,559)	-	-
Purchase of 3G and 4G licenses in Ukraine and Russia	(5,527)	-	(2,598)
Cost to obtain and fulfill contracts, paid	(4,764)	-	-
Proceeds from sale of property, plant and equipment and assets held for sale	5,905	4,343	4,042
Purchases of short-term and other investments	(18,754)	(33,717)	(9,739)
Proceeds from sale of short-term and other investments	38,596	25,385	39,021
Investments in associates (Note 16)	(3,871)	(723)	(4,094)
Cash proceeds related to swap contracts	6,892	-	-
Proceeds from sale of subsidiary	619	-	-
Disposal of discontinued operation, net of cash disposed	-	-	(378)
NET CASH USED IN INVESTING ACTIVITIES	**(78,389)**	**(81,510)**	**(57,302)**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)
(Amounts in millions of Russian Rubles)

	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of notes	(27,983)	(12,042)	(20,364)
Proceeds from issuance of notes	27,550	45,000	10,000
Notes and debt issuance cost paid	(39)	(98)	(16)
Lease obligation principal paid	(13,577)	(774)	(334)
Dividends paid	(50,054)	(51,759)	(52,805)
Acquisition of entities under common control, net of cash acquired	(13,242)	-	3,063
Proceeds from loans	95,000	25,136	50,696
Repayment of loans	(20,076)	(32,239)	(69,532)
Payments under credit guarantee agreement related to foreign-currency hedge (Note 30)	(981)	(1,766)	(2,984)
Repurchase of common stock	(22,655)	(21,896)	(748)
Other financing activities	133	(7)	(14)
NET CASH USED IN FINANCING ACTIVITIES	**(25,924)**	**(50,445)**	**(83,038)**
Effect of exchange rate changes on cash and cash equivalents	3,412	(569)	(5,219)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**53,489**	**12,116**	**(14,994)**
CASH AND CASH EQUIVALENTS, beginning of the year	**30,586**	**18,470**	**33,464**
CASH AND CASH EQUIVALENTS, end of the year	**84,075**	**30,586**	**18,470**

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

1. GENERAL INFORMATION AND DESCRIPTION OF BUSINESS

Mobile TeleSystems Public Joint-Stock Company ("MTS PJSC", or "the Company") is a company incorporated under the laws of the Russian Federation and having its registered address at 4, Marksistskaya Street, 109147, Moscow, Russian Federation.

The consolidated financial statements of the Company and its subsidiaries ("the Group" or "MTS") as of December 31, 2018 and for the year ended 31 December 2018 were authorized for issue by the President of MTS on March 27, 2019.

Business of the Group – MTS PJSC was incorporated on March 1, 2000, through the merger of MTS CJSC and Rosico TC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow licence area in 1994, before expanding through Russia and the CIS. MTS PJSC's majority shareholder is Sistema Public Joint-Stock Financial Corporation or Sistema, whose controlling shareholder is Vladimir P. Yevtushenkov.

The Group provides a wide range of telecommunications services including voice and data transmission, internet access, pay TV, various value added services ("VAS") through wireless and fixed lines, financial services, banking services, integration services as well as the sale of equipment, accessories and software. The Group primarily operates in Russia, Ukraine and Armenia.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol "MBT". Since 2003 common shares of MTS PJSC have been traded on the Public Joint-Stock Company "Moscow Exchange MICEX-RTS" (the "Moscow Exchange").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

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

These consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Amounts in the consolidated financial statements are stated in millions of Russian Rubles ("RUB million"), unless indicated otherwise.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

Basis of consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved only where the Company has power over the entity, is exposed and has rights to variable returns, and is able to use the power to affect its amount of variable returns. The results of the controlled entities acquired or disposed of during the reporting period are included in the consolidated financial statements from the date the Group achieves control over the entity, or until the date on which the Company ceases to control the entity. If necessary, the accounting policies of controlled entities are aligned with the accounting policy applied by the Group. All intra-group balances, income, expenses and cash flows are eliminated on consolidation.

(Amounts in millions of Russian Rubles unless otherwise stated)

Effective ownership interests in the Group's significant subsidiaries were the following:

	Accounting method	December 31, 2018	December 31, 2017
RTC	Consolidated	100.0%	100.0%
Vodafone Ukraine (VF Ukraine)	Consolidated	100.0%	100.0%
MTS Turkmenistan (Note 11)	Consolidated	100.0%	100.0%
Sibintertelecom	Consolidated	100.0%	100.0%
NVision Group	Consolidated	100.0%	100.0%
Sitronics Telecom Solutions	Consolidated	100.0%	100.0%
NVision Czech Republic	Consolidated	100.0%	100.0%
Sputnikovoe TV	Consolidated	100.0%	100.0%
Stream	Consolidated	100.0%	100.0%
Dega	Consolidated	100.0%	100.0%
Stream Digital	Consolidated	100.0%	100.0%
MTS Energo	Consolidated	100.0%	100.0%
Bashkortostan Cellular Communications (BCC)(1)	Consolidated	-	100.0%
Praliss Enterprises Limited	Consolidated	100.0%	100.0%
MDTZK LLC (Ticketland)	Consolidated	100.0%	-
IT Grad	Consolidated	100.0%	-
Metro-Telecom	Consolidated	95.0%	95.0%
MGTS Group	Consolidated	94.7%	94.7%
MTS Armenia	Consolidated	80.0%	80.0%
Kulturnaya Sluzhba (Ponominalu)	Consolidated	78.2%	-
Navigation Information Systems Group	Consolidated	77.7%	77.7%
MTS Bank (Note 5)	Consolidated	55.4%	26.6%
Oblachny Retail LLC	Consolidated	50.8%	50.8%
MTS International Funding Limited(2) ("MTS International")	Consolidated	SE	SE
MTS Belarus (Note 16)	Equity	49.0%	49.0%
Sistema Capital	Equity	30.0%	30.0%
Zifrovoe TV	Equity	20.0%	20.0%
OZON Holdings Limited (Note 16)	Equity	18.7%	11.2%
YOUDO Web Technologies (Note 16)	Equity	13.7%	-

(1) Merged with MTS PJSC on November 15, 2018

(2) A company organized and existing as a private limited company under the laws of Ireland. The Group does not have any equity in MTS International. It was established for the purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group. In 2010 and 2013, MTS International issued USD 750 million 8.625% notes due in 2020 and USD 500 million 5.0% notes due in 2023, respectively (Note 24). The notes are guaranteed by MTS PJSC in the event of default. MTS International does not perform any other activities except those required for notes servicing. The Group bears all costs incurred by MTS International in connection with the notes' maintenance activities. Accordingly, the Group concluded that it exercises control over the entity.

Acquisitions from entities under common control – Business combinations arising from transfers of interests in entities that are under common control with the Group are consolidated prospectively starting from the date that the control over those entities is passed to the Group. 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.

Joint operations – The Group has joint operations with Megafon and Vimpelcom, relating to the construction of LTE base stations. Joint operations are characterized by the fact that the operators that have joint control over the arrangement each have both a right to the assets, and obligations for the liabilities, according to the arrangement. Respectively, each operator accounts for its share of the joint assets and its agreed share of any liabilities, and recognizes its share of the output, revenues and expenses incurred under the arrangement.

Functional currency translation methodology – As of December 31, 2018, the functional currencies of Group entities were as follows:

- For entities incorporated in the Russian Federation, Dega and MTS International – the Russian Ruble ("RUB");
- For VF Ukraine – the Ukrainian Hryvna;
- For MTS Armenia – the Armenian Dram;
- For MTS Turkmenistan – the Turkmenian Manat;
- For MTS Belarus – the Belarusian Ruble;
- For NVision Czech Republic – the Czech Crown.

Foreign-currency transactions are translated into the functional currency at the exchange rates at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are translated at the closing rate, whereas non-monetary items are stated at the exchange rate at the date of their recognition. Exchange rate differences are recognized in profit or loss.

For entities whose records are maintained in their functional currency, which is other than the reporting currency, all year-end assets and liabilities have been translated into U.S. Dollars ("USD") at the period-end exchange rate set by local central banks. Subsequently, U.S. Dollars balances have been translated into Russian Rubles at the period-end exchange rate set by the Central Bank of Russia. Revenues and expenses have been translated at the average exchange rate for the period using the cross-currency exchange rate via the U.S. Dollar as described above. Translation differences resulting from the use of these rates are reported as a component of other comprehensive income.

Standards, interpretations and amendments adopted on January 1, 2018

Starting from January 1, 2018 the Group has applied IFRS 9, "*Financial Instruments"*, IFRS 15, "*Revenue from Contracts with Customers"*, and IFRS 16, "*Leases"*.

IFRS 9, "*Financial Instruments"* – IFRS 9 replaces the existing standard IAS 39 in regulating the classification and measurement of financial assets and liabilities and requires certain additional disclosures. The primary changes relate to the assessment of hedging arrangements and provisioning for potential future credit losses on financial assets as well as recognition of modification gain or loss for all revisions of estimated payments or receipts, including changes in cash flows arising from a modification or exchange of a financial liability, that does not result in its derecognition.

Resulting from the adoption of the IFRS 9 standard, the Group recognized RUB 3.0 billion (RUB 2.4 billion net of tax) gain relating to modification of its financial liabilities, which did not result in extinguishment of the original liabilities, and RUB 1.2 billion (1.0 billion net of tax) loss related to expected losses on financial assets.

(Amounts in millions of Russian Rubles unless otherwise stated)

The new guidance on the classification of financial assets did not results in any changes in the measurement and presentation of the Group's financial assets. The following table compares the classification of financial assets in accordance with IFRS 9 and IAS 39:

	Classification		**December 31,**	**January 1,**
	IAS 39	**IFRS 9**	**2017**	**2018**
Trade and other receivables	Loans and receivables	At amortized cost	28,017	28,017
Accounts receivable, related parties	Loans and receivables	At amortized cost	11,358	11,358
Cash and Cash equivalents	At amortized cost	At amortized cost	30,586	30,586
Assets in Sistema Capital trust management	At fair value through profit or loss	At fair value through profit or loss	9,600	9,600
Notes	Available-for-sale	At fair value through OCI	57	57
Cross-currency swap designated as cash flow hedge	At fair value through OCI	At fair value through OCI	8,403	8,403
Bank deposits	Loans and receivables	At amortized cost	27,836	27,836
Loans	Loans and receivables	At amortized cost	5,415	4,935
Notes	Loans and receivables	At amortized cost	8,480	8,480
Other	Loans and receivables	At amortized cost	1,810	1,810
Total			**131,562**	**131,082**

The Group recognized the cumulative effect arising from the transition to IFRS 9 as an adjustment to the opening balance of equity. Prior period comparatives have not been restated.

IFRS 15, "*Revenue from Contracts with Customers*" – The standard establishes a single comprehensive framework for the determination and recognition of revenue to be applied to all contracts with customers. IFRS 15 replaces the existing standards IAS 18, "*Revenue*", and IAS 11, "*Construction Contracts*". The core principle of IFRS 15 is that an entity should recognize revenue to accurately reflect the transfer of promised goods or services to customers in an amount that is equal to the consideration to which the entity expects to be entitled in exchange for those goods or services.

The most significant impact of the adoption of IFRS 15 on the Group's consolidated financial statements related to the deferral of certain incremental costs, which were incurred in acquiring or fullfilling a contracts with a customers.

The Group utilized the option for simplified initial application, meaning that those contracts that were not completed by January 1, 2018 were recognized as if they had been accounted for under IFRS 15 from the very beginning. The cumulative effect arising from the transition amounted to RUB 3.1 billion gain (2.5 billion net of tax) and was recognized as an adjustment to the opening balance of equity. The prior period comparatives were not restated.

The effects of implementation of IFRS 15 on the Group financial statements as of December 31, 2018 are summarized in Note 3.

(Amounts in millions of Russian Rubles unless otherwise stated)

IFRS 16, "Leases" – The standard requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. The standard also includes a new definition of a lease and requirements for its presentation, new disclosures requirements and changes in the accounting for sale and leaseback transactions.

The Group elected for an early adoption of the IFRS 16 standard effective as of January 1, 2018 concurrent with the adoption of the new IFRS 15 standard on revenue recognition.

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- Relief from the requirement to reassess whether a contract is, or contains the lease for contracts existing as of january 1, 2018;
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics; reliance on previous assessments on whether leases are onerous;
- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

As a result of the application of the IFRS 16 standard the Group has recognised an additional lease liability and right-of-use assets in the amount of RUB 141 billion. On initial application the balance relating to leased equipment previously included in property, plant and equipment was reclassified to right-of-use assets. The lease liability previously presented within borrowings has been presented separately.

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

The reconciliation between the operating lease commitments disclosed under IAS 17 as of December 31, 2017 discounted at the weighted average rate and lease liability recognized under IFRS 16 at January 1, 2018 is presented below:

	January 1, 2018
Operating lease commitments	15,135
Operating lease commitments discounted at 8.83%	10,530
Lease liability under IFRS 16	148,897
Difference	**138,367**
Thereof:	
Finance lease liability recognized at December 31, 2017	11,056
Lease liability related to exclusive right to use trademark	1,808
Extention options reasonably certain to be exercised	125,503

The most significant difference between the discounted value of the operating lease commitments as of December 31, 2017 and the value of lease liability under IFRS 16 recognised at January 1, 2018, pertains to the requirements of the previously applied standard IAS 17 that in determining its lease operating commitments, the Group only considers future payments under the non-cancellable period of leases. Under the new lease standard, when determining a lease liability, the Group is required to consider existing extension options which are reasonably certain to be exercised.

Prior period comparatives were not restated. Lease liabilities as of December 31, 2017 include financial lease obligations recognized in accordance with IAS 17 Leases.

Other standards, interpretations and amendments adopted by the Group on January 1, 2018 had no effect on the Group's consolidated financial statements.

(Amounts in millions of Russian Rubles unless otherwise stated)

Standards, interpretations and amendments in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures (1)
IFRIC 23	Uncertainty over Income Tax Treatments (1)
Amendments to IFRS 9	Prepayment Features With Negative Compensation(1)
Amendments IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle (1)
Amendments to Conceptual Framework	Conceptual Framework in IFRS standards (2)
IFRS 17	Insurance Contracts (3)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (4)

(1) Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
(2) Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.
(3) Effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.
(4) The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

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

3. EFFECT FROM IFRS 15 IMPLEMENTATION

The effects of IFRS 15 adoption on the Group's consolidated statement of financial position as of December 31, 2018 are presented below:

	As if IFRS 15 was not applied	IFRS 15 adjustments	As reported
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	278,002	(1,559)	276,443
Other intangible assets	88,945	7,017	95,962
Investments in associates	10,772	(37)	10,735
Other non financial assets	3,424	1,614	5,038
Total non-current assets	**640,024**	**7,035**	**647,059**
CURRENT ASSETS:			
Other non financial assets	1,238	100	1,338
Total current assets	**268,834**	**100**	**268,934**
TOTAL ASSETS	**908,858**	**7,135**	**915,993**
EQUITY AND LIABILITIES			
EQUITY:			
Retained earnings	108,243	2,703	110,946
Accumulated other comprehensive loss	(1,158)	94	(1,064)
Equity attributable to owners of the Company	62,477	2,797	65,274
Non-controlling interests	12,269	22	12,291
Total equity	**74,746**	**2,819**	**77,565**
NON-CURRENT LIABILITIES:			
Deferred tax liabilities	23,740	699	24,439
Total non-current liabilities	**542,258**	**699**	**542,957**
CURRENT LIABILITIES:			
Contract liabilities	17,980	3,617	21,597
Total current liabilities	**291,854**	**3,617**	**295,471**
TOTAL EQUITY AND LIABILITIES	**908,858**	**7,135**	**915,993**

(Amounts in millions of Russian Rubles unless otherwise stated)

The effects of IFRS 15 adoption on the Group's consolidated statements of profit or loss for the twelve months ended December 31, 2018 are presented below:

	As if IFRS 15 was not applied	IFRS 15 adjustments	As reported
Service revenue	413,067	(2,177)	410,890
Revenue	**482,470**	**(2,177)**	**480,293**
Cost of services	114,458	(2,057)	112,401
Cost of goods	64,169	(300)	63,869
Selling, general and administrative expenses	91,887	(3,941)	87,946
Depreciation and amortization	100,687	3,901	104,588
Operating profit	**115,965**	**220**	**116,185**
Profit before tax	**83,631**	**220**	**83,851**
Income tax expense	16,925	44	16,969
Profit for the year	**66,706**	**176**	**66,882**
Profit for the period attributable to:			
Owners of the Company	6,672	176	6,848

The effects of IFRS 15 adoption on the Group's consolidated statements of cash flows for the twelve months ended December 31, 2018 are presented below:

	As if IFRS 15 was not applied	IFRS 15 adjustments	As reported
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year	7,656	176	7,832
Adjustments for:			
Depreciation and amortization	100,687	3,901	104,588
Income tax expense	16,925	44	16,969
Movements in operating assets and liabilities:			
Decrease in trade and other payables and other current liabilities	(10,896)	(266)	(11,162)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**150,535**	**3,855**	**154,390**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cost to obtain and fulfill contracts, paid	-	(4,764)	(4,764)
Other investing activities	(909)	909	-
NET CASH USED IN INVESTING ACTIVITIES	**(74,534)**	**(3,855)**	**(78,389)**

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

1. Critical accounting estimates

A critical accounting estimate is an estimate that is both important to the presentation of the Group's financial position and requires management's most difficult, subjective or complex judgments, often as a result of the need to determine estimates and develop assumptions about the outcome of matters that are inherently uncertain.

Management evaluates such estimates on an on-going basis, based upon historical results, historical experience, trends, consultations with experts, forecasts of the future, and other methods which management considers reasonable under the circumstances. Management considers the accounting estimates discussed below to be its critical accounting estimates, and, accordingly, provides an explanation of each.

2. Depreciation and amortization of non-current assets

Depreciation and amortization expenses are based on management estimates of useful life, residual value and amortization method of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and management views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for new technologies. Critical estimates in the evaluations of useful lives for intangible assets include, but are not limited to, the estimated average customer relationship based on churn, the remaining license period and the expected developments in technology and markets.

The useful lives of property and equipment and intangible assets are reviewed at least annually, taking into consideration the factors mentioned above and all other important relevant factors. The actual economic lives of intangible assets may be different from useful lives estimated by management, thereby resulting in a different carrying value of intangible assets with finite lives.

The Group continues to evaluate the amortization period for intangible assets with finite lives to determine whether events or circumstances warrant revised amortization periods. A change in estimated useful lives is a change in accounting estimate, and depreciation and amortization charges are adjusted prospectively. See Notes 20 and 23 for further information.

3. Impairment of non-current assets

The Group has made significant investments including in property, plant and equipment, intangible assets, goodwill, right-of-use assets, acquiring and fulfilling of contracts and other.

Pursuant to IAS 36, goodwill and other intangible assets with indefinite useful lives and intangible assets not yet brought into use must be tested for impairment annually or more often if indicators of impairment exist. Other assets are tested for impairment when circumstances indicate that there may be a potential impairment.

Recoverable amounts of assets and cash generating units ("CGUs") are based on evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). A change of assumptions, particularly in relation to the discount rate and growth rate used to estimate the recoverable amounts of assets, could significantly impact results of the Group's impairment evaluation.

All of the Group's operations are in countries with emerging markets. The political and economic situation in these countries may change rapidly which could potentially have a significant impact on these operations. The changing state of the world economy, and increased macroeconomic risks also impact the assessment of cash flow forecasts and the discount rates applied.

There are significant variations between different markets with respect to growth, mobile penetration, Average revenue per user, the Company's market share and similar parameters, which result in differences in operating margins. The future developments of operating margins are important in the Group's impairment assessments, and the long-term estimates of these margins are highly uncertain.

See Note 22 for further information.

4. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 28 for further information.

5. Provisions and contingencies

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. In addition, significant uncertainty exists in relation to employee bonuses and other rewards, which depend on their individual performance and Group's results. The management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable. See Note 27 and Note 34 for further information.

6. Right-of-use assets and lease liabilities

The value of right-of-use assets and lease liabilities is based on management estimates of lease terms as well as an incremental borrowing rate used to discount lease payments. The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal options. When assessing the lease term the management considers all facts and circumstances that create the economic incentive for the Group to excise the option to extend the lease, such as the useful life of the asset located on the leased site, statistics on sites replacement, sequence of technology change, profitability of our retail stores as well as costs to terminate or enter into lease contracts. The incremental borrowing rate of the Group is determined based on the credit spreads of the Group's debt instruments in relation to zero-coupon yield curve for government securities.

Changes in these factors could affect the estimated lease term and the reported value of right-of-use assets and lease liabilities.

7. Impairment of financial assets

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

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

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

See Note 18 and Note 30 for further information.

5. BUSINESS ACQUISITIONS AND DISPOSALS

1. Acquisitions in 2018

Acquisition of Kulturnaya Sluzhba – In January 2018, the Group acquired a 78.2% ownership interest in Kulturnaya Sluzhba LLC (“KS”), operating under the trademark Ponominalu.ru.
The purchase price comprised a cash payment, deferred payment due within 12 months from the acquisition date, and a contingent consideration to be paid to the sellers if agreed upon financial targets are met by KS. As of December 31, 2018, the Group paid the full amount of a RUB 54 million contingent consideration to the seller.

