



JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

SISTEMA PJSFC

**Annual report
2019**

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1. RESPONSIBILITY STATEMENT



JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

To whom it may concern

30 April 2020

Responsibility Statement

To the best of my knowledge (a) the consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of Sistema PJSFC and the undertakings included in the consolidation taken as a whole; and (b) the management report includes a fair review of the development and performance of the business and the position of Sistema PJSFC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Yours sincerely,

Vladimir Chirakhov
President and Chief Executive Officer
Sistema PJSFC

2. PROFILE OF SISTEMA

Profile of Sistema

Overview

Sistema PJSC (“Sistema” or the “Corporation”) is one of the largest public investment companies in Russia. Founded in 1993, Sistema is today represented across over 15 high-potential sectors of the Russian economy through its portfolio companies that serve over 150 million consumers. Sistema’s investment portfolio includes mostly Russian companies in such sectors as telecommunications, forestry, agriculture, healthcare, real estate, consumer retail, and others.

The Corporation’s shares trade on Moscow Exchange (ticker: AFKS) and on London Stock Exchange in the form of global depositary receipts (ticker: SSA). One GDR represents 20 ordinary shares.

Sistema’s strategic goal is to create long-term growth of shareholder value by boosting returns on investments in existing assets and reinvesting available cash in new investment projects to diversify its portfolio and increase overall returns on investment.

Sistema’s credit ratings

Rating agency	Date of most recent rating update	Long-term credit rating	Outlook
Standard & Poor’s	29 August 2019	BB-	Stable
Fitch	15 May 2019	BB-	Stable
Expert RA	25 September 2019	ruA	Stable

3. MANAGEMENT REPORT

3.1. KEY EVENTS

KEY EVENTS AT THE CORPORATION IN 2019 AND AFTER REPORTING PERIOD

Corporate governance

In June 2019, Anna Belova was elected to the Board as an independent director and was appointed Deputy Chair of the Board. Anna has extensive experience as a board member of large Russian companies and has been a member of Sistema's Board of Directors since 2017.

In April 2020, Sistema's Board of Directors appointed Vladimir Chirakhov, Chairman of the Board of Directors of Detsky Mir, as President and CEO of Sistema. Andrey Dubovskov, who previously served as President and CEO of Sistema, was elected Deputy Chairman of the Board of Directors of Sistema.

Monetisations

Sale of Leader Invest

In accordance with its strategy for real estate assets, Sistema sold a 51% stake in JSC Leader Invest to Etalon Group in February 2019 for RUB 15.2 bln. In a separate transaction Sistema acquired 25% of Etalon Group from its founder and biggest shareholder Vyacheslav Zarenkov and his family for USD 226.6 mln (see "Consolidation of real estate assets" below).

In August 2019, Sistema sold the remaining 49% stake in Leader Invest to Etalon Group for RUB 14.6 bln. As a result of the transaction, Etalon Group consolidated 100% ownership of Leader Invest.

SPO of Detsky Mir

In November 2019, Sistema and the Russia-China Investment Fund organised a successful SPO of PJSC Detsky Mir, selling 175 mln shares at a price of RUB 91 per share. The total amount raised was RUB 15.9 bln, out of which Sistema received RUB 12.5 bln. Following the transaction, Sistema's shareholding in Detsky Mir decreased from 52.1% to 33.4%. The offering has substantially increased the company's free float, enhancing liquidity and further improving Detsky Mir's investment proposition.

Sale of MTS Bank

In February 2019, Sistema and its subsidiary Sistema Telecom Assets sold a 39.5% stake in PJSC MTS Bank to Mobile Telesystems B.V., a 100% subsidiary of PJSC MTS, for RUB 11.4 bln. Later on, in December 2019, Sistema sold a 4.5% stake in MTS Bank to Mobile Telesystems B.V. for RUB 1.4 bln. As a result, Sistema fully divested the asset, while MTS Group's shareholding in the bank reached 99.7%¹.

Investments and transactions

Securing a foothold in the fast-growing e-commerce segment

Throughout 2019, Sistema consistently increased its equity holding in Ozon Holdings Limited by acquiring its shares from other shareholders, including an 18.7% stake from MTS. In December 2019, the Corporation's previously provided loan was converted into Ozon's shares. As of 31 March 2020, Sistema Group's shareholding in the company was 42.999%. Sistema's building up of its holdings in Ozon is driven by expectations of further growth in the e-commerce market and the Company's strategy of increasing its presence in the sector by investing in a leading multi-category online retailer.

Consolidation of real estate assets

In February 2019, Sistema acquired 25% of Etalon Group from its founder and largest shareholder Vyacheslav Zarenkov and his family for USD 226.6 mln. In two separate transactions taking place in February and August 2019, Etalon Group acquired 100% of Leader Invest from Sistema (see above, "Sale of Leader Invest"). The transaction optimised the ownership structure in real estate development assets within Etalon Group and enabled integration of the two businesses with the purpose of creating a leader of the Moscow and Saint Petersburg real estate markets.

Strengthening position in the pharma market

In December 2018, Sistema, VTB Bank and the management of JSC OBL Pharm acquired a stake in OBL Pharm from Alvansa Ltd². Sistema's investment in the deal was RUB 1.83 bln. In April 2019, the Russian Direct Investment Fund (RDIF), the Russia-China Investment Fund (RCIF) and several major Middle Eastern funds joined the project, investing over RUB 4 bln. Following the transaction, Sistema's effective shareholding in OBL Pharm was 12.8%, that of VTB -

¹ Including a 0.2% stake held by PJSC MGTS, a subsidiary of MTS.

² The main shareholders of Alvansa Ltd are Gazprombank and UFG Private Equity.

46%, and of the investors' consortium - 28%. In the reporting year, steps were taken to integrate OBL Pharm and JSC Binnopharm, which in October 2019 resulted in the establishment of the merged pharma company, Alium. Sistema participated in the placement of OBL Pharm's additionally issued shares. After consolidation of the company's ownership structure, Sistema's effective shareholding in Alium reached 24.9% as of 31 March 2020.

In August 2019, Sistema, along with a financial partner, through a holding company Sinocom Investments Limited, acquired 46.5% in OJSC Sintez ("Sintez") and 75.1% in CJSC Biocom ("Biocom") from the investment company Marathon Group for RUB 11.8 bln. Together with Alium, Sintez and Biocom have the potential of becoming one of the top-3 Russian pharmaceutical companies in the commercial segment. After the end of the reporting period, in March 2020, Sinocom delivered a mandatory tender offer to shareholders of Sintez for the acquisition of their ordinary and preferred shares.

Agreement on construction of an R&D laboratory

In January 2020, Sistema and its subsidiary LLC Sistema BioTech signed an investment agreement with the International Medical Cluster Fund on establishment of a multi-specialty biotechnological R&D laboratory and a centre for non-clinical testing of latest international products and technologies at the International Medical Cluster in Skolkovo. The agreement envisages construction of a lab building with a total area of 15,000 sq m. The lab will be put into operation in mid-2022 and will become one of Russia's largest private R&D centres.

Focus on investments via funds

In 2019, Sistema continued investing in attractive projects in the Russian and global markets through its funds, Sistema_VC and SAF. After the end of the reporting period, in February 2020, the Corporation established a new fund, Sistema SmartTech, which will invest in companies at early development stages (from seed investment to round A). The fund's life is 8 years, and its target size is RUB 5 bln. Sistema's investment in the fund will not exceed RUB 1.5 bln. Sistema SmartTech is expected to support about 20 early-stage VC projects, with investments in each individual project ranging from RUB 50 mln to RUB 300 mln.

Strengthening of financial profile

Debt reduction

Throughout 2019, Sistema worked on gradually reducing its debt. As of 31 December 2019, the Corporate Centre's financial liabilities decreased by 15.2% year-on-year to RUB 189.2 bln.

Active participation in capital markets

Sistema was active in capital markets on the back of a strong demand for its debt securities in 2019. The Corporation issued four series of exchange-traded bonds, each for RUB 10 bln, and redeemed a USD 500 mln Eurobond issue. It also organised a secondary offering of two issues purchased earlier in a tender offer for RUB 2.8 bln. Sistema's achievements earned it a Cbonds Awards prize in the "Issuer of the Year" nomination.

Upgrade in credit ratings

In August 2019, the S&P rating agency upgraded Sistema's credit rating from B+ to BB-, with a stable outlook. In October 2019, RAEX (Expert RA) raised Sistema's credit rating from ruBBB+ to ruA-, also with a stable outlook.

Dividends and returns

Dividends

In June 2019, the Annual General Meeting of shareholders of Sistema decided to pay dividends for 2018 in the amount of RUB 1,061,500,000.00, or RUB 0.11 per ordinary share.

Share buyback

In September 2019, Sistema started a RUB 3 bln share buyback programme, which was to last till 29 February 2020. In the course of 2019, Sistema Finance, a subsidiary of the Corporation, acquired 120.6 mln Sistema shares for a total of RUB 1.6 bln as part of the programme. In February 2020, after the end of the reporting year, the buyback programme was extended till the end of 2020.

Enhancing sustainable development

In 2019, Sistema initiated a large-scale revision of its approaches in the area of sustainable development and responsible investment. Based on the analysis of the current situation, a roadmap was developed to streamline activities of the Corporation and bring them into compliance with best practices and investor expectations.

Sistema began to actively communicate with investors and analytical agencies, such as Sustainalytics, MSCI, FTSE, on ESG³ topics. These interactions and corrections of analysts' reports helped to improve the Corporation's positions in many aspects.

Based on the results of 2019, Sistema was once again included in the leading groups of the sustainable development indices of the Russian Union of Industrialists and Entrepreneurs (RSPP): "Responsibility and Transparency" and "Sustainable Development Vector". The Corporation's securities (MOEX: AFKS) were included in the updated base for calculation of the corresponding indices at the Moscow Exchange.

EVENTS AT PORTFOLIO COMPANIES IN 2019 AND AFTER REPORTING PERIOD

MTS

Dividend payouts

In March 2019, the board of directors of PJSC MTS (MTS) approved a new dividend policy for 2019-2021 with a target dividend of at least RUB 28 per ordinary share (RUB 56 per ADR) for each calendar year.

In June 2019, MTS's annual general meeting of shareholders approved dividends for 2018 to a total amount of RUB 39.93 bln, or RUB 19.98 per share (RUB 39.96 per ADR). In September 2019, interim dividends for the first half of 2019 were approved in the amount of RUB 8.68 per share (RUB 17.36 per ADR), or RUB 17.3 bln in total. Upon the closing of the deal to sell the business in Ukraine, it was decided to pay special dividends in the amount of RUB 13.25 per share (RUB 26.50 per ADR), or RUB 26.48 bln in total.

Sale of Ukrainian business

In December 2019, MTS sold 100% of shares in PrJSC VF Ukraine for USD 734 mln to a company controlled by Bakcell, a telecom arm of the international group NEQSOL Holding. The deal is in line with the updated strategy of MTS, which focuses on the Russian market and the development of a range of advanced digital services on the basis of the core telecom business.

Share buyback

In May 2019, MTS completed its two-year buyback programme for a total amount of RUB 30 bln. Under the programme, LLC Bastion, a wholly-owned subsidiary of MTS, acquired 113.5 mln ordinary shares (including ADRs), or 5.9% of the authorised capital of MTS, for RUB 29.8 bln.

In March 2020, the board of directors of MTS approved a buyback programme in the amount of up to RUB 15 bln.

New strategy CLV 2.0

In October 2019, the board of directors of MTS approved the company's new strategy – Customer Lifetime Value 2.0 ("CLV 2.0") – for 2020-2022, which provides for the accelerated creation of a large-scale ecosystem of new digital products for MTS customers based on accumulated expertise and achievements in the telecom business. MTS intends to focus its efforts on the improvement of people's quality of life, well-balanced business development, market cap growth and higher return on invested capital.

Detsky Mir

International development

In 2019, PJSC Detsky Mir (Detsky Mir) successfully entered the market of Belarus by opening 8 retail stores in the largest shopping malls in Minsk and other cities. The results of the chain in Belarus exceeded expectations, and at the end of 2019 the company reached the operating break-even point. Detsky Mir also continued consolidating the market in the Republic of Kazakhstan, where it opened 8 new supermarkets and increased the like-for-like sales of the chain by 35.5% compared to 2018. In view of such strong results the management adopted the decision to expand its foothold in Central Asia and open Detsky Mir stores in Kyrgyzstan in 2020.

Online development

In 2019, Detsky Mir's revenues from online orders increased by 65.2% year-on-year, to RUB 14.5 bln, with the online store www.detmir.ru receiving more than 238 million visits. In total, the company fulfilled more than 9.8 mln online orders. Detsky Mir launched a same-day and next-day delivery service in 30 largest cities of Russia and started the pilot phase of the new "microstore" format that combines a retail outlet and a pick-up point. Moreover, starting from 2019, the customers of Detsky Mir may use a fully-functional mobile application that makes it possible to purchase goods through a convenient interface using a virtual loyalty card.

³ Environmental, Social and Governance.

Dividend payouts

In May 2019, the annual general meeting of Detsky Mir's shareholders approved the distribution of RUB 3.3 bln (RUB 4.45 per share) in dividends for 2018, and in December 2019, the distribution of RUB 3.7 bln (RUB 5.06 per share) in interim dividends for 9M 2019.

Etalon Group

Integration with Leader Invest

In February 2019, Etalon Group purchased from Sistema a 51% stake in the property development business JSC Leader Invest for RUB 15.2 bln, and in August 2019, acquired the remaining 49% for RUB 14.6 bln. In June 2019, Etalon Group increased its share in the Zil-Yug project to 100%. These acquisitions enabled Etalon Group to expand its land holdings in Moscow by 1.9 mln sq m.

Etalon Group completed the integration of Leader Invest in the third quarter 2019 by adopting a single brand for all projects, cutting duplicate functions and costs, and speeding up the construction of acquired unfinished properties. The successful integration of Leader Invest enabled Etalon Group to boost sales in Moscow by 26%, commission a record 353,000 sq m of real estate and raise the price for residential properties in Moscow by 42% by the end of 2019 by changing the project mix and introducing dynamic pricing.

Dividend payouts

In August 2019, Etalon Group's annual general meeting of shareholders approved the payment of USD 56.04 mln (USD 0.19 per share/GDR) in 2018 dividends.

In January 2020, Etalon Group's Board of Directors adopted a revised dividend policy and approved minimal guaranteed dividend payments in the amount of RUB 12 per share/GDR unless the ratio of EBITDA to interest payments made by the company in the reporting period falls below 1.5.

Listing on Moscow Exchange

In February 2002, the global depositary receipts of Etalon Group, previously trading only on the LSE, were also listed on Moscow Exchange and included in the Level 1 Quotation list.

Segezha Group

Expansion and reconstruction of production facilities

In 2019, LLC Segezha Group (Segezha Group) started the construction of Russia's first CLT plant to produce a modern engineering material for wooden house-building, and launched a new line for the production of industrial paper packaging in Salsk with a capacity of 83 mln sacks a year. In July 2019, the company launched the reconstruction of its Segezha Pulp and Paper Mill, which provides for an increase in the capacity of the enterprise to 850,000 t of products per year and product portfolio expansion.

In April 2020, Segezha Group received a government permit for the construction of a new plywood mill in Galich (Kostroma region) with a design capacity of 125,000 cu m of plywood a year. The 31.2 ha site will accommodate a production area of some 48,000 sq m, warehouses for finished products and an office building. The construction is scheduled to break ground in 2021.

Entry to capital markets

In January 2020, Segezha Group issued RUB 10 bln in three-year registration-exempt bonds. Although the coupon rate was preliminarily set at 7.25-7.50%, high demand for the bonds enabled a more moderate rate of 7.1%.

Steppe AgroHolding

Agroholding Steppe

Expansion of land assets

In 2019, the land bank of JSC Steppe AgroHolding (Steppe) totaled 416,000 ha, up from 401,000 ha year-on-year, mostly due to the acquisition of an 11,000 ha farm in the Stavropol region in the first half of the year. After the reporting period, in March of 2020, the company further expanded its land bank to 527,000 ha by acquiring the Rodnaya Zemlya farm (30,300 ha) and leasing land (80,500 ha) from the Zerno Don group in the Rostov region.

Medsi

Chain expansion

As a step to expand its national chain, in December 2019, JSC Medsi Group (Medsi) acquired a second clinic in St. Petersburg. After the reporting period, Medsi acquired a chain of 4 clinics in Izhevsk with a total floorspace of 4,300 sq

m. The chain includes a clinical, diagnostic and hospital centre, a pediatric clinic, a clinic for adults and a women's health centre.

In September 2019, Medsi first started developing its own franchise network, expected to grow to 20 Medsi-branded partnership clinics across Russia in a five-year term. Partnership clinics may open both in cities where Medsi is already represented and in new cities with populations of 300K+.

Ozon

Product range expansion

In 2019, Ozon focused on expanding its product mix as one of the most important factors to e-commerce growth. By the end of 2019, the number of SKUs increased 3x compared to the beginning of the year, to 5 mln SKUs. The main growth driver was the development of the marketplace: its share in Ozon's turnover increased from 5% in January 2019 to 30% at the end of the year, and in March 2020, about 70% of Ozon's product mix was formed by its marketplace partners. At the end of 2019, about 6,500 partners already had active sales on Ozon, with about 15,000 in the process of registration.

Investments in the logistics infrastructure

In 2019, Ozon more than doubled the area of its fulfilment centres (to almost 200,000 sq m) and expanded the last-mile delivery infrastructure. At the end of 2019, the company had the largest network of parcel lockers in Russia with 6,900 automated Ozon lockers. Ozon's total network, including its own and partner lockers and order pick-up points, grew 3x during the year, to 16,700 locations.

3.2. STRATEGY

Mission

Sistema's mission is to build Russia's **leading investment company with a diversified expertise** and a strong track record, which will become an **investment platform** for managing own and third-party capital, while simultaneously providing access to **unique investment opportunities** in the most attractive industries of the Russian economy and high-potential technologies, and ensuring **long-term growth of shareholder value**.

Strategic goals of Sistema

- Maximising total shareholder return (TSR) and reducing the discount of market capitalisation to net asset value (NAV);
- Raising and managing outside capital to expand available investment resources.

Strategic focus

- Building businesses worth over USD 1 bln (Steppe AgroHolding, Segezha Group, Medsi, Ozon);
- Embracing unique investment opportunities in traditional sectors in Russia;
- Focusing on investments in the high-potential technological industry;
- Creating value at existing assets, including through adoption of state-of-the-art technologies and digital solutions;
- Continuous enhancement of corporate governance.

Partnership management model

The Corporation has adopted a **partnership management model** that allows the key executives (Managing Partners) of the Corporation to share the risks and returns from investment activities with the shareholders.

Managing Partners are responsible for implementation of investment strategies of portfolio companies. This means that they participate in making strategic decisions and, depending on the maturity of a particular asset, provide assistance with operational management. In most cases, Managing Partners chair the boards of directors and are in charge of forming the board and organising its work. They also bear responsibility for recruitment and appointment of the management of respective companies;

The incentive plan of Managing Partners is aimed at:

- Increasing Sistema's market capitalisation;
- Maximising the value of assets under management and monetising this value;
- Raising outside capital under management.

Managing Partners co-invest in assets under their management.

Asset management principles

Investing in the **development of existing portfolio assets to grow their value** is one of the key stages of Sistema's value creation model.

Value creation in assets

1. A **board of directors** is formed at portfolio companies, which must include **independent directors** with a recognised industry and/or functional expertise. The board of directors provides supervision, coordination and support to the management of portfolio companies in decision-making in key functional areas: strategy and major transactions, budget planning, HR policy, and internal audit.
2. **Efficient managers** are recruited for each company, with incentive plans aimed at creation of shareholder value.
3. **Strategic and financial planning cycles** are introduced based on the best international practices of corporate governance.
4. **New technologies are identified** that may help to enhance efficiency, streamline processes, develop innovative products and services for customers, and expand the portfolio companies' markets.

Investment principles

Current investments

Focus: investments in own high-potential assets that can be developed to reach the value of over USD 1 bln.

Investment strategy: investments in portfolio companies to increase their market share or enter adjacent/synergetic business segments.

Geography: in accordance with the approved strategy for portfolio companies.

Industries: companies' industries and complementary/synergetic industries.

Discounted payback period (DPBP): 3-10 years

New investments

Focus: unique investment opportunities in traditional industries in Russia:

Mature undervalued assets

Investment strategy: acquisition of substantial or controlling stakes in large assets in attractive Russian markets with a significant discount to the market value and a possibility of quickly reducing the discount and selling within 2-3 years.

Growing assets

Investment strategy: acquisition and consolidation of players, further value creation by ousting competitors, consolidating the industry, leveraging economies of scale and market growth; exit in 4-5 years through sale to a strategic investor/IPO.

Geography: mostly Russia.

Industries: sectors with large markets (at least USD 1 bln), high growth rates, import substitution capacity and strong export prospects.

Focus: investment in high-potential technological industries and technologies of the future:

Investment in major IT companies

Investment strategy: direct investments by the Corporate Centre in large stakes in technology companies that do not meet the requirements of investment theses of Sistema's own funds, with an opportunity of creating businesses valued at over USD 1 bln and monetisation prospects in 5-7 years.

Venture projects

Investment strategy: investments by Sistema's existing and new venture funds; monetisation through funds' closing. Mandatory engagement of external investors as financial partners (the share of outside partners is at least 20%).

Geography: no restrictions.

Industries: software development, e-commerce, e-businesses, Internet of Things, virtual assistants, machine learning and neural networks, cybersecurity, medtech, AR/VR and others.

Responsible investing

For Sistema, responsible investing is an integral element of the investment strategy and long-term success. It means that at all stages of its investment activities and asset ownership the Corporation considers not only financial and operating aspects but also significant ESG factors to create long-term value for shareholders and other stakeholders.

Sistema's indirect ESG impact through its portfolio assets is more significant than the direct one. Therefore, as a responsible investor, the Corporation continually makes efforts to promote the following principles in Sistema Group companies through their governance bodies under established corporate procedures:

- Compliance with high standards of corporate governance and corporate responsibility principles;
- Improvement of their sustainability management approaches and performance indicators;
- Minimisation of negative and maximisation of positive impact through innovation, services, products and investments in local communities.

To learn more about responsible investing and sustainable development management, please refer to the section "Sustainability management".

3.3. SHAREHOLDERS' EQUITY

Structure of shareholders' equity

Sistema has 9,650,000,000 ordinary shares outstanding with a nominal value of RUB 0.09 each. Its authorised capital is RUB 868,500,000.

Sistema held an initial public offering in 2005. Its shares trade on the London Stock Exchange in the form of global depositary receipts (GDRs) under the ticker SSA. One GDR represents 20 ordinary shares. The Corporation's ordinary shares are also listed on the Moscow Exchange in the first listing level under the ticker AFKS. The GDRs traded on the London Stock Exchange represent about 15.9 % of Sistema's equity, while the shares traded on the Moscow Exchange represent 16.5%. The free float is about 31.5% of equity.

Sistema's shares are included in the Moscow Exchange's two key indices, the MOEX Russia Index and RTS, as well as its Broad Market Indices and SMID Indices.

Sistema is also the largest shareholder in three public companies: MTS, Detsky Mir and Etalon Group. Shares of PJSC MTS, a Sistema subsidiary, trade on Moscow Exchange under the ticker MTSS and on the New York Stock Exchange (NYSE) in the form of ADRs under the ticker MBT.

Shares of PJSC Detsky Mir, a Sistema subsidiary, began trading on the Moscow Exchange in 2017 under the ticker DSKY in the first listing level.

In February 2019, the Corporation acquired a 25% stake in Etalon Group plc. Etalon's GDRs have been listed on the London Stock Exchange under the ticker ETLN since 2011 and on the Moscow Exchange in the first listing level since February 2020.

Sistema's principal shareholder is its Chairman of the Board of directors Vladimir Evtushenkov, who owns 59.2% of the Corporation's equity.

Changes in Sistema's GDR and ordinary share prices

In 2019, the price of Sistema's shares and GDRs grew by 129.0% and 110.1% respectively, significantly outperforming the market: the RTS and the MOEX Russia Index grew by 44.9% and 28.6% respectively. Market capitalisation at the end of 2019 was USD 2.4 bln, compared with USD 1.1 bln at the end of 2018. The share price was driven, among other things, by strong results of portfolio companies, a decrease in debt burden, successful monetisation of a number of the Corporation's assets and the launch of the share buyback programme. Stock liquidity also improved YoY: the average daily trading volume in monetary terms increased from USD 3.9 mln in 2018 to USD 4.4 mln. Since the beginning of 2020, share prices have been under pressure amid the COVID-19 pandemic.

In September 2019, the Corporation launched the share buyback programme ("Programme") in the amount of RUB 3 bln. As of 31 December 2019, the Programme was implemented in the amount of RUB 1.6 bln. In February 2020, it was decided to extend the Programme until the end of 2020.

On the first trading day of 2019, the closing price of one GDR on the London Stock Exchange was USD 2.32. Strong performance was observed during the year, with the price of one GDR peaking at USD 5.01 on 26 November. On the last trading day of the year, the closing price was USD 4.87. The average daily trading volume in 2019 was 3.0 mln GDRs.

On the first trading day of 2019, the closing price of one ordinary share on the Moscow Exchange was RUB 8.04. Strong performance was observed during the year, with the price of one ordinary share peaking at RUB 16.5 on 20 November. On the last trading day of the year, the closing price was RUB 15.24. The average daily trading volume in 2019 was 20.9 mln ordinary shares.

3.4. REPORT ON DIVIDENDS DECLARED (ACCRUED) ON SISTEMA SHARES

Dividend policy

Dividends serve as the main tool for enhancing shareholder value. In determining the amount of dividends the Board of Directors of the Corporation takes into account a number of factors, including the following:

- Cash flows generated by key public assets of Sistema that are mostly used to support the Corporate Centre and make future investments;
- The growth and development prospects of non-public assets whose cash flows and monetisation proceeds may be allocated for dividends, and other tools for generating shareholder returns;
- Debt and other liabilities of the Corporate Centre.

When making decisions with regard to any payments, the Board of Directors also considers the situation in financial markets, current macroeconomic environment in Russia and other countries where Sistema operates.

Dividends distributed for the full year 2018

On 29 June 2019, the Annual General Meeting of Sistema's shareholders (Minutes No 1-19) approved the distribution of RUB 1,061,500,000.00, or RUB 0.11 per ordinary share in Sistema, as dividends.

As of 31 December 2019, the total amount of dividends distributed equalled RUB 1,061,387,737.52. Withholding tax on dividends distributed to foreign shareholders totalled RUB 440,084.00.

Unpaid dividends

As of 31 December 2019, the total amount of unpaid dividends equalled RUB 4,213,795,709.62, including:

- RUB 4,213,003,658.88 not paid in accordance with a written request from a shareholder;
- RUB 792,050.74 not paid due to absence of information about dividend recipients necessary to transfer the due amounts.

	Total amount of declared dividends, RUB	Dividend per share, RUB	Declaration date	Payment date
2014 (for the full year 2013)	19,879,000,000	2.06	28/06/2014	31/07/2014
2015 (for the full year 2014)	4,535,500,000	0.47	27/06/2015	29/07/2015
2016 (for the full year 2015)	6,465,500,000	0.67	25/06/2016	27/07/2016
2016 (for H1 2016)	3,667,000,000	0.38	23/09/2016	20/10/2016
2017 (for the full year 2016)	7,816,500,000	0.81	24/06/2017	28/11/2017
2017 (for 9M 2017)	6,562,000,000	0.68	28/11/2017	22/12/2017 ⁴ 19/01/2018 ⁵
2018 (for the full year 2017)	1,061,500,000	0.11	30/06/2018	31/07/2018
2019 (for the full year 2018)	1,061,500,000	0.11	29/06/2019	31/07/2019

⁴ Date of payment of dividends to nominee shareholders and custodians who are professional participants of the securities market and who are included in the shareholders register.

⁵ Date of payment of dividends to other persons included in the shareholders register.

3.5. CONSOLIDATED FINANCIAL RESULTS OVERVIEW

The following financial information should be read in conjunction with our Financial Statements.

Consolidated financial results

Key performance measures

RUB millions ⁶	2019	2018	Change
Revenue	656,861	625,032	5.1%
OIBDA	201,701	221,078	(8.8%)
Adj. OIBDA	223,929	226,027	(0.9%)
Operating income	86,417	108,578	(20.4%)
Adj. operating income	108,646	113,527	(4.3%)
Net profit/(loss) attributable to Sistema shareholders	28,597	(45,896)	-
Adj. net profit attributable to Sistema shareholders	53,379	1,114	4,693.7%

The following table sets forth a summary of our financial results for the years ended 31 December 2019 and 2018. This financial information should be read in conjunction with our Financial Statements.

	Years ended 31 December			
	2019	% of revenues	2018	% of revenues
Continuing operations				
Revenue	656,861	100.0%	625,032	100.0%
Cost of sales	(301,918)	(46.0%)	(277,711)	(44.4%)
Selling, general and administrative expenses	(129,013)	(19.6%)	(118,973)	(19.0%)
Depreciation and amortization	(115,283)	(17.6%)	(112,500)	(18.0%)
Impairment of long-lived assets	(11,639)	(1.8%)	(1,030)	(0.2%)
Impairment of financial assets	(6,994)	(1.1%)	(5,623)	(0.9%)
Taxes other than income tax	(4,962)	(0.8%)	(5,829)	(0.9%)
Share of the profit or loss of associates and joint ventures, net	(4,398)	(0.7%)	1,682	0.3%
Other income	11,478	1.7%	7,139	1.1%
Other expenses	(7,715)	(1.2%)	(3,609)	(0.6%)
Operating income	86,417	13.2%	108,578	17.4%
Finance income	7,527	1.1%	7,765	1.2%
Finance costs	(87,341)	(13.3%)	(60,600)	(9.7%)
Currency exchange profit/(loss)	10,453	1.6%	(17,325)	(2.8%)
Profit before tax	17,056	2.6%	38,418	6.1%
Income tax expense	(26,999)	(4.1%)	(29,353)	(4.7%)
(Loss)/profit from continuing operations	(9,943)	(1.5%)	9,065	1.5%
Discontinued operations				
Profit/(loss) from discontinued operations	67,551	10.3%	(47,369)	(7.6%)
Net profit/(loss) for the year	57,608	8.8%	(38,304)	(6.1%)

⁶ Hereinafter, adjusted OIBDA, adjusted operating income and adjusted profit are non IFRS indicators used to evaluate financial performance of the Corporation and Sistema Group companies and represent underlying financial measures adjusted for a number of one-off gains and losses that are not related to business operations. The reconciliation of these indicators is provided in "Alternative performance measures" section below.

Attributable to:				
Shareholders of Sistema PJSFC	28,597	4.4%	(45,896)	(7.3%)
Non-controlling interests	29,011	4.4%	7,592	1.2%

Sistema's consolidated revenue increased by 5.1% YoY to RUB 656.9 bln in 2019, driven by improved revenue at key assets: at MTS due to growth in mobile services as well as other complementary areas including financial services, system integration services and software sales; at Steppe due to increased exports of traditional and niche crops, positive dynamics in the Dairy Farming segment and sales growth in the Sugar and Grocery Product Trading segment; and at Medsi due to growth of services provided across key segments.

Sistema Group's adjusted OIBDA in 2019 slightly decreased by 0.9% YoY to RUB 223.9 bln amid a negative impact of weak global conditions on the OIBDA dynamics of the Group's key non-public assets (Segezha Group and Steppe AgroHolding). The Group's adjusted OIBDA dynamics was also affected by a net loss at Ozon of RUB 7.8 bln, accounted for using the equity method (investment in associates).

The Group's selling, general and administrative (SG&A) expenses for 2019 increased by 8.4% to RUB 129.0 bln. The SG&A/revenue ratio at key assets remained almost unchanged YoY. In 2019, the Corporate Centre SG&A/Group revenue ratio increased by 0.5 p.p to 2.0% as a result of an increase in Corporate Centre expenses related to the monetisation of assets.

Adjusted net profit attributable to Sistema amounted to RUB 53.4 bln in 2019, compared to RUB 1.1 bln in 2018. The dynamics of net profit YoY were influenced by the sale of 100% of shares in Leader Invest and its deconsolidation, the public offering of 18.3% of Detsky Mir shares and reclassification of the remaining stake in Detsky Mir (33.4%) as investment in associates.

The Group's CAPEX slightly decreased YoY by 5.2% to RUB 117.6 bln in 2019.

Segment reporting

In our comparison of period-to-period results of operations we analyze changes, developments and trends in revenues by reference to individual segment revenues. We present our revenues on an aggregated basis after elimination of intra-segment (between entities in the same segment) transactions, but before intersegment (between entities in different segments) eliminations. Amounts attributable to individual companies, where appropriate, are shown prior to both intra-segment and inter-segment eliminations.

The following tables set forth a summary of revenues and operating income by reportable segment for the years ended 31 December 2019 and 2018.

Revenue by segment RUB millions	Years ended 31 December			
	2019	% of revenues	2018	% of revenues
MTS	476,106	72.5%	462,134	73.9%
Segezha Group	58,495	8.9%	57,890	9.3%
RTI	24,740	3.8%	22,886	3.7%
Ozon	-	0.0%	-	0.0%
Corporate	3,341	0.5%	3,196	0.5%
Other	101,833	15.5%	87,837	14.1%
Aggregated revenue	664,515	101.2%	633,943	101.4%
Intersegment eliminations	(7,654)	(1.2%)	(8,911)	(1.4%)
Total	656,861	100.0%	625,032	100.0%

Operating income by segment RUB millions	Years ended 31 December			
	2019	% of total operating income	2018	% of total operating income
MTS	114,146	132.1%	105,984	97.6%
Segezha Group	8,333	9.6%	8,178	7.5%
RTI	(1,770)	(2.0%)	921	0.8%
Ozon	(7,834)	(9.1%)	(1,115)	(1.0%)
Corporate	(18,781)	(21.7%)	(11,946)	(11.0%)
Other	(1,404)	(1.6%)	9,534	8.8%
Aggregated operating income	92,690	107.3%	111,556	102.7%

Intersegment eliminations	(6,273)	(7.3%)	(2,978)	(2.7%)
Total	86,417	100.0%	108,578	100.0%

Alternative performance measures

Operating Income Before Depreciation and Amortisation (OIBDA) and OIBDA margin. OIBDA represents operating profit before depreciation and amortisation. OIBDA margin is defined as OIBDA as a percentage of our net revenues. Our OIBDA may not be similar to OIBDA measures of other companies; is not a measurement under accounting principles generally accepted under IFRS and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of profit and loss. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of businesses and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. OIBDA is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies.

The following table presents a reconciliation of OIBDA to operating income for the periods indicated:

RUB millions	2019	2018
Operating income	86,417	108,578
Depreciation and amortisation	(115,283)	(112,500)
OIBDA	201,700	221,078

Adjusted OIBDA, operating profit and profit attributable to Sistema shareholders. The Company uses adjusted OIBDA, adjusted operating profit and adjusted profit/(loss) attributable to Sistema shareholders to evaluate financial performance of the Group. These represent underlying financial measures adjusted for a number of one-off gains and losses. We believe that adjusted measures provide investors with additional useful information to measure our underlying financial performance, particularly from period to period, because these measures are exclusive of certain one-off gains and losses.

Adjusted operating profit and adjusted OIBDA can be reconciled to our consolidated statements of profit and loss as follows:

RUB millions	2019	2018
Operating income	86,417	108,578
Provisions for litigation and amounts due under contracts with clients (RTI)	5,515	2,260
Accruals related to LTI program at portfolio companies	489	868
Non-current assets impairment (Kronshtadt)	2,422	-
Impairment of rental properties	2,958	-
Impairment of investment and other property	6,429	-
Other non-recurring losses, net	4,415	1,821
Adjusted operating income	108,646	113,527
Depreciation and amortisation	115,283	112,500
Adjusted OIBDA	223,929	226,027

Adjusted profit / (loss) attributable to Sistema shareholders can be reconciled to our consolidated statements of profit and loss as follows:

RUB millions	2019	2018
Net profit / (loss) attributable to Sistema	28,597	(45,898)
Provisions for deferred tax assets (DTA)	4,308	12,621
Provision for liability with regards to the U.S. Department of Justice and the SEC investigation, including revaluation (MTS)	(1,722)	29,527
Provisions for litigation and amounts due under contracts with clients (RTI)	4,274	1,966
Accruals related to LTI program at portfolio companies	679	1,193
Non-current assets impairment (Kronshtadt)	2,422	-
Impairment of rental properties, inc. write-offs of DTA	3,159	-

Impairment of investment and other property, inc. write-offs of DTA	7,361	-
Other non-recurring losses, net	4,300	1,704
Adjusted net profit / (loss) attributable to Sistema	53,379	1,114

Liquidity position

RUB million	2019	2018
Net cash provided by operating activities	106,269	88,628
Net cash used in investing activities	(43,926)	(127,935)
Net cash (used in)/provided by financing activities	(110,102)	90,605
Effect of foreign currency translation on cash and cash equivalents	(2,755)	3,408
Net increase/(decrease) in cash and cash equivalents	(50,514)	54,706

Net cash provided by operating activities

Net cash provided by operating activities in the reporting year increased by RUB 17,641 million, or 19.9% from RUB 88,628 million in the year ended December 31, 2018 to RUB 106,269 million in year ended December 31, 2019. The increase was mainly caused by changes in working capital. Lower figure for 2018 was attributable to the outflow of RUB 80 bln payment under Settlement agreement which more than offset the effect of SEC fine in the amount of RUB 55.6 bln paid by MTS in 2019.

Net cash used in investing activities

Net cash used in investing activities decreased from RUB 127,935 million in the year ended 31 December 2018 to RUB 43,926 million in the year ended 31 December 2019 by RUB 84,009 million, or 65.7%. Increase was mainly due to the proceeds from the sale of Leader Invest, placement of Detsky Mir shares as well as sale of MTS Ukraine division.

Net cash used in financing activities

In the reporting year, net cash used in financing activities amounted to RUB 110,102 million as compared to the previous year cash inflow of RUB 90,605 million. The change is mainly due to lower amounts of borrowings in the reporting period compared to 2018 as well as significant debt repayments during the year.

Debt portfolio overview

In 2019, Sistema allocated a significant portion of the funds received from monetisation of assets, including the secondary public offering of Detsky Mir shares and the sale of Leader Invest, to repay the debt of the Corporate Centre, reducing financial obligations by 15.2% YoY to RUB 189.2 bln⁷ as of 31 December 2019. The Corporation's efforts were also aimed at reducing its foreign currency (FX) exposure: as a result of the retirement of Eurobonds in May 2019 and the repayment of a FX loan in November 2019, the share of the Corporate Centre's FX-denominated liabilities decreased to 4% of the total debt portfolio.

In order to optimise and diversify its debt portfolio, Sistema was active in the capital markets in 2019, having issued four series of bonds⁸ for a total of RUB 40 bln and also having improved the terms of a number of loan agreements, including due to the general reduction in rates in the Russian market. The Corporation managed to improve its debt portfolio maturity to 3.5 years and achieve a record low coupon rate of 6.85% during the secondary placement of series 001P-05 bonds in February 2020.

Credit ratings

As a result of the Corporation's achievements in debt reduction during 2019, a number of rating agencies revised Sistema's credit ratings. In August 2019, S&P Global Ratings upgraded Sistema's credit rating to BB- with a stable outlook. In September 2019, Expert RA upgraded Sistema's rating to ruA with a stable outlook. In May 2019, Fitch Ratings upgraded its credit rating outlook to stable.

	Long-term credit rating	Outlook	Date of most recent rating update
Standard & Poor's	BB-	Stable	29/08/2019
Fitch	BB-	Stable	15/05/2019
Expert RA	ruA	Stable	25/09/2019

⁷ Including all borrowing and liabilities to Rosimuschestvo, finance leases and liabilities under the Settlement Agreement at the Corporate Centre level.

⁸ Series 001P-09, 001P-10, 001P-11 and 001P-12.

3.6. KEY PORTFOLIO ASSETS OVERVIEW

MTS

Sistema's effective stake: 50.01%

President and Chairman of the Management Board: Alexey Kornya

Chairman of the Board of Directors: Felix Evtushenkov

PJSC Mobile TeleSystems (“MTS”) is a leading Russian company offering mobile and fixed-line services, Internet access, cable and satellite TV, digital services and mobile apps, financial and e-commerce services, and convergent IT solutions in the areas of system integration, Internet of things, artificial intelligence, data processing and cloud computing.

MTS has long been the leader in the Russian telecom market in terms of key mobile business indicators: subscriber base, revenue and OIBDA.

Business model

In 2019, as part of the updated strategy, MTS introduced a new matrix-based organisational structure built around four key business segments: telecommunications, fintech, media, cloud and digital solutions for businesses. New segments were established: artificial intelligence and big data. The company also launched MTS Media, a new unit combining all TV segments of the Group. The reorganisation is aimed at creating separate units based on innovative teams at the level of top management and creating functional business segments needed to launch an ecosystem of digital products.

Industry overview for 2019⁹

The size of the Russian telecom market reached RUB 1.73 trn in 2019 having grown by 2.1% year-on-year, which is lower compared to 2017 and 2018 (2.7% and 3.3% respectively). The result was mainly due to the slowdown in the growth of the mobile communications and pay TV segments, as well as the reduction in the markets of fixed telephony and inter-operator services. Subscribers continue to abandon landline phones, while companies optimise the costs of telephone communications. The inter-operator market is shrinking due to market consolidation and falling revenues in a number of international segments. The slowdown in telecom market growth was also due to regulatory changes including abolition of intra-network roaming charges from September 2018 as well as VAT increase from 18% to 20% in January 2019.

The mobile segment grew by 3.3% in 2019. In the mobile market, the efforts of operators to increase revenue per subscriber were partially offset by competition between operators and by introduction of unlimited plans. Growth in the corporate segment and the M2M¹⁰ market slowed down significantly. Despite these negative factors, most federal operators managed to maintain positive revenue trends in 2019 by continuing their “more for more” policy, i.e. offering more voice and data for more money.

Also in November 2019, a package of amendments to the Federal Law “On Communications” and the Federal Law “On Information, Information Technologies and Protection of Information” (the so-called “Sovereign Internet Law”) came into force, which stipulates, among other things, the obligation of operators to install equipment for analysing and filtering traffic at Internet exchange points.

The mobile subscriber base in Russia is estimated to have grown by 1.7%, to 260 mln, mainly due to the efforts of operators to build up their customer base and an increase in the number of mobile M2M connections.

Russia’s communications market may begin active introduction of 5G technology in 2020 and the share of 5G communications may reach 20% of the total number of connections by 2025¹¹.

Traditional telecommunication services remained the main source of income for Russian telecom companies in 2019. It was expected that in 2020 telecom operators will mainly focus on increasing revenues from core services, and will continue to develop their offering in IT, media and other related markets.

Business development in 2019

⁹ All projections and forward-looking estimates regarding the industry in general and the company’s business in particular were made before February 2020, unless specifically noted otherwise.

¹⁰ Machine-to-machine.

¹¹ Outlook by research company GSMA, the Analytical Centre under the Government of the Russian Federation and the Russian LTE Union.

In 2019, MTS remained the leader in the Russian telecommunications market due to its stable operating activities, promotion of strategic business segments based on mobile data transmission and strengthened position as a leading provider of digital services. MTS Group's revenue grew 5.5% year-on-year and amounted to RUB 476.1 bln in 2019.

In 2019, MTS updated its brand positioning by introducing a new slogan and a new visual style. This change in branding reflected the company's new strategy aimed at the transformation and development of new digital products.

In December 2019, MTS sold 100% of shares in PrJSC VF Ukraine for USD 734 mln to Bakcell. The deal is in line with the updated strategy of MTS, which provides for a focus on the Russian market and development of a range of advanced digital services on the basis of the core telecom business.

In December 2019, MTS acquired a 4.5% stake in PJSC MTS Bank ("MTS Bank") for RUB 1.4 bln from Sistema. As a result of this transaction, MTS Group's stake in MTS Bank increased to 99.7%¹², while Sistema withdrew from MTS Bank completely.

In January 2019, MTS acquired a 100% stake in LLC IT Grad 1 Cloud for RUB 2.5 bln¹³, which holds the assets of IT Grad Group, one of the largest cloud providers of IaaS¹⁴ in the Russian market. The transaction is aimed at expanding MTS's competences in the cloud business and increasing the efficiency of #CloudMTS.

MTS continued to develop its innovation centre in 2019. The company began the fourth enrolment round of the *MTS StartUp Hub* acceleration programme. At the end of May 2019, MTS announced the launch of a programme for creating a partnership network in the main global centres of innovation (Israel, Germany and Singapore) to attract and transfer startups. In July 2019, an incubation programme for 5G startups was launched in Moscow.

In 2019, MTS continued to develop the segment of AI, launching sales of chatbot systems for customer service. The company also launched its Virtual Lawyer product called, a system for automated work with documents and contract lifecycle management. In November 2019, MTS, Sberbank, Gazprom Neft, Yandex, Mail.ru Group and the Russian Direct Investment Fund announced the signing of a cooperation agreement for the creation of the AI-Russia Alliance during the Artificial Intelligence Journey (AIJ) forum.

In the second half of 2019, MTS joined GSMA's global initiative to develop an industrial road map setting out actions aimed at minimising the impact of the telecom industry on climate in accordance with the Paris Agreement on climate change.

MTS continues to successfully improve the *My MTS* app and grow its user base. *My MTS* had over 20.3 mln monthly users at the end of 2019. The app is used as a platform for developing the ecosystem and promoting other digital services offered by the company.

In May 2019, MTS completed its two-year buyback programme for RUB 30 bln. Under the programme, LLC Bastion, a wholly-owned subsidiary of MTS, acquired 113.5 mln ordinary shares (including ADRs), or 5.9% of the authorised capital of MTS, for RUB 29.8 bln.

In March 2020, the board of directors of MTS approved a buyback programme in the amount of up to RUB 15 bln.

New strategy CLV 2.0

In October 2019, the board of directors of MTS approved the Group's new strategy – *Customer Lifetime Value 2.0* ("CLV 2.0") – for 2020-2022, which provides for the accelerated creation of a large-scale ecosystem of new digital products for MTS customers based on accumulated expertise and achievements in the telecom business. MTS intends to focus its efforts on improvement of people's lives, well-balanced business development, market cap growth and higher return on invested capital.

