# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

**Consolidated Financial Statements**

As of December 31, 2019, 2018 and
for the Years Ended December 31, 2019,
2018 and 2017

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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# 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 2019, and the consolidated 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

## Basis for Opinion

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

## Key Audit Matters

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

| Why the matter was determined to be a key audit matter | How the matter was addressed in the audit |
|---|---|
| **Revenue recognition**<br><br>The Group's revenue from telecommunication services consists of a significant volume of low-value transactions, sourced from multiple systems, databases, and other tools, including billing systems. The processing and recording of revenue is highly automated and is based on established tariff plans.<br><br>We identified the revenue recognition for telecommunications services as a key audit matter due to the complexity of information systems involved in the process of revenue recognition and the risks associated with recognition and measurement of revenue, arising from the diversity and constant evolution of tariff plans, marketing offers and discounts provided to customers. This required an increased extent of audit effort, including the need for us to involve professionals with expertise in information technology (IT), to identify, test, and evaluate the Group's systems, software applications, and automated controls.<br><br>See Note 6 to the consolidated financial statements. | Our audit procedures related to the Group's revenue from telecommunication services included:<br><br>• Analysis of IT environment that secures proper functioning of billing and other IT systems related to accounting, including control procedures for monitoring changes and segregation of duties, as well as testing of these controls;<br>• Testing of the design and the effectiveness of internal controls over revenue recognition, including: recording and registration of phone calls, call 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;<br>• End-to-end testing of reconciliation of data on the duration and volume of provided telecommunication services from the their initial registration by switching equipment to billing and other IT systems and then to accounting records, including testing of certain manual adjustments recorded when transferring data from billing and other IT systems to the general ledger;<br>• Using test calls to test the correctness of the details of connections, their duration and the tariff plans applied;<br>• Testing of whether incentive arrangements and discounts were correctly accounted for in accordance with the relevant accounting policies of the Group; and<br>• Testing to verify that the information on active tariffs entered in the billing systems agree to the approved tariff orders and published tariff plans.<br><br>We have also reviewed the Group's accounting policy with respect to the recognition of revenue from the provision of services to subscribers and ensured that the existing policy is both appropriate for new types of operations and applied correctly, and assessed the compliance of the disclosures in the consolidated financial statements with the requirements of IFRS 15, *Revenue from Contracts with Customers*. |

| Why the matter was determined to be a key audit matter | How the matter was addressed in the audit |
|---|---|
| **Assessment and measurement of expected credit losses on loans to customers**<br><br>The Group is required to use an 'expected loss' model to determine the impairment of loans to customers of MTS Bank. Due to the underlying assumptions and estimations, the determination of expected credit losses is inherently subject to substantial judgement applied by management.<br><br>Key areas of judgment and estimates related to the assessment of allowances for expected credit losses on loans to customers included the following:<br><br>• Determination of the impairment stage for loans assessed on an individual basis which is based on timely identification of default events and significant increases in credit risk;<br>• Evaluation of the probability of default of loans assessed on an individual basis at the first and the second stages of impairment as well as loans assessed on a collective basis.<br><br>We identified this area as a key audit matter because models and techniques used in identifying significant increases in credit risk and for calculating expected credit losses requires the use of data from both external and internal sources, as well as the application of complex and subjective judgments by management. Therefore, a high degree of auditor judgment and an increased extent of effort was required, including the need to involve our internal actuarial specialists, to perform audit procedures carried out to evaluate the reasonableness of management's estimate of the allowance for loan losses.<br><br>See Note 28 to the consolidated financial statements. | Our audit procedures related to the assessment and measurement of expected credit losses on loans to customers included:<br><br>• Testing the design and the effectiveness of internal controls over the correct classification of the loan portfolio between stages of credit risk and the use of appropriate key assumptions on the assessment of probability of default for loans to customers;<br>• Assessment of 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*;<br>• Testing of the completeness and accuracy of data, including historical data, using external and internal information;<br>• For individually assessed loans, obtaining the Group's schedule classifying all borrowers between stages of credit risk and, based on information from open sources, on a sample basis, testing that borrowers with default indicators were appropriately classified for the purposes of the expected credit loss calculation;<br>• For evaluation of probability of default of individually assessed loans, with the involvement of our internal actuarial specialists, obtaining the validation report and testing of the outcome of the model against observed losses, as well as performing an analysis of the alternative appropriate ranges of probability of defaults; and<br>• For collectively assessed loans, with the assistance of our internal actuarial specialists, performing an analysis of the integrity of the models and verifying the most critical underlying assumptions against historical data and recent trends of default ratios.<br><br>We also assessed the compliance of the disclosures in the consolidated financial statements with the requirements of IFRS 9, *Financial Instruments*. |

**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, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

ВКозырев

Акционерное общество «Делойт и Туш СНГ»
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Vladimir Kozyrev
Engagement leader

16 March 2020

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## AS OF DECEMBER 31, 2019 AND 2018
***(Amounts in millions of Russian Rubles)***

| | Notes | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 19 | 265,479 | 276,443 |
| Investment property | | 2,986 | 2,177 |
| Right-of-use assets | 24 | 138,817 | 149,007 |
| Goodwill | 20 | 38,675 | 39,107 |
| Other intangible assets | 22 | 79,729 | 95,962 |
| Investments in associates and joint ventures | 15 | 6,450 | 10,735 |
| Other investments | 16 | 11,195 | 16,873 |
| Deferred tax assets | 11 | 9,975 | 11,190 |
| Accounts receivable, related parties | 30 | 10,787 | 2,545 |
| Trade accounts receivable | 17 | 3,556 | 2,600 |
| Bank deposits and loans to customers | 28 | 53,472 | 30,653 |
| Other financial assets | 27 | 3,220 | 4,729 |
| Other assets | | 4,981 | 5,038 |
| **Total non-current assets** | | **629,322** | **647,059** |
| CURRENT ASSETS: | | | |
| Inventories | 18 | 15,515 | 18,654 |
| Trade and other receivables | 17 | 35,595 | 34,543 |
| Accounts receivable, related parties | 30 | 5,872 | 6,385 |
| Bank deposits and loans to customers | 28 | 39,370 | 32,385 |
| Short-term investments | 14 | 25,618 | 47,863 |
| Advances paid and prepaid expenses | | 4,107 | 4,208 |
| VAT receivable | | 9,350 | 7,415 |
| Income tax assets | | 4,301 | 3,887 |
| Assets held for sale | | 497 | 2,694 |
| Cash and cash equivalents | 13 | 38,070 | 84,075 |
| Other financial assets | 27 | 14,558 | 25,487 |
| Other assets | | 1,735 | 1,338 |
| **Total current assets** | | **194,588** | **268,934** |
| **TOTAL ASSETS** | | **823,910** | **915,993** |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2019 AND 2018 (CONTINUED)

***(Amounts in millions of Russian Rubles)***

| | Notes | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| EQUITY: | | | |
| Common stock | 31 | 200 | 200 |
| Treasury stock | 31 | (59,748) | (44,808) |
| Additional paid-in capital | | - | - |
| Retained earnings | | 85,249 | 110,946 |
| Accumulated other comprehensive income/(loss) | 31 | 7,367 | (1,064) |
| Equity attributable to owners of the Company | | 33,068 | 65,274 |
| Non-controlling interests | | 3,326 | 12,291 |
| **Total equity** | | **36,394** | **77,565** |
| NON-CURRENT LIABILITIES: | | | |
| Borrowings | 23 | 271,573 | 365,072 |
| Lease obligations | 24 | 140,080 | 144,740 |
| Bank deposits and liabilities | 28 | 1,805 | 2,633 |
| Deferred tax liabilities | 11 | 17,866 | 24,439 |
| Provisions | 26 | 4,761 | 3,391 |
| Contract liabilities | 6 | 589 | 558 |
| Other financial liabilities | 27 | 955 | 481 |
| Other liabilities | | 1,430 | 1,643 |
| **Total non-current liabilities** | | **439,059** | **542,957** |
| CURRENT LIABILITIES: | | | |
| Trade and other payables | | 71,808 | 53,623 |
| Accounts payable, related parties | 30 | 558 | 1,301 |
| Contract liabilities | 6 | 20,718 | 21,597 |
| Borrowings | 23 | 71,746 | 3,063 |
| Lease obligations | 24 | 15,228 | 15,812 |
| Bank deposits and liabilities | 28 | 136,147 | 108,821 |
| Income tax liabilities | | 784 | 1,792 |
| Provisions | 26 | 11,526 | 70,911 |
| Other financial liabilities | 27 | 1,424 | 4,648 |
| Other liabilities | | 18,518 | 13,903 |
| **Total current liabilities** | | **348,457** | **295,471** |
| **TOTAL EQUITY AND LIABILITIES** | | **823,910** | **915,993** |

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

President and CEO

Alexey V. Kornya

March 12, 2020

Vice-president, Finance

Andrey M. Kamensky

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
## FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
***(Amounts in millions of Russian Rubles, except per share amounts)***

| | Notes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Service revenue | | 406,839 | 382,698 | 365,830 |
| Sales of goods | | 69,267 | 68,768 | 52,088 |
| **Revenue** | 5,6 | **476,106** | **451,466** | **417,918** |
| Cost of services | | 114,995 | 104,929 | 115,656 |
| Cost of goods | 18 | 63,889 | 63,253 | 45,475 |
| Selling, general and administrative expenses | 7 | 90,796 | 83,427 | 90,349 |
| Depreciation and amortization | 5 | 96,279 | 95,386 | 73,940 |
| Operating share of the profit of associates and joint ventures | 15 | (4,583) | (3,799) | (3,210) |
| Impairment of non-current assets | 21 | (148) | 149 | 3,775 |
| Impairment of financial assets | | 7,756 | 3,661 | 2,903 |
| Other income | | (7,066) | (4,561) | (1,211) |
| **Operating profit** | 5 | **114,188** | **109,021** | **90,241** |
| Finance income | 8 | (4,356) | (5,587) | (5,255) |
| Finance costs | 8 | 47,368 | 36,988 | 26,011 |
| Currency exchange (gain) / loss | | (2,106) | 4,043 | (818) |
| Non-operating share of the (profit) / loss of associates and joint ventures | 15 | (3,496) | 909 | 436 |
| Change in fair value of financial instruments | | 7,455 | (5,385) | (110) |
| Other expenses | | 2,450 | 934 | 990 |
| **Profit before tax** | | **66,873** | **77,119** | **68,987** |
| Income tax expense | 11 | 15,750 | 15,395 | 17,780 |
| **Profit for the year from continuing operations** | | **51,123** | **61,724** | **51,207** |
| (Profit) / loss from discontinued operations | 10, 33 | (3,976) | 53,892 | (5,383) |
| **Profit for the year** | | **55,099** | **7,832** | **56,590** |
| Profit for the year attributable to: | | | | |
| Owners of the Company | | 54,241 | 6,848 | 56,042 |
| Non-controlling interests | | 858 | 984 | 548 |
| Earnings per share from continuing operations (basic and diluted), Russian Rubles: | 12 | 28.22 and 28.18 | 32.42 and 32.38 | 26.21 and 26.19 |
| Earnings per share from discontinued operations (basic and diluted), Russian Rubles: | 12 | 2.23 and 2.23 | (28.76) and (28.73) | 2.76 and 2.75 |

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

President and CEO

Alexey V. Kornya

March 12, 2020

Vice-president, Finance

Andrey M. Kamensky

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**
***(Amounts in millions of Russian Rubles)***

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Profit for the year** | **55,099** | **7,832** | **56,590** |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Unrecognized actuarial gain / (loss) | - | 167 | (40) |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Reclassification to profit and loss due to Disposal of VF Ukraine (Note 10) | 7,947 | - | - |
| Exchange differences on translating foreign operations | 1,134 | 7,416 | (2,469) |
| Net fair value (loss) / gain on financial instruments | (237) | (103) | 495 |
| **Share of other comprehensive (loss) / income of associates** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translating foreign operations in associates | (413) | 319 | (810) |
| **Other comprehensive income / (loss) for the year, net of income tax** | **8,431** | **7,799** | **(2,824)** |
| **Total comprehensive income for the year** | **63,530** | **15,631** | **53,766** |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | 62,672 | 14,638 | 53,218 |
| Non-controlling interests | 858 | 993 | 548 |

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

President and CEO

Alexey V. Kornya

March 12, 2020

Vice-president, Finance

Andrey M. Kamensky

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
### *(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, 2017** | **1,998,381,575** | **200** | **(11,482,047)** | **(748)** | **191** | **(155)** | **(6,418)** | **543** | **145,622** | **139,235** | **4,713** | **143,948** |
| Profit 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 15) | - | - | - | - | - | - | (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 31) | - | - | (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** |
| Adjustment on initial application of IFRS 15 (net of tax) | - | - | - | - | - | - | - | - | 2,528 | 2,528 | 17 | 2,545 |
| Adjustment on initial application of IFRS 9 (net of tax) | - | - | - | - | - | - | - | - | 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 |
| Net fair value (loss) / gain on financial instruments | - | - | - | - | - | (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 31) | - | - | (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** |

## PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY
### FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017 (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, 2018** | **1,998,381,575** | **200** | **(167,638,899)** | **(44,808)** | **-** | **237** | **(1,971)** | **670** | **110,946** | **65,274** | **12,291** | **77,565** |
| Profit for the year | - | - | - | - | - | - | - | - | 54,241 | 54,241 | 858 | 55,099 |
| Disposal of VF Ukraine (Note 10) | - | - | - | - | - | - | 7,947 | - | - | 7,947 | - | 7,947 |
| Currency translation adjustment | | | | | | | 721 | - | | 721 | - | 721 |
| Net fair value (loss) / gain on financial instruments | - | - | - | - | - | (237) | - | - | - | (237) | - | (237) |
| **Total comprehensive (loss) / income for the year** | **-** | **-** | **-** | **-** | **-** | **(237)** | **8,668** | **-** | **54,241** | **62,672** | **858** | **63,530** |
| Issuance of stock options | - | - | - | - | 872 | - | - | - | - | 872 | - | 872 |
| Exercise of stock options | - | - | 3,610,561 | 982 | (1,060) | - | - | - | - | (78) | - | (78) |
| Dividends declared by MTS | - | - | - | - | - | - | - | - | (74,302) | (74,302) | - | (74,302) |
| Dividends to non-controlling interests | - | - | - | - | - | - | - | - | - | - | (1,123) | (1,123) |
| Purchase of own stock (Note 31) | - | - | (61,519,084) | (15,922) | - | - | - | - | - | (15,922) | - | (15,922) |
| Purchase of non-controlling interests | - | - | - | - | (4,162) | - | - | - | - | (4,162) | (8,700) | (12,862) |
| Acquisitions under common control (Note 4) | - | - | - | - | (1,286) | - | - | - | - | (1,286) | - | (1,286) |
| Reclass to retained earnings | - | - | - | - | 5,636 | - | - | - | (5,636) | - | - | - |
| **Balances at December 31, 2019** | **1,998,381,575** | **200** | **(225,547,422)** | **(59,748)** | **-** | **-** | **6,697** | **670** | **85,249** | **33,068** | **3,326** | **36,394** |

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

# PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
***(Amounts in millions of Russian Rubles)***

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit for the year | 55,099 | 7,832 | 56,590 |
| **Adjustments for:** | | | |
| Depreciation and amortization | 106,948 | 104,588 | 79,912 |
| Impairment of non-current assets | (148) | 149 | 3,775 |
| Impairment of financial assets | 7,761 | 3,694 | 2,923 |
| Loss from sale of Ukraine operations (Note 10) | 5,499 | - | - |
| Provision related to SEC investigation (Note 33) | - | 55,752 | - |
| Finance income | (4,805) | (5,981) | (5,548) |
| Finance costs | 48,711 | 38,165 | 26,064 |
| Income tax expense | 17,671 | 16,969 | 18,977 |
| Currency exchange (gain)/loss | (5,628) | 6,892 | (1,301) |
| Share of profit of associates | (8,079) | (2,890) | (2,774) |
| Change in fair value of financial instruments | 7,412 | (5,384) | (110) |
| Inventory obsolescence expense | 2,207 | 3,326 | 2,179 |
| Change in provisions | 305 | (1,474) | 1,556 |
| Other non-cash items | (6,882) | (3,479) | (657) |
| **Movements in operating assets and liabilities:** | | | |
| (Increase) / Decrease in trade and other receivables | (3,808) | 438 | (3,514) |
| Increase in bank deposits and loans to customers | (34,452) | (15,367) | - |
| Decrease / (Increase) in inventory | 3 | (11,292) | 2,200 |
| Decrease in advances paid and prepaid expenses | 3,478 | 1,429 | 1,197 |
| (Increase) / Decrease in VAT receivable | (2,522) | 72 | (1,145) |
| Increase / (Decrease) in trade and other payables and other current liabilities | 6,825 | (58) | 3,200 |
| Increase in bank deposits and liabilities | 27,823 | 4,100 | - |
| Fines and penalties related to investigation into former operations in Uzbekistan (Note 33) | (55,607) | - | |
| Dividends received | 3,707 | 3,726 | 3,590 |
| Income tax paid | (23,943) | (19,777) | (22,427) |
| Interest received | 5,263 | 10,016 | 3,319 |
| Interest paid, net of interest capitalized | (46,186) | (37,056) | (23,366) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | **106,652** | **154,390** | **144,640** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of subsidiaries, net of cash acquired (Note 4) | (2,052) | (3,444) | (367) |
| Purchases of property, plant and equipment (including capitalized interest in the amount of RUB 550 million, RUB 460 million and RUB 307 million, respectively) | (68,465) | (64,731) | (53,366) |
| Purchases of other intangible assets | (23,016) | (21,751) | (23,065) |
| Purchase of Avantage | - | (7,559) | - |
| Purchase of 3G and 4G licenses in Armenia and Ukraine | (255) | (5,527) | - |
| Cost to obtain and fulfill contracts, paid | (4,651) | (4,764) | - |
| Proceeds from sale of property, plant and equipment and assets held for sale | 6,536 | 5,905 | 4,343 |
| Purchases of short-term and other investments | (22,714) | (18,754) | (33,717) |
| Proceeds from sale of short-term and other investments | 47,139 | 38,596 | 25,385 |
| Investments in associates (Note 15) | (75) | (3,871) | (723) |
| Cash (payments) and proceeds related to swap contracts | (2,459) | 6,892 | - |
| Proceeds from sale of subsidiaries, net of cash disposed (Note 10) | 37,386 | 619 | - |
| Proceeds from sale/liquidation of associates (Note 15) | 3,067 | - | - |
| Other investing activities | 5 | - | - |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(29,554)** | **(78,389)** | **(81,510)** |

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017 (CONTINUED)
***(Amounts in millions of Russian Rubles)***

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Repayment of notes | (189) | (27,983) | (12,042) |
| Proceeds from issuance of notes | 72,500 | 27,550 | 45,000 |
| Notes and debt issuance cost paid | (111) | (39) | (98) |
| Lease obligation principal paid | (15,154) | (13,577) | (774) |
| Dividends paid | (52,505) | (50,054) | (51,759) |
| Acquisition of entities under common control, net of cash acquired | (15,312) | (13,242) | - |
| Proceeds from loans | 62,415 | 95,000 | 25,136 |
| Repayment of loans | (156,511) | (20,076) | (32,239) |
| Payments under credit guarantee agreement related to foreign-currency hedge (Note 29) | - | (981) | (1,766) |
| Repurchase of common stock | (15,922) | (22,655) | (21,896) |
| Other financing activities | 341 | 133 | (7) |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(120,448)** | **(25,924)** | **(50,445)** |
| Effect of exchange rate changes on cash and cash equivalents | (2,655) | 3,412 | (569) |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | **(46,005)** | **53,489** | **12,116** |
| **CASH AND CASH EQUIVALENTS, beginning of the year** | **84,075** | **30,586** | **18,470** |
| **CASH AND CASH EQUIVALENTS, end of the year** | **38,070** | **84,075** | **30,586** |

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, 2019 and 2018, and for the years ended 31 December 2019, 2018 and 2017 were authorized for issue by the President of the Company on March 12, 2020.