Acquisition of Moskovskaia Direktciia Teatralno-Kontcertnyh i Sportivno-Zrelishchnyh Kass - In February 2018, the Group acquired a 100% ownership interest in Moskovskaia Direktciia Teatralno-Kontcertnyh i Sportivno-Zrelishchnyh Kass LLC (“MDTZK”), operating under the trademark Ticketland.ru. The purchase price comprised of both cash payment and deferred payment payable within 12 months from the acquisition date.

These acquisitions allow the Group to enter the event ticketing market, whilst also broadening the Group’s suite of digital services.

Acquisition of Progressivniye Technologii (ProgTech) – In August 2018, the Group acquired a 99% ownership interest in science and production association Progressivniye Technologii CJSC, a provider of fixed-line services in the cities of Zhukovskiy and Anapa. The acquisition of ProgTech allows the Group to strengthen its position in these local markets and benefit from the expected synergies. The purchase price comprised of cash payment and deferred payment. The Group will make a deferred payment of RUB 11 million in 12 months after the acquisition date, and of RUB 21 million in 24 months after the acquisition date.

Acquisition of IT-Grad – In December 2018, the Group 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 Group to strengthen its presence in the Russian cloud services market. The purchase price comprised of cash payment of RUB 1,515 million and a contingent consideration. The Group will pay the contingent consideration of RUB 691 million in 8 months after the acquisition date and of RUB 249 million in 18 months after the acquisition date following certain conditions, including the transfer of rights on tangible and intangible assets. The contingent consideration could also be reduced by the amount of any losses incurred by the Group in respect to any tax or other claims relating to the pre-acquisition period. In case the amount of losses incurred exceeds the amount of contingent consideration, the sellers have indemnified the Group for the amounts in excess. As of the acquisition date, the Group recognized the contingent consideration in the amount of RUB 907 million.

The business combinations were accounted for by applying the acquisition method.

(Amounts in millions of Russian Rubles unless otherwise stated)

The fair values of the identifiable assets and liabilities of acquired companies as at the dates of acquisitions were the following (including the preliminary purchase price allocation for IT-Grad):

	KS	MDTZK	ProgTech	IT-Grad
Goodwill	479	2,033	213	1,877
Customer base	37	727	123	643
Trademark	129	779	-	-
Other non-current assets	43	145	172	32
Current assets	117	202	15	44
Cash and cash equivalents	39	542	28	13
Current liabilities	(383)	(868)	(80)	(59)
Liability under put option agreement over non-controlling interests	(106)	-	-	-
Non-current liabilities	(34)	(370)	(76)	(128)
Total consideration	**321**	**3,190**	**395**	**2,422**
Including:				
Fair value of contingent consideration	54	-	3	907
Cash paid	267	3,190	392	1,515

The excess of the total consideration over the value of net assets acquired of KS in the amount of RUB 479 million was recorded as goodwill arising from the acquisition of one of the leading players in the Russian event ticketing industry and expected synergies. This has been allocated to the “Ponominalu” operating segment.

The excess of the total consideration over the value of net assets acquired through MDTZK, in the amount of RUB 2,033 million was recorded as goodwill arising from the acquisition of one of the leading players in the Russian event ticketing industry and expected synergies. This has been allocated to the “Ticketland” operating segment.

The excess of the total consideration over the value of Progtech’ net assets acquired, in the amount of RUB 213 million, was recorded as goodwill arising from expected synergies. This has been allocated to the “Moscow fixed line” operating segment.

The excess of the total consideration over the value of net assets acquired of IT-Grad in the amount of RUB 1,877 million was recorded as goodwill arising from expected synergies and market position obtained. This has been allocated to the “Russia Convergent” operating segment.

Goodwill recognized as a result of the acquisitions is not expected to be deductible for income tax purposes.

KS’s trademark is amortized over 10 years, along with its customer base.

The trademark of MDTZK is amortized over 10 years, along with its customer base.

The customer base acquired upon acquisition of Progtech is amortized over 15 years.

The customer base acquired upon acquisition of IT-Grad is amortized over 7 years.

According to the terms of the purchase agreements, deferred payments payable by the Group could be reduced by the amount of any losses incurred by the Group in respect of any claims relating to the pre-acquisition period. In case the amount of the losses incurred exceeds the amount of deferred payment, the seller has indemnified the Group for the amounts in excess.

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group recognized the following liabilities and indemnification assets in respect to deferred payments on aforementioned acquisitions on acquisition dates:

	KS	MDTZK	ProgTech
Expected timing of deferred payment	January, 2019	February, 2019	August, 2019 – August, 2020
Deferred payment per agreement	78	60	32
Provision for tax liabilities related to pre-acquisition period as of acquisition date	(134)	(125)	(29)
Liability on deferred payment	-	-	(3)
Indemnification asset	56	65	-

The Group recognized the following liabilities and indemnification assets in respect to deferred payments on aforementioned acquisitions as of December 31, 2018:

	KS	MDTZK	ProgTech
Deferred payment per agreement	78	60	32
Provision for tax liabilities related to the pre-acquisition period as of December 31, 2018	(49)	(67)	(29)
Liability on deferred payment	(29)	-	(3)
Indemnification asset	-	7	-

The Group also entered into an option agreement with the non-controlling shareholders of the KS. Pursuant to the agreement the Group has the right and obligation in the form of a call and put option, with the put option exercisable at the request of non-controlling shareholders, to acquire their shares at a price calculated based on the operating and financial results of KS.

Acquisition of Dekart - In October 2018, the Group aquired Dekart property complex from Sistema for a total consideration of RUB 5,242 million. The property complex comprises office facilities leased by the Group, subsidiaries of Sistema and other counterparties, parking premises and engineering networks and operates under management agreement with Business-Nedvizhimost, a subsidiary of Sistema. The acquisition was accounted for as a transaction under common control directly in equity. The acquisition enables the Group to optimize its rental expenses and enchance its investment property portfolio.

Acquisition of MTS Bank – In July 2018, the Group increased ownership share in the Group associate MTS Bank from 26.6% to 55.4% and obtained control over the entity.Consideration paid to Sistema for additional share in MTS Bank amounted to RUB 8,273 million. The acquisition was accounted for as a transaction with entities under common control directly in equity.

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

The following table summarizes the details of acquisitions of subsidiaries under common control finalized in 2018:

Acquired company	Consideration paid net of cash acquired*	Cash acquired	Assets acquired other than cash	Liabilities assumed
Dekart	4,658	-	3,406	125
Serebryaniy Bor	1,711	-	383	-
MTS Bank	6,873	1,401*	126,180	128,165

* Included in consolidated statement of cash flows within cash flows from financing activities as transactions with entities under common control

(Amounts in millions of Russian Rubles unless otherwise stated)

2. Acquisitions in 2017

Acquisition of Bashkortostan Cellular Communication - In July 2017, the Group acquired a 100% ownership interest in Bashkortostan Cellular Communication OJSC ("BCC"). BCC operates in the Republic of Bashkortostan and holds rights to use 450 MHz and 2,100 MHz radio frequencies. The acquisition enhances the Group's spectrum of resources in the Republic of Bashkortostan. The purchase price comprised of cash payment and a contingent consideration, payable in 12 months from the acquisition date.

Acquisition of Oblachny Retail – In October 2017, the Group acquired a 50.82% of ownership interest in the Russian retail software developer Oblachny Retail LLC ("Oblachny Retail"), operating under trademark LiteBox, with a call and put option arrangement existing over another 49.18% of shares. The deal allows the Group to enter the cloud-based cash register market as a fully licensed fiscal data operator ("FDO") and a provider of integrated digital cash management solutions for B2B clients. The purchase price comprised of cash payment and a contingent consideration, payable within 12 months from the acquisition date. As a part of business combination, the Group also contributed RUB 420 million to the share capital of the acquiree to provide funds for future development. The Group has elected to measure the non-controlling interests in the acquiree at fair value.

Acquisition of Praliss Enterprises – In December 2017, the Group purchased a 100% ownership interest in Praliss Enterprises ("Praliss"), thus acquiring one of the world's leading eSport clubs – Gambit Esports. The acquisition is a part of the Group's digital innovation strategy. The purchase price comprised of cash payment, a contingent consideration, payable within 12 months from the acquisition date, and the earn-out amounts to be paid to the sellers in the course of two years from 2018 to 2019 on the basis that agreed upon operational targets are met by Praliss.

The fair values of the identifiable assets and liabilities of acquired companies as at the dates of acquisitions were the following:

	BCC	Oblachny Retail	Praliss
Goodwill	62	524	208
Licenses	260	-	-
Other non-current assets	21	181	132
Current assets	5	23	-
Cash and cash equivalents	13	420	-
Current liabilities	(15)	(123)	-
Liability under put option agreement over non-controlling interests	-	(402)	-
Non-current liabilities	(54)	(33)	(27)
Total consideration	**292**	**590**	**313**
Including:			
Fair value of contingent consideration and earn-out payments	72	10	93
Additional contribution	-	420	
Cash paid	220	160	220

The excess of the total consideration over the value of net assets acquired of BCC in the amount of RUB 62 million was allocated to goodwill arising from expected synergies. This has been attributed to the "Russia Convergent" segment.

The excess of the total consideration over the value of net assets acquired of Oblachny Retail in the amount of RUB 524 million, was allocated to goodwill arising from the company employees and expected synergies. This has been assigned to the "Oblachny Retail" operating segment (Note 22). The excess of the total consideration over the value of net assets acquired of Praliss in the amount of RUB 208 million was allocated to goodwill arising from expected synergies. This has been attributed to the "eSports" operating segment.

(Amounts in millions of Russian Rubles unless otherwise stated)

None of the goodwill recognized is expected to be deductible for income tax purposes.

Licenses acquired upon acquisition of BCC are amortized over a period of their remaining useful life of 15 years on average. Software acquired through Oblachny Retail is amortized over a period of their remaining useful life of 5 years on average.

The Group also entered into an option agreement with the shareholders of the Litebox, pursuant to which the Group has the right and obligation, at the request of non-controlling shareholders, to acquire their shares at a price calculated based on the operating results of Oblachny Retail for 2019-2020.

As of December 31, 2018 the consideration payable relating to acquisitions of BCC, Oblachny Retail and Praliss were fully settled by the Group, except for earn-out payments due on acquisition of Praliss in the amount of RUB 13 million.

3. Acquisition and disposal in 2016

Acquisition of Smarts-Yoshkar-Ola – In September 2016, the Group acquired 100% of the shares of Smarts-Yoshkar-Ola CJSC ("Smarts-Yoshkar-Ola"), operating in the Republic of Mari El and holding rights to use 1800 MHz radio frequencies. The acquisition enhances the Group's spectrum resources in the Republic of Mari El. The business combination was accounted for by applying the acquisition method.

The following table summarizes the purchase price allocation for SMARTS-Yoshkar-Ola at the date of acquisition:

	Smarts-Yoshkar-Ola
Cash and cash equivalents	5
Current assets	5
Licenses	323
Other non-current assets	14
Current liabilities	(30)
Non-current liabilities	(69)
Gain from bargain purchase (included in other operating income in the consolidated statement of profit or loss)	(235)
Total consideration	**13**
Including:	
Contingent consideration	3
Cash paid	10

The total consideration was initially determined by a contract concluded between the Group and the seller (SMARTS Group) in 2014. To determine the fair value of assets acquired, the Group used comparative prices of the first radio frequencies auction that was held in Russia in 2015, which gave rise to the recognition of a gain from bargain purchase.

As of December 31, 2018 the consideration payable was fully settled by the Group.

The details on disposal of 50.01% share in LLC "Universal Mobile Systems" ("UMS") are disclosed in Note 10.

(Amounts in millions of Russian Rubles unless otherwise stated)

Pro forma results of operations – The following pro forma financial data for the years ended December 31, 2018, 2017 and 2016 give effect to the business combinations as they had been completed at the beginning of the year.

Pro forma:	**2018 (MTS Bank, MDTZK, Kulturnaya Sluzhba, Progtech, Dekart, IT Grad, Serebryaniy Bor)**	**2017 (BCC, Oblachny Retail, Praliss)**	**2016 (SMARTS-Yoshkar-Ola)**
Net revenues	491,936	443,178	435,694
Net income	8,194	55,881	48,465

The pro forma information is based on various assumptions and estimates. The pro forma information is neither necessarily indicative of the operating results that would have occurred if the Group acquisitions had been consummated as of January 1, 2016, 2017, or 2018, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual results of operations of these companies are included into the consolidated financial statements of the Group only from the respective dates of acquisition.

Since their respective acquisition dates, companies acquired in 2016 contributed revenue in the amount of RUB 1 million and net loss in the amount of RUB 15 million to the consolidated statement of profit or loss for the year ended December 31, 2016. The companies acquired in 2017 contributed revenue in the amount of RUB 37 million and net loss in the amount of RUB 105 million to the consolidated statement of profit or loss for the year ended December 31, 2017. Companies acquired in 2018 contributed revenue in the amount of RUB 13,261 million and net income in the amount of RUB 615 million to the consolidated statement of profit or loss for the year ended December 31, 2018.

6. SEGMENT INFORMATION

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

The Group identified the following reportable segments:

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

Moscow fixed line: represents the results of fixed line operations carried out in Moscow by the Group's subsidiary MGTS. MGTS is the only licensed public switched telephone network ("PSTN") operator in Moscow and is considered a natural monopoly under Russian antimonopoly regulations. Consequently, a substantial part of the services provided by MGTS are subject to governmental regulation.

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

MTS Bank: represents the results of banking services rendered to customers across regions of Russia.

(Amounts in millions of Russian Rubles unless otherwise stated)

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

In 2017, the management has started to assess Russia Convergent, NVision Czech Republic, Stream, Navigation Information Systems and Metro-Telecom separately to monitor the results and make funding decisions on this basis, and thus has presented them separately. Related financial information was, retrospectively, restated.

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

Financial information by reportable segments is presented below:

Year ended December 31, 2018:

	Russia Convergent	Moscow fixed line	Ukraine	MTS Bank	Total	Other	HQ and elimination	Consolidated
Revenue								
External customers	386,838	34,348	28,826	11,313	461,325	19,550	(582)	480,293
Intersegment	6,258	4,498	891	538	12,185	12,780	(24,965)	-
Total revenue	**393,096**	**38,846**	**29,717**	**11,851**	**473,510**	**32,330**	**(25,547)**	**480,293**
Operating profit	106,296	12,695	6,658	1,291	126,940	1,072	(11,827)	116,185
Depreciation and amortization	(82,457)	(10,867)	(9,346)	(547)	(103,217)	(3,620)	2,249	(104,588)
Other disclosure:								
Capital expenditures	67,863	6,306	15,151	683	90,003	13,596	-	103,599

Year ended December 31, 2017:

	Russia Convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consolidated
Revenue							
External customers	365,846	34,350	24,992	425,188	17,618	105	442,911
Intersegment	5,136	4,683	1,111	10,930	12,785	(23,715)	-
Total revenue	**370,982**	**39,033**	**26,103**	**436,118**	**30,403**	**(23,610)**	**442,911**
Operating profit	93,821	8,801	5,258	107,880	(871)	(10,909)	96,100
Depreciation and amortization	59,942	10,642	6,106	76,690	3,481	(259)	79,912
Other disclosure:							
Capital expenditures	65,790	7,403	10,573	83,766	2,392	-	86,158

Year ended December 31, 2016:

	Russia Convergent	Moscow fixed line	Ukraine	Total	Other	HQ and elimination	Consolidated
Revenue							
External customers	355,056	34,796	27,026	416,878	18,689	125	435,692
Intersegment	4,849	4,871	2,161	11,881	14,423	(26,304)	-
Total revenue	**359,905**	**39,667**	**29,187**	**428,759**	**33,112**	**(26,179)**	**435,692**
Operating profit	81,484	10,850	3,599	95,933	3,523	(11,787)	87,669
Depreciation and amortization	60,087	10,900	6,304	77,291	4,395	(104)	81,582
Other disclosure:							
Capital expenditures	61,208	7,316	7,666	76,190	3,995	-	80,185

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

(Amounts in millions of Russian Rubles unless otherwise stated)

Financial information by geographic area is presented below:

	For the year ended December 31,		
Revenue	**2018**	**2017**	**2016**
Russia	440,899	405,365	392,764
Other	39,394	37,546	42,928
Total revenue	**480,293**	**442,911**	**435,692**

Non-current assets [(1)]	**As of December 31, 2018**	**As of December 31, 2017**
Russia	357,361	339,693
Other	54,151	37,048
Total non-current assets:	**411,512**	**376,741**

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

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

Disaggregation of revenue:

Year ended December 31, 2018:	**Russia Convergent**	**Moscow fixed line**	**Ukraine**	**MTS Bank**	**Total**	**Other**	**HQ and elimination**	**Consoli-dated**
Revenue								
Mobile services	304,049	1,487	27,951	-	333,487	6,663	104	340,254
Fixed line services	22,939	32,739	241	-	55,919	377	-	56,296
Finance services	-	-	-	11,313	11,313	-	240	11,553
Integration services	444	5	-	-	449	1,089	-	1,538
Sales of goods	59,406	117	634	-	60,157	10,172	(926)	69,403
Other services	-	-	-	-	-	1,249	-	1,249
External Customers	386,838	34,348	28,826	11,313	461,325	19,550	(582)	480,293
Intersegment	6,258	4,498	891	538	12,185	12,780	(24,965)	-
Total revenue	**393,096**	**38,846**	**29,717**	**11,851**	**473,510**	**32,330**	**(25,547)**	**480,293**
Thereof:								
Recognised over time	327,432	34,231	28,192	11,313	401,168	9,378	(582)	409,964
Recognised at point of time	59,406	117	634	-	60,157	10,172	-	70,329
	386,838	**34,348**	**28,826**	**11,313**	**461,325**	**19,550**	**(582)**	**480,293**

Year ended December 31, 2017:	**Russia Convergent**	**Moscow fixed line**	**Ukraine**	**MTS Bank**	**Total**	**Other**	**HQ and elimination**	**Consoli-dated**
Revenue								
Mobile services	297,273	798	24,722	-	322,793	10,237	105	333,135
Fixed line services	22,358	33,453	208	-	56,019	353	-	56,372
Finance services	-	-	-	-	-	-	-	-
Integration services	191	-	-	-	191	1,062	-	1,253
Sales of goods	46,024	99	62	-	46,185	5,966	-	52,151
Other services	-	-	-	-	-	-	-	-
External Customers	365,846	34,350	24,992	-	425,188	17,618	105	442,911
Intersegment	5,136	4,683	1,111	-	10,930	12,785	(23,715)	-
Total revenue	**370,982**	**39,033**	**26,103**	**-**	**436,118**	**30,403**	**(23,610)**	**442,911**
Thereof:								
Recognised over time	319,822	34,251	24,930	-	379,003	11,652	105	390,760
Recognised at point of time	46,024	99	62	-	46,185	5,966	-	52,151
	365,846	**34,350**	**24,992**	**-**	**425,188**	**17,618**	**105**	**442,911**

(Amounts in millions of Russian Rubles unless otherwise stated)

Year ended December 31, 2016:	**Russia Convergent**	**Moscow fixed line**	**Ukraine**	**MTS Bank**	**Total**	**Other**	**HQ and elimination**	**Consoli-dated**
Revenue								
Mobile services	288,547	425	26,724	-	315,696	12,395	125	328,216
Fixed line services	21,685	34,346	243	-	56,274	284	-	56,558
Finance services	-	-	-	-	-	-	-	-
Integration services	185	-	-	-	185	1,527	-	1,712
Sales of goods	44,639	25	59	-	44,723	4,483	-	49,206
Other services	-	-	-	-	-	-	-	-
External Customers	355,056	34,796	27,026	-	416,878	18,689	125	435,692
Intersegment	4,849	4,871	2,161	-	11,881	14,423	(26,304)	-
Total revenue	**359,905**	**39,667**	**29,187**	**-**	**428,759**	**33,112**	**(26,179)**	**435,692**
Thereof:								
Recognised over time	310,417	34,771	26,967	-	372,155	14,206	125	386,486
Recognised at point of time	44,639	25	59	-	44,723	4,483	-	49,206
	355,056	**34,796**	**27,026**	**-**	**416,878**	**18,689**	**125**	**435,692**

7. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is recognized to the extent that the Group has delivered goods or rendered services under an agreement, the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is measured at the fair value of the consideration receivable, exclusive of value added taxes and discounts.

The Group obtains revenue from providing mobile and fixed telecommunication services (access charges, voice and video calls, messaging, interconnect fees, fixed and mobile broadband, tv and musical content and connection fees), financial services, integration services as well as selling equipment, accessories and software. Products and services may be sold separately or in bundle packages. The most significant part of our revenue relates to prepaid contracts.

Revenue for access charges, voice and video calls, messaging, interconnect fees and fixed and mobile broadband is recognized as services are rendered. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or passage of time (monthly subscription fees). Revenue from the sale of prepaid credit is deferred until such time as the customer consumes the services or the credit expires.

Revenue from the provision of TV and music content is recognized as the Group renders the service and is recorded either at the gross amount billed to the customers or in the amount of commission fee receivable by the Group.

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

For bundled packages, the Group accounts for individual products and services separately if they are distinct, which means that a product or service, as well as the customer benefit, is separately identifiable from other items in the bundled package and a customer can benefit from it. The arrangement consideration is allocated to each separate product and service, based on its relative fair value. The determined fair value of individual elements is generally based on prices at which the deliverable is regularly sold on a stand-alone basis after considering any appropriate volume discounts.

The Group provides retrospective volume discounts under roaming agreements with international and local mobile operators. To estimate the variable consideration in relation to these discounts, the Group uses original data traffic adjusted adjusted on a monthly basis to reflect newly-available information. The resulting liability for the expected future discounts is recognized as a reduction of revenue within trade and other payables in the accompanying consolidated statement of financial position.

