

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements

For the Six Months Ended June 30, 2021 and 2020
(unaudited)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
Report on review of interim condensed consolidated financial statements	1
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020 (UNAUDITED):	
Interim condensed consolidated statements of financial position	2-3
Interim condensed consolidated statements of profit or loss	4
Interim condensed consolidated statements of comprehensive income	5
Interim condensed consolidated statements of changes in shareholders' equity	6
Interim condensed consolidated statements of cash flows	7-8
Notes to the interim condensed consolidated financial statements:	9-30
1. General information and description of business	9
2. Summary of significant accounting policies and new accounting pronouncements	9
3. Impacts of COVID-19	10
4. Business acquisitions and disposals	11
5. Segment information	12
6. Discontinued operations	14
7. Investments in associates and joint ventures	15
8. Property, plant and equipment and intangible assets	15
9. Borrowings	16
10. Rights-of-use assets and lease obligations	18
11. Fair value of financial instruments	19
12. Bank financial assets and liabilities	20
13. Income tax	23
14. Shareholders' equity	23
15. Related parties	24
16. Commitments and contingencies	28
17. Subsequent events	30

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Mobile TeleSystems Public Joint Stock Company and its subsidiaries (the "Group") as of June 30, 2021 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows for the six months ended June 30, 2021 and 2020, and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Andrei Shvetsov
Engagement partner

August 18, 2021



The Entity: Mobile TeleSystems PJSC

Certificate of state registration № P-7882.16, issued by the State Registration Chamber under the Ministry of Justice of the Russian Federation by 01.03.2000.

Primary State Registration Number: 1027700149124

Certificate of registration in the Unified State Register № 1027700149124 of 02.09.2002, issued by Moscow Department of the Russian Ministry of Taxation.

Address: 4 Marksistskaya st., Moscow, 109147, Russia

Audit Firm: AO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2021 AND DECEMBER 31, 2020 (UNAUDITED) (Amounts in millions of Russian Rubles)

	Notes	June 30, 2021	December 31, 2020
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	8	297,193	284,804
Investment property		2,091	1,889
Right-of-use assets	10	130,808	130,503
Goodwill		42,560	38,041
Other intangible assets	8	93,307	90,103
Investments in associates and joint ventures	7	7,537	8,555
Other investments		6,819	9,488
Deferred tax assets		10,583	8,778
Accounts receivable, related parties	15	5,232	5,209
Trade accounts receivable		2,179	2,163
Bank deposits and loans to customers	12	88,544	63,992
Other financial assets		7,411	7,575
Other assets		6,372	5,749
Total non-current assets		700,636	656,849
CURRENT ASSETS:			
Inventories		16,058	15,204
Trade and other receivables		38,449	32,868
Accounts receivable, related parties	15	10,024	8,980
Bank deposits and loans to customers	12	66,838	52,676
Short-term investments		27,727	23,434
Advances paid and prepaid expenses		3,486	4,288
VAT receivable		10,306	8,877
Income tax assets		1,724	4,660
Assets held for sale		272	667
Cash and cash equivalents		42,326	85,405
Other financial assets		21,939	23,922
Other assets		1,804	1,373
Total current assets		240,953	262,354
TOTAL ASSETS		941,589	919,203

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2021 AND DECEMBER 31, 2020 (CONTINUED) (UNAUDITED) (Amounts in millions of Russian Rubles)

	Notes	June 30, 2021	December 31, 2020
EQUITY AND LIABILITIES			
EQUITY:			
Common stock	14	200	200
Treasury stock	14	(90,430)	(74,990)
Additional paid-in capital		1,074	89
Retained earnings		83,194	94,391
Accumulated other comprehensive income	14	9,507	9,010
Equity attributable to owners of the Company		3,545	28,700
Non-controlling interests		4,412	3,990
Total equity		7,957	32,690
NON-CURRENT LIABILITIES:			
Borrowings	9	369,392	395,143
Lease obligations	10	134,426	134,637
Bank deposits and liabilities	12	3,654	1,883
Deferred tax liabilities		20,007	19,191
Provisions		5,246	5,128
Contract liabilities		822	717
Other financial liabilities		174	14
Other liabilities		1,106	1,186
Total non-current liabilities		534,827	557,899
CURRENT LIABILITIES:			
Trade and other payables		100,143	56,017
Accounts payable, related parties	15	1,610	3,146
Contract liabilities		20,330	21,125
Borrowings	9	51,898	34,125
Lease obligations	10	18,185	16,177
Bank deposits and liabilities	12	170,585	165,794
Income tax liabilities		1,212	753
Provisions	16	15,066	13,460
Other financial liabilities		448	1,109
Other liabilities		19,328	16,908
Total current liabilities		398,805	328,614
TOTAL EQUITY AND LIABILITIES		941,589	919,203

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

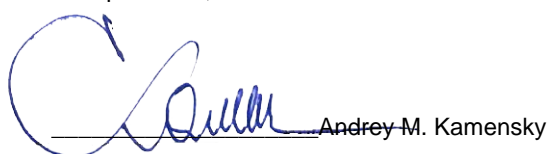
President and CEO



Vyacheslav K. Nikolaev

August 18, 2021

Vice-president, Finance



Andrey M. Kamensky

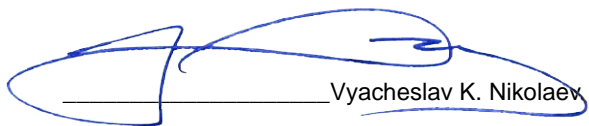
PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020 (UNAUDITED) (Amounts in millions of Russian Rubles, except per share amounts)

	Notes	Six months ended June 30,	
		2021	2020 ¹
Service revenue		218,342	205,934
Sales of goods		34,173	27,777
Revenue	5	252,515	233,711
Cost of services		62,294	59,584
Cost of goods		32,716	25,471
Selling, general and administrative expenses		45,740	42,155
Depreciation and amortization		53,545	49,306
Operating share of the profit of associates and joint ventures	7	(2,994)	(2,259)
Impairment of non-current assets		(9)	1,248
Impairment of financial assets		4,752	6,753
Other operating income		(2,524)	(1,767)
Operating profit	5	58,995	53,220
Finance income		(1,557)	(1,966)
Finance costs		19,070	21,240
Net foreign exchange (gain) / loss and change in fair value of financial instruments		(1,452)	(3,699)
Non-operating share of the profit of associates and joint ventures	7	(88)	(111)
Other expenses		134	212
Profit before tax		42,888	37,544
Income tax expense	13	9,254	8,211
Profit for the year from continuing operations		33,634	29,333
Profit from discontinued operations	0	178	482
Profit for the period		33,812	29,815
Profit for the year attributable to:			
Owners of the Company		33,390	29,493
Non-controlling interests		422	322
Earnings per share from continuing operations (basic and diluted), Russian Rubles:		19.36 and 19.34	16.37 and 16.35
Earnings per share from discontinued operations (basic and diluted), Russian Rubles:		0.10 and 0.10	0.27 and 0.27

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

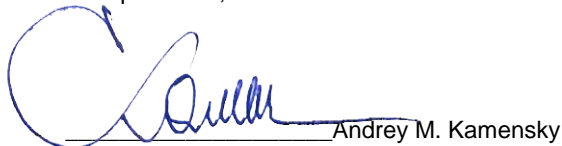
President and CEO



Vyacheslav K. Nikolaev

August 18, 2021

Vice-president, Finance



Andrey M. Kamensky

¹ The numbers were retrospectively restated to reflect the results of discontinued operations.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

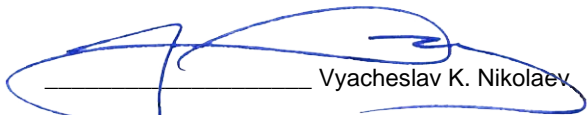
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020 (UNAUDITED) (Amounts in millions of Russian Rubles)

	Six months ended June 30,	
	2021	2020 ¹
Profit for the period	33,812	29,815
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	498	1,997
Share of other comprehensive income / (loss) of associates		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations in associates	(2)	(86)
Other comprehensive income / (loss) for the period, net of income tax	496	1,911
Total comprehensive income for the period	34,308	31,726
Total comprehensive income for the year attributable to:		
Owners of the Company	33,886	31,404
Non-controlling interests	422	322

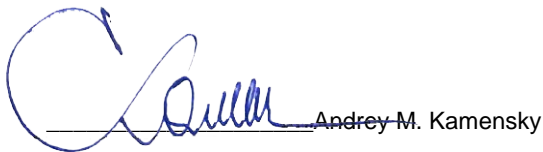
The accompanying notes are an integral part of these interim condensed consolidated financial statements.

