



Consolidated financial statements

For the year ended 31 December 2020

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Independent Auditors' Report

To the Shareholders and the Board of Directors of PJSC MegaFon

Opinion

We have audited the consolidated financial statements of PJSC MegaFon (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated income statement, and the statements of other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation 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.

Audited entity: PJSC MegaFon
Registration No. in the Unified State Register of Legal Entities:
1027809169585.
Moscow, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Registration number in the Unified State Register of Legal Entities:
No. 1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). Principal registration number of the entry in the Register of Auditors and Audit Organizations: No. 12006020351.



Service revenue accounting	
Please refer to the Note 2.1 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>Revenue is a material amount consisting of a high volume of individually low value transactions. The Group uses billing systems to calculate revenue, revenue data is automatically transferred from the billing systems to the accounting system through an intermediate database. Thus, the Group relies on the results of these systems.</p> <p>The most significant risks of revenue misstatement arise due to potential overstatement of the volume of services provided, the application of tariffs and setting of algorithms for charging subscribers, and the transfer of revenue from the billing systems to the accounting system.</p>	<p>Our key audit procedures included an assessment of the Group's policies and controls in place over the IT system environment to determine their effectiveness in preventing and/or detecting revenue-related data distortion.</p> <p>We performed the following key audit procedures:</p> <ul style="list-style-type: none"> — we tested that only authorised access can be made to the billing systems by inspecting approved access requests and automatic access settings for compliance with the internal policy; — we tested that system program changes in the billing systems, were authorized in accordance with internal rules; — we tested the automatic filtering settings for duplicate records of the volume of services rendered by running a relevant query to the database for a selected period; — we recalculated the amounts accrued to subscribers on a sample basis by multiplying the parameters of the services provided by the corresponding tariffs; we also tested that the algorithms for the suspension of charges in case of disconnection of services to subscribers are configured in accordance with the terms of tariffs and internal rules through recalculation of charges to disconnected subscribers on a sample basis; — we tested the transfer of revenue data from the billing systems to accounting system through a corporate data warehouse by comparing revenue amounts in the systems on a sample basis. <p>The above procedures were performed with involvement of our IT specialists.</p> <p>We also performed analytical tests and tests of details:</p> <ul style="list-style-type: none"> — we reconciled the revenue recognized in the accounting system adjusted for the amount of settlements with subscribers at the beginning and



The key audit matter	How the matter was addressed in our audit
	<p>end of the reporting period, with the amount of payments recorded in the accounting system; we reconciled the amount of payments from subscribers with supporting documentation from payment services companies and banks on a sample basis;</p> <ul style="list-style-type: none"> — we reconciled revenue from interconnect services with supporting documents from counterparties on a sample basis; — we performed other analytical procedures to ensure that the overall trend and dynamics of revenue by type of service are consistent with our understanding of the Group and the industry in general.

Impairment testing of investment in the associate DTSRetail Limited ("Svyaznoy group")

Please refer to the Note 3.4 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>During the reporting period indicators of impairment of the investment in DTSRetail Limited were identified, which requires investment impairment testing.</p> <p>Impairment testing is a complex process involving a number of judgments and assumptions in relation to input data. Estimation of a recoverable amount is based on a discounted cash flow model that mainly uses assumptions from internal sources.</p>	<p>We involved KPMG valuation specialists to assist us in testing the appropriateness of the Group's methodology and key assumptions applied to determine the recoverable amount of investment.</p> <p>Our key audit procedures included the following:</p> <ul style="list-style-type: none"> — we challenged the key assumptions applied by the Group in the discounted cash flow model by, among other things, comparing the projected EBITDA margin with those observed at company-analogues; — based on our industry accumulated knowledge and inputs from publicly available sources we developed our own range of values representing the estimate of the recoverable amount of the investment using methodology and assumptions, including reasonable changes of key assumptions, which we consider appropriate.



Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the consolidated financial statements and our auditors' report thereon.

The Annual Report is expected to be made available to us after the date of this auditors' 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.

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 IFRS, 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.

Auditors' 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 auditors' 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 scepticism 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 auditors' 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 auditors' 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner of the audit resulting in this independent auditors' report is:

Ammosova E.V.

JSC "KPMG"

Moscow, Russia

24 March 2021



MegaFon
Consolidated income statement
(In millions of Rubles)

	Note	Years ended 31 December	
		2020	2019
Revenue	2.1	332,159	348,961
Operating expenses			
Cost of revenue		97,836	109,158
Sales and marketing expenses	2.2	18,877	20,193
General and administrative expenses	2.3	67,660	67,992
Depreciation	3.1, 3.2	51,726	68,050
Amortisation	3.3.1	21,941	20,340
Loss on disposal of non-current assets		684	623
Total operating expenses		258,724	286,356
Operating profit		73,435	62,605
Finance costs		(38,300)	(45,195)
Finance income		8,937	2,097
Share of loss of associates and joint ventures	3.4	(5,169)	(5,277)
Other non-operating expenses		(3,237)	(2,087)
Gain/(loss) on financial instruments, net	3.5.4	2,741	(1,982)
Foreign exchange (loss)/gain, net		(3,126)	2,084
Profit before tax		35,281	12,245
Income tax expense	2.4	8,509	4,066
Profit for the year		26,772	8,179
Attributable to equity holders of the Company		26,626	8,087
Attributable to non-controlling interest		146	92
		26,772	8,179

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

MegaFon

Consolidated statement of other comprehensive income

(In millions of Rubles)

	Note	Years ended 31 December 2020	2019
Profit for the year		26,772	8,179
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation difference, net of tax		92	269
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		92	269
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of guided media telecom channels, net of tax		—	57,610
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		—	57,610
Total comprehensive income for the year		26,864	66,058
Total comprehensive income for the year			
Attributable to equity holders of the Company		26,859	66,116
Attributable to non-controlling interest		5	(58)
		26,864	66,058

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

MegaFon

Consolidated statement of financial position

(In millions of Rubles)

		As of 31 December	
	Note	2020	2019
Assets			
Non-current assets			
Property and equipment	3.1	292,283	288,408
Right-of-use assets	3.2	74,114	85,485
Intangible assets, other than goodwill	3.3.1	75,346	80,845
Goodwill	3.3.2	30,578	30,549
Investments in associates and joint ventures	3.4	66,914	68,385
Non-current financial assets	3.5	129,277	15,239
Non-current non-financial assets	3.8	9,096	9,092
Deferred tax assets	2.4	1,309	848
Total non-current assets		678,917	578,851
Current assets			
Inventory	3.7	9,659	10,257
Current non-financial assets	3.8	9,065	7,432
Prepaid income taxes	2.4	1,102	3,908
Trade and other receivables	3.6	28,008	37,104
Other current financial assets	3.5	12,201	2,898
Cash and cash equivalents	3.5.1	34,614	52,706
Total current assets		94,649	114,305
Total assets		773,566	693,156
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company	4	233,548	104,956
Non-controlling interests		(524)	(307)
Total equity		233,024	104,649
Non-current liabilities			
Loans and borrowings	3.5	272,675	350,066
Other non-current financial liabilities	3.5	667	2,552
Non-current non-financial liabilities	3.8	3,968	4,000
Non-current lease liabilities	3.5	65,979	77,315
Provisions	3.9	7,715	6,380
Deferred tax liabilities	2.4	33,572	34,601
Total non-current liabilities		384,576	474,914
Current liabilities			
Trade and other payables	3.5	44,171	54,607
Loans and borrowings	3.5	73,862	25,692
Other current financial liabilities	3.5	209	251
Current non-financial liabilities	3.8	21,054	18,264
Current lease liabilities	3.5	16,296	13,584
Income taxes payable	2.4	374	1,195
Total current liabilities		155,966	113,593
Total equity and liabilities		773,566	693,156

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

MegaFon

Consolidated statement of changes in equity

(In millions of Rubles)

Note	Attributable to equity holders of the Company									
	Ordinary shares		Treasury shares		Capital surplus	Retained earnings	Other capital reserves (Note 4)	Total	Non-controlling interests	Total equity
	Number of shares	Amount	Number of shares	Amount						
As of 1 January 2019	620,000,000	526	139,616,537	(94,087)	12,567	151,766	(105)	70,667	(264)	70,403
Profit for the year	—	—	—	—	—	8,087	—	8,087	92	8,179
Other comprehensive income/(loss)	—	—	—	—	—	—	58,029	58,029	(150)	57,879
Total comprehensive income/(loss)	—	—	—	—	—	8,087	58,029	66,116	(58)	66,058
Purchase of outstanding shares	—	—	131,212,843	(86,574)	—	—	—	(86,574)	—	(86,574)
Sale of own shares	—	—	(86,800,000)	58,958	—	(3,232)	—	55,726	—	55,726
Discount on related party loan	3.5	—	—	—	—	(979)	—	(979)	—	(979)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	15	15
As of 31 December 2019	620,000,000	526	184,029,380	(121,703)	12,567	155,642	57,924	104,956	(307)	104,649
Profit for the year	—	—	—	—	—	26,626	—	26,626	146	26,772
Other comprehensive income/(loss)	—	—	—	—	—	—	233	233	(141)	92
Total comprehensive income	—	—	—	—	—	26,626	233	26,859	5	26,864
Acquisition of a non-controlling interest	—	—	—	—	—	—	—	—	(20)	(20)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(202)	(202)
Sale of own shares	4	—	(184,029,380)	121,703	—	(17,797)	—	103,906	—	103,906
Revaluation relating to disposed assets	—	—	—	—	—	84	(84)	—	—	—
Discount on related party loans	3.5	—	—	—	—	(2,173)	—	(2,173)	—	(2,173)
As of 31 December 2020	620,000,000	526	—	—	12,567	162,382	58,073	233,548	(524)	233,024

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

MegaFon

Consolidated statement of cash flows

(In millions of Rubles)

	Note	Years ended 31 December	
		2020	2019
Operating activities			
Profit before tax		35,281	12,245
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation	3.1,3.2	51,726	68,050
Amortisation	3.3.1	21,941	20,340
Loss on disposal of non-current assets		684	623
(Gain)/loss on financial instruments, net	3.5.4	(2,741)	1,982
Foreign exchange loss/(gain), net		3,126	(2,084)
Share of loss of associates and joint ventures	3.4	5,169	5,277
Change in impairment allowance for receivables and other non-financial assets		3,420	2,566
Finance costs		38,300	45,195
Finance income		(8,937)	(2,097)
Working capital adjustments:			
Decrease/(increase) in inventory		598	(372)
Decrease/(increase) in trade and other receivables		6,183	(10,610)
Increase in current non-financial assets		(2,047)	(1,791)
(Decrease)/increase in trade and other payables		(11,795)	5,438
Increase/(decrease) in current non-financial liabilities		1,091	(603)
Change in VAT, net		2,608	2,702
Income tax paid		(3,372)	(8,281)
Net cash flows received from operating activities		141,235	138,580
Investing activities			
Purchase of property, equipment and intangible assets	3.1,3.3	(53,548)	(71,127)
Proceeds from sale of property and equipment	3.1	61	253
Acquisition of subsidiaries, net of cash acquired		(14)	27
Payment of deferred and contingent consideration		(979)	—
Proceeds from sale of subsidiary, net of cash		(48)	—
Purchase of interest in associates	3.4	(2,645)	(1,307)
Net change in deposits		228	4,141
Loans granted	3.5	(18,000)	(15,360)
Repayments of loans granted		—	3,100
Interest received		1,713	1,545
Sale of associates and joint ventures		—	1,230
Net cash flows used in investing activities		(73,232)	(77,498)
Financing activities			
Proceeds from borrowings, net of fees paid		22,425	265,524
Repayment of borrowings		(55,637)	(214,204)
Interest paid		(38,334)	(43,525)
Purchase of outstanding shares		—	(86,574)
Dividends paid to non-controlling interests		(159)	—
Sale of own shares		—	55,726
Lease payments		(14,400)	(11,864)
Other		(75)	—
Net cash flows used in financing activities		(86,180)	(34,917)
Net (decrease)/increase in cash and cash equivalents		(18,177)	26,165
Net foreign exchange difference		85	(673)
Cash and cash equivalents at beginning of year		52,706	27,214
Cash and cash equivalents at end of year	3.5.1	34,614	52,706

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

MegaFon

Notes to the consolidated financial statements

1. GENERAL

1.1. About the Company

Public Joint Stock Company MegaFon (“MegaFon”, the “Company” and, together with its consolidated subsidiaries, the “Group”) is a company incorporated under the laws of the Russian Federation and registered in the Unified State Register of Legal Entities under number 1027809169585. Its registered office is at 41 Oruzheyniy lane, Moscow, 127006, Russian Federation.

