SISTEMA PJSFC
AND SUBSIDIARIES

Consolidated Financial Statements for 2018
and Independent Auditor's Report

SISTEMA PJSFC AND SUBSIDIARIES

TABLE OF CONTENTS

SISTEMA PJSFC AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Sistema Public Joint Stock Financial Corporation and its subsidiaries (the "Group") as of 31 December 2018, and the results of its operations, cash flows and changes in equity for 2018, in compliance with International Financial Reporting Standards ("IFRSs").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and assumptions that are reasonable and prudent;
- Stating whether IFRSs have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRSs;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for 2018 were approved by:

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and Investments (CFO)

1 April 2019

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Sistema Public Joint Stock Financial Corporation

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Diversified structure of the Group Sistema is a holding company that owns mainly controlling stakes in its subsidiaries, whose results are included in the consolidated financial statements. The large number of entities of the Group and diversified nature of their operations require the Group's management to design and implement group wide controls, including monitoring and control activities to ensure timely, reliable and complete financial information received from its subsidiaries. Audit procedures regarding the financial information of the subsidiaries included in the consolidated financial statements may be performed by us or by the auditors of those subsidiaries ("components") acting under our supervision. As the group auditor, we are fully responsible for conducting the audit and forming our audit opinion. We focused on this matter, because the diversified structure of the Group has a significant impact on our audit approach, and the nature and extent of our involvement in component auditors' work is significant.	We obtained an understanding of the group-wide controls over the consolidation process and the preparation of the consolidated financial statements, including instructions of the Group's management to its subsidiaries. Our audit approach was developed considering the Group's diversified structure and associated risks of material misstatement of the consolidated financial statements. It included determination of necessary procedures and audit scope in relation to each component's financial information, depending on its significance for the Group and identification of risks of misstatement of their financial information. The nature and extent of our involvement in the component auditors' work was also dependent on our assessment of their professional competence in the context of allocated scope. To obtain reasonable assurance of fair presentation of the components' financial information, we assessed risks and determined audit procedures performed by the component auditors, and evaluated the results of the procedures. This included a critical analysis of the component auditors' documentation, discussion of significant matters with the component auditors, component or Group management and, if applicable, designing and performing additional audit procedures. We also performed procedures with respect to consolidation adjustments to the financial information of the subsidiaries in order to assess their nature, completeness and accuracy.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Significant non-routine transactions In light of its strategy, the Group regularly conducts complex acquisitions and disposals, debt restructurings and other significant non-routine transactions. We focus on these matters because the appropriate accounting treatment of such transactions is often complex and requires exercise of significant judgement. In the current period, this included, for example, an acquisition of a shareholding in JSC "PE "Obolenskoe" ("Obolenskoe") and an anticipated joint venture with "Rostec" State Corporation. See Notes 18 and 6 to the consolidated financial statements.	Our procedures included reviewing legal documents to fully understand the terms and conditions of each transaction and therefore the associated accounting implications and evaluating documentation of management's positions on how IFRSs were applied to the transactions. In relation to the acquisition of the shareholding in Obolenskoe, we analyzed the legal documents and evaluated the appropriateness of the management's conclusion that the Group does not control Obolenskoe as at 31 December 2018 and that this shareholding should be recognized and accounted for as an investment in a joint venture. In relation to the anticipated joint venture with "Rostec" State Corporation, we analyzed available information of the anticipated transaction and evaluated the appropriateness of the classification of the companies that will be transferred to the joint venture as a disposal group held for sale and of the presentation of their financial results in discontinued operations.
Investigation in respect of discontinued operations in Uzbekistan As disclosed in Note 5 to the consolidated financial statements, subsequent to the year-end, MTS PJSC ("MTS"), a subsidiary of the Group, reached a resolution with the U.S. Department of Justice ("DOJ") and a settlement with the U.S. Securities and Exchange Commission ("SEC") relating to previously disclosed investigations concerning the former subsidiary of MTS in Uzbekistan. In connection with the agreements, MTS will pay the aggregate amount of USD 850 million (RUB 59.1 billion at the exchange rate as of 31 December 2018). We focused on this area because assessing the recorded provision and disclosure of contingent liabilities during 2018 required significant judgements and estimates to be made by management and the settlement reached with the authorities has a significant impact on the financial position of the Group.	Our audit procedures included: • review of signed agreements with the authorities obtaining an understanding of the settlement including any post settlement obligations; • reading the minutes of the MTS Board meetings; • inquiry of and discussions with the MTS compliance function and external legal counsel about the facts and circumstances related to the settlement; and • evaluating the classification and measurement of the recognized provision as well as the adequacy of disclosures.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Early adoption of IFRS 16, *Leases* As disclosed in Note 40 to the consolidated financial statements, the Group has early adopted IFRS 16, *Leases*, as at 1 January 2018. The Group applied an acceptable transition option provided by the standard and did not restate the comparative periods as a result of its adoption. We consider this to be a key audit matter because the early adoption of the standard required the Group to modify existing business processes, IT systems and control procedures had a material impact on the consolidated financial statements and required management to apply significant judgment, in particular, when determining whether the contract is, or contains, a lease, the lease term and discount rates.	We obtained an understanding of the Group's processes and procedures over the formation of a registry of lease agreements and the identification of key inputs required in the measurement of right-of-use assets and lease liabilities. Our procedures included an analysis as to whether the Group's accounting policy was in line with IFRS 16, as well as verification of its appropriate application by means of a sample-based analysis of the Group's accounting for particular lease contracts. This included an analysis of: • determining whether the contract is, or contains, a lease; • correctness of separation of lease components from non-lease components; • correctness of the identification and classification of lease payments and the assessment of right-of-use assets and lease liabilities; • assessment of the discount rate; • assessment of the lease term; • compliance of methods used in measurement of right-of-use asset and lease liability with the requirements of IFRS 16; and • accuracy of management's calculations. We also reviewed the completeness and assessed the consistency of disclosures in the consolidated financial statements with the requirements of IFRS 16.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Vladimir Kozyrev
Engagement leader

1 April 2019

The Entity: Sistema Public Joint Stock Financial Corporation

Certificate of state registration № 025.866, issued by the Moscow Registration Chamber on 16.07.1993

Primary State Registration Number: 1027700003891

Certificate of registration in the Unified State Register № 77 011222220 of 11.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 46

Address: building 1, 13 Mokhovaya st., Moscow, Russia, 125009

Audit Firm: AO Deloitte & Touche CIS

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

Primary State Registration Number: 1027700425444

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

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

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(In millions of Russian Rubles, except for per share amounts)

	Notes	2018	2017
Continuing operations			
Revenue	9	777,405	693,424
Cost of sales		(366,021)	(330,597)
Selling, general and administrative expenses		(141,605)	(153,162)
Depreciation and amortisation		(130,941)	(95,100)
Impairment of long-lived assets	10	(1,360)	(8,011)
Impairment of financial assets	11	(5,934)	(5,748)
Taxes other than income tax		(6,411)	(5,781)
Share of the profit or loss of associates and joint ventures, net	18	1,715	3,030
Other income		7,540	5,625
Other expenses		(5,786)	(13,394)
Operating income		**128,602**	**90,286**
Finance income		8,421	8,056
Finance costs		(68,024)	(48,852)
Expense under the Settlement Agreement	38	-	(100,000)
Currency exchange loss		(16,771)	(411)
Profit/(loss) before tax		**52,228**	**(50,921)**
Income tax expense	12	(32,809)	(11,199)
Profit/(loss) from continuing operations		**19,419**	**(62,120)**
Discontinued operations			
Loss from discontinued operations	6	(57,723)	(4,408)
Net loss for the year		**(38,304)**	**(66,528)**
(Loss)/profit attributable to:			
Shareholders of Sistema PJSFC		(45,896)	(94,602)
Non-controlling interests		7,592	28,074
		(38,304)	**(66,528)**
Losses per share (basic and diluted), in Russian Rubles:	30		
From continuing operations		(1.84)	(9.72)
From continuing and discontinued operations		(4.84)	(10.01)

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

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and Investments (CFO)

1 April 2019

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In millions of Russian Rubles)

	Notes	2018	2017
Net loss for the year		(38,304)	(66,528)
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Currency translation gain on foreign operations in subsidiaries		17,429	14,443
Currency translation gain/(loss) on foreign operations in associates and joint ventures		324	(499)
Net fair value (loss)/gain on financial instruments		(3,947)	5,307
Items that will not be reclassified subsequently to profit or loss:			
Unrecognised actuarial gain/(loss)		167	(41)
Other comprehensive income, net of tax		13,973	19,210
Total comprehensive loss		**(24,331)**	**(47,318)**
Attributable to:			
Shareholders of Sistema PJSFC		(35,973)	(78,387)
Non-controlling interests		11,642	31,069
		(24,331)	**(47,318)**

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

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and
Investments (CFO)

1 April 2019

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(In millions of Russian Rubles)

	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	14	422,321	411,467
Investment property	15	23,310	24,664
Goodwill	16	59,488	53,832
Other intangible assets	17	112,125	97,915
Right-of-use assets	26	194,247	-
Investments in associates and joint ventures	18	34,507	20,783
Deferred tax assets	12	32,648	35,809
Other financial assets	19	95,557	104,395
Deposits in banks		186	-
Other assets		15,618	18,169
Total non-current assets		**990,007**	**767,034**
Current assets			
Inventories	21	97,131	81,401
Contract assets		7,297	-
Accounts receivable	22	63,517	54,836
Advances paid and prepaid expenses		16,984	15,324
Current income tax assets		4,195	3,274
Other taxes receivable		18,641	17,190
Other financial assets	19	106,329	99,798
Deposits in banks		15,506	28,068
Restricted cash	20	8,614	8,591
Cash and cash equivalents		114,183	59,959
Other assets		3,090	2,174
		455,487	**370,615**
Assets held for sale	6	19,911	-
Total current assets		**475,398**	**370,615**
Total assets		**1,465,405**	**1,137,649**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
(In millions of Russian Rubles)

	Notes	31 December 2018	31 December 2017
Equity and liabilities			
Equity			
Share capital	23	869	869
Treasury shares	23	(4,759)	(5,816)
Additional paid-in capital		73,375	67,856
Accumulated loss		(63,572)	(17,375)
Accumulated other comprehensive income	24	11,204	2,332
Equity attributable to shareholders of Sistema		17,117	47,866
Non-controlling interests		45,911	74,957
Total equity		**63,028**	**122,823**
Non-current liabilities			
Borrowings	25	592,442	381,561
Lease liabilities	26	183,161	12,090
Bank deposits and liabilities	27	3,414	33,419
Deferred tax liabilities	12	40,161	38,160
Provisions	29	4,368	3,399
Liability to Rosimushchestvo		8,097	13,427
Other financial liabilities	28	1,473	6,514
Other liabilities		6,546	7,537
Total non-current liabilities		**839,662**	**496,107**
Current liabilities			
Borrowings	25	105,893	139,403
Lease liabilities	26	24,206	2,765
Liability under the Settlement Agreement	38	-	80,000
Accounts payable		126,917	114,402
Bank deposits and liabilities	27	129,872	83,873
Income tax payable		2,775	1,833
Other taxes payable		20,409	14,378
Dividends payable		4,415	4,578
Provisions	29	73,244	13,038
Liability to Rosimushchestvo		8,113	9,601
Contract liabilities and other liabilities	9	50,141	48,789
Other financial liabilities	28	9,904	6,059
		555,889	**518,719**
Liabilities directly associated with assets classified as held for sale	6	6,826	-
Total current liabilities		**562,715**	**518,719**
Total equity and liabilities		**1,465,405**	**1,137,649**

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

Andrey Dubovskov
President and CEO

Vladimir Travkov
Vice President, Finance and Investments (CFO)

1 April 2019

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings/ (Accumulated loss)	Accumulated other comprehensive (loss)/income: Currency reserve	Accumulated other comprehensive (loss)/income: Other	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2017	**869**	**87,369**	**(6,575)**	**91,290**	**(14,457)**	**705**	**159,201**	**57,770**	**216,971**
(Loss)/profit for the period	-	-	-	(94,603)	-	-	(94,603)	28,075	(66,528)
Other comprehensive (loss)/income, net of tax	-	-	-	-	(1,187)	4,973	3,786	(1,326)	2,460
Total comprehensive (loss)/income	-	-	-	(94,603)	(1,187)	4,973	(90,817)	26,749	(64,068)
Settlements under long-term motivation program of Sistema PJSFC	-	(2,240)	2,240	-	-	-	-	-	-
Accrued compensation cost (Note 13)	-	1,484	-	-	-	-	1,484	-	1,484
Purchases of own shares	-	-	(1,601)	-	-	-	(1,601)	-	(1,601)
Capital transactions of subsidiaries (Note 8)	-	8,674	-	-	-	-	8,674	(11,135)	(2,461)
RCOM agreement (Note 6)	-	(27,431)	-	-	12,298	-	(15,133)	30,632	15,499
Dividends declared by Sistema PJSFC	-	-	-	(14,062)	-	-	(14,062)	-	(14,062)
Sale of own shares	-	-	120	-	-	-	120	-	120
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(29,059)	(29,059)
31 December 2017	**869**	**67,856**	**(5,816)**	**(17,375)**	**(3,346)**	**5,678**	**47,866**	**74,957**	**122,823**

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	(Accumulated loss)/ retained earnings	Accumulated other comprehensive (loss)/income: Currency reserve	Accumulated other comprehensive (loss)/income: Other	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2018	**869**	**67,856**	**(5,816)**	**(17,375)**	**(3,346)**	**5,678**	**47,866**	**74,957**	**122,823**
Effect of new standards (Note 40)	-	-	-	746	-	(1,051)	(305)	1,769	1,464
1 January 2018 (revised)	**869**	**67,856**	**(5,816)**	**(16,629)**	**(3,346)**	**4,627**	**47,561**	**76,726**	**124,287**
(Loss)/profit for the period	-	-	-	(45,896)	-	-	(45,896)	7,592	(38,304)
Other comprehensive income/(loss), net of tax	-	-	-	-	13,570	(3,647)	9,923	4,050	13,973
Total comprehensive (loss)/income	-	-	-	(45,896)	13,570	(3,647)	(35,973)	11,642	(24,331)
Settlements under long-term motivation program of Sistema PJSFC	-	(1,057)	1,057	-	-	-	-	-	-
Settlements under long-term motivation program of subsidiaries	-	1,511	-	-	-	-	1,511	337	1,848
Accrued compensation cost of subsidiaries	-	(815)	-	-	-	-	(815)	-	(815)
Capital transactions of subsidiaries (Note 8)	-	5,880	-	-	-	-	5,880	(13,971)	(8,091)
Dividends declared by Sistema PJSFC (Note 23)	-	-	-	(1,047)	-	-	(1,047)	-	(1,047)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(28,823)	(28,823)
31 December 2018	**869**	**73,375**	**(4,759)**	**(63,572)**	**10,224**	**980**	**17,117**	**45,911**	**63,028**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions of Russian Rubles)

	2018	2017
Cash flows from operating activities		
Net loss for the year	(38,304)	(66,528)
Adjustments for:		
Expense under the Settlement Agreement	-	100,000
Provision related to SEC investigation	55,752	-
Depreciation and amortisation	132,019	96,490
Share of the profit or loss of associates and joint ventures, net	(1,715)	(3,030)
Finance income	(8,421)	(8,069)
Finance costs	68,024	48,983
Income tax expense	32,809	11,443
Currency exchange loss	20,069	398
Gain from discontinued operations	-	(593)
Profit on disposal of property, plant and equipment	(5,173)	(251)
Amortisation of connection fees	(3,904)	(2,876)
Impairment of loans to customers	704	360
Dividends received from associates and joint ventures	3,777	4,218
Non-cash compensation to employees	1,511	1,653
Impairment of long-lived assets	1,360	8,061
Impairment of financial assets	5,935	5,744
Other non-cash items	5,299	8,420
	269,742	204,423
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	(2,995)	(12,432)
Bank deposits and liabilities	14,136	7,938
Restricted cash	(23)	1,507
Financial assets at fair value through profit or loss	2,974	(5,834)
Accounts receivable	(8,174)	(1,795)
Advances paid and prepaid expenses	(1,679)	1,553
Other taxes receivable	(2,386)	(1,840)
Inventories	(27,402)	(12,648)
Accounts payable	9,997	(630)
Subscriber prepayments	3,500	4,025
Other taxes payable	6,288	(1,531)
Advances received and other liabilities	(537)	11,025
Payments in accordance with the Settlement Agreement (Note 38)	(80,000)	(20,000)
Interest paid	(67,421)	(46,261)
Income tax paid	(27,392)	(28,898)
Net cash provided by operating activities	**88,628**	**98,602**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(In millions of Russian Rubles)

	2018	2017
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(93,754)	(78,441)
Payments for a data center by MTS	(7,559)	-
Proceeds from sale of property, plant and equipment	6,533	7,745
Payments to obtain and fulfill contracts	(5,645)	-
Payments for purchases of intangible assets	(30,286)	(26,003)
Payments for businesses, net of cash acquired	(4,324)	(4,132)
Payments for investments in associates and joint ventures	(12,036)	(5,260)
Proceeds from sale of investments in affiliated companies	113	5,181
Payments for financial assets, long-term	(17,316)	(30,100)
Proceeds from sale of financial assets, long-term	10,155	11,081
Payments for financial assets, short-term	(23,514)	(28,139)
Proceeds from sale of financial assets, short-term	43,280	34,594
Interest received	9,356	8,011
Other	(2,938)	(1,739)
Net cash used in investing activities	**(127,935)**	**(107,202)**
Cash flows from financing activities		
Proceeds from borrowings	398,905	215,956
Principal payments on borrowings	(234,937)	(150,357)
Debt issuance costs	(702)	(111)
Principal payments of lease liabilities	(21,044)	-
Acquisition of non-controlling interests in existing subsidiaries	(21,424)	(24,726)
Payments to purchase treasury shares	-	(1,601)
Proceeds from transactions with non-controlling interests	740	13,607
Dividends paid	(29,952)	(38,792)
Proceeds from sale of own shares	-	120
Cash outflow under credit guarantee agreement related to foreign currency hedge	(981)	(1,766)
Net cash provided by financing activities	**90,605**	**12,330**
Effect of foreign currency translation on cash and cash equivalents	3,408	(3,961)
Net increase/(decrease) in cash and cash equivalents	**54,706**	**(231)**
Cash and cash equivalents at the beginning of the year	59,959	60,190
Cash and cash equivalents at the end of discontinued operations	(482)	-
Cash and cash equivalents at the end of the year	**114,183**	**59,959**

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

1. GENERAL

Sistema Public Joint Stock Financial Corporation or Sistema PJSFC (the "Company", together with its subsidiaries, the "Group") invests in, and manages a range of companies which operate in various sectors of economy, including telecommunications, retail, high technology, finance, pulp and paper, utilities, pharmaceuticals, healthcare, agriculture, real estate and tourism. The Company and the majority of its subsidiaries are incorporated in the Russian Federation ("RF"). The Company's registered address is building 1, 13 Mokhovaya street, 125009, Moscow.

