PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2020
(unaudited)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

TABLE OF CONTENTS

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

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

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Mobile TeleSystems Public Joint Stock Company and its subsidiaries (the "Group") as of June 30, 2020 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.
Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Andrei Shvetsov,
Engagement partner

August 26, 2020

The Entity: Mobile TeleSystems PJSC

Certificate of state registration № P-7882.16, issued by the State Registration Chamber under the Ministry of Justice of the Russian Federation by 01.03.2000.

Primary State Registration Number: 1027700149124

Certificate of registration in the Unified State Register № 1027700149124 of 02.09.2002, issued by Moscow Department of the Russian Ministry of Taxation.

Address: 4 Marksistskaya st., Moscow, 109147, Russia

Audit Firm: AO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
(Amounts in millions of Russian Rubles)

	Notes	June 30, 2020	December 31, 2019
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	267,873	265,479
Investment property		2,596	2,986
Right-of-use assets	12	133,872	138,817
Goodwill		38,150	38,675
Other intangible assets	10	82,156	79,729
Investments in associates and joint ventures	8	8,432	6,450
Other investments		11,007	11,195
Deferred tax assets		9,985	9,975
Accounts receivable, related parties	17	11,064	10,787
Trade accounts receivable		2,670	3,556
Bank deposits and loans to customers	14	53,390	53,472
Other financial assets		6,782	3,220
Other assets		5,338	4,981
Total non-current assets		**633,315**	**629,322**
CURRENT ASSETS:			
Inventories		18,067	15,515
Trade and other receivables	9	36,591	35,595
Accounts receivable, related parties	17	5,308	5,872
Bank deposits and loans to customers	14	44,371	39,370
Short-term investments		25,994	25,618
Advances paid and prepaid expenses		4,154	4,107
VAT receivable		10,504	9,350
Income tax assets		3,371	4,301
Assets held for sale		493	497
Cash and cash equivalents		98,253	38,070
Other financial assets		21,028	14,558
Other assets		995	1,735
Total current assets		**269,129**	**194,588**
TOTAL ASSETS		**902,444**	**823,910**

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) (UNAUDITED)
(Amounts in millions of Russian Rubles)

	Notes	June 30, 2020	December 31, 2019
EQUITY AND LIABILITIES			
EQUITY:			
Common stock	16	200	200
Treasury stock	16	(60,389)	(59,748)
Additional paid-in capital		-	-
Retained earnings		78,048	85,249
Accumulated other comprehensive income/(loss)	16	9,278	7,367
Equity attributable to owners of the Company		27,137	33,068
Non-controlling interests		3,641	3,326
Total equity		**30,778**	**36,394**
NON-CURRENT LIABILITIES:			
Borrowings	11	396,560	271,573
Lease obligations	12	137,099	140,080
Bank deposits and liabilities	14	1,514	1,805
Deferred tax liabilities		20,129	17,866
Provisions		5,213	4,761
Contract liabilities		545	589
Other financial liabilities		9	955
Other liabilities		1,342	1,430
Total non-current liabilities		**562,411**	**439,059**
CURRENT LIABILITIES:			
Trade and other payables		87,463	71,808
Accounts payable, related parties	17	499	558
Contract liabilities		20,177	20,718
Borrowings	11	12,022	71,746
Lease obligations	12	16,592	15,228
Bank deposits and liabilities	14	139,271	136,147
Income tax liabilities		2,075	784
Provisions	18	8,750	11,526
Other financial liabilities		1,284	1,424
Other liabilities		21,122	18,518
Total current liabilities		**309,255**	**348,457**
TOTAL EQUITY AND LIABILITIES		**902,444**	**823,910**

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

President and CEO

Alexey V.Kornya

Vice-president, Finance

Andrey M. Kamensky

August 26, 2020

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

(Amounts in millions of Russian Rubles, except per share amounts)

	Notes	Six months ended June 30, 2020	Six months ended June 30, 2019
Service revenue		206,269	196,600
Sales of goods		31,069	29,398
Revenue	5	**237,338**	**225,998**
Cost of services		60,256	56,660
Cost of goods		28,548	27,543
Selling, general and administrative expenses		42,714	43,095
Depreciation and amortization		49,352	47,753
Operating share of the profit of associates and joint ventures	8	(2,259)	(2,202)
Impairment of non-current assets		1,248	-
Impairment of financial assets		6,739	2,863
Other operating income		(1,768)	(3,953)
Operating profit	5	**52,508**	**54,239**
Finance income		(1,967)	(2,701)
Finance costs		21,244	23,022
Net foreign exchange (gain) / loss and change in fair value of financial instruments		(3,681)	3,749
Non-operating share of the profit of associates and joint ventures	8	(111)	(3,355)
Other expenses		211	1,954
Profit before tax		**36,812**	**31,570**
Income tax expense	15	9,233	6,890
Profit for the year from continuing operations		**27,579**	**24,680**
Profit from discontinued operations	6	**2,236**	**6,013**
Profit for the period		**29,815**	**30,693**
Profit for the year attributable to:			
Owners of the Company		29,493	30,301
Non-controlling interests		322	392
Earnings per share from continuing operations (basic and diluted), Russian Rubles:		15.36 and 15.35	13.58 and 13.55
Earnings per share from discontinued operations (basic and diluted), Russian Rubles:		1.26 and 1.26	3.36 and 3.35

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

President and CEO

____________________ Alexey V.Kornya

Vice-president, Finance

____________________ Andrey M. Kamensky

August 26, 2020

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
(Amounts in millions of Russian Rubles)

	Six months ended June 30, 2020	Six months ended June 30, 2019
Profit for the period	**29,815**	**30,693**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	1,997	(2,631)
Net fair value (loss) / gain on financial instruments	-	(228)
Share of other comprehensive income / (loss) of associates		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations in associates	(86)	(159)
Other comprehensive income / (loss) for the period, net of income tax	**1,911**	**(3,018)**
Total comprehensive income for the period	**31,726**	**27,675**
Total comprehensive income for the year attributable to:		
Owners of the Company	31,404	27,283
Non-controlling interests	322	392

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

President and CEO

____________________ Alexey V.Kornya

Vice-president, Finance

____________________ Andrey M. Kamensky

August 26, 2020

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY (UNAUDITED)

