
Mobile TeleSystems Public Joint-Stock Company

Financial Statements for 2019
and Independent Auditor's Report
(Translated from the original in Russian –
unofficial translation)

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

- Balance sheet as of 31 December 2019;
- Statement of financial results for 2019;
- Appendices to the balance sheet and statement of financial results:
 - Statement of changes in equity for 2019;
 - Statement of cash flows for 2019;
 - Notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Russian accounting and financial reporting standards ("RASs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter
Revenue recognition

The Company'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.

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 Company's systems, software applications, and automated controls.

See Notes 2, 15 and 17 to the financial statements.

How the matter was addressed in the audit

Our audit procedures related to the Company's revenue from telecommunication services included:

- 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;
- 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;
- 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;
- Using test calls to test the correctness of the details of connections, their duration and the tariff plans applied;
- Testing of whether incentive arrangements and discounts were correctly accounted for in accordance with the relevant accounting policies of the Company; and
- Testing to verify that the information on active tariffs entered in the billing systems agree to the approved tariff orders and published tariff plans.

We have also reviewed the Company's accounting policy with respect to recognition of revenue from the provision of services to subscribers and ensured that the existing policy is appropriate for new types of operations and applied correctly.

Why the matter was determined to be a key audit matter
Valuation of investments in subsidiaries and associates

As disclosed in Notes 2 and 6 to the financial statements, the Company applied equity method for accounting of its investments in subsidiaries and associates.

We considered this matter as a key audit matter due to the material amount of investments in subsidiaries and associates for the financial statements and also due to the fact that the application of the equity method, as well as the determination of objective impairment indicators and, if necessary, impairment testing, requires from management performing complicated calculations and applying judgement.

How the matter was addressed in the audit

We have obtained an understanding of the processes and controls of the Company over the recognition, accounting and valuation of impairment of investments in subsidiaries and associates.

Our audit procedures included:

- Sample based verification of valuation of investments in subsidiaries and associates by the means of (1) comparing the initial cost of the investment at the date of acquisition with supporting documents, (2) comparing of changes in the Company's share in profit or loss and other comprehensive income of an investee with the financial statements of subsidiaries and associates for the entire period from the date of acquisition to the reporting date, (3) verification of the calculation of the carrying value of investments prepared by the management of the Company;
- Assessment of the correctness of the determination of objective impairment indicators of investments in subsidiaries and associates performed by management and verification of the impairment test calculation prepared by management for those investments where the impairment indicators was identified. The verification of the impairment calculation included a comparison of the fair value of the investment with the carrying value of the investment, as well as an analysis of the assumptions and judgments applied by management in determining fair value.

We also checked completeness and evaluated the compliance of the disclosures in the financial statements with the requirements of the applicable reporting standards.

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, 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.

The Russian original signed by

Vladimir Kozyrev
Engagement leader

6 April 2020

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

The Entity: Mobile TeleSystems Public Joint-Stock Company

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

Primary State Registration Number: 1027700149124

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

Address: 4 Marksistskaya St., Moscow, 109147

Audit Firm: AO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

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

BALANCE SHEET
as at 31 December 2019

Entity	Mobile TeleSystems Public Joint-Stock Company
Taxpayer identification number	
Type of activity	Telecommunications based on wireless technologies
Legal status/ form of ownership	Public joint-stock company/ Joint private and foreign ownership
Measurement unit	RUB thousand
Address	4 Marksistskaya St., Moscow, 109147

Form No. 1 OKUD	0710001
Date (day, month, year)	31/12/2019
OKPO	52686811
INN	7740000076
OKVED	61.20
OKOPF	12247/34
OKFS	
OKEI	384

The financial statements is subject to obligatory audit
Audit Firm

<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
AO "Deloitte & Touche CIS"
TIN 7703097990
PSRN/PSRNSP 1027700425444

Taxpayer identification number of the audit organization
Primary state registration number of the audit organization

Item description	Note	31 December 2019	31 December 2018	31 December 2017
ASSETS				
I. NON-CURRENT ASSETS				
Intangible assets	3	15 283 208	13 420 696	11 674 383
Cost-to-obtain contracts with subscribers		17 504 898	16 798 187	-
Non-exclusive rights to use assets	3	49 205 810	44 871 037	41 988 797
Property, plant and equipment	4	185 382 978	173 851 033	167 764 867
Right-of-use assets	5	109 783 121	110 330 835	-
Construction-in-progress	4	18 118 201	21 744 865	14 581 739
Investments in subsidiaries and associates	6	283 208 770	283 323 399	225 352 999
Other investments	7	20 023 291	32 241 553	22 560 999
Other non-current assets	8	8 926 413	7 099 538	9 730 852
Total Section I		707 436 690	703 681 143	493 654 636
II. CURRENT ASSETS				
Inventories		545 152	459 948	375 641
Value-added tax receivable		7 303 923	4 893 699	4 432 716
Accounts receivable	9	31 384 574	30 501 637	32 646 782
Other investments (other than cash equivalents)	7	35 675 712	35 997 465	54 228 171
Cash and cash equivalents	10	8 759 649	69 147 465	16 613 007
Other current assets		121 666	131 172	41 533
Total Section II		83 790 676	141 131 386	108 337 850
TOTAL ASSETS		791 227 366	844 812 529	601 992 486
EQUITY AND LIABILITIES				
III. EQUITY AND RESERVES				
Share capital	11	199 838	199 838	199 838
Treasury shares		(4 120)	(4 120)	(103)
Additional paid-in capital (excluding revaluation)		7 388 568	7 348 938	10 229 748
Accumulated other comprehensive income / (loss)		10 969 433	445 952	(7 299 504)
Reserve capital		30 996	30 996	30 996
Retained earnings		89 811 938	99 407 376	128 462 874
Total Section III		108 396 653	107 428 980	131 623 849
IV. NON-CURRENT LIABILITIES				
Borrowings	12	311 320 629	428 385 695	290 584 235
Deferred tax liabilities	16	15 985 103	14 291 223	13 495 579
Provisions	14	4 565 679	2 572 865	917 083
Accounts payable	13	3 959 789	2 772 721	1 599 063
Lease obligations	5	109 680 256	107 888 539	-
Contract liabilities	15	327 302	195 687	-
Deferred income		-	-	166 869
Total Section IV		445 838 758	556 106 730	306 762 829
V. CURRENT LIABILITIES				
Borrowings	12	125 624 566	42 448 554	88 710 396
Accounts payable	13	82 944 458	52 985 224	69 910 018
Lease obligations	5	9 320 262	8 256 640	-
Contract liabilities	15	17 352 980	16 851 283	-
Deferred income		9 747	-	2 603 662
Provisions	14	1 739 942	60 735 118	2 381 732
Total Section V		236 991 955	181 276 819	163 605 808
TOTAL EQUITY AND LIABILITIES		791 227 366	844 812 529	601 992 486

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSC
6 April 2020

A.V. Dvoretiskikh
Chief Accountant of Mobile TeleSystems PJSC

**STATEMENT OF FINANCIAL RESULTS
for 2019**

		CODES
	Form No. 2 OKUD	0710002
	Date (day, month, year)	31/12/2019
Entity	Mobile TeleSystems Public Joint-Stock Company	OKPO 52686811
Taxpayer identification number		INN 7740000076
Type of activity	Telecommunications based on wireless technologies	OKVED 61.20
Legal status/ form of ownership	Public joint-stock company/ Joint private and foreign ownership	OKOPF 12247/34
Measurement unit	RUB thousand	OKEI 384

Item description	Note	2019	2018
Revenue	17	342 122 949	331 236 433
Cost of sales	18	<u>(161 966 153)</u>	<u>(157 825 639)</u>
Gross profit		<u>180 156 796</u>	<u>173 410 794</u>
Selling expenses	18	(50 084 217)	(46 725 494)
Administrative expenses	18	<u>(33 869 579)</u>	<u>(32 426 773)</u>
Operating profit		<u>96 203 000</u>	<u>94 258 527</u>
Interest income		7 056 589	8 956 887
Interest expense	12	(37 289 699)	(33 029 316)
Interest expense – lease obligations	5	(10 320 433)	(10 030 985)
Share of the net profit of subsidiaries and associates	6	15 400 017	25 872 970
Other income	19	17 122 191	15 824 329
Other expenses	20	<u>(8 333 980)</u>	<u>(81 550 000)</u>
Profit before income tax		<u>79 837 685</u>	<u>20 302 412</u>
Current income tax	16	(13 103 138)	(12 368 529)
including permanent tax (assets)/liabilities	16	(784 672)	6 769 000
Change in deferred tax liabilities	16	(1 734 220)	176 591
Change in deferred tax assets	16	252 102	1 363 543
Income tax and tax penalties for prior years	16	<u>(640 432)</u>	<u>(312 734)</u>
Net profit		<u>64 611 997</u>	<u>9 161 283</u>

ADDITIONAL INFORMATION

Result of other transactions not included in current year net profit		10 523 481	7 745 456
Comprehensive financial result for the period		75 135 478	16 906 739
Basic earnings per share, RUB	23	32.33	4.58
Diluted earnings per share, RUB	23	32.29	4.58

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSC

A.V. Dvoretiskikh
Chief Accountant of Mobile TeleSystems PJSC

6 April 2020

**STATEMENT OF CHANGES IN EQUITY
for 2019**

Entity	Mobile TeleSystems Public Joint-Stock Company	Form No. 4 OKUD	CODES
Taxpayer identification number		Date (day, month, year)	0710004
Type of activity	Telecommunications based on wireless technologies		31/12/2019
Legal status/ form of ownership	Public joint-stock company/ Joint private and foreign ownership	OKPO	52686811
Measurement unit	RUB thousand	INN	7740000076
		OKVED	61.20
		OKOPF	12247/34
		OKFS	
		OKEI	384

1. Changes in equity

Item description	Share capital	Treasury shares	Additional paid in capital	Accumulated other comprehensive income	Reserve capital	Retained-earnings	Total
Total as at 31 December 2017	199 838	(103)	10 229 748	(7 299 504)	30 996	128 462 874	131 623 849
Net profit	-	-	-	-	-	9 161 283	9 161 283
Dividends	-	-	-	-	-	(51 954 482)	(51 954 482)
Foreign currency translating reserve of foreign standalone division	-	-	(783)	-	-	-	(783)
Change in equity due to reorganization	-	-	-	-	-	103 463	103 463
Equity method effect for investments in subsidiaries and associates (Note 6)	-	-	(184 702)	7 745 456	-	3 031 482	10 592 236
Adjustment on initial application of new standards	-	-	-	-	-	10 602 756	10 602 756
Transactions under common control	-	-	(2 695 325)	-	-	-	(2 695 325)
Purchase of own stock	-	(4 017)	-	-	-	-	(4 017)
Total as at 31 December 2018	199 838	(4 120)	7 348 938	445 952	30 996	99 407 376	107 428 980
Net profit	-	-	-	-	-	64 611 997	64 611 997
Dividends	-	-	-	-	-	(83 751 432)	(83 751 432)
Foreign currency translating reserve of foreign standalone division	-	-	(453)	-	-	-	(453)
Equity method effect for investments in subsidiaries and associates (Note 6)	-	-	-	10 523 481	-	9 543 997	20 067 478
Transactions under common control	-	-	40 083	-	-	-	40 083
Total as at 31 December 2019	199 838	(4 120)	7 388 568	10 969 433	30 996	89 811 938	108 396 653

2. Net assets

Item description	31 December 2019	31 December 2018	31 December 2017
Net assets	108 406 400	107 428 980	131 623 849