(Amounts in millions of Russian Rubles unless otherwise stated)

For contracts that permit customers to return acquired mobile devices, the amount of recognized revenue is adjusted for expected product return or refunds, which are estimated based on the basis of historical data. The respective refund liability is recorded as provision in the accompanying consolidated statement of financial position.

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

Revenue from integration services mainly relates to project type contracts and is determined by reference to the stage of completion of each respective projects. The stage of completion is calculated using the input method – based on the proportion of costs incurred for work performed to date to the estimated total contract costs. Revenue is recognized cumulatively as total revenue under the project multiplied by percentage of completion as at reporting date. When it is probable that total contract costs will exceed the total contract revenue, the expected loss is recognized as an expense immediately.

Disaggregation of revenue for the years ended December 31, 2018, 2017 and 2016 is dislosed in the tables below.

Disaggregation of revenue:

Year ended December 31, 2018:	**Russia***	**Ukraine**	**Other**	**HQ and elimination**	**Consolidated**
Revenue					
Mobile services	312,649	28,828	6,687	(3,274)	344,889
Fixed line services	60,401	255	199	(59)	60,796
Finance services	11,851	-	0	-	11,851
Integration services	7,392	-	0	(655)	6,737
Sales of goods	69,174	634	643	(1,048)	69,403
Other services	1,269	-	-	-	1,269
Eliminations	(14,652)	-		-	(14,652)
Total revenue	**448,083**	**29,717**	**7,529**	**(5,037)**	**480,293**

* Comprised of the following segments: Russia convergent, Moscow fixed line, MTS Bank and Other (excluding MTS Armenia)

Year ended December 31, 2017:	**Russia***	**Ukraine**	**Other**	**HQ and elimination**	**Consolidated**
Revenue					
Mobile services	303,991	25,815	9,588	(3,819)	335,575
Fixed line services	60,782	226	160	(68)	61,101
Finance services	-	-	-	-	-
Integration services	5,571	-	-	(916)	4,655
Sales of goods	52,536	62	381	(829)	52,149
Other services	-	-	-	-	-
Eliminations	(10,568)	-	-	-	(10,568)
Total revenue	**412,312**	**26,103**	**10,129**	**(5,632)**	**442 911**

* Comprised of the following segments: Russia convergent, Moscow fixed line and Other (excluding MTS Armenia and MTS Turkmenistan)

Year ended December 31, 2016:	**Russia***	**Ukraine**	**Other**	**HQ and elimination**	**Consolidated**
Revenue					
Mobile services	294,988	28,851	12,695	(5,288)	331,246
Fixed line services	61,166	277	98	(56)	61,485
Finance services	-	-	-	-	-
Integration services	5,603	-	-	(996)	4,607
Sales of goods	49,648	59	319	(821)	49,205
Other services	-	-	-	-	-
Eliminations	(10,851)	-	-	-	(10,851)
Total revenue	**400,554**	**29,187**	**13,111**	**(7,160)**	**435,692**

* Comprised of the following segments: Russia convergent, Moscow fixed line and Other (excluding MTS Armenia and MTS Turkmenistan)

(Amounts in millions of Russian Rubles unless otherwise stated)

Contract balances

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

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

Contract assets represent accrued revenues that have not yet been billed to customers due to certain contractual terms other than the passage of time. This is the case in a bundled offering which combines the sale of a mobile device and the provision of mobile services for a fixed-period, where the mobile device is invoiced at a reduced price leading to the reallocation of a portion of amounts invoiced for mobile communication services to the supply of the mobile phone. The excess of the amount allocated to the mobile phone over the price invoiced is recognized as a contract asset and is thus transferred to trade receivables as the service is invoiced. The other part of contract assets relates to the Group's rights to consideration for work completed but not yet billed for integration services projects.

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

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	As of	
	December 31, 2018	**January 1, 2018**
Receivables	28,097	14,271
Contract assets	105	-
Total assets	**28,202**	**14,271**
Less current portion	(28,192)	(14,271)
Total non-current assets	**10**	**-**
Contract liabilities	(22,155)	(18,461)
Thereof:		
Mobile and fixed telecommunication services	(20,094)	(17,156)
Other services	(1,741)	(1,084)
Loyalty programme	(320)	(221)
Total liabilities	**(22,155)**	**(18,461)**
Less current portion	21,597	17,696
Total non-current liabilities	**(558)**	**(765)**

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

	Contract assets	**Contract liabilities**
Balance as of January 1, 2018		(18,461)
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	10,999
Increase due to cash received, excluding amount recognised as revenue during the period	-	(14,390)
Effect of changes in estimates	105	-
Business combinations	-	(303)
Balance as of December 31, 2018	**105**	**(22,155)**

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as of December 31, 2018 as follows:

	2019	2020-2024	2025-2029	After 2029	Total
Mobile telecommunication services	(19,536)	(541)	(17)	-	(20,094)
Other services	(1,741)				(1,741)
Loyalty programme	(320)	-	-	-	(320)

Cost to obtain and fulfill a contract

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

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

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

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

As of December 31, 2018 and January 1, 2018 the balances of cost to obtain and fulfill contracts capitalized by the Group amounted to:

	December 31, 2018	January 1, 2018
Cost to obtain contracts	7,017	6,829
Cost to fulfull contracts	1,614	966

As of December 31, 2018 and January 1,2018, the accumulated amortization expense related to cost to obtain and fulfill contracts amounted to 16,908 RUB million and 12,420 RUB million, respectively. Amortization expense related to cost to obtain and fulfill contracts recognized for the year ended December 31, 2018 amounted to 4,371 RUB million. There was no impairment loss relating to the costs capitalized.

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended December 31, 2018, 2017 and 2016 comprised the following:

	2018	2017	2016
Salaries and social contributions	46,769	44,605	44,347
Advertising and marketing expenses	10,090	9,185	10,480
General and administrative expenses	8,127	8,321	7,007
Taxes other than income tax	4,010	3,896	3,806
Cash collection commission	3,724	3,689	3,311
Universal service fund	3,535	3,462	3,412
Dealers commission	3,387	6,718	6,740
Utilities and maintenance	2,852	9,361	9,092
Consulting expenses	2,067	1,975	1,618
Billing and data processing	1,243	1,292	1,485
Other	2,142	2,682	2,748
Total	**87,946**	**95,186**	**94,046**

(Amounts in millions of Russian Rubles unless otherwise stated)

9. FINANCE INCOME AND COSTS

Finance income and costs for the years ended December 31, 2018, 2017 and 2016 comprised the following:

	2018	2017	2016
Interest expense:			
– Loans and notes	25,613	22,131	22,982
– Amortization of debt issuance costs	415	623	683
– Lease obligations(1)	13,917	954	855
– Provisions: unwinding of discount	223	91	94
Total interest expense	**40,168**	**23,799**	**24,614**
Loss on financial instruments	1,008	2,486	25
Other finance costs	63	86	2,885
Total finance costs	**41,239**	**26,371**	**27,524**
Less: amounts capitalized on qualifying assets(2)	(460)	(307)	(388)
Less: debt modification and other gain	(2,614)	-	-
Finance costs	**38,165**	**26,064**	**27,136**
Finance income on loans and receivables			
– Interest income on bank deposits	5,182	4,818	4,277
– Interest income on loans issued	357	330	510
– Other finance income	442	400	486
Finance income	**5,981**	**5,548**	**5,273**
Net finance costs	**32,184**	**20,516**	**21,863**

(1) Starting from January 1, 2018 the Group has applied IFRS 16, "Leases"
(2) The annual weighted average capitalization rates of 8.2%, 8.2% and 8.3% were used to determine the amount of capitalized interest for the years ended December 31, 2018, 2017 and 2016, respectively.

10. OPERATIONS IN UZBEKISTAN

On August 5, 2016, the Group sold its 50.01% stake in UMS LLC, or UMS, a subsidiary in Uzbekistan for USD 1 to UMS's sole remaining shareholder – the State Unitary Enterprise Centre of Radio Communication, Radio Broadcasting and Television of The Ministry of Development of Information Technologies and Communications of the Republic of Uzbekistan.

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

(Amounts in millions of Russian Rubles unless otherwise stated)

UMS's summary of financial information:

Results of discontinued operation

	Year ended December 31, 2016
Revenue	5,115
Expenses	(6,602)
Loss before tax	**(1,487)**
Income tax gain (note 12)	192
Loss for the period	**(1,295)**
Loss on sale of discontinued operations	(2,726)
Loss from discontinued operations	**(4,021)**
Loss attributable to non-controlling interests	(654)
Loss to owners of the Company	**(3,367)**
Basic loss per share	(1.69)
Diluted loss per share	(1.69)

Cash flows from (used in) discontinued operation

	Year ended December 31, 2016
Net cash used in operating activities	(543)
Net cash used in investing activities	(1,253)
Net cash provided by financing activities	1,234

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

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

(Amounts in millions of Russian Rubles unless otherwise stated)

11. OPERATIONS IN TURKMENISTAN

In September 2017, the Group's subsidiary in Turkmenistan MTS Turkmenistan or MTS-TM, suspended the provision of telecommunication services to its subscribers, due to the termination by Turkmen state-owned companies and state authorities of line rental, frequency allocation, interconnect, and other agreements necessary to servicing MTS clients. The license for the provision of telecommunication services on the territory of Turkmenistan was valid until the end of July 2018.

According to the IAS 36 (par.12), the Group considered facts described above as an impairment indicators and consequently determined that all long-lived assets attributable to the Turkmenistan subsidiary were impaired. The Group also assessed the recoverability of the current assets and recorded a provision for those that were considered to be impaired. No indicators of impairment were identified in respect of cash and cash equivalents attributable to MTS-TM. Total impairment charges recognized in the Group's consolidated statement of profit or loss for the year ended December 31, 2017 were as follows:

Impairment of long-lived assets	3,204
Current provision for income tax	100
Provision for doubtful accounts	74
Other operating expenses	37
Taxes other than income tax	20
Deferred income tax	(69)
	3,366

In July 2018, the Group filed a Request for Arbitration against the Sovereign State of Turkmenistan with the World Bank's International Center for Settlement of Investments Disputes ("ICSID") in order to protect its legal rights and investments in Turkmenistan. As of December 31, 2018 the case is pending resolution.

In December 2018 the Group started dismantling of terminal network equipment in Turkmenistan and accrued a dismaltlment provision in the amount of RUB 228 million in the Group's consolidated statement of profit or loss.

12. INCOME TAX

Income taxes of the Group's Russia-incorporated entities have been calculated in accordance with Russian legislation and are based on the taxable profit for the period. The corporate income tax rate in Russia is 20%. The withholding tax rate on dividends paid within Russia is 13%. The foreign subsidiaries of the Group pay withholding taxes in their respective jurisdictions. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Significant components of income tax expense for the years ended December 31, 2018, 2017 and 2016 were as follows:

	2018	**2017**	**2016**
Current income tax charge	19,881	20,712	15,177
Prior period tax adjustments	(133)	673	98
Total current income tax	**19,748**	**21,385**	**15,275**
Deferred tax	(2,779)	(2,408)	(137)
Income tax expense on continuing operations	**16,969**	**18,977**	**15,138**
Tax effect from the discontinued operations (Note 10)	-	-	(192)
Total tax expense for the period	**16,969**	**18,977**	**14,946**

(Amounts in millions of Russian Rubles unless otherwise stated)

The statutory income tax rates in jurisdictions in which the Group operates for 2018, 2017 and 2016 were as follows: Russia and Armenia – 20%, Ukraine – 18%, Turkmenistan – 8%, Czech Republic - 19%. The Russian statutory income tax rate of 20% reconciled to the Group's effective income tax rate for the years ended December 31, 2018, 2017 and 2016 as follows:

	2018	2017	2016
Statutory income tax rate for the year	**20.0%**	**20.0%**	**20.0%**
Adjustments:			
Expenses not deductible for tax purposes	0.9	1.7	2.1
Prior periods tax effects	(0.2)	0.8	0.1
Different tax rate of foreign subsidiaries	(0.3)	-	(0.5)
Earnings distribution from subsidiaries	0.1	0.9	0.2
Change in fair value of derivative financial instruments	-	0.4	0.3
Derecognition of deferred tax assets	0.1	0.7	-
Other	(0.4)	0.6	0.2
Effective income tax rate	**20.2%**	**25.1%**	**22.4%**

The Group reported the following deferred income tax assets and liabilities in the consolidated statement of financial position:

	December 31, 2018	December 31, 2017
Deferred tax assets	11,190	5,545
Deferred tax liabilities	(24,439)	(23,773)
Net deferred tax liabilities	**(13,249)**	**(18,228)**

Movements in the deferred tax assets and liabilities for the year ended December 31, 2017 were as follows:

	January 1, 2017	Recognised in profit / loss	Recognised in other compre-hensive income	Effect of acquisitions	Effect of derecogni-tion	December 31, 2017
Assets / (liabilities) arising from tax effect of:						
Depreciation of property, plant and equipment	(19,301)	599	(39)	-	(180)	(18,921)
Other intangible assets	(7,094)	(290)	(8)	(59)	(3)	(7,454)
Potential distributions from/ to Group's subsidiaries/ associates	(3,987)	(175)	119	-	-	(4,043)
Licenses	(2,099)	80	25	-	-	(1,994)
Customer base	(660)	124	-	-	-	(536)
Accrued expenses for services	6,382	761	(9)	-	(3)	7,131
Lease obligations	2,199	164	-	-	-	2,363
Loss carryforward	1,917	226	-	-	-	2,143
Provision for investment in Delta Bank in Ukraine	653	-	(52)	-	-	601
Deferred connection fees	540	33	(11)	-	-	562
Hedge and other	989	1,077	(141)	-	(5)	1,920
Net deferred tax liability	**(20,461)**	**2,599**	**(116)**	**(59)**	**(191)**	**(18,228)**

(Amounts in millions of Russian Rubles unless otherwise stated)

Movements in the deferred tax assets and liabilities for the year ended December 31, 2018 were as follows:

	December 31, 2017	Adjustment on initial application of new IFRS standards	Recognised in profit / loss	Recognised in other compre-hensive income	Effect of acquisitions	December 31, 2018
Assets / (liabilities) arising from tax effect of:						
Depreciation of property, plant and equipment	(18,921)	1,632	513	143	395	(16,238)
Other intangible assets	(7,454)	-	1,218	9	147	(6,080)
Potential distributions from/ to Group's subsidiaries/ associates	(4,043)	-	418	(394)	-	(4,019)
Licenses	(1,994)	-	148	(71)	-	(1,917)
Customer base	(536)	-	279	-	(449)	(706)
Capitalization of cost to obtain and fulfill contracts	-	(1,290)	(31)	-	-	(1,321)
Accrued expenses for services	7,131	-	(603)	51	426	7,005
Right-of-use assets and lease obligations	2,363	(1,632)	1,833	-	-	2,564
Loss carryforward	2,143	-	1,362	-	751	4,256
Provision for investment in Delta Bank in Ukraine	601	-	(319)	85	-	367
Contract liabilities	562	717	(340)	15	-	954
Debt modification	-	(597)	(478)	-	-	(1,075)
Hedge and other	1,920	142	(1,221)	58	2,062	2,961
Net deferred tax liability	**(18,228)**	**(1,028)**	**2,779**	**(104)**	**3,332**	**(13,249)**

The Group recognizes deferred income tax on future dividend distributions from foreign subsidiaries and associates which are based on the cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations.

The Group recognizes deferred tax assets in respect of tax losses carried forward to the extent that realization of tax losses against future taxable profit is probable. Deferred tax assets related to tax losses of the Group's subsidiaries are recognized according to the fact that certain tax planning opportunities are available to these subsidiaries that will create taxable profit in the period in which the unused tax losses can be utilized. The amount of the deferred tax asset considered realizable, however, could be remeasured if estimates of future taxable income are changed.

Federal law 401-FZ dated November 30, 2016 cancelled the time limit of prior periods' tax losses carryforward, which had been previously restricted to 10 years. Furthermore, the law specified that for the years 2017-2020 prior periods' tax losses carried forward should not exeed 50% of the tax base.

Unused tax losses, for which deferred tax assets were not recognized in the consolidated statement of financial position as of December 31, 2018 and 2017 amounted to RUB 42,271 million and RUB 18,003 million, respectively.

The Group accrued RUB 850 and 906 million as of December 31, 2018 and 2017, respectively, as a component of income tax payable in relation to uncertain income tax positions.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable.

13. EARNINGS PER SHARE

The following table sets forth the computation of earnings per share for the year ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Numerator:			
Profit for the year from continuing operations, attributable to the owners of the company (before IFRS 15 application)	65,722	56,042	51,841
Profit for the year from continuing operations attributable to the owners of the company	65,898	56,042	51,841
Loss for the year from discontinued operations attributable to the owners of the company	(59,050)	-	(3,367)
Denominator, in thousands:			
Weighted-average ordinary shares outstanding	1,873,563	1,953,779	1,989,282
Employee stock options	2,158	1,779	1,412
Weighted-average diluted shares outstanding	**1,875,721**	**1,955,558**	**1,990,694**
Earnings per share – basic, RUB (before the application of IFRS 15)	**3.56**	**28.68**	**24.37**
Basic EPS from continuing operations	35.08	28.68	26.06
Basic EPS from discontinued operations	(31.52)	-	(1.69)
Earnings per share – diluted, RUB (before the application of IFRS 15)	**3.56**	**28.66**	**24.35**
Diluted EPS from continuing operations	35.04	28.66	26.04
Diluted EPS from discontinued operations	(31.48)	-	(1.69)
Earnings per share – basic, RUB	**3.65**	**28.68**	**24.37**
Basic EPS from continuing operations	35.17	28.68	26.06
Basic EPS from discontinued operations	(31.52)	-	(1.69)
Earnings per share – diluted, RUB	**3.65**	**28.66**	**24.35**
Diluted EPS from continuing operations	35.13	28.66	26.04
Diluted EPS from discontinued operations	(31.48)	-	(1.69)

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash on hand and in bank accounts, as well as short-term bank deposits, which have original maturities of less than three months. Other short-term highly liquid investments are treated as cash equivalents only if they are held for the purpose of meeting short-term cash commitments, are readily convertible to known amounts of cash and are subject to insignificant risk of change in value.

Cash and cash equivalents comprised the following:

	December 31, 2018	December 31, 2017
Cash and cash equivalents at banks and on hand in:		
Russian Rubles	17,012	16,879
US Dollars	4,873	1,119
Euro	2,073	983
Ukraine Hryvna	1,548	403
Turkmenian Manat	721	1,267
Other	954	318
Short-term deposits with an original maturity of less than 92 days:		
Russian Rubles	52,764	6,595
Ukraine Hryvna	3,215	352
Euro	915	-
US Dollars	-	2,603
Other		67
Total cash and cash equivalents	**84,075**	**30,586**

(Amounts in millions of Russian Rubles unless otherwise stated)

15. SHORT-TERM INVESTMENTS

Short-term investments represent investments in loans and time deposits, which have original maturities of longer than three months and are repayable in less than twelve months, as well as investment in debt and equity securities. Deposits, loans and debt securities are carried at amortized cost as they are held to collect contractual cash flows in the form of payments of principal and interest. Assets in Sistema Capital trust management are carried at fair value through profit and loss, as this portfolio of assets is neither held to collect contractial cash flows nor held both to collect contractual cash flows and to sell financial assets.

Short-term investments are presented net of allowance for Expected Credit Losses ("ECL").

Loans to customers issued by MTS Bank are presented separately within Bank deposits and loans.

The Group's short-term investments comprised the following:

	Category	December 31, 2018	December 31, 2017
Notes	At amortized cost	15,191	7,605
Deposits	At amortized cost	14,388	27,826
Assets in Sistema Capital trust management (Notes 28, 31)	Financial asset at fair value through profit and loss	11,644	9,600
Loans	At amortized cost	7,050	5,669
Notes	Financial asset at fair value through other comprehensive income	70	57
Short-term investments (Gross)		**48,343**	**50,757**
Allowance for ECL		(480) [1)]	-
Total short-term investments		**47,863**	**50,757**

1) ECL Allowance related to loan granted to Mr. Pierre and Mr. Moussa Fattouche recognized at January 1, 2018 as a result of IFRS 9 implemetation.

The loans amount generally consists of a loan issued to Mr. Pierre Fattouche and Mr. Moussa Fattouche.

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Associates are those entities where the Group exercises significant influence, and they are accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not equate to control or joint control over those policies. These entities are recognized at cost at the time of acquisition and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income. The carrying amount of the investment in such entities may include goodwill as the positive difference between the cost of the investment and Group's proportionate share in the fair-values of the entity's identifiable assets and liabilities. The Group presents its share in profits or losses in associates within operating profit if those interests are viewed as part of Group's core operations. As of December 31, 2018, only MTS Belarus was considered as part of Group's core operating activity. Shares in profits and losses of other Group's associates were presented as non-operating items.

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement and have rights to the net assets of the arrangement. The Group recognizes its interest in a joint venture where it has joint control of the investment and accounts for that investment using the equity method. Share in profit and loss of the Group's joint venture was presented as non-operating item.