(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 owners of the Company	Non-controlling interests	Total equity
Balances at January 1, 2019	**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 period	-	-	-	-	-	-	-	-	30,301	30,301	392	**30,693**
Currency translation adjustment, net of income tax	-	-	-	-	-	-	(2,790)	-	-	(2,790)	-	**(2,790)**
Change in fair value of derivatives, net of income tax	-	-	-	-	-	(228)	-	-	-	(228)	-	**(228)**
Total comprehensive (loss) / income for the period	**-**	**-**	**-**	**-**	**-**	**(228)**	**(2,790)**	**-**	**30,301**	**27,283**	**392**	**27,675**
Issuance of stock options	-	-	-	-	315	-	-	-	-	315	-	**315**
Exercise of stock options	-	-	3,524,392	959	(1,060)	-	-	-	-	(101)	-	**(101)**
Dividends declared by MTS	-	-	-	-	-	-	-	-	(35,423)	(35,423)	-	**(35,423)**
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,119)	**(1,119)**
Changes in ownership interest with no gain/loss of control	-	-	-	-	(3,656)	-	-	-	-	(3,656)	(7,748)	**(11,404)**
Acquisition under common control	-	-	-	-	(1,071)	-	-	-	-	(1,071)	-	**(1,071)**
Purchase of own stock	-	-	(61,432,914)	(15,899)	-	-	-	-	-	(15,899)	-	**(15,899)**
Reclass to retained earnings	-	-	-	-	5,472	-	-	-	**(5,472)**	-	-	**-**
Balances at June 30, 2019	**1,998,381,575**	**200**	**(225,547,421)**	**(59,748)**	**-**	**9**	**(4,761)**	**670**	**100,352**	**36,722**	**3,816**	**40,538**
Balances at January 1, 2020	**1,998,381,575**	**200**	**(225,547,422)**	**(59,748)**	**-**	**-**	**6,697**	**670**	**85,249**	**33,068**	**3,326**	**36,394**
Profit for the period	-	-	-	-	-	-	-	-	**29,493**	**29,493**	**322**	**29,815**
Currency translation adjustment, net of income tax	-	-	-	-	-	-	**1,911**	-	-	**1,911**	-	**1,911**
Total comprehensive (loss) / income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**1,911**	**-**	**29,493**	**31,404**	**322**	**31,726**
Issuance of stock options	-	-	-	-	181	-	-	-	-	**181**	-	**181**
Exercise of stock options	-	-	1,682,000	447	(447)	-	-	-	-	-	-	-
Dividends declared by MTS	-	-	-	-	-	-	-	-	**(36,435)**	**(36,435)**	-	**(36,435)**
Purchase of own stock	-	-	(3,618,327)	(1,088)	-	-	-	-	-	**(1,088)**	-	**(1,088)**
Changes in ownership interest with no gain/loss of control	-	-	-	-	7	-	-	-	-	**7**	**(7)**	**-**
Reclass to retained earnings	-	-	-	-	259	-	-	-	**(259)**	-	-	-
Balances at June 30, 2020	**1,998,381,575**	**200**	**(227,483,749)**	**(60,389)**	**-**	**-**	**8,608**	**670**	**78,048**	**27,137**	**3,641**	**30,778**

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(Amounts in millions of Russian Rubles)

	Notes	Six months ended June 30, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the period		29,815	30,693
Adjustments for:			
Depreciation and amortization		49,352	53,393
Impairment of non-current assets		1,248	-
Impairment of financial assets		6,739	2,868
Gain from sale of Ukraine operations	6	(1,967)	-
Finance income		(1,967)	(2,923)
Finance costs		21,244	23,736
Income tax expense		9,233	7,615
Share of profit of associates and joint ventures		(2,370)	(5,557)
Net foreign exchange (gain) / loss and change in fair value of financial instruments		(3,951)	233
Inventory obsolescence expense		658	944
Change in provisions		(2,540)	(3,174)
Other non-cash items		(1,903)	(3,426)
Movements in operating assets and liabilities:			
Decrease / (increase) in trade and other receivables and contract assets		1,567	(4,859)
Increase in bank deposits and loans to customers		(9,919)	(14,444)
(Increase) / decrease in inventory		(2,960)	3,017
(Increase) / decrease in advances paid and prepaid expenses		(5,265)	1,975
Increase in VAT receivable		(1,141)	(1,942)
Increase in trade and other payables, contract liabilities and other current liabilities		2,274	2,349
Increase in bank deposits and liabilities		1,141	3,160
Fines and penalties related to investigation into former operations in Uzbekistan (Note 0)		-	(55,607)
Dividends received		651	2,250
Income tax paid		(4,753)	(14,727)
Interest received		1,276	3,351
Interest paid, net of interest capitalized		(21,895)	(24,066)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**64,567**	**4,859**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of subsidiaries, net of cash acquired	4	69	(2,030)
Purchases of property, plant and equipment (including capitalized interest in the amount of RUB 212 million and RUB 298 million, respectively)		(28,053)	(27,513)
Purchases of other intangible assets		(12,757)	(11,781)
Purchase of Avantage		(196)	-
Purchase of 3G and 4G licenses in Armenia		-	(23)
Cost to obtain and fulfill contracts, paid		(2,337)	(2,307)
Proceeds from sale of property, plant and equipment and assets held for sale		2,504	2,903
Purchases of short-term and other investments		(5,350)	(11,812)
Proceeds from sale of short-term and other investments		7,297	37,959
Investments in associates and joint ventures		(1,415)	-
Cash (payments) and proceeds related to swap contracts		7,325	(740)
Proceeds from sale of associates		2,450	3,000
Other investing activities		-	5
NET CASH USED IN INVESTING ACTIVITIES		**(30,463)**	**(12,339)**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) (UNAUDITED)

(Amounts in millions of Russian Rubles)

	Six months ended June 30, 2020	Six months ended June 30, 2019
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes	(30,210)	-
Proceeds from issuance of notes	46,757	22,500
Notes and debt issuance cost paid	(106)	(51)
Lease obligation principal paid	(7,506)	(7,348)
Dividends paid	(22,918)	(2)
Acquisition of entities under common control, net of cash acquired	-	(13,520)
Proceeds from loans	106,047	1,013
Repayment of loans	(63,585)	(10,525)
Repurchase of common stock	(1,088)	(15,899)
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES	**27,391**	**(23,832)**
Effect of exchange rate changes on cash and cash equivalents	(1,312)	(1,520)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**60,183**	**(32,832)**
CASH AND CASH EQUIVALENTS, beginning of the period	**38,070**	**84,075**
CASH AND CASH EQUIVALENTS, end of the period	**98,253**	**51,243**

The accompanying notes are an integral part of these interim condensed 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.

Business of the Company and its subsidiaries ("the Group" or MTS) – 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, 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").

Seasonality – Whilst the Group does not view its business as highly seasonal as defined by IAS 34, *Interim Financial Reporting*, its financial results are impacted by seasonality through the calendar year. Higher consumption of roaming services in May-September and increased demand for handsets and accessories at the year-end before winter holidays enhance revenue from services and sales of goods for the second half of the year. However, there was no increase in international roaming revenue in the first half of 2020 due to COVID-19.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation – These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the annual consolidated statements of the Group for the year ended December 31, 2019.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its 2019 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequently to the issuance of its annual consolidated statements of the Group for the year ended December 31, 2019.

Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the annual consolidated statements of the Group for the year ended December 31, 2019 and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present the Group's financial position, financial performance and cash flows for the interim reporting period in accordance with IAS 34, *Interim Financial Reporting*. Results for the six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ended December 31, 2020.

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

These interim condensed consolidated financial statements for the six months ended June 30, 2020 were authorized for issue by the Company's President on August 26, 2020.

As at June 30, 2020, current liabilities exceeded current assets by RUB 40.1 billion. Management believes the Group has sufficient existing and continuing access to liquidity through both operating cash flows and available credit facilities. As of June 30, 2020, the Group's total available credit facilities amounted to RUB 243.7 billion (Note 12).

Significant accounting policies – The accounting policies and method of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated statements of the Group for the year ended December 31, 2019.

In the first half of 2020 the Group adopted the following standards, interpretations and amendments:

Amendments to Conceptual Framework	Conceptual Framework in IFRS standards
Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform and its Effects on Financial Reporting
Amendment to IFRS 16	COVID-19 Related Rent Concessions

None of these interpretations and amendments had material effect on the Group's interim condensed consolidated financial statements.

3. IMPACTS OF COVID-19

The following note summarizes the impacts of COVID-19 on the Group's business and performance, the judgements and assumptions made as well as the main effects of the crisis on these interim condensed financial statements.

Effects of COVID-19 pandemic on Group's business and financial situation

Beginning in March 2020, the Group started taking measures to adjust its operations in line with government guidelines to protect public health. The Group activated protocols aimed at ensuring the continuity of essential business processes, as well as the uninterrupted operation of critical communications infrastructure, organized transitioning the majority of office-based staff to remote working and temporarily closed some of Group's owned and operated retail outlets. The deployment of these actions and decisions taken by governments in Russia and Armenia have affected Group's business and financial situation.

In the second quarter of the financial year 2020, the main effects of the COVID-19 pandemic on the Group's revenue were the following:

- A decrease in sales of handsets, accessories and software products;
- A drop in international roaming revenue;
- A slight decrease in revenue from financial services;
- A drop in revenue from event-ticketing.