The majority shareholder of the Company is Vladimir Evtushenkov. Minority holdings are held by certain top executives and directors of the Company. The shares are listed on the London Stock Exchange in the form of Global Depositary Receipts ("GDRs") and on the Moscow Exchange.

2. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on the assumption that the Group will continue to operate in the foreseeable future. The Group's net loss for the year 2018 was 38,304 million rubles, its short-term liabilities as of 31 December 2018 exceeded current assets by 87,317 million rubles. The Group determines that it generates sufficient operating cash flow and has sufficient cash available to repay the Group's current liabilities, including, if necessary, unused credit facilities of RUB 180,946 million. The cash flow forecast prepared by the management of the Group for a period of at least twelve months after the end of the reporting period demonstrates the Group's ability to pay off current liabilities within the terms set by the contractual obligations.

These consolidated financial statements were approved by the Company's President and CEO and authorised for issue on 1 April 2019.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

This note sets out significant accounting policies that relate to the Group's consolidated financial statements as a whole and describes the critical accounting judgements that management has identified as having a potentially material impact on the Group's consolidated financial statements. When an accounting policy is generally applicable to a specific note to the accounts, the policy is described within that note.

Summary of significant accounting policies

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company and their subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income is attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests. Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of the Group and the majority of its subsidiaries operating in Russia is the Russian Ruble ("RUB"). The presentation currency of the consolidated financial statements of the Group is also the Russian Ruble.

Sources of estimation uncertainty

In the application of the Group's accounting policies management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Lease liabilities. The Group uses management's judgement to estimate:

- Lease term. The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal options. The Group also considers the cases where the Group is reasonably certain of not exercising early termination options. When assessing such options management assesses residual useful life of the asset located on the leased site, investment strategy of the Group and relevant investment decisions and duration of the renewal and early termination options.

- Discount rate. When calculating the present value of the lease payments the Group uses the incremental borrowing rate. Discount rate is determined for each asset based on the incremental borrowing rate at the inception of the contract. As of 1 January 2018 the weighted average borrowing rate applied by the Group to discount its lease liabilities amounted to 9.54%.

Stage of completion of project type contracts. The Group uses management's judgement to estimate stage of completion to recognize revenue under project type contracts. This estimate is based on costs forecasts and calculations and historical experience on similar projects.

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

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

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

Impairment of long-lived assets. IFRS requires management to perform impairment tests annually for indefinite lived assets and, for finite lived assets, if events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment testing requires management to judge whether the carrying value of assets can be supported by the higher of the fair value of the asset or the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires assumptions to be made in respect of highly uncertain matters.

Deferred tax assets. Deferred tax asset is recognized for all temporary deductible differences, provided in case that there is a taxable profit in respect of the temporary deductible differences could be utilized. The valuation of probability is based on management estimation of future taxable profit.

Fair value measurements. Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Where the fair value of assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. Information about assets and liabilities measured at fair value on recurring basis is disclosed in Note 33.

Useful lives of property, plant and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and management views on the trends and pace of development may change over time. The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Provisions and contingencies. The Group is subject to various legal proceedings, disputes, claims and regulatory reviews related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable. See Notes 29 and 39 for further information.

4. SEGMENT INFORMATION

As a diversified holding corporation, the Company invests in a range of businesses, which meet its investment and return criteria. The Company has determined that the chief operating decision maker ("CODM") is its Management Board. Information reported to the Management Board for the purpose of resource allocation and the assessment of segment performance is focused on each individual business. No operating segments have been aggregated in arriving at the reportable segments of the Group. The Group's reportable segments are businesses that offer different products and services and are managed separately.

In connection with the acquisition of 28.63% share in MTS Bank by Mobile TeleSystems ("MTS") in 2018 (Note 8), information reported to the Management Board for the purpose of resource allocation and the assessment of segment performance is prepared together for MTS Bank and MTS. As a result, MTS Bank results are included in the MTS operating segment. Segment data for a prior period presented for comparative purposes was restated to reflect this change.

The Group's reportable segments are Mobile TeleSystems , Detsky mir, RTI and Corporate. MTS is one of the leading telecommunications group in Russia and the CIS, offering mobile and fixed voice, broadband, internet access, pay TV as well as content and entertainment services in Russia, Ukraine and Armenia. Reportable segment MTS also includes results of MTS Bank, which provides banking services rendered to customers across regions of Russia. Detsky Mir is the largest retail chain in the children's goods market in the Russian Federation and Kazakhstan. Activity of Detsky mir is the sale of children's clothing and goods through retail and internet stores. RTI is a Russian industrial holding, which develops and manufactures high-tech products and infrastructure solutions in the fields of radio communication and space technology, threat monitoring and control solutions, microelectronics and system integration. Corporate segment comprises the Company and entities, which hold and manage the Company's interests in its subsidiaries, joint ventures and associates. The Other category includes other operating segments including East-West United Bank (EWUB), Segezha Group, Sitronics, Kronshtadt Group, Binnopharm, Medsi, Agroholding Steppe, Sistema Venture Capital, Intourist, Leader Invest, Bashkirian Power Grid Company ("BPGC") and Business Nedvizhimost, none of which meets the quantitative thresholds for determining reportable segments.

The accounting policies of the operating segments are the same as those described in the significant accounting policies. The Group's CODM evaluates performance of the segments on the basis of operating income and OIBDA. OIBDA is defined as operating income before depreciation and amortisation.

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

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment for 2018 and 2017:

	External revenues		**Inter-segment revenue**		**Segment operating income/(loss)**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
MTS	486,385	456,868	4,576	4,148	112,379	94,046
Detsky mir	110,871	96,985	3	18	11,232	8,024
RTI	22,701	30,704	185	89	921	(5,772)
Corporate	2,351	1,763	845	877	(11,946)	(12,670)
Total reportable segments	622,308	586,320	5,609	5,132	112,586	83,628
Other	155,097	107,104	3,582	1,509	18,611	5,160
	777,405	**693,424**	**9,191**	**6,641**	**131,197**	**88,788**
Inter-segment eliminations					(2,595)	1,498
Operating income					**128,602**	**90,286**
Finance income					8,421	8,056
Finance costs					(68,024)	(48,852)
Expense under the Settlement Agreement					-	(100,000)
Currency exchange loss					(16,771)	(411)
Profit before tax					**52,228**	**(50,921)**

The following is an analysis of the Group's depreciation and amortisation, additions to non-current assets (comprising property, plant and equipment, investment property, other intangible assets and right-of-use assets) and other non-cash items (comprising impairment of certain long-lived assets, current assets and financial assets and gain on acquisition) by reportable segment:

	Additions to non-current assets		**Depreciation and amortisation**		**Other non-cash items**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
MTS	139,913	89,452	104,858	80,466	3,454	7,057
Detsky mir	6,674	2,501	9,100	1,818	220	121
RTI	2,496	3,014	1,739	1,582	1,032	926
Corporate	-	1,538	565	566	914	1,402
Other	13,581	33,647	14,679	10,668	1,674	4,660
	162,664	**130,152**	**130,941**	**95,100**	**7,294**	**14,166**

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

The following is an analysis of the Group's segment assets and liabilities by reportable segment:

	2018	2017
Segment assets		
MTS	931,891	694,302
Detsky mir	86,532	44,415
RTI	65,505	62,721
Corporate	115,494	115,990
Total reportable segments	1,199,422	917,428
Other	341,997	306,021
Total segment assets	1,541,419	1,223,449
Inter-segment eliminations	(76,014)	(85,800)
Consolidated total assets	**1,465,405**	**1,137,649**
Segment liabilities		
MTS	838,525	533,303
Detsky mir	87,929	44,938
RTI	86,409	79,603
Corporate	249,141	226,833
Total reportable segments	1,262,004	884,677
Other	214,711	193,165
Total segment liabilities	1,476,715	1,077,842
Inter-segment eliminations	(74,338)	(63,016)
Consolidated total liabilities	**1,402,377**	**1,014,826**

As of 31 December 2018 and 2017, the amount of investment in MTS Belarus, an associate of MTS, included in its reportable segment assets was RUB 4,051 million and RUB 3,660 million, respectively. Other associates and joint ventures represent separate operating segments and are reported in the Other category.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		**Non-current assets**	
	2018	**2017**	**2018**	**2017**
Russia	690,824	621,226	752,969	547,528
Other	86,581	72,198	63,087	44,456
	777,405	**693,424**	**816,056**	**591,984**

5. INVESTIGATIONS INTO FORMER OPERATIONS IN UZBEKISTAN

In March 2019, MTS reached a resolution with the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") relating to the previously disclosed investigation of the its former subsidiary in Uzbekistan.

MTS consented to the issued administrative cease-and-desist order (the "Order") by the SEC.

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

The United States District Court for the Southern District of New York approved a deferred prosecution agreement ("DPA") entered by MTS and a plea agreement entered into a subsidiary of MTS in Uzbekistan. Under the agreements with the DOJ, MTS agreed to pay a total criminal penalty of USD 850 million (RUR 59.1 billion as of 31 December 2018) to the United States. The Group provided a provision of USD 850 million (RUB 55.8 billion as of the date of accrual), which was recognized as a part of discontinued operations in the consolidated statements of profit or loss for the year ended 31 December 2018.

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

6. DISCONTINUED OPERATIONS

The Group enters into transactions to sell shares of subsidiaries, which result in the Group losing control over its subsidiaries. The results of disposed subsidiaries during the reporting period are included in the consolidated financial statements prior to the date of loss of control over subsidiaries. Information on the sale of shares in subsidiaries and their impact on the Group's results is provided below.

The amounts recognized in loss from discontinued operations are as follows:

	2018	**2017**
Provision related to investigations into former operations in Uzbekistan (Note 5)	(59,050)	-
Microelectronics assets results	1,687	587
Loss on disposal of SSTL	(360)	(428)
SSTL results up to the disposal date	-	(5,587)
Gain on disposal of SG-trading	-	1,146
Loss on disposal of Targin	-	(125)
SG-trading results up to disposal date		(1)
Loss from discontinued operations	**(57,723)**	**(4,408)**

Contribution of microelectronics assets in a joint venture – In December 2018, RTI board of directors approved the contribution of microelectronics assets in a JV with Rostec. The Group concluded that microelectronics assets were available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups and their sale is highly probable as of 31 December 2018. The Group classified microelectronic assets as assets held for sale as at 31 December 2018, and presented their results for 2017 and 2018 as discontinued operations.

RCOM agreement – In November 2015, the Group signed an agreement with Reliance Communications Ltd. (RCOM) regarding the demerger of the telecommunication business of SSTL. On 31 October 2017, the Group completed the demerger. As a result of the transaction, the telecommunication business of SSTL, including licenses and obligations to the Department of Telecommunications of India (the "DoT") for the 800-850 MHz spectrum, was transferred to RCOM. SSTL received a 10% equity stake in RCOM as a result of the additional issue of shares. If the DoT and courts confirm that SSTL spectrum may be used to deploy fourth generation networking without additional charges, SSTL will get the right for additional payment from RCOM. Non-controlling shareholders of SSTL received the right to exchange own SSTL shares to equivalent share of RCOM equity before 20 March 2018. The Group concluded that this puttable instrument should be classified as a financial liability. As a result, the Group derecognized accumulated non-controlling interests of RUB 30.6 billion, recognized a financial liability of RUB 1.1 billion with a corresponding effect on additional paid-in capital in 2017. As a result of the exchange SSTL's equity share in RCOM was reduced to 7.48%. During 2018, the Group sold residual RCOM shares for a total consideration of RUB 3.2 billion.

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

The results of microelectronics and SSTL are reported as discontinued operations in the accompanying consolidated statements of profit or loss for all periods presented. In accordance with IFRS, the consolidated statement of financial position and consolidated statements of cash flows were not retrospectively restated for discontinued operations.

Gain/(losses) of the disposed subsidiaries included in discontinued operations in the consolidated statements of profit or loss for 2018 and 2017 are as follows:

	2018	**2017**		
	Microelectronics assets	**Microelectronics assets**	**SSTL**	**SG-trading**
Revenue	12,242	11,065	3,898	1,754
Expenses	(10,521)	(10,234)	(9,485)	(1,783)
Profit/(loss) before income tax	1,721	831	(5,587)	(29)
Income tax (expense) / benefit	(34)	(244)	-	28
Results for the period / up to disposal date	**1,687**	**587**	**(5,587)**	**(1)**

Cash flows from discontinued operations included in the consolidated statements of cash flows are as follows:

	2018	**2017**		
	Microelectronics assets	**Microelectronics assets**	**SSTL**	**SG-trading**
Net cash received / (used) in operating activities	498	(60)	(3,631)	(124)
Net cash (used)/received in investing activities	(562)	(346)	22	(53)
Net cash used from financial activities	(335)	(541)	-	-
Total net cash used	**(399)**	**(947)**	**(3,609)**	**(177)**

The loss/gain on disposal is as follows:

	2017	
	SSTL	**SG-trading**
Net assets as at disposal date	12,233	(204)
Accumulated other comprehensive income	(16,619)	-
Fair value of consideration received	3,958	1,350
(Loss)/gain from disposal	**(428)**	**1,146**

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

Assets held for sale as of 31 December 2018 consisted of the following:

	31 December 2018
Assets	
CURRENT ASSETS:	
Cash and cash equivalents	482
Restricted cash	2,150
Trade and other accounts receivable	2,628
Other financial assets	4
Contract assets	673
Advances paid and prepaid expenses	798
Inventories	3,881
Other current assets	188
Total current assets	**10,804**
NON-CURRENT ASSETS:	
Property, plant and equipment	7,602
Other intangible assets	1,017
Other assets	301
Deferred tax assets	187
Total non-current assets	**9,107**
Total assets	**19,911**

Liabilities directly associated with assets classified as held for sale as of 31 December 2018 consisted of the following:

	31 December 2018
Liabilities	
CURRENT LIABILITIES	
Trade and other accounts payable	2,181
Contract liabilities and other liabilities	3,022
Income tax payable	13
Other tax payable	296
Borrowings	99
Lease liabilities	248
Other liabilities	328
Total current liabilities	**6,187**
NON-CURRENT LIABILITIES:	
Lease liabilities	295
Borrowings	12
Deferred tax liabilities	221
Other liabilities	111
Total non-current liabilities	**639**
Total liabilities	**6,826**

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

7. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method, with assets and liabilities of acquired entities being measured at their fair values as of the date of acquisition. Goodwill is determined as the excess of the consideration transferred plus the fair value of any non-controlling interests in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The excess of the fair values of the identifiable net assets acquired over the cost of the business combination plus the fair value of any non-controlling interests in the acquiree at the acquisition date is credited to income ("negative goodwill").

