

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements

For the Six Months Ended June 30, 2022 and 2021
(unaudited)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Mobile TeleSystems Public Joint Stock Company and its subsidiaries (the "Group") as of June 30, 2022 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows for the six months ended June 30, 2022 and 2021, and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Andrei Shvetsov
Engagement partner

AO "Business Solutions and Technologies"
(ORNZ № 12006020384)

August 24, 2022



PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2022 AND DECEMBER 31, 2021 (Amounts in millions of Russian Rubles)

	Notes	June 30, 2022 (unaudited)	December 31, 2021
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	8	313,617	311,250
Investment property		1,995	2,498
Right-of-use assets	11	123,665	132,343
Goodwill		47,310	42,819
Other intangible assets	8	105,897	100,132
Investments in associates and joint ventures	7	6,839	8,735
Other investments		8,025	4,591
Deferred tax assets		13,356	11,683
Accounts receivable, related parties	16	1,420	5,000
Trade accounts receivable		1,355	1,898
Bank deposits and loans to customers	13	118,116	118,342
Other financial assets		2,073	7,437
Other assets		5,873	5,790
Total non-current assets		749,541	752,518
CURRENT ASSETS:			
Inventories		13,748	18,981
Trade and other receivables		33,641	37,897
Accounts receivable, related parties	16	3,567	2,287
Bank deposits and loans to customers	13	85,501	87,594
Short-term investments		20,607	28,972
Advances paid and prepaid expenses		5,750	3,452
VAT receivable		10,185	11,746
Income tax assets		1,532	2,021
Assets held for sale		2,132	549
Cash and cash equivalents		57,850	40,590
Other financial assets		23,199	27,349
Other non-financial assets		6,205	1,862
Total current assets		263,917	263,300
TOTAL ASSETS		1,013,458	1,015,818

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES


INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2022 AND DECEMBER 31, 2021 (CONTINUED) (Amounts in millions of Russian Rubles)


	Notes	June 30, 2022 (unaudited)	December 31, 2021
EQUITY AND LIABILITIES			
EQUITY:			
Common stock	15	200	200
Treasury stock		(92,220)	(96,195)
Additional paid-in capital		312	619
Retained earnings		51,731	94,935
Accumulated other comprehensive income	15	4,854	10,207
Equity attributable to owners of the Company		(35,123)	9,766
Non-controlling interests		5,167	4,838
Total equity		(29,956)	14,604
NON-CURRENT LIABILITIES:			
Borrowings	9	357,343	350,300
Lease obligations	11	126,709	135,800
Bank deposits and liabilities	13	2,042	14,313
Deferred tax liabilities		19,687	17,901
Provisions		10,329	7,288
Contract liabilities		1,016	977
Other financial liabilities		2,841	180
Other liabilities		969	1,035
Total non-current liabilities		520,936	527,794
CURRENT LIABILITIES:			
Trade and other payables		101,504	72,078
Accounts payable, related parties	16	1,590	4,107
Contract liabilities		22,772	22,621
Borrowings	9	139,815	111,839
Lease obligations	11	18,414	18,709
Bank deposits and liabilities	13	200,882	207,055
Income tax liabilities		1,379	768
Provisions		14,240	17,479
Other financial liabilities		176	202
Other liabilities		21,706	18,562
Total current liabilities		522,478	473,420
TOTAL EQUITY AND LIABILITIES		1,013,458	1,015,818

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

President and CEO

Vice-president, Finance


Vyacheslav K. Nikolaev
August 24, 2022


Andrey M. Kamensky

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021

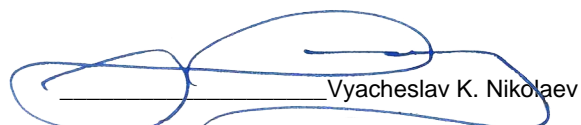
(Amounts in millions of Russian Rubles, except per share amounts)

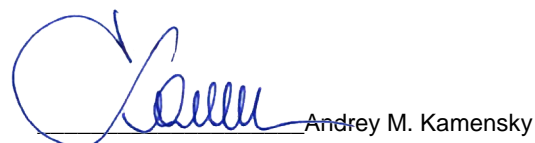
	Notes	Six months ended June 30,	
		2022	2021
		(unaudited)	(unaudited)
Service revenue		237,604	218,336
Sales of goods		22,135	30,916
Revenue	4	259,739	249,252
Cost of services		73,954	61,844
Cost of goods		20,054	30,242
Selling, general and administrative expenses		50,866	45,637
Depreciation and amortization		58,755	53,487
Operating share of the profit of associates and joint ventures		(2,294)	(2,994)
Impairment of non-current assets		489	(9)
Impairment of financial assets		12,994	4,752
Other operating income, net		(4,069)	(2,543)
Operating profit	4	48,990	58,836
Finance income	10	(356)	(1,557)
Finance costs	10	30,958	19,066
Non-operating share of the profit of associates and joint ventures		(118)	(88)
Other non-operating income		(5,274)	(1,245)
Profit before tax		23,780	42,660
Income tax expense	14	5,979	9,287
Profit for the period from continuing operations		17,801	33,373
(Loss)/Profit from discontinued operations	6	(2,666)	439
Profit for the period		15,135	33,812
Profit for the period attributable to:			
Owners of the Company		14,805	33,390
Non-controlling interests		330	422
Earnings per share from continuing operations (basic and diluted), Russian Rubles:		10.43 and 10.27	19.21 and 19.19
Earnings per share from discontinued operations (basic and diluted), Russian Rubles:		(1.59) and (1.57)	0.26 and 0.26
Earnings per share, total (basic and diluted), Russian Rubles:		8.84 and 8.70	19.47 and 19.45

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

President and CEO

Vice-president, Finance


Vyacheslav K. Nikolaev


Andrey M. Kamensky

August 24, 2022

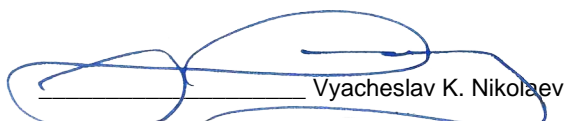
PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021 (Amounts in millions of Russian Rubles)


	Six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
Profit for the period	15,135	33,812
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	(3,329)	498
Investment revaluation reserve	(85)	-
Share of other comprehensive loss of associates		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations in associates	(1,939)	(2)
Other comprehensive (loss) / income for the period, net of income tax	(5,353)	496
Total comprehensive income for the period	9,782	34,308
Total comprehensive income for the year attributable to:		
Owners of the Company	9,452	33,886
Non-controlling interests	330	422

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

President and CEO


Vyacheslav K. Nikolaev
August 24, 2022

Vice-president, Finance


Andrey M. Kamensky

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AS OF JUNE 30, 2022 AND 2021 (UNAUDITED)