CLV 2.0 elaborates on the company's current strategic goals and is aimed at building a digital ecosystem with a seamless user experience on top of a strong telecommunications core. MTS plans to allocate up to 20% of its core CAPEX for new segments and take on a customer-centric approach designed to increase overall time customers spend within the MTS ecosystem. The new strategy is focused on maximising long-term customer value by better meeting the customer's needs, while enhancing loyalty and offering attractive bundled offerings. MTS intends to extend convergence beyond

¹² Including the 0.2% stake of PJSC MGTS.

¹³ Taking into account net debt.

¹⁴ Infrastructure as a service.

connectivity by providing fit-for-purpose offerings for the modern digital lifestyle to improve people's lives, support the development of Russia's digital economy and continue to pay significant dividends to investors.

Financial performance in 2019

Indicator, RUB mln ¹⁵	2019	2018	Change
Revenue	476,106	451,466	5.5%
OIBDA	211,513	202,564	4.4%
Operating income	115,235	107,178	7.5%
Adj. net profit attributable to Sistema	25,403	32,951	(22.9%)

In 2019, revenue of MTS increased 5.5% YoY by RUB 476.1 bln due to higher revenue from mobile services, as well as complementary segments, including financial services, system integration services and software sales. OIBDA grew by 4.4% to RUB 211.5 bln, as the growth in revenue from the core business offset the negative effect of the cancellation of internal roaming charges. Adjusted net profit decreased 22.9% YoY to RUB 25.4 bln due to an increase in debt service costs, derivatives transactions and non-cash losses from the sale of assets, including the sale of the Ukrainian business in December 2019.

In March 2019, the board of directors of MTS approved a new dividend policy for 2019-2021. The target dividend yield is at least RUB 28 per ordinary share (RUB 56 per ADR) for each calendar year.

In June 2019, the annual general meeting of MTS shareholders approved dividends for 2018 in the amount of RUB 39.93 bln or RUB 19.98 per share. In September 2019, interim dividends for the first half of 2019 were approved in the amount of RUB 8.68 per share (RUB 17.36 per ADR), or RUB 17.3 bln in total. After closing the deal to sell the business in Ukraine, it was decided to pay special dividends in the amount of RUB 13.25 per share (RUB 26.50 per ADR), or RUB 26.48 bln in total.

Detsky Mir

CEO: Mariya Davydova¹⁶

Chairman of the Board of Directors: Vladimir Chirakhov¹⁷

Sistema's effective stake: **33.4%**

Detsky Mir Group (Detsky Mir)¹⁸ is a multi-format retail operator and a leader in the children's goods segment in Russia and Kazakhstan. It comprises the retail chain Detsky Mir (in Russia, Kazakhstan and Belarus), the Detsky Mir online store (Detmir.ru), ELC (in Russia) and ABC stores, and the Zoozavr chain of pet stores.

Business model

1. A multi-category children's goods store with the broadest and most unique product mix.
2. Affordable prices with a focus on the medium and below medium price segments.
3. Convenient stores in modern shopping malls and densely populated residential areas.
4. Building longterm customer relationships through the loyalty programme.
5. Smart visual merchandising designed to appeal specifically to children and parents.

Industry overview for 2019¹⁹

In 2019, the volume of children's goods market in Russia increased by 0.6% year-on-year and reached RUB 526.5 bln²⁰. The market's CAGR over the last four years was 0.5%. Analysts project that the market may grow by an average of about 1% per year and may be worth RUB 533.1 bln by 2021.

¹⁵ MTS's results reflect reclassification of the Ukrainian business as part of discontinued operations since 4Q 2019. The results for 2018 have been revised to reflect the results of this reclassification.

¹⁶ As of 31 December 2019: Vladimir Chirakhov.

¹⁷ As of 31 December 2019: Alexey Katkov.

¹⁸ As of 31 December 2019, the Group included PJSC Detsky Mir, LLC KUB-Market (ELC and ABC), LLP Detsky Mir Kazakhstan, JSC Detsky Mir Orel, LLC DM NORTH-WEST, LLC Detmir BEL and LLC DM Capital.

¹⁹ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

²⁰ According to the research agency Ipsos Comcon.

Clothing and footwear traditionally account for a substantial part of the children's goods market. In 2019, the share of this category increased by 0.4 p.p. year-on-year to 39.5%. Toys accounted for 17.9% of the market, similarly to 2018. Sales of baby products have dropped amid falling birth rates in Russia, and the market share of this product category decreased by 0.2 p.p. year-on-year to 30.1%. Toys, clothing and footwear were expected to remain the fastest growing categories until 2021, while the share of baby products was expected to continue its decline due to the projected negative demographic trends in Russia according to Rosstat outlook.

At the same time, demand for baby products was expected to recover in the next 3-4 years on the back of the measures by the Russian government in 2020 to address the demographic crisis. These measures include extension and expansion of the maternity capital programme, subsidising mortgages for young families and additional payments for each child aged 3-7 in families whose average income per person is below the minimal living wage.

Although in the second half of 2019 the macroeconomic situation in Russia showed some signs of recovery, the growth of real disposable incomes remained weak, putting negative pressure on the purchasing power of households: Russian consumers remained price-sensitive with demand shifting from the premium and medium-price segments to the mass market and economy segment. Therefore, domestic products and private labels were gaining popularity due lower pricing than that of similar imported or branded goods.

In 2019, the share of unorganised retail formats in the children's goods market in Russia continued to shrink amid a growing demand for a wider product mix, development of large retail chains and rapid growth of e-commerce. In 2019, the share of unorganised retail fell by 2.4 p.p. year-on-year to 7%, mainly due to growth of online sales.

In 2019, specialised retailers remained the main sales channel for children's goods, along with food retail, as a result of active development of the Detsky Mir retail chain and other smaller specialised chains. However, due to the fast growth in the share of online stores in 2019, the shares of specialised and food retail chains decreased by 0.3 p.p. year-on-year to 38.8% and 38.6% respectively.

Demand for online sales of children's goods is growing backed by a broad product range, affordable prices and convenience of product search and delivery. In 2019, the share of e-commerce in the children's goods market increased by 3.0 p.p. year-on-year to 15.6%. The average annual growth of online sales in the children's goods market in 2015-2019 was 19.4%.

The Company's share of the children's goods market among specialised retailers increased from 14% in 2011 to 67% in 2019, driven by the opening of a large number of stores during the period and the attraction of consumer traffic from competing smaller retail chains, as well as dynamic growth of online sales. In 2012-2019 Detsky Mir opened 544²¹ new stores, while the CAGR of e-commerce channels was 104%.

Business development in 2019

In 2019, Detsky Mir maintained rapid growth despite the unfavourable macroeconomic environment and increased its revenue by 16.1% to RUB 128.8 bln. The Company fulfilled its plan for expansion of Detsky Mir retail chain, having opened 101 new stores in Russia, Kazakhstan and Belarus in the reporting year.

The total like-for-like sales of Detsky Mir stores in Russia and Kazakhstan increased by 7.2%, a 50% increase from 2018 (4.7%). Such strong results were achieved due to an effective pricing policy and continuous improvement of product range. The main driver of Detsky Mir's robust performance is the Company's ability to attract new customers. As a result, like-for-like growth in the number of transactions was 8.5%. In 2019, the total footfall in Detsky Mir's retail chain exceeded 244 mln people.

The number of loyalty card holders increased by 16% year-on-year reaching 24 mln, with the number of active card holders standing at 10.6 mln. The sales to loyalty card holders accounted for 77.7% of total sales.

One of the key strategic initiatives of the Company is expansion to international markets. In 2019, Detsky Mir successfully entered the market of Belarus by opening 8 retail stores in Minsk and other cities. The results of the chain in Belarus were higher than the KPIs, and at the end of 2019 the company achieved break-even. Detsky Mir also continued to consolidate the market in the Republic of Kazakhstan, where it opened 8 new supermarkets and increased the like-for-like sales of the chain by 35.5% as compared to 2018. In view of such strong results the management decided to expand its foothold in Central Asia by expanding to Kyrgyzstan in 2020.

²¹ Net increase without taking into account closed stores.

As part of its effort to form a unique customer proposition and boost customer loyalty, Detsky Mir continued to develop its private label goods. As of the end of 2019 Detsky Mir chain offered 8,000 items under its private label with their share in the chain's turnover in 2019 having increased by 3.3 p.p. up to 33.1%. The Company sees significant potential for growth of private label sales in the toys and diapers categories.

In 2019, www.detmir.ru online store enjoyed strong demand. Revenues from online orders increased by 65.2% year-on-year up to RUB 14.5 bln. At the same time, Detsky Mir's online store www.detmir.ru had more than 238 mln visits. In total, the company fulfilled more than 9.8 mln orders.

The Company is supporting the growing popularity of online sales and is working to develop this segment. In the reporting year Detsky Mir successfully launched same-day and next-day delivery service in 30 largest cities of Russia. Starting in 2019 Detsky Mir customers are able to use a fully-functional mobile app to purchase goods through a convenient interface featuring a virtual loyalty card.

As part of its omnichannel business model, the Company has launched a pilot phase of the new "microstore" format that combines a retail outlet and a pick-up point. These stores will have a total selling space of up to 170 sq m and will be located in small towns. In 2019, the Company opened four pilot microstores. The new format is expected to improve the quality of delivery of online orders and increase the Company's penetration in the children's goods market in Russia. In 2019, Detsky Mir launched a pilot version of the marketplace for the clothing and footwear category. Given that the turnover of the new electronic platform is the same as that of the online store, the Company expects to expand the range of clothing and footwear available on the marketplace from 20,000 items to 250,000 items.

In 2019, Detsky Mir opened six new pet stores under the Zoozavr brand. By the end of 2019, the chain comprised 10 pet stores.

In November 2019, Detsky Mir's shareholders Sistema and the Russia-China Investment Fund organised a successful SPO of PJSC Detsky Mir, selling 175 million shares, equal to 23.7% of the Company's authorised capital. Following the SPO, Detsky Mir's shares in free float account for 57.6%, Sistema's stake is 33.4%, and RCIF holds 9.0%.

On 3 April 2020, the Board of Directors of Detsky Mir appointed Mariya Davydova CEO of the Company. Mariya Davydova previously held the position of Deputy CEO of Commercial activities. Vladimir Chirakhov, the former CEO of Detsky Mir, was elected Chairman of the Company's Board of Directors.

Business development strategy

The key strategic goal of Detsky Mir is the consolidation the children's goods market in Russia, Kazakhstan and Belarus. The company plans to achieve this by expanding the retail chain, developing omni-channel sales and offering affordable and diverse products, including private labels.

Strategic focus

Detsky Mir is planning to open at least 80²² new stores in 2020 and at least 300 stores in 2020-2023. The Company also intends to continue cutting its operating costs, with its EBITDA margin to reach at least 10%.

Key mid-term goals and initiatives

- ✓ Remain a number one player in the Kazakh market and increase the number of Detskiy Mir stores by 50% to over 60.
- ✓ Become a number one player in the market of Belarus and increase the number of Detskiy Mir stores to 45.
- ✓ Develop the Hub Store project enabling customers to pick up online orders from any convenient store in their region.
- ✓ Open the first warehouse to cater for courier delivery and in-store pick-up services outside the Moscow region.
- ✓ Launch a fully-functional marketplace for the clothing and footwear category in order to expand the product mix from 20,000 SKUs to 250,000 SKUs in the medium term.
- ✓ Increase the share of sales of private labels and direct imports to 40% for toys and 15% for diapers.
- ✓ Open a new distribution centre in the Urals region by 2021.

In October 2019, the Board of Directors of Detsky Mir approved a new 3-year long-term incentive plan for the Company's key employees. The plan came in effect in February 2020 and aims to ensure further growth of Detsky Mir's market capitalisation.

²² Including Detsky Mir stores in Russia, Kazakhstan and Belarus.

Financial performance in 2019

Indicator, RUB mln ²³	2019	2018	Change
Revenue	128,764	110,874	16.1%
Adj. EBITDA	23,797	21,114	12.7%
Operating income	12,893	11,232	14.8%
Adj. net profit	7,262	6,320	14.9%

In 2019 Detsky Mir's consolidated revenue grew by 16.1% year-on-year and reached RUB 128.8 bln. Growth was driven by new store openings (+101 stores in 2019), an increase in like-for-like (LFL) sales by 7.2% and online sales by 65.2%, as well as the launch of a courier delivery service and a fully-functional mobile application.

The Company managed to maintain high operational efficiency by improving commercial lease terms and cutting marketing expenses: adjusted EBITDA increased by 12.7% year-on-year to RUB 23.8 bln. The share of SG&A expenses in revenue decreased from 21.8% in 2018 to 20.8% in 2019.²⁴

The Company reduced its net debt, enabling it to fully implement its development programme and increase dividend payments by 14.6% to RUB 7 bln, equivalent to a dividend yield of 10%.

Etalon Group

CEO: Gennady Shcherbina

Chairman of the Board of Directors: Sergey Egorov

Sistema's effective stake: 25%²⁵

Etalon Group is one of the largest and oldest residential real estate developers and construction companies in Russia with more than 30 years of experience and strong positions in Moscow and Saint Petersburg.

Etalon Group has the highest reliability rating among Russian developers²⁶ and holds the second place in the Forbes ranking of top 20 most reliable developers.

Business model

Etalon Group's vertically integrated business provides for value creation for customers and shareholders at every stage: from acquisition of a land plot to maintenance of finished properties. Over the entire project life cycle, which usually lasts from three to four and a half years, Etalon Group aims to introduce state-of-the-art approaches to design, construction and maintenance of finished properties, maximise returns on investments and create unique environments for future residents, thus enhancing customer loyalty.

Etalon Group is focused on the medium-range segment, which accounts for 60-70% of the total housing demand in Moscow and St. Petersburg and includes development projects in the upper economy, comfort and business segments.²⁷ The mid-range segment is more resilient to macroeconomic volatility and has significant growth potential due to its affordability, attractive profit margins and sufficient market volumes.

Industry overview for 2019²⁸

2019 saw an increase in demand for housing on the back of declining interest rates and greater government support for young families. Combined with the reduced offering from small and medium-size developers, resulting from the new industry regulations related to escrow accounts that took effect on 1 July 2019, this trend may create conditions for further growth and strengthening of market positions of such major players as Etalon Group.

²³ The results in line with Detsky Mir's financial statements. Alternative performance measures reconciliation is provided in Detsky Mir's disclosure materials. The results of Detsky Mir are not consolidated in the financial statements of Sistema PJSC since November 2019. The results of Sistema PJSC for 2019 are presented taking into account reclassification of Detsky Mir in discontinued operations.

²⁴ According to IAS 17.

²⁵ Held by Sistema and affiliated persons.

²⁶ Source: www.erzrf.ru.

²⁷ Knight Frank.

²⁸ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

Need for improvement of living conditions. Housing per capita in Moscow and Saint Petersburg is relatively low compared to most major cities in developed countries, which preconditioned further growth of demand for residential properties in the two largest cities in Russia.

Increased housing affordability. With mortgage rates reaching a record low of 9% in 2019²⁹, housing was becoming more affordable for a greater number of residents in Moscow and Saint Petersburg, while the maternity capital programme and tax benefits helped first-time buyers to make a deposit and contributed to a reduction in debt servicing costs.

Increased attractiveness of investments in residential properties. Younger people increasingly preferred renting to house buying: only 13% of individuals under the age of 25 were planning to purchase a home³⁰, which may create additional demand for rental properties. Combined with a drop in interest rates on bank deposits, this may stimulate an inflow of private investments into the real estate market, as the reliability and profitability of investments in real estate is comparable to that of bank deposits, while the inflation risks related to residential properties are low. The total amount of deposits in Russia at the end of 2019 was RUB 30.5 trn.

Improved positions of major market players. On 1 July 2019, amendments to the federal law "On Co-Funding Apartment Block Construction" took effect. In line with the law, developers will have to switch from off-plan contracts to escrow-based project financing. These measures will create conditions for further growth and will bolster market positions of such major developers as Etalon Group by ousting smaller developers from the market, as they will not be able to withstand higher competition and new regulatory environment. The trend toward consolidation will be supported by the new market entry barriers emerging as a result of new legislation and the need for cooperation with major banks in off-plan projects.

Business development in 2019

In February 2019, Sistema acquired 25% of Etalon Group shares from its founder and largest shareholder Vyacheslav Zarenkov and his family members for USD 226.6 mln. In a separate transaction Etalon Group purchased a 51% stake in JSC Leader Invest (Leader Invest), Sistema's subsidiary and one of the largest development and construction companies in Russia, for RUB 15.2 bln. In August 2019, Etalon Group consolidated a 100% stake in Leader Invest after acquiring the remaining 49% from Sistema for RUB 14.6 bln. In June 2019, Etalon Group increased its share in the Zil-Yug project to 100%. These acquisitions enabled Etalon Group to expand its land holdings in Moscow by 1.9 mln sq m.

Etalon Group completed integration of Leader Invest in Q3 2019 by adopting a single brand for all projects, cutting duplicate functions and costs, and speeding up the construction of acquired unfinished properties. Successful integration of Leader Invest enabled Etalon Group to boost sales in Moscow by 26%, commission a record 353,000 sq m of real estate and raise the price for residential properties in Moscow by 42% by the end of 2019 by changing the project mix and introducing dynamic pricing.

Another important event of 2019 was the launch of the second largest project added to the Company's portfolio after the acquisition of Leader Invest: the residential island Nagatino i-Land with a total area of 472,000 sq m³¹. The estate located on the banks of the Moscow River in a district with well-developed infrastructure will combine the existing business cluster with new residential and commercial spaces.

Etalon Group launched apartments sales in two new business-class properties: Schastye Lomonosovsky in Moscow and Chernigovskaya St. in Saint Peterburg. The offering increased in Saint Petersburg due to the start of sales in Galaxy residential complex. In view of the higher class of the property, the apartments in this estate are being sold under a separate brand Galaxy Pro.

On 3 February 2020, the global depositary receipts of Etalon Group, which had been previously trading only on the LSE, were listed on the Moscow Exchange and included in the Level 1 Quotation list. In February 2020, the Moscow Exchange decided to include Etalon Group's GDRs in the calculation base of the Broad Market Index starting 20 March 2020.

²⁹ Central Bank of Russia. Average weighted mortgage rate for housing loans issued in 2019.

³⁰ According to a public survey conducted in 2018 in Russia by Dom.RF.

³¹ According to Colliers International as of 31 December 2019.

Operating performance in 2019

In 2019, Etalon Group, demonstrated growth across the most significant indicators, including new commissionings, for the first time in the last five years. The company completed the construction of 622,000 sq m of properties at 21 projects and sold 630,000 sq m of real estate for a total of RUB 77.6 bln, marking a 13% increase from 2018.

Indicator	2019	2018	Change
Sales, RUB mln	77,627	68,731	12.9%
Sales, thsd sq m	630	628	0.3%
Average price, RUB thsd / sq m	123	109	12.8%
Average price (housing), RUB thsd / sq m	149	124	20.2%
Cash inflows, RUB mln	77,713	62,785	23.8%
Commissionings, thsd sq m	622	479	29.9%

Largest completed projects

Hotel	Area, thsd sq m
Summer Garden residential complex, first phase	122
Blyukhera St residential complex	100
Galaxy residential complex, second phase	91

Business development strategy

In January 2020, the Board of Directors of Etalon Group approved a revised development strategy until 2024 aimed at achieving the following goals:

- Improving business efficiency.** Comprehensive implementation of digital solutions in the area of cost control and sales efficiency combined with streamlining of asset ownership structure and proportionate reduction of administrative costs will enable Etalon to become a leader in terms of efficiency by 2024.
- Digital and technological transformation of production processes.** Etalon Group aims to develop new construction technologies to create an alternative to traditional brick-monolithic construction techniques. The new approaches will include modern prefabricated construction methods, modular construction and construction from CLT³² panels, which can significantly cut the costs and time of construction.
- Strengthening presence in key markets.** Etalon Group intends to make up for its shortage of supply in St Petersburg during 2020–2021 and then to stabilise its residential portfolio both in the Moscow Metropolitan Area and in St Petersburg by replenishing its land bank annually in an amount equal to the volume of real estate sold during the year.
- Development of an ecosystem for additional services and customer retention.** Etalon Group plans to actively develop additional services for the ever-growing number of people who live in properties built by the company. This will enable it to achieve the highest NPS (net promoter score) score among Russian developers and, as a result, increase its share of repeat purchases, while also generating additional profit from complementary businesses.
- Further geographical expansion.** Subject to the achievement of stable operational and financial growth, Etalon Group will consider entering other Russian regions in cities with stable demand, high incomes and high real estate prices.

In January 2020, Etalon Group's Board of Directors adopted a revised dividend policy and approved minimal guaranteed dividend payments in the amount of RUB 12 per share/GDR unless the ratio of EBITDA to interest payments made by the company in the reporting period falls below 1.5x.

Financial performance in 2019

Indicator, RUB mln ³³	2019	2018 ³⁴	Change
Revenue	84,330	72,327	16.6%
EBITDA	8,897	6,118	45.4%

³² Cross-laminated timber.

³³ The results are presented in line with Etalon's financial statements. Alternative performance measures reconciliation is provided in Etalon's disclosure materials. The results of Etalon Group are not consolidated in the financial statements of Sistema PJSC.

³⁴ Gross income, EBITDA, operating and net profit results for 2018 were revised due to changes in the accounting policy with regard to capitalisation of borrowing costs and significant financing component.

Operating income	6,484	3,204	102.4%
Adj. net profit / (loss)	3,110	(700)	-

Etalon Group's revenue increased by 16.6% up to RUB 84.3 bln in 2019, while revenue from the main segment (residential development) rose by 26.5% and totalled RUB 73.5 bln. Such record-high results were achieved due to strong sales and the highest number of newly commissioned properties in the company's history: Summer Garden residential complex (first phase), Galaxy residential complex (second phase), Serebryany Fontan and Blyukhera St residential complexes, etc. The development projects of the acquired Leader Invest also made a significant contribution to revenue growth and accounted for 15% of total revenue from the main business segment.

EBITDA was up 45.4% reaching RUB 8.9 bln with EBITDA margin rising 10.6% in 2019. The growth of this indicator was achieved by boosting gross income and keeping the share of SG&A expenses in revenue at stable levels. Pre-PPA net profit adjusted for one-off acquisition and integration expenses reached RUB 3.1 bln compared to a net loss of RUB 0.7 bln in 2018.

In 2019, Etalon Group paid USD 56 mln in dividends (19 cents per GDR).

Segezha Group

President: Mikhail Shamolin

Chairman of the Board of Directors: Ali Uzdenov

Sistema's effective stake: 98.3%

LLC Segezha Group is a fast-growing vertically integrated Russian forestry holding with a full cycle of logging and advanced wood processing. Segezha Group comprises forest, wood processing and pulp and paper assets in Russia and Europe.

The main production facilities are located in the European part of Russia and EU nations, with representative offices in 11 countries. Segezha Group's enterprises employ about 13,000 people.

The company exports products to over 100 countries. Exports of finished products account for 70% of the company's revenue. The Group is among Russian, European, and global leaders in the production of plywood, paper sacks, unbleached sack paper, and sawn timber.

Segezha Group is the largest forest user in the European part of Russia. The total area of woodland in leasehold is 7.4 mln ha, with 95% certified according to FSC³⁵.

New products

Innovative packaging paper SKE i4. In 2019, Segezha Group's paper facilities successfully produced pilot batches of a new product ordered by customers - high-strength paper SKE i4 with high stretching properties. In May 2019, Segezha Group's SKE i4-based packaging was awarded a Silver Grand Prix at the international Eurosac 2019 congress in Ljubljana.

Five new types of plywood. In 2019, Segezha Group launched five new products in the market, including Segezha PlyForm, a unique formwork product for construction. The company developed several new solutions: Segezha Creative - laminated coloured plywood, Segezha Art - plywood ready for painting, Segezha ClearPly - eco-style plywood with transparent and semi-transparent coating, and Segezha Anthracite - plywood for floor covering in light commercial vehicles. Three out of the five new plywood products are currently unique in the market.

Business model

Segezha Group's business model is based on the principle of vertical integration with the aim of creating added value and ensuring business sustainability by diversifying risks amid a changing macro environment. High levels of operational efficiency and a presence in all key stages of value creation - from in-house logging at leased forest plots to sale of high-margin products to end consumers - allow Segezha Group to maintain market leadership in terms of cost of finished products in all business segments.

³⁵ Forest Stewardship Council® (FSC-C133272).

Industry overview for 2019³⁶

Sack paper

In 2019, global sack paper output totalled 7.4 mln t, up from 7.1 mln t in 2018³⁷. Having peaked in 2018, in the reporting period global prices of sack paper first stopped growing and then demonstrated substantial decline. This was primarily due to stabilisation of China's demand as the balance of its waste paper market recovered. The key factors that may have a positive effect on prices in 2020 include the increase in the number of bans on plastic packaging and its replacement with paper packaging, and growing consumption in Asia and Latin America. According to analyst forecasts³⁸, CAGR of paper consumption is expected at 1% in 2019-2025.

Paper sacks

Paper sack consumption in Europe totalled 5.9 bln units in 2019, a decrease of 2.1%³⁹ compared to the previous year. The decline came mostly from the construction and chemicals segment. The demand for paper sacks in the construction industry dropped mainly due to certain cement producers transitioning to large-size packaging.

In the European market, Germany, Turkey, Italy, France and Spain account for about 55% of demand for paper sacks. 56% of demand comes from the construction industry (cement and dry construction mixes).

CAGR of paper sack consumption is projected at 0.5% in 2019-2025, growing mainly due to the food and animal food segments. Following the market trends, Segezha Group reduced the share of sacks produced for the construction sector in 2019 and increased the share of products for high-margin and growing segments.

In Russia, similarly to the European market, the construction industry (cement and dry construction mixes) accounts for the bulk (85%) of paper sack consumption. At the same time, demand exceeds domestic production, and the deficit is compensated with imports, the share of which in 2019 was 22%.

In 2019, paper sack consumption in Russia was 771 mln, down 1.9%⁴⁰ from the previous year. The decline came mostly from the construction segment, as certain cement producers transitioned to large-size packaging. Paper sack consumption in Russia is expected to grow by an average of 0.4% p.a. in 2019-2025.

Sawn timber

In 2019, the global market of softwood sawn timber was estimated at 349 mln cu m⁴¹. Global consumption of sawn timber had been growing by 2.4% p.a. in the previous five years, driven by upward trends in the construction and furniture markets of the United States and China, which are the world's biggest consumers of sawn timber.

Throughout 2019, prices of sawn timber were falling in all major markets due to the excess of output over supply. This was due to overstocking of warehouses in China, the yuan's depreciation against the main currencies, trade wars, high competition for the market, and overproduction in Russia and Europe.

Stocks, prices and solvency of market players are expected to stabilise in 2020. Deficit of affordable quality raw materials is likely to grow in all the key production regions till 2025, which will result in a slowdown of production rates in Europe, Canada and the US. Global consumption is projected to grow by 1.8% p.a. The highest growth rates till 2025 will be seen in China, the US, and MENA.

The output of softwood sawn timber in Russia totalled 44 mln cu m in 2019, an increase of 13%⁴² against 2018. Russia is the world's No 4 producer of softwood sawn timber after Europe, the US and Canada with a market share of 11%.

In 2019, Russia increased its softwood sawn timber exports by 5% to 31.4 mln cu m, mainly on the back of higher demand for Russian products from China, which remains the biggest consumer of Russian sawn timber. In 2019, China increased purchases in the Russian market by 11% year-on-year, to 19 mln cu m, which accounted for 61% of all exports⁴³. Similarly to the global market, export prices of Russian sawn timber saw a negative trend throughout 2019.

Plywood

³⁶ Sources: Fisher, Poyry, Hawkins Wright, CEPI, EUROSAC, Rosstat, Indufor, FAOSTAT, GWMI, EUWID, FEA. All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

³⁷ The previously reported figure for 2018 (7.2m t) was updated following expansion of database used by Segezha Group and subsequent adjustment of calculations.

³⁸ Hawkins Wright.

³⁹ The previously reported figure for 2018 (5.4 bln units) was updated to 6.0 bln units due to expansion of EUROSAC's database.

⁴⁰ The previously reported figure for 2018 (766 mln t) was updated to 786 mln t following expansion of database used by Segezha Group and subsequent adjustment of calculations.

⁴¹ According to company's estimates as of 31 December 2019.

⁴² According to company's estimates as of 31 December 2019.

⁴³ According to company's estimates as of 31 December 2019.

The global plywood market has demonstrated a steady growth in recent years. In 2019, its size was estimated at 4.94 mln cu m, up 1% from 2018. Europe and Russia remained the biggest global consumers in 2019, accounting for 72% of total consumption⁴⁴. Growth of plywood consumption in Russia in 2019 exceeded the global rate and reached 2.7%. Segments consuming plywood vary from region to region: the share of its consumption for construction and formwork in 2019 was 57% in Europe, 35% in Russia, 90% in North America and 87% in the MENA countries.

Global consumption of birch plywood is projected to grow by 2% p.a. on average till 2025. Demand for birch plywood will be driven by the construction, transportation (light and medium segments) and shipbuilding industries.

Russia remains the world's indisputable leader in birch plywood production: its share of the global market was 72%⁴⁵ in 2019. Segezha Group accounted for 4% of Russia's total birch plywood output in 2019.

Laminated beams

Europe and Japan remain the main consumers of laminated beams, which are mostly used in the construction industry. In 2019, global consumption of laminated wood structures grew by 2% and is estimated at about 4.2 mln cu m⁴⁶, mainly due to growth of construction in Germany. France is a promising market for laminated wood structures due to the high share of rented wood housing.

Prefabricated houses

Consumption of prefab glulam houses in the Russian market grew by 4.2% in the reporting period. The key regions consuming prefab houses are the Central, Northwest and Volga federal districts.

Business development strategy

Segezha Group's strategy is aimed at creating an industry leader in production efficiency on the basis of a vertically integrated and diversified business model.

Wood resources

- Increase in the share of own wood resources by expansion of allowable cut and increase of its utilisation rate
- Quality forest reproduction

Manufacturing assets

- Upgrade of existing production facilities
- Construction of new energy-saving facilities to meet growing global demand for timber products

Sustainable development

- Health and safety of employees
- Minimising environmental impact
- Moving towards zero waste production
- Development of regions of operations

Innovation

- Development of R&D within the company
- Development of new products, production processes and solutions of the future
- Automation and introduction of state-of-the-art IT solutions

Business development in 2019

Paper and Packaging

Production, sales and revenue in the paper segment

Indicator	2018	2019	Change
Output, thsd t	375	388	3.4%
Sales, thsd t ⁴⁷	244	254	4.1%
Revenue, RUB bln ⁴⁸	15.6	15.2	(2.0%)

Segezha Group produces 70% of Russia's sack paper output. About 36% of the paper output is supplied to the company's facilities in Russia and Europe to manufacture paper sacks, while the remaining 64% is sold in Russia or exported.

⁴⁴ Indufor.

⁴⁵ This indicator was revised down due to an update of Indufor database.

⁴⁶ According to company's estimates as of 31 December 2019.

⁴⁷ Around 36% of the paper output is converted into paper packaging.

⁴⁸ Net of intra-group turnover.

Exports account for 89% of external sales. Segezha's paper is supplied to 74 countries. The key export markets are Latin America, Southeast Asia, North America, the Middle East and North Africa.

In 2019, Segezha Group increased its paper output by 3.4% to 388,000 t, mainly due to the strong performance in the first half of the year. The company managed to increase its production output by shortening the period of equipment repairs at Segezha PPM. Paper sales grew by 4.1% to 254,000 t following increase in the output. Additional volumes were sold to existing customers and to over 100 new clients from 70 countries.

Revenue from paper sales totalled RUB 15.2 bln in 2019, 2.0% lower than in 2018, due to unfavourable market situation. The negative effect was offset by an increase in output and optimisation of the product portfolio structure.

Output, sales and revenue in the paper packaging segment

Indicator	2018	2019	Change
Output, mln items	1,286	1,262	(1.8%)
Sales, mln items	1,284	1,238	(3.6%)
Revenue, RUB bln	17.2	18.1	5.2%

Packaging products of Segezha Group's enterprises in Europe (Segezha Packaging) are mostly sold in the European market, while the needs of the Russian and CIS market are met by its Russian facilities located in the Republic of Karelia and the Rostov region.

In 2019, the output of industrial paper sacks remained on level of 2018 due to full utilisation of the production capacity. At the end of the year, the company produced 57% of all paper sacks consumed by the Russian market.

In 2019, the company sold 1,238 mln units of paper packaging, marking a decrease of 3.6% against 2018. The decline came from a lower demand for paper sacks in Europe and increased production under the Off Season programme, which envisages production in the low winter season and sale of products during the high season. In Russia, demand for sack paper remained steady throughout the year. The decline in sales was offset by a more aggressive pricing policy with regard to paper products in Russia and Europe in 2019. The company increased the share of sales in high-margin segments (packaging for powder milk and animal food, consumer packaging). Revenue from sales of paper packaging grew by 5.2% in 2019 against 2018 to RUB 18.1 bln.

Plywood

Output, sales and revenue in the plywood segment

Indicator	2018	2019	Change
Output, thsd cu m	136	192	41.1%
Sales, thsd cu m	120	182	52.0%
Revenue, RUB bln	4.5	5.5	18.5%

Most of the plywood produced by Segezha Group is made for export (72% in 2019) and supplied to 60 countries, with key markets being Europe, the USA and countries of Asia Pacific, including China, South Korea and India.

In 2019, Segezha Group produced 192 cu m of birch plywood, up 41.1% from 2018, primarily as a result of the achievement of the design capacity at the new plywood mill in the Kirov region, commissioned in July of 2018. Segezha's sales of plywood in 2019 reached 182,000 cu m, up 52.0% from 2018. Extra product volumes were sold in the high-margin markets of North America and Europe, with industrial consumers becoming an increasingly large customer category.

Plywood revenue in 2019 was up 18.5% from 2018, to RUB 5.5 bln. The growth is primarily driven by the rising output and physical sales of plywood as well as the increasing penetration of high-margin products, including new plywood grades.

Sawn timber

Output, sales and revenue in the sawn timber segment

	2018	2019	Change
Output, thsd cu m	924	1,014	9.8%
Sales, thsd cu m	931	1,004	7.9%
Revenue, RUB bln	13.9	13.8	(0.8%)

Segezha Group exports 99% of its sawn timber to dozens of countries, with most volumes consumed by construction companies and producers of furniture and packaging. The main markets for the company's sawn timber are China, Europe and MENA.

In 2019, Segezha Group's enterprises increased the output of sawn timber by 9.8% year-on-year, to 1,014,000 cu m, due to increased production efficiency at all four sites. The output growth brought about an increase in sales by 7.9% year-on-year, to 1,004,000 sq m, with the extra volumes mostly consumed by current customers.

At the same time, the sawn timber revenue in 2019 totalled RUB 13.8 bln, down 0.8% from 2018, primarily as a result of a 9% reduction in the mean annual prices for exported Russian sawn softwood timber (in rouble terms)⁴⁹. The negative effect of the slump in sawn timber prices was partially offset by an increase in sales.

Laminated wood structures and prefab houses

Output, sales and revenue in the laminated wood structures segment

	2018	2019	Change
Output, thsd cu m	51	55	9.6%
Sales, thsd cu m	51	55	8.1%
Revenue, RUB bln	1.4	1.4	5.4%

Segezha Group's laminated wood structures are mostly exported to Europe due to high demand in the region. In 2019, 88% of all laminated wood structure sales were made in Italy, Germany and Austria.

In 2019, Segezha Group increased the output of laminated wood structures by 9.6% year-on-year, to 55,000 cu m, due to increased production efficiency. Accordingly, physical sales went up 8.1% year-on-year.

Laminated wood structure revenue in 2019 totalled RUB 1.4 bln, up 5.4% from 2018, primarily as a result of improvements in the company's product portfolio.

Output, sales and revenue in the prefab houses segment

	2018	2019	Change
Output, thsd cu m	26	28	5.6%
Sales, thsd cu m	28	27	(3.1%)
Revenue, RUB bln	0.7	0.6	(1.0%)

Segezha Group supplies laminated-beam prefab houses mainly to the Russian market and is the undisputable market leader with a 20%⁵⁰ market share in 2019.

The output of prefab houses in 2019 went up 5.6% year-on-year, to 28,000 cu m, mostly due to an equipment efficiency enhancement. The 3.1% and 1.0% reduction in sales and revenue, respectively, is primarily the result of some of the unsold volumes of Q4 2019 being rescheduled to be sold in the first half of 2020. The drop in revenue was partially offset by an increase in the prices for prefab houses in the second half of 2019.

Financial performance in 2019

Indicator, RUB mln	2019	2018	Change
Revenue	58,495	57,889	1.0%
Adj. OIBDA	13,993	12,984	7.8%
Operating income	8,333	8,178	1.9%
Adj. profit attributable to Sistema	5,040	54	9,272.1%

In 2019, Segezha Group's revenue grew by 1.0% year-on-year, to RUB 58.5 bln. The moderate revenue growth rate mostly results from a downturn in the global prices for sack paper, plywood and sawn timber in 2019. The negative trend was offset by an increase in domestic prices for paper packages and an increased output of plywood after the achievement of the full design capacity at the plywood factory in the Kirov region.

⁴⁹ Rosstat.

⁵⁰ According to company's estimates as of 31 December 2019.

Segezha Group's adjusted OIBDA in 2019 is up 7.8% year-on-year, to RUB 14.0 bln, as a result of reduced production costs. The adjusted OIBDA margin is up 1.5 p.p. year-on-year, to 23.9%, primarily driven by efficient cost management, especially in the SG&A costs.

The adjusted net profit in 2019 reached RUB 5.0 bln. The substantial increase in the adjusted net profit year-on-year was largely due to revaluation exchange gains.

Medsi

President: Elena Brusilova

Chairman of the Board of Directors: Artyom Sirazutdinov

Sistema's effective stake: 96.94%

JSC Medsi Group (hereinafter, "Medsi") is Russia's largest national healthcare chain, offering a full range of preventive, diagnostic, treatment, and rehabilitation services for children and adults.

Business model

Medsi's business model is a three-tier vertically integrated system of medical care, including outpatient care, diagnostics, and hi-tech hospital care. Patient flow is organised based on internal patient routing system across key segments: individuals, VMI, MMI. Due to a wide range of diagnostic services in regional hubs (CDCs) as well as high-tech medical services in Medsi's hospitals, Medsi sees an inflow of outside and regional patients. The company's medical strategy adheres to P4 medicine principles (predictive, preventive, personalised, and participatory).

In 2019, the company implemented a hub-based management model combining outpatient, diagnostic and hospital assets under controlling hubs based on geographic or operational criteria. The model enabled integration and standardisation of business processes across assets in and around Moscow, while enhancing operating efficiency, and formed the backbone for the development strategy of regional assets, which will be clustered into hubs as the chain grows.

Standardisation of business processes in 2019 empowered Medsi to come up with a franchise product that is unique in the industry, with the company offering a standardised suite of protocols and processes, as well as information support and consultations at launch and promotion stages. The first franchise primary care clinics using were launched in Q1 2020.

2019 industry overview⁵¹

In 2019, the volume of Russian private healthcare market reached RUB 644 bln⁵², up by 8.5% from 2018. The growth was primarily driven by higher fees, growing demand for specialty services, and the development of ancillary businesses, such as medical tourism and telemedicine. The private healthcare services market has also been growing on the back of paid services penetrating the state-run health system (historically working within the MMI system) and patients increasingly favouring private healthcare providers over public ones due to notoriously long waiting periods and a limited range of services available at state-run establishments. On the other hand, similarly to 2018, market growth in 2019 was to a certain degree contained by a slump in real disposable incomes of households that pushed some patients to opt for self-medication and cheaper "shadow operators".

Business development in 2019

Existing assets

In 2019, Medsi continued expanding and stepping up occupancy rates. Total medical floor space in 2019 was up 4.5%, translating into a 1.1% revenue growth before the end of the year and projected to fuel a 4.2% revenue growth in 2020. The floor space optimisation programme covers most of the chain's assets, aiming to increase the capacity of clinics and accessibility of a wide range of medical specialties. The most substantial floor space expansion was introduced at Clinical Hospital No.1 (4.5%), CDC Krasnaya Presnya (13.8%) and PCC Prechistenka (48.5%).

In 2019, Medsi continued the construction of Michurinsky, a new multi-purpose medical centre, scheduled to open in Q4 2020. The facility will include a clinical and diagnostic centre for adults and children, a day hospital, and a 24-hour hospital with a hi-tech surgery unit, efficiently spread over 28,000 sq m of medical areas.

⁵¹ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

⁵² According to BusinessStat, including revenue from self-pay patients and VMI policy holders.

Medsi has also been maintaining focus on the modernisation of existing clinics and improvement of business processes, with 2019 capital expenditure up 191.38% from 2018.

Medical equipment is another focus of the company's sweeping modernisation programme. Medsi has invested over RUB 470 mln in equipment and technology over the two years since programme launch, with priority given to diagnostic radiology and sonography as well as surgical and dentistry equipment. A visible outgrowth of the investment programme, upgrades of CT and MRI machines in 2019 enabled capacity utilisation to grow by 15% and 3%, respectively.

Medsi has been moving away from a paradigm of acquiring heavy machinery towards comprehensive equipment management throughout its entire lifecycle, from installation to maintenance to upgrades. Consultancy projects effected in 2019 jointly with leading vendors made it possible to set global benchmarks as strategic objectives across the chain, in addition to adopting lean production principles as well as analysing and optimising current processes. The projects are expected to continue in 2020.

New assets and projects

Asset modernisations and equipment upgrades set patient traffic and work flow management as one of the priorities of 2019. By introducing traffic management procedures and standard time per consultation/examination, the company increased the overall occupancy at clinics hospitals. Medsi continued to expand its range of specialties, with flagship assets opening centres of excellence in the areas of neurosurgery, X-ray surgery, lower limb pathologies, robot-assisted surgery, and a pediatric surgical hospital under the leadership of renowned doctors.

As a further step to expand its national chain, in 2019 Medsi acquired a second clinic in St. Petersburg with a chemo therapy department launched at the end of the year. The increased spectrum of healthcare services catering specifically to cancer patients is meant to replicate the success of a similar strategy of Medsi's Botkinsky clinical hospital in Moscow.

In September of 2019, Medsi first started developing its very own franchise network, expected to grow to 20 Medsi-branded partnership clinics across Russia in a five-year term. Partner clinics may open both in cities where Medsi is already represented and in new cities with populations of 300K+.

In March of 2020, Medsi acquired 4 clinics in the city of Izhevsk with a total floorspace of 4,300 sq m. The chain of clinics includes a CDC with hospital, clinic for adults, clinic for children and a women's clinic.

In March of 2020, Medsi signed an agreement with Bioniq Health-tech Solutions to launch Russia's first digital personalised health monitoring system combining the functions of AI tracking of personal medical parameters, consultative support from expert doctors, lifestyle enhancement programmes, tailored diets, workout plans and vitamin and mineral complex recommendations.

The BusinessStat 2019 Customer Loyalty Rating of Moscow Clinics features Medsi as the most-recognised healthcare provider for a third consecutive year.⁵³ The company also tops the 2019 Top 100 Private Multi-Specialty Clinics ranking released by Vademecum Analytics, up from #2 in 2018.

VMI segment⁵⁴

In 2019, Medsi increased its VMI market share from 5.0% to 5.8%. With the overall Russian VMI market up 6.9% in 2019, Medsi registered a growth of 27.2% across Russia and 27.3% in Moscow and Moscow region.

Retail segment⁵⁵

In 2019, Medsi grew its market share in the retail segment of the private healthcare market from 1.2% to 1.3%. While the overall Russian retail segment grew in 2019 by 9%, Medsi registered a growth of 21.5% across Russia and 27.5% in Moscow and Moscow region.

MMI segment⁵⁶

In 2019, Medsi increased its share in the MMI market in Moscow and Moscow region from 1.7% to 2.1% (by revenue). With the overall Moscow-region MMI market up 8.5% in terms of revenue and 1% in terms of patient visits, Medsi registered a growth of 34.0% and 19.6%, respectively.

Operating performance⁵⁷

⁵³ BusinessStat.

⁵⁴ Calculated based on data from BusinessStat and company statistics.

⁵⁵ Calculated based on data from BusinessStat and company statistics.

⁵⁶ Calculated based on data from BusinessStat and company statistics.

⁵⁷ Data from 2019-2020 commercial strategy, calculated based on company statistics.

In 2019, Medsi registered an increase in patient visits in all business segments by a total of 12.8%. The growth rate reached 6.8% in the retail segment, 13.7% in VMI and 19.6% in MMI.

By the same token, the average cheque in 2019 increased across all segments by an average of 11.5%. The biggest increase in the average cheque was observed in the retail (13.7%) and VMI (9.0%) segments, with the more conservatively priced MMI segment up 12.0%.

Business development strategy

Medsi's strategy aims to create the nation's first federal-scale multi-specialty healthcare provider offering a full spectrum of services. This includes:

- Further enhancement of market share through organic growth and M&As in and around Moscow:
 - Launch of new multi-specialty medical centre Michurinsky with 28 thsd sq m of medical areas
 - Launch of at least 5 new outpatient clinics
 - Expansion through regional M&A and franchise partnership projects
- Further enhancement of operating efficiency and ongoing operational improvements:
 - Change of customer relationship approach from managing traffic to managing lifetime value.
 - Managing seasonality through demand forecasting, cost planning, and smart scheduling.
 - Optimisation of incentive plans through economies of scale.
 - Flexible OpEx management through a system of case-specific debits and implementation of "lean production" principles
- Digital transformation:
 - Further refinement of SmartMed telemedicine platform and expansion of the variety and range of services provided.
 - Partnership projects in AI and healthy lifestyle services.
 - Development of BigData for joint clinical research with pharmaceutical and technological partners.

Financial performance in 2019

Indicator, RUB mln	2019	2018	Change
Revenue	22,322	17,747	25.8%
Adj. OIBDA	5,916	3,600	64.3%
Operating profit	2,848	693	311.1%
Adj. net profit attributable to Sistema	2,920	1,061	175.3%

Medsi's revenue in 2019 increased by 25.8% to RUB 22.3 billion on the back of revenue growth across all key segments amid increasing number of services provided.

Adjusted OIBDA grew 64.3% as a result of revenue dynamics and higher occupancy rate in hospitals as well as the impact of participation in the Michurinsky Project LLC, a joint venture with Capital Group, to construct the Nebo business class residential project on Michurinsky Prospect with a positive effect of RUB 1.1 bln in 2019. Adjusted net profit almost tripled due to OIBDA dynamics.

