

SISTEMA PJSFC AND SUBSIDIARIES

Condensed Interim Consolidated
Financial Statements
for the Six Months ended 30 June 2019
(unaudited)

SISTEMA PJSFC AND SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the condensed interim consolidated financial statements that present fairly the financial position of Sistema Public Joint Stock Financial Corporation and its subsidiaries (the "Group") as of 30 June 2019, and the results of its operations, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

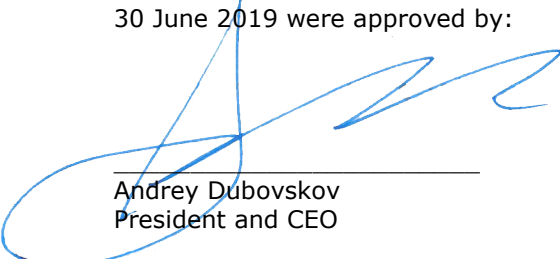
In preparing the condensed interim consolidated financial statements, management is responsible for:

- 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 IAS 34 has been followed, subject to any material departures disclosed and explained in the condensed interim 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 condensed interim consolidated financial statements of the Group comply with IAS 34;
- 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 condensed interim consolidated financial statements of the Group for the six months ended 30 June 2019 were approved by:



Andrey Dubovskov
President and CEO



Vladimir Travkov
Vice President, Finance and
Investments (CFO)

29 August 2019

REPORT ON REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Sistema Public Joint Stock Financial Corporation and its subsidiaries (the "Group") as of 30 June 2019 and the related condensed interim consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2019, and its consolidated financial performance and its consolidated cash flows for the six months then ended in accordance with IAS 34 *Interim Financial Reporting*.

Vladimir Kozyrev
Engagement partner

29 August 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, 125009, Russia

Audit Firm: AO Deloitte & Touche CIS

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

Primary State Registration Number: 1027700425444

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

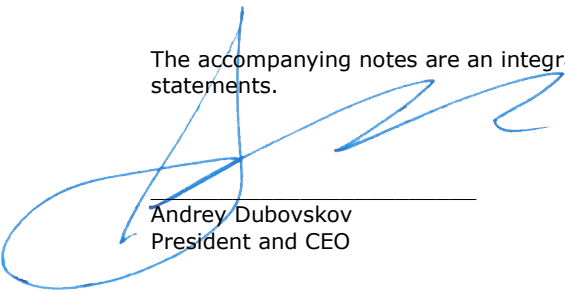
Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

SISTEMA PJSFC AND SUBSIDIARIES

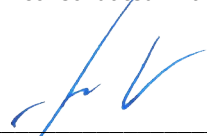
CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS (in millions of Russian Rubles, except for earnings per share)

	Note	Six months ended 30 June	
		2019 (unaudited)	2018 (unaudited)
Continuing operations			
Revenue	12	379 645	345 174
Cost of sales		(181 684)	(155 545)
Selling, general and administrative expenses		(68 969)	(64 600)
Depreciation and amortisation		(67 187)	(64 127)
Impairment of long-lived assets		(146)	(379)
Impairment of financial assets		(1 613)	(2 372)
Taxes other than income tax		(2 415)	(3 018)
Share of the profit or loss of associates and joint ventures	7	(566)	1 752
Other income		4 260	4 160
Other expenses		(3 024)	(2 734)
Operating income		58 301	58 311
Finance income		4 029	3 622
Finance costs		(49 486)	(32 270)
Currency exchange gain/(loss)		8 708	(7 259)
Profit before tax		21 552	22 404
Income tax expense		(8 930)	(9 207)
Profit from continuing operations		12 622	13 197
Discontinued operations			
Profit/(Loss) from discontinued operations	8	27 195	(400)
Profit for the period		39 817	12 797
Attributable to:			
Shareholders of Sistema PJSFC		23 179	(2 919)
Non-controlling interests		16 638	15 716
		39 817	12 797
(Losses)/earnings per share (basic and diluted), Russian Rubles:			
From continuing operations		(0.19)	(0.26)
From continuing and discontinued operations		2.44	(0.31)

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



Andrey Dubovskov
President and CEO



Vladimir Travkov
Vice President, Finance and
Investments (CFO)