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

						Accumulated other comprehensive income / (loss)			Retained earnings	Equity attributable owners of the Company	Non-controlling interests	Total equity
	Common stock		Treasury stock		Additional paid-in capital	Investment revaluation reserve	Foreign currency translation reserve ⁽²⁾	Remeasurements of the net defined benefit liability				
	Shares	Amount	Shares	Amount								
Balances at January 1, 2021	1,998,381,575	200	(271,479,406)	(74,990)	89	-	8,341	670	94,391	28,701	3,990	32,691
Profit for the period	-	-	-	-	-	-	-	-	33,390	33,390	422	33,812
Currency translation adjustment, net of income tax	-	-	-	-	-	-	496	-	-	496	-	496
Total comprehensive (loss) / income for the period	-	-	-	-	-	-	496	-	33,390	33,886	422	34,308
Issuance of stock options	-	-	-	-	1,392	-	-	-	-	1,392	-	1,392
Exercise of stock options	-	-	930,556	252	(236)	-	-	-	-	16	-	16
Dividends declared by MTS	-	-	-	-	-	-	-	-	(44,587)	(44,587)	-	(44,587)
Purchase of own stock	-	-	(47,947,542)	(15,692)	-	-	-	-	-	(15,692)	-	(15,692)
Changes in ownership interest with no gain/loss of control	-	-	-	-	(143)	-	-	-	-	(143)	-	(143)
Other	-	-	-	-	(28)	-	-	-	-	(28)	-	(28)
Balances at June 30, 2021	1,998,381,575	200	(318,496,392)	(90,430)	1,074	-	8,837	670	83,194	3,545	4,412	7,957
Balances at January 1, 2022	1,998,381,575	200	(335,757,457)	(96,195)	619	-	9,537	670	94,935	9,766	4,838	14,604
Profit for the period	-	-	-	-	-	-	-	-	14,805	14,805	330	15,135
Change in fair value of investments, net of tax of 21 million	-	-	-	-	-	(85)	-	-	-	(85)	-	(85)
Currency translation adjustment, net of income tax	-	-	-	-	-	-	(5,268)	-	-	(5,268)	-	(5,268)
Total comprehensive (loss) / income for the period	-	-	-	-	-	(85)	(5,268)	-	14,805	9,452	330	9,782
Issuance of stock options	-	-	-	-	1,406	-	-	-	-	1,406	-	1,406
Exercise of stock options	-	-	21,736,832	3,975	(1,363)	-	-	-	-	2,612	-	2,612
Dividends declared by MTS	-	-	-	-	-	-	-	-	(57,016)	(57,016)	-	(57,016)
Reclass of stock options to provisions ⁽¹⁾	-	-	-	-	(1,343)	-	-	-	-	(1,343)	-	(1,343)
Changes in ownership interest with no gain/loss of control	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Other	-	-	-	-	993	-	-	-	(993)	-	-	-
Balances at June 30, 2022	1,998,381,575	200	(314,020,625)	(92,220)	312	(85)	4,269	670	51,731	(35,123)	5,167	(29,956)

⁽¹⁾ In March 2022, the Group modified part of its equity settled share based programmes. The entitled employees were granted the right to require the Group to redeem the shares within two years from the exercise date at a fixed price. The respective amount of cash-settled component was reclassified to provisions.

⁽²⁾ Including the foreign currency translation reserve relating to the disposal group held for sale of RUB 871 million as of June 30, 2022.

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021 (Amounts in millions of Russian Rubles)

	Notes	Six months ended June 30,	
		2022	2021
		(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the period		15,135	33,812
Adjustments for:			
Depreciation and amortization		58,825	53,545
Impairment of non-current assets		489	(9)
Impairment of financial assets		12,987	4,752
Finance income		(356)	(1,557)
Finance costs		30,969	19,070
Income tax expense		5,934	9,254
Share of profit of associates and joint ventures		(2,412)	(3,082)
Net foreign exchange (gain) / loss and change in fair value of financial instruments		(4,024)	(1,630)
Inventory obsolescence expense		1,002	637
Change in provisions		(3,315)	1,334
Other non-cash items		163	(3,555)
Movements in operating assets and liabilities:			
Decrease / (increase) in trade and other receivables and contract assets		1,217	(4,072)
Increase in bank deposits and loans to customers		(13,799)	(43,851)
Decrease/(increase) in inventory		3,453	(1,481)
Decrease in advances paid and prepaid expenses		1,566	1,388
Decrease/(increase) in VAT receivable		1,819	(1,382)
(Decrease)/increase in trade and other payables, contract liabilities and other current liabilities		(14,509)	1,397
(Decrease)/increase in bank deposits and liabilities		(9,138)	6,932
Dividends received		2,057	2,062
Income tax paid		(5,864)	(7,615)
Interest received		513	1,013
Interest paid, net of interest capitalized		(28,718)	(18,732)
NET CASH PROVIDED BY OPERATING ACTIVITIES		53,994	48,230
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of subsidiaries, net of cash acquired	3	(7,134)	(4,621)
Purchases of property, plant and equipment (including capitalized interest in the amount of RUB 435 million and RUB 235 million, respectively)		(40,599)	(35,698)
Purchases of other intangible assets		(18,811)	(19,450)
Cost to obtain and fulfill contracts, paid		(2,109)	(1,823)
Proceeds from sale of property, plant and equipment and assets held for sale		1,842	2,177
Purchases of short-term and other investments		(1,304)	(7,586)
Proceeds from sale of short-term and other investments		7,681	6,214
Investments in associates and joint ventures		(700)	(60)
Cash payments related to swap contracts		(821)	(108)
Proceeds from sale of subsidiaries		(86)	1,272
Other investing activities		379	125
NET CASH USED IN INVESTING ACTIVITIES		(61,662)	(59,558)

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021 (CONTINUED) (Amounts in millions of Russian Rubles)

	Six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes	(20,523)	(10,813)
Proceeds from issuance of notes	29,900	4,350
Notes and debt issuance cost paid	(135)	(96)
Lease obligation principal paid	(7,837)	(8,465)
Dividends paid	(9)	(1)
Proceeds from loans	47,383	1,714
Repayment of loans	(11,512)	(2,680)
Repurchase of common stock	-	(15,691)
Other financial activities	(1,900)	-
NET CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES	35,367	(31,682)
Effect of exchange rate changes on cash and cash equivalents	(10,436)	(133)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	17,263	(43,143)
CASH AND CASH EQUIVALENTS, beginning of the period	40,590	85,469
CASH AND CASH EQUIVALENTS, end of the period (including cash and cash equivalents within assets held for sale in amount RUB 3 million and nil, respectively)	57,853	42,326

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

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

1. GENERAL INFORMATION AND DESCRIPTION OF BUSINESS

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

Business of the Company and its subsidiaries ("the Group" or MTS) – MTS PJSC was incorporated on March 1, 2000, through the merger of MTS CJSC and Rosico TC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow licence area in 1994.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange (NYSE) under the symbol "MBT". Since 2003 common shares of MTS PJSC have been traded on the Public Joint-Stock Company "Moscow Exchange MICEX-RTS" (the "Moscow Exchange"). In April 2022, Russian Federal Law No. 114-FZ, requiring Russian companies to terminate their depository receipt programs, came into force. Following the requirements of the law the Group terminated its depository receipt program, starting from July 13th, 2022. MTS' ADSs were delisted from NYSE. The existing ADSs can be converted into MTS' ordinary shares at the ratio of 1:2. The conversion process shall be completed by January 13, 2023.

The Group provides a wide range of telecommunications and digital services including voice and data transmission, internet access, pay TV, various value added services ("VAS") through wireless and fixed lines, fintech services, B2B Cloud and digital solutions as well as the sale of handsets and accessories. In June 2018 the Group entered the market of banking services through acquisition of controlling stake in MTS Bank PJSC. The Group primarily operates in Russia.

