

SISTEMA PJSFC AND SUBSIDIARIES

Consolidated Financial Statements for 2022
and Independent Auditor's Report

SISTEMA PJSFC AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-6
CONSOLIDATED FINANCIAL STATEMENTS FOR 2022:	
Consolidated statement of profit or loss	7
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9-10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12-13
Notes to the consolidated financial statements	
1. General	14
2. Basis of preparation	14
3. Significant accounting policies, judgements, estimates and assumptions	14
4. Segment information	19
5. Discontinued operations and subsidiaries disposals	22
6. Business combinations	26
7. Capital transactions of subsidiaries	37
8. Revenue	38
9. Impairment of long-lived assets	44
10. Impairment of financial assets	44
11. Income taxes	45
12. Employee benefits expenses	47
13. Property, plant and equipment	48
14. Investment property	51
15. Goodwill	52
16. Other intangible assets	56
17. Investments in associates and joint ventures	59
18. Other financial assets	64
19. Restricted cash	71
20. Inventories	71
21. Accounts receivable	72
22. Equity	73
23. Accumulated other comprehensive income	73
24. Loans and borrowings	74
25. Lease liabilities and right-of-use assets	78
26. Bank deposits and liabilities	79
27. Other financial liabilities	80
28. Provisions	80
29. Earnings/(loss) per share	82
30. Capital and financial risk management	82
31. Derivative instruments	86
32. Fair values	88
33. Related party transactions	91
34. Subsidiaries	92
35. Non-cash transactions	93
36. Reconciliation of liabilities arising from financing activities	94
37. Contingencies and commitments	95
38. Subsequent events	100

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Sistema Public Joint Stock Financial Corporation (“Sistema”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>Significant non-routine transactions</p> <p>In light of its strategy, the Group regularly conducts complex acquisitions and disposals, debt restructurings and other significant non-routine transactions. In 2022 the non-routine transactions were conducted in the course of changing operating environment (see Note 37 to the consolidated financial statements).</p> <p>We focus on these matters because the appropriate accounting treatment of such transactions is often complex and requires exercise of significant judgement, in particular, in determining whether or not the Group has control over its investees, and whether or not the Group has assumed obligations to third-party investors.</p> <p>In the current period, these included, among others, sale of a stake in SFH Invest S.A., recognition of EWUB as assets held for sale, and other transactions involving the sale of shares in subsidiaries resulting in the loss of control by the Group.</p> <p>See Note 5 to the consolidated financial statements.</p>	<p>Our procedures included reviewing legal documents to fully understand the terms and conditions of each transaction and therefore the associated accounting implications and evaluating documentation of management's positions on how IFRSs were applied to the transactions.</p> <p>In relation to the previously mentioned specific transactions, we:</p> <ul style="list-style-type: none"> analysed legal documents and evaluated the appropriateness of management's conclusions on whether or not the Group has control over the investees in the context of investee's governance structure, size of the Group's shareholding relative to other shareholders, dispersion of other vote holdings and other factors relevant to determining whether the Group has current ability to direct relevant activities of the investees; analysed agreements and key terms of transactions on the disposal of Group's subsidiaries and reviewed the reflection of the disposal in the consolidated financial statements; analysed management's calculation of the expected credit losses allowance for the financial assets arising as a result of disposal; verified the compliance of the disclosures contained in the consolidated financial statements with IFRS requirements. <p>In addition, we analysed management's assessment of the impact of changes in the operating environment on the Group's operations and significant non-routine transactions.</p>
<p>Diversified structure of the Group</p> <p>Sistema is a holding company that owns mainly controlling stakes in its subsidiaries, whose results are included in the consolidated financial statements. The large number of entities of the Group and diversified nature of their operations require the Group's management to design and implement group wide controls, including monitoring and control activities</p>	<p>We obtained an understanding of the group-wide controls over the consolidation process and the preparation of the consolidated financial statements, including instructions of the Group's management to its subsidiaries.</p> <p>Our audit approach was developed considering the Group's diversified structure and associated risks of material misstatement of the consolidated financial statements. It included determination of necessary procedures and audit scope in relation to each</p>

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>to ensure timely, reliable and complete financial information received from its subsidiaries.</p> <p>Audit procedures regarding the financial information of the subsidiaries included in the consolidated financial statements may be performed by us or by the auditors of those subsidiaries (“components”) acting under our supervision. As the group auditor, we are fully responsible for conducting the audit and forming our audit opinion.</p> <p>We focused on this matter because the diversified structure of the Group has a significant impact on our audit approach, and the nature and extent of our involvement in component auditors’ work is significant.</p>	<p>component’s financial information, depending on its significance for the Group and identification of risks of misstatement of their financial information. The nature and extent of our involvement in the component auditors’ work was also dependent on our assessment of their professional competence in the context of allocated scope.</p> <p>To obtain reasonable assurance of fair presentation of the components’ financial information, we assessed risks and determined audit procedures performed by the component auditors, and evaluated the results of the procedures. This included a critical analysis of the component auditors’ documentation, discussion of significant matters with the component auditors, component or Group management and, if applicable, designing and performing additional audit procedures.</p> <p>We also performed procedures with respect to consolidation adjustments to the financial information of the subsidiaries in order to assess their nature, completeness and accuracy.</p>
<p>Compliance with anti-bribery laws and regulations and associated accounting and disclosure implications</p> <p>In March 2019, the Group’s subsidiary MTS reached a resolution with the United States Securities and Exchange Commission (“SEC”) and the United States Department of Justice (“DOJ”) relating to the investigation concerning the Group’s former subsidiary in Uzbekistan. The Group consented to the commencement of an administrative cease-and-desist order (the “Order”) by the SEC and entered into a deferred prosecution agreement (“DPA”). Under the DPA and the Order in September 2019 the Group appointed an independent compliance monitor (“Independent Monitor”) for, inter alia, review, testing and improving MTS’ anti-corruption compliance code, policies, and procedures for a period of three years. In 2021, the DOJ and SEC approved a one year extension of the monitorship, which is permitted by the terms of the DPA and the Order.</p>	<p>Our audit procedures related to the Group’s estimation of any contingencies related to any potential instance of non-compliance with anti-corruption laws and regulations included the following, among others:</p> <ul style="list-style-type: none"> • We inspected the laws and regulations MTS has to comply with in order to obtain an understanding of the relevance and applicability to MTS and to assess any potential penalties that may arise for non-compliance; • We read the procedures performed by the Independent Monitor and evaluated the implications of their findings, including discussing these with management as well as internal and external legal advisors; • We inquired management regarding their follow up on the results of internal and external investigations and on the design and operational effectiveness of the MTS’s compliance programs and internal controls relating to the prevention and detection of fraud and corruption;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>The audit procedures necessary to evaluate management's judgments in area of potential instance of non-compliance with anti-corruption laws and regulations as at 31 December 2022 required a high degree of auditor judgment in evaluating whether the audit evidence obtained supports management's estimate.</p>	<ul style="list-style-type: none"> • We tested the design and operating effectiveness of internal controls at MTS, including, amongst others, the control environment (including whistle-blower and internal fraud management cases) and the controls for the adherence of business partners to the anti-corruption codes; • We read the minutes of the MTS Board of Directors' meetings; • We evaluated management's assessment of compliance with anti-corruption laws and regulations as well as an estimation of contingencies related to any potential instances of non-compliance; • We obtained letters from external and internal legal counsel; and • We evaluated the Group's accounting policy with respect to the accounting for provisions and disclosure of contingent liabilities to determine if the existing policy continues to be appropriate, and assessed the compliance of the disclosures in the consolidated financial statements against the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report for 2022 (the "Annual report") and the Issuer's report for 12 months of 2022 (the "Issuer's report"), but does not include the consolidated financial statements and our auditor's report thereon. The Annual report and Issuer's report are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Vladimir Biryukov
(ORNZ №21906100113),
Engagement partner,

Acting based on the power of attorney issued by the General Director on 06.07.2022
authorizing to sign off the audit report on behalf of AO "Business Solutions and
Technologies" (ORNZ № 12006020384)

7 April 2023



SISTEMA PJSFC AND SUBSIDIARIES

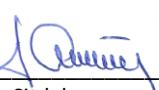
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(In millions of Russian Rubles, except for per share amounts)

	Notes	2022	2021
Continuing operations			
Revenue	8	912,656	773,218
Cost of sales		(454,602)	(363,358)
Selling, general and administrative expenses		(185,859)	(147,648)
Depreciation and amortisation		(147,905)	(133,069)
(Impairment)/reversal of impairment of long-lived assets	9	(1,846)	603
Impairment of financial assets	10	(4,181)	(4,003)
Taxes other than income tax		(4,958)	(3,360)
Share of the profit or loss of associates and joint ventures, net	17	4,199	19,830
Other income	6	50,060	16,248
Other expenses		(6,317)	(2,642)
Operating income		161,247	155,819
Finance income		10,059	6,272
Finance costs		(113,048)	(70,153)
Currency exchange gain/(loss)		37	(1,667)
Changes in the fair value of financial instruments		9,803	16,050
Profit before tax		68,098	106,321
Income tax expense	11	(27,577)	(41,330)
Profit from continuing operations		40,521	64,991
Discontinued operations			
Profit/(loss) from discontinued operations	5	3,296	(11,809)
Net profit for the year		43,817	53,182
Attributable to:			
Shareholders of Sistema PJSFC		19,405	16,755
Non-controlling interests		24,412	36,427
		43,817	53,182
Profit per share (basic and diluted), Russian Rubles:	29		
From continuing operations		1.56	2.95
From continuing and discontinued operations		2.07	1.77

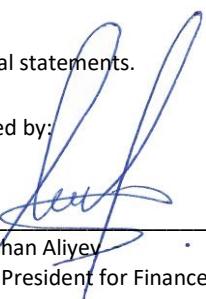
The accompanying notes are an integral part of these consolidated financial statements.

The consolidated financial statements of the Group for 2022 were approved by:



Tagir Sitdekov

Chief Executive Officer (President)



Rovshan Aliyev
Vice President for Finance (CFO)

7 April 2023

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (In millions of Russian Rubles)

	2022	2021
Net profit for the year	43,817	53,182
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Effect on sale of subsidiary	794	-
Currency translation gain/(loss) on foreign operations in subsidiaries	1,284	(1,458)
Currency translation (loss)/gain on foreign operations in associates and joint ventures	(599)	95
Net loss from revaluation of financial instruments	(134)	-
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Unrecognised actuarial gain	-	215
Other comprehensive income/(loss), net of tax	1,345	(1,148)
Total comprehensive income	45,162	52,034
Attributable to:		
Shareholders of Sistema PJSFC	20,019	14,787
Non-controlling interests	25,143	37,247
Total comprehensive income	45,162	52,034

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

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (In millions of Russian Rubles)

	Notes	31 December 2022	31 December 2021
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	13	548,305	514,198
Investment property	14	13,165	13,160
Goodwill	15	100,063	88,050
Other intangible assets	16	159,260	139,184
Right-of-use assets	25	201,564	210,480
Investments in associates and joint ventures	17	43,460	63,490
Deferred tax assets	11	43,231	30,956
Other financial assets	18	203,878	214,986
Deposits in banks		115	20
Other assets		23,703	36,157
Total non-current assets		1,336,744	1,310,681
<i>Current assets</i>			
Inventories	20	243,343	76,009
Contract assets	8	30,149	8,272
Accounts receivable	21	96,304	69,295
Advances paid and prepaid expenses		33,789	18,179
Current income tax assets		4,057	5,103
Other taxes receivable		28,632	24,930
Other financial assets	18	171,817	154,465
Deposits in banks		85	1,549
Restricted cash	19	1,089	4,909
Cash and cash equivalents		134,402	81,883
Assets classified as held for sale	5	11,064	-
Other assets		6,668	3,610
Total current assets		761,399	448,204
Total assets		2,098,143	1,758,885

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) (In millions of Russian Rubles)

	Notes	31 December 2022	31 December 2021
Equity and liabilities			
<i>Equity</i>			
Share capital	22	869	869
Treasury shares	22	(5,675)	(6,435)
Additional paid-in capital		94,578	95,075
Accumulated loss		(1,988)	(21,393)
Accumulated other comprehensive income including accumulated comprehensive income of assets classified as held for sale	23	17,399	16,785
	5	<u>5,961</u>	<u>-</u>
Equity attributable to shareholders of Sistema		105,183	84,901
Non-controlling interests		<u>82,348</u>	<u>40,545</u>
Total equity		<u>187,531</u>	<u>125,446</u>
<i>Non-current liabilities</i>			
Loans and borrowings	24	762,219	641,511
Lease liabilities	25	156,527	167,238
Bank deposits and liabilities	26	12,397	16,755
Deferred tax liabilities	11	57,350	42,406
Provisions	28	8,445	8,026
Other financial liabilities	27	25,050	15,972
Other liabilities		<u>15,413</u>	<u>11,334</u>
Total non-current liabilities		<u>1,037,401</u>	<u>903,242</u>
<i>Current liabilities</i>			
Loans and borrowings	24	298,846	209,306
Lease liabilities	25	29,303	23,335
Accounts payable		137,508	134,033
Bank deposits and liabilities	26	232,610	225,795
Income tax payable		3,842	951
Other taxes payable		39,541	22,896
Dividends payable		17,989	5,256
Provisions	28	27,447	23,256
Contract liabilities and other liabilities	8	56,506	53,330
Liabilities directly associated with assets classified as held for sale	5	4,838	-
Other financial liabilities	27	<u>24,781</u>	<u>32,039</u>
Total current liabilities		<u>873,211</u>	<u>730,197</u>
Total equity and liabilities		<u>2,098,143</u>	<u>1,758,885</u>

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

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In millions of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	Accumulated loss	Currency reserve	Other	Accumulated other comprehensive income/(loss)	Equity attributable to shareholders of Sistema	Non-controlling interests	Total equity
1 January 2021	869	75,279	(3,029)	(27,025)	17,934	819	64,847	22,482	87,329	
Net profit for the period	-	-	-	16,755	-	-	16,755	36,427	53,182	
Other comprehensive (loss)/income, net of tax	-	-	-	-	(1,961)	(7)	(1,968)	820	(1,148)	
Total comprehensive income/(loss)	-	-	-	16,755	(1,961)	(7)	14,787	37,247	52,034	
Acquisition and sale of subsidiaries	-	-	-	-	-	-	-	15,313	15,313	
Accrued compensation under long-term motivation programs	-	442	1,521	-	-	-	1,963	-	1,963	
Settlements under long-term motivation programs	-	1,374	-	-	-	-	1,374	3,016	4,390	
Capital transactions of subsidiaries (Note 7)	-	24,060	-	-	-	-	24,060	10,910	34,970	
Purchase of own shares	-	-	(5,425)	-	-	-	(5,425)	-	(5,425)	
Sale of own shares	-	(218)	498	-	-	-	280	-	280	
Effect of derivatives reclassification (Note 6)	-	(5,861)	-	(8,179)	-	-	(14,040)	(13,881)	(27,921)	
Dividends declared by Sistema PJSFC	-	-	-	(2,944)	-	-	(2,944)	-	(2,944)	
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(34,543)	(34,543)	
31 December 2021	869	95,076	(6,435)	(21,393)	15,973	812	84,902	40,544	125,446	
1 January 2022	869	95,076	(6,435)	(21,393)	15,973	812	84,902	40,544	125,446	
Net profit for the period	-	-	-	19,405	-	-	19,405	24,412	43,817	
Effect on sale of subsidiary	-	-	-	-	397	-	397	397	794	
Other comprehensive (loss)/income, net of tax	-	-	-	-	(426)	643	217	334	551	
Total comprehensive income/(loss)	-	-	-	19,405	(29)	643	20,019	25,143	45,162	
Acquisition and sale of subsidiaries	-	-	-	-	-	-	-	46,971	46,971	
Accrued compensation under long-term motivation programs	-	(617)	1,053	-	-	-	436	-	436	
Settlements under long-term motivation programs of subsidiaries	-	1,818	-	-	-	-	1,818	1,883	3,701	
Capital transactions of subsidiaries (Note 7)	-	(1,699)	-	-	-	-	(1,699)	546	(1,153)	
Purchase of own shares	-	-	(293)	-	-	-	(293)	-	(293)	
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(32,739)	(32,739)	
31 December 2022	869	94,578	(5,675)	(1,988)	15,944	1,455	105,183	82,348	187,531	

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

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (In millions of Russian Rubles)

	2022	2021
Cash flows from operating activities		
Net profit for the year	43,817	53,182
<i>Adjustments for:</i>		
Depreciation and amortisation	148,778	134,531
Share of the profit or loss of associates and joint ventures, net	(4,199)	(19,830)
Finance income	(10,111)	(6,306)
Finance costs	115,666	71,510
Changes in the fair value of financial instruments	(9,959)	(15,935)
Income tax expense	27,968	40,272
Currency exchange loss	201	1,651
Gain from discontinued operations	(15,485)	(470)
Profit on disposal of property, plant and equipment	(1,747)	(3,483)
Profit on disposal of other assets	825	-
Expected credit losses allowance on loans to customers	25,155	12,218
Non-cash compensation to employees	3,682	7,045
Impairment/(reversal of impairment) of long-lived assets	1,362	(408)
Impairment of financial assets	4,777	4,101
Other non-cash items	(2,517)	(5,311)
Profit from bargain purchase (Note 6)	(32,269)	-
	295,944	272,767
<i>Movements in working capital:</i>		
Bank loans to customers and interbank loans due from banks	(43,157)	(102,038)
Bank deposits and liabilities	7,773	46,161
Restricted cash	(19,904)	163
Financial assets at fair value through profit or loss	986	(919)
Accounts receivable	(29,276)	(1,671)
Advances paid and prepaid expenses	(24,606)	(665)
Other taxes receivable	1,007	(4,700)
Inventories	(49,634)	(18,277)
Accounts payable	7,832	(7,892)
Subscriber prepayments	(549)	2,215
Other taxes payable	16,648	5,277
Advances received and other liabilities	22,010	27,312
Interest paid	(115,805)	(71,469)
Income tax paid	(25,327)	(31,708)
Dividends received from associates and joint ventures	5,025	7,015
Net cash provided by operating activities	48,967	121,571

SISTEMA PJSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) (In millions of Russian Rubles)

	2022	2021
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(110,969)	(123,541)
Proceeds from sale of subsidiaries, net of cash	1,986	1,336
Proceeds from sale of property, plant and equipment	6,448	6,141
Payments to obtain and fulfill contracts	(4,351)	(4,224)
Payments for purchases of intangible assets	(47,590)	(43,635)
Payments for businesses, net of cash acquired	6,224	(36,153)
Payments for investments in associates and joint ventures	(8,881)	(11,522)
Payments for financial assets, long-term	(13,739)	(25,848)
Proceeds from sale of financial assets, long-term	18,443	10,503
Payments for financial assets, short-term	(23,440)	(4,888)
Proceeds from sale of financial assets, short-term	26,315	6,105
Interest received	9,165	6,739
Other	828	(217)
Net cash used in investing activities	(139,561)	(219,204)
Cash flows from financing activities		
Proceeds from borrowings	515,950	259,820
Principal payments of loans and borrowings	(316,092)	(147,999)
Debt issuance costs	(950)	(308)
Principal payments of lease liabilities	(22,964)	(19,682)
Acquisition of non-controlling interests in existing subsidiaries	(2,412)	(34,454)
Proceeds from transactions with non-controlling interests	140	50,366
Dividends paid	(20,807)	(35,557)
Deferred payments for acquisition of subsidiaries	(2,470)	-
Other financing activities	(1,900)	-
Repurchase of own shares	(293)	(5,425)
Net cash provided by financing activities	148,202	66,761
Effect of foreign currency translation on cash and cash equivalents	805	(938)
Net increase/(decrease) in cash and cash equivalents	58,413	(31,810)
Cash and cash equivalents at the beginning of the year	81,883	113,693
Cash and cash equivalents at the end of the year	140,296	81,883
Less cash and cash equivalents attributable to assets classified as held for sale	(5,894)	-
Cash and cash equivalents at the end of the year	134,402	81,883

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

SISTEMA PJSFC AND SUBSIDIARIES

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

1. GENERAL

Sistema Public Joint Stock Financial Corporation or Sistema PJSFC (the “Company”, together with its subsidiaries, the “Group”) invests in, and manages a range of companies which operate in various sectors of economy, including telecommunications, retail, high technology, finance, pulp and paper, utilities, pharmaceuticals, healthcare, agriculture, real estate and tourism. The Company and the majority of its subsidiaries are incorporated in the Russian Federation (“RF”). The Company’s registered address is building 1, 13 Mokhovaya street, 125009, Moscow.

As at 31 December 2022, Vladimir Petrovich Yevtushenkov owns a 49.2% stake in PJSC AFK Sistema (as at 31 December 2021 – 59.2%). In 2022, Vladimir Petrovich Yevtushenkov transferred his 10% stake, thereby ceasing to be the holder of the majority of shares. 50.8% of the shares belong to a significant number of shareholders (as at 31 December 2021- 40.8%). The shares are listed on the London Stock Exchange in the form of Global Depository Receipts (“GDRs”) and on the Moscow and SPB Exchanges.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on the assumption that the Group will continue to operate in the foreseeable future. As at 31 December 2022 short-term liabilities of the Group exceeded its current assets by RUB 111,812 million. The Group determines that it generates sufficient operating cash flow and has sufficient cash available to repay the Group’s current liabilities, including, if necessary, unused credit facilities of RUB 673,134 million. The cash flows forecast prepared by the management of the Group for a period of at least twelve months after the end of the reporting period demonstrates the Group’s ability to pay off current liabilities within the terms set by the contractual obligations.

Comparative information for the year ended 31 December 2021 has been retrospectively adjusted for the completion of the allocation of the purchase price of businesses acquired in 2021 (Note 6) and reclassification to discontinued operations (Note 5).

These consolidated financial statements were approved by the Company’s Chief Executive Officer (President) and authorised for issue on 7 April 2023.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

This note sets out significant accounting policies that relate to the Group’s consolidated financial statements as a whole and describes the critical accounting judgements that management has identified as having a potentially material impact on the Group’s consolidated financial statements. When an accounting policy is generally applicable to a specific note to the accounts, the policy is described within that note.

SISTEMA PJSFC AND SUBSIDIARIES

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

Summary of significant accounting policies

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company and their subsidiaries. Control is achieved when the Company:

- Has the power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income is attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-current assets held for sale and discontinued operations. The Group classifies assets and disposal groups as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the assets (or disposal groups) are available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and their sale is highly probable to occur within a year. Assets classified as held for sale and disposal groups are measured at the lower of carrying amount or fair value less cost to sell.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of the Group that either has been disposed of or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations of the Group;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations of the Group;
- Or is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit or loss.

Consolidated statement of cash flows include both cash flows from continuing and discontinued operations, amounts related to discontinued operations by operating, investing and financing activities are presented in Note 5.

Non-controlling interests. Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of the Group and the majority of its subsidiaries operating in Russia is the Russian Ruble ("RUB"). The presentation currency of the consolidated financial statements of the Group is also the Russian Ruble.