In regard of the Group operating expenses, the main impacts of COVID-19 pandemic were the following:

- An increase in interconnect charges;
- An increase in impairment loss of financial assets (bank deposits and loans to customers as well as trade and other receivables);
- Impairment of goodwill related to event-ticketing companies;
- Gain realized on termination of lease contracts as well as rent holidays in relation of the Group retail outlets;
- Increased costs for putting in place additional sanitation measures in offices and stores;
- A reduction of sales and marketing expenses (mainly payroll of retail employees), travelling, trainings as well as administrative office maintenance costs.

In regard to the Group's capital expenditures there was no effect of COVID 19.

On June 30, 2020 the Group concluded a subsidized credit facility with VTB. The facility is a revolving credit line, which allows the Group to borrow up to RUB 1,702 million. The principal and interest accumulated under this credit facility could be partially or fully forgiven if the Group fulfills certain conditions (primarily to maintain fixed employment rate in retail business) as part of government support related to COVID-19.

Main effects on the interim condensed consolidated financial statements

The main estimates of the crisis as at June 30, 2020 during the preparation of these interim condensed consolidated financial statements concerned:

Impairment of financial assets:

As a result of a higher expected credit risk due to COVID-19, the Group increased the allowance for expected credit losses (ECL) by RUB 625 million for trade and other receivables and by RUB 3,792 million for bank deposits and loans to customers.

In view of existing uncertainty surrounding the economic environment, the Group will pay specific attention to the development of the risk of non-recovery of trade and other receivables in the second half of the financial year 2020.

For MTS Bank, the effect of COVID-19 pandemic on estimates and assumptions in respect of ECL allowance is described in Note 14.

Impairment review

For the six months ended June 2020, the Group recognized impairment of goodwill related to event ticketing companies in the total amount of RUB 1,281 million. Key assumptions for impairment review are detailed in Note 7.

As of June 30, 2020 the main specific excess costs related to COVID-19 were as follows:

- Costs for putting in place additional sanitation measures in offices and stores (RUB 192 million)

Generally, the global COVID-19 situation remains fluid and could further affect the economies and financial markets of many regions, including the countries in which the Group operates, which in turn could impact consumer and business spending patterns and Group's operating results.

(Amounts in millions of Russian Rubles unless otherwise stated)

4. BUSINESS ACQUISITIONS

Acquisition of Stopol – In June 2020, the Group acquired a 100% ownership interest in LLC «Stopol Auto» and LLC «Koagent Rus» (jointly referred as «Stopol»), wholesalers of auto parts and multimedia devices. The purchase price constituted a cash payment of RUB 312 million paid in July 2020 and contingent consideration extending up to the amount of RUB 40 million, payable in 18 months. This acquisition allows the Group to enter into the market of the smart multimedia systems for cars. The business combination was accounted for by applying the acquisition method.

The preliminary purchase price allocation for Stopol as at the date of acquisition was presented as follows:

	Stopol
Goodwill	284
Other non-current assets	2
Current assets	230
Cash and cash equivalents	69
Current liabilities	(264)
Total consideration	**321**
Including:	
Fair value of contingent consideration	9
Cash paid	312

The excess of the consideration over the value of net assets acquired in the amount of RUB 284 million was allocated to goodwill which is attributable to the “Russia Convergent” operating segment. The goodwill is attributable to the expected synergies resulted from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

Since acquisition occurred at the end of June, Stopol contributed zero revenue and zero net income to the interim condensed consolidated statement of profit or loss. If the acquisition had taken place at the beginning of the period, the Group’s revenue and net profit would have been RUB 237,685 million and RUB 29,820 million, respectively.

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.

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

(Amounts in millions of Russian Rubles unless otherwise stated)

Ukraine: was excluded from operational segments presentation as a result of its disposal in December 2019. This exclusion was retrospectively presented in data for six months ended June 30, 2019.

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.

Financial information by reportable segments is presented below:

Disaggregation of revenue:

Six months ended June 30, 2020:	**Russia Convergent**	**Moscow Fixed Line**	**MTS Bank**	**Total**	**Other**	**HQ and elimination**	**Consoli-dated**
Revenue							
Mobile services	155,795	1,061	-	156,856	3,420	46	160,322
Fixed line services	11,904	16,177	-	28,081	181	-	28,262
Finance services	-	-	15,967	15,967	-	-	15,967
Integration services	843	-	-	843	874	-	1,717
Sales of goods	24,846	60	-	24,906	6,164	-	31,070
Other services	-	-	-	-	-	-	-
External Customers	193,388	17,298	15,967	226,653	10,639	46	237,338
Intersegment	5,499	2,868	739	9,106	6,319	(15,425)	-
Total revenue	**198,887**	**20,166**	**16,706**	**235,759**	**16,958**	**(15,379)**	**237,338**
Operating profit / (loss), excluding depreciation and amortization	93,327	11,226	56	104,609	1,475	(4,224)	101,860

Six months ended June 30, 2019:	**Russia Convergent**	**Moscow Fixed Line**	**MTS Bank**	**Total**	**Other**	**HQ and elimination**	**Consoli-dated**
Revenue							
Mobile services	149,893	898	-	150,791	3,191	47	154,029
Fixed line services	11,580	16,232	-	27,812	189	-	28,001
Finance services	-	-	12,925	12,925	-	16	12,941
Integration services	624	7	-	631	491	-	1,122
Sales of goods	24,298	33	-	24,331	5,050	-	29,381
Other services	35	-	-	35	489	-	524
External Customers	186,430	17,170	12,925	216,525	9,410	63	225,998
Intersegment	4,281	2,148	224	6,653	6,935	(13,588)	-
Total revenue	**190,711**	**19,318**	**13,149**	**223,178**	**16,345**	**(13,525)**	**225,998**
Operating profit / (loss), excluding depreciation and amortization	90,299	13,693	1,987	105,979	2,894	(6,881)	101,992

Service revenue is recognized over time as the services are transferred to customers, while revenue from sales of goods is recognized at a point in time when goods are transferred.

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

6. 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.

Total consideration comprised of cash payment, deferred consideration and contingent consideration.

(Amounts in millions of Russian Rubles unless otherwise stated)

Cash payment of USD 645 million (RUB 41,567 million as of December 3, 2019) was received in December 2019. As of June 30, 2020, the Group and the purchaser agreed on the amount of adjustment to the cash payment based on financial statements as of disposal date and the Group recognized additional income in amount of USD 28 million (RUB 1,966 million as of June 30, 2020).

The deferred consideration of USD 12 million (RUB 743 million as of December 31, 2019, and RUB 839 million as of June 30, 2020) 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. The fair value of the financial asset amounted to RUB 2,013 million as of December 31, 2019 and to 2,187 million as of June 30, 2020. A gain of RUB 172 million resulting from fair value measurement and gain of RUB 2 million resulting from currency revaluation were recognized in discontinued operations in the interim condensed consolidated statement of profit or loss for the six months ended June 30, 2020, in relation to the contingent consideration.

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

	Six months ended June 30,	
	2020	**2019**
Revenue	-	17,177
Expenses	-	(13,882)
Profit before tax	-	**3,295**
Attributable tax expense	-	(724)
Profit for the period	-	**2,571**
Adjustment for gain on disposal	1,966	-
Currency revaluation gain on deferred consideration	96	-
Earn-out revaluation	174	-
Net income attributable to discontinued operations	**2,236**	**2,571**

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

	Six months ended June 30,	
	2020	**2019**
Net cash provided by operating activities	-	8,322
Net cash used in investing activities	-	(4,266)
Net cash used in financing activities	-	(7,256)

7. 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.