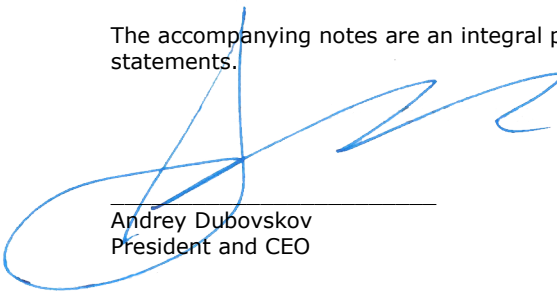
29 August 2019

SISTEMA PJSFC AND SUBSIDIARIES


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

	Six months ended 30 June	
	2019 (unaudited)	2018 (unaudited)
Profit for the period	39 817	12 797
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss:		
Unrecognised actuarial gain	-	228
Items that may be reclassified subsequently to profit or loss:		
Currency translation income on foreign operations in subsidiaries	(8 503)	9 794
Currency translation loss on foreign operations in associates and joint ventures	(79)	-
Net loss on revaluation of financial instruments	(228)	(4 652)
Other comprehensive income, net of tax	(8 810)	5 370
Total comprehensive income	31 007	18 167
Attributable to:		
Shareholders of Sistema PJSFC	15 949	(260)
Non-controlling interests	15 058	18 427
	31 007	18 167

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



Andrey Dubovskov
President and CEO



Vladimir Travkov
Vice President, Finance and
Investments (CFO)

29 August 2019

SISTEMA PJSFC AND SUBSIDIARIES

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

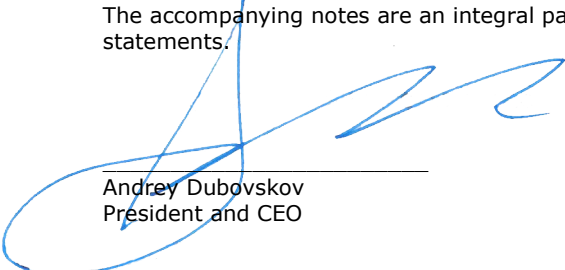
	Note	30 June 2019 (unaudited)	31 December 2018
Assets			
<i>Non-current assets</i>			
Property, plant and equipment		424 981	422 321
Investment property		20 265	23 310
Goodwill		59 602	59 488
Other intangible assets		110 210	112 125
Right-of-use assets		193 777	194 247
Investments in associates and joint ventures	7	65 641	34 507
Deferred tax assets		35 105	32 648
Other financial assets	9	107 387	95 557
Deposits in banks		174	186
Other assets		14 973	15 618
Total non-current assets		1 032 115	990 007
<i>Current assets</i>			
Inventories		86 346	97 131
Contract assets		5 994	7 297
Accounts receivable		61 606	63 517
Advances paid and prepaid expenses		14 792	16 984
Current income tax assets		6 724	4 195
Other taxes receivable		20 841	18 641
Other financial assets	9	81 963	106 329
Deposits in banks		2 907	15 506
Restricted cash		7 369	8 614
Cash and cash equivalents		76 578	114 183
Other assets		1 967	3 090
		367 087	455 487
Assets held for sale		-	19 911
Total current assets		367 087	475 398
Total assets		1 399 202	1 465 405

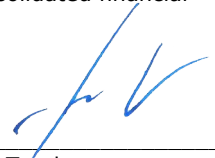
SISTEMA PJSFC AND SUBSIDIARIES

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

	Note	30 June 2019 (unaudited)	31 December 2018
Equity and liabilities			
<i>Equity</i>			
Share capital		869	869
Treasury shares		(4 329)	(4 759)
Additional paid-in capital		75 421	73 375
Accumulated loss		(41 455)	(63 572)
Accumulated other comprehensive income		3 975	11 204
Equity attributable to shareholders of Sistema		34 481	17 117
Non-controlling interests		27 596	45 911
Total equity		62 077	63 028
<i>Non-current liabilities</i>			
Borrowings	11	540 047	592 442
Lease liabilities		182 493	183 161
Bank deposits and liabilities		4 952	3 414
Deferred tax liabilities		37 985	40 161
Provisions		6 194	4 368
Liability to Rosimushchestvo		7 351	8 097
Other financial liabilities		2 318	1 473
Other liabilities		6 295	6 546
Total non-current liabilities		787 635	839 662
<i>Current liabilities</i>			
Borrowings	11	162 662	105 893
Lease liabilities		25 104	24 206
Accounts payable		107 814	126 917
Bank deposits and liabilities		136 003	129 872
Contract liabilities and other liabilities		50 215	50 141
Income tax payable		1 818	2 775
Other taxes payable		18 884	20 409
Dividends payable	10	24 344	4 415
Provisions		11 444	73 244
Liability to Rosimushchestvo		7 635	8 113
Other financial liabilities		3 567	9 904
		549 490	555 889
Liabilities related to assets held for sale		-	6 826
Total current liabilities		549 490	562 715
Total equity and liabilities		1 399 202	1 465 405

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


Andrey Dubovskov
President and CEO


Vladimir Travkov
Vice President, Finance and
Investments (CFO)

