Independent auditor's report
on the consolidated financial statements of
Public Joint Stock Company Rostelecom
and its subsidiaries
for 2019

March 2020

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Public Joint Stock Company Rostelecom
and its subsidiaries

Contents

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Independent auditor's report

To the Shareholders and Board of Directors
Public Joint Stock Company
Rostelecom (PJSC Rostelecom)

Opinion

We have audited the consolidated financial statements of PJSC Rostelecom and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	*How our audit addressed the key audit matter*
Recognition and measurement of revenue from telecommunication services	
As disclosed in Note 27, revenue amounted to RUB 337,421 billion in 2019. Recognition and measurement of revenue from telecommunication services was one of the most significant matters identified in our audit due to the Company's using complex automated accounting systems ("AAS") for revenue calculation. There are different tariff plans, multiple-element customer agreements, one-off and recurrent service payment schemes as well as recognizing revenue from cloud services required from Group management significant judgement in applying IFRS 15 *Revenue from Contracts with Customers*.	Our audit procedures in respect of revenue included testing on a sample basis calculations made by AASs, including verifying calculation algorithms used by AASs to calculate revenue, accounts receivable and advances received. We performed testing of automated and semi-automated controls with respect to AASs. Our audit procedures also included testing on a sample basis of data obtained from AAS. As for recognition and accounting of certain types of revenue, we examined the Group's agreements and analysed the impact on revenue recognition criteria of probability that the economic benefits associated with customers will flow to the Group. We analysed tariff plans and conditions of agreements with counterparties and checked on a sample basis the accounting treatment of respective transactions. We examined respective disclosures in the consolidated financial statements.
Impairment of fixed and other non-current assets, including goodwill and intangible assets with indefinite useful lives	
As described in Notes 8 and 9, impairment testing at the level of cash-generating units ("CGU") requires management to make significant estimates and assumptions. Due to this fact as well as due to the significant carrying amount of fixed and other non-current assets, including goodwill and intangible assets with indefinite useful lives, and highly sensitive value-in-use of the Group's CGUs to a variety of assertions and assumptions, this matter was one of the most significant for our audit. Significant estimates and assumptions include discount rate used, the expected growth in projections periods and expected margin.	In the course of our audit procedures, we analysed assumptions and assertions used to calculate the value-in-use of the Group's significant CGUs, as well as tested calculations of the value-in-use of the Group's CGUs involving our valuation specialists. For this purpose, we analysed the industry growth forecasts and performed the budget-to-actual analysis of the Group's operating indicators. We also analysed the management assessment of the impairment testing sensitivity to underlying assertions and assumptions. In addition, we examined respective disclosures in the consolidated financial statements.

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Key audit matter	*How our audit addressed the key audit matter*
Impairment of accounts receivable	
As disclosed in Note 16, the carrying amount of accounts receivable is RUB 52,119 billion as at 31 December 2019. The assessment of an allowance for expected credit losses significantly impacts the amount of the impairment loss and, thus, the carrying amount of the accounts receivable. Therefore, this matter is one of the most significant for our audit. The management assessment of the expected credit losses is based on assumptions and estimates, in particular, on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors.	In the course of our audit procedures, we examined the Group's accounting policy as related to creating provision for impairment loss, checked information underlying the Group's calculations of the impairment loss, including historical data on the repayment of amounts due and their aging analysis adjusted for forward-looking factors specific to the debtors. We analysed the assessment of the recoverability of trade accounts receivable and applied rates for impairment loss calculation adjusted for forward-looking factors. We examined respective disclosures in the consolidated financial statements.
Business combinations	
As disclosed in Note 7 the Group performed several acquisitions. Determining the fair value of assets and liabilities obtained during business combination involves significant judgments and estimates by the management and is performed with participation of an independent appraiser. Due to significance of judgment and the potential effect on the consolidated financial statements, we considered assessing the fair value of assets, liabilities and goodwill calculation obtained during business combination to be one of the key audit matters.	In the course of our audit procedures we have gained an understanding of the Group's procedures and controls related to approval and accounting approaches for these transactions. We have studied the terms of the relevant legal documents for the acquisition of businesses and analysed the terms of transactions. We analyzed the fair value measurement of identifiable assets and liabilities by engaging our valuation specialists. We have reviewed the relevant disclosures in the consolidated financial statements.

Other information included in the Annual Report of PJSC Rostelecom 2019

Other information consists of the information included in the Annual Report of PJSC Rostelecom for 2019, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of PJSC Rostelecom for 2019 is expected to be made available to us after the date of our 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.

Responsibilities of management and Board of Directors and Audit Committee 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.

Board of Directors and Audit Committee 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.

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- 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 Board of Directors and Audit Committee 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 Board of Directors and Audit Committee 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 Board of Directors and Audit Committee, 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.

The partner in charge of the audit resulting in this independent auditor's report is N.G. Starygina.