For the purposes of impairment testing as of June 30, 2020 the Group has assessed the effects of COVID-19 pandemic on Group's business and financial situation (as disclosed in Note 3) for impairment indicators. The Group has adjusted estimations of future cash flows to reflect its estimates of impact of the pandemic factors. The impairment charge recognized and discussed below is based on expected cash flows after applying these adjustments.

Ticketing

For the six months ended June 2020, the Group recognized impairment of goodwill related to event ticketing companies in the total amount of RUB 1,281 million, in the result of the impairment test. Five-year operational plan of the event ticketing companies was adjusted for significant reduction of business activities of this CGU and the necessary time for restoration of the relevant market in the future.

Following the impairment loss recognized in the Group's Ticketing CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse change in a key assumption may result in further impairment.

Management revealed impairment indicators for Armenia, NVision Czech Republic, Gambit and Oblachnyi retail, but in the result of the impairment test all recoverable amounts were above the relevant carrying amounts.

Other CGUs were not tested for impairment because there were no impairment indicators at June 30, 2020.

MTS Turkmenistan

During the six months ended June 30, 2020 MTS Turkmenistan sold a number of the long-lived assets impaired in prior periods, hence the reversal of the impairment in the amount of RUB 33 million gain from disposal was recognized in the accompanying interim condensed consolidated statements of profit or loss.

(Amounts in millions of Russian Rubles unless otherwise stated)

Key assumptions used for value in use calculation:

	OIBDA margin	Pre-tax rate	CAPEX to Revenue	Terminal growth rate
Ticketing	negative-26.4%	16.2%	nil-3%	1.5%
Armenia	47%-49.1%	14.7%	17%-24%	nil
NVision Czech	3.1%-3.9%	6.0%	1%-2%	2%
Gambit	negative-27.4%	16.5%	4%-7%	1%
Oblachniy Retail	negative	16.7%	1%-5%	3%

Sensitivity analysis

Due to the fact that the situation with the COVID-19 remains uncertain, management decided to perform sensitivity analysis based on the 2 percent points adjustment to OIBDA margin and pre-tax rates to reduce calculated recoverable amount. Other key assumptions remained unchanged.

The result as of June 30, 2020 presented below:

	Difference between recoverable amount and carrying amount of CGU as of June 30, 2020 *	
	OIBDA margin, -2pps	Pre-tax rate, +2pps
Ticketing**	(235)	(445)
Armenia	5,501	3,709
NVision Czech***	241	752
Gambit	101	78
Oblachniy Retail	nil	nil

* Positive number indicates, that recoverable amount exceeds carrying amount
** Carrying amount used after recognized impairment
*** Recoverable amount calculated based on 1 percent point adjustment

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investments in associates and joint ventures (all accounted for using the equity method) comprised the following:

	Country of operations	Operating activity	June 30, 2020	December 31, 2019
MTS Belarus	Belarus	Telecom-munications	4,977	4,502
Zelenaya Tochka	Russia	Telecom-munications	1,395	-
YouDo	Russia	classifieds	724	724
Sistema-Rentnaya Nedvizhimost	Russia	property investments mutual fund	648	658
Other unquoted companies	Russia		688	566
Total investments in associates and joint ventures			**8,432**	**6,450**

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. Purchase price comprised of cash payment in total amount of RUB 1,370 million. The purchase of 51% stake was accounted as investment in joint venture.

(Amounts in millions of Russian Rubles unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES

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

	June 30, 2020	December 31, 2019
Receivables from handset sales financing	14,858	16,845
Subscribers	14,415	10,980
Other trade receivables	4,095	4,427
Receivables from sale of VF Ukraine	2,837	743
Integration services	2,250	2,407
Roaming	1,740	1,912
Interconnect	1,643	1,624
Bonuses from suppliers	893	724
Receivables from the sharing agreement	208	802
Dealers	195	268
Other receivables	1,374	2,622
Allowance for ECL	(5,247)	(4,203)
Trade and other receivables, total	**39,261**	**39,151**
Less non-current portion	(2,670)	(3,556)
Trade and other receivables, current	**36,591**	**35,595**

The analysis of the age of trade and other accounts receivables and the respective allowance for ECL as of June 30, 2020:

Receivables from subscribers and dealers and other trade receivables assesed for impairment based on provision matrix	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance (based on provision matrix)**	**Credit-impaired**
Current	2%	17	-	No
1 - 30 days past due	4%	11,026	(444)	No
31 - 60 days past due	20%	1,133	(224)	No
60 - 90 days past due	58%	752	(436)	No
More than 90 days past due	54%	1,683	(906)	Yes
Total	**14%**	**14,611**	**(2,010)**	

Receivables other than from subscribers and dealers and handset sales financing assesed for impairment based on individual basis	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance (individually assessed)**	**Credit-impaired**
Current	-	8,775	-	No
1 - 30 days past due	1%	1,978	(20)	No
31 - 60 days past due	1%	865	(11)	No
60 - 90 days past due	5%	555	(26)	No
More than 90 days past due	44%	2,866	(1,238)	Yes
Total	**9%**	**15,039**	**(1,295)**	

Receivables from handset sales financing	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance (collectively assessed)**	**Credit-impaired**
Current	3%	12,498	(377)	No
1 - 30 days past due	19%	607	(116)	No
31 - 60 days past due	52%	148	(77)	No
60 - 90 days past due	64%	228	(146)	No
More than 90 days past due	89%	1,377	(1,226)	Yes
Total	**13%**	**14,858**	**(1,942)**	

(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, 2019:

Receivables from subscribers and dealers and other trade receivables assesed for impairment 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 impairment 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)**	

The following table summarizes changes in the allowance for expected credit losses for the six months ended June 30, 2020 and the year ended December 31, 2019:

	June 30, 2020	**December 31, 2019**
Balance, beginning of the year	**(4,203)**	**(4,318)**
Allowance for ECL	(1,998)	(4,290)
Accounts receivable written off	947	4,276
Disposal/(Acquisition) of subsidiaries	7	129
Balance, end of the year	**(5,247)**	**(4,203)**

(Amounts in millions of Russian Rubles unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Six months ended June 30, 2020	Six months ended June 30, 2019
Property, Plant and Equipment		
Additions	27,864	28,808
Disposals (net book value)	(1,464)	(577)
Intangible assets		
Additions	15,375	14,122
Disposals (net book value)	(88)	(106)

11. BORROWINGS

The Group's borrowings comprised the following:

	June 30, 2020	December 31, 2019
Notes	206,361	183,935
Bank and other loans	202,221	159,384
Total borrowings	**408,582**	**343,319**
Less: current portion	(12,022)	(71,746)
Total borrowings, non-current	**396,560**	**271,573**

Notes – The reconciliation between opening and closing balance of the Group's Notes for the six months ended June 30, 2020 was the following:

	Currency	Interest rate (actual at June 30, 2020)	Carrying amount
Balance at January 1, 2020			**183,935**
New Notes			
MTS PJSC Notes P14 due 2027	RUB	6.60%	15,000
MTS PJSC Notes P17 due 2022	RUB	5.50%	10,000
MTS PJSC Notes BO-01 due 2023 (secondary offering)	RUB	6.50%	9,757
MTS PJSC Notes P16 due 2027	RUB	6.60%	7,000
MTS PJSC Notes P15 due 2026	RUB	6.60%	5,000
Repayments			
MTS International Notes due 2020	USD		(20,933)
MTS PJSC Notes BO-01 due 2023	RUB		(9,277)
Currency exchange gain			5,914
Other movements			(35)
Balance at June 30, 2020			**206,361**
Less: current portion			(10,843)
Total notes, non-current			**195,518**

(Amounts in millions of Russian Rubles unless otherwise stated)

Bank and other loans – The reconciliation between opening and closing balance of the Group's loans from banks and financial institutions for the six months ended June 30, 2020 was the following:

	Currency	Interest rate (actual at June 30, 2020)	Carrying amount
Balance at January 1, 2020			**159,384**
New loans			
VTB	RUB	5.00%-5.75%	105,000
Other	RUB	4.50%-6.38%	1,047
Repayments			
Sberbank	RUB		(35,000)
VTB	RUB		(20,000)
Other	RUB		(8,585)
Other movements			375
Balance at June 30, 2020			**202,221**
Less: current portion			(1,179)
Total bank and other loans, non-current			**201,042**

The Group manages its currency risk by hedging significant foreign currency cash outflows with derivatives and by using money market instruments. The group entered into several cross-currency interest rate swap agreements designated to manage the exposure of changes in currency exchange rate.