Steppe AgroHolding

CEO: Andrey Neduzhko

Chairman of the Board of Directors: Ali Uzdenov

Sistema's effective stake: 84.6%⁵⁸

Steppe AgroHolding ("Steppe") is among Russia's largest agricultural players, with a diversified assets portfolio and a land bank of 527,000 ha.

Steppe is national leader in terms of operating efficiency, asset quality, and agricultural expertise in crop and dairy farming, Steppe also operates as an agricultural trader. This business boosts the company's competitiveness as a whole, while benefiting from access to a commodity base and own logistical facilities.

⁵⁸ 92.8% as of 31 December 2019.

Business model

Underlying Steppe's business model are the principles of vertical integration and diversification across agricultural segments that hold the most potential. Steppe is active in crop and dairy farming and vegetable and fruit growing. The company also develops logistics and trades in grain, sugar and grocery.

Industry overview for 2019⁵⁹

Crop farming

The output of grain and leguminous crops in Russia in 2019 was up 7.0% year-on-year, to 121.2 mln t. In particular, wheat output was up 3.2% year-on-year, to 74.5 mln t⁶⁰, primarily as a result of a 3.0% increase in wheat-growing area.

The average crop yield of grains and grain legumes in 2019 went up 5.1% year-on-year, to 2.7 t/ha.⁶¹ At the same time, the crop yield of wheat is down 3.1%, to 3.4 t/ha, due to unfavourable weather conditions in much of Russia.

In 2018-2019, the larger Russian agro businesses continued to acquire land to expand their holdings, a trend that supported further growth of prices for agricultural land.

Agrotrading

In 2019, Russia remained among the world's leading exporters of agricultural crops and the global number one in wheat exports. Grain exports in the 2018-2019 season reached 42.2 mln t, of which 34.6 mln t (roughly 82%) was wheat.⁶²

In the first half of season 2019-2020, grain exports totalled 24.8 mln t, down 14.1% from the first half of the 2018-2019 season. Wheat exports reached 20.8 mln t, down 15.0% from the first half of the season.⁶³ The reduction in export volumes in the period is a result of the sales of some products being rescheduled for the second half of the crop year.

Dairy farming

Milk output in 2019 was up 2.4% year-on-year, to 31.3⁶⁴ mln t. Yield per cow in the corporate sector also increased by an impressive 6.6% from 2018.

Russia's total output of market grade milk in 2019 is estimated at 22.2 mln t, or 71% of all produced milk, which creates substantial potential for boosting the production of high-quality milk as a raw material for the food industry.

Fruit growing

The gross harvest of pomaceous fruit in 2019 was up 9.1%, to 2.2 mln t, mostly due to the planting of new intensive orchards. The area under perennial pomaceous fruit crops was up by 4,000 ha, to 233,000 ha.

Apple imports in 2019 equalled 0.7 mln tonnes, down 17.1% from 2018. The reduction notwithstanding, imports still represent a substantial percentage of Russia's pomaceous fruit consumption.

Vegetable growing

In 2019, the protected-ground vegetables sector continued to grow, with farms increasingly commissioning new greenhouses. The total area of greenhouses in Russia currently stands at 2,600 ha, up 4.9% from 2018. The total output of vegetables grown in protected-ground greenhouses is up 17.7% year-on-year, to 1.273 mln t.

Russia's imports of tomatoes and cucumbers in 2019 were down 6.2%, to 658,000 t.

Business development in 2019

In 2019, Steppe demonstrated strong growth across all key business segments, particularly in crop and dairy farming and fruit growing.

In March of 2020, the company expanded its land bank to 527,000 ha by acquiring the Rodnaya Zemlya farm (30,300 ha) and leasing land (80,500 ha) from the Zerno Don group in the Rostov region.

⁵⁹ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

⁶⁰ UISIS.

⁶¹ UISIS.

⁶² RusAgroTrans.

⁶³ RusAgroTrans.

⁶⁴ Rosstat.

Crop farming

As of the end of 2019, Steppe's land bank totalled 416,000 ha, up from 401,000 ha year-on-year, mostly due to the acquisition of an 11,000 ha farm in the Stavropol region in the first half of the year.

The yields of most of the company's crops were under pressure due to challenging weather conditions observed in Russia's grain-producing regions in the ripening season. Steppe managed to largely offset the negative effect of climatic factors through increased operating efficiency, greater fleet of technological machinery and equipment in crop farming, innovative tech solutions, and digitalisation of the company's main business processes.

Agrotrading and logistics

Steppe's grain exports reached 1,220,000 t in the 2018-2029 crop year and 957,000 t in the first half of the crop year, placing the company among Russia's 8 largest grain producers.

At the end of the calendar year 2019, total grain exports reached 1,198,000 t.

Dairy farming

The dairy farming segment remains a key driver of Steppe's business growth in terms of both business diversification and vertical integration.

The company's milk cow livestock reached 5,850 cows as of the end of 2019, up 22.9% year-on-year. The total milk yield in 2019 was up 21.9% year-on-year, to 57,000 t, with a per-cow milk yield of 11,100 litres a year.

The segment's further development will be driven both by the commissioning of new farms and by operational improvements such as the enhancement of cows' genetic potential and the use of latest technologies and accumulated know-how.

Fruit and vegetable growing

In 2019, the gross harvest of apples totalled 30,700 tonnes, up 65.8% from 2018, representing an all-time high for the fruit growing segment.

The further development of the fruit and vegetable growing segments will involve the roll-out of intensive farming technologies, sales optimisations and brand strengthening.

Business development strategy

Steppe's development strategy relies on the further increase of the land bank, aggressive advancement in the trading segment, development of corporate logistics infrastructure and construction of new dairy farms.

Operational results

Steppe AgroHolding's production

Indicator	UoM	2019	2018	Change
Gross harvest (crop farming)	thsd t	945.0	814.1	16.1%
Milk production	thsd t	56.9	46.7	21.9%
Vegetable harvest, including	thsd t	41.3	46.3	(10.8%)
- Tomatoes	thsd t	21.4	25.1	(14.8%)
- Cucumbers	thsd t	19.9	21.2	(6.0%)
Gross apple harvest	thsd t	30.7	18.5	65.8%

Steppe AgroHolding's gross harvest (RZ Agro included)

Crop	UoM	2019	2018	Change
Beetroot	thsd t	368.5	251.8	46.3%
Wheat	thsd t	707.7	685.9	3.2%
Corn	thsd t	46.9	40.1	16.8%
Winter barley	thsd t	22.0	25.0	(11.8%)
Sunflower	thsd t	57.5	49.4	16.4%
Other	thsd t	117.5	102.4	14.8%
TOTAL	thsd t	1,320.0	1,154.6	14.3%

Financial performance in 2019

RUB mln	2019	2018	%
Revenue	31,044	24,161	28.5%
OIBDA	4,103	4,909	(16.4%)
Operating income	2,283	3,261	(30.0%)
Net profit (loss) attributable to Sistema	(584)	1,095	-

Steppe's FY 2019 revenue was up 28.5% year-on-year, to RUB 31.0 bln. The growth came on the back of rising exports of both traditional and niche crops, strong performance of the dairy farming segment and intensive development of sugar and grocery trading.

The 2019, OIBDA equalled RUB 4.1 bln, down 16.4% year-on-year due to a global slump in grain prices and a negative effect of the biological assets, a trend that was partially mitigated by the enhancement of operating efficiency in the key business segments.

In 2019, Steppe's Capex totalled RUB 1.9 bln. Most of the amount went towards the construction of dairy farms, the acquisition of land parcels for expansion purposes, the development of the logistics infrastructure and new equipment and machinery purchases.

OZON

CEO: Alexander Shulgin
Sistema Group's stake: 42.999%

Ozon is a diversified online platform for millions of consumers, which includes the leading Russian multi-category online retailer (OZON online store), Ozon.Travel online travel agency, electronic library LitRes and various financial services for customers and partners. The company ranks first by GMV among multi-category online stores in Russia and is a leader in terms of SKUs, online traffic and brand awareness.

Industry overview for 2019⁶⁵

In 2019, Russia's total e-commerce market, including domestic and cross-border trade, maintained high growth rates of ~21% year-on-year and exceeded RUB 1.5 tn⁶⁶.

At the same time, the domestic e-commerce market grew 25% and reached RUB 1 tn⁶⁷. Despite rapid growth, e-commerce penetration in Russia still lags behind most countries (6.4% in 2019 compared with 2% in the UK, 11% in the US and 37% in China⁶⁸), which indicates a significant potential for further growth of the Russian market. Russia is Europe's largest market in terms of the Internet audience (93 mln users) with the Internet penetration of 81%⁶⁹.

According to analysts, e-commerce penetration in Russia could reach 9.5% by 2022, which corresponds to a market size of RUB 3.8 tn with a CAGR of 23%⁷⁰.

Legislative changes in Russia also contribute to the development of the domestic e-commerce market and the strengthening of local players compared to their foreign competitors. On 1 January 2020, the threshold for duty-free imports of parcels was reduced from EUR 500 per month to EUR 200 per parcel, with the duty rate reduced from 30% to 15%. In the future, the threshold for duty-free imports will be gradually reduced to EUR 20⁷¹, which can lead to a significant decrease in the growth rate of orders in foreign stores. It is expected that as a result of the proposed legislative changes the share of cross-border e-commerce will decrease from 31% to 20% by 2022, and large Russian market players will benefit the most.

⁶⁵ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

⁶⁶ According to the company's estimates, VAT exclusive.

⁶⁷ According to the company's estimates, VAT exclusive.

⁶⁸ JP Morgan.

⁶⁹ Data Insight, E-commerce in Russia 2019.

⁷⁰ Sberbank CIB, excluding structural changes of the market amid coronavirus outbreak.

⁷¹ This duty threshold will become effective from 2022.

Despite the trend towards market consolidation, Russia's domestic e-commerce market remains highly fragmented. The total share of the top 5 players was 28% of the market in 2018 and grew to 36% in 2019⁷². Developed e-commerce markets have a significantly higher level of consolidation with the top 2 players controlling more than two-thirds of the market (as in China, the US and India). The main consolidators will be the largest fast-growing multi-category marketplaces. Active investments in the logistics infrastructure, expansion of own product mix, development of the marketplace and competitive prices will allow Ozon to strengthen its leading positions in the market.

Business development in 2019

In 2019, Ozon's turnover (GMV) grew by a whopping 93% year-on-year to RUB 80.7 bln (VAT inclusive). The number of delivered orders increased 2.1x during the year to 32.3 mln orders.

In 2019, Ozon's priority areas in implementing its strategy aimed at business growth acceleration were expanding the product mix while maintaining competitive prices, developing logistics and improving service quality for both customers and partner companies (including through introduction of innovative products and services).

The company focused on the expansion of its products mix as one of the most important factors in e-commerce growth. By the end of 2019, the number of SKUs increased 3x compared to the beginning of the year, to 5 mln SKUs. The main growth driver was the development of the marketplace: its share in Ozon's turnover increased from 5% in January 2019 to 30% by the end of the year, and in March 2020 about 70% of Ozon's product mix was formed by its marketplace partners. At the end of 2019, about 6,500 partners had active sales on Ozon, with about 15,000 in the process of registration.

Another important driver of turnover growth was the increase in the frequency of purchases and the average transaction value (ATV). The launch of *Ozon Premium* subscription significantly contributed to performance improvement, and accounted for 20% of deliveries in 2019. The ATV per *Ozon Premium* user was several times higher than ATV per ordinary user, with one order consisting of 6-7 items on average.

Ozon's investment programme in 2019 was aimed primarily at developing the logistics infrastructure, including doubling the area of fulfilment centres (to almost 200,000 sq m) and expanding last-mile delivery infrastructure. At the end of 2019, the company had the largest network of parcel lockers in Russia with 6,900 own automated lockers. Ozon's total network, including own and partner lockers and order pick-up points, grew 3x during the year to 16,700 locations. The share of automated pick-up points reached 23% of the total volume of Ozon's deliveries in 2019.

Ozon actively develops projects that are complementary to its core business and are aimed at increasing the loyalty of both customers and business partners. The following projects were launched in 2019:

- **Ozon Premium**, a subscription service for regular customers that helps save on delivery and receive additional bonuses. Subscribers made 6.2 mln orders in 2019.
- **A bank card** with higher cashback.
- **Ozon.Invest**, a crowdlending platform where Ozon's partner companies can raise funding from individuals.
- **A logistics marketplace**, i.e. a programme to develop a network of partner-operated pick-up points and parcel lockers, as well as partner-enabled courier delivery.

Increasing Sistema Group's stake in Ozon

Sistema consistently increased its equity holding in Ozon Holdings Limited throughout 2019 by acquiring its shares from other shareholders (including an 18.7% stake from PJSC MTS) and making additional direct investments in the company. In December 2019, loans issued by the Corporation during 2019 were converted into Ozon's equity. As of 31 March 2020, Sistema Group's total shareholding in the company was 42.999%.

Business development strategy

Ozon's strategic goal is to transform the company into a full-fledged online platform while maintaining high business growth rates. A key element of the company's strategy is increasing the availability of e-commerce for residents of small towns where the selection of goods and affordability are limited.

In 2020, Ozon will focus on further development of its logistics infrastructure and expansion of the product mix (including through the development of its marketplace), increased offering of funding programmes for partners and customers, launches and development of new products for partners (advertising platform and analytical tools, logistics marketplace, Ozon.Invest, etc).

⁷² Data Insight and the company's estimates.

Alium

CEO: Andrey Belashov⁷³

Chairman of the Board of Directors: Dmitry Zubov

Sistema's effective stake – 24.9% ⁷⁴

Alium Group is a vertically integrated full-cycle pharmaceutical company that develops and manufactures drugs, sells them to distributors and pharmacy chains and actively promotes them in the market.

Alium was established in 2019 through the merger of two pharma assets owned by Sistema, OBL Pharm and Binnopharm (a 100% subsidiary of OBL Pharm from September 2019).

Business model

Research and development

Alium owns two R&D centres for development of aerosols, injections, liquid and solid dosage forms.

The aggregate area of the R&D facilities exceeds 1,000 sq m. They employ over 50 highly qualified specialists with previous experience at large R&D and test labs. Alium's R&D capacity allows for development of over 30 new drugs per year.

Manufacturing

Alium's production facilities are four pharma plants manufacturing quality medications in compliance with Russian GMP standards. They are situated in the Moscow region: two plants producing solid dosage forms in Obolensk, a full-cycle biotech plant in Zelenograd and a plant producing infusion solutions in Angelovo.

The maximum annual production output is 3 bln tablets, 160 mln capsules and 20 mln sachets. In addition to solid dosage forms, Alium produces ampoules, syringes, solutions, aerosols and suppositories.

Promotion

Alium's key advantage is its efficient promotion system that includes active media advertising, a pool of field representatives, competences in medical promotion and a division working with online retailers.

Product portfolio

Alium holds market authorisations for over 200⁷⁵ drugs with a focus on the following medical areas: gastroenterology, cardiovascular diseases, respiratory diseases, infectious diseases and neurology.

Industry overview for 2019⁷⁶

In 2019, the Russian drugs segment demonstrated growth of 9.6%⁷⁷. In 2020, the commercial segment of the pharma market is expected to grow by 5.0%. The share of generics in drug consumption continues to increase due to lower prices as compared to original medications and the declining purchasing power of the Russian population. The share of generics was 62.5% in monetary terms in 2019, marking an increase of 1.1 p.p. year-on-year. The share of imported drugs fell by 1.2 p.p. in 2019 to 71.5% in monetary terms.

In 2020, a number of legislative initiatives were expected to take effect that would strongly impact the Russian pharma market:

- 1) Mandatory tags for medications are expected to be introduced from 1 July 2020 to oust low-quality and illegal products from the market and protect end consumers.
- 2) In 2020, all previously registered selling prices for vital and essential medications are expected to be re-registered. Corresponding amendments to the Federal Law "On Circulation of Medicines" were adopted in May 2019. The re-registration procedure was developed by the Healthcare Ministry and approved by a Government resolution.

⁷³ Andrey Mladentsev as of 31 December 2019.

⁷⁴ 26.3% as of 31 December 2019.

⁷⁵ The best-selling drugs are Venarus (No 2 among vein tonics in 2019), Maxilac (a probiotic ranking No 4 among nutritional supplements in 2019), Neobutin (No 4 among antispasmodic drugs for gastrointestinal system) and Reslip (No 2 among medications for sleep disorders).

⁷⁶ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

⁷⁷ DSM.

3) In the summer of 2020, pharmacies with proper licences are expected to be able to sell OTC drugs and nutritional supplements online, provided the products are registered in Russia and have been checked by the Federal Service for Consumer Rights Protection.

Acquisition of OBL Pharm

At the end of 2018, a consortium of investors consisting of Sistema, VTB and the management of OBL Pharm acquired a 95.14% stake in OBL Pharm from Alvansa Ltd, whose main shareholders are Gazprombank and UFG Private Equity. In July 2019, the Russian Direct Investment Fund (RDIF), the Russia-China Investment Fund (RCIF) and major Middle Eastern funds became Alium's shareholders, having invested over RUB 4 bln. Following the transaction, the effective shareholding of the consortium of investors in OBL Pharm was 28%, that of VTB - 46%, and of Sistema - 13%.

Business development in 2019

The integration of OBL Pharm and Binnopharm was a business development milestone in 2019, as it created a large pharmaceutical player under the Alium brand, No 9 by sales volume in monetary terms among Russian companies in the commercial segment based on 2019 results. As a result of the integration, Sistema's effective stake in Alium increased from 12.8% to 24.9%.

The integration resulted in the companies' merger of their sales services, transfer of sales to a single contract, streamlining of their manufacturing and R&D activities and changes in top management.

Sales of Alium's drugs demonstrated substantial growth in 2019 vs 2018:

Key drugs of the Group	New promising drugs
Neobutin - 93.5%	Elmucin - 323.9%
Reslip - 49.0%	Primaxetine - 200.3%
Maxilac - 20.3%	Inspirax - 165,1%
Venarus - 11,5%	Dexonal - 122,8%

In 2019, Alium launched 12 new drugs, including Sustaflex®, a nutritional supplement for improving joint mobility, Cidocan®, a nootropic prescription drug, and Gastrostat®, a gastroprotective medication.

Business development strategy

In 2020, the company plans to launch over 30 new commercial drugs. Sales growth will be ensured by an active promotion programme, namely through raising awareness of the medical community, work with pharmacy chains and advertising campaigns for OTC drugs.

The main strategic focus areas for 2020 are:

- Intensive development of online sales;
- Establishment of a business unit for export sales;
- Development of medical promotion both at public clinics and private healthcare centres;
- Manufacturing of private labels for pharmacy chains.

Alium's strategy also envisages use of inorganic sources of growth, such as acquisition of rights for promising medications in target and adjacent areas, with subsequent investment in their promotion in order to create leaders in respective categories.

Financial performance in 2019

Indicator, RUB mln ⁷⁸	2019	2018	Change
Revenue	7,568	6,863	10.3%
OIBDA	1,877	2,134	(12.1%)
Operating income	1,401	1,891	(25.9%)
Net profit	748	1,544	(51.6%)

Revenue in 2019 grew year-on-year by 10.3% to RUB 7.6 bn due to growth in sales of promoted products (Maksilak, Neobutin). In addition, Alium's results were impacted by the consolidation of Binnopharm's results starting from 1 September 2019. A decrease in OIBDA by 12.1% to RUB 1.9 bn in 2019 year-on-year was due to increased expenses for the promotion of new products.

⁷⁸ Management accounts. The results of Binnopharm are consolidated in the financial statements of OBL Pharm for 2019 starting from September 1, 2019. Figures for 2018 are shown on a stand-alone basis from OBL Pharm accounts. The results of OBL Pharm and Binnopharm are not consolidated in the financial statements of Sistema PJSC. The table shows 100% net profit.

Net profit decreased to RUB 0.7 bln in 2019 as a result of OIBDA dynamics, higher depreciation charges associated with the commissioning of a new factory in February 2019, new debt taken on for OBL Pharm's shares buy-out in December 2018, and due to decision to no longer capitalise loan interest from the beginning of 2019.

Sintez

CEO: Sergey Klykov

Chairman of the Board of Directors: Dmitry Zubov

Sistema's effective stake: 46.5%⁷⁹

OJSC Sintez is a major Russian pharmaceutical company located in Kurgan.

CJSC Biocom is a subsidiary of Sintez located in Stavropol and specialising in manufacturing of generics.

Acquisition of Sintez and Biocom from Marathon Group

In August 2019, Sistema and a financial partner acquired 46.5% in Sintez and 75.1% in Biocom from Marathon Group for RUB 11.8 bn. Sintez and Biocom, which have complementary product portfolios, have long been cooperating in sales and are managed by a joint management team.

The goal of the transaction was to secure Sistema's foothold in the commercial and hospital segments of the Russian pharma market. At the next stage of consolidation of Sistema's pharma assets, Sintez and Biocom may be integrated with Alium. Once the consolidation is complete, the merged company could become a Top-3 Russian pharmaceutical company. The merged company's product portfolio will comprise over 500 drugs, while production facilities will include 6 pharmaceutical production sites in Moscow, the Moscow region, Kurgan and Stavropol.

Potential synergies of the consolidation include stronger R&D competences, forming of a balanced product portfolio with significant commercial potential, stronger negotiating positions and savings on administrative costs.

Business model

Sintez is one of Russia's largest pharma companies located in Kurgan. It is one of the region's largest taxpayers and employers with over 3,000 people.

Sintez's three R&D laboratories develop 10-15 medications per year. The company's production facilities meet the Russian GMP standards and include 7 floors and 28 production lines for manufacturing 15 dosage forms, including tablets, capsules, powders, drops, sprays, suspensions, solutions, ointments, gels and creams. In addition to ready drugs, Sintez produces active pharmaceutical substances through chemical synthesis and extraction from biological and animal sources. The substances are also used for manufacturing of in-house drugs.

Sintez's subsidiary Biocom is a manufacturer of high-quality generics. Its plant in Stavropol meets the European GMP standards.

At present, the diversified product portfolio of Sintez and Biocom comprises about 300 drugs for the major medical areas: infectious diseases, respiratory diseases, neurology, locomotor system diseases, dermatology and cardiology.

Financial performance in 2019

Indicator, RUB mln ⁸⁰	2019	2018	Change
Revenue	9,171	7,411	23.7%
OIBDA	1,838	1,535	19.7%
Operating income	1,420	1,213	17.1%
Net profit	824	953	(13.4%)

Revenue grew year-on-year by 23.7% to RUB 9.2 bn due to growth in retail sales as well as the launch of promotion system in pharmacies and pharmacy chains, and increase in export (with Uzbekistan, Kyrgyzstan and Turkmenistan as main export destinations). In addition, revenue growth was influenced by the consolidation of Biocom. OIBDA in 2019

⁷⁹ Joint shareholding with a financial partner.

⁸⁰ Management accounts. The results of Biocom are consolidated in the financial statements of Sintez for 2019 starting from August 2019. Figures for 2018 are shown on a stand-alone basis from Sintez accounts. The results of Sintez are not consolidated in the financial statements of Sistema PJSC. The table shows 100% net profit.

showed a 19.7% growth year-on-year to RUB 1.8 bn following revenue dynamics and as a result of effective cost controls. Net profit decreased to RUB 0.8 bn year-on-year by 13.4%, primarily due to increased interest credit payments resulting from taking out a loan to purchase shares of Biocom.

Business Nedvizhimost

CEO: Yuri Yakovchik

Chairman of the Board of Directors: Sergey Egorov

Sistema's effective stake: 100%

Business Nedvizhimost Group is one of the largest real estate owners in Moscow.

At the end of 2019, the Group comprised over 15 legal entities with a broad pool of properties: mansions, offices and shopping spaces, C class buildings, production and warehouse facilities, cottage estates within Moscow and land plots in the Moscow region. The properties are leased out, while several properties and land plots have been put up for sale. JSC Business Nedvizhimost also offers services in professional real estate management.

Business model

Business Nedvizhimost's business model is focused on three areas:

- (1) management of rental contracts in the segment of commercial and low-rise residential real estate;
- (2) redevelopment of commercial properties;
- (3) maintenance of commercial and residential properties.

All three areas are interlinked within the value creation chain in the commercial segment: the value created through redevelopment is subsequently monetised by leasing the properties, accounting for optimal maintenance plans for each asset.

Industry overview for 2019⁸¹

The area of new office properties commissioned in 2019 was 386,000 sq m, with nearly half commissioned in Q4. The majority of new offices are located outside the Central administrative district of Moscow. The commissioned area remained at the 2018 level. The average annual commissioning rate was similar to that in 2018.

The majority of commissioned offices pertain to B and B+ class, with only one class A property. The size of the quality offices market reached 21 mln sq m, where 60% is class B and B+.

Net absorption of offices (the difference between leased and vacated properties) exceeded commissioning of new properties by almost 50%. The area of newly leased properties was 2.0 mln sq m in 2019, up 10% from 2018.

The volume of new deals (1.7 mln sq m) was above the level of the pre-crisis 2007 for the second successive year, and a steady growth continued uninterrupted since 2015. A significant volume of deals was related to big rental contracts (from 5,000 sq m), with the majority signed with banks, IT companies and telecoms. The demand peaked in Q4, due to existing agreements being linked to the financial year and large companies planning their operations ahead for the next 3 to 5 years.

In 2018-2019, there was an observable new trend towards positive absorption of all quality properties due tenants considering office premises with an account for a potential headcount increase by 25% in the near future. Additional demand encourages developers to commission properties that were frozen earlier. As the absorption rate increased, new office projects were launched, due for commissioning in 2021-2022.

Growth in the real estate market was also driven by co-working spaces that demonstrated a 25% increase year-on-year, accounting for a significant share of office absorption. The market received a strong impetus from WeWork, a US co-working chain, which entered the market by concluding five rental deals with large Moscow business centres. The weighted average requested rent rate for class A buildings (net of A Premium) was RUB 27,600 per sq m per year at the end of 2019. The rates for class B+ and B were RUB 16,900 and RUB 14,500, respectively⁸².

Business development in 2019

⁸¹ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

⁸² ILM.

The company's real estate portfolio grew significantly in 2019 due to acquisition of former ATS buildings with an aggregate area of 220,000 sq m from MGTS. The company now owns Moscow's largest distributed chain of commercial properties (over 80 buildings). All buildings are leased out, with MGTS being the anchor tenant of the new properties.

In 2019, the company continued a large-scale renovation of its rental assets in Serebryany Bor, which had begun in 2017 and will be completed in 2020. Under the programme, leased residential buildings and infrastructure facilities have been remodelled and repaired, which contributed to 8 additional houses being leased in 2019.

Business development strategy

Business Nedvizhimost's development strategy adopted in 2019 focuses on the in-depth redevelopment of certain assets in order to enhance their quality and significantly raise rental rates. One redevelopment option is multi-purpose centres that accommodate traditional offices, co-working and shopping spaces, as well as serviced apartments. The renovation programme is divided into several stages and is designed to run until 2024. In addition to renovation of own properties, the company plans to purchase assets for in-depth redevelopment, including joint redevelopment with external partners.

Operating results

	31 December 2019		31 December 2018	
	Number	Area, thsd sq m	Number	Area, thsd sq m
Office buildings				
total	98	441	67	265
incl. vacant	11	10	7	8
Cottages in Moscow and Moscow region				
total	187	64	202	62
incl. vacant	62	11	85	16
Land plots	147	1,040	209	1,134

Financial performance in 2019

Revenue from rental assets declined by 9.9% to RUB 7.1 bln. Negative dynamics year-on-year were due to decrease in sales volumes of land plots in Moscow region and commercial real estate as the Company has completed optimization of its real estate portfolio.

In 2019, adjusted OIBDA decreased slightly, 2.2% year-on-year, amounting to RUB 4.5 billion. Adjusted OIBDA margin grew by 5 p.p. year-on-year to 63.3% in 2019.

Adjusted net profit of Business Nedvizhimost in 2019 increased by 5.9% year-on-year to RUB 3.3 billion.

RUB mln ⁸³	2019	2018	Change
Revenue	7,105	7,886	(9.9%)
Adj. OIBDA	4,495	4,598	(2.2%)
Operating profit	4,014	4,184	(4.1%)
Adj. net profit attributable to Sistema	3,332	3,147	5.9%

Cosmos Hotel Group

President: Alexander Shwein

Chairman of the Board of Directors: Leonid Monosov

Sistema's effective stake: 100%

Cosmos Hotel Group is one of Russia's leading hotel management companies providing a full range of hotel development services from project consulting and preparing hotels for opening to cost cutting and increasing asset capitalisation.

⁸³ Management accounts.

Cosmos Hotel Group manages 4,122 rooms in 3-5 star hotels located in tourist and business centres. Assets under management include city business hotels and luxury resorts in Russia, Italy, Namibia and the Czech Republic.

Business model

Cosmos Hotel Group provides a broad range of services, from hotel concept development and design and construction support to brand selection and hotel management.

Cosmos Hotel Group specialises in managing existing hotels, including implementation of service standards, introduction of quality assurance systems, recruitment, training and regular assessment of personnel, administrative and business operations, adoption of security standards, improvement of sales, income management and centralised procurement systems, as well as providing other highly skilled services in the hospitality segment.

Industry overview for 2019⁸⁴

In 2019, a 128-room international brand hotel Holiday Inn Express Baumanskaya was opened in Moscow. After a period of considerable growth in 2017-2018, quality demand for rooms in international brand hotels increased by less than 1.0% in 2019.

The average occupancy rate of Moscow hotels in 2019 was 78%, which is 3 p.p. higher than in 2018. The maximum annual average occupancy rate (82.1%) was seen in the midscale and upper midscale segments. The greatest drop in occupancy rates was experienced by the hotels operating in the upscale segment: -3.7 p.p. as compared to 2017.

Hotel accommodation prices increased by 2.9% in 2019 compared to 2017. The luxury segment enjoyed the highest growth in room prices (7.9%) due to a unique value proposition and attractive location.

All hotel segments saw substantial growth in revenues compared to 2017 (10.4%) on the back of higher occupancy rates, while the main growth driver in the luxury segment was the average price per room.

The competition in Russia's hotel chains segment was low. Russian hotel chains control about 40% of quality 3-5 star hotel capacity in Russia.

Competition was still high in Moscow's hospitality market, especially in the segment of budget tourist groups. The hotels of Cosmos Hotel Group have a competitive advantage in the market due to their diversified product offering, distribution channels and efficient business processes. Cosmos Hotel Group accounts for more than 5% of the hotel capacity in the midscale segment in Moscow, which is one of its key competitive advantages as it enables the company to regulate prices through supply volumes.

Business development in 2019

In 2019, Cosmos Hotel Group continued successful integration of the Regional Hotel Chain (RHC) acquired in 2016. The revenue of RHC assets increased by 5.1% in 2019 compared to 2017 as a result of the RHC consolidation and the increased operational efficiency of Cosmos Hotel Group.

In 2019, Cosmos Hotel Group launched comprehensive renovation of its flagship asset, Cosmos hotel. The renovation project will be implemented in two stages. The first stage, which is expected to be completed in 2020, will see renovation of the main restaurant's kitchen and replacement of lifts. The second stage (2020–2023) envisages a complete overhaul of hotel rooms, including replacement of utility systems. All repair works at the property will be performed without suspending operations.

In 2019, Altay Resort opened a new 60-room hotel building. Izumrudny Les launched a new wellness centre featuring a 25-metre swimming pool, a congress hall with multi-functional rooms of various sizes and 10 additional duplex cottages with the total accommodation capacity of 20 rooms.

In 2019, Cosmos Hotel Group continued the rebranding of its hotels in Russia with the exception of Holiday Inn Express and Park Inn, which are still operating under international brands. In 2018, the company opened Cosmos Petrozavodsk, the first hotel operating under the Cosmos brand.

Izumrudny Les received the national hospitality award as the best countryside hotel in 2019. Izumrudny Les also won the "Best hospitality company in the Moscow region" award in the category "Eco hotel of the year".

⁸⁴ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

Business development strategy

The development strategy of Cosmos Hotel Group is aimed at increasing its market share by expanding accommodation supply in Moscow, St. Petersburg and the largest regional economic hubs. The main focus of the business is development of 3-4 star business hotels. Most of Cosmos Hotel Group's hotels are located in Russia's regions with the highest demand for hotel accommodation in this price segment.

In 2020, Cosmos Hotel Group expects to complete the rebranding of its luxury hotels Altay Resort and Izumrudny Les under the Cosmos Collection brand. The rebranding programme will also cover Cosmos and Intourist Kolomenskoye, which will operate under the Cosmos Hotel brand. In 2020, Cosmos Hotel Group will launch its first serviced apartment property under the Cosmos Stay brand and re-open the Leopard Lodge safari hotel after renovation.

Operating results

Operating results ⁸⁵	2019	2018	2017	2019 vs 2018
RevPAR ⁸⁶ , incl.	2,390	2,564	1,977	(6.8%)
Hotels in Russia - RevPAR, RUB	1,980	2,164	1,640	(8.5%)
Hotels abroad - RevPAR, RUB	12,749	12,640	9,734	0.9%
Occupancy rate, incl.	66.6%	64.4%	56.8%	2.2 p.p.
Hotels in Russia - Occupancy rate, %	66.7%	64.5%	57.0%	2.2 p.p.
Hotels abroad - Occupancy rate, %	63.9%	60.2%	52.5%	3.7 p.p.
Rooms	4,122	4,052	3,776	1.7%

The average occupancy rate of hotels in 2019 was 66.6 %, which is 2.2 p.p. higher than in 2018 due to growth in the domestic and outbound tourism segments and the effect of the 2018 FIFA World Cup. At the same time, occupancy rate increased by 10 p.p. against 2017 mostly due to the improved performance of Cosmos hotel and city hotels.

RevPAR decreased by 6.8% from RUB 2,564 in 2018 to RUB 2,390 in 2019. In the meantime, the company's RevPAR rose by 29.7% compared to 2017 mostly due to the contribution from HIEX Moscow Paveletskaya and hotels abroad.

Financial performance in 2019

RUB mln ⁸⁷	2019	2018	Change
Revenue	5,034	5,301	(5.0%)
Adj. OIBDA	1,251	1,314	(4.8%)
Operating (loss) / profit	(481)	555	-
Adj. net (loss) attributable to Sistema	(238)	(532)	-

In 2019, the hotel assets of Cosmos Hotel Group saw a drop in revenue of 5.0% to RUB 5.0 bln compared to 2018. The negative dynamics in FY 2019 were impacted by the effect of a high base on the back of the 2018 FIFA World Cup in Russia, and a decrease in the incoming tourist flow. In the meantime, the company recorded revenue growth compared to 2017 mostly due to the launch of HIEX Moscow Paveletskaya and improved performance of Cosmos Hotel and RHC. In 2019, the share of revenue accounted for by hotels outside Russia increased from 22% to 24% on the back of lower revenues in the segment of Russian hotels.

Adjusted OIBDA in 2019 decreased by 4.8% year-on-year to RUB 1.3 bln following revenue dynamics. Adjusted net loss year-on-year in 2019 decreased as a result of debt portfolio optimization.

RTI

CEO – Pavel Laptayev

Chairman of the Board of Directors – Oleg Mubarakshin

Sistema's effective stake - 87%

⁸⁵ The 2017-2018 figures have been adjusted for inclusion of resorts.

⁸⁶ Revenue per available room.

⁸⁷ Management accounts.

RTI Group is a developer, manufacturer and supplier of complex radar, information and integrated automated control systems and command centres, communications equipment and electronic devices.

Business model

RTI comprises 13 key enterprises, including JSC RTI management company, R&D institutes, plants, construction and assembly companies and software developers. RTI's core activities are divided into two business segments: radars, automated security and control systems, and the remaining assets that are separate business units.

RTI has own well-developed R&D infrastructure and well-equipped serial production facilities employing over 10,000 researchers, product developers, engineers and other highly qualified specialists. Its enterprises are located in Moscow, Saransk, Zelenograd, Dubna, Yaroslavl, Veliky Novgorod and Vladivostok.

Industry overview for 2019⁸⁸

Target markets for RTI are security solutions and automated control and communication systems. Introduction of command and control systems (C2 systems) is a global trend in the segment of automated solutions for public administration. This market is expected to grow from USD 33.0 bln in 2019 to USD 43.9 bln by 2025, which is in line with a global CAGR of 4.9%.⁸⁹

The size of the Russian ICT market in 2019 was USD 47.1 bln, making it the largest in Central and Eastern Europe. Aggregate ICT spending in CEE totalled USD 136.7 bln in 2019, an increase of 4.0% from 2018. Spending on telecom services accounted for 41% of the total market volume in the region, and sales of equipment and IT services for 34% and 13%, respectively.⁹⁰

Russian market of automated control systems was projected to demonstrate a high growth rate of 10%-15% in 2020 in the segment of service solutions (geoinformation platforms, business intelligence) and control systems for state authorities.⁹¹ The global trend towards automation and intellectualisation of control and security systems, including use of artificial intelligence, will sustain.

RTI develops products for growing segments of the ICT market. Notably, it is actively working to create a standard automated control system for Russian regions, the Region Administration Centre.

Business development in 2019

In February 2019, CJSC RTI Microelectronics (part of RTI Group) signed a legally binding agreement with Rostec and Roselektronika, envisaging the setup of a joint venture, LLC Element, in the segment of microelectronic component base. In May 2019, RTI transferred its microelectronics assets, with the largest ones being PJSC Mikron and JSC NIIME, to the new joint venture.

In 2019, RTI Group completed trials of the first beyond-the-horizon Container radar, which was officially put into operation on 1 December 2019.

Work is underway to develop and launch products in civilian segments. Notably, the company created prototypes of the following products in 2019:

- Experimental space-based flight test system
- Yauza airfield landing system to ensure accurate land approach of aircraft
- Crowd security screening system that enables hidden and safe screening and remotely identifies presence of weapons, explosives, chemicals or drugs.

In addition, in 2019 RTI became a partner of JSC MCST, a Russian developer of microchips. The partnership will enable RTI to actively develop and promote own and joint developments, engaging other domestic software developers and distributors.

Business development strategy

RTI's mission is to create a smart and safe future for the humankind. To achieve it, the company strives to remain the leader in its traditional segments of long- and ultra-long-range radars and automated control systems. RTI is also

⁸⁸ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

⁸⁹ MarketsandMarkets Research.

⁹⁰ IDC.

⁹¹ According to company's estimates.

working to strengthen its position in promising markets by entering new segments, such as short-range radars, space-based radars, civilian (regional) automated control systems, communications and navigation systems.

In addition, it promotes its existing competences in Southeast Asia, the Middle East and Eastern Europe. Based on technological developments, it plans to fully digitalise all radars: using computing capacity of data processing centres, artificial intelligence and big data analysis, and to unite all radars of the radar field into a single information system for faster and more accurate data processing.

Moving in line with the global trend towards digitalisation of economy and public services, RTI is actively developing a comprehensive B2G solution for Russian regions, the Region Administration Centre. This solution is designed to collect reliable and comprehensive statistics on a region, process it, analyse and forecast changes in indicators. This will be achieved through integration with federal databases and information systems of municipal authorities. Region Management Centres will provide up-to-date information to regional authorities for accurate strategic planning and project management and will reduce reporting-related workload of the regional executive and local government bodies.

Financial performance in 2019

RUB mln	2019	2018	Change
Revenue	24,740	22,886	8.1%
Adj. OIBDA	5,389	4,919	9.5%
Operating profit / (loss)	(1,770)	921	-
Adj. net profit / (loss) attributable to Sistema	3,195	(531)	-

In 2019, RTI's revenue showed an 8.1% year-on-year increase to RUB 24.7 bln primarily due to the increased volume of activity under large long-term contracts. Adjusted OIBDA grew by 9.5% year-on-year to RUB 5.4 bln in 2019. Adjusted OIBDA margin remained at the 2018 level of 21.8%.

In 2019, RTI reported adjusted net profit of RUB 3.2 bln compared to a net loss a year earlier, which was mostly due to disposal of assets in 2Q 2019.

The decrease in net debt by 33.0% to RUB 19.4 bln was due to the transfer of part of RTI Group's debt together with microelectronics assets to Element LLC, as well as repayments of RUB 1 billion made on RTI's outstanding debt. In addition, funds totaling RUB 5.7 bln earmarked for work under state contracts are held on RTI's accounts but not factored into net debt calculations.

Element

CEO: Ilya Ivantsov

Chairman of the Board of Directors: Oleg Bocharov⁹²

Sistema's effective stake: 50.0001%⁹³

Element Group (Element) is a leading Russian microelectronics developer and producer that creates technologies to ensure digital development of business and society.

Element is comprised of the most advanced Russian enterprises operating in the field of microelectronics development, production and design. The products developed by the company are supplied as input material for the manufacturing, telecoms, financial and energy sectors, thus facilitating the implementation of projects aimed at development of the digital economy.

Business model

Element includes assets representing the entire value chain in the area of microelectronic component base: from fundamental research to sales of finished solutions. Element's diversified product portfolio comprises solutions from over 15 enterprises and design centres. The Group is able to meet the demand of the market currently worth more than RUB 100 bln.

⁹² Alexander Borisov as of 31 December 2019.

⁹³ RTI's stake

Industry overview for 2019⁹⁴

In 2019, the global microelectronics market was down 11.6% year-on-year to USD 409 bln⁹⁵. The decline was mostly caused by the lack of breakthrough technologies and products in the market and a fall in demand for memory storage resulting from the saturation of demand from media data storage systems. The main sources of demand for microelectronic products are segments of computer and server equipment, mobile devices and telecommunications. At the same time, the global demand is expected to recover in 2020⁹⁶ on the back of the growing IoT, AI, industrial electronics and car electronics sectors.

In 2019, the Russian microelectronics market contracted by 5.2% to RUB 127 bln amid decreasing volumes of government contracts. Demand for microchips remains strong in the defense, aerospace and healthcare industries. The general trend towards digitalisation of business processes, automation of production facilities and infrastructure is stimulating demand for microcontrollers. The high demand for microelectronic products is supported by the communication equipment and security systems segments.

Demand was expected to recover in the domestic market by 2021 mostly due to the introduction of state support measures for the industry. In 2019, the share of imported products in general microelectronics consumption in Russia was 82%⁹⁷, indicative of substantial potential for expanding local production as part of the import substitution programme.

The global trend toward greater technological and logistical isolation stimulates the demand for products localised in Russia. In 2020-2025, the share of domestically manufactured components for navigation and automated city management systems, internal and external environmental monitoring systems, energy and energy transportation sectors is expected to grow considerably.

Business development in 2019

Element was established in July 2019. RTI Microelectronics (controlled by Sistema), Rostec and RosElectronics jointly contributed to the JV controlling stakes in 19 enterprises operating in the area of development and production of microelectronic component base. Following the transfer of shares to the joint venture RTI Microelectronics holds 50.0001%, while Rostec and RosElectronics together hold 49.9999% in the authorised capital of the merged company.

In September 2019, Element opened Vostok Centre, the first Russian centre for collective design of electronics in the Far East, on Russky Island on the basis of the School of Engineering and the School of Digital Economics of the Far Eastern Federal University.

In November 2019, Element, Sovezdie Concern (part of Rostec) and Rostelecom set up a consortium for developing domestically produced equipment for communication networks to ensure security and reliability of telecom infrastructure in Russia.

In December 2019, Element, MTS and the Skolkovo Institute of Science and Technology (SkolTec) signed a trilateral agreement on cooperation in development and manufacturing of equipment for 5G networks based on international Open Radio Access Network standards. Successful implementation of the agreement will enable operators to stop using more expensive solutions supplied by foreign vendors. Under the agreement SkolTec will provide a platform for experiments, Element will supply a component base for testing areas and labs, while MTS will be in charge of standards and solutions required for the deployment of 5G networks.

In December 2019, Element, RC Module and HighTech Group entered into a cooperation agreement in the area of developing AI hardware platforms and solutions in Russia. The companies will work together to develop strategies for supplying the Russian market with domestically produced AI hardware solutions in order to reduce reliance on foreign producers of specialised AI computer systems, to create an effective ecosystem for neural network learning and offer new solutions in the area of AI-enabled electronics.

Business development strategy

Element's development strategy for 2020 envisages growth of production capacity, expansion of product output, and aims to achieve the following goals:

- Business scale growth

⁹⁴ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

⁹⁵ World semiconductor trade statistics.

⁹⁶ World semiconductor trade statistics.

⁹⁷ Company data.

- Scientific and technological development
- Development of design centres
- Implementation of Rostec's road map for development of the high-tech segment "New generations of microelectronic products and development of electronic component base" subject to approval by the Russian government
- Facilitation in development and implementation of effective government support measures in the microelectronics industry
- Improvement of operational efficiency.

Achievement of these strategic goals will allow for a considerable increase in value of Element's assets and simultaneously address the priority objectives of Russia in the area of ensuring technological independence of critical information infrastructure.

BPGC

CEO: Dmitry Sharovatov

Chairman of the Board of Directors: Oleg Mubarakshin

Sistema's effective stake: 91%

JSC Bashkir Power Grid Company ("BPGC") is one of Russia's largest regional power grid companies.

Business model

BPGC manages companies in three main areas:

- LLC Bashkir Grid Company ("BGC") provides for electric power transmission between the central part of Russia and the Urals.
- LLC Bashkirenergo ensures distribution of electric power to individual consumers in the Republic of Bashkortostan.
- LLC BPGC Engineering carries out design, construction and overhaul of power facilities.

BPGC's activities are aimed at providing reliable, high-quality and affordable power supply to consumers. In addition to the core operating activities, the company pays attention to ensuring conditions for the region's economic growth, sustainable development and mutually beneficial cooperation with the state.

Most of the company's revenue is generated from activities related to electric power transmission. These activities are natural monopolies with tariffs regulated by the state. BPGC's subsidiaries also provide services in connection to power grids, design and construction of power facilities, IT and communications.

Industry overview for 2019⁹⁸

Electricity generation in Russia increased by 0.4% to 1,096 bln kilowatt-hours (kW·h) in 2019, while electricity consumption in the reporting period remained at the level of the previous year – 1,075 bln kW·h, Russian Ministry of Energy data suggests. A significant increase in electricity generation was recorded at solar and wind power plants: 1.6bn kW·h of electricity was generated at such power plants in 2019, up 58.6% YoY.