Sources of estimation uncertainty

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

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

Lease liabilities. The Group uses management's judgement to estimate:

- **Lease term.** The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal options. The Group also considers the cases where the Group is reasonably certain of not exercising early termination options. When assessing such options management assesses residual useful life of the major non-separable improvements to the respective leased premises, investment strategy of the Group and relevant investment decisions and duration of the renewal and early termination options.

SISTEMA PJSFC AND SUBSIDIARIES

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

- *Discount rate.* When calculating the present value of the lease payments the Group uses the incremental borrowing rate. Discount rate is determined for each asset based on the incremental borrowing rate for the respective company of the Group at the inception of the contract.

Stage of completion of project type contracts. The Group uses management's judgement to estimate stage of completion to recognize revenue under project type contracts. This estimate is based on costs forecasts and calculations and historical experience on similar projects.

Impairment of financial assets. The Group regularly reviews its financial assets to assess for impairment. The Group uses management's judgement to estimate allowance for Expected Credit Losses (ECL). Allowance for ECL are measured in a way that reflects the unbiased and probability-weighted amount, the time-value of money and reasonable and supportable information at the reporting date pertaining to past events, current conditions and forecasts of future economic conditions.

ECL are measured as probability-weighted present value of all cash shortfalls over the expected life of each financial asset. For receivables from financial services, ECL are mainly calculated using a statistical model based on three major risk parameters: probability of default, loss given default and exposure of default.

The estimation of these risk parameters incorporates all available relevant information, not only historical and current loss data, but also reasonable and supportable forward-looking information reflected by the future expectation factors. This information includes macroeconomic factors (unemployment rate, inflation rate) and forecasts of future economic conditions. Significant changes in risk parameters could affect the estimated amount of ECL.

Impairment of long-lived assets. IFRS requires management to perform impairment tests annually for indefinite lived assets and, for finite lived assets, if events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment testing requires management to judge whether the carrying value of assets can be supported by the higher of the fair value of the asset or the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires assumptions to be made in respect of highly uncertain matters.

Recoverable amount of cash-generating units is estimated based on value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

The growth rate in the post-forecast period is determined on the basis of the nominal GDP growth rate for each country and adjusted for the specific risk inherent in each generating unit. The discount rate used to calculate value in use is the weighted average cost of capital, calculated on the basis of the average capital structure for the economic sector. The cost of equity is determined on the basis of the risk-free rate for long-term government bonds issued in the country in which the generating unit operates. These rates are adjusted for the risk premium reflecting the risk of investing in ordinary shares and the specific risk of each cash-generating unit.

Deferred tax assets. Deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The valuation of probability is based on management estimation of future taxable profit and includes significant management judgment.

Fair value measurements. Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Where the fair value of assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. Information about assets and liabilities measured at fair value on recurring basis is disclosed in Note 32.

Useful lives of property, plant and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortisation or depreciation charges. Technological developments are difficult to predict and management views on the trends and pace of development may change over time. The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Provisions and contingencies. The Group is subject to various legal proceedings, disputes, claims and regulatory reviews related to the Group's business, licenses, tax positions and investments, where the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable. See Notes 28 and 37 for further information.

Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Management's judgments in assessing control and classification as assets held for sale – The Group regularly carries out complex structured transactions including acquisition and disposal of shares in subsidiaries, debt restructuring and financing arrangements. Determining the accounting treatment of such transactions is often complex and requires management's judgment, in particular in determining whether or not the Group has control over the investees, and whether or not the Group has obligations to third-party investors. In 2022, transactions in respect of which management has made significant judgments in these areas include the Group's acquisition of control over Etalon Group (Note 6), retaining control in MTS Group (Note 34), recognition of EWUB as assets held for sale, sale of a stake in SFH Invest S.A. and other transactions involving the disposal of subsidiaries resulting in the loss of control by the Group (Note 5).

Standards, interpretations and amendments adopted in current year

In 2022 the Group adopted the following standards, interpretations and amendments:

Amendments to IFRS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 16	Property, Plant and Equipment—Proceeds before Intended Use
Amendments to IFRS 3	Reference to the Conceptual Framework
Annual improvements to IFRS Accounting Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, IAS 41 Agriculture

SISTEMA PJSFC AND SUBSIDIARIES

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

These IFRS pronouncements do not have a material impact on the Group's consolidated financial statements.

Standards, interpretations and amendments in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17 and amendments to IFRS 17	Insurance Contracts
Amendments to IFRS 10 and IAS 28	Sale of Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policy, long-term obligations with covenants
Amendments to IAS 8	Definition of Accounting Estimate
Amendments to IAS 12	Deferred tax on assets and liabilities arising from a single
Amendments to IFRS 16	Lease obligations for sale with leaseback

The Group does not expect that the adoption of these standards will have a material impact on the Group's consolidated financial position and financial performance in future periods.

4. SEGMENT INFORMATION

As a diversified holding corporation, the Company invests in a range of businesses, which meet its investment and return criteria. The Company has determined that the chief operating decision maker ("CODM") is Management Board. Information reported to the Management Board for the purpose of resource allocation and the assessment of segment performance is focused on each individual business. No operating segments have been aggregated in arriving at the reportable segments of the Group. The Group's reportable segments are businesses that offer different products and services and are managed separately.

The Group's reportable segments are Mobile TeleSystems PJSC ("MTS"), Segezha Group PJSC ("Segezha Group"), Etalon Group PLC ("Etalon"), Medsi Group JSC ("Medsi"), Ozon Holdings PLC ("Ozon") and Corporate. MTS is one of the leading telecommunications group in Russia and the CIS, offering mobile and fixed voice, broadband, internet access, pay TV, financial services, as well as content and entertainment services in Russia and Armenia. Segezha Group is a Russian vertically integrated forest industry holding that performs a full cycle of timber harvesting and advanced wood processing operations. Etalon is one of the largest real estate development company in Russia, specializing in residential real estate development, design, construction, service and operation. Medsi is the largest federal private network of medical and preventive institutions in the country, providing a full range of services for the prevention, diagnosis and treatment of diseases, as well as rehabilitation services for children and adults. Ozon is one of the largest Russian e-commerce internet platforms. Corporate segment comprises the Company and entities, which hold and manage the Company's interests in its subsidiaries, joint ventures and associates. The Other category includes other operating segments including East-West United Bank (EWUB), Sitronics, Agroholding "Steppe" (Steppe), Sistema Venture Capital, Hospitality assets, Bashkirian Power Grid Company ("BPGC"), Business Nedvizhimost, Binnopharm Group, Fishing industry companies, "Arkhyz", "Vologodskiy tekstil", Megapolis-Invest, "New Investment Holding", none of which meets the quantitative thresholds for determining reportable segments.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The accounting policies of the operating segments are the same as those described in the Significant accounting policies, judgements, estimates and assumptions (Note 3) and other relevant notes. The Group's CODM evaluates performance of the segments on the basis of operating income and OIBDA. OIBDA is defined as operating income before depreciation and amortisation of property, plant and equipment, intangible assets and right-of-use assets.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment for 2022 and 2021:

	External revenues		Inter-segment revenue		Segment operating income/(loss)	
	2022	2021	2022	2021	2022	2021
MTS	536,508	523,699	5,240	4,222	109,325	117,405
Segezha Group	106,728	92,438	38	4	10,099	22,351
Etalon	60,246	-	249	-	17,263	-
Medsi	35,958	30,040	19	47	2,427	3,978
Ozon (Note 17)	-	-	-	-	-	(12,584)
Corporate	3,297	3,427	2,409	903	6,551	5,955
Total reportable segments	742,737	649,604	7,955	5,176	145,665	137,105
Other	169,919	123,614	15,107	15,350	17,140	21,129
	912,656	773,218	23,062	20,526	162,805	158,234
Inter-segment eliminations					(1,558)	(2,415)
Operating income					161,247	155,819
Finance income					10,059	6,272
Finance costs					(113,048)	(70,153)
Currency exchange gain/(loss)					37	(1,667)
Changes in the fair value of financial instruments					9,803	16,050
Profit before tax					68,098	106,321

SISTEMA PJSFC AND SUBSIDIARIES

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

The following is an analysis of the Group's depreciation and amortisation, additions to non-current assets (comprising property, plant and equipment, investment property, other intangible assets, right-of-use assets and advances paid for non-current assets), impairment of certain long-lived assets and other non-cash items (comprising impairment of current assets and financial assets) by reportable segment:

	Additions to non-current assets		Depreciation and amortisation		(Reversal) of impairment/ impairment of non-current assets		Other non-cash items	
	2022	2021	2022	2021	2022	2021	2022	2021
	MTS	114,692	141,400	114,491	110,962	489	17	1,904
Segezha Group	14,118	24,490	14,551	6,902	13	907	(61)	339
Medsi	15,587	7,639	4,276	3,256	-	-	40	67
Etalon	3,575	-	282	-	-	-	973	-
Corporate	3,342	1,446	364	963	(1)	5	829	2,190
Other	23,146	27,099	13,941	10,986	1,345	(1,532)	496	696
	174,460	202,074	147,905	133,069	1,846	(603)	4,181	4,003

The following is an analysis of the Group's segment assets and liabilities by reportable segment:

	31 December 2022	31 December 2021
Segment assets		
MTS	1,092,908	1,028,277
Segezha Group	226,896	212,755
Etalon	277,986	-
Medsi	55,357	49,847
Corporate	181,684	169,853
Total reportable segments	1,834,831	1,460,732
Other	382,936	397,181
Total segment assets	2,217,767	1,857,913
Inter-segment eliminations	(119,624)	(99,028)
Consolidated total assets	2,098,143	1,758,885
Segment liabilities		
MTS	1,084,163	1,001,311
Segezha Group	186,040	167,756
Etalon	179,314	-
Medsi	29,124	24,925
Corporate	283,568	256,491
Total reportable segments	1,762,209	1,450,483
Other	234,981	269,387
Total segment liabilities	1,997,190	1,719,870
Inter-segment eliminations	(86,578)	(86,431)
Consolidated total liabilities	1,910,612	1,633,439

SISTEMA PJSFC AND SUBSIDIARIES

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

As at 31 December 2022 and 2021 the carrying amount of investment in MTS Belarus, an associate of MTS, included in its reportable segment assets was RUB 5,798 million and RUB 6,265 million, respectively. The carrying amount of investment in Ozon, included in assets of Corporate, as at 31 December 2022 and 2021 was RUB 0 million. The carrying amount of investments in other associates and joint ventures representing separate operating segments are included in the assets of Corporate.

The Group's revenue from continuing operations from external customers and information about its non-current assets (property, plant and equipment, investment property, other intangible assets, right-of-use assets, advance payments for non-current assets and goodwill) by location of assets are detailed below.

	Revenue from external customers		Non-current assets	
	2022	2021	2022	2021
Russia	798,107	691,209	1,020,594	964,116
Other	114,549	82,009	20,216	19,935
	912,656	773,218	1,040,810	984,051

5. DISCONTINUED OPERATIONS AND SUBSIDIARIES DISPOSALS

The Group enters into transactions to sell shares of subsidiaries, which result in the Group losing control over its subsidiaries. The results of subsidiaries disposed of during the reporting period are included in the consolidated financial statements prior to the date of loss of control over subsidiaries.

Discontinued operations

Information on the sale of shares in subsidiaries, representing separate major lines of business or geographical areas at operations, and their impact on the Group's results is provided below.

The amounts recognised in profit/(loss) from discontinued operations are as follows:

	2022	2021
NVision Czech Republic a.s. results prior to disposal date	234	322
Loss from disposal of NVision Czech Republic a.s.	(1,285)	-
Currency translation on disposal of VF Ukraine	-	93
Change in the fair value of contingent consideration VF Ukraine	(1,867)	378
Non-core assets results prior to disposal date	(9,273)	(12,630)
Gain from disposal of non-core assets	20,111	-
Assets classified as held for sale results prior to disposal date - (loss)/gain	(3,150)	28
Impairment loss recognised of revaluation to FVLCD of assets classified as held for sale	(1,474)	-
Profit/(loss) from discontinued operations	3,296	(11,809)
Attributable to:		
Shareholders of Sistema PJSFC	1,800	(12,431)
Non-controlling interests	1,496	233

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

VF Ukraine – on November 22, 2019, the Group entered into a sale agreement to dispose of Prelidium B.V., 100% owner of PJSC “Vodafone Ukraine” and its subsidiaries, which carried out the MTS operations in Ukraine. The disposal was completed on December 3, 2019, and the results of operations in Ukraine were reported as discontinued operations in the consolidated statements of profit or loss.

According to the terms of the sale agreement, an additional consideration based on the performance of the discontinued operations in Ukraine was receivable. The Group received the first part of the additional contingent consideration in the amount of RUB 1,234 million in March 2021. The Group recognized contingent consideration receivable of RUB 1,867 million as at December 31, 2021. In 2022 following uncertainty over the receipt of the consideration and economic volatility and sanctions in Russia, the Group created expected credit allowance for the total amount of receivable and its value decreased to nil.

NVision Czech Republic a.s. – In October 2022, the Group disposed of 100% in NVision Czech Republic a.s., which was included in MTS reportable segment. The disposal was completed on October 24, 2022, and the results of operations of NVision Czech Republic a.s. were reported as discontinued operations in the accompanying consolidated statements of profit or loss. The fair value of consideration, receivable in five-year term, amounted to RUB 453 million, of which RUB 50 million were received in 2022.

EWUB – In October 2022, the Group decided to dispose of a 100% stake in EWUB, which is part of the “Other” reportable segment. The transaction price will be determined based on the results of an independent appraisal. The completion of the transaction is planned to be carried out during 2023. As at 31 December 2022, the Group classified EWUB as assets held for sale and presented as discontinued operations in the accompanying consolidated statement of profit and loss including impairment loss to fair value less costs of disposal.

Non-core assets – In September 2022, the Group disposed of a number of non-core assets that were part of the “Other” reportable segment for the consideration of RUB 3,856 million in cash. This decision was made by the Group in connection with the current macroeconomic situation in order to optimize the structure of the Group.

The results of the companies’ activities are presented as part of discontinued operations in the accompanying consolidated statement of profit and loss for all periods presented. The accompanying statements of financial position and statements of cash flows were not retrospectively restated.

(Loss)/gain from disposal is presented as follows:

	2022			
	NVision Czech Republic a.s.	VF Ukraine	Non-core assets	EWUB
Net (assets)/liabilities at the date of disposal	(1,820)	-	15,503	-
Non-controlling interests at the date of disposal	-	-	752	-
Change in the fair value of contingent consideration - revaluation at fair value	4	(1,867)	-	-
Change of contingent consideration - currency exchange gain	78	-	-	-
Received consideration	453	-	3,856	-
Impairment of asset classified as assets held for sale	-	-	-	(1,474)
	(1,285)	(1,867)	20,111	(1,474)

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The results of the disposed subsidiaries included in discontinued operations in the consolidated statements of profit or loss for 2022 and 2021 are as follows:

	NVision Czech Republic a.s.		Non-core assets		EWUB	
	2022	2021	2022	2021	2022	2021
Revenue	6,004	6,482	13,160	20,473	474	2,226
Expenses	(5,802)	(6,117)	(22,900)	(34,275)	(4,051)	(2,126)
Profit/(loss) before tax	202	365	(9,740)	(13,802)	(3,577)	100
Income tax benefit/(expense)	32	(43)	468	1,172	427	(72)
Net income/(loss) attributable to discontinued operations	234	322	(9,272)	(12,630)	(3,150)	28

Cash flows from discontinued operations included in the consolidated statements of cash flows for 2022 and 2021 are as follows:

	NVision Czech Republic a.s.		VF Ukraine		Non-core assets		EWUB	
	2022	2021	2022	2021	2022	2021	2022	2021
Net cash provide by/(used in) operating activities	61	(204)	-	-	(13,264)	(3,245)	(22,125)	3,560
Net cash (used in)/provided by investing activities	(69)	356	-	1,234	(1,620)	(6,137)	16,038	(1,657)
Net cash provided by/(used in) financial activities	31	(154)	-	-	35,244	2,817	-	-
Total net cash increase/(decrease) in cash and cash equivalents	23	(2)	-	1,234	20,360	(6,565)	(6,087)	1,903

SISTEMA PJSFC AND SUBSIDIARIES

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

As at 31 December 2022, EWUB assets and liabilities of EWUB classified as held for sale as follows:

	31 December 2022
Assets	
<i>Current assets</i>	
Cash and cash equivalents	5,894
Other financial assets	1,522
Advances paid	52
Total current assets	7,468
<i>Non-current assets</i>	
Property, plant and equipment	786
Other intangible assets	124
Other financial assets	3,369
Deferred tax assets	462
Total non-current assets	4,741
Impairment to fair value less costs of disposal	(1,474)
Total assets	10,735
	31 December 2022
Liabilities	
<i>Current liabilities</i>	
Accounts payable	394
Other liabilities	4,031
Total current liabilities	4,425
<i>Non-current liabilities</i>	
Deferred tax liabilities	413
Total non-current liabilities	413
Total liabilities	4,838

Other disposals of subsidiaries

Information on other transactions for the sale of shares in subsidiaries is presented below.

Sale of SFH Invest S.A. – On 24 March and 20 May 2022, the Group sold to a third party (the “Buyer”) 90% and 10% of the shares of SFH Invest S.A. (the “Company”), respectively. As a result of the company’s disposal, the Group’s assets decreased by RUB 13,875 million, the Group’s liabilities decreased by RUB 62 million, the increase in non-controlling interests, additional capital and other comprehensive income amounted to RUB 891 million, RUB 591 million and RUB 336 million, respectively. At the same time the Group reflected loans previously issued to the Company and loans previously received from the Company, in the amount of RUB 19,037 million and RUB 5,580 million, respectively, as well as accounts receivable and payable on interest in the amount of RUB 2,295 million and RUB 12 million, respectively. According to the terms of the call option agreement, a number of actions of the Buyer in relation to the sold company were subject to prior consent of the Group. Starting from July 2022, the Group has no agreements granting the right to repurchase any shares of the Company.

SISTEMA PJSFC AND SUBSIDIARIES

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

6. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method, with the identifiable assets acquired and the liabilities assumed recognised at their fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the acquisition occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which could be up to one year from the acquisition date, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as at the acquisition date.

Business combinations in 2022

The business combinations which took place in 2022 is summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Share after acquisition	Acquiring segment	Consideration
Etalon	Development	May	19%	48,8%	Corporate	24,035
Gulfstream	Security Services	April	58%	58%	MTS	1,999
VisionLabs	IT Developer	February	77%	100%	MTS	5,465
YIT	Development	May	100%	100%	Etalon Group	1,923
Bronevik	Hotel booking services	July	100%	100%	MTS	4,000
Webinar	Video conferencing communications	July	75.5%	75.5%	MTS	2,095
Fishing industry companies	Fishing and fish processing	July - December			Other	6,452
Other acquisitions	Other				Other	3,986
Total						<u>49,955</u>

SISTEMA PJSFC AND SUBSIDIARIES

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

Obtaining control over Etalon Group

In May 2022, the Group acquired 72.85 million GDRs of the Etalon Group for RUB 4.5 billion. As a result of this transaction, the effective share of the Group in the authorized capital of Etalon Group amounted to 48.8%. The Group concluded that it had gained control over the Etalon Group, taking into account the dispersion of the ownership interests of other shareholders.

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

	Etalon
Total consideration satisfied by:	
Cash consideration	4,491
Fair value of the previously held interest in the acquiree	<u>19,544</u>
	<u>24,035</u>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	5,323
Right-of-use assets	7,896
Deferred tax assets	8,047
Other non-current assets	6,160
Inventories	144,941
Contract assets	22,738
Accounts receivable	8,748
Advances paid and prepaid expenses	12,549
Other taxes receivable	7,598
Cash and cash equivalents	42,577
Other current assets	1,566
Loans and borrowings non-current	(74,292)
Lease liabilities	(7,896)
Deferred tax liabilities	(15,293)
Other financial liabilities	(18,767)
Other non-current liabilities	(545)
Loans and borrowings current	(11,972)
Accounts payable	(27,407)
Other taxes payable	(5,572)
Contract liabilities and other liabilities	(15,226)
Other current liabilities	<u>(464)</u>
Net assets	<u>90,709</u>
Non-controlling interests	<u>(46,443)</u>
Bargain purchase gain	<u>(20,231)</u>

The excess of the consideration transferred over the value of the identifiable assets acquired and liabilities assumed in the amount of RUB 20.2 billion was caused by the low level of market shares quotations, and was recognized in "Other income".

As at 21 December 2022, The Group, with the involvement of an independent appraiser, completed the assessment of the fair value of the acquired assets and liabilities. Non-controlling interest was measured at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

SISTEMA PJSFC AND SUBSIDIARIES

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

The following table summarizes the amounts of the other identifiable acquired assets and liabilities at the acquisition date, except for Etalon:

	Gulfstream	VisionLabs	YIT	Bronevik	Webinar	Fishing industry companies	Other acquisitions
Total consideration satisfied by:							
Cash consideration	1,999	3,828	1,923	4,000	2,095	1,380	910
Fair value of the previously held interest in the acquiree	-	-	-	-	-	-	-
Deferred payment	-	357	-	-	-	-	2,083
Fair value of financial assets	-	659	-	-	-	5,072	-
Fair value of contingent consideration	-	-	-	-	-	-	993
	1,999	5,465	1,923	4,000	2,095	6,452	3,986
Recognised amounts of identifiable assets acquired and liabilities assumed:							
Property, plant and equipment	279	81	371	8	12	1,641	8,567
Right-of-use assets	-	-	-	-	-	-	79
Customer base	2,114	2,333	-	-	-	-	-
Other intangible assets	332	736	192	38	452	7,555	952
Other non-current assets	289	31	1,619	41	84	6	19
Inventories	-	-	8,314	-	-	209	2,635
Cash and cash equivalents	24	326	2,456	197	58	234	280
Other current assets	2,609	319	10,480	1,266	57	352	2,934
Loans and borrowings	-	-	(3,951)	-	-	(483)	(5,962)
Put option to purchase NCI	(1,877)	-	-	-	(986)	-	-
Lease liabilities	-	-	-	-	-	-	(79)
Non-current liabilities	(605)	(774)	(578)	(32)	(4)	(313)	(44)
Current liabilities	(3,055)	(816)	(4,747)	(1,416)	(187)	(216)	(5,481)
Net assets	110	2,236	14,156	102	(514)	8,985	3,900
Non-controlling interests	-	-	(195)	-	-	(2,666)	11
Goodwill	1,889	3,229	-	3,898	2,609	133	289
Bargain purchase gain	-	-	(12,038)	-	-	-	(214)

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The excess of the consideration transferred over the value of the identifiable assets acquired and liabilities assumed was allocated to goodwill mainly arising from the following:

Gulfstream	Expected synergy effect
VisionLabs	Expected synergy effect
Bronevik	Expected synergy effect
Webinar	Expected synergy effect
Fishing industry companies	Expected synergy effect
Other	Expected synergy effect and development of new competencies

Acquisition of VisionLabs – In February 2022, the Group acquired a 77% ownership interest in VisionLabs B.V. (“VisionLabs”), leading provider of computer vision and machine learning solutions. The acquisition is aimed at reinforcement of the Group’s artificial intelligence product portfolio in the computer vision space, and enhancing the potential of the Group’s digital ecosystem. The purchase price for total consideration of RUB 5,464 million constitutes a cash payment of RUB 3,828 million, deferred consideration of RUB 659 million, the previously held interest of RUB 357 million and contingent consideration of RUB 621 million. Contingent consideration is based on certain performance criteria for the periods starting 2022 and ending 2024.