29 August 2019

SISTEMA PJSFC AND SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (in millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	(Accumulated loss)/ Retained earnings	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	-	-	-	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	-	-	-	(2 919)	-	-	(2 919)	15 716	12 797
Other comprehensive (loss)/income, net of tax	-	-	-	-	6 643	(3 984)	2 659	2 711	5 370
Total comprehensive (loss)/income	-	-	-	(2 919)	6 643	(3 984)	(260)	18 427	18 167
Settlements under long-term motivation program	-	(1 057)	1 057	-	-	-	-	-	-
Capital transactions of subsidiaries	-	1 844	-	-	-	-	1 844	(4 724)	(2 880)
Dividends declared by Sistema PJSFC	-	-	-	(1 044)	-	-	(1 044)	-	(1 044)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(24 730)	(24 730)
30 June 2018	869	68 643	(4 759)	(20 592)	3 297	643	48 101	65 699	113 800
1 January 2019	869	73 375	(4 759)	(63 572)	10 224	980	17 117	45 911	63 028
Profit for the period	-	-	-	23 179	-	-	23 179	16 638	39 817
Other comprehensive (loss), net of tax	-	-	-	-	(7 069)	(160)	(7 229)	(1 581)	(8 810)
Total comprehensive income/(loss)	-	-	-	23 179	(7 069)	(160)	15 950	15 057	31 007
Business combinations and disposals of subsidiaries	-	-	-	-	-	-	-	(159)	(159)
Purchases of own shares	-	(239)	430	-	-	-	191	-	191
Settlements under long-term motivation program of subsidiaries	-	384	-	-	-	-	384	158	542
Capital transactions of subsidiaries (Note 6)	-	1 901	-	-	-	-	1 901	(12 818)	(10 917)
Dividends declared by Sistema PJSFC (Note 10)	-	-	-	(1 062)	-	-	(1 062)	-	(1 062)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(20 553)	(20 553)
30 June 2019	869	75 421	(4 329)	(41 455)	3 155	820	34 481	27 596	62 077

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

SISTEMA PJSFC AND SUBSIDIARIES

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

	Six months ended 30 June	
	2019 (unaudited)	2018 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	39 817	12 797
Adjustments for:		
Depreciation and amortisation	67 187	64 759
Share of the profit or loss of associates and joint ventures	566	(1 767)
Finance income	(4 029)	(3 695)
Finance costs	49 486	33 308
Income tax expense	8 930	9 254
Currency exchange loss/(gain)	(12 151)	7 208
(Gain)/loss from discontinued operations	(23 752)	388
Profit on disposal of property, plant and equipment	(1 102)	(1 247)
Impairment loss on loans to customers	1 539	1 728
Dividends received from associates and joint ventures	1 990	1 551
Non-cash compensation to employees	541	287
Impairment of long-lived assets	146	379
Impairment of financial assets	1 613	2 526
Other non-cash items	(190)	2 300
	<u>130 591</u>	<u>129 776</u>
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	(13 191)	9 055
Bank deposits and liabilities	9 953	9 360
Restricted cash	1 245	(4 351)
Financial assets at fair value through profit or loss	5 170	2 561
Accounts receivable	(3 557)	(4 997)
Advances paid and prepaid expenses	47	(2 557)
Other taxes receivable	(2 667)	(3 083)
Inventories	(1 274)	(19 510)
Accounts payable	(14 826)	(6 142)
Subscriber prepayments	791	582
Other taxes payable	(207)	3 255
Advances received and other liabilities	3 749	492
Fines and penalties related to investigation into former operations in Uzbekistan	(55 607)	-
Payment in accordance with the Settlement Agreement	-	(80 000)
Interest paid	(41 784)	(31 460)
Income tax paid	<u>(18 127)</u>	<u>(12 338)</u>
Net cash provided by/(used in) operating activities	<u>306</u>	<u>(9 357)</u>

SISTEMA PJSFC AND SUBSIDIARIES

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

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment and investment property	(36 774)	(36 576)
Proceeds from sale of subsidiaries, net of cash acquired	10 786	-
Proceeds from sale of property, plant and equipment	2 939	2 678
Payments to obtain and fulfill contracts	(2 207)	(2 104)
Payments for purchases of intangible assets	(12 800)	(13 140)
Payments for businesses, net of cash acquired	(2 689)	(2 988)
Payments for investments in associates and joint ventures	(16 288)	(4 348)
Proceeds from sale of investments in affiliated companies	524	114
Payments for financial assets, long-term	(9 848)	(10 809)
Proceeds from sale of financial assets, long-term	1 247	1 895
Payments for financial assets, short-term	(3 877)	(28 111)
Proceeds from sale of financial assets, short-term	28 019	31 260
Interest received	4 199	6 905
Other	1 105	(926)
Net cash used in investing activities	(35 664)	(56 150)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	110 706	207 631
Principal payments on borrowings	(84 552)	(87 637)
Debt issuance costs	(50)	(595)
Principal payments of lease liabilities	(11 256)	(10 230)
Acquisition of non-controlling interests in existing subsidiaries	(14 156)	(5 572)
Proceeds from transactions with non-controlling interests	69	-
Dividends paid	(1 753)	(1 496)
Proceeds from sale of own shares	233	-
Cash outflow under credit guarantee agreement related to foreign-currency hedge	-	(981)
Net cash provided by financing activities	(759)	101 120
Effect of foreign currency translation on cash and cash equivalents	(1 488)	1 969
Net increase in cash and cash equivalents	(37 605)	37 582
Cash and cash equivalents at the beginning of the period	114 183	59 959
Cash and cash equivalents at the end of the period	76 578	97 541