MegaFon is a leading pan-Russian operator of digital opportunities and offers a broad range of telecommunication and digital services to retail customers, businesses, government clients and telecommunication services providers.

As of 31 December 2020, the outstanding shares of the Company are held, as to 50%, by AF Telecom Holding LLC, a company incorporated in the Russian Federation, and as to the remaining 50%, by its 100% parent, USM Telecom LLC, a company incorporated in the Russian Federation. The ultimate controlling party of both AF Telecom Holding LLC and USM Telecom LLC is USM Holding Company LLC, a company incorporated in the Russian Federation, which is controlled by a group of individuals, none of whom acting alone has the power to direct the activities of USM Holding Company LLC or its corporate group at his own discretion and for his own benefit.

1.2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the Federal Law No 208-FZ, *On consolidated financial statements*.

The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. The consolidated financial statements are presented in millions of Rubles.

The consolidated financial statements were authorised for issue by the Company’s Chief Executive Officer (“CEO”) and Chief Accountant on 24 March 2021.

Foreign currency translation

The Group’s consolidated financial statements are presented in Rubles, which is also the functional currency of MegaFon and its principal subsidiaries.

The functional currency of CJSC “TT mobile”, the Company’s 75% owned subsidiary in Tajikistan, is the US Dollar as a majority of its revenues, costs, property and equipment purchases, debt and trade liabilities is either priced, incurred, payable or otherwise measured in US Dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or fair value measurement where items are re-measured to their fair value. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the ‘Foreign exchange gain/(loss), net’ line in profit or loss.

Notes to the consolidated financial statements (continued)

1.2. Basis of preparation (continued)

The assets and liabilities of foreign operations are translated into Rubles at the rate of exchange prevailing on the reporting date and the income and expenses are translated at the exchange rates prevailing on the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income (“OCI”).

1.3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of 31 December 2020.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Profit or loss and each component of OCI are attributed to the equity holders of the Company and to the non-controlling interests (“NCI”), even if this results in the NCI having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

1.4. Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements required management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated statement of financial position, the consolidated income statement, the consolidated statement of other comprehensive income and the accompanying disclosures. Subsequent revisions or corrections made to these judgments, estimates and assumptions hereafter could result in outcomes that require a material adjustment to the carrying amount of affected assets or liabilities in future periods.

In the process of applying the Group’s accounting policies, management has made various judgments. Those which management has assessed to have the most significant effect on the amounts recognised in the consolidated financial statements have been discussed in the individual notes for the related financial statement line items: revenue, dealer commissions, income taxes, property and equipment, intangible assets, investments in associates and joint ventures, leases, financial assets and liabilities, provisions, and business combinations.

The key assumptions concerning the future and other key estimates made at the reporting date that, if not substantiated, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are also described in the individual notes for the related financial statement line items below. The Group based its assumptions and estimates on the information available to it when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Notes to the consolidated financial statements (continued)

1.5. Significant accounting policies

The significant accounting policies have been discussed in the individual notes for the related financial statement line items.

Changes in accounting policies and disclosures

During 2020 the Group applied a number of amendments to accounting standards for the first time, such as the revised Conceptual Framework, Amendments to IFRS 3, *Definition of a Business*, Amendments to IAS 1 and IAS 8, *Definition of Material*, Amendments to IFRS 16, *COVID-19-Related Rent Concessions*, and some other amendments effective from 1 January 2020, but they do not have a material impact on the Group's consolidated financial statements.

1.6. Standards issued but not yet effective

The standards and interpretations that are issued and applicable to the Group, but not yet effective as of the date of issuance of the Group's consolidated financial statements, are disclosed below. The Group intends to adopt these standards when they become effective and does not expect them to have a material impact on the Group's consolidated financial statements.

Proceeds before Intended Use (Amendments to IAS 16)

In May 2020 the IASB issued Amendments to IAS 16, *Property, Plant and Equipment*, to provide guidance on the accounting for sale proceeds and the related production costs regarding the items produced during the process of making the property, plant and equipment available for its intended use. The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than its financial performance. The amendments will be effective for annual periods beginning on or after 1 January 2022 with earlier implementation permitted.

Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)

In May 2020 the IASB issued Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, clarifying the types of costs a company should include in the overall cost of fulfilling a contract when assessing whether a contract is onerous. The amendments will be effective for annual periods beginning on or after 1 January 2022 with earlier implementation permitted.

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020 the IASB issued further Amendments to IFRS 3, *Business Combination*, to update references to the revised Conceptual Framework. The amendments will be effective for annual periods beginning on or after 1 January 2022 with earlier implementation permitted.

MegaFon

Notes to the consolidated financial statements (continued)

1.6. Standards issued but not yet effective (continued)

Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1)

In May 2020 the IASB issued Amendments to IFRS 1, *First-time Adoption of IFRS*, to simplify the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent. The amendments will be effective for annual periods beginning on or after 1 January 2022 with earlier implementation permitted.

Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 9)

In May 2020 the IASB issued Amendments to IFRS 9, *Financial Instruments*, clarifying which fees to include in the “10 per cent” test for derecognition of financial liabilities. The amendments will be effective for annual periods beginning on or after 1 January 2022 with earlier implementation permitted.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020 with further revision in July 2020 the IASB issued Amendments to IAS 1, *Presentation of Financial Statements*, clarifying the requirements on determining if a liability is current or non-current. The amendments will be effective for annual periods beginning on or after 1 January 2023 with earlier implementation permitted.

IFRS 17 «Insurance Contracts»

In May 2017 with further revision in June 2020 the IASB issued IFRS 17, *Insurance Contracts*, which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The new standard will replace IFRS 4 and will be effective for annual periods beginning on or after 1 January 2023.

2. INCOME STATEMENT

2.1. Revenue

Accounting policies

Revenue is measured based on the consideration specified in a contract with a customer and represents amounts receivable for the sale of goods or services in the ordinary course of the Group’s activities, net of value added taxes, returns and discounts.

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). Upfront payments received for connection of new customers and installation of infrastructure connection services are deferred and recognised over the estimated average customer contract life.

Service revenue

Service revenue is generally recognised when the services are rendered.

MegaFon

Notes to the consolidated financial statements (continued)

2.1. Revenue (continued)

The revenue from provision of content and other services is presented net of related costs when the Group acts as an agent of the service providers while gross revenues and related costs are recorded when the Group is the primary obligor in the arrangement. The reporting of revenue on a net versus gross basis, depending on an analysis of the Group's involvement as either principal or agent, involves management's judgment.

Wireless revenue

The Group earns wireless revenues for usage of its cellular system, which include airtime charges from postpaid and prepaid subscribers, monthly contract fees, interconnect fees from other wireless and wireline operators, roaming charges, data transfer charges, and charges for value added services ("VAS").

Interconnect revenue includes revenues from wireless and wireline operators that was earned from terminating traffic from other operators. Roaming revenues include revenues from customers who roam outside their selected home coverage area and revenues from other mobile carriers for roaming by their customers using the network of the Group.

VAS include charges for short message services ("SMS") and for the provision of content and media, as well as commissions for mobile payments.

(a) Loyalty programme

The Group from time to time operates various loyalty programmes which allow customers to earn cashback rebates or points for usage of the Group's cellular network. The awards can then be redeemed by applying the accumulated rebates or points to payments for services, goods or partner products. The portion of consideration received is allocated to the awards based on their relative standalone selling price and deferred until the award credits are redeemed or expire. The Group estimates the standalone selling price of awards by making assumptions about expected redemption rates and customer preferences.

(b) Multiple element arrangements

The Group enters into multiple element arrangements in which a customer may purchase a combination of equipment (e.g. handsets) and telecommunication services (e.g. airtime, data, and other services). The Group allocates consideration received from subscribers to the separate performance obligations based on their standalone selling prices. Revenue allocated to the delivered equipment and related costs are recognised in the accompanying consolidated income statement at the time of sale provided that other conditions for revenue recognition are met. Amounts allocated to telecommunication services are deferred and recognised as revenue over the period of rendering the services. Allocation of each separable component of a bundled offer based on the individual components' standalone selling prices involves estimates and management's judgment.

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Notes to the consolidated financial statements (continued)

2.1. Revenue (continued)

(c) Roaming rebates

The Group enters into roaming discount agreements with a number of wireless operators. According to the agreements the Group is committed to provide and entitled to receive a discount that is generally dependent on the volume of roaming traffic generated by the respective subscribers. The Group uses actual traffic data to estimate the amounts of rebates to be received or granted. Such estimates are adjusted and updated on a regular basis. The Group accounts for discounts received as a reduction of roaming expenses and rebates granted as a reduction of roaming revenue.

The Group takes into account the terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statement of financial position. Amounts of rebates earned from and given to roaming partners are included in trade and other receivables and payables, respectively, in the accompanying consolidated statement of financial position.

Management has to make estimates relating to revenue recognition, relying to some extent on information from other operators on the values of services delivered. Management also makes estimates of the final outcome in instances where the other parties dispute the amounts charged.

Wireline revenue

The Group earns wireline revenues for usage of its fixed-line network, which include payments from individual, corporate and government subscribers for local and long-distance telecommunications and data transfer services. Charges are based upon usage (e.g., minutes of traffic processed), period of time (e.g., monthly service fees) or other established fee schedules. Wireline revenues also include interconnection charges from wireless and wireline operators for terminating calls on the Group's wireline networks. Revenue from service contracts is recognised when the services are rendered. Billings received in advance of service being rendered are deferred and recognised as revenue as the service is rendered.

Sales of equipment and accessories

Revenue from the sale of equipment and accessories is recognised when the customer obtains control of the goods, usually on their delivery.

MegaFon

Notes to the consolidated financial statements (continued)

2.1. Revenue (continued)

Disclosures

As at 31 December 2020, the Group had 17,081 (2019: 19,865) of receivables and nil contract assets from contracts with customers included in trade and other receivables.

As at 31 December 2020, the Group had 13,447 (2019: 12,786) of contract liabilities from contracts with customers included in current non-financial liabilities and 3,883 (2019: 3,915) of contract liabilities included in non-current non-financial liabilities. The contract liabilities included in non-current non-financial liabilities as at 31 December 2020 primarily relate to deferred upfront fees for infrastructure services. These are expected to be recognised as revenue over a term of ten years which is the average contract term.

The amount of 12,786 recognised in contract liabilities at the beginning of the year has been recognised as revenue for the year ended 31 December 2020.

The Group used the practical expedient in IFRS 15 and did not disclose the information about its unsatisfied performance obligations for contracts that have an original expected duration of one year or less.

2.2. Sales and marketing expenses

Dealer commissions for connection of new subscribers which represent incremental costs of obtaining a customer contract are deferred and recognised in sales and marketing expenses over the expected contract term. Other dealer commissions are expensed as incurred.

As at 31 December 2020, the Group had 5,722 (2019: 5,848) of deferred customer acquisition costs included in non-current non-financial assets. The amount of costs amortised into sales and marketing expenses for the year ended 31 December 2020 is 6,627 (2019: 6,359).

Advertising costs are expensed as incurred.