(Amounts in millions of Russian Rubles unless otherwise stated)

The Group's investments in associates and joint ventures comprised the following:

	Country of operations	Operating activity	December 31, 2018	December 31, 2017
MTS Belarus	Belarus	telecommunications	4,051	3,660
MTS Bank	Russia	banking	-	2,902
OZON Holdings Ltd	Russia	e-commerce	4,797	2,517
Equity investments in other unquoted companies	Russia	digital TV, asset management, etc.	1,887	373
Total investments in associates			**10,735**	**9,452**

The reconciliation of summarized financial information of MTS Belarus to the carrying amount of the Group's interest in associate is presented as follows:

	December 31, 2018	December 31, 2017
Assets		
Non-current assets	17,659	9,819
Current assets	11,652	8,117
Liabilities		
Non-current liabilities	(7,089)	(703)
Current liabilities	(13,955)	(9,764)
Total identifiable net assets	**8,267**	**7,469**
The Group's share in associate	49%	49%
The Group's share of identifiable net assets	4,051	3,660
Carrying amount of the Group's interest	**4,051**	**3,660**

The composition of the Group's share of income of MTS Belarus is as follows:

	Year ended December 31,		
	2018	2017	2016
Revenue	(27,695)	(23,037)	(22,256)
Net profit for the year	(7,752)	(6,552)	(6,356)
The Group's share of the profit of the associate for the year	**(3,799)**	**(3,210)**	**(3,115)**
Other comprehensive loss for the year (currency translation adjustment)	(648)	525	2,292
Total comprehensive income for the year	(8,400)	(6,027)	(4,064)
The Group's share of total comprehensive income of the associate for the year	**(4,116)**	**(2,953)**	**(1,991)**
Dividends received	**3,691**	**3,590**	**2,795**

(Amounts in millions of Russian Rubles unless otherwise stated)

The reconciliation of summarized financial information of MTS Bank to the carrying amount of the Group's interest in associate is presented below:

	December 31, 2017
Total assets	142,405
Total liabilities	(121,169)
Non-controlling interests	-
Total identifiable net assets attributable to the Group	**21,236**
The Group's share in associate	26.6%
The Group's share of identifiable net assets	6,127
Impairment of investment in associate	(3,225)
Carrying amount of the Group's interest	**2,902**

In February 2016, MTS Bank placed 3,588,304 additional ordinary shares. The Group acquired 946,347 shares in the placement for a total consideration of RUB 1,325 million. As the result of the transaction, the Group's share in MTS Bank decreased from 27.0% to 26.8%.

In November 2016, MTS Bank placed 10,000,000 additional ordinary shares. The Group acquired 2,637,310 shares in the placement for a total consideration of RUB 2,769 million. As the result of the transaction, the Group's share in MTS Bank decreased from 26.8% to 26.6%.

In May 2017 MTS Bank disposed of a 47% stake in East-West United Bank to Sistema, retaining less than 20% and lost control. Consequently, the accumulated foreign currency translation reserve in the amount of RUB 659 million was derecognized from the accumulated other comprehensive income of the Group.

In July 2018, the Group increased its ownership share in MTS Bank from 26.6% to 55.4% and obtained control over the entity (Note 2). The Group discontinued the use of the equity method for accounting of investment in MTS Bank and accounted for the acquisition as a transaction under common control directly in equity.

The Group's share in the net losses of MTS Bank was included in the non-operating share of the loss of the associates in the accompanying consolidated statement of profit or loss. The composition of the Group's share of loss of MTS Bank is the following:

	Year ended December 31,		
	2018*	**2017**	**2016**
Total interest income	(9,289)	(14,204)	(16,555)
Total interest expense	3,799	6,505	8,364
Net loss for the period	609	593	4,495
The Group's share of the loss of the associate for the period	**162**	**109**	**1,179**
Other comprehensive loss for the period	614	2,000	1,614
Total comprehensive loss for the period	1,223	2,593	6,109
The Group's share of the total comprehensive loss for the period	**326**	**690**	**1,608**

*Prior to discontinuing use of the equity method

(Amounts in millions of Russian Rubles unless otherwise stated)

OZON Holdings Limited

The Group holds less than 20% of the equity interests in OZON Holdings Limited, nevertheless it has significant influence over the investee through the representation of the Group on the investee's Board of Directors and a number of veto rights.

In 2017 and 2018 the Group acquired additional equity interests in OZON Holdings Limited through several transactions, which resulted in increase of the Group's share in OZON Holdings Limited from 10.8% to 11.2% as of December 31, 2017 and from 11.2% to 18.69% as of December 31, 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 Group'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%

Sistema Capital

In September 2017, the Group acquired a 30% ownership interest in Sistema Capital, a trust management company, through a cash contribution of RUB 356 million into its authorized share capital.

YouDo

In September 2018, the Group acquired a 13.68% 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. Though the Group holds less than 20% of the equity interests in YouDo, nevertheless it has significant influence over the investee based on its ownership of equity shares, representation on the investee's Board of Directors and certain additional rights related to the decision-making process on key issues.

Sistema-Rentnaya Nedvizhimost

In December 2018, MTS Bank sold 40.26% share in a property investments mutual fund «Sistema-Rentnaya Nedvizhimost» to Business Nedvizhimost, subsidiary of Sistema, for cash consideration of RUB 450 million. The Group classified the remaining investment in the mutual fund as investment in joint venture, based on the existence of a joint decision-making process and the rights to net assets of the mutual fund. The Group applied the equity method of accounting to its remaining share in the mutual fund.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table is the aggregate financial information of investments in Ozon Holdings Ltd and other individually insignificant associates and joint ventures, held by the Group:

	Year ended December 31,		
	2018	**2017**	**2016**
Net loss for the year	4,600	1,760	1,172
The Group's share of the loss of the associate for the year	**747**	**327**	**108**
Other comprehensive income for the year	-	-	-
Total comprehensive loss for the year	4,600	1,760	1,172
The Group's share of total comprehensive loss of the associate for the year	**747**	**327**	**108**

17. OTHER INVESTMENTS

Other investments consist primarily of long-term deposits, which are repayable in more than a year, loans, debt securities and equity holdings in private companies. Deposits, loans and notes are carried at amortized cost as they are held to collect contractual cash flows in the form of payments of principal and interest.

Loans to customers issued by MTS Bank are presented separately within Bank deposits and loans.

Investments in shares of the companies over which the Group does not have control or an ability to exercise significant influence are accounted for at amortized cost.

Other investments are presented net of allowance for ECL.

Other investments of the Group comprised the following:

	Category	**December 31, 2018**	**December 31, 2017**
Notes	At amortized cost	15,327	-
Deposits	At amortized cost	139	9
Loans and unquoted notes	At amortized cost	12	621
Other	At amortized cost	1,397	1,323
Other investments (Gross)		**16,875**	**1,953**
Allowance for ECL		(2)	-
Total other investments		**16,873**	**1,953**

18. TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried at transaction price. The carrying value of all trade receivables is reduced by appropriate allowances for ECL.

For trade receivables the Group applies a simplified approach and calculates ECL based on lifetime expected credit losses. For receivables from subscribers and dealers and partialy for other trade receivables the allowance for ECL is computed using the provision matrix. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome and all reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, receivables from subscribers are written-off if past due for more than 150 days. Receivables other than from subscribers are written-off upon the expiration of the limitation period or before based on results of internal investigations.

(Amounts in millions of Russian Rubles unless otherwise stated)

Trade and other receivables current and non-current comprised the following:

	December 31, 2018	December 31, 2017
Receivables from handset sales financing	14,252	-
Subscribers	13,495	11,723
Other trade receivables	4,049	3,119
Roaming	3,763	7,650
Interconnect	2,193	2,121
Other receivables	1,641	1,254
Integration services	1,190	721
Bonuses from suppliers	492	569
Dealers	386	3,204
Allowance for ECL (IFRS 9)	(4,318)	-
Allowance for doubtful accounts (IAS 39)	-	(2,344)
Trade and other receivables total	**37,143**	**28,017**
Less non-current portion	(2,600)	-
Trade and other receivables current	**34,543**	**28,017**

The analysis of the age of trade and other accounts receivables and the respective allowance for ECL as of December 31, 2018:

Receivables from subscribers and dealers and other trade receivables assesed for impairement based on provision matrix	Weighted-average loss rate	Gross carrying amount	Loss allowance (based on provision matrix)	Credit-impaired
Current	1%	1,300	(5)	No
1 - 30 days past due	8%	9,707	(761)	No
31 - 60 days past due	14%	1,963	(285)	No
60 - 90 days past due	29%	719	(227)	No
More than 90 days past due	60%	1,282	(817)	Yes
Total	**14%**	**14,971**	**(2,095)**	

Receivables other than from subscribers and dealers assesed for impairement based on individual basis	Weighted-average loss rate	Gross carrying amount	Loss allowance (individually assessed)	Credit-impaired
Current	1%	6,656	(11)	No
1 - 30 days past due	1%	1,147	(3)	No
31 - 60 days past due	1%	615	(5)	No
60 - 90 days past due	2%	396	(9)	No
More than 90 days past due	19%	3,424	(689)	Yes
Total	**5%**	**12,238**	**(717)**	

Receivables from handset sales financing	Weighted-average loss rate	Gross carrying amount	Loss allowance (collectively assessed)	Credit-impaired
Current	2%	12,352	(205)	No
1 - 30 days past due	13%	414	(52)	No
31 - 60 days past due	43%	93	(40)	No
60 - 90 days past due	58%	68	(39)	No
More than 90 days past due	88%	1,325	(1,170)	Yes
Total	**11%**	**14,252**	**(1,506)**	

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table summarizes changes in the allowance for expected credit losses for the year ended December 31, 2018:

	Year ended December 31, 2018
Balance, beginning of the year calculated under IAS 39	**(2,344)**
Additional allowance required under IFRS 9	(233)
Balance, beginning of the year, calculated under IFRS 9	**(2,577)**
Allowance for ECL	(3,210)
Accounts receivable written off	2,948
Acquisition of subsidiaries	(1,479)
Balance, end of the year	**(4,318)**

Comparative information under IAS 39:

The analysis of the age of trade and other accounts receivables past due but not impaired:

	December 31, 2017
Neither past due nor impaired	22,551
Past due, but not impaired:	
Less than 60 days	3,265
61-150 days	872
More than 150 days	1,329
Total	**28,017**

The following table summarizes changes in the allowance for doubtful accounts receivable:

	Year ended December 31, 2017	Year ended December 31, 2016
Balance, beginning of the year	**(2,160)**	**(2,928)**
Allowance for doubtful accounts	(2,880)	(2,863)
Accounts receivable written off	2,696	3,459
Disposal of subsidiary	-	172
Balance, end of the year	**(2,344)**	**(2,160)**

(Amounts in millions of Russian Rubles unless otherwise stated)

19. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Inventory cost is determined using the weighted average cost method. Handsets and accessories held for sale are expensed when sold. The Group regularly assesses its inventories for obsolete and slow-moving stock.

Inventory and spare parts comprised the following:

	December 31, 2018	**December 31, 2017**
Handsets and accessories	15,191	7,836
SIM cards and prepaid phone cards	1,167	784
Advertising and other materials	916	561
TV equipment for resale	676	350
Software and equipment for installation and resale	491	309
Spare parts for telecommunication equipment	213	155
Total inventories	**18,654**	**9,995**

Other materials mainly consist of automotive and IT components, advertising, stationery, fuel and auxiliary materials.

Spare parts for telecommunication equipment included in the inventory are expected to be utilized within twelve months of the year end.

Expenses for inventory obsolescence provision were included in cost of goods in the consolidated statement of profit or loss.

For the years ended December 31, 2018, 2017 and 2016, cost of goods comprised the following expenses:

	Year ended December 31, 2018	**Year ended December 31, 2017**	**Year ended December 31, 2016**
Amount of inventories recognized as an expense	60,543	43,440	44,026
Inventory obsolescence provision	3,697	2,692	2,159
Reversal of obsolescence provision	(371)	(509)	(611)
Total cost of goods	**63,869**	**45,623**	**45,574**

The reversal of the inventory obsolescence provision relates to handsets and accessories sold over the course of the Group’s promotion campaigns. Inventories have been sold with a positive margin.

20. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including improvements, are stated at cost. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life, as follows:

Network and base station equipment:	
Network infrastructure	5-44 years
Other	1.5-21 years
Land and buildings:	
Buildings	20-150 years
Leasehold improvements	the term of the lease
Office equipment, vehicles and other:	
Office equipment	3-21 years
Vehicles	2-7 years
Other	2-25 years

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

The gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between any sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

Borrowing costs – Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset during the construction phase that necessarily takes a substantial period of time are capitalized as part of property, plant and equipment until the asset is substantially ready for its intended use. The Group considers a construction period of more than six months to be substantial.

(Amounts in millions of Russian Rubles unless otherwise stated)

The net book value of property, plant and equipment as of December 31, 2018, December 31, 2017, December 31, 2016 and January 1, 2016 was as follows:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
Cost					
January 1, 2016	**542,530**	**27,321**	**49,692**	**28,966**	**648,509**
Additions	1,350	32	-	47,340	48,722
Transferred into use	47,894	1,550	5,278	(54,722)	-
Disposal of UMS (Note 10)	(4,152)	(1,309)	(452)	(2,444)	(8,357)
Transfer to assets held for sale	(1,557)	-	(5)	-	(1,562)
Disposal	(20,321)	(426)	(3,201)	(374)	(24,322)
Other	(118)	(200)	269	55	6
Foreign exchange differences	(17,568)	(1,525)	(2,331)	(1,455)	(22,879)
December 31, 2016	**548,058**	**25,443**	**49,250**	**17,366**	**640,117**
Additions	2,094	15	302	57,170	59,581
Transferred into use	48,689	281	4,522	(53,492)	-
Arising on business combinations	10	2	5	-	17
Transfer to assets held for sale	(1,408)	-	(22)	-	(1,430)
Disposal	(27,092)	(684)	(5,460)	(1,315)	(34,551)
Other	327	(69)	(452)	7	(187)
Foreign exchange differences	(4,320)	36	(315)	(242)	(4,841)
December 31, 2017	**566,358**	**25,024**	**47,830**	**19,494**	**658,706**
Additions	2,777	4,887	777	63,047	71,488
Transferred into use	48,780	1,807	5,939	(56,526)	-
Arising on business combinations	123	3,912	1,323	18	5,376
Transfer to assets held for sale	(752)	(1,656)	(36)	-	(2,444)
Disposal	(25,963)	(322)	(2,712)	26	(28,971)
Transfer of financial leasing	(10,124)	-	(110)	-	(10,234)
Other	(1,043)	(536)	(319)	-	(1,898)
Foreign exchange differences	12,977	718	1,595	162	15,452
December 31, 2018	**593,133**	**33,834**	**54,287**	**26,221**	**707,475**
Accumulated amortisation and impairment					
January 1, 2016	**(300,509)**	**(7,455)**	**(37,883)**	**-**	**(345,847)**
Charge for the year	(53,371)	(1,262)	(5,323)	-	(59,956)
Disposal of UMS (Note 10)	1,121	62	214	-	1,397
Transfer to assets held for sale	846	-	5	-	851
Disposal	19,126	134	2,768	-	22,028
Other	(222)	(182)	227	-	(177)
Foreign exchange differences	12,061	551	1,816	-	14,428
December 31, 2016	**(320,948)**	**(8,152)**	**(38,176)**	**-**	**(367,276)**
Charge for the year	(53,258)	(1,114)	(3,929)	-	(58,301)
Impairment	(2,175)	(393)	(295)	(764)	(3,627)
Transfer to assets held for sale	940	-	22	-	962
Disposal	24,248	284	5,053	-	29,585
Other	(458)	33	395	-	(30)
Foreign exchange differences	2,892	(79)	231	-	3,044
December 31, 2017	**(348,759)**	**(9,421)**	**(36,699)**	**(764)**	**(395,643)**
Charge for the year	(50,056)	(941)	(4,126)	-	(55,123)
Arising on business combinations	(13)	(368)	(922)	-	(1,303)
Impairment	-	361	151	-	512
Transfer to assets held for sale	223	455	37	-	715
Disposal	25,116	175	2,464	-	27,755
Transfer of financial leasing	2,070	-	41	-	2,111
Other	553	22	309	-	884
Foreign exchange differences	(9,148)	(500)	(1,292)	-	(10,940)
December 31, 2018	**(380,014)**	**(10,217)**	**(40,037)**	**(764)**	**(431,032)**
Net book value					
January 1, 2016	**242,021**	**19,866**	**11,809**	**28,966**	**302,662**
December 31, 2016	**227,110**	**17,291**	**11,074**	**17,366**	**272,841**
December 31, 2017	**217,599**	**15,603**	**11,131**	**18,730**	**263,063**
December 31, 2018	**213,119**	**23,617**	**14,250**	**25,457**	**276,443**

(Amounts in millions of Russian Rubles unless otherwise stated)

The amount of the compensation from third parties for items of property, plant and equipment that were accidentally damaged during construction in Moscow for the years ended December 31, 2018, 2017 and 2016 totaled RUB 1,304 million, RUB 1,231 million and RUB 1,350 million, respectively. This was included in the accompanying consolidated statements of profit or loss as component of other operating income.

21. GOODWILL

Goodwill represents an excess of consideration transferred plus the fair value of any non-controlling interest ("NCI") in the acquiree at the acquisition date over the fair values of the identifiable net assets of the acquired entity. Goodwill is not amortized, but is tested for impairment (Note 22).

The change in the net carrying amount of goodwill for the years ended December 31, 2018 and 2017 by reportable segments was as follows:

	Russia Convergent	Moscow fixed line	Ukraine	Other	Total
Balance at January 1, 2017					
Gross amount of goodwill	30,266	1,083	95	7,223	38,667
Accumulated impairment loss	(1,466)	-	-	(3,516)	(4,982)
	28,800	**1,083**	**95**	**3,707**	**33,685**
Acquisitions (Note 5)	62	-	-	732	794
Reclassification	(81)	81	-	-	-
Currency translation adjustment	-	-	(8)	(190)	(198)
Balance at December 31, 2017					
Gross amount of goodwill	30,247	1,164	87	7,765	39,263
Accumulated impairment loss	(1,466)	-	-	(3,516)	(4,982)
	28,781	**1,164**	**87**	**4,249**	**34,281**
Acquisitions (Note 5)	1,877	213	-	2,512	4,602
Impairment (Note 22)	-	-	-	(524)	(524)
Currency translation adjustment	-	-	19	729	748
Balance at December 31, 2018					
Gross amount of goodwill	32,124	1,377	106	11,006	44,613
Accumulated impairment loss	(1,466)	-	-	(4,040)	(5,506)
	30,658	**1,377**	**106**	**6,966**	**39,107**

22. IMPAIRMENT REVIEW

Goodwill – The management of the Group performs impairment tests for the goodwill assigned to the cash-generating units at least annually, and also when there are any indications that the carrying amount of the cash generating unit ("CGU") is impaired.

Investments in associates and joint ventures - The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss is recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use.

Tangible and intangible assets excluding goodwill - At the end of each reporting period, the management of the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss.

When reviewing for indicators of impairment the management of the Group considers the relationship between its market capitalization and book value, changes in country risk premiums and other factors.

When the carrying amount of the CGU exceeds its recoverable amount, assets allocated to this CGU must be impaired.

The recoverable amounts of the CGUs are determined based on their value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. The discount rate applied to measure free cash flow is the weighted average cost of capital according to the finance structure established for each CGU.

Future cash flows calculations are based on a five-year operations plan, which is prepared and approved by the management of the Group. Estimation of future cash flows requires assumptions to be made in respect to uncertain factors, including the management's expectations of the following: OIBDA margin, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks involved. Therefore, OIBDA margin and capital expenditures used for value in use calculation are primarily derived from internal sources, based on past experience and extended to include management expectations.

Oblachniy Retail

During the year ended December 31, 2018 the Group recognized impairment charges in the amount of RUB 677 million in respect of the goodwill and non-current assets of the CGU "Oblachniy Retail".

CGU "Oblachniy Retail" operates as retail software developer, cash register distributor and provider of integrated digital cash management solutions for business to business ("B2B") clients. The impairment in the CGU "Oblachniy Retail" reflects lower operating performance and uncertainty in respect to the ability to meet its operational targets. The recoverable amount of the CGU "Oblachny Retail" was equal to RUB 765 million as of December 31, 2018, which includes inventory stock measured at net realizable value and related tax balances.

NVision Czech Republic

During the year ended December 31, 2017 the Group recognized impairment charges of RUB 571 million in respect of the non-current assets of the CGU "NVision Czech Republic", whereas during the year ended December 31, 2018 the imparment charges in the amount of RUB 507 million was reversed as a result of the improvement in its operating performance.

CGU "NVision Czech Republic" tailors in-house software solutions, provides support and managed services to telecom operators, delivers electronic and mechanical manufacturing services.

The recoverable amount of the CGU "NVision Czech Republic" was RUB 1,778 million as of December 31, 2018 compared to RUB 954 million as of December 31, 2017. However, the impairment charge was only reversed to the extent that it does not increase the carrying amount above what it would have been if the impairment charge had never been recognized.

MTS Turkmenistan

During the year ended December 31, 2017 the Group recognized impairment charges in the amount of RUB 3,204 million in respect of the non-current assets of the CGU "Turkmenistan".

CGU "Turkmenistan" provided mobile services across multiple regions of Turkmenistan. The impairment in the CGU "Turkmenistan" reflects uncertainty in respect of the ability to continue operations in Turkmenistan. In September, 2017, the Group's subsidiary in Turkmenistan suspended the provision of telecommucation services to its subscribers, due to the termination by Turkmen state-owned companies and state authorities of line rental, frequency allocation, interconnect, and other agreements necessary to servicing clients. The recoverable amount of the CGU "Turkmenistan" was equal to nil as of December 31, 2017 and as of December 31, 2018.