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

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS **(amounts in millions of Russian Rubles, unless otherwise stated)**

1. GENERAL

Sistema Public Joint Stock Financial Corporation (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, timber, woodworking, 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, Moscow, 125009.

The majority shareholder of the Company is Vladimir Evtushenkov. Minority holdings are held by certain senior 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 financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements have been prepared on the assumption that the Group will continue to operate in the foreseeable future. Current liabilities of the Group as of 30 June 2019 exceeded current assets by RUB 182,403 million. 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 196,633 million.

These financial statements do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2018 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition.

These unaudited condensed interim consolidated financial statements were approved by the Company's President and CEO and authorised for issue on 29 August 2019.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The same accounting policies, presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for 2018.

None of interpretations and amendments to standards adopted by the Group on 1 January 2019 had significant effect on the Group's consolidated financial statements.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments for the six months ended 30 June:

	External revenues		Inter-segment revenue		Segment operating income/(loss)	
	2019	2018	2019	2018	2018	2018
MTS	241 284	229 906	1 890	1 062	58 679	54 356
Detsky mir	55 898	48 115	1	1	4 720	3 493
RTI	8 438	9 162	27	52	(1 582)	(608)
Corporate	1 067	996	456	408	(4 456)	(3 500)
Total	306 687	288 179	2 374	1 523	57 361	53 741
Other	72 958	56 995	849	774	6 811	4 353
	379 645	345 174	3 223	2 297	64 172	58 094
Inter-segment eliminations					(5 871)	217
Operating income					58 301	58 311
Finance income					4 029	3 622
Finance costs					(49 486)	(32 270)
Foreign currency exchange gain/(loss)					8 708	(7 259)
Profit before tax					21 552	22 404

Although operations of certain Group's subsidiaries and their financial results, historically, have been subject to certain seasonal trends between the first and second half of the financial year, the Group's consolidated financial results, historically, have not been subject to significant seasonal trends.

5. BUSINESS COMBINATIONS

The information on business combinations which took place during six months ended 30 June 2019 is summarised below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
JSC RIKT	Telecommunications	June	97%	MTS	360
Agriculture businesses	Agriculture	April	82%-100%	Agroholding Steppe	523
LLC Severlesprom	Lumbering	June	100%	Segezha	140
Total					1 023

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

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

	<u>JSC RIKT</u>	<u>Agriculture businesses</u>	<u>LLC Severlesprom</u>
Cash consideration	360	523	140
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	118	261	-
Other intangible assets	172	-	164
Other non-current assets	16	335	(1)
Other current assets	37	194	22
Current liabilities	(37)	(709)	(14)
Non-current liabilities	(37)	(114)	(33)
Net assets	269	(33)	138
Goodwill	91	556	2

At the date of these condensed interim consolidated financial statements, purchase price allocation was not finalised and has, therefore, only been provisionally determined, because the Group had not finalised valuation of identifiable assets and liabilities of acquired companies.

Pro forma financial data reflecting the results of the Group as if acquisitions had occurred as of 1 January 2019 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.

6. CAPITAL TRANSACTIONS OF SUBSIDIARIES

The information on capital transactions of subsidiaries which took place during the six months ended 30 June 2019 and their impact on the Group's equity is summarised below:

	<u>Increase/ (Decrease) of additional paid-in capital</u>	<u>Decrease of non-controlling interests</u>
MTS shares tender offer	(527)	(7 949)
Acquisition of additional stake in Agroholding Steppe	66	(2 116)
Disposal of an additional stake in MTS Bank to MTS	2 210	(2 206)
Other	152	(547)
Total impact	1 901	(12 818)

MTS shares tender offer – Under the share acquisition plan approved in 2018 MTS purchased 57,633,224 ordinary shares, including 28,929,344 shares from Sistema Finance S.A., a subsidiary of the Group, for an aggregate purchase price of RUB 7.45 billion.

Disposal of an additional stake in MTS Bank to MTS – In February 2019, Sistema and its wholly-owned subsidiary Sistema Telecom Assets LLC, divested a 39.5% stake in PJSC MTS Bank ("MTS Bank") to Mobile TeleSystems B.V., a wholly owned subsidiary of MTS for RUB 11.4 billion. As a result of the transaction, Sistema's effective ownership in MTS Bank decreased to 52.4%.