***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, integration services as well as the sale of equipment, accessories and software. In June 2018 the Group entered the market of banking services through acquisition of controlling stake in PJSC MTS Bank. Upon disposal of its operations in Ukraine in December 2019 (Note 10), the Group primarily operates in Russia.

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, 2019 | December 31, 2018 |
|---|---|---|---|
| RTC | Consolidated | 100.0% | 100.0% |
| MTS Turkmenistan (Note 9) | Consolidated | 100.0% | 100.0% |
| Sibintertelecom | Consolidated | 100.0% | 100.0% |
| NVision Group | Consolidated | 100.0% | 100.0% |
| MTS IT | 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 (1) | Consolidated | 100.0% | 100.0% |
| MTS Energo | Consolidated | 100.0% | 100.0% |
| MDTZK LLC (Ticketland) | Consolidated | 100.0% | 100.0% |
| IT Grad | Consolidated | 100.0% | 100.0% |
| RIKT | Consolidated | 100.0% | - |
| Kinopolis | Consolidated | 100.0% | - |
| MTS Armenia | Consolidated | 100.0% | 80.0% |
| MTS Bank (Note 4) | Consolidated | 99.9% | 55.4% |
| MGTS Group | Consolidated | 94.7% | 94.7% |
| Navigation Information Systems Group | Consolidated | 94.7% | 94.7% |
| Kulturnaya Sluzhba (Ponominalu) | Consolidated | 89.1% | 78.2% |
| Oblachny Retail LLC | Consolidated | 50.8% | 50.8% |
| MTS International Funding Limited(2) ("MTS International") | Consolidated | SE | SE |
| VF Ukraine (3) (Note 10) | Consolidated | - | 100.0% |
| MTS Belarus (Note 15) | Equity | 49.0% | 49.0% |
| Sistema Capital | Equity | 30.0% | 30.0% |
| Zifrovoe TV | Equity | 20.0% | 20.0% |
| OZON Holdings Limited (Note 15) | Equity | - | 18.7% |
| YouDo Web Technologies (Note 15) | Equity | 15.5% | 13.7% |
| SWIPGLOBAL | Equity | 15.0% | - |

(1) A wholly-owned subsidiary, through which the Group repurchases its own shares.

(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 23). 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.

(3) Disposed on December 3, 2019.

***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. The result of joint operations does not influence the finanacial statements significantly.

***Non current assets held for sale and discontinued operations*** – The Group classifies assets and disposal groups as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the assets (or disposal group) are available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and their sale is highly probable to occur within a year. Held for sale assets and disposal groups are measured at the lower of carrying amount or fair value less cost to sell.

Assets and liabilities classifies as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of the entity that either has been disposed of or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- Or is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Group's statement of cash flows include both cash flows from continuing and discontinued operations, amounts related to discontinued operations by operating, investing and financing activities are presented in Note 10.

***Functional currency translation methodology*** – As of December 31, 2019, 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"*.

Prior period comparatives for the year ended December 31, 2017 were not restated.

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

**Standards, interpretations and amendments adopted on January 1, 2019**

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

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

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

**Standards, interpretations and amendments in issue but not yet effective**

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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.

**1. 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 19 and 22 for further information.

**2. 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.

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 21 for further information.

**3. 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 27 for further information.

**4. 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 Notes 26 and Note 33 for further information.

**5. 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 the Group's 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.

See Note 24 for further information.

**6. 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 at 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 Notes 17 and 28 for further information.

## 4. BUSINESS ACQUISITIONS AND DISPOSALS

Unless stated otherwise, all business combinations disclosed were accounted for by applying the acquisition method. Goodwill recognized as a result of the acquisitions is not expected to be deductible for income tax purposes.

**Acquisitions in 2019**

***Acquisition of JSC RIKT*** – In June 2019, the Group acquired a 97.4% ownership interest in JSC RIKT ("RIKT"), a fixed-line operator in the Kemerovo region, for cash consideration of RUB 360 million. This acquisition allows the Group to increase its market share in the region. In September 2019, the Group finalized the mandatory share repurchase from minority shareholders of RIKT and increased its share to 100%.

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

The fair values of the identifiable assets and liabilities of RIKT as at the date of acquisition were as follows:

| | |
|---|---|
| **Goodwill [(1)]** | **105** |
| Other intangible assets [(2)] | 172 |
| Property, plant and equipment | 118 |
| Trade and other receivables | 12 |
| Cash and cash equivalents | 6 |
| Other current assets | 9 |
| Other non-current assets | 14 |
| Current liabilities | (37) |
| Non-current liabilities | (39) |
| **Consideration transferred (in cash)** | **360** |

(1) The goodwill is attributable to the expected synergies resulted from the acquisition and allocated to the "Russia Convergent" operating segment.
(2) Amortized over the average term of 12 years.

***Acquisitions under common control, accounted for directly in equity***

***Acquisition of JSC Objedinennye Russkie Kinostudii –*** In April 2019, the Group acquired JSC Objedinennye Russkie Kinostudii ("Kinopolis") from Business-Nedvizhimost, a subsidiary of Sistema, for total consideration of RUB 2,042 million. Kinopolis owns fully equipped movie complex in Saint-Petersburg. Acquisition of Kinopolis enables the Group to develop its own entertainment content.

***Acquisition of property complex at Narodnogo opolcheniya street («Narodnoje»)*** – In August 2019, the Group acquired Narodnoje property complex from Sistema for total consideration of RUB 329 million. The property complex comprises office facilities leased by the Group and hostel premises leased by a third party and operates under management agreement with Business-Nedvizhimost, a subsidiary of Sistema. The acquisition enables the Group to optimize its rental expenses and enhance its investment property portfolio.

The following table summarizes the details of acquisitions of subsidiaries under common control finalized in 2019:

| Acquired company | Consideration paid net of cash acquired* | Cash acquired | Assets acquired other than cash | Liabilities assumed |
|---|---|---|---|---|
| **Kinopolis** | 2,030 | 12 | 1,017 | 58 |
| **Narodnoje** | 329 | - | 102 | - |
| **Total effect of acquisitions under common control** | **2,359** | **12** | **1,019** | **58** |

* 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*)

**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 which was payable 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.

***Acquisition of MDTZK*** – 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 which was 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 ProgTech –*** In August 2018, the Group acquired a 99% ownership interest in science and production association Progressivniye Technologii CJSC ("ProgTech"), 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.

***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 was bound to 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 fair values of the identifiable assets and liabilities of acquired companies as at the dates of acquisitions were the following:

| | KS | MDTZK | ProgTech |
|---|---|---|---|
| **Goodwill** | **479** (1) | **2,033** (2) | **213** (3) |
| Customer base | 37 (4) | 727 (4) | 123 (5) |
| Trademark | 129 (4) | 779 (4) | - |
| Other non-current assets | 43 | 145 | 172 |
| Current assets | 117 | 202 | 15 |
| Cash and cash equivalents | 39 | 542 | 28 |
| Current liabilities | (383) | (868) | (80) |
| Liability under put option agreement over non-controlling interests | (106) | - | - |
| Non-current liabilities | (34) | (370) | (76) |
| **Total consideration** | **321** | **3,190** | **395** |
| ***Including:*** | | | |
| Fair value of contingent consideration | 54 | - | 3 |
| Cash paid | 267 | 3,190 | 392 |

(1) The goodwill is attributable to the market significance of the acquiree in the Russian event ticketing industry and expected synergies resulted from the acquisition and allocated to the "Ponominalu" operating segment.

(2) The goodwill is attributable to the market significance of the acquiree in the Russian event ticketing industry and expected synergies resulted from the acquisition and allocated to the "Ticketland" operating segment.

(3) The goodwill is attributable to the expected synergies resulted from the acquisition and allocated to the "Moscow fixed line" operating segment.

(4) Amortized over the term of 10 years.

(5) Amortized over the term of 15 years.

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

The purchase price allocation of IT-Grad was not finalized as of the date the 2018 financial statements were authorised for issue as the Group had not completed the valuation of the individual assets of the company acquired. The Group's consolidated financial statements as of December 31, 2018 reflected the allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed. In 2019 the Group finalized the valuation of assets of IT-Grad and the acquisition date fair value of the assets changed since the preliminary calculations. The following table summarizes the purchase price allocation for IT-Grad as of December 31, 2019:

| | Preliminary amounts | Measurement period adjustments | Final amounts |
|---|---|---|---|
| **Goodwill** | **1,877 (1)** | - | **1,877 (1)** |
| Customer base | 643 | (192) | 451 (2) |
| Trademark | - | 41 | 41 |
| Other non-current assets | 32 | 128 | 160 |
| Current assets | 44 | - | 44 |
| Cash and cash equivalents | 13 | - | 13 |
| Current liabilities | (59) | (47) | (106) |
| Non-current liabilities | (128) | 4 | (124) |
| **Total consideration** | **2,422** | (66) | **2,356** |
| ***Including:*** | | | |
| Fair value of contingent consideration | 907 | (66) | 841 |
| Cash paid | 1,515 (3) | - | 1,515 (3) |

(1) The goodwill is attributable to the market position obtained and expected synergies resulted from the acquisition and allocated to the "Russia Convergent" operating segment.
(2) Amortized over the term of 7 years.
(3) Cash consideration for IT-Grad was paid in 2019.

According to the terms of the purchase agreements, deferred payments and contingent consideration payable by the Group could be reduced by the amount of any losses incurred by the Group in respect of any tax or other 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. 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 | - |

As of December 31, 2019 the consideration payable relating to acquisitions of KS and MDTZK was fully settled by the Group. The Group recognized the indemnification asset in respect to deferred payments on acquisition of ProgTech as of December 31, 2019:

| | |
|---|---|
| Deferred payment per agreement | 32 |
| Provision for tax liabilities related to the pre-acquisition period | (29) |
| Indemnification asset | 3 |

Certain conditions precedent to the payment of contingent consideration for IT-Grad acquisition were not satisfied as of December 31, 2019 and the payment of RUB 691 million was not effected in 2019. As of December 31, 2019 the Group recognized the liability for contingent consideration in amount of RUB 907 million.

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

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.

***Acquisitions under common control, accounted for directly in equity***

***Acquisition of Dekart –*** In October 2018, the Group acquired 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 enables the Group to optimize its rental expenses and enhance 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.

In 2019 the Group increased its share in MTS Bank to 99.9% as of December 31, 2019 through participation in additional share issuance and purchase from Sistema. Consideration paid to Sistema for additional share in MTS Bank amounted to RUB 12,855 million.

***Acquisition of Serebryaniy Bor –*** In December 2018, the Group acquired 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 details of acquisitions of subsidiaries under common control in 2018 are as follows:

| **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 |
| **Total effect of acquisitions under common control** | **13,242** | **1,401** | **129,969** | **128,290** |

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

**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.

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

***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 based upon operational targets of Praliss in 2018 - 2019.

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 (1)** | **524 (2)** | **208 (3)** |
| Licenses | 260 (4) | - | - |
| 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 |

(1) The goodwill is attributable to the expected synergies resulted from the acquisition and allocated to the "Russia convergent" operating segment.

(2) The goodwill is attributable to the company employees and expected synergies resulted from the acquisition and allocated to the "Oblachny Retail" operating segment.

(3) The goodwill is attributable to the expected synergies resulted from the acquisition and allocated to the "eSports" operating segment.

(4) Amortized over the term of 15 years on average.

The Group also entered into an option agreement with the shareholders of 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, 2019 the consideration payables relating to acquisitions of BCC, Oblachny Retail and Praliss were fully settled by the Group.

***Pro forma results of operations*** – The following pro forma financial data for the years ended December 31, 2019, 2018 and 2017 give effect to the business combinations as they had been completed at the beginning of the year.

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Pro forma:** | **RIKT, Kinopolis, Narodnoje** | **MTS Bank, MDTZK, Kulturnaya Sluzhba, Progtech, Dekart, IT Grad, Serebryaniy Bor** | **Oblachny Retail, BCC, Praliss** |
| Net revenues | 476,257 | 463,110 | 418,185 |
| Net income | 55,101 | 8,194 | 55,881 |

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

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, 2017, 2018, or 2019, 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 and are presented as follows:

| | **2019** | **2018** | **2017** |
|---|---|---|---|
| | **RIKT, Kinopolis, Narodnoje** | **MTS Bank, MDTZK, Kulturnaya Sluzhba, Progtech, Dekart, IT Grad, Serebryaniy Bor** | **Oblachny Retail, BCC, Praliss** |
| Net revenues | 238 | 13,261 | 37 |
| Net (loss)/income | (15) | 615 | (105) |

## 5. 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. Management of the Group 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***: was excluded from operating segments presentation as a result of its disposal in December 2019 (Note 10). This exclusion was retrospectively presented in each of 2018 and 2017.

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

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.

