

Sistema PJSFC

Financial Statements for 2019
and Independent Auditor's Report
(Translated from original in Russian –
Unofficial Translation)

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Sistema Public Joint Stock Financial Corporation (hereinafter, the "Company"), which comprise:

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

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

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter
How the matter was addressed in the audit
Valuation of investments in non-traded securities

This matter was determined as a key audit matter because the amount of investments in non-traded securities as at 31 December 2019 is significant, and management is required to make complex and subjective judgements when checking the existence of a steady decrease in the value of investments and assessing the need for recognizing sustainable impairment and calculating its amount.

See Notes 2.5 and 3 to the financial statements.

We obtained an understanding of the procedures and controls of the Company related to assessing the impairment indicators and making provisions for impairment of the investments in non-traded securities, as well as the evaluation methodology used by the Company.

We reviewed the Company's analysis of the indicators of a sustainable decrease in the value of investments and its calculation of provision for impairment. On a sample basis, we reviewed the Company's approach to determine estimated value of investments. Depending on the circumstances, our procedures included assessment of the management's approach to determine the estimated value of investments and testing underlying data, or independent calculation of an estimate or a range on the basis of all available information for selected investments and its comparison with the estimated value determined by the Company.

We also validated the disclosure of such investments in the notes to the financial statements prepared by the Company.

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The Russian original signed by

Vladimir Kozyrev
Engagement partner

6 April 2020

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

Company: Sistema PJSFC

Certificate of State Registration № 025.866
issued by the Moscow Registration Chamber on 16 July
1993.

Primary state registration number: 1027700003891

Certificate of registration in the Unified State Register
№ 77 011222220 issued on 11 November 2002
by the Moscow Inter-District Inspectorate of the Russian
Federal Tax Service № 46

Location: Moscow, 125009, 13/1 Mokhovaya St.

Independent Auditor: AO Deloitte & Touche CIS

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

Primary state registration number: 1027700425444

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

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

**Balance sheet
as of 31 December 2019**

UNOFFICIAL TRANSLATION

Organisation **SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION**

Taxpayer identification number

Type of economic activity **Investments in securities**

Business entity type / form of ownership

Public joint-stock company / **Private ownership**

Measure unit: thousand roubles

Location (address)

13/1 Mokhovaya St., Moscow, 125009 Russia

Financial statements are subject to mandatory audit

☒ YES ☐ NO

Name of audit firm/full name of individual auditor

AO Deloitte & Touche CIS

Taxpayer identification number of audit firm/individual auditor

Principal State Registration Number of audit firm/individual auditor

OKUD form

Date (day, month, year)

OKPO

INN

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Codes

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Notes	Parameter	Code	As of 31 December 2019	As of 31 December 2018	As of 31 December 2017
	ASSETS				
	I. NON-CURRENT ASSETS				
	Intangible assets	1110	24,803	23,676	13,156
	Fixed assets	1150	1,400,480	1,489,437	1,534,127
	including:				
	Buildings	11501	1,112,983	1,198,546	1,244,762
	Other fixed assets	11502	286,899	290,297	288,917
	Fixed assets construction	11503	598	594	448
3	Investments	1170	371,761,410	338,423,233	380,185,647
	including:				
3.1	Units in mutual funds	11701	978,727	945,726	948,553
3.2	Shares and equity interests	11702	370,782,683	336,803,546	379,237,094
	Derivative financial instruments	11703	-	673,961	-
	Deferred tax assets	1180	9,847,717	10,318,669	17,574,698
	including:				
	Provisions	11801	853,975	861,037	878,067
	Prepaid expenses	11802	8,942,663	9,412,928	16,624,093
	Total for section I	1100	383,034,409	350,255,015	399,307,628
	II CURRENT ASSETS				
	Inventories	1210	52,043	37,589	43,068
	including:				
	Materials	12101	52,043	37,589	43,068
	Input VAT	1220	2,311	4,983	6,507
	Accounts receivable	1230	13,586,049	4,633,148	3,869,882
	including:				
	Settlements with suppliers and contractors	12301	85,347	82,360	117,079
	Settlements with buyers and customers	12302	1,099	212	356,263
	Settlements in respect of taxes and levies	12303	10,206	4,321	52,388
	Settlements in respect of social insurance and social security	12304	17,098	12,957	14,639
	Settlements with employees	12305	4,166	1,240	7,696
	Settlements with various debtors and creditors	12306	5,058,698	4,531,132	2,176,690
	Settlements in respect of dividends and other income due	12307	8,409,434	-	1,143,488
3	Investments (excluding cash equivalents)	1240	43,369,603	43,442,446	41,665,608
	including:				
3.3	Debt securities	12401	-	1,067,593	-
3.4	Loans granted	12402	43,369,603	39,852,568	41,665,608
3.5	Bank deposits	12403	-	308,000	-
	Derivative financial instruments	12404	-	2,214,285	-
	Cash and cash equivalents	1250	2,767,349	4,518,707	3,748,229
	including:				
	Cash on hand	12501	397	303	376
	Operating accounts	12502	115,015	2,705,906	903,423
	Foreign currency accounts	12503	117,026	1,562,907	2,832,890
	Other special accounts	12504	6,657	220,623	11,540
	Bank deposits and cash equivalents	12505	2,528,255	28,969	-
	Other current assets	1260	91,649	126,111	182,841
	including:				
	Prepaid expenses	12601	90,268	125,077	181,794
	Total for section II	1200	59,869,004	52,762,984	49,516,135
	BALANCE	1600	442,903,414	403,017,999	448,823,763

Notes	Parameter	Code	As of 31 December 2019	As of 31 December 2018	As of 31 December 2017
	EQUITY AND LIABILITIES				
	III. EQUITY AND RESERVES				
	Authorised capital	1310	868,500	868,500	868,500
	Revaluation of non-current assets	1340	342,285	342,285	306,366
	including:				
	Revaluation of fixed assets	13401	342,285	342,285	306,366
	Additional capital (without revaluation)	1350	37,708,280	37,708,280	37,708,280
	Reserve funds	1360	43,425	43,425	43,425
	including:				
	Statutory reserves	13601	43,425	43,425	43,425
	Retained earnings	1370	192,276,831	114,248,636	161,805,075
	Total for section III	1300	231,239,321	153,211,126	200,731,646
	IV. LONG-TERM LIABILITIES				
5	Borrowings	1410	170,123,521	156,745,171	109,645,130
	including:				
	Credits	14101	100,070,000	122,628,531	47,640,030
	Loans	14102	-	-	28,805,100
	Debt securities	14103	70,053,521	34,116,640	33,200,000
	Deferred tax liabilities	1420	1,113,757	24,219	28,127
6	Provisions	1430	-	8,096,798	13,426,607
	Other liabilities	1450	2,634,154	-	4,659,615
	including:				
	Derivative financial instruments	14501	-	-	1,059,615
	Settlements with various debtors and creditors	14502	2,634,154	-	3,600,000
	Total for section IV	1400	173,871,432	164,866,188	127,759,479
	V. SHORT-TERM LIABILITIES				
5	Borrowings	1510	18,743,471	64,417,916	21,683,507
	including:				
	Credits	15101	-	1,042,059	5,000,000
	Loans	15102	-	34,735,300	-
	Interest on credits	15103	116,030	201,502	94,931
	Interest on loans	15104	-	294,903	245,243
	Debt securities (promissory notes, bonds, etc.) issued	15105	16,500,000	26,700,000	15,618,457
	Interest on debt securities (promissory notes, bonds, etc.) issued	15106	2,127,441	1,444,152	724,876
	Accounts payable	1520	7,115,111	7,932,088	84,656,237
	including:				
	Settlements with suppliers and contractors	15201	56,181	56,747	118,686
	Settlements with buyers and customers	15202	70	32	32
	Settlements in respect of taxes and levies	15203	17,902	27,176	38,971
	Settlements in respect of social insurance and social security	15204	188,144	30,096	41,003
	Settlements with employees	15205	562	650	1,119
	Dividends payable	15206	4,213,796	4,213,722	4,441,287
	Settlements with various debtors and creditors	15207	2,638,456	3,603,664	80,015,139
	Deferred revenue	1530	1,325	-	-
6	Provisions	1540	11,932,754	12,590,681	13,926,928
	Other liabilities	1550	-	-	65,966
	Total for section V	1500	37,792,661	84,940,685	120,332,638
	BALANCE	1700	442,903,414	403,017,999	448,823,763