Compliance with covenants – Bank loans and notes of the Group are subject to certain covenants limiting the Group's ability to create liens on properties, dispose assets, including cellular licenses in core Russian regions, issue guarantees and grant loans to the third parties, delay payments for the borrowings, merge or consolidate MTS PJSC with a third party or be a subject to unsatisfied judgments (excluding the total criminal penalty under the agreements with the DOJ). The Group is required to comply with certain financial ratios.

The noteholders of 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 June 30, 2020.

Available credit facilities – As of June 30, 2020, the Group's total available unused credit facilities amounted to RUB 243,663 million and related to the following credit lines:

	Currency	Maturity	Interest rate	Available till	Available amount
Sberbank	RUB	2024	To be agreed	May 2024	150,000
Sberbank	RUB	2025	To be agreed	August 2025	60,000
Sberbank	RUB	2024	To be agreed	August 2024	20,000
VTB	RUB	2028	To be agreed	August 2028	5,000
Rosselhozbank	RUB/USD/ EUR	2020	To be agreed	November 2020	5,000
VTB	RUB	2021	1.75% (7.00%)	November 2020	1,702
Cisco	RUB	2024	To be agreed	January 2021	1,156
ZTV	RUB	2022	CBR[1] key rate	July 2022	805
Total					**243,663**

[1] CBR – Central Bank of Russia

(Amounts in millions of Russian Rubles unless otherwise stated)

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

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 June 30, 2025 and thereafter:

	As of June 30, 2020	
	Notes	**Bank loans and other debt**
Payments due in the year ending June 30,		
2021	25,982	14,143
2022	43,431	14,177
2023	81,731	14,691
2024	31,291	12,944
2025	37,306	173,823
Thereafter	41,128	30,389
Contractual undiscounted cash flows	**260,869**	**260,167**
Less: unamortized debt issuance costs	(290)	-
Less: interest	(54,218)	(56,045)
Less: debt modification	-	(1,901)
Total debt	**206,361**	**202,221**

12. RIGHTS-OF-USE ASSETS AND LEASE OBLIGATIONS

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

Lease of:	**June 30, 2020**	**December 31, 2019**
Sites for placement of network and base station equipment	92,412	93,694
Land and buildings	41,352	45,020
Vehicles and other	108	103
Exclusive rights for trademarks	-	-
Rights-of-use assets, net	**133,872**	**138,817**

Depreciation of the rights-of-use assets for the six months ended June 30, 2020 and 2019 included in depreciation and amortization expense in the accompanying interim condensed consolidated statement of profit or loss was as follows, whereas RUB 0 and RUB 869 million, respectively were recognized as part of profit from discontinued operation in the accompanying interim condensed consolidated statements of profit or loss:

	Six months ended June 30,	
Lease of:	**2020**	**2019**
Sites for network and base station equipment	(3,542)	(3,656)
Land and buildings	(6,017)	(5,719)
Vehicles and other	(20)	(215)
Exclusive rights for trademarks	-	(364)
Depreciation charge, total	**(9,579)**	**(9,954)**

Additions to the assets leased during the six months ended June 30, 2020 and 2019 amounted to RUB 6,475 and RUB 12,018 million.

Interest expense accrued on lease obligations for the six months ended June 30, 2020 and 2019 amounted to RUB 6,349 million and RUB 7,316 million, respectively, were included in finance costs, whereas RUB 0 and RUB 664 million, respectively were recognized as part of profit from discontinued operation in the accompanying interim condensed consolidated statements of profit or loss.

(Amounts in millions of Russian Rubles unless otherwise stated)

The following table presents future minimum lease payments under lease arrangements together with the present value of the net minimum lease payments as at June 30, 2020:

	June 30, 2020
Minimum lease payments, including:	
Current portion (less than 1 year)	27,948
More than 1 to 5 years	98,092
Over 5 years	100,125
Total minimum lease payments	**226,165**
Less amount representing interest	(72,474)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	16,592
More than 1 to 5 years	64,299
Over 5 years	72,800
Total present value of net minimum lease payments	**153,691**
Less current portion of lease obligations	(16,592)
Non-current portion of lease obligations	**137,099**

For the six months ended June 30, 2020 the Group recognized gain related to termination of lease agreements and rent holidays for retail outlets in the amount of RUB 315 and RUB 190 million (COVID-19 effect), respectively.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are represented by trade and other receivables and payables, cash and cash equivalents, investments, derivative instruments, notes and bank loans and put options over non-controlling interests.

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

	Level of inputs	June 30, 2020	December 31, 2019
Assets			
Securities held by MTS Bank	Level 1	19,939	13,273
Derivative instruments	Level 2	3,279	370
Currency forwards, swaps and options		*1*	*52*
Cross-currency interest rate swaps		*3,278*	*318*
Mutual investment funds, managed by Sistema Capital (related party) (Note 17)	Level 2	10,199	9,349
Assets in Sistema Capital trust management (related party) (Note 17)	Level 2	9,235	8,195
Contingent consideration	Level 3	2,187	2,013
Embedded derivatives in a lease agreement	Level 3	517	-
Liabilities			
Derivative instruments	Level 2	-	(1,389)
Interest rate swaps		-	*(68)*
Cross-currency interest rate swaps		-	*(955)*
Currency forwards and swaps		-	*(366)*
Contingent consideration	Level 3	(1,149)	(907)
Liabilities under option agreements	Level 3	(73)	(73)

(Amounts in millions of Russian Rubles unless otherwise stated)

For the six months ended June 30, 2020, net realized gains and losses of Level 3 liabilities resulting from fair value measurements amounted to RUB 171 million gain and were included in profit from discontinued operations in the interim condensed consolidated statement of profit or loss (Note 6). For the six months ended June 30, 2019, these gains and losses amounted to RUB 1,813 million loss and were recognized as a part of change in fair value of financial instruments' in the interim condensed consolidated statement of profit or loss. No unrealized gains or losses of Level 3 liabilities resulting from fair value measurements were recognized during the six months ended June 30, 2020 and 2019.

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:

		June 30, 2020		December 31, 2019	
	Level of inputs	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Notes	Level 1	(199,458)	(189,638)	(180,824)	(174,165)
Unquoted notes	Level 3	(17,012)	(17,012)	(10,012)	(10,012)
Bank and other loans (Note 11)	Level 3	(209,825)	(202,221)	(159,384)	(159,384)
		(426,295)	**(408,871)**	**(350,220)**	**(343,561)**

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 for the six months ended June 30, 2020 and 2019.

There were no transfers between the accounting categories of financial instruments during the six months ended June 30, 2020. During the six months ended June 30, 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.

14. BANK FINANCIAL ASSETS AND LIABILITIES

As of June 30, 2020, COVD-19 constitutes a new factor that the Group has to take into account while assessing and managing credit risk. The updated assumptions used for the assessment of credit risk of different bank customers segments are presented below.

Loans to individuals, small and medium businesses:

- The Group introduced the concept of technical overdue bucket that significantly improved differentiation of stage 2 loans by probability of default;
- The Group included additional macroeconomic adjustment in assessment of loss probability by generations of loans issued less than 12 months, hence improving behaviour assessment of each generation;
- Additionally the Group has recalibrated macroeconomic model and updated macroeconomic forecasts based on the most recent information available;
- Out of schedule stress testing of credit risk has been performed in light of macroeconomic environment deterioration.