In order to reduce the volume of cross-subsidies in the power grid sector, indexation of tariffs for the delivery of electric energy to residential consumers will remain at the level of 5.0%⁹⁹ per year on average in Russia. Regulated electricity rates for residential consumers will grow at the same pace.

The average "common pot" tariff for electric power transmission services reached RUB 1.18 per kW·h in the Republic of Bashkortostan in 2019. The indexation of single-rate rates averaged 110.5% since July 2019.

Electricity generation in Russia in 2020 is expected to reach 1,126.2 bln kW·h, and domestic consumption may increase to 1,115.0 bln kW·h¹⁰⁰.

BPGC is one of the leaders in terms of operational efficiency among Russia's power grid companies. Compared to the "pot holders" in the neighbouring regions, BPGC is the leader in terms of operating costs.

⁹⁸ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

⁹⁹ Ministry of Economic Development of the Russian Federation.

¹⁰⁰ Ministry of Economic Development of the Russian Federation.

Business development in 2019

In 2019, BPGC commissioned the Kustarevskaya substation, which supplies electric power to a large neighbourhood in Ufa. The technical solutions employed in this project simplify the processes associated with operations and maintenance, increase the reliability and quality of power supply to consumers and represent new steps in the development of Smart Grid.

In 2019, BPGC completed a project to electrify the Belya River waterfront in Ufa, one of the city's landmarks.

In 2019, BPGC continued to implement its long-term programmes aimed at enhancing operating efficiency:

- energy conservation and energy efficiency;
- development of digital energy based on the comprehensive overhaul project of distribution grids in Ufa and introduction of Smart Grid technology;
- automation of business processes employing IT and ERP systems.

LLC Bashkirenergo continued to roll out its programme for the implementation of the automated power control and metering system by installing about 36,000 meters in 2019. The total number of installed smart meters reached 280,000 at the end of 2019. In 2020, the company plans to install 25,000 new meters and approximately 107,000 meters in 2020-2022, allowing it to increase the share of smart meters to 40%.

In 2019, the company continued to implement the Smart Grid project in the city of Ufa. Over the reporting year, BPGC upgraded 83 distribution and transformer substations, and laid 5 kilometres of cable lines.

In 2019, BGC completed the long-term programme to upgrade electrical equipment at the open switchgear of the Bektevskaya substation, which started back in 1998, having replaced 162 units of electrical equipment during this period. Updating the equipment at the Bektevskaya substation is crucial for regional energy supply and for electric power transmission between the central Russia and the Urals through 500 kV transmission grids. The overhaul of this substation increased the reliability of energy streams and reduced operating costs for the maintenance of electrical equipment. The company also upgraded equipment at three other substations in the reporting year for a total cost of RUB 63 mln.

In 2019, LLC BPGC Engineering completed the design and construction of a large energy facility – a 220 kV substation in the city of Revda, the Yekaterinburg region as part of its strategy to enter the external market. In addition to the substation, the company commissioned a 220 kV overhead power transmission line with a length of more than 1.5 km. At the end of 2019, the substation was energised, and its commissioning is planned for 2020.

The company recorded 16,487 connections to power grids in 2019, down 14.7% YoY. The decline was mostly due to the saturation of the market in terms of demand for power below 15 kW (a group that mainly includes households and small businesses).

In June 2019, BPGC was recognized as the winner of the 9th Russian national competition *Russia's Best Power Grids* in the categories "Socially Responsible Power Grid Company" and "Most Transparent Power Grid Company".

In 2020, BPGC plans to implement a number¹⁰¹ of major projects in construction and overhaul of power lines and electrical substations in the Republic of Bashkortostan to improve the reliability and quality of power supply to consumers.

Operating results

Parameter	Units	2019		2018		Change	
		Bashkirenergo	BGC	Bashkirenergo	BGC	Bashkirenergo	BGC
Power losses	%	7.69	1.27	8.23	1.21	(0.54 p.p.)	0.06 p.p.
Power losses	mln kW·h	1,726	340	1,854	325	(6.9%)	4.5%
Power in	mln kW·h	22,453	27,095	22,512	27,327	(0.3%)	(0.8%)
Net supply from distribution grids	mln kW·h	20,726	26,755	20,658	27,001	0.3%	(0.9%)

¹⁰¹ Construction of the 110 kV Uzyan-Baynazarovo overhead power transmission line, the Romanovka substation and the branch line to the Romanovka substation from the 110 kV Dema-CHP 4 overhead power transmission line.

New connections	connect ions	16,487	-	19,321	1	(14.7%)	-
Connected capacity	MW	356.9	-	380.2	4	(6.1%)	-

Financial performance

Indicator, RUB mln	2019	2018	Change
Revenue	20,931	19,130	9.4%
OIBDA	6,205	6,369	(2.6%)
Operating profit	3,537	3,872	(8.7%)
Net profit attributable to Sistema	2,698	2,930	(7.9%)

In 2019, revenue increased by 9.4% year-on-year to RUB 20.9 bln due to the increase of electricity transmission tariffs and changes in the methodology for accounting revenue from grid connection services.

OIBDA in 2019 decreased by 2.6% year-on-year to RUB 6.2 billion. OIBDA dynamics were affected by the growth of other operating income in 2019 due to one-off financial transactions on the settlement of operational disputes. OIBDA margin decreased by 3.7 p.p. year-on-year to 29.6% in 2019 as a result of OIBDA decline.

In 2019, BPGC's net profit amounted to RUB 2.7 billion, 7.9% lower than in 2018. Negative dynamics was mostly due to OIBDA trend and growth in depreciation charges.

Concept Group¹⁰²

CEO: Elena Bogomolova

Chairman of the Board of Directors: Artyom Sirazutdinov

Sistema's effective stake: 43%

LLC Concept Group is one of the leading fashion retailers in Russia.

Concept Group's portfolio comprises the following brands: Acoola (children's clothes and accessories), Concept Club (women's clothes and accessories), and Infinity Lingerie (underwear). Concept Group's business is based on a multi-brand and multi-channel model that enables the company to diversify its revenue structure. A significant part of revenue comes from the company's nationwide retail and franchise chain that comprises over 350 stores. The company is broadly represented on leading Russian marketplaces and is developing its own online store. Its production facilities are located in China and Bangladesh.

In 2019, the clothes, footwear and accessories market exhibited a decline for the first time since 2015. Analysts¹⁰³ estimate that the market in monetary terms declined by 3%-4% year-on-year, to RUB 2.26-2.29 tn. The main reasons for the downturn were the falling real income of the population, VAT increase and the unusually warm autumn and winter in 2019. In 2020, redistribution of sales channels is projected to continue, notably, due to growth of the online segment.

In 2019, a new management team joined Concept Group. The team has strong expertise both in building the key business processes in fashion retail and in optimising sales channels. Over the course of the year, the management overhauled the company's operations, which made it possible to report a positive net income for the first time in two years.

The company also devised and approved a new development strategy aimed at becoming a top 5 player in Russia's fashion retail market.

The company's strategy focuses on:

Organic growth. The company focuses on growing its market share through large-scale expansion of its chain, launching stores of the new format in Russian cities with population of 200,000+ residents. The 2020 investment programme envisages opening of 100 new stores.

¹⁰² All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

¹⁰³ Fashion Consulting Group.

Increase in operational efficiency through continuous work to reduce production costs, optimise supply chains and logistics, establish own production in Russia.

Improved offering backed by stronger designer competences and increased brand awareness as a result of establishment of an in-house design bureau.

Kronstadt¹⁰⁴

CEO: Sergey Bogatikov

Sistema's effective stake: 98.6%¹⁰⁵

JSC Kronstadt is a Russian high-tech company that engineers and manufactures knowledge-intensive products and solutions for the production, deployment and safe usage of sophisticated air-, sea-, and land-based systems.

The global market for the production of unmanned aircraft systems (UAS) has grown from USD 10 bln in 2018 to USD 11 bln in 2019¹⁰⁶. The bulk of demand still comes from the military industry due to technical and regulatory restrictions; however, the share of military customers will begin to gradually decline in favour of corporate clients over the next 5 years. Some of the largest logistics companies in the world, such as SF Express and Amazon, have already begun to introduce UAS into the business processes of their logistics centres. At the same time, it is expected that the use of UAS for passenger transportation will only be possible once the technology is put into industrial use in freight transportation.

Kronstadt's key focus areas include:

- Unmanned systems and robotics
- On-board systems and equipment
- ACS and geographic information systems
- Training systems

In 2019, Kronstadt fulfilled its production programme. During the year, two branches were established to develop key components for UAS. In October 2019, Kronstadt filed an application with the Federal Air Transport Agency (Rosaviation) for certification of Orion type UAS.

The key strategic goals of Kronstadt include:

1. Maximising the presence in the market of unmanned aerial vehicles (UAV) with a take-off mass of 1-2.5 t for the government customer and in the market of components for other heavy unmanned systems.
2. Developing export opportunities for UAVs with a take-off mass of 1.0-2.5 t.
3. Reducing UAS production costs.

Aeromax¹⁰⁷

CEO: Maxim Chizhov

Sistema's effective stake: 98.6%¹⁰⁸

LLC Aeromax (“Aeromax”) is an innovative centre for the development of civilian unmanned projects.

The company's activities are aimed at the development, implementation and subsequent replication of intelligent high-tech solutions that provide competitive advantages to businesses in the global market for unmanned aircraft systems (UAS) and digitalisation services. Aeromax began its operations in 2018 by providing services to Sistema Group companies, but is now actively working to expand its client base. In 2019, the company fulfilled 5 contracts for customers not affiliated with Sistema Group.

¹⁰⁴ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

¹⁰⁵ 97.8% as of 31 December 2019.

¹⁰⁶ Strategy Partners.

¹⁰⁷ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

¹⁰⁸ 97.8% as of 31 December 2019.

Aeromax offers solutions for monitoring, aerial photography, aerial laser scanning and implementation of geographic analytical systems.

Russia's market for services employing UAS amounted to RUB 5.0 bln in 2019 and has potential to grow to RUB 7.4 bln in 2020¹⁰⁹. Oil and gas, agriculture, logistics, media, construction and electric power sectors may become major consumers of services employing UAS.

The company's development strategy is aimed at assuming leadership in the market of services using UAS in Russia.

Sistema Venture Capital

President: Dmitry Filatov

Sistema's stake: 80%

Target size: **RUB 10 bln**

90% invested as of the end of 2019

Year established: **2016**

Geography: **Russia, the UK, Israel, Lithuania, the Netherlands and the US**

Investment industries: **Growth-stage tech companies**

Life: **no fixed term**

Target returns: **25%-30% (in RUB)**

Sistema_VC is a venture capital fund investing in growth-stage high-tech companies in Russia and Europe with potential to become leaders in their industries or niches.

Investment focus

(1) Deep tech projects¹¹⁰

- Projects leveraging artificial intelligence (AI) and machine learning (ML)
- Cognitive technologies (machine recognition of speech, sounds, movement, video analytics, etc)
- Next-generation networks (SDN¹¹¹, NFV¹¹²)

(2) New emerging market niches in Russia (edtech, logtech, foodtech¹¹³)

- Priority investment stages: Late seed, Series A, B

Industry overview for 2019¹¹⁴

In 2019, the European VC market continued its rapid growth, increasing 25.3% YoY to USD 36.1 bln, despite an 8.4% decrease in the global market amid a slowdown in economic activity in the US and China¹¹⁵. The fastest-growing industries in terms of funding raised are e-commerce, health, AI and logistics. There is an observable increase in the activity of corporate venture funds, which participated in one in five VC deals in Europe in 2019.

In 2019, the volume of the Russian VC market (by total size of deals excluding exits) grew 13.0% to USD 868.7 mln, marking its best result since 2014. The number of deals in 2019 decreased 1.5x compared to 2018 mainly due to a decline in the activity of accelerators, yet the average deal size increased across all segments: from seed to later stages. 2019 was also a record year in terms of exits from VC projects: USD 5.6 bln, up 16x compared to 2018¹¹⁶.

The most promising VC investment areas in Russia are startups related to AI, integrated technologies and logistics.

Business development in 2019

In 2019, Sistema_VC continued to invest in startups in the area of artificial intelligence. The fund's portfolio now includes three UK-based companies: FiveAI, SenSat and KisanHub. Sistema_VC's partners new investments partners in 2019 included Tencent, Notion, IQ Capital, Lakestar and Amadeus Capital Partners.

¹⁰⁹ Strategy Partners.

¹¹⁰ Technologies or scientific advances that are hard to reproduce or copy, often unique and patented, and take products and solutions to a new level.

¹¹¹ Software-defined networking: organisation of data transmission over networks with the separation of programmed network management from data transmission devices.

¹¹² Network functions virtualisation: a network architecture that involves the virtualisation of entire classes of network node functions into building blocks that may connect together.

¹¹³ Technologies in the area of education, logistics and food.

¹¹⁴ All projections and forward-looking estimates regarding the industry in general and the fund's business in particular were made before February 2020, unless specifically noted otherwise.

¹¹⁵ Crunchbase.

¹¹⁶ Dsight.

Seven companies from the fund's portfolio raised additional funding in 2019: DataSine, MEL Science, NFWare, Observe, Gosu AI, TraceAir and Connecterra. New partners that participated in the rounds include Brighteye Ventures, Propel, Pentech, Yandex and TMT Investments.

Sistema_VC and MTS received the *Venture Investor* award from the Russian Venture Capital Association and its partner – Russian Venture Company. The fund was recognized in the “Best Syndicate Deal” category for their investment in YouDo in 2018.

In 2019, the fund continued to hold conferences in the framework of own networking project titled *#public_tech*. The conferences bring together promising startups that are relevant for specific portfolio companies and for Sistema_VC. In 2019, Sistema_VC held conferences on retail tech and agritech.

In June 2019, the fund's portfolio company VisionLabs, with the support of Sistema_VC, held its third annual international conference on computer vision and machine learning titled “*Machines Can See*”. The summit brought together 20,000 attendees, and its business programme included machine vision researchers from around the world.

Business development strategy

In 2020-2021, Sistema_VC's strategy will focus on exits from assets in which it invested in 2016-2017. The fund's team continues its work associated with raising funds for portfolio companies. The fund reserves the right to participate in follow-on funding rounds of its portfolio companies.

New investments made in 2019

FiveAI

<https://five.ai/>

Tech solutions for self-driving cars

The company develops self-driving software solutions. FiveAI technologies are intended to make human mobility safer, quicker, cheaper, greener and more accessible. FiveAI software is able to cope with the conditions of narrow and winding streets of European cities with an account for the specifics of their historic centres.

KisanHub

<https://www.kisanhub.com/>

Artificial intelligence to optimise grain supply

The company has developed a cloud platform to optimise the supply chain for agricultural companies.

The startup operates at the intersection of precision farming, big data, cloud computing, machine learning and mobile technology. Its platform collects and analyses data on the state of grain crops to forecast deliveries. The optimisation helps reduce the impact of seasonal risks on yields and save resources.

SenSat

<https://www.sensat.co.uk/>

Digital twins of infrastructure facilities

SenSat has developed a technology for creating “digital twins” of real-life locations for the infrastructure industry. The company uses real-time datasets and AI algorithms to create accurate and up-to-date copies of the real world in a machine-readable format. SenSat's flagship product – the Mapp® cloud platform – helps infrastructure project developers make more informed decisions and conduct accurate analysis, driving vast improvements in safety, cost-efficiency, waste generation and carbon reduction. SenSat is committed to creating an intelligent ecosystem that translates the real world into a version understandable to AI.

Key portfolio companies

As of 31 December 2019

YouDo

Russia

Marketplace for domestic and business services

VisionLabs

Russia

Commercial computer vision solutions

Segmento

Russia

Platform leveraging machine learning technologies to target digital advertising

MEL Science

Russia

International company creating scientific and educational products for children using VR technologies

SQream

Israel

Ultra-fast processing of large data sets for business insights

Connecterra

Netherlands

AI-based monitoring of cattle health at dairy farms

DataSine

UK

Machine learning and psychometry for personalised marketing

TraceAir

US

Automation of construction based on data from drones

Sistema Asia Fund

Managing partner: Andrey Terebenin

Sistema's stake: 83%

Target size: USD 120 mln with potential increase to USD 150 mln

Year established: 2015

Geography: India, Southeast Asia

Industry focus:

- Consumer tech (e-commerce, healthcare, transport, media, finance and education)
- Enterprise tech (IoT)
- VR/AR (virtual reality)
- Big data
- AI (artificial intelligence)
- ML (machine learning)

Life: 8 years mandatory + 2 years optional

Investment stage: 4 years

Target returns: 3x cash-on-cash

Sistema Asia Fund (SAF) is Sistema's venture fund which invests in high-tech companies in India and Southeast Asia.

SAF invests in companies at various growth stages in the markets of India and Southeast Asia. SAF is focused on investments in high-tech companies that operate in the sector of technology products and services and also invests in other types of businesses and consumer brands that use technologies as their key competitive advantage and operate in India and/or have significant presence in the Indian market.

Target funding rounds: A-C.

Investment criteria:

1. a proven business model and/or loyal audience;
2. solutions specific to the Indian market;
3. startup founders heavily involved in business management;
4. co-investors.

Industry overview in 2019¹¹⁷

¹¹⁷ All projections and forward-looking estimates regarding the industry in general and the fund's business in particular were made before February 2020, unless specifically noted otherwise.

2019 was a milestone year for the Indian venture capital industry with USD 10 bln¹¹⁸ in capital deployed, about 55% more than in 2018. Deal volume increased by 30% year on year, mostly due to more early-stage deals. Around 80% of venture capital investments in 2019 was concentrated in four sectors: Consumer tech, Software/ SaaS, Fintech and B2B commerce and tech. Consumer tech continued to be the largest sector accounting for approximately 35% of the total investments.

Business highlights in 2019

In March 2019, SAF completed its first monetisation by selling a stake in Qwiksilver, an Indian end-to-end service provider of gift card and prepaid solutions. Qwiksilver was the first Indian company to develop gift cards in India, becoming an undisputed market leader. As of March 2019, the company produced about 250 mln gift cards a year in 16 countries for 15,000 online platforms and mobile applications. Sistema Asia Fund invested in Qwiksilver in 2016 and exited three years later with solid returns on the invested capital.

In July 2019, SAF took part in the Series C funding round of Uniphore, an Indian AI-based speech recognition startup. Uniphore raised the total of USD 50 mln in the round that was led by March Capital Partners and joined by Chiratae Ventures, CXO Fund and other funds. Uniphore will use the raised funds to invest in research and development and grow its employee base globally. The company has offices in the USA, India and Singapore. The headcount is more than 150 people.

In 2019, SAF conducted eight additional rounds of funding for its existing portfolio assets. The most significant rounds include:

Rebel Foods

A Series D round was held in September 2019. As a result of the round the company raised USD 125 mln in investments from Goldman Sachs, the hedge fund Coattue Management and the Indonesian technology group Gojek. Rebel Foods was valued at USD 525 mln in the round.

Lendingkart

A funding round was held in August 2019. The company raised a total of USD 146 mln.

Licious

A Series E funding round was held in December 2019. Vertex Growth Fund, a Singapore-based venture firm, was the lead investor in the Series E round that raised a total of USD 30 mln. Since the launch the startup has raised USD 94.5 mln in total.

New investments made in 2019

Uniphore

Uniphore was founded in 2008 and aims to bridge the communication gap between man and machine using voice and speech. The company develops and sells software solutions for conversational analytics, conversational assistance and conversational security. Uniphore products are used by more than 4 mln people in 80 companies globally. Uniphore's core products are:

auMina

Speech analytics software enabling organisations to identify customer problems through analysing customer dynamics and call centre interactions. The product combines AI and NLP (natural language processing) to uncover real insights from customer conversations, empowering organisations to deliver personalised customer service experiences.

akeira

Conversational assistant software that helps organisations in consumer interaction and can be deployed using a variety of interfaces. Backed by real-time customer analytics, the software drives highly effective conversations for supporting sales and customer service functions across multiple industries.

amVoice

Authentication software providing security to phone-based transactions. It works by identifying unique voice patterns, including behavioural and physiological ones, to authenticate individuals.

Key portfolio companies

As of 31 December 2019

¹¹⁸ Bain & Company.

Licious is a brand operating in the meat and meat products-selling business in the market where over 90% of players represent disorganized retail with poor quality and low sanitary standards. The company manages the entire value creation chain, from sourcing to processing and delivery to customers, using uninterrupted cold chain.

Rebel Foods is India's largest "food on demand" company using cloud kitchen technology and is based in Mumbai. The company operates five brands including *Faasos*.

Lendingkart is a fintech lender that has created its very own data-based lending algorithm to provide loans to SMEs. The company has a small team of employees to attract customers and collect debt.

Kissht is an online consumer lending platform based on a proprietary algorithm for assessing creditworthiness with AI elements.

HealifyMe is India's biggest digital fitness platform (4 mln users and over 200 sports instructors and nutritionists) that allows users to monitor calorie consumption, set personal fitness goals and monitor their progress. What makes it really effective is access to online consultations with nutritionists and instructors.

Sistema Capital¹¹⁹

CEO: Igor Busarov

Sistema's stake: 70%

A++ Expert RA rating

No 15 Among Russia's largest asset management companies by assets under management (Expert RA)

RUB 95.5 bln Assets under management

LLC Sistema Capital MC ("Sistema Capital") is a professional securities market participant that has been working in the area of asset management since 2001.

Business overview

Sistema Capital offers corporate clients and retail investors investment products in both Russian and foreign markets representing various asset classes: stocks, bonds and derivatives.

Sistema Capital's corporate clients include insurance companies and non-government pension funds (NPFs) such as Sberbank NPF, Otkritie NPF, Bolshoy NPF and others.

Business development in 2019

According to the estimates of Expert RA rating agency, Sistema Capital ranked 15th among Russia's asset management companies in terms of assets under management (AuM) in 2019. In 2019, AuM grew by 40% from RUB 68.3 bln at the end of 2018 to RUB 95.5 bln at the end of 2019.

Mutual investment fund *Sistema Capital Mobile. Bonds* managed by Sistema Capital ranked third by yield growth in 2019 among open-end mutual bond funds with net assets of over RUB 50 mln, according to a ranking compiled by Investfunds website.

In 2019, Expert RA rating agency upgraded its rating for Sistema Capital from A+ to A++ (indicative of highest level of reliability and service quality of a management company) with stable outlook. The rating upgrade was due to the growth of assets and profitability of the business, as well as improved quality of the company's risk management. The agency also appreciated the results of market portfolios management (the weighted average returns of the largest portfolios exceed the agency's benchmarks) and the quality of assets under management.

In 2019, Sistema Capital continued to develop its retail business under the *MTS Investments* brand, which allowed it to expand its customer base to 7,000. The agent sales channel also expanded backed by partnerships with MTS Bank's regional branches.

Sistema Capital's strategic goal is to develop as a leading asset management company oriented towards private and institutional investors (retail customers, HNWI and non-government pension funds) while continuing as a manager of

¹¹⁹ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

Sistema Group's liquidity and the vehicle for investment of Sistema's funds in marketable securities with varied risk levels.

Sistema Capital Partners Group¹²⁰

Sistema's stake: 49%

Industrial Focus: asset-heavy opportunities

Geography: Europe

Investment cycle: 3-5 years

Commercial real estate area under management: over 230 thsd sq m

Target IRR: > 15%

Target yield: > 5% cash-on-cash

The SCP Group ("SCP") is an investment firm targeting scalable asset-heavy opportunities in Europe.

SCP's strategy is to build market-leading operating platforms, which own and manage asset portfolios aiming to benefit from structural changes and rapid growth.

Since 2015, SCP has created a successful investment case in Europe, completing a full investment cycle in commercial real estate with a total gross asset value (GAV) of approximately EUR 300 mln. As a result of successful asset exits, investor returns exceeded 20% IRR net of commissions. After exits, as of the end 2019 GAV of assets under administration was around EUR 105 mln.

In 2019 SCP strengthened the x + bricks platform, specialising in food-anchored retail, to become a highly recognised player in the German real estate market. The gross value of assets under which transactions were completed amounted to EUR 365 mln as of December 31, 2019.

In February 2020, SCP signed an agreement to acquire 100% of the Real hypermarket chain from Metro AG. The transaction scope includes the acquisition of over 250 Real stores and the operational business of Real. It is anticipated that third parties will also take part in financing the transaction. Closing of the transaction is expected in the first half of 2020 and depends on the fulfillment of a number of conditions precedent.

East-West United Bank S.A.¹²¹

CEO: Sergey Pchelintsev

Chairman of the Board of Directors: Jeannot Krecké

Sistema's effective stake: 100%

East-West United Bank S.A. ("EWUB") is a European bank providing asset management services to individuals and transaction banking services to businesses with a focus on Russian clients.

EWUB is registered in Luxembourg and targets private and corporate clients affiliated with Russia or trading with Russian partners. EWUB provides private banking services to high net worth individuals (HNWI), including personal and family investment and wealth management services. In the corporate segment, EWUB provides its clients with transactional banking services, including cash management, credit and treasury products.

In 2019, EWUB continued implementing its business strategy approved in 2018 and focused on private banking and transactional banking activities. To support the strategy, a three-year digital transformation plan was adopted, which enable the bank to launch new banking products in these two segments and improve the efficiency of business processes. As part of this transformation, the bank launched a new trade finance product line for corporate clients in 2019.

In 2019, the bank continued to stabilise and diversify its funding base through the fully digital deposit platform DirektBank servicing retail clients in Luxembourg and Germany. As of the end of 2019, the platform had about 4,000 active clients.

¹²⁰ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

¹²¹ All projections and forward-looking estimates regarding the industry in general and the company's business in particular were made before February 2020, unless specifically noted otherwise.

EWUB's investment portfolio consisting of marketable securities and participations in syndicated loans grew 14% YoY to EUR 480 mln.

EWUB's key goal is to grow its business in private and corporate banking. The main tasks that help achieve this goal include:

- **Growing the client base** by increasing EWUB's brand awareness in target markets, expanding own sales force and the network of partners, including synergies with Sistema Group companies like MTS Bank and Sistema Capital.
- **Improving the client experience** through investments into digital channels and infrastructure.
- **Expanding the product offering.** New products to become available in 2020 include wealth management advisory for private clients (complementing the existing portfolio management, custody and brokerage offering) and credit products for both private and business clients.

3.7. RISKS

Integrated risk management system and the Group's risk appetite.

The risks that the Corporation may encounter are the consequences of the processes and factors over which Sistema has little or no influence. At the same time, the Corporation can initiate actions to reduce the negative consequences of such factors if a certain risk materializes. Therefore, efficient assessment of existing risks and the probability of their occurrence, as well as effective risk management, are an important part of Sistema's strategy.

Risk management is an integral part of all processes at Sistema: it extends to strategy planning and implementation, investing, budgeting, procurement, and everyday operations. The integrated risk management system (ERM) operating at Sistema was developed in compliance with international standards, recommendations and best risk management practices. The ERM system is designed to keep risks at the level that is acceptable for Sistema's shareholders and management.

As part of quarterly ERM procedures the risk managers at Sistema Group companies compile risk registers for portfolio companies and a consolidated risk register for the Group, prioritise risks and aggregate them into portfolios, evaluate probability and materiality of all risks and analyse the impact of material risks on the financial results of each company and Sistema Group as a whole, using simulation and financial modelling methods.

In order to address the risks listed in Sistema Group's risk register, risk owners develop risk management (mitigation) and response plans, conduct risk monitoring and make necessary adjustments.

One of the key principles of risk management at Sistema Group is the use of the risk appetite concept. This approach implies identification and monitoring of the Corporation's target risk profile in line with the current strategic goals and in the context of their integration into risk management procedures.

Sistema Group's risk appetite determines the level of risk acceptable for the shareholders and includes the following basic provisions:

- The amount of potential losses under the risks accepted by Sistema Group should not reach a level leading to the termination of the Group companies' operations, even under stressful conditions;
- The structure of cash flows of Sistema Group companies should guarantee a timely fulfilment of obligations to counterparties in the short and long term;
- In its operations, the Group aims to avoid concentration of risks in counterparties, industries, and countries/regions with high risk levels;
- Sustainable development and economic efficiency in the long term;
- Compliance with the requirements of national regulators in the countries of operation and the standards and recommendations of international regulatory bodies;
- Maintaining an impeccable business reputation, avoiding actions that could damage the company's public image;
- Maintaining external issuer credit ratings assigned by international rating agencies.

Risk management reports are submitted for review to relevant collective governance bodies of the Corporation at least once a quarter. Each risk management report contains a re-evaluation of risks and their impact on the financial results of the Corporation, an assessment of the effectiveness of risk mitigation and response plans, and potential risk areas (areas requiring attention) identified for future periods.

The Corporation has developed a unified compliance system which encapsulates a set of activities aimed at minimising risks in the area of anti-corruption and stock exchange compliance, as well as risks related to data protection and confidentiality, prevention of money laundering and funding of terrorism.

Global and country risks

Risks related to changes in the political and economic situation in Russia are material for Sistema because most of the Group's business is conducted in Russia. The companies and investment funds of Sistema Group also operate in the CIS, the EU, UK, South and Southeast Asia. A significant portion of goods produced by the Group's companies is marketed in the CIS, Southeast Asia, Eastern Europe and North Africa. In the event of any major political turmoil in these regions, the Group's business in these regions may be disrupted or discontinued, which may lead to material losses.

Political and economic instability, as well as any potential downturn or slowdown in Russia's economic growth may lead to a decrease in household incomes and consumer demand, which could have a material adverse effect on the operations and the financial position of all Sistema Group companies.

The business of the Group may be adversely affected by a tightening of sanctions, a complete economic blockade and change in the political situation in the country, as well as potential involvement of the Russian Federation in military conflicts.

Due to the situation in Ukraine, Western countries have imposed sanctions on a number of Russian citizens and companies. There is a probability of extension of existing sanctions or introduction of additional categories of sanctions that may affect the Group companies or their officers. Any potential breach of sanctions may prevent the companies of the Group from cooperating with the government authorities of the USA/EU, result in civil or criminal penalties for the sanctioned persons or their associates in accordance with the laws of the USA/EU, or lead to significant fines and potential damage to reputation.

Any further tensions in the relationship between Russia and other countries and any escalation of existing conflicts, introduction of additional sanctions or continued uncertainty as to their scope may have an adverse impact on the Russian economy, the financial status of the Group's partners and suppliers, the capability of the Group companies to conduct trading and financial operations and to raise funding on commercially viable terms, and the volatility of Sistema's stock price.

Industry risks

The presence of Sistema Group companies in various sectors of the economy engenders diverse risks. The most material risks for the Group are related to operations in telecom, energy, retail, hospitality, healthcare, pharmaceuticals, forestry, agriculture, and real estate.

Any significant changes in these industries may have a material adverse effect on the financial position of the respective companies and on the Group as a whole.

Sistema's external risks

Financial risks

The business of Sistema is inextricably connected to the state of the global economy and financial markets. In particular, it is sensitive to movements in the prices of oil, gas and other commodities exported by Russia. A weakening or strengthening of the rouble against the US dollar and the euro amid fluctuating oil prices and imposed sanctions may result in a rise in costs and/or a drop in revenues or impede the achievement of financial targets and debt management by Sistema Group companies.

Investor flight from Russia amid restrictions for foreign companies as a result of sanctions may have an adverse effect on joint ventures (partnerships) and new investment projects of Sistema Group.

Growing inflation may result in higher expenses and therefore put pressure on profit margins and affect domestic demand for the products and services of Sistema Group companies.

The servicing and refinancing of existing and future liabilities of the Corporation may lead to significant cash outflows. If sanctions are maintained and the access of Russian banks and businesses to foreign debt remains restricted in the medium term, this may significantly increase the current liquidity deficit in the market and result in further interest rate rises, making it difficult for Sistema Group to raise funding for its operations and to refinance the debt of the Corporation and its portfolio companies. Should the Corporation be unable to raise necessary funding on the terms and within the timeframes required, it could face significant restrictions in terms of business development and the Group's operating and investment activity.

An unfavourable macroeconomic environment in many countries where Sistema's assets operate may make it necessary to re-evaluate goodwill at certain Sistema companies and their respective assets.

Foreign currency control and restrictions on capital repatriation may adversely affect capital flows and reduce the value of Sistema's investments in Russia, which may have a material adverse effect on the business of Sistema Group.

Potential bankruptcy of one of the Russian banks acting as the Group's counterparty may result in a reduction in the sources of borrowing for the Corporation and its portfolio companies and may lead to direct losses of funds deposited in the accounts at such banks.

Political risks

The effect of geopolitical risks on the activities of the Corporation and its portfolio companies remains tangible, as protectionism and economic sanctions are increasingly being used as tools for achieving geopolitical goals in unpredictable ways.

Imposition of sanctions against Russian government or Russian companies and individuals may cause disruptions in international payment systems, which in turn may prevent the Corporation and its portfolio companies from performing settlements and reduce Sistema's investment appeal.

Social and environmental risks

Due to the variety of industries where the companies of Sistema Group operate, the social and environmental risks faced by the assets differ materially across the Group. However, it is possible to highlight a number of major trends that may eventually become risks or opportunities for the companies of the Group:

- change in consumer preferences, a trend towards responsible consumption and healthy lifestyle, higher expectations from brands in terms of their mission, responsibility and sustainable development;
- change in the age structure of customers, the need to adapt and update products and services in accordance with the demands of an ageing population;
- increased competition for talent acquisition due to demographic gaps and changing expectations of the young workforce in relation to working conditions;
- climate change and extreme weather conditions that may impact crop yields, the health of the population and the operations of infrastructure;
- emergence of new technological solutions and economic transformation, including digitalisation and automation in the manufacturing and service sectors and potential redundancy of a large number of employees;
- growing cyber security threats and a tightening of regulations in the area of confidentiality and personal data protection;
- deteriorating living standards and potential rise in social tensions in the regions where the Group operates, which may reduce the income of the Corporation and its portfolio companies;
- a tightening of regulations in the area of sustainable development, carbon regulations and information disclosure.

Among the material risks faced by the Group's industrial companies are those related to environmental protection, occupational health and safety, waste disposal, as well as risks related to the state of the infrastructure, the threat of accidents and electromagnetic safety, which are critical for telecommunications and power grid companies.

In the agricultural sector, the most material risks include climate risks and challenges related to the need to adapt to changing weather conditions, greenhouse gases, water consumption and animal farming.

Emergencies and accidents at the production facilities of Sistema Group may have a significant impact on the environment, i.e. pollution of land and water, emissions above allowances, discharge of waste waters or leaks of hazardous substances, any of which may damage local communities, ecosystems and biodiversity. Irrational use of natural resources (land, timber) may deplete the raw materials/production base and lower the economic results of agricultural and forestry assets.

To manage these risks, the companies of the Group are implementing advanced technological solutions, improving management systems in the area of environmental protection, energy efficiency, occupational health and safety, and developing measures aimed at prevention and mitigation of accidents and emergencies.

The risks related to sustainability compliance failures in supply chains may result in disruption of supplies and have an adverse effect on the reputation of Sistema Group. As part of their efforts to minimise such risks the companies of the Group set strict requirements for suppliers, contractors and partners in terms of compliance with existing laws and the companies' internal regulations.

Due to increased global and regional terrorist threats, any potential accidents at the enterprises and infrastructure facilities of the Group may cause significant economic damage, negatively affect people's health and provoke a tightening of data access regulations.

Legal risks

There is a risk of unpredictable court rulings and administrative decisions with respect to the business of Sistema Group and its portfolio companies, which may have an adverse effect on the Group's operations. This risk is caused by a number of factors, including:

- possible discrepancies and ambiguities in: (i) federal and other laws; (ii) regulations issued by executive authorities of the countries where Sistema Group operates; (iii) regional and local laws and regulations;
- gaps in laws and regulations and lack of court and administrative guidelines on the interpretation of certain laws, as well as inconsistent court guidelines and rulings;
- influence of political, social and commercial factors on the judicial system;
- potentially selective or arbitrary actions of government authorities.

Gaps in existing corporate and securities laws may create barriers to raising capital in the future.

Lack of clarity on the applicability of the Federal Law "On the Procedure for Foreign Investment in Companies of Strategic Importance to National Defence and State Security" and the regulations of the Customs Union of the Eurasian Economic Union to Sistema Group may have an adverse effect on the business of Sistema Group due to the presence of foreign shareholders.

There is a risk of amendments being introduced to the laws and regulations of the countries where Sistema Group companies operate due to potential changes in foreign states' or international organisations' approach to governing international trade and investments.

Since Russian corporate law provides for potential liability of shareholders for the obligations of their controlled entities, Sistema may incur financial losses related to the liabilities of its portfolio companies.

The minority shareholders of Sistema's subsidiaries may contest or vote against related-party or other transactions, which may limit Sistema's capabilities of closing investment deals and restructuring businesses.

Should the Russian Federal Anti-Monopoly Service conclude that Sistema or one of its material subsidiaries has violated any of the existing anti-monopoly laws, this may result in serious administrative sanctions involving losses for the Corporation. The Federal Anti-Monopoly Service may also prevent the Corporation and its portfolio companies from closing and/or performing certain transactions, which may also limit Sistema's capacity to do investment deals and restructure businesses.

Tax risks

Tax laws, regulations and practices of the jurisdictions where Sistema's assets operate are intricate, opaque and prone to frequent modifications and ambiguous interpretations. If the actions of the Corporation and its portfolio companies are interpreted as breach of tax laws, this may produce an adverse effect on the business of Sistema Group.

Russian law on transfer pricing may necessitate adjustments to the price-setting practices used by Sistema Group's companies and result in additional tax liabilities related to some transactions.

In 2015, new rules relating to the taxation of undistributed profits of controlled foreign companies and profits from indirect sale of properties in Russia were introduced, as well as the concept of a beneficiary owner and new criteria for establishing tax residency of foreign legal entities in Russia. Since taking effect, these rules have been revised multiple times, with the introduced amendments having retroactive effect. As a result of applying such taxation rules, the Group's companies may face new tax liabilities arising from the uncertainty around the interpretation of tax law and lack of consistent administrative precedents.

Risks related to securities markets

Deterioration in the geopolitical situation, sanctions imposed on certain Russian companies, worsening of the macroeconomic environment and capital and investor flight from the Russian market led to a reduction in the valuation of Russian companies in the years 2014 through 2019. In view of these circumstances, Sistema Group's access to investor funding through securities markets may be further restricted as a result of introduction of sectoral sanctions in the business segments where the companies of Sistema Group operate and/or due to the cautious approach of investors to Russian companies in general. In particular, Sistema's ability to raise funding via debt instruments may be limited, which may lead to a lack of working capital and cash available for investment and have a material adverse effect on the Corporation's financial performance.

Risks related to coronavirus pandemic

In March 2020, the World Health Organization in March 2020 declared the new coronavirus disease (COVID-19) outbreak a pandemic due to its rapid spread. Responses put in place by many countries, including Russian Federation, 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 Sistema Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

Risks related to Sistema Group's operations

Implementation of the business strategy

The Corporation's strategic focus is to develop a balanced and diversified asset portfolio in the sectors and regions where Sistema has expertise and competitive advantages while attracting international and Russian partners. Despite having an established strategy, Sistema cannot guarantee that it will achieve any of its goals, efficiently manage portfolio companies or take advantage of new investment opportunities due to its high debt and limited investment resources. Sistema's failure to achieve the goals set in its strategy may undermine its financial results.

The development of Sistema Group companies depends on numerous factors, including the receipt of necessary permits from state authorities, sufficient demand from consumers, successful development of technologies, efficient risk and cost management, timely completion of R&D efforts and deployment of new products and services. Difficulties arising in any of these areas may have a detrimental effect on the development of Sistema Group companies and the Corporation's financial results.

Acquisition, integration, disposal or restructuring of assets

Sistema implements its strategy by acquiring, disposing, and restructuring assets. New investment opportunities entail various risks, including lack of relevant targets or their unavailability, insufficient or inadequate due diligence of a target company's operations and/or financial situation, and potential overvaluation of assets. These risks, if they materialize, may adversely affect Sistema's financial performance.

Acquisition of assets may increase pressure on the cash position and create a need for raising external funding.

Delays in the implementation of investment deals or failure to close them may have an adverse effect on the achievement of Sistema's strategic goals and on the results, financial position and investment appeal of the Corporation.

Sistema may face difficulties associated with building an efficient governance system in newly acquired assets. Main risks in this area include:

- inability to efficiently integrate operating assets and personnel of an acquired company;
- inability to establish and integrate necessary control mechanisms, including those related to logistics and distribution;
- conflicts between shareholders;
- hostility and/or unwillingness to cooperate on the part of the management and personnel of an acquired asset;
- customer attrition by an acquired asset.

If any of the above risks materialise, the asset in question may lose part of its value and/or Sistema's financial performance may be adversely affected.

When disposing of its assets, the Corporation may face the following risks:

- delays in closing or failure to close a deal due to inability to obtain corporate or state approvals;
- mistakes in asset valuation;
- assuming excessive obligations associated with the asset that is being disposed of;
- loss of synergies with other assets remaining in the portfolio.

If one or several of the specified risks materialise, the Corporation may lose potential profit, which may adversely affect its financial performance.

Management and key personnel

The implementation of Sistema's strategy in many respects depends on the efforts and professionalism of the management team. Failure to hire a sufficiently competent and motivated management team may adversely affect Sistema's business, performance, financial position and development prospects.

Cash flows from Sistema Group companies

The Corporation's financial performance depends on the ability of Sistema Group companies to generate cash flows needed to service its financial liabilities, including repayment of debt and interest, as well as for further investment

activities. Such cash-generation capacity may be restricted due to regulatory, tax or any other barriers, which may have an adverse effect on the financial position and investment capacity of the Corporation.

Raising capital and financing

Cash flows from portfolio companies may be insufficient to cover all of the Corporation's investments scheduled for a particular period. This may create a need to raise additional external funding and increase the debt burden of the Corporation, which, in turn, will put pressure on the credit ratings of the Corporation and Sistema Group companies. A downgrading of the credit rating may increase the cost of existing debt, make new borrowings more expensive or inaccessible and, in some cases, trigger acceleration in maturity of existing loans. The risk of deterioration or withdrawal of the Corporation's credit rating correlates with reputation and liquidity risks. The current debt level of the Corporation also restricts new borrowings.

Uncertainty of estimates in reporting

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

The estimates and the underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affect only that period or in the period of the revision and in future periods if the revision influences both the current and future periods.

Loan covenants

The loan agreements and debt instruments of the Corporation and Sistema Group companies provide for certain restrictive covenants. These covenants restrict further borrowings, encumbrance of property with pledges, sale of assets, and transactions with affiliates. They may also restrict Sistema's operations, including financing of capital expenses, or limit its capacity to timely repay debts and service other liabilities. Any breach of covenants, however inadvertent, may entitle the creditors of the Corporation and/or Sistema Group companies to demand early repayment of loans and adversely affect the Corporation's financial performance.

Licences and permits

The operations of Sistema Group companies are regulated by various government bodies and agencies issuing and renewing licences, approvals, and permits, and also depend on applicable laws, regulations, and standards. Regulatory authorities largely rely on their own judgement when interpreting and implementing legal requirements, issuing and extending licences, approvals and permits, and monitoring compliance with such licences. There is no guarantee that the existing licences and permits, including those issued to the Group's companies, will be extended, that new licences and permits will be issued, or that the companies will be able to comply with the terms of such licences. There is no guarantee either that existing or future licences or permits will not be suspended or revoked on certain grounds. Any of these circumstances may have a material adverse effect on Sistema's business.

Privatised companies

The portfolio of Sistema Group contains several privatised assets. In the future, the Corporation and the companies of the Group may also take part in privatisation of assets. Since Russia's laws and regulations related to privatisation remain somewhat unclear and inconsistent (e.g., federal and regional rules on privatisation differ), privatisation of many companies may be contested, including selective contestation, which may have a material adverse effect on the business, financial situation, performance, or development prospects of the Corporation.

Compliance with applicable laws and regulations

In their operations, the Corporation and Sistema Group companies are subject to a number of rules and standards in the area of market competition, corporate governance, fraud and corruption prevention, management of conflicts of interest, compliance with sanctions, fair treatment of customers, prevention of money laundering and funding of terrorism, data security, prevention of insider trading and market manipulation. Failure to comply with these requirements may create the risk of legal and regulatory sanctions, significant financial losses and reputational damage.

Moreover, the operations of Sistema and its portfolio companies are regulated by the anti-corruption laws of the jurisdictions where they conduct their business or where their securities are listed, including the laws of the Russian Federation, the UK Bribery Act and the US Foreign Corrupt Practices Act. Any investigation into potential violations of the FCPA, UK Bribery Act or other anti-corruption laws of the US, the UK or other jurisdictions, may adversely affect the reputation, business, financial situation and performance of Sistema and the companies of Sistema Group.

Human rights

The Corporation is aware of its responsibility for observing human rights, preventing any exertion of harmful influence on human rights, eliminating or mitigating the potential consequences of such influence whenever it takes place.

As part of its operations and cooperation with suppliers, contractors, partners and other stakeholders the Corporation may exert direct and indirect impact on the rights of employees, local communities, customers, patients, and consumers. Any instances of violations of human rights may have an adverse effect on the Corporation's reputation and lead to court disputes, loss of confidence of investors, customers and employees, cause resistance from local communities, trade unions and NGOs.

The risks associated with human rights are taken into account in the risk management systems of Sistema Group companies, and material items are regularly reviewed by their boards of directors. For more details on the management of risks related to human rights, please refer to the section titled "Sustainability Management".

Digitalisation of business, development of IT and protection of personal data

With digitalisation of businesses (implementation of modern IT solutions and systems) and comprehensive penetration of the Internet, the risks related to cybersecurity and personal data protection are becoming a major threat to the business of Sistema Group companies. Inability to prevent cyberattacks and unsanctioned access to their networks and databases may cause leaks of personal data and confidential and other sensitive information, damage to the assets of the Group's portfolio companies, disruption in production processes, network security breaches, costs related to the restoration of IT systems and equipment, which may have a material adverse effect on the business of Sistema Group.

The risks related to personal data protection are most significant in the telecom, online services, telemedicine, financial and e-commerce sectors. Sistema Group companies implement programmes, projects and measures that contribute to reducing the likelihood and possible negative consequences of industry-specific risks.

Competition

All business segments where Sistema operates are exposed to competition from other companies. Telecom, retail, media, tourism, private healthcare, pharma, property development, forestry and agricultural markets in Russia and abroad are highly competitive. Inability of the Group companies to compete efficiently may have a material adverse effect on the business, performance, financial situation and development prospects of the Corporation.