The Russian original is signed by

Vice President,
Finance and
Investments (CFO)
of Sistema PJSC

Vladimir Travkov
(printed name)

06 April 2020

**Statement of Financial Results
for January–December 2019**

UNOFFICIAL TRANSLATION

Organisation **SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION**

Taxpayer identification number

Type of economic activity

Investments in securities

Business entity type / form of ownership

Public joint-stock company / Private ownership

Measure unit: thousand roubles

OKUD form

Date (day, month, year)

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Notes	Parameter	Code	for January - December 2019	for January - December 2018
	Revenue	2110	44,947,796	31,192,955
	including:			
	Equity holdings in other companies	21101	44,931,482	31,178,987
	Cost of sales	2120	-	-
	Gross profit (loss)	2100	44,947,796	31,192,955
7	Administrative expenses	2220	(10,349,809)	(6,990,040)
	including:			
	Payroll and social security contributions	22201	(9,214,685)	(5,897,954)
	Profit / (loss) from sales	2200	34,597,987	24,202,915
	Interest income	2320	6,087,299	4,811,069
5	Interest expense	2330	(19,409,648)	(17,919,274)
	Other income	2340	118,021,673	14,170,159
	including:			
	Income from sale of fixed assets	23401	2,128	2,074
	Income from sale of property rights except rights of claim	23402	173,761	-
	Income from sale of securities	23403	63,817,033	10,200,566
	Income from reverse of allowances	23404	3,717,921	37,193
	Foreign exchange gains	23405	1,805,589	-
4	Revaluation of financial investments	23406	47,520,102	-
	Sale (purchase) of foreign currency	23407	-	257,022
	Income received as difference in contribution to the authorised capital	23408	886,012	-
	Income from derivative securities	23409	-	3,426,015
	Other expenses	2350	(56,163,444)	(62,257,619)
	including:			
	Expenses related to sale of fixed assets	23501	(25)	(252)
	Expenses related to sale of property rights except rights of claim	23502	(745,874)	-
	Expenses related to sale of securities	23503	(39,219,426)	(8,005,948)
	Expenses related to allowances	23504	(6,053,656)	(6,350,544)
	Expenses related to contributions to subsidiaries	23505	(5,451,053)	-
	Expenses related to borrowings	23506	(769,473)	(1,370,045)
	Foreign exchange gains	23407	-	(6,556,532)
4	Revaluation of financial investments	23508	-	(34,039,494)
	Sale (purchase) of foreign currency	23509	(128,246)	-
	Expenses related to derivative securities	23510	(2,699,489)	-
6	Expenses related to recognised provisions	23511	-	(4,347,375)
	Profit / (loss) before tax	2300	83,133,867	(36,992,750)
8	Current income tax	2410	(9,544)	(16,865)
	including permanent tax (liabilities) assets	2421	8,648,100	(4,898,666)
	Change in deferred tax liabilities	2430	(1,089,538)	3,908
	Change in deferred tax assets	2450	2,449,447	8,779,029
	Miscellaneous	2460	(5,394,537)	(18,268,724)
	including:			
	Taxes payable in respect of dividends and other income due	24601	(2,474,137)	(2,233,665)
	Write-off of deferred assets and liabilities	24602	(2,920,399)	(16,035,059)
	Net income/ (loss)	2400	79,089,695	(46,495,402)

Notes	Parameter	Code	for January–December 2019	for January–December 2018
	FOR REFERENCE			
	Gain from revaluation of non-current assets not included in the net income (loss) for the period	2510	-	35,919
	Gain from other operations not included in the net income (loss) for the period	2520	-	463
	Gross financial result for the period	2500	79,089,695	(46,459,019)
13	Basic earnings / (loss) per share (in roubles)	2900	8.2	(4.8)
13	Diluted earnings/ (loss) per share (in roubles)	2910	8.2	(4.8)

The Russian original is signed by

Vice President,
Finance and
Investments (CFO)
of Sistema PJSFC

Vladimir Travkov
(printed name)

on 06 April 2020

**Statement of Changes in Equity
for January–December 2019**

Organisation **SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION**

Taxpayer identification number

Type of economic activity **Investments in securities**

Business entity type / form of ownership

Public joint-stock company / **Private ownership**

Measure unit: thousand roubles

OKUD form

Date (day, month, year)

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Codes		
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1. Equity flows

Parameter	Code	Authorised capital	Additional paid-in capital	Reserve capital	Retained earnings	Total
Equity as of 31 December 2017	3100	868,500	38,014,646	43,425	161,805,075	200,731,646
For 2018						
Equity increase, total:	3210	-	35,919	-	463	36,382
including:						
net income	3211	-	-	-	-	-
revaluation of assets	3212	-	35,919	-	-	35,919
incomes directly related to equity increase	3213	-	-	-	463	463
Equity decrease, total:	3220	-	-	-	(47,556,902)	(47,556,902)
including:						
loss	3221	-	-	-	(46,495,402)	(46,495,402)
dividends	3227	-	-	-	(1,061,500)	(1,061,500)
Equity as of 31 December 2018	3200	868,500	38,050,565	43,425	114,248,636	153,211,126
For 2019						
Equity increase, total:	3310	-	-	-	79,089,695	79,089,695
including:						
net income	3311	-	-	-	79,089,695	79,089,695
Equity decrease, total:	3320	-	-	-	(1,061,500)	(1,061,500)
including:						
dividends	3327	-	-	-	(1,061,500)	(1,061,500)
Equity as of 31 December 2019	3300	868,500	38,050,565	43,425	192,276,831	231,239,321

Parameter	Code	As of 31 December 2019	As of 31 December 2018	As of 31 December 2017
Net assets	3600	231,239,321	153,211,126	200,731,646

The Russian original is signed by

Vice President,
Finance and
Investments
(CFO) of Sistema
PJSFC

Vladimir Travkov
(printed name)

06 April 2020

**Statement of Cash Flows
for January–December 2019**

		OKUD form	Codes		
		Date (day, month, year)	0710005		
			31	12	2019
Organisation	SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION	OKPO	27987276		
Taxpayer identification number		INN	7703104630		
Type of economic activity	Investments in securities	OKVED 2	64.99.1		
Business entity type / form of ownership	Public joint-stock company / Private ownership	OKOPF / OKFS	12247	16	
Measure unit:	thousand roubles	OKEI	384		

Parameter	Code	for January - December 2019	for January - December 2018
Cash flow from operating activities			
Total cash inflows:	4110	35,476,095	31,364,357
including:			
proceeds from sale of products, goods, works and services	4111	33,362	16,522
dividends	4114	34,044,535	30,232,153
other receipts	4119	1,398,198	1,115,682
Total cash outflows:	4120	(30,637,682)	(106,751,827)
including:			
payments to suppliers (contractors) for raw and consumable materials, works and services	4121	(1,765,116)	(1,612,637)
remuneration to employees	4122	(8,882,796)	(5,863,478)
payments of interest on borrowing	4123	(18,795,579)	(17,145,345)
income tax	4124	(11,797)	(2,209)
recovery of losses by court order	4125	-	(80,000,000)
other payments	4129	(1,182,393)	(2,128,159)
Net cash flow from/(used in) operating activities	4100	4,838,413	(75,387,470)
Cash flow from investing activities			
Total cash inflows:	4210	96,415,640	36,671,482
including:			
proceeds from sale of non-current assets (except for investments)	4211	2,570	2,405
proceeds from sale of shares and equity interests in other companies	4212	62,804,570	8,822,190
proceeds from repayment of loans and sale of debt securities (rights to claim cash payments from other parties)	4213	28,780,903	26,647,992
dividends, interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	4214	4,512,401	1,197,869
proceeds from bank deposits	4215	308,000	-
other receipts	4219	7,197	1,027
Total cash outflows:	4220	(71,684,074)	(40,638,302)
including:			
payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	4221	(76,355)	(90,557)
payments related to acquisition of shares and equity interests in other companies	4222	(32,884,057)	(12,362,024)
payments related to acquisition of debt securities (rights to claim cash payments from other parties), provision of loans to other parties	4223	(33,115,645)	(27,835,765)
cash flows to bank deposits	4225	-	(308,000)
contributions to assets of other organisations	4226	(5,451,053)	-
other payments	4229	(156,965)	(41,956)
Net cash flow from/(used in) investing activities	4200	24,731,565	(3,966,820)