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSC

A.V. Dvoretiskikh
Chief Accountant of Mobile TeleSystems PJSC

6 April 2020

**STATEMENT OF CASH FLOWS
for 2019**

		CODES	
		Form No. 5 OKUD	0710005
		Date (day, month, year)	31/12/2019
Entity	Mobile TeleSystems Public Joint-Stock Company	OKPO	52686811
Taxpayer identification number		INN	7740000076
Type of activity	Telecommunications based on wireless technologies	OKVED	61.20
Legal status/ form of ownership	Public joint-stock company/ Joint private and foreign ownership	OKOPF	12247/34
Measurement unit	RUB thousand	OKFS	12247/34
		OKEI	384
Item description		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows - total		296 406 936	297 301 634
including:			
Proceeds from customers		280 855 610	276 201 135
Interest received on cash equivalents		1 919 688	1 748 898
Other cash inflows		13 631 638	19 351 601
Cash outflows - total		(237 586 824)	(168 020 534)
including:			
Payments for acquired goods, services, raw materials and other current assets		(70 735 344)	(72 681 472)
Payments to employees		(33 871 823)	(31 917 433)
Interest paid		(47 261 161)	(42 181 123)
Income tax paid		(13 704 411)	(13 500 372)
Other taxes and duties paid		(13 321 495)	(7 717 142)
Other payments		(58 692 590)	(22 992)
Net cash flow from operating activities		58 820 112	129 281 100
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows - total		115 395 488	62 962 013
including:			
Proceeds from sales of property, plant and equipment and other non-current assets		327 132	72 000
Proceeds from sales of subsidiaries and associates and other financial instruments		26 732 149	-
Dividends received		50 052 681	26 235 000
Interest received		3 317 327	7 028 102
Proceeds from repayment of loans given to other entities		22 966 199	6 934 930
Proceeds from reorganization of subsidiaries in the form of merger		-	2 981
Proceeds from repayment of deposits		12 000 000	22 689 000
Cash outflows - total		(147 743 523)	(159 768 013)
including:			
Deposit placement		(406)	(12 000 000)
Purchase of subsidiaries and associates and other financial investments		(37 106 292)	(53 609 000)
Cost to obtain contracts, paid		(9 399 543)	(9 492 000)
Purchase of property, plant and equipment (including investment property) and intangible assets		(72 898 044)	(74 962 773)
Loans given to other entities		(28 339 238)	(9 704 240)
Net cash used in investing activities		(32 348 035)	(96 806 000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflows - total		141 873 950	171 175 735
including:			
Proceeds from borrowings provided by other entities		141 873 950	171 175 735
Cash outflows - total		(226 748 083)	(152 722 234)
including:			
Repayment of borrowings (excluding interest)		(162 879 984)	(94 426 512)
Dividends paid (including withholding income tax)		(57 273 109)	(51 954 000)
Lease obligation principal paid		(6 594 990)	(5 468 000)
Borrowing costs		-	-
Cash flow on guarantee agreement related to foreign currency hedge		-	(873 722)
Net cash used in financing activities		(84 874 133)	18 453 501
Net cash flow for the reporting period		(58 402 056)	50 928 601
Cash and cash equivalents at the beginning of the reporting period		69 147 465	16 613 007
Cash and cash equivalents at the end of the reporting period		8 759 649	69 147 465
Effect of foreign exchange rate changes on cash and cash equivalents		(1 985 760)	1 605 857

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSCA.V. Dvoretiskikh
Chief Accountant of Mobile TeleSystems PJSC

6 April 2020

NOTES TO THE FINANCIAL STATEMENTS OF Public Joint-Stock Company Mobile TeleSystems for 2019

1. GENERAL MATTERS

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

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

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

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

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

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

The average number of staff at the Company in 2019 and 2018 was 27 256 and 27 100, respectively.

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

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

1.1. Primary source of the Company's revenue

The Company generates revenue primarily from rendering the following services:

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

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

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

Since the RF produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the world oil and gas price movements.

In March 2020, world oil prices fell sharply by more than 40%, which led to an immediate depreciation of the Russian ruble against major currencies.

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

The changes in the economic situation could significantly impact future performance and financial position of the Company.

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

1.3. Liquidity risk

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

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

As at 31 December 2019 the current liabilities exceeded the current assets by RUB 153 201 279 thousand. Management considers that the Company has access to sufficient amount of liquidity due to proceeds of cash from operating activities and credit lines in the amount of RUB 456 842 032 thousand (Note 12 Borrowings).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

2.1. Going concern assumption

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

2.2. Chart of accounts

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

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

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

2.3. Stockcount

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

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

The count held as at 1 October 2019 included the following PP&E groups

- Office equipment;
- Mini ATS;
- Office phones;
- Computer equipment;
- Other office equipment and computers;
- Office equipment (in stock);
- Mini ATS (in stock);
- Office phones (in stock);
- Computer equipment (in stock)
- Other office equipment and computers (in stock);
- Office phones in lease;
- Computer equipment in lease;
- Non-expendable property with the cost less than RUB 20 thousand (office equipment and computers);
- Other office equipment and computers (improvements to leased PP&E).

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

The last count was performed on 1 October 2017.

The count of other assets and liabilities was performed as at 1 October and 31 December 2019 (depending on the type of assets and liabilities) as scheduled by the Order of the President of MTS PJSC P On Performing Stockcount of Assets and Inspection of Liabilities Before Preparation of the Annual Financial Statements dated 22 August 2019 № 01/00314P.

2.4. Assets and liabilities denominated in foreign currencies

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

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

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

Advances are not subsequently adjusted for movements in exchange rates.

Foreign exchange differences are recognized in other income / expenses.

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

2.5. Current and non-current assets and liabilities

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

Other assets and liabilities are reported as non-current.

2.6. Accounting for property, plant and equipment

The historical cost of property, plant and equipment comprises:

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

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

Surplus, which was mistakenly unaccounted or written off, is recorded on the balance accounts at the initial (historical) cost of acquisition, taking into account the actual technical condition of the property and its possible impairment.

Surplus assets, which is not possible to carry out a settlement in accounting, i.e. reflect the operation as a "correction of error" (for example, due to the lack of supporting primary documents) are recorded on the off-balance accounts (in the conditional assessment).

If the Company has technical ability to organize surplus assets accounting, the operations is carried out on the balance accounts based on the close to zero cost of each unit.

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

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

- The additional construction, additional equipment, reconstruction, modernization while meeting common criteria (increase in the historical cost);
- The partial liquidation (decrease in the historical cost).

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

Property, plant and equipment are not revalued.

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

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

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

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

Groups of property, plant and equipment	Useful lives (years)	
	From (minimum)	To (maximum)
Buildings	20	150
Constructions and transmission facilities	5	44
Machinery and equipment	2	20
Vehicles	2	10
Manufacturing and other tools	3	20
Land and natural resources	n/a	n/a
Other types of property, plant and equipment	1	20

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

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

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

2.7. Accounting for intangible assets

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

Software costs with useful lives of less than 12 months in the amount of up to RUB 1,000 thousand are written off to current period expenses on a one-time basis. Expenses in the amount of over RUB 1,000 thousand are recognized on the straight-line basis during the period over which the right of use is made available.

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

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

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

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

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

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

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

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

- Exclusive rights for intellectual property – 2 years;
- Rights to use radio frequencies and radio frequency channels – 7 years;
- Licenses – 3-11 years;
- Numbering capacity and other – 2-10 years.

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

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

2.8. Accounting for investments

Accounting for investments in share capital of subsidiaries and associates

Since 2018 the Company has not applied accounting methods provided for by the Accounting Standard PBU 19/02, *Investments*, because such methods cause inconsistency between the Company's accounting policies and the requirements of International Financial Reporting Standards and applied IAS 28, *Investments in Associates and Joint Ventures*, to accounting for the investments to the share capitals of its subsidiaries and associates.

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

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

The Company recognized all investments to the share capital of its subsidiaries and associates using the equity method in accordance with IAS 28, *Investments in Associates and Joint Ventures*. Such investments are recognized at their actual cost at the date of acquisition, their cost is subsequently restated considering the company's share in the profit and other comprehensive income of its subsidiaries and associates on the basis of the financial statements of the subsidiaries and the associates prepared in accordance with IFRS, received dividends and recognized impairment losses.

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

The company reduces the carrying value of investments in subsidiaries and associates by the amount of dividends at the time when the right to receive them is confirmed.

The investments to the share capitals of its subsidiaries and associates are reviewed for impairment on a periodic basis (at least annually) in accordance with IAS 36, *Impairment of Assets*. In this case the carrying amount of each investment is tested for impairment if there is any indication that the assets may be impaired. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss is recognized in the amount of the excess. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use. Impairment of investments is made in the case of each investment, if it is a separate cash generating unit ("CGU"), or at the level of CGU, identified in the preparation of the MTS PJSC consolidated financial statements and its subsidiaries prepared in accordance with IFRS of which this investment is a part.

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

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

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

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

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

Accounting for acquisitions under common control

In the reporting year, the Company didn't apply accounting methods provided by Accounting Standard PBU 6/01 in relation to accounting for the acquisition of property complexes (businesses) from companies under common control, because such methods lead to non-compliance of the Company's accounting policies with the requirements of International Financial Reporting Standards. The Company has applied the accounting policies used in preparing its consolidated financial statements. An example of such discrepancies is the following discrepancy:

The company did not classify the actual costs of acquiring property complexes as property, plant and equipment, as prescribed in paragraph 8 of PBU 6/01.

As disclosed below, in accordance with the accounting policies that MTS PJSC applies in preparing its consolidated financial statements, business acquisition transactions that transfer ownership of the business under common control are accounted for at the date control is acquired; comparative figures are not restated. Acquired assets and liabilities are recognized in the measurement reflected in the financial statements of seller companies; the gain or loss on the purchase / sale is recognized directly in equity.

2.9. Accounting for inventories

The following items are recognized as inventories:

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

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

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

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

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

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

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

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

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

Merchandise is recorded in account 41 Goods at book value.

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

- Actual cost, or
- Net realizable value.

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

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

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

2.10. Accounting for cash and cash equivalents

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

2.11. Accounting for revenue

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

- Revenue (income from operating activities);
- Other income.

Revenue (income from operating activities) includes:

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

The share of revenue from communication services and connection fees in 2019 and 2018 amounted to 97.5% and 97.5% respectively.

Other income includes:

- Loan interest income and income from other similar contracts (other debt instruments, including securities);
- Share of net profit of subsidiaries and associates;
- Gains from operations related to disposal of financial assets;
- Gains from revaluation of financial assets accounted for at fair value, changes in which are recognized in profit or loss;
- Gains from swaps;
- Positive currency exchange gain;
- Other income from non-operating activities.

Revenue recognition

Since 2018, the Company has departed from the accounting methods provided for by Accounting Standard PBU 9/99, *Income of an Organization*, and Accounting Standard PBU 10/99, *Expenses of an Organization*, regarding revenue recognition, because such methods cause inconsistency between the Company's accounting policies and the requirements of International Financial Reporting Standards and applied IFRS 15, *Revenue from Contracts with Customers*, in full to its contracts with customers (revenue). The examples of such inconsistencies are as follows:

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

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

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

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

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

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

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

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

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

Costs of acquiring a contract include commissions paid to a third-party distributors.

Costs to fulfill a contract include costs that were incurred as a result of signing a contract with the subscriber.

These costs are amortized on a straight-line basis over the average life of a long-lived subscriber.

The Company 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.

2.12. Accounting for expenses

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

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

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

The cost of sales includes the following types of expenses:

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

Selling, administrative and other operating expenses comprise:

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

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

Other expenses include:

- Borrowing interest expense and expenses under other similar contracts (other debt obligations, including securities);
- Share of loss from subsidiaries and associates
- Loss from operations related to disposal of financial assets;
- Loss from revaluation of financial assets accounted for at fair value, changes in which are recognized in profit or loss;
- loss from discounting financial instruments;
- Foreign currency exchange losses;
- Other non-operating expenses.

2.13. Accounting for loans and borrowings

Loans and borrowings are initially recognized at cost net of significant borrowing costs (over RUB 1 000 thousand) directly attributable to the receipt, issue and placement of debt securities. Such costs in excess of RUB 1 000 thousand are charged to other expenses on a straight-line basis over the term of the loan or the loan agreement.

If borrowing costs are not significant (less than RUB 1 000 thousand) they are recognized as interest expense as incurred.

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

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

2.14. Accounting for allowances and provisions

The Company creates the following allowances:

- Allowance for doubtful accounts (monthly);
- Allowance for impairment of investments;
- Allowance for inventory obsolescence (monthly).

The Company recognizes the following provisions:

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

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

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

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

The allowance for inventory obsolescence is made in the amount of the difference between the net realizable value (estimated selling price of goods net of selling costs) and an actual cost of inventories, provided that the latter is higher than the net realizable value.

Allowance is also created in case of inventory physical damage, partial or full technical obsolescence. Expense for allowance is included in other operating expenses.

The Company concludes roaming discount agreements with a number of mobile operators.

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

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

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

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

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

2.15. Deferred tax

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

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

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

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

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

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

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

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

2.16. Leases

Since 2018, the Company has departed from the accounting methods provided for by the Accounting Standard PBU 10/99, *Expenses of an Entity*, in relation to the accounting for lease contracts, because such methods cause inconsistency between the Company's accounting policies and the requirements of International Financial Reporting Standards, and applied fully IFRS 16, *Leases*, to the accounting of lease contracts. An example of such inconsistencies was:

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

In accordance with IFRS 16, *Leases*, the Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements (including sub-lease and lease of intangible assets), which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with a lease term of 12 months or less). For these leases, the Company 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.

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 Company. The incremental borrowing rate of the Company is determined based on the credit spreads of the Company 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 excise price under a purchase option the Company is reasonably certain to exercise as well as early termination fees unless the Company 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 Company is reasonably certain of exercising renewal or termination options. When assessing the lease term, the Company considers all facts and circumstances that create an economic incentive for the Company 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 Company does not treat servitude contracts as lease agreements.

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

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

Right-of-use assets are tested for impairment in accordance with IAS 36, *Impairment of Assets*.