Нина Старыгина

N.G. Starygina
Partner
Ernst & Young LLC

2 March 2020

Details of the audited entity

Name: Public Joint Stock Company Rostelecom
Record made in the State Register of Legal Entities on 9 September 2002, State Registration Number 1027700198767.
Address: Russia 191002, Saint-Petersburg, Dostoevsky street, 15.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

PJSC Rostelecom

Consolidated statement of financial position

(In millions of Russian roubles unless otherwise stated)

	Notes	31 December 2019	31 December 2018 (restated)*
Assets			
Non-current assets			
Property, plant and equipment	8	401,516	373,839
Investment properties		181	172
Goodwill and other intangible assets	9	91,318	66,083
Right of use assets	10	28,890	21,205
Trade and other accounts receivable	16	6,131	7,346
Investments in associates and joint ventures	12	72,850	69,982
Other financial assets	13	2,667	1,950
Other non-current assets	14	9,667	4,667
Deferred tax assets	26	1,133	863
Contract assets	17	866	501
Contract costs	18	12,774	12,323
Total non-current assets		**627,993**	**558,931**
Current assets			
Inventories	15	9,413	7,631
Contract assets	17	4,610	9,511
Trade and other accounts receivable	16	45,988	44,189
Prepayments		5,618	4,380
Prepaid income tax	26	821	984
Other financial assets	13	8,888	7,487
Other current assets	20	4,640	2,856
Cash and cash equivalents	19	19,556	10,080
Asset classified as held for sale	40	749	554
Total current assets		**100,283**	**87,672**
Total assets		**728,276**	**646,603**
Equity and liabilities			
Equity attributable to equity holders of the Group			
Share capital	21	93	93
Additional paid-in capital		115	115
Treasury shares		(53,391)	(60,419)
Retained earnings and other reserves		310,807	307,234
Total equity attributable to equity holders of the Group		**257,624**	**247,023**
Non-controlling interests		4,564	3,909
Total equity		**262,188**	**250,932**
Non-current liabilities			
Loans and borrowings	22	219,319	174,371
Lease liabilities	10	24,349	16,855
Employee benefits	25	5,881	4,675
Deferred tax liabilities	26	37,067	38,269
Accounts payable, provisions and accrued expenses	23	4,671	3,090
Other non-current liabilities	24	32,990	21,142
Total non-current liabilities		**324,277**	**258,402**
Current liabilities			
Loans and borrowings	22	21,873	29,908
Lease liabilities	10	5,593	4,791
Accounts payable, provisions and accrued expenses	23	86,504	88,530
Income tax payable		1,168	644
Other current liabilities	24	26,673	13,396
Total current liabilities		**141,811**	**137,269**
Total liabilities		**466,088**	**395,671**
Total equity and liabilities		**728,276**	**646,603**

* *See Note 6.*

Consolidated financial statements were approved by management of PJSC Rostelecom on 2 March 2020 and were signed on its behalf by:

President
Oseevskiy M.E.

CFO – Senior Vice President
Anokhin S.N.

Consolidated statement of profit or loss and other comprehensive income

(In millions of Russian roubles unless otherwise stated)

	Notes	Year ended 31 December 2019	2018 (restated)*
Revenue	27	**337,421**	**320,239**
Operating expenses			
Wages, salaries, other benefits and payroll taxes	28	(106,193)	(97,350)
Depreciation, amortization and impairment losses	8, 9,10,18	(67,313)	(60,329)
Interconnection charges		(57,151)	(58,293)
Materials, utilities, repairs and maintenance	29	(26,168)	(26,183)
Gain on disposal of property, plant and equipment and intangible assets		8,081	7,184
Impairment loss of financial assets measured at amortized cost	16	(6,190)	(4,925)
Other operating income	30	17,359	13,673
Other operating expenses	31	(65,994)	(58,216)
Total operating expenses, net		**(303,569)**	**(284,439)**
Operating profit		**33,852**	**35,800**
Share of net profit/(loss) of associates and joint ventures	12	1,971	(91)
Finance costs	32	(19,519)	(17,275)
Other investing and financial gain, net	33	1,779	1,602
Foreign exchange (loss)/gain, net		438	(597)
Profit before income tax		**18,521**	**19,439**
Income tax expense	26	(2,047)	(4,427)
Profit for the year		**16,474**	**15,012**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Share of other comprehensive income of associates		–	22
Exchange differences on translation of foreign operations		(292)	428
Net other comprehensive (loss)/income to be reclassified to profit or income/(loss) in subsequent periods		**(292)**	**450**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods			
Remeasurement of defined benefit pension plans	25	(2)	(180)
Income tax on remeasurement of defined benefit pension plans	26	–	36
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**(2)**	**(144)**
Other comprehensive (loss)/income for the year, net of tax		**(294)**	**306**
Total comprehensive income for the year		**16,180**	**15,318**
Profit attributable to:			
Equity holders of the Group	36	14,777	14,154
Non-controlling interests		1,697	858
Total comprehensive income attributable to:			
Equity holders of the Group		14,470	14,491
Non-controlling interests		1,710	827
Earnings per share attributable to equity holders of the Group – basic (in roubles)	36	6.38	6.23
Earnings per share attributable to equity holders of the Group – diluted (in roubles)	36	6.23	6.09