As at 31 December 2022, the Group, with the involvement of an independent appraiser, completed the assessment of the fair value of the acquired assets and liabilities.

Acquisition of Gulfstream – In April 2022, the Group acquired a 58.38% ownership interest in Gulfstream Security Systems JSC (“Gulfstream”), one of Russia’s leading providers of digital safeguard systems for residential households, and commercial real estate, for total consideration of RUB 1,999 million in cash. The acquisition is aimed at expanding the Group’s smart home services. The Group obtained call and put options to purchase the remaining 41.62% stake, exercisable starting 2025 based on the financial results of Gulfstream.

As at 31 December 2022, the Group has not completed the fair value measurement of the acquired assets and liabilities and the purchase price allocation. The Group recorded the estimated amounts of the acquired identifiable assets, determined, among other inputs, based on the carrying value at the date of acquisition.

Acquisition of YIT – In May 2022, the Group acquired controlling interests in certain legal entities representing the Russian business of YIT Corporation (“YIT Russia”) for the consideration of RUB 1,923 million in cash. YIT Russia focuses on mid-market residential real estate and operates several housing-service companies. The excess of the consideration transferred over the value of the identifiable assets acquired and liabilities assumed in the amount of RUB 12,038 million was recognised in “Other income”, which was due to the fact that the seller made the sale in an accelerated manner.

As at 31 December 2022, The Group, with the involvement of an independent appraiser, completed the assessment of the fair value of the acquired assets and liabilities.

Acquisition of Bronevik – In July 2022, the Group acquired a 100% ownership interest in LLC “Company Bronevik” and LLC “Bronevik Online” (together – “Bronevik”), one of the market leaders in online hotels booking. The acquisition was aimed at developing the Group’s tourism services. Total consideration of RUB 4,000 million was paid in cash.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

As at 31 December 2022, the Group has not completed the fair value measurement of the acquired assets and liabilities and the purchase price allocation. The Group recorded the estimated amounts of the acquired identifiable assets, determined, among other inputs, based on the carrying value at the date of acquisition.

Acquisition of Webinar – In July 2022, the Group acquired a 75.5% ownership interest in LLC “Webinar” and LLC “Webinar Technologies” (together – “Webinar”), developer and provider of videoconferencing solutions and video services for corporations, for total consideration of RUB 2,095 million in cash. The acquisition was aimed at complementing the Group’s ecosystem of B2B services and development of a single universal application for video calls and conferences further integrated with videoconferencing services. The Group has acquired call and put options to purchase the remaining 24.5% stake. In September 2022, options were partly exercised for RUB 328 million and the Group’s ownership interest in Webinar increased to 84.25%. The remaining put and call options are exercisable in 2024 and 2025 based on the financial results of Webinar.

As at 31 December 2022, the Group has not completed the fair value measurement of the acquired assets and liabilities and the purchase price allocation. The Group recorded the estimated amounts of the acquired identifiable assets, determined, among other inputs, based on the carrying value at the date of acquisition.

Acquisition of fishing industry companies – During 2022, the Group acquired:

- 100% stake in Loyd-Fish LLC for RUB 4,929 million. The purchase price includes deferred consideration in the amount of RUB 4,929 million, which was paid in cash in January 2023.
- 100% stake in Loyd-Auto LLC for RUB 143 million. The purchase price includes deferred consideration in the amount of 143 million rubles, which was paid in cash in January 2023.
- 75% stake in LLC “Crystal Fish” for RUB 1,125 million in cash.
- 10% stake in Hangar LLC for RUB 255 million in cash. At the same time, the Group entered into an Option agreement to purchase 80% stake in Hangar LLC, during 2022 the Group exercised it and acquired an additional 80% stake in Hangar LLC.

These companies specialize in the fishing and processing of red fish on the west coast of the Kamchatka Peninsula and are integrated into a Group-controlled fishing holding with its own fishing and processing of Pacific salmon.

As at 31 December 2022, the Group has not completed the assessment of the fair value of the acquired assets and liabilities and the purchase price allocation, the Group recorded the estimated amounts of the acquired identifiable assets, determined, among other inputs, based on the carrying value at the date of acquisition.

The consolidated statement of profit and loss for 2022 includes RUB 66,768 million revenue and RUB 7,845 million net profit of the acquired companies, starting from the dates of their acquisition.

If the acquisitions had been made at the beginning of the reporting period, the Group’s revenue and net profit would have amounted to RUB 942,464 million and RUB 45,258 million, respectively.

SISTEMA PJSFC AND SUBSIDIARIES

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

Business combinations in 2021

The business combinations which took place in 2021 are summarized below:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price
MTT	Telecommunications	June	100%	MTS	5,798
GreenBush	Telecommunications	June	100%	MTS	5,200
Other acquisitions of MTS	Telecommunications	April	100%	MTS	3,161
Binnopharm Group	Pharmaceuticals	June	n/a	Other	38,343
Inter Forest Rus	Timber procurement	December	100%	Segezha	38,748
Novoeniseysky wood-chemical complex	Timber procurement	September	100%	Segezha	3,708
Zarya	Fishing	July	49%	Other	3,000
Acquisitions of Medsi	Healthcare	December	100%	Medsi	2,118
Other acquisitions	Other	July-August		Other	3,574
Итого					103,650

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

	2021				
	Green Bush	Other acquisitions of MTS	Binnopharm Group	Novoeniseysky wood-chemical complex	Other acquisitions
Total consideration satisfied by:					
Cash consideration	5,200	1,512	-	3,708	3,574
Fair value of the previously held interest in the acquiree	-	1,582	38,343	-	-
Deferred payment	-	7	-	-	-
Fair value of financial assets	-	-	-	-	-
Fair value of contingent consideration arrangement	-	60	-	-	-
	5,200	3,161	38,343	3,708	3,574
Recognised amounts of identifiable assets acquired and liabilities assumed:					
Property, plant and equipment	5,171	623	13,296	4,058	1,655
Right-of-use assets	-	-	403	4,923	679
Other intangible assets	1	360	20,783	-	1,000
Other non-current assets	17	43	988	929	54
Inventories	-	-	8,360	1,250	1,587
Other current assets	93	1,590	10,082	746	2,376
Current liabilities	(26)	(736)	(14,326)	(1,315)	(5,515)
Lease liabilities	-	(118)	(389)	(1,837)	(592)
Non-current liabilities	(56)	-	(8,942)	(1,224)	(468)
Net assets	5,200	1,762	30,255	7,530	776
Non-controlling interest	-	-	(14,746)	-	13
Goodwill	-	1,399	22,834	-	2,853
Bargain purchase gain	-	-	-	(3,822)	(68)

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

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

	2021											
	MTT			Inter Forest Rus			Zarya			Acquisitions of Medsi		
	Preliminary valuation	Adjustments	Final valuation	Preliminary valuation	Adjustments	Final valuation	Preliminary valuation	Adjustments	Final valuation	Preliminary valuation	Adjustments	Final valuation
Total consideration satisfied by:												
Cash consideration	3,680	-	3,680	16,951	(26)	16,925	3,000	-	3,000	2,131	(13)	2,118
Fair value of the previously held interest in the acquiree	-	-	-	-	-	-	-	-	-	-	-	-
Deferred payment	160	-	160	21,797	26	21,823	-	-	-	-	-	-
Fair value of financial assets	1,958	-	1,958	-	-	-	-	-	-	-	-	-
Fair value of contingent consideration arrangement	-	-	-	-	-	-	-	-	-	-	-	-
	5,798	-	5,798	38,748	-	38,748	3,000	-	3,000	2,131	(13)	2,118
Recognised amounts of identifiable assets acquired and liabilities assumed:												
Property, plant and equipment	588	821	1,409	23,490	(7,525)	15,965	756	518	1,274	232	252	484
Right-of-use assets	114	-	114	28,731	14,956	43,687	-	-	-	956	-	956
Other intangible assets	1,947	(737)	1,210	557	(540)	17	5,985	(1,043)	4,942	8	1,091	1,099
Other non-current assets	140	-	140	771	(515)	256	-	-	-	-	-	-
Inventories	-	-	-	8,031	(1,663)	6,368	633	(189)	444	67	1	68
Other current assets	3,396	-	3,396	5,375	(143)	5,232	19	10	29	423	2	425
Current liabilities	(2,656)	-	(2,656)	(8,557)	1,364	(7,193)	(3,388)	3,042	(346)	(174)	5	(169)
Lease liabilities	-	-	-	(8,270)	(2,735)	(11,005)	-	-	-	(957)	(2)	(959)
Non-current liabilities	(715)	(23)	(738)	(11,380)	(3,199)	(14,579)	(367)	(328)	(695)	-	-	-
Net assets	2,814	61	2,875	38,748	-	38,748	3,638	2,010	5,648	555	1,349	1,904
Non-controlling interest	-	-	-	-	-	-	(638)	(2,303)	(2,941)	-	-	-
Goodwill	2,984	(61)	2,923	-	-	-	-	293	293	1,576	(1,362)	214
Bargain purchase gain	-	-	-	-	-	-	-	-	-	-	-	-

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The excess of the consideration transferred over the value of the identifiable assets acquired and liabilities assumed was allocated to goodwill mainly arising from the following:

MTT	Expected synergy effect
Other acquisitions of MTS	Expected synergy effect
Binnopharm	Skilled workforce, ability to develop new medicine
Others	Expected synergy effect and development of new competencies

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

As at 31 December 2021, the Group's consolidated financial statements reflected the allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed. In 2022 the Group finalized the valuation of assets of MTT and the fair value of the assets changed since the preliminary calculations made at the acquisition date.

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

Binnopharm Group

Incorporation of a pharmaceutical holding company – In February 2021, the incorporation of a pharmaceutical holding company, Binnopharm Group was completed. In order to set up a single pharmaceutical holding, Sistema and the Bank, have contributed a 56.2% stake in Sintez OJSC (including Biocom GSC) to the capital of Binnopharm Group. At the same time, Sistema, the Bank, and a consortium of investors comprising the Russian Direct Investment Fund (RDIF), the Russia-China Investment Fund (RCIF) established by the RDIF and China Investment Corporation, and leading Middle Eastern funds, contributed an 85.6% stake in Alium JSC (which includes Binnopharm JSC) to the capital of Binnopharm Group. As a result, the effective share of Sistema together with Bank in the holding company amounted to 79%, and the Consortium of Investors – 15.8%. The remaining 5.2% of the shares were distributed among the minority shareholders-individuals. The Group continued to account for investments in Ristango Holding Limited and Sinocom Investments Limited (holding companies through which investments in JSC "Alium" and OJSC "Sintez" were made) under equity method.

Acquisition of stake in OJSC Sintez (hereinafter – Sintez) – In March 2021, Sistema (through a subsidiary Sistema Telecom Assets LLC) purchased a stake of 32.39% of the authorized capital of Sintez from the Holding Company Nacimbio controlled by State Corporation Rostec. The transaction amounted to RUB 6.9 billion. In May 2021, Sistema contributed the stake in OJSC Sintez acquired from the Holding Company Nacimbio to the capital of Binnopharm Group, as a result of which the share of Binnopharm Group in OJSC Sintez amounted to 88.6%.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Increase of stake in Ristango Holding Limited – In April 2021, the Group purchased a stake of 3.95% of the authorized capital of Ristango Holding Limited from minority shareholders for RUB 1.2 billion.

Obtaining control over Binnopharm Group – On 25 June 2021, amended and restated Shareholder Agreement was signed between the members of Ristango Holding Limited, as a result of which the Group has obtained control over the operating activities of Ristango Holding Limited, the owner of 100% of the authorized capital of Binnopharm Group.

For the period from 1 January 2021 until the date of acquisition of control over Ristango Holding Limited by the Group, the amount of profit from the revaluation of financial instruments in relation to the partners' participation interests in Ristango Holding Limited amounted to RUB 5.5 billion. After control was obtained, these financial assets were derecognised and financial liabilities in the amount of the present value of the redemption amount were recognized as part of other financial liabilities, which resulted in an effect of RUB 8.2 billion, RUB 5.9 billion and RUB 13.9 billion on accumulated loss, additional capital and non-controlling interests, respectively.

As a result of the transaction, the umbrella brands "Alium" and "Sintez" were identified. These intangible assets are expected to have indefinite lives based on their history and the Group's plans to continue to support and build the acquired brands.

Sale of stake in Ristango Holding Limited to Nevsky Property Limited – On 28 June 2021, Sistema Telecom Assets LLC, a 100% subsidiary of Sistema, sold an 11.2% stake in Ristango Holding Limited to Nevsky Property Investments Limited for RUB 7 billion. The transaction was recognized directly in equity (Note 7).

Exercise of the contract to acquire the Bank's share in Ristango Holding Limited – In July 2021, the Group exercised its right under the forward agreement with the Bank and early purchased VTB's 20.97% share in Ristango Holding Limited for RUB 6.7 billion.

Exercise of the contract to acquire the Bank's share in Sinocom Investments Limited – In December 2021, Sistema Telecom Assets LLC, a 100% subsidiary of Sistema, exercised its right to acquire the Bank's shares of Sinocom Investments Limited, which owns shares of Ristango Holding Limited, for the amount of RUB 9.06 billion. As a result of the transaction, the effective share of the Corporation in Binnopharm Group increased to 75.3%.

As at 31 December 2021, the Group, with the involvement of an independent appraiser, completed the assessment of the fair value of the acquired assets and liabilities.

Acquisition of LLC Inter Forest Rus and its subsidiaries – On December 28, 2021, the Group acquired 100% control over LLC Inter Forest Rus and its 24 subsidiaries from a third party, including four sawmills, plywood and pellet manufacturers, as well as logging assets with an estimated cutting area of about 10.9 million cubic meters. All acquired assets are located in the Krasnoyarsk Region and the Irkutsk Region.

The purchase price includes a cash payment of USD 528 million (RUB 38,748 million at the transaction date exchange rate), of which USD 230 million (RUB 16,951 million at the transaction date exchange rate) was paid during 2021, RUB 18,390 million the Group paid in January-March 2022.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

As at 31 December 2021, deferred payments in the total amount of USD 50 million (RUB 3,715 million at the exchange rate as at 31 December 2021), included in long-term other financial liabilities from the acquisition of companies, are payable in equal amounts in 2 and 4 years from the date of signing of the sale and purchase agreement, but not discounted, since act as security against possible property losses of the Group related to the decisions of the previous owners (Note 27). The security covers, among other things, the risks of loss of property, additional taxes, penalties and fines, disposal of allowable forest cut.

On 29 December 2022, the Group got notice regarding partial discharge of deferred payment in the amount of USD 47.5 million (equivalent to RUB 3,386 million at the exchange rates effective on the agreement date) recognized as "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

In preparing the consolidated financial statements for 2022, the Group has completed the fair value measurement of acquired assets and liabilities with the involvement of an independent appraiser, as a result the comparative information as at 31 December 2021 was adjusted.

Consolidation of CJSC Novoyeniseysky wood-chemical complex – On 15 February 2021, the Group submitted an application to participate in an auction held by the bank of non-core assets "Trust" to sell assets related to CJSC Novoyeniseysky wood-chemical complex (NLHK). NLHK is one of the largest closed-cycle woodworking enterprises located in the Lesosibirsk, Krasnoyarsk Region, specializing on the lumber production, dispersed wood fraction, chipboard, pellets, as well as joinery for the construction of residential and industrial premises.

The auction lot included the bank's rights to claims on loans and other liabilities in the total amount of RUB 11.5 billion in different currencies, as well as the right to enter into an option for 71% of NLHK shares, the condition for the exercise of which was, among other things, the termination of arbitration proceedings in the bankruptcy proceedings against NLHK. The Group purchased the lot for a cash consideration of RUB 2,306 million paid in February 2021.

On 20 May 2021, the Group signed an agreement to acquire a minority interest of 29% of NLHK shares. The transaction was completed on 27 July 2021, the shares became the property of the Group's subsidiary, JSC Lesosibirsky LDK №1. The total remuneration amounted to USD 17 million (RUB 1.2 billion), of which RUB 620 million was paid on 8 June 2021, the remaining amount RUB 601 million was due after the transfer of ownership, and was paid on 19 August 2021.

On 15 September 2021, the Arbitration Court of the Krasnoyarsk Region decided to terminate the bankruptcy proceedings in relation to NLHK, and the option to acquire 71% of the shares became exercisable, and, accordingly, the Group obtained control over operating activities and consolidated 100% of the assets and liabilities of NLHK.

As a result of the acquisition of NLHK, the Group received gain from the acquisition in the amount of RUB 3,822 million, which was recognized as part of "Other income" in the consolidated statement of profit or loss and other comprehensive income. The gain is related to the bankruptcy proceedings against NLHK, initiated as a result of a corporate conflict between the previous owners of the company. As a result of this conflict, NLHK's potential in terms of both harvesting volumes and sawn timber production volumes was not fully utilized. In the 4th quarter 2021, having terminated the bankruptcy procedure, as well as having ensured a sufficient level of working capital, the Group, without additional capital investments, increased the volumes of logging and production of sawn timber, increasing the operating profitability of the company.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

In preparing the consolidated financial statements for 2022, the Group has completed the fair value measurement of acquired assets and liabilities with the involvement of an independent appraiser, as a result the comparative information as at 31 December 2021 was adjusted

Acquisitions of Medsi – In December 2021, the Group acquired the Dialine clinic chain in Volgograd (DIALINE Clinical Diagnostic Laboratory LLC and DIALINE Multidisciplinary Medical Center LLC), as well as the Promedicine clinic chain in Ufa (“MMC “Clinic of Allergology and Pediatrics” LLC, “KNTS” LLC, “MC” Preventive Medicine” LLC, “MMC” Preventive Medicine” LLC and “Preventive Medicine-Pharm” LLC).

Part of the consideration for the Promedicine chain in the amount of RUB 973 million was paid by transfer under a letter of credit. As at 31 December 2021, the Group recorded the letter of credit as restricted cash. The Group recorded other payables for the acquisition of the Promedicine chain and the Dialine chain in the amount of RUB 1,023 million and RUB 56 million, respectively.

At the beginning of 2022, the Group repaid the debt on the acquisition of the Dialine and Promedicine clinic chain. Payments in the reporting period were adjusted downward by RUB 13 million and amounted to RUB 94 million according to the terms of the contracts, due to the consideration clarification of the acquired assets.

In preparing the consolidated financial statements for 2022, the Group has completed the fair value measurement of acquired assets and liabilities with the involvement of an independent appraiser, as a result the comparative information as at 31 December 2021 was adjusted.

Acquisition of Zarya – In July 2021, the Group acquired a 49% stake in LLC Zarya for RUB 3 billion. The main activity of the company is fish production. The Group and other participants entered into a shareholder agreement, according to which the Group received control over operating activities. In December 2021, the Group acquired an additional 41% stake in the authorized capital for RUB 3.2 billion. As a result of the transaction, the share of the Group in this subsidiary increased to 90%.

In preparing the consolidated financial statements for 2022, the Group has completed the fair value measurement of acquired assets and liabilities with the involvement of an independent appraiser, as a result the comparative information as at 31 December 2021 was adjusted. Non-controlling interest was measured at the present ownership instruments’ proportionate share in the recognised amounts of the acquiree’s identifiable net assets.

The following table summarises the details of purchase of subsidiaries, net of cash acquired, reported in the consolidated statements of cash flows:

	2022	2021
Cash consideration	21,285	39,756
Net of cash acquired	(46,152)	(3,603)
Payments for acquisitions of past periods (Note 27)	18,643	-
Acquisitions of subsidiaries less cash acquired	(6,224)	36,153

SISTEMA PJSFC AND SUBSIDIARIES

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

7. CAPITAL TRANSACTIONS OF SUBSIDIARIES

The Group enters into transactions to acquire or dispose ownership interests in its existing subsidiaries that do not result in the Group losing control over the subsidiaries. Also, the entities of the Group enter into transactions with each other to transfer ownership interests in subsidiaries within the Group. Such transactions are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests ("NCI") are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity in additional paid-in capital ("APIC") and attributed to shareholders of the Company.

Transactions in 2022

The information on capital transactions of subsidiaries which took place in 2022 and their impacts on the Group's equity is summarised below:

	(Decrease)/ Increase of additional paid-in capital	Increase of non-controlling interests
The effect of changes in ownership percentage in subsidiaries	(1,706)	367
Other	7	179
Total impact	(1,699)	546

Transactions in 2021

The information on capital transactions of subsidiaries which took place in 2021 and their impacts on the Group's equity is summarised below:

	(Decrease)/ increase of additional paid-in capital	(Decrease)/ increase of non-controlling interests
Purchase of own shares by MTS	(3,239)	(10,541)
Initial Public Offering of Segezha Group	19,540	10,399
Sale of stake in Ristango Holding Limited to Nevsky Property Investments Limited (Note 6)	3,313	3,388
Sale of stake in Segezha Group	6,738	4,300
Other	(2,292)	3,364
Total impact	24,060	10,910

Purchase of own shares by MTS – In 2021, MTS acquired 65,308,610 ordinary shares, including acquisition of 22,796,040 ordinary shares from Sistema PJSFC and Sistema Finance S.A., the subsidiary of the Group, in the amount of RUB 7.5 billion.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Initial Public Offering of Segezha Group – On 28 April 2021, Segezha Group carried out an initial public offering of 3.75 billion ordinary shares on the Moscow Exchange. As a result, Segezha Group has raised RUB 30 billion. The amount of expenses directly related to the issue and placement of shares amounted to RUB 1 billion. Subsequently, Sistema has exercised the option for additional placement of secondary shares as part of the initial public offering and listing of ordinary shares of Segezha Group on the Moscow Exchange. The total amount of Sistema's proceeds from the exercise of the option for the additional placement is approximately RUB 0.8 billion.

Sale of a stake in Segezha Group – In December 2021, Sistema sold a 8.7% stake in ordinary shares of PJSC Segezha Group for USD 150 million (RUB 11 billion).

8. REVENUE

Revenue from contracts with customers specific to the reporting segments of the Group is recognised in the following way.

MTS – Revenue for access charges, voice and video calls, rendering of cloud services, messaging, interconnect fees and fixed and mobile broadband is recognised as services are rendered. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or passage of time (monthly subscription fees). Products and services may be sold separately or in bundle packages. The most significant part of revenue relates to prepaid contracts.

The Group capitalizes costs of obtaining contracts (such as sales commissions) and costs of fulfilling contracts and amortises over the period expected to benefit from the contract. The Group used the practical expedient allowed by of IFRS 15 whereby such costs may be expensed if the amortisation period is one year or less.

Revenue from sales of goods (mainly mobile handsets, other mobile devices, software licenses) is recognised when the significant risks and rewards of ownership have been transferred to the customer.

Revenue from providing financial services mainly relates to interest bearing assets of MTS Bank. Such revenue is recognised on an accrual basis using the effective interest method.

Medsi – Medsi recognises revenue from the provision of medical services when (or to the extent that) it fulfills the performance obligation by transferring the promised good or service to the buyer. An asset is transferred when (or as) the buyer gains control of the asset.

The Group provides medical services under contracts for payment upon the provision of services and from advance contracts.