President and CEO

Vice-president, Finance


Vyacheslav K. Nikolaev

August 18, 2021


Andrey M. Kamensky

¹ The numbers were retrospectively restated to reflect the results of discontinued operations.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AS OF JUNE 30, 2021 AND 2020 (UNAUDITED)

(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated other comprehensive income / (loss)		Remeasure- ments of the net defined benefit liability	Retained earnings	Equity attributable owners of the Company	Non- controlling interests	Total equity
	Shares	Amount	Shares	Amount		Cash flow hedging reserve	Foreign currency translation reserve					
Balances at January 1, 2020	1,998,381,575	200	(225,547,422)	(59,748)	-	-	6,697	670	85,249	33,068	3,326	36,394
Profit for the period	-	-	-	-	-	-	-	-	29,493	29,493	322	29,815
Currency translation adjustment, net of income tax	-	-	-	-	-	-	1,911	-	-	1,911	-	1,911
Total comprehensive (loss) / income for the period	-	-	-	-	-	-	1,911	-	29,493	31,404	322	31,726
Issuance of stock options	-	-	-	-	181	-	-	-	-	181	-	181
Exercise of stock options	-	-	1,682,000	447	(447)	-	-	-	-	-	-	-
Dividends declared by MTS	-	-	-	-	-	-	-	-	(36,435)	(36,435)	-	(36,435)
Purchase of own stock	-	-	(3,618,327)	(1,088)	-	-	-	-	-	(1,088)	-	(1,088)
Changes in ownership interest with no gain/loss of control	-	-	-	-	7	-	-	-	-	7	(7)	-
Reclass to retained earnings	-	-	-	-	259	-	-	-	(259)	-	-	-
Balances at June 30, 2020	1,998,381,575	200	(227,483,749)	(60,389)	-	-	8,608	670	78,048	27,137	3,641	30,778
Balances at January 1, 2021	1,998,381,575	200	(271,479,406)	(74,990)	89	-	8,341	670	94,391	28,701	3,990	32,691
Profit for the period	-	-	-	-	-	-	-	-	33,390	33,390	422	33,812
Currency translation adjustment, net of income tax	-	-	-	-	-	-	496	-	-	496	-	496
Total comprehensive (loss) / income for the period	-	-	-	-	-	-	496	-	33,390	33,886	422	34,308
Issuance of stock options	-	-	-	-	1,392	-	-	-	-	1,392	-	1,392
Exercise of stock options	-	-	930,556	252	(236)	-	-	-	-	16	-	16
Dividends declared by MTS	-	-	-	-	-	-	-	-	(44,587)	(44,587)	-	(44,587)
Purchase of own stock	-	-	(47,947,542)	(15,692)	-	-	-	-	-	(15,692)	-	(15,692)
Changes in ownership interest with no gain/loss of control	-	-	-	-	(143)	-	-	-	-	(143)	-	(143)
Other	-	-	-	-	(28)	-	-	-	-	(28)	-	(28)
Balances at June 30, 2021	1,998,381,575	200	(318,496,392)	(90,430)	1,074	-	8,837	670	83,194	3,545	4,412	7,957

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020 (UNAUDITED) (Amounts in millions of Russian Rubles)

	Notes	Six months ended June 30,	
		2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the period		33,812	29,815
Adjustments for:			
Depreciation and amortization		53,545	49,352
Impairment of non-current assets		(9)	1,248
Impairment of financial assets		4,752	6,739
Loss/(gain) from sale of Ukraine operations	4	54	(1,966)
Finance income		(1,557)	(1,967)
Finance costs		19,070	21,244
Income tax expense		9,254	9,233
Share of profit of associates and joint ventures		(3,082)	(2,370)
Net foreign exchange (gain) / loss and change in fair value of financial instruments		(1,630)	(3,951)
Inventory obsolescence expense		637	658
Change in provisions		1,334	(2,540)
Other non-cash items		(3,609)	(1,904)
Movements in operating assets and liabilities:			
(Increase) / decrease in trade and other receivables and contract assets		(4,072)	1,567
Increase in bank deposits and loans to customers		(43,851)	(9,919)
Increase in inventory		(1,481)	(2,960)
Decrease/(increase) in advances paid and prepaid expenses		1,388	(5,265)
Increase in VAT receivable		(1,382)	(1,141)
Increase in trade and other payables, contract liabilities and other current liabilities		1,397	2,274
Increase in bank deposits and liabilities		6,932	1,141
Dividends received		2,062	651
Income tax paid		(7,615)	(4,753)
Interest received		1,013	1,276
Interest paid, net of interest capitalized		(18,732)	(21,895)
NET CASH PROVIDED BY OPERATING ACTIVITIES		48,230	64,567
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of subsidiaries, net of cash acquired	4	(4,621)	69
Purchases of property, plant and equipment (including capitalized interest in the amount of RUB 234 million and RUB 212 million, respectively)		(35,698)	(28,053)
Purchases of other intangible assets		(19,450)	(12,757)
Purchase of Avantage		-	(196)
Cost to obtain and fulfill contracts, paid		(1,823)	(2,337)
Proceeds from sale of property, plant and equipment and assets held for sale		2,177	2,504
Purchases of short-term and other investments		(7,586)	(5,350)
Proceeds from sale of short-term and other investments		6,214	7,297
Investments in associates and joint ventures		(60)	(1,415)
Cash (payments) and proceeds related to swap contracts		(108)	7,325
Proceeds from sale of associates		-	2,450
Proceeds from sale of subsidiaries		1,272	-
Other investing activities		125	-
NET CASH USED IN INVESTING ACTIVITIES		(59,558)	(30,463)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020 (CONTINUED) (UNAUDITED) (Amounts in millions of Russian Rubles)

	Six months ended June 30,	
	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes	(10,813)	(30,210)
Proceeds from issuance of notes	4,350	46,757
Notes and debt issuance cost paid	(96)	(106)
Lease obligation principal paid	(8,465)	(7,506)
Dividends paid	(1)	(22,918)
Proceeds from loans	1,714	106,047
Repayment of loans	(2,680)	(63,585)
Repurchase of common stock	(15,691)	(1,088)
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES	(31,682)	27,391
Effect of exchange rate changes on cash and cash equivalents	(133)	(1,312)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(43,143)	60,183
CASH AND CASH EQUIVALENTS, beginning of the period (including cash and cash equivalents within assets held for sale in amount RUB 64 million and nill, respectively)	85,469	38,070
CASH AND CASH EQUIVALENTS, end of the period	42,326	98,253

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

1. GENERAL INFORMATION AND DESCRIPTION OF BUSINESS

Mobile TeleSystems Public Joint-Stock Company ("MTS PJSC", or "the Company") is a company incorporated under the laws of the Russian Federation and having its registered address at 4, Marksistskaya Street, 109147, Moscow, Russian Federation.

Business of the Company and its subsidiaries ("the Group" or MTS) – MTS PJSC was incorporated on March 1, 2000, through the merger of MTS CJSC and Rosico TC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow licence area in 1994, before expanding through Russia and the CIS. MTS PJSC's majority shareholder is Sistema Public Joint-Stock Financial Corporation or Sistema, whose controlling shareholder is Vladimir P. Yevtushenkov.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol "MBT". Since 2003 common shares of MTS PJSC have been traded on the Public Joint-Stock Company "Moscow Exchange MICEX-RTS" (the "Moscow Exchange").