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the acquisition occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which could be up to one year from the acquisition date, the Group retrospectively adjusts the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

Business combinations in 2018

The information on business combinations which took place in 2018 is summarized below:

Acquiree	**Principal activity**	**Date of acquisition**	**Interest acquired**	**Acquiring segment**	**Purchase price**
Kulturnaya Sluzhba LLC (KS)	Sale of tickets for cultural and entertainment events	January	78%	MTS	321
MDTZK LLC	Sale of tickets for cultural and entertainment events	February	100%	MTS	3,190
Progressivniye Technologii CJSC (ProgTech)	Fixed-line services	August	99%	MTS	395
IT-Grad 1 Cloud LLC	Cloud services providers	December	100%	MTS	2,422
Agriculture businesses	Agriculture	November	96-100%	Agroholding Steppe	1,725
Voloma-Invest LLC	Lumbering	June	100%	Segezha	963
Total					**9,016**

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

The following table summarizes the amounts of the assets acquired and liabilities assumed relating to such acquisitions at the acquisition date:

	KS	**MDTZK**	**Prog-Tech**	**IT-Grad**	**Agriculture businesses**	**Voloma-Invest**
Total consideration satisfied by:						
Cash	267	3,190	392	1,515	350	649
Equity instruments of ordinary shares of subsidiary	-	-	-	-	1,375	-
Contingent consideration arrangement	54	-	3	907	-	-
	321	**3,190**	**395**	**2,422**	**1,725**	**649**
Fair value of previously held interest in the acquiree	**-**	**-**	**-**	**-**	**-**	**314**
Fair value of businesess less NCI	**321**	**3,190**	**395**	**2,422**	**1,725**	**963**
Recognised amounts of identifiable assets acquired and liabilities assumed:						
Other intangible assets	166	1,506	123	643	103	539
Other non-current assets	43	145	172	32	1,724	643
Other current assets	156	744	43	57	555	238
Current liabilities	(383)	(868)	(80)	(59)	(1,031)	(92)
Non-current liabilities	(140)	(370)	(76)	(128)	(238)	(501)
Net assets	**(158)**	**1,157**	**182**	**545**	**1,113**	**827**
Non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(170)**
Goodwill	**479**	**2,033**	**213**	**1,877**	**612**	**306**
Fair value of businesess less NCI	**321**	**3,190**	**395**	**2,422**	**1,725**	**963**

The excess of the consideration paid over the value of net assets was allocated to goodwill mainly arising from the following:

MDTZK LLC	The acquisition of one of the leading players in the Russian event ticketing industry and expected synergies
Kulturnaya Sluzhba LLC	The acquisition of one of the leading players in the Russian event ticketing industry and expected synergies
ProgTech	Expected synergies
Agriculture businesses	Assembled workforce and expected synergies
IT-Grad 1 Cloud LLC	Expected synergies and market position obtained

The initial accounting for the acquisition of agriculture businesses, IT-Grad 1 Cloud LLC and Voloma-Invest LLC have only been provisionally determined at the end of the reporting period. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the management's best estimate of the likely fair values.

Business combinations in 2017

In 2017 MTS, Agroholding "Steppe" and Medsi acquired several companies related to their operating segments for RUB 1,195 million, RUB 3,171 million and RUB 661 million respectively.

The following table summarizes the amounts of the assets acquired and liabilities assumed relating to such acquisitions at the acquisition date:

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

	MTS	Agroholding «Steppe»	Medsi
Cash consideration	1,195	3,171	661
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	-	2,443	193
Other non-current assets	594	1,159	20
Current assets	461	913	59
Deffered tax liabilities	-	(203)	-
Loans and borrowings	-	(1,362)	(169)
Other non-current liabilities	(516)	-	-
Current liabilities	(138)	(251)	(152)
Non-controling interest	-	-	46
Goodwill	**794**	**472**	**664**

The excess of the consideration over the value of net assets of MTS acquired in the amount of RUB 794 million was allocated to goodwill. Goodwill is mainly attributable to the expected synergies and to the company employees.

The excess of the consideration paid over the value of net assets of agriculture businesses was allocated to goodwill mainly arising from expected synergies on economies of scale related to operating and capital expenditures.

The excess of the consideration paid over the value of net assets of Medsi was allocated to goodwill mainly arising from assembled workforce, expertise of effective management of medical clinics and established business process.

Pro forma results of operations

Pro forma financial information for 2018 and 2017 which gives effect to the acquisitions as if they had occurred as of 1 January 2018 is not presented because the effects of these business combinations, individually and in aggregate, were not material to the Group's consolidated results of operations.

Loss and revenue for 2018 attributable to financial results of business acquired in 2018 is not material.

The following table summarises the details of purchase of subsidiaries, net of cash acquired, reported in the statements of cash flows:

	2018	2017
Cash consideration	7,327	5,027
Payables at the end of the year	(1,302)	(270)
Cash acquired	(737)	(450)
Contingent liability	(964)	(175)
Acquisition of subsidiaries, net of cash acquired	**4,324**	**4,132**

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

8. CAPITAL TRANSACTIONS OF SUBSIDIARIES

The Group enters into transactions to acquire or dispose ownership interests in its existing subsidiaries that do not result in the Group losing control over the subsidiaries. Also, the entities of the Group enter into transactions with each other to transfer ownership interests in subsidiaries within the Group. Such transactions are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests ("NCI") are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity in additional paid-in capital ("APIC") and attributed to shareholders of the Company.

Transactions in 2018

The information on capital transactions of subsidiaries which took place in 2018 and their impacts on the Group's equity is summarised below:

	Increase of additional paid-in capital	**Decrease of non-controlling interests**
MTS shares tender offer	971	(11,284)
Changes in share capital of subsidiaries	1,390	(32)
Intragroup transfer of MTS Bank	1,552	(1,552)
Other	1,967	(1,103)
Total impact	**5,880**	**(13,971)**

MTS shares tender offer – Under the MTS tender offer to repurchase its ordinary shares (including shares represented by American depository shares), MTS purchased a total of 82,669,046 shares at a price per share from RUB 191 to RUB 338, for a total cost of RUB 22.6 billion, including 45,269,718 shares from Sistema Finance S.A., a subsidiary of the Group, for an aggregate purchase price of RUB 12.3 billion.

Changes in share capital of subsidiaries:

- In December 2018, the Group purchased 25% from a minority shareholder of PJSC "VAO "Intourist" for a cash consideration of RUB 0.5 billion. Following the acquisition, the Group's ownership interest in "VAO "Intourist" is 91.24%.
- In November 2018, Agroholding Steppe acquired several companies in exchange for an additional issue of its own shares. The fair value of the consideration is for RUB 1.9 billion. As a result of the transaction, the Group's ownership in Steppe decreased to 84.63% (Note 7).
- In July 2018, the Company acquired 19% of EWUB from MTS Bank for a cash consideration of RUB 1.2 billion. As a result of the transaction, Sistema's effective ownership in EWUB increased to 100%.

Intragroup transfer of MTS Bank – In July 2018, the Company sold 28.63% of MTS Bank for a cash consideration of RUB 8.3 billion to MTS. As a result of the transaction, the Company's effective ownership in MTS Bank decreased to 72.29%.

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

Transactions in 2017

The information on capital transactions of subsidiaries which took place in 2017 and their impacts on the Group's equity is summarised below:

	Increase/ (decrease) of additional paid-in capital	(Decrease)/ increase of non-controlling interests
Initial public offering of Detsky mir	10,094	(107)
MTS shares tender offer	(1,369)	(10,858)
Intragroup transfer of 47% in EWUB	678	(678)
Other	(729)	508
Total impact	**8,674**	**(11,135)**

Initial public offering of Detsky Mir – In February 2017, Detsky Mir completed an initial public offering on the Moscow Exchange. The offering price was set at RUB 85 per share. The Company sold 151,301,256 shares during the offering retaining a 52.1% ownership interest in Detsky Mir.

MTS shares tender offer – In 2017 under the MTS tender offer to repurchase its ordinary shares (including shares represented by American depository shares), MTS in a series of transactions purchased a total of 42,484,404 shares for a total cost of RUB 12.2 billion from non-controlling shareholders. Simultaneously, MTS purchased 33,223,980 shares from Sistema Finance S.A., a subsidiary of the Group, for an aggregate purchase price of RUB 9.6 billion.

Intragroup transfer of 47% in East-West United Bank – In May 2017, the Company acquired 47% in East-West United Bank from MTS Bank for RUB 2.6 billion and increased its effective interest to 97%.

9. REVENUE

The Group receives its revenue primarily from the sale of goods and rendering services in Russia.

Revenue from contracts with customers specific to the reporting segments of the Group is recognized in the following way.

MTS – Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage of minutes of traffic processed and volume of data transmitted or period of time (monthly subscription fees).

The Group capitalizes costs of obtaining contracts (such as sales commissions) and costs of fulfilling contracts and amortizes over the period expected to benefit from the contract. The Group used the practical expedient allowed by of IFRS 15 whereby such costs may be expensed if the amortization period is one year or less.

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

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

Detsky mir – The Group recognizes revenue when or as a performance obligation is satisfied, i.e. when the goods are sold in retail stores for retail revenues or delivered to customers for online sales (including in-store pick-up).

The Group sells gift cards to its customers in its retail stores. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognizes income from gift cards either when the gift card is redeemed by the customer or when the gift card expires.

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

Detsky mir runs a customer loyalty program "Yo-Yo" which allows customers to earn points for each purchase made in any of the Detsky mir's retail stores. Points earned enable customers to receive a cash discount on future purchases, provided the purchase is made within one year of earning the points. Proceeds from sales to members of the loyalty programs are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. This amount is deferred and recognized as revenue when the points are redeemed. Other administrative costs of the customer loyalty program are recorded in Selling, general and administrative expenses as incurred.

RTI – RTI contracts with customers include project type contracts, serial production contracts and other works and services.

Project type contracts include contracts performed under specifically agreed statement of work with a customer. Revenue under these contracts is regognized over time. Revenue is determined by reference to the stage of completion of works estimated using input method, i.e. based on the proportion of costs incurred for work performed to date relative to the estimated total contract costs. Revenue is recognized cumulatively as at reporting date as total contract revenue multiplied by percentage of completion as at reporting date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Manufactured goods under serial production contracts are mostly recurring and standardized. Such goods may be produced either based on customer orders or for storing in warehouses because in case of a refusal of one customer it may be offered to other interested parties without significant modifications. Revenue under serial production contracts is recognized when a customer obtains the right to control goods and benefit from their usage.

The following is analysis of the Group’s revenue from continuing operations for 2018:

	Reportable segments					
	MTS	**Detsky mir**	**RTI**	**Corporate**	**Other**	**Total**
Type of goods/services						
Mobile and fix line services	393,338	-	-	-	-	393,338
Sale of goods	69,402	110,871	-	-	-	180,273
Works under specification	-	-	15,891	-	4,800	20,691
Production	-	-	5,642	-	84,130	89,772
Financial services	20,851	-	-	-	1,378	22,229
Other services	-	-	-	2,351	47,197	49,548
Other	2,793	-	1,168	-	17,593	21,554
	486,384	**110,871**	**22,701**	**2,351**	**155,098**	**777,405**
Revenue from goods or services transferred to customers						
At a point in time	69,402	110,871	6,730	2,351	139,499	328,853
Over time	416,982	-	15,971	-	15,599	448,552
	486,384	**110,871**	**22,701**	**2,351**	**155,098**	**777,405**

Contract assets and liabilities

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

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

Contract assets represent accrued revenues that have not yet been billed to customers due to certain contractual terms other than the payments terms.

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

Contract assets of MTS represent accrued revenue in a bundled offering which combines the sale of a mobile device and the provision of mobile services for a fixed-period. The mobile device is invoiced at a reduced price leading to the reallocation of a portion of amounts invoiced for mobile communication services to the supply of the mobile phone. The excess of the amount allocated to the mobile phone over the price invoiced is recognized as a contract asset and thus transferred to trade receivables as the service is rendered.

Contract assets also relate to the MTS's rights to consideration for work completed but not yet billed for integration services projects.

Contract assets and liabilities of RTI are recorded under project type contracts. RTI has the right to consideration for the performed services before their completion and acceptance by a client. This right is recognized as a contract asset which increases as a result of increasing percentage of completion. Project type contracts typically provides customer prepayments which are a contract liability for the Group.

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

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

	31 December 2018	1 January 2018
Accounts receivable	30,884	17,572
Contract assets	7,297	5,788
Total assets	**38,181**	**23,360**
Less: current portion	(38,171)	(23,360)
Total non-current assets	**10**	**-**
Contract liabilities	(33,014)	(28,824)
Thereof:		
Mobile telecommunication services	(21,835)	(18,240)
Project type works	(10,859)	(10,363)
Loyalty programmes	(320)	(221)
Total liabilities	**(33,014)**	**(28,824)**
Less: current portion	22,565	17,696
Total non-current liabilities	**(10,449)**	**(11,128)**

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

	Contract assets	Contract liabilities
Balance as of 1 January 2018	**5,788**	**(28,824)**
Revenue recognized that was included in the contract liability balance at the beginning of the period	-	16,273
Increase due to cash received, excluding amount recognized as revenue during the period	1,517	(22,319)
Transfer to assets held for sale/liabilities directly associated with assets classified as held for sale	(674)	2,159
Effect of changes in estimates	666	-
Business combinations	-	(303)
Balance as of 31 December 2018	**7,297**	**(33,014)**

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

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

- For mobile telecommunication services, revenue in amount of RUB 21,277 million will be recognized during 2019. Afterwards revenue will be recognized in the amount of RUB 558 million.
- For project type works, revenue of RUB 10,859 million will be recognized until 2029.
- For loyalty programmes, revenue of RUB 320 million will be recognized until 2029.

Cost to obtain and fulfill a contract

The Group 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 as well as the associated remuneration of the Group's commercial employees for obtaining a contract with a customer. These costs are amortized on a straight-line basis over the average subscriber life.

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

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

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

	31 December 2018	**1 January 2018**
Cost to obtain contracts	6,899	6,952
Cost to fulfil contracts	1,720	966

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

10. IMPAIRMENT OF LONG-LIVED ASSETS

Impairment of long-lived assets includes impairment of property, plant and equipment, goodwill, impairment in "MTS Turkmenistan" in 2017 and other intangible assets.

	2018	**2017**
Impairment of other long-lived assets	836	4,807
Impairment of goodwill	524	-
Impairment in "MTS Turkmenistan"	-	3,204
Total impairment of long-lived assets	**1,360**	**8,011**

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

11. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets for 2018 and 2017 comprise the following:

	2018	2017
Allowance for expected credit losses of accounts receivable	5,734	-
Impairment of other financial assets	200	150
Allowance for doubtful accounts	-	3,724
Impairment of loans carried at amortised cost	-	1,874
Total impairment of financial assets	**5,934**	**5,748**

Provision for financial assets attributable to MTS Bank and East-West United Bank is reported in cost of sales.

12. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the countries where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets are not recognized when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making such determination, the Group considers all available positive and negative evidence, including projected future taxable income, tax planning strategies and recent financial operations.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

The Group's income tax expense for 2018 and 2017 comprise the following:

	2018	2017
Current income tax expense	(28,393)	(28,914)
Deferred income tax (expense)/benefit	(4,416)	17,715
Total income tax expense recognised in the current year relating to continuing operations	**(32,809)**	**(11,199)**

Income tax expense calculated by applying the Russian statutory income tax rate to income from continuing operations before income tax differs from income tax expense recognized in the consolidated statements of profit or loss as a consequence of the following adjustments:

	2018	2017
Profit/(loss) before tax	**52,228**	**(50,921)**
Income tax (expense)/benefit calculated at 20%	(10,445)	10,184
Adjustments due to:		
Earnings distribution from subsidiaries and associates	(3,440)	(3,833)
Increase of unrecognised deferred tax assets	(20,959)	(14,991)
Other non-deductible expenses	(1,266)	(2,704)
Different tax rate of subsidiaries	330	(86)
Non-taxable income	309	335
Other	2,662	(104)
Income tax expense	**(32,809)**	**(11,199)**

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

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statements of financial position:

2018	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Effect of new standards**	**Acquisitions /disposals**	**Closing balance**
Deferred tax (liabilities)/ assets in relation to:						
Accrued expenses and accounts payable	6,144	(1,161)	51	119	425	5,578
Property, plant and equipment	(23,730)	787	142	1,632	395	(20,774)
Intangible assets	(10,577)	1,827	9	-	(302)	(9,043)
Cost capitalization	-	(31)	-	(1,290)	-	(1,321)
Deferred connection fees	562	(340)	15	717	-	954
Inventory obsolescence	964	(49)	-	-	-	915
Allowance for expected credit losses	826	(570)	85	-	-	341
Deferred revenues	122	23	-	-	-	145
Undistributed earnings of subsidiaries and joint ventures and associates	(5,992)	437	(394)	-	-	(5,949)
Right-of-use asset	2,363	1,736	-	(1,400)	-	2,699
Tax losses carried forward	25,404	(8,662)	100	94	(93)	16,843
Debt modification	-	(478)	-	(597)	-	(1,075)
Other	1,563	2,100	(669)	180	-	3,174
Total	**(2,351)**	**(4,381)**	**(661)**	**(545)**	**425**	**(7,513)**

2017	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Recognised in Equity**	**Acquisitions /disposals**	**Closing balance**
Deferred tax (liabilities)/ assets in relation to:						
Accrued expenses and accounts payable	8,103	413	(9)	-	-	8,507
Property, plant and equipment	(24,189)	498	(39)	-	-	(23,730)
Intangible assets	(10,632)	168	17	-	(130)	(10,577)
Deferred connection fees	540	32	(10)	-	-	562
Inventory obsolescence	1,292	(328)	-	-	-	964
Allowance for doubtful accounts and loans receivable	962	(106)	(30)	-	-	826
Deferred revenues	164	(42)	-	-	-	122
Undistributed earnings of subsidiaries and joint ventures and associates	(5,831)	(280)	119	-	-	(5,992)
Tax losses carried forward	13,895	13,908	-	(2,399)	-	25,404
Other	(872)	3,078	(555)	-	(88)	1,563
Total	**(16,568)**	**17,341**	**(507)**	**(2,399)**	**(218)**	**(2,351)**

As of 31 December 2018 and 2017 the Group reported the following deferred income tax assets and liabilities in the consolidated statements of financial position:

	2018	**2017**
Deferred tax assets	32,648	35,809
Deferred tax liabilities	(40,161)	(38,160)
Net deferred tax liabilities	**(7,513)**	**(2,351)**

As of 31 December 2018 and 2017 the tax losses carried forward, for which deferred tax assets were recognized, amounted to RUB 84,215 million and RUB 127,021 million, respectively.

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

Federal law №401-FZ dated 30 November 2016 allowed for the indefinite carry forward of tax losses, whereas this was previously restricted to 10 years. Also the law specified that the tax base for the years 2017-2020 may not be reduced by tax losses carried forward in an amount exceeding 50% of the base. The following table summarizes temporary differences, for which deferred tax assets were not recognized in the consolidated statements of financial position as of 31 December 2018 and 2017:

Jurisdiction	**Carry-forward period**	**2018**	**2017**
India	2019-2027	133,691	113,591
Russia	Unlimited	219,879	187,517
Total		**353,570**	**301,108**

13. EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses consist of salaries, bonuses and social security contributions. Employee benefits expenses included in cost of sales and selling, general and administrative expenses for 2018 and 2017 comprised RUB 134,031 million and RUB 132,419 million, respectively.

Share options granted under the Company's employee share option plan – In 2017 and 2016 the Company's Board of Directors established two-year motivational programs for senior and mid-level management. Participants of the programs, upon fulfilment of certain performance conditions and subject to continuing employment with the Group, are granted ordinary shares in the Company.

As a result, the Group recognized an expense of RUB 0 million and RUB 1,484 million in the consolidated statements of profit or loss for 2018 and 2017, respectively. The fair value of awards granted was measured based on the fair value of the Company's ordinary shares. The awards are equity-settled and are recognized in additional paid-in capital.

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost. Cost includes major expenditures for improvements and replacements, which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance, including preventive maintenance, are charged to the consolidated statement of profit or loss as incurred.

The cost of major overhauls and replacements, which extend useful lives of the assets or increase their revenue generating capacity, are capitalised to the cost of the assets.

Depreciation for property, plant and equipment is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	20-50 years
Leasehold improvements	the term of the lease
Base stations	7 years
Other network equipment	up to 31 years
Power and utilities	up to 35 years
Other	up to 15 years

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Group considers a construction period of more than six months to be substantial. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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

Property, plant and equipment, net of accumulated depreciation, as of 31 December 2018 and 2017 consisted of the following:

	2018	2017
Carrying amount		
Switches, transmission devices, network and base station equipment	230,241	235,503
Buildings and leasehold improvements	82,755	77,360
Power and utilities	28,123	26,269
Land	21,710	19,959
Other	59,492	52,376
Total	**422,321**	**411,467**

	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve-ments	Power and utilities	Land	Other	Total
Cost						
Balance at 1 January 2017	**577,718**	**101,461**	**37,708**	**18,133**	**105,509**	**840,529**
Additions	55,144	6,746	3,560	337	24,954	90,741
Disposals	(42,796)	(3,298)	(131)	(43)	(7,264)	(53,532)
Business combinations	8	291	-	1,532	805	2,636
Reclassified to assets held for sale	(1,408)	-	-	-	(22)	(1,430)
Reclassified to work-in-progress	-	-	-	-	(3,981)	(3,981)
Currency translation adjustment	(4,562)	382	-	-	(97)	(4,277)
Impairment	(764)	-	-	-	-	(764)
Other	334	(69)	(123)	-	(639)	(497)
Balance at 31 December 2017	**583,674**	**105,513**	**41,014**	**19,959**	**119,265**	**869,425**
Additions	51,557	13,573	4,446	358	27,331	97,265
Disposals	(26,444)	(1,294)	(59)	(135)	(3,632)	(31,564)
Business combinations	123	770	-	1,520	245	2,658
Reclassified from investment property	-	1,500	-	-	-	1,500
Reclassified to assets held for sale	(752)	(5,923)	-	-	(7,303)	(13,978)
Currency translation adjustment	12,929	1,638	-	8	2,103	16,678
Reclassified to right-of-use assets	(10,124)	-	-	-	(4,404)	(14,528)
Other	(1,728)	(831)	(124)	-	(404)	(3,087)
Balance at 31 December 2018	**609,235**	**114,946**	**45,277**	**21,710**	**133,201**	**924,369**

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

	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve-ments	Power and utilities	Land	Other	Total
Accumulated depreciation and impairment						
Balance at 1 January 2017	**(334,369)**	**(24,292)**	**(12,502)**	**-**	**(61,236)**	**(432,399)**
Disposals	38,255	692	62	-	6,722	45,731
Reclassified to assets held for sale	940	-	-	-	22	962
Depreciation expense	(53,258)	(4,114)	(2,179)	-	(12,234)	(71,785)
Currency translation adjustment	2,892	(79)	(126)	-	216	2,903
Impairment	(2,175)	(393)	-	-	(295)	(2,863)
Other	(456)	33	-	-	(84)	(507)
Balance at 31 December 2017	**(348,171)**	**(28,153)**	**(14,745)**	**-**	**(66,889)**	**(457,958)**
Disposals	25,554	405	30	-	3,108	29,097
Reclassified to assets held for sale	223	1,696	-	-	4,457	6,376
Depreciation expense	(50,062)	(5,916)	(2,439)	-	(12,408)	(70,825)
Currency translation adjustment	(9,148)	(970)	-	-	(1,587)	(11,705)
Reclassified to right-of-use assets	2,070	-	-	-	-	2,070
(Impairment)/recovery of impairment	-	308	-	-	49	357
Other	540	439	-	-	(439)	540
Balance at 31 December 2018	**(378,994)**	**(32,191)**	**(17,154)**	**-**	**(73,709)**	**(502,048)**

15. INVESTMENT PROPERTY

Investment property primarily includes cottages, office and commercial space and business centres owned by the companies of the Group operating in real estate segment, mainly including Business Nedvizhimost.

Investment property is stated at cost less accumulated depreciation and impairment losses.

Depreciation for investment property is computed under the straight-line method utilising average estimated useful lives of the assets of 25 years. Accumulated depreciation as of 31 December 2018 and 2017 amounted to RUB 4,208 million and RUB 3,461 million respectively.

	2018	2017
Balance at the beginning of the year	**24,664**	**22,647**
Reclassified to property, plant and equipment	(1,500)	-
Additions	4,657	3,203
Disposals	(755)	(757)
Depreciation expense	(747)	(426)
Reclassified to other assets	(3,053)	-
Reclassified from/(to) inventories	44	(3)
Balance at the end of the year	**23,310**	**24,664**

Included in revenue is investment property rental income for 2018 of RUB 2,623 million (2017: RUB 2,396 million). Operating expenses arising from the investment property that generated rental income during 2018 totalled RUB 1,108 million (2017: RUB 436 million).

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

In estimating the fair value of the investment property, the Group classified the properties within Level 3 of the fair value hierarchy. As of 31 December 2018 and 2017, the Group determined the fair values of the investment property at RUB 61,488 million and RUB 62,808 million, respectively.

The fair values as of 31 December 2018 and 2017 were determined either based on discounted cash flows or by reference to market values of similar properties in the relevant region. The main inputs to the fair value measurement are the post-tax discount rate, revenue growth rates, OIBDA margin and adjustments to market values of similar properties. OIBDA determined as operating profit, adjusted on depreciation and amortization.

16. GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

The carrying amounts of goodwill attributable to operating segments are as follows:

	MTS	SSTL	RTI	Steppe	Segezha Group	Other	Total
Balance as of 1 January 2017							
Gross amount of goodwill	47,386	16,578	8,323	5,843	3,454	7,874	89,458
Accumulated impairment loss	(4,982)	(16,578)	(8,219)	-	(241)	(7,214)	(37,234)
	42,404	**-**	**104**	**5,843**	**-**	**660**	**52,224**
Business combinations	794	-	-	472	-	578	1,844
Currency translation adjustment	(198)	-	-	-	-	(38)	(236)
Balance as of 31 December 2017							
Gross amount of goodwill	47,982	-	8,323	6,315	3,454	8,414	74,488
Accumulated impairment loss	(4,982)	-	(8,219)	-	(241)	(7,214)	(20,656)
	43,000	**-**	**104**	**6,315**	**3,213**	**1,200**	**53,832**
Business combinations	4,602	-	-	612	306	-	5,520
Impairment	(524)	-	-	-	-	-	(524)
Currency translation adjustment	748	-	-	-	-	-	748
Disposals	-	-	-	-	-	(88)	(88)
Balance as of 31 December 2018							
Gross amount of goodwill	53,332	-	8,323	6,927	3,760	8,326	80,668
Accumulated impairment loss	(5,506)	-	(8,219)	-	(241)	(7,214)	(21,180)
	47,826	**-**	**104**	**6,927**	**3,519**	**1,112**	**59,488**

The Group performs impairment tests for the goodwill assigned to cash-generating units (CGUs) at least annually and when there are any indications that the carrying amount of the cash-generating unit is impaired. When the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit is impaired.

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

MTS – For the purposes of impairment testing, goodwill attributable to the MTS segment is allocated to cash-generating units for the years ended 31 December as follows:

	2018	2017
Russia convergent	30,658	28,781
Moscow fixed line	1,377	1,164
Ukraine	106	87
Other	6,966	4,249
Unallocated	8,719	8,719
Total	**47,826**	**43,000**

The "Russia convergent" CGU represents mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia, except for "Moscow fixed line", which represents the results of fixed line operations carried out in Moscow by MGTS, a subsidiary of MTS. "Armenia" and "Ukraine" represent operations carried out by subsidiaries of MTS in the respective countries. Goodwill allocated to these CGUs has arisen on acquisitions made by MTS. The Group does not allocate goodwill recognized as a result of its purchases of MTS shares by the Group to CGUs as it is monitored for internal management purposes at the level of the MTS segment as a whole. Unallocated amount of goodwill is tested for impairment with the reference to the market capitalisation of MTS.

The recoverable amounts of the CGUs are determined based on their value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

Future cash flows calculations are based on a five-year operation plan. Estimation of future cash flows requires assumptions to be made in respect of uncertain factors, including management's expectations of OIBDA margins, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks involved.

During 2017 no impairment charges were recorded in respect of the MTS goodwill balances.

During the year ended 31 December 2018 the MTS recognized impairment charges in the amount of RUB 677 million in respect of the goodwill and non-current assets of the CGU "Oblachniy Retail", from which RUB 524 million related to the goodwill.

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

The key assumptions used in the value in use calculations are as follows

Forecasted OIBDA margin and capital expenditure were primarily derived from internal sources, based on past experience and extended to include management expectations.

The table below presents forecasted OIBDA margin and capital expenditure as a percentage of revenue over the following five years utilised for value in use calculation of related CGUs:

	OIBDA margin		Capital expenditure as a percentage of revenue	
CGU	**2018**	**2017**	**2018**	**2017**
Russia convergent	42.4%-42.9%	38.0%-39.1%	19.0%	17.2%
Armenia	45.0%-47.4%	40.2%-41.2%	16.9%	17.8%
Moscow fixed line	56.0%-59.2%	41.0%-48.5%	21.6%	20.6%
Ukraine	50.0%-51.6%	31.4%-40.6%	18.4%	22.7%

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

The terminal growth rate has been determined based on the nominal gross domestic product rates for the country of operation, adjusted for specific characteristics of the CGUs business. The discount rate is the weighted average cost of capital, being equity and debt, according to the industry average finance structure. The cost of equity is calculated based on the risk free rate for long-term bonds issued by the government in the respective market. These rates are adjusted for a risk premium to reflect both the increased risk of investing in equities and the specific risk of the particular CGU. The cost of debt is defined as the rate effective for borrowings drawn by the Group at or near the date of the impairment test.

The table below presents terminal growth rate and pre-tax rates for discounting cash flows in functional currencies utilized for value in use calculation of related CGUs:

	Terminal growth rate		Discount rate	
CGU	**2018**	**2017**	**2018**	**2017**
Russia convergent	1%	1%	16.0%	16.0%
Armenia	nil	nil	15.2%	15.2%
Moscow fixed line	1%	1%	14.5%	14.5%
Ukraine	3%	3%	20.8%	20.8%

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

Agroholding "Steppe" – The recoverable amounts of the CGUs are determined based on their value in use. Cash flow models were prepared in Russian rubles. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flow beyond the 5-year period were extrapolating using growth rates stated below. The growth rate do not exceed the long-term average growth rate for the business sector of the economy in which CGU operates.

The key assumptions used in the value in use calculations are as follows:

Key assumptions used for value-in-use calculations are determined on the basis of market analysis which is performed regularly. The table below presents key assumptions used for value-in-use calculations:

	2018	**2017**
Terminal cash flows growth rate	4%	4%
Discount rate	14%	16-16.25%
Range of average annual market price growth rate	4-5%	4-6%

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

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

17. OTHER INTANGIBLE ASSETS

Other intangible assets are mainly represented by billing and telecommunication software and other software, operating licenses, acquired customer bases of MTS.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses. Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets that are acquired separately.

All finite-life intangible assets are amortised using the straight-line method utilising estimated useful lives of the assets as follows:

Operating licenses	3-20 years
Billing and telecommunication software	1-20 years
Radio frequencies	2-15 years
Customer base	1-8 years
Software and other	1-10 years

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

Trademarks with indefinite contractual life are not amortised, but are reviewed, at least annually, for impairment.