Under contracts that provide for payment upon the provision of services, the Group fulfills the performance obligation at a certain point in time. Revenue is recognised at the time when the service is rendered in full.

Revenue from advance contracts (concluded in the usual practice for 1 year) that provide for the customer's right to receive a certain package of services during the term of the contract is recognised on a straight-line basis over the entire term of the contract.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

In most cases, fitness services are provided on the basis of an advance payment form and are also recognised on a straight-line basis over the entire term of the contract.

As medical examination reports on services rendered to insurance companies are received with some delay, the Group recognises revenue less the provision for services rendered unwarranted, which is estimated based on historical data.

Segezha Group – Segezha Group receives revenue from the sale of goods (paper and packaging, lumber, plywood and other goods) and from the provision of finished goods delivery services to the buyer after the transfer of control over the goods. Sales are recognised at the time when control of goods is transferred, i.e. when the goods are delivered to the buyer in accordance with the terms of delivery (Incoterms 2010), the buyer has complete freedom of action with respect to the goods and when there is no unfulfilled obligation that may affect the acceptance of the goods by the buyer. Delivery is deemed to have been made when the goods have been delivered to a certain place, the risks of damage and loss passed to the buyer, and the buyer accepted the goods in accordance with the contract, the validity of the acceptance provisions has expired or the Group has objective evidence that all acceptance terms have been met.

Etalon – Etalon recognises revenue when (or as) it transfers control over an asset to a customer. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Transfers of control may vary depending on the individual terms of the sales contracts.

The Group builds and sells residential real estate under long-term contracts with buyers (contracts under IFRS 15). Such contracts are concluded at the stage of construction of residential facilities. According to the terms of the contracts, the Group does not have the right to transfer real estate to another customer and to be paid for the work performed, and, consequently, revenue is recognized over a period of time. To recognize revenue over a period of time, the Group evaluates the degree of fulfillment of obligations using the resource method, determining the percentage of completion as the share of actual costs incurred in the total estimated costs of fulfilling obligations under contracts (the cost of a real estate object under construction).

Revenue from contracts under IFRS 15 is recognized after the commissioning of real estate objects, at the time of transfer of control to customers. Control over such agreements is usually transferred after the signing of the sale and purchase contract.

SISTEMA PJSFC AND SUBSIDIARIES

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

The following is analysis of the Group's revenue from continuing operations for 2022:

	Reportable segments						
	MTS	Segezha	Etalon	Medsi	Corporate	Other	Total
Type of goods/services							
Connectivity services	419,942	-	-	-	-	-	419,942
Sale of goods	43,731	-	-	-	-	-	43,731
Production	-	106,728	-	-	-	111,717	218,445
Development	-	-	51,966	-	-	-	51,966
Financial services	62,731	-	-	-	-	-	62,731
Medical services	-	-	-	35,958	-	-	35,958
Other services	10,104	-	414	-	3,297	34,987	48,802
Other	-	-	7,866	-	-	23,215	31,081
	536,508	106,728	60,246	35,958	3,297	169,919	912,656
Revenue from goods or services transferred to customers							
At a point in time	43,731	106,728	13,768	34,516	3,297	159,355	361,396
Over time	492,777	-	46,478	1,442	-	10,564	551,260
	536,508	106,728	60,246	35,958	3,297	169,919	912,656

The following is analysis of the Group's revenue from continuing operations for 2021:

	Reportable segments						
	MTS	Segezha	Etalon	Medsi	Corporate	Other	Total
Type of goods/services							
Connectivity services	401,707	-	-	-	-	-	401,707
Sale of goods	68,973	-	-	-	-	-	68,973
Production	-	92,438	-	-	-	71,443	163,881
Financial services	46,532	-	-	-	-	-	46,532
Medical services	-	-	-	30,040	-	-	30,040
Other services	6,487	-	-	-	3,427	29,484	39,398
Other	-	-	-	-	-	22,687	22,687
	523,699	92,438	-	30,040	3,427	123,614	773,218
Revenue from goods or services transferred to customers							
At a point in time	68,973	92,438	-	28,714	3,427	116,610	310,162
Over time	454,726	-	-	1,326	-	7,005	463,056
	523,699	92,438	-	30,040	3,427	123,615	773,218

SISTEMA PJSFC AND SUBSIDIARIES

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

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as at 31 December 2022 as follows:

	2023	2024-2028	2029-2033	Total
Mobile and fixed telecommunication services	24,375	1,097	27	25,499
Development	58,440	44,544	-	102,984
Other services	17,995	8,710	1,232	27,937
Loyalty programmes	455	-	-	455
Total	101,265	54,351	1,259	156,875

Contract assets and liabilities

Contract balances include trade receivables related to the recognised revenue, contract assets and contract liabilities.

Trade receivables represent an unconditional right to receive consideration (primarily in cash).

Contract assets represent accrued revenues that have not yet been billed to customers due to certain contractual terms other than the payments terms.

Contract assets of MTS represent accrued revenue in a bundled offering which combines the sale of a mobile device and the provision of mobile services for a fixed-period. The mobile device is invoiced at a reduced price leading to the reallocation of a portion of amounts invoiced for mobile communication services to the supply of the mobile phone. The excess of the amount allocated to the mobile phone over the price invoiced is recognised as a contract asset and thus transferred to trade receivables as the service is rendered.

Contract assets of MTS also relate to the MTS's rights to consideration for work completed but not yet billed for integration services projects.

Contract liabilities represent amounts paid by customers to the Group before receiving the goods or services promised in the contract. Contract liabilities consisted of advances received from customers and also amounts invoiced and paid for goods or services that are yet to be transferred.

Etalon's contract assets are a rights to consideration for work completed but not billed at the reporting date on sale of residential premises and commercial premises under share participation agreements and for long-term construction contracts. Contract assets are transferred to accounts receivable when the rights become unconditional.

Payment terms for contracts on the sale of flats and built-in commercial premises under share participation agreements usually include advance payments, payments in installments until the date of completion of construction and payment in arrears of 2 to 5 years after the date of completion of construction for specific projects.

Contract liabilities include advance consideration received from customers.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Due to the nature of its activities, the Etalon receives significant advances from customers (designated as contract liabilities), and makes significant prepayments to sub-contractors and other suppliers. Advances paid are recognised on an undiscounted basis.

The Group adjusts contract liabilities for the significant financing component if the timing of payments agreed to by the parties provides the Group with a significant benefit of financing. When adjusting the promised amount of consideration (monetary or non-monetary) for a significant financing component, the Group applies discount rates that would be reflected in a separate financing transaction between the entity and its customer at contract inception that is typically the average mortgage rate for contract assets and the Group's incremental borrowing rate for contract liabilities.

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers as at 31 December 2022 and 2021:

	31 December 2022	31 December 2021
Trade accounts receivable	30,012	33,939
Contract assets	30,149	8,272
Total assets	60,161	42,211
Less: current portion	(59,232)	(40,070)
Total non-current assets	929	2,141
Contract liabilities	(39,944)	(32,953)
Thereof:		
Mobile telecommunication services	(25,499)	(22,064)
Development	(11,627)	-
Other services	(2,363)	(10,438)
Loyalty programmes	(455)	(451)
Total liabilities	(39,944)	(32,953)
Less: current portion	37,709	31,125
Total non-current liabilities	(2,235)	(1,828)

SISTEMA PJSFC AND SUBSIDIARIES

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

Changes in the contract assets and the contract liabilities balances during the 2022 and 2021 are as follows:

	2022		2021	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Balance as of 1 January	8,272	(32,953)	6,306	(32,395)
Revenue recognized that was included in the contract liability balance at the beginning of the period	4,678	34,933	-	26,424
Cash received, excluding amount recognized as revenue during the period	-	(47,214)	136	(27,355)
Transfer to assets held for sale	(22,719)	-	-	-
Increase as a result of changes in the measure of progress (Note 6)	19,154	-	(1,941)	373
Increase in revenue for which no payment was received	-	-	3,771	-
Financing components under IFRS 15	352	(75)	-	-
Discontinued operations	(8,859)	22,594	-	-
Business combinations (Note 6)	29,271	(17,229)	-	-
Balance as of 31 December	30,149	(39,944)	8,272	(32,953)

Cost to obtain and fulfill a contract

The Group capitalizes certain incremental costs incurred in acquiring or fulfilling a contract with a customer if the management expects these costs to be recoverable and includes them in other intangible assets and other non-current assets, accordingly.

Costs of acquiring a contract include commissions paid to a third-party distributor as well as the associated remuneration of the Group's commercial employees for obtaining a contract with a customer. These costs are amortised on a straight-line basis over the average subscriber life.

Costs to fulfil a contract mainly relate to costs of equipment transferred to the subscribers required for the provision of services. These costs are amortised on a straight-line basis for the shorter of equipment useful life or average subscriber life.

The Group uses a practical expedient from IFRS 15, which allows to expensing of contract costs as incurred when the expected contract duration is one year or less.

As at 31 December 2022 and 31 December 2021, the balances of cost to obtain and fulfil contracts capitalized by the Group and represented in consolidated statement of financial position in "Other assets" (non-current) amounted to:

	31 December 2022	31 December 2021
Cost to obtain contracts	8,393	7,779
Cost to fulfil contracts	2,377	3,155

SISTEMA PJSFC AND SUBSIDIARIES

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

As at 31 December 2022 and 2021 the accumulated amortisation expense related to cost to obtain and fulfill contracts amounted to RUB 9,766 million and RUB 9,015 million, respectively. Amortisation expense related to cost to obtain and fulfill contracts recognised for the year ended 31 December 2022 amounted to RUB 4,457 million (2021: RUB 4,076 million). There was no impairment loss relating to the costs capitalized.

9. IMPAIRMENT OF LONG-LIVED ASSETS

Impairment of long-lived assets recognised in the consolidated statement of profit or loss for 2022, includes impairment of property, plant and equipment, investment property, goodwill and other intangible assets.

	2022	2021
Reversal of impairment of property, plan and equipment	(664)	(313)
Impairment of intangible assets	1,703	40
Impairment/(reversal of impairment) of other non-current assets	318	(469)
Impairment of goodwill (Note 15)	489	139
Total impairment of long-lived assets	<u>1,846</u>	<u>(603)</u>

Impairment of property, plant and equipment – In 2021 the Group analyzed the possible impairment indicators of property, plant and equipment and construction-in-progress. The Group identified impairment amounted to RUB 130 million relating to Buildings and facilities, Machinery and equipment and other property, plant and equipment of Segezha Sawmills LLC because of production closure. The Group has also accrued impairment amounted to RUB 777 million relating to the detailed design documentation and other capitalized costs because of revised and updated technical parameters of the projects. The Group reversed the provision for property, plant and equipment in the “Other” segment in the amount of RUB 1,430 million due to improved financial performance. In 2022, previously impaired individual construction-in-progress items were written off with the disposal of accumulated impairment.

10. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets for 2022 and 2021 comprise the following:

	2022	2021
Allowance for expected credit losses of accounts receivable	3,147	1,824
Impairment of loans carried at amortised cost (Note 27)	704	1,958
Impairment of other financial assets	330	221
Total impairment of financial assets	<u>4,181</u>	<u>4,003</u>

SISTEMA PJSFC AND SUBSIDIARIES

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

11. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the countries where the Group and its subsidiaries operate, which may differ from IFRS.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets are not recognised when management believes that it is more than 50% probable that deferred tax assets or some portion of them will not be realized. At the same time, the Group takes into account all available evidence, including projected future taxable profit, tax planning strategies and recent financial transactions.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

The Group's income tax expense for 2022 and 2021 comprise the following:

	2022	2021
Current income tax expense	(28,832)	(31,589)
Deferred income tax benefit/(expense)	1,255	(9,741)
Total income tax expense recognised in the current year relating to continuing operations	(27,577)	(41,330)

Income tax expense calculated by applying the Russian statutory income tax rate to income from continuing operations before income tax differs from income tax expense recognised in the consolidated statements of profit or loss as a consequence of the following adjustments:

	2022	2021
Profit before tax	68,098	106,321
Income tax expense calculated at 20%	(13,620)	(21,264)
<i>Adjustments due to:</i>		
Earnings distribution from subsidiaries and associates	(6,132)	(6,221)
(Increase) of unrecognised deferred tax assets	(1,493)	(11,077)
Non-deductible expenses	(7,542)	(3,843)
Different tax rates of subsidiaries	472	600
Non-taxable income	1,142	3,213
Other	(404)	(2,738)
Income tax expense	(27,577)	(41,330)

SISTEMA PJSFC AND SUBSIDIARIES

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

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statements of financial position for 2022 and 2021:

2022	Opening balance	Recognised in profit or loss	Recognised in capital	Acquisitions /disposals	Closing balance
Deferred tax (liabilities)/ assets in relation to:					
Accrued expenses and accounts payable	9,830	5,438	(8)	(10,397)	4,863
Property, plant and equipment	(39,124)	1,911	61	(58)	(37,210)
Intangible assets	(11,611)	4,147	-	(1,019)	(8,483)
Cost capitalization	(1,830)	(86)	-	-	(1,916)
Deferred connection fees	1,606	276	-	-	1,882
Inventory obsolescence	735	(2,248)	3	3,292	1,782
Allowance for expected credit losses	3,525	1,156	5	1	4,687
Undistributed earnings of subsidiaries and joint ventures and associates	(4,356)	(1,240)	98	-	(5,498)
Right-of-use assets	5,028	192	2	(9)	5,213
Tax losses carried forward	21,648	(1,633)	8	1,504	21,527
Debt modification	(78)	98	-	-	20
Effect of derivatives reclassification	2,045	-	(1,100)	-	945
Other	1,132	(6,756)	370	3,323	(1,931)
Total	(11,450)	1,255	(561)	(3,363)	(14,119)

2021	Opening balance	Recognised in profit or loss	Recognised in capital	Acquisitions /disposals	Closing balance
Deferred tax assets/ (liabilities) in relation to:					
Accrued expenses and accounts payable	6,516	643	-	2,671	9,830
Property, plant and equipment	(27,351)	(1,743)	32	(10,062)	(39,124)
Intangible assets	(8,358)	1,244	-	(4,497)	(11,611)
Cost capitalization	(1,668)	(162)	-	-	(1,830)
Deferred connection fees	1,430	176	-	-	1,606
Inventory obsolescence	436	(128)	-	427	735
Allowance for expected credit losses	2,676	761	3	85	3,525
Undistributed earnings of subsidiaries and joint ventures and associates	(4,436)	166	(86)	-	(4,356)
Right-of-use assets	4,242	789	-	(3)	5,028
Tax losses carried forward	32,465	(11,904)	168	919	21,648
Debt modification	(123)	52	-	(7)	(78)
Effect of derivatives reclassification	-	-	2,045	-	2,045
Other	805	365	166	(204)	1,132
Итого	6,634	(9,741)	2,328	(10,671)	(11,450)

SISTEMA PJSFC AND SUBSIDIARIES

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

As at 31 December 2022 and 2021 the Group reported the following deferred income tax assets and liabilities in the consolidated statements of financial position:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Deferred tax assets	43,231	30,956
Deferred tax liabilities	(57,350)	(42,406)
Net deferred tax liabilities	(14,119)	(11,450)

As at 31 December 2022 and 2021, the tax losses carried forward, for which deferred tax assets were recognised, amounted to RUB 107,635 million and RUB 108,238 million, respectively.

The Group accrued uncertain income tax positions as a component of income tax payable of RUB 109 million and RUB 160 million as at 31 December 2022 and 2021, respectively.

Russian Federal law №401-FZ dated 30 November 2016 allowed for the indefinite carry forward of tax losses, whereas this was previously restricted to 10 years. Also, the law specified that the tax base for the years 2017-2024 may not be reduced by tax losses carried forward in an amount exceeding 50% of the base.

The following table summarizes temporary differences, for which deferred tax assets were not recognised in the consolidated statements of financial position as at 31 December 2022 and 2021:

Jurisdiction	Carry-forward period	Carry-forward	
		2022	2021
India	2022-2028	59,749	81,463
Russia	Unlimited	268,629	305,335
Total		328,378	386,798

12. EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses consist of salaries, bonuses and social security contributions. Employee benefits expenses included in cost of sales, selling, general and administrative expenses and result from discontinued operations for 2022 and 2021 comprised RUB 183,688 million and RUB 159,886 million, respectively.

SISTEMA PJSFC AND SUBSIDIARIES

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

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost. Cost includes major expenditures for improvements and replacements, which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance, including preventive maintenance, are charged to the consolidated statement of profit or loss as incurred.

The cost of major overhauls and replacements, which extend useful lives of the assets or increase their revenue generating capacity, are capitalised to the cost of the assets.

After recognition as an asset, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation for property, plant and equipment is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	7 – 150 years
Leasehold improvements	the term of the lease
Base stations	3 – 44 years
Other network equipment	3 – 20 years
Power and utilities	up to 60 years
Forestry equipment	3-20 years
Other	up to 15 years

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Group considers a construction period of more than six months to be substantial. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property, plant and equipment, net of accumulated depreciation and impairment, as at 31 December 2022 and 2021 consisted of the following:

	31 December 2022	31 December 2021
Carrying amount		
Switches, transmission devices, network and base station equipment	229,525	229,958
Buildings and leasehold improvements	108,982	93,938
Power and utilities	32,761	30,854
Forestry equipment	60,110	54,171
Land	26,037	24,153
Other	90,890	81,124
Total	548,305	514,198

SISTEMA PJSFC AND SUBSIDIARIES

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

Cost	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve- ments	Power and utilities	Forestry equipment	Land	Other	Total
Balance as of							
1 January 2021	590,550	113,655	52,326	44,801	22,982	117,050	941,364
Additions	59,927	6,963	4,392	18,544	490	27,047	117,363
Disposals	(44,394)	(872)	(741)	(1,043)	(5)	(6,441)	(53,496)
Business combinations	1,068	18,099	-	13,894	477	9,488	43,026
Reclassified to assets held for sale	(992)	(1)	-	-	-	(51)	(1,044)
Currency translation adjustment	1,306	(155)	-	(243)	(32)	74	950
Reclassified from right-of-use assets	-	-	-	-	56	1,034	1,090
Sale of companies	-	-	-	-	-	(326)	(326)
Other	(341)	673	-	(1,646)	185	3,543	2,414
Balance as of							
31 December 2021	607,124	138,362	55,977	74,307	24,153	151,418	1,051,341
Additions	41,687	18,203	4,620	8,813	1,565	28,055	102,943
Disposals	(22,082)	(1,947)	(189)	(1,417)	(70)	(7,425)	(33,130)
Business combinations	289	4,523	-	6,453	457	4,560	16,282
Reclassified to assets held for sale	(584)	(4,457)	-	-	-	(1,029)	(6,070)
Currency translation adjustment	937	(835)	-	(382)	(20)	(374)	(674)
Reclassified from right-of-use assets	-	-	-	-	51	355	406
Sale of companies	-	(1,823)	-	-	(102)	(13,234)	(15,159)
Other	(1,065)	270	-	(5)	3	5,948	5,151
Balance as of							
31 December 2022	626,306	152,296	60,408	87,769	26,037	168,274	1,121,090

SISTEMA PJSFC AND SUBSIDIARIES

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

	Switches, transmission devices, network and base station equipment	Buildings and leasehold improve- ments	Power and utilities	Forestry equipment	Land	Other	Total
Accumulated depreciation and impairment							
Balance as of 1 January 2021	(371,512)	(39,472)	(22,433)	(15,865)	-	(64,771)	(514,053)
Disposals	38,225	572	125	731	-	5,519	45,172
Disposals from sales of subsidiaries	-	-	-	-	-	255	255
Reclassified from assets held for sale	1,247	1	-	-	-	15	1,263
Depreciation expense	(44,387)	(6,367)	(2,815)	(4,232)	-	(11,284)	(69,085)
Currency translation adjustment	(1,016)	154	-	-	-	(29)	(891)
Reclassified from right-of-use assets	-	-	-	-	-	(358)	(358)
(Impairment)/recovery of impairment	-	831	-	(835)	-	317	313
Other	277	(143)	-	65	-	42	241
Balance as of 31 December 2021	(377,166)	(44,424)	(25,123)	(20,136)	-	(70,294)	(537,143)
Disposals	21,957	1,364	71	542	-	6,699	30,633
Disposals from sales of subsidiaries	-	702	-	-	-	5,058	5,760
Reclassified to assets held for sale	899	2,845	-	-	-	1,446	5,190
Depreciation expense	(43,211)	(4,401)	(2,595)	(8,783)	-	(17,286)	(76,276)
Currency translation adjustment	240	614	-	121	-	767	1,742
Reclassified from right-of-use assets	-	-	-	-	-	(326)	(326)
(Impairment)/recovery of impairment	-	29	-	596	-	39	664
Other	500	(43)	-	1	-	(3,487)	(3,029)
Balance as of 31 December 2022	(396,781)	(43,314)	(27,647)	(27,659)	-	(77,384)	(572,785)

Advances issued for the acquisition of non-current assets are included in Other assets within non-current assets and amount to RUB 12,718 million and RUB 25,247 million as at 31 December 2022 and 2021, respectively. The decrease is mainly related to the reduction in the advances for the construction of new medical clinics at the reporting date.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

14. INVESTMENT PROPERTY

Investment property primarily includes cottages, office and commercial space and business centers owned by the companies of the Group operating in real estate sector, mainly Business Nedvizhimost.

Investment property is stated at cost less accumulated depreciation and impairment losses.

Depreciation for investment property is recognised using the straight-line method based on the average estimated useful lives of the assets of 25 years. Accumulated depreciation as at 31 December 2022 and 2021 amounted to RUB 6,652 million and RUB 5,735 million, respectively.

	2022	2021
Balance at the beginning of the year	13,160	12,649
Reclassified from / (to) property, plant and equipment	207	735
Additions	1,500	914
Disposals	(735)	(1,547)
Depreciation expense	(917)	(465)
As part of disposed companies	(4,357)	-
As part of business combinations	968	-
Reclassified from/(to) inventories	3,339	874
Balance at the end of the year	13,165	13,160

In revenue included investment property rental income for 2022 of RUB 3,916 million (2021: 2,570 million). Operating expenses arising from the investment property that generated rental income during 2022 totalled RUB 2,318 million (2021: 1,515 million).

In estimating the fair value of the investment property, the Group classified the properties within Level 3 of the fair value hierarchy. As at 31 December 2022 the Group determined the fair values of the investment property at RUB 50,328 million (2021: RUB 48,367 million).

The fair values as at 31 December 2022 and 2021 were determined based either on discounted cash flows or by reference to market values of similar properties in the relevant region. The main inputs to the fair value measurement are the post-tax discount rate, revenue growth rates, OIBDA margin and adjustments to market values of similar properties. OIBDA is defined as operating profit, adjusted on depreciation and amortisation.

SISTEMA PJSFC AND SUBSIDIARIES

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

15. GOODWILL

Goodwill arising on an acquisition of a business is carried at cost recognised at the acquisition date less accumulated impairment losses, if any.