Loans to corporate customers:

- The Group has updated macroeconomic scenarios for PD model using the updated macroeconomic forecasts by CBRF and Oxford Economics ; Out of schedule stress testing of credit risk has been performed in light of macroeconomic environment deterioration;
- Decrease of risk appetite caused by:
  - Enhancement of authorization procedures for new loans and tranches for existing lines of credit;
  - Review of new loan applications in light of stressful scenario of economic development according to budget and business plan;
  - Tendency to replace revolving and non-revolving lines of credit with products that have more preferable risk profile, like overdrafts and factoring;
  - Launch of enhancement monitoring of existing borrowers.

The weighted average provision rates increased from 7.77% as of December 31, 2019 to 12.06% as of June 30, 2020 for individuals, from 13.74% to 14.73% for corporate borrowers, taking into account the updated macroeconomic forecasts.

Magnitude of COVID-19 influence on the bank's operations largely depends on time duration of the pandemic and the extent of the virus influence on global and local economy.

Stress-testing

Management considers the sensitivity of the ECL outcome against the economic forecasts as part of the ECL management process by recalculating the ECL under two scenarios described below for corporate borrowers, bonds held to maturity and individuals:

- Base forecast of CBRF dated July 24, 2020: crude oil price = USD 38 per barrel, GDP = -5.5% (bottom of the range);
- Negative scenario of CBRF: crude oil price = USD 19 per barrel, GDP = -11.15%.

According to the Group estimations probability of occurrence is 80% for scenario 1 and 20% for scenario 2.

Stress testing results show that capital adequacy ratios are within acceptable range*.

ECL increase for Scenario 1 and 2 is equal to RUB 2.9 and 4.6 billion respectively:

- Scenario 1: corporate borrowers and bonds held to maturity – RUB 2.5 billion, individuals – RUB 0.4 billion
- Scenario 2: corporate borrowers and bonds held to maturity – RUB 3.4 billion, individuals – RUB 1.2 billion

* According to conservative expert assumption that increase in ECL will lead to comparable increase in RAS allowance, because capital adequacy ratios are based on RAS numbers.

Interest rate shock scenario is used for assets and liabilities sensitive to changes in interest rate that is a one-time increase by 400 b.p. for all time ranges. Calculations showed moderate decline of net interest income that may negatively affect bank's equity only in combination with exceptional amount of losses (more than 25% of equity) caused by occurrence of other types of risks.

Stress testing of bank's sensitivity to interest rate risk factors in trading book is carried out for several scenarios among which the key scenario is parallel shift of yield curves by 500 b.p. leading to negative revaluation of bond portfolio that is significantly lower than 5% of bank's own funds.

(Amounts in millions of Russian Rubles unless otherwise stated)

Stress testing of bank's liquidity position is carried out according to three model scenarios provided for by internal policies: "short-term financial crisis", "long-term systematic crisis" and "reputational crisis of the bank of companies". Stress test model has composite nature and includes reduction of inflows from assets due to realization of credit risk, as well as significant outflows of outside funds (100%, 50% in rare cases, of conditionally stable level for current liabilities). Ultimate goal of the stress testing is assessment of bank's liquidity buffer adequacy including the assessment of the survival period of the bank compared to the minimum limits set by the Risk appetite declaration of PJSC MTS Bank. Results of the stress testing displayed that "survival period" is reached for all three base scenarios.

Considering that in current circumstances, caused by COVID-19, majority of governments globally have chosen ways of monetary and fiscal stimulation, as well as increased cash accessibility, mentioned hypothetical stress test scenarios that take into account sharp increase of interest rate and liquidity deficit on the market, adequately include possible pandemic influence on the Group.

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 June 30, 2020 and December 31, 2019.

	June 30, 2020	December 31, 2019
Loans to customers	109,134	99,990
Due from banks	2,998	2,883
Allowance for ECL	(14,371)	(10,031)
Total bank deposits and loans to customers, net	**97,761**	**92,842**
Less: current portion	(44,371)	(39,370)
Bank deposits and loans to customers, non-current	**53,390**	**53,472**

The structure and amounts of bank loans to customers as of June 30, 2020 and December 31, 2019 is presented in the table below:

	June 30, 2020	December 31, 2019
Loans to legal entities		
Corporate borrowers	22,805	24,192
Medium-sized enterprises and small businesses	1,906	1,959
Total loans to legal entities	**24,711**	**26,151**
Loans to individuals		
Mortgage loans	11,072	11,164
Consumer loans	53,370	46,484
Credit cards	19,412	15,618
Other	569	573
Total loans to individuals	**84,423**	**73,839**
Due from banks		
Time deposits with banks	1,745	1,581
Obligatory reserves with the Central Bank of Russia	1,253	1,302
Total due from banks	**2,998**	**2,883**
Total bank deposits and loans to customers	**112,132**	**102,873**
Less: allowance for impairment losses	(14,371)	(10,031)
Total bank deposits and loans to customers, net	**97,761**	**92,842**

(Amounts in millions of Russian Rubles unless otherwise stated)

Movements in the allowance for expected credit losses for the six months ended June 30, 2020 are presented in the table below:

	Loans to customers	Due from banks	Total
Balance as at January 1, 2020	**10,024**	**7**	**10,031**
Provision charge / (release)	4,722	5	4,727
Recovery of bad debt written-off	189	1	190
Bad debt written-off	(328)	-	(328)
Sale of loans	(250)	-	(250)
Foreign currency revaluation effect	1	-	1
Balance as at June 30, 2020	**14,358**	**13**	**14,371**

Bank deposits and liabilities

The table below represents the structure and amounts of current and non-current bank deposits and liabilities as of June 30, 2020 and December 31, 2019.

	June 30, 2020	December 31, 2019
Customer accounts	136,049	122,809
Due to banks and other financial institutions	200	12,305
Debt securities issued	3,255	1,421
Financial liabilities at fair value through profit or loss	1	297
Other financial liabilities	1,280	1,120
Total bank deposits and liabilities	140,785	**137,952**
Less: current portion	(139,271)	(136,147)
Total bank deposits and liabilities, non-current	**1,514**	**1,805**

The structure and amounts of customer accounts of June 30, 2020 and December 31, 2019 are presented below:

	June 30, 2020	December 31, 2019
Legal entities		
- Current/settlement accounts	14,844	10,005
- Term deposits	9,554	12,092
Individuals		
- Current/settlement accounts	16,264	14,915
- Term deposits	95,387	85,797
Total customer accounts	**136,049**	**122,809**

The structure and amounts of due to banks as of June 30, 2020 and December 31, 2019 are presented below:

	June 30, 2020	December 31, 2019
Loans under repurchase agreements	-	11,994
Loans and term deposits from banks and other financial institutions	35	50
Correspondent accounts of other banks	165	261
Total due to banks	**200**	**12,305**

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 interim condensed consolidated statement of financial position as of June 30, 2020. 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)

15. INCOME TAX

Significant components of income tax expense for the six months ended June 30, 2020 and 2019 were as follows:

	Six months ended June 30,	
	2020	**2019**
Current income tax charge	**7,184**	**11,356**
Adjustments recognised for current tax of prior periods	(232)	117
Total current income tax	**6,952**	**11,473**
Deferred tax	2,281	(4,583)
Income tax expense on continuing operations	**9,233**	**6,890**

Income tax expense on continuing operations excludes the amounts from the discontinued operations of nil and RUB 724 million for six months ended June 30, 2020 and 2019, respectively, which have been included in profit from discontinued operations in the interim condensed consolidated statement of profit or loss (Note 6).