Acquisition of an additional stake in Agroholding Steppe – In March 2019, Agroholding Steppe purchased own shares from a minority shareholder for RUB 2 billion. As a result of the transaction, the Group's ownership in Agroholding Steppe increased to 92.75%.

SISTEMA PJSFC AND SUBSIDIARIES

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7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Ozon – In February 2019, Sistema purchased 18.7% stake in Ozon Holdings Limited (“Ozon”) from MTS. Also in the 6 months ended 30 June 2019 Sistema purchased stakes in Ozon from third parties. As a result, direct ownership increased to 21.9%. Sistema together with its subsidiary JSC Sistema Venture Capital owns 38.2% of Ozon. The carrying amount of the investment in Ozon as at 30 June 2019 is RUB 6.9 billion. The Group’s share of loss of Ozon for the six months ended 30 June 2019 is RUB 3.6 billion.

Sale of a stake in Leader Invest and acquisition of 25% stake in Etalon Group – In February 2019, Sistema sold 51% stake in JSC Leader Invest to Etalon Group for RUB 15.2 billion. The carrying amount of the residual 49% stake in Leader Invest is RUB 13.7 billion as at 30 June 2019. The Group purchased 25% stake in Etalon Group for USD 226.6 million. The carrying amount of the investment in Etalon Group is RUB 15 billion as at 30 June 2019.

LLC Element – In December 2018, RTI board of directors approved the contribution of microelectronics assets in a JV with Rostec. In May 2019, the participants of Element contributed their assets to the share capital of the company. RTI contributed its microelectronics assets with the fair value of RUB 8.5 billion. RTI share of ownership in Element is 42.4%, the carrying amount of the investment in Element is RUB 8.3 billion as at 30 June 2019.

In other projects, the Group retained its ownership interests and, as of 30 June 2019, continues to account them as investments in joint ventures and associates.

8. DISCONTINUED OPERATIONS

Profit/(loss) from discontinued operations for the six month of 2019 is summarized below:

	<u>2019</u>	<u>2018</u>
Profit on disposal of microelectronics assets (Note 7)	4 194	-
Results of microelectronics assets (Note 7)	(373)	209
Profit on disposal of Leader Invest (Note 7)	20 248	-
Results of Leader Invest (Note 7)	(317)	(221)
Foreign currency exchange gain on fine related to investigation into former operations in Uzbekistan	3 443	-
Loss on disposal of SSTL	-	(388)
	<u>27 195</u>	<u>(400)</u>

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

9. OTHER FINANCIAL ASSETS

At 30 June 2019 and 31 December 2018, other financial assets, less allowance for impairment losses, comprise:

	30 June 2019	31 December 2018
Financial assets measured at fair value through profit or loss		
Debt and equity securities	36 754	45 085
Currency derivatives not designated as hedge instruments	1 169	3 049
Interest rate swaps designated as cash flow hedges	-	2 837
	37 923	50 971
Financial assets measured at fair value through other comprehensive income		
Cross-currency swaps designated as cash flow hedges	244	2 797
Debt and equity securities	10 289	10 153
	10 533	12 950
Financial assets measured at amortized costs		
Debt securities	30 921	41 187
Bank loans to customers	81 050	68 227
Interbank loans due from banks	5 403	6 416
Other loans	23 520	22 135
	140 894	137 965
Total	189 350	201 886
Current	81 963	106 329
Non-current	107 387	95 557
Total	189 350	201 886

At 30 June 2019 and 31 December 2018, financial assets attributable to the Group's banking activities (MTS Bank and East-West United Bank) comprise:

	30 June 2019	31 December 2018
Financial assets measured at fair value through profit or loss		
Debt and equity securities	10 574	13 654
	10 574	13 654
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	10 289	10 153
	10 289	10 153
Financial assets measured at amortized costs		
Cash and cash equivalents	36 809	23 500
Bank loans to customers	91 737	78 089
Interbank loans due from banks	5 403	6 416
Debt securities	29 677	39 943
	163 626	147 948
Less: allowance	(10 687)	(9 862)
	173 802	161 893

SISTEMA PJSFC AND SUBSIDIARIES

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The movement in the allowance for expected credit losses during the six months ended 30 June 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Allowance for expected credit losses, 1 January	9 862	10 459
Impact of IFRS 9 adoption	-	1 788
Additions charged to the operating results	1 328	1 497
Amounts written off against the allowance	(469)	(2 473)
Disposal	(110)	-
Recovery of bad debt written-off	281	-
Currency translation adjustment	(205)	324
	<u>10 687</u>	<u>11 595</u>
Allowance for expected credit losses, 30 June	10 687	11 595

10. DIVIDENDS

On 30 June 2019, an annual general meeting of shareholders approved the total dividend payment of RUB 1,062 million for 2018 representing RUB 0.11 per ordinary share or RUB 2.20 per one global depository receipt.