The carrying amounts of goodwill attributable to operating segments are as follows:

	MTS	Medsi	Steppe	Segezha Group	Binno-Pharm Group	Other	Total
Balance as of							
1 January 2021							
Gross amount of goodwill	55,611	700	9,352	710	-	13,460	79,833
Accumulated impairment loss	(8,851)	(168)	-	(241)	-	(13,369)	(22,629)
	46,760	532	9,352	469	-	91	57,204
Business combinations	4,383	214	2,694	-	22,834	383	30,508
Impairment	-	(35)	-	-	-	(104)	(139)
Currency translation adjustment	395	-	-	-	-	82	477
Balance as of							
31 December 2021							
Gross amount of goodwill	60,389	914	12,046	710	22,834	13,925	110,818
Accumulated impairment loss	(8,851)	(203)	-	(241)	-	(13,473)	(22,768)
	51,538	711	12,046	469	22,834	452	88,050
Business combinations	11,589	15	-	-	-	443	12,047
Impairment	(489)	-	-	-	-	-	(489)
Currency translation adjustment	709	-	-	-	-	-	709
Other	(61)	-	(34)	-	-	(159)	(254)
Balance as of							
31 December 2022							
Gross amount of goodwill	72,626	929	12,012	710	22,834	14,209	123,320
Accumulated impairment loss	(9,340)	(203)	-	(241)	-	(13,473)	(23,257)
	63,286	726	12,012	469	22,834	736	100,063

The Group performs impairment test for the goodwill assigned to cash-generating units (CGUs) at least annually and when there are any indications that the carrying amount of the CGU is impaired. When the carrying amount of the CGU to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this CGU is impaired.

SISTEMA PJSFC AND SUBSIDIARIES

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

MTS – For the purposes of impairment testing, goodwill attributable to the MTS segment is allocated to enlarged CGUs as follow:

	Telecom	Other	Unallocated goodwill	Total
Balance as of 1 January 2021				
Gross amount of goodwill	30,924	13,904	10,783	55,611
Accumulated impairment loss	(1,466)	(5,321)	(2,064)	(8,851)
	29,458	8,583	8,719	46,760
Acquisitions	4,337	46	-	4,383
Reclassification	253	(253)	-	-
Currency translation adjustment	-	395	-	395
Balance as of 31 December 2021				
Gross amount of goodwill	35,514	14,092	10,783	60,389
Accumulated impairment loss	(1,466)	(5,321)	(2,064)	(8,851)
	34,048	8,771	8,719	51,538
Acquisitions	2,609	8,980	-	11,589
Measurement period adjustment (Note 6)	(61)	-	-	(61)
Impairment	-	(489)	-	(489)
Currency translation adjustment	-	709	-	709
Balance as of 31 December 2022				
Gross amount of goodwill	38,062	23,781	10,783	72,626
Accumulated impairment loss	(1,466)	(5,810)	(2,064)	(9,340)
	36,596	17,971	8,719	63,286

The enlarged CGU (which represents a group of CGUs) “Telecom” includes the following business units:

The “Russia convergent” – represents mobile and fixed line operations, which encompasses services rendered to customers across regions of Russia. Russia convergent also includes sales of equipment and accessories. Goodwill allocated to these CGUs has arisen on acquisitions made by MTS.

The “Moscow fixed line” – represents the results of fixed line operations carried out in Moscow by MGTS, a subsidiary of MTS, and divided into two CGU – “MGTS commercial” and “MGTS service”.

The enlarged CGU “Other” includes CGU “Armenia”, CGU “Cloud Retail” and CGU “Entertainment”.

Unallocated goodwill represents goodwill recognized as a result of the purchase of MTS shares by the Group. It is not subject to allocation to CGUs as it is reviewed by management at the MTS segment level. Unallocated goodwill is tested for impairment based on the market capitalization of MTS.

The recoverable amounts of the CGUs are determined based on their value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

Future cash flows calculations are based on a five-year operation plan. Estimation of future cash flows requires assumptions to be made in respect of uncertain factors, including management’s expectations of OIBDA margins, timing and amount of future capital expenditure, terminal growth rates and appropriate discount rates to reflect the risks associated.

SISTEMA PJSFC AND SUBSIDIARIES

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

As a result of the impairment test performed on 31 December 2022, CGU "Other" was impaired in amount of RUB 489 million. In 2021 according to impairment test results, no impairment was recognized.

The key assumptions used in the value in use calculations

The table below represents OIBDA margin applied for value in use calculation of related CGUs:

CGU	December 31,	
	2022	2021
Russia Convergent	37.5%-37.9%	41.3%-46.9%
Armenia	50.6%-54.2%	53.5%-60.3%
MGTS Commercial	50.6%-54.2%	59.9%-63.0%
MGTS Service	31.4%-33.9%	42.5%-51.8%
Entertainment	2.1%-11.9%	4.8%-12%
Cloud	39.8%-59.1%	37.7%-67.3%

The table below presents capital expenditure as a percentage of revenue applied for value-in-use calculations of related CGUs:

CGU	December 31,	
	2022	2021
Russia Convergent	22%	18%
Armenia	22%	22%
MGTS Commercial	19%	16%
MGTS Service	15%	16%
Entertainment	10%	3%
Cloud	61%	17%

The terminal growth rate into perpetuity has been determined based on the nominal gross domestic product rates for the country of operation, adjusted for specific characteristic of the CGUs.

The table below presents terminal growth rates applied for value-in-use calculations of related CGUs:

CGU	December 31,	
	2022	2021
Russia Convergent	1%	1%
Armenia	nil	nil
MGTS Commercial	1%	1%
MGTS Service	1%	1%
Entertainment	1.5%	1.5%
Cloud	1%	1%

SISTEMA PJSFC AND SUBSIDIARIES

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

The table below presents pre-tax rates for the discounting of cash flows in functional currencies of related CGUs:

CGU	December 31,	
	2022	2021
Russia Convergent	16.9%	10.1%
Armenia	12.3%	11.2%
MGTS Commercial	17.3%	12.7%
MGTS Service	16.5%	9.9%
Entertainment	20.4%	13.1%
Cloud	18.8%	13.6%

Management believes that no reasonably possible change in the current period any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount.

Agroholding "Steppe" – The recoverable amounts of the CGUs were determined based on their value in use. Cash flow models were prepared in Russian rubles. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The growth rate does not exceed the long-term average growth rate for the business sector of the economy in which CGU operates.

Key assumptions used for value-in-use calculations are determined based on market analysis, which is performed regularly. The table below presents key assumptions used for value in-use calculations:

	2022	2021
Terminal cash flows growth rate	4.2%	3,8%
Discount rate	14.0%	14.0%
Range of average annual market price growth rate	3,97-6,98%	3,8-8,5%

Management believes that no reasonably possible change in the current period in any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount.

Binnopharm Group – The recoverable amounts of the CGUs were determined based on their value in use. The calculation of future cash flows is estimated on the basis of an eight-year business plan in 2022 and on the basis of a five-year business plan in 2021. The management considers the planning horizon with a period of 8 years to be sufficiently reliable for making judgments, assessments and managerial decisions in view of the specifics of the work of generic companies in the pharmaceutical market: the duration of preparation for the launch of products into the market, the possibility of launching generic products only after the expiration of patent protection of original products, the lifecycle of products and the presence of stable forecasted demand for medicines. Additionally, the Group calculated future cash flows based on a standard five-year business plan and concluded that, due to growth rates in long-term periods not exceeding the projected inflation rate, the effect on the recoverable amount is insignificant. The key assumptions used to calculate the CGUs are presented below:

	2022	2021
Average annual revenue growth rate	12.2%	17.2%
Average annual growth rate of expenses	8.6%	14.1%
Discount rate	15.3%	15.3%
Terminal cash flows growth rate	3.0%	3.0%

SISTEMA PJSFC AND SUBSIDIARIES

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

Management believes that no reasonably possible change in the current period in any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount.

16. OTHER INTANGIBLE ASSETS

Other intangible assets are mainly represented by billing and telecommunication software and other software, operating licenses, acquired customer bases of MTS, patents, trademarks and registration certificates of Binnopharm Group.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses. Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets that are acquired separately.

All finite-life intangible assets are amortised using the straight-line method utilising estimated useful lives of the assets as follows:

Operating licenses	1-20 years
Billing and telecommunication software	1-20 years
Radio frequencies	1-15 years
Customer base	4-31 years
Cost to obtain contracts	2-5 years
Software and other	1-10 years

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Trademarks with indefinite contractual life are not amortised, but are reviewed, at least annually, for impairment.

Other intangible assets other than goodwill as at 31 December 2022 and 2021 consisted of the following:

	<u>31 December 2022</u>	<u>31 December 2021</u>
<i>Carrying amounts of:</i>		
<i>Amortised intangible assets:</i>		
Billing and telecommunication software	70,875	70,627
Operating licenses	8,973	9,317
Radio frequencies	609	905
Acquired customer base	6,544	2,853
Software and other	40,227	22,656
Cost to obtain contracts	8,394	7,778
Patents and amortisable trademarks	10,838	12,314
	<u>146,460</u>	<u>126,450</u>
<i>Unamortised intangible assets:</i>		
Trademarks	12,800	12,734
Total	<u>159,260</u>	<u>139,184</u>

SISTEMA PJSFC AND SUBSIDIARIES

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

MTS operating licenses – In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group has been granted access to various telecommunication licenses through acquisitions of subsidiaries.

Operating licenses contain conditions specified by legislation which generally include the required date of services provision, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

The Group's operating licenses do not provide for automatic renewal. All licenses covering the territories of the Russian Federation expired as at December 31, 2022 were renewed. The cost to renew the licenses was not significant. Weighted-average period until the next renewal of licenses in the Russian Federation is five years.

The license for the provision of telecommunication services in Armenia is valid until 2034.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

	Billing and telecom software	Operating licenses	Customer bases	Radio frequencies	Software and other ⁽¹⁾	Non-amortisable trademarks	Cost to obtain contracts	Patents and amortisable trademarks	Total
Cost									
Balance as of 1 January 2021	136,665	31,722	11,149	5,604	24,563	6,543	14,149	-	230,395
Additions	34,421	1,365	2,963	-	8,077	-	3,653	43	50,522
Disposals	(14,783)	(44)	(680)	(233)	(2,111)	-	(3,287)	-	(21,138)
Business combinations	571	35	591	-	9,809	6,191	-	12,884	30,081
Currency translation adjustment	381	992	(34)	-	(35)	-	-	-	1,304
Other	(114)	-	-	1	(17)	-	-	-	(130)
Balance as of 31 December 2021	157,141	34,070	13,989	5,372	40,286	12,734	14,515	12,927	291,034
Additions	31,935	1,369	-	-	15,938	-	3,946	1	53,189
Disposals	(11,810)	(69)	(619)	(174)	(2,500)	(50)	(3,250)	-	(18,472)
Business combinations	713	(21)	4,447	-	9,170	116	263	-	14,688
Disposal of subsidiaries	-	-	-	-	(895)	-	-	-	(895)
Currency translation adjustment	298	1,778	(582)	-	(534)	-	-	-	960
Other	(37)	33	-	(34)	56	-	-	(73)	(55)
Balance as of 31 December 2022	178,240	37,160	17,235	5,164	61,521	12,800	15,474	12,855	340,449
Accumulated depreciation and impairment									
Balance as of 1 January 2021	(71,486)	(21,931)	(10,789)	(4,362)	(15,478)	-	(6,600)	-	(130,646)
Disposals	14,716	7	679	244	2,076	-	3,287	-	21,009
Amortisation expense	(29,737)	(1,857)	(1,026)	(349)	(4,270)	-	(3,424)	(613)	(41,276)
Impairment	-	(1)	-	-	(39)	-	-	-	(40)
Currency translation adjustment	(211)	(971)	-	-	55	-	-	-	(1,127)
Other	204	-	-	-	26	-	-	-	230
Balance as of 31 December 2021	(86,514)	(24,753)	(11,136)	(4,467)	(17,630)	-	(6,737)	(613)	(151,850)
Disposals	11,792	40	622	193	1,826	-	3,253	-	17,726
Amortisation expense	(31,702)	(1,701)	(220)	(312)	(5,516)	-	(3,596)	(1,224)	(44,271)
Impairment	(1,150)	-	-	-	(373)	-	-	(180)	(1,703)
Disposal of subsidiaries	-	-	-	-	(4)	-	-	-	(4)
Currency translation adjustment	191	(1,742)	43	-	97	-	-	-	(1,411)
Other	18	(31)	-	31	306	-	-	-	324
Balance as of 31 December 2022	(107,365)	(28,187)	(10,691)	(4,555)	(21,294)	-	(7,080)	(2,017)	(181,189)

⁽¹⁾ The line "Software and other" includes, among other things, MTS's content, as well as contracts for the use of fishing sites and agreements on securing and providing a share of the quota of extraction (catch) of aquatic biological resources in the acquired assets of the fishing industry.

SISTEMA PJSFC AND SUBSIDIARIES

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

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Additional investments in associates and joint ventures are added to the carrying amount of the equity-method investee without specific allocation to the underlying assets and liabilities of the investee. The additional ownership interest effectively increases the notional goodwill relating to the equity-method investee. After a transaction, the share of investee's profit or loss recognised by the Group is based on the new ownership interest.

Investments in associates and joint ventures as at 31 December 2022 and 2021 consisted of the following:

	2022		2021	
	Participating share	Carrying value	Participating share	Carrying value
Associates				
MTS Belarus	49.00%	5,798	49.00%	6,265
Etalon (Note 6)	48.80%	-	29.79%	18,312
Ozon	32.96%	-	33.04%	-
		5,798		24,577
Joint ventures				
Megapolis-Invest	75.86%	9,045	75.86%	10,375
Michurinskiy project	50.00%	5,894	50.00%	5,646
New Investment Holding	50.00%	367	50.00%	557
Segezha Zapad	60.00% + 2 shares	-	100.00%	410
		15,306		16,988
Other associates and joint ventures		22,356		21,925
Total		43,460		63,490

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Participating share in profit or loss of associates and joint ventures is determined based on the percentage of the equity interest owned by the Group or on allocations of profits and losses between investors if designated by shareholders agreements.

Ozon is one of the largest players in the Russian e-commerce market, representing goods in various categories: electronics, household appliances, home goods and others. It has its own logistics network, operating marketplace technology, a developed web platform. Ozon Holdings PLC is registered in the Republic of Cyprus.

The Group's share in the loss of Ozon recognized for the year ended 31 December 2022 amounted to RUB 0 million (31 December 2021: RUB 12,584 million). The unrecognized loss represents the Group's share in the additional losses after the carrying amount of the Group's investment in Ozon amounted to nil. The Group did not incur legal or constructive obligations or make payments on behalf of Ozon. The amount of unrecognized loss for 12 months 2022 amounted to RUB 19,178 million (12 months 2021: RUB 6,409 million).

Megapolis-Invest – In 2020, the Group and Sberbank Investments signed the shareholders agreement and agreements granting Sistema the right to acquire in 2022-2023 and Sberbank Investments the right to sell to the Group its stake in the equity capital of Megapolis-Invest in 2023 (hereinafter – Option agreements). The right of claim under loan agreement given by Sberbank Investments to Megapolis-Invest shall be acquired by the Group in any of the events of execution under Option agreements. The fair value of the financial instruments arising from Option agreements is determined on the basis of the Black-Scholes model using the discounted cash flow method when calculating the cost of a stake in Megapolis-Invest. The fair value of the financial instruments as at 31 December 2022 is approximately nil.

The Group does not have the exclusive right to manage the relevant activities of Megapolis-Invest and therefore the investment is accounted for under equity method.

In February 2021, Megapolis-Invest LLC signed an agreement to acquire an additional 29.64% stake in Elektrozavod JSC from the third party for RUB 5.8 billion. As a result, upon the completion of the deal, the Megapolis-Invest LLC total ownership interest in Elektrozavod JSC increased to 94.01% of the company's authorized capital. As a result of transaction, the Group did not obtain control over Elektrozavod JSC.

"MTS Belarus" is a telecommunications operator in the Republic of Belarus.

Project Michurinsky carries out construction and sale of apartments, as well as construction of a medical center. The company is registered in the Russian Federation.

New Investment Holding – In September 2021, New Investment Holding JSC, acquired the Niarmedic International Limited, which owns 100% of the authorized capital of Nearmedic Plus LLC, Nearmedic Pharma LLC and a number of other companies conducting business in Russia and Italy in the fields of pharmaceuticals and medicine for one ruble. The net debt of the Nearmedic Group as at the closing date of the Transaction amounted to RUB 5.9 billion.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Sistema and Sberbank Group (hereinafter – Sberbank) provided equity financing in equal shares for the total amount RUB 1.2 billion to repay part of the Nearmedic Group’s debt to Sberbank. The Group and Sberbank Investments have entered into a shareholders agreement and option agreements with a maturity of 3.5 years from the closing date of the Deal, granting Sistema the right to acquire and Sberbank Investments the right to sell to the Group Sberbank Investments’ stake in the capital of New Investment Holding JSC with the simultaneous transfer to the Corporation the rights to claim Sberbank on a loan granted to the Nearmedic Group in the amount of up to RUB 2.8 billion. The fair value of financial instruments arising from entering into Option Agreements as at 31 December 2022 is close to zero.

As at 31 December 2022, The Group, with the involvement of an independent appraiser, completed the assessment of the fair value of the acquired assets and liabilities

Group Segezha West – As at 31 December 2022, the Group assessed the factors of control over the companies of the Group Segezha West. Management considered the existence of substantive rights and the practical possibility of exercising them, in particular, the existence of any barriers to the exercise of rights, the need for the consent of several parties and the existence of economic benefits in the exercise of rights, the price of their exercise, as well as the likelihood of exercising options on withdrawal of financial partners from the project. Based on the results of the assessment, management concluded that the Group has the practical ability to exercise its rights and, therefore, the Group exercises control over the Group Segezha West.

Other – During 2022, the Group entered into the following investments in associates and joint ventures:

- Due to obtaining control over the Etalon Group, the Group recognized investments in the joint venture LLC Strana-Etalon LLC acquired in 2022. LLC Strana-Etalon LLC is involved in real estate development projects in Tyumen. As at 31 December 2022, the carrying amount of investment in joint venture is RUB 1,727 million.
- In September 2022, the Group acquired a 50.85% ownership interest in Navitel for a cash contribution of RUB 690 million. Navitel is a leading digital navigation solution provider for automotive industries around the world. The Group holds more than 50% of the equity interests in Navitel, it has significant influence over the investee based on its ownership of equity shares, representation on the investee’s Board of Directors.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The financial position and results of operations of associates as at and for the years ended 31 December 2022 and 2021 were as follows:

	MTS Belarus		Ozon		Etalon Group ⁽¹⁾		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Non-current assets	14,743	19,030	129,918	74,752	n/a	16,648	144,661	110,430
Current assets	11,940	15,386	154,903	166,586	n/a	205,450	166,843	387,422
Total assets	26,683	34,416	284,821	241,338	n/a	222,098	311,504	497,852
Non-current liabilities	(4,497)	(9,062)	(106,594)	(86,794)	n/a	(105,910)	(111,091)	(201,766)
Current liabilities	(10,354)	(12,568)	(194,874)	(123,936)	n/a	(54,831)	(205,228)	(191,335)
Total liabilities	(14,851)	(21,630)	(301,468)	(210,730)	n/a	(160,741)	(316,319)	(393,101)
Equity attributable to owners								
of the Company	11,832	12,786	(16,647)	30,608	n/a	61,357	(4,815)	104,751
The Group's share in the profit and loss	49.00%	49.00%	32.96%	33.04%	48.80%	29.79%	n/a	n/a
Fair value adjustment on the date of acquisition	-	-	(14,171)	(14,189)	-	28	(14,171)	(14,161)
Accumulated impairment	-	-	-	-	-	-	-	-
Capital transactions	-	-	(5,952)	(2,333)	-	-	(5,952)	(2,333)
Unrecognised loss	-	-	25,587	6,409	-	-	25,587	6,409
Carrying amount of the Group's interest	5,798	6,265	-	-	-	18,312	5,798	24,577
Total revenues	37,444	39,383	277,115	178,215	20,060	87,138	334,619	304,736
Total profit/(loss) for the year	9,863	10,379	(58,187)	(56,779)	720	3,006	(47,604)	(43,394)
The Group's share in profit/(loss)	4,833	5,086	-	(12,584)	214	843	5,047	(6,655)
Total comprehensive income/(loss)	8,322	10,562	(58,246)	(56,782)	720	3,006	(49,204)	(43,214)
The Group's share in comprehensive income/(loss) for the year	4,078	5,175	-	(12,584)	214	843	4,292	(6,566)
Dividends paid	(4,545)	(4,034)	-	-	-	(1,076)	(4,545)	(5,110)

⁽¹⁾The company's financial result for January-April 2022. The Group's share before obtaining control was 29.79% (Note 6).

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The financial position and results of operations of joint ventures as at and for the years ended 31 December 2022 and 2021 were as follows:

	Megapolis-Invest		Michurinskiy project		New Investment Holding		Segezha Zapad		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Non-current assets	26,838	29,773	566	929	5,761	5,745	n/a	3,217	33,165	39,664
Current assets	10,211	8,256	12,884	18,842	963	1,420	n/a	900	24,057	29,418
Total assets	37,049	38,029	13,450	19,771	6,724	7,165	n/a	4,117	57,223	69,082
Non-current liabilities	(3,269)	(24,047)	-	-	(4,859)	(4,736)	n/a	(2,947)	(8,128)	(31,730)
Current liabilities	(27,677)	(6,127)	(186)	(7,003)	(793)	(1,315)	n/a	(760)	(28,657)	(15,205)
Total liabilities	(30,947)	(30,174)	(186)	(7,003)	(5,652)	(6,051)	n/a	(3,707)	(36,785)	(46,935)
Non-controlling interest	(358)	(358)	-	-	-	-	n/a	-	(358)	(358)
Equity attributable to owners of the Company	5,745	7,497	13,264	12,768	1,072	1,114	n/a	410	20,080	21,789
The Group's share in the profit and loss	75.86%	75.86%	50.00%	50.00%	50.00%	50.00%	60.00% + 2 shares	100.00%	n/a	n/a
Fair value adjustment on the date of acquisition	4,687	4,687	(738)	(738)	-	-	-	-	3,949	3,949
Accumulated impairment	-	-	-	-	-	-	-	-	-	-
Carrying amount of the Group's interest	9,045	10,375	5,894	5,646	367	557	-	410	15,306	16,988
Total revenues	8,866	6,806	2,030	9,731	2,117	1,092	-	-	13,013	17,629
Total profit/(loss) for the year	(4,004)	(2,548)	496	2,848	(380)	(87)	-	-	(3,888)	213
The Group's share in profit/(loss)	(2,807)	(1,957)	192	1,392	(190)	(43)	-	-	(2,805)	(608)
Total comprehensive (loss)/income	(4,004)	(2,548)	496	2,848	(380)	(87)	-	-	(3,888)	213
The Group's share in comprehensive income/(loss) for the year	(2,807)	(1,957)	192	1,392	(190)	(43)	-	-	(2,805)	(608)
Dividends paid	-	-	-	-	-	-	-	-	-	-

SISTEMA PJSFC AND SUBSIDIARIES

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

The financial position and results of operations of other associates and joint ventures as at and for the years ended 31 December 2022 and 2021 relating to the Group's share were as follows:

	Other	
	2022	2021
Non-current assets	18,837	49,594
Current assets	31,242	21,737
Total assets	50,079	71,331
Non-current liabilities	(12,607)	(26,331)
Current liabilities	(20,000)	(19,166)
Total liabilities	(32,607)	(45,497)
Non-controlling interest	(2,259)	(977)
Net assets	15,213	24,858
Carrying amount of the Group's interest	22,356	21,925
The Group's share in revenues	15,930	24,495
The Group's share in profit	938	661
The Group's share in comprehensive income for the year	913	678
Dividends paid	(476)	(1,104)

18. OTHER FINANCIAL ASSETS

The Group's financial assets, other than cash and cash equivalents, deposits in banks and accounts receivable shown separately on the face of the consolidated statements of financial position, primarily comprise assets of MTS Bank, the Group's subsidiaries engaged in banking activities, and investments of the Corporate segment.