Intangible assets other than goodwill as of 31 December 2018 and 2017 consisted of the following:

	2018	2017
Carrying amounts of:		
Amortised intangible assets:		
Billing and telecommunication software	55,465	54,992
Operating licenses	25,605	19,605
Radio frequencies	2,061	3,090
Acquired customer base	2,300	2,149
Software and other	13,166	11,455
Cost to obtain contracts	6,899	-
	105,496	**91,291**
Unamortised intangible assets:		
Trademarks	6,629	6,624
Total	**112,125**	**97,915**

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

	Billing and telecom software	Operating licenses	Customer bases	Radio frequencies	Software and other	Trade - marks	Cost to obtain contracts	Total
Cost								
Balance at 1 January 2017	**96,835**	**54,697**	**12,527**	**8,949**	**22,341**	**6,569**	-	**201,918**
Additions	24,686	1,660	27	13	3,400	49	-	29,835
Disposals	(8,429)	(19,041)	(50)	(1,112)	(1,394)	-	-	(30,026)
Business combinations	163	260	-	-	1,470	-	-	1,893
Currency translation							-	-
adjustment	(980)	(1,131)	-	-	(35)	6	-	(2,140)
Other	(6)	(2)	-	1	55	-	-	48
Balance at 31 December 2017	112,269	36,443	12,504	7,851	25,837	6,624	-	201,528
Transition to IFRS 15	-	-	-	-	-	-	19,320	19,320
Balance at 1 January 2018	**112,269**	**36,443**	**12,504**	**7,851**	**25,837**	**6,624**	**19,320**	**220,848**
Additions	20,884	7,513	59	19	2,845	-	3,961	35,281
Disposals	(8,215)	(223)	(63)	(1,223)	(439)	-	-	(10,163)
Reclassified to assets held for sale	-	(1,066)	-	-	(712)	-	-	(1,778)
Business combinations	68	-	1,530	-	1,482	-	-	3,080
Currency translation adjustment	2,977	4,656	-	-	158	5	79	7,875
Other	89	-	-	-	(103)	-	(118)	(132)
Balance at 31 December 2018	**128,072**	**47,323**	**14,030**	**6,647**	**29,068**	**6,629**	**23,242**	**255,011**
Accumulated depreciation and impairment								
Balance at 1 January 2017	**(48,569)**	**(17,810)**	**(9,221)**	**(4,829)**	**(13,773)**	-	-	**(94,202)**
Disposals	8,345	3,391	50	1,108	1,385	-	-	14,279
Amortisation expense	(17,614)	(2,989)	(1,184)	(1,042)	(1,450)	-	-	(24,279)
Impairment	(148)	-	-	-	(542)	-	-	(690)
Currency translation adjustment	726	570	-	-	33	-	-	1,329
Other	(17)	-	-	2	(35)	-	-	(50)
Balance at 31 December 2017	(57,277)	(16,838)	(10,355)	(4,761)	(14,382)	-	-	(103,613)
Transition to IFRS 15	-	-	-	-	-	-	(12,368)	(12,368)
Balance at 1 January 2018	**(57,277)**	**(16,838)**	**(10,355)**	**(4,761)**	**(14,382)**	-	**(12,368)**	**(115,981)**
Disposals	7,994	193	63	971	392	-	-	9,613
Amortisation expense	(20,941)	(3,315)	(1,438)	(796)	(1,835)	-	(3,876)	(32,201)
Reclassified to assets held for sale	-	338	-	-	423	-	-	761
Impairment	(124)	-	-	-	(447)	-	-	(571)
Currency translation adjustment	(2,187)	(2,114)	-	-	(27)	-	(99)	(4,427)
Other	(72)	18	-	-	(26)	-	-	(80)
Balance at 31 December 2018	**(72,607)**	**(21,718)**	**(11,730)**	**(4,586)**	**(15,902)**	-	**(16,343)**	**(142,886)**

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

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

Operating licenses contain a number of requirements and conditions specified by legislation. The requirements generally include the start date of service, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

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

The license for the provision of telecommunication services in Ukraine was renewed in 2013 and is valid until 2026. During 2018, MTS purchased 4G licenses in Ukraine. The license for the provision of telecommunication services in Armenia is valid until 2019.

18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group holds interests in several associates, the most significant of which is MTS Belarus, and joint ventures represented by real estate projects, OZON, Razvitie, Michurinskiy project and JSC Pharmaceutical Enterprise Obolenskoe. All investments in associates and joint ventures are accounted for using the equity method.

Investments in associates and joint ventures as of 31 December 2018 and 2017 consisted of the following:

	2018		2017	
	Voting power	Carrying value	Voting power	Carrying value
OZON	34.96%	9,533	22.37%	4,678
MTS Belarus	49.00%	4,051	49.00%	3,660
Real estate projects	48%-50%	4,823	48%-50%	3,204
Razvitie	50.00%	2,238	50.00%	2,238
Michurinskiy project	50.00%	1,381	50.00%	1,270
OBL Pharm	12.80%	1,832		-
Other		10,649		5,733
Total		**34,507**		**20,783**

Investments in OZON – During 2018, the Group additionally invested in Ozon Holdings Limited, Russian online retailer, as part of right issue for RUB 5.9 billion. As result of the transaction, the total share of the company as of 31 December 2018 is 34.96% and the carrying amount is RUB 9.5 billion.

Investments in JSC Pharmaceutical Enterprise Obolenskoe – In December 2018, the Group acquired an equity interest in JSC Pharmaceutical Enterprise Obolenskoe ("OBL Pharm"), a leading Russian pharmaceutical company, for RUB 1.83 billion. The stake was acquired jointly with VTB Bank ("VTB") and management of OBL Pharm from Alvansa Ltd, which is majority-owned by Gazprombank and UFG Private Equity. The partners made their investments through a joint holding company, Ristango Holding Limited, and have signed a shareholders agreement securing rights of all of the investors to participate in management of the business. Sistema and VTB have also signed an agreement whereby Sistema will acquire VTB's stake in Ristango Holding Limited within three years of the initial transaction. The fair value of this financial instrument as of 31 December 2018 is nil. The share of the Group in Ristango Holding Limited has been pledged in accordance with the forward contracts. The Group concurred that Sistema's representation in the Board of Directors does not give the current ability to direct the relevant activities of OBL Pharm and thus OBL Pharm is not controlled by Sistema as at 31 December 2018.

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

The financial position and results of operations of significant associates and joint venture as of and for the years ended 31 December 2018 and 2017 were as follows:

	2018					
	MTS Belarus	**OZON**	**Real estates projects**	**Razvitie**	**OBL Pharm**	**Michu-rinskiy project**
Non-current assets	17,659	8,466	18,937	4,003	5,878	2,444
Current assets	11,652	11,705	612	467	6,948	6,852
Total assets	**29,311**	**20,171**	**19,549**	**4,470**	**12,826**	**9,296**
Non-current liabilities	(7,089)	(511)	(8,042)	-	(5,441)	(4,828)
Current liabilities	(13,955)	(14,263)	(1,047)	(2)	(1,839)	(243)
Total liabilities	**(21,044)**	**(14,774)**	**(9,089)**	**(2)**	**(7,280)**	**(5,071)**
Equity attributable to owners of the Company	**8,267**	**5,397**	**10,460**	**4,468**	**5,546**	**4,225**
Group's ownership interest	49.00%	34.96%	48%-50%	50.00%	12.80%	50.00%
Fair value adjustment on the date of obtaining significant influence	-	7,646	(198)	4	1,122	(732)
Carrying amount of the Group's interest	**4,051**	**9,533**	**4,823**	**2,238**	**1,832**	**1,381**
Total revenues	27,695	37,263	31	-	6,863	2,076
Total profit/(loss) for the year	7,752	(4,509)	(259)	21	1,553	222
The Group's share in profit/(loss)	**3,799**	**(1,576)**	**(124)**	**11**	**-**	**111**
Total comprehensive income/(loss)	8,400	(4,509)	(259)	21	1,553	222
The Group's share in comprehensive income/ (loss) for the year	**4,116**	**(1,576)**	**(130)**	**11**	**-**	**111**

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

	2017				
	MTS Belarus	**OZON**	**Real estates projects**	**Razvitie**	**Michu-rinskiy project**
Non-current assets	9,819	4,656	6,863	4,003	4,030
Current assets	8,117	8,189	8,421	465	21
Total assets	**17,936**	**12,845**	**15,284**	**4,468**	**4,051**
Non-current liabilities	(703)	(572)	(1,361)	-	(5)
Current liabilities	(9,764)	(7,789)	(5,064)	(1)	(43)
Total liabilities	**(10,467)**	**(8,361)**	**(6,425)**	**(1)**	**(48)**
Equity attributable to owners of the Company	**7,469**	**4,484**	**8,859**	**4,467**	**4,003**
Group's ownership interest	49.00%	22.37%	48%-50%	50.00%	100%
Fair value adjustment on the date of obtaining significant influence	-	3,674	(1,048)	4	(731)
Carrying amount of the Group's interest	**3,660**	**4,678**	**3,204**	**2,238**	**1,270**
Total revenues	23,037	21,998	25	-	-
Total profit/(loss) for the year	6,552	(1,589)	3	7	-
The Group's share in profit/(loss)	**3,210**	**(355)**	**1**	**3**	-
Total comprehensive income/(loss)	6,027	(1,589)	3	7	-
The Group's share in comprehensive income/(loss) for the year	**2,953**	**(355)**	**1**	**3**	**-**

The following is a summary of the aggregated financial information of other associates and joint ventures that are not individually material:

	2018	**2017**
Group's share of (loss)/profit from continuing operations	(505)	171
Group's share of total comprehensive (loss)/income	(817)	428
Aggregate carrying amount of the Group's interests in these associates and joint ventures	10,649	5,734

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

19. OTHER FINANCIAL ASSETS

The Group's financial assets, other than cash and cash equivalents, deposits in banks and accounts receivable shown separately on the face of the consolidated statements of financial position, primarily comprise assets of MTS Bank and East-West United Bank, the Group's subsidiaries engaged in banking activities, and investments of the Corporate segment.

The Group applies new classification and measurement categories in accordance with IFRS 9. The table below compares the classification of financial assets in accordance with IAS 39 with their new classification in accordance with IFRS 9 as of 1 January 2018:

	Categories		31 December 2017	1 January 2018
	under IAS 39	under IFRS 9	(under IAS 39)	(under IFRS 9)
Cash and cash equivalents	Not assigned to a category	Measured at amortized cost	59,959	59,959
			59,959	**59,959**
Debt and equity securities	Measured at fair value through profit or loss	Measured at fair value through profit or loss	37,414	37,414
			37,414	**37,414**
Debt and equity securities	Available-for-sale financial assets	Measured at fair value through profit or loss	9,997	9,997
Debt and equity securities	Available-for-sale financial assets	Measured at fair value through other comprehensive income	12,198	12,198
Debt and equity securities	Available-for-sale financial assets	Measured at amortized cost	5,968	5,968
			28,163	**28,163**
Debt and equity securities	Held-to-maturity financial assets	Measured at amortized cost	27,346	27,346
			27,346	**27,346**
Bank loans to customers	Loans and receivables	Measured at amortized cost	64,708	62,626
			64,708	**62,626**
Interbank loans due from banks	Loans and receivables	Measured at amortized cost	15,512	15,510
			15,512	**15,510**
Other loans	Loans and receivables	Measured at amortized cost	22,647	22,169
			22,647	**22,169**
Accounts receivable	Loans and receivables	Measured at amortized cost	54,836	53,998
			54,836	**53,998**
Interest rate swaps designated as cash flow hedges	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income	8,403	8,403
			8,403	**8,403**
Total			**318,988**	**315,588**

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

The Group applies expected credit losses model for impairment analysis of financial assets classified at amortized cost. The Group applies the simplified approach permitted by IFRS 9 for its trade and other receivables which requires recognition of expected credit losses from initial recognition of trade receivables.

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

Financial assets are classified into the following specified categories depending on their nature and purpose: Financial assets measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVTOCI), financial assets measured at amortised costs.

If the financial assets are held for collecting contractual cash flows in the form of principal and interest on the specified dates, it is classified as carried at amortized cost.

If the financial assets are held not only for collecting contractual cash flows in the form of principal and interest on the specified dates, but also for potential sale, they are classified as measured at fair value through other comprehensive income.

All other financial assets are classified as measured at fair value through profit or loss.

At 31 December 2018 financial assets, other than those shown separately on the face of the statements of financial position, less allowance for impairment losses, comprise:

	31 December 2018
Financial assets measured at fair value through profit or loss	
Debt and equity securities	45,085
Currency derivatives not designated as hedge instruments	3,049
Interest rate swaps not designated as hedge instruments	2,837
	50,971
Financial assets measured at fair value through other comprehensive income	
Cross-currency swaps designated as cash flow hedges	2,797
Debt and equity securities	10,153
	12,950
Financial assets measured at amortized cost	
Debt and equity securities	41,187
Bank loans to customers	68,227
Interbank loans due from banks	6,416
Other loans	22,135
	137,965
Total financial assets	**201,886**
Current	106,329
Non-current	95,557
	201,886

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

The following table summarizes changes in the allowance for financial assets other than for loan losses and accounts receivable for the year ended 31 December 2018:

Balance, beginning of the year calculated under IAS 39	**11,268**
Additional allowance under IFRS 9	500
Balance, beginning of the year, calculated under IFRS 9	**11,768**
Additions charged to the operating results	446
Amounts written off against the allowance	(6,327)
Currency translation adjustment	64
Balance, end of the year, calculated under IFRS 9	**5,951**

At 31 December 2018 and 2017, included in the above categories as well as cash and cash equivalents, financial assets attributable to the Group's banking activities (MTS Bank and its subsidiaries, East-West United Bank) comprise:

	31 December 2018	**1 January 2018 (adjusted)**
Financial assets measured at fair value through profit or loss		
Debt and equity securities	13,654	16,106
	13,654	**16,106**
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	10,153	5,517
	10,153	**5,517**
Financial assets measured at amortized cost		
Cash and cash equivalents	23,500	31,758
Bank loans to customers	78,089	75,126
Interbank loans due from banks	6,416	15,553
Debt and equity securities	39,943	33,315
	147,948	155,752
Less: allowance for loan losses	(9,862)	(10,459)
	161,893	**166,916**

The movement in the allowance for loan losses during 2018 and 2017 was as follows:

	2018	**2017**
Allowance for loan losses, 1 January	**10,459**	**36,905**
IFRS 9 impact	2,060	-
Additions charged to the operating results	705	199
Amounts written off against the allowance	(3,970)	(26,374)
Transfer to accounts receivable	(495)	-
Disposal	(356)	-
Recovery of bad debt written-off	780	-
Currency translation adjustment	679	(271)
Allowance for loan losses, 31 December	**9,862**	**10,459**

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

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

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

Stage 1: expected credit losses within the next twelve months.

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

Stage 2: expected lifetime credit losses– not credit impaired.

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

Stage 3: expected lifetime credit losses – credit impaired

If a financial asset is defined as credit impaired or in default, it is transferred to stage 3 and measured at lifetime expected credit loss. The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

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

	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Balance as at 1 January 2018	**273**	**245**	**5,702**	**215**	**6,435**
IFRS 9 application	332	95	996	-	**1,423**
- Transfer to stage 1	3	-	(3)	-	**-**
- Transfer to stage 2	(22)	22	-	-	**-**
- Transfer to stage 3	(1)	(47)	48	-	**-**
New financial assets originated or purchased	182	177	-	124	**373**
Change due to change of credit risk	(415)	98	(369)	(84)	**(104)**
Sales of financial assets	-	-	(356)	-	**(356)**
Write-offs	-	-	(1,840)	-	**(1,840)**
Recovery of previously written-off assets	-	-	260	-	**260**
Foreign exchange difference	4	15	689	-	**152**
Balance as at 31 December 2018	**356**	**605**	**5,126**	**255**	**6,342**

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

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

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

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 January 2018	**97**	**230**	**2,803**	**358**	**3,488**
IFRS 9 effect	449	85	53	-	**587**
- Transfer to stage 1	450	(290)	(160)	-	**-**
- Transfer to stage 2	(145)	189	(44)	-	**-**
- Transfer to stage 3	(2)	(647)	649	-	**-**
New financial assets originated or purchased	585	-	-	-	**585**
Change due to change of credit risk	(678)	751	188	40	**301**
Write-offs	-	-	(2,004)	-	**(2,004)**
Recovery of previously written-off assets	-	-	520	-	**520**
Balance as at 31 December 2018	**756**	**318**	**2,005**	**398**	**3,477**

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

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

The table below summarizes information regarding the quality of loans to individuals as of 31 December 2018:

	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	37,139	445	-	-	**37,584**
Monitoring	-	534	5	-	**539**
Impaired	-	-	2,814	398	**3,212**
Loss allowance	(756)	(318)	(2,005)	(398)	**(3,477)**
Total	**36,383**	**661**	**814**	**-**	**37,858**

The table below summarizes information regarding the quality of loans to legal entities as of 31 December 2018:

	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	24,658	1,555	-	-	**26,213**
Monitoring	-	3,930	270	-	**4,200**
Impaired	-	-	6,038	260	**6,298**
Loss allowance	(356)	(605)	(5,126)	(255)	**(6,342)**
Total	**24,302**	**4,880**	**1,182**	**5**	**30,369**

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

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

As at December 31, 2018	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	37,140	(756)	36,384	2%
Overdue:				
up to 30 days	445	(80)	365	18%
31 to 60 days	197	(84)	113	43%
61 to 90 days	136	(77)	59	57%
91 to 180 days	340	(245)	95	72%
over 180 days	2,079	(1,579)	500	76%
Total	**40,337**	**(2,821)**	**37,516**	**7%**
Individually impaired				
Not past due	599	(475)	124	79%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	4	(1)	3	25%
61 to 90 days	1	-	1	0%
91 to 180 days	27	-	27	0%
over 180 days	367	(180)	187	49%
Total	**998**	**(656)**	**342**	**66%**
Total	**41,335**	**(3,477)**	**37,858**	**9%**

Analysis by credit quality of loans to medium-sized enterprise outstanding as of 31 December 2018 is as follows:

As at December 31, 2018	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	1,223	(24)	1,199	2%
Overdue:				
up to 30 days	7	(1)	6	16%
31 to 60 days	2	(1)	1	40%
61 to 90 days	4	(2)	3	40%
91 to 180 days	15	(7)	8	47%
over 180 days	689	(414)	275	60%
Total collectively assessed loans	**1,940**	**(449)**	**1,491**	**23%**

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

	December 31, 2018
Loans collateralized by guaranties of legal entities	17,984
Loans collateralized by pledge of real estate	14,971
Loans collateralized by pledge of own promissory notes	326
Loans collateralized by pledge of equipment	143
Loans collateralized by securities	32
Loans collateralized by rights of claim	15
Loans collateralized by pledge of inventories	12
Unsecured loans	44,606
Allowance for impairment losses	(9,862)
Total loans to customers, net	**68,227**

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

20. RESTRICTED CASH

According to the amendments to the law "On State Defence Orders", cash received under state defence orders has to be held on special accounts and its spending is restricted to activities related to these orders. As of 31 December 2018 and 31 December 2017, RTI has RUB 8,614 million and RUB 8,591 million of cash on special accounts which was presented as restricted cash within current assets.