Seasonality – Whilst the Group does not view its business as highly seasonal as defined by IAS 34, *Interim Financial Reporting*, its financial results are impacted by seasonality through the calendar year. Higher consumption of roaming services in May-September and increased demand for handsets and accessories at the year-end before winter holidays enhance revenue from services and sales of goods for the second half of the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation – These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2021.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its 2021 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequently to the issuance of its annual consolidated financial statements of the Group for the year ended December 31, 2021.

Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2021 and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present the Group's financial position, financial performance and cash flows for the interim reporting period in accordance with IAS 34, *Interim Financial Reporting*. Results for the six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ended December 31, 2022.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

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

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

These interim condensed consolidated financial statements for the six months ended June 30, 2022 were authorized for issue by the Company's President on August 24, 2022.

As at June 30, 2022, current liabilities exceeded current assets by RUB 258.1 billion. Management believes the Group has sufficient existing and continuing access to liquidity through both operating cash flows and available credit facilities. As of June 30, 2022, the Group's total available credit facilities amounted to RUB 170.4 billion (Note 9).

Significant accounting policies – The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended December 31, 2021.

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

Amendments to IAS 37
Amendments to IAS 16
Amendments to IFRS 3
Amendments to IFRS

Onerous contracts – Cost of fulfilling a contract
Property, Plant and Equipment: Proceeds before Intended Use
Reference to Conceptual Framework
Annual Improvements to IFRSs (2018-2020 Cycle)

None of these interpretations and amendments had material effect on the Group's interim condensed consolidated financial statements.

3. BUSINESS ACQUISITIONS

Acquisition of VisionLabs – In February 2022, the Group acquired a 100% ownership interest in VisionLabs B.V. («VisionLabs»), leading provider of computer vision and machine learning solutions, for total consideration of RUB 6,556 million. 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 constitutes a cash payment of RUB 5,276 million, deferred payment of RUB 659 million and contingent consideration of RUB 621 million. Contingent consideration is based on certain performance criteria for the periods starting 2022 and ending 2024.

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, automobiles, 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.

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

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

	VisionLabs	Gulfstream
Goodwill	4,232 ⁽¹⁾	1,670 ⁽³⁾
Customer base	1,726 ⁽²⁾	2,114 ⁽⁴⁾
Other intangible assets	1,561	332
Property, plant and equipment	81	279
Other non-current assets	31	289
Current assets	346	2,609
Cash and cash equivalents	299	24
Current liabilities	(946)	(2,836)
Put option to purchase NCI	-	(1,877)
Non-current liabilities	(774)	(605)
Total consideration	6,556	1,999
Including:		
Fair value of contingent consideration	621	-
Deferred payment	659	-
Cash paid	5,276	1,999

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

⁽²⁾ Amortized over the term of up to 7 years.

⁽³⁾ The provisional goodwill is attributable to the expected synergies arising from the acquisition and allocated to the "Gulfstream" operating segment.

⁽⁴⁾ Amortized over the term of 5 to 8 years.

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

Since the dates of acquisition the businesses acquired contributed revenue of RUB 1,093 million and net loss of RUB 245 million to the interim condensed consolidated statement of profit or loss. If the acquisitions had taken place at the beginning of the period, the Group's revenue and net profit would have been RUB 260,468 million and RUB 15,020 million, respectively.

4. SEGMENT INFORMATION

Management (chief operating decision maker) analyzes and reviews results of the Group's operating segments separately based on the nature of products and services, regulatory environments and geographic areas. Management of the Group evaluates the performance of each segment based on revenue and operating profit, excluding depreciation and amortization measured on the basis consistent with IFRS consolidated financial statements (the relevant financial indicator called OIBDA). Management does not analyze assets or liabilities by reportable segments.

The Group identified the following reportable segments:

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

Fintech: represents the results of banking services, investment management and services of credit broker, rendered to customers across regions of Russia.

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

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

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Financial information by reportable segments is presented below:

For the six months ended June 30, 2022:	Telecom	Fintech	Total of reportable segments	Other	HQ and elimination	Consolidated
Revenue						
Connectivity services	188,188	-	188,188	16,984	46	205,218
Sales of goods	21,450	-	21,450	685	-	22,135
Fintech services	-	28,707	28,707	-	-	28,707
Other services	1,263	173	1,436	2,243	-	3,679
External Customers	210,901	28,880	239,781	19,912	46	259,739
Intersegment	2,376	1,902	4,278	9,849	(14,127)	-
Total revenue	213,277	30,782	244,059	29,761	(14,081)	259,739
OIBDA	100,451	29	100,480	11,787	(4,033)	108,234
Depreciation and amortization						(58,755)
Impairment of non-current assets						(489)
Operating profit						48,990

For the six months ended June 30, 2021:	Telecom	Fintech	Total of reportable segments	Other	HQ and elimination	Consolidated
Revenue						
Connectivity services	181,106	-	181,106	14,211	44	195,361
Sales of goods	29,720	-	29,720	1,196	-	30,916
Fintech services	-	20,963	20,963	-	-	20,963
Other services	778	12	790	1,222	-	2,012
External Customers	211,604	20,975	232,579	16,629	44	249,252
Intersegment	1,940	1,228	3,168	8,848	(12,016)	-
Total revenue	213,544	22,203	235,747	25,477	(11,972)	249,252
OIBDA	98,595	5,374	103,969	12,688	(4,343)	112,314
Depreciation and amortization						(53,487)
Impairment of non-current assets						9
Operating profit						58,836

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

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

5. IMPAIRMENT REVIEW

Goodwill – The management of the Group performs impairment tests with respect to goodwill assigned to the cash-generating units at least annually, and also when there are any indications that the carrying amount of the cash generating unit (“CGU”) is impaired.

Investments in associates and joint ventures – The carrying amount of an investment accounted for under the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss is recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use.

Tangible and intangible assets excluding goodwill – At the end of each reporting period, the management of the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If such an indication exists, the recoverable amount of the assets is estimated in order to determine the amount of impairment loss.

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In the process of identifying the impairment indicators management of the Group considers, among other factors, CGU market value and book value and changes in risk premiums in country of operations.

When the carrying amount of the CGU exceeds its recoverable amount, assets allocated to this CGU must be impaired.

For the purpose of the impairment test the recoverable amounts of the CGUs are considered to be equal to their value-in-use. While determining 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. The discount rate applied to measure free cash flow is the weighted average cost of capital according to the finance structure established for each CGU.

Estimation of future cash flows requires assumptions to be made in respect to uncertain factors, including management expectations in relation to OIBDA margin, timing and amount of capital expenditures, terminal growth rates and appropriate discount rates to reflect the risks involved. Therefore, OIBDA margin and capital expenditures used for value in use calculation are primarily derived from internal sources, based on past experience and extended to include management expectations. For the purposes of impairment testing OIBDA calculated as operating profit less depreciation and amortization measured on the basis consistent with IFRS consolidated financial statements.

Gambit

Due to the political and economic sanctions, Esports teams under the brand “Gambit” has been unable to participate in most of major worldwide championships and lost significant part of cash inflows from advertising contracts and prizes. The Group recognized impairment of goodwill relating to CGU “Gambit” in the amount of RUB 207 million.

MTS Auto

As a result of decline in Russia’s automotive market MTS Auto’s revenue from sale of multimedia platforms for cars was significantly reduced. The Group recognized impairment of goodwill relating to CGU “MTS Auto” in the amount of RUB 282 million.

Impairment losses and reversal of the impairment charges recognized during six months ended June 30, 2022 and 2021 are attributable to operating segments, reported as a part of the “Other” category (Note 4).