The statutory income tax rates in jurisdictions in which the Group operated during six months ended June 30, 2020 did not change significantly in comparison to the statutory income tax rates effective at December 31, 2019, excepting Armenia, where income tax rate was reduced from 20% to 18%. The Russian statutory income tax rate of 20% reconciled to the Group's effective income tax rate for the six months ended June 30, 2020 and 2019 was as follows:

	Six months ended June 30,	
	2020	**2019**
Statutory income tax rate for the period	**20.0%**	**20.0%**
Adjustments:		
Expenses not deductible for tax purposes	2.2	1.9
Settlements with tax authorities	(0.7)	0.3
Different tax rate of foreign subsidiaries	(0.5)	(0.6)
Earnings distribution from subsidiaries	0.3	0.2
Valuation allowance for deferred tax assets	3.2	-
Other	0.6	-
Effective income tax rate	**25.1%**	**21.8%**

16. SHAREHOLDERS' EQUITY

Common stock (ordinary shares) – The Group had 1,998,381,575 authorized ordinary shares with par value 0.1 RUB as of June 30, 2020 and December 31, 2019. Preferred shares have not been issued.

As of June 30, 2020, there were 227,483,749 total shares in treasury stock and 1,770,897,826 shares were outstanding. As of December 31, 2019, the total shares in treasury stock comprised 225,547,422 and 1,772,834,153 shares were outstanding.

During six months ended June 30, 2020 the Group purchased 1,555,644 shares (including shares represented by ADSs) under the Repurchase Plan announced in 2020 at prices from RUB 303 to RUB 309 for a total cost of RUB 480 million.

Dividends

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.

(Amounts in millions of Russian Rubles unless otherwise stated)

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 six months ended June 30, 2020 and 2019:

	Six months ended June 30,	
	2020	**2019**
Dividends declared (including dividends on treasury shares of 4,671 and 4,504 respectively)	41,106	39,927
Dividends, RUB per ADS	41.14	39.96
Dividends, RUB per share	20.57	19.98

During a meeting on July 30, 2020 the Board of Directors has recommended a semi-annual dividends of RUB 8.93 per ordinary MTS share (RUB 17.86 per ADR), or a total of RUB 17.8 billion based on H1 2020 financial results.

As of June 30, 2020 and December 31, 2019, dividends payable were RUB 36,597 million and RUB 23,079 million, respectively, and included in the trade and other payables within the interim condensed consolidated statement of financial position.

17. RELATED PARTIES

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

The aggregated impact of transactions with related parties to the Group's statements of financial position as of June 30, 2020 and December 31, 2019 and statements of profit or loss for the six months ended June 30, 2020 and 2019 was the following:

	June 30, 2020	**December 31, 2019**
Statements of financial position		
Short-term investments	19,680	17,790
Accounts receivable, non-current	11,064	10,787
Accounts receivable, current	5,308	5,872
Rights of use assets	5,014	4,526
Advances given for property, plant and equipment	4,143	3,866
Bank loans to customers - non-current	3,123	4,150
Bank loans to customers - current	3,075	1,677
Cash and cash equivalents	1,390	282
Other investments	149	149
Bank deposits and liabilities, current	(45,884)	(41,198)
Dividends payable	(18,221)	(11,747)
Lease obligations, non-current	(5,233)	(5,160)
Lease obligations, current	(812)	(763)
Accounts payable	(499)	(558)
Bank deposits and liabilities, non-current	(185)	(153)

	Six months ended June 30,	
	2020	**2019**
Statements of profit or loss		
Revenue	(2,576)	(2,250)
Operating expenses / (income)	1,018	(2,148)
Finance (income) / expenses	(958)	(731)
Interest expenses under lease arrangements	237	238

(Amounts in millions of Russian Rubles unless otherwise stated)

Terms and conditions of transactions with related parties – Outstanding balances as of June 30, 2020 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 June 30, 2020 and December 31, 2019, the Group had no impairment of receivables relating to significant amounts owed by related parties or expenses recognized during the six months ended June 30, 2020 and 2019 in respect to bad or doubtful debts from related parties.

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

	June 30, 2020	December 31, 2019
Accounts receivable		
Business Nedvizhimost, a subsidiary of Sistema	9,948	9,517
Sistema, parent company	2,749	5,268
Sitronics, a subsidiary of Sistema	1,255	680
MTS Belarus, a Group's associate	1,097	194
Zifrovoe TV, a Group's associate	536	392
Segezha Group, a subsidiaries of Sistema	430	381
Other related parties	357	227
Total accounts receivable, related parties	**16,372**	**16,659**
Less non-current portion	(11,064)	(10,787)
Accounts receivable, related parties – current	**5,308**	**5,872**
Accounts payable		
Zifrovoe TV, a Group's associate	159	100
Business Nedvizhimost, a subsidiary of Sistema	72	191
Moscow Business Incubator, an associate of Sistema	55	56
Yahont, an associate of Sistema	52	78
TelecomCapStroi, a subsidiary of Sistema	-	55
Koncel, a subsidiary of Sistema	48	-
Other related parties	113	78
Total accounts payable, related parties	**499**	**558**

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:

	June 30, 2020	December 31, 2019
Advances given for property, plant and equipment:		
TelecomCapStroi, a subsidiary of Sistema	2,952	2,319
Yahont, an associate of Sistema	1,135	1,359
Other related parties	56	188
Total advances given for property, plant and equipment	**4,143**	**3,866**

	Six months ended June 30,	
	2020	**2019**
Purchases of property, plant and equipment, intangible assets and other assets:		
Yahont, an associate of Sistema	1,963	-
TelecomCapStroi, a subsidiary of Sistema	131	62
Other related parties	311	44
Total purchases of property, plant and equipment, intangible assets and other assets, related parties	**2,405**	**106**

(Amounts in millions of Russian Rubles unless otherwise stated)

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

	June 30, 2020	December 31, 2019
Carrying value of right-of-use assets:		
Business Nedvizhimost, a subsidiary of Sistema	4,464	3,980
Kronshtadt, a subsidiary of Sistema	132	132
Other related parties	418	414
Total carrying value of right-of-use assets	**5,014**	**4,526**

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

	June 30, 2020	December 31, 2019
Lease obligations:		
Business Nedvizhimost, a subsidiary of Sistema	5,649	5,504
Kronshtadt, a subsidiary of Sistema	71	87
Other related parties	325	332
Total lease obligations	**6,045**	**5,923**
Less non-current portion	(5,233)	(5,160)
Lease obligations, related parties – current	**812**	**763**

Interest expense accrued on these lease obligations for the six months ended June 30, 2020 and 2019 amounted to RUB 237 million and RUB 238 million and was included in finance costs in the accompanying interim condensed consolidated statements of profit or loss.

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

	June 30, 2020	December 31, 2019
Bank loans due:		
Etalon LenSpecCMU, an associate of Sistema	1,731	1,982
Kronshtadt, a subsidiary of Sistema	1,437	1,280
Sistema, parent company	1,404	1,440
Leader-invest, an associate of Sistema	883	895
Detskii Mir, an associate of Sistema, a former subsidiary of Sistema	277	102
Other related parties	466	128
Total bank loans due, related parties	**6,198**	**5,827**
Less non-current portion	(3,123)	(4,150)
Bank loans due, related parties – current	**3,075**	**1,677**

(Amounts in millions of Russian Rubles unless otherwise stated)

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

	June 30, 2020	December 31, 2019
Bank deposits and liabilities:		
Sistema, parent company and controlling shareholder of Sistema	38,290	31,876
Project Michurinskiy, an associate of Sistema	1,499	1,448
Sistema Capital, a Group's associate	1,188	2,586
TelecomCapStroi, a subsidiary of Sistema	712	211
Medsi Group, a subsidiary of Sistema	545	58
BF-Sistema, a subsidiary of Sistema	520	244
Sistema Telecom Activy, a subsidiary of Sistema	435	1,300
Yahont, an associate of Sistema	376	802
Sistema Venture Capital, a subsidiary of Sistema	323	289
Kronshtadt, a subsidiary of Sistema	275	31
Sitronics, a subsidiary of Sistema	117	655
UK LandProfit, formerly named Sistema Real Estate, a subsidiary of Sistema	112	205
Other related parties	1,677	1,646
Total bank deposits and liabilities	**46,069**	**41,351**
Less non-current portion	(185)	(153)
Total bank deposits and liabilities – current	**45,884**	**41,198**