The Group provides a wide range of telecommunications and digital services including voice and data transmission, internet access, pay TV, various value added services ("VAS") through wireless and fixed lines, financial services, integration services as well as the sale of equipment, accessories and software. In June 2018 the Group entered the market of banking services through acquisition of controlling stake in PJSC MTS Bank. Upon disposal of its operations in Ukraine in December 2019 (Note 6), the Group primarily operates in Russia.

Seasonality – Whilst the Group does not view its business as highly seasonal as defined by IAS 34, *Interim Financial Reporting*, its financial results are impacted by seasonality through the calendar year. Higher consumption of roaming services in May-September and increased demand for handsets and accessories at the year-end before winter holidays enhance revenue from services and sales of goods for the second half of the year. However, there was no increase in international roaming revenue in the first half of 2021 and 2020 due to COVID-19.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation – These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2020.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its 2020 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequently to the issuance of its annual consolidated financial statements of the Group for the year ended December 31, 2020.

Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2020 and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present the Group's financial position, financial performance and cash flows for the interim reporting period in accordance with IAS 34, *Interim Financial Reporting*. Results for the six months ended June 30, 2021 are not necessarily indicative of the results that may be expected for the year ended December 31, 2021.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

These interim condensed consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Amounts in the interim condensed consolidated financial statements are stated in millions of Russian Rubles ("RUB million"), unless indicated otherwise.

These interim condensed consolidated financial statements for the six months ended June 30, 2021 were authorized for issue by the Company's President on August 18, 2021.

As at June 30, 2021, current liabilities exceeded current assets by RUB 157.9 billion. Management believes the Group has sufficient existing and continuing access to liquidity through both operating cash flows and available credit facilities. As of June 30, 2021, the Group's total available credit facilities amounted to RUB 255.7 billion (Note 9).

Significant accounting policies – The accounting policies and method of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended December 31, 2020.

In the first half of 2021 the Group adopted the following standards, interpretations and amendments:

Amendments to IFRS9, IAS39, IFRS7, IFRS 4 and IFRS16	<i>Interest Rate Benchmark Reform (Phase 2)</i>
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Amendments to IFRS16	<i>Covid-19 Related Rent Concessions</i>
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None of these interpretations and amendments had material effect on the Group's interim condensed consolidated financial statements.

3. IMPACTS OF COVID-19

The coronavirus pandemic has led to a global economic crisis. Due to higher demand for certain telecommunications services the impact of the crisis has been felt less severely by the telecommunication industry and the Group than by other industries. Business activities and thus the results of operations and financial position of the Group were impacted by the coronavirus pandemic in various business areas, affecting revenue and earnings, although not to any significant extent. The main negative effects on the Group results for the first half of the financial year 2020 were increased expected credit loss allowance recognized in respect to the Group's financial assets as well as the impairment of the e-ticketing business. Notwithstanding the foregoing, during the second half of the financial year 2020 and the first half of the financial year 2021 the Group experienced only minor customer payment defaults as a consequence of COVID-19, such that the expected credit loss returned to its normal level.

Generally, the global COVID-19 situation remains uncertain and subject to change and could further impact the economies and financial markets of many regions, including the countries in which the Group operates, which in turn could impact consumer and business spending patterns and the Group's operating results.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

4. BUSINESS ACQUISITIONS AND DISPOSALS

Acquisition of Zelenaya Tochka – In April 2021, the Group increased its stake in Achemar Holdings Limited, owner of the operational companies of «Zelenaya Tochka» Group, to 100% and obtained control over the entity to expand its regional footprint. Prior to the acquisition, the Group owned 51% in Achemar Holdings Limited and accounted for the investment as the investment in joint venture (Note 7). Achemar Holdings Limited owns 100% stakes in fixed-line operators in Stavropol and Tambov regions. The purchase price constituted a cash payment of RUB 1,512 million paid in April 2021 and deferred payment of RUB 7 million.

Acquisition of Credit Consulting – In April 2021, the Group acquired a 100% ownership interest in LLC «Credit Consulting», a credit broker. The purchase price constituted a cash payment of RUB 10 thousand paid in May 2021 and contingent consideration at fair value of RUB 60 million, payable in 5-year period based on operating performance targets.

Acquisition of MTT – In June 2021, the Group acquired a 100% ownership interest in OJSC «Multiregional TransitTelecom» («MTT»), a provider of intelligent connectivity solutions for businesses, to expand its connectivity services portfolio. The purchase price constituted a cash payment of RUB 3,680 million paid in June 2021, transfer of financial assets offset against the purchase price for RUB 1,958 million and contingent consideration of RUB 160 million.

Acquisition of Energy Group – In June 2021, the Group acquired a 100% ownership interest in LLC «GDTs Energy Group» («GreenBush»), the operator of the GreenBush data center in Tehnopolis special economic area, to use the facility's additional capacity to offer colocation and cloud solutions to customers as well as to facilitate the Group's own compute and storage needs. The purchase price constituted a cash payment of RUB 5,200 million paid in July 2021.

The preliminary purchase price allocations for acquired companies as at the dates of acquisitions were as follows:

	MTT	Zelenaya Tochka	GreenBush	Credit Consulting
Goodwill	2,984 ⁽¹⁾	1,353 ⁽¹⁾	-	46 ⁽²⁾
Customer base	827 ⁽³⁾	320 ⁽⁴⁾	-	-
Trademark	530	12	-	-
Other intangible assets	590	24	1	4
Property, plant and equipment	588	623	5,171	-
Other non-current assets	254	43	17	-
Current assets	3,056	1,417	84	18
Cash and cash equivalents	340	152	9	3
Current liabilities	(2,656)	(725)	(26)	(11)
Non-current liabilities	(715)	(118)	(56)	-
Total consideration	5,798	3,101	5,200	60
Including:				
Fair value of contingent consideration	160	-	-	60
Fair value of offset financial assets	1,958	-	-	-
Fair value of previously held interest	-	1,582	-	-
Deferred payment	-	7	-	-
Cash paid or payable	3,680	1,512	5,200	-

⁽¹⁾ The provisional goodwill is attributable to the expected synergies arising from the acquisition and allocated to the "Russia Convergent" operating segment.

⁽²⁾ The provisional goodwill is attributable to the expected synergies arising from the acquisition and allocated to the "MTS Bank" operating segment.

⁽³⁾ Amortized over the term of up to 3 years.

⁽⁴⁾ Amortized over the term of 5 years.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

None of the provisional amounts of goodwill recognized is expected to be deductible for income tax purposes.

Since the dates of acquisition the businesses acquired contributed revenue of RUB 296 million and net income of RUB 14 million to the interim condensed consolidated statement of profit or loss. If the acquisitions had taken place at the beginning of the period, the Group's revenue and net profit would have been RUB 256,256 million and RUB 33,796 million, respectively.

Disposal of STS-Ukraine— In February 2021, the Group sold its 100% stake in LLC «Sitronics Telecom Solutions Ukraine» («STS-Ukraine») for RUB 52 million.

5. SEGMENT INFORMATION

Management (chief operating decision maker) analyzes and reviews results of the Group's operating segments separately based on the nature of products and services, regulatory environments and geographic areas. Management of the Group evaluates the segments' performance based on revenue and operating profit, excluding depreciation and amortization. Management does not analyze assets or liabilities by reportable segments.

The Group identified the following reportable segments:

Russia Convergent: represents the results of mobile and fixed line operations, which encompasses services rendered to customers across the regions of Russia, including voice and data services, transmission, broadband, pay-TV and various value-added services and retail operations.

Moscow Fixed Line: represents the results of fixed line operations carried out in Moscow by the Group's subsidiary MGTS. MGTS is the only licensed public switched telephone network ("PSTN") operator in Moscow and is considered a natural monopoly under Russian antimonopoly regulations. Consequently, a substantial part of the services provided by MGTS are subject to governmental regulation.

MTS Bank: represents the results of banking services rendered to customers across regions of Russia.

In 2020 the revised approach for review of the Group's operational results led to the separation of two new segments – Cloud and WASD. Cloud represents operational results of the MTS Group's business which provides cloud services. WASD is the MTS streaming platform. Cloud and WASD were removed from the "Russia Convergent" operating segment to the "Other" category.