The amount of impairment loss of RUB 489 million for the six months ended June 30, 2022 relates to goodwill.

6. DISCONTINUED OPERATIONS

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

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 of December 31, 2021. As of June 30, 2022 following significant uncertainty over the receipt of the consideration due to the political and economic instability and sanctions in Russia as disclosed in Note 17, the Group created expected credit allowance for the total amount of receivable and its value decreased to nil.

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NVision Czech Republic a.s. – in June 2022, following the decision on disposal of NVision Czech Republic a.s. («NVision»), all of the assets and liabilities of the subsidiary were classified as held for sale and measured at fair value less costs to sell. The results of NVision operations were reported as discontinued operations in the accompanying interim condensed consolidated statements of profit or loss.

The results of the discontinued operations were included in the (loss)/profit from discontinued operations in the interim condensed consolidated statements of profit or loss as follows:

	Six months ended June 30,					
	2022			2021		
	Ukraine	NVision	Total	Ukraine	NVision	Total
Revenue	-	4,484	4,484	-	3,264	3,264
Expenses	-	(4,355)	(4,355)	-	(3,035)	(3,035)
Profit/(Loss) before tax	-	129	129	-	229	229
Attributable tax income	-	44	44	-	32	32
Profit/(Loss) for the period	-	173	173	-	261	261
Loss on remeasurement at fair value less costs to sell	-	(973)	(973)	-	-	-
Earn-out revaluation - fair value measurement	(1,866)	-	(1,866)	121	-	121
Earn-out revaluation - Currency revaluation gain/(loss)	-	-	-	57	-	57
Net (loss)/income attributable to discontinued operations	(1,866)	(800)	(2,666)	178	261	439

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

	Six months ended June 30,					
	2022			2021		
	Ukraine	NVision	Total	Ukraine	NVision	Total
Net cash (used in)/provided by operating activities	-	(153)	(153)	-	(77)	(77)
Net cash (used in)/provided by investing activities	-	(49)	(49)	1,234	(26)	1,208
Net cash (used in)/provided by financing activities	-	189	189	-	(21)	(21)

As of June 30, 2022, the carrying amounts of assets and liabilities pertaining to the NVision disposal group and reconciliation of the loss on remeasurement at fair value less costs to sell were as follows:

	Including intercompany balances	Excluding intercompany balances retained within the Group
NVision		
Trade receivables	995	995
Inventories	827	827
Other current assets	348	348
Non-current assets	369	369
Total assets	2,539	2,539
Current liabilities	(1,295)	(1,050)
Non-current liabilities	(111)	(111)
Total liabilities	(1,406)	(1,161)
Less Fair value less costs to sell		(405)
Loss on remeasurement		973

PJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investments in associates and joint ventures are accounted for using the equity method, with exception of associates held by the Group's venture capital subsidiary, MTS Ventures Limited. The Group elected to measure venture investments in associates at fair value through profit or loss in accordance with IFRS 9:

	Country of operations	Operating activity	June 30, 2022	December 31, 2021
MTS Belarus	Belarus	Telecommunications	3,639	6,265
Zelenaya Tochka	Russia	Telecommunications	157	141
YouDo	Russia	classifieds	684	705
Other unquoted companies	Russia, Cyprus		1,982	1,319
Total investments in associates and joint ventures			6,462	8,430
Other unquoted companies accounted for at fair value through profit or loss	Russia		377	305
Total investments in associates and joint ventures			6,839	8,735

8. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Six months ended June 30,	
	2022	2021
Property, Plant and Equipment		
Additions	31,064	44,322
Disposals (net book value)	(663)	(2,191)
Intangible assets		
Additions	25,285	20,435
Disposals (net book value)	(98)	(62)

9. BORROWINGS

The Group's borrowings comprised the following:

	June 30, 2022	December 31, 2021
Notes	191,127	191,996
Bank and other loans	306,031	270,143
Total borrowings	497,158	462,139
Less: current portion	(139,815)	(111,839)
Total borrowings, non-current	357,343	350,300

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Notes – The reconciliation between opening and closing balances of the Group's Notes for the six months ended June 30, 2022 and 2021 was the following:

	<u>Currency</u>	<u>Interest rate (actual as of June 30, 2022)</u>	<u>Carrying amount</u>
Balance at December 31, 2021			191,996
New Notes			
MTS PJSC Notes P20 due 2026	RUB	11.75%	10,000
MTS PJSC Notes P19 due 2025	RUB	11.69%	10,000
MTS PJSC Notes P21 due 2026	RUB	9.65%	10,000
Repayments			(20,623)
Currency exchange gain			(10,191)
Other movements			(55)
Balance at June 30, 2022			191,127
Less: current portion			(62,458)
Total notes, non-current			128,669

	<u>Carrying amount</u>
Balance at December 31, 2020	208,155
New Notes	4,350
Repayments	(10,813)
Currency exchange gain	(674)
Other movements	37
Balance at June 30, 2021	201,055
Less: current portion	(29,914)
Total notes, non-current	171,141

Bank and other loans – The reconciliation between opening and closing balance of the Group's loans from banks and financial institutions for the six months ended June 30, 2022 and 2021 was the following:

	<u>Carrying amount</u>
Balance at December 31, 2021	270,143
New loans	46,483
Repayments	(10,456)
External loans of the acquired companies	70
Other movements	(209)
Balance at June 30, 2022	306,031
Less: current portion	(77,357)
Total bank and other loans, non-current	228,674

	<u>Carrying amount</u>
Balance at December 31, 2020	221,113
New loans	1,838
Repayments	(2,733)
External loans of the acquired companies	1,743
Write-off the subsidized loan⁽¹⁾	(1,711)
Other movements	(15)
Balance at June 30, 2021	220,235
Less: current portion	(21,984)
Total bank and other loans, non-current	198,251

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

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

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

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

The Group was in compliance with all existing notes and bank loans covenants as of June 30, 2022.

Available credit facilities – As of June 30, 2022, the Group's total available unused credit facilities amounted to RUB 170,442 million and related to the following credit lines:

Currency	Maturity	Interest rate	Available till	Available amount
RUB	2025	To be agreed	August 2025	90,000
RUB	2024	To be agreed	May 2024	25,000
RUB	2024	To be agreed	August 2024	20,000
USD/EUR/CNY	2028	LIBOR + 1.75%	July 2022	15,347
RUB/USD/EUR	2022	To be agreed	November 2022	7,000
RUB/USD/EUR	2022	To be agreed	July 2022	6,500
RUB	2024	To be agreed	January 2024	3,000
		0,1 * CBR ⁽¹⁾ key		
RUB	2025	rate + 2.42%	November 2023	1,369
		0,1 * CBR ⁽¹⁾ key		
RUB	2025	rate + 2.47%	November 2023	970
RUB	2022	CBR ⁽¹⁾ key rate	July 2022	740
RUB	2023	To be agreed	July 2022	516
Total				170,442

⁽¹⁾ CBR – Central Bank of Russia

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

The following table presents the aggregated scheduled maturities of principal and interests on notes and bank loans (gross of debt issuance costs) outstanding for the five years ending June 30, 2027 and thereafter:

	As of June 30, 2022	
	Notes	Bank loans and other debt
Payments due in the year ending June 30,		
2023	76,217	105,992
2024	39,237	78,106
2025	50,611	133,039
2026	24,682	52,844
2027	38,562	-
Thereafter	-	-
Contractual undiscounted cash flows	229,309	369,981
Less: unamortized debt issuance costs	(268)	-
Less: interest	(37,914)	(62,817)
Less: debt modification	-	(579)
Less: subsidized interest rate effect	-	(555)
Total debt	191,127	306,030