2.17. Reporting segments

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

DISCLOSURE OF FINANCIAL STATEMENTS ITEMS

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

3.1. Intangible assets

Movements in the historical cost of the main classes of intangible assets for 2019 and 2018, as well as accumulated amortization and net book value were as follows as at 31 December 2019, 2018 and 2017:

	(RUB thousand)				
	Exclusive rights for intellectual property	Rights to use radio frequencies and radio frequency channels	Licenses	Numbering capacity and other	Total
Historical cost as at 31 December 2017	2 105 361	9 038 076	7 826 013	2 112 398	21 081 848
Accumulated amortization as at 31 December 2017	(1 204 285)	(4 835 524)	(1 481 019)	(1 886 637)	(9 407 465)
Net book value as at 31 December 2017	901 076	4 202 552	6 344 994	225 761	11 674 383
Additions at historical cost	2 929 084	1 034 611	260 350	93 223	4 317 268
Disposals at historical cost	(11 825)	(1 159 530)	(997)	(148 650)	(1 321 002)
Historical cost as at 31 December 2018	5 022 620	8 913 157	8 085 366	2 056 971	24 078 114
Accumulated amortization as at 31 December 2018	(1 685 200)	(4 862 617)	(2 249 500)	(1 860 101)	(10 657 418)
Net book value as at 31 December 2018	3 337 420	4 050 540	5 835 866	196 870	13 420 696
Additions at historical cost	3 555 028	1 183 606	149	98 194	4 836 977
Disposals at historical cost	(25 862)	(614 461)	(119)	(240 666)	(881 108)
Historical cost as at 31 December 2019	8 551 786	9 482 302	8 085 396	1 914 499	28 033 983
Accumulated amortization as at 31 December 2019	(2 813 161)	(5 102 425)	(3 010 384)	(1 824 805)	(12 750 775)
Net book value as at 31 December 2019	5 738 625	4 379 877	5 075 012	89 694	15 283 208

3.2. Non-exclusive rights to use assets

Non-exclusive rights to use assets as at 31 December 2019, 2018 и 2017 comprised:

	(RUB thousand)		
	31 December		
	2019	2018	2017
Software	48 728 524	44 414 150	41 502 721
Servitude	477 277	456 877	485 905
Trademark	9	10	171
Total	49 205 810	44 871 037	41 988 797

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

4.1. Property, plant and equipment

Movements in the historical cost of the key groups of property, plant and equipment for 2019 and 2018 as well as the historical cost, accumulated depreciation and net book value as at 31 December 2019, 2018 and 2017 comprise:

(RUB thousand)

	Buildings	Constructions and transmission facilities	Machinery and equipment	Vehicles	Manufacturing and other tools	Land and natural resources	Investment property	Other types of property, plant and equipment	Total
Historical cost as at 31 December 2017	11 359 315	77 268 110	355 474 672	2 467 345	796 207	578 042	-	206 029	448 149 720
Accumulated depreciation as at 31 December 2017	(3 421 297)	(36 016 290)	(238 356 732)	(1 919 515)	(514 730)	-	-	(156 289)	(280 384 853)
Net book value as at 31 December 2017	7 938 018	41 251 820	117 117 940	547 830	281 477	578 042	-	49 740	167 764 867
Additions at historical cost	1 112 983	6 162 350	36 872 940	163 957	184 871	157 960	2 692 024	86 865	47 433 950
Disposals at historical cost	(101 272)	(334 362)	(19 278 332)	(135 257)	(56 851)	(6)	-	(15 396)	(19 921 476)
Historical cost as at 31 December 2018	12 371 026	83 096 098	373 069 280	2 496 045	924 227	735 996	2 692 024	277 499	475 662 195
Accumulated depreciation as at 31 December 2018	(3 534 384)	(39 681 387)	(255 819 453)	(2 002 705)	(566 530)	-	(16 075)	(190 628)	(301 811 162)
Net book value as at 31 December 2018	8 836 642	43 414 711	117 249 827	493 340	357 697	735 996	2 675 949	86 871	173 851 033
Additions at historical cost	1 615 033	7 570 242	43 166 532	380 944	190 985	96 680	-	16 233	53 036 649
Disposals at historical cost	(1 110)	(906 485)	(20 017 639)	(159 672)	(76 374)	(76)	(490 846)	(102 976)	(21 755 178)
Historical cost as at 31 December 2019	13 984 949	89 759 855	396 218 173	2 717 317	1 038 838	832 600	2 201 178	190 756	506 943 666
Accumulated depreciation as at 31 December 2019	(4 309 243)	(43 113 794)	(271 190 137)	(2 054 603)	(640 092)	-	(109 670)	(143 149)	(321 560 688)
Net book value as at 31 December 2019	9 675 706	46 646 061	125 028 036	662 714	398 746	832 600	2 091 508	47 607	185 382 978

Additional information about property, plant and equipment as at 31 December 2019, 2018 and 2017 was as follows:

Item description	(RUB thousand)		
	31 December		
	2019	2018	2017
Changes in cost of property, plant and equipment as a result of completions, additions, reconstruction and partial liquidation	1 129 413	1 658 059	1 398 881
Non-depreciable property, plant and equipment	832 600	735 995	578 041
Property, plant and equipment transferred under lease agreement (at carrying amount)	174 692	185 715	157 584
Real estate property put into operation but under the process of state registration	2 429 753	2 599 334	2 668 000

4.2. Construction-in-progress

As at 31 December 2019, 2018 and 2017, construction-in-progress comprised the following:

Item description	(RUB thousand)		
	31 December		
	2019	2018	2017
Completed work and construction services	10 044 262	14 074 418	7 303 644
Equipment for installation	8 073 939	7 670 447	7 278 095
Total	18 118 201	21 744 865	14 581 739

The Company performed an analysis of idle equipment to determine the alternatives of its further usage. The stockcount and analysis resulted in identifying equipment, which was obsolete, unfit for operation or lacking in demand. As at 31 December 2019, 2018 and 2017 the following allowances were recognized:

- Allowance for unused equipment was recorded in the Equipment for installation line in the amount of RUB 171 845 thousand, RUB 1 060 928 thousand and RUB 867 244 thousand respectively;
- Allowance for obsolescence of completed work and construction services was recorded in the Completed work and construction services line in the amount of RUB 170 838 thousand, RUB 229 609 thousand and RUB 537 250 thousand, respectively.

5. RIGHT-OF-USE ASSETS

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

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

Lease of:	(RUB thousand)	
	31 December	
	2019	2018
Network and base station equipment	92 234 229	93 656 942
Land and buildings	17 548 892	16 574 124
Office equipment, vehicles and other	-	99 769
Right-of-use assets, total	109 783 121	110 330 835

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

Depreciation of right-of-use assets of:	(RUB thousand)	
	31 December	
	2019	2018
Network equipment and base stations	10 019 410	8 079 118
Land and buildings	2 152 116	4 315 872
Office equipment, transport vehicles and other	-	24 744
Depreciation charge, total	12 171 526	12 419 734

Additions of right-of-use assets during 2019 and 2018 amounted to RUB 14 823 439 thousand and 660 327 thousand, respectively.

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

Item description	(RUB thousand)	
	2019	2018
Interest expense accrued on lease obligations	10 320 433	10 030 985
Depreciation of the rights-of-use assets	12 171 526	12 419 734
Variable lease payments not included on the measurement of lease liabilities	7 934 698	62 000
Expenses on short-term leases	1 741 007	2 380 997

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

	(RUB thousand)	
	31 December	
	2019	2018
Minimum lease payments, including:		
Current portion (less than 1 year)	19 291 482	17 767 410
More than 1 to 5 years	70 883 037	66 396 162
Over 5 years	99 991 454	104 486 165
Total minimum lease payments	190 165 973	188 649 737
Less amount representing interest	(71 165 455)	(72 504 559)
Present value of net minimum lease payments, including:		
Current portion (less than 1 year)	9 320 262	8 256 640
More than 1 to 5 years	39 000 792	34 857 283
Over 5 years	70 679 464	73 031 256
Lease obligations	119 000 518	116 145 179
Current portion	9 320 262	8 256 640
Non-current portion	109 680 256	107 888 539

Total cash outflows for leases 2019 and 2018 amounted to:

	2019	2018
Cash outflows for leases:		
Interest paid	10 320 433	10 030 985
Lease obligation principal paid	6 594 990	5 468 000
Cash outflows for leases, total	16 915 423	15 498 985

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

6. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

As of 31 December 2019, 2018 and 2017, the most significant subsidiaries and associates were as follows:

	Country of operations / registration	31 December		
		2019	2018	2017
PJSC MGTS	Russia, Moscow	94.7%	94.7%	94.7%
Allegretto Holding S.a.r.l.	Luxembourg	100%	100%	100%
LLC Stream Digital	Russia, Moscow	100%	100%	100%
Mobile TeleSystems B.V.	The Netherlands	100%	100%	100%
Mobile Telecom Holding S.a.r.l.	Luxembourg	-	100%	100%
JSC Russian Telephone Company	Russia	100%	100%	100%
LLC Telecom Projects	Russia, Moscow	100%	100%	100%
Baggio Holding B.V.	The Netherlands	100%	100%	100%
Vostok Mobile B.V.	The Netherlands	100%	100%	100%
LLC MTS-Capital	Russia, Moscow	100%	100%	100%
MCT Sibi Corp.	The USA	-	100%	100%
		99%	99%	99%
ES MTS-Turkmenistan	Turkmenistan	(100% with indirect control through Telecom Projects LLC)	(100% with indirect control through Telecom Projects LLC)	(100% with indirect control through Telecom Projects LLC)
LLC BASTION	Russia, Moscow	100%	100%	100%
Dega Retail Holding Limited	British Virgin Islands	100%	100%	100%
LLC STV	Russia, Moscow	100%	100%	100%
JLLC Mobile TeleSystems	Belarus	49%	49%	49%
OZON HOLDINGS LIMITED	Cyprus	-	18.7%	11.2%
LLC MC Sistema Capital	Russia, Moscow	30%	30%	30%
		0.2%	1%	-
LLC Avantage	Russia, the Moscow Region	(100% with indirect control through Vostok Mobile B.V.)	(100% with indirect control through Vostok Mobile B.V.)	-
		45%	45%	45%
LLC Stream	Russia, Moscow	(100% with indirect control through LLC Stream Digital)	(100% with indirect control through LLC Stream Digital)	(100% with indirect control through LLC Stream Digital)
			6,5%	6,5%
JSC Sibintertelecom	Russia, Chita	100%	(100% with indirect control through MCT Sibi Corp.)	(100% with indirect control through MCT Sibi Corp.)
JSC Objedinennye Russkie Kinostudii	Russia, St. Petersburg	100%	-	-
JSC RIKT	Russia, Moscow	100%	-	-

Movements in the investments in share capitals of subsidiaries and associates for 2019 and 2018 are presented as follows:

(RUB thousand)

	2018								
	31 December 2017	Acquisitions	Share of the profit/(loss)	Impairment / Reversal of impairment	Dividends	Disposals	Other comprehensive income	Other changes	31 December 2018
Investment in subsidiaries									
PJSC MGTS	86 728 591	-	11 048 253	-	(20 831 831)	-	167 418	308 830	77 421 261
Allegretto Holding S.a.r.l. ⁶	24 353 628	-	3 879 002	(3 889)	(1 972 247)	-	5 283 601	49 751	31 589 846
LLC Stream Digital	31 791 461	-	483 651	-	-	-	-	2 708 316	34 983 428
Mobile TeleSystems B.V. ⁴	2 981 638	21 968 007	1 084 765	-	-	-	-	(251 245)	25 783 165
Mobile Telecom Holding S.a.r.l.	10 621 273	-	1 505 114	-	-	-	1 573 512	-	13 699 899
JSC Russian Telephone Company»	17 459 147	-	(1 202 015)	-	-	-	-	-	16 257 132
LLC Telecom Projects ³	14 160 914	-	1 318 647	-	-	-	-	-	15 479 561
Baggio Holding B.V.	8 698 943	-	5 572 045	919 418	-	-	369 275	-	15 559 681
Vostok Mobile B.V. ^{5, 7}	8 094 104	2 049 977	1 526 564	-	-	-	-	-	11 670 645
MCT Sibi Corp.	9 032 442	-	(151 664)	-	-	-	-	127 717	9 008 495
LLC BASTION	277 244	15 000 000	(264 315)	-	-	-	-	115 882	15 128 811
Dega Retail Holding Limited	-	4 987 923	(1 367 346)	-	-	-	-	-	3 620 577
LLC MTS-Capital	-	5 877 000	(1 880)	(5 875 120)	-	-	-	-	-
LLC STV	633 905	-	(633 905)	-	-	-	-	-	-
Other	702 452	-	(145 146)	-	(13 284)	(146 357)	32 071	(300)	429 436
Total	215 535 742	49 882 907	22 651 770	(4 959 591)	(22 817 362)	(146 357)	7 425 877	3 058 951	270 631 937
Investment in associates and others									
JLLC Mobile TeleSystems	3 659 798	-	3 798 651	-	(3 690 736)	-	319 579	(36 603)	4 050 689
OZON HOLDINGS LIMITED ⁸	2 516 614	3 047 768	(767 630)	-	-	-	-	-	4 796 752
LLC MC Sistema Capital	357 381	-	41 339	-	(7 500)	-	-	-	391 220
LLC Stream	1 191 824	-	186 667	-	-	-	-	-	1 378 491
JSC Sibintertelecom	1 779 977	-	(10 491)	-	-	-	-	7 934	1 777 420
Other	311 663	12 563	(27 336)	-	-	-	-	-	296 890
Total	9 817 257	3 060 331	3 221 200	-	(3 698 236)	-	319 579	(28 669)	12 691 462
Total investments in subsidiaries and associates	225 352 999	52 943 238	25 872 970	(4 959 591)	(26 515 598)	(146 357)	7 745 456	3 030 282	283 323 399