On October 30, 2020, the Group disposed of 100% share in JSC "Nvision Group", which constituted "System Integrator" operating segment included in "Other" reportable segment.

All figures in the tables below for 6 months, ended June, 2020 have been retrospectively restated to reflect all of the facts described above.

The "Other" category does not constitute a reportable segment. It includes the results of a number of other operating segments that do not meet the quantitative thresholds for separate reporting, such as Armenia, Cloud, Kinopolis and others.

The intercompany eliminations presented below primarily consist of sales transactions between segments conducted under the normal course of operations.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

Financial information by reportable segments is presented below:

Disaggregation of revenue:

Six months ended June 30, 2021:	Russia Convergent	Moscow Fixed Line	MTS Bank	Total	Other	HQ and elimination	Consoli- dated
Revenue							
Mobile services	161,272	1,056	-	162,328	3,109	44	165,481
Fixed line services	13,632	15,762	-	29,394	376	-	29,770
Finance services	-	-	20,898	20,898	-	-	20,898
Integration services	273	-	-	273	1,188	-	1,461
Sales of goods	29,714	11	-	29,725	4,448	-	34,173
Other services	-	-	-	-	732	-	732
External Customers	204,891	16,829	20,898	242,618	9,853	44	252,515
Intersegment	5,157	3,366	1,228	9,751	5,428	(15,179)	-
Total revenue	210,048	20,195	22,126	252,369	15,281	(15,135)	252,515
Operating profit / (loss), excluding depreciation and amortization	93,563	13,370	5,324	112,257	4,569	(4,286)	112,540

Six months ended June 30, 2020:	Russia Convergent	Moscow Fixed Line	MTS Bank	Total	Other	HQ and elimination	Consoli- dated
Revenue							
Mobile services	155,788	1,061	-	156,849	3,017	46	159,912
Fixed line services	11,904	16,177	-	28,081	181	-	28,262
Finance services	-	-	15,967	15,967	-	-	15,967
Integration services	217	-	-	217	1,166	-	1,383
Sales of goods	24,846	60	-	24,906	2,872	-	27,778
Other services	-	-	-	-	409	-	409
External Customers	192,755	17,298	15,967	226,020	7,645	46	233,711
Intersegment	5,532	2,868	1,203	9,603	3,050	(12,653)	-
Total revenue	198,287	20,166	17,170	235,623	10,695	(12,607)	233,711
Operating profit / (loss), excluding depreciation and amortization	93,439	11,226	(406)	104,259	2,019	(3,752)	102,526

Service revenue is recognized over the time as the services are rendered to customers, while revenue from sales of goods is recognized at a point in time when goods are transferred.

The consolidated operating profit is reconciled to the consolidated profit before tax on the face of the interim condensed consolidated statements of profit or loss.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

6. DISCONTINUED OPERATIONS

On November 22, 2019, the Group entered into a sale agreement to dispose of Preludium B.V., 100% owner of PJSC "Vodafone Ukraine" and its subsidiaries, which carried out the Group's operations in Ukraine and constituted "Ukraine" reporting segment. The disposal was completed on December 3, 2019, and the results of operations in Ukraine were reported as discontinued operations in the consolidated statements of profit or loss for 2019 and prior periods.

Total consideration for Preludium B.V. comprised of cash payment, deferred consideration and contingent consideration.

In June, 2020, the Group and the purchaser agreed on the amount of adjustment to the cash payment based on finalized financial statements results as of disposal date and the Group recognized additional income in the amount of USD 28 million (RUB 1,966 million as of June 30, 2020) in discontinued operations in the consolidated statements of profit or loss.

The deferred consideration was settled in cash by the purchaser in September 2020 in the amount of RUB 897 million, representing equivalent of USD 12 million as of the date of payment.

In the event that the performance of the discontinued operations in Ukraine achieve certain quantitative criteria for the periods starting 2019 and ending 2022 as specified in an 'earn out' clause of the sale agreement, additional consideration will be receivable. As of December 3, 2019 the Group recognized contingent consideration receivable as a financial asset at fair value through profit or loss in the amount of RUB 2,045 million. The fair value of the financial asset amounted to RUB 2,631 million as of December 31, 2020 and RUB 1,575 million as of June 30, 2021. The Group received the first part of the additional contingent consideration in the amount of RUB 1,234 million in March 2021.

On October 30, 2020, the Group entered into a sale agreement with Sistema to dispose of its 100% share in JSC "Nvision Group", which provided integration services, as well as the sales of software, and constituted "System Integrator" operating segment included in "Other" reportable segment. The disposal was completed on October 30, 2020, and the results of operations of Nvision Group were reported as discontinued operations in the accompanying consolidated statements of profit or loss for 2020 and prior periods.

The results of the discontinued operations included in the profit from discontinued operations in the consolidated statements of profit or loss were as follows:

	Six months ended June 30,					
	2021			2020		
	Ukraine	NVision Group	Total	Ukraine	NVision Group	Total
Revenue	-	-	-	-	6,259	6,259
Expenses	-	-	-	-	(6,997)	(6,997)
Profit/(Loss) before tax	-	-	-	-	(738)	(738)
Attributable tax expense	-	-	-	-	(1,016)	(1,016)
Profit/(Loss) for the period	-	-	-	-	(1,754)	(1,754)
Profit/(loss) on disposal	-	-	-	1,966	-	1,966
Currency revaluation gain/(loss) on deferred consideration	-	-	-	96	-	96
Earn-out revaluation - fair value measurement	121	-	121	2	-	2
Earn-out revaluation - Currency revaluation gain/(loss)	57	-	57	172	-	172
Net income attributable to discontinued operations	178	-	178	2,236	(1,754)	482

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

Cash flows from (used in) discontinued operations are presented as follows:

	Six months ended June 30,					
	2021			2020		
	Ukraine	NVision Group	Total	Ukraine	NVision Group	Total
Net cash (used in)/provided by operating activities	-	-	-	-	(1,750)	(1,750)
Net cash provided by investing activities	1,234	-	1,234	-	412	412
Net cash provided by financing activities	-	-	-	-	664	664

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investments in associates and joint ventures (all accounted for using the equity method) comprised the following:

	Country of operations	Operating activity	June 30, 2021	December 31, 2020
MTS Belarus	Belarus	Telecom-munications	5,089	5,124
Zelenaya Tochka	Russia	Telecom-munications	152	1,260
YouDo	Russia	classifieds	721	724
Sistema-Rentnaya Nedvizhimost	Russia	property investments	558	636
Other unquoted companies	Russia	mutual fund	1,017	811
Total investments in associates and joint ventures			7,537	8,555

Acquisition of Achemar Holdings Limited (Zelenaya Tochka) – In April 2021 the Group performed a step acquisition and obtained control over Achemar Holdings Limited, owner of Stavropol and Tambov subsidiaries of Zelenaya Tochka.

As of the acquisition date the Group remeasured the previously held equity interest in Achemar Holdings Limited from RUB 1,166 million to fair value of RUB 1,582 million and recognized the resulting gain of RUB 415 million in the operating share of the profit of the associates and joint ventures in the accompanying consolidated statement of profit or loss.

The Group continued to account for its investment in other operational companies of Zelenaya Tochka, owned by Clarkia Holdings Limited, as investment in joint venture.

8. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Six months ended June 30,	
	2021	2020
Property, Plant and Equipment		
Additions	44,322	27,864
Disposals (net book value)	(2,191)	(1,464)
Intangible assets		
Additions	20,435	15,375
Disposals (net book value)	(62)	(88)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

9. BORROWINGS

The Group's borrowings comprised the following:

	June 30, 2021	December 31, 2020
Notes	201,055	208,155
Bank and other loans	220,235	221,113
Total borrowings	421,290	429,268
Less: current portion	(51,898)	(34,125)
Total borrowings, non-current	369,392	395,143

Notes – The reconciliation between opening and closing balance of the Group's Notes for the six months ended June 30, 2021 was the following:

	Currency	Interest rate (actual as of June 30, 2021)	Carrying amount
Balance at January 1, 2021			208,155
New Notes			
MTS PJSC Notes P18 due 2024	RUB	6.50%	4,350
Repayments			
MTS PJSC Notes P02 due 2021	RUB		(10,000)
MTS PJSC Notes BO-02 due 2023	RUB		(813)
Currency exchange gain			(674)
Other movements			37
Balance at June 30, 2021			201,055
Less: current portion			(29,914)
Total notes, non-current			171,141

Bank and other loans – The reconciliation between opening and closing balance of the Group's loans from banks and financial institutions for the six months ended June 30, 2021 was the following:

	Currency	Interest rate (actual at June 30, 2021)	Carrying amount
Balance at January 1, 2021			221,113
New loans			
VEB (subsidized loan)	RUB	2.97%	893
Other	various	various	945
Repayments			
Cisco	RUB		(2,034)
Other	RUB		(699)
External loans of the acquired companies			1,743
Write-off the subsidized loan¹			(1,711)
Other movements			(15)
Balance at June 30, 2021			220,235
Less: current portion			(21,984)
Total bank and other loans, non-current			198,251

¹ On June 30, 2020 the Group entered into a subsidized credit facility agreement with VTB. The facility was a revolving credit line, which allowed the Group to borrow up to RUB 1,702 million. The principal and interest accumulated under this credit facility have been fully forgiven as part of government support related to COVID-19.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

Compliance with covenants – Bank loans and notes of the Group are subject to certain covenants limiting the Group's ability to create liens on properties, dispose assets, including cellular licenses in core Russian regions, issue guarantees and grant loans to the third parties, delay payments for the borrowings, merge or consolidate MTS PJSC with a third party or be a subject to unsatisfied judgments (excluding the total penalty under the agreements with the DOJ). The Group is required to comply with certain financial ratios.

The noteholders of MTS International Notes due 2023 have the right to require the Group to redeem the notes at 101% of their principal amount and related interest, if the Group experiences a change in control.

If the Group fails to meet these covenants, after certain notice and cure periods, the debtholders are entitled to demand accelerated principal repayment.

The Group was in compliance with all existing notes and bank loans covenants as of June 30, 2021.

Available credit facilities – As of June 30, 2021, the Group's total available unused credit facilities amounted to RUB 255,167 million and related to the following credit lines:

	Currency	Maturity	Interest rate	Available till	Available amount
Sberbank	RUB	2025	To be agreed	August 2025	130,000
Sberbank	RUB	2024	To be agreed	May 2024	65,000
NDB	USD	2028	LIBOR + 1.75%	July 2022	21,712
Sberbank	RUB	2024	To be agreed	August 2024	20,000
	RUB/USD/				
Roselhozbank	EUR	2021	To be agreed	November 2021	7,000
VTB	RUB	2028	To be agreed	August 2028	5,000
			0,1 CBR ¹ key rate		
VEB	RUB	2025	+ 2.42%	November 2023	3,455
SPB	RUB	2024	To be agreed	January 2024	3,000
CISCO	RUB	2024	To be agreed	December 2021	553
Total					255,720

¹ CBR – Central Bank of Russia

In addition, the Group has a credit facility made available by Citibank at MosPrime + 1.50% interest rate with the available amount set up on request and to be repaid within 182 days.

The following table presents the aggregated scheduled maturities of principal and interests on notes and bank loans (gross of debt issuance costs) outstanding for the five years ending June 30, 2026 and thereafter:

	As of June 30, 2021	
	Notes	Bank loans and other debt
Payments due in the year ending June 30,		
2022	43,800	35,562
2023	83,231	58,384
2024	35,937	30,540
2025	37,311	105,190
2026	2,648	30,928
Thereafter	38,562	-
Contractual undiscounted cash flows	241,489	260,604
Less: unamortized debt issuance costs	(235)	(9)
Less: interest	(40,199)	(39,424)
Less: debt modification	-	(804)
Less: subsidized interest rate effect	-	(132)
Total debt	201,055	220,235

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

10. RIGHTS-OF-USE ASSETS AND LEASE OBLIGATIONS

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

Lease of:	June 30, 2021	December 31, 2020
Sites for placement of network and base station equipment	89,763	93,948
Land and buildings	40,945	36,468
Vehicles and other	100	87
Rights-of-use assets, net	130,808	130,503

Depreciation of the rights-of-use assets for the six months ended June 30, 2021 and 2020 included in depreciation and amortization expense in the accompanying interim condensed consolidated statements of profit or loss was as follows:

Lease of:	Six months ended June 30, 2021	2020
Sites for network and base station equipment	(5,528)	(3,542)
Land and buildings	(4,159)	(6,017)
Vehicles and other	(22)	(20)
Depreciation charge, total	(9,709)	(9,579)

Additions to the assets leased during the six months ended June 30, 2021 and 2020 amounted to RUB 6,312 and RUB 6,475 million.

Interest expense accrued on lease obligations for the six months ended June 30, 2021 and 2020 amounted to RUB 5,808 million and RUB 6,349 million, respectively, were included in finance costs in the accompanying interim condensed consolidated statements of profit or loss.

The following table presents future minimum lease payments under lease arrangements together with the present value of the net minimum lease payments as of June 30, 2021:

	June 30, 2021
Minimum lease payments, including:	
Current portion (less than 1 year)	28,565
Between 1 to 5 years	97,705
Over 5 years	90,014
Total minimum lease payments	216,284
Less amount representing interest	(63,673)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	18,185
Between 1 to 5 years	68,219
Over 5 years	66,207
Total present value of net minimum lease payments	152,611
Less current portion of lease obligations	(18,185)
Non-current portion of lease obligations	134,426

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are represented by cash and cash equivalents, trade and other receivables and payables, investments (mainly deposits with original maturity of more than three months, originated loans other than bank loans to customers as well as debt securities), derivative instruments, notes and bank loans and put options over non-controlling interests.

The table below presents the fair value of financial instruments carried at fair value within the statements of financial position:

	Level of inputs	June 30 2021	December 31 2020
Assets			
Securities held by MTS Bank	Level 1	21,052	21,824
Derivative instruments	Level 2	4,309	4,510
Cross-currency swaps		4,269	4,508
Currency forwards, swaps and options		40	2
Mutual investment funds, managed by Sistema Capital	Level 2	10,677	10,699
Assets in Sistema Capital trust management	Level 2	10,533	10,313
Embedded derivatives in a lease agreement	Level 2	497	562
Contingent consideration	Level 3	1,575	2,631
Assets under option agreements	Level 3	112	228
Liabilities			
Contingent consideration	Level 3	(461)	(944)
Liabilities under option agreements	Level 3	-	(55)

Net realized gains and losses of Level 3 assets and liabilities resulting from fair value measurements were included in net foreign exchange (gain) / loss and change in fair value of financial instruments and profit from discontinued operations in the interim condensed consolidated statements of profit or loss in the following amounts:

	For the six months ended June 30 2021
Net realized gains/(losses) of Level 3 assets	1,350
Net realized gains/(losses) of Level 3 liabilities	(141)
	1,209

No realized gains or losses of Level 3 assets and liabilities were recognized during the six months ended June 30, 2020.

Net unrealized gains and losses of Level 3 assets and liabilities resulting from fair value measurements were included in net foreign exchange (gain) / loss and change in fair value of financial instruments in the interim condensed consolidated statements of profit or loss in the following amounts:

	For the six months ended June 30, 2021	2020
Net unrealized gains/(losses) of Level 3 assets	178	173
Net unrealized gains/(losses) of Level 3 liabilities	399	(242)
	577	(69)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

The carrying value of the Group's financial instruments accounted for at amortized cost approximates their fair value due to their short-term nature and market interest rates, except for borrowings, gross of debt issuance cost, as disclosed in the table below:

	Level of inputs	June 30, 2021		December 31, 2020	
		Fair value	Carrying value	Fair value	Carrying value
Notes	Level 1	(187,132)	(184,043)	(200,198)	(191,142)
Unquoted notes	Level 3	(17,012)	(17,012)	(17,012)	(17,012)
Bank and other loans	Level 3	(219,458)	(220,244)	(221,113)	(221,113)
		(423,602)	(421,299)	(438,323)	(429,267)

While management has used available market information in estimating the fair value of its financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

There were no transfers between levels of inputs within the hierarchy for the six months ended June 30, 2021 and 2020.