Parameter	Code	for January–December 2019	for January–December 2018
Cash flow from financial activities			
Total cash inflows:	4310	86,491,621	148,938,742
including:			
receipt of credits and loans	4311	43,740,000	122,000,000
proceeds from issue of bonds, promissory notes, other debt securities, etc.	4314	42,670,166	26,933,591
other receipts	4319	81,455	5,151
Total cash outflows:	4320	(117,740,775)	(69,393,724)
including:			
dividends and other income distribution payments to owners (shareholders)	4322	(1,061,134)	(1,285,639)
payments (redemption) of promissory notes and other debt securities; repayment of credits and loans	4323	(116,096,022)	(67,693,667)
other payments	4329	(583,619)	(414,418)
Net cash flow from/(used in) financial activities	4300	(31,249,155)	79,545,019
Net cash flow for the reporting period	4400	(1,679,177)	190,729
Opening balance of cash and equivalents	4450	4,518,707	3,748,229
Closing balance of cash and equivalents	4500	2,767,349	4,518,707
Effect of changes in foreign exchange rates against the rouble	4490	(72,181)	579,749

The Russian original is signed by
vice president,
Finance and
Investments
(CFO) of
Sistema PJSFC

Vladimir Travkov
(printed name)

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NOTES TO THE FINANCIAL STATEMENTS OF SISTEMA PJSFC FOR 2019

1. GENERAL INFORMATION

Sistema Public Joint Stock Financial Corporation, hereinafter referred to as the "Company", was registered by the Moscow Registration Chamber on 16 July 1993 (State Registration Certificate No. 025.866).

The Company was included in the Unified State Register of Legal Entities with the primary state registration number (OGRN) 1027700003891.

Full name of the Company in the Russian language: Публичное акционерное общество «Акционерная финансовая корпорация «Система».

Short name of the Company in the Russian language: ПАО АФК «Система».

Full name of the Company in the English language: Sistema Public Joint Stock Financial Corporation.

Short name of the Company in the English language: Sistema PJSFC.

Legal and actual address: 13/1 Mokhovaya St., Moscow, 125009, Russian Federation.

The controlling shareholder of the Company is Vladimir Petrovich Evtushenkov. Some of the senior executives and members of the Board of Directors of the Company are minority shareholders. Shares of the Company are traded on the London Stock Exchange in the form of depositary receipts and on the Moscow Exchange.

The main type of the Company's business activities is equity holdings in other companies.

The Company operates in accordance with the Civil Code of the Russian Federation, Federal Law "On Joint-Stock Companies" and other laws and regulations of the Russian Federation and the Company's Charter.

The average number of the Company's employees in 2019 and 2018 was 274 and 277 people, respectively.

JSC Reyestr is the company in charge of keeping records on the rights to securities.

2. ORGANISATION OF FINANCIAL ACCOUNTING

The Company's financial statements are prepared in accordance with the current Russian financial accounting and reporting rules.

The Company's accounting process was organised in compliance with the requirements of the Russian accounting regulations, the rules and regulations issued by the Ministry of Finance of the Russian Federation and by the regulatory authorities entitled to issue accounting regulations in accordance with federal laws.

In 2019, the accounting process was conducted in accordance with the procedures set forth in the Accounting Policy of the Company approved by the President's Order No Y-097/18 dated 28 December 2018.

2.1. Applicability of the going concern assumption

The financial statements of the Company are prepared by the Company's management on the basis of the assumption that the Company will continue its operations in the foreseeable future and that the Company does not have any intention or need to be liquidated or significantly reduce its operations and, therefore, all the liabilities of the Company will be settled in due course.

2.2. Chart of accounts

The Company has developed and is using a chart of accounts based on a standard chart of accounts for companies approved by the Ministry of Finance of the Russian Federation on 31 October 2000 with order No. 94n, and is using sub-accounts making it possible to ensure that its financial statements are consistent with the accounting and tax regulations and standards of the Russian Federation.

2.3. Stocktaking

Stocktaking is conducted in accordance with the "Methodological guidelines on the stocktaking of assets and financial liabilities" approved by the Ministry of Finance of the Russian Federation on 13 June 1995 with Order No 49.

The stocktaking of assets and liabilities was conducted as of 31 December 2019 with the exception of the stocktaking of intangible assets, fixed assets, valuables and inventories, investments in fixed assets, settlements with buyers and customers and settlements with suppliers, other debtors and creditors, that was conducted as of 1 December 2019.

2.4. Foreign currency assets and liabilities

The accounting of foreign currency transactions is done on the basis of the official rouble rate set by the Central Bank of Russia (CB RF) and valid as of the date of the relevant transaction. Assets and liabilities with values denominated in foreign currencies are recorded as amounts estimated on the basis of the official rouble rate set by CB RF and valid as of 31 December 2019, 2018, and 2017.

The rules and procedures for accounting for foreign currency assets and liabilities are set out in Accounting Standard (PBU) 3/2006 "Accounting for foreign currency assets and liabilities". In accordance with Accounting Standard (PBU) 3/2006, foreign currency assets and liabilities must be converted to roubles as of:

- the last date of the reporting month;
- the date of the respective transaction.

Foreign exchange differences are presented in the statement of financial results in other income and expenses on a net basis.

2.5. Accounting for investments

The initial measurement of investments acquired for a consideration is recognised as the total amount of expenses incurred in the course of their acquisition less VAT and other recoverable taxes (unless otherwise required by Russian law governing taxes and duties).

The initial measurement of investments acquired under contracts envisaging fulfilment of obligations in a non-monetary form is recognised as the value of the assets transferred or due to be transferred by the Company. The value of the assets transferred or due to be transferred is determined based on the market value.

Investments the current market value of which may be reliably determined are recorded in the financial statements at their current market value and adjusted on a quarterly basis. The difference between the current assessed market values of investments as of the reporting date and their previous values is recognised as other income and expenses on a net basis.

Such revaluation of investments the current market value of which may be reliably measured is performed on the last date of the reporting quarter. Should the last day of the quarter not be a business day, the revaluation is performed on the last trading day in such quarter.

If securities of any issuer owned by the Company are traded on several stock exchanges, the Company determines their current market value based on the trading statistics of the New

York Stock Exchange. If such securities are not listed on the New York Stock Exchange, the Company determines their current market value based on the trading statistics of the London Stock Exchange. If such securities are not listed on any international stock exchanges, the Company determines their current market value based on the trading statistics of the Moscow Exchange.

Investments the current market value of which may not be reliably determined are presented in the financial statements at their historical cost.

Valuation methods used for the disposal of investments:

- Investments in the form of non-issue grade securities, contributions in authorised (share) capitals of other companies (with the exception of the shares of joint-stock companies), accounts receivable acquired as a result of assignment, contributions of the Company under simple partnership agreement, loans and deposits in lending organisations granted to other companies are estimated at their initial acquisition value at the time of disposal;
- Investments in issue-grade securities with no current market price determined are estimated on a FIFO basis at the time of their disposal;
- Investments whose current market value is determined are estimated at disposal at the value of the last valuation performed.