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

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

Financial information by reportable segments is presented below:

**Year ended December 31, 2019:**

| | Russia Convergent | Moscow Fixed Line | MTS Bank | Total | Other | HQ and elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External customers | 391,084 | 34,598 | 29,304 | 454,986 | 21,026 | 94 | 476,106 |
| Intersegment | 9,295 | 4,253 | 1,881 | 15,429 | 16,474 | (31,903) | - |
| **Total revenue** | **400,379** | **38,851** | **31,185** | **470,415** | **37,500** | **(31,809)** | **476,106** |
| Operating profit/(loss) | 102,869 | 17,244 | 3,473 | 123,586 | 3,569 | (12,967) | 114,188 |
| Depreciation and amortization | (84,311) | (9,506) | (1,082) | (94,899) | (3,608) | 2,228 | (96,279) |
| **Other disclosure:** | | | | | | | |
| Capital expenditures | 76,472 | 9,100 | 2,414 | 87,986 | 3,025 | - | 91,011 |

**Year ended December 31, 2018:**

| | Russia Convergent | Moscow Fixed Line | MTS Bank | Total | Other | HQ and elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External customers | 385,912 | 34,348 | 11,534 | 431,794 | 19,549 | 123 | 451,466 |
| Intersegment | 6,258 | 4,498 | 538 | 11,294 | 12,780 | (24,074) | - |
| **Total revenue** | **392,170** | **38,846** | **12,072** | **443,088** | **32,329** | **(23,951)** | **451,466** |
| Operating profit/(loss) | 105,377 | 12,695 | 1,512 | 119,584 | 1,072 | (11,635) | 109,021 |
| Depreciation and amortization | (82,457) | (10,867) | (547) | (93,871) | (3,620) | 2,105 | (95,386) |
| **Other disclosure:** | | | | | | | |
| Capital expenditures | 67,863 | 6,306 | 683 | 74,852 | 13,596 | - | 88,448 |

**Year ended December 31, 2017:**

| | Russia Convergent | Moscow Fixed Line | MTS Bank | Total | Other | HQ and elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External customers | 365,846 | 34,350 | - | 400,196 | 17,617 | 105 | 417,918 |
| Intersegment | 5,136 | 4,683 | - | 9,819 | 12,786 | (22,605) | - |
| **Total revenue** | **370,982** | **39,033** | **-** | **410,015** | **30,403** | **(22,500)** | **417,918** |
| Operating profit/(loss) | 93,821 | 8,801 | - | 102,622 | (871) | (11,510) | 90,241 |
| Depreciation and amortization | (59,942) | (10,642) | - | (70,584) | (3,481) | 125 | (73,940) |
| **Other disclosure:** | | | | | | | |
| Capital expenditures | 65,790 | 7,403 | - | 73,193 | 2,392 | - | 75,585 |

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

Financial information by geographic area is presented below:

| **Revenue** | **2019** | **2018** | **2017** |
|---|---|---|---|
| Russia | 464,916 | 440,899 | 405,365 |
| Other | 11,190 | 10,567 | 12,553 |
| **Total revenue** | **476,106** | **451,466** | **417,918** |

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

| Non-current assets [(1)] | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Russia | 373,803 | 357,361 |
| Other | 10,080 | 54,151 |
| **Total non-current assets:** | **383,883** | **411,512** |

(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, 2019:** | **Russia Convergent** | **Moscow Fixed Line** | **MTS Bank** | **Total** | **Other** | **HQ and elimination** | **Consoli-dated** |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| *Mobile services* | 308,847 | 1,938 | - | 310,785 | 6,668 | 94 | 317,547 |
| *Fixed line services* | 23,085 | 32,543 | - | 55,628 | 376 | - | 56,004 |
| *Finance services* | - | - | 29,304 | 29,304 | - | - | 29,304 |
| *Integration services* | 1,475 | - | - | 1,475 | 2,508 | - | 3,983 |
| *Sales of goods* | 57,677 | 117 | - | 57,794 | 9,999 | - | 67,793 |
| *Other services* | - | - | - | - | 1,475 | - | 1,475 |
| External Customers | 391,084 | 34,598 | 29,304 | 454,986 | 21,026 | 94 | 476,106 |
| Intersegment | 9,295 | 4,253 | 1,881 | 15,429 | 16,474 | (31,903) | - |
| **Total revenue** | **400,379** | **38,851** | **31,185** | **470,415** | **37,500** | **(31,809)** | **476,106** |
| **Thereof:** | | | | | | | |
| Recognised over time | 333,407 | 34,481 | 21,996 | 389,884 | 11,027 | 94 | 401,005 |
| Recognised at point of time | 57,677 | 117 | 7,308 | 65,102 | 9,999 | - | 75,101 |
| | **391,084** | **34,598** | **29,304** | **454,986** | **21,026** | **94** | **476,106** |

| **Year ended December 31, 2018:** | **Russia Convergent** | **Moscow Fixed Line** | **MTS Bank** | **Total** | **Other** | **HQ and elimination** | **Consoli-dated** |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| *Mobile services* | 304,049 | 1,487 | - | 305,536 | 6,662 | 123 | 312,321 |
| *Fixed line services* | 22,939 | 32,739 | - | 55,678 | 377 | - | 56,055 |
| *Finance services* | - | - | 11,534 | 11,534 | - | - | 11,534 |
| *Integration services* | 444 | 5 | - | 449 | 1,089 | - | 1,538 |
| *Sales of goods* | 58,480 | 117 | - | 58,597 | 10,172 | - | 68,769 |
| *Other services* | - | - | - | - | 1,249 | - | 1,249 |
| External Customers | 385,912 | 34,348 | 11,534 | 431,794 | 19,549 | 123 | 451,466 |
| Intersegment | 6,258 | 4,498 | 538 | 11,294 | 12,780 | (24,074) | - |
| **Total revenue** | **392,170** | **38,846** | **12,072** | 443,088 | **32,329** | **(23,951)** | **451,466** |
| **Thereof:** | | | | | | | |
| Recognised over time | 327,432 | 34,231 | 8,264 | 369,927 | 9,378 | 123 | 379,428 |
| Recognised at point of time | 58,480 | 117 | 3,270 | 61,867 | 10,172 | - | 72,039 |
| | **385,912** | **34,348** | **11,534** | **431,794** | **19,550** | **123** | **451,466** |

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

| **Year ended December 31, 2017:** | **Russia Convergent** | **Moscow Fixed Line** | **Total** | **Other** | **HQ and elimination** | **Consolidated** |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| *Mobile services* | 297,273 | 798 | 298,071 | 10,236 | 105 | 308,412 |
| *Fixed line services* | 22,358 | 33,453 | 55,811 | 353 | - | 56,164 |
| *Integration services* | 191 | - | 191 | 1,062 | - | 1,253 |
| *Sales of goods* | 46,024 | 99 | 46,123 | 5,966 | - | 52,089 |
| *Other services* | - | - | - | - | - | - |
| External Customers | 365,846 | 34,350 | 400,196 | 17,617 | 105 | 417,918 |
| Intersegment | 5,136 | 4,683 | 9,819 | 12,786 | (22,605) | - |
| **Total revenue** | **370,982** | **39,033** | 410,015 | **30,403** | **(22,500)** | 417,918 |
| **Thereof:** | | | | | | |
| Recognised over time | 319,822 | 34,251 | 354,073 | 11,651 | 105 | 365,829 |
| Recognised at point of time | 46,024 | 99 | 46,123 | 5,966 | - | 52,089 |
| | **365,846** | **34,350** | **400,196** | **17,617** | **105** | **417,918** |

## 6. 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, cloud services, tickets distribution, as well as selling equipment, accessories and software. Products and services may be sold separately or in bundle packages. The most significant part of revenue relates to prepaid contracts.

Revenue for access charges, voice and video calls, rendering of cloud services, 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 commission services for tickets distribution is recognized as services are rendered.

Revenue from sales of goods (mainly mobile handsets, other mobile devices, software licences) 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 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.

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. Loan origination fees are deferred together with the related direct costs and are recognised as an adjustment to the effective interest rate of the loan. Comission revenue which is also a significant part of MTS Bank revenue is either recognized at the moment the related operation occurs, or during the period of customer contract duration.

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.

***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.

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

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

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Receivables | 35,019 | 28,097 |
| Contract assets | 149 | 105 |
| **Total assets** | **35,168** | **28,202** |
| Less current portion | (31,611) | (28,192) |
| **Total non-current assets** | **3,557** | **10** |
| Contract liabilities | (21,307) | (22,155) |
| *Thereof:* | | |
| *Mobile and fixed telecommunication services* | (18,849) | (20,094) |
| *Other services* | (2,115) | (1,741) |
| *Loyalty programme* | (343) | (320) |
| **Total liabilities** | **(21,307)** | **(22,155)** |
| Less current portion | 20,718 | 21,597 |
| **Total non-current liabilities** | **(589)** | **(558)** |

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

| | 2019 | 2018 |
|---|---|---|
| **Balance as of January 1** | **(22,155)** | **(18,461)** |
| Revenue recognised that was included in the contract liability balance at the beginning of the period | 19,951 | 10,999 |
| Increase due to cash received, excluding amount recognised as revenue during the period | (22,659) | (14,390) |
| Disposal of VF Ukraine | 3,556 | - |
| Business combinations | - | (303) |
| **Balance as of December 31** | **(21,307)** | **(22,155)** |

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

| | 2020 | 2021-2025 | 2026-2030 | After 2030 | Total |
|---|---|---|---|---|---|
| Mobile telecommunication services | 18,260 | 581 | 8 | - | **18,849** |
| Other services | 2,115 | - | - | - | **2,115** |
| Loyalty programme | 343 | - | - | - | **343** |

The total transaction price assigned to unsutisfied performance obligations is presented below:

| | 2020 | 2021-2025 | 2026-2030 | After 2030 | Total |
|---|---|---|---|---|---|
| Telecommunication services | 2,398 | 3,986 | 151 | 119 | **6,654** |
| Integration services | 174 | 181 | - | - | **355** |
| Sale of goods | 2,026 | 2,917 | - | - | **4,943** |

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

The transaction price assigned to unsutisfied performance obligations with undefined year of recognition within the period from 2020 to 2025 is amounted to RUR 16,942 million. The period of recognition depends on the date of placement an order by a customer.

***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.

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.

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 with the expected duration of more than twelve months. These costs are amortized on a straight-line basis over the average life of a long-lived subscriber.

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 generally for the period of average subscriber life.

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

| | December 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Cost to obtain contracts** | | |
| Gross book value | 13,635 | 23,360 |
| Accumulated amortization | (6,394) | (16,343) |
| **Cost to fulfill contracts** | | |
| Gross book value | 2,918 | 2,180 |
| Accumulated amortization | (1,221) | (566) |

Amortization expense related to cost to obtain and fulfill contracts recognized for the years ended December 31, 2019 and 2018 amounted to RUB 3,940 million and RUB 4,371 million, respectivly. There was no impairment loss relating to the costs capitalized.

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended December 31, 2019, 2018 and 2017 comprised the following:

| | **2019** | **2018** | **2017** |
|---|---|---|---|
| Salaries and social contributions | 51,091 | 44,932 | 43,239 |
| Advertising and marketing expenses | 10,931 | 9,288 | 7,882 |
| General and administrative expenses | 7,723 | 7,703 | 7,957 |
| Universal service fund | 3,587 | 3,535 | 3,462 |
| Cash collection commission | 3,504 | 3,660 | 3,613 |
| Dealers commission | 3,081 | 2,760 | 5,798 |
| Utilities and maintenance | 2,809 | 2,821 | 9,297 |
| Consulting expenses | 2,652 | 1,980 | 1,905 |
| Taxes other than income tax | 2,490 | 3,766 | 3,676 |
| Billing and data processing | 857 | 978 | 1,041 |
| Other | 2,071 | 2,004 | 2,479 |
| **Total** | **90,796** | **83,427** | **90,349** |

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

## 8. FINANCE INCOME AND COSTS

Finance income and costs for the years ended December 31, 2019, 2018 and 2017 comprised the following:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Interest expense:** | | | |
| – Loans and notes | 30,105 | 25,589 | 22,088 |
| – Amortization of debt issuance costs | 489 | 415 | 623 |
| – Lease obligations[(1)] | 13,416 | 12,852 | 954 |
| – Provisions: unwinding of discount | 113 | 151 | 70 |
| **Total interest expense** | **44,123** | **39,007** | **23,735** |
| Loss on financial instruments | 780 | 1,008 | 2,486 |
| Other finance costs | 153 | 47 | 97 |
| **Total finance costs** | **45,056** | **40,062** | **26,318** |
| Less: amounts capitalized on qualifying assets[(2)] | (550) | (460) | (307) |
| Debt modification/derecognition and other loss/(gain) | 2,862 | (2,614) | - |
| **Finance costs** | **47,368** | **36,988** | **26,011** |
| Finance income on loans and receivables | | | |
| – Interest income on bank deposits | 3,322 | 4,788 | 4,525 |
| – Interest income on loans issued | 91 | 357 | 330 |
| – Other finance income | 943 | 442 | 400 |
| **Finance income** | **4,356** | **5,587** | **5,255** |
| **Net finance costs** | **43,012** | **31,401** | **20,756** |

(1) Starting from January 1, 2018 the Group has applied IFRS 16, "Leases"

(2) The annual weighted average capitalization rates of 8.1%, 8.2% and 8.2% were used to determine the amount of capitalized interest for the years ended December 31, 2019, 2018 and 2017, respectively.

## 9. 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 provide telecommunication services. The license for the provision of telecommunication services on the territory of Turkmenistan was valid until July 2018.

The Group considered these facts as 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** |

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

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, 2019 the case was pending.

In December 2018 the Group started dismantling its network equipment in Turkmenistan and accrued a dismaltlment provision of RUB 228 million. As of December 31, 2019 the dismantling of terminal network equipment was finalized.

## 10. OPERATIONS IN UKRAINE

In November, 2019, the Group entered into an agreement with a third party to dispose its subsidiary Preludium B.V., a 100% owner of VF Ukraine PrJSC, Telecom Kyiv PTT, VF Retail LLC and IT SmartFlex LLC, which carried out the Group's operations in Ukraine and constituted "Ukraine" operating segment. The disposal was completed on December 3, 2019.

The results of operations in Ukraine were reported as discontinued operations in the accompanying consolidated statement of profit or loss for the year ended December 31, 2019. The consolidated statements of profit or loss for the years ended December 31, 2018 and December 31, 2017 were retrospectively restated to present operations in Ukraine as discontinued operations.

As of December 3, 2019, the carrying amounts of assets and liabilities pertaining to the discontinued operation and reconciliation of the loss on disposal were as follows:

| | |
|---|---|
| Property, plant and equipment | 26,037 |
| Rights-of-use assets | 8,175 |
| Intangible assets | 18,124 |
| Goodwill | 114 |
| Other non-current assets | 1,534 |
| Other current assets | 10,760 |
| Cash and cash equivalents | 4,181 |
| Non-current liabilities | (9,009) |
| Current liabilities | (17,979) |
| Accumulated other comprehensive loss | 7,948 |
| **Total consideration** | **(44,386)** |
| In the form of: | |
| Cash and cash equivalents (USD 645 million) | (41,567) |
| Deferred consideration (USD 12 million) | (774) |
| Fair value of contingent consideration (variable earn-out) as of December 3, 2019 (USD 32 million) | (2,045) |
| **Loss on disposal** | **5,499** |
| **Net cash inflow arising on disposal:** | **37,386** |
| Cash consideration received | 41,567 |
| Less: cash and cash equivalents disposed of | (4,181) |

The deferred consideration will be settled in cash by the purchaser on or before September 1, 2020.

In the event the results of disposed operation achieve certain performance criteria for the periods starting 2019 and ending 2022 as specified in an 'earn out' clause of the sale agreement, additional consideration will be payable by the buyer. As of December 3, 2019 the Group recognized contingent consideration receivable as a financial asset at fair value through profit or loss in the amount of RUB 2,045 million. As of December 31, 2019, the fair value of the financial asset amounted to RUB 2,013 million. A gain of RUB 48 million resulting from fair value measurement and loss of RUB 80 million resulting from currency revaluation were recognized in discontinued operations in the consolidated statement of profit or loss.

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

The results of the “Ukraine” operating segment reported in discontinued operations included in the profit in the concolidated statements of profit or loss were as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Revenue | 36,675 | 28,826 | 24,992 |
| Expenses | (28,564) | (22,094) | (18,412) |
| **Profit before tax** | **8,111** | **6,732** | **6,580** |
| Attributable tax expense | (2,018) | (1,575) | (1,197) |
| **Profit for the period** | **6,093** | **5,157** | **5,383** |
| Loss on disposal | (5,499) | - | - |
| Currency revaluation loss on deferred consideration | (30) | - | - |
| Earn-out revaluation | (32) | - | - |
| **Net income attributable to discontinued operations** | **532** | **5,157** | **5,383** |

Cash flows from (used in) discontinued operation are presented as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net cash provided by operating activities | 17,343 | 16,773 | 11,271 |
| Net cash used in investing activities | (13,046) | (15,724) | (10,276) |
| Net cash used in financing activities | (1,114) | (1,057) | (72) |

## 11. 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 were as follows;

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Current income tax charge | 20,759 | 19,215 | 19,760 |
| Prior period tax adjustments | (90) | (133) | 673 |
| **Total current income tax** | **20,669** | **19,082** | **20,433** |
| Deferred tax | (4,919) | (3,687) | (2,653) |
| **Income tax expense on continuing operations** | **15,750** | **15,395** | **17,780** |

Income tax expense on continuing operations excludes the amounts from the discontinued operations of RUB 2,018 million, RUB 1,575 million and RUB 1,197 million for the years ended December 31, 2019, 2018 and 2017, respectively, which have been included in profit / (loss) from discontinued operations in the accompanying consolidated statements of profit or loss (Note 10).

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

The statutory income tax rates in jurisdictions in which the Group operates for 2019, 2018 and 2017 were as follows: Russia and Armenia – 20%, 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, 2019, 2018 and 2017 as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Statutory income tax rate for the year** | **20.0%** | **20.0%** | **20.0%** |
| Adjustments: | | | |
| Expenses not deductible for tax purposes | 2.2 | 0.9 | 1.8 |
| Prior periods tax effects | (0.1) | (0.2) | 0.9 |
| Different tax rate of foreign subsidiaries | (0.4) | (0.2) | 0.2 |
| Earnings distribution from subsidiaries | 2.0 | (0.5) | 1.0 |
| Change in fair value of derivative financial instruments | 0.2 | - | 0.5 |
| Derecognition of deferred tax assets | (0.5) | 0.1 | 0.7 |
| Other | 0.2 | (0.1) | 0.7 |
| **Effective income tax rate** | **23.6%** | **20.0%** | **25.8%** |

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

| | 2019 | 2018 |
|---|---|---|
| Deferred tax assets | 9,975 | 11,190 |
| Deferred tax liabilities | (17,866) | (24,439) |
| **Net deferred tax liabilities** | **(7,891)** | **(13,249)** |

Movements in the deferred tax assets and liabilities for the year ended December 31, 2019 were as follows:

| | December 31, 2018 | Recognised in profit / loss | Recognised in other compre-hensive income | Effect of acquisitions | Effect of disposals | December 31, 2019 |
|---|---|---|---|---|---|---|
| **Assets / (liabilities) arising from tax effect of:** | | | | | | |
| Property, plant and equipment | (16,238) | (1,168) | 42 | 57 | (647) | (17,954) |
| Other intangible assets | (6,080) | (448) | 2 | (5) | (33) | (6,564) |
| Potential distributions from/ to Group's subsidiaries/ associates | (4,019) | (462) | 135 | - | 1,916 | (2,430) |
| Licenses | (1,917) | 154 | 24 | - | - | (1,739) |
| Customer base | (706) | 159 | - | (29) | - | (576) |
| Capitalization of cost to obtain and fulfill contracts | (1,321) | (148) | (1) | - | 22 | (1,448) |
| Accrued expenses for services, write-down of inventories and allowance for ECL | 9,891 | 2,154 | 18 | - | (506) | 11,557 |
| Right-of-use assets and lease obligations | 2,564 | 1,024 | 6 | - | (74) | 3,520 |
| Loss carryforward | 4,256 | 275 | - | 103 | - | 4,634 |
| Provision for investment in Delta Bank in Ukraine | 367 | - | 26 | - | (393) | - |
| Contract liabilities | 954 | 192 | (6) | - | 90 | 1,230 |
| Debt modification | (1,075) | 642 | - | - | - | (433) |
| Hedge and other | 75 | 2,172 | 58 | - | 7 | 2,312 |
| **Net deferred tax liability** | **(13,249)** | **4,546** | **304** | **126** | **382** | **(7,891)** |

**(*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:** | | | | | | |
| 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, write-down of inventories and allowance for ECL | 8,547 | 142 | (823) | 93 | 1,932 | 9,891 |
| 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 | 504 | - | (1,001) | 16 | 556 | 75 |
| **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 statements of financial position as of December 31, 2019 and 2018 amounted to RUB 41,816 million and RUB 42,271 million, respectively.