* *See Note 6.*

Consolidated statement of cash flows

(In millions of Russian roubles unless otherwise stated)

	Notes	Year ended 31 December 2019	2018 (restated)*
Cash flows from operating activities			
Profit before tax		**18,521**	**19,439**
Adjustments to reconcile profit before tax to cash generated from operations			
Depreciation, amortization and impairment losses	8, 9	67,313	60,329
Gain on disposal of property, plant and equipment and intangible assets		(8,081)	(7,184)
Impairment loss of financial assets measured at amortized cost	16	6,190	4,925
Share of net profit/(loss) of associates and joint ventures	12	(1,971)	91
Finance costs excluding finance costs on employee benefit obligations	32	19,454	17,180
Other investing and financial gain, net	33	(1,779)	(1,602)
Foreign exchange loss/(gain), net		(438)	597
Share-based motivation program		4,028	3,500
Increase in accounts receivable and contract assets		(809)	(9,502)
Increase/(decrease) in employee benefits		858	(353)
Increase in inventories		(1,678)	(1,414)
Increase in accounts payable, provisions and accrued expenses		14,502	13,377
Increase in other assets		(6,950)	(4,245)
Increase in other liabilities		12,609	3,995
Cash generated from operations		**121,769**	**99,133**
Interest paid		(19,597)	(18,174)
Income tax refund		693	230
Income tax paid		(3,444)	(3,945)
Net cash from operating activities		**99,421**	**77,244**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(100,513)	(73,179)
Proceeds from sale of property, plant and equipment, intangible assets and assets held for sale		9,532	10,097
Acquisition of financial assets		(8,152)	(7,351)
Proceeds from disposals of financial assets		4,809	5,296
Interest received		798	589
Subsidy from Government	24	13,572	3,641
Dividends received		232	95
Purchase of subsidiaries and business, net of cash acquired	7	(23,009)	(4,064)
Proceeds from disposal of subsidiaries, net of cash disposed		–	80
Acquisition of equity accounted investees	12	(544)	(4,386)
Net cash used in investing activities		**(103,275)**	**(69,182)**
Cash flows from financing activities			
Proceeds from bank and corporate loans	22	555,802	579,949
Repayment of bank and corporate loans	22	(540,306)	(564,785)
Proceeds from bonds	22	25,000	10,000
Repayment of bonds	22	(7,389)	(11,209)
Repayment of promissory notes	22	(51)	–
Repayment of vendor financing payable		(11)	(15)
Repayment of other non-current financing liabilities		–	(1)
Proceeds from non-controlling shareholders of subsidiaries		–	24
Repayment of lease liabilities	10	(5,674)	(4,034)
Acquisition of non-controlling interests	11	(1,397)	–
Dividends paid to shareholders of the Group	21	(11,731)	(11,547)
Dividends paid to non-controlling shareholders of subsidiaries	11	(824)	(226)
Net cash from/(used in) financing activities		**13,419**	**(1,844)**
Effect of exchange rate changes on cash and cash equivalents		(89)	47
Net increase in cash and cash equivalents		**9,476**	**6,265**
Cash and cash equivalents at beginning of the year		10,080	3,815
Cash and cash equivalents at the end of the year		**19,556**	**10,080**

* *See Note 6.*

Consolidated statement of changes in equity

(In millions of Russian roubles unless otherwise stated)

	Attributable to equity holders of the Group									
	Share capital	**Additional paid-in capital**	**Translation of foreign operations**	**Treasury shares**	**Other capital reserves**	**Remeasure-ments of defined benefit pension plans**	**Retained earnings**	**Total equity attributable to share-holders of the Group**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2019	**93**	**115**	**1,287**	**(60,419)**	**3,334**	**6,142**	**296,471**	**247,023**	**3,909**	**250,932**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**14,777**	**14,777**	**1,697**	**16,474**
Exchange differences on translation foreign operations	–	–	(305)	–	–	–	–	**(305)**	13	**(292)**
Actuarial losses (Note 25)	–	–	–	–	–	(2)	–	**(2)**	–	**(2)**
Total other comprehensive income/(loss), net of tax	**–**	**–**	**(305)**	**–**	**–**	**(2)**	**–**	**(307)**	**13**	**(294)**
Total comprehensive income for the year	**–**	**–**	**(305)**	**–**	**–**	**(2)**	**14,777**	**14,470**	**1,710**	**16,180**
Dividends to shareholders of the Company (Note 21)	–	–	–	–	–	–	(5,991)	**(5,991)**	–	**(5,991)**
Dividends to non-controlling shareholders of subsidiaries (Note 11)	–	–	–	–	–	–	–	**–**	(850)	**(850)**
Acquisition of non-controlling interests	–	–	(10)	–	98	–	(1,385)	**(1,297)**	(332)	**(1,629)**
Disposal of non-controlling interests (Note 11)	–	–	–	–	–	–	(31)	**(31)**	31	**–**
Non-controlling interests in acquired subsidiaries (Note 7)	–	–	–	–	–	–	–	**–**	96	**96**
Employee benefits within share based employee motivation program (Note 35)	–	–	–	7,028	573	–	(3,573)	**4,028**	–	**4,028**
Other changes in equity	–	–	–	–	–	–	(578)	**(578)**	–	**(578)**
Total transactions with shareholders	**–**	**–**	**(10)**	**7,028**	**671**	**–**	**(11,558)**	**(3,869)**	**(1,055)**	**(4,924)**
Balances at 31 December 2019	**93**	**115**	**972**	**(53,391)**	**4,005**	**6,140**	**299,690**	**257,624**	**4,564**	**262,188**