(Amounts in millions of Russian Rubles unless otherwise stated)

Impairment loss and reversal of the impairment charges recognized during the year ended December 31, 2018 and 2017 are attributable to operating segments of the Group, reported as a part of the “Other” category, which does not constitute a reportable segment (Note 6).

The total amount of the impairment loss and reversal of impairment charges for the year ended December 31, 2018 was allocated to the carrying amounts of property, plant and equipment and other intangible assets as follows:

	Oblachniy Retail	NVision Czech Republic
Goodwill	524	
Property, plant and equipment	13	(505)
Other intangible assets	140	(2)
Total	**677**	**(507)**

The total amount of the impairment loss for the year ended December 31, 2017 was allocated to the carrying amounts of property, plant and equipment and other intangible assets as follows:

	Turkmenistan	NVision Czech Republic
Property, plant and equipment	3,063	564
Other intangible assets	141	7
Total	**3,204**	**571**

Key assumptions used for value in use calculation:

The table below presents OIBDA margin utilized for value in use calculation of related CGUs:

CGU	December 31, 2018	December 31, 2017
Russia Convergent	42.4%-42.9%	38.0%-39.1%
Armenia	45.0%-47.4%	40.2%-41.2%
Moscow fixed line	56.0%-59.2%	41.0%-48.5%
Ukraine	50.0%-51.6%	31.4%-40.6%
NVision Czech Republic	4.9%-5.5%	4.2%
Oblachniy retail	negative	-

The table below presents capital expenditure as a percentage of revenue utilized for value-in-use calculations of related CGUs:

CGU	December 31, 2018	December 31, 2017
Russia Convergent	19.0%	17.2%
Armenia	16.9%	17.8%
Moscow fixed line	21.6%	20.6%
Ukraine	18.4%	22.7%
NVision Czech Republic	1.3%	2.5%
Oblachniy retail	0.9%	-

The terminal growth rate into perpetuity has been determined based on the nominal gross domestic product rates for the country of operation, adjusted for specific characteristic of the CGUs business.

(Amounts in millions of Russian Rubles unless otherwise stated)

The table below presents terminal growth rates utilized for value-in-use calculations of related CGUs:

CGU	December 31, 2018	December 31, 2017
Russia Convergent	1%	1%
Armenia	nil	nil
Moscow fixed line	1%	1%
Ukraine	3%	3%
NVision Czech Republic	2%	2%
Oblachniy retail	3%	-

The table below presents pre-tax rates for the discounting of cash flows in functional currencies of related CGUs:

CGU	December 31, 2018	December 31, 2017
Russia Convergent	16.0%	16.0%
Armenia	15.2%	15.2%
Moscow fixed line	14.5%	14.5%
Ukraine	20.8%	20.8%
NVision Czech Republic	8.7%	8.7%
Oblachniy retail	20.1%	-

Sensitivity analysis

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount.

After the recognition of the impairment of non-current assets in which the carrying value of the CGU "Oblachny Retail" is equal to the estimated recoverable amount, any adverse change in key assumptions would not, in isolation, cause a further impairment loss to be recognized.

23. OTHER INTANGIBLE ASSETS

Other intangible assets primarily consist of billing, telecommunication, accounting and office software as well as numbering capacity, customer base and licenses. These assets are assets with finite useful lives. They are initially recognized at cost and amortized on a straight-line basis over their estimated useful lives.

(Amounts in millions of Russian Rubles unless otherwise stated)

Net book value of other intangible assets as at December 31, 2018, December 31, 2017 and December 31, 2016 and January 1, 2016 was as follows:

	Licenses	Right to use radio frequencies	Billing and other software	Client base	Numbering capacity	Cost-to-obtain contracts	Other	Total
Useful life, years	***1 to 20***	***1 to 15***	***1 to 25***	***4 to 31***	***2 to 15***	***2 to 5***	***1 to 10***	
Cost								
January 1, 2016	**28,490**	**9,326**	**93,134**	**7,537**	**3,208**	-	**9,767**	**151,462**
Additions	3,382	245	27,658	-	65	-	232	31,582
Arising on business combinations (Note 5)	323	-	-	-	-	-	-	323
Disposal of UMS (Note 10)	-	-	(1,891)	-	-	-	(3,687)	(5,578)
Disposal	(2)	(582)	(10,509)	(164)	(160)	-	(2,842)	(14,259)
Other	44	(40)	(87)	-	(4)	-	(40)	(127)
Foreign exchange differences	(5,101)	-	(3,763)	-	(39)	-	(1,187)	(10,090)
December 31, 2016	**27,136**	**8,949**	**104,542**	**7,373**	**3,070**	**-**	**2,243**	**153,313**
Additions	1,647	13	24,686	-	12	-	219	26,577
Arising on business combinations (Note 5)	260	-	163	-	-	-	150	573
Disposal	(93)	(1,112)	(8,429)	(50)	(158)	-	(166)	(10,008)
Other	(2)	1	(6)	-	-	-	57	50
Foreign exchange differences	(1,207)	-	(980)	-	(9)	-	(23)	(2,219)
December 31, 2017	**27,741**	**7,851**	**119,976**	**7,323**	**2,915**	**-**	**2,480**	**168,286**
Additions	7,479	19	20,884	-	10	3,961	401	32,754
Arising on business combinations (Note 5)	-	-	3,021	1,530	1	-	909	5,461
Effect on adoption of IFRS 15 (Note 7)	-	-	-	-	-	19,197		19,197
Impairment	-	-	(168)	-	-	-	(20)	(188)
Disposal	(223)	(1,223)	(8,215)	(63)	(82)	-	(198)	(10,004)
Other	-	1	89	-	-	-	(46)	44
Foreign exchange differences	4,630	-	2,977	-	22	202	80	7,913
December 31, 2018	**39,627**	**6,648**	**138,564**	**8,790**	**2,866**	**23,360**	**3,606**	**223,463**
Accumulated amortisation and impairment								
January 1, 2016	**(9,873)**	**(4,261)**	**(50,557)**	**(3,619)**	**(2,996)**	**-**	**(5,560)**	**(76,866)**
Charge for the year	(2,092)	(1,170)	(18,002)	(620)	(46)	**-**	(1,389)	(23,319)
Disposal of UMS (Note 10)	-	-	494	-	-	**-**	2,162	2,656
Disposal	2	582	10,193	164	160	**-**	2,836	13,937
Other	(7)	20	43	-	(13)	**-**	(42)	1
Foreign exchange differences	2,007	-	2,697	-	34	**-**	668	5,406
December 31, 2016	**(9,963)**	**(4,829)**	**(55,132)**	**(4,075)**	**(2,861)**	**-**	**(1,325)**	**(78,185)**
Charge for the year	(2,180)	(1,042)	(17,614)	(616)	(57)	-	(224)	(21,733)
Impairment	-	-	(148)	-	-	-	-	(148)
Disposal	92	1,108	8,345	50	158	-	157	9,910
Other	-	2	(17)	-	(4)	-	(31)	(50)
Foreign exchange differences	570	-	726	-	8	-	13	1,317
December 31, 2017	**(11,481)**	**(4,761)**	**(63,840)**	**(4,641)**	**(2,756)**	**-**	**(1,410)**	**(88,889)**
Charge for the year	(2,711)	(796)	(20,941)	(680)	(57)	(3,876)	(427)	(29,488)
Arising on business combinations	-	-	(1,785)	-	-	-	-	(1,785)
Effect on adoption of IFRS 15 (Note 7)	-	-	-	-	-	(12,368)	-	(12,368)
Effect on assets impairment	-	-	44	-	-	-	6	50
Disposal	193	971	7,994	63	82	-	180	9,483
Other	-	-	(70)	-	-	-	26	(44)
Foreign exchange differences	(2,114)	-	(2,187)	-	(21)	(99)	(37)	(4,458)
December 31, 2018	**(16,113)**	**(4,586)**	**(80,785)**	**(5,258)**	**(2,752)**	**(16,343)**	**(1,662)**	**(127,499)**
Net book value								
January 1, 2016	**18,617**	**5,065**	**42,577**	**3,918**	**212**	**-**	**4,207**	**74,596**
December 31, 2016	**17,173**	**4,120**	**49,410**	**3,298**	**209**	**-**	**918**	**75,128**
December 31, 2017	**16,260**	**3,090**	**56,136**	**2,682**	**159**	**-**	**1,070**	**79,397**
December 31, 2018	**23,514**	**2,062**	**57,779**	**3,532**	**114**	**7,017**	**1,944**	**95,962**

(Amounts in millions of Russian Rubles unless otherwise stated)

In connection with providing telecommunication services, the Group has been issued with various GSM operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group has been granted access to various telecommunication licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local communication authorities.

Operating licenses contain several conditions specified by legislation which generally include the required date of services provision, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

The Group's operating licenses do not provide for automatic renewal. All licenses covering the territories of the Russian Federation expired as of December 31, 2018 were renewed. The cost to renew the licenses was not significant. Weighted-average period until the next renewal of licenses in the Russian Federation is five years.

The license for the provision of telecommunication services in Ukraine was renewed in 2013 and is valid until 2026. The license for the provision of telecommunication services in Armenia is valid until 2019.

Contractual obligations to purchase intangible assets are disclosed in the Note 34.

The amount of intangible assets generated internally was not significant.

24. BORROWINGS

Group's borrowings represent interest bearing bank loans and bonds issued in the capital markets. Borrowings are initially recorded at fair value plus transaction costs that are directly attributable to the issue of the financial liability and subsequently measured at amortized cost, using the effective interest rate method.

The Group's borrowings comprise the following:

	December 31, 2018	December 31, 2017
Bank and other loans	250,780	182,937
Notes	117,355	108,776
Total borrowings	**368,135**	**291,713**
Less: current portion	(3,063)	(63,673)
Total borrowings, non-current	**365,072**	**228,040**

(Amounts in millions of Russian Rubles unless otherwise stated)

Notes – The Group's notes consisted of the following:

	Currency	Interest rate (actual at December 31, 2018)	December 31, 2018	December 31, 2017
MTS International Notes due 2023 (Note 2)	USD	5.00%	31,090	26,187
MTS International Notes due 2020 (Note 2)	USD	8.625%	20,870	17,621
MTS PJSC Notes due 2022	RUB	7.70%	14,958	14,947
MTS PJSC Notes due 2023	RUB	6.85%	9,348	9,997
MTS PJSC Notes due 2031	RUB	7.85%	1,080	9,994
MTS PJSC Notes due 2022	RUB	9.00%	9,993	9,991
MTS PJSC Notes due 2021	RUB	8.85%	9,990	9,986
MTS PJSC Notes due 2021	RUB	7.10%	9,988	-
MTS PJSC Notes due 2025	RUB	7.25%	9,986	-
MTS PJSC Notes due 2018	RUB	7.70%	-	9,986
MTS PJSC Notes due 2020	RUB	7.90%	40	49
Other notes due 2022	RUB	0.25%	12	18
Total notes			**117,355**	**108,776**
Less: current portion			(1,017)	(29,979)
Total notes, non-current			**116,338**	**78,797**

The Group has an unconditional obligation to repurchase certain MTS PJSC Notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are as follows:

MTS PJSC Notes due 2031	September 2019
MTS PJSC Notes due 2023	March 2020

The Group discloses these notes as maturing in 2019 (MTS PJSC Notes due 2031) and in 2020 (MTS PJSC Notes due 2023) in the aggregated maturities schedule as the noteholders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons.

As of December 31, 2018 the Group had no outstanding repurchase transactions.

(Amounts in millions of Russian Rubles unless otherwise stated)

Bank and other loans – The Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at December 31, 2018)	December 31, 2018	December 31, 2017
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2018	LIBOR + 1.15% (2.994%)	-	17,077
Citibank	2019-2024	LIBOR + 0.9% (3.776%)	10,980	10,592
			10,980	**27,669**
RUB-denominated:				
Sberbank	2020-2022	7.50%-8.59%	139,515	149,890
VTB	2020-2021	7.20%-8.65%	100,000	5,000
Other	2024	Various	210	247
			239,725	**155,137**
Other currencies:				
Various financial institutions	2019-2020	Various	75	131
			75	**131**
Total bank and other loans			**250,780**	**182,937**
Less: current portion			(2,046)	(33,694)
Total bank and other loans, non-current			**248,734**	**149,243**

Compliance with covenants – Bank loans and notes of the Group are subject to certain covenants limiting the Group's ability to incur debt, carry out transactions with related parties, create liens on properties, dispose of assets, including GSM and 3G licenses for several license areas, issue guarantees, grant loans to employees and entities, delist notes, delay coupon payments, merge or consolidate MTS PJSC with another entity or be a subject to a court decision to pay over USD 75 million (RUB 5,210 million as of the reporting date, which remains unsatisfied for more than 60 days) or be a subject to a court decision to pay over USD 250 million (RUB 17,368 million as of the reporting date, which remains unsatisfied for more than 180 days) without being appealed, discharged or waived.

The Group is required to comply with certain financial ratios and maintain ownership stakes in certain subsidiaries.

The noteholders of MTS International Notes due 2020 and MTS International Notes due 2023 have the right to require the Group to redeem the notes at 101% of their principal amount and related interest, if the Group experiences a change in control.

If the Group fails to meet these covenants, after certain notice and cure periods, the debtholders are entitled to demand accelerated principal repayment.

The Group was in compliance with all existing notes and bank loans covenants as of December 31, 2018.

(Amounts in millions of Russian Rubles unless otherwise stated)

Available credit facilities – As of December 31, 2018, the Group's total available unused credit facilities amounted to RUB 21,000 million and related to the following credit lines:

	Currency	Maturity	Interest rate	Available till	Available amount
Sberbank	RUB	2024	To be agreed	May 2024	5,000
VTB	RUB	2028	To be agreed	August 2028	5,000
Rosselhozbank	RUB/USD/ EUR	2019	To be agreed	November 2019	5,000
Absolut Bank	RUB	2019	CBR[1] auction rate + 1.25%-1.8%	December 2019	3,000
SPB Bank	RUB	2020	To be agreed	March 2020	3,000
Total					**21,000**

[1] CBR – Central Bank of Russia

In addition, the Group has a credit facility made available by Citibank at an interest rate of MosPrime + 1.50%, with the available amount set up on request and to be repaid within 182 days.

The following table presents the aggregated scheduled maturities of principal and interests on notes and bank loans (gross of debt issuance costs) outstanding for the five years ending December 31, 2023 and thereafter:

	As of December 31, 2018	
	Notes	**Bank loans and other debt**
Payments due in the year ending December 31,		
2019	12,401	21,849
2020	38,964	107,600
2021	25,670	150,558
2022	29,061	22,756
2023	32,738	2,131
Thereafter	11,085	1,068
Contractual undiscounted cash flows	**149,919**	**305,962**
Less: unamortized debt issuance costs	(179)	(408)
Less: interest	(32,385)	(49,289)
Less: debt modification	-	(5,485)
Total debt	**117,355**	**250,780**

25. RIGHTS-OF-USE ASSETS AND LEASE OBLIGATIONS

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

The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease aggreements (including sub-lease and lease of intangible assets), which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with a lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expenses over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate the non-lease components of the contract and, instead, to account for any lease and associated non-lease components as a single arrangements.

(Amounts in millions of Russian Rubles unless otherwise stated)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate of the Group. The incremental borrowing rate of the Group is determined based on the credit spreads of the Group debt instruments in relation to the zero-coupon yield curve for government securities. The lease payments include fixed payments, variable payments that depend on index or rate, amounts expected to be paid under residual value guarantee, the execise price under a purchase option the Group is reasonably certain to exercise as well as early termination fees unless the Group is reasonably certain not to terminate earlier. Variable payments that depend on external factors (such as sale volume of a particular retail store) are expensed as incurred.

Lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of right-of-use asset had been reduced to zero.

Right-of-use assets are initially measured at cost, which is the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset less any lease incentives received.

Right-of-use assets are subsequently amortized on a straight-line basis over the expected lease term. The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal or termination options. When assessing the lease term, the Group considers all facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease, such as useful life of the asset located on the leased site, sites replacement statistics, sequence of technology change, profitability of our retail stores as well as costs to terminate or enter into lease contracts.

The table below summarises the estimated terms, over which the right-of-use assets are amortized:

Lease of:	
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 replace the previous requirement to recognize a provision for onerous lease contracts.

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

Lease of:	**December 31, 2018**
Sites for placement of network and base station equipment	92,500
Land and buildings	53,792
Vehicles and other	1,210
Exclusive rights for trademarks	1,505
Rights-of-use assets, net	**149,007**

(Amounts in millions of Russian Rubles unless otherwise stated)

Depreciation of the rights-of-use assets for the twelve months ended December 31, 2018 included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss was as follows:

Lease of:	**2018**
Sites for network and base station equipment	7,784
Land and buildings	10,955
Vehicles and other	135
Exclusive rights for trademarks	694
Depreciation charge, total	**19,568**

Additions to the assets leased during the twelve months ended December 31, 2018 amounted to RUB 22,572 million.

Interest expense accrued on lease obligations for the the twelve months ended December 31, 2018 totaled RUB 13,917 million and was included in finance costs in the accompanying consolidated statements of profit or loss.

As of December 31, 2018, expenses recognized in respect of variable lease payments not included on the measurement of lease liabilities and short-term leases amounted to RUB 209 million and RUB 173 million, respectively.

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

	December 31, 2018
Minimum lease payments, including:	
Current portion (less than 1 year)	30,220
More than 1 to 5 years	107,403
Over 5 years	116,420
Total minimum lease payments	**254,043**
Less amount representing interest	(93,491)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	15,812
More than 1 to 5 years	62,468
Over 5 years	82,272
Total present value of net minimum lease payments	**160,552**
Less current portion of lease obligations	(15,812)
Non-current portion of lease obligations	**144,740**

Total cash outflows for leases for the year ended December 31, 2018 totaled to RUB 27,643 million, of which 13,684 million was included in interest paid.

A minor part of the Group's lease contracts for retail stores include variable payments that depend on sales volume of the respective store. A 1% increase in the sales of the respective stores is not expected to have any material effect on the Group's profit or loss.

The Group's lease contracts include typical restrictions and covenants common for local business practice, such as the responsibility of the Group 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.

(Amounts in millions of Russian Rubles unless otherwise stated)

Comparative information under *IAS 17 Leases*

Accounting policy – Under IAS 17 leases were classified as finance or operating. Leases were classified as finance whenever the terms of the lease transfered substantially all risks and rewards incidental to ownership of the leased asset to the Group. At the commencement of the lease term, the leased asset was measured at the lower of fair value or present value of the future minimum lease payments and was depreciated over the lease term. The corresponding liability was recognized in the consolidated statement of financial position within borrowings. The discount rate used in the calculating the present value of minimum lease payments was the interest rate implicit in the lease. If there was no interest rate in the lease, the Group's incremental borrowing rate was used.

Payments for lease contracts classified as operating were expensed on a straight-line basis over the term of the lease.

The following table presents a summary of net book value of leased property, plant and equipment:

	December 31, 2017
Network and base station equipment	8,098
Office equipment, vehicles and other	63
Leased assets, net	**8,161**

Additions under finance lease agreements for the years ended December 31, 2017 and 2016 amounted to RUB 3,339 million and RUB 1,117 million, respectively. Depreciation of the assets under finance leases for the years ended December 31, 2017 and 2016 amounted to RUB 702 million and RUB 603 million, respectively, and was included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss.

Interest expense accrued on finance lease obligations for the year ended December 31, 2017 and 2016 amounted to RUB 954 million and RUB 855 million, respectively, and was included in finance costs in the accompanying consolidated statement of profit or loss.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following tables present future minimum lease payments under capital leases together with the present value of the net minimum lease payments as at December 31, 2017:

	December 31, 2017
Minimum lease payments, including:	
Current portion (less than 1 year)	1,763
More than 1 to 5 years	6,837
Over 5 years	12,845
Total minimum lease payments	**21,445**
Less amount representing interest	(9,588)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	801
More than 1 to 5 years	3,138
Over 5 years	7,918
Total present value of net minimum lease payments	**11,857**
Less current portion of lease obligations	(801)
Non-current portion of lease obligations	**11,056**

Leased assets included transponders which are installed on a satellite and used for provision of satellite television services, network equipment and automobiles. The lease term of the transponders is twelve years. The lease term of network equipment is fifteen years. The average lease term of the automobiles is three years. The Group has an obligation to purchase these automobiles under the respective finance lease agreements at the end of the lease term.

(Amounts in millions of Russian Rubles unless otherwise stated)

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

	December 31, 2017	Financing cash flows	Operating cash flows	Acquisitions	Foreign exchange movement	Other comprehensive income	Change in fair value	Effect of new standards on opening balance	Other changes[1]	December 31, 2018
Notes (Note 24)	108,776	(472)	-	-	8,967	-	-	-	84	117,355
Bank and other loans (Note 24)	182,937	70,657		167	2,250	22		(2,983)	(2,270)	250,780
Lease obligation (Note 25)	11,857	(13,577)	(13,684)	690	(1,456)	1,821	-	140,736	34,166	160,553
Credit guarantee agreement related to foreign-currency hedge (Note 30)	996	(981)	-	-	(15)	-	-	-	-	-
Contingent consideration (Note 28)	180	(65)	-	940	-	-	-	-	(115)	940
Payables related to repurchase of common stock (Note 32)	-	(22,655)	-	-	-	-	-	-	22,655	-
Dividends payable (Note 32)	125	(50,054)	-	-	-	-	-	-	50,075	146
Payable related to purchase of noncontrolling interests	-	(101)	-	-	-	-	-	-	101	-
Payables related to transactions under common control	-	(13,242)	-	13,362	-	-	-	-	-	120
Liability under put option agreement (Note 33)	2,424	-	-	-	-	592	719	-	-	3,735
Receivables related to sale of own shares	-	89	-	-	-	-	-	-	(89)	-
Hedge asset (net)	(8,129)	4,477	(752)	-	(2,837)	129	-	-	4,316	(2,796)
Total liabilities arising from financial activities	**299,166**	**(25,924)**	**(14,436)**	**15,159**	**6,909**	**2,564**	**719**	**137,753**	**108,923**	**530,833**

1) Including accrual of liabilities related to dividends declared, repurchase of common stock, additions under lease agreements, depreciation of debt issuance cost, modification gain and others changes.