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

	June 30, 2020	December 31, 2019
Short-term investments		
Sistema-Capital, a Group's associate (Mutual funds)	10,199	9,349
Sistema-Capital, a Group's associate (asset management)	9,235	8,195
Promissory notes of Sitronics, a subsidiary of Sistema	246	246
Total short-term investments in related parties	**19,680**	**17,790**
Other investments in shares		
Sistema Venture Capital, a subsidiary of Sistema	117	117
Other investments	32	32
Total investments in shares of related parties	**149**	**149**

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

	June 30, 2020	December 31, 2019
Dividends payable:		
Sistema, parent company	13,053	8,409
Sistema Telecom Activy, a subsidiary of Sistema	4,535	2,921
Sistema-finance, a subsidiary of Sistema	633	417
Total Dividends payable	**18,221**	**11,747**

(Amounts in millions of Russian Rubles unless otherwise stated)

Operating transactions – For the six months ended June 30, 2020 and 2019, operating transactions with related parties were as follows*:*

	Six months ended June 30,	
	2020	**2019**
Revenues from related parties		
Segezha Group, a subsidiaries of Sistema (providing energy resources by MTS Energo, software supply)	907	730
Sitronics, a subsidiary of Sistema (internet services and video/images translation services)	550	505
Kronshtadt, a subsidiary of Sistema (banking services and rent)	166	79
MTS Belarus, a Group's associate (roaming and interconnect services)	139	179
Medsi Group, a subsidiary of Sistema (telecommunication and call center services)	127	45
Leader-invest, an associate of Sistema (banking services and rent)	94	106
Business Nedvizhimost, a subsidiary of Sistema (providing energy resources by MTS Energo)	89	21
Sistema, parent company (consulting services)	68	30
Detskii Mir, an associate of Sistema, a former subsidiary of Sistema (telecommunication services)	33	63
Zifrovoe TV, a Group's associate (subscriber acquisition services)	(6)	104
Other related parties	409	388
Total revenues from related parties	**2,576**	**2,250**
Operating (income) / expenses incurred on transactions with related parties		
Key management personnel of the Group (interest expense)	1,039	964
Koncel, a subsidiary of Sistema (dismantling and scrap metal realisation)	(907)	(1,876)
Jet Air Group, a subsidiary of Sistema (transportation services)	199	73
AB Safety, a subsidiary of Sistema (security services)	153	163
Sistema, parent company (interest expenses (deposits and accounts), MTS-Bank)	76	205
MTS Belarus, a Group's associate (roaming and interconnect services)	63	51
Business Nedvizhimost, a subsidiary of Sistema (rent and sale of property)	55	(1,694)
UK LandProfit, formerly named Sistema Real Estate, a subsidiary of Sistema (interest expenses (deposits and accounts) and rent, MTS-Bank)	44	11
Sistema-Capital, a Group's associate (manager reward)	40	2
Project Michurinskiy, an associate of Sistema (interest expenses (deposits and accounts), MTS-Bank)	38	43
Other related parties	218	(90)
Total operating (income) / expenses incurred on transactions with related parties	**1,018**	**(2,148)**

Finance income, which arose from investment transactions with related parties for the six months ended June 30, 2020 and 2019 was the following:

	Six months ended June 30,	
	2020	**2019**
Finance income from related parties		
Business Nedvizhimost, a subsidiary of Sistema	488	319
Sistema, parent company	214	261
Sistema-Capital, a Group's associate (asset management)	211	138
Other related parties	45	13
Total finance income from related parties	**958**	**731**

East-West United Bank – The Group maintains certain bank accounts with East-West United Bank, a subsidiary of Sistema. As of June 30, 2020 and December 31, 2019, the Group's cash position at East-West United Bank amounted to RUB 1,390 million and RUB 282 million, respectively.

Business Nedvizhimost – In February 2015 and further in May 2015, the Group sold its 100% stake in Rent Nedvizhimost to Business Nedvizhimost, a subsidiary of Sistema, for RUB 8,500 million in total. As of June 30, 2020 and December 31, 2019 the balance of related accounts receivable amounted to RUB 3,040 million and RUB 2,916 million, respectively. The amount as of June 30, 2020 is due before December 31, 2021 and bears interest of CBR Key rate + 1.5% p.a.

***Leaseback* –** In March 2019, in order to optimize the processes of real estate management, the Group sold a number of buildings with a 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 to 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.

As a result of this transaction, the Group recorded rights of use assets in the amount of RUB 3,123 million, lease obligation in the amount of RUB 5,197 million and recognized gain in the amount of RUB 1,745 million as a part of "Other operating income" in the interim condensed consolidated statement of profit or loss for the six months ended June 30, 2019.

Sistema Capital – In 2016 and 2017 the Group entered into trust agreements with the asset management company Sistema Capital. As of June 30, 2020 and December 31, 2019, the balance of assets under trust management amounted to RUB 9,235 million and RUB 8,195 million respectively (Note 13).

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 June 30, 2020 the fair value of the shares amounted to 5,939 million and 4,260 million, respectively, with the subsequent revaluation recognized in profit or loss (Note 13).

Sistema – In March 2019, the Group disposed of its 18.69% interest in the Group's associate OZON Holdings Limited to Sistema for RUB 7,902 million. As of June 30, 2020 the balance of accounts receivable amounted to RUB 2,747 million.

***Remuneration of key management personnel* –** Key management personnel of the Group are members of the Board of Directors and Management Board. During the six months ended June 30, 2020 and 2019 their total remuneration amounted to RUB 576 million and RUB 788 million, including social contributions of RUB 69 million and RUB 72 million, respectively. The amounts comprised of RUB 269 million and RUB 274 million in base salaries and 307 RUB million and RUB 514 million in bonuses paid pursuant to a bonus plan, respectively.

Management and directors are also entitled to cash-settled and equity-settled share-based payments. Related compensation accrued during the six months ended June 30, 2020 and 2019 amounted to RUB 226 million and RUB 310 million, respectively (incuding social contributions amounted to RUB 17 million and RUB 28 million, respectively).

(Amounts in millions of Russian Rubles unless otherwise stated)

18. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of June 30, 2020, the Group had entered into purchase agreements of approximately RUB 44,708 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Taxation – Management believes that it has adequately provided for tax liabilities in the accompanying interim condensed consolidated financial statements. However, the risk remains that the relevant tax authorities could take different positions with regard to interpretive issues and the effect could be significant.

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

	June 30, 2020	December 31, 2019
Contingent liabilities for additional taxes other than income tax	875	986
Contingent liabilities for additional income taxes	1,121	2,173

Licenses – Management believes that as of June 30, 2020 the Group complied with conditions of the licenses used.

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

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. MTS filed a cassation appeal to the Arbitration Court of the Moscow District. The Court has scheduled to discuss the appeal in September 2020. As of June 30, 2020, the Group has provided for charges imposed by FAS Russia in total amount of RUB 188 million.

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 and further to 4.5% as of June 30, 2020.

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.

In 2020 the government of Russia took actions and issued guidelines to protect public health during COVID-19 pandemic, which have affected Group's business and financial situation (as disclosed in Note 3). It's currently impossible to reliably evaluate further possible implications of COVID-19 pandemic for the Group's business and financial situation.

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.

19. SUBSEQUENT EVENTS

No significant subsequent events were revealed.