(RUB thousand)

	2019								
	31 December 2018	Acquisitions	Share of the profit/(loss)	Impairment / Reversal of impairment	Dividends	Disposals	Other comprehensive income	Other changes	31 December 2019
Investment in subsidiaries									
PJSC MGTS	77 421 261	-	14 240 165	-	(20 921 644)	-	-	397 709	71 137 491
Allegretto Holding S.a.r.l. ^{6, 10, 11}	31 589 846	-	(3 416 678)	-	(32 543 963)	-	11 558 584	13 699 733	20 887 522
LLC Stream Digital	34 983 428	-	(32 987)	-	-	-	-	4 227 518	39 177 959
Mobile TeleSystems B.V. ⁴	25 783 165	12 779 451	1 524 490	-	(3 338 268)	-	-	-	36 748 838
Mobile Telecom Holding S.a.r.l. ¹²	13 699 899	-	-	-	-	-	-	(13 699 899)	-
JSC Russian Telephone Company	16 257 132	-	(983 446)	-	-	-	-	-	15 273 686
LLC Telecom Projects	15 479 561	-	(12 064)	-	-	-	-	-	15 467 497
Baggio Holding B.V.	15 559 681	-	1 320 883	-	(4 196 488)	-	(393 787)	-	12 290 289
Vostok Mobile B.V. ⁵	11 670 645	2 498 347	(606 801)	-	-	-	(1 547)	-	13 560 644
MCT Sibi Corp. ¹³	9 008 495	-	(348 481)	-	-	-	-	(8 660 014)	-
LLC BASTION	15 128 811	15 000 000	(608 577)	-	-	-	-	4 905 485	34 425 719
Dega Retail Holding Limited ⁸	3 620 577	-	(1 030 654)	-	-	(4 299 661)	(19 525)	4 299 661	2 570 398
JSC Objedinennye Russkie Kinostudii ²	-	2 097 926	(19 852)	-	-	-	-	-	2 078 074
LLC STV	-	3 200 000	(2 526 120)	-	-	-	-	-	673 880
JSC RIKT ¹	-	369 999	5 289	-	-	-	-	-	375 288
Other	429 436	1 120 520	(9 538)	67 452	(78 365)	-	(29 690)	2 798	1 502 613
Total	270 631 937	37 066 243	7 495 629	67 452	(61 078 728)	(4 299 661)	11 114 035	5 172 991	266 169 898
Investment in associates and others									
JLLC Mobile TeleSystems	4 050 689	-	4 583 348	-	(3 717 664)	-	(413 830)	-	4 502 543
OZON HOLDINGS LIMITED ⁸	4 796 752	-	(497 091)	-	-	-	-	(4 299 661)	-
LLC MC Sistema Capital	391 220	-	36 587	-	(22 500)	-	-	-	405 307
LLC Stream	1 378 491	-	65 343	-	-	-	-	-	1 443 834
JSC Sibintertelecom ¹³	1 777 420	-	(127 833)	-	(356)	-	-	8 660 014	10 309 245
Other ⁹	296 890	75 026	6 878	-	(13 054)	-	-	12 203	377 943
Total	12 691 462	75 026	4 067 232	-	(3 753 574)	-	(413 830)	4 372 556	17 038 872
Total investments in subsidiaries and associates	283 323 399	37 141 269	11 562 861	67 452	(64 832 302)	(4 299 661)	10 700 205	9 545 547	283 208 770

In 2019 and 2018, the following operations took place related to the investments in share capital of subsidiaries, associated and other entities of MTS PJSC:

¹ Acquisition of JSC RIKT – In June 2019, the Company acquired a 97.4% ownership interest in JSC RIKT (“RIKT”), a fixed-line operator in the Kemerovo region, for cash consideration of RUB 360 450 thousand. This acquisition allows the Company to increase its market share in Kemerovo region. In September 2019, the Company finalized the mandatory share repurchase from minority shareholders of RIKT and increased its share in RIKT to 100%.

² Acquisition of JSC Objedinennye Russkie Kinostudii – In April 2019, the Company acquired JSC Objedinennye Russkie Kinostudii (“Kinopolis”) from subsidiary of Sistema, for total consideration of RUB 2 041 926 thousand. Kinopolis owns fully equipped movie complex in Saint-Petersburg. Acquisition of Kinopolis enables the company to develop its own entertainment content.

³ Acquisition of MDTZK and LLC Kulturnaya Sluzhba – In January and February 2018 MTS PJSC, through its subsidiary LLC Telecom Projects, acquired a stake of 78.2% in the share capital Kulturnaya Sluzhba LLC, operating under the trademark Ponominalu.ru, a 100% share in the share capital in Moskovskaia Direktsiia Teatralno-Kontcertnyh i Sportivno-Zrelischnyh Kass LLC (“MDTZK”), operating under the trademark Ticketland.ru. The purchase price was RUB 320 946 thousand and 3 190 000 thousand respectively. These acquisitions allow the Company to enter the event ticketing market, as well as to propose subscribers a service of purchase of electronic tickets with their integration into the loyalty program and ecosystem of mobile applications of MTS PJSC

⁴ Acquisition of share in MTS Bank – In 2018, MTS PJSC, through its subsidiary Mobile TeleSystems B.V. increased ownership share in the Company’s associate MTS Bank PJSC (“MTS Bank”) from 26.6% to 55.4% and obtained control over the entity. Consideration paid to Sistema PJSC for additional share in MTS Bank PJSC amounted to RUB 8 273 152 thousand. In 2019, the Mobile TeleSystems B.V. increased the ownership share in MTS Bank through the participation in additional share issuance of MTS Bank PJSC for a total consideration of RUB 3 500 000 thousand. Also Mobile TeleSystems B.V. purchased the share in MTS Bank from AFK Sistema and LLC Sistema Telecom Active, the subsidiary of AFK Sistema for the consideration of RUB 12 855 104 thousand. As a result of all transactions mentioned above the share of the Company in MTS Bank with indirect control through Mobile TeleSystems B.V. were 99.53% as of December 31, 2019.

⁵ Acquisition of LLC Avantage – In September 2018, MTS PJSC acquired from a group of private investors a 1% share in the capital of LLC Avantage and a 99% share in the capital of LLC Avantage through its subsidiary Vostok Mobile B.V. The total amount of consideration amounted to RUB 8 165 815 thousand (including net debt). LLC Avantage owns one of the largest data processing centers in Russia in the city of Lytkarino, Moscow Region. In April 2019, Vostok Mobile B.V. increased its share in LLC Avantage from 99% to 99.8%, whereas the share of MTS PJSC reduced from 1% to 0.2%, respectively.

⁶ Acquisition of share in YouDo – In September 2018, MTS PJSC, through its subsidiary Alegretto Holdings S.a.r.l. acquired a 13.7% ownership interest in Youdo Web Technologies Limited (“YouDo”), a Russian online service provider matching freelance labor supply to demand for everyday and business tasks, for a cash contribution of USD 12 million (RUB 823 644 thousand). In 2019, the allocation 44 589 shares to Alegretto Holding S.a.r.l. was performed as a part of additional share issuance according to Subscription Agreement for shares dated September 14, 2018. As a result, the share of Alegretto Holding S.a.r.l. in YouDo increased from 13.68% to 15.45%.

⁷ Acquisition of IT-Grad 1 Cloud LLC – In December 2018, MTS PJSC, through its subsidiary Vostok Mobile B.V. acquired a 100% ownership interest in IT-Grad 1 Cloud LLC (IT-Grad), one of the largest cloud services providers on the Russian IaaS market. The acquisition allows the Company to strengthen its presence in the Russian cloud services market.

⁸ Acquisition and Sale of Ozon Holdings Limited – In 2018, MTS PJSC acquired additional equity interests in OZON through several transactions, which resulted in increase of the Company’s share in OZON from 11.19% as of December 31, 2017 to 18.69% as of December 31, 2018. In March 2019, MTS PJSC (through wholly-owned subsidiary Dega Retail Holding Limited) disposed of its 18.69% interest in OZON to Sistema for RUB 7 901 501 thousand (of which RUB 3 000 000 thousand was paid by Sistema in March 2019, RUB 2 450 000 thousand is due in July 2020 and RUB 2 451 501 thousand is due in July 2021). As of December 31, 2019 Dega Retail Holding Limited has retained no interest in OZON. The result of the transaction RUB 3 837 156 thousand was included in Share of net profit of subsidiaries and associates line. Effect on other comprehensive income was RUB 235 376 thousand.

⁹Acquisition of SWIPGLOBAL Limited– In December 2019 MTS PJSC 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 75 026 thousand.

¹⁰ Acquisition of additional share in Aramayo Investments Limited – In August 2019 MTS PJSC through its subsidiary Allegretto Holding S.a.r.l purchased the remaining 20% stake in the share capital Aramayo Investments Limited according to the option agreement with non-controlling shareholders. As the result of the transaction the total share in Aramayo Investments Limited was 100% as of December 31, 2019.

¹¹ Disposal of companies – In November 2019 Allegretto Holding Sarl, a subsidiary of MTS PJSC, signed an agreement to sell its subsidiary Preludium BV, which owned 100% of the share capital of VF Ukraine PrJSC, PTT Telecom Kiev, VF Retail LLC and LLC VF Retail ITSF, companies, which carried out the activities in Ukraine. The transaction was completed on December 3, 2019.

¹² Reorganization of Mobile Telecom Holding S.a.r.l. – In 2019 Mobile Telecom Holding S.a.r.l. was merged with Allegretto Holding S.a.r.l. Accordingly, the share of MTS PJSC in Mobile Telecom Holding S.a.r.l. changed from 100% to 0%.

¹³ Liquidation of MCT Sibi Corp. - In 2019 MCT Sibi Corp. was liquidated. As a result of which the share of MTS PJSC in Sibintertelecom JSC increased to 100%.

7. OTHER INVESTMENTS

7.1. Other long-term investments

As at 31 December 2019, 2018 and 2017, the Company’s other long-term investments comprised the following:

	(RUB thousand)		
	31 December		
	2019	2018	2017
Loans receivable			
LLC MTS-Capital	9 345 000	-	-
JSC Russian Telephone Company	6 230 000	5 876 000	-
LLC BASTION	1 551 000	-	-
PJSC Navigation Information Systems	1 296 000	1 262 000	110 000
MTS IT LLC	976 000	1 340 000	-
LLC MTS Energo	267 100	-	-
LLC Avantage	187 000	467 000	-
JSC NVision Group	20	80 400	-
Oblachny Retail Plus LLC	-	1 763 800	-
Dega Retail Holding Ltd	-	1 441 272	3 945 959
LLC STV	-	805 000	-
JSC SITRONICS Telecom Solutions	-	137 000	-
JSC Telesevice	-	135 000	-
LLC BASTION	-	-	86 800
Other	158 000	134 745	54 066
Total	20 010 120	13 442 217	4 196 825
Allowance for impairment of long-term loans receivable (clause 7.3.)	(1 296 020)	(3 378 200)	(162 000)
Trust management agreement			
LLC MC Sistema Capital ¹	-	20 933 378	17 356 505
Total	-	20 933 378	17 356 505
Securities acquisition costs			
Advances for acquisition	1 309 191	1 244 158	1 169 669
Bonds ¹	-	-	-
Total	1 309 191	1 244 158	1 169 669
Total long-term investments	20 023 291	32 241 553	22 560 999

¹ Eurobonds issued in June 2010 with 8.625% yield per annum and maturity in 2020. Issuer of bonds is a related party MTS International Funding DAC. In 2017, the bonds and cash were transferred in trust management to LLC MC Sistema Capital, a subsidiary of Sistema PJSC, with which the Company concluded a trust management agreement in May 2016 to obtain short-term income from securities sale and purchase transactions. As at the reporting date Eurobonds reclassified in short-term in accordance with the repayment schedule.