11. BORROWINGS

At 30 June 2019 and 31 December 2018, the Group's borrowings comprise:

	<u>30 June 2019</u>	<u>31 December 2018</u>
Bank loans	480 678	491 018
Corporate bonds	220 461	206 332
Other	1 570	985
	<u>702 709</u>	<u>698 335</u>
Current	162 662	105 893
Non-current	540 047	592 442
	<u>702 709</u>	<u>698 335</u>

At 30 June 2019, the schedule of repayments of borrowings for the next five years and thereafter is as follows:

Within one year	162 662
In one to two years	137 533
In two to three years	226 029
In three to four years	125 538
In four to five years	16 071
In more than five years	34 876
	<u>702 709</u>

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

Bank loans – As at 30 June 2019 and 31 December 2018, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at 30 June 2019)	30 June 2019	31 December 2018
USD-denominated:				
China Development Bank	2019-2021	LIBOR 6m+3.15%	8 988	10 421
Citibank	2019-2024	LIBOR + 0.9%	-	10 980
Other			4 393	5 109
			13 381	26 510
EUR-denominated:				
ING	2019-2027	3.99%	4 245	4 946
Alfa-Bank	2019-2028	3.92%	14 364	15 892
Other			1 164	1 352
			19 773	22 190
RUB-denominated:				
Sberbank	2019-2023	1.5%-14.50%	236 628	235 909
VTB	2019-2022	7.20%-10.50%		
		CBR+2.5%-4.8%	129 191	132 421
Gazprombank	2019-2025	9%-11.5%	22 435	23 554
Otkrytie	2019-2025	8.9%-9.50%	21 591	19 125
Alfa Bank	2019-2025	1.5%-11.87%		
		CBR+2.0%	29 184	24 795
Other			8 286	6 297
			447 315	442 101
Other currencies			209	217
Total bank loans			480 678	491 018

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

Corporate bonds – As at 30 June 2019 and 31 December 2018, the Group's notes consisted of the following:

	Currency	Interest rate	30 June 2019	31 December 2018
MTS International Notes due 2023	USD	5.00%	28 003	31 090
MTS International Notes due 2020	USD	8.63%	18 957	20 870
Sistema PJSFC Notes due February 2028	RUB	9.25%	15 000	15 000
Sistema PJSFC Notes due March 2027	RUB	8.90%	14 964	14 964
MTS Notes due 2022	RUB	7.70%	14 963	14 958
MTS Notes due 2022	RUB	9.00%	9 994	9 993
MTS Notes due 2021	RUB	8.85%	9 992	9 990
MTS Notes due 2021	RUB	7.10%	9 990	9 988
Sistema PJSFC Notes due January 2028	RUB	9.80%	9 953	9 482
Sistema PJSFC Notes due November 2026	RUB	9.90%	9 941	9 635
MTS Notes due 2025	RUB	7.25%	9 827	9 986
MTS Notes due 2024	RUB	8.70%	9 771	-
Sistema PJSFC Notes due February 2029	RUB	9.90%	9 447	-
MTS Notes due 2023	RUB	6.85%	9 350	9 348
Sistema PJSFC Notes due March 2029	RUB	9.90%	8 383	-
MTS Notes due 2024	RUB	8.60%	7 484	-
Sistema PJSFC Notes due October 2026	RUB	9.80%	6 298	6 115
MTS Notes due 2024	RUB	8.40%	4 989	-
Detskiy mir due 2026	RUB	8.90%	4 897	-
Sistema PJSFC Notes due September 2025	RUB	12.50%	4 127	2 136
Detskiy mir due 2024	RUB	9.50%	3 000	3 000
MTS Notes due 2031	RUB	9.40%	1 080	1 080
MTS Notes due 2020	RUB	7.50%	40	40
Sistema International Notes due May 2019	USD	6.95%	-	24 705
Other			11	3 952
Total notes			220 461	206 332

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 repurchased could be submitted disregarding the expectations of the Group 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 February 2028	September 2019
Sistema PJSFC Notes due November 2026	February 2020
Sistema PJSFC Notes due October 2026	November 2020
Sistema PJSFC Notes due January 2028	February 2021
Sistema PJSFC Notes due February 2029	March 2022
Sistema PJSFC Notes due September 2025	April 2022
Sistema PJSFC Notes due March 2027	April 2022
Sistema PJSFC Notes due March 2029	October 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 non-compliance with certain financial ratios, cancellation of telecom licenses, credit ratings downgrade, significant court decisions, encumbrances and confiscation of certain assets and other material adverse circumstances.