(Amounts in millions of Russian Rubles unless otherwise stated)

	December 31, 2016	Financing cash flows	Operating cash flows	Acquisitions	Foreign exchange movement	Other comprehensive income	Change in fair value	Other changes[1]	December 31, 2017
Notes (Note 24)	78,186	32,860	-	-	(2,339)	-	-	69	108,776
Bank and other loans (Note 24)	195,088	(10,530)	-	27	(2,051)	(12)	-	415	182,937
Finance lease obligation (Note 25)	11,046	(774)	(854)	-	(368)	-	-	2,807	11,857
Credit guarantee agreement related to foreign-currency hedge (Note 30)	2,907	(1,766)	-	-	(145)	-	-	-	996
Contingent consideration (Note 28)	3	-	-	175	2	-	-	-	180
Payables related to repurchase of common stock	-	(21,896)	-	-	-	-	-	21,896	-
Dividends payable (Note 32)	87	(51,759)	-	-	-	-	-	51,797	125
Payable related to purchase of noncontrolling interests	-	(7)	-	-	-	-	-	7	-
Liability under put option agreement (Note 33)	2,243	-	-	402	-	(101)	(120)	-	2,424
Hedge asset (net)	(13,632)	3,427	(1,233)		145	3,164			(8,129)
Total liabilities arising from financial activities	**275,958**	**(50,445)**	**(2,087)**	**604**	**(4,756)**	**(3,051)**	**(120)**	**76,991**	**299,166**

1) Including accrual of liabilities related to dividends declared, repurchase of common stock, additions under lease agreements, depreciation of debt issuance cost, modification gain and others changes.

27. PROVISIONS

Provisions – Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the managements' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. The main provisions the Group holds are in relation to employees' bonuses and other rewards (including retirement benefits and cash-settled share based payments), decommissioning and restoration obligation, tax provisions as well as legal claims.

Provision for decommissioning and restoration – The Group calculates a provision for decommissioning and restoration when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group records the present value of provision for decommissioning and restoration as non-current provisions in the consolidated statement of financial position.

Retirement benefits – MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement, which form a defined benefit plan. The cost of providing benefits is determined using the projected unit credit method with actuarial valuation being carried out at the end of each reporting period.

Share based settlement programs – For cash-settled share-based payment transactions, the fair value of the obligation is newly determined at each reporting date and at the settlement date, and the changes in the fair value are recognized in profit or loss, until the liability is settled.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table summarizes the movement in provisions for the year ended December 31, 2018, 2017 and 2016:

	Tax provisions other than for income tax	Provision for decommissioning and restoration	Employee bonuses and other rewards	SEC provision	Other provisions	Total provisions
At 1 January 2016	**(525)**	**(1,459)**	**(8,237)**	**-**	**(207)**	**(10,428)**
Arising during the year	(1,058)	(45)	(14,085)	-	(275)	(15,463)
Utilised	374	8	12,482	-	223	13,087
Discount rate adjustment and imputed interest (change in estimates)	-	(142)	(51)	-	-	(193)
Unused amounts reversed	742	430	1,096	-	34	2,302
Disposal of a subsidiary		-	91	-	-	91
Translation adjustments and other	10	17	152	-	-	179
At 31 December 2016	**(457)**	**(1,191)**	**(8,552)**	**-**	**(225)**	**(10,425)**
Current 2016	(457)	-	(7,393)	-	(225)	(8,075)
Non-current 2016	-	(1,191)	(1,159)	-	-	(2,350)
At 1 January 2017	**(457)**	**(1,191)**	**(8,552)**	**-**	**(225)**	**(10,425)**
Arising during the year	(229)	(108)	(15,181)	-	(534)	(16,052)
Utilised	342	5	12,203	-	92	12,642
Discount rate adjustment and imputed interest (change in estimates)	-	(103)	41	-	-	(62)
Unused amounts reversed	33	338	1,233	-	101	1,705
Translation adjustments and other	1	10	99	-	(79)	31
At 31 December 2017	**(310)**	**(1,049)**	**(10,157)**	**-**	**(645)**	**(12,161)**
Current 2017	(310)	-	(8,897)	-	(645)	(9,852)
Non-current 2017	-	(1,049)	(1,260)	-	-	(2,309)
At 1 January 2018	**(310)**	**(1,049)**	**(10,157)**	**-**	**(645)**	**(12,161)**
Arising during the year	(374)	(1,912)	(14,259)	(55,752)[(1)]	(941)	(73,238)
Utilised	336	18	13,873	-	393	14,620
Discount rate adjustment and imputed interest (change in estimates)	-	(223)	177	-	-	(46)
Unused amounts reversed	211	89	1,079	-	872	2,251
Arising due to acquisitions of subsidiaries	(113)	-	(984)	-	(1,165)	(2,262)
Translation adjustments and other	(2)	(32)	(107)	(3,298)	(27)	(3,466)
At 31 December 2018	**(252)**	**(3,109)**	**(10,378)**	**(59,050)**	**(1,513)**	**(74,302)**
Current 2018	(252)	-	(10,096)	(59,050)	(1,513)	(70,911)
Non-current 2018	-	(3,109)	(282)	-	-	(3,391)

[(1)]See information relating to SEC provision in Note 34.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade and other receivables, bank loans to customers, investments (mainly deposits with original maturity of more than three months, originated loans other than bank loans to customers as well as debt securities) and derivative financial assets. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds, trade and other payables, bank loans, lease obligations and derivative financial liabilities. Financial instruments are recognized as soon as the Group becomes a party to the contractual provision of the instrument.

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

Financial assets can be classified as 1) financial assets at amortized cost; 2) financial assets at fair value through other comprehensive income; 3) financial assets at fair value through profit or loss. If the financial assets are held for collecting contractual cash flows in the form of principal and interest on the specified dates, it is classified as carried at amortized cost. If the financial assets are held not only for collecting contractual cash flows in the form of principal and interest on the specified dates, but also for potential sale, they are classified as measured at fair value through other comprehensive income. All other financial assets are classified as measured at fair value through profit or loss.

Financial liabilities can be classified as measured at fair value or at amortized costs. The Group measures its derivative instruments, contingent consideration recognized in business combination as well as liability under put option agreement at fair value. All other financial liabilities of the Group are measured at amortized cost.

Hedging activities – The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them as either other current or other non-current financial assets or liabilities in the consolidated statement of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews related fair value hierarchy classifications on a quarterly basis. The fair value measurement of the Group’s derivative instruments is based on the observable yield curves for similar instruments. The Group determines the existence of an economic relationship between the hedging instruments and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the qualitative method. The hedge ratio applied by the Group is the same as that resulting from the quantity of the hedged item and the quantity of the hedging instrument actually used to hedge that quantity of the hedged item.

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met.

Fair value hedges – Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately together with any changes in the fair value of the hedged asset or liability that are attributed to the hedged risk.

Cash flow hedges – The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognized in other comprehensive income.

The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Gains or losses accumulated in other comprehensive income are immediately reclassified into the consolidated statement of profit or loss when related hedged transactions affects earnings.

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

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

Liability under put option agreement – To optimize the structure of business acquisitions and to defer payment of the purchase price, the Group enters into put and call option agreements to acquire the remaining non-controlling stakes in newly acquired subsidiaries. Upon initial recognition, the commitment to purchase non-controlling interests is recognized as a financial liability for the present value of the redemption amount, which approximates its fair value. Subsequent changes in the value of the commitment are recognized in profit or loss for the reporting period.

(Amounts in millions of Russian Rubles unless otherwise stated)

Netting – The Group offsets its financial assets and financial liabilities only if it has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Fair value of financial instruments – Fair value of financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities;
- Level 3 – No observable pricing inputs in the market.

Financial assets and financial liabilities are classified in the three-tier hierarchy based on the lowest level of input that is significant to the fair value measurements. The Group's assessment of the significance of a particular input to the fair value measurements requires judgment which may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

As of December 31, 2018 and 2017 financial assets and financial liabilities of the Group comprise of:

1. Financial assets

	December 31, 2018	December 31, 2017
Trade and other receivables (Note 18)	**37,143**	**28,017**
Accounts receivable, related parties (Note 31)	**8,930**	**11,360**
Cash and Cash equivalents (Note 14)	**84,075**	**30,586**
Other financial assets:		
Financial assets at fair value through profit or loss:		
Securities held by MTS Bank	22,487	-
Assets in Sistema Capital trust management	11,644	9,600
Currency forwards and options not designated as hedges	2,200	-
Cross-currency swaps not designated as hedges	1,077	-
Total financial assets at fair value through profit or loss	**37,408**	**9,600**
Financial assets at fair value through OCI:		
Cross-currency swaps designated as cash flow hedges	2,797	8,403
Notes	70	57
Total financial assets at fair value through OCI	**2,867**	**8,460**
Financial assets at amortized cost:		
Deposits and loans issued	83,865	33,251
Notes	31,165	8,480
Other	2,579	1,810
Total financial assets at amortized cost	**117,609**	**43,541**
Total other financial assets	**157,884**	**61,601**
Total financial assets	288,032	131,564
Total current financial assets	(230,642)	(120,719)
Total non-current financial assets	**57,390**	**10,845**

(Amounts in millions of Russian Rubles unless otherwise stated)

2. Financial liabilities

	December 31, 2018	December 31, 2017
Trade and other payables	**53,623**	**47,314**
Accounts payable, related parties (Note 31)	**1,301**	**1,102**
Financial liabilities at amortized cost:		
Loans and borrowings:		
Bank and other loans	250,780	182,937
Lease obligations	160,552	11,857
Notes	117,355	108,776
MTS Bank deposits and liabilities	111,454	-
Total loans and borrowings	**640,141**	**303,570**
Guarantee payment received	**-**	996
Total financial liabilities at amortized cost	**640,141**	**304,566**
Other financial liabilities at fair value:		
Financial liabilities at fair value through profit or loss:		
Liabilities under option agreements (Note 33)	3,735	2,424
Contingent consideration and other liabilities	936	-
Interest rate swaps not designated as hedges	265	-
Currency forwards not designated as hedges	85	-
Interest rate swaps designated as cash flow hedges	-	390
Total financial liabilities at fair value through profit or loss	**5,021**	**2,814**
Financial liabilities at fair value through OCI:		
Cross-currency swaps designated as cash flow hedges	-	274
Total financial liabilities at fair value through OCI	**-**	**274**
Total other financial liabilities at fair value	**5,021**	**3,088**
Total financial liabilities	700,086	356,070
Total current financial liabilities	(187,160)	(115,926)
Total non-current financial liabilities	**512,926**	**240,144**

The fair value measurement of the Group's derivative instruments and investments in Sistema Capital trust management is based on the observable yield curves for similar instruments and represents the estimated amount the Group would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, foreign exchange spot and forward rates.

The table below presents the fair value of financial instruments carried at fair value within the statement of financial position:

	Level of inputs	December 31, 2018	December 31, 2017
Assets			
Sistema International Funding S.A. Bonds due in 2019 (related party) (Note 15, 31)	Level 1	70	57
Securities held by MTS Bank	Level 1	22,487	-
Derivative instruments	Level 2	6,074	8,403
Currency forwards and options		*2,200*	-
Cross-currency interest rate swaps		*3,874*	*8,403*
Assets in Sistema Capital trust management (related party) (Note 15, 31)	Level 2	11,644	9,600
Liabilities			
Derivative instruments	Level 2	(350)	(664)
Interest rate swaps		*(265)*	*(390)*
Cross-currency interest rate swaps		-	*(274)*
Currency forwards		*(85)*	-
Liabilities under option agreements	Level 3	(3,735)	(2,424)
Contingent consideration	Level 3	(940)	(180)

(Amounts in millions of Russian Rubles unless otherwise stated)

For the year ended December 31, 2018, 2017 and 2016, net realized gains and losses of Level 3 liabilities resulting from fair value measurements amounted to RUB 719 million loss, RUB 120 million gain and a RUB 199 million gain, respectively and were recognized as a part of change in fair value of financial instruments' in the consolidated statement of profit or loss. No unrealized gains or losses of Level 3 liabilities resulting from fair value measurements were recognized during the years ended December 31, 2018, 2017 and 2016.

The liability under put option agreement for redeemable non-controlling interests in MTS Armenia in the amount of RUB 3,629 million and RUB 2,012 million as of December 31, 2018 and 2017, respectively, is measured at fair value using a discounted cash flow technique. The most significant quantitative inputs used to measure its fair value are presented in the table below:

Unobservable inputs	**December 31, 2018**	**December 31, 2017**
Post-tax discount rate	13%	13%
Revenue growth rate	0.3 – 2.0% (av. 0.9%)	0.0 – (0.5)% (av. -0.2%)
OIBDA margin	40.5-43.2% (av. 41.5%)	40.2-41.2% (av. 40.7%)

The liability under option agreement for redeemable non-controlling interests in Oblachny Retail amounted to nil and RUB 412 million as of December 31, 2018 and 2017, respectively, and calculated based on an agreed fixed formula, which includes future operating and financial indicators. The most significant quantitative inputs used to measure the fair value of the liability under option agreement are presented in the table below:

Unobservable inputs	**December 31, 2018**	**December 31, 2017**
Discount rate	16,7%	10%
Revenue, average amount per year	660	632
OIBDA/EBITDA margin, average rate	(68)%	13%
Net debt, average amount per year	(3,079)	(129)

Other liability under option agreement relates to redeemable non-controlling interests in Kulturnaya Sluzhba and is insignificant.

The carrying value of the Group's financial instruments accounted for at amortized cost approximates their fair value due to their short-term nature and market interest rates, except for borrowings, gross of debt issuance cost, as disclosed in the table below:

		December 31, 2018		**December 31, 2017**	
	Level of inputs	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Notes (Note 24)	Level 1	(115,698)	(117,534)	(112,531)	(109,000)
Bank and other loans (Note 24)	Level 3	(251,189)	(251,188)	(183,543)	(183,787)
		(366,887)	**(368,722)**	**(296,074)**	**(292,787)**

The fair value of the Group's bank and other loans is measured using a discounted cash flow technique. The discount rate used in the discounted cash flow analysis is determined on the base of the market rate for bank loans available to the Group. The carrying value of the Group's bank and other loans approximates their fair value as of December 31, 2018.

While management has used available market information in estimating the fair value of its financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

(Amounts in millions of Russian Rubles unless otherwise stated)

There were no transfers between levels of inputs within the hierarchy during the years ended December 31, 2018, 2017 and 2016.

There were no transfers between the accounting categories of financial instruments during the years ended December 31, 2018, 2017 and 2016.

29. BANK FINANCIAL ASSETS AND LIABILITIES

Bank deposits and loans to customers

The table below represents the structure and amounts of current and non current bank deposits and loans to customers as of December 31, 2018.

	December 31, 2018
Loans to customers	68,132
Due from banks	2,635
Allowance for impairment losses	(7,729)
Total bank deposits and loans to customers, net	**63,038**
Less: current portion	(32,385)
Bank deposits and loans to customers, non-current	**30,653**

The structure and amounts of bank loans to customers as of December 31, 2018 is presented in the table below:

	December 31, 2018
Loans to legal entities	
Corporations	27,414
Medium-sized enterprises and small businesses	1,941
Total loans to legal entities	**29,355**
Loans to individuals	
Mortgage loans	11,668
Consumer loans	17,307
Credit cards	9,778
Other	24
Total loans to individuals	**38,777**
Due from banks	
Time deposits with banks	1,659
Obligatory reserves with the Central Bank of Russia	976
Total due from banks	**2,635**
Total bank deposits and loans to customers	**70,767**
Less: allowance for impairment losses	(7,729)
Total bank deposits and loans to customers, net	**63,038**

(Amounts in millions of Russian Rubles unless otherwise stated)

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

	December 31, 2018
Loans collateralized by guaranties	17,984
Loans collateralized by pledge of real estate	14,237
Loans collateralized by pledge of own promissory notes	326
Loans collateralized by pledge of equipment	143
Loans collateralized by securities	32
Loans collateralized by rights of claim	15
Loans collateralized by pledge of inventories	12
Unsecured loans	35,383
Allowance for impairment losses	(7,689)
Total loans to customers, net	**60,443**

The balances above do not necessarily reflect the fair value of collateral received.

Movements in the allowance for impairment losses attributable to bank deposits and loans to customers for the year ended December 31, 2018 are presented in the table below:

	Loans to customers	Due from banks	Total
Balance as at the date of acquisition	8,444	42	**8,486**
Provision charge/release	636	(2)	634
Recovery of bad debt written-off	430	-	430
Bad debt written-off	(1,817)	-	(1,817)
Foreign currency revaluation effect	(4)	-	(4)
Balance as at December 31, 2018	**7,689**	**40**	**7,729**

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

	Stage 1	Stage 2	Stage 3	POCI*	TOTAL
Balance as at the date of acquisition	**325**	**306**	**3,714**	**182**	**4,527**
- Transfer to stage 1	-	-	-	-	-
- Transfer to stage 2	(2)	-	2	-	-
- Transfer to stage 3	-	(29)	29	-	-
New financial assets originated or purchased	54	65	-	9	128
Change due to change of credit risk	(55)	144	(79)	64	74
Write-offs	-	-	(637)	-	(637)
Recovery of previously written-off assets	-	-	124	-	124
Foreign exchange difference	(4)	-	-	-	(4)
Balance as at December 31, 2018	**318**	**486**	**3,153**	**255**	**4,212**

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

(Amounts in millions of Russian Rubles unless otherwise stated)

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

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Balance as at the date of acquisition	**683**	**388**	**2,468**	**378**	**3,917**
- Transfer to stage 1	243	(162)	(81)	-	-
- Transfer to stage 2	(48)	66	(18)	-	-
- Transfer to stage 3	(2)	(291)	293	-	-
New financial assets originated or purchased	355	-	-	-	355
Change due to change of credit risk	(475)	317	217	20	79
Write-offs	-	-	(1,180)	-	(1,180)
Recovery of previously written-off assets	-	-	306	-	306
Balance as at December 31, 2018	**756**	**318**	**2,005**	**398**	**3,477**

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

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

The table below summarizes information regarding the quality of loans to individuals:

	Stage 1	Stage 2	Stage 3	POCI	December 31, 2018
Low to fair risk	34,581	445	-	-	35,026
Monitoring	-	534	5	-	539
Impaired	-	-	2,814	398	3,212
Loss allowance	(756)	(318)	(2,005)	(398)	(3,477)
Total	**33,825**	**661**	**814**	**-**	**35,300**

The table below summarizes information regarding the quality of loans to legal entities:

	Stage 1	Stage 2	Stage 3	POCI	December 31, 2018
Low to fair risk	22,083	1,555	-	-	23,638
Monitoring	-	1,871	-	-	1,871
Impaired	-	-	3,586	260	3,846
Loss allowance	(327)	(477)	(3,153)	(255)	(4,212)
Total	**21,756**	**2,949**	**433**	**5**	**25,143**

(Amounts in millions of Russian Rubles unless otherwise stated)

Analysis by credit quality of loans to individuals outstanding as of December 31, 2018 is as follows:

As at December 31, 2018	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	34,582	(756)	33,826	2%
Overdue:				
up to 30 days	445	(80)	365	18%
31 to 60 days	197	(84)	113	43%
61 to 90 days	136	(77)	59	57%
91 to 180 days	340	(245)	95	72%
over 180 days	2,079	(1,579)	500	76%
Total collectively assessed loans	**37,779**	**(2,821)**	**34,958**	**7%**
Individually impaired				
Not past due	599	(475)	124	79%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	4	(1)	3	25%
61 to 90 days	1	-	1	0%
91 to 180 days	27	-	27	0%
over 180 days	367	(180)	187	49%
Total individually impaired loans	**998**	**(656)**	**342**	**66%**
Total	**38,777**	**(3,477)**	**35,300**	9%

Analysis by credit quality of loans to medium-sized enterprises and small businesses outstanding as of December 31, 2018 is as follows:

As at December 31, 2018	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	1,224	(24)	1,200	2%
Overdue:				
up to 30 days	7	(1)	6	16%
31 to 60 days	2	(1)	1	40%
61 to 90 days	4	(2)	2	40%
91 to 180 days	15	(7)	8	47%
over 180 days	689	(414)	275	60%
Total collectively assessed loans	**1,941**	**(449)**	**1,492**	**23%**

Bank deposits and liabilities

The table below represents the structure and amounts of current and non-current bank deposits and liabilities as of December 31, 2018.