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Consolidated statement of changes in equity (continued)

	Attributable to equity holders of the Group									
	Share capital	Additional paid-in capital	Translation of foreign operations	Treasury shares	Other capital reserves	Remeasure-ments of defined benefit pension plans	Retained earnings	Total equity attributable to share-holders of the Group	Non-controlling interests *	Total equity
Balances at 1 January 2018	**93**	**91**	**806**	**(65,556)**	**2,700**	**6,286**	**301,702**	**246,122**	**3,242**	**249,364**
Effect of application IFRS 9, 15, 16	–	–	–	–	–	–	392	**392**	–	**392**
Balances at 1 January 2018, amended on effect of application IFRS 9, 15, 16	**93**	**91**	**806**	**(65,556)**	**2,700**	**6,286**	**302,094**	**246,514**	**3,242**	**249,756**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**14,154**	**14,154**	**858**	**15,012**
Exchange differences on translation foreign operations	–	–	459	–	–	–	–	**459**	(31)	**428**
Share of other comprehensive income of associates	–	–	22	–	–	–	–	**22**	–	**22**
Actuarial losses (Note 25)	–	–	–	–	–	(180)	–	**(180)**	–	**(180)**
Income tax in respect of other comprehensive income items	–	–	–	–	–	36	–	**36**	–	**36**
Total other comprehensive income/(loss), net of tax	**–**	**–**	**481**	**–**	**–**	**(144)**	**–**	**337**	**(31)**	**306**
Total comprehensive income for the year	**–**	**–**	**481**	**–**	**–**	**(144)**	**14,154**	**14,491**	**827**	**15,318**
Transactions with shareholders, recorded directly in equity										
Dividends to shareholders of the Company (Note 21)	–	–	–	–	–	–	(17,268)	**(17,268)**	–	**(17,268)**
Dividends to non-controlling shareholders of subsidiaries (Note 11)	–	–	–	–	–	–	–	**–**	(226)	**(226)**
Acquisition of non-controlling interests	–	–	–	–	(98)	–	–	**(98)**	4	**(94)**
Disposal of non-controlling interests (Note 11)	–	–	–	–	–	–	(8)	**(8)**	8	**–**
Non-controlling interests in acquired subsidiaries (Note 7)	–	–	–	–	–	–	–	**–**	54	**54**
Employee benefits within share based employee motivation program (Note 35)	–	–	–	5,137	732	–	(2,369)	**3,500**	–	**3,500**
Other changes in equity	–	24	–	–	–	–	(132)	**(108)**	–	**(108)**
Total transactions with shareholders	**–**	**24**	**–**	**5,137**	**634**	**–**	**(19,777)**	**(13,982)**	**(160)**	**(14,142)**
Balances at 31 December 2018	**93**	**115**	**1,287**	**(60,419)**	**3,334**	**6,142**	**296,471**	**247,023**	**3,909**	**250,932**

* *See Note 6.*

1. Reporting entity

The accompanying consolidated financial statements are of PJSC Rostelecom ("Rostelecom" or the "Company"), and its subsidiaries (together the "Group"), which are incorporated in the Russian Federation ("Russia").

The registered address of the Company is Russian Federation, St. Petersburg, Dostoevsky Street, 15. Since February 2016 the headquarters are located in the Russian Federation, Moscow at Goncharnaya Street, 30.

Rostelecom was established as an open joint stock company on 23 September 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated 27 August 1993. As at 31 December 2019, the Russian Federation, represented by the Federal Property Management Agency together with VEB.RF, controls the Company by holding of 53% of the Company's voting ordinary shares (2018: 53%).

Rostelecom is Russia's largest provider of digital services and solutions with presence in all market segments, and passing through millions of Russian households, governmental and private organizations.