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As of 30 June 2019, the Group had RUB 7,915 million of long-term debt, which was presented within current liabilities in the consolidated statement of financial position because of non-compliance by subsidiaries with certain non-financial covenants (31 December 2018: RUB 16,915 million).

12. REVENUE

The following is analysis of the Group's revenue from continuing operations for the six months ended 30 June 2019:

	Reportable segments					Total
	MTS	Detsky mir	RTI	Corporate	Other	
Type of goods/services						
Mobile and fixed line services	196 642	-	-	-	-	196 642
Sale of goods	30 241	55 898	-	-	-	86 139
Works under specification	-	-	6 934	-	961	7 895
Production	-	-	1 330	-	41 998	43 328
Financial services	12 757	-	-	-	359	13 116
Other services	-	-	-	1 067	25 229	26 296
Other	1 644	-	174	-	4 411	6 229
	241 284	55 898	8 438	1 067	72 958	379 645
Revenue from goods or services transferred to customers						
At a point in time	30 241	55 898	1 462	1 067	70 249	158 917
Over time	211 043	-	6 976	-	2 709	220 728
	241 284	55 898	8 438	1 067	72 958	379 645

The following is analysis of the Group's revenue from continuing operations for the six months ended 30 June 2018:

	Reportable segments					Total
	MTS	Detsky mir	RTI	Corporate	Other	
Type of goods/services						
Mobile and fixed line services	193 211	-	-	-	-	193 211
Sale of goods	27 209	48 115	-	-	-	75 324
Works under specification	-	-	6 266	-	1 983	8 249
Production	-	-	2 382	-	32 332	34 714
Financial services	9 486	-	-	-	731	10 217
Other services	-	-	514	996	20 753	22 263
Other	-	-	-	-	1 196	1 196
	229 906	48 115	9 162	996	56 995	345 174
Revenue from goods or services transferred to customers						
At a point in time	27 209	48 115	2 804	996	55 073	134 197
Over time	202 697	-	6 358	-	1 922	210 977
	229 906	48 115	9 162	996	56 995	345 174

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (amounts in millions of Russian Rubles, unless otherwise stated)

13. FAIR VALUES

The following fair value hierarchy table, used to determine fair value, presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 30 June 2019 and 31 December 2018.

	30 June 2019				31 December 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
At fair value through other comprehensive income	10 289	244	-	10 533	10 153	2 797	-	12 950
At fair value through profit or loss	20 596	8 240	9 087	37 923	23 933	16 591	10 447	50 971
	30 885	8 484	9 087	48 456	34 086	19 388	10 447	63 921
Financial liabilities								
Derivative instruments	-	(1 793)	-	(1 793)	-	(350)	-	(350)
Contingent considerations	-	-	(917)	(917)	-	-	(936)	(936)
Liabilities under put option agreements	-	-	(83)	(83)	-	-	(3 735)	(3 735)
	-	(1 793)	(1 000)	(2 793)	-	(350)	(4 671)	(5 021)

The liability under put option agreement for redeemable non-controlling interests in MTS Armenia amounted to RUB 5,067 million and RUB 3,629 million as of 30 June 2019 and 31 December 2018, respectively, and measured at fair value using a discounted cash flow technique. MTS has a legally enforceable right and intends to exercise the option by offsetting the amount of the liability under put option with the due amount of the loan issued to the holders of 20% stake in MTS Armenia. Therefore, these financial instruments are presented on a net basis in the consolidated statement of financial position as of 30 June 2019.

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:

	30 June 2019		31 December 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Borrowings	702 709	705 433	698 335	696 948

Changes in the Level 3 financial assets were not significant for the six months ended 30 June 2019. There were no significant gains and losses of Level 3 liabilities for the six months ended 30 June 2019.

14. RELATED PARTY TRANSACTIONS

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

Trading transactions – During the six months ended 30 June 2019, sales to related parties comprised RUB 1,016 million (2018: RUB 323 million), purchases from related parties comprised RUB 364 million (2018: RUB 65 million). As at 30 June 2019, trade balances receivable and advances paid to related parties comprised RUB 7,130 million, payable to related parties comprised RUB 1,323 million (31 December 2018: RUB 5,591 million and RUB 1,242 million, respectively).

Financial transactions – At 30 June 2019, amounts owed by related parties and to related parties comprised RUB 16,425 million and RUB 38,651 million, respectively (31 December 2018: RUB 9,519 million and RUB 43,949 million).

Finance costs related to such transactions with related parties and recognised in profit and loss during the six months ended 30 June 2019 amounted to RUB 776 million (2018: RUB 1,008 million).