7.2. Other short-term investments

As at 31 December 2019, 2018 and 2017, the Company's other short-term investments comprised the following:

	(RUB thousand)		
	31 December		
	2019	2018	2017
Bank deposits			
PJSC Sberbank	-	12 000 000	23 040 080
Total	-	12 000 000	23 040 080
Loans receivable			
Mr. Pierre and Mr. Moussa Fattouch	-	6 252 364	5 184 018
Dega Retail Holding Ltd	8 599 286	6 233 600	6 548 000
Oblachny Retail Plus LLC	1 878 400	-	-
CJSC Kornet-AM	-	511 361	423 985
JSC Metro-Telecom	223 201	233 201	243 201
JSC SITRONICS Telecom Solutions	232 000	-	3 021 900
JSC Russian Telephone Company	-	-	1 996 690
PRALISS ENTERPRISES LIMITED	146 717	-	-
JSC NVision Group	-	-	859 400
OJSC Teleservice	135 000	-	110 000
Other	241 884	116 214	84 254
Total	11 456 488	13 346 740	18 471 448
Allowance for impairment of short-term loans receivable (clause. 7.3)	(2 852 652)	(1 331 785)	(4 750 740)
Debt securities			
JSC SITRONICS	219 690	219 690	219 690
Total	219 690	219 690	219 690
Trust management agreement			
LLC MC Sistema Capital ¹	26 852 186	11 762 820	9 671 363
Total	26 852 186	11 762 820	9 671 363
Repurchase agreements			
MOEX	-	-	7 576 330
	-	-	7 576 330
Total short-term investments	35 675 712	35 997 465	54 228 171

¹ Eurobonds issued in June 2010 with 8.625% yield per annum and maturity in 2020. Issuer of bonds is a related party MTS International Funding DAC. In 2017, the bonds and cash were transferred in trust management to LLC MC Sistema Capital, a subsidiary of Sistema PJSC, with which the Company concluded a trust management agreement in May 2016 to obtain short-term income from securities sale and purchase transactions. As at the reporting date Eurobonds reclassified in short-term in accordance with the repayment schedule.

7.3. Allowance for impairment of other investments

In accordance with the Company's accounting policy, the Company created an allowance for impairment of other long-term and short-term investments, which, as at 31 December 2019, 2018 and 2017, comprised the following:

	(RUB thousand)			
Allowance for impairment of loans receivable and debt securities	As at 31 December 2017	Recognition of an allowance	Allowance release and other movements	As at 31 December 2018
CJSC Kornet-AM	(423 985)	(87 376)	-	(511 361)
JSC NVision Group	(859 400)	-	779 000	(80 400)
JSC Metro-Telecom	(243 201)	-	10 000	(233 201)
PJSC Navigation Information Systems	(110 000)	(1 169 000)	-	(1 279 000)
JSC SITRONICS Telecom Solutions	(3 021 900)	-	2 884 900	(137 000)
LLC STV	-	-	-	-
Mr. Pierre and Mr. Moussa Fattouch	-	(477 969)	-	(477 969)
Oblachny Retail LLC	-	(1 763 800)	-	(1 763 800)
Other	(254 254)	-	27 000	(227 254)
Total	(4 912 740)	(3 498 145)	3 700 900	(4 709 985)

	(RUB thousand)			
Allowance for impairment of loans receivable and debt securities	As at 31 December 2018	Recognition of an allowance	Allowance release and other movements	As at 31 December 2019
CJSC Kornet-AM	(511 361)	-	511 361	-
JSC NVision Group	(80 400)	-	80 380	(20)
JSC Metro-Telecom	(233 201)	-	10 000	(223 201)
PJSC Navigation Information Systems	(1 279 000)	(254 000)	159 000	(1 374 000)
JSC SITRONICS Telecom Solutions	(137 000)	(95 000)	-	(232 000)
LLC STV	-	-	-	-
Mr. Pierre and Mr. Moussa Fattouch	(477 969)	-	477 969	-
Oblachny Retail LLC	(1 763 800)	(114 600)	-	(1 878 400)
Other	(227 254)	(213 797)	-	(441 051)
Total	(4 709 985)	(677 397)	1 238 710	(4 148 672)

8. OTHER NON-CURRENT ASSETS

As at 31 December 2019, 2018 and 2017, other non-current assets comprised:

	(RUB thousand)		
	2019	31 December 2018	2017
Other non-current assets			
Advances given for acquisition of property, plant and equipment, software and construction services	3 446 749	4 319 580	9 256 564
Interest on loans receivable and deposits	1 445 189	2 402 345	312 624
Accounts receivable for sold OZON shares	2 642 231	-	-
Allowance for impairment of interest on loans receivable	(333 288)	(428 088)	(3 892)
Other non-current assets	1 725 532	805 701	165 556
Total	8 926 413	7 099 538	9 730 852

9. ACCOUNTS RECEIVABLE

Accounts receivable as at 31 December 2019, 2018 and 2017 comprised the following:

	(RUB thousand)		
	31 December		
	2019	2018	2017
Accounts receivable			
Trade receivables	22 242 002	18 276 668	17 369 682
Allowance for trade receivables	(5 812 853)	(4 495 661)	(5 062 579)
Settlements on roaming discounts	1 092 251	6 553 358	9 014 333
Dividends receivable from PrJSC VF Ukraine ¹	-	5 759 268	4 708 267
Provision for dividends receivable from PrJSC VF Ukraine ¹	-	(5 759 268)	(4 708 267)
Dividends receivable from ES MTS-Turkmenistan ²	878 577	1 064 276	1 011 855
Provision for dividends receivable from ES MTS-Turkmenistan ²	(878 577)	(1 064 276)	(1 011 855)
Receivables from commercial representatives	200 198	234 196	244 000
Allowance for receivables from dealers	(191 690)	(209 046)	(208 152)
Advances paid	1 016 820	638 180	805 601
Allowance for advances paid	(26 518)	(27 059)	(19 978)
Interest on loans receivable and deposits	3 375 931	3 109 399	6 951 583
Allowance for interest on loans receivable	(196 134)	(90 452)	(691 724)
Settlements on taxes and duties	4 356 423	3 013 836	2 137 520
Settlements with the Social Security Fund	57 874	91 551	98 247
Other	5 329 235	3 490 732	2 089 127
Allowance for other receivables	(58 965)	(84 065)	(80 878)
Total	31 384 574	30 501 637	32 646 782

¹ In 2017, the Regulation of the Management Board of the National Bank of Ukraine, related to the prohibition to transfer dividends to foreign investors by Ukrainian companies, was amended in part of the permitted period to pay dividends and the amount of the monthly dividend payment. In July 2019 National Bank of Ukraine canceled the threshold for transferring dividends payable abroad (it was approved by Decision NBU №91 from 10 July 2019).

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

10. CASH AND CASH EQUIVALENTS

As at 31 December 2019, 2018 and 2017, cash and cash equivalents comprised:

	(RUB thousand)		
	31 December		
	2019	2018	2017
Cash and cash equivalents			
Deposits with initial maturity of less than 3 months	4 573 485	52 500 000	2 000 000
Current bank accounts	2 669 747	13 718 689	11 623 436
Cash in transit	1 513 572	2 927 482	2 988 243
Petty cash	2 845	1 294	1 328
Total	8 759 649	69 147 465	16 613 007

11. SHARE CAPITAL

As at 31 December 2019, 2018 and 2017, the Company's share capital comprised the following:

Types of shares	Par value, RUB	Number of shares			Including number of treasury shares acquired by subsidiaries and affiliates and the Company		
		2019	2018	2017	2019	2018	2017
Ordinary shares	0.1	1 998 381 575	1 998 381 575	1 998 381 575	225 547 422	167 638 899	86 338 023
Total		1 998 381 575	1 998 381 575	1 998 381 575	225 547 422	167 638 899	86 338 023

The shareholder structure as at 31 December 2019, 2018 and 2017 comprised the following:

	% of ownership		
	2019	2018	2017
Non-banking credit organization JSC National Settlement Depository (nominal holder)	70.70	69.10	51.59
Sistema PJSFC	15.75	15.75	31.76
LLC Sistema Telecom Aktivy	11.03	11.03	11.03
Sistema Finance S.A.	0.37	1.98	3.48
Other shareholders	2.15	2.12	2.14
Total	100	100	100

The controlling owner of MTS PJSC is Vladimir Petrovich Evtushenkov.

12. BORROWINGS

Maturities of the main types of debt outstanding as at 31 December 2019 are presented as follows:

Borrowings	(RUB thousand)			
	Up to 1 year	1 year to 5 years	Over 5 years	Total
Loans from related parties	73 281 778	68 090 064	-	141 371 842
Bank loans	43 000 000	114 827 522	-	157 827 522
Notes	9 342 788	93 403 043	35 000 000	137 745 831
Total	125 624 566	276 320 629	35 000 000	436 945 195

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

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

- Borrow funds;
- Enter into loan transactions with affiliates;
- Merge or consolidate with another entity;
- Transfer their property and assets to another entity;
- Sell or transfer any of the GSM licenses for license areas in Moscow, St. Petersburg, Krasnodar and Ukraine;
- Make certain types of reorganization or changes in the composition of the Company's shareholders.

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

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

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

As at 31 December 2019, the Company was in full compliance with all covenants of notes and loan agreements.

Available credit facilities:

	(RUB thousand)			
	<u>Up to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Other loans	50 269 886	28 612 339	-	78 882 225
Bank loans	58 000 000	135 000 000	170 000 000	363 000 000
Notes	14 959 807	-	-	14 959 807
Total	<u>123 229 693</u>	<u>163 612 339</u>	<u>170 000 000</u>	<u>456 842 032</u>

The accrued expenses on loans and borrowings recognized in the Interest expense line item of the statement of financial results (interest and other additional expenses) for 2019 and 2018 amounted to RUB 37 289 699 thousand and RUB 33 029 316 thousand, respectively.

The debt issuance costs for 2019 and 2018 amounted to RUB 138 592 thousand and RUB 39 708 thousand, respectively, and are recognized in the Borrowings line item of the balance sheet.

Capitalized borrowing costs for 2019 and 2018 amounted to RUB 378 205 thousand and 367 123 thousand, respectively, and are recognized in the Property, plant and equipment line item of the balance sheet.

13. ACCOUNTS PAYABLE

As at 31 December 2019, 2018 and 2017, the Company's accounts payable comprised the following:

	(RUB thousand)		
	<u>31 December</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Long-term payables			
Interest on borrowings	3 639 985	2 376 581	1 146 846
Trade payables	319 804	396 140	452 217
Total long-term payables	<u>3 959 789</u>	<u>2 772 721</u>	<u>1 599 063</u>
Short-term payables			
Trade payables	34 000 555	25 065 290	29 087 164
Advances received ²	962 103	1 310 538	12 419 091
Wages and salaries payable	7 904 370	7 452 428	7 472 573
Interest on borrowings	5 296 660	6 915 890	7 157 396
Taxes and duties payable	8 309 092	5 796 024	7 044 499
Discounts provided on roaming services ¹	-	5 677 412	5 926 729
Social contributions payable	420 675	385 142	362 676
Consideration on acquisition of subsidiaries	25 518 902	-	-
Other	532 101	382 500	439 890
Total short-term payables	<u>82 944 458</u>	<u>52 985 224</u>	<u>69 910 018</u>

¹ Discounts on roaming services provided to JSC Sibintertelecom are recorded in Accounts payable line item of the balance sheet as being supported with documents. Those discounts provided on roaming services that are determined by the Company as accounting estimates as at the reporting date are recorded in the Provisions line item of the balance sheet (Note 14).

² In 2018, IFRS 15 was applied, as a result - advances received from subscribers were classified as a part of the Contract liabilities.

14. PROVISIONS

Movements in provisions for 2019 and 2018 comprised:

	(RUB thousand)				
	Discounts provided on roaming services	Asset retirement obligations	Provision related to investigations into former operations in Uzbekistan	Other provisions	Total
Total as at 31 December 2017	1 699 678	917 083	-	682 054	3 298 815
Increase in provisions	1 548 310	1 674 737	59 050 010	283 871	62 556 928
Decrease in provisions	<u>(1 699 678)</u>	<u>(18 954)</u>	<u>-</u>	<u>(829 128)</u>	<u>(2 547 760)</u>
Total as at 31 December 2018	<u>1 548 310</u>	<u>2 572 866</u>	<u>59 050 010</u>	<u>136 797</u>	<u>63 307 983</u>
Increase in provisions	1 262 341	2 245 071	-	150 729	3 658 141
Decrease in provisions	<u>(1 548 310)</u>	<u>(21 396)</u>	<u>(59 050 010)</u>	<u>(40 787)</u>	<u>(60 660 503)</u>
Total as at 31 December 2019	<u>1 262 341</u>	<u>4 796 541</u>	<u>-</u>	<u>246 739</u>	<u>6 305 621</u>

Maturities of provisions as at 31 December 2019, 2018 and 2017, are presented below:

	(RUB thousand)		
	31 December		
Balance sheet line	2019	2018	2017
Long-term provisions ¹	4 565 679	2 572 865	917 083
Short-term provisions ²	<u>1 739 942</u>	<u>60 735 118</u>	<u>2 381 732</u>
	<u>6 305 621</u>	<u>63 307 983</u>	<u>3 298 815</u>

¹ Long-term provisions include asset retirement obligations.