2.3. General and administrative expenses

Included in general and administrative expenses for the years ended 31 December are:

	<u>2020</u>	<u>2019</u>
Employee benefits and related social charges	34,756	34,347

State pension funds

The Group contributes to local state pension funds and social funds on behalf of its employees. The contributions are expensed as incurred. Contributions for the years ended 31 December 2020 and 2019 were 7,229 and 7,059, respectively.

Notes to the consolidated financial statements (continued)

2.4. Income taxes

Accounting policies

Current income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is recognised in OCI or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries in which the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. If the applicable tax regulation is subject to interpretation, the Company establishes a provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Significant estimates

The Group assesses the recoverability of deferred tax assets based on estimates of future earnings. Actual Group income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

The expected resolution of uncertain tax positions is based upon management's judgment of the likelihood of sustaining a position taken through tax audits, tax courts and/or arbitration, if necessary. Circumstances and interpretations of the amount due or likelihood of a position being sustained may change during the settlement process.

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Notes to the consolidated financial statements (continued)

2.4. Income tax (continued)

Disclosures

The following presents the significant components of the Group's income tax expense for the years ended 31 December:

	<u>2020</u>	<u>2019</u>
Current income tax:		
Current income tax charge	5,211	8,197
Adjustments recognised for current tax of prior periods	(115)	429
Deferred tax	3,413	(4,560)
Income tax expense	<u>8,509</u>	<u>4,066</u>

The reconciliation between the average effective income tax rate and tax expense calculated at domestic statutory rates applicable to individual Group entities is as follows:

	<u>2020</u>	<u>2019</u>
Statutory income tax rate	20.0%	20.0%
Non-deductible expenses	3.9%	12.1%
Svyaznoy group impairment	—	3.7%
Effect of income tax preferences	(0.1%)	(0.9%)
Sale of own shares	—	(2.1%)
Other	0.3%	0.4%
Effective income tax rate	<u>24.1%</u>	<u>33.2%</u>

Deferred tax relates to the following:

	Statement of financial position as of 31 December		Income statement for the years	
	2020	2019	2020	2019
Property and equipment	(26,076)	(24,286)	1,795	(793)
Intangible assets	(15,194)	(14,867)	327	(25)
Financial instruments	3,545	316	1,669	(375)
Investments in associates and subsidiaries	530	461	(69)	(3,528)
Tax loss carry-forwards	909	1,368	459	1,237
Revenue recognition	1,501	1,772	271	287
Accrued employee benefits	561	383	(178)	463
Accrued expenses	1,878	1,168	(710)	13
Dealer commissions	(1,147)	(1,181)	(34)	252
Leases	1,517	1,083	(434)	(1,083)
Other movements and temporary differences	(287)	30	317	(1,008)
Deferred tax expense/(income)			<u>3,413</u>	<u>(4,560)</u>
Net deferred tax liabilities	<u>(32,263)</u>	<u>(33,753)</u>		
Reflected in the consolidated statement of financial position as follows:				
Deferred tax assets	1,309	848		
Deferred tax liabilities	<u>(33,572)</u>	<u>(34,601)</u>		

MegaFon

Notes to the consolidated financial statements (continued)

2.4. Income tax (continued)

The Group recognises deferred tax assets in respect of tax loss carry-forwards to the extent that realisation of tax losses against future taxable profit is probable. Deferred tax assets related to tax losses of the Group's subsidiaries are recognised based on the tax planning opportunities that would be implemented, if necessary, to prevent tax losses from not being used.

Deferred tax assets in respect of the tax losses are attributable to the following subsidiaries:

	<u>2020</u>	<u>2019</u>
Scartel	—	283
MegaFon Retail	551	912
Net By Net	274	—
Other	84	173
Balance at end of year	<u>909</u>	<u>1,368</u>

In order to utilise tax losses the Group is able to implement appropriate tax planning strategies depending on the results of these subsidiaries in subsequent periods. The tax planning strategies may include, among others, merging of the respective subsidiaries with MegaFon which is expected to have sufficient pretax income to utilise the accumulated tax losses of these subsidiaries.

Unrecognised deferred tax assets in the consolidated statement of financial position amounted to 2,902 as of 31 December 2020 (2019: 3,859). Unrecognised deferred tax assets arose on the acquisition of subsidiaries and associates due to the difference between the accounting and tax bases of the subsidiaries and associates acquired and are not expected to be realised due to lack of appropriate taxable profits.

Reconciliation of net deferred tax liabilities for the years ended 31 December is as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	33,753	23,952
Tax expense/(benefit) during the year	3,413	(4,560)
Revaluation (<i>Note 3.1</i>)	—	14,403
Discounting amounts due from related parties (<i>Note 5.1</i>)	(4,898)	—
Translation adjustment of foreign operations	(5)	(42)
Balance at end of year	<u>32,263</u>	<u>33,753</u>

Notes to the consolidated financial statements (continued)

3. ASSETS AND LIABILITIES**3.1. Property and equipment***Accounting policies*

Property and equipment is stated at cost, less accumulated depreciation and impairment, if any, except for the guided media telecom channels and similar assets which are stated at revalued amounts starting from 31 December 2019. Cost includes all costs directly attributable to bringing the asset to the location and condition for its intended use. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset.

Depreciation expenses are based on management's estimates of residual value, the depreciation method used and the useful lives of property and equipment. Estimates may change due to technological developments, competition, changes in market conditions and other factors, and may result in changes in estimated useful lives and depreciation charges. The actual economic lives of long-lived assets may be different from the estimated useful lives. A change in estimated useful lives is accounted for prospectively as a change in accounting estimate.

The estimated useful lives are as follows:

Telecommunications network	5 to 20 years
Guided media telecom channels	20 to 33 years
Buildings and structures	5 to 100 years
Vehicles, office and other equipment	3 to 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. Starting from 1 January 2020 the Group revised the useful lives for its property and equipment considering past experience and expectations derived from the analysis of technological trends, the Group's networks upgrade practices and other factors impacting useful lives. The changes in estimates resulted in a reduction of approximately 24,000 in the depreciation expense for the year ended 31 December 2020.

Repair and maintenance costs are expensed as incurred. The cost of major renovations and other subsequent expenditure is included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset. Please refer to *Note 3.9* for further information about the provision for decommissioning liabilities.

At the time of retirement or other disposition of property or equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded in the consolidated income statement.

The Group plans, develops and uses telecommunication networks, jointly with other operators. These activities are accounted for as joint operations. Accordingly, the Group records its share of the jointly held assets and its share of the jointly incurred expenses.

Notes to the consolidated financial statements (continued)

3.1. Property and equipment (continued)

Revaluation

Starting from 31 December 2019 the Group decided to change its accounting policy so as to measure guided media telecom channels and similar assets at revalued amounts, because they more faithfully depict the value of this group of assets which were found to be significantly undervalued considering the nature of the assets, their resilience to technological changes and their long-term economic lives.

The guided media telecom channels and similar assets are initially measured at cost and subsequently carried at their revalued amount, being the fair value at the date of the revaluation less subsequent accumulated depreciation and impairment losses, if any. Revaluation is to be performed every 3-5 years or more often if necessary to ensure that the carrying amount does not differ significantly from fair value.

As there is no active market for the guided media telecom channels and similar assets, the Group calculates the fair value of the assets using a cost approach. The cost approach uses data from internal information sources and the results of analytical reviews of the Russian market for similar assets.

Capitalised borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset during the construction phase that necessarily takes a substantial period of time are capitalised as part of property and equipment until the asset is ready for use. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest, related foreign exchange differences, and fees and other costs that the Group incurs in connection with the borrowing of funds.

Impairment

The Group tests long-lived assets, other than goodwill, for impairment when circumstances indicate there may be a potential impairment.

An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of (1) an asset's fair value less costs to sell and (2) value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Impairment losses relating to continuing operations are recognised in profit or loss in the expense categories which are consistent with the function of the impaired asset.

For assets other than goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

MegaFon

Notes to the consolidated financial statements (continued)

3.1. Property and equipment (continued)

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Estimating recoverable amounts of assets is based on management's evaluations, including estimates of applicable market rates, if the market approach is used, or future cash flows, discount rates, terminal growth rates, and assumptions about future market conditions, if the income approach is used.

Disclosures

Property and equipment is as follows:

	Telecom- munications network	Buildings and structures	Vehicles, office and other equipment	Guided media telecom channels	Construction in-progress	Total
Cost as of						
1 January 2019	407,356	69,524	28,158	79,881	32,741	617,660
Additions	—	—	—	—	46,962	46,962
Disposals	(16,516)	(398)	(1,855)	(234)	(21)	(19,024)
Put into use	47,231	1,495	2,647	2,047	(53,420)	—
Reclassifications	(3)	(3)	(342)	330	18	—
Reclassified to ROU assets	—	(4,017)	—	—	—	(4,017)
Revaluation	—	—	—	105,608	—	105,608
Revision of estimated provision (<i>Note 3.9</i>)	—	927	—	—	—	927
Translation	(912)	(255)	(345)	—	(104)	(1,616)
31 December 2019	437,156	67,273	28,263	187,632	26,176	746,500
Additions	—	—	—	—	38,133	38,133
Disposals	(21,329)	(430)	(1,865)	(296)	(581)	(24,501)
Put into use	48,879	1,584	1,669	2,288	(54,420)	—
Reclassifications	(440)	(69)	(10)	308	(37)	(248)
Sale of subsidiary	(9)	(276)	(175)	—	(2)	(462)
Revision of estimated provision (<i>Note 3.9</i>)	—	794	—	—	—	794
Translation	1,874	543	842	—	76	3,335
31 December 2020	466,131	69,419	28,724	189,932	9,345	763,551

MegaFon

Notes to the consolidated financial statements (continued)

3.1. Property and equipment (continued)

	Telecom- munications network	Buildings and structures	Vehicles, office and other equipment	Guided media telecom channels	Construction in-progress	Total
Depreciation as of						
1 January 2019	(295,293)	(39,258)	(24,393)	(34,050)	—	(392,994)
Charge for the year	(41,149)	(3,762)	(2,543)	(4,217)	—	(51,671)
Disposals	16,112	283	1,808	133	—	18,336
Reclassifications	(21)	1	355	(335)	—	—
Reclassified to ROU assets	—	855	—	—	—	855
Revaluation	—	—	—	(33,760)	—	(33,760)
Translation	683	157	302	—	—	1,142
31 December 2019	(319,668)	(41,724)	(24,471)	(72,229)	—	(458,092)
Charge for the year	(22,164)	(1,674)	(1,503)	(8,972)	—	(34,313)
Disposals	20,989	360	1,844	99	—	23,292
Reclassifications	398	35	7	(261)	—	179
Sale of subsidiary	9	133	146	—	—	288
Translation	(1,575)	(360)	(687)	—	—	(2,622)
31 December 2020	(322,011)	(43,230)	(24,664)	(81,363)	—	(471,268)
Net book value:						
31 December 2019	117,488	25,549	3,792	115,403	26,176	288,408
31 December 2020	144,120	26,189	4,060	108,569	9,345	292,283

Included in construction in-progress are advances to suppliers of network equipment of 640 and 978 as at 31 December 2020 and 2019, respectively.

Capitalised borrowing costs

Capitalised borrowing costs were 704 and 1,201 for the years ended 31 December 2020 and 2019, respectively. The rate used to determine the amount of borrowing costs eligible for capitalisation was 8.0% and 8.9% for the years ended 31 December 2020 and 2019, respectively.

3.2. Leases

Accounting policies

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee, the Group recognises a right-of-use asset (“ROU asset”) and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability increased by any lease payments made at or before the commencement date and any initial direct costs incurred, less any lease incentives received.

Notes to the consolidated financial statements (continued)

3.2. Leases (continued)

The ROU asset is subsequently depreciated using the straight-line method from the commencement date over the lease term, or over the useful life of the underlying asset, if the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the ROU asset reflects the likelihood that the Group will exercise a purchase option. In addition, the ROU asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable payments that depend on an index or a rate, initially measured using the applicable index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option,
- and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a revised in-substance fixed lease payment, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or such adjustment is recorded in profit or loss if the carrying amount of ROU asset has been reduced to zero.