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Compensation of key management personnel – During the six months ended 30 June, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board, was as follows:

	2019	2018
Short-term benefits	468	440

15. CONTINGENCIES AND COMMITMENTS

Capital commitments – At 30 June 2019, the Group had capital commitments of RUB 45,112 million (31 December 2018: RUB 45,282 million) relating to the acquisitions of property, plant and equipment.

Guarantees – At 30 June 2019, MTS Bank and East-West United Bank guaranteed loans which totaled RUB 14,690 million (31 December 2018: RUB 10,587 million). These guarantees would require payment by the Group in the event of default on payment by the respective debtor.

Licenses – Management believes that as of 30 June 2019 the Group complied with conditions of the licenses used.

Agreement with Apple – In April 2017, the Group entered into an unconditional purchase agreement with Apple Rus LLC to buy 615 thousand iPhone handsets at list prices at the dates of respective purchases over a period ended 30 June 2019. Pursuant to the agreement the Group is also required to incur certain iPhone advertising and promotion costs. As of 30 June 2019 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.

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 Group's former subsidiary in Uzbekistan.

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

The United States District Court for the Southern District of New York approved a deferred prosecution agreement ("DPA") entered by 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 (RUB 59.1 billion as of 31 December 2018) to the United States. MTS 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. In March 2019, MTS paid total criminal penalty of USD 850 million (RUB 55.6 billion as of the payment date).

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.

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

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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.

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

	<u>30 June 2019</u>	<u>31 December 2018</u>
Contingent liabilities for additional taxes other than income tax	1,248	730
Contingent liabilities for additional income taxes	2,037	2,051

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 – Potential adverse effects of economic instability and sanctions in Russia - In 2014 political and economic sanctions targeting certain Russian economic sectors were introduced by the EU, US and other countries. Sanctions were subsequently extended and there is significant uncertainty regarding the extent and timing of further sanctions. Furthermore, the Russian Ruble has materially depreciated against the U.S. Dollar and Euro and Ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% in December, 2014. In 2018 due to Russia's ability to remain stable amid severe external shocks, Russia's sovereign credit ratings were increased from “stable” to “positive”. The Central Bank of Russia has gradually decreased its key rate to 7.25% as of June 30, 2019.

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 30 June 2019, the Group held RUB 3,704 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. As at 30 June 2019, the management estimates the range of possible losses in all pending litigations or other legal proceedings, being up to RUB 17,563 million.

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In August 2018, FAS Russia has charged MTS and other federal operators with violation of antimonopoly laws in respect to establishing discriminatory 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 later with establishing unreasonably high SMS prices. In May 2019, FAS Russia considered that MTS have breached the provisions of antimonopoly laws in respect to establishing discriminatory terms and conditions for SMS pricing and charging unreasonably high SMS prices and prescribed MTS to cease violations. MTS contests the decision and prescription of FAS Russia in the Moscow Arbitrate Court. It is currently impossible to measure possible implications of the case reliably.

16. EVENTS AFTER THE REPORTING DATE

Ruble bonds placement – In July 2019, MTS issued exchange-traded bonds totaling RUB 10 billion with a coupon rate of 7.9% and a maturity of 7 years and exchange-traded bonds totaling RUB 15 billion with a coupon rate of 8% and a maturity of 6 years. In July 2019, Sistema issued bonds series 001P-11 totalling RUB 10 billion with a maturity of 10 years. The Group has an unconditional obligation to repurchase bonds in 4 years. The coupon period is 182 days. Half year coupon rate is 9.4%.

Settlement of liability under put option agreement – In August 2019, MTS exercised the call option to purchase the remaining 20% stake in MTS Armenia (Note 13). The call option was exercised by offsetting the amount of the liability under put option with the due amount of the loan issued to the holders of 20% stake in MTS Armenia. Exercise price was determined by an independent appraiser as stipulated by the option agreement.

Investment in Sintez and Biocom – In August 2019, the Group together with a financial partner acquired 46.5% equity stake in Sintez Kurganskoe Medical Products Company (“Sintez”) and a 75.1% equity stake in Biocom from Marathon Group for a consideration of RUB 11.8 billion. The partners made their investments through a joint holding company, Sinocom Investments Limited, investment of the Group is RUB 0.3 billion. Sistema and the financial partner have also signed an agreement whereby Sistema will acquire the financial partner’s stake in Sinocom Investments Limited within three years of the initial transaction. The share of the Group in Sinocom Investments Limited has been pledged in accordance with the forward contracts.

Sale of 49% stake in Leader-Invest – In August 2019, the Group sold 49% stake in Leader-Invest to its associate Etalon Group for RUB 14.6 billion.

Increase of stake in LLC Element – In July 2019, the Group acquired an additional stake in LLC Element for a deferred cash consideration of RUB 1.5 billion to be repaid in 18 months after closing of the deal. As a result of the transaction, the Group’s ownership increased from 42.4% to 50.0%.