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

15. CONTRACT LIABILITIES

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

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

	(RUB thousand)		
	31 December 2019	31 December 2018	1 January 2018
Contract liabilities	(17 680 282)	(17 046 970)	(16 755 723)
<i>Thereof:</i>			
<i>Mobile and fixed telecommunication services</i>	(17 421 551)	(16 762 835)	(16 247 723)
<i>Loyalty programme</i>	<u>(258 731)</u>	<u>(284 135)</u>	<u>(508 000)</u>
Total liabilities	<u>(17 680 282)</u>	<u>(17 046 970)</u>	<u>(16 755 723)</u>
Less current portion	17 352 980	16 851 283	16 588 854
Total non-current liabilities	<u>(327 302)</u>	<u>(195 687)</u>	<u>(166 869)</u>

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

	2019	(RUB thousand) 2018
Balance as of 1 January	<u>(17 046 970)</u>	<u>(16 755 723)</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period	13 712 516	12 409 829
Increase due to cash received, excluding amount recognised as revenue during the period	<u>(14 345 828)</u>	<u>(12 701 076)</u>
Balance as of 31 December	<u>(17 680 282)</u>	<u>(17 046 970)</u>

The Company expects to recognize revenue related to performance obligations that were unsatisfied as of 31 December 2019 as follows:

	2020	2021-2025	(RUB thousand) Total
Mobile and fixed telecommunication service	(17 094 249)	(327 302)	(17 421 551)
Loyalty programme	(258 731)	-	(258 731)

16. INCOME TAX

Current income tax expense for 2019 and 2018 comprised:

	2019	(RUB thousand) 2018
Profit before income tax	79 837 685	20 302 412
Theoretical income tax expense	15 369 928	4 059 395
Permanent tax liabilities:		
Non-deductible expenses	1 616 377	11 794 215
Provision for contingent liabilities	-	-
Dividends received from foreign subsidiaries	5 193	18 352
Expenses in excess of allowable limits	-	56
Allowance for impairment of investments	-	-
Other	116 241	59 964
Total	<u>1 737 811</u>	<u>11 872 587</u>
Permanent tax assets:		
non-deductible income	(2 522 483)	(5 103 587)
Total	<u>(2 522 483)</u>	<u>(5 103 587)</u>
Increase/(decrease) in deferred tax assets:		
Property, plant and equipment, including due to:		
- different periods and methods of depreciation for accounting and tax purposes	9 088	2 130
- other operations with property, plant and equipment	(4 554)	64 985
Provisions	1 159 033	1 009 916
Difference in methods of revenue recognition	328 362	215 804
Allowance for doubtful debt	(1 235 891)	(928 403)
Lease	669 225	916 380
Other	(673 161)	82 731
Total	<u>252 102</u>	<u>1 363 543</u>
(Increase)/decrease in deferred tax liabilities:		
Prepaid expenses and capitalized debt issuance costs	-	-
property, plant and equipment, due to:		
- different periods and methods of depreciation for accounting and tax purposes	(1 102 879)	297 739
- other operations with property, plant and equipment	(88 931)	(125 938)
Investments in associates and subsidiaries	-	(50 830)
Other	(542 410)	55 620
Total	<u>(1 734 220)</u>	<u>176 591</u>
Total current income tax	<u>13 103 138</u>	<u>12 368 529</u>

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

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

	2019	(RUB thousand) 2018
Adjustments to income tax declarations for prior periods	409	-
Income tax arrears	(55)	488 054
Tax penalties of prior periods	68 135	(175 320)
Other tax penalties	571 943	-
Total	640 432	312 734

17. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue for the years ended 31 December 2019 and 2018 is disclosed in the table below:

	2019	(RUB thousand) 2018
Revenue		
<i>Mobile services</i>	310 079 081	301 751 673
<i>Fixed line services</i>	23 742 806	23 571 927
<i>Fixed line services</i>	586 343	254 855
<i>Sales of goods</i>	981 455	624 498
<i>Other services</i>	6 733 264	5 033 480
Total revenue	342 122 949	331 236 433
Thereof:		
Recognised over time	341 141 494	330 611 935
Recognised at point of time	981 455	624 498
Total	342 122 949	331 236 433

18. OPERATING EXPENSES

Below is the summary of the Company's expenses on operating activities for 2019 and 2018:

	2019	(RUB thousand) 2018
OPERATING EXPENSES		
Depreciation and amortization	83 594 583	83 102 502
Payroll	27 130 481	25 262 903
Social contributions	6 824 802	6 144 720
Raw materials and supplies	2 720 000	2 268 871
Other expenses	125 650 083	120 198 910
Total	245 919 949	236 977 906

Other expenses line includes:

	2019	(RUB thousand) 2018
Other expenses		
Interconnection services	50 216 456	47 058 953
Dealers commission	19 412 659	17 013 796
Roaming expenses	9 139 359	10 363 908
Content expenses	4 694 168	4 478 311
Advertising and marketing expenses	9 506 112	7 787 792
Utilities	8 228 556	7 388 895
Technical support and maintenance of equipment	5 571 043	5 346 374
Taxes	4 286 596	5 762 661
Lease expense	3 109 314	2 443 469
Other expenses	11 485 820	12 554 751
Total	125 650 083	120 198 910

Below is the summary of the Company's depreciation and amortization expenses for 2019 and 2018:

	<u>2019</u>	<u>(RUB thousand)</u> <u>2018</u>
OPERATING EXPENSES		
Depreciation and amortization of PPE and IA	62 864 305	60 486 083
Depreciation of right-of-use assets	12 171 526	12 419 734
Amortization of cost to obtain contracts	<u>8 558 752</u>	<u>10 196 685</u>
Total	<u>83 594 583</u>	<u>83 102 502</u>

19. OTHER INCOME

Other income for 2019 and 2018 comprised:

	<u>2019</u>	<u>(RUB thousand)</u> <u>2018</u>
Other income		
Foreign exchange gain and loss, net	8 558 274	-
Gain from the reversal of allowance for impairment of dividends	6 072 424	-
Gain from the reversal of allowance for impairment of other investments	767 622	4 007 889
Gain from revaluations of market value of other investments	379 106	-
Accounts payable written off as unclaimed	344 356	492 250
Gain from sale and disposal of property, plant and equipment	323 021	403 853
Gain from sale and disposal of other property	214 282	460 261
Gain from the reversal of allowance for obsolescence of long-term inventories and other non-current assets	135 244	-
Insurance compensations	80 967	186 147
Gain from swaps	74 099	8 263 106
Gain from decrease in provisions	11 894	228 199
Gain from sale of foreign currency	-	1 631 243
Other	<u>160 902</u>	<u>151 381</u>
Total	<u>17 122 191</u>	<u>15 824 329</u>

20. OTHER EXPENSES

Other expenses for 2019 and 2018 comprised:

	<u>2019</u>	<u>(RUB thousand)</u> <u>2018</u>
Other expenses		
Allowance for doubtful accounts	3 129 017	1 829 834
Loss from sale of foreign currency	3 067 684	-
Allowance for impairment of other investments	677 397	3 537 566
Expenses related to charity activities	346 970	315 255
Loss on sale and disposal of other property	238 749	481 505
Write-off of value-added tax receivable	180 451	264 141
Bank charges	156 301	141 469
Loss on sale and disposal of property, plant and equipment	131 991	277 606
Allowance for obsolescence of long-term inventories and other non-current assets	-	260 833
Provisions	627	29 000
Impairment loss of investments in subsidiaries and associates	-	4 960 000
Provision related to Investigations into former operations in Uzbekistan (Note 30)	-	55 752 010
Foreign exchange gain and loss, net	-	13 453 597
Other	<u>404 793</u>	<u>247 184</u>
Total	<u>8 333 980</u>	<u>81 550 000</u>

21. EXCHANGE RATES

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

Currency	31 December		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
US Dollar	61.9057	69.4706	57.6002
EUR	69.3406	79.4605	68.8668
		(RUB thousand)	
		<u>2019 год</u>	<u>2018 год</u>
Foreign exchange (loss) / gain from translation of assets and liabilities denominated in foreign currency and payable in foreign currency		8 068 033	(13 052 332)
Foreign exchange (loss) / gain from translation of assets and liabilities denominated in foreign currency and payable in rubles		<u>490 241</u>	<u>(401 265)</u>
Total		<u>8 558 274</u>	<u>(13 453 597)</u>

22. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The fair value of the Company's assets as at 31 December 2019, 2018 and 2017 was as follows (in rubles at the exchange rate as at the reporting date):

Derivative financial instruments	31 December		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Swaps	(696 127)	3 610 044	7 738 000
Forwards	<u>(339 963)</u>	<u>1 891 339</u>	<u>-</u>
Total	<u>(1 036 090)</u>	<u>5 501 383</u>	<u>7 738 000</u>

In 2019 and 2018, gain from swap transactions amounted to RUB 74 099 thousand and RUB 8 263 106 thousand, respectively, and is included in the Other income line item of the statement of financial results. The swaps mature in 2019-2024.

In 2019 and 2018, loss and gain from forwards transactions amounted RUB 3 238 830 thousand and RUB 2 032 391 thousand, respectively. Results from forwards transactions are included as a part of the sale of foreign currency in the Other Expenses and Other Income lines of the statement of financial results, respectively.

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

Underlying assets related to deliverable currency forwards not settled as at 31 December 2019, 2018 and 2017 amounted to RUB 68 334 239 thousand, RUB 49 959 745 thousand and RUB nil, respectively.

23. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Profit, RUB thousand	64 611 997	9 161 283
Weighted average number of ordinary shares outstanding	<u>1 998 363 911</u>	<u>1 998 381 409</u>
Basic earnings per share, RUB	<u>32.33</u>	<u>4.58</u>
Diluted earnings per share, RUB	<u>32.29</u>	<u>4.58</u>

24. BOARD OF DIRECTORS

As at 31 December 2019, the Board of Directors consisted of the following members:

Name	Position	Period
Felix Vladimirovich Evstushenkov	Chairman of the Board of Directors	from 27 June 2019
Alexey Valeryevich Kornya	Member of the Board of Directors	from 28 June 2018
Regina von Flemming	Member of the Board of Directors	from 25 June 2015
Artem Ivanovich Zasursky	Member of the Board of Directors	from 29 June 2017
Alexey Borisovich Katkov	Member of the Board of Directors	from 28 June 2018
Antonios Teodosiou Antoniou	Member of the Board of Directors	from 27 June 2019
Valentin Borisovich Yumashev	Member of the Board of Directors	from 27 June 2019
Vsevolod Valerievich Rozanov	Member of the Board of Directors	from 27 June 2012
Thomas Holtrop	Member of the Board of Directors	from 14 February 2013
Ron Sommer	Chairman of the Board of Directors	from 25 June 2009 to 27 June 2019
Wolfgang Schüssel	Member of the Board of Directors	from 28 June 2018 to 27 June 2019
Stanley Miller	Member of the Board of Directors	from 24 June 2010 to 27 June 2019

The amount of compensation paid to the members of the Board of Directors in 2019 and 2018 amounted to RUB 372 184 thousand and RUB 453 365 thousand, respectively.

25. MANAGEMENT BOARD

As at 31 December 2019, the Management Board consisted of the following members:

Name	Position	Period
Alexey Valeryevich Kornya	President, Chairman of the Management Board	from 13 March 2018
Inessa Vasilyevna Galaktionova	Member of the Management Board, First Vice President for Telecommunications	from 01 August 2019
Aleksandr Evgenyevich Gorbunov	Member of the Management Board, Vice President for Strategy and Development	from 01 August 2019
Ruslan Sultanovich Ibragimov	Member of the Management Board, Vice President for Government Relations and PR	from 01 August 2019
Andrey Mikhaylovich Kamenskiy	Member of the Management Board, Vice-President, Finance, Investment and Mergers and Acquisitions	from 01 August 2019
Igor Nikolaevich Mishin	Member of the Management Board, Vice President for MTS Media	from 24 March 2019
Vyacheslav Konstantinovich Nikolayev	Member of the Management Board, First Vice President for Customer Experience and Marketing	from 01 August 2019
Ilya Valentinovich Filatov	Member of the Management Board, Vice President for Financial services	from 01 August 2019
Dmitry Alexandrovich Khomchenko	Member of the Management Board, Vice President for Information Technology	from 01 August 2019
Valery Viktorovich Shorzhin	Member of the Management Board, Vice President for Digital Business Solutions	from 02 October 2018
Tatyana Sergeevna Chernysheva	Member of the Management Board, Vice President for Human Resources	from 27 November 2019
Mariya Nikolayevna Golyandrina	Member of the Management Board, Vice President for Human Resources	from 10 January 2018 to 27 November 2019
Kirill Aleksandrovich Dmitriev	Member of the Management Board, Vice President for Digital Solutions for home	from 05 March 2014 to 31 July 2019
Igor Alfridovich Egorov	Member of the Management Board, Director of Moscow Region	from 17 May 2016 to 31 July 2019
Andrei Gennadievich Smelkov	Member of the Management Board, Vice-President, Director of MTS Foreign Companies Business Unit	from 01 October 2016 to 30 April 2019
Andrei Eduardovich Ushatskiy	Member of the Management Board, Vice President, Information Technology	From 01 March 2013 to 31 July 2019

The amount of compensation paid to the members of the Management Board in 2019 and 2018 amounted to RUB 736 601 thousand and RUB 582 504 thousand, respectively.