	December 31, 2018
Customer accounts	100,209
Due to banks and other financial institutions	7,750
Debt securities issued	1,717
Financial liabilities at fair value through profit or loss	767
Other financial liabilities	1,011
Total bank deposits and liabilities	111,454
Less: current portion	(108,821)
Total bank deposits and liabilities, non-current	**2,633**

(Amounts in millions of Russian Rubles unless otherwise stated)

The structure and amounts of customer accounts of December 31, 2018 are presented below:

	December 31, 2018
Legal entities	
- Current/settlement accounts	19,408
- Term deposits	8,188
Individuals	
- Current/settlement accounts	13,364
- Term deposits	59,249
Total customer accounts	**100,209**

The structure and amounts of due to banks as of December 31, 2018 are presented below:

	December 31, 2018
Loans under repurchase agreements	5,315
Loans and term deposits from banks and other financial institutions	1,268
Correspondent accounts of other banks	1,167
Total due to banks	**7,750**

As of December 31, 2018, loans under repurchase agreements were secured by the following collaterals:

- securities measured at amortized cost with the value of RUB 2,283 million;
- Federal Loan Bonds (OFZ) received from Deposit Insurance Agency (DIA) as a subordinated securities loan in the amount of RUB 3,539 million.

In November 2015 MTS Bank received a subordinated debt of RUB 7,246 million in the form of OFZ from the state corporation DIA with the date of maturity January 22, 2025. In accordance with the terms of the contract, MTS Bank should return the securities to the creditor at the end of the contract period. The Group does not recognize the securities and the obligation to return them to the creditor in the consolidated statement of financial position as of December 31, 2018. In accordance with the contract, MTS Bank should comply with certain covenants with respect to capital, loan portfolio, employee benefits. If the above conditions are not met, DIA may apply penalties to MTS Bank. The contract also includes certain restrictions on sale or repledge of the securities by MTS Bank.

(Amounts in millions of Russian Rubles unless otherwise stated)

An analysis of liquidity and interest rate risk inherent to bank assets as of December 31, 2018 is presented in the following table. The maturity corresponds to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2018 Total
Financial assets							
Financial assets at fair value through profit or loss	13,680	-	-	-	-	-	13,680
Due from banks	477	-	-	-	-	-	477
Loans to customers	5,182	9,113	25,525	25,922	1,104	6,344	73,190
Investments in securities	111	4,233	10,838	14,032	1,300	-	30,514
Total interest bearing financial assets	**19,450**	**13,346**	**36,363**	**39,954**	**2,404**	**6,344**	**117,861**
Cash and cash equivalents	10,117	-	-	-	-	-	10,117
Financial assets at fair value through profit or loss	-	-	-	-	-	8,806	8,806
Due from banks	483	61	1,928	13	-	-	2,485
Currency forwards and options not designated as hedges	-	45	183	-	-	-	228
Other financial assets*	522	335	25	-	-	4	886
Total non-interest bearing financial assets	**11,122**	**441**	**2,136**	**13**	**-**	**8,810**	**22,522**
Total financial assets	**30,572**	**13,787**	**38,499**	**39,967**	**2,404**	**15,154**	**140,383**

(Amounts in millions of Russian Rubles unless otherwise stated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December31, 2018 Total
Financial liabilities							
Due to banks and other financial institutions	(1,268)	-	-	-	-	-	(1,268)
Customer accounts*	(13,012)	(7,239)	(45,971)	(1,599)	-	-	(67,821)
Debt securities issued	(12)	(314)	(333)	(771)	(287)	-	(1,717)
Total interest bearing financial liabilities	**(14,292)**	**(7,553)**	**(46,304)**	**(2,370)**	**(287)**		**(70,806)**
Currency forwards and options not designated as hedges	-	(45)	(328)	-	-	-	(373)
Obligation to deliver securities	(394)						(394)
Due to banks and other financial institutions	(6,482)	-	-	-	-	-	(6,482)
Customer accounts*	(48,854)	-	-	-	-	-	(48,854)
Other financial liabilities	(1,620)	(541)	(1,851)	-	-	-	(4,012)
Lease obligations*	(21)	(37)	(144)	(200)	(6)	-	(408)
Total non-interest bearing financial liabilities	**(57,371)**	**(623)**	**(2,323)**	**(200)**	**(6)**	**-**	**(60,523)**
Total financial liabilities	**(71,663)**	**(8,176)**	**(48,627)**	**(2,570)**	**(293)**	**-**	**(131,329)**
Liquidity gap	(41,091)	5,611	(10,128)	37,397	2,111		
Stable sources of funding	**40,689**	**(13,182)**	**22,667**	**(8,128)**	**(42,046)**		
Net liquidity gap	**(402)**	**(7,571)**	**12,539**	**29,269**	**(39,935)**		
Cumulative liquidity gap	**(402)**	**(7,973)**	**4,566**	**33,835**	**(6,100)**		
Cumulative interest sensitivity gap	**(5,158)**	**(10,951)**	**(1,110)**	**38,594**	**40,711**		
* Including intercompany balances	(16,402)	(5)	(17)	(3)	-	-	(16,427)

(Amounts in millions of Russian Rubles unless otherwise stated)

Analysis of the liquidity and interest rate risks is presented in the following table. The amounts in the table below represent future aggregate undiscounted cash flows.

	Weighted average interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2018 Total
Interest bearing financial liablities								
Due to banks	7,6%	1,262	8	-	-	-	-	**1,270**
Customer accounts*	6,3%	12,410	7,900	47,490	1,644	-	-	**69,444**
Debt securities issued	9,5%	12	316	258	912	857	-	**2,355**
Total interest bearing financial liabilities		**13,685**	**8,224**	**47,748**	**2,556**	**857**		**73,070**
		,	,	,	,	,	,	**,**
Non-interest bearing financial liablities								
Financial liabilities at fair value through profit or loss		-	-	373	-	-	-	**373**
Due to banks		6,482	-	-	-	-	-	**6,482**
Customer accounts*		48,854	-	-	-	-	-	**48,854**
Other financial liabilities		750	159	1,655	-	-	-	**2,564**
Total non-interest bearing financial liabilities and commitments		**56,086**	**159**	**2,028**	**-**	-	-	**58,273**
Total financial liabilities		**69,771**	**8,383**	**49,776**	**2,556**	**857**	**-**	**131,343**
* Including intercompany balances		(16,465)	-	-	-	-	-	(16,465)

The Group issued guaranties to the customers in the amount of RUB 10,587 million. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.The Group's maximum exposure to credit risk in relation to these financial instruments is represented by their contractual amounts.

30. FINANCIAL RISK MANAGEMENT

As part of its business the Group is exposed to several types of financial risks: capital risk (mainly by MTS Bank), market risks, credit (or counterparty) risks, and liquidity risks. Risks mitigating activities are mainly performed at the Group headquarters by the corporate finance personnel and are subject to the approval of the Group's supervisory bodies – the Board of Directors and Budget Committee.

Capital risk

MTS Bank, the Group's subsidiary, is subject to regulations of the Central Bank of Russia. That requires that banks comply with the minimum capital adequacy ratios of 8% calculated on the basis of statutory standalone financial statements. MTS Bank met the requirements established by the CBR. As of December 31, 2018, MTS Bank's capital adequacy ratio in accordance with CBR requirements was 11.9%.

Basel Capital Accord (Basel 1) requires that banks that operate internationally have a capital adequacy risk ratio of 8% of their risk-weighted assets for the total amount of capital and 4% – for the tier 1 capital. MTS Bank met the requirements established by the Accord. As of December 31, 2018, MTS Bank's capital adequacy ratio was 18.38% and 13.34% respectively.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. The Group is primarily exposed to the following types of market risks: interest rate risk and currency exchange rates fluctuations. Financial instruments affected by market risk include loans and borrowings, deposits, and derivative financial instruments. The sensitivity analyses in the following sections relate to the financial position as of December 31, 2018, 2017 and 2016.

<u>Interest rate risks</u>

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

- Variable interest rate

The Group's bank loans denominated in US Dollars and Euros primarily bear floating interest rate. To eliminate the exposure of changes in variable interest rates related to its debt obligations, the Group enters into variable-to-fixed cross-currency interest rate swap agreements, so that cross-currency interest rate swaps matches the exact maturity dates of the underlying debt allowing for highly-effective cash flow hedges. In aggregate, the Group entered into variable-to-fixed cross-currency interest rate swap agreements designated to manage the exposure of changes in variable interest rates related to 100% and 100% of the Group's bank loans with variable rates outstanding as of December 31, 2018 and 2017, respectively.

- Fixed interest rate risk

The Group's Notes and bank loans denominated in Russian Rubles bear primarily fixed interest rates. To eliminate the exposure of changes in the value of debt obligations, the Group enters into fixed-to-variable cross-currency and interest rate swap agreements. In aggregate, the Group entered into fixed-to-variable cross-currency and interest rate swap agreements designated to manage the exposure of changes in value of the debt related to 5.8% and 7.9% of the Group's Notes and bank loans with fixed rates outstanding as of December 31, 2018 and 2017, respectively.

The notional amounts of interest rate derivative instruments outstanding amounted to RUB 44,187 million and RUB 49,429 million as of December 31, 2018 and 2017, respectively.

Sensitivity analysis

A reasonably possible increase of 100 basis points in short term interest rates would have resulted in RUB 201 million, RUB 44 million and RUB 704 million future increases of interest expense for the years ended December 31, 2018, 2017 and 2016, respectively. The same decrease in short term interest rates would have resulted in RUB 201 million, RUB 44 million and RUB 704 million future decreases of finance cost for the years ended December 31, 2018, 2017 and 2016, respectively. There will be no material impact on equity.

The interest rate sensitivity analysis was performed based on a constant level of fixed and floating rate debt.

Foreign currency risks

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. The Group's exposure to these changes in foreign exchange rates relates primarily to the Group's financing activities. The Group manages its currency risk by hedging significant foreign currency cash outflows with derivatives and by using money market instruments.

The Group has entered into several cross-currency swap agreements. These contracts are mainly designated to manage the exposure of changes in currency exchange rate. The contracts assumed periodic exchange of interest or principal, and interest payments from RUB-denominated amounts to USD-denominated amounts at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2019-2024.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure of changes in currency exchange rate for 50.8% and 39.6% of its USD-denominated Notes and bank loans outstanding as of December 31, 2018 and 2017 respectively.

The notional amounts of currency derivative instruments amounted to RUB 34,115 million and RUB 28,669 million as of December 31, 2018 and 2017, respectively.

The Group has entered into currency forward agreements to minimize the foreign currency risk exposure for operating activities. The contracts assumed the purchase or sale of the agreed amount of currency at a specified exchange rate and on a specific date. The rate was determined by the market spot rate upon issuance. As the result of currency forward agreements, unfulfilled as of December 31, 2018, 2017 and 2016, the Group recognized RUB 1,937 million gain, nil and RUB 142 million loss in the consolidated statement of profit and loss for the years ended December 31, 2018, 2017 and 2016, respectively.

The notional amounts of currency forward instruments, unfulfilled as of December 31, 2018 and 2017, amounted to RUB 51,002 million and nil, respectively.

In 2018, several of the Group's swap agreements were early terminated early due to the early redemption of loans from Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG. Loans and swaps were due in 2019 - 2020. The amount of RUB 505 million, net of tax, was immediately reclassified from accumulated other comprehensive income to profit for the year during the period and recognized as a part of change in fair value of financial instruments' in consolidated statement of profit or loss.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table presents the effect of the Group's swap agreements designated as cash flow hedges in accumulated other comprehensive income for the years ended December 31, 2018, 2017 and 2016.

	2018	2017	2016
Accumulated derivatives income / (loss), beginning of the year, net of tax of 85 and (26) and 261, respectively	**340**	**(103)**	**1,045**
Fair value adjustments on hedging derivatives, net of tax of 840 and (628) and (2,279), respectively	3,362	(2,512)	(9,116)
Amounts reclassified to profit for the year during the period – forecast transaction no longer expected to occur, net of tax of (126) and nil and nil, respectively	(505)	-	-
Amounts reclassified to (profit) / loss for the year during the period – hedged item has affected profit or loss, net of tax of (740) and 739 and 1,992, respectively	(2,960)	2,955	7,968
Accumulated derivatives income / (loss), end of the year, net of tax of 59 and 85 and (26), respectively	**237**	**340**	**(103)**

The following tables demonstrate the sensitivity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant.

	Change in rate	USD - effect on profit before tax RUB mln,	EUR - effect on profit before tax RUB mln
2018	+1%	(176)	152
	-1%	176	(152)
2017	+5%	(447)	830
	-5%	447	(830)
2016	+20%	(6,722)	2,274
	-20%	6,722	(2,274)

The movement in the pre-tax effect is a result of a change in monetary assets and liabilities denominated in US dollars and Euro, where the functional currency of the entity is a currency other than US dollars and Euro.

There will be no material impact on equity.

The Group's exposure to foreign currency changes for all other currencies is not material.

MTS Bank

MTS Bank credit limits committee determines stop-loss limits related to security portfolio and to foreign exchange transactions, as well as limits for net foreign exchange position.The limits for net foreign exchange position conform fully to CBR requirements. Monitoring of adherence to the limits restricting the amount of MTS Bank's market risk is performed day-to-day.

Liquidity risk

Liquidity risk is the risk of a shortage of funds. The Group's policy is to borrow centrally using a mixture of long-term and short-term borrowing facilities. These borrowings, together with cash generated from operations are utilized to meet anticipated funding requirements. The Group assessed the concentration of risk with respect to refinancing its debt and determined it to be of low level.

The Group manages liquidity risk on long-term borrowings by maintaining a varied maturity profile and a required net debt position, therefore minimizing the refinancing risk. Long-term borrowings mature between one and 7 years.

Securities held by MTS Bank which are accounted for at fair value through profit and loss and investments at amortized cost are included in liquidity analysis on the basis of remaining maturity. Most of these securities are included in the CBR Lombard list and if required may be used to obtain REPO financing from the CBR. MTS Bank's demand for medium-term liquidity is fully satisfied by the availability of interbank loans and customer deposits (obtaining new and prolongating existing deposits), secured loans and conclusion of REPO agreements.

As at December 31, 2018, current liabilities exceeded current assets by RUB 26,538 million. The management believes the Group has sufficient existing and continuing access to liquidity through both operating cash flows and the availability of committed credit facilities of RUB 21,000 million (Note 24).

Credit risk

Credit risk is the risk that the counterparty will not meet its obligations arising from entering into financial instrument, leading to a financial loss.

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

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

Stage 1: expected credit losses within the next twelve months

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

Stage 2: expected lifetime credit losses– not credit impaired

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

In all cases, the Group considers that there has been a significant increase in credit risk when the contractual payment is more than 30 days past due.

Stage 3: expected lifetime credit losses – credit impaired

If a financial asset is defined as credit impaired or in default, it is transferred to stage 3 and measured at lifetime expected credit loss. Objective evidence for a credit-impaired financial asset includes 91 days past due date as well as other information indicating significant financial difficulties of the borrower. The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

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

(Amounts in millions of Russian Rubles unless otherwise stated)

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

The Group considers its exposure to credit risk as of December 31, 2018, and 2017 to be as follows:

	December 31, 2018	**December 31, 2017**
Trade and other receivables	37,143	28,017
Deposits and loans issued	83,865	33,251
Notes	31,235	8,537
Securities held by MTS Bank	22,487	-
Assets in Sistema Capital trust management	11,644	9,600
Derivative financial instruments	6,074	8,403

In accordance with the Group's financial instruments management policy, the aggregate credit risk exposure that the Group may have to one counterparty is limited. The Group maintains a mixture of cash and cash equivalents, investments, derivatives and certain other financial instruments with financial institutions. The relevant financial institutions are located in different geographical regions and the Group's policy is designed to limit its exposure to any single institution or geographical region. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of these financial institutions.

MTS Bank performs daily monitoring of future expected cash flows on the operations of both clients and banks, which is a part of the management process of assets and liabilities. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the MTS Bank's risk management policy are not breached.

On December 15, 2015, Barclays Bank and the Group signed an addendum to existing cross currency swap agreements. According to the terms of the addendum parties agreed to set credit exposure limits to one another, which permits a mitigation of their respective credit risk by requiring the other party to transfer collateral payments. The balance of Barclays bank's transfer of collateral payments to the Group is nil and RUB 1.0 billion as of December 31, 2018 and 2017, respectively.

Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Therefore, management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

(Amounts in millions of Russian Rubles unless otherwise stated)

31. RELATED PARTIES

Related parties include entities under common ownership with the Group, affiliated companies and associated companies.

The aggregated impact of transactions with related parties to the Group's statements of financial position as of December 31, 2018 and 2017 and statements of profit or loss for the years then ended was the following:

	December 31, 2018	December 31, 2017
Statements of financial position		
Short-term investments	12,086	10,064
Accounts receivable, current	6,385	11,358
Accounts receivable, non-current	2,545	2
Bank loans to customers, current	2,244	-
Advances for property, plant and equipment	1,380	97
Right-of-use assets	1,359	-
Cash and cash equivalents	938	19,715
Bank loans to customers, non-current	612	-
Other investments	149	767
Bank deposits and liabilities, current	(42,642)	-
Accounts payable	(1,301)	(1,102)
Bank deposits and liabilities, non-current	(1,044)	-
Lease obligations, non-current	(1,007)	-
Lease obligations, current	(185)	-

	2018	2017
Statements of profit or loss		
Revenue	(4,352)	(3,349)
Operating expenses / (income)	2,396	4,053
Finance (income) / expenses	(1,398)	(1,267)
Interest expenses under lease arrangements	(135)	-

Terms and conditions of transactions with related parties – Outstanding balances as of December 31, 2018 were unsecured and settlements are made on a cash basis. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2018 and December 31, 2017, the Group had no impairment of receivables relating to significant amounts owed by related parties or expenses recognized during the years ended December 31, 2018 and 2017 in respect to bad or doubtful debts from related parties.

(Amounts in millions of Russian Rubles unless otherwise stated)

Accounts receivable from and accounts payable to related parties were as follows:

	December 31, 2018	December 31, 2017
Accounts receivable		
MTS Belarus, the Group's associate	4,095	4,835
Business Nedvizhimost, a subsidiary of Sistema	2,561	4,052
Sitronics, a subsidiary of Sistema	1,107	317
Zifrovoe TV, the Group's associate	764	702
MTS Bank, the Group's associate	-	1,232
Other related parties	403	222
Total accounts receivable, related parties	**8,930**	**11,360**
Less non-current portion	(2,545)	(2)
Accounts receivable, related parties – current	**6,385**	**11,358**
Accounts payable		
MTS Belarus, the Group's associate	678	828
TelecomCapStroi, a subsidiary of Sistema	237	-
Moscow Business Incubator, a subsidiary of Sistema	152	-
Other related parties	234	274
Total accounts payable, related parties	**1,301**	**1,102**

The Group has neither the intent nor the ability to offset the outstanding accounts payable and accounts receivable with related parties under the terms of existing agreements.