The Group applies expected credit losses model for impairment analysis of financial assets classified at amortised cost. The Group applies the simplified approach for its trade and other receivables which requires recognition of expected credit losses at a lifetime from initial recognition of trade receivables.

Financial assets are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset, except for a financial asset accounted for at fair value through profit or loss, in which case transaction costs are expensed. Subsequently such financial assets are measured either at amortised cost or fair value depending on the classification of those assets.

Financial assets are classified into the following categories depending on their nature and purpose: Financial assets measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVTOCI), financial assets measured at amortised costs.

If the financial assets are held for collecting contractual cash flows in the form of principal and interest on the specified dates, they are classified as carried at amortised cost.

SISTEMA PJSFC AND SUBSIDIARIES

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

If the financial assets are held not only for collecting contractual cash flows in the form of principal and interest on the specified dates, but also for selling the financial asset, they are classified as measured at fair value through other comprehensive income.

All other financial assets are classified as measured at fair value through profit or loss.

As at 31 December 2022 and 2021 financial assets, other than those shown separately on the face of the statements of financial position, less allowance for impairment losses, comprise:

	31 December 2022	31 December 2021
Financial assets measured at fair value through profit or loss		
Debt and equity securities	80,584	79,282
Contingent consideration	473	1,867
Option contracts	112	112
Derivatives embedded in lease agreements	82	434
Cross-currency derivatives not designated as cash flow hedges	23	110
Currency rate swaps and forwards not designated as hedge instruments	2,207	4,640
	83,481	86,445
Financial assets measured at fair value through other comprehensive income		
Debt and equity securities	20,132	12,804
	20,132	12,804
Financial assets measured at amortized cost		
Debt securities	3,220	22,996
Bank loans to customers	224,700	217,525
Interbank loans due from banks	3,288	4,010
Other loans	40,874	25,671
	272,082	270,202
Total financial assets	375,695	369,451
Current	171,817	154,465
Non-current	203,878	214,986
Total financial assets	375,695	369,451

The following table summarizes changes in loss allowance for financial assets other than for financial assets attributable to the Group's banking activities and accounts receivable for 2022 and 2021:

	2022	2021
Balance as of 1 January calculated under IFRS 9	4,583	4,688
Charge for the period	513	(54)
Amounts written off against the allowance	(1,042)	(619)
Currency translation adjustments	(9)	568
Balance as of 31 December calculated under IFRS 9	4,045	4,583

SISTEMA PJSFC AND SUBSIDIARIES

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

As at 31 December 2022 and 2021, financial assets attributable to the Group's banking activities comprise:

	31 December 2022	31 December 2021
Financial assets measured at fair value		
through profit or loss		
Debt and equity securities	915	23,278
	<u>915</u>	<u>23,278</u>
Financial assets measured at fair value through		
other comprehensive income		
Debt and equity securities	20,132	11,782
	<u>20,132</u>	<u>11,782</u>
Financial assets measured at amortized cost		
Cash and cash equivalents	58,221	30,371
Bank loans to customers	261,354	239,698
Interbank loans due from banks	3,432	4,010
Debt securities	2,805	22,999
	<u>325,812</u>	<u>297,078</u>
Less: allowance for loan losses	(36,654)	(22,173)
	<u>(36,654)</u>	<u>(22,173)</u>
	<u>310,205</u>	<u>309,965</u>

The movement in the allowance for loan losses, attributable to the Group's banking activities, during 2022 and 2021 was as follows:

	2022	2021
Allowance for loan losses, 1 January	<u>22,173</u>	<u>17,511</u>
Charge for the period	23,199	11,032
Amounts written-off against the allowance	(3,776)	(3,361)
Disposal	(3,301)	(4,334)
Reversal of allowance written-off	513	1,557
Transition to discontinued operations	(990)	-
Currency translation adjustment	(1,164)	(232)
Allowance for loan losses, 31 December	<u>36,654</u>	<u>22,173</u>

In accordance with IFRS 9, the Group records an allowance for expected credit losses (ECL) for all financial assets not held at fair value through profit or loss in "cost of sales" line. ECLs are based on the difference between the contractual cash flows due under the contract and cash flows that the Group expects to receive. The shortfall is discounted at an approximation to the asset's original effective interest rate. The allowance expense for expected credit losses relating to banking activities is recorded in the "Cost of sales" line.

The expected credit-loss approach uses three stages for allocating impairment losses:

- Stage 1: expected credit losses within the next twelve months.

Stage 1 includes all contracts with no significant increase in credit risk since initial recognition and usually contains new contracts that are fewer than 31 days past due date. The portion of the lifetime expected credit losses resulting from default events possible within the next 12 months is recognised.

SISTEMA PJSFC AND SUBSIDIARIES

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

- Stage 2: expected lifetime credit losses- not credit impaired.

If a financial asset has a significant increase in credit risk since initial recognition but is not yet credit impaired, it is moved to Stage 2 and measured at lifetime expected credit loss. This is defined as the expected credit loss that results from all possible default events over the expected life of the financial instrument.

- Stage 3: expected lifetime credit losses – credit impaired.

If a financial asset is defined as credit impaired or in default, it is transferred to Stage 3 and measured at lifetime expected credit loss. The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

Movements in impairment loss allowance attributable to loans to individuals for the year ended 31 December 2022 and 2021 were as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2022	6,093	3,361	8,522	17,976
- Transfer to Stage 1	1,844	(1,690)	(154)	-
- Transfer to Stage 2	(2,600)	3,086	(486)	-
- Transfer to Stage 3	(115)	(10,263)	10,378	-
New financial assets originated or purchased	4,644	-	-	4,644
Change due to change of credit risk	(3,813)	12,497	9,163	17,847
Write-offs	-	-	(3,720)	(3,720)
Sale	-	-	(3,220)	(3,220)
Recovery of previously written-off assets	-	-	287	287
Balance as of 31 December 2022	6,053	6,991	20,770	33,814

	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2021	3,099	1,446	8,147	12,692
- Transfer to Stage 1	1,809	(1,633)	(176)	-
- Transfer to Stage 2	(939)	1,220	(281)	-
- Transfer to Stage 3	(278)	(4,691)	4,969	-
New financial assets originated or purchased	3,821	-	-	3,821
Change due to change of credit risk	(1,419)	7,019	2,887	8,487
Write-offs	-	-	(3,282)	(3,282)
Sale	-	-	(4,324)	(4,324)
Recovery of previously written-off assets	-	-	582	582
Balance as of 31 December 2021	6,093	3,361	8,522	17,976

SISTEMA PJSFC AND SUBSIDIARIES

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

Movements in impairment loss allowance on loans to legal entities for the year ended 31 December 2022 and 2021 were as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2022	1,003	55	3,140	4,198
- Transfer to Stage 1	29	(28)	(1)	-
- Transfer to Stage 2	(135)	136	(1)	-
- Transfer to Stage 3	-	(89)	89	-
New financial assets originated or purchased	194	-	-	194
Change due to change of credit risk	(57)	46	(184)	(195)
Sales of financial assets	-	-	(6)	(6)
Write-offs	-	-	(15)	(15)
Recovery of previously written-off assets	-	-	235	235
Discontinued operations	(185)	(30)	(815)	(1,030)
Foreign exchange difference	(635)	-	94	(541)
Balance as of 31 December 2022	214	90	2,536	2,840

	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2021	1,028	221	3,570	4,819
- Transfer to Stage 1	119	(119)	-	-
- Transfer to Stage 2	(46)	49	(3)	-
- Transfer to Stage 3	(105)	(26)	131	-
New financial assets originated or purchased	355	-	-	355
Change due to change of credit risk	(168)	(67)	(1,433)	(1,668)
Sales of financial assets	-	-	-	-
Write-offs	-	-	(49)	(49)
Recovery of previously written-off assets	-	-	975	975
Foreign exchange difference	(180)	(3)	(51)	(234)
Balance as of 31 December 2021	1,003	55	3,140	4,198

The following valuation categories represent the Group's classification of credit quality of the loans:

- *Low to fair risk* – loans of high credit quality and low probability of default, not past due or immaterially overdue;
- *Monitoring* – loans with increased probability of default including restructured loans;
- *Impaired* – impaired loans including more than 90 days overdue.

SISTEMA PJSFC AND SUBSIDIARIES

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

The table below summarizes information regarding the quality of loans to individuals as at 31 December 2022 and 2021:

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Low to fair risk	197,198	16,268	-	213,466
Monitoring	-	8,105	5,034	13,139
Impaired	-	-	23,509	23,509
Loss allowance	(6,053)	(6,991)	(20,770)	(33,814)
Total	191,145	17,382	7,773	216,300

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Low to fair risk	174,667	756	-	175,423
Monitoring	-	7,125	831	7,956
Impaired	-	-	10,072	10,072
Loss allowance	(6,093)	(3,361)	(8,521)	(17,975)
Total	168,574	4,520	2,382	175,476

The table below summarizes information regarding the quality of loans to legal entities as at 31 December 2022 and 2021:

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Low to fair risk	3,582	4,236	-	7,818
Monitoring	179	191	-	370
Doubtful	-	-	2	2
Impaired	-	-	3,050	3,050
Loss allowance	(214)	(90)	(2,536)	(2,840)
Total	3,547	4,337	516	8,400

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Low to fair risk	34,643	721	-	35,364
Monitoring	5,700	1,321	-	7,021
Doubtful	-	-	767	767
Impaired	-	-	3,095	3,095
Loss allowance	(894)	(194)	(3,110)	(4,198)
Total	39,449	1,848	752	42,049

SISTEMA PJSFC AND SUBSIDIARIES

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

Analysis by credit quality of loans to individuals outstanding as at 31 December 2022 is as follows:

As of 31 December 2022	Gross loans	Impairment loss allowance		Net loans	Impairment loss allowance to gross loans
		Impairment loss allowance	Net loans		
Collectively assessed					
Not past due	213,465	(9,922)	203,543		5%
Overdue:					
up to 30 days	6,203	(1,718)	4,485		28%
31 to 60 days	3,588	(1,904)	1,684		53%
61 to 90 days	3,037	(1,930)	1,107		64%
91 to 180 days	6,578	(4,779)	1,799		73%
over 180 days	16,775	(13,513)	3,262		81%
Total collectively assessed	249,646	(33,766)	215,880		14%
Individually impaired					
Not past due	308	(18)	290		6%
Overdue:					
up to 30 days	-	-	-		0%
31 to 60 days	3	-	3		0%
61 to 90 days	-	-	-		0%
91 to 180 days	18	-	18		0%
over 180 days	139	(30)	109		22%
Total individually impaired	468	(48)	420		10%
Total	250,114	(33,814)	216,300		14%

Analysis by credit quality of loans to small and medium-sized enterprises outstanding as at 31 December 2022 is as follows:

As of 31 December 2022	Gross loans	Impairment loss allowance		Net loans	Impairment loss allowance to gross loans
		Impairment loss allowance	Net loans		
Collectively assessed					
Not past due	760	(10)	750		1%
Overdue:					
up to 30 days	20	(4)	16		20%
31 to 60 days	17	(16)	1		94%
61 to 90 days	7	(6)	1		86%
91 to 180 days	29	(25)	4		86%
over 180 days	621	(446)	175		72%
Total	1,454	(507)	947		35%

SISTEMA PJSFC AND SUBSIDIARIES

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

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Group:

	31 December 2022	31 December 2021
Loans collateralized by cash deposits	-	556
Loans collateralized by guarantees of legal entities	9,085	36,746
Loans collateralized by pledge of real estate	26,012	19,115
Loans collateralized by pledge of equipment	-	1
Loans collateralized by securities	131	1,946
Loans collateralized by pledge of inventories	-	924
Unsecured loans	226,126	180,410
Allowance for impairment losses	<u>(36,654)</u>	<u>(22,173)</u>
Total loans to customers, net	<u>224,700</u>	<u>217,525</u>

19. RESTRICTED CASH

As at 31 December 2022 several companies of the Group has RUB 1,089 million (2021: RUB 4,909 million) of cash on special accounts which are presented as restricted cash within current assets.

20. INVENTORIES

Inventory mainly include the retail network of MTS and raw materials and product of Segezha Group and Steppe, and the costs of construction projects of Etalon.

Inventory cost is determined using the weighted average cost method. Further, inventory is accounted at the lower of net realisable value and carrying amount. The Group periodically assesses its inventories for obsolete or slow-moving stock.

The cost of raw materials includes the cost of purchase, customs duties, transportation and handling costs. Work-in-progress and finished goods are stated at production cost which includes direct production expenses and manufacturing overheads.

Inventories as at 31 December 2022 and 2021 consisted of the following:

	2022	2021
Raw materials and spare parts	33,486	25,342
MTS finished goods and goods for resale	14,199	18,806
Other finished goods and goods for resale	28,159	15,619
Inventories under construction and development	152,733	-
Other work-in-progress	<u>14,766</u>	<u>16,242</u>
Total	<u>243,343</u>	<u>76,009</u>

As at 31 December 2022 Group's inventories under construction and development include among others inventories related to construction projects that will be completed after more than 12 months for the Etalon.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The cost of inventories recognised as an expense during the year in respect of continuing operations was RUB 154,042 million (2021: RUB 154,894 million). The cost of inventories recognised as an expense includes RUB 8,169 million (2021: RUB 2,585 million) in respect of write-downs of inventory to net realisable value and has been reduced by RUB 4,529 million (2021: RUB 261 million) in respect of the reversal of such write-downs.

21. ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the customers to the Group.

The carrying value of all trade receivables is reduced by appropriate allowances for ECL. For trade receivables the Group applies a simplified approach and calculates ECL based on lifetime expected credit losses.

Accounts receivable, net of allowances, as at 31 December 2022 and 2021 consisted of the following:

	2022	2021
Accounts receivable	104,288	76,661
Allowance for ECL	<u>(7,984)</u>	<u>(7,366)</u>
Total	<u>96,304</u>	<u>69,295</u>

Below is the age analysis of receivables that are past due but not impaired:

	2022	2021
60-90 days	1,974	1,634
more than 90 days	<u>6,571</u>	<u>3,404</u>
Total	<u>8,545</u>	<u>5,038</u>

Movement in the allowance is as follows:

	2022	2021
Balance at the beginning of the year	(7,366)	(7,089)
Charge for the period	(4,228)	(3,061)
Usage of allowance to doubtful accounts write-off	2,899	1,808
Allowance recovery	627	850
Currency exchange gain	84	126
Balance at the end of the year	<u>(7,984)</u>	<u>(7,366)</u>

SISTEMA PJSFC AND SUBSIDIARIES

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

22. EQUITY

Share capital – As at 31 December 2022 and 2021, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9 420 050 947 and 9,393,161,501 shares were outstanding, respectively.

Treasury shares – Movement of treasury shares during 2022 and 2021 years in quantity was as follows:

	2022	2021
Balance at the beginning of the year	256,838,499	143,815,709
Purchase of own shares	13,683,100	192,072,542
Sale of own shares	-	(20,997,160)
Settlements under long-term motivation program	(40,572,546)	(58,052,592)
Balance at the end of the year	229,949,053	256,838,499

Dividends – Dividends declared to the holders of the Company's ordinary shares are included in the financial statements in the period in which the dividends are approved for distribution by the shareholders.

On 12 August 2022, an annual general meeting of shareholders decided not to pay dividends based on the results of 2021.

23. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income balance, net of taxes, as at 31 December 2022 and 2021:

	2022	2021
Cumulative effect of translation to the presentation currency	22,609	21,264
including effect on assets classified as held for sale	5,961	-
Unrecognized actuarial income	518	518
Total accumulated other comprehensive income	23,127	21,782
Less: attributable to non-controlling interests	(5,728)	(4,997)
Total accumulated other comprehensive income, attributable to Shareholders of Sistema PJSFC	17,399	16,785

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

24. LOANS AND BORROWINGS

The Group's borrowings primarily comprise bank loans and corporate bonds. The Group enters into variable-to-fixed interest rate swap agreements to manage exposure to changes in variable interest rates related to a portion of its obligations, as well as into cross-currency interest-rate swap agreements to mitigate the impact of both, interest rate and exchange rate fluctuations, for a certain portion of its USD- and Euro-denominated borrowings.

Borrowings are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

Finance costs in profit or loss consist of interest expense for financial liabilities not classified as at FVTPL. In 2022, finance costs did not include borrowing costs that were included in the cost of qualifying assets in amount of RUB 1,194 million (2021: RUB 853 million).

At 31 December 2022 and 2021, the Group's borrowings comprised:

	31 December 2022	31 December 2021
Bank loans	572,667	425,479
Corporate bonds	473,864	414,911
Other	14,534	10,427
Total	1,061,065	850,817
Current	298,846	209,306
Non-current	762,219	641,511

At December 31, 2022, the Group's bank loans include, among other thing, the project financing of Etalon in the amount of RUB 54,762 million.

As at 31 December 2022 the bank balances kept in escrow accounts of Etalon amounted to RUB 60,362 million. Bank balances kept in escrow accounts are not included in the balance of cash and cash equivalents in the Group's consolidated statement of financial position. They represent funds received by authorized banks from escrow-account holders – participants of share participation agreements for construction of real estate as a means of payment of consideration under such agreements. The funds will be transferred to the Group's bank accounts upon completion of construction of respective real estate.

SISTEMA PJSFC AND SUBSIDIARIES

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

Bank loans – As at 31 December 2022 and 2021, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (as at 31 December 2022)	31 December 2022	31 December 2021
EUR-denominated:				
Alfa Bank	2027	0.24%	293	16,548
Sberbank	2022	-	-	6,682
ING Bank	2023-2027	EURIBOR+1.5% (4.13%)	2,738	3,609
Other			302	1,221
			3,333	28,060
RUB-denominated:				
Sberbank	2023-2029	0.01%-22.85% CB+1.01%-3% (8.51% - 10.5%)	273,773	181,311
VTB	2023-2027	7.08%-23%; CB+0.5%-2.75% (8% - 10.25%)	162,630	143,480
Alfa Bank	2023-2030	0.01%-13.9%; CB+2.14%-3.85% (9.64% - 11.35%)	55,621	29,652
Gazprombank	2023-2027	7.3%-9.6%; CB+1.7%-2.45% (9.2% - 9.95%)	33,299	22,011
Moscow Credit Bank	2025	10.25%-10.63%	14,842	-
Otkrytie	2024-2026	9.45% CB+2.9%-3.15% (10.4% - 10.65%)	6,578	2,412
Bank DOM.RF	2026-2027	0.01%; CB+4% (11.5%)	4,674	-
Uralsib	2025	10%-12%	2,500	-
AiCiBiCi	2023	8.50%	2,125	3,600
Other			12,604	14,589
			568,646	397,055
Other currencies			688	364
Total bank loans			572,667	425,479

SISTEMA PJSFC AND SUBSIDIARIES

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

Corporate notes – As at 31 December 2022 and 2021, the Group's notes consisted of the following:

Currency	Interest rate (as of 31 December 2022)	31 December	31 December
		2022	2021
MTS International 2023	USD	5.00%	23,187
MTS Notes 2025	RUB	8.00%	14,993
MTS Notes 2022	RUB	7.70%	-
MTS Notes 2023	RUB	6.85%	14,992
MTS Notes 2027	RUB	6.60%	14,980
Sistema PJSFC March 2027	RUB	17.00%	3,917
Sistema PJSFC May 2030	RUB	6.60%	14,717
MTS Notes 2026	RUB	7.90%	9,998
MTS Notes 2022	RUB	9.00%	-
Sistema PJSFC July 2030	RUB	6.35%	9,197
Sistema PJSFC January 2028	RUB	6.90%	9,937
MTS Notes 2022	RUB	6.45%	-
MTS Notes 2025	RUB	7.25%	9,885
MTS Notes 2024	RUB	8.70%	9,834
Sistema PJSFC February 2029	RUB	11.30%	1,024
Sistema PJSFC August 2030	RUB	6.70%	9,854
Sistema PJSFC November 2026	RUB	6.85%	9,619
Sistema PJSFC October 2029	RUB	7.85%	9,684
Sistema PJSFC March 2029	RUB	9.90%	1,856
Sistema PJSFC July 2029	RUB	9.40%	9,849
Sistema PJSFC October 2026	RUB	6.35%	6,210
Segezha Group JSC January 2023	RUB	7.10%	9,384
Segezha Group JSC October 2036	RUB	9.85%	10,000
Segezha Group JSC November 2036	RUB	9.70%	9,914
Segezha Group JSC January 2037	RUB	10.90%	9,000
Segezha Group JSC May 2037	RUB	11.00%	8,054
Segezha Group JSC July 2037	RUB	10.75%	9,738
Segezha Group JSC September 2025	RUB	10.75%	5,000
Segezha Group JSC April 2024	RUB	10.83%	10,000
Segezha Group JSC October 2037	CNY	4.15%	4,947
MTS Notes 2023	RUB	6.50%	9,986
MTS Notes 2022	RUB	5.50%	-
MTS Notes 2024	RUB	8.60%	7,494
MTS Notes 2027	RUB	6.60%	-
Sistema PJSFC November 2030	RUB	6.10%	4,742
MTS Notes 2022	RUB	8.40%	-
MTS Notes 2026	RUB	6.60%	4,993
Sistema PJSFC November 2030	RUB	6.75%	14,000
Sistema PJSFC September 2025	RUB	17.00%	3,613
Sistema PJSFC February 2031	RUB	6.90%	4,813
Sistema PJSFC February 2031	RUB	7.35%	12,049
Sistema PJSFC April 2031	RUB	8.20%	9,913
Sistema PJSFC June 2031	RUB	8.40%	14,852
Sistema PJSFC September 2031	RUB	8.20%	15,000
Sistema PJSFC November 2031	RUB	9.95%	4,294
Business Nedvizhmost August 2024	RUB	10.45%	3,340
Binnopharm Group November 2036	RUB	9.90%	3,000
Binnopharm Group July 2037	RUB	10.35%	2,724
MTS Notes 2031	RUB	6.25%	78
Sistema PJSFC February 2028	RUB	9.00%	244
MTS Notes 2024	RUB	6.50%	4,333
Etalon-Finance February 2023	RUB	7.95%	4,073
Etalon-Finance September 2026	RUB	9.10%	9,967
MTS Notes 2024	RUB	8.30%	19,960
Sistema PJSFC November 2032	RUB	10.00%	9,856
MTS Notes 2027	RUB	6.60%	6,986
MTS Notes 2025	RUB	11.69%	9,962
MTS Notes 2026	RUB	11.75%	9,952
MTS Notes 2026	RUB	9.65%	9,863
MTS Notes 2024	RUB	8.40%	14,007
Other			10
Total		473,864	414,911

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The Group has an unconditional obligation to repurchase certain notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. Such notes are disclosed maturing in the reporting period when the demand for repurchase could be submitted, irrespective of the Group's expectations about the intentions of the noteholders.