As of 31 December of each reporting year, if there are any indicators of impairment of investments, an impairment review is conducted and, if necessary, allowance is made in the accounts for the impairment of investments in accordance with Accounting Standard (PBU) 19/02 "Accounting for financial investments". Allowance is recorded if the review confirms that there is a sustainable and significant reduction in the value of investments, which falls below the amount of financial benefits that the Company expects to receive from these investments.

2.6. Revenue recognition

The Company's income, depending on its nature, source and business area, is divided into:

- revenue from operating activities;
- other income.

The Company recognises the following types of income as revenue from operating activities:

- equity holdings in other companies (organisations) resulting in receipt of dividends;
- leasing of its assets;
- providing guarantees for the liabilities of third parties to their creditors;
- trust management of assets.

The types of income resulting from the following are recognised by the Company as "other income":

- revaluation of listed shares (on a net basis);
- sale / (purchase) of foreign currency (on a net basis);
- foreign exchange differences (on a net basis);
- derivative financial instruments (on a net basis);
- redemption of debt securities;
- sales of shares, interests and stakes;
- sales of fixed assets, intangible assets and materials;
- other operations.

Income from shareholdings in other companies (organisations) resulting in the generation of dividends is recorded in the accounts as of the date of the passing of decision by a general meeting of shareholders of an issuer on dividend payout.

Interest and discount (including coupon yield) on investments, provided that the conditions set in Accounting Standard (PBU) 9/99 "Income of Organisation" are met, are recognised as income as of the date of the Company obtaining the right to them, and:

- interest (discount) payable on debt securities is accrued at the end of the reporting period (month);
- interest (discount) on "after sight" promissory notes is accrued from the date of acquisition of the promissory note within a year from the date of the promissory note;
- interest (discount) on "after sight but not earlier than" promissory notes is accrued from the date of acquisition of the promissory note within the period before the stipulated "not earlier than" date plus one year.

2.7. Accounting for expenses

The Company's expenses, depending on their nature, source and business area, are divided into:

- expenses from operating activities;
- other expenses.

Selling and administrative expenses are recognised in the Statement of Financial Results fully in the period of their recognition as expenses from operating activities.

Expenses resulting from the following are recognised by the Company as "other expenses":

- revaluation of listed shares (on a net basis);
- sale (purchase) of foreign currency (on a net basis);
- foreign exchange differences (on a net basis);
- derivative financial instruments (on a net basis);
- sales of shares, interests and stakes;
- sale, disposal and other write-offs of fixed assets and other assets not specified above, other than cash, goods or products;
- allocations to allowances made in accordance with accounting standards;
- granting free-of-charge financial aid;
- fines and penalties for violation of contract terms;
- accounts receivable whose limitation period expired and other bad debts;
- other operations.

In case of sale of shares and/or units in respect of which any impairment allowances were made in the previous periods, the amount of income from recovery of such allowances is deducted from the amount of expenses from the sale of such shares and/or units.

2.8. Accounting for loans and credits

Expenses related to liabilities under received loans and credits include:

- interest charged on the amount of the loan (credit) payable to the lender (creditor) in the amount and on the terms specified in loan (credit) agreements;
- additional loan and credit expenses.

Additional loan and credit expenses include:

- amounts payable for informational and consulting services;
- amounts payable for the appraisal of loan (credit) agreement;
- other expenses directly related to obtaining loans (credits).

Additional loan and credit expenses are recorded as part of other expenses as incurred.

Interest payable to a lender (creditor) is evenly included in other expenses irrespective of the payment terms stipulated in loan (credit) agreements.

2.9. Accounting for allowances and provisions

Allowances. Accounts include charges for the following types of allowances:

- for impairment of investments (annually);
- for doubtful debts (quarterly).

The following procedure is used for creating allowances:

Allowances for impairment of investments are created at the end of the year for the amount of the difference between the carrying value and the estimated value of the investments for which it is not required to determine their current market value and the review of which confirmed a sustainable fall in value below the value of economic benefits that the Company expects to receive from such investments. Depending on the circumstances and information available, the Company determines an estimated value by engaging an independent appraiser or by using the net assets method and factoring in the estimated probability of investment recovery.

Allowances for doubtful debt are made for the following types of debt:

- doubtful debts of buyers and customers for provided services;
- other doubtful debtors.

Doubtful debts are the accounts receivable of the Company that are neither settled within the timeframes stipulated in the relevant agreement nor secured by any guarantees.

Provisions. The Company's accounts and reports include the following types of provisions:

- payment of quarterly and annual remuneration;
- payment of compensation for unused leaves;
- agreements unavoidable costs of which exceed proceeds expected from their execution.

2.10. Deferred income tax

In accordance with Accounting Standard (PBU) 18/02 "Accounting for income tax estimates" the Company's accounts and reports reflect a deferred income tax (deferred tax assets and deferred tax liabilities), i.e. amounts that may influence the amount of the current income tax in the subsequent reporting periods.

Income tax is calculated in compliance with the Russian Tax Code.

- Tax rate on dividends received from subsidiaries in which the Company has continuously held at least 50% over at least 365 calendar days, equals 0%.
- Tax rate on other dividends equals 13%.

- Tax rate on sale of shares and stakes in Russian companies, which the Company has continuously held for five years as of the sale date, subject to meeting the conditions stipulated by article 284.2 of the Russian Tax Code, is 0%;
- Tax rate on income in the form of accumulated coupon yields on government and municipal securities as well as some corporate debt instruments equals 15% or 0%;
- Tax rate on other types of income is 20%.

Deferred tax assets and income tax liabilities are shown using book value method, taking into account the timing differences between tax accounting and financial accounting (PBU 18/02). The Company recognises deferred tax assets in the reporting period in which the deductible timing differences arise, provided that there is a probability that the Company will receive taxable income in subsequent reporting periods. Deferred tax assets are recorded in the financial statements taking into account all deductible timing differences, except in case there is a probability that a deductible timing difference will not be reduced or fully eliminated in subsequent reporting periods. Income tax overpayments are not included in deferred tax assets (in the balance sheet, they are recorded as "Other accounts receivable").

3. INVESTMENTS

3.1. Units in mutual funds

Investments in units in mutual funds as of 31 December 2019, 2018 and 2017 are presented as follows:

	(RUB thousand)		
	31 December		
	2019	2018	2017
Closed-end mutual fund "Kreditny 1" managed by LLC Nadezhnoye Upravleniye	2,315,083	2,315,083	2,315,083
Open-end mutual fund "Reservny. Foreign Currency Investments" managed by MC LLC Sistema Capital	195,602	195,602	195,602
Less allowance for impairment	(1,531,958)	(1,564,959)	(1,562,132)
Total	978,727	945,726	948,553

3.2. Shares and equity interests

Investments in the shares and equity interests of subsidiaries and affiliates as of 31 December 2019, 2018 and 2017 are presented as follows:

	(RUB thousand)		
	31 December		
	2019	2018	2017
PJSC MTS (x) (Note 4)	199,396,517	154,319,205	186,259,770
Sistema Asia Pte.Ltd	70,282,093	70,282,093	70,282,093
FCD Projects Pte.Ltd (i)	43,595,908	43,595,908	43,595,908
JSC Business Nedvizhimost	33,966,227	33,966,227	33,966,227
PJSC Detsky Mir (Note 4)	24,942,067	34,843,662	36,941,982
JSC RTI (xi)	22,944,442	22,944,442	22,944,442
Sistema Finance S.A.	20,753,907	20,753,907	20,753,907
LLC ITR (ii)	20,033,806	16,536,569	8,240,811
Sistema Smart Technologies Limited (iii)	19,357,845	19,357,845	19,357,845
Ozon Holdings Limited (iv)	18,386,714	-	-
JSC Steppe AgroHolding	17,200,030	17,200,030	17,200,030
JSC Medsi Group	14,459,192	14,511,370	14,550,250
LLC Sistema Telecom Assets (v)	11,026,487	8,663,340	8,663,340
LLC GK Segezha	6,781,238	7,527,006	7,527,006
LLC Cosmos Hotel Group (vi)	5,590,065	-	-
EAST-WEST UNITED BANK S.A.	4,940,781	4,940,781	3,720,781
JSC Sitronics	2,556,256	2,556,256	2,556,256
JSC Sistema Venture Capital	2,423,756	2,423,756	2,423,756
JSC Leader Invest (vii)	-	13,147,941	13,147,941
PJSC MTS Bank (viii)	-	10,022,282	39,211,767
PJSC Mikron (ix)	-	8,100,880	8,100,880
Other	5,355,806	6,975,314	7,580,088
Less allowance for impairment	(173,210,454)	(175,865,268)	(187,787,986)
Total	370,782,683	336,803,546	379,237,094