Brand quality and reputation

Developing and maintaining brand awareness for the Group companies is crucial to shaping the public opinion about their existing and future products and services. Sistema believes that the importance of a corporate brand is growing steadily in highly competitive markets. Successful development and improvement of brand awareness depends largely on the efficiency of marketing and ability to provide quality products and services at competitive prices. The effort and funds invested in brand development may prove greater than the incomes they yield, which may lead to potential financial losses for the Group companies.

Sistema's reputation may suffer in the event of unethical business practices, professional errors (including medical errors), negligence, failure to observe human rights, dissemination of insider information, and corruption offences committed at the Corporation or its portfolio companies.

3.8. CORPORATE GOVERNANCE SYSTEM

Corporate governance principles

As an investment company, Sistema believes that superior corporate governance and information transparency are important elements of its strategy. Sistema seeks to meet the best international standards of corporate governance and transparency and improves its corporate governance practices on an ongoing basis through the timely implementation of necessary changes and high efficiency of managerial decision-making.

Sistema's corporate governance principles
• Clear and effective procedures for making investment decisions;
• Reasonable transparency of governance processes for investors and partners;
• A dividend policy that takes due account of both reasonable expectations of investors and Sistema's financial resources;
• A professional Board of Directors that is actively involved in strategic planning, and oversight of business processes;
• Particular focus of the Board of Directors on related-party transactions and potential conflicts of interest.

The Corporation builds a stronger foundation for its investment case by applying these principles to all of its activities, including strategic and financial management, HR and social policy, preparation of financial statements, control and audit, and risk management.

In its corporate governance practices Sistema takes guidance from legal requirements, the Listing Rules of Moscow Exchange, and the recommendations of the Russian Corporate Governance Code¹²². The Corporation also takes into account the UK Corporate Governance Code¹²³. The Corporation's Charter and internal regulations define its corporate governance principles and procedures, as well as the composition, procedures and powers of its governance and control bodies in accordance with Russian laws and best international practices. The Corporate Governance Code and Ethics Code of Sistema set out additional commitments of the Corporation, its top management and employees in terms of social responsibility, transparency, and ethical business principles.

Sistema's Charter provides for the following corporate governance bodies:

- General Meeting of shareholders;
- Board of Directors;
- President;
- Management Board.

General Meeting of shareholders

The General Meeting of shareholders is the supreme governing body of the Corporation. The activities and powers of the General Meeting of shareholders are governed by Russian laws, Sistema's Charter and the Terms of Reference of the General Meeting of shareholders. The Corporation seeks to create the most favourable environment for shareholders who wish to participate in the General Meeting.

Observance of shareholders' rights

Proposing agenda items for the General Meeting of shareholders and nominating candidates to the Corporation's governance bodies

Shareholders who own at least 2% of the Corporation's voting shares may propose items for the agenda of the General Meeting of shareholders (AGM) and nominate candidates to the Corporation's governance and control bodies. Such proposals must be submitted to the Corporation no later than 100 days after the end of the reporting year, in accordance with the Terms of Reference of the General Meeting of shareholders and other internal regulations of the Corporation¹²⁴. The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors conducts a preliminary review of candidates nominated by shareholders to the governance and control bodies of the Corporation.

¹²² The text of the Corporate Governance Code recommended by the letter of the Bank of Russia No 06-52/2463 dated 10 April 2014 is available at: <https://www.oecd.org/daf/ca/RussianCodeofCorporateGovernance2014English.pdf>

¹²³ The text of the UK Corporate Governance Code is available at: <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

¹²⁴ If an extraordinary General Meeting of shareholders is conducted and its agenda includes the election of the Board of Directors, shareholders who own a sufficient number of shares also may nominate candidates to the Board of Directors. Such proposals must be submitted in writing to the Corporation no later than 30 days prior to such General Meeting.

Participation in General Meetings of shareholders and voting on agenda items

Sistema seeks to safeguard the right of shareholders to take part in the governance of the Corporation by participating in the General Meetings of shareholders and voting on agenda items, as well as the right to receive dividends.

In order to ensure that shareholders can exercise their right to take part in the General Meeting, the Corporation makes extensive use of electronic communications. All materials pertaining to the General Meeting's agenda items are published on the Corporation's website in Russian and in English (www.sistema.ru / www.sistema.com) at least 30 days before the date of the meeting and are then electronically transmitted to nominee shareholders¹²⁵.

Sistema's shareholders may use the e-voting system available on the website of the Corporation's registrar, JSC Reestr. To use this service, shareholders should contact the office of JSC Reestr for access to their personal shareholder accounts on the registrar's website. If a shareholder has a personal account on the Russian e-government portal, they may obtain access to the service without making an appearance at the registrar's office in person. More detailed information on signing up for the e-voting service is available on the website of the Corporation's registrar <http://www.aoreestr.ru/shareholders/e-voting>.

Each shareholder may also vote on agenda items either in person or by proxy (if the General Meeting is held as an in-person meeting of shareholders). Shareholders whose shares are recorded in the registry may fill out ballot papers and send them to Sistema by mail ahead of the General Meeting.

Holders of Sistema's global depositary receipts (GDRs) may vote on General Meeting agenda items by proxy through the depositary bank servicing Sistema's GDR programme (Citibank, N.A. in 2019). For more information on the depositary bank and voting procedures, please visit the bank's website www.citiadr.idmanagedsolutions.com. Votes of the GDR holders whose details are disclosed to the depositary are collected by the depositary bank via clearing systems and are included in the general ballot specifying all GDR holders' votes cast for and against each proposed draft resolution, as well as abstentions.

The results of voting on agenda items of a General Meeting of shareholders held in person are announced before the close of the meeting. After the minutes of the meeting are drawn up, shareholders may also view the voting results on the Corporation's website.

Dividend policy

The Corporation announces the amount of dividends recommended by the Board of Directors and the record date in advance, which enables shareholders to make informed decisions with respect to their shares.

In determining the recommended amount of dividends for 2018, the Board of Directors took due account of the priority of the strategic goal of reducing the Corporation's debt, and recommended that the General Meeting of shareholders approve dividends totalling RUB 1,061,500,000, or RUB 0.11 per share, thus giving its assent to a departure from the current dividend policy¹²⁶.

In determining the Company's payout, the Board of Directors considers a number of factors, including the following:

- Cash flows generated by Sistema's core publicly traded assets, which primarily support the Corporate Centre and are earmarked for future investments;
- Prospects for growth and development of non-public assets, the cash flows and monetisations from which could be allocated towards dividends or a shareholder return; and
- Indebtedness and other obligations at the Corporate Centre.

In assessing any payout, the Board also considers the state of financial markets, macroeconomic considerations both within Russia and in key operating markets.

Information on General Meetings of shareholders held in 2019

Annual General Meetings of shareholders

Date and venue	29 June 2019, 3 Tverskaya St., the Ritz-Carlton Hotel
Form of the meeting	Meeting (in-person)
Items reviewed and decisions taken	<ul style="list-style-type: none">▪ Annual report and financial statements for 2018 were approved;▪ Dividends for 2018 of 1,061,500,000, or RUB 0.11 per ordinary share (RUB 2.2 per GDR), were approved.

¹²⁵ The notice of the General Meeting of shareholders and ballots are also sent by mail to shareholders whose rights to the shares of the Corporation are recorded in the shareholder register.

¹²⁶ The current version of the Dividend Policy was adopted in April 2017.

	<ul style="list-style-type: none"> ▪ The Board of Directors was elected; ▪ Auditors were appointed for RAS and IFRS audits for 2019. ▪ The revised Charter and internal regulations of Sistema PJSFC governing the activity of Sistema's governance bodies, as well as the regulation governing the remuneration and compensations of the Board of Directors, were approved.
Attended	Shareholders holding a combined 76.3% of votes
Date and reference number of the minutes	03 July 2019, No 1-19

Board of Directors

The Board of Directors is a collective governance body in charge of the oversight and strategic management of the Corporation.

Under Sistema's Charter, the responsibilities of the Board of Directors include:

- Supervising the operations of the Corporation in general;
- Formulating strategic and financial development plans;
- Determining investment principles and criteria;
- Assessing management's performance;
- Defining corporate governance principles;
- Approving transactions and strategic projects in accordance with applicable laws and the Corporation's internal regulations.

The composition of the Board

The Board of Directors effective as of 31 December 2019 was elected at the AGM held on 29 June 2019. Independent directors account for 45% of the Board of Directors.

<i>Composition of the Board of Directors of Sistema PJSFC as of 31 December 2019 (re-elected on 29 June 2019)</i>	
1.	Vladimir Evtushenkov (<i>Board Chairman</i>) ¹²⁷
2.	Anna Belova ^{128 129} (<i>Deputy Chair of the Board from 29 June 2019</i>)
3.	Sergey Boev
4.	Andrey Dubovskov ¹³⁰
5.	Felix Evtushenkov (<i>Deputy Chair of the Board before 29 June 2019</i>)
6.	Ron Sommer
7.	Robert Kocharyan ¹³¹
8.	Jeannot Krecké ¹³²
9.	Roger Munnings ¹³³
10.	Mikhail Shamolin
11.	David Iakobachvili ¹³⁴

¹²⁷ Chairman and Deputy Chair of the Board of Directors were elected at the first Board meeting on 29 June 2019.

¹²⁸ A. Belova was elected to the Board of Directors based on a proposal of minority shareholders.

¹²⁹ Independent Director.

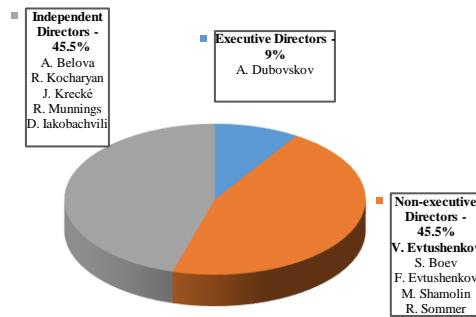
¹³⁰ After the end of the reporting period, at the Board meeting on 18 April 2020, A. Dubovskov was also elected Deputy Chairman of the Board of Directors.

¹³¹ Independent Director. In line with Moscow Exchange listing rules, R. Kocharyan was recognised as independent by Sistema. Information pertaining to the decision is available on Sistema's website.

¹³² Independent Director. In line with Moscow Exchange listing rules, J. Krecké was recognised as independent by Sistema. Information pertaining to the decision is available on Sistema's website.

¹³³ Independent Director. In line with Moscow Exchange listing rules, R. Munnings was recognised as independent by Sistema. Information pertaining to the decision is available on Sistema's website.

¹³⁴ Independent Director. In line with Moscow Exchange listing rules, D. Iakobachvili was recognised as independent by Sistema. Information pertaining to the decision is available on Sistema's website.



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The Board of Directors consists of 11 members.

Meetings of the Board of Directors

Sistema's Board meetings are held on a regular basis in accordance with the approved annual work plan of the Board of Directors, which is devised based on Sistema's strategic planning and reporting cycle.

In 2019, the Board of Directors held 13 meetings: 8 in-person meetings held under the work plan and 5 ad hoc meetings with voting by ballot. The Board of Directors reviewed a total of 74 agenda items in 2019.

	2019	2018
Number of in-person meetings	8	8
Number of meetings with voting by ballot	5	4
Number of items in accordance with the Board's work plan	37	48
Actual number of items reviewed by the Board	74	74

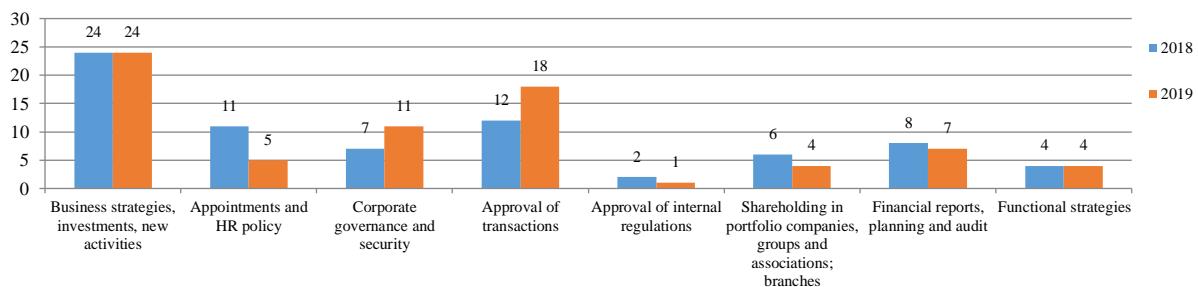
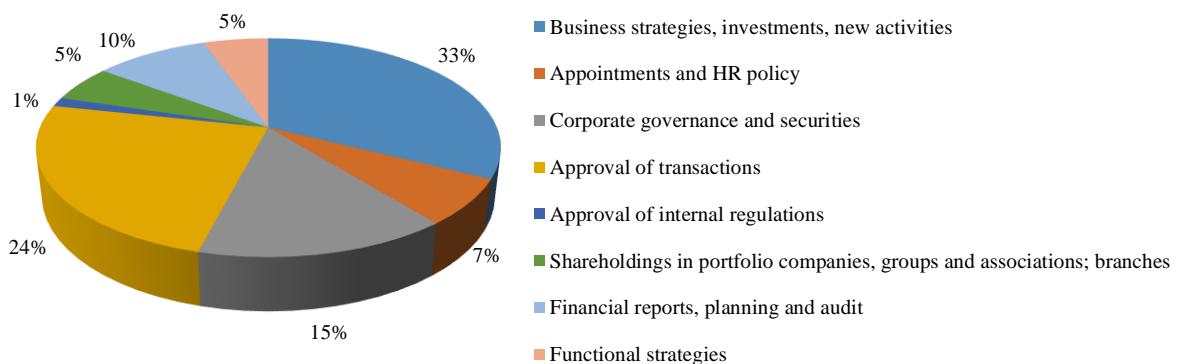
Over the reporting period the Board of Directors considered the following key items:

- 1) Sistema's development strategy.
- 2) Sistema Group's strategic planning cycle.
- 3) Investment policy, strategy of Sistema's investment funds and priority areas for investment in 2019-2020.
- 4) Managing and creating value for Sistema's investments in the following areas:
 - Telecom assets;
 - Consumer (retail) assets, including e-commerce assets;
 - Agricultural assets;
 - Timber processing and pulp and paper assets;
 - Banking assets;
 - Assets in financial services and investment management in capital markets;
 - High-tech assets;
 - Real estate assets;
 - Healthcare assets;
 - Hotel assets.
- 5) Sistema's results and performance against budget.
- 6) Budget planning, approval of the consolidated budget of Sistema PJSC and management's KPIs for 2019-2020.
- 7) Risk management.
- 8) Report of the Internal Control and Audit Department.
- 9) HR matters and employee incentive systems.
- 10) Assessment of corporate governance including the results of assessment of the Board of Directors and Committees of the Board of Directors of Sistema PJSC.
- 11) Corporate social responsibility.
- 12) Mandatory corporate procedures, including calling the General Meeting and developing the work plan of the Board of Directors.
- 13) Composition of Board Committees and determining the status of Board members.

¹³⁵ After the end of the reporting period, on 19 April 2020, A. Dubovskov became a non-executive director due to termination of his powers as President of the Corporation.

14) Approval of internal regulations.
 15) Approval of transactions, including acquisition of equity stakes.

Topics reviewed by the Board in 2019



Most of the items considered by the Board of Directors in 2019 covered the Corporation's business strategy, management of its investments in various industries, HR policy, approval of transactions (including shareholdings in companies) and corporate governance.

Preparation for meetings and quorum of the Board of Directors

Preparation procedures for Board meetings are designed to ensure the best use of the experience and expertise of Board members. Materials for the agenda items are published on the Board's electronic portal at least 10 days prior to the meeting, which provides the directors with sufficient time to form an informed opinion on all agenda items. Most agenda items (including the approval of transactions) undergo mandatory preliminary review at meetings of the Board's Committees.

The Corporation practices in-depth analysis and advance review of key items of the agenda by independent directors involving thorough discussions between Board members and management. This serves to increase the involvement of the Board members in the development of the Corporation's strategy.

Meetings of Sistema's Board of Directors usually have a high attendance rate: the average quorum of meetings in 2019 was 94.4%.

*Participation of Board members
in meetings of the Board of Directors and its Committees in 2019¹³⁶*

Board of Directors	Strategy Committee	Audit, Finance and Risk Committee	Remuneration and Corporate Governance Committee	Ethics and Control Committee	Investor Relations and Dividend Policy Committee
Attendance					
V. Evtushenkov	13/13	7/7			

¹³⁶ The first number shows the number of meetings attended by the Board member, the second number is the total number of meetings.

A. Belova	13/13	2/3	12/13	4/4	8/8	9/9
S. Boev	13/13	4/7		4/4	8/8	
A. Dubovskov	13/13	5/7				
F. Evtushenkov	13/13	7/7			3/4	
R. Sommer	13/13	2/7	13/13	8/8		
R. Kocharyan	7/13	0/7	2/6	0/8	0/4	
J. Krecké	12/13		12/13		4/4	9/9
R. Munnings	13/13		13/13	8/8	8/8	8/9
M. Shamolin	12/13	0/4				
D. Iakobachvili	13/13	5/7	7/7	8/8		9/9

Assessment of the work of the Board of Directors and its Committees

Assessment of the Board of Directors' performance is an important tool that helps identify areas where the work of the Board of Directors may be improved. Sistema continues the practice of annual comprehensive assessments of the work of the Board of Directors and all its Committees.

In 2019, the assessment was carried out in the form of a survey of members of the Board covering the following areas:

Areas of assessment	Main focus areas	Score in 2018	Score in 2019
Membership and structure of the Board of Directors	Number of Board members	4.56	4.57
	Balance of knowledge, skills and industry experience of Board members	4.33	4.13
Organisation of the Board's work	Content of the Board's agendas	4.33	4.25
	Quality and timely provision of materials	4.33	4.38
	Quality of discussions	4.11	4.33
Functional areas of the Board's work	Strategic management	4.21	4.30
	Finance and internal control	4.40	4.20
	HR policy and corporate governance	4.25	4.20

As a result of the analysis of the Board's performance the total score on a 5-point scale was 4.33, i.e., on the same level as in 2018. A heavier involvement of directors in succession planning for key management and in the nomination of candidates to the boards of portfolio companies was indicated as an area for improvement.

Committees of the Board of Directors

Sistema has five Committees of the Board of Directors:

- Strategy Committee;
- Audit, Finance and Risk Committee;
- Nomination, Remuneration and Corporate Governance Committee;
- Ethics and Control Committee;
- Investor Relations and Dividend Policy Committee.

The main purpose of the Committees is to assist the Board in the reviewing and making decisions in specific functional areas, as well as to ensure prior in-depth scrutiny of matters submitted to the Board's.

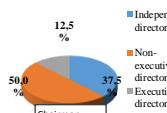
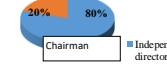
The status, procedures for nominating members, responsibilities and decision-making procedures of the Board's Committees are provided by the Terms of Reference of each Committee as approved by the Board of Directors and published on the Corporation's website in the Corporate Documents section <http://www.sistema.ru/okompanii/korporativnoe-upravlenie/korporativnye-dokumenty/>.

Functions of the Board committees

Name of the Committee	Functions of the Committee
Strategy Committee	<ul style="list-style-type: none"> ▪ Analysis of strategic management issues of Sistema Group; ▪ Review of strategy planning methods; ▪ Review of M&A transactions with a value exceeding USD 100mln;

	<ul style="list-style-type: none"> Review of Sistema Group's investment projects involving entry into new geographic regions or industries and projects with significant state participation.
Audit, Finance and Risk Committee	<ul style="list-style-type: none"> Facilitation and supervision of financial statements preparation and audits; Assessment of the quality of audit services and provision of preliminary recommendations to the Board of Directors with respect to the selection of RAS and IFRS auditors; Assessment of the risk management and compliance in financial reporting, audit and planning; Provisional evaluation of transactions submitted to the Board of Directors. Budgeting and financial planning.
Nomination, Remuneration and Corporate Governance Committee	<ul style="list-style-type: none"> Facilitation of the development of an efficient corporate governance system meeting international standards; Preliminary review of nominees: <ul style="list-style-type: none"> a. to the Board of Directors of Sistema; b. to the boards of directors of portfolio companies; c. to senior management positions across Sistema Group; d. to the position of the Corporation's Company Secretary; Development of the Corporation's incentive and remuneration policies; Coordination of the assessment of Board performance.
Ethics and Control Committee	<ul style="list-style-type: none"> Facilitation of an efficient system of economic and corporate security; Oversight of the Ethics Code compliance; Maintenance of a system for preventing corruption, fraud, and other misconduct at Sistema Group companies.
Investor Relations and Dividend Policy Committee	<ul style="list-style-type: none"> Strengthening of the Corporation's investment case; Maintenance of effective relations with the financial community; Development of Sistema's dividend policy, including recommendations for the Corporation's Board of Directors with respect to the amount of payable dividends; Protection of the rights and interests of Sistema's shareholders.

The structure of Sistema's Board Committees as of 31 December 2019

	The Strategy Committee	The Audit, Finance and Risk Committee	The Nomination, Remuneration and Corporate Governance Committee ¹³⁷	The Ethics and Control Committee	The Investor Relations and Dividend Policy Committee
V. Evtushenkov	Chairman				
A. Belova		Acting Chair			Chairman
S. Boev					
A. Dubovskov					
F. Evtushenkov					
R. Sommer					
R. Kocharyan			Chairman		
J. Krecké				Chairman	
R. Munnings		Chairman			
M. Shamolin					
D. Iakobachvili					
Members of the Committee	 Independent director Non-executive director Executive director Chairman	 Independent director Non-executive director Chairman	 Independent director Non-executive director Chairman	 Independent director Chairwoman	

¹³⁷ The President of Sistema attends Committee meetings in the capacity of a permanent invitee and does not vote on the matters submitted to the Committee.

R. Munnings and J. Krecké, both members of the Audit, Finance and Risk Committee, are experts in finance and audit with extensive experience in this area.

Matters considered by the Board Committees

Committee	Number of meetings in 2019	Areas covered by agenda items
Strategy Committee	7	<ul style="list-style-type: none"> • Value creation by the Corporation's investments in various industries; • Investment projects; • Strategic management and planning system.
Audit, Finance and Risk Committee	13	<ul style="list-style-type: none"> • Assessment of the quality of audit services, results of the tender for audit services, recommendations for the Board of Directors on selecting an external auditor; • Review and approval of the Corporation's financial reports, the annual budget and report on performance against the Corporation's budget; • Review of management's reports on risk management at Sistema, risk maps and mitigation plans; • Preliminary review and evaluation of transactions to be submitted to the Board of Directors; • Development of the internal audit function.
Nomination, Remuneration and Corporate Governance Committee	8	<ul style="list-style-type: none"> • Development of corporate governance at Sistema Group, including various scenarios for the transformation of the Corporate Centre; • Incentive system and its key parameters, performance assessment and bonuses for the key managers and employees of Sistema; • HR process and prior review of candidates for top management positions at Sistema and nominees to the boards of directors of the key portfolio companies.
Ethics and Control Committee	8	<ul style="list-style-type: none"> • Performance of the Internal Control and Audit Department in 2018 and its work plan for 2020; • Results of ethics assessment of the Corporation's employees; • Compliance system at Sistema; • Fraud and corruption prevention at Sistema; • Internal control strategy for digital applications.
Investor Relations and Dividend Policy Committee	9	<ul style="list-style-type: none"> • Communications and interaction with minority shareholders; • Amount of dividends and dividend policy of the Corporation; • ESG strategy; • Market analysis and monitoring; • Sistema's investment case and its perception by the investment community.

President

The President is the permanent chief executive officer whose main tasks include managing the current operations of the Corporation and resolving any matters that are not reserved for the General Meeting of Shareholders, the Board of Directors, or the Management Board, with the aim of achieving the strategic goals set by the Board of Directors, ensuring the Corporation's profitability and safeguarding the rights and legitimate interests of its shareholders. The President reports to the Board of Directors and the General Meeting of shareholders of Sistema. The President chairs the Management Board.

As of 31 December 2019, Andrey Dubovskov was President and Chairman of the Management Board of Sistema.

Andrey Dubovskov

Born in Alma-Ata (now Almaty) in 1966.

In 1993, Andrey graduated from the Gerasimov Institute of Cinematography.

Andrey has extensive experience in telecom companies: since 1993, he has held multiple managerial positions at Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Telecommunications, CJSC

800 and other companies in Moscow, Alma-Ata, Nizhny Novgorod, Yekaterinburg, Perm and Kiev.

2002-2004 – CEO, Tele2 (Nizhny Novgorod).

In 2004, he joined OJSC MTS as head of the company's Nizhny Novgorod branch.

2006-2007 – Director of the MTS Ural Macroregion.

In 2007, Andrey became First Deputy CEO of CJSC UMS (MTS Ukraine); in 2008, he was appointed head of the MTS Ukraine business unit.

2011-2018 – President of PJSC MTS.

From March 2018 to April 2020, Andrey was President of Sistema.

Member of the Board of Directors of Sistema PJSFC and the Board of Sistema Charitable Foundation.

After the end of the reporting period, the Board of Directors approved Vladimir Chirakhov's appointment as President and Chairman of the Management Board of Sistema PJSFC, effective 20 April 2020 (for a three-year term).

Vladimir Chirakhov Born in Tbilisi in 1974.

In 1996, Vladimir graduated with honours from the Russian Federal Security Service Academy with a degree in applied mathematics and mathematical engineering. In 2000, he studied system analysis and business management at the Moscow International Higher Business School MIRBIS. In 2001, he graduated from the Russian Presidential Academy of National Economy with a degree in management. In 2013, he completed Executive MBA at the Moscow Skolkovo School of Management.

2005-2009 – Senior Category Manager and Project Manager at LLC MVideo.Management.

2009 – Commercial Director at LLC Lindeks.

2009-2012 – Commercial Director, Executive Director, CEO of LLC Korablik-R.

In March 2012, Vladimir was appointed Deputy CEO for sales at OJSC Detsky Mir, and from September 2012 until March 2020 was CEO of PJSC Detsky Mir.

On 20 April 2020, Vladimir was appointed President of Sistema by the Board of Directors.

Chairman of the Board of Directors of PJSC Detsky Mir, member of the Board of Directors of JSC Progress and LLC Internet Solutions.

In March 2020, Vladimir was awarded the Order of Friendship.

Management Board

The Management Board of Sistema determines methods for the implementation of the Corporation's development strategy, formulates development plans, defines and monitors investment processes, and reviews most matters to be subsequently submitted to the Corporation's Board of Directors.

In 2019, the Management Board held 11 meetings and reviewed 34 agenda items in the following key areas:

- 1) Sistema's development strategy.
- 2) Management strategy and structure of Sistema's investment funds.
- 3) Sistema Group's strategic planning cycle.
- 4) Development strategy, value creation and monetisation of Sistema's investments in various industries.
- 5) Corporate governance practices at the Corporation
- 6) Budget performance, budget planning and key performance indicators.
- 7) Debt and liquidity management.
- 8) Sistema's corporate social responsibility.

In April 2018, the powers of the previously elected Management Board were terminated, and the Board of Directors elected a new Management Board for a three-year term. As of 31 December 2019, the Corporation's Management Board consisted of 15 members.

Members of the Management Board of Sistema as of 31 December 2019

1. Andrey Dubovskov	<i>President, Chairman of the Management Board</i>
2. Igor Alyoshin	Vice President for Security
3. Sergey Egorov	Managing Partner
4. Artyom Zasursky	Vice President for Strategy
5. Alexey Katkov	Managing Partner
6. Svetlana Matveyeva	Vice President for HR
7. Oleg Mubarakshin	Managing Partner
8. Andrey Pilipenko	Vice President for Government Relations
9. Vsevolod Rozanov	Managing Partner
10. Artyom Sirazutdinov	Managing Partner
11. Joshua Tulgan	Vice President for External Relations
12. Vladimir Travkov	Vice President for Finance and Investments
13. Ali Uzdenov	Managing Partner
14. Sergey Shishkin	Vice President for Corporate Governance and Legal
15. Maxim Yanpolsky	Managing Partner

After the end of the reporting period, the Board of Directors approved Vladimir Chirakhov's appointment as President and Chairman of the Management Board of Sistema PJSC, effective 20 April 2020 (for a three-year term).

Changes to Sistema's Management Board in 2019

A. Guryev	20 May 2019	Powers terminated
S. Egorov	20 May 2019	Elected to the Management Board
S. Matveyeva	21 May 2019	Elected to the Management Board

Governance bodies reporting to the President and the Management Board

To improve management decision-making, Sistema has several governance bodies that report to the President and the Management Board, i.e., the Expert Council, the Finance and Investment Committee, the Risk Committee, and the Tender Committee.

These committees are permanent consultative collective bodies tasked with a detailed analysis of current operations and processes within their functional areas and with assisting the President and the Management Board in decision-making.

Expert Council

The Expert Council considers all of the Corporation's new investment ideas and projects for acquisitions of assets in new and complementary industries, as well as in industries where Sistema already has a presence. The Expert Council verifies conformity of the projects with a number of formal requirements set out in the Corporation's internal regulations, scores them, and opines on them in writing. Once approved by the Expert Council, projects are further reported to the Finance and Investment Committee.

As of 31 December 2019, the Expert Council consisted of 13 members, and the Chairman of the Expert Council was Artyom Zasursky, Vice President for Strategy.

In 2019, the Expert Council held 11 meetings.

The Finance and Investment Committee

The responsibilities of the Finance and Investment Committee include:

- Review of the Corporation's investment projects at different stages from conception to completion;
- Approval of financial models, business plans and key performance indicators of investment projects;
- Recommendations regarding the feasibility of projects, exit scenarios and sources of financing;
- Review of external financing terms.

The Committee considers the Corporation's investment projects once they are approved by the Expert Council. An approval by the Committee is required for further review of a project by the Management Board and/or Board of Directors.

As of 31 December 2019, the Committee consisted of 8 members, and the Chairman of the Committee was the Corporation's President Andrey Dubovskov.

In 2019, the Committee held 38 meetings.

Risk Committee

The Risk Committee's responsibilities include:

- Assessment of the most material risks facing the Corporation and its portfolio companies;
- Ensuring the preparation of a risk register and a generalised risk map of Sistema;
- Preparation and approval of risk assessment reviews;
- Preparation of proposals regarding the acceptable risk level (risk appetite) of Sistema;
- Coordination of risk management strategies, plans and monitoring of their implementation.

As of 31 December 2019, the Committee consisted of 12 members, and the Chairman of the Committee was Vladimir Travkov, Vice President for Finance and Investment.

The Risk Committee includes an Expert Group consisting of 10 members that reviews matters pertaining to the approval of counterparty limits (applying to banks, insurers and management companies) and guarantees (including bank guarantees) securing counterparty obligations, the preliminary approval of WACC estimates for the evaluation of investment projects of portfolio companies to be further reported to the Finance and Investment Committee, and other operational matters pertaining to risk management across Sistema Group.

The Risk Committee and the Expert Group held a total of 4 meetings in 2019.

Tender Committee

The responsibilities of the Tender Committee include:

- Ensuring the acquisition of goods and services on the best terms available;
- Minimising the costs of purchase (ownership, operation) of goods, works and services without compromising their quality;
- Ensuring the sale of Sistema's property and rights as they become irrelevant to the company's operations on the best economic terms available;
- Ensuring the transparency of procurement procedures and impartial decision-making;
- Prevention of corruption, fraud and other wrongdoing in procurement.

As of 31 December 2019, the Committee consisted of 7 members, and the Chairman of the Committee was Vladimir Travkov, Vice President for Finance and Investment.

In 2019, the Tender Committee held 32 meetings.

Risk management, internal control and internal audit systems

Risk management

Sistema's risk management system employs a two-level approach, under which the risks identified at Sistema and its portfolio companies are consolidated to assess their impact on Sistema Group as a whole.

The enterprise risk management system (ERM) used in the Corporation includes the following elements:

- Identification of risks at all levels of management (from the top to line management), which includes identifying risk owners and making risk passports;
- Primary assessment of the materiality of identified risks and their analysis (VaR method);
- Ranging risks by management levels;
- Assessment of the aggregate influence of material risks on the Corporation's key financial indicators (Monte Carlo modelling);
- Development of plans to mitigate identified risks at all management levels;
- Regular monitoring of performance against mitigation plans and assessment of their effectiveness;
- Risk monitoring, quarterly reports on risks facing the Corporation.

Sistema's risk management procedures are carried out by a dedicated risk management unit with the support of risk management professionals from the Finance and Investment Department.

The reassessment of identified and/or new risks, the effects of mitigation and response measures and the approval of limits applying to counterparties (banks, management companies and insurers) are monitored at least on a quarterly basis by a dedicated Expert Group of the Risk Committee, which includes representatives of all of the Corporation's key departments. The risk management system is monitored by Sistema's Risk Committee and Management Board.

Sistema's senior executives submit regular reports on risk management at the Corporation to the Audit, Finance and Risk Committee, which translate into further reports to the Board of Directors.

Internal control system

Sistema's internal control system is based on advanced international and Russian internal control practices, involves all material decision-making levels, and serves the interests of the Corporation's shareholders, investors and management.

The internal control system and the responsibility for the implementation of control procedures are formalised in codes, policies, procedures, and other internal regulations of the Corporation.

The Internal Control Policy was approved by the Corporation's Board of Directors and is the top-level internal regulation describing the key principles of internal control as a continuous and integrated process that involves all units and governance bodies of the Corporation.

The Corporation methodically works on the composition of a regulatory framework designed to govern all issues relating to internal control through their cascading from the level of the Board of Directors to the level of employees.

The key objectives of the internal control system are:

- Creating new and improving existing control mechanisms that will ensure efficient business processes and the implementation of the Corporation's investment projects;
- Ensuring the safety of the Corporation's assets and efficient use of its resources;
- Protecting the interests of the Corporation's shareholders, preventing and resolving conflicts of interest;
- Creating conditions for timely preparation and submission of reliable reports and other information that is legally required to be publicly disclosed;
- Ensuring the Corporation's compliance with applicable laws and requirements of regulators.

In accordance with advanced practices and approaches in internal control and audit, the efficiency of the Corporation's internal control system is ensured at three levels (in addition to the Board of Directors and the Corporation's senior management):

- Level 1: Heads of structural units and employees of the Corporation are responsible for building an efficient internal control system and assessing and managing risks within their remit.
- Level 2: Sistema's controlling bodies and Committees perform control functions, e.g.:

- The Risk Committee and the Risk Management Function are responsible for developing and monitoring the implementation of an effective risk management practice;
- The Finance and Investment Committee of the Corporation approves and monitors the implementation of investment projects;
- The Security Department is responsible, *inter alia*, for economic security, the prevention of corruption and information security.
- Level 3: The Internal Control and Audit Department conducts independent assessments of the efficiency of the internal control system, as well as risk management and the corporate governance procedures.

All of the Corporation's employees in charge of various control procedures bear responsibility for the efficiency of such controls and risk management activities as prescribed in their job descriptions and internal regulations, as well as laws of the Russian Federation and other relevant jurisdictions.

Internal audit

The body in charge of internal audit at the Corporation is the Internal Control and Audit Department, which reports to the Board of Directors (functionally) and Sistema's President (administratively). The Department is headed by Vice President for Internal Control and Audit, who is appointed and dismissed by the President based on resolutions passed by the Corporation's Board of Directors following preliminary approval by the Board's Ethics and Control Committee.

The main objectives of the Internal Control and Audit Department are:

- Helping shareholders and management improve the internal control system by performing regular audits of the efficiency of the Corporation's internal control, risk management and corporate governance systems;
- Supplying management and shareholders with objective information on existing internal and external risks, as well as their probability and consequences;
- Enhancing awareness among the Corporation's management team about the performance of Sistema's structural units;
- Monitoring the achievement of the goals of shareholders of the Corporation.

To meet these objectives, the Internal Control and Audit Department carries out the following functions:

- Performing independent audits of individual operations, processes and units;
- Assessing the effectiveness of the internal control system;
- Assessing the effectiveness of the risk management system;
- Assessing the effectiveness of the corporate governance system, preventing violations of law and the Corporation's regulations, ensuring the observance of professional and ethical standards and preparing recommendations for improving them;
- Developing recommendations to remedy deficiencies identified and monitoring the execution of remedial actions;
- Monitoring compliance with procurement procedures and other profit and expenditure transactions associated with elevated risk and materiality levels;
- Administering the Hotline.

The Internal Control and Audit Department has all the resources and powers required to perform the above functions and is an independent structural unit. In all of its operations, the Department abides by international standards applying to internal control and audit and the code of ethics.

Aiming to improve the quality, widen the scope and increase the depth of audits, the Department continuously works on a single set of methods to standardise audit and control procedures in specific fields and risk areas.

The Internal Control and Audit Department closely interacts with Sistema's external auditor. These interactions include coordination and consultations over the annual audit plan (concerning the financial reporting control effectiveness) and discussion and evaluation of detected risks.

Regular reports on the results of the Internal Control and Audit Department are reviewed by the Audit, Finance and Risk Committee and the Ethics and Control Committee of Sistema's Board of Directors. The full-year report is also submitted to the Board of Directors of Sistema for review.

In 2019, the Internal Control and Audit Department conducted 57 audits to assess the effectiveness of the Corporation's internal control, risk management and corporate governance systems. Audits performed by the Internal Control and Audit Department did not uncover any weaknesses or risks that could affect the sustainability of the Corporation's business as a whole. Specific comments pertaining to various aspects audited were communicated to stakeholders in a timely manner and followed up by recommendations on how to eliminate them.

Sistema's Internal Control & Audit Department continuously develops automation technologies in an effort to improve the effectiveness of audit procedures, specifically at planning, risk analysis and testing stages.

Resolution of conflicts of interest

Matters related to conflicts of interest are governed by the Corporation's Code of Ethics as well as the laws of applicable jurisdictions. The Corporation has an ethics assessment procedure: all top managers of the Corporation annually (or as conflicts of interests arise) fill out Ethics and Conflict of Interest Declarations. All new employees are required to complete a training course and learn the requirements of the Code of Ethics and the procedure to fill out the Declaration and are required to report relevant conflicts of interest (if any) before starting their jobs.

In 2019, the results of the ethics declaration campaign were reviewed by the Ethics and Control Committee of Sistema's Board of Directors. In most cases, declared conflicts of interest did not require any resolution measures, as they posed no risks to the Corporation's interests. However, action plans on conflict resolution were implemented with respect to several declarants in accordance with best corporate governance practices.

External audit

In compliance with the decision of the Audit, Finance and Risk Committee, the Corporation employs specific procedures to appoint the independent auditors of Sistema's financial statements. The Committee performs an annual assessment of the quality of audit services received. If the quality of services provided by the current auditor is deemed insufficient, the Audit, Finance and Risk Committee organises a tender to select a new auditor. If the quality is deemed sufficient, Sistema negotiates the price of the services with the current auditor for the following period. According to the decision of the Audit, Finance and Risk Committee, a tender for external audit services should be held at least every five years to ensure the auditor's impartiality and objectivity.

Corporate governance across Sistema Group

The quality of strategic planning and the investment case of Sistema's portfolio companies depend, *inter alia*, on the quality of corporate governance procedures. To increase the value of its investments, Sistema pays special attention to improving the quality of corporate governance at its portfolio companies.

The Corporation carries out the strategic management of its key portfolio companies through efficient work of boards of directors by including professional independent members with expertise in the companies' industries, as well as in strategy, finance, audit, and corporate governance. Independent directors account for about one-third of members of the boards of key portfolio companies (depending on the level of a company's organisational maturity).

The Corporation continuously improves the corporate governance system in order to increase efficiency and remain compliant with best practices. Improving the quality of corporate governance processes at portfolio companies and attracting competent professionals to their boards of directors is designed to increase the quality of decision-making and the shareholder value of Sistema's portfolio assets. With that in mind, the Nomination, Remuneration and Corporate Governance Committee of Sistema's Board of Directors gives priority to the selection of candidates to be nominated to the boards of directors of portfolio companies and is heavily involved in the process at each stage, from formulating the skills and expertise requirements for each key asset to making recommendations with regard to specific lists of candidates.

Boards of directors of portfolio companies and their committees ensure control and coordination and support management in decision-making in the following main functional areas, seeking to further enhance the quality of management of portfolio companies:

- Strategy and key transactions;
- Budget planning;
- HR policy and incentive system;
- Internal audit.

Committees of the boards of directors of portfolio companies play a pivotal role in the collective review of function-specific matters to be reported to the Board of Directors.

The Corporation also seeks to facilitate the adoption of best compliance practices (such as anticorruption and exchange compliance, data protection, AML) across Sistema Group, acting through its representatives on the boards and special committees of portfolio companies.

Development of the corporate governance system in 2019

Independent directors on the Corporation's Board of Directors

In 2019, 11 members were elected to the Corporation's Board of Directors, 5 of whom qualify as independent directors or are recognised as independent under the Listing Rules of Moscow Exchange and the Russian Corporate Governance Code.

The current Board comprises the following independent directors:

- Anna Belova;
- Robert Kocharyan;
- Jeannot Krecké;
- Roger Munnings;
- David Iakobachvili.

All of the Corporation's independent directors have significant experience in managing large organisations and possess strong professional reputation, which ensures due objectivity of their judgements and freedom from the influence of the Corporation's management and particular shareholders when making decisions.

Independent directors are directly involved in discussing and formulating the strategy of the Corporation. For this purpose, working groups headed by independent members of the Board and including representatives of the Strategy Department and the Finance and Investment Department are established to formulate substantiated positions of the Board of Directors on strategic issues related to the development of the Corporation.

Independent director Anna Belova was nominated to the Board of Directors by a group of minority shareholders. At the first meeting of Sistema's Board of Directors held after the Annual General Meeting of shareholders, Anna Belova was elected Deputy Chair of the Corporation's Board of Directors. In this position, she, *inter alia*, coordinates the activities of independent members of the Board of Directors and interacts with the Chairman of the Board of Directors, acting as the senior independent director. Anna Belova has extensive experience as a board member of large Russian companies and has been a member of Sistema's Board of Directors since 2017.

Selection of candidates to the boards of directors of assets

In 2019, the Corporation introduced the practice of holding working meetings of the Nomination, Remuneration and Corporate Governance Committee with executives responsible for the Corporation's investments in a particular asset as part of the cycle of nominating candidates for election to the boards of directors of portfolio companies. Such meetings involve the Deputy Chairman of the Board of Directors and other independent directors. Their purpose is the discussion and identification of specific needs of assets as regards director expertise. After such discussions, independent directors give recommended director skill profiles to the management responsible for a particular asset. The Committee then proceeds to consider lists of board nominees in light of such skill profiles and may suggest adjustments thereto as necessary.

Changes to the Corporation's Charter and internal regulations

In June 2019, the General Meeting of shareholders of Sistema PJSFC approved the new versions of the Charter of Sistema PJSFC, the Terms of Reference of the General Meeting of shareholders of Sistema PJSFC, the Terms of Reference of the Board of Directors of Sistema PJSFC and the Terms of Reference of the Management Board of Sistema PJSFC.

The amendments to the Charter and internal regulations of the Corporation were necessitated by the need to update the scope of authority of Sistema's governance bodies in accordance with applicable laws. In particular, they set forth the authority of the Board of Directors in the area of internal control and audit as established by law. Considering that the Board of Directors has a broad scope of authority in internal control and audit and that the functions of the Audit Review Commission duplicated those of the Board's Audit, Finance and Risk Committee, provisions on the Audit Review Commission were removed from the Company's Charter and internal regulations in accordance with Federal Law "On Joint-Stock Companies".

The Charter and other internal regulations were also updated to remove certain obsolete rules pertaining to the standard procedures of preparation, convocation, and conduct of the General Meeting of Sistema's shareholders and to ensure proper alignment with legal rules governing shareholder rights and obligations,

Remuneration system for members of the Board of Directors

In June 2019, the General Meeting of shareholders approved a new version of the Policy on Remuneration and Compensations Payable to Members of the Board of Directors of Sistema PJSC.

The changes made to the remuneration system affected the directors' supplementary remuneration for payable in the form of shares of the Corporation. Under the new system, members of the Board of Directors receive supplementary remuneration if the weighted average price of an ordinary share of Sistema on Moscow Exchange at the end of the reporting year exceeds the weighted average price at the beginning of the same reporting year, but in any case is greater than RUB 9.71. The amount of supplementary remuneration is now proportionate to the increase in the Corporation's market capitalisation in the relevant reporting year, with the maximum amount of the supplementary remuneration remaining unchanged.

Plans for the development of corporate governance

Each year, the Nomination, Remuneration and Corporate Governance Committee of Sistema's Board of Directors annually develops and approves the Corporation's action plan for improving corporate governance in the next year. The plan for 2020 envisages the following actions:

- 1) Improving the corporate governance system in Sistema Group, including the procedure for selecting nominees to the boards of directors of portfolio companies in accordance with the skill profiles made for particular assets (throughout 2020);
- 2) Updating the management incentive system by taking into account personal contributions to an increase of Sistema's market capitalisation (throughout 2020);
- 3) Improving the procedure for making investment decisions for a better management of the growth of shareholder returns (throughout 2020);
- 4) Adjusting the system for managing the Corporation's funds based on the corporate venture fund model (throughout 2020).

3.9. REMUNERATION POLICY APPLIED TO BOARD MEMBERS AND SENIOR MANAGEMENT

Board remuneration policy

Remuneration for the work of members of the Board of Directors is calculated and paid in accordance with the Policy on Remuneration and Compensations Payable to Members of the Board of Directors of Sistema PJSFC (hereinafter, "the Policy") approved by the General Meeting of shareholders.

Basic remuneration of members of the Board of Directors

In 2019, basic remuneration of members of the Board of Directors amounted to RUB 13.7mln or RUB 17.8mln per year depending on whether a director is a tax resident of Russia. Basic remuneration was paid to Board members in cash in equal quarterly instalments.

Supplementary remuneration of members of the Board of Directors

In 2019, the General Meeting of shareholders approved amendments to the Policy¹³⁸ which provide for supplementary remuneration in the form of ordinary shares to members of the Board of Directors on the condition that an increase in capitalisation is recorded in the reporting year¹³⁹. The amount of supplementary remuneration is variable and is equal to a share¹⁴⁰ of the increase in capitalisation achieved in the relevant financial year.

The amount of additional remuneration is, in any case, limited by the amount of basic remuneration (no more than RUB 17.8mln a year).

Remuneration for performance of additional duties

Board members who perform additional duties, i.e., Chair of the Board, Deputy Chair of the Board and Chairs of Board Committees, receive remuneration on a quarterly basis in the amount stipulated by the Policy.