The Group accrued RUB 825 million and RUB 850 million as of December 31, 2019 and 2018, 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.

## 12. EARNINGS PER SHARE

The following table sets forth the computation of earnings per share for the years ended December 31:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Numerator:** | | | |
| Profit for the year from continuing operations attributable to the owners of the company | 50,265 | 60,740 | 50,659 |
| Profit / (loss) for the year from discontinued operations attributable to the owners of the company | 3,976 | (53,892) | 5,383 |
| **Denominator, in thousands:** | | | |
| Weighted-average ordinary shares outstanding | 1,780,935 | 1,873,563 | 1,953,779 |
| Employee stock options | 2,682 | 2,158 | 1,779 |
| **Weighted-average diluted shares outstanding** | **1,783,617** | **1,875,721** | **1,955,558** |
| **Earnings per share – basic, Russian Rubles** | 30.45 | **3.66** | **28.69** |
| Basic EPS from continuing operations | 28.22 | 32.42 | 25.93 |
| Basic EPS from discontinued operations | 2.23 | (28.76) | 2.76 |
| **Earnings per share – diluted, Russian Rubles** | 30.41 | **3.65** | **28.66** |
| Diluted EPS from continuing operations | 28.18 | 32.38 | 25.91 |
| Diluted EPS from discontinued operations | 2.23 | (28.73) | 2.75 |

## 13. 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, | |
|---|---|---|
| | 2019 | 2018 |
| **Cash and cash equivalents at banks and on hand in:** | | |
| Russian Rubles | 27,749 | 17,012 |
| US Dollars | 1,014 | 4,873 |
| Euro | 2,751 | 2,073 |
| Ukraine Hryvna | 224 | 1,548 |
| Turkmenian Manat | 419 | 721 |
| Other | 844 | 954 |
| **Short-term deposits with an original maturity of less than 92 days:** | | |
| Russian Rubles | 4,859 | 52,764 |
| Ukraine Hryvna | 206 | 3,215 |
| Euro | - | 915 |
| Other | 4 | - |
| **Total cash and cash equivalents** | **38,070** | **84,075** |

## 14. 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 as well as mutual funds are carried at fair value through profit and loss (“FVTPL”), 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.

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

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 in the accompanying consolidated statements of financial position.

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

| | Category | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| Mutual funds (Notes 30) | At FVTPL | 9,349 | - |
| Assets in Sistema-Capital trust management (Notes 27, 30) | At FVTPL | 8,195 | 11,644 |
| Notes / loans | At amortized cost | 6,376 | 22,241 |
| Deposits | At amortized cost | 1,699 | 14,388 |
| Other | | - | 70 |
| **Short-term investments, gross** | | **25,619** | **48,343** |
| Allowance for ECL | | (1) | (480) |
| **Total short-term investments** | | **25,618** | **47,863** |

## 15. 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.

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.

The Group presents its share in profits or losses in associates and joint ventures within operating profit if those interests are viewed as part of Group’s core operations. As of December 31, 2019, only MTS Belarus was considered as part of the Group’s core operating activity. Shares in profits and losses of other Group’s associates and joint ventures were presented as non-operating items.

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

| | Country of operations | Operating activity | December 31, 2019 | December 31, 2018 |
|---|---|---|---|---|
| MTS Belarus | Belarus | telecommunications | 4,502 | 4,051 |
| OZON Holdings Ltd | Russia | e-commerce | - | 4,797 |
| YouDo | Russia | classifieds | 724 | 788 |
| Sistema-Rentnaya Nedvizhimost | Russia | property investments mutual fund | 658 | 690 |
| Other unquoted companies | Russia | | 566 | 409 |
| **Total investments in associates and joint ventures** | | | **6,450** | **10,735** |

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

### MTS Belarus

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

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Non-current assets | 19,496 | 17,659 |
| Current assets | 11,536 | 11,652 |
| **Liabilities** | | |
| Non-current liabilities | (9,849) | (7,089) |
| Current liabilities | (11,995) | (13,955) |
| **Total identifiable net assets** | **9,188** | **8,267** |
| The Group's share in the associate | 49% | 49% |
| The Group's share of identifiable net assets | 4,502 | 4,051 |
| **Carrying amount of the Group's interest** | **4,502** | **4,051** |

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

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Revenue | 32,593 | 27,695 | 23,037 |
| Net profit for the year | 9,354 | 7,752 | 6,552 |
| **The Group's share of the profit of the associate for the year** | **4,583** | **3,799** | **3,210** |
| Other comprehensive (loss)/income for the year (currency translation adjustment) | (842) | 648 | (525) |
| Total comprehensive income for the year | 8,512 | 8,400 | 6,027 |
| **The Group's share of total comprehensive income of the associate for the year** | **4,171** | **4,116** | **2,953** |
| **Dividends received** | **3,587** | **3,691** | **3,590** |

### 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. Although the Group holds less than 20% of equity interests in YouDo, 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, a 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*)

### SWIPGLOBAL

In December 2019, the Group acquired a 15.01% ownership interest in SWIPGLOBAL Limited (SWIPGLOBAL), a parent company of Smart Wallet LLC, Russian provider of authorization and payment solutions, for a cash contribution of RUB 75 million. Although the Group holds less than 20% of the equity interests in SWIPGLOBAL, it has significant influence over the investee based on its representation on the investee's board of directors and certain additional rights related to the decision-making process on key issues.

### MTS Bank

In May 2017, MTS Bank disposed of a 47% stake in East-West United Bank to Sistema, retaining less than 20% and losing 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 its associate MTS Bank from 26.6% to 55.4% and obtained control over the entity. 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 (Note 4).

The Group's share in the net losses of MTS Bank prior to discontinuing use of the equity method was included in the non-operating share of the loss of the associates and joint ventures in the accompanying consolidated statement of profit or loss for the years ended December 31, 2018 and 2017 and is presented as follows:

| | 2018 | 2017 |
|---|---|---|
| Total interest income | 9,289 | 14,204 |
| Total interest (expense) | (3,799) | (6,505) |
| Net loss for the period | (609) | (593) |
| **The Group's share of the loss of the associate for the period** | **162** | **109** |
| Other comprehensive loss for the period | (614) | (2,000) |
| Total comprehensive loss for the period | (1,223) | (2,593) |
| **The Group's share of the total comprehensive loss for the period** | **(326)** | **(690)** |

### OZON

In 2014, the Group acquired a 10.82% stake in OZON Holdings Limited (OZON), a leading Russian e-commerce company. The Group accounted for its investment under the equity method, as the Group's representation on the investee's board of directors and a number of veto rights provided it with a significant influence over the investee.

In 2018, the Group acquired additional equity interests in OZON through several transactions, which resulted in increase of the Group's share in OZON from 11.19% as of December 31. 2017 to 18.69% as of December 31, 2018. In March 2019, the Group disposed its 18.69% interest in OZON to Sistema for RUB 7,902 million (of which RUB 3,000 million was paid by Sistema in March 2019, RUB 2,450 million is due in July 2020 and RUB 2,452 million is due in July 2021). As of December 31, 2019 the Group has retained no interest in OZON.

As a result of the transaction the Group recognized a gain on disposal which was included in the non-operating share of the income of the associates and joint ventures in the accompanying consolidated statement of profit or loss:

| | 2019 |
|---|---|
| Proceeds from disposal | 7,902 |
| Less: carrying amount of investment on the date of ldisposal | (4,065) |
| **Gain recognized** | **3,837** |

A current tax expense of RUB 420 million is attributable to the aforementioned gain.

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

The following table is the aggregate financial information of investments in OZON (prior to disposal in March 2019) and other individually insignificant associates and joint ventures held by the Group:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net loss for the year | 2,448 | 4,600 | 1,760 |
| **The Group's share of the loss of associates and joint ventures for the year** | **341** | **747** | **327** |
| Other comprehensive income for the year | - | - | - |
| Total comprehensive loss for the year | 2,448 | 4,600 | 1,760 |
| **The Group's share of total comprehensive loss of associates and joint ventures for the year** | **341** | **747** | **327** |

## 16. 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 expected credit losses (ECL).

Other investments of the Group comprised the following:

| | | December 31, | |
|---|---|---|---|
| | Category | 2019 | 2018 |
| Debt securities | At amortized cost | 9,381 | 15,327 |
| Deposits | At amortized cost | 124 | 139 |
| Loans and unquoted notes | At amortized cost | 36 | 12 |
| Other | At amortized cost | 1,656 | 1,397 |
| **Other investments (Gross)** | | **11,197** | **16,875** |
| Allowance for ECL | | (2) | (2) |
| **Total other investments** | | **11,195** | **16,873** |

## 17. 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.

MTS Group accounts for Receivables from handset sales financing as a part of current trade and other receivables and non-current other non-financial assets. These receivables are measured based on fair value basis using effective rate approach. Receivables from handset sales financing are written-off if past due for more than 720 days.

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

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

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Receivables from handset sales financing | 16,845 | 14,252 |
| Subscribers | 10,980 | 13,495 |
| Other trade receivables | 4,427 | 4,049 |
| Integration services | 2,407 | 1,190 |
| Roaming | 1,912 | 3,763 |
| Interconnect | 1,624 | 2,193 |
| Receivables from the sharing agreement | 802 | 459 |
| Receivables from sale of VF Ukraine | 743 | - |
| Bonuses from suppliers | 724 | 492 |
| Dealers | 268 | 386 |
| Other receivables | 2,622 | 1,182 |
| Allowance for ECL | (4,203) | (4,318) |
| **Trade and other receivables, total** | **39,151** | **37,143** |
| Less non-current portion | (3,556) | (2,600) |
| **Trade and other receivables, current** | **35,595** | **34,543** |

The analysis of the age of trade and other accounts receivables and the respective allowance for ECL as of December 31, 2019:

| **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 | - | 21 | - | No |
| 1 - 30 days past due | 4% | 9,844 | (395) | No |
| 31 - 60 days past due | 16% | 522 | (86) | No |
| 60 - 90 days past due | 38% | 202 | (77) | No |
| More than 90 days past due | 64% | 659 | (421) | Yes |
| **Total** | **9%** | **11,248** | **(979)** | |

| **Receivables other than from subscribers and dealers and handset sales financing assesed for impairement based on individual basis** | **Weighted-average loss rate** | **Gross carrying amount** | **Loss allowance (individually assessed)** | **Credit-impaired** |
|---|---|---|---|---|
| Current | 1% | 8,743 | (77) | No |
| 1 - 30 days past due | 1% | 2,020 | (22) | No |
| 31 - 60 days past due | 2% | 878 | (14) | No |
| 60 - 90 days past due | 58% | 1,581 | (916) | No |
| More than 90 days past due | 37% | 2,039 | (746) | Yes |
| **Total** | **12%** | **15,261** | **(1,775)** | |

| **Receivables from handset sales financing** | **Weighted-average loss rate** | **Gross carrying amount** | **Loss allowance (collectively assessed)** | **Credit-impaired** |
|---|---|---|---|---|
| Current | 2% | 15,085 | (261) | No |
| 1 - 30 days past due | 15% | 396 | (60) | No |
| 31 - 60 days past due | 47% | 125 | (59) | No |
| 60 - 90 days past due | 61% | 99 | (60) | No |
| More than 90 days past due | 88% | 1,140 | (1,009) | Yes |
| **Total** | **9%** | **16,845** | **(1,449)** | |

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

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 and handset sales financing 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)** | |

The following table summarizes changes in the allowance for expected credit losses for the year ended December 31, 2019 and 2018:

| | 2019 | 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** | **(4,318)** | **(2,577)** |
| Allowance for ECL | (4,290) | (3,210) |
| Accounts receivable written off | 4,276 | 2,948 |
| Disposal/(Acquisition) of subsidiaries | 129 | (1,479) |
| **Balance, end of the year** | **(4,203)** | **(4,318)** |

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

**Comparative information under IAS 39:**

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

| | 2017 |
|---|---|
| **Balance, beginning of the year** | **(2,160)** |
| Allowance for doubtful accounts | (2,880) |
| Accounts receivable written off | 2,696 |
| **Balance, end of the year** | **(2,344)** |

## 18. 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, | |
|---|---|---|
| | 2019 | 2018 |
| Handsets and accessories | 12,412 | 15,191 |
| Spare parts for telecommunication equipment | 984 | 213 |
| Advertising and other materials | 912 | 916 |
| SIM cards and prepaid phone cards | 700 | 1,167 |
| TV equipment for resale | 494 | 676 |
| Software and equipment for installation and resale | 13 | 491 |
| **Total inventories** | **15,515** | **18,654** |

Other materials mainly consist of automobile and IT components, 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 writing inventory down to net realisable value were included in cost of goods in the consolidated statement of profit or loss.

For the years ended December 31, 2019, 2018 and 2017, cost of goods comprised the following expenses:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Amount of inventories recognized as an expense | 61,699 | 59,931 | 43,288 |
| Inventory obsolescence provision | 2,659 | 3,697 | 2,691 |
| Reversal of obsolescence provision | (469) | (375) | (504) |
| **Total cost of goods** | **63,889** | **63,253** | **45,475** |

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

## 19. 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 | 7-15 years |
| Other | 3-20 years |
| **Land and buildings:** | |
| Buildings | 20-150 years |
| Leasehold improvements | the term of the lease |
| **Office equipment, vehicles and other:** | |
| Office equipment | 1-7 years |
| Vehicles | 2-10 years |
| Other | 1-20 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*)**

Balances of cost, accumulated depreciation, net book value as of December 31, 2019 and 2018 and movements of property, plant and equipment for the twelve months ended December 31, 2019, 2018 and 2017 were 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, 2017** | **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** |
| Additions | 4,162 | 39 | 1,117 | 64,398 | 69,716 |
| Transferred into use | 51,130 | 1,803 | 12,919 | (65,852) | - |
| Arising on business combinations | 484 | 32 | 177 | 4 | 697 |
| Transfer to assets held for sale | (1,573) | 555 | - | - | (1,018) |
| Disposal | (26,870) | (428) | (3,091) | (186) | (30,575) |
| Disposal of VF Ukraine (Note 10) | (62,196) | (2,128) | (6,966) | (2,060) | (73,350) |
| Other | 730 | 1,042 | (1,125) | 80 | 727 |
| Foreign exchange differences | 1,889 | (188) | 55 | 55 | 1,811 |
| **December 31, 2019** | **560,889** | **34,561** | **57,373** | **22,660** | **675,483** |
| **Accumulated amortisation and impairment** | | | | | |
| **January 1, 2017** | **(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)** |
| Charge for the year | (47,905) | (1,148) | (5,064) | - | (54,117) |
| Arising on business combinations | (290) | (5) | (104) | - | (399) |
| Impairment | - | - | - | - | - |
| Transfer to assets held for sale | 762 | (76) | (1) | - | 685 |
| Disposal | 26,163 | 256 | 2,709 | - | 29,128 |
| Disposal of VF Ukraine (Note 10) | 40,717 | 1,056 | 5,540 | - | 47,313 |
| Other | (962) | (616) | 628 | - | (950) |
| Foreign exchange differences | (767) | 174 | (39) | - | (632) |
| **December 31, 2019** | **(362,296)** | **(10,576)** | **(36,368)** | **(764)** | **(410,004)** |
| **Net book value** | | | | | |
| **December 31, 2018** | **213,119** | **23,617** | **14,250** | **25,457** | **276,443** |
| **December 31, 2019** | **198,593** | **23,985** | **21,005** | **21,896** | **265,479** |

**(*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, 2019, 2018 and 2017 totaled RUB 2,034 million, RUB 1,304 million and RUB 1,231 million, respectively. This was included in the accompanying consolidated statements of profit or loss as component of other operating income.

## 20. 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 21).

The change in the net carrying amount of goodwill for the years ended December 31, 2019 and 2018 by reportable segments was as follows:

| | Russia Convergent | Moscow Fixed Line | Ukraine | Other | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2018** | | | | | |
| 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 4) | 1,877 | 213 | - | 2,512 | 4,602 |
| Impairment | - | - | - | (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** |
| Acquisitions (Note 4) | 105 | - | - | - | 105 |
| Reclassification | 41 | (41) | - | - | - |
| Disposal of VF Ukraine (Note 10) | - | - | (114) | - | (114) |
| Currency translation adjustment | - | - | 8 | (431) | (423) |
| **Balance at December 31, 2019** | | | | | |
| Gross amount of goodwill | 32,270 | 1,336 | - | 10,575 | 44,181 |
| Accumulated impairment loss | (1,466) | - | - | (4,040) | (5,506) |
| | **30,804** | **1,336** | **-** | **6,535** | **38,675** |

## 21. 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 an investment accounted for under 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 operation 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.