- (i) As of 31 December 2019, FCD Projects Pte.Ltd was in the process of voluntary liquidation, as a result of which the Company will receive rights to a share of the company's assets with an aggregate value of USD 56,033 thousand which covers the book value of the investment net of allowance.
- (ii) LLC Kronstadt Group was renamed LLC ITR on 8 August 2019.
In December 2019, the Company made an additional contribution to the authorised capital of LLC ITR in a total amount of RUB 3.5 billion through conversion of an earlier provided loan, increasing its direct shareholding to 96.33%.
In June and December 2018, the Company made additional contributions to the authorised capital of LLC Kronstadt Group in a total amount of RUB 8.3 billion through conversion of earlier provided loans, increasing its direct shareholding to 94.084%.
- (iii) Sistema Shyam Teleservices Limited was renamed Sistema Smart Technologies Limited on 28 September 2018.
- (iv) In 2019, the Company acquired 21.9% of shares of Ozon Holdings Limited from its subsidiary PJSC MTS and minority shareholders. The Company also increased its direct shareholding in Ozon Holdings Limited to 31.3% through conversion of earlier provided loans.
- (v) In December 2019, the Company made an additional contribution to the authorised capital of LLC Sistema Telecom Assets in the amount of RUB 2.4 billion. As of 31 December 2019, the above changes in the authorised capital were not registered.
- (vi) In December 2019, the Company made a contribution to the authorised capital of LLC Cosmos Hotel Group in the amount of RUB 5.6 billion, which represents 58.3% of the authorised capital.
- (vii) In 2019, the Company sold its stake in JSC Leader Invest to ETALON GROUP PLC. As a result of the sale, the Company recognised other income in the amount of RUB 29.4 billion and other expenses in the amount of RUB 13.2 billion. On the same date, a subsidiary of the Company acquired 25% of shares in ETALON GROUP PLC for USD 226.6 million (RUB 15 billion).

(viii) In 2019, the Company sold its stake in PJSC MTS Bank to Mobile TeleSystems B.V., a 100% subsidiary of PJSC MTS. As a result of the sale, the Company recognised other income in the amount of RUB 12.5 billion and other expenses in the amount of RUB 10 billion.

In July 2018, the Company sold 28.63% of shares in PJSC MTS Bank to Mobile TeleSystems B.V. As a result of the transaction, the Company's direct shareholding in PJSC MTS Bank decreased to 43.24%. As a result of the sale, the Company recognised other income in the amount of RUB 8.3 billion and other expenses (net of the allowance used) in the amount of RUB 6.3 billion.

(ix) In 2019, the Company transferred its stake in PJSC Mikron to its subsidiary as part of the transaction envisaging Sistema Group's participation in the authorised capital of LLC Element. As a result of the sale, the Company recognised other income in the amount of RUB 5.45 billion.

(x) Some shares of PJSC MTS (319,868,641) were pledged to secure the Company's debt obligations.

(xi) Shares of JSC RTI were pledged to secure debt obligations of the Company's affiliates.

3.3. Debt securities

Debt securities as of 31 December 2019, 2018 and 2017 are presented as follows:

(RUB thousand)					
	Maturity	Interest rate	31 December		
			2019	2018	2017
RUB-denominated:					
Promissory note issued by RTI Microelectronics (i)	ASNE 01.01.2027	11.0%	3,360,291	3,360,291	3,360,291
FLB, issue 26212 (Management Company Sistema Capital)	15.05.2019	6.7%	-	1,067,593	-
Other			-	-	353,774
Allowance for impairment			(3,360,291)	(3,360,291)	(3,714,065)
Total			-	1,067,593	-
Long-term			-	-	-
Short-term			-	1,067,593	-
Total			-	1,067,593	-

Note: ASNE means "after sight, but not earlier"

FLB means "federal loan bonds"

(i) Promissory notes issued by CJSC RTI Microelectronics were pledged to secure debt obligations of the Company's affiliates.

3.4. Loans granted

Loans granted as of 31 December 2019, 2018 and 2017 are presented as follows:

		(RUB thousand)		
		31 December		
		2019	2018	2017
USD-denominated:				
Capgrowth Investments Limited	OD	13,746,161	-	-
Sistema Holding Ltd.	OD	292,504	1,736,765	5,644,820
		14,038,665	1,736,765	5,644,820
RUB-denominated:				
JSC Sistema Invest	OD	14,266,000	16,431,000	17,375,000
LLC Sistema Telecom Assets	OD	5,117,863	5,367,410	2,490,410
JSC Sistema Venture Capital	OD	4,692,723	3,457,243	493,536
JSC Sistema Finance	OD	2,567,000	4,050,000	5,029,000
JSC Steppe AgroHolding	OD	2,106,460	2,106,460	3,642,480
LLC Sistema Hotel Management		-	4,521,156	4,521,156
JSC Mosdachtrest		-	1,600,000	1,600,000
LLC ITR		-	-	5,098,970
JSC Leader Invest		-	-	706,221
Other		1,552,993	3,849,104	3,539,499
Impairment allowance		(972,101)	(3,266,570)	(8,475,484)
		29,330,938	38,115,803	36,020,788
Total		43,369,603	39,852,568	41,665,608
Long-term		-	-	-
Short-term		43,369,603	39,852,568	41,665,608
Total		43,369,603	39,852,568	41,665,608

Note: OD means "on demand".

3.5. Bank deposits

Bank deposits as of 31 December 2019, 2018 and 2017 are presented as follows:

		(RUB thousand)		
		31 December		
		2019	2018	2017
RUB-denominated:				
LLC Vneshprombank		909,153	909,153	909,153
PJSC MTS Bank		-	308,000	-
Allowance for impairment		(909,153)	(909,153)	(909,153)
		-	308,000	-
Total		-	308,000	-
Long-term		-	-	-
Short-term		-	308,000	-
Total		-	308,000	-

3.6. Allowance for impairment of investments

The data on allowances for impairment of investment and the amount of allowances made and used in 2019 and 2018, are presented as follows:

	As of 31 December 2017	Allowance created / (recovered)	Allowance used	As of 31 December 2018	Allowance created / (recovered)	Allowance used	(RUB thousand) As of 31 December 2019
Units in mutual funds							
Closed-end mutual fund Kreditny 1	1,562,132	2,827	-	1,564,959	(33,001)	-	1,531,958
	1,562,132	2,827	-	1,564,959	(33,001)	-	1,531,958
Shares and equity interests							
JSC RTI	22,944,442	-	-	22,944,442	-	-	22,944,442
LLC ITR	7,893,416	8,136,645	-	16,030,061	4,003,745	-	20,033,806
PJSC Mikron (Note 3.2)	6,089,123	2,011,757	-	8,100,880	-	(8,100,880)	-
Sistema Smart Technologies Limited	19,357,845	(1,505,162)	-	17,852,683	1,176,301	-	19,028,984
Sistema Asia Pte.Ltd	69,176,591	(2,519,432)	-	66,657,159	-	-	66,657,159
FCD Projects Pte.Ltd	36,641,518	4,895,905	-	41,537,423	-	-	41,537,423
PJSC MTS Bank (Note 3.2)	23,376,838	(494,501)	(22,882,337)	-	-	-	-
Other	2,308,213	986,365	(551,958)	2,742,620	266,190	(170)	3,008,640
	187,787,986	11,511 577	(23,434,295)	175,865,268	5,446,236	(8,101,050)	173,210,454
Loans granted							
LLC ITR	5,098,970	(5,098,970)	-	-	-	-	-
Other	3,376,514	(109,944)	-	3,266,570	144,000	(2,438,469)	972,101
	8,475,484	(5,208,914)	-	3,266,570	144,000	(2,438,469)	972,101
Debt securities							
CJSC RTI Microelectronics	3,360,291	-	-	3,360,291	-	-	3,360,291
Other	353,774	-	(353,774)	-	-	-	-
	3,714,065	-	(353,774)	3,360,291	-	-	3,360,291
Deposits	909,153	-	-	909,153	-	-	909,153
Total	202,448,820	6,305,490	23,788 069	184,966,241	5,557,235	(10,539,519)	179,983,957

In 2019 and 2018, the Company made allowances for impairment of certain investments in shares and units in mutual funds due to a significant deviation of the estimated value of stakes held by the Company from their book value. The estimated value was determined based on the information on net assets of investment targets taking into account the estimated probability of return of investments.