Reimbursement of expenses and other conditions

Members of the Board of Directors are reimbursed for their expenses incurred during performance of their duties, including participation in meetings of the Board of Directors and Board Committees.

Sistema PJSFC insures the liability of members of the Board of Directors.

Sistema PJSFC does not provide loans to members of the Board of Directors.

Senior management remuneration policy

The incentive scheme for senior executives of Sistema PJSFC in 2019 consisted of:

- A fixed monthly salary determined in line with the internal system of grades;
- Bonuses paid for implementation of projects, generation of cash income, achievement of KPIs and objectives. Remuneration is paid based on employees' individual performance and positive cash flow generated by projects implemented by the teams of Managing Partners and Departments of Sistema. Payments may amount to (a) up to 20% of cash income for project implementation, (b) certain percentage of annual income for achievement of KPIs.

For the purpose of calculating bonuses, cash income means:

- An increase in the value of an asset (in the event of asset sale or IPO) net of (i) hurdle rate determined by the Finance and Investment Committee chaired by the President of the Corporation prior to the start of a project or the acquisition of an asset, (ii) investments made in such an asset and project costs;
- Percentage of the project team's annual income.

Co-investment programme

In 2016, the Board of Directors approved a programme enabling Sistema's senior managers to co-invest in the Corporation and/or its portfolio companies (the "Co-Investment Programme"). The Co-Investment Programme is

¹³⁸ In accordance with the Policy on Remuneration and Compensations Payable to Members of the Board of Directors of Sistema PJSFC effective until 28 June 2019, additional remuneration of members of the Board of Directors was paid once a year in the form of ordinary shares of Sistema PJSFC subject to achievement of the Corporation's investment targets in the reporting year: (i) the arithmetic mean of TSR and iTSR exceeds or equals CoE, or (ii) TSR exceeds or equals the amount of change of the MSCI index (Δ MSCI), provided that iTSR exceeds or equals CoE.

¹³⁹ For an increase in capitalisation to be recorded for the purposes of the Policy, the weighted average price of one ordinary share of Sistema on Moscow Exchange at the end of the reporting year (for 60 preceding trading days) must exceed the weighted average price of one share at the beginning of the reporting year (for 60 preceding trading days).

¹⁴⁰ 0.1% or 0.125% (depending on tax residency) of the increase in capitalisation for the financial year.

designed to align the interests of the Corporation's shareholders and senior executives in terms of long-term management and development of portfolio companies by granting rights to acquire participation interests in the Corporation's privately held portfolio companies with growth prospects.

The Co-Investment Programme is designed for the President, heads of departments or business units, as well as employees of the Corporation who hold positions no lower than Executive Director or Senior/Chief Investment Director.

Participants of the Co-investment Programme use their own funds to acquire:

- Shares/interests in Sistema's portfolio companies and/or
- Ordinary shares in Sistema PJSC.

The amount of co-investment is limited by one average annual income of a participant.

Other terms and conditions

No extra compensation above the level stipulated by Russian employment laws is paid to the President or other senior executives in case of termination of employment.

Sistema does not pay remuneration to executive management for serving on the Management Board.

The Corporation does not provide loans to senior executives.

Remuneration paid to Sistema's Board members and senior management in 2019¹⁴¹

Members of Sistema's Board of Directors received the following remuneration in 2019:

	2019	2018
Remuneration for work on the Board of Directors	RUB 191,720,000	RUB 192,757,500
Fixed salary ¹⁴²	RUB 106,523,000	RUB 102,889,800
Bonuses ¹⁴³	RUB 631,513,400	RUB 130,000,000
Remuneration for work on Board Committees	RUB 6,750,000	RUB 6,850,000
Reimbursement of expenses incurred by Board members in connection with their duties	RUB 4,917,600¹⁴⁴	RUB 1,191,000 ¹⁴⁵

Members of Sistema's Management Board¹⁴⁶ received the following remuneration in 2019:

	2019	2018
Fixed salary	RUB 507,160,500	RUB 416,016,300
Bonuses ¹⁴⁷	RUB 2,933,809,000¹⁴⁸	RUB 1,289,507,500 ¹⁴⁹
Other types of remuneration	RUB 946,700	RUB 424,100

¹⁴¹ All figures in this section are stated before applicable income tax.

¹⁴² Members of the Board of Directors who were also Sistema employees in 2019, with the exception of the President.

¹⁴³ Members of the Board of Directors who were also Sistema employees in 2019, with the exception of the President. Bonuses for 2019 were paid to Sistema employees in Q1 2020.

¹⁴⁴ Including reimbursement of travel and accommodation expenses related to participation of members in the meetings of the Board of Directors in 2019.

¹⁴⁵ In addition, Sistema reimbursed RUB 3,652,400 of travel and accommodation expenses related to participation of members in the meetings of the Board of Directors in 2018.

¹⁴⁶ Including the President of Sistema.

¹⁴⁷ Bonuses for 2019 were paid to Sistema employees in Q1 2020.

¹⁴⁸ In Q1 2020, some members of the Management Board used a part of their cash bonuses for 2019 to acquire about 12 million ordinary shares of the Corporation, which is consistent with Sistema's strategy for increasing the participation of its employees in the company's equity.

¹⁴⁹ In Q1 2019, members of the Management Board used a part of their cash bonuses for 2018 to acquire about 19.7 million ordinary shares of the Corporation.

3.10. SUSTAINABILITY MANAGEMENT

Approach to sustainability management and responsible investment

Sistema aims to build a competitive and sustainable business that meets the principles of social and environmental responsibility and ensures the creation of value for shareholders and a wide range of stakeholders in the long term.

In 2019, Sistema initiated a broad-scale update of its sustainability and responsible investment management system. Based on the analysis of the current situation, a roadmap was developed to streamline the relevant activities in the Group and bring them into compliance with best practices and investor expectations. Measures planned include updating the Corporate Governance Code, developing a Sustainability Policy and a Human Rights Policy, defining strategic sustainability areas, and improving approaches to disclosure of non-financial information.

Sistema's investment process is regulated by internal documents and procedures. Potential investment projects and investment programmes of portfolio companies are subject to detailed review as part of Sistema's multi-stage investment process. In addition to financial analysis and industry analysis that underlie decision-making for each project, such components as management quality, staffing, state of production base, infrastructure and technology, related social obligations and environmental risks are also considered for specific projects.

Investment in prospective projects and development of current portfolio assets include defining a development strategy, increasing operational efficiency, developing corporate governance and sustainability management systems, managing ESG risks and developing the corporate culture to ensure opportunities for the investment portfolio's sustainable development.

ESG risk management is part of the corporate risk management system. To learn more about ESG risks, please refer to section "Risk management".

Sistema implements its investment and social programmes on the basis of diverse expertise and mutually beneficial cross-sector partnerships with government bodies, scientific and educational institutions, and public and non-profit organisations that the Corporation and its portfolio companies cooperate with.

Transparency and ongoing dialogue with stakeholders are the basic principles of Sistema's activities as a public company. Sistema prepares public non-financial reporting in accordance with recognised international standards and facilitates disclosure of significant non-financial information by its key portfolio companies and funds.

Participation in sustainability initiatives

Sistema is a signatory to the UN Global Compact promoting shared values and responsible business practices, and to the Social Charter of the Russian Business, a set of fundamental principles of responsible business practices adopted by the Russian Union of Industrialists and Entrepreneurs (RSPP).

Since 2016, Sistema has been included in the **FTSE4Good Index**.

As of February 2020, Sistema received a Low risk rating (15.3) in the **ESG Sustainalytics Risk Rating** (#37 out of 578 diversified financials companies).

In 2019, the Corporation improved its position and received a rating of BB (on a scale of AAA-CCC) in the **MSCI ESG Ratings** assessment compared to B in 2018.

Based on the results of 2019, Sistema was once again included in the leading groups of the sustainable development indices of the Russian Union of Industrialists and Entrepreneurs (RSPP): **"Responsibility and Transparency" and "Sustainable Development Vector"**. The Corporation's securities (MOEX: AFKS) are included in the updated base for calculation of the corresponding indices at the Moscow Exchange.

Sistema and the Group's companies were included in the **Sustainability Ranking 100** prepared by *Expert* magazine.

The Corporation was recognised as one of the top 10 private Russian companies of the 2019 **National Corporate Transparency Ranking** based on the annual study of the Russian Regional Network on Integrated Reporting.

Corporate governance and synergies <ul style="list-style-type: none">• Business ethics• Human rights and stakeholder engagement• Risk management• Innovation management• Sustainable supply chain	Investment strategy	Accessibility and quality <ul style="list-style-type: none">• Access to products, services and information• Customer experience• Responsibility for products
		Wellbeing <ul style="list-style-type: none">• Human capital• Health and safety• Data privacy and security

		<p>Smart environment</p> <ul style="list-style-type: none"> • Smart homes, cities and industries • Operational eco-efficiency • Energy management and climate change
--	--	--

Sistema identified three key ESG areas that it is promoting through its investment activities and making efforts to have a significant positive impact within them:

- **Accessibility and quality** of products and services
- **Wellbeing** of employees, customers and local communities
- **Smart**, efficient and safe **environment**.

Innovation and digital transformation are the focus of the Corporation's strategy. Sistema consistently invests in building intellectual potential: science and education, advanced research, tech startups, innovations and digitalisation. The Corporation cooperates with innovation support institutes, creates own R&D centres, and facilitates the adoption of advanced technologies and organisational innovations in its portfolio companies.

Most of the projects implemented by the Corporation, its assets and Sistema Charitable Foundation contribute to solving socially important issues at the intersection of the key ESG areas. Examples of such projects are provided in section "Examples of key ESG efforts of portfolio companies".

Sustainability governance structure

Sistema's Board of Directors plays a key role in determining the strategic sustainability areas of the Corporation's activities and overseeing its results. Sustainability aspects essential for the Corporation are managed at both strategic and functional levels, and the key principles and approaches are communicated to the Group's companies through their boards of directors.

At the level of Sistema's Board of Directors, sustainability is supervised by the Investor Relations and Dividend Policy Committee, which preliminarily defines the Corporation's position with regards to ESG factors and considers the strategy of the corporate charitable foundation. Other Committees of the Board of Directors consider certain aspects of ESG factors (corporate governance, ethical business conduct, etc.) within their competence. Implementation of the defined position at the operational level, its communication to investors and public non-financial reporting are the responsibilities of the External Relations Department, which was strengthened in 2019 in terms of ESG expertise.

Corporate responsibility, social communications, regional policy and charitable activities are supervised by the Government Relations Department; corporate governance and compliance aspects are supervised by the corporate secretary, the Corporate Governance and Legal Department and the Internal Control and Audit Department, while the HR Department is responsible for HR policy aspects. If necessary, cross-functional working groups are created at the Corporate Centre to develop common approaches to managing the key aspects of sustainable development.

Business ethics and responsible business conduct

The Corporation believes that it must adhere to the following corporate responsibility principles when making strategic, investment and operational decisions:

- 1) **Consideration of environmental, social and governance risks and opportunities** when developing and implementing strategy, assessing investment opportunities and developing portfolio companies.
- 2) **Integrity and transparency.** The Corporation refines its management structures, policies and procedures to ensure compliance with applicable laws and good business practices. The Corporation also discloses material information about itself and its activities, including public non-financial reporting, thus enabling stakeholders to properly oversee its activities.
- 3) **Respect for human rights.** The Corporation promotes inclusivity and diversity, ensures equal opportunities, prevention of child and forced labour, protection of personal data, respect for labour and other fundamental human rights.
- 4) **Ethics, loyalty and honesty in relations with partners, counterparties, and personnel.** The Corporation develops and strictly observes its own Code of Ethics and provides comprehensive support to the development of business ethics in the companies of Sistema Group.
- 5) **Employee care.** The Corporation seeks to provide its employees with decent and safe working conditions and fair compensation. It shall develop and implement programmes designed to create conditions for enhancing qualifications and education, expand the scope of health insurance, develop sports, culture, volunteering, and charity opportunities, and promote other social activities to benefit its employees.
- 6) **Focused allocation of the Corporation's financial and intellectual resources on promoting innovation** and developing businesses in industries that can bring substantial social, economic and technological benefits to the regions and local communities in which the Corporation operates.

- 7) **Respect for the environment.** The Corporation seeks to ensure responsible resource management and environmental safety of production processes, products and services.
- 8) Investment in **socially impactful projects and programmes** through the Sistema Charitable Foundation and the charitable activities of Sistema Group companies.

Respect for human rights

The Corporation ensures, and requires all of its assets to ensure, compliance with the provisions of Russian and international human rights laws, including, but not limited to, the Constitution and the Labour Code of the Russian Federation, the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights.

As part of its operations and cooperation with suppliers, contractors, partners and other stakeholders the Corporation may have direct and indirect impact on the following aspects of human rights:

Workers' rights, including decent working conditions and remuneration, occupational health and safety, inclusivity and non-discrimination on any grounds, respect for the honour and dignity of the individuals, prevention of forced and child labour, freedom of association and collective bargaining.

Community rights, including the right to a safe environment, access to information, access to socially important infrastructure, water and cultural facilities, respect for property rights, respect for traditions and customs, and respect for the rights of indigenous peoples.

Rights of clients, patients and consumers, including accessibility, safety and quality of products and services, data privacy and security, availability of reliable information and prevention of unfair marketing practices, online safety (especially for children, elderly people and other vulnerable groups), and assistance in realisation of the rights to education and health.

The Corporation has zero tolerance for **human rights violations in the value chain** and expects its suppliers, contractors and partners to ensure the same strict compliance with laws and respect for human rights.

The risks associated with human rights are considered within the risk management systems of Sistema Group companies, and material items are regularly reviewed by their boards of directors. In addition, management systems are constantly being improved to ensure respect for human rights, including policies and procedures, compliance programmes, training and internal audits. Human rights aspects are considered when conducting due diligence as part of investment projects. The Group's companies have formalised and accessible grievance mechanisms, which ensure confidentiality, unbiased consideration, absence of negative consequences for the submitter, and feedback.

Examples of key ESG efforts of portfolio companies

Sistema and its portfolio companies significantly contribute to the shaping of a competitive labour and procurement market, including the engagement of small and medium-size businesses, the modernisation of infrastructure, industry and agriculture, the enhancement of the accessibility and safety of products and services, the development of the health and education systems and the social and environmental wellbeing of communities where they operate.

Given the diversity of industry sectors Sistema invests in, sustainability risks and value creation potential vary across the Group. Below we provide some of the most illustrative examples of the efforts of portfolio companies in 2019. The traditional synergies between assets enabled many cross-sectional projects.

	<i>Acc essi bilit y</i>	<i>Wel l- bein g</i>	<i>Sma rt envi ron men t</i>
Recognition of customer experience achievements MTS and Medsi each received the international CX WORLD AWARDS 2019 for their achievements in the field of customer experience: Medsi for "Best Customer Experience in B2C" and MTS for "Best Employee Engagement Programme" and the "Best Customer Experience Team".	D		
Responsibility for products and the development of the circular economy	D		D

<p>In 2019, Segezha Group supported the "Sustainable Wood for a Sustainable World" initiative of the Food and Agriculture Organisation of the United Nations. Segezha works towards zero-waste production by developing biofuel manufacturing, recycling sawmill residues in multi-fuel boilers and generating renewable energy both for industrial and domestic use. The company's 2019 project "Introducing Bioenergy Technologies in Forest Industry" brought it a win in the "Environment.Busines" category of the second national professional award "Change Management. Visionaries". Segezha's multi-fuel boilers fitted with state-of-the-art electrical filters purify atmospheric emissions and reduce the consumption of fuel oil by 30%. Pellets produced from waste wood became a high-added-value product of the company, with its sustainability certified in accordance with the Sustainable Biomass Programme (SBP), which assigned Segezha's biofuel with an ash content of less than 0.5% the highest quality class. The promotion of the circular economy principles becomes a key criterion to further sustainable development of the company.</p>		
<p>Telemedicine and data privacy Medsi and MTS carried on their cooperation in 2019 developing the telemedicine platform SmartMed that delivers distance medical care to patients through online video or chat communications. All patients' records, including medical charts, appointment history, prescriptions and test results, are stored with secure #CloudMTS solution and are accessible for reading on gadget screens at any time. In 2019, MTS first offered #CloudMTS personal data protection services to medical practices outside Medsi. The solution helps health providers comply with data privacy and security regulations and optimise IT costs.</p>	D	D
<p>Improved work and leisure conditions Segezha Group's ongoing investment project <i>The Cozy Workplace</i> aims to create comfortable work and leisure conditions for the company's staff, on a par with best practices of global industry leaders. The total investment in a sweeping programme of improvements, the creation of new infrastructure, the disassembly of unused facilities and the overhaul of production, cultural and sports facilities will amount to RUB1 billion. The project is scheduled to be completed in early 2020. <i>The Cozy Workplace</i> is part of a comprehensive modernisation and efficiency enhancement programme that supplements large-scale investments in the technological upgrades of Segezha Group's assets, the digitalisation and automation of business processes, the enhancement of industrial safety and the development of human capital assets.</p>		D
<p>Supporting hi-tech medical care for children In 2019 Detsky Mir embarked on a long-term cooperation with the National Medical Research Centre for Children's Health of the Russian Ministry of Health. Detsky Mir Charitable Foundation will finance the acquisition of medical products required for the surgical treatment of the patients of the National Children's Health Research Centre, including pacemakers, implants and other special devices that are not fully covered by public financing.</p>		D
<p>Safety and efficiency of production and the city infrastructure MTS has been actively developing digital services making use of the IoT, AI, cloud technology and Big Data. Employing these solutions contributes to greater safety, lower energy consumption, and less emissions of harmful substances generated by industrial plants, municipal facilities and social services. In particular, MTS already has solutions in the fields of environmental monitoring, digitalisation of waste collection and recycling, and geoanalytics projects where MTS's Big Data is used to create "digital copies" of cities and smart solutions for road traffic management. In 2019, MTS signed a number of digitalisation agreements with local governments, including that of Kalmykia, Tatarstan, Samara, Lipetsk and Orenburg regions, the Far Eastern territories and others. Mikron has come up with a new IoT solution for the handling of solid municipal waste that remotely monitors the filling level of waste bins and optimises pick-up logistics by saving trips and fuel for refuse collection vehicles. On top of that, the company's new RFID solution makes it easy to track tagged products throughout the supply chain, from start of production to delivery, and to optimise the production cycle by reducing downtime and minimising human errors, while also providing real-time control of all key processes and enhancing production efficiency.</p>		D
<p>Managing climate risks in the telecom industry</p>		D

<p>MTS joined a global GSMA-led initiative to develop a mobile industry climate action roadmap in line with the Paris Agreement aimed at combating climate change. Cooperation with the GSMA on climate issues is designed to enhance the company's efforts in the area of ensuring total transparency of environmental impact and raising public awareness about the company's initiatives aimed at increasing energy efficiency and cutting carbon emissions. In addition, in 2019 MTS for the first time completed the CDP questionnaire on climate and became one of Russia's 10 top-ranked CDP-reporting companies, with an assigned score of C ("Awareness").</p>			
<p>Smart solutions for agriculture</p> <p>In the summer of 2019, Connecterra, a portfolio company of Sistema's venture fund Sistema VC, joined the <i>Farming for Generations</i> initiative launched by an alliance of agricultural sector leaders based on the understanding that the food system has to change in order to tackle a number of environmental and health problems and that agriculture has to play a pivotal role in the establishment of sustainable food systems of tomorrow. <i>Farming for Generations</i> aims to help dairy farms study the norms of regenerative agriculture for the preservation and replenishment of the planet's resources, proper livestock management and long-term economic viability of farms for future generations. Russia will become one of the project's pilot regions, with best practices formulated based on the experience gained from the 25 pilot projects in the USA, EU and Russia to be rolled out all across the alliance's global network.</p> <p>Hi-tech cattle management solutions are also used at the dairy farm of STEPPE Agro Holding. For example, special sensors worn on cow feet provide data about each animal, including its weight, milk yield and the chemical composition of its milk. The data is then processed by special software and used to form guidance to introduce necessary changes to the environment, the cow's diet, and staff's duties. The technology translates into a significant increase in the average annual yield per cow. To put it in perspective, in 2019 the company reached a per-cow annual output of 13,500 kg, while the national average according to RosStat is just over 6,000 kg.</p>		D	
<p>Building a comfortable living environment</p> <p>Etalon's flagship apartment complex Wings is a significant step towards building a comfortable urban environment and a sustainable ecosystem provided with all necessary services. The school and kindergarten buildings incorporated in the housing estate were designed in consultations with experts in education and child psychology. In another sustainable move, Etalon teamed up with Panasonic Russia to build an urban vertical farm, a pilot innovative hi-tech solution allowing to grow vegetables and greens all year round in immediate proximity to consumers, which guarantees their freshness and nutritional value. Wings won the Environmental Assessment prize at the 2019 Urban Awards, the nation-wide initiative awarding best construction and property development projects.</p>	D	D	D
<p>Evolution of responsible business practices in agriculture</p> <p>In March of 2019, STEPPE Agro Holding joined the Association of Responsible Agricultural Market Players, a cross-sector association aiming to develop responsible transparent business practices in agriculture and related industries, drive the economic advancement of the farm produce selling market, and ensure efficient market self-regulation. The association members work hand in hand to reinforce the Agricultural Sales Charter by introducing a new policy that will counter illegal activities on the agro market.</p>		Corporate governance	
<p>Interactions with local entrepreneurs</p> <p>The online retailer Ozon launched a "last mile" delivery programme in the Urals Federal District, inviting local entrepreneurs to act as Ozon's pick-up points, install postamats, or perform courier deliveries. The marketplace curates partners so as to avoid unnecessary competition (where pick-up points are placed at a sufficient distance from one another) and offers a double service fee for each picked-up order for the first three months of cooperation. Ozon also provides new partners with an option of initial costs financing through the company's online platform and a special staff training programme.</p>		Corporate governance	

Corporate social responsibility and Sistema Charitable Foundation

For over 15 years, Sistema Charitable Foundation (SCF) has been active in the Russian nonprofit universe, steadily developing the strategic areas of the Corporation's social investments. The Foundation is the locomotive of the philanthropic efforts of Sistema and its portfolio companies, working in three main areas: *Education and Technology*, *Culture and Art* and *Social Needs and Volunteering*.

The Foundation sees its main objective in creating favourable conditions for the creation of new tech solutions and raising a new generation of professionals capable of changing the quality of society's life. Every year, the Foundation develops a social investing strategy, approves a charity programme, builds a portfolio of projects and carries them out in accordance with the approved budget. In 2019, the Foundation revisited its approach to human capital investments, along with enhancing and scaling up its best projects and practices.

The Foundation's operating principles are openness, transparency, regard for the social priorities of donor companies and for social needs, establishment of centres of excellence in each line of work, attainment of synergies between parallel projects, and close long-term relations with partners.

The total social investments of Sistema and its portfolio companies in 2019 reached some RUB 1.1 billion, about one-third of which (RUB 275 million) was invested through SCF, which accumulates the Group's funds to carry out cross-company infrastructure programmes.

In 2019, over a million people from 73 Russian regions and 30 countries of the world received healthcare and social services, access to state-of-the-art educational, cultural and outreach programmes and opportunities to unlock their potential in the hi-tech sector.

The autumn of 2019 marked the end of the nation-wide research project *Odyssey*. The project that had lasted a year and a half is a strong example of harmonious cooperation between the tech community, the state, businesses and NGOs. Over a thousand scientists, entrepreneurs, students and engineers were involved in developing technical solutions for the search and rescue of missing persons. The project yielded three solutions that are already used by Russia's leading rescue teams, both volunteer and professional.

Working in the area of *Education and Technology*, the Foundation has been actively supporting the Russian engineering education, aiming to foster creativity in a tech-intensive environment. Among other things, the effort translated into the establishment of the Vostok Centre, Russia's first hub for collective design of electronics, in cooperation with the Far Eastern Federal University. The Centre's first projects were developed as part of the Foundation's nation-wide learning programme *Microelectronics.Level 157*.

The Foundation's efforts in the field of *Culture and Art* aim to make the Russian cultural artefacts accessible to all Russian citizens. In 2019, SCF lent support to the exhibition projects of the State Russian Museum and several inclusivity initiatives. The Foundation launched and rolled out a new model of charity sociocultural festivals efficiently addressing specific social needs of local communities.

Working in the field of *Social Needs and Volunteering*, throughout 2019 the Foundation pursued programmes aiming to provide comprehensive hi-tech healthcare to war veterans, help the underprivileged and promote volunteering.

4. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

SISTEMA PJSFC AND SUBSIDIARIES

Consolidated Financial Statements for 2019
and Independent Auditor's Report

SISTEMA PJSFC AND SUBSIDIARIES

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SISTEMA PJSFC AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Sistema Public Joint Stock Financial Corporation and its subsidiaries (the "Group") as of 31 December 2019, and the results of its operations, cash flows and changes in equity for 2019, in compliance with International Financial Reporting Standards ("IFRSs").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for 2019 were approved by:

Andrey Dubovskov
President and CEO

6 April 2020


Vladimir Travkov
Vice President, Finance and
Investments (CFO)

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Sistema Public Joint Stock Financial Corporation ("Sistema") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>Diversified structure of the Group</p> <p>Sistema is a holding company that owns mainly controlling stakes in its subsidiaries, whose results are included in the consolidated financial statements. The large number of entities of the Group and diversified nature of their operations require the Group's management to design and implement group wide controls, including monitoring and control activities to ensure timely, reliable and complete financial information received from its subsidiaries.</p> <p>Audit procedures regarding the financial information of the subsidiaries included in the consolidated financial statements may be performed by us or by the auditors of those subsidiaries ("components") acting under our supervision. As the group auditor, we are fully responsible for conducting the audit and forming our audit opinion.</p> <p>We focused on this matter because the diversified structure of the Group has a significant impact on our audit approach, and the nature and extent of our involvement in component auditors' work is significant.</p>	<p>We obtained an understanding of the group-wide controls over the consolidation process and the preparation of the consolidated financial statements, including instructions of the Group's management to its subsidiaries.</p> <p>Our audit approach was developed considering the Group's diversified structure and associated risks of material misstatement of the consolidated financial statements. It included determination of necessary procedures and audit scope in relation to each component's financial information, depending on its significance for the Group and identification of risks of misstatement of their financial information. The nature and extent of our involvement in the component auditors' work was also dependent on our assessment of their professional competence in the context of allocated scope.</p> <p>To obtain reasonable assurance of fair presentation of the components' financial information, we assessed risks and determined audit procedures performed by the component auditors, and evaluated the results of the procedures. This included a critical analysis of the component auditors' documentation, discussion of significant matters with the component auditors, component or Group management and, if applicable, designing and performing additional audit procedures.</p> <p>We also performed procedures with respect to consolidation adjustments to the financial information of the subsidiaries in order to assess their nature, completeness and accuracy.</p>
<p>Significant non-routine transactions</p> <p>In light of its strategy, the Group regularly conducts complex acquisitions and disposals, debt restructurings and other significant non-routine transactions.</p> <p>We focus on these matters because the appropriate accounting treatment of such transactions is often complex and requires exercise of significant judgement.</p> <p>In the current period, this included, for example, a disposal of 51% in Leader Invest and acquisition of 25% in Etalon Group in February 2019 and a secondary public offering of Detsky mir in November 2019. See Note 6 to the consolidated financial statements.</p>	<p>Our procedures included reviewing legal documents to fully understand the terms and conditions of each transaction and therefore the associated accounting implications and evaluating documentation of management's positions on how IFRSs were applied to the transactions.</p> <p>In relation to the previously mentioned specific transactions, we analyzed legal documents and evaluated the appropriateness of management's conclusions on whether the Group had obtained or retained control over the investees in the context of investee's governance structure, size of the Group's shareholding relative to other shareholders, dispersion of other vote holdings and other factors relevant to determining whether the Group has current ability to direct relevant activities of the investees.</p> <p>We also assessed the appropriateness of fair value measurements related to the investments in these investees.</p>

Other Information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

V.Kozyrev

Vladimir Kozyrev
Engagement partner

6 April 2020



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 01122220 of 11.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 46

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

Audit Firm: AO Deloitte & Touche CIS

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

Primary State Registration Number: 1027700425444

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

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

SISTEMA PJSFC AND SUBSIDIARIES

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

	Notes	2019	2018
Continuing operations			
Revenue	9	656,861	625,032
Cost of sales		(301,918)	(277,711)
Selling, general and administrative expenses		(129,013)	(118,973)
Depreciation and amortisation		(115,283)	(112,500)
Impairment of long-lived assets	10	(11,639)	(1,030)
Impairment of financial assets	11	(6,994)	(5,623)
Taxes other than income tax		(4,962)	(5,829)
Share of the profit or loss of associates and joint ventures, net	18	(4,398)	1,682
Other income		11,478	7,139
Other expenses		(7,715)	(3,609)
Operating income		86,417	108,578
Finance income		7,527	7,765
Finance costs		(87,341)	(60,600)
Currency exchange profit/(loss)		10,453	(17,325)
Profit before tax		17,056	38,418
Income tax expense	12	(26,999)	(29,353)
(Loss)/profit from continuing operations		(9,943)	9,065
Discontinued operations			
Profit/(loss) from discontinued operations	6	67,551	(47,369)
Net profit/(loss) for the year		57,608	(38,304)
Attributable to:			
Shareholders of Sistema PJSFC		28,597	(45,896)
Non-controlling interests		29,011	7,592
		57,608	(38,304)
Profit/(loss) per share (basic and diluted), in Russian Rubles:	30		
From continuing operations		(3.61)	(2.36)
From continuing and discontinued operations		3.02	(4.84)

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

Andrey Dubovskov
President and CEO

6 April 2020

Vladimir Travkov
Vice President, Finance and
Investments (CFO)

SISTEMA PJSFC AND SUBSIDIARIES

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

	2019	2018
Net profit/(loss) for the year	57,608	(38,304)
Other comprehensive income/(loss):		
Items that may be reclassified subsequently to profit or loss:		
Effect on sale of VF Ukraine	7,947	-
Currency translation loss on foreign operations in subsidiaries	(7,246)	17,429
Currency translation (loss)/gain on foreign operations in associates and joint ventures	(207)	324
Net fair value loss on financial instruments	(197)	(3,947)
Items that will not be reclassified subsequently to profit or loss:		
Unrecognised actuarial gain	211	167
Other comprehensive income, net of tax	508	13,973
Total comprehensive gain/(loss)	58,116	(24,331)
Attributable to:		
Shareholders of Sistema PJSFC	24,844	(35,973)
Non-controlling interests	33,272	11,642
	58,116	(24,331)

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

Andrey Dubovskov
President and CEO


Vladimir Travkov
Vice-President, Finance and
Investments (CFO)

6 April 2020

SISTEMA PJSFC AND SUBSIDIARIES

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

	Notes	31 December 2019	31 December 2018
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	14	400,083	422,321
Investment property	15	13,660	23,310
Goodwill	16	55,388	59,488
Other intangible assets	17	91,138	112,125
Right-of-use assets	26	154,865	194,247
Investments in associates and joint ventures	18	79,917	34,507
Deferred tax assets	12	26,752	32,648
Other financial assets	19	116,973	95,557
Deposits in banks		82	186
Other assets		19,438	15,618
Total non-current assets		958,296	990,007
<i>Current assets</i>			
Inventories	21	45,329	97,131
Contract assets	9	6,474	7,297
Accounts receivable	22	54,703	63,517
Advances paid and prepaid expenses		14,038	16,984
Current income tax assets		4,711	4,195
Other taxes receivable		19,259	18,641
Other financial assets	19	87,138	106,329
Deposits in banks		1,659	15,506
Restricted cash	20	5,689	8,614
Cash and cash equivalents		63,669	114,183
Other assets		2,562	3,090
Total current assets		305,231	455,487
Assets held for sale	6	-	19,911
Total assets		1,263,527	1,465,405

SISTEMA PJSFC AND SUBSIDIARIES

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

	Notes	31 December 2019	31 December 2018
Equity and liabilities			
<i>Equity</i>			
Share capital	23	869	869
Treasury shares	23	(5,971)	(4,759)
Additional paid-in capital		75,045	73,375
Accumulated loss		(36,020)	(63,572)
Accumulated other comprehensive income	24	7,452	11,204
Equity attributable to shareholders of Sistema		41,375	17,117
Non-controlling interests		24,353	45,911
Total equity		65,728	63,028
<i>Non-current liabilities</i>			
Borrowings	25	491,416	592,442
Lease liabilities	26	149,565	183,161
Bank deposits and liabilities	27	6,051	3,414
Deferred tax liabilities	12	36,172	40,161
Provisions	29	5,748	4,368
Liability to Rosimushchestvo		-	8,097
Other financial liabilities	28	3,526	1,473
Other liabilities		5,607	6,546
Total non-current liabilities		698,085	839,662
<i>Current liabilities</i>			
Borrowings	25	129,454	105,893
Lease liabilities	26	16,060	24,206
Accounts payable		89,203	126,917
Bank deposits and liabilities	27	160,511	129,872
Income tax payable		921	2,775
Other taxes payable		16,065	20,409
Dividends payable		15,569	4,415
Provisions	29	14,910	73,244
Liability to Rosimushchestvo		7,231	8,113
Contract liabilities and other liabilities	9	46,321	50,141
Other financial liabilities	28	3,469	9,904
		499,714	555,889
Liabilities directly associated with assets classified as held for sale	6	-	6,826
Total current liabilities		499,714	562,715
Total equity and liabilities		1,263,527	1,465,405

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

Andrey Dubovskov
President and CEO

6 April 2020

Vladimir Travkov
Vice President, Finance and Investments (CFO)

SISTEMA PJSFC AND SUBSIDIARIES

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

	Share capital	Additional paid-in capital	Treasury shares	Accumulated loss	Currency reserve	Accumulated other comprehensive (loss)/income	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	-	-	-	(45,896)	-	-	(45,896)	7,592	(38,304)
Other comprehensive income/(loss), net of tax	-	-	-	-	13,570	(3,647)	9,923	4,050	13,973
Total comprehensive (loss)/income	-	-	-	(45,896)	13,570	(3,647)	(35,973)	11,642	(24,331)
Settlements under long-term motivation program of Sistema PJSFC	-	(1,057)	1,057	-	-	-	-	-	-
Accrued remuneration to the management of subsidiaries	-	1,511	-	-	-	-	1,511	337	1,848
Settlements under long-term motivation program of subsidiaries	-	(815)	-	-	-	-	(815)	-	(815)
Capital transactions of subsidiaries (Note 8)	-	5,880	-	-	-	-	5,880	(13,971)	(8,091)
Dividends declared by Sistema PJSFC (Note 23)	-	-	-	(1,047)	-	-	(1,047)	-	(1,047)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(28,823)	(28,823)
31 December 2018	869	73,375	(4,759)	(63,572)	10,224	980	17,117	45,911	63,028

SISTEMA PJSFC AND SUBSIDIARIES

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

	Share capital	Additional paid-in capital	Treasury shares	Accumulated loss	Currency reserve	Accumulated other comprehensive (loss)/income	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
	869	73,375	(4,759)	(63,572)	10,224	980	17,117	45,911	63,028
1 January 2019	869	73,375	(4,759)	(63,572)	10,224	980	17,117	45,911	63,028
Profit for the period	-	-	-	28,597	-	-	28,597	29,011	57,608
Effect on sale of VF Ukraine	-	-	-	-	3,974	-	3,974	3,973	7,947
Other comprehensive income/(loss), net of tax	-	-	-	-	(7,664)	(62)	(7,727)	288	(7,439)
Total comprehensive (loss)/income	-	-	-	28,597	(3,690)	(62)	24,844	33,272	58,116
Sale of own shares	-	(238)	430	-	-	-	193	-	193
Purchase of own shares	-	-	(1,642)	-	-	-	(1,642)	-	(1,642)
Acquisition and sale of subsidiaries	-	-	-	-	-	-	-	(410)	(410)
Settlements under long-term motivation program of subsidiaries	-	352	-	-	-	-	352	436	788
Capital transactions of subsidiaries (Note 8)	-	1,556	-	-	-	-	1,556	(14,655)	(13,099)
Dividends declared by Sistema PJSFC (Note 23)	-	-	-	(1,045)	-	-	(1,045)	-	(1,045)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(40,201)	(40,201)
31 December 2019	869	75,045	(5,971)	(36,020)	6,534	918	41,375	24,353	65,728

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

SISTEMA PJSFC AND SUBSIDIARIES

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

	2019	2018
Cash flows from operating activities		
Net profit/(loss) for the year	57,608	(38,304)
Adjustments for:		
Provision related to SEC investigation in Uzbekistan	-	55,752
Depreciation and amortisation	135,070	132,019
Share of the profit or loss of associates and joint ventures, net	4,398	(1,715)
Profit from sales of stakes in associates and joint ventures	(828)	-
Finance income	(7,527)	(8,421)
Finance costs	93,064	68,024
Income tax expense	28,227	32,809
Currency exchange (loss)/gain	(14,170)	20,069
Gain from disposal of subsidiaries	(53,986)	-
Profit on disposal of property, plant and equipment	(3,029)	(5,173)
Expected credit losses allowance on loans to customers	4,330	704
Dividends received from associates and joint ventures	6,279	3,777
Non-cash compensation to employees	1,601	1,511
Impairment of long-lived assets	11,639	1,360
Impairment of financial assets	6,921	5,935
Other non-cash items	4,406	5,299
	274,003	273,646
Movements in working capital:		
Bank loans to customers and interbank loans due from banks	(33,778)	(2,995)
Bank deposits and liabilities	36,062	14,136
Restricted cash	2,925	(23)
Financial assets at fair value through profit or loss	4,125	2,974
Accounts receivable	(9,950)	(8,174)
Advances paid and prepaid expenses	781	(1,679)
Other taxes receivable	(1,337)	(2,386)
Inventories	(6,503)	(27,402)
Accounts payable	2,590	6,093
Subscriber prepayments	384	3,500
Other taxes payable	(2,652)	6,288
Advances received and other liabilities	9,830	(537)
Fees in connection with investigation in Uzbekistan	(55,607)	-
Payments in accordance with the Settlement Agreement	-	(80,000)
Interest paid	(83,064)	(67,421)
Income tax paid	(31,540)	(27,392)
Net cash provided by operating activities	106,269	88,628

SISTEMA PJSFC AND SUBSIDIARIES

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

	2019	2018
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(92,178)	(93,754)
Payments for a data center by MTS	-	(7,559)
Proceeds from sale of subsidiaries, net of cash	59,328	-
Proceeds from sale of property, plant and equipment	6,598	6,533
Payments to obtain and fulfill contracts	(4,693)	(5,645)
Payments for purchases of intangible assets	(25,444)	(30,286)
Payments for businesses, net of cash acquired	(2,775)	(4,324)
Payments for investments in associates and joint ventures	(17,417)	(12,036)
Proceeds from sale of investments in affiliated companies	15,301	113
Payments for financial assets, long-term	(20,825)	(17,316)
Proceeds from sale of financial assets, long-term	5,367	10,155
Payments for financial assets, short-term	(10,436)	(23,514)
Proceeds from sale of financial assets, short-term	36,174	43,280
Interest received	5,354	9,356
Other	1,720	(2,938)
Net cash used in investing activities	(43,926)	(127,935)
Cash flows from financing activities		
Proceeds from borrowings	310,672	398,905
Principal payments on borrowings	(342,138)	(234,937)
Debt issuance costs	(138)	(702)
Principal payments of lease liabilities	(24,303)	(21,044)
Acquisition of non-controlling interests in existing subsidiaries	(22,751)	(21,424)
Proceeds from sale of treasury shares	233	-
Proceeds from transactions with non-controlling interests	89	740
Dividends paid	(30,124)	(29,952)
Repurchase of own shares	(1,642)	-
Cash outflow under credit guarantee agreement related to foreign currency hedge	-	(981)
Net cash (used in)/provided by financing activities	(110,102)	90,605
Effect of foreign currency translation on cash and cash equivalents	(2,755)	3,408
Net increase/(decrease) in cash and cash equivalents	(50,514)	54,706
Cash and cash equivalents at the beginning of the year, including cash of discontinued operations	114,183	59,959
Cash and cash equivalents of discontinued operations at the end of the year	-	(482)
Cash and cash equivalents at the end of the year	63,669	114,183

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

SISTEMA PJSFC AND SUBSIDIARIES

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

1. GENERAL

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

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

2. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on the assumption that the Group will continue to operate in the foreseeable future. As of 31 December 2019, short-term liabilities of the Group exceeded its current assets by RUB 194,483 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 536,797 million. The cash flows forecast prepared by the management of the Group for a period of at least twelve months after the end of the reporting period demonstrates the Group's ability to pay off current liabilities within the terms set by the contractual obligations.

These consolidated financial statements were approved by the Company's President and CEO and authorised for issue on 6 April 2020.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Summary of significant accounting policies

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

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

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

SISTEMA PJSFC AND SUBSIDIARIES

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

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

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

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

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

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

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

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

Sources of estimation uncertainty

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

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

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

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

SISTEMA PJSFC AND SUBSIDIARIES

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

- Discount rate. When calculating the present value of the lease payments the Group uses the incremental borrowing rate. Discount rate is determined for each asset based on the incremental borrowing rate for the respective company of the Group at the inception of the contract.

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

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

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

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

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

Recoverable amount of cash-generating units is estimated based on value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

The growth rate in the post-forecast period is determined on the basis of the nominal GDP growth rate for each country and adjusted for the specific risk inherent in each generating unit. The discount rate used to calculate value in use is the weighted average cost of capital, calculated on the basis of the average capital structure for the economic sector. The cost of equity is determined on the basis of the risk-free rate for long-term government bonds issued in the country in which the generating unit operates. These rates are adjusted for the risk premium reflecting the risk of investing in ordinary shares and the specific risk of each cash-generating unit.

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

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

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

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

Provisions and contingencies. The Group is subject to various legal proceedings, disputes, claims and regulatory reviews related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable. See Notes 29 and 38 for further information.

Significant judgments in applying accounting policies

In the application of the Group's accounting policies management is required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized in the consolidated financial statements. In 2019, these judgements include determination of whether or not the control exists as the result of disposal of 51% of Leader Invest and the acquisition of a 25% in Etalon Group in February 2019 (Note 6), as well as the secondary public offering of Detsky Mir in November 2019 (Note 6).

Standards, interpretations and amendments adopted on 1 January 2019

On 1 January 2019 the Group adopted the following standards, interpretations and amendments:

Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features With Negative Compensation
Amendments IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

None of them had a material impact on the Group's consolidated financial statements.

Standards, interpretations and amendments in issue but not yet effective

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

Amendments to Conceptual Framework	Conceptual Framework in IFRS standards ⁽¹⁾
Amendments to IFRS 3	Definition of a Business ⁽¹⁾
Amendments to IAS 1 and IAS 8	Definition of Material ⁽¹⁾
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform and its Effects on Financial Reporting ⁽¹⁾
IFRS 17	Insurance Contracts ⁽²⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾
Annual Improvements to IFRSs (2010-2012 Cycle Amendments to IAS 1)	Classification of Liabilities as Current or Non-Current ⁽⁴⁾

⁽¹⁾ Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

⁽²⁾ Effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

⁽³⁾ The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

⁽⁴⁾ Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.

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

SISTEMA PJSFC AND SUBSIDIARIES

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

4. SEGMENT INFORMATION

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

The Group's reportable segments are Mobile TeleSystems ("MTS"), Segezha Group, RTI, Ozon Holdings Limited ("Ozon") and Corporate. MTS is one of the leading telecommunications group in Russia and the CIS, offering mobile and fixed voice, broadband, internet access, pay TV, financial services, as well as content and entertainment services in Russia and Armenia. Segezha Group is an Russian vertically integrated forest industry holding that performs a full cycle of timber harvesting and advanced wood processing operations. RTI is a Russian industrial holding, which develops and manufactures high-tech products and infrastructure solutions in the fields of radio communication and space technology, threat monitoring and control solutions, microelectronics and system integration. Ozon is one of the largest Russian e-commerce internet platform. Corporate segment comprises the Company and entities, which hold and manage the Company's interests in its subsidiaries, joint ventures and associates. The Other category includes other operating segments including East-West United Bank (EWUB), Sitronics, Kronshtadt Group, Medsi, Agroholding "Steppe", Sistema Venture Capital, Intourist, Bashkirian Power Grid Company ("BPGC"), Business Nedvizhimost, Detsky mir and Etalon Group, none of which meets the quantitative thresholds for determining reportable segments.

Detsky mir was excluded from reportable segments presentation as a result of its disposal in December 2019 (Note 6). This exclusion was retrospectively presented in 2018.

The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 3) and other relevant notes. The Group's CODM evaluates performance of the segments on the basis of operating income and OIBDA. OIBDA is defined as operating income before depreciation and amortisation of property, plant and equipment, other intangible assets and right-of-use assets.

SISTEMA PJSFC AND SUBSIDIARIES

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

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment for 2019 and 2018:

	External revenues		Inter-segment revenue		Segment operating income/(loss)	
	2019	2018	2019	2018	2019	2018
MTS	472,449	457,558	3,657	4,576	114,146	105,984
Segezha Group	58,428	57,847	67	43	8,333	8,178
RTI	24,655	22,701	85	185	(1,770)	921
Ozon	-	-	-	-	(7,834)	(1,115)
Corporate	2,435	2,351	906	845	(18,781)	(11,946)
Total reportable segments	557,967	540,457	4,715	5,649	94,094	102,022
Other	98,894	84,575	2,939	3,262	(1,404)	9,534
	656,861	625,032	7,654	8,911	92,690	111,556
Inter-segment eliminations					(6,273)	(2,978)
Operating income					86,417	108,578
Finance income					7,527	7,765
Finance costs					(87,341)	(60,600)
Currency exchange loss					10,453	(17,325)
Profit before tax					17,056	38,418

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

	Additions to non-current assets		Depreciation and amortisation		Impairment of non-current assets		Other non-cash items	
	2019	2018	2019	2018	2019	2018	2019	2018
	129,795	139,913	96,279	95,656	(148)	158	3,427	3,168
MTS								
RTI	1,012	2,496	1,644	1,739	280	450	1,946	582
Segezha Group	5,681	6,310	5,660	4,676	(477)	-	32	265
Corporate	213	-	399	565	2,624	-	136	914
Other	22,221	13,945	11,301	9,864	9,360	422	1,453	694
	158,922	162,664	115,283	112,500	11,639	1,030	6,994	5,623

SISTEMA PJSFC AND SUBSIDIARIES

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

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

	31 December 2019	31 December 2018
Segment assets		
MTS	838,327	931,891
RTI	51,858	65,505
Segezha Group	75,597	72,723
Corporate	153,675	115,494
Total reportable segments	1,119,457	1,185,613
Other	241,194	355,806
Total segment assets	1,360,651	1,541,419
Inter-segment eliminations	(97,124)	(76,014)
Consolidated total assets	1,263,527	1,465,405
Segment liabilities		
MTS	787,613	838,525
RTI	75,292	86,409
Segezha Group	61,998	59,665
Corporate	215,741	249,141
Total reportable segments	1,140,644	1,233,740
Other	143,152	242,975
Total segment liabilities	1,283,796	1,476,715
Inter-segment eliminations	(85,997)	(74,338)
Consolidated total liabilities	1,197,799	1,402,377

As of 31 December 2019 and 2018, the amount of investment in MTS Belarus, an associate of MTS, included in its reportable segment assets was RUB 4,502 million and RUB 4,051 million, respectively. The amount of investment in Ozon as of 31 December 2019 and 2018 was RUB 11,854 million and RUB 9,533 million, respectively. Other associates and joint ventures represent separate operating segments and are reported in the Other category.