In determining the present value of the lease payments, assumptions and estimates are made in relation to discount rates and lease terms based on the assessment of whether the Group is reasonably certain to exercise its purchase, extension or termination options taking into account the nature of the underlying asset, various economic penalties and incentives resulting from exercising the options and other relevant facts and circumstances.

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Notes to the consolidated financial statements (continued)

3.2. Leases (continued)

Disclosures

The Group, where it acts as a lessee, has recognised the following assets and their depreciation expense for its leases:

	Lease term, years	ROU assets as of 31 December		ROU depreciation expense for the year ended 31 December	
		2020	2019	2020	2019
Telecommunication infrastructure	2-14	60,841	67,133	11,464	10,116
Retail outlets	2-5	5,077	8,756	4,062	4,342
Administrative premises	2-7	8,196	9,596	1,887	1,921
Total		74,114	85,485	17,413	16,379

During the year ended 31 December 2020 the Group recognised 8,181 (2019: 9,664) of interest costs from leases. Total additions to ROU assets and total cash outflow for leases for the year ended 31 December 2020 amounted to 6,341 (2019: 13,405) and 22,581 (2019: 21,506), respectively.

3.3. Intangible assets

3.3.1. Intangible assets, other than goodwill

Accounting policies

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment, if any. Intangible assets consist principally of operating licences, frequencies, customer base and software.

Software development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The useful lives of intangible assets are assessed as either finite or indefinite. The Group does not have intangible assets with indefinite useful lives, other than goodwill.

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Notes to the consolidated financial statements (continued)

3.3. Intangible assets (continued)

All intangible assets are amortised on a straight-line basis over the following estimated useful lives:

Operating licences and frequencies	10 to 20 years
Customer base	3 to 19 years
Trademarks and patents	7 to 20 years
Software	1 to 5 years
Other intangible assets	1 to 10 years

Amortisation expenses are based on management's judgment as to the amortisation method to be used and its estimates of the useful lives of the intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors, and may result in changes in estimated useful lives and amortisation charges. Critical estimates of useful lives of intangible assets are impacted by estimates of average customer relationship based on churn, remaining licence periods and expected developments in technology and markets. The actual economic lives of the assets may be different from the estimated useful lives. A change in estimated useful lives is accounted for prospectively as a change in accounting estimate.

Impairment

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. See *Note 3.1* for further description of the accounting policies for impairment testing of non-financial assets.

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Notes to the consolidated financial statements (continued)

3.3. Intangible assets (continued)

Disclosures

Intangible assets, other than goodwill, are as follows:

	Operating licences and frequencies	Customer base	Trademarks and patents	Software	Other intangible assets	Total
Cost as of						
1 January 2019	81,890	4,043	720	66,937	10,788	164,378
Additions	1,222	—	473	17,006	1,935	20,636
Disposals	(369)	—	(100)	(5,869)	(2,130)	(8,468)
Translation	(32)	—	—	—	12	(20)
31 December 2019	82,711	4,043	1,093	78,074	10,605	176,526
Additions	670	—	—	14,174	1,742	16,586
Disposals	(705)	—	—	(9,511)	(272)	(10,488)
Reclassification from property and equipment	—	—	—	248	—	248
Translation	76	—	—	—	6	82
31 December 2020	82,752	4,043	1,093	82,985	12,081	182,954
Amortisation as of						
1 January 2019	(36,632)	(3,253)	(654)	(38,984)	(3,829)	(83,352)
Charge for the year	(4,339)	(222)	(270)	(14,427)	(1,082)	(20,340)
Disposals	244	—	86	5,851	1,810	7,991
Translation	32	—	—	—	(12)	20
31 December 2019	(40,695)	(3,475)	(838)	(47,560)	(3,113)	(95,681)
Charge for the year	(4,314)	(198)	(250)	(16,115)	(1,064)	(21,941)
Disposals	520	—	—	9,505	249	10,274
Reclassification from property and equipment	—	—	—	(179)	—	(179)
Translation	(75)	—	—	—	(6)	(81)
31 December 2020	(44,564)	(3,673)	(1,088)	(54,349)	(3,934)	(107,608)
Net book value:						
31 December 2019	42,016	568	255	30,514	7,492	80,845
31 December 2020	38,188	370	5	28,636	8,147	75,346
Weighted-average remaining amortisation period, years	10	2	—	4	10	6

Notes to the consolidated financial statements (continued)

3.3. Intangible assets (continued)

Operating licences and frequencies provide the Group with the exclusive right to utilise certain radio frequency spectrum to provide wireless communication services.

Operating licences primarily consist of:

- several 2G licences,
- a nationwide 3G licence,
- a nationwide 4G licence to use 2.5–2.7 GHz spectrum (10x10 MHz band), and
- a nationwide 4G licence to use 2.5–2.7 GHz spectrum (30x30 MHz band).

These licences are integral to the wireless operations of the Group and any inability to extend existing licences on the same or comparable terms could materially affect the Group's business.

While operating licences are issued for a fixed period, renewals of these licences previously had occurred routinely and at nominal cost. The Group believes that there are currently no legal, regulatory, contractual, competitive, economic or other factors that could result in delays in licence renewal, or even an outright refusal to renew.

Nationwide 4G licences require the Company to meet certain conditions, including capital commitments and coverage requirements (*Note 5.5*).

Neosprint

In April 2019 the Group acquired spectrum in the 3.4–3.6 GHz band for St. Petersburg through the purchase of a 100% interest in LLC Neosprint Spb ("Neosprint Spb"). The Group's management concluded that the assets and activities of the acquired company are not capable of being conducted and managed as a business, accordingly the acquisition of Neosprint Spb was accounted for as an acquisition of assets. The purchase price totaled 300, consisting of cash consideration.

3.3.2. Goodwill

Accounting policies

Goodwill represents the excess of the consideration transferred plus the fair value of any NCI in the acquired company at the acquisition date over the fair values of the identifiable net assets acquired. Goodwill is not amortised, but tested for impairment at least annually (*Note 3.3.3*).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

MegaFon

Notes to the consolidated financial statements (continued)

3.3. Intangible assets (continued)

Disclosures

The changes in the carrying value of goodwill, net of accumulated impairment losses of 3,400, for the years ended 31 December 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	30,549	30,549
Acquisition of subsidiary	29	—
Balance at end of year	<u>30,578</u>	<u>30,549</u>

3.3.3. Goodwill impairment

Accounting policies

Goodwill is not subject to amortisation and is tested for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to each of the cash-generating units (“CGUs”) that are expected to benefit from the synergies of the combination. The Group has allocated goodwill to a single CGU: integrated telecommunication services.

An impairment loss of associated goodwill is recognised for the amount by which the CGU’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of (1) a CGU’s fair value less costs to sell and (2) value in use. The recognised impairment loss is not subsequently reversed.

Estimating recoverable amounts of assets and CGUs is based on management’s evaluations, including determining the appropriate CGUs and estimates of applicable multiples, if the market approach is used, or future cash flows, discount rates, terminal growth rates, and assumptions about future market conditions, if the income approach is used. Allocation of the carrying value of the assets being tested between individual CGUs also requires management’s judgment.

Goodwill impairment test

In assessing whether goodwill has been impaired, the carrying value of the CGU (including goodwill) is compared annually with its estimated recoverable amount. As a result of this annual test, no impairment of goodwill was identified in 2020 or 2019.

The recoverable amount of the integrated telecommunication services CGU has been determined based on its fair value less costs to sell (Level 3).

The fair value was estimated at 5 times operating income before depreciation and amortisation (“OIBDA”), an OIBDA multiple used in the market for acquisition of similar businesses. The fair value was then reduced by 5% as an estimate of costs to sell the business.

MegaFon

Notes to the consolidated financial statements (continued)

3.3. Intangible assets (continued)

Management believes that any change in any of these key assumptions which can currently be reasonably anticipated would not cause the aggregate carrying amount of the integrated telecommunication services CGU to exceed its aggregate recoverable amount.

3.4. Investments in associates and joint ventures

Accounting policies

Investments in associates and joint ventures which are jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost or, in case of non-monetary purchases, at fair value of assets received or given, whichever is more appropriate. The Group's share of the profits and losses of these companies is included in the 'Share of loss of associates and joint ventures' line in the accompanying consolidated income statement with a corresponding adjustment to the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated only to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated to the extent of the Group's interest unless a transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates or joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Impairment

For associates and joint ventures accounted for using the equity method, at each reporting date the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the Group's investment in the associate or joint venture and its carrying value, and then recognises the loss as 'Share of loss of associates and joint ventures' in the consolidated income statement.

Disclosures

Investments in associates and joint ventures are as follows:

Investee	% equity interest	31 December	
		2020	2019
AER Holding PTE.LTD ("AER"), associate	24.300	33,351	35,054
JSC Sadovoe Koltso ("Garden Ring"), joint venture	49.999	12,456	12,637
DTSRetail Limited ("Svyaznoy group"), associate	26.490	8,327	10,268
JSC MF Technologies ("MFT group"), associate	45.000	8,358	8,789
LLC Digital Media Holding ("Start.ru"), associate	33.800	4,220	1,481
Other		202	156
Total		66,914	68,385

MegaFon

Notes to the consolidated financial statements (continued)

3.4. Investments in associates and joint ventures (continued)

Start.ru

By 31 December 2020 the Group acquired a 33.8% interest in the equity of LLC Digital Media Holding, a Russian company, which represented a 25% interest in the corporate group consisting of LLC Digital Media Holding and its operating subsidiaries (“Start.ru”) which provide media and production services. In December 2020 the Group also prepaid 2,600 as part of the consideration for increasing its share in the Start.ru operating group in early 2021 to 50% and obtaining control of the group (*Note 5.6*). The primary reason for the acquisition is to invest in a promising fast developing media-services business benefitting both investors and the Group’s content-consuming clients.

AER

In October 2019 the Company, Alibaba.com Singapore e-commerce private Limited (“Alibaba”), LLC RDIF Investment Management-19 (“RDIF”), LLC Mail.Ru, and AliExpress Russia Holding PTE. LTD established a joint venture on the basis of the existing e-commerce businesses of AER and Mail.Ru Group Limited (“MGL”). On 8 October 2019 MegaFon transferred a 9.97% economic share in MGL to Alibaba in exchange for a 24.3% share in AER. The purpose of the transaction was to create a unique e-commerce joint venture to provide best-in-class financial services, media, and other consumer offerings to the Russian consumer base.

The fair value of the Group’s holding in AER was estimated in the amount of 35,942.

The fair values of identifiable assets and liabilities of AER reconciled to the Group’s investment in AER as at the date of acquisition are as follows:

Assets	
Property and equipment	1,037
Intangible assets, other than goodwill	19,534
Inventory	1,073
Trade and other receivables	5,633
Other assets	632
Cash and cash equivalents	19,647
	47,556
Liabilities	
Trade and other payables	(920)
Other liabilities	(358)
	(1,278)
Total identifiable net assets at fair value	46,278
The Group’s share in the investment	24.3%
The Group’s share of identifiable net assets	11,246
Excess of the consideration transferred over the Group’s share in the fair value of identifiable net assets	24,696
Purchase consideration transferred	35,942

Intangible assets mainly consist of trademarks.

MegaFon

Notes to the consolidated financial statements (continued)

3.4. Investments in associates and joint ventures (continued)

The disposal of the MGL shares to Alibaba resulted in a 602 loss, presented in the consolidated income statement line “Share of loss of associates and joint ventures”.