2. Basis of preparation and consolidation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The consolidated financial statements were authorised for issue by the Company's President and chief financial officer ("CFO") – Senior Vice President on 2 March 2020.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for measurement of both debt and equity financial assets that have been measured at fair value and certain other items when IFRS requires accounting treatment other than historical cost accounting (refer to Note 4).

2. Basis of preparation and consolidation (continued)

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUB"), which is the functional currency of Group entities and the currency in which these consolidated financial statements are presented. The Group entities with other functional currency are: GNC-Alfa, incorporated in Armenia, the functional currency of this entity is Armenian dram ("AMD"). All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Revenue from sales of customer premises equipment (CPE) and installation services

When the Group recognises revenue from sale of CPE and installation it considers whether the promised goods or services are distinct. In case they are not distinct the Group bundles them with relevant telecommunication services.

In considering whether CPE is distinct the Group analyses if the customer can benefit from using the equipment by its own. In case the customer can benefit from using CPE separately from telecommunication services provided by the Group that CPE considered distinct and revenue is recognised at a point in time when CPE is transferred to customer. The Group recognises revenue over the time of rendering relevant telecommunication services if CPE is not distinct.

The Group provides installation services that are mostly not distinct and therefore bundled together with telecommunication services provided by the Group. The installation fees are recognized over the time provided by the contract term if it does not consist sufficient right to prolong contract. Otherwise, revenue is recognized over time of rendering of services to the customer even though it extends the term of contract.

Consideration of significant financing component in a contract

The Group concluded that there is a significant financing component for those contracts where the customer elects to pay in advance considering the length of time between the customer's payment and the providing services to the customer, as well as the prevailing interest rates in the market.

The amount of consideration is discounted using the rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.

2. Basis of preparation and consolidation (continued)

(d) Use of estimates and judgements (continued)

Principal versus agent presentation

Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows.

Cost to obtain a contracts with customers

For obtaining the contracts with new customers the Group hires agents or uses its own specifically dedicated staff and recognizes as an assets related costs if it expects to recover them. The Group amortises the costs to obtain a contracts with customers on a systematic basis which is consistent with the timing of providing the services to the customers. The Group reassesses amortization if the timing expected to provide the services has changed.

Changes in estimate of useful lives

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Fair values of associates

The Group is required to recognize the fair value of associates at the acquisition date, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgement in forecasting future cash flows and developing other assumptions.

Share-based employee benefits

The Group measures cost of share-based employee benefit by reference to the fair value of equity instruments granted. This requires judgment in estimating future volatility of basis asset which is determined using historical data on market price of the shares. Future volatility may differ significantly from that estimated.

Defined benefit plan (pension benefits)

The Group uses actuarial valuation methods for measurement of the present value of defined employee benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Allowance for expected credit losses of trade receivables and contract assets

The Group makes allowances for expected credit losses of trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by geography, customer type and rating, type of contacts).
The provision matrix is based on the Group's historical observed default rates. The historical observed default rates are updated annually. The information about the ECLs on the Group's trade receivables and contact assets is disclosed in Note 16.

2. Basis of preparation and consolidation (continued)

(d) Use of estimates and judgements (continued)

Impairment of non-current assets

Each asset or cash generating unit is evaluated at the end of every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of the recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds the recoverable amount. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

This requires an estimation of the value in use of the cash-generating units. Estimating of value in use requires the Group to make significant judgement concerning expected future cash flows and discount rates applicable. Expected future cash flows of cash-generating unit are typically based on approved budgets for next financial years and strategic plan for the period from second till fifth years. Cash flows beyond five-year periods are extrapolated using industry growth rate. Discount rates are determined based on historical information of cost of debt and equity of a respective cash-generating unit. Any future changes in the aforementioned assumptions could have significant impact on value in use.

Group as lessee: determining the lease term of contracts with renewal and termination options

When the Group recognises a right-of-use asset or lease liability it shall assess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:
(a) is within the control of the Group; and (b) affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

In assessing whether the Group is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Group shall consider all relevant facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

Litigation

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

3. Operating environment of the Group

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

3. Operating environment of the Group (continued)

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. The rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

4. Significant accounting policies

The accounting policies and methods of computation applied in the preparation of these consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective from 1 January 2019.

(a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the companies comprising the Group and its subsidiaries.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the excess of (a) over (b) below:

(a) The aggregate of:

- The acquisition-date fair value of consideration transferred;
- Non-controlling interest's proportionate share of the acquiree's identifiable net assets; and
- In a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;

(b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IFRS 3.

For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

Goodwill on an acquisition of a subsidiary is included in intangible assets.

In case of excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of business combination the Group:

- Reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination;
- Recognizes in profit or loss any excess remaining after that reassessment immediately.

4. Significant accounting policies (continued)

(a) Principles of consolidation (continued)

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Impairment losses for goodwill may not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized by allocating to other assets on pro rata basis, but not below their fair value.

Goodwill is not amortised. Instead, it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of cash-generating unit retained.