During the year ended December 31, 2019 the Group recognized no impairment charges.

***Oblachniy Retail***

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

CGU "Oblachniy Retail" operates as a retail software developer, cash register distributor and provider of integrated digital cash management solutions for business to business ("B2B") clients. The impairment in CGU "Oblachniy Retail" reflects lower operating performance and uncertainty in respect to the ability to meet its operational targets. The recoverable amount of 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.

During 2019 there were not any changes in factors relevant to the impairment review.

***NVision Czech Republic***

During the year ended December 31, 2017 the Group recognized impairment of RUB 571 million in respect of the non-current assets of CGU "NVision Czech Republic", whereas during the year ended December 31, 2018, RUB 507 million were 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 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.

During 2019 there were not any changes in factors relevant to the impairment review.

***MTS Turkmenistan***

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

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

CGU “Turkmenistan” provided mobile services across multiple regions of Turkmenistan. The impairment in 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, 2018 and 2019.

Impairment losses and reversal of the impairment charges recognized during the years 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 5).

The total amount of the impairment loss and reversal of impairment charges for the year ended December 31, 2018 and 2017 was allocated to the carrying amounts of long-lived assets as follows:

| | **2018** | | **2017** | |
|---|---|---|---|---|
| | **Oblachniy Retail** | **NVision Czech Republic** | **Turkmenistan** | **NVision Czech Republic** |
| Goodwill | 524 | - | - | - |
| Property, plant and equipment | 13 | (505) | 3,063 | 564 |
| Other intangible assets | 140 | (2) | 141 | 7 |
| **Total** | **677** | **(507)** | **3,204** | **571** |

During the year ended December 31, 2019 MTS Turkmenistan sold a number of the long-lived assets impaired in prior periods, hence the reversal of the impairment in the amount of 148 mln RUB gain from disposal was recognized in the accompanying consolidated statements of profit or loss.

**Key assumptions used for value in use calculation:**

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

| | **December 31,** | |
|---|---|---|
| **CGU** | **2019** | **2018** |
| Russia Convergent | 42.4%-43.5% | 42.4%-42.9% |
| Armenia | 46.9%-50.0% | 45.0%-47.4% |
| Moscow Fixed Line | 52.9%-56.6% | 56.0%-59.2% |
| NVision Czech Republic | 3.2%-3.9% | 4.9%-5.5% |
| Oblachniy Retail | negative | negative |
| Ukraine | n/a | 50.0%-51.6% |

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

| | **December 31,** | |
|---|---|---|
| **CGU** | **2019** | **2018** |
| Russia Convergent | 19.2% | 19.0% |
| Armenia | 15.6% | 16.9% |
| Moscow Fixed Line | 19.8% | 21.6% |
| NVision Czech Republic | 1.2% | 1.3% |
| Oblachniy Retail | - | 0.9% |
| Ukraine | n/a | 18.4% |

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

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.

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

| CGU | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Russia Convergent | 1% | 1% |
| Armenia | nil | nil |
| Moscow fixed line | 1% | 1% |
| NVision Czech Republic | 2% | 2% |
| Oblachniy retail | 3% | 3% |
| Ukraine | n/a | 3% |

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

| CGU | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Russia Convergent | 14.1% | 16.0% |
| Armenia | 13.5% | 15.2% |
| Moscow fixed line | 14.1% | 14.5% |
| NVision Czech Republic | 6.1% | 8.7% |
| Oblachniy retail | 16.7% | 20.1% |
| Ukraine | n/a | 20.8% |

**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 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.

## 22. 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*)

Balances of cost, accumulated amortization, net book value as of December 31, 2019 and 2018 and movements of other intangible assets for the twelve months ended December 31, 2019, 2018 and 2017 were 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, 2017** | **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 4) | 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 4) | - | - | 3,021 | 1,530 | 1 | - | 909 | 5,461 |
| Effect on adoption of IFRS 15 | - | - | - | - | - | 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 | - | 24 | 202 | 80 | 7,913 |
| **December 31, 2018** | **39,627** | **6,648** | **138,564** | **8,790** | **2,868** | **23,360** | **3,606** | **223,463** |
| Additions | 1,106 | (38) | 27,921 | - | (2) | 10,290 | 366 | 39,643 |
| Arising on business combinations (Note 4) | - | - | 6 | (37) | 2 | - | 61 | 32 |
| Disposal of VF Ukraine (Note 10) | (19,149) | - | (15,770) | - | (136) | (1,826) | (692) | (37,573) |
| Impairment | - | (26) | - | - | - | - | - | (26) |
| Disposal | (84) | (865) | (11,564) | (2,823) | (64) | (18,281) | (208) | (33,889) |
| Other | 4 | (1) | 93 | - | - | - | (81) | 15 |
| Foreign exchange differences | 201 | (29) | 718 | - | 9 | 92 | 44 | 1,035 |
| **December 31, 2019** | **21,705** | **5,689** | **139,968** | **5,930** | **2,677** | **13,635** | **3,096** | **192,700** |
| **Accumulated amortisation and impairment** | | | | | | | | |
| **January 1, 2017** | **(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 | - | - | - | - | - | (12,368) | - | (12,368) |
| Effect on assets impairment | - | - | 44 | - | - | - | 6 | 50 |
| Impairment | - | - | - | - | - | - | - | - |
| Disposal | 193 | 971 | 7,994 | 63 | 82 | - | 180 | 9,483 |
| Other | - | - | (70) | - | - | - | 26 | (44) |
| Foreign exchange differences | (2,114) | - | (2,187) | - | (23) | (99) | (37) | (4,460) |
| **December 31, 2018** | **(16,113)** | **(4,586)** | **(80,785)** | **(5,258)** | **(2,754)** | **(16,343)** | **(1,662)** | **(127,501)** |
| Charge for the year | (2,911) | (372) | (24,394) | (603) | (41) | (6,887) | (374) | (35,582) |
| Arising on business combinations | - | - | (2) | - | - | - | - | (2) |
| Disposal of VF Ukraine (Note 10) | 5,155 | - | 12,657 | - | 129 | 1,208 | 301 | 19,450 |
| Effect on assets impairment | - | - | - | - | - | - | - | - |
| Disposal | 25 | 831 | 11,065 | 2,813 | 64 | 18,281 | 196 | 33,275 |
| Other | (2) | - | (22) | - | - | (2,573) | 17 | (2,580) |
| Foreign exchange differences | 664 | 29 | (615) | - | (9) | (80) | (20) | (31) |
| **December 31, 2019** | **(13,182)** | **(4,098)** | **(82,096)** | **(3,048)** | **(2,611)** | **(6,394)** | **(1,542)** | **(112,971)** |
| **Net book value** | | | | | | | | |
| **December 31, 2018** | **23,514** | **2,062** | **57,779** | **3,532** | **114** | **7,017** | **1,944** | **95,962** |
| **December 31, 2019** | **8,523** | **1,591** | **57,872** | **2,882** | **66** | **7,241** | **1,554** | **79,729** |

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

In connection with providing telecommunication services, the Group various GSM operating licenses were granted to the Group 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 aquired access to various telecommunication licenses through business combinations. 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, 2019 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 two and half years.

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

Contractual obligations to purchase intangible assets are disclosed in the Note 33.

## 23. 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, | |
|---|---|---|
| | **2019** | **2018** |
| Notes | 183,935 | 117,355 |
| Bank and other loans | 159,384 | 250,780 |
| **Total borrowings** | **343,319** | **368,135** |
| Less: current portion | (71,746) | (3,063) |
| **Total borrowings, non-current** | **271,573** | **365,072** |

(*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, 2019) | December 31, 2019 | December 31, 2018 |
|---|---|---|---|---|
| MTS International Notes due 2023 | USD | 5.00% | 27,712 | 31,090 |
| MTS International Notes due 2020 | USD | 8.625% | 18,616 | 20,870 |
| MTS PJSC Notes due 2025 | RUB | 8.00% | 14,984 | - |
| MTS PJSC Notes due 2022 | RUB | 7.70% | 14,969 | 14,958 |
| MTS PJSC Notes due 2023 | RUB | 6.85% | 14,961 | - |
| MTS PJSC Notes due 2026 | RUB | 7.90% | 9,998 | - |
| MTS PJSC Notes due 2022 | RUB | 9.00% | 9,995 | 9,993 |
| MTS PJSC Notes due 2021 | RUB | 8.85% | 9,995 | 9,990 |
| MTS PJSC Notes due 2021 | RUB | 7.10% | 9,992 | 9,988 |
| MTS PJSC Notes due 2025 | RUB | 7.25% | 9,988 | 9,986 |
| MTS PJSC Notes due 2024 | RUB | 8.70% | 9,982 | - |
| MTS PJSC Notes due 2022 | RUB | 6.45% | 9,973 | - |
| MTS PJSC Notes due 2023 | RUB | 6.85% | 9,351 | 9,348 |
| MTS PJSC Notes due 2024 | RUB | 8.60% | 7,485 | - |
| MTS PJSC Notes due 2022 | RUB | 8.40% | 4,991 | - |
| MTS PJSC Notes due 2031 | RUB | 7.50% | 891 | 1,080 |
| MTS PJSC Notes due 2020 | RUB | 7.90% | 40 | 40 |
| Other | | | 12 | 12 |
| **Total notes** | | | **183,935** | **117,355** |
| Less: current portion | | | (27,937) | (1,017) |
| **Total notes, non-current** | | | **155,998** | **116,338** |

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 | March 2021 |
| MTS PJSC Notes due 2023 | March 2020 |

The Group discloses these notes as maturing in 2020 (MTS PJSC Notes due 2023) and in 2021 (MTS PJSC Notes due 2031) in the aggregated maturities schedule as the noteholders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons.

(*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, 2019) | December 31, 2019 | December 31, 2018 |
|---|---|---|---|---|
| ***RUB-denominated:*** | | | | |
| Sberbank | 2020-2024 | 7.50%-7.91% | 103,832 | 139,515 |
| VTB | 2021-2024 | 6.75%-7.20% | 43,893 | 100,000 |
| Other | | | 11,659 | 210 |
| | | | **159,384** | **239,725** |
| ***USD-denominated:*** | | | | |
| Citibank | | | - | 10,980 |
| | | | **-** | **10,980** |
| ***Other currencies:*** | | | | |
| Other | | | - | 75 |
| | | | **-** | **75** |
| **Total bank and other loans** | | | **159,384** | **250,780** |
| Less: current portion | | | (43,809) | (2,046) |
| **Total bank and other loans, non-current** | | | **115,575** | **248,734** |

***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 4,643 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 15,476 million as of the reporting date, which remains unsatisfied for more than 180 days) without being appealed, discharged or waived (excluding the total criminal penalty under the agreements with the DOJ).

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, 2019.

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

***Available credit facilities*** – As of December 31, 2019, the Group's total available unused credit facilities amounted to RUB 363,000 million and related to the following credit lines:

| | Currency | Maturity | Interest rate | Available till | Available amount |
|---|---|---|---|---|---|
| Sberbank | RUB | 2024 | To be agreed | May 2024 | 115,000 |
| Sberbank | RUB | 2025 | To be agreed | August 2025 | 60,000 |
| Sberbank | RUB | 2024 | 7.90% | June 2020 | 50,000 |
| Sberbank | RUB | 2024 | To be agreed | August 2024 | 20,000 |
| VTB | RUB | 2025 | CBR[1] key rate +0.5% | March 2020 | 30,000 |
| VTB | RUB | 2028 | To be agreed | August 2028 | 80,000 |
| Rosselhozbank | RUB/USD/ EUR | 2020 | To be agreed | November 2020 | 5,000 |
| SPB Bank | RUB | 2020 | To be agreed | March 2020 | 3,000 |
| **Total** | | | | | **363,000** |

[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, 2024 and thereafter:

| | December 31, 2019 | |
|---|---|---|
| | **Notes** | **Bank loans and other debt** |
| Payments due in the year ending December 31, | | |
| 2020 | 39,847 | 56,975 |
| 2021 | 32,430 | 33,156 |
| 2022 | 50,344 | 11,232 |
| 2023 | 49,797 | 7,256 |
| 2024 | 21,069 | 100,019 |
| Thereafter | 37,339 | - |
| **Contractual undiscounted cash flows** | **230,826** | **208,638** |
| Less: unamortized debt issuance costs | (243) | - |
| Less: interest | (46,648) | (46,979) |
| Less: debt modification | - | (2,275) |
| **Total debt** | **183,935** | **159,384** |

## 24. 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:

| | |
|---|---|
| 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 |
| Retail stores | Up to 8 years |
| Administrative offices, warehouses, parking garages | not less than 3 years |
| Vehicles | 4 – 5 years |

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

| | December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Sites for placement of network and base station equipment | 93,694 | 92,500 |
| Land and buildings | 45,020 | 53,792 |
| Vehicles and other | 103 | 1,210 |
| Exclusive rights for trademarks | - | 1,505 |
| **Rights-of-use assets, net** | **138,817** | **149,007** |

Depreciation of the rights-of-use assets for the years ended December 31, 2019 and 2018 included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss was as follows, whereas RUB 1,644 and RUB 1,388 million, respectively were recognized as part of loss from discontinued operation in the accompanying consolidated statements of profit or loss:

| | **2019** | **2018** |
|---|---|---|
| Sites for network and base station equipment | 6,900 | 7,784 |
| Land and buildings | 11,968 | 10,955 |
| Vehicles and other | 404 | 135 |
| Exclusive rights for trademarks | 693 | 694 |
| **Depreciation charge, total** | **19,965** | **19,568** |

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

Additions to the assets leased during the years ended December 31, 2019 and 2018 amounted to RUB 20,436 and RUB 22,572 million.

Interest expense accrued on lease obligations for the years ended December 31, 2019 and 2018 in the amount of RUB 13,416 and RUB 12,852 million, respectively, were included in finance costs, whereas RUB 1,246 and RUB 1,066 million, respectively were recognized as part of loss from discontinued operation in the accompanying consolidated statements of profit or loss.

For the years ended December 31, 2019 and 2018, expenses recognized in respect of variable lease payments not included on the measurement of lease liabilities and short-term leases amounted to:

| | 2019 | 2018 |
|---|---|---|
| Variable lease payments | 691 | 209 |
| Short-term leases | 203 | 173 |
| **Total** | **894** | **382** |

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, 2019 and 2018:

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Minimum lease payments, including:** | | |
| Current portion (less than 1 year) | 27,650 | 30,220 |
| More than 1 to 5 years | 100,005 | 107,403 |
| Over 5 years | 106,411 | 116,420 |
| **Total minimum lease payments** | **234,066** | **254,043** |
| Less amount representing interest | (78,758) | (93,491) |
| **Present value of net minimum lease payments, including:** | | |
| Current portion (less than 1 year) | 15,228 | 15,812 |
| More than 1 to 5 years | 63,016 | 62,468 |
| Over 5 years | 77,064 | 82,272 |
| **Total present value of net minimum lease payments** | **155,308** | **160,552** |
| Less current portion of lease obligations | (15,228) | (15,812) |
| **Non-current portion of lease obligations** | **140,080** | **144,740** |

Total cash outflows for leases for the year ended December 31, 2019 and 2018 totaled to RUB 30,714 and RUB 27,643 million, of which RUB 14,666 and RUB 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.

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*)**

## 25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

| | December 31, 2018 | Financing cash flows | Operating cash flows | Acquisitions/ Disposals | Foreign exchange movement | Other comprehensive income | Change in fair value | Change in retained earnings | Other changes[1] | December 31, 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Notes (Note 23) | 117,355 | 72,200 | - | - | (5,668) | - | - | - | 48 | 183,935 |
| Bank and other loans (Note 23) | 250,780 | (93,640) | - | 18 | (1,057) | - | - | - | 3,283 | 159,384 |
| Lease obligation (Note 24) | 160,552 | (15,154) | (14,666) | (8,895) | (1,150) | 493 | - | - | 34,128 | 155,308 |
| Payables related to repurchase of common stock (Note 31) | - | (15,922) | - | - | - | - | - | - | 15,922 | - |
| Dividends payable (Note 31) | 146 | (52,505) | - | - | - | - | - | 74,302 | 1,137 | 23,080 |
| Payable related to purchase of noncontrolling interests | - | - | - | - | - | - | - | - | - | - |
| Payables related to transactions under common control | 120 | (15,312) | - | - | - | - | - | - | 15,214 | 22 |
| Liability under put option agreement (Note 32) | 3,735 | - | - | - | - | - | 1,805 | - | (5,467) | 73 |
| Receivables related to sale of own shares | - | | | | | | | | | |
| Hedge asset (net) | (2,796) | (115) | (726) | - | 3,299 | 296 | - | - | 997 | 955 |
| **Total liabilities arising from financial activities** | **529,892** | **(120,448)** | **(15,392)** | **(8,877)** | **(4,576)** | **789** | **1,805** | **74,302** | **65,262** | **522,757** |

1) Including accrual of liabilities related to repurchase of common stock, additions under lease agreements, dividends related to non-controlling interest, depreciation of debt issuance cost, modification gain, offsetting the liability under put option with the loan issued to the minority shareholders of MTS Armenia and other changes.