The reconciliation of the summarised financial information of AER to the carrying amount of the Group’s interest in AER is presented below:

	31 December 2020	2019
Assets		
Non-current assets	17,363	19,919
Cash and cash equivalents	15,463	16,206
Other current assets	16,675	12,319
	49,501	48,444
Liabilities		
Current financial liabilities	(13,753)	(6,784)
Other liabilities	(2,796)	(1,700)
	(16,549)	(8,484)
Total identifiable net assets	32,952	39,960
The Group’s share in AER	24.3%	24.3%
The Group’s share of identifiable net assets of AER	8,007	9,710
Excess of the carrying value of the investment over the Group’s share in the fair value of identifiable net assets	25,344	25,344
Carrying amount of the Group’s interest in AER	33,351	35,054

The composition of the Group’s share of the loss of AER accounted for using the equity method is as follows:

	Year ended 31 Dec 2020	8 Oct 2019 – 31 Dec 2019
Revenue	25,989	6,185
Expenses	(36,062)	(9,239)
Depreciation and amortisation	(1,984)	(699)
Income tax	1,936	100
Loss	(10,121)	(3,653)
OCI	3,114	—
Loss and total comprehensive loss of AER	(7,007)	(3,653)
The Group’s share in AER	24.3%	24.3%
The Group’s share of loss and total comprehensive loss of AER	(1,703)	(888)

MegaFon

Notes to the consolidated financial statements (continued)

3.4. Investments in associates and joint ventures (continued)

Garden Ring

Garden Ring, which owns and operates an office building in the center of Moscow, is the Group's joint venture with Sberbank. The Group has a ten-year lease agreement with Garden Ring for a part of the building. This building is the corporate headquarters of the Group, which has consolidated the Group's operations in Moscow into a single location. The remaining part of the building is mostly leased by Sberbank.

The Garden Ring joint venture is accounted for using the equity method in the consolidated financial statements.

The reconciliation of the summarised financial information of Garden Ring to the carrying amount of the Group's interest in the joint venture is presented below:

	31 December	
	2020	2019
Assets		
Non-current assets	45,566	46,604
Cash and cash equivalents	513	329
Other current assets	98	76
	46,177	47,009
Liabilities		
Non-current financial liabilities	(21,591)	(22,161)
Other non-current liabilities	(5,456)	(5,570)
Current financial liabilities	(2,070)	(1,859)
Other current liabilities	(11)	(8)
	(29,128)	(29,598)
Total identifiable net assets	17,049	17,411
The Group's share in Garden Ring	49.999%	49.999%
The Group's share of identifiable net assets of Garden Ring	8,524	8,705
Excess of the carrying value of the investment over the Group's share in the fair value of identifiable net assets	3,932	3,932
Carrying amount of the Group's interest in Garden Ring	12,456	12,637

The composition of the Group's share of the loss of the joint venture accounted for using the equity method is as follows:

	Year ended 31 December	
	2020	2019
Loss and total comprehensive loss of Garden Ring	(363)	(459)
The Group's share in the joint venture	49.999%	49.999%
The Group's share of loss and total comprehensive loss of Garden Ring	(181)	(229)

MegaFon

Notes to the consolidated financial statements (continued)

3.4. Investments in associates and joint ventures (continued)

Svyaznoy group

The reconciliation of the summarised financial information of the Svyaznoy group to the carrying amount of the Group's interest in the Svyaznoy group is presented below:

	31 December	
	2020	2019
Assets		
Non-current assets	55,311	72,541
Cash and cash equivalents	3,410	4,199
Other current assets	22,257	28,436
	80,978	105,176
Liabilities		
Non-current financial liabilities	(6,480)	(21,730)
Other non-current liabilities	(8,105)	(9,217)
Current financial liabilities	(60,613)	(60,926)
Other current liabilities	(3,232)	(2,840)
	(78,430)	(94,713)
Total identifiable net assets	2,548	10,463
The Group's share in the Svyaznoy group	26.49%	25%
The Group's share of identifiable net assets of the Svyaznoy group	675	2,616
Excess of the carrying value of the investment over the Group's share in the fair value of identifiable net assets	7,652	7,652
Carrying amount of the Group's interest in the Svyaznoy group	8,327	10,268

The composition of the Group's share of the loss of the Svyaznoy group accounted for using the equity method is as follows:

	Year ended 31 December	
	2020	2019
Loss and total comprehensive loss of the Svyaznoy group	(7,329)	(10,268)
The Group's share in the Svyaznoy group	26.49%	25%
The Group's share of loss and total comprehensive loss of the Svyaznoy group	(1,941)	(2,567)
Investment impairment	—	(2,261)
The Group's share of loss and total comprehensive loss of the Svyaznoy group	(1,941)	(4,828)

At 31 December 2020 the Group tested investment in the Svyaznoy group for impairment and concluded that it was not impaired. Management believes that any change in any of the key assumptions which can currently be reasonably anticipated would not cause the carrying amount of the investment to exceed its recoverable amount.

MegaFon

Notes to the consolidated financial statements (continued)

3.4. Investments in associates and joint ventures (continued)

Total summarised profit and loss information of Garden Ring and Svyaznoy group is as follows:

	Year ended 31 December	
	2020	2019
Revenue	105,670	118,025
Depreciation and amortisation	(5,675)	(5,555)
Interest expense	(6,515)	(8,902)
Income tax	7	1,177

MFT group

The Group holds an approximately 2% indirect economic interest in MGL (with approximately 26.7% voting rights) via its 45%-owned associate JSC MF Technologies (“MFT group”).

The reconciliation of the summarised financial information of MFT group to the carrying amount of the Group’s interest in MFT group is presented below:

	31 December	
	2020	2019
Assets		
Non-current assets	115,544	111,491
Cash and cash equivalents	39,297	9,789
Other current assets	21,703	17,713
	176,544	138,993
Liabilities		
Non-current financial liabilities	(45,268)	(19,474)
Other non-current liabilities	(18,627)	(10,642)
Current financial liabilities	(33,286)	(30,408)
Other current liabilities	(16,328)	(13,890)
	(113,509)	(74,414)
Total identifiable net assets	63,035	64,579
NCI	(61,727)	(62,313)
Total identifiable net assets net of NCI	1,308	2,266
The Group’s share in MFT group	45%	45%
The Group’s share of identifiable net assets of MFT group	589	1,020
Excess of the carrying value of the investment over the Group’s share in the fair value of identifiable net assets	7,769	7,769
Carrying amount of the Group’s interest in MFT group	8,358	8,789

MegaFon

Notes to the consolidated financial statements (continued)

3.4. Investments in associates and joint ventures (continued)

The composition of the Group's share of the (loss)/profit of MFT group accounted for using the equity method is as follows:

	Year ended 31 December	
	2020	2019
Revenue	100,542	96,231
Expenses	(81,302)	(68,066)
Depreciation and amortisation	(20,715)	(16,769)
Interest income	336	585
Interest expense	(2,969)	(1,459)
Other income and expenses, net	(14,459)	7,738
Income tax expense	(715)	(2,635)
(Loss)/Profit	(19,282)	15,625
Loss/(profit) attributable to NCI	18,275	(14,856)
OCI	50	17
(Loss)/profit and total comprehensive (loss)/income of MFT group	(957)	786
The Group's share in MFT group	45%	45%
The Group's share of (loss)/profit and total comprehensive (loss)/ income of MFT group	(431)	354

Sale of City-Mobil

In November 2019 the Group sold an interest representing approximately 5.87% of its total approximately 12% interest in LLC City-Mobil ("City-Mobil"), a taxi aggregator, for cash consideration in the amount of 962. Then, after subsequent changes in the holdings of the other shareholders following additional contributions by them, MegaFon's interest in City-Mobil was diluted to approximately 2.63%. The sale resulted in a gain of approximately 1,281 recognised in the consolidated income statement line 'Share of loss of associates and joint ventures'.

3.5. Financial assets and liabilities

Accounting policies

Initial recognition and measurement

Financial assets and financial liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for a financial asset or financial liability accounted for at fair value through profit or loss, in which case transaction costs are expensed.

Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

Subsequent measurement of financial assets and liabilities

The subsequent measurement of financial assets and liabilities depends on their classification as described below:

- *Fair value through profit or loss.* Derivatives are accounted for at fair value through profit or loss unless they are designated as effective hedging instruments.

Financial assets and liabilities accounted for at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value being recognised in profit or loss, in the 'Net gain/(loss) on financial instruments' line.

- *Amortised cost.* Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market such as trade and other receivables, loans receivable, and loans and borrowings are classified as financial instruments at amortised cost. After initial measurement, such instruments are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The amortisation based on EIR is included in profit or loss.
- *Fair value through OCI.* Derivative financial instruments designated as effective hedging instruments are accounted for at fair value through OCI.

De-recognition of financial assets

A financial asset is de-recognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost and contract assets. ECLs are probability-weighted estimates of credit losses. For the majority of receivables the loss allowance is estimated using a provision matrix which specifies fixed provision rates depending on the number of days that a receivable is past due. The provision rates are based on the Group's historical experience and current expectations of future cash flows. Credit losses are measured at present value of all cash shortfalls, that is the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

MegaFon

Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the relevant costs in profit or loss.

De-recognition of financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised within profit or loss.

Disclosures

Financial assets are as follows:

	31 December 2020	2019
Trade and other receivables at amortised cost (<i>Note 3.6</i>)	28,008	37,104
Other financial assets:		
Financial assets at fair value through profit or loss:		
Investments in City-Mobil (<i>Note 3.4</i>)	431	431
Derivatives not designated as hedges	1,444	—
Other	125	125
Total financial assets at fair value through profit or loss	2,000	556
Financial assets at amortised cost:		
Amounts due from related parties (<i>Note 5.1</i>)	139,155	16,814
Other deposits	31	407
Other	292	360
Total financial assets at amortised cost	139,478	17,581
Total other financial assets	141,478	18,137
Other current financial assets	(12,201)	(2,898)
Other non-current financial assets	129,277	15,239
Total financial assets	169,486	55,241
Total current financial assets	(40,209)	(40,002)
Total non-current financial assets	129,277	15,239

MegaFon

Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

Loans receivable from related parties

In December 2019 the Group made a 12,560 loan and then during the year ended 31 December 2020 made further loans totaling 18,000 to USM Telecom LLC (*Note 5.1*), a related party, with different tranches maturing in 2021, 2022 and 2023. The Group recognised the loans at fair value which was estimated by discounting the expected cash flows using the prevailing market rate of interest for a similar instrument. The difference between the fair value of the loans and the cash received, net of tax, has been recognised directly in retained earnings in equity as the loans are treated as transactions with the shareholder.

Financial liabilities are as follows:

	31 December	
	2020	2019
Trade and other payables at amortised cost	44,171	54,607
Financial liabilities at amortised cost:		
Loans and borrowings:		
Loans and borrowings	259,492	288,755
Ruble bonds	87,045	87,003
Total loans and borrowings	346,537	375,758
Total current loans and borrowings	(73,862)	(25,692)
Total non-current loans and borrowings	272,675	350,066
Lease liabilities (<i>Note 3.2</i>)	82,275	90,899
Current lease liabilities	(16,296)	(13,584)
Non-current lease liabilities	65,979	77,315
Other financial liabilities at amortised cost:		
Deferred and contingent consideration	—	568
Other liabilities	633	665
Total financial liabilities at amortised cost	429,445	467,890
Financial liabilities at fair value through profit and loss:		
Derivatives not designated as hedges	243	1,570
Total financial liabilities at fair value through profit and loss	243	1,570
Total other financial liabilities	876	2,803
Other current financial liabilities	(209)	(251)
Other non-current financial liabilities	667	2,552
Total financial liabilities	473,859	524,067
Total current financial liabilities	(134,538)	(94,134)
Total non-current financial liabilities	339,321	429,933

MegaFon

Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

3.5.1. Cash and cash equivalents

Accounting policies

Cash and cash equivalents comprise cash on hand and deposits in banks with original maturities of three months or less.