If the business combination in effect settles a pre-existing relationship, the Group as acquirere recognises a gain or loss, measured as follows:

(a) For a pre-existing non-contractual relationship (such as a lawsuit), fair value;

(b) For a pre-existing contractual relationship, the lesser of (i) and (ii):

   (i) The amount by which the contract is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items;

   (ii) The amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable.

If (ii) is less than (i), the difference is included as part of the business combination accounting.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Combination of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

4. Significant accounting policies (continued)

(a) Principles of consolidation (continued)

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Group. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Group, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Losses are allocated to the parent and to non-controlling interest based on their respective interests.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Investments in associates (equity accounted investees) and joint ventures

An associate is an entity over which the Group has significant influence. 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 type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method, except investments in associates acquired via venture fund, which are accounted at fair value.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

4. Significant accounting policies (continued)

(a) Principles of consolidation (continued)

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of net profit/(loss) of associates and joint ventures' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Non-controlling interest

Non-controlling interest includes that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Group. Non-controlling interest at the reporting date represents the non-controlling shareholders' portion of the fair values of identifiable assets and liabilities of the subsidiary at the acquisition date, and their portion of movements in net assets since the date of the combination.

The losses applicable to non-controlling interest, including negative other comprehensive income, are charged to non-controlling interest even if it causes non-controlling interest to have a deficit balance.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

4. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated statement of financial position along with the corresponding accumulated depreciation. Any difference between the net disposal proceeds and carrying amount of the item is reported as a gain or loss on derecognition. The gain or loss resulting from such retirement or disposal is included in the determination of net income.

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Number of years
Buildings and site services	3-50
Cable and transmission devices:	
► Cable	3-25
► Radio and fixed link transmission equipment	3-20
► Telephone exchanges	7-10
► Other	2-25

The useful life of assets encompasses the entire time they are available for use, regardless of whether during that time they are in use or idle. Depreciation methods, useful lives and residual values are reviewed at each reporting date or more frequently if events occur that suggest a change is necessary and, if expectations differ from previous estimates, the changes are accounted for prospectively. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognized.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until the constructed or installed asset is ready for its intended use.

Advances given to suppliers of property, plant and equipment are included in other non-current assets.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Cost of machinery and plant and other items of property, plant and equipment related to core activities of the Group, which have been gratuitously transferred to the Group beyond the privatisation framework, is capitalised in property, plant and equipment at fair value at the date of such transfer, if the Group controls them. Such transfers of property, plant and equipment primarily relate to future provision of services by the Group to entities, which have transferred property, plant and equipment. In such instances, the Group records deferred income in the amount of the fair value of the received property, plant and equipment and recognises income in the profit or loss on the same basis that the equipment is depreciated during the period of minimum of contract term (determined in contract or estimated) and equipment useful life.

4. Significant accounting policies (continued)

(c) Leases

The Group elected to early adopt IFRS 16 *Leases* effective 1 January 2018.

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

- An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer. Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of an identified asset throughout the period of use only if either:
  - The Group has this right to direct how and for what purpose the asset is used throughout the period of use;
  - Or the relevant decisions about how and for what purpose the asset is used are predetermined and:
    - The Group has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
    - The Group designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose it will be used throughout the period of use.

For leases of buildings, the Group applies practical expedient permitted not to separate associated non-lease components from lease components and instead account them as a single lease component.

The Group as a lessor

At the inception or on reassessment of the contract that contains a lease component and one or more additional lease or non-lease components the Group as a lessor allocates the consideration in the contract applying IFRS 15 *Revenue from Contracts with Customers*.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset.
A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

4. Significant accounting policies (continued)

(c) Leases (continued)

When the Group is an intermediate lessor, it shall classify the sublease as a finance lease or an operating lease as follows:

- If the head lease is a short-term lease that the entity, as a lessee, has accounted for applying exception of a practical nature, the sublease shall be classified as an operating lease;
- Otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease).

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of ‘revenue’.

The Group as a lessee

Right of use assets

The Group recognizes a right of use assets at the lease commencement date of the lease (i.e. the date the underlying asset is available for use). The right of use assets is initially measured at cost.

The cost of the right of use asset comprises:

- Amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any incentives received;
- Any initial direct costs incurred;
- And an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset restoring the site on which it is located or restoring the underlying assets to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. In addition, the right-of-use asset is tested for impairment in accordance with IAS 36 *Impairment of Assets* and reduced by impairment losses.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

At the commencement date, a lease liability is measured at the present value of the lease payments that had not been paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee’s incremental borrowing rate.

4. Significant accounting policies (continued)

(c) Leases (continued)

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

- Fixed payments, including in-substance fixed payments less any incentives received;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Group is reasonably certain to exercise; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Group measures the lease liability by:

(a) Increasing the carrying amount to reflect interest on the lease liabilities;

(b) Reducing the carrying amount to reflect the lease payments made; and

(c) Remeasuring the carrying amount to reflect any reassessments or lease modifications.