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

| | December 31, 2017 | Financing cash flows | Operating cash flows | Acquisitions | Foreign exchange movement | Other compre-hensive income | Change in fair value | Effect of new standards on opening balance | Change in retained earnings | Other changes[1] | December 31, 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Notes (Note 23) | 108,776 | (472) | - | - | 8,967 | - | - | - | - | 84 | 117,355 |
| Bank and other loans (Note 23) | 182,937 | 70,657 | | 167 | 2,250 | 22 | | (2,983) | - | (2,270) | 250,780 |
| Lease obligation (Note 24) | 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 29) | 996 | (981) | - | - | (15) | - | - | - | - | - | - |
| Payables related to repurchase of common stock (Note 31) | - | (22,655) | - | - | - | - | - | - | - | 22,655 | - |
| Dividends payable (Note 31) | 125 | (50,054) | - | - | - | - | - | - | 48,921 | 1,154 | 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 32) | 2,424 | - | - | - | - | 592 | 719 | - | - | - | 3,735 |
| Receivables related to sale of own shares | - | 89 | - | - | - | - | - | - | - | (89) | - |
| Hedge asset (net) | (8,129) | 4,412 | (752) | - | (2,837) | 129 | - | - | - | 4,380 | (2,797) |
| **Total liabilities arising from financial activities** | **298,986** | **(25,924)** | **(14,436)** | **14,219** | **6,909** | **2,564** | **719** | **137,753** | **48,921** | **60,181** | **529,892** |

[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 other changes.

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

## 26. 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.

***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.

The following table summarizes the movement in provisions for the years ended December 31, 2019, 2018 and 2017:

| | Tax provisions other than for income tax | Provision for decommis-sioning and restoration | Employee bonuses and other rewards | SEC provision (Note 33) | Other provisions | Total provisions |
|---|---|---|---|---|---|---|
| **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 |
| 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) | (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) |
| 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 portion | (252) | - | (10,096) | (59,050) | (1,513) | (70,911) |
| Non-current portion | - | (3,109) | (282) | - | - | (3,391) |
| **At 1 January 2019** | **(252)** | **(3,109)** | **(10,378)** | **(59,050)** | **(1,513)** | **(74,302)** |
| Arising during the year | (410) | (2,341) | (16,896) | - | (208) | (19,855) |
| Utilised | 19 | 19 | 16,055 | 55,607 | 527 | 72,227 |
| Discount rate adjustment and imputed interest (change in estimates) | - | 42 | (12) | - | - | 30 |
| Unused amounts reversed | 34 | - | 523 | - | 155 | 712 |
| Arising due to acquisitions of subsidiaries | - | - | (9) | - | - | (9) |
| Disposal of VF Ukraine (Note 10) | 50 | 760 | 672 | - | 126 | 1,608 |
| Other | (4) | (159) | 2 | 3,443 | 20 | 3,302 |
| **At 31 December 2019** | **(563)** | **(4,788)** | **(10,043)** | **-** | **(893)** | **(16,287)** |
| Current portion | (563) | (126) | (9,944) | - | (893) | (11,526) |
| Non-current portion | - | (4,662) | (99) | - | - | (4,761) |

## 27. 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.

***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.

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

As of December 31, 2019 and 2018 financial assets and financial liabilities of the Group comprise of:

### 1. Financial assets

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Trade and other receivables (Note 17)** | **39,151** | **37,143** |
| **Accounts receivable, related parties (Note 30)** | **16,659** | **8,930** |
| **Cash and cash equivalents (Note 13)** | **38,070** | **84,075** |
| **Other financial assets:** | | |
| **Financial assets at fair value through profit or loss:** | | |
| Securities held by MTS Bank | 13,273 | 22,487 |
| Mutual funds | 9,349 | - |
| Assets in Sistema Capital trust management | 8,195 | 11,644 |
| Contingent consideration | 2,013 | - |
| Currency forwards, swaps and options not designated as hedges | 52 | 2,200 |
| Cross-currency swaps not designated as hedges | 318 | 1,077 |
| ***Total financial assets at fair value through profit or loss*** | **33,200** | **37,408** |
| **Financial assets at fair value through OCI:** | | |
| Cross-currency swaps designated as cash flow hedges | - | 2,797 |
| Notes | - | 70 |
| ***Total financial assets at fair value through OCI*** | **-** | **2,867** |
| **Financial assets at amortized cost:** | | |
| Deposits and loans issued | 94,757 | 83,865 |
| Notes | 15,957 | 31,165 |
| Other | 3,520 | 2,579 |
| ***Total financial assets at amortized cost*** | **114,234** | **117,609** |
| **Total other financial assets** | **147,434** | **157,884** |
| Total financial assets | 241,314 | 288,032 |
| Less current portion | (159,084) | (230,642) |
| **Total financial assets, non-current** | **82,230** | **57,390** |

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

## 2. Financial liabilities

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Trade and other payables** | **71,808** | **53,623** |
| **Accounts payable, related parties (Note 30)** | **558** | **1,301** |
| **Financial liabilities at amortized cost:** | | |
| **Loans and borrowings:** | | |
| Bank and other loans (Note 23) | 159,384 | 250,780 |
| Lease obligations (Note 24) | 155,308 | 160,552 |
| Notes (Note 23) | 183,935 | 117,355 |
| MTS Bank deposits and liabilities (Note 28) | 137,952 | 111,454 |
| ***Total loans and borrowings*** | **636,579** | **640,141** |
| ***Total financial liabilities at amortized cost*** | **636,579** | **640,141** |
| **Other financial liabilities at fair value:** | | |
| **Financial liabilities at fair value through profit or loss:** | | |
| Contingent consideration and other liabilities | 917 | 936 |
| Currency forwards and swaps not designated as hedges | 366 | 85 |
| Liabilities under option agreements (Note 32) | 73 | 3,735 |
| Interest rate swaps not designated as hedges | 68 | 265 |
| ***Total financial liabilities at fair value through profit or loss*** | **1,424** | **5,021** |
| **Financial liabilities at fair value through OCI:** | | |
| Cross-currency swaps designated as cash flow hedges | 955 | - |
| ***Total financial liabilities at fair value through OCI*** | **955** | **-** |
| **Total other financial liabilities at fair value** | **2,379** | **5,021** |
| Total financial liabilities | 711,324 | 700,086 |
| Less current portion | (296,911) | (187,160) |
| **Total financial liabilities, non-current** | **414,413** | **512,926** |

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 investment in mutual investment funds is measured at fair value of the Group's share in net assets of funds.

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, 2019 | December 31, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Securities held by MTS Bank | Level 1 | 13,273 | 22,487 |
| Sistema International Funding S.A. Bonds due in 2019 (related party) (Note 14, 30) | Level 1 | - | 70 |
| Derivative instruments | Level 2 | 370 | 6,074 |
| *Currency forwards, swaps and options* | | *52* | *2,200* |
| *Cross-currency interest rate swaps* | | *318* | *3,874* |
| Mutual investment funds, managed by Sistema Capital (related party) (Note 14, 30) | Level 2 | 9,349 | - |
| Assets in Sistema Capital trust management (related party) (Note 14, 30) | Level 2 | 8,195 | 11,644 |
| Contingent consideration | Level 3 | 2,013 | - |
| **Liabilities** | | | |
| Derivative instruments | Level 2 | (1,389) | (350) |
| *Interest rate swaps* | | *(68)* | *(265)* |
| *Cross-currency interest rate swaps* | | *(955)* | - |
| *Currency forwards and swaps* | | *(366)* | *(85)* |
| Contingent consideration | Level 3 | (907) | (940) |
| Liabilities under option agreements | Level 3 | (73) | (3,735) |

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

For the years ended December 31, 2019, 2018 and 2017, net realized gains and losses of Level 3 liabilities resulting from fair value measurements amounted to RUB 1,813 million loss, RUB 719 million loss and a RUB 120 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, 2019, 2018 and 2017.

*Liability under put option*

The liability under put option agreement for redeemable non-controlling interests in MTS Armenia in the amount of RUB 3,629 million as of December 31, 2018 was measured at fair value using a discounted cash flow technique. In 2019 the liability was settled through the acquisition of the 20% ownership interest in MTS Armenia (Note 32). The most significant quantitative inputs used to measure its fair value are presented in the table below:

| **Unobservable inputs** | **December 31, 2018** |
|---|---|
| Post-tax discount rate | 13% |
| Revenue growth rate | 0.3 – 2.0% (av. 0.9%) |
| OIBDA margin | 40.5-43.2% (av. 41.5%) |

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

*Financial instruments at amortised cost*

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, 2019** | | **December 31, 2018** | |
|---|---|---|---|---|---|
| | **Level of inputs** | **Fair value** | **Carrying value** | **Fair value** | **Carrying value** |
| Notes | Level 1 | (180,824) | (174,165) | (115,698) | (117,534) |
| Unquoted notes | Level 3 | (10,012) | (10,012) | - | - |
| Bank and other loans (Note 23) | Level 3 | (159,384) | (159,384) | (251,189) | (251,188) |
| | | **(350,220)** | **(343,561)** | **(366,887)** | **(368,722)** |

The carrying value of the Group’s bank and other loans approximates their fair value as of December 31, 2019 and 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.

There were no transfers between levels of inputs within the hierarchy during the years ended December 31, 2019, 2018 and 2017.

During the year ended December 31, 2019 several of the Group’s swap agreements in the amount of RUB 678 million were transferred from accounting category “financial assets at fair value through other comprehensive income” to category “financial assets at fair value through profit or loss” as a result of termination of hedging relationships due to the early redemption of hedged loans.

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

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

## 28. 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, 2019 and 2018.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Loans to customers | 99,990 | 68,132 |
| Due from banks | 2,883 | 2,635 |
| Allowance for ECL | (10,031) | (7,729) |
| **Total bank deposits and loans to customers, net** | **92,842** | **63,038** |
| Less: current portion | (39,370) | (32,385) |
| **Bank deposits and loans to customers, non-current** | **53,472** | **30,653** |

The structure and amounts of bank loans to customers as of December 31, 2019 and 2018 is presented in the table below:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Loans to legal entities** | | |
| Corporate borrowers | 24,192 | 27,414 |
| Medium-sized enterprises and small businesses | 1,959 | 1,941 |
| **Total loans to legal entities** | **26,151** | **29,355** |
| **Loans to individuals** | | |
| Mortgage loans | 11,164 | 11,668 |
| Consumer loans | 46,484 | 17,307 |
| Credit cards | 15,618 | 9,778 |
| Other | 573 | 24 |
| **Total loans to individuals** | **73,839** | **38,777** |
| **Due from banks** | | |
| Time deposits with banks | 1,581 | 1,659 |
| Obligatory reserves with the Central Bank of Russia | 1,302 | 976 |
| **Total due from banks** | **2,883** | **2,635** |
| **Total bank deposits and loans to customers** | **102,873** | **70,767** |
| Less: allowance for impairment losses | (10,031) | (7,729) |
| **Total bank deposits and loans to customers, net** | **92,842** | **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, | |
|---|---|---|
| | **2019** | **2018** |
| Guaranties | 11,448 | 17,984 |
| Pledge of real estate | 14,077 | 14,237 |
| Securities | 1,017 | 32 |
| Pledge of equipment | 495 | 143 |
| Rights of claim, pledge of inventories or own promissory notes and by other collateral | 44 | 353 |
| Unsecured loans | 72,909 | 35,383 |
| Allowance for impairment losses | (10,024) | (7,689) |
| **Total loans to customers, net** | **89,966** | **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, 2019 are presented in the table below:

| | **Loans to customers** | **Due from banks** | **Total** |
|---|---|---|---|
| **Balance as at January 1, 2019** | **7,689** | **40** | **7,729** |
| Provision charge/release | 3,551 | (18) | 3,533 |
| Recovery of bad debt written-off | 827 | 1 | 828 |
| Bad debt written-off | (2,006) | (16) | (2,022) |
| Sale of loans | (40) | - | (40) |
| Foreign currency revaluation effect | 3 | - | 3 |
| **Balance as at December 31, 2019** | **10,024** | **7** | **10,031** |

| | **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** |

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

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

| | Stage 1 | Stage 2 | Stage 3 | POCI* | Total |
|---|---|---|---|---|---|
| **Balance as at January 1, 2019** | **318** | **486** | **3,153** | **255** | **4,212** |
| - Transfer to stage 1 | 19 | (18) | (1) | - | - |
| - Transfer to stage 2 | (46) | 47 | (1) | - | - |
| - Transfer to stage 3 | (55) | (496) | 551 | - | - |
| New financial assets originated or purchased | 524 | 2 | - | 132 | 658 |
| Change due to change of credit risk | (42) | 56 | (391) | (28) | (405) |
| Sale of loans | (40) | - | - | - | (40) |
| Write-offs | - | - | (798) | (65) | (863) |
| Recovery of previously written-off assets | - | - | 392 | - | 392 |
| Foreign exchange difference | 3 | - | - | - | 3 |
| **Balance as at December 31, 2019** | **681** | **77** | **2,905** | **294** | **3,957** |

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

| | 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** |

**(*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, 2019 and 2018 were as follows:

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Balance as at January 1, 2019** | **756** | **318** | **2,005** | **398** | **3,477** |
| - Transfer to stage 1 | 599 | (465) | (134) | - | - |
| - Transfer to stage 2 | (188) | 236 | (48) | - | - |
| - Transfer to stage 3 | (2) | (1,228) | 1,230 | - | - |
| New financial assets originated or purchased | 1,351 | - | - | - | 1,351 |
| Change due to change of credit risk | (708) | 2,062 | 593 | - | 1,947 |
| Write-offs | - | - | (1,103) | (40) | (1,143) |
| Recovery of previously written-off assets | - | - | 435 | - | 435 |
| **Balance as at December 31, 2019** | **1,808** | **923** | **2,978** | **358** | **6,067** |

| | 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:

| **As of December 31, 2019** | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Low to fair risk | 66,506 | 138 | - | 358 | 67,002 |
| Monitoring | - | 2,801 | 49 | - | 2,850 |
| Impaired | - | - | 3,987 | - | 3,987 |
| Loss allowance | (1,808) | (923) | (2,978) | (358) | (6,067) |
| **Total** | **64,698** | **2,016** | **1,058** | **-** | **67,772** |

| **As of December 31, 2018** | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| 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** |

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

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

| As of December 31, 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Low to fair risk | 11,711 | 1,728 | - | - | 13,439 |
| Monitoring | 7,396 | 1,489 | - | - | 8,885 |
| Impaired | - | - | 3,525 | 301 | 3,826 |
| Loss allowance | (681) | (77) | (2,905) | (294) | (3,957) |
| **Total** | **18,426** | **3,140** | **620** | **7** | **22,193** |

| As of December 31, 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| 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** |

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

| As of December 31, 2019 | Gross loans | Provision for impairment | Net loans | Provision for impairment to gross loans |
|---|---|---|---|---|
| **Collectively assessed** | | | | |
| Not past due | 66,506 | (1,664) | 64,842 | 3% |
| Overdue: | | | | |
| up to 30 days | 1,841 | (472) | 1,369 | 26% |
| 31 to 60 days | 519 | (293) | 226 | 56% |
| 61 to 90 days | 441 | (282) | 159 | 64% |
| 91 to 180 days | 1,110 | (816) | 294 | 74% |
| over 180 days | 2,615 | (2,043) | 572 | 78% |
| **Total collectively assessed loans** | **73,032** | **(5,570)** | **67,462** | **8%** |
| **Individually impaired** | | | | |
| Not past due | 495 | (380) | 115 | 77% |
| Overdue: | | | | |
| up to 30 days | 48 | (15) | 33 | 31% |
| 31 to 60 days | - | - | - | 0% |
| 61 to 90 days | 1 | - | 1 | 0% |
| 91 to 180 days | 4 | - | 4 | 0% |
| over 180 days | 259 | (102) | 157 | 39% |
| **Total individually impaired loans** | **807** | **(497)** | **310** | **62%** |
| **Total** | **73,839** | **(6,067)** | **67,772** | **8%** |

Analysis by credit quality of loans to medium-sized enterprises and small businesses outstanding as of December 31, 2019 is as follows:

| As of December 31, 2019 | Gross loans | Provision for impairment | Net loans | Provision for impairment to gross loans |
|---|---|---|---|---|
| **Collectively assessed** | | | | |
| Not past due | 1,213 | (19) | 1,194 | 2% |
| Overdue: | | | | |
| up to 30 days | 29 | (9) | 20 | 31% |
| 31 to 60 days | 30 | - | 30 | 0% |
| 61 to 90 days | - | - | - | 0% |
| 91 to 180 days | 14 | (3) | 11 | 21% |
| over 180 days | 672 | (399) | 273 | 59% |
| **Total collectively assessed loans** | **1,958** | **(430)** | **1,528** | **22%** |

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

### 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, 2019 and 2018.

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Customer accounts | 122,809 | 100,209 |
| Due to banks and other financial institutions | 12,305 | 7,750 |
| Debt securities issued | 1,421 | 1,717 |
| Financial liabilities at fair value through profit or loss | 297 | 767 |
| Other financial liabilities | 1,120 | 1,011 |
| **Total bank deposits and liabilities** | **137,952** | **111,454** |
| Less: current portion | (136,147) | (108,821) |
| **Total bank deposits and liabilities, non-current** | **1,805** | **2,633** |

The structure and amounts of customer accounts of December 31, 2019 and 2018 are presented below:

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Legal entities** | | |
| - Current/settlement accounts | 10,005 | 19,408 |
| - Term deposits | 12,092 | 8,188 |
| **Individuals** | | |
| - Current/settlement accounts | 14,915 | 13,364 |
| - Term deposits | 85,797 | 59,249 |
| **Total customer accounts** | **122,809** | **100,209** |

The structure and amounts of due to banks as of December 31, 2019 and 2018 are presented below:

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Loans under repurchase agreements | 11,994 | 5,315 |
| Loans and term deposits from banks and other financial institutions | 50 | 1,268 |
| Correspondent accounts of other banks | 261 | 1,167 |
| **Total due to banks** | **12,305** | **7,750** |

Loans under repurchase agreements were secured by the following collateral:

- Securities measured at fair value through profit/loss with the value of RUB 1,065 million as of December 31, 2019;
- Securities measured at amortized cost with the value of RUB 8,719 million and RUB 2,283 million as of December 31, 2019 and 2018 respectively;
- Federal Loan Bonds (OFZ) received from Deposit Insurance Agency (DIA) as a subordinated securities loan in the amount of RUB 3,518 million and RUB 3,539 million as of December 31, 2019 and 2018 respectively.