Disclosures

Cash and cash equivalents are as follows:

	31 December	
	2020	2019
Cash at bank and on hand in		
Rubles	2,259	2,572
US Dollars	1,486	607
Euros	66	68
Other	10	12
Short-term bank deposits in		
Rubles	16,086	49,292
US Dollars	14,707	155
Total cash and cash equivalents	34,614	52,706

3.5.2. Loans and borrowings

Principal amounts outstanding under loans and borrowings are as follows:

	Interest Rate	Maturity	31 December	
			2020	2019
Loans and borrowings:				
Ruble loans – fixed rates	0%-9.74%	2021-2027	191,408	236,850
Ruble loans – floating rates	4.9% – 5.32%	2021-2023	53,000	38,000
US Dollar loans – fixed rate	—	—	—	71
Euro loans – floating rates	EURIBOR + 0.19% - EURIBOR + 0.56%	2024-2027	16,003	14,684
Total loans and borrowings			260,411	289,605
Ruble bonds	7.2%-9.9%	2021-2026 with call option in 2021 and 2023	85,000	85,000
Total			345,411	374,605
Total current			(71,876)	(23,703)
Total non-current			273,535	350,902

MegaFon

Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

Loans and borrowings

In March-April 2020 the Group drew down from different banks 20,000 under fixed-rate Ruble-denominated facilities due in the period 2022-2023 to refinance a Ruble-denominated fixed-rate loan in the amount of 20,000 which was due in 2022.

In June 2020 the Group refinanced its fixed-rate Ruble-denominated loans in the amount of 102,205 which were due in the period 2021-2024 and which are now due over the period 2022-2027.

In June 2020 the Group early repaid approximately 16,000 of Ruble-denominated fixed-rate loans, which were due in 2020 and in 2022.

In October 2020 the Group early repaid 10,000 of Ruble-denominated fixed-rate loan, which was due in 2022.

Covenant requirements

The majority of the Group's financing facilities contain restrictive covenants with certain permitted exceptions.

MegaFon

Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

3.5.3. Reconciliation of movements of liabilities to cash used in financing activities

	Liabilities		Equity		Total
	Loans and borrowings	Derivatives	Lease liabilities	NCI	
Balance as of 31 December 2019	375,758	1,570	90,899	(307)	467,920
Proceeds from loans and borrowings, net of fees paid	22,425	—	—	—	22,425
Repayment of loans and borrowings	(56,026)	389	—	—	(55,637)
Interest paid	(29,255)	(898)	(8,181)	—	(38,334)
Dividends paid to non-controlling interests	—	—	—	(159)	(159)
Lease payments	—	—	(14,400)	—	(14,400)
Other	—	—	—	(75)	(75)
Total cash flows used in financing activities	(62,856)	(509)	(22,581)	(234)	(86,180)
Finance costs	29,342	849	8,181	—	38,372
Foreign exchange loss, net	4,427	—	53	—	4,480
Gain on financial instruments, net	—	(3,111)	—	—	(3,111)
Lease additions and other changes	(134)	—	5,723	—	5,589
Equity-related other changes	—	—	—	17	17
Balance as of 31 December 2020	346,537	(1,201)	82,275	(524)	427,087

MegaFon

Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

	Liabilities			Equity		Total
	Loans and borrowings	Derivatives	Lease liabilities	Retained Earning	Treasury shares	
Balance as of 31 December 2018	327,494	(613)	4,265	151,766	(94,087)	388,825
ROU assets recognised at 1 January 2019	—	—	88,651	—	—	88,651
Balance as of 1 January 2019	327,494	(613)	92,916	151,766	(94,087)	477,476
Proceeds from loans and borrowings, net of fees paid	265,524	—	—	—	—	265,524
Repayment of loans and borrowings	(213,934)	(270)	—	—	—	(214,204)
Interest paid	(32,962)	(899)	(9,664)	—	—	(43,525)
Purchase of outstanding shares	—	—	—	—	(86,574)	(86,574)
Sale of own shares	—	—	—	(3,232)	58,958	55,726
Lease payments	—	—	(11,864)	—	—	(11,864)
Total cash flows used in financing activities	18,628	(1,169)	(21,528)	(3,232)	(27,616)	(34,917)
Loss on disposal of non-current assets	—	—	187	—	—	187
Finance costs	35,027	1,110	9,536	—	—	45,673
Foreign exchange gain, net	(3,704)	—	—	—	—	(3,704)
(Gain)/loss on financial instruments, net	(260)	2,242	—	—	—	1,982
Lease additions and other changes	(1,427)	—	9,788	—	—	8,361
Equity-related other changes	—	—	—	7,108	—	7,108
Balance as of 31 December 2019	375,758	1,570	90,899	155,642	(121,703)	502,166

Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)**3.5.4. Derivative financial instruments and hedging activities****Accounting policies**

Derivative financial instruments, which include foreign currency forwards, cross-currency swaps and interest rate collars, are initially recognised in the consolidated statement of financial position at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow (“DCF”) models as appropriate. Derivatives are included within financial assets at fair value through profit or loss when fair value is positive and within financial liabilities at fair value through profit or loss when fair value is negative. Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract and the combined instrument is not measured at fair value, with changes in fair value being recognised in profit or loss.

The Group has derivatives which it did not designate as hedges. The changes in the fair value of such derivative instruments are reported in the profit or loss.

The Group uses derivatives to manage interest rate and foreign currency risk exposures. The Group does not hold or issue derivatives for trading purposes.

Disclosures

The Group had the following outstanding derivative instruments not designated as hedges stated at their notional amounts:

		31 December 2020		31 December 2019	
		Millions, original currency	Millions, Rubles	Millions, original currency	Millions, Rubles
Cross-currency swaps	Euro	174	15,779	209	14,492
Interest rate collars	Ruble	38,000	38,000	—	—
Total derivative instruments			53,779		14,492

In July 2020 the Group entered into interest rate collar agreements with a combined notional amount of 38,000 that limit the exposure from changes in the interest rates on certain long-term debt.

In 2018 and 2019 the Group entered into cross-currency swap agreements with a combined notional amount of Euro 249 million (22,580 at the exchange rate as of 31 December 2020) that limit the exposure from changes in the Euro exchange and interest rates on certain long-term debt.

The terms of the cross-currency swap and interest rate collar agreements did not meet the requirements for hedge accounting, therefore the Group reported all gains and losses from the change in fair value of these derivative financial instruments directly in the consolidated income statement.

Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

Gain on financial instruments

Net gain on financial instruments recognised in profit or loss for the year ended 31 December 2020 consisted mainly of 2,924 gain from change in fair value of cross-currency swaps not designated as hedges (31 December 2019: 2,242 loss) and 187 gain from interest rate collars (31 December 2019: nil).

3.5.5. Fair values

Accounting policies

The fair value of financial instruments recorded in the consolidated statement of financial position and/or disclosed in the notes that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques, which include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a DCF analysis, or other valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

Disclosures

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated financial statements:

		Carrying amount		Fair value	
		31 December 2020	2019	31 December 2020	2019
Financial assets:					
Financial assets at fair value through profit or loss:					
Investments in City-Mobil	Level 3	431	431	431	431
Derivatives not designated as hedges	Level 2	1,444	—	1,444	—
Other	Level 3	125	125	125	125
Financial assets at amortised cost:					
Amounts due from related parties	Level 2	139,155	16,814	139,926	16,814
Other deposits	Level 2	31	407	31	407
Other	Level 3	292	360	292	360
Total financial assets		141,478	18,137	142,249	18,137
Financial liabilities:					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	259,492	288,755	274,626	305,689
Actively traded Ruble bonds	Level 1	56,518	56,491	56,490	56,011
Not actively traded Ruble bonds	Level 2	30,527	30,512	35,176	30,252
Deferred and contingent consideration	Level 2	—	568	—	568
Other liabilities	Level 3	633	665	633	665
Financial liabilities at fair value through profit or loss:					
Derivatives not designated as hedges	Level 2	243	1,570	243	1,570
Total financial liabilities		347,413	378,561	367,168	394,755

Valuation techniques and assumptions

The Group, using available market information and appropriate valuation methodologies, where they exist, has determined the estimated fair values of its financial instruments. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

Management has determined that cash, short-term deposits, other financial assets, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the Group's amounts due from related parties, and loans and borrowings and other liabilities carried at amortised cost, except for actively traded market quoted Ruble bonds, are determined by using a DCF method applying a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own nonperformance risk as at 31 December 2020 and 2019 was assessed to be insignificant.

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Notes to the consolidated financial statements (continued)

3.5. Financial assets and liabilities (continued)

The fair values of derivatives (cross-currency swaps and interest rate collars) represent the estimated amount the Group would receive or pay to terminate these agreements at the end of the reporting period, taking into account current and expected interest rates, market volatility, foreign exchange spot and forward rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

Disclosures

The following tables summarise the valuation of financial assets and liabilities measured at fair value on a recurring basis by the fair value hierarchy:

	Derivatives and other	Investments in City-Mobil	Total financial assets	Derivatives	Total financial liabilities
31 December 2020					
Level 1	—	—	—	—	—
Level 2	1,444	—	1,444	(243)	(243)
Level 3	125	431	556	—	—
Total as of 31 December 2020	1,569	431	2,000	(243)	(243)
31 December 2019					
Level 1	—	—	—	—	—
Level 2	—	—	—	(1,570)	(1,570)
Level 3	125	431	556	—	—
Total as of 31 December 2019	125	431	556	(1,570)	(1,570)

During the years ended 31 December 2020 and 31 December 2019 there were no transfers between the levels of the fair value hierarchy.

3.6. Trade and other receivables

The ageing analysis of trade and other receivables that are not impaired is as follows:

	31 December	
	2020	2019
Neither past due nor impaired	15,292	27,081
Past due but not impaired:		
Less than 30 days	1,592	3,362
30 - 90 days	362	2,476
More than 90 days	10,762	4,185
Total trade and other receivables	28,008	37,104

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Notes to the consolidated financial statements (continued)

3.6. Trade and other receivables (continued)

The following table summarises the changes in the impairment allowance for trade and other receivables for the years ended 31 December:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	2,936	3,540
Change in the impairment allowance	3,288	2,169
Accounts receivable written off	(2,317)	(2,773)
Balance at end of year	<u>3,907</u>	<u>2,936</u>

3.7. Inventory

Accounting policies

Inventory, which primarily consists of telephone handsets, portable electronic devices, accessories and USB modems, is stated at the lower of cost and net realisable value. Cost is determined using the weighted-average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Disclosures

In 2020, inventories in the amount of 26,245 (2019: 35,987) were recognized as an expense during the year and included in 'Cost of revenue'. The amount of inventory write-down to net realisable value and other inventory losses recognised in 'Cost of revenue' line in the consolidated income statement for the year ended 31 December 2020 is 294 (2019: 775).

3.8. Non-financial assets and liabilities

Accounting policies

Value-added tax

Value added tax ("VAT") related to revenues is generally payable to the tax authorities on an accrual basis when invoices are issued to customers. VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to revenues, or can be reclaimed in cash from the tax authorities under certain circumstances.

Management periodically reviews the recoverability of VAT receivables and believes the amount reflected in the consolidated financial statements is fully recoverable within one year.

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Notes to the consolidated financial statements (continued)

3.8. Non-financial assets and liabilities (continued)

Disclosures

Current non-financial assets are as follows:

	31 December	
	2020	2019
VAT receivable	2,120	2,530
Prepayments for services	5,519	4,065
Deferred costs	886	380
Prepaid taxes, other than income tax	474	456
Prepayments for inventory	66	1
Total current non-financial assets	9,065	7,432

Non-current non-financial assets are as follows:

	31 December	
	2020	2019
Deferred costs, non-current	8,597	8,587
Long-term advances	499	505
Total non-current non-financial assets	9,096	9,092

Current non-financial liabilities are as follows:

	31 December	
	2020	2019
Advances from customers	11,188	10,029
VAT payable	6,343	4,146
Current portion of deferred revenue	2,259	2,757
Taxes payable, other than income tax	947	1,085
Other current liabilities	317	247
Total current non-financial liabilities	21,054	18,264

Non-current non-financial liabilities are as follows:

	31 December	
	2020	2019
Deferred revenue	3,883	3,957
Other non-current liabilities	85	43
Total non-current non-financial liabilities	3,968	4,000

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Notes to the consolidated financial statements (continued)

3.9. Provisions

Accounting policies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to passage of time is recognised as finance costs.