The carrying amount of the lease liability is reassessed when:

- There is a change in future lease payments arising from a change in an index or rate;
- If there is a change in a Group's estimate of the amount expected to be payable under residual value guarantee; or
- In case of revision of the lease term, including reassessment made by the Group whether it is reasonably certain to exercise an extension option, or not to exercise a termination option.

The Group separately recognizes the interest expense on the lease liabilities and the depreciation expense on the right of use asset.

According to IFRS 16 the Group may elect not to apply requirements as for recognition right of use assets and liabilities under lease contracts in following cases:

- For leases of 'low-value' assets available on lease-by-lease basis; and
- For short-term leases (i.e., leases with a lease term of 12 months or less).

The Group chose to use only exemption for "low-value" assets. Short-term leases are included into the statement of financial position.

The Group considers underlying assets to be 'low-value' assets, if:

- Their market value, when they are new, do not exceed 300,000 roubles;
- The Group can benefit from use of underlying asset on its own or together with other resources that are readily available to the Group; and
- The underlying asset is not highly dependent on, or highly interrelated with, other assets.

The Group applies that exemption for any of such leases, except where the Group sublease, or expect to sublease an asset.

4. Significant accounting policies (continued)

(c) Leases (continued)

Sale and leaseback

Accounting of sale and leaseback operations depends on whether the transfer of asset meets criteria of IFRS 15 in respect of revenue recognition.

If the transfer of asset meets criteria of IFRS 15 in respect of Revenue recognition, the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

Any contribution received which exceeds fair value of transferred asset is recognized as financial liabilities. In case of the contribution below the fair value of asset the amount of deficiency represents prepayment for lease.

If the transfer of asset does not meet criteria of IFRS 15, then the Group continue to account transferred asset. Received contribution is accounted as financial liabilities in accordance to IFRS 9.

(d) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. The Group applies cost model to its investments properties and subsequent to initial recognition investment properties are measured in accordance with IAS 16's requirements for that model.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

Development expenditures are capitalised if they meet criteria for an assets recognition. Expenditure on research phase are expensed as incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment when there is an indication that the intangible asset may be impaired. Useful lives of intangible assets with finite lives are determined on individual basis.

4. Significant accounting policies (continued)

(e) Intangible assets (continued)

Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The Group assesses whether there is any indication that a finite lived intangible asset may be impaired at each reporting date. The Group also performs annual impairment tests for finite lived assets not yet placed in use. The amortisation expense on intangible assets with finite lives is included in depreciation and amortisation expenses in profit or loss.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually or more frequently when indicators of impairment exist, either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

(f) Impairment of property, plant and equipment and intangible assets

At each reporting date or more frequently if events occur that suggest a change is necessary, an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. In addition, annual impairment test is carried out for intangible assets with indefinite useful life or that are not yet available for use and goodwill. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as a loss. Any subsequent increase in the recoverable amount of the assets, except for goodwill, is reversed when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. Increase of the recoverable amount is limited to the lower of its recoverable amount and carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is determined as the higher of the assets' fair value less cost to sell, or value in use. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit (further – "CGU") to which the assets belong. The value in use of the asset is estimated based on forecast of future cash inflows and outflows to be derived from continued use of the asset and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

4. Significant accounting policies (continued)

(f) Impairment of property, plant and equipment and intangible assets (continued)

For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the CGUs or groups of CGUs expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which goodwill is so allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than an operating segment determined in accordance with IFRS 8 *Operating Segments*.

(g) Inventory

Inventory principally consists of cable, spare parts for the network and other supplies. Inventory is stated at the lower of cost incurred in bringing each item to its present location and condition and its net realizable value. Cost is calculated using weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Net realizable value is determined with respect to current market prices less expected costs to dispose. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in profit or loss.

(h) Accounts receivable

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method (for more details pls. see section (i) financial instruments).

(i) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

All financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

4. Significant accounting policies (continued)

(i) Financial instruments (continued)

Financial assets at amortised cost

The Group's financial assets at amortised cost include trade receivables and loans to an associates included in other non-current financial assets.

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Group business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Group assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

4. Significant accounting policies (continued)

(i) Financial instruments (continued)

In contrast, contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes investments in equity instruments and debt trading securities.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss in accordance with IFRS 9. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group's cash and cash equivalent have been assigned low credit risk based on external credit ratings of the respective banks and financial institutions.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

4. Significant accounting policies (continued)

(i) Financial instruments (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss.

Financial liabilities at amortised cost

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(j) Borrowings

Borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortisation process.

4. Significant accounting policies (continued)

(j) Borrowings (continued)

Borrowing costs are expensed, except for those that would have been avoided if the expenditure to acquire the qualifying asset had not been made. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset.