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, 2019 and 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, 2019 and 2018 is presented in the following table. The maturity corresponds to the contractual terms. However, individuals are entitled to terminate their deposit agreement ahead of schedule.

| As of December 31, 2019 | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Financial assets at fair value through profit or loss | 13,273 | - | - | - | - | - | **13,273** |
| Due from banks | 1,831 | - | - | - | - | - | **1,831** |
| Loans to customers | 4,366 | 12,334 | 33,371 | 49,138 | 6,187 | 1,783 | **107,179** |
| Investments in securities | 5 | 10 | 6,059 | 8,937 | 442 | - | **15,453** |
| **Total interest bearing financial assets** | **19,475** | **12,344** | **39,430** | **58,075** | **6,629** | **1,783** | **137,736** |
| Cash and cash equivalents | 26,244 | - | - | - | - | - | **26,244** |
| Due from banks | 466 | 128 | 697 | 9 | - | - | **1,300** |
| Currency forwards and options not designated as hedges | - | 26 | - | - | - | - | **26** |
| Other financial assets* | 683 | 57 | 57 | - | - | 21 | **818** |
| **Total non-interest bearing financial assets** | **27,393** | **211** | **754** | **9** | **-** | **21** | **28,388** |
| **Total financial assets** | **46,868** | **12,555** | **40,184** | **58,084** | **6,629** | **1,804** | **166,124** |

(*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 | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks and other financial institutions | (12,044) | - | - | - | - | **(12,044)** |
| Customer accounts* | (16,094) | (12,746) | (69,178) | (928) | - | **(98,946)** |
| Debt securities issued | (445) | (710) | (135) | (677) | (463) | **(2,430)** |
| Lease obligations* | (25) | (33) | (191) | (377) | - | **(626)** |
| **Total interest bearing financial liabilities** | **(28,608)** | **(13,489)** | **(69,504)** | **(1,982)** | **(463)** | **(114,046)** |
| Currency forwards and options not designated as hedges | - | (25) | - | - | - | **(25)** |
| Obligation to deliver securities | (272) | - | - | - | - | **(272)** |
| Due to banks and other financial institutions | (261) | - | - | - | - | **(261)** |
| Customer accounts* | (30,152) | - | - | - | - | **(30,152)** |
| Other financial liabilities | (1,987) | (550) | (1,534) | - | - | **(4,071)** |
| **Total non-interest bearing financial liabilities** | **(32,672)** | **(575)** | **(1,534)** | **-** | **-** | **(34,781)** |
| **Total financial liabilities** | **(61,280)** | **(14,064)** | **(71,038)** | **(1,982)** | **(463)** | **(148,827)** |
| **Liquidity gap** | **(14,097)** | **(1,478)** | **(30,884)** | **56,102** | **6,166** | |
| **Stable sources of funding** | **40,625** | **641** | **30,855** | **(14,270)** | **(57,852)** | |
| **Net liquidity gap** | **26,529** | **(836)** | **(29)** | **41,832** | **(51,686)** | |
| **Cumulative liquidity gap** | **26,529** | **25,692** | **25,663** | **67,496** | **15,810** | |
| **Cumulative interest sensitivity gap** | **(8,875)** | **(10,020)** | **(40,094)** | **15,999** | **22,165** | |
| * Including intercompany balances | 6,802 | 593 | (13,532) | (2,960) | - | **(9,097)** |

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

| **As of December 31, 2018** | **Up to 1 month** | **1 month to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Over 5 years** | **Maturity undefined** | **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 | 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) |
| Lease obligations* | (21) | (37) | (144) | (200) | (6) | - | (408) |
| **Total interest bearing financial liabilities** | **(14,313)** | **(7,590)** | **(46,448)** | **(2,570)** | **(293)** | **-** | **(71,214)** |
| 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) |
| **Total non-interest bearing financial liabilities** | **(57,350)** | **(586)** | **(2,179)** | **-** | **-** | **-** | **(60,115)** |
| **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** | **5,138** | **10,894** | **809** | **38,193** | **40,304** | | |
| * 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 as of December 31, 2019 and 2018 is presented in the following table. The amounts in the table below represent future aggregate undiscounted cash flows.

| As of December 31, 2019 | 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 | Total |
|---|---|---|---|---|---|---|---|---|
| **Interest bearing financial liablities** | | | | | | | | |
| Due to banks | 6.5% | 12,062 | - | - | - | - | - | 12,062 |
| Customer accounts* | 5.9% | 15,716 | 13,272 | 13,354 | 58,234 | 957 | - | 101,534 |
| Debt securities issued | 9.5% | 457 | 716 | 93 | 43 | 677 | 463 | 2,449 |
| Lease obligations* | | 26 | 40 | 195 | 444 | - | - | 705 |
| **Total interest bearing financial liabilities** | | **28,261** | **14,028** | **13,642** | **58,721** | **1,634** | **463** | **116,750** |
| **Non-interest bearing financial liablities** | | | | | | | | |
| Financial liabilities at fair value through profit or loss | | - | 25 | - | - | - | - | 25 |
| Due to banks | | 263 | - | - | - | - | - | 263 |
| Customer accounts* | | 30,152 | - | - | - | - | - | 30,152 |
| Other financial liabilities | | 1,987 | 550 | 1,534 | - | - | - | 4,071 |
| **Total non-interest bearing financial liabilities and commitments** | | **32,402** | **575** | **1,534** | **-** | **-** | **-** | **34,511** |
| **Total financial liabilities** | | **60,663** | **14,604** | **15,176** | **58,721** | **1,634** | **463** | **151,261** |
| * Including intercompany balances | | 6,772 | 593 | - | - | - | - | 7,365 |

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

| As of December 31, 2018 | 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 | 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 | **2,356** |
| Lease obligations* | | 22 | 41 | 162 | 218 | 5 | **448** |
| **Total interest bearing financial liabilities** | | **13,707** | **8,265** | **47,910** | **2,774** | **862** | **73,518** |
| **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** | | **69,793** | **8,424** | **49,938** | **2,774** | **862** | **131,791** |
| * Including intercompany balances | | (16,469) | (6) | (20) | (3) | - | (16,498) |

Information on the maximum amount of credit risk on guarantees issued and commitments on loans is presented below:

| As of December 31, 2019 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Commitments on loans | 18,890 | 1,909 | 13 | 23,812 |
| Guarantees issued | 18,204 | 1,398 | 244 | 19,846 |
| Less provision | (339) | (17) | (47) | (403) |
| **Total commitments on loans and guarantees issued** | **36,755** | **6,290** | **210** | **43,255** |

| As of December 31, 2018 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Commitments on loans | 18,156 | 525 | 11 | 18,692 |
| Guarantees issued | 10,031 | 351 | 428 | 10,810 |
| Less provision | (201) | (25) | (219) | (445) |
| **Total commitments on loans and guarantees issued** | **27,986** | **851** | **220** | **29,057** |

## 29. 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 its Budget Committee.

### *Capital risk*

MTS Bank, a subsidiary of the Group, is subject to regulations of the Central Bank of Russia which require that banks comply with minimum capital adequacy ratio of 8% calculated on the basis of statutory standalone financial statements. MTS Bank meets the requirements established by the CBR. As of December 31, 2019 and 2018, the capital adequacy ratio of MTS Bank in accordance with CBR requirements was 14.1% and 11.9% respectively.

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 meets the requirements established by the Accord. As of December 31, 2019 the capital adequacy ratio of MTS Bank was 9.89% and 7.78% (2018: 18.38% and 13.34%).

### *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, 2019 and 2018.

Interest rate risks

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 nil and 100% of the Group's bank loans with variable rates outstanding as of December 31, 2019 and 2018, 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% of the Group's notes and bank loans with fixed rates outstanding as of December 31, 2019 and 2018.

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

Sensitivity analysis

A reasonably possible increase of 100 basis points in short term interest rates would have resulted in RUB 271 million, RUB 201 million and RUB 44 million future increases of interest expense for the years ended December 31, 2019, 2018 and 2017, respectively. The same decrease in short term interest rates would have resulted in RUB 271 million, RUB 201 million and RUB 44 million future decreases of finance cost for the years ended December 31, 2019, 2018 and 2017, 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 2023-2024.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure of changes in currency exchange rate for 40.0% and 50.8% of its USD-denominated notes and bank loans outstanding as of December 31, 2019 and 2018 respectively.

The notional amounts of currency derivative instruments amounted to RUB 18,572 million and RUB 34,115 million as of December 31, 2019 and 2018 respectively.

The Group has entered into currency forward and swaps agreements to minimize the foreign currency risk exposure for operating activities. The contracts assumed the purchase or sale of the agreed amount of currency at a specified exchange rate and on a specific date. The rate was determined by the market spot rate upon issuance. As the result of currency forward and swap agreements, unfulfilled as of December 31, 2019, 2018 and 2017, the Group recognized RUB 701 million gain, RUB 1,937 million gain and nil in the consolidated statement of profit and loss for the years ended December 31, 2019, 2018 and 2017, respectively.

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

In 2018-2019, several swap agreements were ceased to be hedge instruments due to the earlier redemption of hedged loans from Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG, Citibank and subsequently several swap agreements were early terminated. Loans and swaps were due in 2019 - 2024. The amount of RUB 12 million and RUB 505 million, net of tax, was immediately reclassified from accumulated other comprehensive income to profit for the year during the years ended December 31, 2019 and 2018, respectively, 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, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| **Accumulated derivatives income / (loss), beginning of the year, net of tax of 59 and 85 and (26), respectively** | **237** | **340** | **(103)** |
| Fair value adjustments on hedging derivatives, net of tax of (773) and 840 and (628), respectively | (3,094) | 3,362 | (2,512) |
| Amounts reclassified to loss / (profit) for the year during the period – forecast transaction no longer expected to occur, net of tax of 3 and (126) and nil, respectively | 12 | (505) | - |
| Amounts reclassified to loss / (profit) for the year during the period – hedged item has affected profit or loss, net of tax of 711 and (740) and 739, respectively | 2,845 | (2,960) | 2,955 |
| **Accumulated derivatives income, end of the year, net of tax of nil and 59 and 85, respectively** | **-** | **237** | **340** |

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 | USD - effect on profit before tax RUB mln | Change in rate, EUR | EUR - effect on profit before tax RUB mln |
|---|---|---|---|---|
| 2019 | +5% | 2,516 | +1% | 120 |
| | -5% | (2,516) | -1% | (120) |
| 2018 | +1% | (176) | +1% | 152 |
| | -1% | 176 | -1% | (152) |
| 2017 | +5% | (447) | +5% | 830 |
| | -5% | 447 | -5% | (830) |

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 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, 2019, the Group's consolidated current liabilities exceeded current assets by RUB 154,607 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 363,000 million (Note 23).

***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.

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

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

The Group considers its exposure to credit risk as of December 31, 2019, and 2018 to be as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Deposits and loans issued | 94,757 | 83,865 |
| Trade and other receivables | 39,151 | 37,143 |
| Cash and cash equivalents | 38,070 | 84,075 |
| Notes | 15,957 | 31,235 |
| Securities held by MTS Bank | 13,273 | 22,487 |
| Mutual funds | 9,349 | - |
| Assets in Sistema Capital trust management | 8,195 | 11,644 |
| Contingent consideration | 2,013 | - |
| Derivative financial instruments | 370 | 6,074 |

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.

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.

## 30. RELATED PARTIES

Related parties include the controlling shareholder of the Group, entities under common ownership with the Group, affiliated companies, associated and joint ventures.

The aggregated impact of transactions with related parties to the Group's statements of financial position as of December 31, 2019 and 2018 and statements of profit or loss for the years then ended was the following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Statements of financial position:** | | |
| Accounts receivable, non-current | 10,787 | 2,545 |
| Short-term investments | 17,790 | 12,086 |
| Accounts receivable, current | 5,872 | 6,385 |
| Rights of use assets | 4,526 | 1,359 |
| Bank loans to customers, non-current | 4,150 | 612 |
| Advances given for property, plant and equipment | 3,866 | 1,380 |
| Bank loans to customers, current | 1,677 | 2,244 |
| Purchases of property, plant and equipment, intangible assets and other assets | 1,244 | 6,647 |
| Cash and cash equivalents | 282 | 938 |
| Other investments | 149 | 149 |
| Bank deposits and liabilities, current | (41,198) | (42,642) |
| Dividends payable | (11,747) | - |
| Lease obligations, non-current | (5,160) | (1,007) |
| Bank deposits and liabilities, non-current | (153) | (1,044) |
| Lease obligations, current | (763) | (185) |
| Accounts payable | (558) | (1,301) |

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

| Statements of profit or loss | 2019 | 2018 | 2017 |
|---|---|---|---|
| Revenue | (4,932) | (4,352) | (3,349) |
| Operating (income) / expenses | (1,137) | 2,396 | 4,053 |
| Finance income | (1,662) | (1,398) | (1,267) |
| Interest expenses under lease arrangements | 447 | 135 | - |

***Terms and conditions of transactions with related parties*** – Outstanding balances as of December 31, 2019 and 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, 2019, the Group had no significant amounts of impairment relating to receivables owed by related parties as well as expenses recognized during the years ended December 31, 2019 and 2018 in respect to bad or doubtful debts from related parties.

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

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Accounts receivable:** | | |
| Business Nedvizhimost, a subsidiary of Sistema | 9,517 | 2,561 |
| Sistema, parent company | 5,267 | 2 |
| Sitronics, a subsidiary of Sistema | 680 | 1,107 |
| Zifrovoe TV, a Group's associate | 392 | 764 |
| MTS Belarus, a Group's associate | 194 | 4,095 |
| Other related parties | 609 | 401 |
| **Total accounts receivable, related parties** | **16,659** | **8,930** |
| Less non-current portion | (10,787) | (2,545) |
| **Accounts receivable, related parties, current** | **5,872** | **6,385** |
| **Accounts payable:** | | |
| Business Nedvizhimost, a subsidiary of Sistema | 191 | 34 |
| Zifrovoe TV, a Group's associate | 100 | 44 |
| Yahont, an associate of Sistema | 78 | - |
| Moscow Business Incubator, an associate of Sistema | 56 | 152 |
| TelecomCapStroi, a subsidiary of Sistema | 55 | 237 |
| MTS Belarus, a Group's associate | 5 | 678 |
| Other related parties | 73 | 156 |
| **Total accounts payable, related parties** | **558** | **1,301** |

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, 2019 | December 31, 2018 |
|---|---|---|
| **Advances given for property, plant and equipment:** | | |
| TelecomCapStroi, a subsidiary of Sistema | 2,319 | 1,317 |
| Yahont, an associate of Sistema | 1,359 | - |
| Other related parties | 188 | 63 |
| **Total advances given for property, plant and equipment, related parties** | **3,866** | **1,380** |

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

| | 2019 | 2018 |
|---|---|---|
| **Purchases of property, plant and equipment, intangible assets and other assets:** | | |
| Yahont, an associate of Sistema | 340 | - |
| Business Nedvizhimost, a subsidiary of Sistema | 329 | 328 |
| Zifrovoe TV, a Group's associate | 179 | 28 |
| Segezha Group, a subsidiary of Sistema | 125 | - |
| TelecomCapStroi, a subsidiary of Sistema | 83 | 93 |
| Moscow Business Incubator, an associate of Sistema | - | 4,450 |
| Mosdachtrest, a subsidiary of Sistema | - | 1,711 |
| Other related parties | 188 | 37 |
| **Total purchases of property, plant and equipment, intangible assets and other assets, related parties** | **1,244** | **6,647** |

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

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Carrying value of right-of-use assets:** | | |
| Business Nedvizhimost, a subsidiary of Sistema | 3,980 | 919 |
| Kronshtadt, a subsidiary of Sistema | 132 | 121 |
| Other related parties | 414 | 319 |
| **Total carrying value of right-of-use assets, related parties** | **4,526** | **1,359** |

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

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Lease obligations:** | | |
| Business Nedvizhimost, a subsidiary of Sistema | 5,504 | 793 |
| Kronshtadt, a subsidiary of Sistema | 87 | 109 |
| Other related parties | 332 | 290 |
| **Total lease obligations, related parties** | **5,923** | **1,192** |
| Less non-current portion | (5,160) | (1,007) |
| **Lease obligations, related parties, current** | **763** | **185** |

Interest expense accrued on these lease obligations for the years ended December 31, 2019 and 2018 amounted to RUB 447 million and RUB 135 million, respectively and was included in finance costs in the accompanying consolidated statements of profit or loss.