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10. FINANCE INCOME AND COSTS

Finance income and costs for the six months ended June 30, 2022 and 2021 comprised the following:

	June 30, 2022	June 30, 2021
Interest expense:		
– Loans and notes	25,041	13,225
– Amortization of debt issuance costs	52	50
– Lease obligations	6,238	5,805
– Provisions: unwinding of discount	16	55
Total interest expense	31,347	19,135
Other finance (income) costs	(29)	51
Total finance costs	31,318	19,186
Less: amounts capitalized on qualifying assets ⁽¹⁾	(534)	(235)
Debt modification/derecognition and other loss	174	115
Finance costs	30,958	19,066
Finance income on loans and receivables:		
– Interest income on bank deposits	429	1,043
– Interest income on loans issued	97	47
– Other finance (costs) income	(170)	467
Finance income	356	1,557
Net finance costs	30,602	17,509

⁽¹⁾ The annual weighted average capitalization rates of 10.1% and 6.3% were used to determine the amount of capitalized interest for the six months ended June 30, 2022 and 2021, respectively.

Interest expense for the six months ended June 30, 2022 has increased as compared to the interest expense for the six months ended June 30, 2021 mainly due to the increase in interest expense accrued on loans, bearing variable interest rates and impacted by an increase in CBR key rate.

11. RIGHTS-OF-USE ASSETS AND LEASE OBLIGATIONS

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

	June 30, 2022	December 31, 2021
Lease of:		
Sites for placement of network and base station equipment	87,710	91,566
Land and buildings	35,743	40,572
Vehicles and other	212	205
Rights-of-use assets, net	123,665	132,343

Depreciation of the rights-of-use assets for the six months ended June 30, 2022 and 2021 included in depreciation and amortization expense in the accompanying interim condensed consolidated statements of profit or loss was as follows:

	Six months ended June 30, 2022	2021
Lease of:		
Sites for network and base station equipment	(5,971)	(5,528)
Land and buildings	(3,768)	(4,134)
Vehicles and other	(61)	(22)
Depreciation charge, total	(9,800)	(9,684)

Additions to the assets leased during the six months ended June 30, 2022 and 2021 amounted to RUB 6,421 and RUB 6,312 million.

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Interest expense accrued on lease obligations for the six months ended June 30, 2022 and 2021 amounted to RUB 6,238 million and RUB 5,805 million, respectively, were included in finance costs in the accompanying interim condensed consolidated statements of profit or loss (Note 10).

The following table presents future lease payments under lease arrangements together with the present value of the net lease payments as of June 30, 2022:

	<u>June 30, 2022</u>
Lease payments, including:	
Current portion (less than 1 year)	30,267
Between 1 to 5 years	99,143
Over 5 years	85,121
Total lease payments	<u>214,531</u>
Less amount representing interest	(69,408)
Present value of net lease payments	<u>145,123</u>
Less current portion of lease obligations	(18,414)
Non-current portion of lease obligations	<u>126,709</u>

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	<u>Level of inputs</u>	<u>June 30 2022</u>	<u>December 31 2021</u>
Assets			
Securities held by MTS Bank and Sistema Capital	Level 1	19,835	25,687
Securities held by MTS Bank	Level 2	3,075	-
Derivative instruments	Level 2	318	4,736
Cross-currency swaps		90	4,626
Currency forwards, swaps and options		228	110
Mutual investment funds, managed by Sistema Capital	Level 2	9,232	10,719
Assets in Sistema Capital trust management	Level 2	7,948	10,374
Embedded derivatives in a lease agreement	Level 2	215	434
Contingent consideration	Level 3	-	1,867
Investments in equity	Level 3	1,968	1,228
Assets under option agreements	Level 3	112	112
Liabilities			
Derivative instruments	Level 2	(87)	-
Cross-currency swaps		(87)	-
Contingent consideration	Level 3	(787)	(188)

As of June 30, 2022 financial liabilities also included liability under option agreements with Gulfstream (Note 3) in amount of RUB 1,939 million. The liability was accounted for at redemption value, based on the forecast financial results of Gulfstream.

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Net realized gains and losses of Level 3 assets and liabilities resulting from fair value measurements were included in other non-operating income and loss from discontinued operations lines in the interim condensed consolidated statements of profit or loss in the following amounts:

	For the six months ended June 30,	
	2022	2021
Net realized gains/(losses) of Level 3 assets	(2,052)	1,350
Net realized gains/(losses) of Level 3 liabilities	-	(141)
	(2,052)	1,209

Net unrealized gains and losses of Level 3 assets and liabilities resulting from fair value measurements were included in other non-operating income in the interim condensed consolidated statements of profit or loss in the following amounts:

	For the six months ended June 30,	
	2022	2021
Net unrealized gains/(losses) of Level 3 assets	125	178
Net unrealized gains/(losses) of Level 3 liabilities	22	399
	147	577

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 bank deposits and loans to customers and borrowings, gross of debt issuance cost, as disclosed in the table below:

	Level of inputs	June 30, 2022		December 31, 2021	
		Fair value	Carrying value	Fair value	Carrying value
Bank deposits and loans to customers	Level 3	192,661	203,617	207,110	205,936
Total bank deposits and loans to customers		192,661	203,617	207,110	205,936
Notes	Level 1	(138,509)	(141,531)	(173,903)	(174,984)
Notes	Level 2	(22,720)	(22,596)	-	-
Unquoted notes	Level 3	(27,000)	(27,000)	(17,012)	(17,012)
Bank and other loans	Level 3	(303,788)	(306,031)	(267,405)	(270,143)
Total borrowings		(492,017)	(497,158)	(458,320)	(462,139)

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

During the six months ended June 30, 2022, Eurobonds of Russian issuers held by MTS Bank, accounted for at fair value, in amount of RUB 3,075 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 six months ended June 30, 2021.

During the six months ended June 30, 2022, corporate, bank and government debt securities held by MTS Bank, accounted for at fair value, in amount of RUB 24,770 million as of December 31, 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. As of June 30, 2022, the fair value of reclassified securities amounted to RUB 20,142 million. Interest income on reclassified securities for the six months ended June 30, 2022 amounted to RUB 779 million. There were no transfers between the accounting categories of financial instruments for the six months ended June 30, 2021.

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13. BANK FINANCIAL ASSETS AND LIABILITIES

Following the adverse effects of economic instability and sanctions in Russia (Note 17), in respect of MTS Bank operations the Group has performed an analysis of all significant risks including capital adequacy and liquidity ratios values. Taking into account the volatility of Russian financial market the Group has estimated potential impact of significant increase of both foreign exchange rate and interest rate on net income and equity of the MTS Bank as well as on capital adequacy and liquidity ratios.

To objectively present the influence of current macroeconomic conditions the Group refined main approaches, which have the most significant influence on the amounts reflected in consolidated financial statements, to valuation of the level of expected credit losses.