26. DISTRIBUTION OF RETAINED EARNINGS

The annual meetings of shareholders which took place on 27 June 2019, 30 September 2019 and 30 December 2019 voted to distribute part of the profit retained by the Company in 2018, first half of 2019 and 9 months of 2019 to pay dividends to shareholders in the amount of RUB 39 927 311 thousand, RUB 17 345 799 thousand и RUB 26 478 322 thousand, respectively.

The annual meetings of shareholders which took place on 28 June 2018 and 28 September 2018 voted to distribute part of the profit retained by the Company in 2017 and first half of 2018 to pay dividends to shareholders in the amount of RUB 46 762 117 thousand and RUB 5 195 791 thousand, respectively.

27. REORGANIZATION OF THE COMPANY

27.1. Reorganization of the Company in 2019

In 2019, there were no reorganization through the merger in MTS PJSC.

27.2. Reorganization of the Company in 2018

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

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

The financial result from the reorganization of MTS PJSC through the merger of BCC, not included in the net profit of the period, represented the effect of RUB 103 463 thousand (income) and included the amount of net assets of the merged company at the date of the merger of RUB 354 494 thousand, the amount of disposed investments of the Company in the merged company at the date of the merger of RUB 240 537 thousand. The effect of the merger was recognized in the Change of equity due to reorganization line item in the statement of changes in equity.

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

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

Adjusted amounts	(RUB thousand)
	2018
Revenue	331 242 405
Operating profit	94 180 495
Net profit	9 087 611
Basic/diluted earnings per share, RUB	4.55

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

28. RELATED PARTIES

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

28.1. Related party transactions**Sale of equipment, goods, work and services**

	2019	(RUB thousand) 2018
JSC Russian Telephone Company, a subsidiary	4 464 035	4 621 607
PJSC MGTS, a subsidiary	3 974 473	4 131 507
JSC Sibintertelecom, a subsidiary	3 827 292	3 048 276
MTS-Bank PJSC, a subsidiary	2 167 130	1 994 804
PrJSC VF Ukraine, a former subsidiary	938 047	916 966
CJSC MTS Armenia, a subsidiary	454 061	565 648
Other	1 367 352	1 710 242
Total	17 192 390	16 989 050

Purchase of equipment, goods, work and services

	2019	(RUB thousand) 2018
JSC Russian Telephone Company, a subsidiary	20 807 923	18 505 191
JSC NVision Group, a subsidiary	7 382 512	5 294 452
LLC MTS IT, a subsidiary	5 015 304	4 845 353
PJSC MGTS, a subsidiary	3 445 772	4 667 103
LLC Stream, a subsidiary	1 986 553	2 456 325
LLC Jooms Projects, a subsidiary	1 915 607	899 665
PrJSC VF Ukraine, a former subsidiary	942 002	877 558
CJSC MTS Armenia, a subsidiary	872 064	1 050 698
JSC Sibintertelecom, a subsidiary	603 202	496 723
LLC MTS Energo, a subsidiary	584 753	72 278
JSC Metro-Telecom, a subsidiary	256 195	291 983
PJSC Navigation Information Systems, a subsidiary	209 529	184 110
JSC Sitronics Telecom Solutions, a subsidiary	-	1 110 604
Other	2 296 870	666 160
Total	46 318 286	41 418 203

Interest income on loans receivable

	2019	(RUB thousand) 2018
Dega Retail Holding Ltd, a subsidiary	1 207 821	809 016
JSC Russian Telephone Company, a subsidiary	350 272	817 871
LLC MTS IT, a subsidiary	132 583	675 374
Other	410 049	162 049
Total	2 100 725	2 464 310

Interest expense on borrowings

	2019	(RUB thousand) 2018
MTS International Funding Ltd, a subsidiary	5 806 542	5 621 345
PJSC MGTS, a subsidiary	1 887 520	1 945 175
Mobile TeleSystems B.V., a subsidiary	285 266	536 000
JSC MGTS-Nedvizhimost, a subsidiary	153 817	409 238
LLC Telecom Projects, a subsidiary	625 228	394 950
JSC Sibintertelecom, a subsidiary	530 080	310 582
LLC BASTION, a subsidiary	138 379	219 626
LLC Stream, a subsidiary	155 526	211 177
LLC Stream Digital, a subsidiary	215 164	166 104
Baggio Holding B.V., a subsidiary	115 719	106 060
Other	170 261	181 886
Total	10 083 502	10 102 143

28.2. Amounts of outstanding balances with related parties**Loans payable, including interest payable**

	31 December			(RUB thousand) Period of settlement for 2019 operations
	2019	2018	2017	
	MTS International Funding Ltd, a subsidiary	77 615 507	87 100 152	
PJSC MGTS, a subsidiary	21 237 283	27 760 444	26 715 891	2020-2022
JSC Sibintertelecom, a subsidiary	10 345 798	5 109 968	4 870 436	2021
LLC Telecom Projects, a subsidiary	10 218 962	4 524 473	10 548 225	2020-2021
Mobile TeleSystems B.V., a subsidiary	8 077 303	14 632 127	155 420	2020
LLC Stream Digital, a subsidiary	4 963 422	2 208 858	7 643 599	2021-2022
Vostok Mobile B.V., a subsidiary	2 476 656	-	-	2021
CJSC MTS Armenia, a subsidiary	2 210 033	-	2 018 516	2021
LLC Stream, a subsidiary	2 139 755	2 739 229	2 498 052	2022
LLC STV, a subsidiary	1 207 977	-	866 732	2020
LLC TSTV, a subsidiary	712 840	-	-	2022
JSC NVision Group, a subsidiary	694 646	-	-	2021
JSC MGTS-Nedvizhimost, a subsidiary	490 074	3 036 257	8 472 678	2020
Baggio Holding B.V., a subsidiary	330 593	4 057 874	86 814	2021
LLC MTS IT, a subsidiary	-	1 550 849	191 420	-
LLC BASTION, a subsidiary	-	436 626	-	-
PRELUDIUM B.V., a subsidiary	-	167 269	1 123 923	-
Dega Retail Holding Ltd, a subsidiary	-	-	996 483	-
Other	949 701	668 215	70 121	2020-2021
Total	143 670 550	153 992 341	138 475 711	

Loans receivable and other investments, including interest receivable

	31 December			(RUB thousand) Period of settlement for 2019 operations
	2019	2018	2017	
	Dega Retail Holding Ltd, a subsidiary	11 752 128	10 061 692	
JSC Russian Telephone Company, a subsidiary	7 067 530	6 363 258	2 885 941	2021
LLC MTS-Capital, a subsidiary	9 362 602	-	-	2024
LLC Oblachnyi Retail Plus, a subsidiary	1 973 197	1 858 597	-	2020
LLC BASTION, a subsidiary	1 664 427	-	90 943	2021-2022
PJSC Navigation Information Systems, a subsidiary	1 374 003	1 281 682	112 682	2020-2021
LLC MTS IT, a subsidiary	1 098 425	2 296 154	-	2021
JSC NVision Group, a subsidiary	333 308	413 688	1 192 688	2021
JSC Sitronics, a subsidiary	309 439	283 076	-	2021
LLC MTS Energo, a subsidiary	283 586	10 006	-	2021
JSC Sitronics Telecom Solutions, a subsidiary	232 000	137 000	3 302 679	2020
LLC Avantage, a subsidiary	189 862	472 426	-	2021
LLC STV, a subsidiary	-	827 571	-	-
CJSC Korner-AM, a subsidiary	-	570 565	473 073	-
Other	866 547	614 391	479 176	2020-2022
Total	36 507 054	25 190 106	20 530 647	

Accounts receivable

		(RUB thousand)		
		31 December		
	Type of transaction	2019	2018	2017
Dega Retail Holding Ltd, a subsidiary	Settlements on financial investment	5 282 844	-	-
PJSC MGTS, a subsidiary	Sale of goods, works, services	3 181 460	1 645 581	1 312 490
LLC Yahont, under common control	Sale of goods, works, services	997 866	-	-
ES MTS-Turkmenistan, a subsidiary	Dividends receivable	878 577	1 064 276	1 012 000
JSC Russian Telephone Company, a subsidiary	Sale of goods, works, services	774 475	632 580	781 000
JSC Sibintertelecom, a subsidiary	Sale of goods, works, services	709 393	557 343	560 882
MTS-Bank PJSC, a subsidiary	Sale of goods, works, services	446 541	391 386	-
JSC NVision Group, a subsidiary	Sale of goods, works, services	416 850	768 533	857 960
MTS Belarus, an associate	Sale of goods, works, services	366 918	-	-
MTS Belarus, an associate	Discounts provided on roaming services	181 364	4 015 000	4 734 000
MTS Belarus, an associate	Settlement on due dividends	126 521	-	-
CJSC MTS Armenia, a subsidiary	Sale of goods, works, services	123 783	257 113	136 658
PrJSC VF Ukraine, a former subsidiary	Sale of goods, works, services	-	45 709	336 914
JSC Sitronics Telecom Solutions, a subsidiary	Sale of goods, works, services	1 049	1 495	183 573
PrJSC VF Ukraine, a former subsidiary	Dividends receivable	-	5 759 268	4 708 000
Other	Sale of goods, works, services	1 640 486	566 414	587 000
Other	Other services	2 306	53 160	203 343
Total		15 130 433	15 757 858	15 413 820

As at 31 December 2019, 2018 and 2017, the allowance for doubtful accounts from related parties and allowance for impairment of loans receivable from related parties (including interest receivable) comprised the following:

		(RUB thousand)		
		31 December		
		2019	2018	2017
PrJSC VF Ukraine, a former subsidiary		-	5 759 268	4 708 267
LLC Oblachnyi Retail Plus, a subsidiary		1 973 197	1 859 000	-
PJSC Navigation Information Systems, a subsidiary		1 296 000	1 281 682	110 000
ES MTS-Turkmenistan, a subsidiary		878 577	1 064 276	1 011 744
JSC NVision Group, a subsidiary		333 308	413 688	1 192 687
JSC Metro-Telecom, a subsidiary		237 986	247 986	257 986
JSC Sitronics Telecom Solutions, a subsidiary		232 000	137 000	3 302 679
JSC Russian Telephone Company, a subsidiary		-	-	-
Other		607 237	806 957	747 177
Total		5 558 305	11 569 857	11 330 540

Accounts payable

		(RUB thousand)		
		31 December		
Type of transaction		2019	2018	2017
Sistema, parent company	Dividends payable	15 221 205	-	-
Sistema Telecom Activy, under common control	Dividends payable	10 659 838	-	-
JSC Russian Telephone Company, a subsidiary	Purchase of goods, works, services	8 258 707	3 409 493	4 451 685
LLC BASTION, a subsidiary	Dividends payable	1 507 778	-	-
LLC Stream Digital, a subsidiary	Dividends payable	1 322 503	-	-
LLC MTS IT, a subsidiary	Purchase of goods, works, services	1 204 458	671 672	-
JSC NVision Group, a subsidiary	Purchase of goods, works, services	849 876	550 915	540 228
Sistema Finance S.A., under common control	Dividends payable	545 887	-	-
PJSC MGTS, a subsidiary	Purchase of goods, works, services	346 424	147 157	497 464
LLC Yahont, under common control	Purchase of goods, works, services	314 987	-	-
MTS Belarus, an associate	Discounts provided on roaming services	161 543	675 000	718 000
PrJSC VF Ukraine, a former subsidiary	Purchase of goods, works, services	-	56 153	1 021 156
PJSC MGTS, a subsidiary	Dividends payable	87 858	-	-
JSC Sibintertelecom, a subsidiary	Discounts provided on roaming services	-	5 677 412	5 926 729
JSC Sitronics Telecom Solutions, a subsidiary	Purchase of goods, works, services	-	138 903	579 790
Other	Purchase of goods, works, services	1 841 310	709 000	615 668
Other	Other services	121 442	95 941	13 817
Total		42 443 816	12 131 646	14 364 537

Cash and cash equivalents

The Company has several bank accounts in MTS-Bank PJSC, a subsidiary of MTS PJSC. As at 31 December 2019 and 2018, the amount of cash placed in MTS-Bank PJSC as part of the line Cash and cash equivalents is RUB 1 955 087 thousand and RUB 13 558 000 thousand, respectively.