Sistema PJSFC February 2029	February 2026
Sistema PJSFC Semtember 2025	April 2023
Sistema PJSFC March 2027	March 2023
Sistema PJSFC March 2029	September 2025
Sistema PJSFC November 2030	March 2023
Sistema PJSFC July 2030	April 2023
Sistema PJSFC July 2029	July 2023
Sistema PJSFC October 2026	November 2023
Sistema PJSFC February 2031	November 2023
Binnopharm Group November 2036	November 2023
Binnopharm Group July 2037	July 2024
Sistema PJSFC November 2026	February 2024
Sistema PJSFC May 2030	May 2024
Sistema PJSFC February 2028	August 2024
Sistema PJSFC August 2030	September 2024
Sistema PJSFC October 2029	October 2024
Segezha Group JSC October 2036	November 2024
Sistema PJSFC February 2031	February 2025
Sistema PJSFC November 2030	June 2025
Sistema PJSFC January 2028	July 2025
MTS Notes 2031	February 2026
Sistema PJSFC November 2031	February 2026
Sistema PJSFC April 2031	May 2026
Sistema PJSFC June 2031	June 2026
Segezha Group JSC November 2036	November 2026
Sistema PJSFC September 2031	December 2026
Sistema PJSFC November 2032	December 2025
Segezha Group JSC January 2037	January 2024
Segezha Group JSC May 2037	November 2023
Segezha Group JSC July 2037	February 2026
Segezha Group JSC October 2037	November 2025

Covenants – Loans and notes payable by the Group are subject to various restrictive covenants and events of default, which permit lenders to demand accelerated repayment of debt. Such covenants and events include noncompliance with certain financial ratios, cancellation of principal telecom licenses, significant court rulings, encumbrances and confiscation of certain assets and other material adverse changes.

As at 31 December 2022 and 2021, the Group had long-term debt denominated in Russian rubles, presented as part of current liabilities in the consolidated statement of financial position for the following reasons:

	2022	2021
Violation of other non-financial restrictive conditions	4,969	10,685
Total	4,969	10,685

Assets pledged as security – As at 31 December 2022 and 2021, land and buildings with carrying amounts of RUB 32,746 million and RUB 23,399 million, respectively, have been pledged to secure borrowings of the Group. The freehold land and buildings have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. As at 31 December 2022 and 2021, other assets including inventories and deposits with carrying amounts of RUB 119,408 million, RUB 9,105 million respectively have been pledged to secure borrowings of the Group.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Stakes in some subsidiaries and affiliates of Segezha, Steppe, Hospitality assets, Etalon and others have been pledged to secure borrowings of the Group.

25. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

The Group assesses whether a contract is or contains a lease at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements (including sub-lease and lease of intangible assets), which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expense on a straight-line basis over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate non-lease components of the contract and, instead, to account for any lease and associated non-lease components as a single arrangement.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate of the respective companies of the Group.

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

	31 December 2022	31 December 2021
Sites for placement of network and base station equipment	83,042	91,566
Land and buildings	112,131	114,141
Other	6,391	4,773
Rights-of-use assets, net	201,564	210,480

Depreciation of the right-of-use assets for the year ended 31 December 2022 and 2021, included in the depreciation and amortisation of fixed assets, intangible assets and the right-of-use assets in the accompanying consolidated statement of profit or loss. Amounts of RUB 0 million and RUB 0 million, respectively, were recognised as part of the financial result from discontinued operations in the accompanying consolidated statement of profit or loss.

Depreciation of the right-of-use assets included in depreciation and amortisation expense in the accompanying consolidated statement of profit or loss was as follows:

	2022	2021
Sites for placement of network and base station equipment	11,600	11,448
Land and buildings	14,851	11,516
Other	160	103
Depreciation charge, total	26,611	23,067

Additions to right-of-use assets during the year ended 31 December 2022 amounted to 19,941 million (including RUB 7,975 million through acquisitions within business combinations) and for the year ended 31 December 2021 amounted to RUB 65,231 million. The main additions of right-of-use assets in 2022 relate to MTS, Segezha, Steppe and Medsi.

SISTEMA PJSFC AND SUBSIDIARIES

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

Interest expenses on lease obligations for the year ended 31 December 2022 and 2021, were included in finance expenses in the accompanying consolidated statement of profit or loss. Wherein amounts of RUB 0 million and RUB 0 million, respectively, were recognised as part of the financial result from discontinued operations in the accompanying consolidated statement of profit or loss.

The following table presents expenses related to lease, recognised in the consolidated statement of profit or loss for:

	2022	2021
Depreciation of right-of-use assets	26,611	23,067
Interest expense on lease liabilities	16,818	13,887
Expenses relating to variable lease payments not included in the measurement of the lease liability	11,437	10,721

The following table presents future lease payments under lease arrangements together with the present value of the net lease payments as at 31 December 2022 and 2021:

	31 December 2022	31 December 2021
Lease payments, including:		
Less than 1 year	41,119	36,872
From 1 to 5 years	120,831	120,480
Over 5 years	158,083	159,653
Total lease payments	320,033	317,005
Less amount representing interest	(134,203)	(126,432)
Present value of net lease payments, including:		
Less than 1 year	29,304	23,335
From 1 to 5 years	80,289	84,225
Over 5 years	76,237	83,013
Total present value of net lease payments	185,830	190,573
Less current portion of lease obligations	(29,303)	(23,335)
Non-current portion of lease obligations	156,527	167,238

Total cash outflows for leases for the year ended 31 December 2022 amounted to RUB 39,475 million (31 December 2021: RUB 32,950 million), including interest paid in amount of RUB 16,511 million (31 December 2021: RUB 13,269 million).

26. BANK DEPOSITS AND LIABILITIES

Bank liabilities primarily consist of customer accounts and deposits. These liabilities are initially measured at fair value, net of transaction costs. Liabilities are subsequently measured at amortised cost using the effective interest method and classified based on their contractual maturity.

SISTEMA PJSFC AND SUBSIDIARIES

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

Bank deposits and liabilities as at 31 December 2022 and 2021 consisted of the following:

	2022	2021
Customer accounts	221,562	213,236
Bank loans received	10,984	21,430
Debt securities issued	10,481	5,581
Other liabilities	1,980	2,303
	245,007	242,550
Less: amounts maturing within one year	<u>(232,610)</u>	<u>(225,795)</u>
Total bank deposits and liabilities, net of the current portion	<u>12,397</u>	<u>16,755</u>

27. OTHER FINANCIAL LIABILITIES

Other financial liabilities as at 31 December 2022 and 2021 consisted of the following:

	31 December 2022	31 December 2021
Payables for the acquisition of a stakes and shares	33,032	26,901
Obligations under swap agreements, repo transactions and put option agreements	9,763	9,932
Obligation in relation to preferred shares of subsidiary	2,000	2,000
Other	5,036	9,178
Non-current	25,050	15,972
Current	24,781	32,039
Total other financial liabilities	<u>49,831</u>	<u>48,011</u>

In 2022, payables for the acquisition of LLC Inter Forest Rus decreased by RUB 21,017 million (Note 6). As at 31 December 2022, payables for the acquisition of a stakes and shares mainly represented by obligations for acquisition of 88% share capital of LLC "ZIL-YUG" amounted to RUB 23,168 million.

28. PROVISIONS

Provisions primarily consist of provisions related to employees' bonuses and other rewards, decommissioning and restoration obligations.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

SISTEMA PJSFC AND SUBSIDIARIES

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

Provisions as at 31 December 2022 and 2021 consisted of the following:

	2022	2021			
	Employees' bonuses and other rewards	19,491	13,741		
Provisions for decommissioning and restoration	5,096	7,490			
Tax provisions other than for income tax	844	47			
Other	10,461	10,004			
Total	35,892	31,282			
Current	27,447	23,256			
Non-current	8,445	8,026			
	Employees' bonuses and other rewards	Provisions for decommissioning	Tax provisions other than income tax	Provisions for litigation and Other	Total
Balance as of 1 January 2021	(9,246)	(5,273)	(792)	(8,689)	(24,000)
Additional provisions recognized	(19,204)	(2,329)	(165)	(5,870)	(27,568)
Payments	14,169	31	298	2,946	17,444
Unwinding of discount and effect of changes in the discount rate	4	(145)	-	-	(141)
Unused amounts reversed	713	226	820	1,565	3,324
Other	(18)	-	(1)	47	28
Purchases	(159)	-	(207)	(3)	(369)
Balance as of 31 December 2021	(13,741)	(7,490)	(47)	(10,004)	(31,282)
Additional provisions recognized	(25,427)	(2,118)	(1,023)	(9,805)	(38,373)
Payments	19,494	68	163	7,240	26,965
Unwinding of discount and effect of changes in the discount rate	-	(173)	-	-	(173)
Unused amounts reversed	205	4,597	180	134	5,116
Disposals (Note 5)	138	-	-	2,942	3,080
Other	-	20	-	6	26
Purchases	(160)	-	(117)	(974)	(1,251)
Balance as of 31 December 2022	(19,491)	(5,096)	(844)	(10,461)	(35,892)

SISTEMA PJSFC AND SUBSIDIARIES

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

29. EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share is the amount of earning/(loss) for the year attributable to ordinary shares of the Company divided by the weighted average number of ordinary shares outstanding during the year.

The earnings/(loss) and weighted average number of ordinary shares used in the calculation of basic and diluted earnings/(loss) per share are as follows:

	2022	2021
Earning/(loss) for the year from discontinued operations attributable to shareholders of Sistema PJSFC	4,793	(11,186)
Earning for the year from continuing operations attributable to shareholders of Sistema PJSFC	<u>14,612</u>	<u>27,943</u>
Earnings used in the calculation of basic and diluted earnings per share	<u>19,405</u>	<u>16,757</u>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	9,381,822,364	9,466,994,541
Earnings/(loss) per share – basic and diluted	<u>2.07</u>	<u>1.77</u>
From continuing operations	1.56	2.95
From discontinued operations	0.51	(1.18)

30. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management – The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net loans and borrowings (loans and borrowings offset by cash and cash equivalents) and equity of the Group.

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and adjusts it, in light of changes in economic conditions. The Group may sell assets to reduce debt, maintain or adjust the capital structure.

The Board of Directors monitors the net loans and borrowings to OIBDA ratio. Since these are non-IFRS measures, the Group's definition of OIBDA and net borrowings may differ from that of other companies.

The OIBDA represents operating profit before depreciation and amortizations. The OIBDA is non-IFRS measure and should be considered as an addition setting, but not as a substitute. The Group's management consider that this measure is useful for users, as it is an indicator of the sustainability and efficiency of the Group's operations, including the Group's ability to finance capital expenditures, business acquisitions and other investments, as well as the ability to attract debt financing and service debt.

SISTEMA PJSFC AND SUBSIDIARIES

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

Consolidated net debt is defined as consolidated long-term and short-term loans and borrowings less cash and cash equivalents and bank deposits. The Group's management consider that information about consolidated net debt provides useful information for users of financial statements, as this measure is part of the management of liquidity, financial flexibility, capital and its structure.

The Group's Net debt to OIBDA ratio was as follows:

	2022	2021
Net debt	926,664	768,934
OIBDA	309,152	288,888
Net debt to OIBDA ratio	3.00	2.66

The Group is subject to certain externally imposed capital requirements and restrictions that are incorporated into the management of capital.

The CBR requires that banks comply with the minimum capital adequacy ratio of 8% calculated based on statutory standalone financial statements. The Group's banking activities met the requirements established by the CBR. As at 31 December 2022 and 2021, capital adequacy ratio was 16.07% and 12.54% respectively.

Financial risk management objectives – The Management Board has overall responsibility for the establishment and ongoing management of the Group's risk management framework, and the implementation and operation of the Board's policies are handled by the Management Board.

The Management Board monitors and manages the financial risks relating to the operations of the Group through internal management reports, which analyses exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), liquidity risk and credit risk.

Foreign currency risk – Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies and is primarily exposed to the US Dollar and Euro.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Ruble, US Dollar and Euro and by using certain derivative instruments (Note 31).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (excluding hedged items) at the year-end are as follows:

	Liabilities		Assets	
	2022	2021	2022	2021
US Dollar	46,931	63,395	50,834	34,497
Euro	21,387	39,940	11,187	5,081

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The table below details the Group's sensitivity to the strengthening of the US Dollar and Euro against the Russian Ruble. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the year-end denominated in the respective currencies.

	<u>Increase in US Dollar and Euro</u>	<u>Decrease in profit before tax</u>
2022	30%	1,889
2021	50%	31,260

The effect of a corresponding strengthening of the Russian Ruble against the US Dollar and EUR is equal and opposite.

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect finance costs. The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by using certain derivative instruments (Note 31).

A change of floating rates by 1% applied to the borrowings (excluding hedged items) would result in an increase in the Group's future interest expense by RUB 3,787 million.

Fixed rate loan agreements often stipulate creditor's right to increase interest rates under certain circumstances, including increase of the key rate of the Central Bank of Russia. Therefore, in addition to the effect from changes in floating interest rates, the Group is also exposed to interest rate risk arising from these agreements.

Other price risks – Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. These changes may be caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The sensitivity analysis below has been determined based on the exposure to price risks at the end of the reporting period. Sensitivity analysis was prepared on pre-tax basis.

If prices of securities as at the year-end had been higher/lower:

	<u>Change in prices</u>	<u>Profit before tax increase</u>	<u>Other comprehensive income increase</u>
2022	30%	2,992	4,350
2021	30%	10,282	2,828

The effect of a corresponding decrease in prices of securities is equal and opposite.

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due.

SISTEMA PJSFC AND SUBSIDIARIES

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

The Group's liquidity position is monitored and managed at the level of operating segments. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows, by matching the maturity profiles of financial assets and liabilities and by maintaining available credit facilities.

As at 31 December 2022, the schedule of repayments of financial liabilities (except for lease liabilities, presented in Note 25) of the Group for the next five years and thereafter was as follows:

	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
Loans and borrowings	298,846	272,328	314,876	147,081	26,888	1,046
Accounts payable	137,508	-	-	-	-	-
Bank deposits and liabilities	232,610	8,678	1,860	1,240	619	-
Other financial liabilities	24,781	20,903	-	164	3,983	-
Total financial liabilities	693,745	301,909	316,736	148,485	31,490	1,046

For day-to-day liquidity requirements the Group had unused credit facilities of RUB 673,134 million as 31 December 2022 (31 December 2021: RUB 485,128 million).

Credit risk – Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group is exposed to credit risks on cash and cash equivalents, deposits, derivatives and certain other financial instruments with financial institutions, loans and receivables carried at amortised cost and debt securities.

The determination of whether a financial asset has experienced a significant increase in credit risk is based on an assessment of the probability of default, which is made at least quarterly, incorporating external credit rating information as well as internal information on the credit quality of the financial asset. For debt instruments that are not receivables from financial services, a significant increase in credit risk is assessed mainly based on past-due information.

For contract assets, trade and other receivables, a simplified approach is applied whereby ECL are initially measured over the lifetime of the instrument.

Financial assets in financial institutions – the Group maintains mixture of cash and cash equivalents, deposits, derivatives and certain other financial instruments in financial institutions. These financial institutions are located in different geographical regions and the Group's policy is designed to limit exposure to any one institution. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions.

As at 31 December 2022 and 2021, the Group has a significant cash balances, cash equivalents and deposits in the following financial institutions:

	31 December 2022	31 December 2021
The Central bank the Russian Federation	7,094	9,721
The Central bank of Luxemburg	-	10,902
RuAAA (RAEX)	19,829	10,430
RuAAA (ACRA)	10,826	1,745
RuAA (ACRA)	6,328	-
Total	44,077	32,798

Bank loans to customers and interbank loans due to the banks – MTS Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the MTS Bank's risk management policy are not breached. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical segments.

Other loans and receivables carried at amortised cost – Concentrations of credit risk with respect to loans and trade receivables are limited given that the Group's customer base is large and unrelated. Management believes there is no further credit risk provision required in excess of ECL allowance.

31. DERIVATIVE INSTRUMENTS

The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them either other current or other non-current financial assets or liabilities in the consolidated statement of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews related fair value hierarchy classifications on a quarterly basis. The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments.

Gain and losses from changes in the fair value are recorded immediately in profit or loss.

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

Cross-currency interest rate swap agreements – The Group has entered into several cross-currency interest rate swap agreements. The contracts are designated to manage the exposure to changes in currency exchange rate. The contracts assumed periodic exchange of principal and interest payments from RUB-denominated amounts to USD- and Euro-denominated amounts at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2023-2024.

In aggregate the Group entered into cross-currency interest rate swap agreements designated to manage the exposure to changes in currency exchange rate for 0 and 65% of the Group's bank loans denominated in USD and EUR outstanding as at 31 December 2022 and 31 December 2021 respectively.

The notional amounts related to currency derivative instruments amounted to RUB 0 million and 39,788 million as at 31 December 2022 and 2021 respectively.

The Group has entered into currency forward and swaps agreements to minimize the foreign currency risk exposure for operating activities. The contracts assumed the purchase or sale of the agreed amount of currency at a specified exchange rate and on a specific date. The rate was determined by the market spot rate upon issuance. As the result of currency forward and swap agreements, unfulfilled as at 31 December 2022 and 2021, the Group recognised gain RUB 1,446 million and RUB 635 million loss in the consolidated statement of profit or loss for the 2022 (loss RUB 83 million in the consolidated statement of profit or loss for the 2021).

SISTEMA PJSFC AND SUBSIDIARIES

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

The notional amounts of currency forward and swap instruments, unfulfilled as at 31 December 2022 and 2021 was RUB 10,873 million and RUB 9,993 million, respectively.

Fixed-to-variable interest rate swap agreements – The Group's notes and bank loans denominated in Russian Rubles bear primarily fixed interest rates. To reduce the cost of debt servicing, the Group entered into swap agreements. In aggregate the Group entered into fixed-to-variable interest rate swap agreements manage of the debt related to 5% of the Group's notes and bank loans with fixed rates outstanding as at 31 December 2022 (2021: 6%).

The notional amounts related to interest rate derivative instruments amounted to RUB 35,000 million as at 31 December 2022 (2021: RUB 39,788 million).

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

32. FAIR VALUES

The following fair value hierarchy table presents information regarding Group's financial assets and liabilities measured at fair value on a recurring basis at 31 December 2022 and 2021. Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. Level 1 classification comprises financial instruments where fair value is determined by unadjusted quoted prices in active markets for identical assets or liabilities that the Group can access at the measurement date; Level 2 – from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; Level 3 – from unobservable inputs.

	31 December 2022				31 December 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
At fair value through other comprehensive income	18,124	2,008	-	20,132	11,782	-	1,022	12,804
Deferred consideration	-	-	473	473	-	-	1,867	1,867
At fair value through profit or loss	9,974	46,925	26,109	83,008	34,274	11,974	38,330	84,578
	28,098	48,933	26,582	103,613	46,056	11,974	41,219	99,249
Financial liabilities								
Derivative instruments	-	(18)	-	(18)	-	(4,150)	-	(4,150)
Deferred considerations and others	-	-	(1,220)	(1,220)	-	-	(188)	(188)
Liabilities under put option agreements	-	-	(2,780)	(2,780)	-	-	-	-
	-	(18)	(4,000)	(4,018)	-	(4,150)	(188)	(4,338)

The fair value of financial assets and liabilities categorised into Level 2 is based on the observable data about quotations on the active market for similar assets, and is an estimate of the amount, taking into account the additional discount that the Group would receive when selling the asset or by which it would reduce the financial liability

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The fair value of financial assets and liabilities categorized into Level 3 is primarily measures using the discounted cash flows technique. The unobservable inputs to the models include assumptions regarding the future financial performances of the investee, its risk profile, and economic assumptions regarding the industry and jurisdiction in which the investee operates.

During the year ended 31 December 2022, Eurobonds of Russian issuers held by Group, accounted for at fair value, in amount of RUB 2,008 million were transferred in the hierarchy level from Level 1 to Level 2 due to the Moscow Exchange suspension of main trading mode for these securities. There were no transfers between levels of inputs within the hierarchy for the years ended 31 December 2021.

During the year ended 31 December 2022, corporate, bank and government debt securities held by MTS Bank, accounted for at fair value, in amount of RUB 22,544 million as at 31 December 2021, were transferred from the category “financial assets at fair value through profit or loss” to the “financial assets at fair value through other comprehensive income” due to the change in investment policy, reviewed to include both sale and receipt of contractual cash flows for the reclassified securities. At the date of reclassification, the fair value of the securities remained unchanged. As at 31 December 2022, the fair value of reclassified securities amounted to RUB 20,132 million. There were no transfers between the accounting categories of financial instruments for the years ended 31 December 2021.

The carrying value of the Group’s financial instruments accounted for at amortized cost approximates their fair value due to their short-term nature and market interest rates, except for MTS bank deposits and loans to customers and also Group’s borrowings, as disclosed in the table below:

	31 December 2022		31 December 2021	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Bank deposits and loans to customers	227,988	230,395	203,440	208,127
Financial liabilities				
Loans and borrowings	1,061,065	1,038,704	850,817	839,849

SISTEMA PJSFC AND SUBSIDIARIES

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

The table below presents the change in fair value of financial assets and liabilities of Level 3 as at 31 December 2022 and 2021.

	Liabilities under put option agreements	Other financial assets	Other financial liabilities	Total
Balance as of 1 January 2021	(55)	32,748	(1,067)	31,626
Total gains/(losses):				
- in profit or loss	55	18,996	392	19,443
- in other comprehensive income	-	(650)	-	(650)
Reclasses to other categories	-	(10,085)	-	(10,085)
Disposals	-	(3,194)	-	(3,194)
Repayments	-	(880)	487	(393)
Purchases	-	4,284	-	4,284
Balance as of 31 December 2021	-	41,219	(188)	41,031
Total gains/(losses):				
- in profit or loss	83	(139)	(411)	(467)
- in other comprehensive income	-	1,446	-	1,446
Impairment	-	(1,866)	-	(1,866)
Disposals	-	(15,309)	-	(15,309)
Disposals of business line	-	473	-	473
Additions	(2,863)	50	(621)	(3,434)
Reclassification to associates	-	(990)	-	(990)
Purchases	-	1,698	-	1,698
Balance as of 31 December 2022	(2,780)	26,582	(1,220)	22,582

Net unrealized gains and losses of Level 3 assets and liabilities resulting from fair value measurements were recognised in the following amounts:

	2022	2021
Net unrealized (losses)/gains of Level 3 assets	(1,446)	385
Net unrealized (losses)/gains of Level 3 liabilities	(3,657)	391
	(5,103)	776

SISTEMA PJSFC AND SUBSIDIARIES

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

33. RELATED PARTY TRANSACTIONS

The Group has a number of related parties including shareholders holding more than 20% of the Company's voting rights and entities under common control, associates and joint ventures, and key management personnel.