Decommissioning provision

The Group has certain legal obligations related to rented sites for base stations and masts, which include requirements to restore the real estate upon which the base stations and masts are located upon their being decommissioned. Decommissioning costs are determined by calculating the present value of the expected costs to settle the obligation using estimated cash flows, and are recognised as part of the cost of the particular asset. The cash flows are discounted at the current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed in profit or loss as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in estimated liability resulting from revisions of the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset, except where a reduction in the provision is greater than the unamortised recognised cost, in which case the recognised cost is reduced to nil and the remaining adjustment is recognised in the consolidated income statement.

In determining the best estimate of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the asset from the site, including long-term inflation forecasts, and the expected timing of those costs.

Disclosures

The following table describes the changes to the decommissioning provision for the years ended 31 December:

	2020	2019
Balance at beginning of year	6,380	5,117
Revisions in estimated cash flows	794	711
Net additions	69	69
Unwinding of discount	472	483
Balance at end of year	7,715	6,380

Revision of estimates affected the cost of property and equipment (*Note 3.1*) and nil (2019: 216) was recognised in 'Loss on disposal of non-current assets' in consolidated income statement for the year ended 31 December 2020.

Notes to the consolidated financial statements (continued)

4. EQUITY

Accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

The Company's own issued equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration received upon any subsequent sale is recognised in equity.

Disclosures

Share capital

As of 31 December 2020 and 2019, the Company had 100,620,000,000 authorised ordinary shares with a par value of 0.1 Rubles, of which 620,000,000 were fully paid issued shares, including 620,000,000 (2019: 435,970,620) outstanding shares and nil (2019: 184,029,380) shares classified as treasury shares (held through its wholly owned subsidiary, MegaFon Finance LLC).

Transactions with own shares

On 25 March 2020 the Group sold 29.68% of the Company's issued ordinary shares with a total cost of 121,703 to a related party USM Telecom LLC for cash consideration of 121,323 (or 659.26 Rubles per ordinary share) payable by 31 March 2023.

The Group recognised the receivable due from the related party at fair value which was estimated by discounting the expected cash flows using the prevailing market rate of interest for a similar instrument. The discount has been recognised directly in retained earnings in equity as the receivable is treated as a transaction with a shareholder.

Annual dividend payment

No dividends were declared in respect of the 2020 or 2019 financial years.

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Notes to the consolidated financial statements (continued)

4. EQUITY (continued)

Other capital reserves

The disaggregation of other capital reserves and changes of other comprehensive income by each type of reserve in equity is shown below:

	Foreign currency translation reserve	Share- based compen- sation reserve	Property and equipment revaluation reserve	Reserve fund	Transac- tions with NCI	Total other capital reserves
As of 1 January 2019	(1,585)	1,488	—	15	(23)	(105)
Foreign currency translation	425	—	—	—	—	425
Revaluation	—	—	57,610	—	—	57,610
Other movements	(6)	—	—	—	—	(6)
As of 31 December 2019	(1,166)	1,488	57,610	15	(23)	57,924
Foreign currency translation	233	—	—	—	—	233
Revaluation relating to disposed assets	—	—	(84)	—	—	(84)
As of 31 December 2020	(933)	1,488	57,526	15	(23)	58,073

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

The share-based compensation reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. During 2020 and 2019 the Group did not have any equity-settled share-based programmes. The amount of the reserve relates to previous years awards that expired unexercised.

The property and equipment revaluation reserve is used to record upward revaluation to fair values of assets which are carried in the financial statements at revalued amounts (*Note 3.1*). On the disposal of assets the respective revaluation reserve is reclassified to retained earnings.

The reserve on transactions with NCI is used to record differences arising as a result of transactions with NCI that do not result in a loss of control.

The reserve fund has been established according to the requirements of Russian law and is used to cover the Company's losses, redemption of its bonds and re-purchase of its own shares in the absence of other capital resources.

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Notes to the consolidated financial statements (continued)

5. ADDITIONAL NOTES

5.1. Related parties

The following tables provide the total amount of transactions that have been entered into with related parties and balances of accounts with them for the relevant financial years:

	For the years ended	
	31 December	
	2020	2019
Revenues from USM group	205	71
Revenues from Svyaznoy group	138	11,400
Revenues from AER	2	—
Revenues from MGL	258	168
	603	11,639
Services from USM group	1,858	164
Services from Svyaznoy group	3,049	3,168
Services from Garden Ring	443	318
Services from AER	102	15
Services from MGL	364	32
	5,816	3,697
Other non-operating expenses	—	221
	5,816	3,697
	150,384	30,196
Due from USM group	135,503	11,344
Due from Svyaznoy group	8,705	13,305
Due from Garden Ring	5,903	5,525
Due from AER	158	—
Due from MGL	115	22
	150,384	30,196
Due to USM group	6,496	332
Due to Svyaznoy group	263	302
Due to Garden Ring	33	—
Due to AER	1,725	1,608
Due to MGL	157	70
	8,674	2,312

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Notes to the consolidated financial statements (continued)

5.1. Related parties (continued)

Terms and conditions of transactions with related parties

As of 31 December 2020 the Group recorded an allowance of 345 for expected credit losses in respect of amounts owed by related parties (2019: nil). The assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

As at 31 December 2020 and 2019 the Group had provided guarantees for obligations payable by the Svyaznoy group in the amount of up to 12,700 (*Note 5.5*).

USM group

The outstanding balances and transactions with USM group relate to operations with USM Telecom LLC, USM Holding Company LLC, the Group's ultimate controlling company, and their subsidiaries.

In March 2020 the Group sold its ordinary shares to USM Telecom LLC for total consideration of 121,323 (*Note 4*). The outstanding balance due from the USM group as of 31 December 2020 mostly relates to this sale. The receivable is due to be settled on or before 31 March 2023 and is secured by the ordinary shares sold to USM Telecom LLC.

In December 2019 the Group made a 12,560 interest-free loan, and then during the year ended 31 December 2020 made further interest-free loans totaling 18,000, to USM Telecom LLC with different tranches maturing in 2021, 2022 and 2023 (*Note 3.5*).

The Group purchased network equipment and related support services from LLC X-Holding, another member of the USM group, and its subsidiaries in the amount of 17,699 during the period from June 2020 when LLC X-Holding was classified as a related party to 31 December 2020. The outstanding balances due to the USM group as of 31 December 2020 mainly relate to these purchases.

The Group is a member of the Not-for-profit Partnership "Development, Innovations, Technologies" (the "Partnership") which was established by companies in the USM group. The Partnership is required to incur education, science and other social costs as well as to maintain certain social infrastructure assets in Skolkovo Innovation Centre which are not owned by MegaFon and not recorded in the consolidated statement of financial position. The Group's accrued contributions to the Partnership for the year ended 31 December 2020 were nil (2019: 221).

AER loan

AER is an associated company of the Group (*Note 3.4*). In October 2019 the Group received an interest-free loan in the amount of 1,921 for a term of up to 3 years from AER.

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Notes to the consolidated financial statements (continued)

5.1. Related parties (continued)

Svyaznoy

Svyaznoy is an associated company of the Group (*Note 3.4*). The Group has a dealership agreement and equipment purchase agreements with the Svyaznoy group which qualify as related party transactions. Dealer commissions for connection of new subscribers which represent incremental costs of obtaining a customer contract are deferred and recognised in sales and marketing expenses over the expected contract term.

Garden Ring

Garden Ring, which owns and operates an office building in the center of Moscow, is the Group's joint venture with Sberbank. The Group has a lease agreement with Garden Ring which qualifies as a related party transaction. The Group recognised an asset in the amount of 5,233 (2019: 6,368) and a liability of 5,835 (2019: 6,761) in respect of the lease as at 31 December 2020. Maintenance expenses in the amount of 443 for the year ended 31 December 2020 were recognised directly in operating expenses in the consolidated income statement (2019: 318).

The Group also has a loan receivable from Garden Ring. The balance due from Garden Ring at 31 December 2020 consists mainly of the loan receivable. Interest income of 442 was recognised in respect of the loan for the year ended 31 December 2020 (2019: 442).

MGL

The Group holds an approximately 2% economic interest in MGL (with approximately 26.7% voting rights) through an associated company JSC MF Technologies (*Note 3.4*). During the year ended 31 December 2020 the Group purchased software and related support services from MGL in the amount of 530 (2019: 310).

Compensation to key management personnel

Members of the Board of Directors and the Management Board of the Company are the key management personnel. The amounts recognised as employee benefits expense to key management personnel of the Group for the years ended 31 December are as follows:

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	688	460
Long-term incentive programme	96	233
Total	<u>784</u>	<u>693</u>

Notes to the consolidated financial statements (continued)

5.2. Financial risk management

The Group's principal financial liabilities, other than lease obligations, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, and cash and cash equivalents that derive directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks.

The Group's senior management is supported by the Finance and Strategy Committee of the Board of Directors that advises on financial risks and the appropriate financial risk governance framework for the Group. The Finance and Strategy Committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Company's Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risks that mostly impact the Group comprise two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include: loans and borrowings, cash deposits and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as of 31 December 2020 and 2019. The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2020 and 2019.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

At 31 December 2020 approximately 85% of the Group's loans and borrowings (including the effect of cross-currency swaps) are at a fixed rate of interest (2019: 90%).

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Notes to the consolidated financial statements (continued)

5.2. Financial risk management (continued)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	<u>Increase/decrease in basis points</u>	<u>Effect on profit before tax</u>
Year ended 31 December 2020		
Rubles	+25	(130)
Rubles	-25	38
Year ended 31 December 2019		
Rubles	+25	(95)
Rubles	-25	95

The analysis is prepared assuming the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities (when cash deposits and loans and borrowings are denominated in a different currency from the Group's functional currency).

A significant portion of the Group's cash and cash equivalents is denominated in US Dollar and some trade payables are denominated in Euro and US Dollar. If the Ruble continued to fluctuate against the US Dollar or the Euro, this could impact the Group's earnings.

To minimise its foreign exchange exposure to fluctuations in foreign currency exchange rates, the Group is migrating most of its foreign currency linked costs to Ruble based costs to balance assets and liabilities and revenues and expenses denominated in Rubles. In order to manage the foreign currency risk the Group is also focused on increasing the proportion of Ruble loans through refinancing and hedging activities.

When necessary the Group enters into cross-currency swap agreements. These derivative financial instruments were used to limit exposure to changes in foreign currency exchange rates on certain of the Group's long-term debts denominated in foreign currencies (*Note 3.5.4*).

Overall, the share of Ruble loans and borrowings (including the effect of cross-currency swaps) amounted to 100% as of 31 December 2020 (2019: 100%).

In accordance with the Group's policies, the Group does not enter into any treasury management transactions of a speculative nature.

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Notes to the consolidated financial statements (continued)

5.2. Financial risk management (continued)

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value and future cash flows of monetary assets and liabilities). The Group's exposure to foreign currency changes for all other currencies is not material.

	<u>Change in foreign exchange rates</u>	<u>Effect on profit before tax</u>
Year ended 31 December 2020		
US Dollar	+15%	1,708
US Dollar	-15%	(1,708)
Euro	+15%	(215)
Euro	-15%	215
Year ended 31 December 2019		
US Dollar	+15%	104
US Dollar	-15%	(104)
Euro	+10%	(3)
Euro	-10%	3

The movement in the pre-tax effect is a result of monetary assets and liabilities denominated in currencies other than the functional currency of the Company.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

To manage the concentration of credit risk, the Group allocates available cash to domestic branches of international banks and a limited number of Russian banks which are rated at least BB- to BBB under the Standard&Poors/Fitch rating system or Ba2 to Baa3 under the Moody's rating system. A majority of these Russian banks are either owned or controlled by the Russian government.