There were no transfers between the accounting categories of financial instruments during the six months ended June 30, 2021 and 2020.

12. BANK FINANCIAL ASSETS AND LIABILITIES

As of June 30, 2021, COVID-19 still constitutes a factor that the Group has to take into account while assessing and managing credit risk.

Magnitude of COVID-19 influence on the bank's operations largely depends on time duration of the pandemic and the extent of the virus influence on global and local economy.

Management considers the sensitivity of the expected credit losses (ECL) outcome against the economic forecasts as part of the ECL management process.

Considering that in current circumstances, caused by COVID-19, majority of governments globally have chosen ways of monetary and fiscal stimulation, as well as increased cash accessibility, hypothetical stress test scenarios that take into account sharp increase of interest rate and liquidity deficit on the market, adequately include possible pandemic influence on the Group.

The Management is planning to update ECL stress testing in 3rd quarter of 2021.

Bank deposits and loans to customers

The table below represents the structure and amounts of current and non-current bank deposits and loans to customers as of June 30, 2021 and December 31, 2020.

	June 30, 2021	December 31, 2020
Loans to customers	170,739	130,164
Due from banks	3,124	2,950
Allowance for ECL	(18,481)	(16,446)
Total bank deposits and loans to customers, net	155,382	116,668
Less: current portion	(66,838)	(52,676)
Bank deposits and loans to customers, non-current	88,544	63,992

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

The structure and amounts of bank loans to customers as of June 30, 2021 and December 31, 2020 are presented in the table below:

	June 30, 2021	December 31, 2020
Loans to legal entities		
Corporate borrowers	26,681	26,602
Medium-sized enterprises and small businesses	1,858	1,736
Total loans to legal entities	28,539	28,338
Loans to individuals		
Mortgage loans	15,352	14,384
Consumer loans	95,254	65,142
Credit cards	31,288	21,874
Other	306	426
Total loans to individuals	142,200	101,826
Due from banks		
Time deposits with banks	1,734	1,770
Obligatory reserves with the Central Bank of Russia	1,390	1,180
Total due from banks	3,124	2,950
Total bank deposits and loans to customers	173,863	133,114
Less: allowance for impairment losses	(18,481)	(16,446)
Total bank deposits and loans to customers, net	155,382	116,668

Movements in the allowance for expected credit losses for the six months ended June 30, 2021 are presented in the table below:

	Loans to customers	Due from banks	Total
Balance as at January 1, 2021	16,436	10	16,446
Provision charge / (release)	4,117	4	4,121
Recovery of bad debt written-off	759	-	759
Bad debt written-off	(2,845)	-	(2,845)
Balance as at June 30, 2021	18,467	14	18,481

Bank deposits and liabilities

The table below represents the structure and amounts of current and non-current bank deposits and liabilities as of June 30, 2021 and December 31, 2020.

	June 30, 2021	December 31, 2020
Customer accounts	143,708	139,438
Due to banks and other financial institutions	23,681	24,644
Debt securities issued	5,811	1,840
Financial liabilities at fair value through profit or loss	2	2
Other financial liabilities	1,037	1,753
Total bank deposits and liabilities	174,239	167,677
Less: current portion	(170,585)	(165,794)
Total bank deposits and liabilities, non-current	3,654	1,883

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

The structure and amounts of customer accounts of June 30, 2021 and December 31, 2020 are presented below:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Legal entities		
- Current/settlement accounts	14,752	13,163
- Term deposits	22,938	19,466
Individuals		
- Current/settlement accounts	18,023	18,219
- Term deposits	87,995	88,590
Total customer accounts	<u>143,708</u>	<u>139,438</u>

The structure and amounts of due to banks as of June 30, 2021 and December 31, 2020 are presented below:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Loans under repurchase agreements	11,795	20,540
Loans and term deposits from banks and other financial institutions	11,339	2,732
Correspondent accounts of other banks	547	1,372
Total due to banks	<u>23,681</u>	<u>24,644</u>

Loans under repurchase agreements were secured by the following collateral:

- Securities measured at fair value through profit or loss with the value of RUB 7,075 million and RUB 9,678 million as of June 30, 2021 and December 31, 2020 respectively;
- Securities measured at amortized cost with the value of RUB 5,521 million and RUB 1,557 million as of June 30, 2021 and December 31, 2020 respectively;
- Federal Loan Bonds (OFZ) received from Deposit Insurance Agency (DIA) as a subordinated securities loan in the amount of RUB 0 million and RUB 6,374 million as of June 30, 2021 and December 31, 2020 respectively.

In November 2015, MTS Bank received a subordinated debt of RUB 7,246 million in the form of OFZ from the state corporation DIA with the date of maturity January 22, 2025. In accordance with the terms of the contract, MTS Bank should return the securities to the creditor at the end of the contract period. The Group does not recognize the securities and the obligation to return them to the creditor in the consolidated statement of financial position as of June 30, 2021 and December 31, 2020. In accordance with the contract, MTS Bank should comply with certain covenants with respect to capital, loan portfolio, employee benefits. If the above conditions are not met, DIA may apply penalties to MTS Bank. The contract also includes certain restrictions on sale or repledge of the securities by MTS Bank.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

13. INCOME TAX

Significant components of income tax expense for the six months ended June 30, 2021 and 2020 were as follows:

	Six months ended June 30,	
	2021	2020
Current income tax charge	10,438	7,180
Adjustments recognised for current tax of prior periods	149	(228)
Total current income tax	10,587	6,952
Deferred tax	(1,333)	1,259
Income tax expense on continuing operations	9,254	8,211

Income tax expense on continuing operations excludes the amounts from the discontinued operations of nil and RUB (1,017) million for six months ended June 30, 2021 and 2020, respectively, which have been included in profit from discontinued operations in the interim condensed consolidated statement of profit or loss (Note 6).

The statutory income tax rates in jurisdictions in which the Group operated during six months ended June 30, 2021 did not change significantly in comparison to the statutory income tax rates effective at December 31, 2020. The Russian statutory income tax rate of 20% reconciled to the Group's effective income tax rate for the six months ended June 30, 2021 and 2020 was as follows:

	Six months ended June 30,	
	2021	2020
Statutory income tax rate for the period	20.0%	20.0%
Adjustments:		
Expenses not deductible for tax purposes	2.3	2.2
Settlements with tax authorities	0.4	(0.7)
Different tax rate of subsidiaries	(0.4)	(0.5)
Earnings distribution from subsidiaries	0.0	0.3
Other	(0.7)	0.9
Effective income tax rate	21.6%	22.2%

14. SHAREHOLDERS' EQUITY

Common stock (ordinary shares)

The Group had 1,998,381,575 authorized ordinary shares with par value 0.1 RUB as of June 30, 2021 and December 31, 2020. Preferred shares have not been issued.

As of June 30, 2021, there were 318,496,392 total shares in treasury stock and 1,679,885,183 shares were outstanding. As of December 31, 2020, the total shares in treasury stock comprised 271,479,406 and 1,726,902,169 shares were outstanding.

During six months ended June 30, 2021 the Group purchased 37,508,355 shares (including 15,522,048 shares purchased from Sistema Finance) under the Repurchase Plan announced in 2021 at prices from RUB 310 to RUB 347 for a total cost of RUB 12.3 billion (including RUB 5 billion paid to Sistema Finance).

Additionally, as a result of MTS PJSC reorganization, the Group purchased 9,805,921 shares (RUB 3.2 billion) during six months ended June 30, 2021

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

Dividends

The Group may take decisions on the dividend payout based not only on annual results but also on interim results for three, six or nine months of the fiscal year. Annual and interim dividend payments, if any, must be recommended by the Board of Directors and approved by the shareholders.