Loans to corporate customers:

1. As of June 30, 2022 the Group has updated macroeconomic scenarios for Probability of default (PD) model using the updated macroeconomic forecasts by the Central Bank of Russia and Oxford Economics;
2. An unscheduled testing of credit risk has been performed in light of macroeconomic environment deterioration;
3. Decrease of risk appetite caused by:
 - Enhancement of authorization procedures for new loans and tranches for existing lines of credit;
 - Review of new loan applications in light of stressful scenario of economic development according to budget and business plan;
 - Tendency to replace revolving and non-revolving lines of credit with products that have more preferable risk profile, like overdrafts and factoring;
 - Launch of enhanced monitoring of existing borrowers.

Loans to individuals, small and medium businesses:

1. As of June 30, 2022 the PD model considered the effect of macroeconomic situation and its impact on the portfolio behavior;
2. Decrease of risk appetite caused by:
 - Review of new loan applications in light of stressful scenario of economic development;
 - Launch of enhanced monitoring of existing borrowers;
 - Launch of restructuring programs for troubled borrowers.

Bank deposits and loans to customers

The table below represents the structure and amounts of current and non-current bank deposits and loans to customers as of June 30, 2022 and December 31, 2021.

	June 30, 2022	December 31, 2021
Loans to customers	233,871	223,567
Due from banks	383	3,513
Allowance for expected credit losses (ECL)	(30,637)	(21,144)
Total bank deposits and loans to customers, net	203,617	205,936
Less: current portion	(85,501)	(87,594)
Bank deposits and loans to customers, non-current	118,116	118,342

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The structure and amounts of bank loans to customers as of June 30, 2022 and December 31, 2021 are presented in the table below:

	June 30, 2022	December 31, 2021
Loans to legal entities		
Corporate borrowers	18,004	28,409
Medium-sized enterprises and small businesses	1,624	1,706
Total loans to legal entities	19,628	30,115
Loans to individuals		
Mortgage loans	15,785	16,553
Consumer loans	149,264	139,766
Credit cards	49,064	36,933
Other	130	200
Total loans to individuals	214,243	193,452
Due from banks		
Time deposits with banks	22	1,780
Obligatory reserves with the Central Bank of Russia	361	1,733
Total due from banks	383	3,513
Total bank deposits and loans to customers	234,254	227,080
Less: allowance for impairment losses	(30,637)	(21,144)
Total bank deposits and loans to customers, net	203,617	205,936

Movements in the allowance for expected credit losses for the six months ended June 30, 2022 are presented in the table below:

	Loans to individuals	Loans to legal entities	Due from banks	Total
Balance as at December 31, 2021	17,976	3,138	30	21,144
Provision charge / (release)	11,355	288	46	11,689
Recovery of bad debt written-off	129	45	-	174
Bad debt written-off	(473)	(14)	(16)	(503)
Sale of loans	(1,232)	-	-	(1,232)
Other movements	-	(635)	-	(635)
Balance as at June 30, 2022	27,755	2,822	60	30,637

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

	Loans to individuals	Loans to legal entities	Due from banks	Total
Balance as at December 31, 2020	12,692	3,744	10	16,446
Provision charge / (release)	4,993	(876)	4	4,121
Recovery of bad debt written-off	303	456	-	759
Bad debt written-off	(2,832)	(13)	-	(2,845)
Balance as at June 30, 2021	15,156	3,311	14	18,481

Bank deposits and liabilities

The table below represents the structure and amounts of current and non-current bank deposits and liabilities as of June 30, 2022 and December 31, 2021.

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	June 30, 2022	December 31, 2021
Customer accounts	181,477	192,177
Due to banks and other financial institutions	13,457	21,430
Debt securities issued	5,598	5,581
Financial liabilities at fair value through profit or loss	-	-
Other financial liabilities	2,392	2,180
Total bank deposits and liabilities	202,924	221,368
Less: current portion	(200,882)	(207,055)
Total bank deposits and liabilities, non-current	2,042	14,313

The structure and amounts of customer accounts as of June 30, 2022 and December 31, 2021 are presented below:

	June 30, 2022	December 31, 2021
Legal entities		
- Current/settlement accounts	31,083	13,311
- Term deposits	37,437	63,003
Individuals		
- Current/settlement accounts	16,585	20,654
- Term deposits	96,372	95,209
Total customer accounts	181,477	192,177

The structure and amounts of due to banks as of June 30, 2022 and December 31, 2021 are presented below:

	June 30, 2022	December 31, 2021
Loans under repurchase agreements	10,999	9,333
Loans and term deposits from banks and other financial institutions	1,004	9,474
Correspondent accounts of other banks	1,454	2,623
Total due to banks	13,457	21,430

Loans under repurchase agreements were secured by the following collateral:

- Securities measured at fair value through profit or loss with the value of nil and RUB 1,946 million as of June 30, 2022 and December 31, 2021 respectively;
- Securities measured at amortized cost with the value of RUB 472 million and RUB 8,624 million as of June 30, 2022 and December 31, 2021 respectively;
- Securities measured at fair value through other comprehensive income with the value of RUB 11,353 million and nil as of June 30, 2022 and December 31, 2021 respectively.

In November 2015, MTS Bank received a subordinated debt of RUB 7,246 million in the form of federal loan bonds (OFZ) from the state corporation «Deposit insurance agency» (DIA) with the date of maturity January 22, 2025. In accordance with the terms of the contract, MTS Bank should return the securities to the creditor at the end of the contract period. The Group does not recognize the securities and the obligation to return them to the creditor in the consolidated statement of financial position as of June 30, 2022 and December 31, 2021. In accordance with the contract, MTS Bank should comply with certain covenants with respect to capital and loan portfolio of loans to individuals. If the above conditions are not met, DIA may apply penalties to MTS Bank. The contract also includes certain restrictions on sale or repledge of the securities by MTS Bank. The securities received from DIA were not pledged as a collateral as of June 30, 2022 and December 31, 2021.

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14. INCOME TAX

Significant components of income tax expense for the six months ended June 30, 2022 and 2021 were as follows:

	Six months ended June 30,	
	2022	2021
Current income tax charge	7,317	10,462
Adjustments recognised for current tax of prior periods	(325)	149
Total current income tax	6,992	10,611
Deferred tax	(1,013)	(1,324)
Income tax expense on continuing operations	5,979	9,287

Income tax expense on continuing operations excludes the amounts of tax income from the discontinued operations of RUB 44 million and RUB 32 million for six months ended June 30, 2022 and 2021, respectively, which have been included in (loss)/profit from discontinued operations in the interim condensed consolidated statement of profit or loss (Note 6).

The statutory income tax rates in jurisdictions in which the Group operated during six months ended June 30, 2022 did not change in comparison to the statutory income tax rates effective at December 31, 2021. The Russian statutory income tax rate of 20% reconciled to the Group's effective income tax rate for the six months ended June 30, 2022 and 2021 was as follows:

	Six months ended June 30,	
	2022	2021
Statutory income tax rate for the period	20.0%	20.0%
Adjustments:		
Expenses not deductible for tax purposes	2.7	2.3
Earnings distribution from subsidiaries	0.9	-
Derecognition of deferred tax assets	0.9	-
Change in fair value of derivative financial instruments	0.7	(0.7)
Other	(0.1)	-
Effective income tax rate	25.1%	21.6%

15. SHAREHOLDERS' EQUITY

Common stock (ordinary shares)

The Group had 1,998,381,575 authorized ordinary shares with par value 0.1 RUB as of June 30, 2022 and December 31, 2021. Preferred shares have not been issued.

As of June 30, 2022, there were 314,020,625 total shares in treasury stock and 1,684,360,950 shares were outstanding. As of December 31, 2021, the total shares in treasury stock comprised 335,757,457 and 1,662,624,118 shares were outstanding.