4. LISTED SECURITIES

The carrying value of the Company's investments in shares that have a market value as of 31 December 2019, 2018 and 2017 is presented as follows:

			(RUB thousand)
	<u>PJSC MTS</u>	<u>PJSC Detsky Mir</u>	<u>Miscellaneous</u>
Balance as of 31 December 2017			
Number of shares	634,674,257	385,012,844	n/a
Market price per share, RUB	293.47	95.95	n/a
	<u>186,259,770</u>	<u>36,941,982</u>	<u>52,815</u>
Revaluation	(31,940,565)	(2,098,320)	(609)
Acquisition			2,667,980
Disposal			(1,652,593)
Balance as of 31 December 2018			
Number of shares	634,674,257	385,012,844	n/a
Market price per share, RUB	243.15	90.5	n/a
	<u>154,319,205</u>	<u>34,843,662</u>	<u>1,067,593</u>
Revaluation	45,077,312	2,442,791	
Disposal		(12,344,386)	(1,067,593)
Balance as of 31 December 2019			
Number of shares	634,674,257	246,658,096	n/a
Market price per share, RUB	314.17	101.12	n/a
	<u>199,396,517</u>	<u>24,942,067</u>	<u>-</u>

In November 2019, in the course of a secondary public offering of PJSC Detsky Mir on the Moscow Exchange, the Company sold 137,827,948 shares. The offering price was RUB 91 per share. As a result of the offering, the Company recorded RUB 12,542,343 thousand in income line 23403 "Income from sale of securities" and RUB 12,297,903 thousand in expenses line 23503 "Expenses related to sale of securities." The Company's shareholding in PJSC Detsky Mir decreased to 33.38%.

In 2019, gain on revaluation of financial investments for which the market value was determined amounted to RUB 47,520,102 thousand. In 2018, loss on revaluation of financial investments for which the market value was determined amounted to RUB 34,039,494 thousand.

5. BORROWINGS

The repayment terms of key types of borrowings as of 31 December 2019 are presented as follows:

	(RUB thousand)			
	<u>up to 1 year</u>	<u>1 year - 5 years</u>	<u>over 5 years</u>	<u>Total</u>
Credits	-	53,320,000	46,750,000	100,070,000
Bond issues	16,500,000	70,053,521	-	86,553,521
Total	16,500,000	123,373,521	46,750,000	186,623,521

Outstanding balances of credits are recorded as follows:

	<u>Maturity</u>	(RUB thousand)		
		<u>31 December</u>		
		<u>2019</u>	<u>2018</u>	<u>2017</u>
Bank 1 (i)	25.11.2025	46,750,000	-	-
Bank 1	26.11.2024	24,000,000	-	-
Bank 1	18.12.2023	3,320,000	-	-
Bank 2	27.02.2023	15,000,000	15,000,000	-
Bank 3	10.06.2022	6,000,000	-	-
Bank 4	12.12.2022	5,000,000	-	-
Bank 4	-	-	15,000,000	15,000,000
Bank 5	-	-	10,420,590	8,640,030
Bank 1 (i)	-	-	59,250,000	-
Bank 1	-	-	24,000,000	24,000,000
Bank 4	-	-	-	5,000,000
Total		100,070,000	123,670,590	52,640,030

(i) 319,868,641 ordinary registered uncertified shares in PJSC MTS were transferred by the Company as a collateral for a loan.

With certain exclusions, debt obligations include provisions that limit the ability of the Company and its subsidiaries to borrow funds, carry out merger or consolidation with another entity or transfer its property and assets to another entity, to conduct certain types of reorganisation or make certain changes to the Company's shareholding structure. If the Company fails to comply with the obligations specified above within the time period provided for the filing of a notification of breach of obligations and remediation of such breaches, creditors are entitled to demand immediate repayment of their loans. Besides, the Company's loan agreements are subject to cross-default clauses of other loan agreements held by the Company.

Outstanding balances of bonds are presented as follows:

(RUB thousand)				
	Maturity	31 December		
		2019	2018	2017
Bonds Reg. no. 4B02-06-01669-A-001P	01.04.2022*	15,000,000	15,000,000	15,000,000
Bonds Reg. no. 4B02-07-01669-A-001P	03.02.2021*	10,000,000	10,000,000	-
Bonds Reg. no. 4B02-09-01669-A-001P	02.03.2022*	10,000,000	-	-
Bonds Reg. no. 4B02-10-01669-A-001P	30.09.2022*	10,000,000	-	-
Bonds Reg. no. 4B02-11-01669-A-001P	24.07.2023*	10,000,000	-	-
Bonds Reg. no. 4B02-12-01669-A-001P	29.10.2024*	10,000,000	-	-
Bonds Reg. no. 4B02-05-01669-A-001P	21.02.2020*	10,000,000	10,000,000	10,000,000
Bonds Reg. no. 4B02-04-01669-A-001P	06.11.2020*	6,500,000	6,500,000	6,500,000
Bonds Reg. no. 4B02-01-01669-A-001P	05.04.2022*	4,809,910	2,616,640	5,000,000
Bonds Reg. no. 4B02-08-01669-A-001P	28.04.2024*	243,611	15,000,000	-
Bonds Reg. no. 4B02-02-01669-A-001P	-	-	1,700,000	1,700,000
Bonds Reg. no. 4B02-03-01669-A-001P	-	-	-	10,000,000
Total		86,553,521	60,816,640	48,200,000

* date of irrevocable offer. The Company has an unconditional obligation to repurchase the bonds at nominal value if required by bond holders after the announcement of the next coupon. Such bonds are disclosed as liabilities with maturity in the reporting period in which the put option can be exercised, without taking into account the Company's expectations regarding the intentions of bond holders.

Outstanding loans balances are presented as follows:

Outstanding loans balances are presented as follows:				(RUB thousand)
	Maturity	31 December		
		2019	2018	2017
Sistema International Funding S.A.	-	-	34,735,300	28,800,100
Other	-	-	-	5,000
Total		-	34,735,300	28,805,100

In May 2012, Sistema International Funding S.A., incorporated under the laws of Luxembourg, issued a USD 500 million worth of interest-bearing certified Eurobonds maturing in 2019 with a coupon yield of 6.95% per annum. The Company received this amount from Sistema International Funding S.A. on similar terms.

In May 2019, the Company repaid the loan received from Sistema International Finance S.A., and Sistema International Funding S.A. redeemed the seven-year Eurobond issue.

Interest accrued on borrowings in 2019 and 2018 totalled RUB 19,409,648 thousand and RUB 17,919,274 thousand respectively.

As of 31 December 2019, the Company has access to RUB 124 billion in committed credit facilities.