21. INVENTORIES

Inventories mainly include goods for resale of Detsky Mir and the retail network of MTS and construction in progress of Leader Invest.

Inventories are stated at the lower of cost or market value. Inventories are accounted for using the weighted-average cost method. Inventory should be accounted further at the lower of net realisable value and carrying amount. The Group periodically assesses its inventories for obsolete or slow-moving stock.

The cost of raw materials includes the cost of purchase, customs duties, transportation and handling costs. Work-in-progress and finished goods are stated at production cost which includes direct production expenses and manufacturing overheads.

Inventories as of 31 December 2018 and 2017 consisted of the following:

	2018	**2017**
Detsky mir finished goods and goods for resale	34,865	26,287
Construction in progress of Leader Invest	14,452	16,084
Raw materials and spare parts	13,772	10,665
MTS finished goods and goods for resale	18,654	9,995
Other finished goods and goods for resale	8,400	9,239
Other work-in-progress	7,835	3,875
Costs and estimated earnings in excess of billings on uncompleted contracts	-	11,908
Subtotal	**97,978**	**88,053**
Excluding non-current inventories	(847)	(6,652)
Total	**97,131**	**81,401**

The cost of inventories recognized as an expense during the year in respect of continuing operations was RUB 182,666 million (2017: RUB 159,940 million). The cost of inventories recognized as an expense includes RUB 5,204 million (2017: RUB 4,659 million) in respect of write-downs of inventory to net realisable value and has been reduced by RUB 2,315 million (2017: RUB 509 million) in respect of the reversal of such write-downs.

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

22. ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the customers to the Group.

The carrying value of all trade receivables is reduced by appropriate allowances for ECL. For trade receivables the Group applies a simplified approach and calculates ECL based on lifetime expected credit losses.

Accounts receivable, net of allowances, as of 31 December 2018 and 2017 consisted of the following:

	2018	2017
Accounts receivable	70,392	60,018
Allowance for ECL	(6,875)	-
Allowance for doubtful accounts	-	(5,182)
Total	**63,517**	**54,836**

Below is the age analysis of receivables that are past due but not impaired:

	2018	2017
60-90 days	1,974	3,334
more than 91 days	4,187	2,201
Total	**6,161**	**5,535**

Movement in the allowance is as follows:

	2018	2017
Balance, beginning of the year calculated under IAS 39	**(5,182)**	**(8,691)**
Additional allowance under IFRS 9	(694)	-
Balance, beginning of the year, calculated under IFRS 9	**(5,876)**	n/a
Transfer from allowance for loan losses	(495)	-
Provision for doubtful accounts	(4,407)	(3,791)
Accounts receivable written off	3,645	6,433
Amounts recovered during the year	99	43
Foreign exchange translation gains and losses	159	107
Disposal of subsidiaries	-	717
Balance at end of the year	**(6,875)**	**(5,182)**

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

23. EQUITY

Share capital – As of 31 December 2018 and 2017, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,479,170,532 and 9,437,514,653 shares were outstanding, respectively.

Treasury shares – Movement of treasury shares during 2018 and 2017 years was as follows:

	2018	2017
Balance at the beginning of the year	**212,485,347**	**252,625,702**
Purchase of own shares	-	72,823,265
Purchase of own shares of the Company by empoyees	-	(5,536,162)
Settlements under long-term motivation program	(41,655,879)	(107,427,458)
Balance at the end of the year	**170,829,468**	**212,485,347**

Dividends – Dividends declared to the holders of the Company's ordinary shares are included in the financial statements in the period in which the dividends are approved for distribution by the shareholders.

On 30 June 2018, an annual general meeting of shareholders approved the total dividend payment of RUB 1,061.5 million for 2017 (including dividends on treasury shares of RUB 14.5 million) representing RUB 0.11 per ordinary share or RUB 2.2 per one global depository receipt.
The dividends were paid in 2018.

24. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income balance, net of taxes, as of 31 December 2018 and 2017:

	2018	2017
Accumulated currency translation gain/(loss)	9,911	(7,842)
Unrealised gain on financial instruments	197	5,195
Unrecognised actuarialgain/(loss)	92	(75)
Total accumulated other comprehensive income/(loss)	**10,200**	**(2,722)**
Less: amounts attributable to non-controlling interests	1,004	5,054
Total accumulated other comprehensive income attributable to Sistema PJSFC	**11,204**	**2,332**

25. BORROWINGS

The Group's borrowings primarily comprise bank loans and corporate bonds. The Group enters into variable-to-fixed interest rate swap agreements to manage exposure to changes in variable interest rates related to a portion of its obligations, as well as into cross-currency interest-rate swap agreements to mitigate the impact of both, interest rate and exchange rate fluctuations, for a certain portion of its USD- and Euro-denominated borrowings.

Borrowings are initially recognized at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

Finance costs in profit or loss consist of interest expense for financial liabilities not classified as at FVTPL. In 2018, finance costs did not include borrowing costs that were included in the cost of qualifying assets in amount of RUB 460 million (2017: RUB 307 million).

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

At 31 December 2018 and 2017, the Group's borrowings comprised:

	2018	2017
Bank loans	491,018	336,582
Corporate bonds	206,332	183,476
Other	985	906
	698,335	**520,964**
Current	105,893	139,403
Non-current	592,442	381,561

Bank loans – As of 31 December 2018 and 2017, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 31 December 2018)	31 December 2018	31 December 2017
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG			-	17,076
China Development Bank	2019-2021	LIBOR 6m+3.15%	10,421	8,640
Citibank	2019-2024	LIBOR + 0.9%	10,980	10,592
Other	2019-2021		5,109	4,996
			26,510	**41,304**
EUR-denominated:				
ING Bank	2019-2027	3.99%	4,946	25,040
Alfa Bank	2019-2028	3.92%	15,892	-
Other	2019-2027		1,352	1,284
			22,190	**26,324**
RUB-denominated:				
Sberbank	2019-2023	8.45%-14.50%	235,909	188,222
VTB	2019-2022	7.20%-10.50% CBR+2.5%-4.8%	132,421	37,733
Gazprombank	2019-2025	9%-11.5%	23,554	21,021
Otkrytie	2019-2025	8.9%-9.50%	19,125	-
Alfa Bank	2019-2023	9.0%-11.87% CBR+2.0%	24,795	15,501
Other			6,297	5,918
			442,101	**268,395**
Other currencies			217	559
Total bank loans			**491,018**	**336,582**

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

Corporate notes – As of 31 December 2018 and 2017, the Group's notes consisted of the following:

	Currency	Interest rate	31 December 2018	31 December 2017
MTS International Notes due 2023	USD	5.00%	31,090	26,188
Sistema International Notes due May 2019	USD	6.95%	24,705	23,441
MTS International Notes due 2020	USD	8.63%	20,870	17,621
Sistema PJSFC Notes due February 2028	RUB	9.25%	15,000	-
Sistema PJSFC Notes due March 2027	RUB	8.90%	14,964	15,000
Sistema PJSFC Notes due November 2026	RUB	9.90%	9,635	9,953
Sistema PJSFC Notes due January 2028	RUB	9.80%	9,482	-
Sistema PJSFC Notes due October 2026	RUB	9.80%	6,115	4,536
Sistema PJSFC Notes due September 2025	RUB	12.50%	2,136	5,000
MTS Notes due 2022	RUB	7.70%	14,958	14,947
MTS Notes due 2023	RUB	6.85%	9,348	9,997
MTS Notes due 2022	RUB	9.00%	9,993	9,991
MTS Notes due 2021	RUB	8.85%	9,990	9,986
MTS Notes due 2021	RUB	7.10%	9,988	-
MTS Notes due 2025	RUB	7.25%	9,986	-
MTS Notes due 2031	RUB	9.40%	1,080	9,995
MTS Notes due 2020	RUB	7.50%	40	49
Detskiy Mir due 2024	RUB	9.50%	3,000	3,000
Sistema PJSFC Notes due 2018	RUB	12.70%	-	10,000
Sistema PJSFC Notes due October 2025	RUB	10.90%	-	1,700
MTS Notes due 2018	RUB	7.70%	-	9,986
Other			3,952	2,086
Total notes			**206,332**	**183,476**

The Group has an unconditional obligation to repurchase certain notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. Such notes are disclosed maturing in the reporting period when the demand for repurchase could be submitted, irrespective of the Group's expectations about the intentions of the noteholders. The dates of the announcement for each particular note issue are as follows:

MTS PJSC Notes due 2031	September 2019
MTS PJSC Notes due 2023	March 2020
Sistema PJSFC Notes due January 2028	February 2019
Sistema PJSFC Notes due February 2028	September 2019
Sistema PJSFC Notes due November 2026	February 2020
Sistema PJSFC Notes due October 2026	November 2020
Sistema PJSFC Notes due March 2027	April 2022
Sistema PJSFC Notes due September 2025	April 2022

Covenants – Loans and notes payable by the Group are subject to various restrictive covenants and events of default, which permit lenders to demand accelerated repayment of debt. Such covenants and events include noncompliance with certain financial ratios, cancellation of principal telecom licenses, credit ratings downgrade, significant court rulings, encumbrances and confiscation of certain assets and other material adverse changes.

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

As of 31 December 2018 the Group had long-term debt denominated in Russian rubles, presented as part of current liabilities in the consolidated statement of financial position for the following reasons:

	2018	**2017**
Noncompliance with other non-financial covenants	16,915	16,957
Ongoing arrest of shares of the Group's shares of subsidiaries (Note 38)	-	9,703
Noncompliance with certain financial ratios by the Group's subsidiaries	-	381
Total	**16,915**	**27,042**

To the date when these consolidated financial statements were authorized for issue, the lenders have not exercised their rights for early redemption.

Assets pledged as security – As of 31 December 2018 and 2017 land and buildings with carrying amounts of RUB 25,025 million and RUB 31,358 million, respectively, have been pledged to secure borrowings of the Group. The freehold land and buildings have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. As of 31 December 2018 and 2017, other assets including inventories and deposits with carrying amounts of RUB 2,729 million, RUB 3,877 million respectively have been pledged to secure borrowings of the Group.

The following shares of the Group have been pledged to secure borrowings of the Group: 87% shares of RTI, 16.01% shares of MTS и 100% shares of certain subsidiaries of Leader Invest, Segezha and Intourist segments.

26. LEASE LIABILITIES

For contracts concluded after 1 January 2018, the Group assesses whether a contract is or contains a lease at inception of a contract. The Group 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 lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expense on a straight-line basis over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate 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 by using the incremental borrowing rate of the Group.

When measuring lease liabilities as of 31 December 2017, the Group discounted lease payments using its incremental borrowing rate at 1 January 2018. The weighted average rate applied 9.54%.

	1 January 2018
Operating lease commitment as 31 December 2017 as disclosed in the Group's consolidated financial statements	**88,675**
Discounting using the incremental borrowing rate at 1 January 2018	(15,666)
Finance lease liability recognised as at 31 December 2017	14,855
Reassesement of options to extend and cancel lease contracts	113,061
Other	2,836
Lease liability as 1 January 2018	**203,761**

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

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

	31 December 2018
Sites for placement of network and base station equipment	92,501
Land and buildings	95,316
Other	6,430
Rights-of-use assets, net	**194,247**

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

	2018
Sites for placement of network and base station equipment	7,784
Land and buildings	19,168
Other	1,201
Depreciation charge, total	**28,153**

Additions to the assets leased during the twelve months ended 31 December 2018 amounted to RUB 25,856 million.

The following table presents expenses related to lease, recognised in the consolidated statement of profit and loss for 2018:

	2018
Depreciation of right-of-use assets	28,153
Interest expense on lease liabilities	18,382
Impairment	143
Expenses relating to variable lease payments not included in the measurement of the lease liability	1,177

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

	31 December 2018
Minimum lease payments, including:	
Less than 1 year	40,141
From 1 to 5 years	143,957
Over 5 years	134,653
Total minimum lease payments	**318,751**
Less amount representing interest	(111,384)
Present value of net minimum lease payments, including:	
Less than 1 year	24,206
From 1 to 5 years	89,556
Over 5 years	93,605
Total present value of net minimum lease payments	**207,367**
Less current portion of lease obligations	(24,206)
Non-current portion of lease obligations	**183,161**

Total cash outflows for leases for the year ended 31 December 2018 totaled to RUB 39,193 mln, including in interest paid RUB 18,149 mln.

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

27. BANK DEPOSITS AND LIABILITIES

Liabilities of MTS Bank and East-West United Bank primarily consist of customer accounts and deposits. These liabilities are initially measured at fair value, net of transaction costs. Liabilities are subsequently measured at amortised cost using the effective interest method and classified based on their contractual maturity.

Bank deposits and liabilities as of 31 December 2018 and 2017 consisted of the following:

	2018	**2017**
Customer accounts	128,156	115,105
Bank loans received	2,435	-
Debt securities issued	1,235	2,074
Other liabilities	1,460	113
	133,286	**117,292**
Less: amounts maturing within one year	(129,872)	(83,873)
Total bank deposits and liabilities, net of the current portion	**3,414**	**33,419**

28. OTHER FINANCIAL LIABILITIES

Other financial liabilities as of 31 December 2018 and 2017 consisted of the following:

	2018	**2017**
Liability for RTI shares	3,600	3,489
MTS liabilities under put option agreement (MTS Armenia)	3,629	2,012
Contingent obligation to pay purchase price	936	-
Factoring operations debt	542	-
Interest rate and cross-currency swaps not designated as hedging instruments	265	1,104
Forwards not designated as hedge instruments	85	-
SSTL liabilities to non-controlling shareholders (Note 6)	-	2,348
Credit guarantee agreement related to foreign currency hedge	-	1,045
MTS liabilities related to hedging activities	-	664
Other	2,320	1,185
Non-current	1,473	6,514
Current	9,904	6,059
Total other financial liabilities	**11,377**	**12,573**

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

29. PROVISIONS

Provisions primarily consist of provisions related to employees' bonuses and other rewards, decommissioning and restoration obligations.

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Provisions as of 31 December 2018 and 2017 consisted of the following:

	2018	**2017**
Employees' bonuses and other rewards	11,624	11,924
Provisions for decomissioning and restoration obligations	3,109	1,049
Tax provisions other than for income tax	252	310
Provision on SEC investigation (Note 5)	59,050	-
Other	3,577	3,154
Total	**77,612**	**16,437**
Current	73,244	13,038
Non-current	4,368	3,399

	Employees' bonuses and other rewards	**Provisions for decomis-sioning**	**Tax provisions other than income tax**	**SEC provision**	**Other**	**Total**
Balance at 1 January 2017	**(10,348)**	**(1,192)**	**(457)**	**-**	**(2,166)**	**(14,163)**
Additional provisions recognized	(15,776)	(108)	(229)	-	(1,930)	(18,043)
Payments	12,769	5	342	-	694	13,810
Unwinding of discount and effect of changes in the discount rate	49	(103)	-	-	-	- - (54)
Unused amounts reversed	1,283	339	33	-	325	1,980
Currency translation adjustment	99	10	1	-	(77)	33
Balance at 31 December 2017	**(11,924)**	**(1,049)**	**(310)**	**-**	**(3,154)**	**(16,437)**
Effect of IFRS 15	-	-	-	-	(597)	(597)
Additional provisions recognized	(16,146)	(1,912)	(487)	(55,752)	(4,470)	(78,767)
Payments	14,846	18	336	-	1,727	16,927
Unwinding of discount and effect of changes in the discount rate	177	(223)	-	-	-	(46)
Unused amounts reversed	1,229	89	211	-	2,170	3,699
Transfet to financial liabilities	-	-	-	-	700	700
Transfer to liabilities held for sale	300	-	-	-	-	300
Currency translation adjustment	(106)	(32)	(2)	(3,298)	47	(3,391)
Balance at 31 December 2018	**(11,624)**	**(3,109)**	**(252)**	**(59,050)**	**(3,577)**	**(77,612)**

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

30. LOSSES PER SHARE

Losses per share is the amount of loss for the year attributable to ordinary shares of the Company divided by the weighted average number of ordinary shares outstanding during the year.