Dividends

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

In accordance with Russian laws, earnings available for dividends are limited to profits determined under Russian statutory accounting regulations, denominated in Russian Rubles, after certain deductions. As of June 30, 2022 accumulated profit determined under Russian statutory accounting regulation amounted to RUB 49,325 million.

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The following table summarizes the Group's declared cash dividends for the six months ended June 30, 2022 and 2021:

	Six months ended June 30,	
	2022	2021
Dividends declared (including dividends on treasury shares of 9,319 and 8,379 respectively)	66,335	52,966
Dividends, RUB per ADS	67.70	53.02
Dividends, RUB per share	33.85	26.51

As of June 30, 2022 and December 31, 2021, dividends payable were RUB 57,075 million and RUB 68 million, respectively, and were included in the trade and other payables within the interim condensed consolidated statement of financial position.

As of June 30, 2022, the Group had a negative balance of equity attributable to owners of the Company, which mainly reflects share repurchases completed by the Group over the 2016-2021 period as well as increased dividend payouts. The Group's management does not consider this issue as creating any significant risk to neither the Group's continued operations nor its ability to pay future dividends. The Company is not subject to any requirements of the regulatory bodies or creditors which set that the Company comply with minimum requirements to the balance of the equity.

16. RELATED PARTIES

Related parties include the Sistema Public Joint-Stock Financial Corporation or "Sistema", a shareholder of the Group, subsidiaries of Sistema, affiliated companies, associates and joint ventures.

Terms and conditions of transactions with related parties – Outstanding balances as of June 30, 2022 and December 31, 2021, were unsecured except accounts receivable from Business Nedvizhimost in amount of RUB 1,485 million, which were secured by buildings pledged as collateral. Settlements with related parties are made on a cash basis. There have been no guarantees provided or received for any related party receivables or payables. As of June 30, 2022, the Group had no significant amounts of credit impairment relating to the receivables owed by related parties as well as impairment expenses recognized during the six months ended June 30, 2022 and 2021.

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

Balances of related parties' transactions were as follows:

ASSETS FROM RELATED PARTIES	June 30, 2022	December 31, 2021
NON-CURRENT ASSETS:		
Right-of-use assets, Gross Book Value		
<i>Sistema's subsidiaries</i>	4,013	4,432
<i>Other related parties</i>	104	111
Right-of-use assets, Accumulated Depreciation		
<i>Sistema's subsidiaries</i>	(1,468)	(1,586)
<i>Other related parties</i>	(51)	(46)
Other investments		
<i>The Group's associates</i>	581	625
<i>Sistema's subsidiaries</i>	3,322	117
<i>Other related parties</i>	3	2
Accounts receivable, related parties		
<i>Sistema's subsidiaries</i>	1,420	5,000
Bank deposits and loans to customers		
<i>Sistema's associates</i>	306	2,587
<i>Sistema's subsidiaries</i>	1,690	1,179
Total non-current assets	9,920	12,421

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ASSETS FROM RELATED PARTIES	June 30, 2022	December 31, 2021
CURRENT ASSETS:		
Accounts receivable, related parties		
<i>Sistema's subsidiaries</i>	1,730	1,255
<i>The Group's associates</i>	1,711	911
<i>Other related parties</i>	126	121
Bank deposits and loans to customers		
<i>Sistema's associates</i>	48	2,078
<i>Sistema's subsidiaries</i>	4,213	820
<i>Key management personnel of the Group and Sistema</i>	71	87
Short-term investments		
<i>Sistema's subsidiaries</i>	2,944	2,377
<i>Sistema</i>	1,568	1,443
<i>Other related parties</i>	55	-
Cash and cash equivalents		
<i>Sistema's subsidiaries</i>	2,205	1,311
Other financial assets		
<i>Sistema</i>	1,780	1,829
<i>Sistema's subsidiaries</i>	410	300
<i>Other related parties</i>	179	109
Other assets		
<i>Sistema's subsidiaries</i>	891	1,059
<i>Other related parties</i>	136	83
Total current assets	18,067	13,783
TOTAL ASSETS FROM RELATED PARTIES	27,987	26,204
LIABILITIES TO RELATED PARTIES	June 30, 2022	December 31, 2021
NON-CURRENT LIABILITIES:		
Lease obligations		
<i>Sistema's subsidiaries</i>	3,454	3,968
<i>Other related parties</i>	57	70
Bank deposits and liabilities		
<i>Key management personnel of the Group and Sistema</i>	283	1,433
Total non-current liabilities	3,794	5,471
CURRENT LIABILITIES:		
Accounts payable, related parties		
<i>Sistema's subsidiaries</i>	998	2,756
<i>The Group's associates</i>	179	711
<i>Sistema's associates</i>	410	632
<i>Other related parties</i>	3	8
Dividends payable		
<i>Sistema</i>	21,006	-
<i>Sistema's subsidiaries</i>	7,474	-
Borrowings		
<i>The Group's associates</i>	2,587	2,129
<i>Other related parties</i>	11	11
Lease obligations		
<i>Sistema's subsidiaries</i>	540	551
<i>Other related parties</i>	10	13
Bank deposits and liabilities		
<i>Key management personnel of the Group and Sistema and</i>		
<i>Sistema's shareholders</i>	36,761	32,886
<i>Sistema's subsidiaries</i>	13,360	22,312
<i>Sistema's associates</i>	5,937	9,163
<i>Sistema</i>	958	2,042
<i>Other related parties</i>	371	376
Total current liabilities	90,605	73,590
TOTAL LIABILITIES TO RELATED PARTIES	94,399	79,061

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Operating transactions – During the six months ended June 30, 2022 and 2021 the Group provided the following services to related parties – electricity supply by LLC “MTS Energo”, Internet and video/image transmission services, integration services, roaming, interconnect and other telecommunication services, banking services.

At the same time, the Group incurred security expenses, roaming and interconnect expenses, transfer of line-cable structures, dismantling equipment expenses, rent expenses and other expenses, and recognized income from scrap metal sales and other operations.

		Six months ended June 30,	
		2022	2021
Revenue			
	<i>Sistema's subsidiaries</i>	2,412	2,362
	<i>Sistema's associates</i>	316	356
	<i>Other related parties</i>	496	543
Total Revenue		3,224	3,261
Cost of services			
	<i>Key management personnel of the Group and Sistema</i>	1,197	669
	<i>Sistema's subsidiaries</i>	2,222	608
	<i>Other related parties</i>	780	251
Selling, general and administrative expenses			
	<i>Key management personnel of the Group and Sistema</i>	2,149	2,760
	<i>Other related parties</i>	392	369
Other operating income / (expense)			
	<i>Sistema's subsidiaries</i>	785	849
	<i>Other related parties</i>	-	37
Operating profit / (loss)		(2,731)	(510)
Finance income / (loss)			
	<i>Sistema's subsidiaries</i>	(142)	513
	<i>Other related parties</i>	(97)	32
Profit before tax		(2,970)	35

During the six months ended June 30, 2022 and 2021, the Group acquired property, plant and equipment and intangible assets from related parties in the amounts of:

		Six months ended June 30,	
		2022	2021
Purchases of property, plant and equipment, intangible assets and other assets:			
	<i>Sistema's subsidiaries</i>	6,337	3,466
	<i>Other related parties</i>	173	181
Total purchases of property, plant and equipment, intangible assets and other assets, related parties		6,510	3,647

Lease payments

During the six months ended June 30, 2022 and 2021, the Group made lease payments to the related parties in the amount of RUB 605 million and RUB 713 million, respectively.