28.3. Cash flows with related parties

	2019	(RUB thousand) 2018
Cash flows from operating activities		
Proceeds from customers	8 655 236	9 162 874
Other cash inflows	670 677	714 918
Payments for acquired goods, services, raw materials and other current assets	(17 231 379)	(16 387 161)
Interest paid	(8 844 620)	(12 585 642)
Other payments	(179)	-
Net cash outflow from operating activities	(16 750 265)	(19 095 011)
Cash flows from investing activities		
Dividends received	50 052 549	26 235 000
Proceeds from repayment of loans given to other entities	22 966 199	6 935 000
Proceeds from sales of securities and other financial instruments	26 732 149	-
Interest received	1 616 207	2 758 695
Purchase of financial investments in share capital of subsidiaries and associates and other financial investments	(37 138 269)	(53 609 000)
Purchase of property, plant and equipment (including investment property) and intangible assets	(15 282 807)	(18 141 354)
Cost to obtain contracts	(6 075 776)	(9 518 000)
Loans given to other entities	(28 337 288)	(9 704 000)
Net cash inflow/(outflow) from investing activities	14 532 964	(55 043 659)
Cash flows from financing activities		
Proceeds from sales of property, plant and equipment and other non-current assets	62 809	6 126
Proceeds from borrowings provided by other entities	65 810 481	74 696 540
Repayment of borrowings (excluding interest)	(56 900 796)	(71 509 807)
Dividends paid (including withholding income tax)	(17 008 290)	(14 667 878)
Lease obligation principal paid	(1 528 849)	(1 305 125)
Cash flow on guarantee agreement related to foreign currency hedge	-	(873 000)
Net cash outflow from financing activities	(9 564 645)	(13 653 144)

28.4. Right-of-use assets and lease obligations

Rights-of-use assets and lease obligations – The following table represents carrying value of right-of-use assets leased from related parties as of 31 December 2019 and 2018:

	(RUB thousand)	
	31 December	
	2019	2018
Carrying value of right-of-use assets:		
PJSC MGTS, a subsidiary	12 544 416	14 073 000
JSC MGTS-Nedvizhimost, a subsidiary	316 333	431 000
JSC Business Nedvizhimost, under common control	267 827	135 752
Other related parties	817 691	373 248
Total carrying value of right-of-use assets	13 946 267	15 013 000

The following table presents summary of lease obligations which arose from lease arrangements with related parties as of 31 December 2019 and 2018:

	(RUB thousand)	
	31 December	
	2019	2018
Lease obligations:		
PJSC MGTS, a subsidiary	13 623 077	15 452 000
JSC MGTS-Nedvizhimost, a subsidiary	329 853	550 000
JSC Business Nedvizhimost, under common control	285 121	151 923
Other related parties	897 749	570 077
Total lease obligations	15 135 800	16 724 000

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

	(RUB thousand)	
	2019	2018
Interest expense accrued on lease obligations	1 420 976	1 546 604
Depreciation of the rights-of-use assets	1 688 952	1 737 547
Total amounts recognized in the statement of financial results	3 109 928	3 284 151

28.5. Joint operations

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

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

Assets and liabilities recognized in the balance sheet

	(RUB thousand)		
	31 December		
	2019	2018	2017
Property, plant and equipment (net book value)	4 385 064	2 027 880	1 907 244
Amounts due from / (to) customers under joint venture agreement	2 018 834	1 181 259	(600 561)

Result from operations recognized in the statement of financial results

	(RUB thousand)	
	2019	2018
Depreciation	(899 572)	(526 037)
Compensated expenses	1 126 446	508 091
Property operating costs	(627 563)	(334)

28.6. Acquisitions of businesses under common control

Acquisition of MTS-Bank – In 2018 and 2019 MTS PJSC, through its subsidiary Mobile TeleSystems B.V., acquired ownership share in the MTS-Bank PJSC from Sistema PJSFC and Sistema Telecom Activy LLC (Note 6).

Acquisition of Dekart – In October 2018, the Company acquired Dekart property complex from Sistema PJSFC for a total consideration of RUB 4 440 856 thousand. The property complex comprises office facilities leased by the Company, subsidiaries of Sistema PJSFC and other counterparties, parking premises and engineering networks and operates under management agreement with Business-Nedvizhimost, a subsidiary of Sistema PJSFC. The acquisition was accounted for as a transaction under common control directly in equity.

Acquisition of Serebryaniy Bor – In December 2018, the Company acquired Serebryaniy Bor property complex from Sistema PJSFC for a total consideration of RUB 1 711 171 thousand. The property complex comprises land, nonresidential buildings leased by the Company and other counterparties, and engineering networks. The acquisition was accounted for as a transaction under common control directly in equity.

29. GUARANTEES ISSUED

Guarantees issued by the Company as at 31 December 2019 were as follows:

Debtor's name	Creditor's name	Date of issue	Date of expiry	Contractual currency	Contractual amount (in contractual currency)	Contractual amount (RUB thousand)
MTS International Funding Ltd	Bondholders	22 June 2010	22 June 2020	US Dollar	751 617	46 529 388
MTS International Funding Ltd	Bondholders	30 May 2013	30 May 2023	US Dollar	502 153	31 086 119
Dega Retail Holding Ltd	Deutsche Bank Aktiengesellschaft LLC Samsung Electronics Rus Company	25 June 2011	30 June 2021	US Dollar	125 000	7 738 213
JSC Russian Telephone Company	KB Platina	20 October 2016	Perpetual	RUB	7 000 000	7 000 000
JSC Russian Telephone Company	MICROSOFT IRELAND OPERATIONS LIMITED	31 December 2019	30 June 2020	RUB	30 000	30 000
JSC NVision Group	MICROSOFT IRELAND OPERATIONS LIMITED	1 February 2017	31 January 2020	US Dollar	10 000	619 057
JSC NVision Group	MICROSOFT IRELAND OPERATIONS LIMITED	25 December 2017	31 January 2020	US Dollar	8 500	526 198
JSC NVision Group	MICROSOFT IRELAND OPERATIONS LIMITED	27 December 2018	31 January 2020	US Dollar	7 200	445 721
JSC NVision Group»	Hitachi Data Systems Gmbh (HDS)	28 December 2018	31 December 2020	US Dollar	3 000	185 717
JSC NVision Group	LLC Dell	16 April 2019	15 March 2022	US Dollar	1 000	61 906
JSC NVision Group	EMC Computer Systems	16 April 2019	24 February 2021	US Dollar	1 000	61 906
JSC NVision Group	JSC Shneider Electric	22 August 2019	15 March 2022	RUB	8 293	8 293
JSC NVision Group	LLC Bredberi Lab	13 December 2019	30 November 2020	RUB	85 575	85 575
MTS-Bank PJSC	KB Platina Nokia Siemens Networks Oy/ Nokia Siemens Networks	31 December 2019	9 January 2020	RUB	45 000	45 000
ES MTS-Turkmenistan	GmbH&Co.KG	22 December 2012	Perpetual	US Dollar	1 010	62 553
Total					8 579 348	94 485 646

30. CONTINGENT LIABILITIES

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

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

The Management believes that as at 31 December 2019 the Company complies with all above-mentioned conditions.

Capital commitments – As of December 31, 2019, the Company had executed purchase agreements of approximately RUB 26 738 426 thousand to acquire property, plant and equipment, intangible assets and costs related thereto.

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

In 2017, Federal Antimonopoly Service of the RF (FAS Russia) issued a warning to MTS PJSC and some other federal operators on termination of actions containing signs of violation of the antimonopoly laws in respect of establishing unreasonable differences in ratification of communication services for subscribers in home region and outside. Following non-compliance with the warning, FAS Russia has opened antimonopoly proceeding against MTS PJSC. FAS Russia has also opened antimonopoly proceeding against MTS PJSC for establishing high prices for communication services in national roaming. In 2018, MTS PJSC changed the principles and terms of ratification when travelling about the country. FAS Russia held MTS PJSC administratively liable and imposed administrative fines on MTS PJSC in amount of RUB 1000 thousand in respect of each proceeding.

In August 2018, FAS Russia has charged MTS PJSC and other federal operators with violation of antimonopoly laws in respect to establishing distinguished terms and conditions for SMS pricing for the entities with state-owned equity interest as compared to the terms and conditions for the other entities and establishing unreasonably high SMS prices. 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.

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 Company expects the increase in related capital expenditures, which cannot be measured reliably.

Investigations into former operations in Uzbekistan – In March 2019, the Company 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 Company consented to the entry of an administrative cease-and-desist order (the “Order”) by the SEC.

The United States District Court for the Southern District of New York approved a deferred prosecution agreement (“DPA”) entered by the Group and a plea agreement entered into a subsidiary of the Group in Uzbekistan.

Under the agreements with the DOJ and SEC, the Company 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 Company provided a provision of USD 850 million (RUB 55.8 billion as of the date of accrual), which was recognized as a part of discontinued operations in the consolidated statements for the year ended December 31, 2018. In March 2019, the Company 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.

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

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

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

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

	(RUB thousand)		
	31 December		
	2019	2018	2017
Contingent liabilities on other taxes	47 222	354 156	441 000
Contingent income tax liabilities	77 377	917 000	697 000

31. SUBSEQUENT EVENTS

31.1. New Management Board

On 21 November 2019 the new Management Board was elected from 01.01.2020:

Alexey Valeryevich Kornya	President, Chairman of the Management Board
Inessa Vasilyevna Galaktionova	Member of the Management Board, Vice President, Telecommunication business
Aleksandr Evgenyevich Gorbunov	Member of the Management Board, Vice President, Strategy and Development
Ruslan Sultanovich Ibragimov	Member of the Management Board, Vice President, Government relations and PR
Andrey Mikhaylovich Kamenskiy	Member of the Management Board, Vice President, Finance
Igor Nikolaevich Mishin	Member of the Management Board, Vice President, Media
Vyacheslav Konstantinovich Nikolayev	Member of the Management Board, Vice President, Marketing
Ilya Valentinovich Filatov	Member of the Management Board, Vice President, Financial services
Dmitry Alexandrovich Halin	Member of the Management Board, Vice President, Cloud and Digital Solutions
Dmitry Alexandrovich Khomchenko	Member of the Management Board, Vice President, Information Technology
Tatyana Sergeevna Chernysheva	Member of the Management Board, Vice President, Human Resources

31.2. Ruble bonds placement

In February 2020, MTS issued exchange-traded bonds totaling RUB 15 000 000 thousand with a coupon rate of 6.6% and a maturity of seven years.

31.3. Loans from VTB

In February 2020, MTS PJSC concluded an agreement about the raising of a six-year RUB 30 000 000 thousand loan from VTB Bank and in March 2020 another RUB 45 000 000 thousand loan to be used to refinance outstanding debt. The loan is being provided under a RUB 80 000 000 thousand revolving credit line that was opened in May 2018. MTS intends to use the obtained funds for debt optimization and general corporate goals.

31.4. Purchase of stake in Zelenaya Tochka

In February 2020 the Company 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.

31.5. Merger of subsidiaries

At the extraordinary shareholders meeting in March 2020 the decision about merging of the companies JSC Teleservice, LLC Avantage, LLC ProgTeh-UG, JSC Sibintertelecom, JSC RIKT, JSC RIKT, JSC Navigation Information Systems and LLC NVision-Consalting was approved.

31.6. Buyback program

In March 2020, the Board approved a repurchase program of MTS shares of Common Stock (including shares of Common Stock represented by ADSs) in the amount of up to RUB 15 000 000 thousand.

31.7. COVID-19

At the beginning of 2020 the new coronavirus (COVID-19) started to spread very quickly around the world, which led to the World Health Organization (WHO) announcing a pandemic in March 2020. Measures used by many countries to curb the spread of COVID-19 lead to significant operational difficulties for many companies and have a significant impact on global financial markets. Due to the fact that the situation is developing rapidly, COVID-19 can affect the activities of many companies in various sectors of the economy, including disturbances related to operations resulting from the suspension or closure of production, disturbances in the supply chain, quarantine of personnel, and a decrease in demand. The significant impact of COVID-19 on operations is largely dependent on the duration and spread of the effect of viruses on the global and Russian economies.

The Russian original signed by

A.V. Kornya
President of Mobile TeleSystems PJSC

A.V. Dvoretiskikh
Chief Accountant of Mobile TeleSystems PJSC

06 April 2020