6. PROVISIONS

Changes of provisions in 2019 and 2018 are presented as follows:

	(RUB thousand)			
	Under agreements (i)	For payment of bonuses	For payment for unused leaves	Total
Balance as of 31 December 2017	22,970,786	3,854,395	528,354	27,353,535
Increase of provisions	4,347,375	3,861,504	442,723	8,651,602
Reverse of unused provisions	-	-	-	-
Use of provisions	-	(3,854,395)	(363,888)	(4,218,283)
Use of provisions for reducing short-term receivables	(11,099,374)	-	-	(11,099,374)
Balance as of 31 December 2018	16,218,787	3,861,504	607,189	20,687,479
Increase of provisions	-	3,534,191	962,721	4,496,912
Reverse of unused provisions	(1,146,823)	-	-	(1,146,823)
Use of provisions	-	(3,861,504)	(397,679)	(4,259,183)
Use of provisions for reducing short-term receivables	(7,845,631)	-	-	7,845,631
Balance as of 31 December 2019	7,226,333	3,534,191	1,172,230	11,932,754
Long-term	-	-	-	-
Short-term	7,226,333	3,534,191	1,172,230	11,932,754
Total	7,226,333	3,534,191	1,172,230	11,932,754

- (i) The Russian government bought 17.14% of shares in telecom operator Sistema Shyam Teleservices Limited (hereinafter SSTL) in 2011 and simultaneously signed an option agreement with the Company for repurchase of the shares in five years for the higher of USD 777 million or the current market value as determined by an independent valuator.

In June 2016, the Company and the Federal Agency for State Property Management acting on behalf of the Russian Federation signed an agreement on acquisition of 17.14% of shares in SSTL for USD 777 million. The Company will pay for the shares during the next 5 years in accordance with the following schedule: 30% of the amount - in 2016 (paid in full as of 31 December 2016), 25% - in 2017 and 15% in 2018, 2019 and 2020 each.

The Company estimates that the costs of the agreements listed in this paragraph exceed proceeds expected from their execution. Therefore, guided by AS 8/2010 "Provisions, contingent liabilities and contingent assets", in 2016 the Company created provisions for their execution in the total amount of RUB 48.8 billion. In subsequent periods, the Company made adjustments to the allowance under the SSTL share purchase agreement based on changing currency exchange rates and interest accrued, and also used portions of this allowance to reduce receivables under the agreement in proportion to payments made thereunder.

7. EXPENSES ON ORDINARY OPERATIONS

Expenses on ordinary operations broken down by cost items in 2019 and 2018 are presented as follows:

	2019	(RUB thousand) 2018
Payroll expenses	7,928,251	5,054,103
Social security charges	1,286,434	843,851
Depreciation	177,925	167,156
Cost of materials	25,732	19,972
Other expenses	931,467	904,958
Total	10,349,809	6,990,040

8. INCOME TAX

Changes of the income tax for 2019 and 2018 are presented as follows:

	2019	(RUB thousand) 2018
Income before tax	83,133,867	(36,992,750)
including		
dividends taxed at 0%	16,498,441	13,081,642
dividends taxed at 13%	28,429,666	18,240,690
tax base taxed at 0%	7,181,694	-
tax base taxed at 15%	6,079	34,445
tax base taxed at 20%	31,017,987	(68,349,527)
Theoretical expense (on)/from income tax	9,771,872	(11,431,073)
Permanent tax liabilities/ (assets)	(8,648,100)	4,898,666
including		
revaluation of quoted investments	(9,504,020)	6,807,899
contribution to assets of subsidiaries	1,090,211	-
creation (recovery) of allowances	(923,699)	(3,424,189)
recognition (recovery) of provisions	229,365	869,475
other	460,043	645,481
Change in deferred tax assets	2,449,447	8,779,029
including		
tax loss of the reporting period	2,448,524	8,781,703
other	923	(2,674)
Change in deferred tax liabilities	(1,089,538)	3,908
Tax on income in form of dividends	2,474,137	(2,233,665)
Current income tax	(9,544)	(16,865)
including controlled foreign entities	(8,632)	(11,698)
transactions taxed at 15%	(912)	(5,167)
Non-recognition of deferred tax assets with regard to tax losses carried forward	(2,800,000)	(16,000,000)

In 2019 and 2018, based on the analysis of the probability of DTA being used in respect of tax losses in the medium term, the Company did not recognise a part of the DTA in the amount of RUB 2,800,000 thousand and RUB 16,000,000 thousand respectively.

11. BOARD OF DIRECTORS AND MANAGEMENT BOARD

Members of the Board of Directors in 2019:

Vladimir Evtushenkov	Chairman of the Board of Directors, non-executive director, chairman of the Strategy Committee
Anna Belova	Deputy Chair of the Board, independent director, chair of the Investor Relations and Dividend Policy Committee
Sergey Boev	Non-executive director
Andrey Dubovskov	Member of the Board of Directors, President & CEO
Felix Evtushenkov	Non-executive director; chairman of the Ethics and Control Committee till 29 June 2019
Ron Sommer	Non-executive director
Robert Kocharyan	Independent director, chairman of the Nomination, Remuneration and Corporate Governance Committee
Jeannot Krecké	Independent director; chairman of the Ethics and Control Committee from 30 June 2019
Roger Munnings	Independent director, chairman of the Audit, Finance and Risks Committee
Mikhail Shamolin	Non-executive director
David Iakobachvili	Independent director

Members of the Management Board in 2019:

Andrey Dubovskov	President, chairman of the Management Board, executive member of the Board of Directors
Sergey Egorov	Managing Partner (member of the Management Board from 20 May 2019)
Alexey Katkov	Managing Partner
Oleg Mubarakshin	Managing Partner
Vsevolod Rozanov	Managing Partner
Artyom Sirazutdinov	Managing Partner
Ali Uzdenov	Managing Partner
Maxim Yanpolsky	Managing Partner
Igor Alyoshin	Vice President for Security,
Alexey Guryev	Vice President for HR (member of the Management Board till 20 May 2019)
Artyom Zasursky	Vice President for Strategy
Svetlana Matveyeva	Vice President for HR (member of the Management Board from 21 May 2019)
Andrey Pilipenko	Vice President for Government Relations
Vladimir Travkov	Vice President for Finance and Investment
Joshua Blair Tulgan	Vice President for External Relations
Sergey Shishkin	Vice President for Corporate Governance and Legal Matters

The total amount of remuneration paid to the members of the Board of Directors and Management Board for 2019 and 2018 (including compulsory retirement and health insurance contributions) is presented as follows:

	2019	(RUB thousand) 2018
Short-term bonuses	4,383,340	2,143,289
Long-term bonuses	-	-
Compulsory retirement, health insurance and social insurance contributions	645,945	325,529
Total	5,029,285	2,468,818

12. RELATED PARTIES

The Company's related parties are its subsidiaries and affiliates and the key management of the Company and its subsidiaries and affiliates.

12.1. Investments

	(RUB thousand)		
	31 December		
	2019	2018	2017
Shares and equity interests			
Subsidiaries	499,816,107	511,678,192	565,429,683
Affiliates	43,865,827	679,249	1,231,207
Other related parties	3,000	3,170	3,170
Less allowance for impairment	(173,013,372)	(175,668,186)	(187,590,904)
Total	370,671,562	336,692,425	379,073,156
Debt securities			
Subsidiaries	3,360,291	3,360,291	3,360,291
Less allowance for impairment	(3,360,291)	(3,360,291)	(3,360,291)
Total	-	-	-
Loans granted			
Subsidiaries	42,960,966	40,259,818	47,256,022
Affiliates	1,388,049	807,158	807,158
Other related parties	11,444	2,042,663	2,068,412
Less allowance for impairment	(962,601)	(3,257,071)	(8,465,984)
Total	43,397,858	39,852,568	41,665,608
Bank deposits			
Subsidiaries	-	308,000	-
Total	-	308,000	-
Total	414,069,420	376,852,993	420,738,764

12.2 Transactions and settlement balance by groups of related parties**Interest expenses from loans**

	(RUB thousand)	
	2019	2018
Subsidiaries	365,195	43,093
Total	365,195	43,093

Interest income

	(RUB thousand)	
	2019	2018
Subsidiaries	4,805,527	4,195,925
Affiliates	676,885	121,074
Other related parties	3,586	22,141
Total	5,485,998	4,339,140