Business Nedvizhimost

In December 2021, the Group purchased 5-year 10.8% coupon notes of JSC “Business-Nedvizhimost” or “Business-Nedvizhimost”, in the amount of RUB 2,100 million. The notes were accounted as financial assets at fair value through profit and loss and disclosed within short-term investments in the accompanying interim condensed consolidated statements of financial position. As of June 30, 2022 and December 31, 2021, the investment amounted to RUB 2,104 million and RUB 2,105 million respectively.

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In April 2022, the Group signed a novation in respect of its agreement with Business Nedvizhimost related to the sale of buildings in 2019. Under the new terms part of the receivable was reorganized to loan with a similar repayment schedule and interest rate. The loan will be repaid by JSC "Sistema-Invest", Sistema's subsidiary. As of June 30, 2022, the amount of the loan recognised as part of other investments and short-term investments in the accompanying interim condensed consolidated statements of financial position totaled to RUB 3,206 million and RUB 246 million, respectively.

Sistema

The Group holds Sistema notes which were accounted as financial assets at fair value through profit and loss and disclosed within short-term investments in the accompanying interim condensed consolidated statements of financial position. As of June 30, 2022 and December 31, 2021, the investment amounted to RUB 1,437 million and RUB 1,443 million respectively.

Nvision Group

In October 2020, the Group disposed of 100% in Nvision Group to Sistema and since then it is considered to be a related party instead of subsidiary of the Group. The Group continues to purchase software, services and other intangible assets from Nvision Group.

The purchases of software, services and other intangible assets during the six months ended June 30, 2022 and 2021, amounted to RUB 2,906 million and RUB 2,612 million, respectively.

Remuneration of key management personnel

Key management personnel of the Group are members of the Board of Directors and Management Board. During the six months ended June 30, 2022 and 2021 key management personnel total remuneration amounted to RUB 1,208 million and RUB 1,058 million, respectively, including social contributions of RUB 314 million and RUB 219 million, respectively. These amounts comprised of RUB 657 million and RUB 287 million in base salaries and RUB 551 million and RUB 771 million in bonuses paid pursuant to a bonus plan, respectively (including social contributions).

The management and directors are also entitled to cash-settled and equity-settled share-based payments. Related compensation accrued during the six months ended June 30, 2022 and 2021 amounted to RUB 841 million and RUB 1,702 million, respectively, including social contributions of nil and RUB 208 million, respectively.

17. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of June 30, 2022 and December 31, 2021, the Group had entered into purchase agreements of approximately RUB 56,430 and RUB 67,614 million to acquire property, plant and equipment, intangible assets and costs related thereto.

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

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

	June 30, 2022	December 31, 2021
Contingent liabilities for additional taxes other than income tax	961	860
Contingent liabilities for additional income taxes	1,306	1,132

Licenses – Management believes that as of June 30, 2022 the Group complied with conditions of the licenses used.

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

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

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

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 (for one claim the decision of the court of cassation is pending). 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 of June 30, 2022 it has adequately provided for claims related to SMS pricing.

Potential adverse effects of economic instability and sanctions in Russia – In February 2022, following an escalation in conflict between Russia and Ukraine, the EU, US, UK and certain other countries have imposed significant new sanctions and export controls on Russian and Belarusian persons and entities. These include, among others, restrictions targeting several major Russian financial institutions and the Central Bank of Russia ("CBR"), a number of companies and individuals as well as technology export controls.

On February 28, 2022, trading on the Moscow Exchange in all equity securities was suspended (including MTS PJSC ordinary shares), with the suspension later extended to March 28. Also on February 28, the New York Stock Exchange halted trading in the Company's American depositary shares ("ADSs") and those of certain other Russian companies.

Developments relating to these matters are highly unpredictable, occur swiftly and often with little notice and are mostly outside the control of the Group, and the risk that any Group member, or individuals holding positions within the Group as well as its counterparties, may be affected by future sanctions designations cannot be excluded. Current and future risks to the Group include, among others, the risk of reduced or blocked access to capital markets and ability to obtain financing on commercially reasonable terms (or at all), the risk of restrictions on the import of certain equipment and software, as well as the risk deviations of the conversion rate of Russian ruble against other currencies. In addition, Central Bank's of Russia increase of its key rate to 20% on February 28, 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 9,5% as of June 30, 2022 and to 8% as of the date of issuance of these interim condensed consolidated financial statements.

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Furthermore, the CBR has prohibited Russian companies from making any payments, including dividends, on securities of Russian companies to non-Russian residents, with the result that any non-Russian resident holders of our ADSs were ineligible to receive such dividends. In May 2022, the Decree of the President of Russian Federation No. 254 has set temporary procedures for making dividend payments on securities of Russian companies to non-Russian residents, which includes making payments in Russian rubles through special accounts.

In April 2022, Russian Federal Law No. 114-FZ, requiring Russian companies to terminate their depository receipt programs, came into force. In May, the Russian Government Commission on Monitoring Foreign Investment ("the Commission") approved the Company's request to maintain its American Depositary Receipts (ADR) program. The Commission's decision provided for the continuation of circulation of MTS ADRs until July 12, 2022 (inclusive). Following the Commission's decision and requirements of the law the Group initiated the termination process of its depository receipt program, starting from July 13th, 2022. MTS' ADSs were delisted from the NYSE effective August 8, 2022. The existing ADSs can be converted into MTS' ordinary shares at the ratio of 1:2. The conversion process shall be completed by January 12, 2023 (inclusive), subject to newly enacted by various authorities laws and regulations that may accelerate or delay this anticipated timeline.

In July 2022, Federal Law No. 319-FZ «On Amendments to Certain Legislative Acts of the Russian Federation» and the Decision of the Bank of Russia's Board of Directors «On Adopting the Procedure for the Automatic Conversion of Foreign-Issuer Securities that Certify Rights to Russian-Issuer Shares into Russian-Issuer Shares» were issued. In August 2022, the Group initiated ADSs automatic conversion into ordinary shares under the current Russian legislation. After conversion of ADSs into ordinary shares, the holders will have the right to receive dividends.

Operations of MTS Bank, the Group's subsidiary, are susceptible to the risks affecting the Group's borrowers' ability to repay amounts due to the Group, which may be impacted by the overall macroeconomic environment and business climate. Adverse changes in economic conditions may result in deterioration in the value of collateral held against loans and other obligations.

Management remains focused on ensuring operational continuity and providing uninterrupted connectivity and other services for customers. Management believes it is taking the appropriate measures to support the sustainability of the Group's business in the current circumstances.

Compliance monitoring – 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 of December 31, 2021 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. However, given a variety of factors, including the COVID-19 pandemic, the Group has agreed to a one-year extension of the DPA and the monitoring 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 monitoring will continue until September 2023.

In connection with compliance monitoring, 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.

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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.

18. SUBSEQUENT EVENTS

Acquisition of Bronevik – In July 2022, the Group acquired a 100% ownership interest in LLC «Company Bronevik » and LLC « Bronevik Online» (together - «Bronevik»), provider of hotel booking services. The acquisition is aimed at developing the Group's travel and tourism services. Total consideration of RUB 4,000 million was paid in cash.

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 is aimed at expanding the Group's B2B services and developing of an application integrated with videoconferencing services.