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

	Revenue from external customers		Non-current assets	
	2019	2018	31 December 2019	31 December 2018
Russia	584,165	567,277	709,365	752,968
Other	72,696	57,755	16,753	63,087
	656,861	625,032	726,118	816,055

5. INVESTIGATIONS INTO FORMER OPERATIONS IN UZBEKISTAN

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

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

SISTEMA PJSFC AND SUBSIDIARIES

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

Under the agreements with the DOJ and SEC, MTS agreed to pay a total penalty of USD 850 million (RUB 59.1 billion as of 31 December 2018) to the United States, which was comprised of a criminal fine, criminal forfeiture and civil penalty. 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 the total penalty of USD 850 million (RUB 55.6 billion as of the payment date).

Under the deferred prosecution agreement ("DPA") and the Order, MTS agreed to appoint and in September 2019 appointed an independent compliance monitor. Pursuant to the DPA and the Order, the monitorship will continue for a period of three years starting from the appointment date, and the term of the monitorship may be terminated early or extended depending on certain circumstances, as ultimately determined and approved by the DOJ and SEC.

6. DISCONTINUED OPERATIONS

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

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

	2019	2018
Provision related to investigations into former operations in Uzbekistan (Note 5)	-	(59,050)
Loss on disposal of VF Ukraine	(5,499)	-
Currency translation on disposal of VF Ukraine	(62)	-
VF Ukraine results before disposal date	6,093	5,157
Profit on Microelectronics assets disposal	4,144	-
Microelectronics assets results before disposal date	(355)	1,687
Gain on disposal of Leader Invest	20,248	-
Lider Invest results before disposal date	(317)	(626)
Currency translation on SEC penalties	3,443	-
Loss on disposal of SSTL	-	(360)
Gain on disposal of Detskiy Mir	35,094	-
Detskiy Mir results before disposal date	4,762	5,823
Profit/(loss) from discontinued operations	67,551	(47,369)
Attributable to:		
Shareholders of Sistema PJSFC	62,801	(23,498)
Non-controlling interests	4,750	(23,871)

SISTEMA PJSFC AND SUBSIDIARIES

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

Leader Invest – In February 2019, the Group sold 51% of the stake of JSC Leader Invest to Etalon Group for RUB 15.2 billion. In August 2019, an agreement was signed to sell the remaining 49% stake for RUB 14.6 billion. In February 2019, the Group acquired 25% stake in Etalon Group for USD 226.6 million. Given the governance structure of Etalon Group, size of the Group's shareholding relative to other shareholders, dispersion of other vote holdings and other factors the Group does not have current ability to direct relevant activities of Etalon Group and thus Etalon Group is not controlled as at 31 December 2019.

Loss of control over Detsky mir and transfer from subsidiaries to associates –

In November 2019, as a result of secondary public offering, Sistema PJSFC sold 18.7% of Detsky mir equity capital for RUB 12.5 billion. As a result of the transaction, the share of Sistema PJSFC in the authorized capital of the company composed to 33.4%. Given the governance structure of Detsky mir, size of the Group's shareholding relative to other shareholders, dispersion of other vote holdings and other factors, the Group does not have current ability to direct relevant activities of Detsky mir and thus Detsky mir is not controlled by the Group as of 31 December 2019. The remaining stake in Detsky mir is reflected in the Group financial statements as an investment in an associate. The carrying value of the investment at the end of 2019 is amounted to RUB 21.8 billion.

VF Ukraine – In November 2019, the Group signed an agreement to sell Preludium BV, which owned 100% of the authorized capital of VF Ukraine PrJSC, PTT Telecom Kiev, VF Retail LLC and ITSF LLC, which carried out the Group's activities in Ukraine. The deal took place in December 2019. The fair value of the consideration received amounted to RUB 44,386 million, including cash of RUB 41,567 million, contingent consideration of RUB 2,045 million in case of achievement of certain indicators in the periods from 2019 to 2022 and deferred payment of RUB 773 million no later than 1 September 2020.

Contribution of microelectronics assets into a joint venture – In December 2018, RTI board of directors approved the contribution of microelectronics assets into a JV with Rostec. The Group concluded that microelectronics assets were available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups and their sale is highly probable as of 31 December 2018. The Group classified microelectronic assets as assets held for sale as at 31 December 2018, and presented their results for 2017 and 2018 as discontinued operations. In May 2019, the authorized capital of LLC Element was increased as a result of the contributions of assets by participants. RTI JSC contributed microelectronics assets with a fair value of RUB 8.3 billion.

The results of the companies are presented as part of discontinued operations in the accompanying consolidated profit and loss statement for all periods presented.

The gain/(loss) on disposal is as follows:

	2019			
	Microelectro nics assets	Leader Invest	Detsky mir	VF Ukraine
Net (assets)/liabilities as at disposal date	(4,361)	(8,608)	187	(41,938)
Share in Element LLC as at disposal date	(50)	-	-	-
Non-controlling interest as at disposal date	241	-	(96)	(3,973)
Accumulated other comprehensive loss				(3,974)
Fair value of equity method investments	-	13,727	22,461	-
Fair value of consideration received	8,314	15,129	12,542	44,386
Gain/(loss) from disposal	4,144	20,248	35,094	(5,499)

SISTEMA PJSFC AND SUBSIDIARIES

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

The results of the disposed subsidiaries included in discontinued operations in the consolidated statements of profit or loss for 2019 and 2018 are as follows:

	Microelectronics assets		Leader Invest		Detsky mir		VF Ukraine	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	4,461	12,242	1,444	12,677	111,221	110,874	36,675	28,826
Expenses	(4,800)	(10,521)	(1,794)	(12,674)	(105,756)	(103,824)	(28,564)	(22,094)
Profit/(loss) before income tax	(339)	1,721	(350)	3	5,465	7,050	8,111	6,732
Income tax (expense) / benefit	(16)	(34)	33	(629)	(703)	(1,227)	(2,018)	(1,575)
Results for the period / up to disposal date	(355)	1,687	(317)	(626)	4,762	5,823	6,093	5,157

Cash flows from discontinued operations included in the consolidated statements of cash flows for 2019 and 2018 are as follows:

	Microelectronics assets		Leader Invest		Detsky mir		VF Ukraine	
	2019	2018	2019	2018	2019	2018	2019	2018
Net cash provided by/(used in) operating activities	1,362	498	(180)	3,615	10,463	9,742	17,343	16,773
Net cash (used in)/provided by investing activities	(248)	(562)	-	666	(3,050)	(3,794)	(13,046)	(15,724)
Net cash provided by/(used in) financial activities	8,016	(335)	247	(1,762)	(9,362)	(5,639)	(1,114)	(1,057)
Total net cash used	9,130	(399)	67	2,519	(1,949)	309	3,183	(8)

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

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

**31 December
2018**

Assets

CURRENT ASSETS:

Cash and cash equivalents	482
Restricted cash	2,150
Trade and other accounts receivable	2,628
Other financial assets	4
Contract assets	673
Advances paid and prepaid expenses	798
Inventories	3,881
Other current assets	188
Total current assets	10,804

NON-CURRENT ASSETS:

Property, plant and equipment	7,602
Other intangible assets	1,017
Other assets	301
Deferred tax assets	187
Total non-current assets	9,107

Total assets	19,911
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SISTEMA PJSFC AND SUBSIDIARIES

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

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

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

7. BUSINESS COMBINATIONS

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

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

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

SISTEMA PJSFC AND SUBSIDIARIES

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

Business combinations in 2019

The information on business combinations which took place in 2019 is summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
Rikt JSC	Telecommunications	June	97%	MTS	360
Severlesprom LLC	Logging	June	100%	Segezha	140
Klinika na petrogradskoj storone LLC	Medicine	December	100%	Medsi	41
Итого					541

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

	Rikt JSC	Severlesprom LLC	Klinika na petrogradskoj storone LLC
Total consideration satisfied by:			
Cash	360	140	41
Fair value of business less NCI	360	140	41
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	118	-	86
Other intangible assets	172	-	-
Other non-current assets	14	219	3
Other current assets	27	23	14
Current liabilities	(37)	(14)	(45)
Non-current liabilities	(39)	(88)	(50)
Net assets	255	140	8
Non-controlling interest	-	-	-
Goodwill	105	-	33
Fair value of business less NCI	360	140	41

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

Rikt JSC	Expected synergy effect
Severlesprom LLC	Expected synergy effect
Klinika na petrogradskoj storone LLC	Assembled workforce, market position, expected synergies

At the reporting date, all of the necessary market valuations and other calculations of the acquisition cost of Rikt JSC, Severlesprom LLC and Klinika na petrogradskoj storone LLC have been finalized.

SISTEMA PJSFC AND SUBSIDIARIES

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

Business combinations in 2018

In 2018 MTS, Agroholding "Steppe" and Segezha Group acquired several companies related to their operating segments for RUB 6,328 million, RUB 1,725 million and RUB 963 million respectively.

The acquisition cost estimate of the agriculture businesses, IT-Grad 1 Cloud LLC ("IT-Grad") and Voloma-Invest LLC ("Voloma-Invest") has been completed in 2019.

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

	KS	MDTZK	Progtech	IT-Grad	Agriculture businesses	Voloma-invest
Total acquisition cost						
including:						
Cash consideration	267	3,190	392	1,515	350	649
Subsidiary equity instruments-based consideration	-	-	-	-	1,375	-
Fair value of contingent consideration	54	-	3	907	-	-
	321	3,190	395	2,422	1,725	649
Fair value of previously held equity interest in the acquiree	-	-	-	-	-	274
	321	3,190	395	2,422	1,725	923
Acquired asset and liabilities						
Other intangible assets	166	1,506	123	643	103	1,053
Other non-current assets	43	145	172	32	1,724	648
Current assets	156	744	43	57	555	238
Current liabilities	(383)	(868)	(80)	(59)	(1,031)	(196)
Non-current liabilities	(140)	(370)	(76)	(128)	(238)	(570)
	(158)	1,157	182	545	1,113	1,173
Non-controlling interests	-	-	-	-	-	(210)
Goodwill	479	2,033	213	1,877	612	-
Companies value less non-controlling interest	321	3,190	395	2,422	1,725	963

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The excess of the consideration paid over the value of the acquired net assets was allocated to goodwill for the following reasons:

MDTZK LLC	Acquisition of one of the market leaders in ticket sales and expected synergy effect
KS LLC	Acquisition of one of the market leaders in ticket sales and expected synergy effect
Progtech	Expected synergy effect
Agriculture businesses	Expected synergy effect and formed work team
IT-Grad	Expected synergy effect and market position

Pro forma results of operations

Pro forma financial information for 2019 and 2018 which gives effect to the acquisitions as if they 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.

Loss and revenue for 2019 attributable to financial results of business acquired in 2019 is not material.

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

	2019	2018
Cash consideration	541	7,327
Payables at the end of the year	-	(1,302)
Cash acquired	(2)	(737)
Contingent liability	-	(964)
Payments for acquisitions of subsidiaries in previous periods	<u>2,236</u>	<u>-</u>
Acquisitions of subsidiaries less cash acquired	<u>2,775</u>	<u>4,324</u>

8. CAPITAL TRANSACTIONS OF SUBSIDIARIES

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

SISTEMA PJSFC AND SUBSIDIARIES

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Transactions in 2019

The information on capital transactions of subsidiaries which took place in 2019 and their impacts 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)
Purchase of own shares of the Agroholding Steppe	66	(2,116)
Sale of additional stake of MTS Bank to MTS	2,328	(2,328)
The effect of the buyback of a minority stake in Binnopharm	(195)	(468)
Intragroup transactions effect	566	(566)
Other	(682)	(1,228)
Total impact	1,556	(14,655)

MTS Share Acquisition Program – As a part of the implementation of the share acquisition plan approved in 2018, MTS acquired 57,719,394 ordinary shares, including acquisition of 28,929,344 ordinary shares from Sistema Finance SA, the subsidiary of the Group, in the amount of RUB 7.45 billion.

Sale of an additional stake in MTS Bank to MTS – In February, Sistema PJSFC and its 100% subsidiary Sistema Telecom Assets LLC sold a 39.5% stake in MTS Bank to Mobile TeleSystems BV, a 100% subsidiary of PJSC MTS for RUB 11.4 billion. As a result of the transaction, the effective ownership interest of MTS-Bank decreased to 52.4%.

In December, Sistema PJSFC sold a 4.5% stake in MTS Bank to Mobile TeleSystems B.V., a 100% subsidiary of MTS PJSC for RUB 1.4 billion. As a result of the transaction, Sistema JSFC completely withdrew from the shareholders of MTS-Bank PJSC.

Purchase of own shares of the Agroholding "Steppe" – In March 2019, the Agroholding "Steppe" bought out its RUB 2 billion stake from a minority shareholder. As a result, the Group's share in the Agroholding "Steppe" increased to 92.8%.

The effect of additional stake repurchase in Binnopharm – Sistema PJSFC increased its stake in Binnopharm from 74% to 89% as part of the creation of the joint pharmaceutical company Alium. Sistema's stake in Binnopharm increased as a result of the repurchase of the stake from a minority shareholder as part of a planned transaction to merge OBL Pharm and Binnopharm.

Transactions in 2018

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

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

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

Changes in share capital of subsidiaries:

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

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

9. REVENUE

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

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

MTS – Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage of minutes of traffic processed and volume of data transmitted or period of time (monthly subscription fees). Products and services may be sold separately or in bundle packages. The most significant part of revenue relates to prepaid contracts. Revenue from the sale of prepaid credit is deferred until such time as the customer consumes the services or the credit expires.

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

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

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

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

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

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

Segezha Group – Segezha Group receives revenue from the sale of goods (paper and packaging, lumber, plywood and other goods) and from the provision of services for the delivery of finished products to the buyer after the transfer of control over the goods. Sales are recognized at the time when control of goods is transferred, i.e. when the goods are delivered to the buyer in accordance with the terms of delivery (Incoterms 2010), the buyer has complete freedom of action with respect to the goods and when there is no unfulfilled obligation that may affect the acceptance of the goods by the buyer. Delivery is deemed to have been made when the goods have been delivered to a certain place, the risks of wear and loss passed to the buyer, and the buyer accepted the goods in accordance with the contract, the validity of the acceptance provisions has expired or the Group has objective evidence that all acceptance criteria have been met.

The following is analysis of the Group's revenue from continuing operations for 2019:

	Reportable segments					
	MTS	Segezha	RTI	Corporate	Other	Total
Type of goods/services						
Mobile and fix line services	370,140	-	-	-	-	370,140
Sale of goods	67,793	-	-	-	-	67,793
Works under specification	-	-	19,696	-	2,714	22,410
Production	-	58,428	4,501	-	31,043	93,972
Financial services	29,051	-	-	-	1,118	30,169
Other services	-	-	-	2,435	54,364	56,799
Other	5,465	-	458	-	9,655	15,578
	472,449	58,428	24,655	2,435	98,894	656,861
Revenue from goods or services transferred to customers						
At a point in time	75,038	58,428	4,873	2,435	94,432	235,206
Over time	397,411	-	19,782	-	4,462	421,655
	472,449	58,428	24,655	2,435	98,894	656,861

SISTEMA PJSFC AND SUBSIDIARIES

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

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

	Reportable segments					Total
	MTS	Segezha	RTI	Corporate	Other	
Type of goods/services						
Mobile and fix line services	365,146	-	-	-	-	365,146
Sale of goods	68,768	-	-	-	-	68,768
Works under specification	-	-	15,891	-	4,800	20,691
Production	-	57,847	5,642	-	26,283	89,772
Financial services	20,851	-	-	-	1,378	22,229
Other services	-	-	-	2,351	47,197	49,548
Other	2,793	-	1,168	-	4,917	8,878
	457,558	57,847	22,701	2,351	84,575	625,032
Revenue from goods or services transferred to customers						
At a point in time	72,039	57,847	6,730	2,351	79,983	218,950
Over time	385,519	-	15,971	-	4,592	406,082
	457,558	57,847	22,701	2,351	84,575	625,032

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as of 31 December 2019 as follows:

	2020	2021-2025	2026-2030	Total
Mobile telecommunication services	(18,260)	(581)	(8)	(18,849)
Other services	(2,925)	(56,544)	-	(59,469)
Loyalty programme	(343)	-	-	(343)
	(21,528)	(57,125)	(8)	(78,661)

Contract assets and liabilities

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

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

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

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

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

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

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

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers as of 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Accounts receivable	37,434	30,884
Contract assets	6,474	7,297
Total assets	43,908	38,181
Less: current portion	(40,351)	(38,171)
Total non-current assets	3,557	10
Contract liabilities	(30,361)	(33,014)
<i>Thereof:</i>		
Mobile telecommunication services	(20,964)	(21,835)
Project type works	(9,054)	(10,859)
Loyalty programmes	(343)	(320)
Total liabilities	(30,361)	(33,014)
Less: current portion	21,527	22,565
Total non-current liabilities	(8,834)	(10,449)

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Changes in the contract assets and the contract liabilities balances during the 2019 and 2018 are as follows:

	2019		2018	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Balance as of 1 January	7,297	(33,014)	5,788	(28,824)
Revenue recognized that was included in the contract liability balance at the beginning of the period	-	24,865	-	16,273
Increase due to cash received, excluding amount recognized as revenue during the period	1	(25,768)	1,517	(22,319)
Transfer to assets held for sale	(21)	-	(674)	2,159
Effect of changes in estimates	(803)	-	666	-
Business combinations	-	3,556	-	(303)
Balance as of 31 December	6,474	(30,361)	7,297	(33,014)

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as of 31 December 2019 as follows:

- For mobile telecommunication services, revenue in amount of RUB 18,260 million will be recognized during 2020. Afterwards revenue will be recognized in the amount of RUB 589 million.
- For project type works, revenue of RUB 2,924 million will be recognized during 2020, revenue of RUB 56,544 – until 2024.
- For loyalty programs, revenue of RUB 343 million will be recognized during 2020.

Cost to obtain and fulfill a contract

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

Costs of acquiring a contract include commissions paid to a third-party distributors as well as the associated remuneration of the Group's commercial employees for obtaining a contract with a customer. These costs are amortized on a straight-line basis over the average subscriber life.

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

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

As of 31 December 2019 and 31 December 2018, the balances of cost to obtain and fulfil contracts capitalized by the Group amounted to:

	31 December 2019	31 December 2018
Cost to obtain contracts	7,241	6,899
Cost to fulfil contracts	1,846	1,720

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As of 31 December 2019 and 31 December 2018, the accumulated amortization expense related to cost to obtain and fulfill contracts amounted to RUB 7,615 million and RUB 16,909 million, respectively. Amortization expense related to cost to obtain and fulfill contracts recognized for the year ended 31 December 2019 amounted to RUB 3,940 million. There was no impairment loss relating to the costs capitalized.

10. IMPAIRMENT OF LONG-LIVED ASSETS

Impairment of long-lived assets recognized in the consolidated statement of profit or loss for 2019 includes impairment of property, plant and equipment, goodwill and other intangible assets

	2019	2018
Impairment of investment property of		
Business Nedvizhimost	2,959	-
Impairment of non-current assets of Kronstadt Group	2,422	-
Impairment of investment property of		
other operation segments	2,740	-
Impairment of other non-current assets	3,350	506
Impairment of goodwill	168	524
Total impairment of long-lived assets	11,639	1,030

Impairment of investment property of Business Nedvizhimost ("Rental property") – The Group identified impairment indicators of Rental property and engaged an independent appraiser to conduct an assessment of the recoverable amount of the investment property. The valuation was performed in accordance with the International Valuation Standards and was based on the recent market transactions conducted on market conditions with similar real estate.

Impairment of Kronstadt Group's non-current assets – As of 31 December 2019, as a result of continuing operating losses incurred by the Kronstadt Group, the Group conducted an assessment of the recoverable amount of long-term assets related to the Kronstadt Group segment. The recoverable amount was defined based on the value-in-use of the cash-generating units of the Kronstadt Group. In determining value-in-use, the estimated future cash flows were discounted using a pre-tax discount rate that takes into account the current market assessment of the time value of money and the specific risks of the cash-generating units.

The calculation of the future cash flows is estimated based on a business plan until 2025. The estimation of the future cash flows requires the use of assumptions on a number of variable factors, including expectations of the following indicators: OIBDA margin, future capital expenditures timing and amount, terminal growth rate and discount rate reflecting the corresponding level of risk (16%).

Impairment of investment property of other operating segments – During 2019, the Group identified impairment indicators of investment property in several operating segments and engaged an independent appraiser to conduct an assessment of the recoverable amount of investment property. The valuation was performed in accordance with the International Valuation Standards and was based on the recent market transactions conducted on market conditions with similar real estate.

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11. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets for 2019 and 2018 comprise the following:

	2019	2018
Allowance for expected credit losses of accounts receivable	5,408	5,423
Impairment of loans carried at amortised cost	1,260	-
Impairment of other financial assets	326	200
Total impairment of financial assets	6,994	5,623

12. INCOME TAXES

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

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

Deferred tax assets are not recognized when management believes that it is more than 50% probable that deferred tax assets or some portion of them will not be realized. At the same time, the Group takes into account all available evidence, including projected future taxable profit, tax planning strategies and recent financial transactions.

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

The Group's income tax expense for 2019 and 2018 comprise the following:

	2019	2018
Current income tax expense	(27,994)	(25,632)
Deferred income tax benefit/(expense)	995	(3,721)
Total income tax expense recognised in the current year relating to continuing operations	(26,999)	(29,353)

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

	2019	2018
Profit before tax	17,056	38,418
Income tax expense calculated at 20%	(3,411)	(7,684)
Adjustments due to:		
Earnings distribution from subsidiaries and associates	(5,548)	(3,440)
Increase of unrecognised deferred tax assets	(14,071)	(20,420)
Other non-deductible expenses	(4,277)	(1,274)
Different tax rate of subsidiaries	331	157
Non-taxable income	191	309
Other	(214)	2,999
Income tax expense	(26,999)	(29,353)

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

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

2019					
	Opening balance	Recognised in profit or loss	Recognised in OCI	Acquisitions /disposals	Closing balance
Deferred tax (liabilities)/ assets in relation to:					
Accrued expenses and accounts payable	5,578	1,163	-	(941)	5,800
Property, plant and equipment	(20,774)	(2,792)	(1,216)	(605)	(25,387)
Intangible assets	(9,043)	161	(34)	(33)	(8,949)
Cost capitalization	(1,321)	(149)	-	22	(1,448)
Deferred connection fees	954	186	-	90	1,230
Inventory obsolescence	915	1	-	(828)	88
Allowance for expected credit losses	341	33	-	(393)	(19)
Deferred revenues	145	-	-	(144)	1
Undistributed earnings of subsidiaries and joint ventures and associates	(5,949)	(175)	237	-	(5,887)
Right-of-use asset	2,699	1,030	-	(301)	3,428
Tax losses carried forward	16,843	251	176	(557)	16,713
Debt modification	(1,075)	642	-	-	(433)
Other	3,174	644	521	1,104	5,443
Total	(7,513)	995	(316)	(2,586)	(9,420)

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

SISTEMA PJSFC AND SUBSIDIARIES

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

As of 31 December 2019 and 2018 the Group reported the following deferred income tax assets and liabilities in the consolidated statements of financial position:

	31 December 2019	31 December 2018
Deferred tax assets	26,752	32,648
Deferred tax liabilities	(36,172)	(40,161)
Net deferred tax liabilities	(9,420)	(7,513)

As of 31 December 2019 and 2018 the tax losses carried forward, for which deferred tax assets were recognized, amounted to RUB 83,565 million and RUB 84,215 million, respectively.

The Group accrued uncertain income tax positions as a component of income tax payable of RUB 825 million and RUB 850 million as of 31 December, 2019 and 2018, respectively.

Federal law №401-FZ dated 30 November 2016 allowed for the indefinite carry forward of tax losses, whereas this was previously restricted to 10 years. Also the law specified that the tax base for the years 2017-2020 may not be reduced by tax losses carried forward in an amount exceeding 50% of the base. The following table summarizes temporary differences, for which deferred tax assets were not recognized in the consolidated statements of financial position as of 31 December 2019 and 2018:

Jurisdiction	Carry-forward period	2019	2018
India	2019-2027	115,322	133,691
Russia	Unlimited	232,836	219,879
Total		348,158	353,570

13. EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses consist of salaries, bonuses and social security contributions. Employee benefits expenses included in cost of sales, selling, general and administrative expenses and result from discontinued operations for 2019 and 2018 comprised RUB 142,100 million and RUB 134,031 million, respectively.

SISTEMA PJSFC AND SUBSIDIARIES

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14. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

Property, plant and equipment, net of accumulated depreciation and impairment, as of 31 December 2019 and 2018 consisted of the following:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Carrying amount		
Switches, transmission devices, network and base station equipment	212,735	230,241
Buildings and leasehold improvements	77,049	82,755
Power and utilities	29,117	28,123
Land	21,932	21,710
Other	59,250	59,492
Total	400,083	422,321

SISTEMA PJSFC AND SUBSIDIARIES

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	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve- ments	Power and utilities	Land	Other	Total
Cost						
Balance as of 1 January 2018	583,674	105,513	41,014	19,959	119,265	869,425
Additions	51,557	13,573	4,446	358	27,331	97,265
Disposals	(26,444)	(1,294)	(59)	(135)	(3,632)	(31,564)
Business combinations	123	770	-	1,520	245	2,658
Reclassified from investment property	-	1,500	-	-	-	1,500
Reclassified to assets held for sale	(752)	(5,923)	-	-	(7,303)	(13,978)
Currency translation adjustment	12,929	1,638	-	8	2,103	16,678
Reclassified to/from right-of-use assets	(10,124)	-	-	-	(4,404)	(14,528)
Other	(1,728)	(831)	(124)	-	(404)	(3,087)
Balance as of 31 December 2018	609,235	114,946	45,277	21,710	133,201	924,369
Additions	52,340	9,727	3,773	336	21,450	87,626
Disposals	(26,870)	(1,068)	(372)	(373)	(4,277)	(32,960)
Business combinations	484	61	-	180	249	974
Reclassified from investment property	-	3,328	-	114	1,132	4,574
Reclassified to assets held for sale	(1,573)	555	-	-	-	(1,018)
Sales of companies	(62,196)	(15,634)	-	(158)	(19,599)	(97,587)
Currency translation adjustment	1,889	(1,702)	-	(26)	(158)	3
Reclassified to/from right-of-use assets	-	-	-	-	773	773
Other	702	711	167	149	319	2,048
Balance as of 31 December 2019	574,011	110,924	48,845	21,932	133,090	888,802

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	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve- ments	Power and utilities	Land	Other	Total
Accumulated depreciation and impairment						
Balance as of 1 January 2018	(348,171)	(28,153)	(14,745)	-	(66,889)	(457,958)
Disposals	25,554	405	30		3,108	29,097
Reclassified to						
assets held for sale	223	1,696	-	-	4,457	6,376
Depreciation expense	(50,062)	(5,916)	(2,439)	-	(12,408)	(70,825)
Currency translation adjustment	(9,148)	(970)	-	-	(1,587)	(11,705)
Reclassified to/from right-of-use assets	2,070	-	-	-	-	2,070
(Impairment)/recovery of impairment	-	308	-	-	49	357
Other	540	439	-	-	(439)	540
Balance as of						
31 December 2019	(378,994)	(32,191)	(17,154)	-	(73,709)	(502,048)
Disposals	26,163	377	34	-	3,172	29,746
Disposals from sales of companies	40,717	6,596	-	-	11,389	58,702
Acquisitions of business	(290)	(5)	-	-	(104)	(399)
Reclassified from						
investment property	-	(247)	-	-	(131)	(378)
Reclassified to						
assets held for sale	762	(76)	-	-	(1)	685
Depreciation expense	(47,905)	(6,190)	(2,608)	-	(13,628)	(70,331)
Currency translation adjustment	(767)	867	-	-	113	213
Reclassified to/from right-of-use assets	-	-	-	-	452	452
(Impairment)/recovery of impairment	-	(3,022)	-	-	(1,728)	(4,750)
Other	(962)	16	-	-	335	(611)
Balance as of						
31 December 2019	(361,276)	(33,875)	(19,728)	-	(73,840)	(488,719)

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15. INVESTMENT PROPERTY

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

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

Depreciation for investment property is computed under the straight-line method utilising average estimated useful lives of the assets of 25 years. Accumulated depreciation as of 31 December 2019 and 2018 amounted to RUB 4,955 million and RUB 4,208 million, respectively.

	2019	2018
Balance at the beginning of the year	23,310	24,664
Reclassified to property, plant and equipment	(4,196)	(1,500)
Additions	1,202	4,657
Disposals	(469)	(755)
Depreciation expense	(481)	(747)
Impairment (Note 10)	(5,699)	-
As part of disposed companies	(329)	-
Reclassified to other assets	-	(3,053)
Reclassified from/(to) inventories	322	44
Balance at the end of the year	13,660	23,310

Included in revenue is investment property rental income for 2019 of RUB 2,130 million (2018: RUB 1,820 million). Operating expenses arising from the investment property that generated rental income during 2019 totalled RUB 538 million (2018: RUB 1,108 million).

In estimating the fair value of the investment property, the Group classified the properties within Level 3 of the fair value hierarchy. As of 31 December 2019 and 2018, the Group determined the fair values of the investment property at RUB 42,182 million and RUB 61,488 million, respectively.

The fair values as of 31 December 2019 and 2018 were determined either based on discounted cash flows or by reference to market values of similar properties in the relevant region. The main inputs to the fair value measurement are the post-tax discount rate, revenue growth rates, OIBDA margin and adjustments to market values of similar properties. OIBDA determined as operating profit, adjusted on depreciation and amortization.

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16. GOODWILL

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

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

	MTS	RTI	Steppe	Segezha Group	Other	Total
Balance as of						
1 January 2018						
Gross amount of goodwill	50,046	8,323	6,315	3,454	6,350	74,488
Accumulated impairment loss	(7,046)	(8,219)	-	(241)	(5,150)	(20,656)
	43,000	104	6,315	3,213	1,200	53,832
Business combinations	4,602	-	612	306	-	5,520
Impairment	(524)	-	-	-	-	(524)
Currency translation adjustment	748	-	-	-	-	748
Disposal					(88)	(88)
Balance as of						
31 December 2018						
Gross amount of goodwill	55,396	8,323	6,927	3,760	6,262	80,668
Accumulated impairment loss	(7,570)	(8,219)	-	(241)	(5,150)	(21,180)
	47,826	104	6,927	3,519	1,112	59,488
Business combinations	105	-	-	-	33	138
Impairment	-	-	-	-	(168)	(168)
Currency translation adjustment	(423)	-	-	-	-	(423)
Disposals	(114)	-	-	-	(527)	(641)
Reclassified to right-of-use assets	-	-	-	(2,765)	-	(2,765)
Other	-	-	-	(306)	65	(241)
Balance as of						
31 December 2019						
Gross amount of goodwill	54,964	8,323	6,927	689	5,833	76,736
Accumulated impairment loss	(7,570)	(8,219)	-	(241)	(5,318)	(21,348)
	47,394	104	6,927	448	515	55,388

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

MTS – For the purposes of impairment testing, goodwill attributable to the MTS segment is allocated to CGUs as of 31 December 2019 and 2018 is as follows:

	31 December 2019	31 December 2018
Russia Convergent	30,804	30,658
Moscow fixed line	1,336	1,377
Ukraine	-	106
Other	6,535	6,966
Unallocated	8,719	8,719
Total	47,394	47,826

The "Russia Convergent" CGU represents mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia, except for "Moscow fixed line", which represents the results of fixed line operations carried out in Moscow by MGTS, a subsidiary of MTS. Russia convergent also includes sales of equipment and accessories. "Ukraine" represents operations carried out by subsidiary of MTS in Ukraine, disposed in 2019 (Note 6). Goodwill allocated to these CGUs has arisen on acquisitions made by MTS. The Group does not allocate goodwill recognized as a result of its purchases of MTS shares by the Group to CGUs as it is monitored for internal management purposes at the level of the MTS segment as a whole. Unallocated amount of goodwill is tested for impairment with the reference to the market capitalisation of MTS.

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

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

At the end of 2019, according to impairment test results, none of the cash generating units was impaired. Assets in Ukraine were sold in December 2019 and were excluded from the list of cash generating units. As a result of the impairment test performed on 31 December 2018, MTS recognized impairment losses in the amount of RUB 677 million, in respect of goodwill and non-current assets of the Cloud Retail CGU, of which RUB 524 million was attributed to goodwill.

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

- Forecasting future cash flows was based on a five-year business plan. The estimation of future cash flows requires the use of assumptions regarding a number of variable factors.
- OIBDA margin used for the CGUs located in the Russian Federation and Armenia was in the range of 42.4% – 56.6%, in the Czech Republic in the range of 3.2% – 3.9%. (31 December 2018: 42.4% – 59.2% and 4.9% – 5.5%, respectively, Ukraine in the range of 50% – 51.6%).
- Capital expenditure for calculation of operational value was used as a percentage of the revenue of the CGUs located in the Russian Federation and Armenia in the range of 15.6% – 19.8%, in the Czech Republic – 1.2% (31 December 2018: 16.9% -21.6% and 1.3% respectively, Ukraine – 18.4%).

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- The terminal growth rate was used according to the CGU located in the Russian Federation and Armenia in the range of 0.01% – 1%, in the Czech Republic – 2%. To calculate the value in use for the Ukraine segment in 2018 the growth rate used was 3%.
- Pre-tax nominal discount rate for CGUs located in the Russian Federation – 14.1%, Armenia – 13.5%, Czech Republic – 6.1% (31 December 2018: in the Russian Federation in the range of 14.5% – 16.0%, Armenia – 15.2%, Czech Republic – 8.7%, Ukraine – 20.8%) was calculated with reference to the weighted average cost of capital and reflects management's assessment of the risks inherent in these production units.

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

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

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

	2019	2018
Terminal cash flows growth rate	4%	4%
Discount rate	14%	14%
Range of average annual market price growth rate	4-5%	4-5%

Segezha Group – The recoverable amount of CGU is determined based on the value-in-use. The calculation included cash flow projections based on eight-year financial plans and a discount rate of 12.6% (31 December 2018: 12.2%). The terminal growth rate is 4% per annum.

The model used for the impairment test is sensitive to changes in assumptions and estimates made by management. The result is especially sensitive to changes in the discount rate and forecasted exchange rates.

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17. OTHER INTANGIBLE ASSETS

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

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

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

Operating licenses	1-20 years
Billing and telecommunication software	1-20 years
Radio frequencies	1-15 years
Customer base	4-31 years
Cost to obtain contracts	2-5 years
Software and other	1-10 years

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

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

Intangible assets other than goodwill as of 31 December 2019 and 2018 consisted of the following:

	<u>31 December 2019</u>	<u>31 December 2018</u>
<i>Carrying amounts of:</i>		
<i>Amortised intangible assets:</i>		
Billing and telecommunication software	55,560	55,465
Operating licenses	10,103	25,605
Radio frequencies	1,590	2,061
Acquired customer base	842	2,300
Software and other	9,377	13,166
Cost to obtain contracts	7,123	6,899
	<u>84,595</u>	<u>105,496</u>
<i>Unamortised intangible assets:</i>		
Trademarks	6,543	6,629
Total	<u>91,138</u>	<u>112,125</u>

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	Billing and telecom software	Operating licenses	Customer bases	Radio frequencies	Software and other	Trade - marks	Cost to obtain contracts	Total
Cost								
Balance as of								
1 January 2018	112,269	36,443	12,504	7,851	25,837	6,624	19,320	220,848
Additions	20,884	7,513	59	19	2,845	-	3,961	35,281
Disposals	(8,215)	(223)	(63)	(1,223)	(439)	-	-	(10,163)
Reclassified to								
assets held for sale	-	(1,066)	-	-	(712)	-	-	(1,778)
Business combinations	68	-	1,530	-	1,482	-	-	3,080
Currency translation adjustment	2,977	4,656	-	-	158	5	79	7,875
Прочее	89	-	-	-	(103)	-	(118)	(132)
Balance as of	31 December 2018	128,072	47,323	14,030	6,647	29,068	6,629	23,242
Additions	27,921	1,119	-	(38)	2,451	-	10,290	41,743
Disposals	(11,564)	(84)	(2,879)	(865)	(411)	-	(18,281)	(34,084)
Business combinations	6	-	(37)	-	63	-	-	32
Sales of companies	(15,770)	(19,150)	-	-	(5,318)	(80)	(1,842)	(42,160)
Currency translation adjustment	718	197	-	(29)	19	-	108	1,013
Reclassified to other non-current assets	-	-	-	-	(1,226)	-	-	(1,226)
Other	93	3	-	(1)	462	(6)	-	551
Balance as of	31 December 2019	129,476	29,408	11,114	5,714	25,108	6,543	13,517
Accumulated depreciation and impairment								
Balance as of	1 January 2018	(57,277)	(16,838)	(10,355)	(4,761)	(14,382)	-	(12,368)
Disposals	7,994	193	63	971	392	-	-	9,613
Amortisation expense	(20,941)	(3,315)	(1,438)	(796)	(1,835)	-	(3,876)	(32,201)
Reclassified to								
assets held for sale	-	338	-	-	423	-	-	761
Impairment	(124)	-	-	-	(447)	-	-	(571)
Currency translation adjustment	(2,187)	(2,114)	-	-	(27)	-	(99)	(4,427)
Other	(72)	18	-	-	(26)	-	-	(80)
Balance as of	31 December 2018	(72,607)	(21,718)	(11,730)	(4,586)	(15,902)	-	(16,343)
Disposals	11,065	25	2,813	831	354	-	18,281	33,369
Amortisation expense	(24,394)	(3,430)	(1,361)	(372)	(1,722)	-	(6,887)	(38,166)
Sales of companies	12,657	5,155	6	-	2,648	-	1,210	21,676
Impairment	-	-	-	(26)	(1,008)	-	-	(1,034)
Currency translation adjustment	(615)	664	-	29	(5)	-	(82)	(9)
Other	(22)	(1)	-	-	(96)	-	(2,573)	(2,692)
Balance as of	31 December 2019	(73,916)	(19,305)	(10,272)	(4,124)	(15,731)	-	(6,394)

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

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

The Group’s operating licenses do not provide for automatic renewal. As of 31 December 2019, all expired licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. The weighted-average period until the next renewal of licenses in the Russian Federation is two and a half years.

The license for the provision of telecommunication services in Armenia is valid until 2034.

18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

Investments in associates and joint ventures as of 31 December 2019 and 2018 consisted of the following:

	2019		2018	
	Voting power	Carrying value	Voting power	Carrying value
Detsky mir (Note 6)	33.38%	21,807		-
Etalon (Note 6)	23.67%	13,342		-
Ozon	42.99%	11,854	34.96%	9,533
Element LLC	50.00%	10,042		-
MTS Belarus	49.00%	4,502	49.00%	4,051
OBL Pharm	26.26%	4,280	12.80%	1,832
Michurinskiy project	50.00%	2,591	50.00%	1,381
Real estate projects	48%-50%	1,352	48%-50%	4,823
Sintez	28.49%	204		-
Razvitie		-	50.00%	2,238
Other		9,943		10,649
Total		79,917		34,507

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Detsky mir – Detsky mir, together with its branches, is the largest retail chain selling goods for children in Russia. The main activities are the sale of children's clothing and baby food through online stores. The group is developing the sale of pet food through retail chains and online stores. Detsky mir is registered in Russian Federation.

Etalon Group – Etalon Group is one of the largest development and construction companies, includes companies in Russia and abroad. Carries out development projects in the markets of St. Petersburg and Moscow, the holding company is registered in the Republic of Cyprus.

Investments in Ozon – During 2019, Sistema PJSFC continued to invest in Ozon. In February 2019, Sistema acquired an 18.7% stake in Ozon Holdings Limited from MTS, in addition, in the first half of the current year, the Company bought back shares from third parties, as a result of which the direct ownership share increased at the end of the second quarter up to 21.9%. At the end of December, Sistema JSFC's share grew by 4.8 percentage points as a result of the conversion of debt into capital. Sistema PJSFC together with its subsidiary Sistema Venture Capital JSC owns 42.99% of Ozon's voting shares as of 31 December 2019. The carrying value of investment in Ozon as of 31 December 2019 is RUB 11.9 billion. The Group's share in loss of Ozon for 2019 is RUB 7.8 billion. Ozon is one of the largest Russian online stores, selling goods in various categories: electronics, household appliances, household goods and others. It has its own logistics network, marketplace technology, and a comprehensive web platform. Ozon is registered in the Republic of Cyprus.

Element LLC – In December 2018, the Board of Directors of RTI JSC approved the contribution of assets in the field of microelectronics as a contribution to the joint venture of Element LLC with the State Corporation Rostec. During 2019, RTI contributed microelectronics assets and purchased an additional stake in Element LLC in total amount of RUB 9.9 billion. The share in Element LLC at the end of 2019 equaled to 50%, the carrying value is about to RUB 10 billion. The joint national center of competence in the field of microelectronic component base is being created on the basis of the joint venture. Element LLC operates and is registered in the Russian Federation.

Investments in Pharmaceutical Enterprise Obolenskoe JSC – In 2019, a consortium of investors including the Russian Direct Investment Fund ("RDIF"), the Russian-Chinese Investment Fund ("RCIF") and several other funds (hereinafter collectively as the "Investors Consortium") acquired a stake in Ristango Holding Limited, a holding company through which in 2018 the Group and VTB Bank acquired a stake in Obolenskoye Pharmaceutical Enterprise JSC ("OBL Pharm"). As a result, a new shareholders agreement was signed. The Investors Consortium received the right to sell its stake in the Ristango Holding Limited Group in January 2026 for RUB 5.4 billion, which will be reduced by the amount of dividends received by the Investors Consortium during the period of ownership. The contracts which stipulates the acquisition of VTB stake in Ristango Holding Limited for RUB 6.7 billion in December 2021 is still in place. The fair value of the financial instruments at 31 December 2019 approximates nil. The calculation of the fair value of the financial instrument with the Investors Consortium is based on the Black-Scholes model using the discounted cash flow method to calculate the fair value of the interest in Ristango Holding Limited. The fair value of the forward contract with VTB Bank is defined as the difference between the purchase price and the fair value of the interest in Ristango Holding Limited determined using the discounted cash flow method.

In October 2019, the merger of OBL Pharm and Binnopharm JSC under the Alium brand was completed. As part of the business combination procedures, the Group increased its ownership interest in Binnopharm JSC from 74% to 89% by purchasing part of the shares from minority shareholders. The Group contributed its share in Binnopharm JSC as a consideration for the additional share issuance of OBL Pharm. The share of Sistema PJSFC in the company as of reporting date is 26.3%.

In **real estate projects**, the Group retained its ownership interests as at 31 December 2019 and continues to account for them as investments in joint ventures and associates.

Purchase of Sintez and Biocom – In August 2019, Sinocom Investments Limited ("Sinocom"), a joint holding company of the Group and a financial partner, acquired a 46.5% stake in the authorized capital of Kurgan company of Medicines and Products "Sintez" JSC ("Sintez") and a 75.1% stake in the authorized capital of Biocom JSC ("Biocom") from the third party for RUB 11.8 billion. Further, Sintez acquired a 75.1% stake in Biocom from Sinocom for RUB 3.6 billion using its own funds and bank financing.

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The Group and the financial partner entered into an agreement to acquire its stake in Sinocom in August 2022 for RUB 8.1 billion. The fair value of the financial instrument at 31 December 2019 approximates nil. The fair value was defined as the difference between the purchase price and the fair value of the interest in Sinocom Investments Limited as determined by the discounted cash flow method.

The Group concluded that, in accordance with the Sinocom articles of association and the acquisition documents, the Group does not have the exclusive right to manage the current activities of Sintez and Biocom, and therefore investments in these companies are accounted for using the equity method.

The percentage of voting shares of the Group in Sintez as of 31 December 2019 is calculated taking into account the percentage of voting shares in the holding company Sinocom Investment Limited and composed 28.49%. The Group's share in the profit and loss of Sintez of 1.54% was calculated based on investors contributions and the proportion of voting shares in Sinocom.

Sale of Razvitie LLC – In 2019, Sistema PJSFC sold its 50% stake in Razvitie LLC as part of the sale of Leader Invest JSC.