Purchase of securities, property rights, goods, work and services

	Type of transaction	2019	(RUB thousand) 2018
Subsidiaries	Purchase of shares, interests and stakes	19,351,950	9,515,758
Affiliates	Purchase of shares, interests and stakes	11,529,152	-
Subsidiaries	Acquisition of goods, works and services	364,653	358,239
Affiliates	Acquisition of goods, works and services	391	-
Other related parties	Acquisition of goods, works and services	225,730	212,840
Total		31,471,876	10,086,837

Sale of securities, property rights, goods, work and services

	Type of transaction	2019	(RUB thousand) 2018
Subsidiaries	Sale of shares, interests and stakes	20,311,885	8,273,152
Affiliates	Sale of shares, interests and stakes	29,422,408	-
Key management	Sale of shares, interests and stakes	504,439	248,318
Subsidiaries	Sale of goods, works and services	14,616	12,484
Affiliates	Sale of goods, works and services	133	-
Other related parties	Sale of goods, works and services	831	1,155
Subsidiaries	Sale of other property	15	15
Total		50,254 327	8,535 124

Other transactions

	Type of transaction	2019	(RUB thousand) 2018
Affiliates	Transfer of non-monetary assets to authorised capital	1,477,135	-
Subsidiaries	Contribution to property	5,451,053	-
Subsidiaries	Other transactions	1,138	2,655
Other related parties	Other transactions	3,119	2,742
Total		6,932,445	5,397

Dividends paid and received

	Dividends received		Dividends paid	
	2019	2018	2019	2018
Subsidiaries	41,958,522	31,178,588	-	-
Affiliates	2,972,960	-	-	-
Direct shareholders	-	-	688,587	801,806
Total	44,931,482	31,178,588	688,587	801,806

Accounts receivable

	(RUB thousand)		
	31 December		
	2019	2018	2017
Sale of goods, work, services, property rights			
Subsidiaries	86,754	104,792	88,783
Affiliates	8,376	-	-
Other related parties	57	115	258,878
Purchase of goods, work, services, property rights			
Subsidiaries	6,074	7,273	9,124
Affiliates	34	27	-
Other related parties	2,227	3,897	7,009
Issuing non-interest-bearing loans and promissory notes			
Subsidiaries	49,796	49,796	60,842
Affiliates	926	926	926
Other related parties	659	659	659
Interest on issued loans and notes received			
Subsidiaries	5,994,848	5,043,149	2,703,720
Affiliates	363,221	242,147	121,074
Other related parties	69	162,980	141,002
Dividends receivable			
Subsidiaries	8,729,064	319,630	1,463,118
Affiliates	-	-	-
Other related parties	-	-	-
Bad debt allowance	<u>(1,893,813)</u>	<u>(1,528,343)</u>	<u>(1,543,691)</u>
Total	<u>13,348,292</u>	<u>4,407,048</u>	<u>3,311,444</u>

Accounts payable

	(RUB thousand)		
	31 December		
	2019	2018	2017
Sale of goods, work, services, property rights			
Subsidiaries	32	32	32
Affiliates	-	-	-
Other related parties	22	-	10,777
Purchase of goods, work, services, property rights			
Subsidiaries	5,276,445	18,095	22,817
Affiliates	153	-	-
Other related parties	5,659	4,834	3,976
Interest on loans received			
Subsidiaries	-	-	730
Dividends payable			
Majority shareholder	<u>4,213,004</u>	<u>4,213,004</u>	<u>4,213,004</u>
Total	<u>9,495,315</u>	<u>4,235,965</u>	<u>4,251,236</u>

The conditions and terms of settlements with related parties for acquisition of goods, property, work or services or sale of goods, property, work and services usually do not exceed 90 days and are performed via bank transfer. Settlements on transactions with related parties in respect of receipt and issue of loans are performed by bank transfer; the conditions and terms of such settlements are disclosed on corresponding notes.

Cash flows

	2019	(RUB thousand) 2018
Cash flows from operating activities		
Proceeds from sale of products, goods, works and services	32,546	16,072
Proceeds in form of dividends	34,044,535	30,231,806
Other proceeds	413,680	385,773
Payments for goods, works and services	(601,500)	(616,285)
Payments of interest on debts	-	(1,173)
Other payments	(32,918)	(12,011)
Cash flows from investment activities		
Proceeds from sale of fixed assets and other property	18	18
Proceeds from sale of shares and equity interests in other companies	50,238,732	8,521,471
Proceeds from repayment of loans and sale of debt securities	27,699,885	25,077,942
Received interest on investments in debt securities and loans	4,296,615	1,093,535
Other proceeds	4,495	-
Payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	(39,501)	(11,045)
Payments related to acquisition of shares and equity interests in other companies	(20,119,217)	(1,262,650)
Payments related to provision of loans to other entities	(33,115,645)	(25,146,924)
Cash transfers to bank deposits	-	(308,000)
Contributions to assets of other organisations	(5,451,053)	-
Other payments	-	(15,074)
Cash flows from financing activities		
Payments of dividends	(688,335)	(800,052)
Payments related to redemption of promissory notes and repayment of loans	-	(623,457)

13. BASIC AND DILUTED (LOSS)/EARNINGS

Basic and diluted (loss)/earnings for 2019 and 2018 totalled:

	2019	2018
Basic and diluted earnings/(loss), RUB thousand	79,089,695	46,495,402
Weighted average number of ordinary shares in circulation	9,650,000,000	9,650,000,000
Basic and diluted earnings/(loss) per share, RUB	8.2	(4.8)

14. CONTINGENT LIABILITIES**Operating environment**

The Russian market is subject to different risks than more developed markets, including economic, political, social, legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, new laws and legal enactments passed, and changes in the country's political situation.

Starting from 2014, sanctions have been imposed in several packages by the US and the EU on certain Russian officials, businessmen and companies. This led to reduced access of Russian businesses to international capital markets. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020, global oil prices plunged by over 40%, which resulted in immediate depreciation of the Russian rouble against the main currencies. The impact of further economic and political developments on future operations and financial position of the Company might be significant.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors,

including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

Guarantees and sureties

As of 31 December 2019 the Company acted as guarantor, surety and pledgor for borrowings in the amount of RUB 92,983,399 thousand including RUB 64,615,385 thousand in respect of borrowings made by the Company itself.

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 Company 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, tax authorities may have different interpretations of current tax law, and the effects on the financial statements could be significant.

Other

In the ordinary course of business, the Company 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 Company and its subsidiaries operate. The Company's management believes that the outcome of such court proceedings will not have a material negative impact on the Company's financial position, financial performance or liquidity.

15. RISK MANAGEMENT POLICY

The Company's business risks and risk management policy are disclosed in the quarterly report.

16. EVENTS AFTER THE REPORTING DATE

Coupon payment on registration exempt bonds

On 27 January 2020, the Company paid the first coupon yield on registration exempt bonds (issue 001P-11) in the amount of RUB 468.7 million.

On 31 January 2020, the Company paid the fourth coupon yield on registration exempt bonds (issue 001P-07) in the amount of RUB 498.6 million.

On 21 February 2020, the Company paid the thirteenth coupon yield on registration exempt bonds (issue 001P-05) in the amount of RUB 246.8 million.

On 4 March 2020, the Company paid:

the second coupon yield on registration exempt bonds (issue 001P-09) in the amount of RUB 493.6 million.

the fourth coupon yield on registration exempt bonds (issue 001P-08) in the amount of RUB 10.9 million.

Receiving loans

On 13 March 2020, the Company received a loan in the amount of RUB 5,000 million with a maturity on 11 December 2020.

On 18 March 2020, the Company received a loan in the amount of RUB 5,000 million with a maturity on 17 December 2020.

On 31 March 2020, the Company received a loan in the amount of RUB 6,500 million with a maturity on 01 September 2021.

The Russian original signed by

Vice President
for Finance and Investment
of Sistema PJSFC

Vladimir Travkov

6 April 2020