Trading transactions – The Group's trading transactions with related parties that are not members of the Group comprise sales and purchases of goods and services in the normal course of business. The counterparties for these transactions are predominantly associates and joint ventures.

During the year ended 2022 sales to related parties comprised RUB 5,483 million (2021: RUB 1,634 million), purchases from related parties comprised RUB 2,723 million (2021: RUB 5,554 million). As at 31 December 2022, trade balances receivable from and payable to related parties comprised RUB 6,416 million and RUB 3,474 million, respectively (31 December 2021: RUB 6,935 million and RUB 1,936 million). Bank loans to related parties as at 31 December 2022 are amounted to RUB 825 million (31 December 2021: RUB 4,665 million). Debt obligations to related parties as at 31 December 2022 are RUB 9,794 million (31 December 2021: RUB 8,016 million).

Dividends received – In 2022, the Group received dividends from MTS Belarus in the amount of RUB 4,545 million (2021: RUB 4,034 million), Etalon Group in the amount of RUB 1,076 million in 2021 before obtaining control (Note 6).

Financial transactions – The Group's financial transactions with related parties primarily comprise loans, deposits and other debt instruments issued to or by the Group entities. At 31 December 2022 and 2021, amounts owed by or to related parties under such arrangements are as follows:

	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Shareholders holding more than 20% of the Company's voting rights and Entities under common control	12,570	31,143	3,992	26,897
Key management personnel	-	-	1,328	5,392
Other related parties	-	-	6,034	11,859

Finance costs related to such transactions with related parties and recognised in the consolidated statement of profit or loss in 2022 amounted to RUB 106 million (2021: RUB 1,171 million).

Payments and transfers from other financial transactions with related parties for the twelve months ended 31 December 2022 amounted to RUB 7,234 million (2021: RUB 3,496 million).

SISTEMA PJSFC AND SUBSIDIARIES

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

Compensation of key management personnel – In 2022 and 2021, the aggregate compensation for key management personnel, being the members of the Company's Board of Directors and Management Board was as follows:

	2022	2021
Short-term benefits	4,387	4,643
Share-based payments	204	1,486
	<u>4,591</u>	<u>6,129</u>

34. SUBSIDIARIES

Details of the Group's most material subsidiaries at the end of the year are as follows:

Significant entities	Short name	Principal activity	Beneficial ownership as of 31 December	
			2022	2021
Mobile TeleSystems PJSC ⁽¹⁾	MTS	Telecommunications	49.93%	50.58%
Segezha Group PJSC	Segezha Group	Pulp and paper	62.17%	62.17%
Etalon Group Plc ⁽¹⁾	Etalon	Development	48.80%	29.79%
Medsi Group JSC	Medsi	Healthcare services	95.49%	95.49%
Bashkirian Power Grid Company JSC	BPGC	Energy transmission	90.96%	90.96%
Agroholding Steppe JSC	Steppe	Agriculture	89.72%	91.26%
Binnopharm Group LLC	Binnopharm Group	Pharmaceuticals	72.15%	75.32%

⁽¹⁾The Group consolidates MTS and Etalon based on IFRS 10 "Consolidated Financial Statements" due to the presence of the largest block of shares and a high dispersion of external shareholders.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Principal place of business	Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2022	2021	2022	2021
				2022	2021
MTS	Russia	16,278	31,633	(5,237)	4,286
Segezha Group	Russia	2,279	3,229	15,442	17,015
Etalon	Russia	4,216	-	50,520	-

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations. The consolidated financial information presented below is indicative of pre-exclusion of intra-group transactions.

SISTEMA PJSFC AND SUBSIDIARIES

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

	MTS		Segezha Group		Etalon (Note 6)	
	2022	2021	2022	2021	2022	2021
Current assets	300,883	263,299	64,628	54,583	226,941	n/a
Non-current assets	782,047	752,518	163,462	159,365	21,104	n/a
Total assets	1,082,930	1,015,817	228,090	213,948	248,045	n/a
Current liabilities	551,345	473,364	70,126	76,967	68,989	n/a
Non-current liabilities	535,202	527,851	116,666	90,789	104,867	n/a
Total liabilities	1,086,547	1,001,215	186,792	167,756	173,856	n/a
Equity attributable to shareholders of Sistema	(4,130)	5,480	26,564	29,150	23,654	n/a
Non-controlling interests	513	9,123	15,490	17,042	50,535	n/a
Revenue	541,749	534,403	106,766	92,442	80,556	n/a
Expenses	(508,314)	(470,134)	(100,714)	(77,205)	(67,555)	n/a
Profit for the year	33,435	64,269	6,052	15,237	13,001	n/a
Profit attributable to shareholders of Sistema	16,295	31,840	3,751	12,041	8,982	n/a
Profit attributable to the non-controlling interests	17,140	32,429	2,301	3,196	4,019	n/a
Other comprehensive income attributable to shareholders of Sistema	947	605	147	140	-	n/a
Other comprehensive income attributable to the non-controlling interests	949	592	-	-	-	n/a
Other comprehensive income for the year	1,896	1,197	147	140	-	n/a
Total comprehensive income attributable to shareholders of Sistema	17,243	32,445	3,898	12,181	8,982	n/a
Total comprehensive income attributable to the non-controlling interests	18,088	33,021	2,301	3,196	4,019	n/a
Total comprehensive income for the year	35,331	65,466	6,199	15,377	13,001	n/a
	MTS		Segezha Group		Etalon (Note 6)	
	2022	2021	2022	2021	2022	2021
Dividends accrued to non-controlling interests	28,103	30,747	3,799	2,493	-	n/a
Net cash inflow/(outflow) from operating activities	190,592	142,579	2,259	13,068	(50,815)	n/a
Net cash (outflow)/inflow from investing activities	(118,238)	(116,165)	(32,367)	(50,473)	416	n/a
Net cash (outflow)/inflow from financing activities	(34,622)	(71,214)	37,682	46,154	29,698	n/a
Net cash inflow/(outflow)	37,702	(44,800)	7,574	8,749	(20,700)	n/a

35. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities, which are not reflected in the consolidated statements of cash flows:

	2022	2021
Additions to the right-of-use assets	11,732	29,393
Capital expenditure liabilities	(12,160)	5,402
Employee benefits	3,682	7,045
Deferred payment	5,731	26,579
Fair value of contingent consideration	621	60
Fair value of financial assets	993	1,958

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Non-cash changes						31 December 2022
	1 January 2022	Cash flows from financing activities (i)	Cash flows from operating activities (ii)	Disposal/ acquisition of subsidiaries (Note 5, 6)	Currency exchange	Changes in equity	
Loans and borrowings	850,817	198,858	-	50,305	(10,313)	-	(29,345) 1,060,322
Capital transactions of subsidiaries	-	(2,254)	-	-	-	(49,518)	51,772 -
Lease liability	190,571	(22,964)	(16,511)	7,029	(400)	-	28,105 185,830
Dividends payable	5,258	(20,807)	-	-	-	32,739	800 17,990
Other financial liabilities	48,011	(4,631)	-	-	-	(143)	6,644 49,881
Total	1,094,657	148,202	(16,511)	57,334	(10,713)	(16,922)	57,976 1,314,023

	Non-cash changes						31 December 2021
	1 January 2021	Cash flows from financial activities (i)	Cash flows from operation activities (ii)	Disposal/ acquisition of subsidiaries (Note 5, 6)	Currency exchange	Changes in equity	
Loans and borrowings	723,961	111,514	-	20,428	(2,243)	-	(2,843) 850,817
Capital transactions of subsidiaries	-	31,680	-	-	-	(54,677)	22,998 -
Lease liability	165,574	(19,682)	(13,269)	14,908	(8)	-	43,047 190,571
Dividends payable	3,326	(35,557)	-	-	-	37,489	- 5,258
Other financial liabilities	7,476	(21,194)	-	22,126	-	5,425	34,177 48,011
Total	900,337	66,761	(13,269)	57,462	(2,251)	(11,763)	97,379 1,094,657

- (i) The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.
- (ii) The cash flows are represented by lease liability interest paid.
- (iii) Other changes include new lease agreements, interest accruals and changes of other financial liabilities.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

37. CONTINGENCIES AND COMMITMENTS

Capital commitments – A capital commitment is a contractual obligation for future payments mainly for the acquisition of network infrastructure. These amounts are not recorded in the consolidated statement of financial position since the Group has not yet received goods or services from suppliers. As at 31 December 2022, the Group had capital commitments of RUB 53,553 million (31 December 2021: RUB 104,616 million), relating to the acquisitions of property, plant and equipment.

Guarantees – As at December 31, 2022, the Group's banking subsidiaries acted as guarantors for loans in the amount of RUB 18,626 million (31 December 2021: RUB 16,172 million), and also had commitments to provide loans under open credit lines in the amount of RUB 67,629 million (31 December 2021: RUB 37,327 million). Total commitments on loans and guarantees issued as at 31 December 2022 and 2021 are RUB 1,043 million and RUB 752 million, respectively. The Group will be required to make payments under these guarantees only if the respective debtors fail to meet their payment obligations. These guarantees would require payment by the Group in the event of default on payment by the respective debtor. Such guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of the amount of the expected credit losses allowance, and the amount initially recognised less, where appropriate, cumulative income recognised in accordance with the revenue recognition policies.

Telecommunication licenses – The management believes that as at 31 December 2022, the Group is in compliance with conditions of the used licenses.

Restriction on transactions with the shares of BPGC – In 2014, in the course of litigation, which the Group is not a party to, the court imposed restrictions on transactions with the shares of BPGC owned by the Group. The restrictions do not limit the Group's voting rights, rights to receive dividends or any other shareholders rights.

Taxation – Russian legislation on taxation for business purposes continues to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by tax authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the tax authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances, reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities in accordance with its interpretations of the Russian tax legislation. However, the tax authorities may have different interpretations, and the effects on the consolidated financial statements could be significant.

Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources, which will be required to settle such liabilities. 31 December 2022, provisions for additional taxes and customs settlements comprised RUB 412 million (31 December 2021: RUB 414 million).

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

	31 December 2022	31 December 2021
Contingent liabilities for additional taxes other than income tax	498	860
Contingent liabilities for additional income taxes	1,021	1,132

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

In accordance with the rules on controlled foreign companies, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, should be included in the income tax base of the controlling entities in particular cases.

Operating Environment – Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Due to the deterioration of the geopolitical situation since February 2022 the EU, the US, the UK and several other countries have introduced significant new sanctions and export controls on certain Russian individuals and entities. These include, among other things, restrictions targeting a number of large Russian financial institutions and the Central Bank of Russia, several companies and individuals, and technology export controls.

Changes in these matters are highly unpredictable, occur quickly and often without warning, and are largely beyond the control of the Group.

Current and future risks include, but are not limited to, the risk of limitation and complete closure of access to capital markets and the possibility of obtaining financing on commercially reasonable terms, the risk of decrease of fair value of financial assets, the risk of restrictions on payments and transactions with foreign counterparties, the risk of restrictions on the import of certain equipment and software and the export of finished products, as well as the risk of high volatility of the Russian ruble against other currencies, which could adversely affect the Group's investment program as a significant portion of its capital expenditures are closely linked to foreign currencies. The strengthening of the ruble against foreign currencies has a negative impact on the financial performance of the Group's export-oriented operating segments. In addition, Central Bank's of Russia increase of its key rate to 20% on February 2022, impacted floating-rate credit facilities and consequently increased the Group's finance costs. Further in 2022, the Central Bank of Russia has gradually decreased its key rate to 7.5% as at 31 December 2022. As at date of financial statement approval, the key rate did not change and remained at 7.5%.

Violation of financial and non-financial covenants stipulated by loan agreements of the Group may result in banks' demand of accelerated repayment of existing loans. The Group's management regularly analyzes the implementation of covenants. To date of this financial statement, the Group's covenants stipulated by loan agreements have not been violated.

The negative impact on the Russian economy is likely to increase the credit risk of many customers, leading to the need for recognition a significant additional amount of expected credit losses, which at the moment it is not possible to quantify.

SISTEMA PJSC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

The operations of MTS Bank, a company of the Group, are subject to risks that affect the ability of borrowers to repay amounts due to the Group, which may depend on the overall macroeconomic and business environment. Unfavorable changes in economic conditions could lead to a deterioration in the value of collateral for loans and other liabilities.

Delisting Events

In April 2022, Russian Federal Law No. 114-FZ, requiring Russian companies to terminate their depositary receipt programs, came into force. In May 2022, the Company has received permission to continue listing of GDRs outside Russia until 13 May 2023.

In July 2022, MTS delisted its ADRs from the NYSE. In January 2023, the guaranteed conversion period for ADRs into ordinary shares of MTS PJSC in accordance with the depository agreement expired. In the opinion of MTS PJSC, the depository may continue to convert the ADR into ordinary shares and/or sell the unconverted shares to distribute the funds received among the holders of the ADR.

The trading of the Ozon's ADSs on the NASDAQ Global Select Market was suspended on 28 February 2022, and remains suspended on 31 December 2022. Under the conditions of the Company's convertible bonds (the "Bonds"), this trading suspension constituted a "Delisting Event" entitling the holders of the Bonds to exercise their rights to require redemption of their Bonds by way of giving the Ozon an irrevocable notice (the "Delisting Event"). The bondholders, who exercised the rights to require redemption, forfeited their conversion rights under the Bonds. In September 2022, Ozon and the bondholders reached an agreement on the terms of the bond restructuring ("Restructuring").

On 15 March 2023, Ozon received a notice from the NASDAQ about delisting the Ozon's ADSs from the Exchange. According to the Notice, the decision was made based on NASDAQ's discretionary authority under Rule 5100 in light of the geopolitical circumstances affecting Russia and their potential impact on the company.

On 21 March 2023, Ozon filed an appeal against NASDAQ's decision to force the delisting of ADSs. According to the rules of the exchange, the company has the right to request a hearing of a special commission to appeal the exchange's decision, which it did. The hearing must be held within 45 days from the date of receipt of the request from the company. Actions to exclude the company from the listing must be suspended until the written decision of the commission is made.

Sanctions

In April 2022 the UK Government imposed asset freeze sanctions on Vladimir Evtushenkov. The sanctions imposed by the UK Government on Vladimir Evtushenkov are personal and do not target the Company and other Group companies.

In February 2023, the US Office of Foreign Assets Control (OFAC) and the UK Office of Financial Sanctions Implementation (OFSI) designated MTS Bank as a sanctioned person pursuant to applicable sanctions regulations adopted by the US and the UK, respectively. Accordingly, MTS Bank became subject to so-called "blocking" (asset-freeze) sanctions maintained by the US and the UK. Among other matters, these sanctions require US and UK third parties, including banks, to block or freeze assets which MTS Bank holds with such parties or otherwise block the settlement of payments to or from MTS Bank and its counterparties.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Also, MTS Bank does not carry out settlements in US dollars, Turkish liras, Omani rials, Swiss francs, Pounds sterling. In addition, MTS Bank is currently unable to dispose of certain assets (balances on the Group's nostro accounts in South Korea). The current carrying amount of the blocked assets as of the date of issuance of these consolidated financial statements is RUB 9.6 billion. Currently, MTS Bank has filed an application for a license that will allow the transfer of balances on these accounts to the Russian jurisdiction, the probability of obtaining the license is assessed as high.

The full impact and potential implications of the imposed sanctions on MTS Bank on the Group's operations, assets and liabilities cannot be reliably estimated at this time. MTS Bank Management believes it is taking the appropriate measures to mitigate the related negative effects.

The above events require the business of the Group to adapt to a changing operating environment, characterized by significant uncertainty and having a significant impact on the Group and its operations. The actual future operating environment and its impact on the Group may differ from the management's current expectations. The management of the Group is currently assessing the possible impact of the above events and is taking all necessary measures to ensure the sustainability of the Group's operations.

Legal proceedings – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Group operates. At 31 December 2022, management estimates the range of possible losses, if any, in all pending litigations or other legal proceedings being up to RUB 5,492 million.

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

In July 2018, the Group filed a Request for Arbitration against the Sovereign State of Turkmenistan with the World Bank's International Center for Settlement of Investments Disputes ("ICSID") in order to protect its legal rights and investments in Turkmenistan. As at December 31, 2022 the case is pending.

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

In May 2019, FAS Russia considered that MTS had breached the provisions of antimonopoly laws in respect to establishing discriminatory terms and conditions for bulk SMS pricing and charging unreasonably high bulk SMS prices, prescribing MTS to cease its violations. MTS contested the decision and the prescription of FAS Russia, however courts at different levels upheld the position of FAS Russia. In August 2021, the Group paid the fine imposed by FAS Russia in full amount of RUB 189 million.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

In 2021, certain financial institutions in Russia initiated litigations against the Group, claiming reimbursement for losses incurred in connection with violation of antimonopoly laws in respect to establishing unreasonably high bulk SMS prices. The arbitration courts at three levels have dismissed all the claims in full. It's currently impossible to predict the possibility or outcome of new litigations on violation of antimonopoly laws in respect to establishing unreasonably high bulk SMS prices. Management of the Group believes that as at 31 December 2022, it has adequately provided for claims related to antimonopoly proceedings.

Compliance monitorship – In March 2019, the Group reached a resolution with the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") relating to the previously disclosed investigation concerning the Group's former subsidiary in Uzbekistan, consented to the entry of an administrative cease-and-desist order (the "Order") by the SEC and entered a deferred prosecution agreement ("DPA"). Under the DPA and the Order in September 2019 the Group appointed an independent compliance monitor for, *inter alia*, review, testing and perfecting MTS' anti-corruption compliance code, policies, and procedures.

As at 31 December 2022 the Group has not received notice from the SEC, the DOJ or the monitor of any breach of the terms of the DPA or the Order. In 2021, given a variety of factors, including the COVID-19 pandemic, the Group has agreed to a one-year extension of the DPA and the monitorship with the DOJ and the SEC to (i) provide the Group with adequate time to implement necessary enhancements to certain critical components of the Group's anti-corruption compliance and ethics program and (ii) allow the monitor sufficient time to be able to complete its review of the remedial efforts, including the Group's implementation of the monitor's recommendations and an assessment of the sustainability of the Group's remedial actions. The term of the monitorship will continue until September 2023.

In connection with compliance monitorship, certain transactions were identified relating to the Group's subsidiary in Armenia, and such transactions were disclosed to the DOJ and SEC. The DOJ and SEC have requested information regarding the transactions and the Group has initiated an investigation into the matter. It's currently impossible to predict the timing or outcome of the investigation.

In December 2020, the Group received a request for information from the DOJ concerning certain historical transactions with a supplier of telecommunication and information technology. Currently, the Group is cooperating to provide information to the DOJ and the SEC responsive to the request.

Class action complaint – In March 2019, a proposed class action complaint on behalf of Shayan Salim and all other persons similarly situated was filed in the United States District Court for the Eastern District of New York against MTS PJSC and certain of its managers. In March 2021, US District Judge of Eastern District Court of New York granted MTS's motion to dismiss with prejudice and dismissed the complaint in full. The plaintiff filed an appeal of the dismissal by the Eastern District Court of New York. On March 31, 2022, United States Court of Appeals for the Second Circuit affirmed the dismissal by the Eastern District Court of New York and concluded the plaintiff's claims are without merit.

License fee and spectrum charges for 2002-2011 in India – In December 2019, SSTL received the Supreme Court of India judgment regarding license fee and spectrum charges for 2002-2011 in accordance with the definition and interpretation of Annual Gross Revenue (AGR) approved by the Supreme Court of India. The company calculated immaterial amount to be paid based on the aforementioned definition of AGR and considering the scheme of demerger with RCOM (which is currently undergoing bankruptcy procedures) of 2017. This amount was paid in February 2020. The Group does not expect any significant effect of this matter on the consolidated financial statements of the Group.

38. SUBSEQUENT EVENTS

Melon Fashion Group – In October 2022, Sistema announced the signing of binding agreements on the acquisition of 47.7% of the shares of Melon Fashion Group JSC, Russia's leading manufacturer and retailer of fashion clothing, from Swedish companies Eastnine and East Capital Holding AB and a group of private investors for RUB 15.8 billion.

In March 2023, Eastnine and Sistema terminated the agreement on the sale of a block of shares by mutual consent.

Purchase of stake in Buzzoola – In February 2023, the Group purchased 67% stake in Buzzoola Internet Technologies LLC ("Buzzoola"), provider of digital advertising services. Total consideration contains cash payment of RUB 371 million and contingent consideration. The purchase of 67% stake was accounted as investment in joint venture. The Group is in the process of the fair value measurement of the stake.

Acquisition of the portfolio of hotel assets of Wenaas Hotel Russia – In March 2023, the Group completed acquisition from the Norwegian company Wenaas Hotel Russia AS controlling stake of a number of Russian companies that own of ten hotels located in four cities of Russia. Total consideration contains cash payment of RUB 16,056 million which includes voluntary contribution to budget. The purchase of controlling stake was accounted as business combination. The Group is in the process of the assets and liabilities' fair value measurement of the acquired business.

Disposal of Arka Merchants Limited and its subsidiaries – On 22 February 2023, Segezha Group entered into agreement to sell 100% stake in share capital of Arka Merchants Limited and its subsidiaries (7 Segezha Packaging plants located in Europe and Turkey). Revenue and net profit for the year ended 31 December 2022 for Arka Merchants Limited and its subsidiaries included in "Segezha Group" segment results are RUB 13,747 million and RUB 384 million, respectively.

Concession agreement for the project to create a medical hub "Medsi" in Vyksa – In February 2023, Vyksa Group LLC (segment "Medsi") and the Government of the Nizhny Novgorod Region concluded a concession agreement for the creation and construction of a medical hub in Vyksa with overall cost of RUB 3.9 billion, including VAT (in prices as at 1 January 2022).

Concession agreement for the construction of a facility in Perm with the participation of the company in Corporate segment – in March 2023, the Government of the Perm Region and a subsidiary of Sistema System Concessions LLC concluded a concession agreement on the construction of a student campus in Perm, a capital grant amounts to RUB 19,6 billion.

MTS bond issue placement – On 23 March 2023, MTS PJSC placed a two-year issue of exchange-traded bonds of the 001P-24 series with a nominal volume of RUB 20 billion at a coupon rate of 9.05% p.a.

Segezha Group bond issue settlement and placement – On 26 January 2023, Segezha Group settled corporate bonds with nominal value of RUB 10,000 million.

On 3 February 2023, Segezha Group raised funds by placing exchange-traded bonds of the 003P-02R series with a nominal value of RUB 6 billion for a period up to the offer of 2.25 years and a coupon rate of 10.6% p.a.

SISTEMA PJSFC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of Russian Rubles, unless otherwise stated)

Etalon bond issue placement – On 22 February 2023, Etalon-Finance JSC (segment “Etalon”) placed an issue of exchange-traded bonds of the 002P-01 series with a nominal volume of RUB 8 billion at a coupon rate of 13.7% p.a. with an offer in 3 years.

Medsi bond issue placement – On March 16, 2023, Medsi JSC placed two debut issues of exchange-traded bonds of series 001P-01 and 001P-02 in the amount of RUB 3 billion each and for a period of 2 and 3 years, respectively, until the offer. According to the results of the formation of the application book, quarterly coupon rates were: 9.85% p.a. for the 001P-01 series and 10.35% p.a. for the 001P-02 series.