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted losses per share are as follows:

	2018	2017
Loss for the year from discontinued operations attributable to shareholders of Sistema PJSFC	(28,483)	(2,792)
Loss for the year from continuing operations attributable to shareholders of Sistema PJSFC	(17,413)	(91,810)
Losses used in the calculation of basic and diluted earnings per share	**(45,896)**	**(94,602)**
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	9,476,241,839	9,448,453,265
Losses per share – basic and diluted	**(4.84)**	**(10.01)**
From continuing operations	(1.84)	(9.72)
From discontinued operations	(3.01)	(0.29)

31. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management – The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net borrowings (borrowings offset by cash and cash equivalents) and equity of the Group.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group may sell assets to reduce debt, maintain or adjust the capital structure.

The Board of Directors monitors the net borrowings to OIBDA ratio. Since these are not IFRS measures, the Group's definition of OIBDA and net borrowings may differ from that of other companies. The Group's net borrowings to OIBDA ratio was as follows:

	2018	2017
Net borrowings	584,152	475,860
OIBDA	259,543	185,386
Net borrowings to OIBDA ratio	**2.25**	**2.54**

The Group is subject to certain externally imposed capital requirements and restrictions that are incorporated into the management of capital.

MTS Bank – The CBR requires that banks comply with the minimum capital adequacy ratio of 8% calculated on the basis of statutory standalone financial statements. MTS Bank met the requirements established by the CBR. As of 31 December 2018 and 2017, MTS Bank's capital adequacy ratio was 11.9 % and 14.54%, respectively.

Limitations on cash distribution – There were certain limitations on cash distribution in Ukraine (Note 39) as of 31 December 2018. Cash balances in Ukraine were as of 31 December 2018 RUB 6,596 million (31 December 2017:RUB 1, 330 million).

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

Financial risk management objectives – The Board of Directors has overall responsibility for the establishment and ongoing management of the Group's risk management framework, and the implementation and operation of the Board's policies are handled by the Management Board.

The Management Board monitors and manages the financial risks relating to the operations of the Group through internal management reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), liquidity risk and credit risk.

Foreign currency risk – Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies and is primarily exposed to the US Dollar and Euro.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Ruble, US Dollar and Euro and by using certain derivative instruments (Note 32).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (excluding hedged items) at the year-end are as follows.

	Liabilities		**Assets**	
	2018	**2017**	**2018**	**2017**
US Dollar	155,029	181,508	49,729	85,254
Euro	25,076	31,969	20,608	22,074

The table below details the Group's sensitivity to the strengthening of the US Dollar and Euro against the Russian Ruble by 20%. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the year-end denominated in the respective currencies.

	2018	**2017**
Profit or loss before tax	21,954	17,815

The effect of a corresponding strengthening of the Russian Ruble against the US Dollar and EUR is equal and opposite.

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect finance costs. The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by using certain derivative instruments (Note 32).

The table below details the Group's annualised sensitivity to a change of floating LIBOR rate by 1% which would impact its operations. The analysis was applied to borrowings (excluding hedged items) based on the assumption that amount of the liability outstanding at the date of statements of financial position was outstanding for the whole period.

	2018	**2017**
Profit or loss before tax	214	192

Fixed rate loan agreements often stipulate creditor's right to increase interest rates under certain circumstances, including increase of the key rate of the Central Bank of Russia. Therefore, in addition to the effect from changes in floating interest rates, the Group is also exposed to interest rate risk arising from these agreements.

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

Other price risks – Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. These changes may be caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The sensitivity analysis below has been determined based on the exposure to price risks at the end of the reporting period. Sensitivity analysis was prepared on pre-tax basis.

If prices of securities as of the year-end had been 10% higher/lower:

	2018	2017
Profit before tax increase/decrease	2,393	3,741
Other comprehensive income increase/decrease	812	2,253

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due.

The Group's liquidity position is monitored and managed at the level of operating segments. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows, by matching the maturity profiles of financial assets and liabilities and by maintaining available credit facilities.

At 31 December 2018, the schedule of repayments of undiscounted financial liabilities (except for lease liabilities which is presented in Note 26) of the Group for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Borrowings	105,893	162,666	224,693	75,106	98,327	31,650
Accounts payable	126,917	-	-	-	-	-
Bank deposits and liabilities	129,872	2,166	464	309	155	320
Liability to Rosimushchestvo	8,113	8,097	-	-	-	-
Other financial liabilities	9,904	1,473	-	-	-	-
Total financial liabilities	**380,699**	**174,402**	**225,157**	**75,415**	**98,482**	**31,970**

At 31 December 2018, the schedule of repayments of undiscounted financial liabilities of the Corporate segment for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Borrowings	50,564	33,548	45,303	17,100	59,250	-
Accounts payable	6,638	-	-	-	-	-
Liability to Rosimushchestvo	8,113	8,097	-	-	-	-
Other financial liabilities	3,694	-	-	-	-	-
Total financial liabilities	**69,009**	**41,645**	**45,303**	**17,100**	**59,250**	**-**

For day to day liquidity requirements the Group had unused credit facilities of RUB 180,946 million as of 31 December 2018, including RUB 99,000 million related to Corporate segment.

Credit risk – Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group is exposed to credit risks on cash and cash equivalents, deposits, derivatives and certain other financial instruments with financial institutions, loans and receivables carried at amortised cost and debt securities.

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

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

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

Financial assets in financial institutions – the Group maintains mixture of cash and cash equivalents, deposits, derivatives and certain other financial instruments in financial institutions. These financial institutions are located in different geographical regions and the Group's policy is designed to limit exposure to any one institution. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions.

As of 31 December 2018 the Group has a significant cash balances in the following financial institutions:

	2018	2017
VTB	33,357	207
Sberbank	16,613	27,712
The Central bank of Luxemburg	13,729	18,416
The Central bank the Russian Federation	4,877	9,908
Total	**68,576**	**56,243**

Bank loans to customers and interbank loans due from banks – MTS Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the MTS Bank's risk management policy are not breached. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical segments.

Other loans and receivables carried at amortised cost – Concentrations of credit risk with respect to loans and trade receivables are limited given that the Group's customer base is large and unrelated. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

32. DERIVATIVE INSTRUMENTS

The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them either other current or other non-current financial assets or liabilities in the consolidated statement of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews related fair value hierarchy classifications on a quarterly basis. The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments.

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

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

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

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

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

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

Cross-currency interest rate swap agreements – The Group has entered into several cross-currency swap agreements. The contracts are designated to manage the exposure to changes in currency exchange rate. The contracts assumed periodic exchange of principal and interest payments from RUB-denominated amounts to USD- and Euro- denominated amounts at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2019-2021.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure to changes in currency exchange rate for 48% of the Group's bank loans denominated in USD and EUR outstanding as of 31 December 2018 (2017: 21%).

The notional amounts related to currency derivative instruments amounted to RUB 58,949 million, RUB 28,669 million as of 31 December 2018 and 2017, respectively.

Variable-to-fixed interest rate swap agreements – The Group's bank loans denominated in USD and EUR bear primarily floating interest rates. To eliminate the exposure to changes in variable interest rates related to its debt obligations, the Group enters into variable-to-fixed interest rate swap agreements, so that interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective cash flow hedges. In aggregate, the Group entered into variable-to-fixed interest rate swap agreements designated to manage the exposure of changes in variable interest rates related to 22% of the Group's bank loans with variable rates outstanding as of 31 December 2018 (2017: 42%).

Fixed-to-variable interest rate swap agreements – The Group's notes and bank loans denominated in Russian Rubles bear primarily fixed interest rates. To eliminate the exposure to changes in fair value of debt obligations, the Group enters into fixed-to-variable interest rate swap agreements. In aggregate the Group entered into fixed-to-variable interest rate swap agreements designated to manage the exposure to changes in value of the debt related to 3% of the Group's notes and bank loans with fixed rates outstanding as of 31 December 2018 (2017: 5%).

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

33. FAIR VALUES

The following fair value hierarchy table presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 31 December 2018 and 2017. Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. Level 1 classification comprises financial instruments where fair value is determined by unadjusted quoted prices in active markets for identical assets or liabilities that the Group can access at the measurement date; Level 2 – from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; Level 3 – from unobservable inputs.

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

	31 December 2018				1 January 2018 (adjusted)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
At fair value through other comprehensive income	10,153	2,797	-	12,950	12,198	8,403	-	20,601
At fair value through profit or loss	23,933	16,591	10,447	50,971	28,334	9,082	9,995	47,411
	34,086	**19,388**	**10,447**	**63,921**	**40,532**	**17,485**	**9,995**	**68,012**
Financial liabilities								
Derivative instruments	-	(350)	-	(350)	-	(1,766)	-	(1,766)
Contingent considerations	-	-	(936)	(936)	-	-	(180)	(180)
Liabilities under put option agreements	-	-	(3,735)	(3,735)	-	-	(2,424)	(2,424)
Liabilities of SSTL on RCOM shares sale	-	-	-	-	(2,348)	-	-	(2,348)
	-	**(350)**	**(4,671)**	**(5,021)**	**(2,348)**	**(1,766)**	**(2,604)**	**(6,718)**

The fair value of financial assets and liabilities categorised into Level 3 is primarily measured using the discounted cash flows technique. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and jurisdiction in which the investee operates.

There were no changes made during the year to valuation methods or the processes to determine classification and no transfers were made between the levels in the fair value hierarchy. Carrying value of the Group's financial instruments accounted for at amortised cost approximates their fair value due to their short-term nature and market interest rates, except for borrowings as disclosed in the table below:

	31 December 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Borrowings	698,335	696,948	535,819	540,255

The table below presents information regarding reconciliation of Level 3 fair value measurements as of 31 December 2018 and 2017.

	Liabilities under put option agreements	Other financial assets	Other financial liabilities	Total
Balance at 1 January 2017	**(2,243)**	**8,294**	**(3)**	**6,048**
Total gains/(losses):				
- in profit or loss	120	-	-	120
- in other comprehensive income	111	1,009	-	1,120
Purchases	(412)	694	(177)	105
Balance at 31 December 2017	**(2,424)**	**9,997**	**(180)**	**7,393**
Total gains/(losses):				
- in profit or loss	(719)	(551)	184	(1,086)
- in other comprehensive income	(592)	237	-	(355)
Reclasses to other categories	-	(715)	-	(715)
Disposals	-	(627)	-	(627)
Purchases	-	2,106	(940)	1,166
Balance at 31 December 2018	**(3,735)**	**10,447**	**(936)**	**5,776**

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

During 2018 and 2017, unrealized gains or losses were not recognized as a result of the assessment of level 3 liabilities at fair value.

34. RELATED PARTY TRANSACTIONS

The Group has a number of related parties including its controlling shareholder and entities under common control, associates and joint ventures, and key management personnel.

Trading transactions – The Group's trading transactions with related parties that are not members of the Group comprise sales and purchases of goods and services in the normal course of business. During the year ended 31 December 2018, sales to related parties comprised RUB 1,091 million (2017: RUB 651 million), purchases from related parties comprised RUB 1,048 million (2017: 273 million). As of 31 December 2018, trade balances receivable from and payable to related parties comprised RUB 5,591 million and RUB 1,242 million, respectively (31 December 2017: RUB 5,227 million and RUB 1,464 million).

Financial transactions – The Group's financial transactions with related parties primarily comprise loans, deposits and other debt instruments issued to or by the Group entities. At 31 December 2018 and 2017, amounts owed by or to related parties under such arrangements are as follows:

	Amounts owed by related parties		**Amounts owed to related parties**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Controlling shareholder and entities under common control	9,519	3,783	28,996	33,442
Key management personnel	-	-	6,785	3,095
Other related parties	-	-	8,168	1,322

Finance costs related to such transactions with related parties and recognized in the consolidated statement of profit or loss in 2018 amounted to RUB 1,690 million (2017: 2,222 million).

Compensation of key management personnel – In 2018 and 2017, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board and the independent directors was as follows:

	2018	**2017**
Short-term benefits	2,143	2,096
Share-based payments	-	737
Total	**2,143**	**2,833**

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

35. SUBSIDIARIES

Details of the Group's most material direct subsidiaries at the end of the year are as follows:

Significant entities	Short name	Principal activity	Beneficial ownership as of 31 December 2018	2017
Mobile TeleSystems PJSC	MTS	Telecommunications	50.01%	50.25%
RTI JSC	RTI	Technology	87.00%	87.00%
Detsky mir PJSC	Detsky mir	Retail trading	52.10%	52.10%
Medsi Group JSC	Medsi	Healthcare services	98.50%	100%
Bashkirian Power Grid Company JSC	BPGC	Energy transmission	90.96%	90.96%
Segezha Group LLC	Segezha Group	Pulp and paper	99.93%	100%
Leader-Invest JSC	Leader-Invest	Real estate	100%	100%
Agroholding Steppe JSC (Note 8)	Steppe	Agriculture	84.63%	90.50%

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Principal place of business	Profit / (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018	2017
MTS	Russia	3,422	28,004	23,570	57,880

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

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations. The consolidated financial information presented below is indicative of pre-exclusion of intra-group transactions.

	MTS	
	2018	**2017**
Current assets	268,934	146,032
Non-current assets	647,059	405,038
Total assets	**915,993**	**551,070**
Current liabilities	295,471	156,671
Non-current liabilities	542,957	270,194
Total liabilities	**838,428**	**426,865**
Equity attributable to shareholders of Sistema	41,704	62,246
Non-controlling interests	35,861	61,959
Revenue	480,293	442,910
Expenses	(472,461)	(386,320)
Profit for the year	**7,832**	**56,590**
Profit attributable to shareholders of Sistema	3,426	28,586
Profit attributable to the non-controlling interests	4,406	28,004
Other comprehensive income/(loss) attributable to shareholders of Sistema	3,907	(1,413)
Other comprehensive income/(loss) attributable to the non-controlling interests	3,892	(1,413)
Other comprehensive income/(loss) for the year	**7,799**	**(2,826)**
Total comprehensive income attributable to shareholders of Sistema	7,333	27,173
Total comprehensive income attributable to the non-controlling interests	8,298	26,592
Total comprehensive income for the year	**15,631**	**53,765**
Dividends paid to non-controlling interests	25,643	26,584
Net cash inflow from operating activities	154,390	144,640
Net cash outflow from investing activities	(78,389)	(81,510)
Net cash outflow from financing activities	(25,924)	(50,445)
Net cash inflow	**50,077**	**12,685**

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

36. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flows:

	2018	2017
Additions to the assets leased	25,856	-
Equipment and licenses acquired under capital leases	-	2,628
Amounts owed for capital expenditures	1,128	2,715
Payables related to business acquisitions	1,302	270

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

				Non-cash changes				
	1 January 2018	Cash flows from financial activities (i)	Cash flows from operation activities (ii)	Disposal/ acquisition of subsidiaries (Note 6, 7)	Currency exchange	Changes in the share capital	Other changes (iii)	31 December 2018
Loans and borrowings	517,981	163,266	-	131	22,965	17	(6,025)	698,335
Capital transactions of subsidiaries	-	(10,354)	-	-	-	6,725	3,629	-
Lease liability	203,761	(21,044)	(18,383)	532	-	-	42,501	207,367
Liability under agreement with Rosimuchestvo	23,028	(10,330)	-	-	3,607	-	(95)	16,210
Dividents payable	4,578	(29,952)	-	-	-	29,789	-	4,415
Other financial liabilities	12,573	(981)	-	-	-	-	(215)	11,377
Total	**761,921**	**90,605**	**(18,383)**	**663**	**26,572**	**36,531**	**39,795**	**937,704**

			Non-cash changes					
	1 January 2017	Cash flows from financial activities (i)	Disposal of subsidiaries (Note 6)	New financial lease arrangements	Currency exchange	Changes of the share capital	Other changes (iii)	31 December 2017
Borrowings	478,126	65,488	(5,107)	2,628	(4,880)	(11)	(425)	535,819
Capital transactions of subsidiaries	-	(33)	-	-	-	3,499	(3,466)	-
Operations with own shares	-	(1,481)	-	-	-	1,481	-	-
Liability to Rosimushchestvo	33,065	(8,532)	-	-	(1,446)	-	(59)	23,028
Dividends payable	249	(38,792)	-	-	-	43,121	-	4,578
Other financial liabilities	33,499	(4,320)	(19,840)	-	(308)	-	3,542	12,573
Total	**544,939**	**12,330**	**(24,947)**	**2,628**	**(6,634)**	**48,090**	**(408)**	**575,998**

(i) The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.
(ii) The cash flows are represented by interest paid.
(iii) Other changes include interest accruals and payments.