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

***Bank loans to customers, interbank loans due*** – The following table presents loans given by MTS Bank to related parties:

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Bank loans to customers:** | | |
| Etalon LenSpecCMU, an associate of Sistema | 1,982 | - |
| Sistema, parent company | 1,440 | 254 |
| Kronshtadt, a subsidiary of Sistema | 1,280 | 1,395 |
| Leader-Invest, an associate of Sistema | 895 | 612 |
| Binnopharm, an associate of Sistema | - | 412 |
| Sistema Finance, a subsidiary of Sistema | - | 183 |
| Other related parties | 230 | - |
| **Total bank loans due, related parties** | **5,827** | **2,856** |
| Less non-current portion | (4,150) | (612) |
| Bank loans due, related parties, current | **1,677** | **2,244** |

***Bank deposits and liabilities*** – The following table presents deposits in MTS Bank held by related parties:

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Bank deposits and liabilities:** | | |
| Key management personnel of the Group and its parent | 31,634 | 29,658 |
| Sistema Capital, a Group's associate | 2,586 | 239 |
| Project Michurinskiy, an associate of Sistema | 1,448 | 952 |
| Sistema Telecom Activy, a subsidiary of Sistema | 1,300 | 1,542 |
| Yahont, an associate of Sistema | 802 | - |
| Sitronics, a subsidiary of Sistema | 655 | 525 |
| Sistema Venture Capital, a subsidiary of Sistema | 289 | 319 |
| BF-Sistema, a subsidiary of Sistema | 244 | 233 |
| Sistema, parent company | 242 | 4,610 |
| TelecomCapStroi, a subsidiary of Sistema | 211 | 238 |
| UK LandProfit, formerly named Sistema Real Estate, a subsidiary of Sistema | 205 | 599 |
| Zifrovoe TV, a Group's associate | 93 | 536 |
| Medsi Group, a subsidiary of Sistema | 58 | 745 |
| BashRES, a subsidiary of Sistema | 29 | 309 |
| Business Nedvizhimost, a subsidiary of Sistema | 8 | 226 |
| Leader-Invest, an associate of Sistema | 5 | 433 |
| Sistema Finance, a subsidiary of Sistema | 4 | 338 |
| RTI, a subsidiary of Sistema | - | 323 |
| Other related parties | 1,538 | 1,861 |
| **Total bank deposits and liabilities, related parties** | **41,351** | **43,686** |
| Less non-current portion | (153) | (1,044) |
| **Total bank deposits and liabilities, current** | **41,198** | **42,642** |

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

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

| | December 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Short-term investments:** | | |
| Sistema Capital, a Group's associate (Mutual funds) | 9,349 | - |
| Sistema Capital, a Group's associate (Assets management) | 8,195 | 11,644 |
| Promissory notes of Sitronics, formerly named Intellect Telecom, a subsidiary of Sistema | 246 | 283 |
| Other loans receivable | - | 159 |
| **Total short-term investments in related parties** | **17,790** | **12,086** |
| **Other investments in shares:** | | |
| Sistema Venture Capital, a subsidiary of Sistema | 117 | 117 |
| Other investments | 32 | 32 |
| **Total investments in shares, related parties** | **149** | **149** |

***Dividends payable*** – The following table presents dividends payable to related parties:

| | **December 31, 2019** |
|---|---|
| **Dividends payable:** | |
| Sistema, parent company | 8,409 |
| Sistema Telecom Activy, a subsidiary of Sistema | 2,921 |
| Sistema Finance S.A., a subsidiary of Sistema | 417 |
| **Total dividends payable, related parties** | **11,747** |

As of December 31, 2018 there were no dividends payable to the related parties.

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

***Operating transactions –*** For the years ended December 31, 2019, 2018 and 2017, operating transactions with related parties were as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Revenues from related parties:** | | | |
| Segezha Group, subsidiaries of Sistema (providing energy resources by MTS Energy, software supply) | 1,790 | 74 | 23 |
| Sitronics, a subsidiary of Sistema (internet services and video/images translation services) | 1,018 | 1,195 | 303 |
| Kronshtadt, a subsidiary of Sistema (banking services and rent) | 303 | 58 | 13 |
| MTS Belarus, a Group's associate (roaming and interconnect services) | 296 | 296 | 248 |
| Leader-Invest, an associate of Sistema, a former subsidiary of Sistema (banking services and rent) | 203 | 56 | 4 |
| Zifrovoe TV, a Group's associate (subscriber acquisition services) | 193 | 508 | 724 |
| Medsi Group, a subsidiary of Sistema (telecommunication and call center services) | 157 | 166 | 156 |
| BashRES, a subsidiary of Sistema (information security system project) | 129 | 53 | 89 |
| Sistema, parent company (consulting services) | 127 | 80 | 32 |
| Detskii Mir, an associate of Sistema, a former subsidiary of Sistema (telecommunication services) | 101 | 175 | 188 |
| MTS Bank, a former Group's associate (telecommunication and call center services, bank cards distribution commission) | - | 1,271 | 1,507 |
| Other related parties | 615 | 420 | 62 |
| **Total revenues from related parties** | **4,932** | **4,352** | **3,349** |
| **Operating (income) / expenses incurred on transactions with related parties:** | | | |
| Koncel, a subsidiary of Sistema (dismantling and scrap metal realization) | (3,328) | (1,141) | - |
| Business Nedvizhimost, a subsidiary of Sistema (rent and sale of property) | (1,301) | 39 | 821 |
| Sistema Finance, a subsidiary of Sistema (change in fair value of financial instruments of MTS Bank) | (289) | 325 | - |
| Key management personnel of the Group (interest expense) | 1,973 | 705 | - |
| Sistema, parent company (interest expenses (deposits and accounts), MTS Bank) | 377 | 284 | - |
| AB Safety, a subsidiary of Sistema (security services) | 299 | 324 | 302 |
| Jet Air Group, a subsidiary of Sistema (transportation services) | 142 | 135 | 172 |
| Sitronics, a subsidiary of Sistema (discounting debt) | 107 | 20 | - |
| Project Michurinskiy, an associate of Sistema (interest expenses (deposits and accounts), MTS Bank) | 104 | 28 | - |
| Sistema-Capital, a Group's associate (manager reward) | 97 | - | - |
| MTS Belarus, a Group's associate (roaming and interconnect services) | 87 | 104 | 121 |
| UK LandProfit, formerly named Sistema Real Estate, a subsidiary of Sistema ((interest expenses (deposits and accounts) and rent, MTS-Bank) | 45 | 17 | - |
| MTS Bank, a former Group's associate (commission related expenses) | - | 1,217 | 2,259 |
| Other related parties | 550 | 339 | 378 |
| **Total operating (income) / expenses incurred on transactions with related parties** | **(1,137)** | **2,396** | **4,053** |

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

Finance incomefrom investment transactions with related parties for the years ended December 31, 2019, 2018 and 2017 was the following:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Finance income/(loss) from related parties** | | | |
| Business Nedvizhimost, a subsidiary of Sistema | 827 | 353 | 359 |
| Sistema Capital, a Group's associate (assets management) | 474 | 465 | 369 |
| Sistema, parent company | 367 | 4 | 48 |
| MTS Bank, a former Group's associate | - | 448 | 345 |
| Other related parties | (6) | 128 | 146 |
| **Total finance income from related parties** | **1,662** | **1,398** | **1,267** |

**MTS Bank** – On July 5, 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.

**East-West United Bank** – The Group maintains certain bank accounts with East-West United Bank, a subsidiary of Sistema. As of December 31, 2019 and 2018, the Group's cash position at East-West United Bank amounted to RUB 282 million and RUB 938 million, respectively.

**Business Nedvizhimost** – In 2015, the Group sold its 100% stake in Rent Nedvizhimost to Business Nedvizhimost, subsidiary of Sistema, for RUB 8,500 million in total. As of December 31, 2019 and 2018 the balance of related accounts receivable amounted to RUB 2,916 million and RUB 2,561 million, respectively. The amount as of December 31, 2019 is due before December 31, 2021 and bears an 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. The investment in the joint venture amounted to RUB 658 million as of December 31, 2019 (Note 15).

In March 2019, in order to optimize the processes of real estate management, the Group sold a number of buildings with carrying value of RUB 1,479 million to Business Nedvizhimost for the consideration of RUB 7,247 million (including VAT). The consideration will be paid by installments for 10 years at 9% per annum with the collateral in the form of disposed buildings granted by the buyer. At the same time, the Group entered into a number of agreements to lease spaces in the buildings sold for the period of up to 15 years (leaseback).

As a result of this transaction, the Group recorded rights-of-use assets of RUB 3,123 million, lease obligation of RUB 5,197 million and recognized a gain in the amount of RUB 1,745 million as a part of "Other income" in consolidated statement of profit or loss.

**Sistema Capital** – In 2016 and 2017 the Group entered into trust agreements with asset management company Sistema Capital. As of December 31, 2019 and 2018, the balance of assets under trust management amounted to RUB 8,195 million and RUB 11,644 million respectively (Note 14).

In December 2019, the Group acquired a share in mutual investment funds of Sistema Capital "Rezervny" and "Rezervny. Valyutny" for RUB 5,665 million and 3,678 million, respectively. As at December 31, 2019 the fair value of the shares amounted to 5,682 million and 3,667 million, respectively, with the subsequent revaluation to be recognized in profit or loss (Note 14).

**Sistema** – In March 2019, the Group disposed of its 18.69% interest in the Group's associate OZON to Sistema for RUB 7,902 million (Note 15). As of December 31, 2019 the balance of accounts receivable amounted to RUB 5,267 million.

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

***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 2019, 2018 and 2017 their total remuneration amounted to RUB 1,574 million, RUB 816 million and RUB 739 million, respectively. These amounts comprised RUB 917 million, RUB 504 million and RUB 490 million in base salaries and 657 RUB million, RUB 312 million and RUB 249 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 2019, 2018 and 2017 amounted to RUB 798 million, RUB 554 million and RUB 486 million, respectively.

## 31. SHAREHOLDERS' EQUITY

***Common stock (ordinary shares)*** – The Group had 1,998,381,575 authorized and issued ordinary shares with par value 0.1 RUB as of December 31, 2019 and 2018. Preferred shares have not been authorized and 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, 2019, the total shares in treasury stock comprised 225,547,422 and 1,772,834,153 shares were outstanding. As of December 31, 2018, the total shares in treasury stock comprised 167,638,899, and 1,830,742,676 shares were outstanding.

Information on shares repurchased by the Group for the years ended December 31, 2019, 2018 and 2017 is presented as follows:

| | 2019 | | 2018 | | 2017 | |
|---|---|---|---|---|---|---|
| | **Shares** | **RUBm** | **Shares** | **RUBm** | **Shares** | **RUBm** |
| **Tender offer:** | | | | | | |
| Open market | - | - | - | - | 16,022,364 | 4,647 |
| Sistema Finance | - | - | - | - | 16,038,892 | 4,651 |
| **Repurchase plan:** | | | | | | |
| Open market | 28,790,050 | 7,485 | 35,981,664 | 10,328 | 43,647,128 | 12,475 |
| Sistema Finance | 28,929,344 | 7,450 | 45,269,718 | 12,294 | - | - |
| **Total** | **57,719,394** | **14,935** | **81,251,382** | **22,622** | **75,708,384** | **21,773** |

### 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 their 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, 2019, 2018 and 2017:

| | Foreign currency translation reserve | Cash flow hedging reserve | Remeasure-ments of the net defined benefit liability |
|---|---|---|---|
| **Balances at January 1, 2017** | **(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 benefit | - | (840) | - |
| Amounts reclassified to profit for the year | - | (4,331) | - |
| Less: tax expense | - | 866 | - |
| **Net other comprehensive income / (loss) for the year** | **7,726** | **(103)** | **167** |
| **Balances at December 31, 2018** | **(1,971)** | **237** | **670** |
| Other comprehensive income for the year | 721 | (3,867) | - |
| Less: tax expense | - | 773 | - |
| Amounts reclassified to profit for the year | 7,947 | 3,571 | - |
| Less: tax benefit | - | (714) | - |
| **Net other comprehensive income / (loss) for the year** | **8,668** | **(237)** | **-** |
| **Balances at December 31, 2019** | **6,697** | **-** | **670** |

## Non-controlling interests

As of December 31, 2019 and 2018, MGTS and MTS Bank were the only subsidiaries of the Group, which had material non-controlling interests.

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

| **MGTS** | **2019** | **2018** | **2017** |
|---|---|---|---|
| **Non-controlling interests opening balance** | **(3,649)** | **(4,180)** | **(4,787)** |
| Profit for the year attributable to non-controlling interests | (806) | (619) | (554) |
| Dividends to non-controlling interests | 1,123 | 1,165 | 1,175 |
| Other | 4 | (15) | (14) |
| **Non-controlling interests closing balance** | **(3,328)** | **(3,649)** | **(4,180)** |

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

| MTS Bank | 2019 | 2018 |
|---|---|---|
| **Non-controlling interests opening balance** | **(8,698)** | **-** |
| Profit for the year attributable to non-controlling interests | (51) | (378) |
| Acquisitions under common control | - | (8,320) |
| Acquisition of additional ownership interests | 8,700 | - |
| Other | (4) | - |
| **Non-controlling interests closing balance** | **(53)** | **(8,698)** |

| MGTS | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Current assets | 16,271 | 31,842 |
| Non-current assets | 52,539 | 34,227 |
| Current liabilities | (17,224) | (12,015) |
| Non-current liabilities | (19,641) | (15,304) |

| MTS Bank | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Current assets | 100,230 | 92,037 |
| Non-current assets | 52,668 | 49,866 |
| Current liabilities | (148,288) | (129,344) |
| Non-current liabilities | (2,303) | (2,964) |

| MGTS | Year ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Revenue, gross of intercompany | (39,479) | (39,375) | (39,565) |
| Profit for the year, gross of intercompany | (14,148) | (10,846) | (9,719) |

| MTS Bank | Year ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Revenue, gross of intercompany | (29,869) | (11,871) | - |
| Profit for the year, gross of intercompany | (1,318) | (468) | - |

### Dividends

As a leading telecommunications group with a home base in developing markets, the primary need of the Group 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.

The Group 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 overall debt position.

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

For 2019-2021, MTS management commits to a minimum cumulative payout of RUB 28.0 per share per calendar year through semi-annual payments.

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, 2019, 2018 and 2017:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Dividends declared (including dividends on treasury shares of 9,449, 3,037 and 1,337 respectively) | 83,751 | 51,958 | 51,958 |
| Dividends, RUB per ADS | 83.82 | 52.00 | 52.00 |
| Dividends, RUB per share | 41.91 | 26.00 | 26.00 |

As of December 31, 2019 and 2018, dividends payable were RUB 23,079 million and RUB 146.2 million, respectively, and included in the trade and other payables within the consolidated statement of financial position.

## 32. LIABILITY UNDER PUT OPTION AGREEMENT

Until August 2019, the Group owned an 80% stake in Aramayo Investments Limited, the 100% indirect owner of MTS Armenia and had a call and put option agreement to acquire the remaining 20% stake. According to the aforementioned option agreement, the price for the remaining 20% stake option was determined by a pre-agreed independent appraiser and the call option could have been 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 Investments Limited (and indirectly in MTS Armenia). The call option was excercised by offsetting the amount of the liability under put option with the due amount of the loan issued to the minority shareholders of MTS Armenia.

The acquisition of a stake took place in August 2019, bringing the Group's total ownership share to 100%.

The amount of the liability under the option agreement was RUB 3,629 million as of December 31, 2018 (Note 27).

## 33. COMMITMENTS AND CONTINGENCIES

***Capital commitments*** – As of December 31, 2019, the Group had executed purchase agreements of approximately RUB 39,055 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, 2019 the Group fully completed total purchase installment outlined by the agreement.

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

***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, 2019, 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.

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, | |
|---|---|---|
| | **2019** | **2018** |
| Contingent liabilities for additional taxes other than income tax | 986 | 730 |
| Contingent liabilities for additional income taxes | 2,173 | 2,051 |

***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.

The management believes that as of December 31, 2019, the Group is in compliance with conditions of the aforementioned licenses.

***Antimonopoly proceedings*** – In August 2018, the Federal Antimonopoly Service of Russia ("FAS Russia") charged MTS and other federal operators with violation of antimonopoly laws in respect to establishing discriminatory terms and conditions for bulk SMS pricing for the banks with state-owned equity interest as compared to the terms and conditions for other banks and later – with establishing unreasonably high bulk SMS prices. In May 2019, FAS Russia considered that MTS had breached the provisions of antimonopoly laws in respect to establishing discriminatory terms and conditions for bulk SMS pricing and charging unreasonably high bulk SMS prices, prescribing MTS to cease its violations. MTS contested the decision and the prescription of FAS Russia in the Moscow Arbitration Court, which upheld the position of FAS Russia in November 2019, following by the Arbitration Court of Appeal in March 2020. It's currently impossible to measure possible implications of the case reliably.

***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 significantly 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 6.25% as of December 31, 2019.

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.

***Anti-terror law*** – On July 1, 2018, a series of anti-terror laws (also known as "Yarovaya-Ozerov bundle of laws") became effective in 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. 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 concerning 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 and SEC, the Group agreed to pay a total penalty of USD 850 million (RUR 59.1 billion as of December 31, 2018) to the United States, which was comprised of a criminal fine, criminal forfeiture and civil penalty. 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. In March 2019, the Group paid the total penalty of USD 850 million (RUR 55.6 billion as of the payment date).

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

***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. The Group is reviewing the allegations and intends to defend its interests. It is currently impossible to measure possible implications and amount of claim reliably.

## 34. SUBSEQUENT EVENTS

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

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