The financial position and results of operations of significant associates and joint venture as of and for the years ended 31 December 2019 and 2018 were as follows:

	2019							
	MTS Belarus	Ozon	Real estates projects	Etalon	Detskiy Mir	Sintez	OBL Pharm	Michurinskiy project
Non-current assets	19,496	19,829	27,295	13,429	46,760	16,624	10,727	3,347
Current assets	11,536	18,902	3,458	158,949	45,901	7,333	5,969	12,587
Total assets	31,032	38,731	30,753	172,378	92,661	23,957	16,696	15,934
Non-current liabilities	(9,849)	(8,350)	(14,062)	(51,527)	(36,719)	(3,331)	(4,520)	(8,309)
Current liabilities	(11,995)	(29,688)	(6,606)	(67,447)	(57,609)	(4,060)	(4,792)	(981)
Total liabilities	(21,844)	(38,038)	(20,668)	(118,974)	(94,328)	(7,391)	(9,312)	(9,290)
Equity attributable to								
owners of the Company	9,188	693	10,085	53,404	(1,667)	16,566	7,384	6,644
Group's ownership interest	49.00%	42.99%	48.00%	23.67%	33.38%	1.54%	26.26%	50.00%
Fair value adjustment on the date of obtaining significant influence	-	11,556	(172)	702	22,364	(52)	2,341	(731)
Impairment	-	-	(3,317)	-	-	-	-	-
Carrying amount of the Group's interest	4,502	11,854	1,352	13,343	21,807	204	4,280	2,591
Total revenues	32,593	60,038	2,391	74,809	17,543	4,366	7,568	9,039
Total profit/(loss) for the year	9,354	(21,585)	(1,387)	(802)	1,780	170	748	2,419
The Group's share in profit/(loss)	4,583	(7,834)	(666)	(655)	594	3	194	1,210
Total comprehensive income/(loss)	8,512	(21,585)	(1,387)	(802)	1,780	170	748	2,419
The Group's share in comprehensive income/(loss) for the year	4,171	(7,834)	(666)	(655)	594	3	194	1,210

SISTEMA PJSFC AND SUBSIDIARIES

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

	2018					
	MTS Belarus	Ozon	Real estates projects	Razvitie	OBL Pharm	Michu- rinskiy project
Non-current assets	17,659	8,466	18,937	4,003	5,898	2,444
Current assets	11,652	11,705	612	467	4,951	6,852
Total assets	29,311	20,171	19,549	4,470	10,849	9,296
Non-current liabilities	(7,089)	(511)	(8,042)	-	(5,441)	(4,828)
Current liabilities	(13,955)	(14,263)	(1,047)	(2)	(1,971)	(243)
Total liabilities	(21,044)	(14,774)	(9,089)	(2)	(7,412)	(5,071)
Equity attributable to						
owners of the Company	8,267	5,397	10,460	4,468	3,437	4,225
Group's ownership interest	49.00%	34.96%	48%-50%	50.00%	12.80%	50.00%
Fair value adjustment on the date of obtaining significant influence	-	7,646	(198)	4	1,392	(732)
Carrying amount of the Group's interest	4,051	9,533	4,823	2,238	1,832	1,381
Total revenues	27,695	37,263	31	-	6,863	2,076
Total profit/(loss) for the year	7,752	(4,509)	(259)	21	1,544	222
The Group's share in profit/(loss)	3,799	(1,115)	(124)	11	-	111
Total comprehensive income/(loss)	8,400	(4,509)	(259)	21	1,544	222
The Group's share in comprehensive income/ (loss) for the year	4,116	(1,115)	(130)	11	-	111

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The following is a summary of the financial information for Element LLC (the material joint venture of the Group) as of 31 December 2019:

	31 December 2019
Assets	
Current assets, including:	
cash and cash equivalents	21,276
restricted cash	2,231
Non-current assets	3,378
Total assets	20,650
	41,926
Liabilities	
Current liabilities, including:	
Trade and other payables	10,689
Non-current liabilities	3,625
Total liabilities	11,603
	22,292
Non-controlling interest	1,600
Equity attributable to owners of the Company	18,034
Group's ownership interest	50%
Fair value adjustment	
on the date of obtaining significant influence	1,025
Carrying amount of the Group's interest	10,042

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The financial results of the activities of Element LLC (the material joint venture of the Group) for 2019 were as follows :

	June-December 2019
Revenue	14,365
Operating expenses, including:	(12,885)
Amortization	(1,161)
Operating income	1,480
Non-operating (expenses)/income, including:	(660)
Finance income	35
Finance costs	(667)
Profit before tax	820
Income tax expense	(256)
Net profit for the period or ownership	564
Attributable to:	
Owners of the Company	418
Non-controlling interest	146
The Group's share in profit of Element LLC	225
Total comprehensive income/(loss)	391
The Group's share in comprehensive income/(loss) for the year	198

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

	2019	2018
Group's share of profit/(loss) from continuing operations	(2,052)	(505)
Group's share of total comprehensive income/(loss)	(1,613)	(817)
Aggregate carrying amount of the Group's interests in these associates and joint ventures	9,942	10,649

19. OTHER FINANCIAL ASSETS

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

SISTEMA PJSFC AND SUBSIDIARIES

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

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

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

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

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

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

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

At 31 December 2019 financial assets, other than those shown separately on the face of the statements of financial position, less allowance for impairment losses, comprise:

	31 December 2019	31 December 2018
Financial assets measured at fair value through profit or loss		
Debt and equity securities	47,782	51,332
Contingent consideration	2,013	-
Currency derivatives not designated as hedge instruments	52	3,049
Currency rate swaps not designated as hedge instruments	318	2,837
	50,165	57,218
Financial assets measured at fair value through other comprehensive income		
Cross-currency swaps designated as cash flow hedges	-	2,797
Debt and equity securities	8,999	10,153
	8,999	12,950
Financial assets measured at amortized cost		
Debt and equity securities	26,695	41,187
Bank loans to customers	99,228	68,227
Interbank loans due from banks	5,723	6,416
Other loans	13,301	15,888
	144,947	131,718
Total financial assets		
	204,111	201,886
Current	87,138	106,329
Non-current	116,973	95,557
	204,111	201,886

SISTEMA PJSFC AND SUBSIDIARIES

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

The following table summarizes changes in the allowance for financial assets other than for loan losses and accounts receivable for 2019 and 2018:

	2019	2018
Balance as of 1 January calculated under IAS 39	-	11,268
IFRS 9 transition impact	-	500
Balance as of 31 December calculated under IFRS 9	5,951	11,768
Charge for the period	66	446
Amounts written off against the allowance	(258)	(6,327)
Currency translation adjustments	(37)	64
Balance as of 31 December calculated under IFRS 9	5,722	5,951

As of 31 December 2019 and 2018, included in the above categories as well as cash and cash equivalents, financial assets attributable to the Group's banking activities (MTS Bank and its subsidiaries, East-West United Bank) comprise:

	31 December 2019	31 December 2018
Financial assets measured at fair value through profit or loss		
Debt and equity securities	14,217	13,654
	14,217	13,654
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	8,999	10,153
	8,999	10,153
Financial assets measured at amortized cost		
Cash and cash equivalents	38,777	23,500
Bank loans to customers	111,114	78,089
Interbank loans due from banks	5,723	6,416
Debt and equity securities	25,386	39,943
	181,000	147,948
Less: allowance for loan losses	(11,886)	(9,862)
	192,330	161,893

The movement in the allowance for loan losses during 2019 and 2018 was as follows:

	2019	2018
Allowance for loan losses, 1 January	9,862	10,459
IFRS 9 transition impact	-	2,060
Charge for the period	3,533	705
Amounts written off against the allowance	(2,022)	(3,970)
Transfer to accounts receivable	-	(495)
Disposal	(40)	(356)
Recovery of bad debt written-off	829	780
Currency translation adjustment	(276)	679
Allowance for loan losses, 31 December	11,886	9,862

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

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

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

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

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

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

Stage 3: expected lifetime credit losses – credit impaired

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

Movements in provision for impairment losses on loans to legal entities for the year ended 31 December 2019 and 2018 were as follows:

	Stage 1	Stage 2	Stage 3	POCI*	Total
Balance as at 1 January 2019	356	605	5,126	255	6,342
Transfer to Stage 1	19	(18)	(1)	-	-
Transfer to Stage 2	(46)	47	(1)	-	-
Transfer to Stage 3	(55)	(496)	551	-	-
New financial assets originated or purchased	537	2	-	119	658
Change due to change of credit risk	(45)	42	(374)	(28)	(405)
Sales of financial assets	(40)	-	-	-	(40)
Write-offs	(13)	(32)	(767)	(52)	(864)
Recovery of previously written-off assets	-	-	392	-	392
Foreign exchange difference	(2)	(15)	(254)	-	(271)
Balance as at 31 December 2019	711	135	4,672	294	5,812

SISTEMA PJSFC AND SUBSIDIARIES

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

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

* POCI – financial assets purchased or originated credit-impaired

Movements in provision for impairment losses attributable to loans to individuals for the year ended 31 December 2019 and 2018 were as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 1 January 2019	756	318	2005	398	3477
Transfer to Stage 1	599	(465)	(134)	-	-
Transfer to Stage 2	(188)	236	(48)	-	-
Transfer to Stage 3	(2)	(1,228)	1,230	-	-
New financial assets originated or purchased	1,351	-	-	-	1,351
Change due to change of credit risk	(708)	2,062	593	-	1,947
Write-offs	-	-	(1,103)	(40)	(1,143)
Recovery of previously written-off assets	-	-	435	-	435
Balance as of 31 December 2019	1,808	923	2,978	358	6,067

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

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

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

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

The table below summarizes information regarding the quality of loans to individuals as of 31 December 2019 and 2018:

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	66,507	138	-	-	66,645
Monitoring	-	2,801	49	358	3,208
Impaired	-	-	3,987	-	3,987
Loss allowance	(1,808)	(923)	(2,978)	(358)	(6,067)
Total	64,699	2,016	1,058	-	67,773

31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	37,139	445	-	-	37,584
Monitoring	-	534	5	-	539
Impaired	-	-	2,814	398	3,212
Loss allowance	(756)	(318)	(2,005)	(398)	(3,477)
Total	36,383	661	814	-	37,858

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The table below summarizes information regarding the quality of loans to legal entities as of 31 December 2019 and 2018:

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	19,314	1,728	-	-	21,042
Monitoring	7,396	2,472	-	-	9,868
Impaired	-	-	6,055	301	6,356
Loss allowance	(711)	(135)	(4,672)	(294)	(5,812)
Total	25,999	4,065	1,383	7	31,454

31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Low to fair risk	24,658	1,555	-	-	26,213
Monitoring	-	3,930	270	-	4,200
Impaired	-	-	6,038	260	6,298
Loss allowance	(356)	(605)	(5,126)	(255)	(6,342)
Total	24,302	4,880	1,182	5	30,369

Analysis by credit quality of loans to individuals outstanding as of 31 December 2019 is as follows:

31 December 2019	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	66,507	(1,664)	64,843	3%
Overdue:				
up to 30 days	1,841	(472)	1,369	26%
31 to 60 days	519	(293)	226	56%
61 to 90 days	441	(282)	159	64%
91 to 180 days	1,110	(816)	294	74%
over 180 days	2,615	(2,043)	572	78%
Total	73,033	(5,570)	67,463	8%
Individually impaired				
Not past due	495	(380)	115	77%
Overdue:				
up to 30 days	48	(15)	33	31%
31 to 60 days	-	-	-	0%
61 to 90 days	1	-	1	0%
91 to 180 days	4	-	4	0%
over 180 days	259	(102)	157	39%
Total	807	(497)	310	62%
Total	73,840	(6,067)	67,773	8%

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Analysis by credit quality of loans to medium-sized enterprise outstanding as of 31 December 2019 is as follows:

As of 31 December 2019	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	1,213	(19)	1,194	2%
Overdue:				
up to 30 days	29	(9)	20	31%
31 to 60 days	30	-	30	0%
61 to 90 days	-	-	-	0%
91 to 180 days	14	(3)	11	22%
over 180 days	672	(399)	273	59%
Total collectively assessed loans	1,958	(430)	1,528	22%

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

	31 December 2019	31 December 2018
Loans collateralized by cash deposits	4,246	-
Loans collateralized by guarantees of legal entities	16,630	17,984
Loans collateralized by pledge of real estate	15,102	14,971
Loans collateralized by pledge of own promissory notes	27	326
Loans collateralized by pledge of equipment	496	143
Loans collateralized by securities	1,349	32
Loans collateralized by rights of claim	15	15
Loans collateralized by pledge of inventories	2	12
Unsecured loans	73,233	44,606
Allowance for impairment losses	(11,879)	(9,862)
Total loans to customers, net	99,221	68,227

20. RESTRICTED CASH

According to the amendments to the law "On State Defence Orders", cash received under state defence orders has to be held on special accounts and its spending is restricted to activities related to these orders. As of 31 December 2019 and 31 December 2018, RTI has RUB 5,689 million and RUB 8,614 million of cash on special accounts which was presented as restricted cash within current assets.

21. INVENTORIES

Inventory mainly include the retail network of MTS and raw materials of Segezha Group and material and technical product of RTI.

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

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

Inventories as of 31 December 2019 and 2018 consisted of the following:

	2019	2018
Detsky mir finished goods and goods for resale	-	34,865
Construction in progress of Leader Invest	-	14,452
Raw materials and spare parts	13,721	13,772
MTS finished goods and goods for resale	15,515	18,654
Other finished goods and goods for resale	6,983	8,400
Other work-in-progress	9,110	7,835
Subtotal	45,329	97,978
Excluding non-current inventories	-	(847)
Total	45,329	97,131

The cost of inventories recognized as an expense during the year in respect of continuing operations was RUB 90,211 million (2018: RUB 91,166 million). The cost of inventories recognized as an expense includes RUB 3,178 million (2018: RUB 4,004 million) in respect of write-downs of inventory to net realisable value and has been reduced by RUB 664 million (2018: RUB 2,315 million) in respect of the reversal of such write-downs.

22. ACCOUNTS RECEIVABLE

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

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

Accounts receivable, net of allowances, as of 31 December 2019 and 2018 consisted of the following:

	2019	2018
Accounts receivable	61,250	70,392
Allowance for ECL	(6,547)	(6,875)
Total	54,703	63,517

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

	2019	2018
60-90 days	1,396	1,974
more than 91 days	2,775	4,187
Total	4,171	6,161

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Movement in the allowance is as follows:

	2019	2018
Balance at the beginning of the year	(6,875)	(5,876)
Transfer from provision of financial assets of banking activities	-	(495)
Allowance for doubtful accounts	(5,476)	(4,407)
Usage of allowance to doubtful accounts write-off	4,633	3,645
Disposal of subsidiaries	659	-
Provision recovery	291	99
Currency exchange gain	221	159
Balance at the end of the year	(6,547)	(6,875)

23. EQUITY

Share capital – As of 31 December 2019 and 2018, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,378,196,750 and 9,479,170,532 shares were outstanding, respectively.

Treasury shares – Movement of treasury shares during 2019 and 2018 years in quantity was as follows:

	2019	2018
Balance at the beginning of the year	170,829,468	212,485,347
Purchase of own shares	120,643,171	-
Purchase of own shares of the Company by employees	(19,669,389)	-
Settlements under long-term motivation program	-	(41,655,879)
Balance at the end of the year	271,803,250	170,829,468

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

On 30 June 2019, an annual general meeting of shareholders approved the total dividend payment of RUB 1,061.5 million for 2018 (including dividends on treasury shares of RUB 16.6 million) representing RUB 0.11 per ordinary share or RUB 2.2 per one global depository receipt. The dividends were paid in 2019.

SISTEMA PJSFC AND SUBSIDIARIES

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24. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income balance, net of taxes, as of 31 December 2019 and 2018:

	2019	2018
Accumulated currency translation gain	10,405	9,911
Unrealised gain on financial instruments	-	197
Unrecognised actuarial gain	303	92
Total accumulated other comprehensive income	10,708	10,200
Less: amounts attributable to non-controlling interests	(3,256)	1,004
Total accumulated other comprehensive income attributable to Sistema PJSFC	7,452	11,204

25. BORROWINGS

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

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

Finance costs in profit or loss consist of interest expense for financial liabilities not classified as at FVTPL. In 2019, finance costs did not include borrowing costs that were included in the cost of qualifying assets in amount of RUB 550 million (2018: RUB 460 million).

At 31 December 2019 and 2018, the Group's borrowings comprised:

	2019	2018
Bank loans	349,964	491,018
Corporate bonds	266,616	206,332
Other	4,290	985
	620,870	698,335
Current	129,454	105,893
Non-current	491,416	592,442

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

Maturity	Interest rate (actual at 31 December 2019)	31 December 2019		31 December 2018	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
USD-denominated:					
China Development Bank			-	10,421	
Citibank			-	10,980	
Other			-	5,109	
			-		26,510
EUR-denominated:					
ING Bank	2020-2027 EURIBOR+1.5% (3.99%)		3,879	4,946	
Alfa Bank	2020-2028 3.92%		13,868	15,892	
Sberbank	2020-2024 3%		5,529	-	
Other			1,066	1,352	
				24,342	22,190
RUB-denominated:					
Sberbank	2020-2025 7.5%-11.2%		185,558	235,909	
VTB	2020-2026 7.20%-9.85%; ЦБ+0.5%-4.8% (6.75%-11.05%)		68,877	132,421	
Rosselkhozbank	2020 7.4%		5,000	-	
Gazprombank	2020-2025 8.5%-9.3%		8,266	23,554	
Otkrytie	2020-2025 8.20%-10.25%		17,524	19,125	
Alfa Bank	2020-2028 8.75%-10.92% ЦБ+2% (8.25%)		28,931	24,795	
Other			11,276	6,297	
				325,432	442,101
Other currencies			190	217	
Total bank loans				349,964	491,018

SISTEMA PJSFC AND SUBSIDIARIES

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

	Currency	Interest rate	31 December 2019	31 December 2018
MTS International 2023	USD	5.00%	27,394	31,090
Sistema International Май 2019	USD	6.95%	-	24,705
MTS International 2020	USD	8.63%	18,616	20,870
Sistema PJSFC February 2028	RUB	9.25%	244	15,000
Sistema PJSFC March 2027	RUB	8.90%	14,959	14,964
Sistema PJSFC November 2026	RUB	9.90%	9,650	9,635
Sistema PJSFC January 2028	RUB	9.80%	9,994	9,482
Sistema PJSFC October 2026	RUB	9.80%	6,123	6,115
Sistema PJSFC September 2025	RUB	12.50%	4,196	2,136
MTS Notes 2022	RUB	7.70%	14,969	14,958
MTS Notes 2023	RUB	6.85%	9,351	9,348
MTS Notes 2022	RUB	9.00%	9,995	9,993
MTS Notes 2021	RUB	8.85%	9,995	9,990
MTS Notes 2021	RUB	7.10%	9,992	9,988
MTS Notes 2025	RUB	7.25%	9,820	9,986
MTS Notes 2031	RUB	7.50%	891	1,080
MTS Notes 2020	RUB	7.90%	40	40
Detskiy Mir due 2024	RUB	9.50%	-	3,000
Sistema PJSFC February 2029	RUB	9.90%	9,661	-
Sistema PJSFC March 2029	RUB	9.90%	9,527	-
Sistema PJSFC July 2029	RUB	9.40%	9,429	-
Sistema PJSFC October 2029	RUB	7.85%	9,601	-
MTS Notes 2024	RUB	8.70%	9,764	-
MTS Notes 2022	RUB	8.40%	4,991	-
MTS Notes 2024	RUB	8.60%	7,485	-
MTS Notes 2025	RUB	8.00%	14,984	-
MTS Notes 2026	RUB	7.90%	9,998	-
MTS Notes 2023	RUB	6.85%	14,961	-
MTS Notes 2022	RUB	6.45%	9,973	-
Other			13	3,952
Итого			266.616	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 repurchase could be submitted, irrespective of the Group's expectations about the intentions of the noteholders. The dates of the announcement for each particular note issue are as follows:

MTS PJSC Notes due 2031	March 2021
MTS PJSC Notes due 2023	March 2020
Sistema PJSFC Notes due November 2026	February 2020
Sistema PJSFC Notes due October 2026	November 2020
Sistema PJSFC Notes due January 2028	January 2021
Sistema PJSFC Notes due February 2029	March 2022
Sistema PJSFC Notes due March 2027	April 2022
Sistema PJSFC Notes due September 2025	April 2022
Sistema PJSFC Notes due March 2029	September 2022
Sistema PJSFC Notes due July 2029	July 2023
Sistema PJSFC Notes due February 2028	August 2024
Sistema PJSFC Notes due October 2029	October 2024

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

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As of 31 December 2019 the Group had long-term debt denominated in Russian rubles, presented as part of current liabilities in the consolidated statement of financial position for the following reasons:

	2019	2018
Noncompliance with other non-financial covenants	11,312	16,915
Noncompliance with certain financial ratios by the Group's subsidiaries	799	-
Total	12,111	16,915

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

Assets pledged as security – As of 31 December 2019 and 2018 land and buildings with carrying amounts of RUB 35,206 million and RUB 25,025 million, respectively, have been pledged to secure borrowings of the Group. The freehold land and buildings have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. As of 31 December 2019 and 2018, other assets including inventories and deposits with carrying amounts of RUB 2,943 million, RUB 2,729 million respectively have been pledged to secure borrowings of the Group.

The following shares of the Group have been pledged to secure borrowings of the Group: 87% shares of RTI, 16.01% shares of MTS and 100% shares of certain subsidiaries of Segezha Group, Agroholding "Steppe", Intourist.

26. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

For contracts concluded after 1 January 2018, the Group assesses whether a contract is or contains a lease at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements (including sub-lease and lease of intangible assets), which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expense on a straight-line basis over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate non-lease components of the contract and, instead, to account for any lease and associated non-lease components as a single arrangements.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate of the Group.

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

	31 December	31 December
	2019	2018
Sites for placement of network and base station equipment	92,942	92,501
Land and buildings	60,422	95,316
Other	1,501	6,430
Rights-of-use assets, net	154,865	194,247

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Depreciation of the rights-of-use assets for the 2019 and 2018 was included in the depreciation and amortization of fixed assets, intangible assets and the rights-of-use assets in the accompanying consolidated statement of profit or loss. Wherein amounts of RUB 8,440 million and RUB 8,370 million, respectively, were recognized as part of the financial result from discontinued operations in the accompanying consolidated statement of profit or loss:

Depreciation of the rights-of-use assets for the twelve months ended 31 December 2019 included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss was as follows:

	2019	2018
Sites for placement of network and base station eqt	6,900	7,784
Land and buildings	20,294	19,168
Other	1,466	1,201
Depreciation charge, total	28,660	28,153

Additions to the assets leased during the twelve months ended 31 December 2019 and 2018 amounted to RUB 28,976 and RUB 25,856 million, respectively.

Interest expense on lease obligations for the 2019 and 2018 is included in finance expenses in the accompanying consolidated statement of profit or loss. Wherein amounts of RUB 3,600 million and RUB 3,776 million, respectively, were recognized as part of the financial result from discontinued operations in the accompanying consolidated statement of profit or loss.

The following table presents expenses related to lease, recognised in the consolidated statement of profit and loss for 2019:

	2019	2018
Depreciation of right-of-use assets	28,660	28,153
Interest expense on lease liabilities	18,866	18,382
Impairment	436	143
Expenses relating to variable lease payments not included in the measurement of the lease liability	737	1,177

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

	31 December	31 December
	2019	2018
Minimum lease payments, including:		
Less than 1 year	30,382	40,141
From 1 to 5 years	109,353	143,957
Over 5 years	140,368	134,653
Total minimum lease payments	280,103	318,751
Less amount representing interest	(114,478)	(111,384)
Present value of net minimum lease payments, including:		
Less than 1 year	16,060	24,206
From 1 to 5 years	67,636	89,556
Over 5 years	81,929	93,605
Total present value of net minimum lease payments	165,625	207,367
Less current portion of lease obligations	(16,060)	(24,206)
Non-current portion of lease obligations	149,565	183,161

Total cash outflows for leases for the year ended 31 December 2019 and 2018 amounted to RUB 42,810 million and RUB 39,193 million, respectively, including interest paid in amount of RUB 18,507 million (31 December 2018: RUB 18,149 million).

27. BANK DEPOSITS AND LIABILITIES

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

Bank deposits and liabilities as of 31 December 2019 and 2018 consisted of the following:

	2019	2018
Customer accounts	151,419	128,156
Bank loans received	12,305	2,435
Debt securities issued	1,421	1,235
Other liabilities	1,417	1,460
	166,562	133,286
Less: amounts maturing within one year	(160,511)	(129,872)
Total bank deposits and liabilities, net of the current portion	6,051	3,414

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28. OTHER FINANCIAL LIABILITIES

Other financial liabilities as of 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Obligations to pay for the share in the Element LLC	1,568	-
Factoring operations liability	1,264	542
MTS liabilities related to hedging activities	955	-
Contingent obligation to pay purchase price	917	936
Forwards not designated as hedge instruments	366	85
MTS liabilities under put option agreement (MTS Armenia)	73	3,629
Interest rate and cross-currency swaps not designated as hedging instruments	68	265
Liability for RTI shares	-	3,600
Other	1,784	2,320
Non-current	3,526	1,473
Current	3,469	9,904
Total other financial liabilities	6,995	11,377

29. PROVISIONS

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

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

Provisions as of 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Employees' bonuses and other rewards	11,123	11,624
Provisions for decommissioning and restoration obligations	4,788	3,109
Tax provisions other than for income tax	541	252
Provision on SEC investigation (Note 5)	-	59,050
Other	4,206	3,577
Total	20,658	77,612
Current	14,910	73,244
Non-current	5,748	4,368

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	Employees' bonuses and other rewards	Provisions for decommissioning	Tax provisions other than income tax	Provision on SEC investigation	Other	Total
Balance as of 1 January 2018	(11,924)	(1,049)	(310)	-	(3,154)	(16,437)
Effect of IFRS 15	-	-	-	-	(597)	(597)
Additional provisions recognized	(16,146)	(1,912)	(487)	(55,752)	(4,470)	(78,767)
Payments	14,846	18	336	-	1,727	16,927
Unwinding of discount and effect of changes in the discount rate	177	(223)	-	-	-	(46)
Unused amounts reversed	1,229	89	211	-	2,170	3,699
Transfet to financial liabilities	-	-	-	-	700	700
Transfer to liabilities held for sale	300	-	-	-	-	300
Currency translation adjustment	(106)	(32)	(2)	(3,298)	47	(3,391)
Balance as of 31 December 2018	(11,624)	(3,109)	(252)	(59,050)	(3,577)	(77,612)
Additional provisions recognized	(17,863)	(2,341)	(410)	-	(2,302)	(22,916)
Payments	16,796	19	41	55,607	1,529	73,992
Unwinding of discount and effect of changes in the discount rate	(12)	42	-	-	-	30
Unused amounts reversed	817	-	34	-	1,081	1,932
Transfet to financial liabilities	(303)	-	-	-	(803)	(1,106)
Transfer to liabilities held for sale	771	760	50	-	126	1,707
Currency translation adjustment	295	(159)	(4)	3,443	(260)	3,315
Balance as of 31 December 2019	(11,123)	(4,788)	(541)	-	(4,206)	(20,658)

30. EARNINGS/(LOSSES) PER SHARE

Earnings/(losses) per share is the amount of earning/(loss) for the year attributable to ordinary shares of the Company divided by the weighted average number of ordinary shares outstanding during the year.

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

	2019	2018
Earning/(loss) for the year from discontinued operations attributable to shareholders of Sistema PJSFC	62,801	(23,498)
Loss for the year from continuing operations attributable to shareholders of Sistema PJSFC	(34,204)	(22,400)
Earnings/(losses) used in the calculation of basic and diluted earnings per share	28,597	(45,898)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	9,473,323,272	9,476,241,839
Earnings/(losses) per share – basic and diluted	3.02	(4.84)
From continuing operations	(3.61)	(2.36)
From discontinued operations	6.63	(2.48)

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31. CAPITAL AND FINANCIAL RISK MANAGEMENT

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

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

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

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

	2019	2018
Net borrowings	557,201	584,152
OIBDA	201,701	259,543
Net borrowings to OIBDA ratio	2.76	2.25

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

MTS Bank – The CBR requires that banks comply with the minimum capital adequacy ratio of 8% calculated on the basis of statutory standalone financial statements. MTS Bank met the requirements established by the CBR. As of 31 December 2019 and 2018, MTS Bank's capital adequacy ratio was 14.1% and 11.9%, respectively.

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

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

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

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

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

	Liabilities		Assets	
	2019	2018	2019	2018
US Dollar	77,677	155,029	30,279	49,729
Euro	27,801	25,076	17,570	20,608

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

	Increase in US Dollar and Euro	Decrease in profit before tax
2019	30%	17,289
2018	20%	21,954

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

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

A change of floating rates by 1% applied to the borrowings (excluding hedged items) would not significantly impact operations of the Group.

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

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

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

	Change in prices	Profit before tax increase/ decrease	Other comprehensive income increase/ decrease
2019	30%	6,841	2,160
2018	10%	2,393	813

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

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

At 31 December 2019, the schedule of repayments of undiscounted financial liabilities (except for lease liabilities which is presented in Note 26) of the Group for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Borrowings	129,454	66,382	99,845	76,864	149,690	98,635
Accounts payable	89,203	-	-	-	-	-
Bank deposits and liabilities	160,511	4,236	908	605	303	-
Liability to Rosimushchestvo	7,231	-	-	-	-	-
Other financial liabilities	3,468	3,056	250	220	-	-
Total financial liabilities	389,867	73,674	101,003	77,689	149,993	98,635

At 31 December 2019, the schedule of repayments of undiscounted financial liabilities of the Corporate segment for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Borrowings	16,095	9,994	49,343	27,239	32,523	46,750
Accounts payable	7,014	-	-	-	-	-
Liability to Rosimushchestvo	7,231	-	-	-	-	-
Total financial liabilities	30,340	9,994	49,343	27,239	32,523	46,750

For day to day liquidity requirements the Group had unused credit facilities of RUB 536,797 million as of 31 December 2019 and RUB 180,946 million as of 31 December 2018, including RUB 123,680 million and RUB 99,000 million related to Corporate segment, respectively.

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

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

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

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

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As of 31 December 2019 and 2018, the Group has a significant cash balances, cash equivalents and deposits in the following financial institutions:

	31 December 2019	31 December 2018
The Central bank the Russian Federation	18,776	4,877
The Central bank of Luxemburg	12,819	13,729
VTB	5,148	33,357
Sberbank	3,852	16,613
Total	40,595	68,576

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

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

32. DERIVATIVE INSTRUMENTS

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

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

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

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

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

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

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

Cross-currency interest rate swap agreements – The Group has entered into several cross-currency interest rate swap agreements. The contracts are designated to manage the exposure to changes in currency exchange rate. The contracts assumed periodic exchange of principal and interest payments from RUB-denominated amounts to USD- and Euro-denominated amounts at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2023-2024.

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In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure to changes in currency exchange rate for 26% of the Group's bank loans denominated in USD and EUR outstanding as of 31 December 2019 (2018: 48%).

The notional amounts related to currency derivative instruments amounted to RUB 18,572 million and RUB 58,949 million as of 31 December 2019 and 2018, respectively.

The Group has entered into currency forward and swaps agreements to minimize the foreign currency risk exposure for operating activities. The contracts assumed the purchase or sale of the agreed amount of currency at a specified exchange rate and on a specific date. The rate was determined by the market spot rate upon issuance. As the result of currency forward and swap agreements, unfulfilled as of 31 December 2019 and 2018, the Group recognized RUB 701 million gain and RUB 1,937 million gain in the consolidated statement of profit and loss for the years ended 31 December 2019 and 2018, respectively.

The notional amounts of currency forward and swap instruments, unfulfilled as of 31 December 2019 and 2018, amounted to RUB 69,535 million and RUB 51,002 million, respectively.

Variable-to-fixed interest rate swap agreements – The Group's bank loans denominated in USD and EUR bear primarily floating interest rates. To eliminate the exposure to changes in variable interest rates related to its debt obligations, the Group enters into variable-to-fixed interest rate swap agreements, so that interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective cash flow hedges. In aggregate, the Group entered into variable-to-fixed interest rate swap agreements designated to manage the exposure of changes in variable interest rates related to 0% of the Group's bank loans with variable rates outstanding as of 31 December 2019 (2018: 22%).

Fixed-to-variable interest rate swap agreements – The Group's notes and bank loans denominated in Russian Rubles bear primarily fixed interest rates. To eliminate the exposure to changes in fair value of debt obligations, the Group enters into fixed-to-variable interest rate swap agreements. In aggregate the Group entered into fixed-to-variable interest rate swap agreements designated to manage the exposure to changes in value of the debt related to 3% of the Group's notes and bank loans with fixed rates outstanding as of 31 December 2019 (2018: 3%).

The notional amounts related to interest rate derivative instruments amounted to RUB 25,387 million and RUB 44,187 million as of 31 December 2019 and 2018, respectively.

33. FAIR VALUES

The following fair value hierarchy table presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 31 December 2019 and 2018. Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. Level 1 classification comprises financial instruments where fair value is determined by unadjusted quoted prices in active markets for identical assets or liabilities that the Group can access at the measurement date; Level 2 – from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; Level 3 – from unobservable inputs.

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	31 December 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	8,999	-	-	8,999	10,153	2,797	-	12,950
Contingent consideration asset related to the sale of business	-	-	2,013	2,013	-	-	-	-
At fair value through profit or loss	22,804	7,800	17,547	48,151	23,933	16,591	16,693	57,217
	31,803	7,800	19,560	59,163	34,086	19,388	16,693	70,167
Financial liabilities								
Derivative instruments	-	(1,389)	-	(1,389)	-	(350)	-	(350)
Contingent considerations	-	-	(907)	(907)	-	-	(936)	(936)
Liabilities under put option agreements	-	-	(73)	(73)	-	-	(3,735)	(3,735)
	-	(1,389)	(980)	(2,369)	-	(350)	(4,671)	(5,021)

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

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

	31 December 2019		31 December 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Borrowings	620,870	629,374	698,335	696,948

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The table below presents information regarding reconciliation of Level 3 fair value measurements as of 31 December 2019 and 2018.

	Liabilities under put option agreements	Other financial assets	Other financial liabilities	Total
Balance at 1 January 2018	(2,424)	9,997	(180)	7,393
Total gains/(losses):				
- in profit or loss	(719)	(551)	184	(1,086)
- in other comprehensive income	(592)	237	-	(355)
Reclasses to other categories	-	(715)	-	(715)
Disposals	-	(627)	-	(627)
Purchases	-	8,352	(940)	7,412
Balance at 31 December 2018	(3,735)	16,693	(936)	12,022
Total gains/(losses):				
- in profit or loss	(1,805)	1,016	29	(760)
- in other comprehensive income	-	(781)	-	(781)
Disposals	-	(2,420)	-	(2,420)
Repayments	5,467	-	-	5,467
Business sale result	-	2,013	-	2,013
Purchases	-	3,039	-	3,039
Balance at 31 December 2019	(73)	19,560	(907)	18,580

During 2019 and 2018, unrealized gains or losses were not recognized as a result of the assessment of level 3 liabilities at fair value.

34. RELATED PARTY TRANSACTIONS

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

Trading transactions – The Group's trading transactions with related parties that are not members of the Group comprise sales and purchases of goods and services in the normal course of business. During the year ended 31 December 2019, sales to related parties comprised RUB 805 million (2018: RUB 1,091 million), purchases from related parties comprised RUB 744 million (2018: 1,048 million). As of 31 December 2019, trade balances receivable from and payable to related parties comprised RUB 4,111 million and RUB 1,005 million, respectively (31 December 2018: RUB 5,591 million and RUB 1,242 million). Bank loans to related parties as of 31 December 2019 are amounted to RUB 2,877 million.

Dividends received – In 2019, the Group received dividends from MTS Belarus in the amount of RUB 3,587 million (2018: RUB 3,691 million), Etalon Group in the amount of RUB 884 million and Detsky mir in the amount of RUB 1,248 million.

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Financial transactions – The Group's financial transactions with related parties primarily comprise loans, deposits and other debt instruments issued to or by the Group entities. At 31 December 2019 and 2018, amounts owed by or to related parties under such arrangements are as follows:

	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Controlling shareholder and entities under common control	13,594	9,519	24,159	28,996
Key management personnel	-	-	4,657	6,785
Other related parties	-	-	4,634	8,168

Finance costs related to such transactions with related parties and recognized in the consolidated statement of profit or loss in 2019 amounted to RUB 1,653 million (2018: 1,690 million).

Compensation of key management personnel – In 2019 and 2018, 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	4,383	2,143
Total	4,383	2,143

35. SUBSIDIARIES

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

Significant entities	Short name	Principal activity	Beneficial ownership as of 31 December	
			2019	2018
Mobile TeleSystems PJSC	MTS	Telecommunications	50.01%	50.01%
RTI JSC	RTI	Technology	87.00%	87.00%
Detsky mir PJSC (Note 6)	Detsky mir	Retail trading	33.38%	52.10%
Medsi Group JSC	Medsi	Healthcare services	96.94%	98.50%
Bashkirian Power Grid Company JSC	BPGC	Energy transmission	90.96%	90.96%
Segezha Group LLC	Segezha Group	Pulp and paper	98.33%	99.93%
Agroholding Steppe JSC (Note 8)	Steppe	Agriculture	92.82%	84.63%

After the loss of control (Note 6) the remaining stake in Detsky mir is classified as an associate.

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

Name of subsidiary	Principal place of business	Profit / (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019	2018
MTS	Russia	27,116	3,422	15,783	23,570

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

	MTS	
	31 December 2019	31 December 2018
Current assets	194,589	268,934
Non-current assets	629,321	647,059
Total assets	823,910	915,993
Current liabilities	348,457	295,471
Non-current liabilities	439,060	542,957
Total liabilities	787,517	838,428
Equity attributable to shareholders of Sistema	17,285	41,704
Non-controlling interests	19,109	35,861
Revenue	476,105	480,293
Expenses	(421,007)	(472,461)
Profit for the year	55,098	7,832
Profit attributable to shareholders of Sistema	27,124	3,426
Profit attributable to the non-controlling interests	27,974	4,406
Other comprehensive income attributable to shareholders of Sistema	4,224	3,907
Other comprehensive income attributable to the non-controlling interests	4,207	3,892
Other comprehensive income for the year	8,431	7,799
Total comprehensive income attributable to shareholders of Sistema	31,348	7,333
Total comprehensive income attributable to the non-controlling interests	32,181	8,298
Total comprehensive income for the year	63,529	15,631
Dividends accrued to non-controlling interests	38,273	25,643
Net cash inflow from operating activities	106,653	154,390
Net cash outflow from investing activities	(29,554)	(78,389)
Net cash outflow from financing activities	(120,448)	(25,924)
Net cash (outflow)/inflow	(43,349)	50,077

36. NON-CASH TRANSACTIONS

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

	2019	2018
Additions to the assets leased	27,951	25,856
Equipment and licenses acquired under capital leases	674	1,128
Payables related to business acquisitions	-	1,302
Deferred payment	(775)	-
Fair value of contingent consideration	(2,045)	-
Exchange of shares	2,365	-
Acquisition of a minority interest	3,629	-

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37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2019	Cash flows from financial activities (i)	Cash flows from operation activities (ii)	Non-cash changes				31 December 2019
				Disposal/ acquisition of subsidiaries (Note 6, 7)	Currency exchange	Changes in the share capital	Other changes (iii)	
Loans and borrowings	698,335	(31,604)	-	(34,695)	(12,998)	-	1,832	620,870
Capital transactions of subsidiaries	-	(15,288)	-	-	-	12,320	2,968	-
Lease liability	207,367	(24,303)	(18,507)	(44,501)	(1,273)	-	46,842	165,625
Liability under agreement with Rosimuchestvo	16,210	(7,374)	-	-	(1,604)	-	-	7,232
Dividends payable	4,415	(30,124)	-	-	-	41,283	(5)	15,569
Other financial liabilities	11,377	(1,409)	-	-	-	1,450	(4,423)	6,995
Total	937,704	(110,102)	(18,507)	(79,196)	(15,875)	55,053	47,214	816,291
	1 January 2018	Cash flows from financial activities (i)	Cash flows from operation activities (ii)	Non-cash changes				31 December 2018
				Disposal/ acquisition of subsidiaries (Note 6, 7)	Currency exchange	Changes in the share capital	Other changes (iii)	
Loans and borrowings	517,981	163,266	-	131	22,965	17	(6,025)	698,335
Capital transactions of subsidiaries	-	(10,354)	-	-	-	6,725	3,629	-
Lease liability	203,761	(21,044)	(18,383)	532	-	-	42,501	207,367
Cash used in discontinued liability under agreement with Rosimuchestvo	23,028	(10,330)	-	-	3,607	-	(95)	16,210
Dividends payable	4,578	(29,952)	-	-	-	29,789	-	4,415
Other financial liabilities	12,573	(981)	-	-	-	-	(215)	11,377
Total	761,921	90,605	(18,383)	663	26,572	36,531	39,795	937,704

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

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38. CONTINGENCIES AND COMMITMENTS

Capital commitments – A capital commitment is a contractual obligation to make payment in the future, mainly in relation to buy assets such as network infrastructure. These amounts are not recorded in the consolidated statement of financial position since the Group has not yet received goods or services from suppliers. As of 31 December 2019, the Group had capital commitments of RUB 54,340 million (31 December 2018: RUB 45,282 million) relating to the acquisitions of property, plant and equipment.

Guarantees – As of 31 December 2019, MTS Bank guaranteed loans for several companies which totalled RUB 19,788 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. Such guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with IAS 37, and the amount initially recognized less, where appropriate, cumulative amortisation recognized in accordance with the revenue recognition policies.

Telecommunication licenses – In July 2012, the Federal Service for Supervision of Communications, Information Technologies and Mass Communications granted MTS a license and frequencies for the provision of LTE standard telecommunication services in Russia. Under the terms of granting an LTE license, the Group is obliged to fully deploy LTE networks within seven years from 1 January 2013 and provide LTE services in all settlements of Russia with more than 50,000 inhabitants by 2019. In addition, the Group is obliged to annually invest at least RUB 15 billion in the introduction of the LTE standard until the network is fully deployed. The management believes that as of 31 December 2019, the Group is in compliance with conditions of the aforementioned licenses.

Agreement with Apple – In April 2017, the Group entered into an unconditional purchase agreement with Apple Rus LLC to buy 615,000 iPhone handsets at the prices relevant as at the dates of purchases over a period ending 30 June 2019. Pursuant to the agreement the Group is also required to arrange iPhone advertising campaign. As of 31 December 2019, the purchase of telephone sets provided for by the agreement amounted to 100% of the total number of phones according to the contract.

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

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

Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. As of 31 December 2019, provisions for additional taxes and customs settlements comprised RUB 1,388 million (31 December 2018: RUB 1,102 million).

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

	31 December 2019	31 December 2018
Contingent liabilities for additional taxes other than income tax	1,715	730
Contingent liabilities for additional income taxes	2,173	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.

Operating Environment – Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and 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, together with developments in the legal, regulatory, and political environment.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets. 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 oil prices dropped for more than 40%, which resulted in immediate weakening of Russian Ruble against major currencies. The impact of further economic and political developments on future operations and financial position of the Group might be significant.

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

Legal proceedings – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Group operates. At 31 December 2019, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 10,039 million.

In August 2018, the FAS Russia filed a lawsuit against MTS PJSC and other federal mobile operators in connection with different conditions in contracts for the provision of SMS-mailing services for business entities with state participation compared with the conditions established for business entities without a state participation in the authorized capital. In addition, FAS Russia in the actions of MTS PJSC saw signs of establishing a monopolistically high price for SMS-mailing services. In May 2019, the FAS Russia issued a decision according to which MTS PJSC was found to violate the provisions of the antimonopoly legislation both in terms of creating discriminatory conditions and in setting a monopolistically high price for SMS mailing, and issued an order to stop the violation of antitrust laws. MTS PJSC filed a request to invalidate the said decisions and orders of the FAS Russia to the Moscow Arbitration Court, which in November 2019 upheld the position of the FAS Russia. MTS PJSC appealed the decision of the Moscow Arbitration Court. At the moment, the likelihood of negative consequences is difficult to reliably assess.

Class action lawsuit – In March 2019, a class action lawsuit was filed with the Shayan Salim and other individuals in a similar situation with the Eastern District of New York District Court of the United States of America against MTS PJSC and its individual leaders. The lawsuit alleges violations of securities laws related to the previously disclosed findings of an investigation by United States government authorities regarding the Group's activities in Uzbekistan. The group examines the claims and intends to defend its position in the litigation. At the moment, it is not possible to assess the possible consequences and scope of claims for this lawsuit.

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License fee and spectrum charges for 2002-2011 in India – In December 2019, SSTL received the Supreme Court of India judgment regarding license fee and spectrum charges for 2002-2011 in accordance with the definition and interpretation of Annual Gross Revenue (AGR) approved by the Supreme Court of India. The company calculated immaterial amount to be paid based on the aforementioned definition of AGR and taking into account the scheme of demerger with RCOM (which is currently undergoing bankruptcy procedures) of 2017. This amount was paid in February 2020. The Group does not expect any significant effect of this matter on the consolidated financial statements of the Group.

39. EVENTS AFTER THE REPORTING DATE

COVID-19 outbreak – 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, including Russia, 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.

Ruble bonds placement – In February 2020, Sistema PJSFC re-issued exchange-traded bonds in a total amount of RUB 10 billion during an offer on 27 February 2020, bonds worth RUB 3.5 billion were presented for redemption. Maturity date is 13 November 2026, the coupon rate is 6.85% per annum.

Acquisition of Karelian Wood Company LLC – In January 2020, Segezha Group acquired a controlling interest in Karelian Wood Company LLC for a cash consideration in a maximum amount of RUB 950 million.

Ruble bonds placement – In January 2020, Segezha Group issued exchange-traded bonds in total amount of RUB 10 billion with a coupon of 7.1% per annum.

Interest-rate swap agreements – In March 2020, the Segezha Group entered into agreements on an interest-rate swap in respect of a portion of previously placed exchange bonds. The total amount of the agreements is RUB 5 billion and RUB 2.5 billion, spot rate – 76 rubles and 84.5 rubles per euro, respectively.

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

Purchase of stake in Zelenaya Tochka – In February 2020, the Group purchased 51% stake in Achemar Holdings Limited and Clarkia Holdings Limited, owners of the operational companies of "Zelenaya Tochka" Group, fixed-line operator in multiple regions of Russia. The purchase of 51% stake was accounted as an investment in joint venture.

Purchase of a medical center in Izhevsk – In January 2020, Medsi Group entered into a preliminary contract to purchase of a medical center in Izhevsk and paid the first part of the security payment in the amount of RUB 12 million.

Debt financing – In the first quarter of 2020, MTS received a loan of RUB 75 billion maturing in five years, the funds were provided as part of a revolving credit line of RUB 80 billion, which was opened in May 2018.

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Convertible loans - In the first quarter 2020, the Group granted convertible loans to Ozon in the total amount of RUB 3 billion.

Commitment agreement to provide equity financing – In February 2020, the Group entered into an equity commitment agreement to provide financing in the amount of up to EUR 263 million in connection with the acquisition by a group of purchasers controlled by SCP Group SARL, related party of the Group, of the German hypermarket chain Real from Metro AG and its subsidiaries.