38. LEGAL CLAIM OF ROSNEFT AND BASHNEFT

In May 2017, PJSC NK Rosneft, PJSOC Bashneft and the Ministry of Land and Property Relations of the Republic of Bashkortostan (the "MLPR of the RB") filed legal claims against the Company and its subsidiary JSC Sistema-Invest with the Republic of Bashkortostan Arbitration Court seeking to recover RUB 106,630 million of damages allegedly suffered by Bashneft as a result of its reorganization (the "Claim"), arranged by the Group in 2014. The Republic of Bashkortostan Arbitration Court accepted the Claim and opened case #A07-14085/2017. The amount of damages under the Claim was subsequently increased to RUB 170,619 million.

On 22 December 2017, Sistema, Sistema-Invest, Rosneft, Bashneft and the MLPR of the RB signed a settlement agreement under the Claim (the "Settlement Agreement"). According to the Settlement Agreement, all sides recall all their lawsuits and abandon all claims against each other, and the Company is obliged to pay Bashneft RUB 100 billion by 30 March 2018 in three tranches: RUB 20 billion before 29 December 2017, RUB 40 billion before 28 February 2018 and RUB 40 billion before 30 March 2018.

On 26 December 2017, the Republic of Bashkortostan Arbitration Court approved the Settlement Agreement. The decision of the court on approval of the Settlement Agreement stipulated that on approval of the Settlement Agreement the dispute is considered to be resolved and the decision of the Republic of Bashkortostan Arbitration Court of 30 August 2017 under the Claim should not be enforced.

In February and March 2018, the Company raised loans of the total amount of RUB 80 billion from Gazprombank and Sberbank which are secured by 52.09% of the shares of Detsky Mir and shares of MTS, which are recorded as collateral in proportion to the drawdown of the loan from Sberbank.

By 5 March 2018, the Group early repaid the liability under the Settlement Agreement partially from its own funds and partially from borrowed funds.

On 21 March 2018, the Arbitration Court of the Republic of Bashkortostan satisfied a motion by Bashneft, Rosneft and the MLPR of the RB regarding the withdrawal of claims totalling RUB 131.6 billion that were filed against the Company and Sistema-Invest in December 2017, and terminated the proceedings on case #A07-38665/2017.

The Company and Sistema-Invest have also withdrawn previously filed claims as per the terms of the Settlement Agreement.

The parties have thus fully and duly performed the Settlement Agreement.

39. CONTINGENCIES AND COMMITMENTS

Capital commitments – A capital commitment is a contractual obligation to make payment in the future, mainly in relation to buy assets such as network infrastructure. These amounts are not recorded in the consolidated statement of financial position since the Group has not yet received goods or services from suppliers. At 31 December 2018, the Group had capital commitments of RUB 45,282 million (31 December 2017: RUB 42,323 million) relating to the acquisitions of property, plant and equipment.

Guarantees – At 31 December 2018, MTS Bank guaranteed loans for several companies which totalled RUB 10,587 million (31 December 2017: RUB 5,580 million). These guarantees would require payment by the Group in the event of default on payment by the respective debtor. Such guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with IAS 37, and the amount initially recognized less, where appropriate, cumulative amortisation recognized in accordance with the revenue recognition policies.

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

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

In March 2015, upon winning a tender, MTS-Ukraine, a subsidiary of MTS, has acquired a nationwide license for the provision of UMTS (3G) telecommunications services. The license with the cost of UAH 2,715 million (RUB 6,015 million at the acquisition date) has been granted for 15 years. In accordance with the terms of the license MTS-Ukraine is required to provide coverage across Ukraine by April 2020.

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

Management believes that as of 31 December 2018 the Group complied with the conditions of the aforementioned licenses.

Agreement with Apple – In April 2017, the Group entered into an unconditional purchase agreement with Apple Rus LLC to buy 615,000 iPhone handsets at the prices relevant as at the dates of purchases over a period ending 30 June 2019. Pursuant to the agreement the Group is also required to arrange iPhone advertising campaign. As of 31 December 2018 the Group fully completed total purchase installment outlined by the agreement.

Restriction on transactions with the shares of BPGC – In 2014, in the course of litigation, which the Group is not a party to, the court imposed restrictions on transactions with the shares of BPGC owned by the Group. The restrictions do not limit the Group's voting rights, rights to receive dividends or any other shareholders rights.

Taxation – Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have different interpretations, and the effects on the financial statements could be significant.

Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. As of 31 December 2018, provisions for additional taxes and customs settlements comprised RUB 1,102 million (31 December 2017: RUB 1,216 million).

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

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

In accordance with the rules on controlled foreign companies, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, should be included in the income tax base of the controlling entities in particular cases. The management of the Group does not expect any significant effect of these changes on the consolidated financial statements of the Group.

Potential adverse effects of economic instability and sanctions in Russia – Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

Political and economic crisis in Ukraine – During the year ended 31 December 2014, a deterioration in the political environment of Ukraine has led to general instability, economic deterioration and armed conflict in eastern Ukraine.

Economic risks especially apply to funds deposited in Ukrainian banks, whose liquidity is affected by the economic downturn. As of 31 December 2018, the Group held RUB 6,596 million in current accounts and deposits in Ukrainian banks.

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

Legal proceedings – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Group operates. At 31 December 2018, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 10,078 million.

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

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

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

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

40. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The total impact of changes described below on the consolidated statement of financial position as of 1 January 2018 is as follows:

	31 December	Impact of			1 January
	2017	IFRS 9	IFRS 15	IFRS 16	2018
Non-current assets					
Property, plant and equipment	411,467	-	(966)	(12,458)	398,043
Right-of-use assets	-	-	-	200,483	200,483
Other intangible assets	97,915	-	6,952	(203)	104,664
Investments in associates and joint ventures	20,783	-	(37)	-	20,746
Deferred tax assets	35,809	22	268	326	36,425
Other financial assets	104,395	(1,810)	-	-	102,585
Other assets	18,169	-	1,186	(1,051)	18,304
Total non-current assets	**767,034**	**(1,788)**	**7,403**	**187,097**	**959,746**
Current assets					
Inventories	81,401	-	(7,366)	(125)	73,910
Contract assets	-	-	5,788	-	5,788
Accounts receivable	54,836	(694)	(142)	(2)	53,998
Advances paid and prepaid expenses	15,324	-	8	(5)	15,327
Other financial assets	99,798	(750)	-	-	99,048
Total current assets	**370,615**	**(1,444)**	**(1,712)**	**(132)**	**367,327**
Total assets	**1,137,649**	**(3,232)**	**5,691**	**186,965**	**1,327,073**
Equity					
Retained earnings	(17,375)	(215)	1,450	(489)	(16,629)
Accumulated other comprehensive income/(loss)	2,332	(1,051)	-	-	1,281
Equity attributable to shareholders of Sistema	47,866	(1,266)	1,450	(489)	47,561
Non-controlling interests	74,957	626	1,170	(27)	76,726
Total equity	**122,823**	**(640)**	**2,620**	**(516)**	**124,287**
Non-current liabilities					
Borrowings	381,561	(3,189)	-	-	378,372
Lease obligations	12,090	-	-	164,287	176,377
Deferred tax liabilities	38,160	391	546	224	39,321
Other liabilities	7,537	-	(1,004)	(1,082)	5,451
Total non-current liabilities	**496,107**	**(2,798)**	**(458)**	**163,429**	**656,280**
Current liabilities					
Borrowings	139,403	206	-	-	139,609
Lease obligations	2,765	-	-	24,619	27,384
Accounts payable	114,402	-	44	(428)	114,018
Other liabilities	48,789	-	2,888	(139)	51,538
Provisions	13,038	-	597	-	13,635
Total current liabilities	**518,719**	**206**	**3,529**	**24,052**	**546,506**
Total equity and liabilities	**1,137,649**	**(3,232)**	**5,691**	**186,965**	**1,327,073**

Lease liabilities as of 31 December 2017 include financial lease obligations recognized in accordance with IAS 17, *Leases*. Contract liabilities and other non-financial liabilities as of 31 December 2017 include advanced received and subscriber prepayments.

IFRS 16, Leases

The standard requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. The standard also includes a new definition of a lease and requirements for its presentation, new disclosures requirements and changes in the accounting for sale and leaseback transactions. For all types of leases lessees should recognize: (a) assets and liabilities related to lease contracts and (b) depreciation of right-of-use assets separately from lease obligations interest in the statement of comprehensive income. IFRS 16 replaced IAS 17, *Leases* and all related interpretations.

Transition. The standard is effective for annual periods starting 1 January 2019 or after that date, the Group early adopted the standard effective 1 January 2018 concurrent with the adoption of the new standard IFRS 15*, Revenue from Contracts with Customers*.

According to the transition provisions of IFRS 16, *Leases*, the Group selected the modified retrospective method of transition with the cumulative effect of initially applying the standard as an adjustment to retained earnings. In accordance with this method the Group did not restate comparative information for the previous period.

The Group made use of the following practical expedients on the date of transition:

- relief from the requirement to reassess whether a contract is, or contains the lease;
- application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- use of assessment of whether leases are onerous applying IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* immediately before the date of initial application as an alternative to performing an impairment review;
- permission to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Effect from the adoption. As a result of adoption of IFRS 16, *Leases*, the Group recognized right-of-use assets of RUB 200,483 million. The effect from the adoption of IFRS 16, *Leases,* is presented in the table above.

IFRS 15, Revenue from Contracts with Customers

IFRS 15*, Revenue from Contracts with Customers* is effective since 1 January 2018. It replaces the existing standards IAS 18, *Revenue*, IAS 11, *Construction Contracts,* IFRIC 15, *Agreements for the Construction of Real Estate,* and other related interpretations.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers.

In accordance with IFRS 15 the Group recognizes revenue when or as a performance obligation is satisfied, i.e. when the control over goods or services that form a performance obligation of the Group is transferred to a customer.

Transition. The Group applied IFRS 15 retrospectively with the cumulative effect as an adjustment to retained earnings as at 1 January 2018.

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

Effect from the adoption. The most significant impact from the adoption of IFRS 15 on the Group's consolidated financial statements related to the deferral of certain incremental costs incurred in acquiring or fulfilling a contract with a customer. Capitalized cost of obtaining contracts is included in line "Other assets" of non-current assets in the consolidated statement of financial position.

Another impact of the standard includes later recognition of revenue in cases, where "material rights" (such as offering additional products and services free of charge) are granted to the customers, and there is a reallocation of remuneration between components of contracts with customers.

Additionally, as a result of changes in criteria of principal versus agent evolution in IFRS 15, the Group recognizes revenue for content services as an agent except for contracts where the Group controls the respective content.

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

	As if IFRS 15 was not applied	IFRS 15	As reported
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	423,880	(1,559)	422,321
Other intangible assets	105,018	7,107	112,125
Investments in associates	34,544	(37)	34,507
Other assets	418,877	2,177	421,054
Total non-current assets	**982,319**	**7,688**	**990,007**
CURRENT ASSETS:			
Other assets	349,497	(4,548)	344,949
Total current assets	**479,946**	**(4,548)**	**475,398**
TOTAL ASSETS	**1,462,265**	**3,140**	**1,465,405**

	As if IFRS 15 was not applied	IFRS 15	As reported
EQUITY AND LIABILITIES			
EQUITY:			
Accumulated loss	(68,049)	4,477	(63,572)
Accumulated other comprehensive loss	11,110	94	11,204
Equity attributable to owners of the Company	12,546	4,571	17,117
Non-controlling interests	45,802	109	45,911
Total equity	**58,348**	**4,680**	**63,028**
NON-CURRENT LIABILITIES:			
Deferred tax liabilities	38,998	1,163	40,161
Total non-current liabilities	**837,901**	**1,761**	**839,662**
CURRENT LIABILITIES:			
Other liabilities	312,233	(3,300)	308,933
Total current liabilities	**566,015**	**(3,300)**	**562,715**
TOTAL EQUITY AND LIABILITIES	**1,462,265**	**3,140**	**1,465,405**

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

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

	As if IFRS 15 was not applied	**IFRS 15**	**As reported**
Revenue	770,197	7,208	777,405
Revenue	**770,197**	**7,208**	**777,405**
Cost	(363,093)	(2,928)	(366,021)
Selling, general and administrative expenses	(145,559)	3,954	(141,605)
Depreciation and amortization	(127,055)	(3,886)	(130,941)
Operating profit	**123,712**	**4,890**	**128,602**
Profit before tax	**48,145**	**4,083**	**52,228**
Income tax expense	(31,992)	(817)	(32,809)
Loss for the period	**(41,571)**	**3,267**	**(38,304)**
Loss attributable to Sistema	(49,075)	3,179	(45,896)

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

	As if IFRS 15 was not applied	**IFRS 15**	**As reported**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss for the period	(41,483)	3,179	(38,304)
Adjustments for:			
Depreciation and amortization	128,123	3,896	132,019
Income tax expense	33,626	(817)	32,809
Movements in operating assets and liabilities:			
Accounts payables	11,519	(1,522)	9,997
NET CASH PROVIDED BY OPERATING ACTIVITIES	**83,892**	**4,736**	**88,628**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments to obtain and fulfill contracts	-	(5,645)	(5,645)
Other	(909)	909	-
NET CASH USED IN INVESTING ACTIVITIES	**(123,199)**	**(4,736)**	**(127,935)**

The effect from the adoption of IFRS 15, *Revenue from Contracts with Customers* is presented in the table above.

IFRS 9, Financial Instruments

The standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and brings together the following aspects of accounting for financial instruments: classification and measurement, impairment, derecognition and general hedge accounting. IFRS 9 introduces following categories of financial instruments measurement: at amortized cost, at fair value through Profit and Loss and at fair value through Other Comprehensive Income.

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

Transition. The Group did not restate 2017 comparatives in accordance with IFRS 9. Thus 2017 comparatives are recognized in accordance with IAS 39 and cannot be compared with financial information for 2018. The Group recognized the cumulative effect arising from the transition to IFRS 9 as an adjustment to the opening balance of retained earnings. Effect of adoption is presented above.

Effect from the adoption. The main impact of IFRS 9 is in the way the Group accounts for the impairment of financial assets. Application of expected credit losses model under IFRS 9 resulted in earlier recognition of credit losses for other financial assets and trade receivables of RUB 3,254 million. Also as a result of IFRS 9 adoption the Group recognized RUB 2,983 million gain relating to modification of its financial liabilities.

Standards, interpretations and amendments in issue but not yet effective

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

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

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

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

41. EVENTS AFTER THE REPORTING DATE

Acquisition of shares under the Share Repurchase Plan – Since the end of the reporting period MTS acquired 38,358,388 shares of its common stocks representing 1.92% of share capital issued by MTS.

Sale of investment in Ozon Holdings Limited – In February 2019 the Group purchased 18.69% stake in Ozon Holdings Limited from MTS for RUB 7.9 billion.

Ruble bonds placement – In February Sistema issued exchange-traded bonds series 001P-09 totaling RUB 10 billion a maturity of 10 years. The Group has an unconditional obligation to repurchase bonds in 3 years. The coupon period is 182 days.

Purchase of additional stake in MTS-Bank – In February 2019 Sistema and Sistema Telecom Aktivy, its 100% subsidiary, sold 39.5% stake in MTS Bank to Mobile TeleSystems B.V., 100% subsidiary of MTS, for RUB 11.4 billion. As a result of the transaction, Sistema's share in MTS Bank decreased to 5.0% and MTS's share increased from 55.2% to 94.7%.

Sale of stake in Leader Invest – In February the Group sold 51% of the shares of JSC Leader Invest to Etalon Group PLC for RUB 15.2 billion. As result of the transaction, the Group's stake in Leader Invest will amount to 49%.

Acquisition of stake in Etalon Group PLC – In February the Group purchased 25% stake in Etalon Group PLC from Viacheslav Zarenkov, it's founder and the largest shareholder, and his family members, for USD 226.6 million.

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

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 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 MTS's former operations in Uzbekistan (Note 5). MTS is reviewing the allegations and intends to defend its interests. It is currently impossible to measure possible implications and amount of claim reliably.

Ruble bonds placement – In March Sistema issued exchange-traded bonds series 001P-10 totaling RUB 10 billion a maturity of 10 years. The Group has an unconditional obligation to repurchase bonds in 3.5 years. The coupon period is 182 days.

Acquisition of own shares in Agroholding Steppe – In March 2019, Agroholding Steppe purchased own shares from a minority shareholder for RUB 2.0 billion. As a result of the transaction, the Group's ownership in Agroholding Steppe increased to 92.75%.