The Group makes advances for the purchase of property, plant and equipment, intangible assets and other assets to related parties which are summarized as follows:

	December 31, 2018	December 31, 2017
Advances given for property, plant and equipment:		
TelecomCapStroi, a subsidiary of Sistema	1,317	-
Other related parties	63	1
Total advances given for property, plant and equipment	**1,380**	**1**

	2018	2017
Purchases of property, plant and equipment, intangible assets and other assets:		
Moscow Business Incubator, a subsidiary of Sistema	4,450	-
Mosdachtrest, a subsidiary of Sistema	1,711	-
Business Nedvizhimost, a subsidiary of Sistema	328	-
Other related parties	158	-
Total purchases of property, plant and equipment, intangible assets and other assets	**6,647**	**-**

(Amounts in millions of Russian Rubles unless otherwise stated)

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

	December 31, 2018
Carrying value of right-of-use assets:	
Business Nedvizhimost, a subsidiary of Sistema	919
Kronshtadt, a subsidiary of Sistema	121
Other related parties	319
Total carrying value of right-of-use assets	**1,359**

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

	December 31, 2018
Lease obligations:	
Business Nedvizhimost, a subsidiary of Sistema	793
Kronshtadt, a subsidiary of Sistema	109
Other related parties	290
Total lease obligations	**1,192**
Less non-current portion	(1,007)
Lease obligations, related parties – current	**185**

Interest expense accrued on these lease obligations for the year 2018 amounted to RUB 135 million and was included in finance costs in the accompanying consolidated statements of profit or loss

Bank loans to customers, interbank loans due – The following table presents loans given by MTS-Bank to related parties as of December 31, 2018:

	December 31, 2018
Bank loans due, related parties	
Kronshtadt, a subsidiary of Sistema	802
Leader-Invest, a subsidiary of Sistema	612
Binofarm, a subsidiary of Sistema	412
Kronshtadt Technology, a subsidiary of Sistema	440
Sistema, parent company	254
Sistema-finance, a subsidiary of Sistema	183
Technology for Aviation, a subsidiary of Sistema	153
Total bank loans due, related parties	**2,856**
Less non-current portion	(612)
Bank loans due, related parties – current	**2,244**

(Amounts in millions of Russian Rubles unless otherwise stated)

Bank deposits and liabilities – The following table presents deposits in MTS Bank held by related parties as of December 31, 2018:

	2018
Bank deposits and liabilities:	
Key management personnel of the Group and its parent	29,658
Sistema, parent company	4,610
Sistema Telecom Activy, a subsidiary of Sistema	1,542
Project Michurinskiy, a subsidiary of Sistema	952
Medsi Group, a subsidiary of Sistema	745
UK LandProfit, a subsidiary of Sistema	599
CTV, a subsidiary of Sistema	536
Sitronics, a subsidiary of Sistema	525
Leader-Invest, a subsidiary of Sistema	433
Sistema-Invest, a subsidiary of Sistema	338
RTI, a subsidiary of Sistema	323
Sistema Venture Capital, a subsidiary of Sistema	319
BashRES, a subsidiary of Sistema	309
Sistema Capital, a subsidiary of Sistema	239
TelecomCapStroi, a subsidiary of Sistema	238
BF-Sistema, a subsidiary of Sistema	233
Business Nedvizhimost, a subsidiary of Sistema	226
MBI, a subsidiary of Sistema	138
Intourautoservice, a subsidiary of Sistema	128
Detskii Mir, a subsidiary of Sistema	113
Other related parties	1,485
Total bank deposits and liabilities	**43,686**
Less non-current portion	(1,044)
Total bank deposits and liabilities – current	**42,642**

Investing transactions – The Group holds certain investments in related parties which are summarized as follows:

	December 31, 2018	**December 31, 2017**
Short-term investments		
Sistema Capital, a subsidiary of Sistema (assets management)	11,644	9,600
Promissory notes of Intellect Telecom, a subsidiary of Sistema	283	257
Other loans receivable	159	207
Total short-term investments in related parties	**12,086**	**10,064**
Other investments		
Promissory notes issued by Sistema	-	618
Total other investments to related parties	**-**	**618**
Other investments in shares		
Sistema Venture Capital, a subsidiary of Sistema	117	117
Other investments	32	32
Total investments in shares of related parties	**149**	**149**

(Amounts in millions of Russian Rubles unless otherwise stated)

Operating transactions – For the years ended December 31, 2018, 2017 and 2016, operating transactions with related parties were as follows:

	2018	2017	2016
Revenues from related parties			
MTS Bank, the former Group's associate (telecommunication and call center services, bank cards distribution commission)	1,271	1,507	900
Sitronics, subsidiary of Sistema (construction of a fiber optic lines)	1,195	303	-
Zifrovoe TV, the Group's associate (subscriber acquisition services)	508	724	55
MTS Belarus, the Group's associate (roaming and interconnect services)	296	248	276
Detsky Mir, subsidiary of Sistema (telecommunication services)	175	188	129
Medsi Group, subsidiary of Sistema (telecommunication and call center services)	166	156	242
Other related parties	741	223	576
Total revenues from related parties	**4,352**	**3,349**	**2,178**
Operating expenses / (income) incurred on transactions with related parties			
MTS Bank, the Group's associate (commission related expenses)	1,217	2,259	347
Koncel, a subsidiary of Sistema (sale of scrap metal)	(1,141)	-	-
Key management personnel of the Group and its parent (interest expense)	705	-	-
Sistema-invest, a subsidiary of Sistema (change in fair value of financial instruments held by MTS-Bank)	325	-	-
AB Safety, a subsidiary of Sistema (security services)	324	302	271
Sistema, parent company (interest expense)	284	-	-
Jet Air Group, subsidiary of Sistema (transportation services)	135	172	183
MTS Belarus, the Group's associate (roaming and interconnect services)	104	121	161
Business Nedvizhimost, a subsidiary of Sistema (rent and sale of real estate)	39	821	246
Maxima, a subsidiary of Sistema (advertising services)	19	143	1,018
Other related parties	385	235	888
Total operating expenses / (income) incurred on transactions with related parties	**2,396**	**4,053**	**3,114**

Finance income, which arose from investment transactions with related parties for the years ended December 31, 2018, 2017 and 2016 was the following:

	2018	2017	2016
Finance income from related parties			
Sistema Capital, a subsidiary of Sistema (assets management)	465	369	128
Business Nedvizhimost, a subsidiary of Sistema	353	359	491
MTS Bank, the former Group's associate	448	345	285
Other related parties	132	194	81
Total finance income from related parties	**1,398**	**1,267**	**985**

MTS Bank – On July 05, 2018 the Group acquired the controlling stake in MTS-Bank and thus it ceased to be a related party to the Group since the acquisition date (Note 5).

East-West United Bank – The Group maintains certain bank accounts with East-West United Bank, a subsidiary of Sistema. As of December 31, 2018 and December 31, 2017, the Group's cash position at East-West United Bank amounted to RUB 938 million and RUB 5,969 million, respectively, including short-term deposits in the amount of RUB nil and 5,810, respectively.

Sistema – In November 2009, the Group accepted a promissory note, issued by Sistema, as repayment of the loan principal and interest accrued to date under an agreement with Sistema-Hals. The note was interest free and was repayed in fourth quarter of 2018.

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

As of December 31, 2018 and December 31, 2017, the balance of Sistema International Funding S.A. bonds due in 2019 amounted to RUB 70 million and RUB 57 million respectively.

Business Nedvizhimost – In February 2015 and further in May 2015, the Group sold its 100% stake in Rent Nedvizhimost to Business Nedvizhimost, a subsidiary of Sistema, for RUB 8,500 million in total. As of December 31, 2018 and December 31, 2017 the balance of accounts receivable amounted to RUB 2,561 million and RUB 4,052 million, respectively. The amount as of December 31, 2018 is due before December 31, 2021 and bears interest of CBR Key rate + 1,5% p.a.

In December 2018 the Group sold its 40.26% stake in a mutual investment fund «Sistema-Rentnaya Nedvizhimost» to Business Nedvizhimost for RUB 450 million. At the reporting date the Group accounted its share in the joint venture in sum of RUB 690 mln (Note 16).

Sistema Capital – In 2016 and 2017 the Group entered into trust agreements with the asset management company Sistema Capital. As of December 31, 2018 and December 31, 2017, the balance of assets under trust management amounted to RUB 11,614 million and RUB 9,600 million respectively.

Remuneration of key management personnel – Key management personnel of the Group are members of the Board of Directors and Management Board. During the years ended December 31 2018, 2017 and 2016 their total remuneration amounted to RUB 816 million, RUB 739 million and RUB 760 million, respectively. These amounts comprised of RUB 504 million, RUB 490 million and RUB 470 million in base salaries and 312 RUB million, RUB 249 million and RUB 290 million in bonuses paid pursuant to a bonus plan, respectively.

The management and directors are also entitled to cash-settled and equity-settled share-based payments. Related compensation accrued during the years ended December 31 2018, 2017 and 2016 amounted to RUB 554 million, RUB 486 million and RUB 481 million, respectively.

32. SHAREHOLDERS' EQUITY

Share capital (ordinary shares) – The Group had 1,998,381,575 authorized ordinary shares with par value 0.1 RUB as of December 31, 2018 and 2017. Preferred shares have not been issued.

Shares of common stock repurchased by the Group are recorded at cost as treasury stock and reduce the shareholders' equity in the Group's consolidated financial statements. As of December 31, 2018, the total shares in treasury stock comprised 167,638,899 and 1,830,742,676 shares were outstanding. As of December 31, 2017, the total shares in treasury stock comprised 86,339,156, and 1,912,042,419 shares were outstanding.

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

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

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

In 2017 the Group launched a Tender Offer, aiming to repurchase its ordinary shares (including shares represented by ADSs) for up to RUB 4,647 million. Through the Tender Offer, during the year ended December 31, 2017, the Group purchased a total of 16,022,364 shares (including shares represented by ADSs) at a price per share of RUB 290, for a total cost of RUB 4,646 million. Simultaneously, the Group purchased 16,038,892 shares from Sistema Finance under the Sistema Purchase Agreement for an aggregate purchase price of RUB 4,651 million.

In 2017, the Group announced that Board of Directors has approved the repurchase of shares and ADSs by means of a share repurchase plan in the total amount of up to RUB 20,000,000,000 (the "Repurchase Plan"). This amount includes funds used for purchasing the Company's shares from Sistema Finance until April 2019. During the year ended December 31, 2017, the Group purchased 43,647,128 shares (including shares represented by ADSs) under the Repurchase Plan at prices from RUB 257 up to RUB 305 for a total cost of RUB 12,475 million.

In 2018 (under the 2017 Repurchase plan) the Group purchased 8,057,356 shares (including shares represented by ADSs) for RUB 2,837 million. Additionally the Group purchased 17,339,848 shares from Sistema Finance under the Sistema Purchase Agreement for an aggregate purchase price of RUB 4,882 million.

In July 2018, the Group announced that Board of Directors has approved the repurchase of shares and ADSs by means of a share repurchase plan in the total amount of up to RUB 30,000,000,000 (the "Repurchase Plan"), the amount includes funds used for purchasing the Company's shares from Sistema Finance. During the year ended December 31, 2018, the Group purchased 55,854,178 shares (including shares represented by ADSs) under the Repurchase Plan at prices from RUB 191 up to RUB 338, for a total cost of RUB 14,903 million. This includes 27,929,870 of shares purchased from Sistema Finance for a total amount of RUB 7,412 million.

Nature and purpose of reserves

Additional paid in capital is used to recognize equity-settled share-based payment transactions, results of capital transactions under common control; changes in ownership interest in subsidiaries that do not result in gain/loss of control and the excess of cash received over the acquisition cost of treasury shares.

Share-based payment programs – Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period and offset against capital reserves.

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

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

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

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table represents roll forward of reserves balances for the years ended December 31, 2018, 2017 and 2016:

	Foreign currency translation reserve	Cash flow hedging reserve	Remeasure-ments of the net defined benefit liability
Balances at January 1, 2016	**9,638**	**1,045**	**493**
Other comprehensive (loss) / income for the year	(13,970)	(11,324)	50
Less: tax benefit	-	2,219	-
Amounts reclassified to profit for the year	(2,086)	9,897	-
Less: tax expense	-	(1,992)	-
Net other comprehensive (loss) / income for the year	**(16,056)**	**(1,200)**	**50**
Balances at December 31, 2016	**(6,418)**	**(155)**	**543**
Other comprehensive (loss) for the year	(2,620)	(3,140)	(40)
Less: tax benefit	-	628	-
Amounts reclassified to profit for the year	-	3,748	-
Less: tax expense	-	(741)	-
Amounts reclassified to additional paid in capital	(659)	-	-
Less: tax expense	-	-	-
Net other comprehensive (loss) / income for the year	**(3,279)**	**495**	**(40)**
Balances at December 31, 2017	**(9,697)**	**340**	**503**
Other comprehensive income for the year	7,726	4,202	167
Less: tax expense	-	(840)	-
Amounts reclassified to profit for the year	-	(4,331)	-
Less: tax benefit	-	866	-
Net other comprehensive income / (loss) for the year	**7,726**	**(103)**	**167**
Balances at December 31, 2018	**(1,971)**	**237**	**670**

(Amounts in millions of Russian Rubles unless otherwise stated)

Non-controlling interest

As of December 31, 2018, MGTS and MTS Bank were the only subsidiaries of the Group, which had material non-controlling interests.

The summarized financial information of MGTS PJSC and MTS Bank PJSC is presented as follows:

MGTS	**Year ended December 31,**		
	2018	**2017**	**2016**
Non-controlling interest opening balance	**(4,180)**	**(4,787)**	**(5,191)**
Profit for the year attributable to non-controlling interest	(619)	(554)	(727)
Dividends to non-controlling interest	1,165	1,175	1,120
Other	(15)	(14)	11
Non-controlling interest closing balance	**(3,649)**	**(4,180)**	**(4,787)**

MTS Bank	**Year ended December 31,**		
	2018	**2017**	**2016**
Non-controlling interest opening balance	**-**	**-**	**-**
Profit for the year attributable to non-controlling interest	(378)	-	-
Acquisitions under common control	(8,320)	-	-
Non-controlling interest closing balance	**(8,698)**	**-**	**-**

	December 31	
	2018	**2017**
Current assets	123,879	22,595
Non-current assets	84,093	42,204
Current liabilities	(141,359)	(8,959)
Non-current liabilities	(18,269)	(7,250)

	Year ended December 31,		
	2018	**2017**	**2016**
Revenue, gross of intercompany	(51,246)	(39,565)	(40,210)
Profit for the year, gross of intercompany	(11,314)	(9,719)	(12,167)

Dividends

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

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

- Macroeconomic factors and levels of competitiveness in core markets,
- Cash flow from operations,
- The outlook for earnings growth,
- Capital expenditure requirements,
- Potential acquisition opportunities,
- The state of capital markets and the Group's liquidity position, and
- The Group's overall debt position.

(Amounts in millions of Russian Rubles unless otherwise stated)

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

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

In accordance with Russian laws, earnings available for dividends are limited to profits determined under Russian statutory accounting regulations, denominated in Russian Rubles, after certain deductions.

The following table summarizes the Group's declared cash dividends for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Dividends declared (including dividends on treasury shares of 3,037, 1,337 and 220 respectively)	51,958	51,958	51,958
Dividends, RUB per ADS	52.00	52.00	52.00
Dividends, RUB per share	26.00	26.00	26.00

As of December 31, 2018 and 2017, dividends payable were RUB 146.2 and 125.4 million, respectively, and included in the trade and other payables within the consolidated statement of financial position.

33. LIABILITY UNDER PUT OPTION AGREEMENT

In September 2007, the Group acquired a 80% stake in International Cell Holding Ltd ("ICH"), the 100% indirect owner of MTS Armenia (formerly CJSC "K-Telecom"), Armenia's mobile phone operator, and signed a call and put option agreement to acquire the remaining 20% stake in ICH. In 2016 ICH was liquidated after all its legal interest in MTS Armenia was transferred to Aramayo Investments Limited, a Cyprus subsidiary of the Group, in which the Group held 80% of its entire share capital, and remaining 20% stake became subject to the aforementioned option agreement. According to the option agreement, the price for the remaining 20% stake option is to be determined by a pre-agreed by the parties independent investment bank. In accordance with the option agreement as amended the call option could be exercised by the Group up to December 31, 2018. In December 2018 the Group served a call notice on the minority shareholders of MTS Armenia to purchase the remaining 20% stake in Aramayo (and indirectly in MTS Armenia).

The liability under the option agreement amounted to RUB 3,629 million and RUB 2,012 million as of December 31, 2018 and December 31, 2017 respectively (Note 28).

(Amounts in millions of Russian Rubles unless otherwise stated)

34. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of December 31, 2018, the Group had executed purchase agreements of approximately RUB 36,875 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Agreement with Apple – In April 2017, the Group entered into an unconditional purchase agreement with Apple Rus LLC (“Purchase agreement”) to buy 615 thousand iPhone handsets at list prices at the dates of respective purchases over a period ending June 30, 2019. Pursuant to the agreement the Group is also required to incur certain iPhone advertising and promotion costs. As of December 31, 2018 the Group fully completed total purchase installment outlined by the agreement.

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

Generally, according to Russian and Ukrainian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the respective tax year. As of December 31, 2018, the tax declarations of MTS PJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review. Since 2016, MTS PJSC communicates with tax authorities through the Tax Monitoring regime, which enables it to disclose information and documents related to the calculation of its tax liabilities on-line.

In 2017, the Russian tax authorities completed a tax audit of MTS PJSC for the years ended December 31, 2015 and 2014. As of December 31, 2018 additional taxes, fines and penalties resulting from the tax audit in total amount of RUB 591 million were fully settled by the Group.

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

The management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements. However, the risk remains that the relevant tax authorities could take different positions with regarding interpretive issues which could have a significant effect.

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

	December 31, 2018	December 31, 2017
Contingent liabilities for additional taxes other than income tax	730	732
Contingent liabilities for additional income taxes	2,051	2,591

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

In July 2012, the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media allocated MTS the necessary license and frequencies to provide LTE telecommunication services in Russia. Under the terms and conditions of the LTE license, the Group is obligated to fully deploy LTE networks within seven years, starting from January 1, 2013, and deliver LTE services in each population center with over 50,000 inhabitants in Russia by 2019. Also, the Group is obligated to invest at least RUB 15 billion annually in the LTE roll-out until the network is fully deployed.

In March 2015, MTS-Ukraine acquired a nationwide license for the provision of UMTS (3G) telecommunications services through an open tender. The cost of the license was UAH 2,715 million (RUB 6,015 million at the acquisition date) and this was granted for 15 years. In accordance with the terms of the license, MTS-Ukraine was required to launch UMTS services in Ukraine by October 2016, and provide coverage throughout Ukraine by April 2020.

In accordance with the terms of the license, MTS-Ukraine also concluded agreements to convert the provided frequencies for commercial use with the Ministry of Defense of Ukraine, Ministry of Internal Affairs of Ukraine and State Service of Special Communications and Information Protection of Ukraine. For the conversion of frequencies, MTS-Ukraine paid UAH 358 million (RUB 865 million as of the payment date) in 2015 and UAH 299 million (RUB 645 million as of the payment date) in 2017, UAH 230 million (RUB 535 million as of the payment date) in 2018.

In January and March 2018, VF Ukraine PrJSC secured a 4G LTE licenses in the 2510-2520 / 2630-2640 and 1780-1785 / 1875-1880 MHz bands as the result of a national auction. Under the terms and conditions of the LTE licenses, VF Ukraine is obligated to deliver LTE services to not less than 90% of the population in each regional center of Ukraine (with certain exceptions) within 12 months from the date when the licenses were effective. VF Ukraine is also obligated to deliver LTE services to at least 90% of the population in each population center with over 10 000 inhabitants (with certain exceptions) within 42 months from the issuance of the licences. For the conversion of frequencies, MTS-Ukraine paid UAH 130 million (RUB 271 million as of the payment dates) in 2018.

The management believes that as of December 31, 2018, the Group is in compliance with conditions of the aforementioned licenses.

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

In 2017, Federal Antimonopoly Service of the Russian Federation (FAS Russia) issued a warning to MTS 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. FAS Russia has also opened antimonopoly proceeding against MTS for establishing high prices for communication services in national roaming. In 2018, MTS changed the principles and terms of tariffication when travelling about the country. FAS Russia held MTS administratively liable and imposed administrative fines on MTS in amount of RUB 1 million in respect of each proceeding.

In August 2018, FAS Russia has charged MTS 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 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.

Potential adverse effects of economic instability and sanctions in Russia – In 2014 political and economic sanctions targeting certain Russian economic sectors were introduced by the EU, US and other countries. Sanctions were subsequently extended and there is significant uncertainty regarding the extent and timing of further sanctions. Furthermore, the Russian Ruble has materially depreciated against the U.S. Dollar and Euro and Ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% in December, 2014. In 2018 due to Russia's ability to remain stable amid severe external shocks, Russia's sovereign credit ratings were increased from "stable" to "positive". The Central Bank of Russia has gradually decreased its key rate to 7.75% as of December 31, 2018.

These factors resulted in a lower cost of capital and a stable rate of inflation. However, in Russia there is an uneven growth dynamics, which could have a negative impact on the Group's business including ability to obtain financing on commercially reasonable terms. The management believes it is acting appropriately to support the sustainability of the Group's business in the current circumstances. The Group has a hedging policy in place, which partly mitigates the variability of cash outflows, denominated in foreign currencies.

Political and economic crisis in Ukraine – During the year ended December 31, 2014, a deterioration in the political environment of Ukraine has led to general instability, economic deterioration and armed conflict in eastern Ukraine. In 2014 The National Bank of Ukraine ("NBU") passed a decree prohibiting Ukrainian companies to pay dividends to foreign investors. The decree was extended several times and its edition effective as of December 31, 2018 allows payment of dividends for the FY 2017 and all preceding periods, subject to certain restrictions. Furthermore, since 2014 the Group established a provision in respect of cash balances in several Ukrainian banks, whose liquidity was affected by the economic downturn.

The Group believes that these circumstances, despite the recent improvement, combined with political and economic instability in the country, could result in further negative impact on the Group's business including financial position and results of operations.

As of December 31, 2018, the Group held RUB 6,596 million in current accounts and deposits in Ukrainian banks.

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

Investigations into former operations in Uzbekistan – In March 2019, the Group reached a resolution with the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") relating to the previously disclosed investigation of the Group's former subsidiary in Uzbekistan.

The Group 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 Group and a plea agreement entered into a subsidiary of the Group in Uzbekistan. Under the agreements with the DOJ, the Group agreed to pay a total criminal penalty of USD 850 million (RUR 59.1 billion as of December 31, 2018) to the United States. The Group 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 December 31, 2018.

Under the DPA and the Order, the Group 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.

35. SUBSEQUENT EVENTS

Ruble bonds placement – In January 2019, MTS issued exchange-traded bonds totaling RUB 10 billion with a coupon rate of 8.70% and a maturity of 5 years.

Purchase of additional stake in MTS Bank – In February 2019 the Group purchased additional 39.48% stake in MTS Bank from Sistema for RUB 11.4 billion. Consequently, the Group's share in MTS Bank increased to 94.92%. This acquisition allows the Group to fully integrate its FinTech business.

Sale of investment in Ozon Holdings Limited – In March 2019 the Group sold its 18.69% stake in Ozon Holdings Limited to Sistema for RUB 7.9 billion.

Acquisition of shares under Share Repurchase Plan – Since the end of the reporting period the Group acquired 38,358,388 MTS shares of Common Stock representing 1.92% of share capital issued by MTS. The Group purchased MTS shares of common stock under the Share Repurchase Plan announced in 2018.

Class action complaint – In March 2019 a proposed class action complaint on behalf of Shayan Salim and all other persons similarly situated has been filed in the United States District Court for the Eastern District of New York against MTS PJSC and certain of its managers. The complaint is alleging certain securities law violations relating to the recently announced resolution of US government investigations related to the Group's former operations in Uzbekistan (Note 34). The Group is reviewing the allegations and intends to defend its interests. It's currently impossible to measure possible implications and amount of claim reliably.

New dividend policy - In March 2019, the Board of Directors approved a dividend policy for the calendar years 2019 – 2021, committing to a minimum cumulative dividend payout of RUB 28 per ordinary share (RUB 56 per ADS) per calendar year through two semi-annual payments.