In accordance with Russian laws, earnings available for dividends are limited to profits determined under Russian statutory accounting regulations, denominated in Russian Rubles, after certain deductions.

The following table summarizes the Group's declared cash dividends for the six months ended June 30, 2021 and 2020:

	Six months ended June 30,	
	2021	2020
Dividends declared (including dividends on treasury shares of 8,379 and 4,671 respectively)	52,966	41,106
Dividends, RUB per ADS	53.02	41.14
Dividends, RUB per share	26.51	20.57

During a meeting on July 29, 2021 the Board of Directors has recommended a semi-annual dividends of RUB 10.55 per ordinary MTS share (RUB 21.10 per ADR), or a total of RUB 21.1 billion based on H1 2021 financial results.

As of June 30, 2021 and December 31, 2021, dividends payable were RUB 44,696 million and RUB 108 million, respectively, and included in the trade and other payables within the interim condensed consolidated statement of financial position.

15. RELATED PARTIES

Related parties include the controlling shareholder of the Group, entities under common ownership with the Group, affiliated companies, associates and joint ventures.

The aggregated impact of transactions with related parties to the Group's statements of financial position as of June 30, 2021 and December 31, 2020 and statements of profit or loss for the six months ended June 30, 2021 and 2020 was the following:

	June 30, 2021	December 31, 2020
Statements of financial position:		
Advances given for property, plant and equipment	1,004	1,109
Right-of-use assets	4,639	4,957
Other investments	812	529
Accounts receivable, non-current	5,232	5,209
Bank deposits and loans to customers, non-current	3,737	2,856
Accounts receivable, current	10,024	8,980
Bank loans to customers, current	5,388	5,162
Short-term investments	800	3
Advances paid and prepaid expenses	1,094	1,526
Cash and cash equivalents	1,948	321
Loans receivable, non-current	11	11
Lease obligations, non-current	4,579	4,878
Bank deposits and deposits and liabilities, non-current	118	124
Dividends payable	22,295	3
Accounts payable, current	1,610	3,146
Loans receivable, current	2,016	1,792
Lease obligations, current	642	738
Bank deposits and liabilities, current	54,972	52,248

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

Statements of profit or loss	Six months ended June 30,	
	2021	2020
Revenue	3,261	2,576
Cost of services	1,529	1,517
Selling, general and administrative expenses	3,129	1,186
Other operating income	887	882
Finance income	734	933
Interest expenses under lease arrangements	189	237

Terms and conditions of transactions with related parties – Outstanding balances as of June 30, 2021 and December 31, 2020 were unsecured and settlements are made on a cash basis. There have been no guarantees provided or received for any related party receivables or payables. As of June 30, 2021, the Group had no significant amounts of impairment relating to receivables owed by related parties as well as expenses recognized during the six months ended June 30, 2021 and 2020 with respect to bad or doubtful debts from related parties.

The Group has neither the intent nor the ability to offset the outstanding accounts payable and accounts receivable with related parties under the terms of existing agreements.

Balances of related parties' transactions as of June 30, 2021 and December 31, 2020 were as follows:

	June 30, 2021	December 31, 2020
Advances for property, plant and equipment:		
Sistema's subsidiaries	991	1,096
Sistema's associates	13	13
Total advances for property, plant and equipment, related parties	1,004	1,109
Right-of-use assets:		
Sistema's subsidiaries	4,508	4,845
Sistema's associates	89	93
The Group's associates	12	11
Other related parties	30	8
Total right-of-use assets, related parties	4,639	4,957
Other investments:		
The Group's associates	432	74
Sistema's subsidiaries	263	253
Total other investments, related parties	695	327
Other investments in shares:		
Sistema's subsidiaries	117	117
The Group's associates	-	85
Total investments in shares, related parties	117	202
Accounts receivable, non-current:		
Sistema's subsidiaries	5,232	5,209
Total accounts receivable, non-current, related parties	5,232	5,209
Bank deposits and loans to customers, non-current:		
Sistema's associates	2,330	1,376
Sistema's subsidiaries	1,407	1,480
Total bank deposits and loans to customers, related parties, non-current	3,737	2,856
Accounts receivable, current:		
Sistema's subsidiaries	4,729	4,571
Sistema, parent company	2,902	2,829
The Group's associates	2,262	1,397
Sistema's associates	52	57
Other related parties	79	126
Total accounts receivable from related parties, current	10,024	8,980

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

	June 30, 2021	December 31, 2020
Bank loans to customers, current:		
Sistema's associates	3,232	2,819
Sistema, parent company	1,715	1,831
Sistema's subsidiaries	351	464
Key management personnel of the Group and its parent	90	48
Total bank loans to customers, related parties, current	5,388	5,162
Short-term investments:		
Sistema's subsidiaries	800	3
Total short-term investments in related parties	800	3
Advances paid and prepaid expenses:		
Sistema's subsidiaries	1,057	1,518
The Group's associates	5	-
Other related parties	32	8
Total advances paid and prepaid expenses, related parties	1,094	1,526
Loans receivable, non-current:		
Sistema's subsidiaries	11	11
Total loans receivable to related parties, non-current	11	11
Lease obligations, non-current:		
Sistema's subsidiaries	4,491	4,801
Sistema's associates	61	66
The Group's associates	4	4
Other related parties	23	7
Total lease obligation, related parties, non-current	4,579	4,878
Bank deposits and liabilities, non-current:		
Key management personnel	118	124
Total bank deposits and liabilities, related parties, non-current	118	124
Dividends payable:		
Sistema, parent company	16,450	-
Sistema's subsidiaries	5,845	3
Total dividends payable, related parties	22,295	3
Accounts payable, current:		
Sistema's subsidiaries	1,070	1,631
The Group's associates	503	553
Sistema's associates	35	958
Other related parties	2	4
Total accounts payable to related parties, current	1,610	3,146
Loans receivable, current:		
The Group's associates	2,000	1,776
Sistema's subsidiaries	16	16
Total loans receivable to related parties, current	2,016	1,792
Lease obligation, current:		
Sistema's subsidiaries	625	724
Sistema's associates	10	13
The Group's associates	2	1
Other related parties	5	-
Total lease obligation, related parties, current	642	738
Bank deposits and liabilities, current:		
Key management personnel of the Group and its parent	33,491	34,708
Sistema's subsidiaries	15,743	10,752
Sistema, parent company	3,514	3,218
Sistema's associates	1,777	2,689
The Group's associates	102	415
Other related parties	345	466
Total bank deposits and liabilities, related parties, current	54,972	52,248

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

Operating transactions – During the six months ended June 30, 2021 and 2020 the Group provided the following services to related parties – electricity supply by MTS Energo, software supplies, Internet and video/image transmission services, roaming, interconnect and other telecommunication services, banking and call center services.

At the same time the Group incurred security expenses, asset management expenses, telecommunication expenses, transfer of line-cable structures, dismantling equipment expenses, rent expenses, interest expenses on bank accounts and deposits and other expenses, and recognized income from scrap metal sales and other operations.