Deposit insurance is either not offered or only offered in *de minimis* amounts in respect of bank deposits within the Russian Federation.

The Group extends credit to certain counterparties, principally international and national telecommunications operators, for roaming services, to certain dealers and to customers on post-paid tariff plans.

The Group minimises its exposure to the risk by ensuring that credit risk is spread across a number of counterparties, and by continuously monitoring the credit standing of counterparties based on their credit history and credit ratings reviews. Other preventative measures to minimise credit risk include obtaining advance payments, bank guarantees and other security.

Notes to the consolidated financial statements (continued)

5.2. Financial risk management (continued)

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in *Note 3.5*.

The Group considers the concentration of risk with respect to trade receivables to be low, as its customers are located in several regions and industries and operate in largely independent markets. Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Due to this management believes there is no further credit risk provision required in excess of the expected credit loss allowance already recorded for trade and other receivables (*Note 3.6*).

The Group monitors its credit risk with regards to loans extended to Garden Ring and USM Telecom LLC (*Note 3.5*). This assessment is undertaken each financial year by examining the financial position of the debtor and the market in which the debtor operates. As at 31 December 2020 the Group recorded an allowance of 345 for expected credit losses in respect of amounts owed by related parties (2019: nil).

Liquidity risk

The Group monitors its risk relating to a shortage of funds using a recurring liquidity planning tool. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. Approximately 21% of the Group's loans and borrowings will mature in less than one year as of 31 December 2020 (2019: 7%) based on the carrying value of loans and borrowings reflected in the consolidated financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

As of 31 December 2020, the Group has a net current liability position. The Group believes it will continue to be able to generate significant operating cash flows and that adequate access to sources of funding and significant amount of available credit lines are sufficient to meet the Group's requirements. Additionally, the Group can defer capital expenditures if necessary in order to meet short-term liquidity requirements. Accordingly, Group management believes that cash flows from operating and financing activities will be sufficient for the Group to meet its obligations as they become due.

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Notes to the consolidated financial statements (continued)

5.2. Financial risk management (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
31 December 2020					
Loans and borrowings	98,335	189,638	59,081	71,845	418,899
Trade and other payables	44,171	—	—	—	44,171
Lease liabilities	23,420	36,338	32,501	28,467	120,726
Long-term accounts payable	—	270	—	—	270
Total 31 December 2020	165,926	226,246	91,582	100,312	584,066
31 December 2019					
Loans and borrowings	60,623	252,902	150,495	14,267	478,287
Trade and other payables	54,607	—	—	—	54,607
Lease liabilities	20,261	40,048	33,052	34,009	127,370
Deferred and contingent consideration	—	568	—	—	568
Long-term accounts payable	—	260	—	—	260
Total 31 December 2019	135,491	293,778	183,547	48,276	661,092

Capital management

Capital includes equity attributable to the Group's shareholders. The primary objective of the Group's capital management is to ensure that it maintains a healthy credit rating and healthy capital ratios in order to secure access to debt and capital markets at all times and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

The Net Debt to OIBDA ratio is an important measure to assess the capital structure in light of the need to maintain a strong credit rating. Net Debt represents the carrying amount of interest-bearing loans and borrowings less cash and cash equivalents and current and non-current bank deposits. As of 31 December 2020 the Net Debt to OIBDA ratio was 2.09 (2019: 2.11).

Some loan agreements also have covenants based on Net Debt to OIBDA ratios. The Group believes it has complied with all the capital requirements imposed by external parties.

Collateral

The Group did not pledge any collateral as security for its financial liabilities at 31 December 2020 or 2019.

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Notes to the consolidated financial statements (continued)

5.2. Financial risk management (continued)

100% of the shares of Garden Ring (*Note 3.4*) have been pledged as security for loans received by Garden Ring from Sberbank, which are due to be repaid in 2026.

5.3. Group information

The consolidated financial statements of the Group include the following significant subsidiaries, joint ventures and associates of MegaFon:

Legal entity	Type	Principal activities	Country of incorporation	% equity interest	
				2020	2019
JSC MegaFon Retail	subsidiary	Retail	Russia	100	100
LLC NetByNet Holding	subsidiary	Broadband internet	Russia	100	100
LLC Scartel	subsidiary	Wireless services	Russia	100	100
LLC MegaFon Finance	subsidiary	Transactions with treasury shares	Russia	100	100
JSC MegaLabs	subsidiary	New telecom services development	Russia	100	100
JSC First Tower Company	subsidiary	Telecommunication infrastructure	Russia	100	100
CJSC TT mobile	subsidiary	Integrated telecom	Tajikistan	75	75
AER Holding PTE.LTD (<i>Note 3.4</i>)	associate	e-commerce	Singapore	24.3	24.3
DTSRetail Limited (<i>Note 3.4</i>)	associate	Retail	Russia	26.49	26.49
JSC MF Technologies (<i>Note 3.4</i>)	associate	Holding company	Russia	45	45
JSC Sadovoe Koltso (<i>Note 3.4</i>)	joint venture	Corporate office	Russia	49.999	49.999

The Company holds interests in material subsidiaries, associates and joint ventures through a number of intermediary holding companies.

5.4. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM is responsible for allocating resources to and assessing the performance of the operating segments. The Company’s CEO has been designated as the CODM.

The Group manages its business primarily based on one integrated geographical operating segment within Russia, which represented the only reportable segment as of 31 December 2020 and which provided a broad range of voice, data and other telecommunication services, including wireless and wireline services, interconnection services, data transmission services and value added services. The CODM evaluates the performance of the Group’s operating segments based on revenue and operating income before depreciation and amortisation (“OIBDA”).

Around 1.9% of the Group’s revenues and results are generated by segments outside of Russia. No single customer represents 10% or more of the consolidated revenues.

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Notes to the consolidated financial statements (continued)

5.4. Segment information (continued)

Management has presented the performance measure OIBDA because it believes that this measure is relevant to an understanding of the Group's financial performance. OIBDA is not a defined performance measure in IFRS. The Group's definition of OIBDA may not be comparable with similarly titled performance measures used and disclosures made by other entities.

Reconciliation of OIBDA to profit before tax for the years ended 31 December is presented below:

	<u>2020</u>	<u>2019</u>
OIBDA	147,786	151,618
Depreciation	(51,726)	(68,050)
Amortisation	(21,941)	(20,340)
Loss on disposal of non-current assets	(684)	(623)
Finance costs	(38,300)	(45,195)
Finance income	8,937	2,097
Share of loss of associates and joint ventures	(5,169)	(5,277)
Other non-operating expenses, net	(3,237)	(2,087)
Gain/(loss) on financial instruments, net	2,741	(1,982)
Foreign exchange (loss)/gain, net	(3,126)	2,084
Profit before tax	<u>35,281</u>	<u>12,245</u>

Disaggregation of revenue

In the following table revenue is disaggregated by major products and service lines:

	<u>2020</u>	<u>2019</u>
Wireless services	274,475	280,375
Wireline services	28,558	30,431
Sales of equipment and accessories	29,126	38,155
Total revenue	<u>332,159</u>	<u>348,961</u>

The Group's revenue derives from contracts with customers. Revenue from sales of equipment and accessories is recognised at a point in time (generally, the time of sale), while service revenue is recognised over time as the services are rendered to clients.

Notes to the consolidated financial statements (continued)

5.5. Commitments, contingencies and uncertainties

Russian operating environment

During the year ended 31 December 2020, the Russian economy was impacted by the downturn in the worldwide economy, introduction of an extended lockdown period in Russia and in other countries, and the closure of borders, all triggered by an outbreak of coronavirus, as well as decreases in prices of energy resources and the value of the Russian Ruble and sanctions imposed on Russia by several countries. The combination of the above resulted in fluctuations in the cost of capital and uncertainty regarding future economic growth.

Management believes it is taking appropriate measures to support the sustainability of the Group's business during the current difficult conditions. However, further deterioration of the economic situation may negatively impact the results and financial position of the Group. Currently it is not feasible to assess the amount of the possible impact.

4G/LTE licence capital commitments

Under the 4G/LTE licences acquired at frequency distribution auctions and from other operators via acquisition of licence-holding entities, the Group is obligated to provide 4G/LTE services in each population center with over 10,000 inhabitants in Russia by the end of the seven-year period starting from the date of obtaining the licences, i.e. prior to mid-April 2023. As of the date these consolidated financial statements were authorised for issue the Group was fully compliant with these capital expenditure commitments.

Equipment purchases agreements

In 2014 the Group entered into two separate 7-year agreements with two suppliers to purchase equipment and software for 2G/3G/4G network construction and modernization, which have been extended for a further year. The software usage agreements contain various termination options, however the Group is specifically committed under the agreements to pay at least an amount equal to 50% of the fees due over the remaining term of the agreements for each base station in use as at the date of termination. The amount of the commitments at 31 December 2020 is 8,644 (2019: 5,896).

Social infrastructure expenses

From time to time, the Group may determine to maintain certain social infrastructure assets which are not owned by the Group and not recorded in the consolidated financial statements as well as to incur education, science and other social costs. Such activities may be conducted in collaboration with non-governmental organisations. These expenses are presented in other non-operating loss in the consolidated income statement (*Note 5.1*).

Taxation

Russian and Tajik tax, currency and customs legislation, including transfer pricing legislation, are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to transactions and activities of the Group may be challenged by the relevant regional and federal authorities.

Notes to the consolidated financial statements (continued)

5.5. Commitments, contingencies and uncertainties (continued)

Recent events within Russia and Tajikistan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of the legislation and as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. Therefore, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceding the current year. Under certain circumstances reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice, and that the Group's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ.

As of 31 December 2020 the Group's management estimated the possible effect of additional taxes, before fines and interest, if any, on these consolidated financial statements, if the authorities were successful in enforcing different interpretations being taken by them, to be in the amount of up to approximately 893 (2019: 928).

Svyaznoy guarantees

During 2019 the Group provided guarantees for obligations payable by the Svyaznoy group in the amount of up to 12,700 (*Note 5.1*). The guarantees remain in effect for one year after maturity of the underlying obligation. The Group recorded a provision for expected losses under the guarantees in the amount of 94 in the 'Share of loss of associates and joint ventures' line in the consolidated income statement.

Litigation

The Group is not a party to any material litigation, although in the ordinary course of business, the Company and some of the Group's subsidiaries may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which they operate. In the opinion of management, the Company's and its subsidiaries' liability, if any, in all pending litigation, other legal proceedings or other matters, will not have a material effect on the financial condition, financial performance or liquidity of the Group.

Anti-terror laws

On 7 July 2016 the President of the Russian Federation signed a package of anti-terror laws. The package requires telecommunications operators to store all data, including that from phone calls, messages, and data transmitted by customers for certain time periods, effective from 1 July 2018. This requires the Group to establish additional data centers and invest in data-processing technologies.

The Group has started implementation of the changes and based on the current understanding of the law's requirements, the Group expects that the implementation of the changes may cost it approximately 15,000-20,000 over the two year period beginning in 2021.

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Notes to the consolidated financial statements (continued)

5.6. Events after the reporting date

Start.ru

In January 2021 the Group increased its share in Start.ru operating group to 50% for a total cash consideration of 3,000 of which 2,600 was paid in December 2020 and 400 in February 2021 (*Note 3.4*). Based on the current set-up of Start.ru management, the Company concluded that it has ability to direct relevant activities of Start.ru and therefore has control over the investee. Accordingly, the Group will consolidate the investee from the beginning of 2021 when control was obtained. The Company is currently evaluating the purchase price allocation between the specific assets acquired and liabilities assumed.

Ruble bonds

In February 2021 the Group redeemed in full at par its BO-001P-04 bonds in an aggregate principal amount of 20,000. The Group initially issued these bonds in February 2018 with a maturity of three years at an interest rate of 7.2% per annum.

Refinancing

In March 2021 the Group refinanced its fixed-rate Ruble-denominated loans in the amount of 43,000 which were due in the period 2022-2023 and which are now due over the period 2023-2024.