	Six months ended June 30,	
	2021	2020
Revenues from related parties:		
Sistema's subsidiaries	2,362	2,025
Sistema's associates	356	291
The Group's associates	184	161
Sistema, parent company	68	67
Other related parties	291	32
Total revenues from related parties	3,261	2,576
Cost of services:		
Key management personnel of the Group and its parent	669	1,039
Sistema's subsidiaries	608	226
Sistema, parent company	109	76
The Group's associates	75	79
Sistema's associates	57	88
Other related parties	11	9
Total cost of services incurred on transactions with related parties	1,529	1,517
Selling, general and administrative expenses:		
Key management personnel of the Group and its parent	2,760	802
Sistema's subsidiaries	333	341
Sistema's associates	(13)	(1)
The Group's associates	10	36
Other related parties	39	8
Total selling, general and administrative expenses incurred on transactions with related parties	3,129	1,186
Other operating income / (expense):		
Sistema's subsidiaries	849	896
Sistema's associates	25	(17)
The Group's associates	14	3
Other related parties	(1)	-
Total Other operating income / (expense) incurred on transactions with related parties	887	882
Finance income / (loss):		
Sistema's subsidiaries	698	533
Sistema, parent company	73	214
The Group's associates	(37)	186
Total finance income from related parties	734	933
Interest expense accrued on those finance lease obligations:		
Sistema's subsidiaries	185	233
Sistema's associates	3	4
Other related parties	1	-
Total Interest expense accrued on those finance lease obligations, related parties	189	237

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

During the six months ended June 30, 2021 and 2020, the Group acquired property, plant and equipment and intangible assets from related party in the amount of:

	Six months ended June 30,	
	2021	2020
Purchases of property, plant and equipment, intangible assets and other assets:		
Sistema's subsidiaries	3,466	270
Sistema's associates	100	1,985
The Group's associates	79	53
Other related parties	2	97
Total purchases of property, plant and equipment, intangible assets and other assets, related parties	3,647	2,405

East-West United Bank – The Group maintains certain bank accounts with East-West United Bank, a subsidiary of Sistema. As of June 30, 2021 and December 31, 2020, the Group's cash position at East-West United Bank amounted to RUB 1,948 million and RUB 321 million, respectively.

Lease payments - During the six months ended June 30, 2021 and 2020, the Group made lease payments (capitalized in accordance with IFRS 16) in the amount of RUB 713 million and RUB 753 million, respectively, to the related parties.

Remuneration of key management personnel – Key management personnel of the Group are members of the Board of Directors and Management Board. During the six months ended June 30, 2021 and 2020 their total remuneration amounted to RUB 1,058 million and RUB 576 million, respectively, including social contributions of RUB 219 million and RUB 69 million, respectively. These amounts comprised of RUB 287 million and RUB 269 million in base salaries and RUB 771 million and RUB 307 million in bonuses paid pursuant to a bonus plan, respectively (including social contributions).

The management and directors are also entitled to cash-settled and equity-settled share-based payments. Related compensation accrued during the six months ended June 30, 2021 and 2020 amounted to RUB 306 million and RUB 226 million, respectively, including social contributions of RUB 23 million and RUB 17 million, respectively.

In 2021 a new incentive program for key management personnel was adopted by the Group. The accrued compensation amounted to RUB 1,396 million including social contributions of RUB 185 million.

16. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of June 30, 2021 and December 31, 2020, the Group had entered into purchase agreements of approximately RUB 63,786 and RUB 62,616 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Taxation – Management believes that it has adequately provided for tax liabilities in the accompanying interim condensed consolidated financial statements. However, the risk remains that the relevant tax authorities could take different positions with regard to interpretive issues and the effect could be significant.

The Group estimates the following contingent liabilities in respect to additional tax settlements:

	June 30, 2021	December 31, 2020
Contingent liabilities for additional taxes other than income tax	1,039	1,043
Contingent liabilities for additional income taxes	1,306	892

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

Licenses – Management believes that as of June 30, 2021 the Group complied with conditions of the licenses used.

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

Litigation related to operations in Turkmenistan - In September 2017, the Group's subsidiary in Turkmenistan MTS Turkmenistan or MTS-TM, suspended the provision of telecommunication services to its subscribers, due to the termination by Turkmen state-owned companies and state authorities of line rental, frequency allocation, interconnect, and other agreements necessary to provide telecommunication services. The license for the provision of telecommunication services on the territory of Turkmenistan was valid until July 2018.

In July 2018, the Group filed a Request for Arbitration against the Sovereign State of Turkmenistan with the World Bank's International Center for Settlement of Investments Disputes ("ICSID") in order to protect its legal rights and investments in Turkmenistan. As of June 30, 2021 the case is pending. The hearing is currently expected at the end of 2021.

Antimonopoly proceedings – In August 2018, the Federal Antimonopoly Service of Russia ("FAS Russia") charged MTS and other federal operators with violation of antimonopoly laws in respect to establishing discriminatory terms and conditions for bulk SMS pricing for the banks with state-owned equity interest as compared to the terms and conditions for other banks and later – with establishing unreasonably high bulk SMS prices.

In May 2019, FAS Russia considered that MTS had breached the provisions of antimonopoly laws in respect to establishing discriminatory terms and conditions for bulk SMS pricing and charging unreasonably high bulk SMS prices, prescribing MTS to cease its violations. MTS contested the decision and the prescription of FAS Russia in the Moscow Arbitration Court, which upheld the position of FAS Russia in November 2019, following by the Arbitration Court of Appeal in March 2020. MTS filed a cassation appeal to the Arbitration Court of the Moscow District, which also upheld the position of FAS Russia. In December 2020, MTS cassation appeal was rejected by the Judicial Chamber of the Supreme Court. Management of the Group believes that as of June 30, 2021 it has adequately provided for charges imposed by FAS Russia and other related expenses.

Potential adverse effects of economic instability and sanctions in Russia – In 2014 political and economic sanctions targeting certain Russian economic sectors were introduced by the EU, US and other countries. Sanctions were subsequently extended and there is significant uncertainty regarding the extent and timing of further sanctions. Furthermore, the Russian Ruble has significantly depreciated against the U.S. Dollar and Euro and Ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% in December, 2014. In 2018, due to Russia's ability to remain stable amid severe external shocks, Russia's sovereign credit ratings were increased from "stable" to "positive". The Central Bank of Russia has gradually decreased its key rate to 4.25% as of December 31, 2020 and further increased to 5.5% as of June 30, 2021 following the increase in the rate of inflation.

These factors resulted in a lower cost of capital and a stable rate of inflation till 2021. However, in Russia there is an uneven growth dynamics, which could have a negative impact on the Group's business including ability to obtain financing on commercially reasonable terms. The management believes it is acting appropriately to support the sustainability of the Group's business in the current circumstances. The Group has a hedging policy in place, which partly mitigates the variability of cash outflows, denominated in foreign currencies.

In 2020 and 2021 the government of Russia took actions and issued guidelines to protect public health during COVID-19 pandemic, which have affected Group's business and financial situation (as disclosed in Note 3 **Error! Reference source not found.**). It's currently impossible to reliably evaluate further possible implications of COVID-19 pandemic for the Group's business and financial situation.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Amounts in millions of Russian Rubles unless otherwise stated)

Investigations into former operations in Uzbekistan – In March 2019, the Group reached a resolution with the United States Securities and Exchange Commission (“SEC”) and the United States Department of Justice (“DOJ”) relating to the previously disclosed investigation concerning the Group’s former subsidiary in Uzbekistan.

The Group consented to the entry of an administrative cease-and-desist order (the “Order”) by the SEC.

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

Under the agreements with the DOJ and SEC, the Group agreed to pay a total penalty of USD 850 million (RUB 59.1 billion as of December 31, 2018) to the United States, which was comprised of a criminal fine, criminal forfeiture and civil penalty. The Group provided a provision of USD 850 million (RUB 55.8 billion as of the date of accrual), which was recognized as a part of discontinued operations in the consolidated statements of profit or loss for the year ended December 31, 2018. In March 2019, the Group paid the total penalty of USD 850 million (RUB 55.6 billion as of the payment date).

Under the DPA and the Order, the Group agreed to appoint and in September 2019 appointed an independent compliance monitor. Pursuant to the DPA and the Order, the monitorship will continue for a period of three years starting from the appointment date, and the term of the monitorship may be terminated early or extended depending on certain circumstances, as ultimately determined and approved by the DOJ and SEC.

Class action complaint – In March 2019, a proposed class action complaint on behalf of Shayan Salim and all other persons similarly situated has been filed in the United States District Court for the Eastern District of New York against MTS PJSC and certain of its managers. On 1 March 2021, US District Judge of Eastern District Court of New York granted MTS’s motion to dismiss with prejudice and dismissed the complaint in full.

17. SUBSEQUENT EVENTS

Loan with Sberbank – In July 2021, the Group has concluded a RUB 30 billion loan agreement with Sberbank PJSC due in 2024. The interest rate on the loan is determined as the key rate set by the Central Bank of Russia plus a flat rate of 1.05% per annum. The loan was drawn from existing credit facility.