The capitalization rate is the weighted average rate of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, unless borrowings were made specifically for the purpose of obtaining the qualifying asset wherein that rate is used. Qualifying borrowing costs are capitalized with the relevant qualifying asset from the date the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred until the related asset is substantially ready for its intended use. Capitalized borrowing costs are subsequently charged to profit or loss in the period over which the asset is depreciated.

(k) Foreign currency transactions

Transactions denominated in foreign currencies are translated into roubles at the exchange rate as of the transaction date. Foreign currency monetary assets and liabilities are translated into roubles at the exchange rate as of the reporting date. Exchange differences arising on the settlement of monetary items, or on reporting the Group's monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recorded as foreign currency exchange gains or losses in the period in which they arise. Foreign currency gains and losses are reported on a net basis depending on whether foreign currency movements are in a net gain or net loss position.

As at 31 December 2019 and 2018, the rates of exchange used for translating foreign currency balances were (in Russian roubles for one unit of foreign currency):

	2019	2018
US dollar (USD)	61.9057	69.4706
Special Drawing Rights (XDR)	85.4398	96.6190
Euro (EUR)	69.3406	79.4605

Source: the Central Bank of Russia.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original maturities of three months or less, with insignificant risks of diminution in value.

(m) Deferred income taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

4. Significant accounting policies (continued)

(m) Deferred income taxes (continued)

Deferred income tax liabilities are recognized for all taxable temporary differences:

- Except where the deferred income tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any such previously recognized reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realized or the liability settled. Tax rates are based on laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies except for cases when two or more entities form the Consolidated Group of Taxpayers for the purposes of unified income tax declaration submission. In addition, the tax base is determined separately for each of the Group’s main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset except for the abovementioned Consolidated Group of Taxpayers formation.

4. Significant accounting policies (continued)

(n) Revenue from contract with customers and operating costs recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 2 (d).

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either a distinct good or service or a series of distinct goods or services.

Revenue from communication services

Revenue from direct subscribers is recognized over time when the services were rendered based on data from the Group's billing system.

The Group bills all subscribers in Russia for outgoing telephone traffic based on the stipulated tariffs. The Group is billed by regional local operators for initiating and terminating a call. The Group also incurs agency fees in accordance with service contracts concluded with regional local operators that are not part of the Group.

The Group bills foreign network operators for incoming calls and other outgoing traffic outside Russia. Foreign operators charge the Group for completing international calls. Relevant revenues and costs are shown in the consolidated financial statements.

Loyalty points program

The Group has a loyalty points program, which allows customers to accumulate points that can be redeemed for the following:

- Discounts from the Company (discounts for internet services, free minutes, etc);
- Discounts from affiliate programs (discounts from Ozon, Litres, etc);
- Seasonal lotteries and prize awards (New Year, etc).

The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

4. Significant accounting policies (continued)

(n) Revenue from contract with customers and operating costs recognition (continued)

Advance payments received from customers

Generally, the Group receives short-term advances from its customers. They are presented as part of current contract liabilities.

The Group uses the practical expedient provided in IFRS 15, and does not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group provide of a promised service to a customer and when the customer pays for that service will be one year or less.

However, from time to time, the Group may receive long-term advances from customers. Certain such contracts concluded between the Group and its customers contain a significant financing component because of the length of time between when the customer pays for the services and when the Group provides services to the customer. The transaction price for such contracts is adjusted for the effects of time value of money using discount rate that is reflected in a separate financing transaction between the Group and its customer at contract inception.

The effect of the financing is presented as part of finance costs.

Revenues from the sale of customer equipment and related expenses

Costs to fulfill contracts

Customer premises equipment (hereinafter referred to CPE) – technical devices or equipment installed in the customer premises and designed to provide technical capability of subscriber’s consumption of telecommunication services provided by the Company.

Based on the analysis of the current business operations the Group concludes that delivery of CPE, which cannot be used by the customer separately from Group’s services, does not represent a performance obligation. Accordingly, costs of CPE are recognized as cost to fulfil contracts, fees received for delivery of CPE are deferred and recognized as revenue over time when the respective services are provided.

Capitalised costs to fulfil contracts are subject to an impairment assessment at the end of each reporting period. Impairment losses are recognised in profit or loss.

Sale of other equipment, which can be use separately, represents a separate performance obligation. Accordingly, revenue is recognised at a point in time when control of the other equipment is transferred to the customer, generally upon delivery of the equipment.

Revenues from installation services

The following services are associated with the installation services: organisation of communication channels, connection of operators to networks.

Based on the analysis of the current business operations the Group concluded that installation services, which cannot be used by the client separately from Company’s services does not represent a performance obligation. Accordingly, fees received for installation services are deferred and are recognized as contract liability as a part of other current or non-current liabilities in the consolidated statement of financial position. Contract liabilities are recognized as revenue over time when the Group provides telecommunication services.

4. Significant accounting policies (continued)

(n) Revenue from contract with customers and operating costs recognition (continued)

Incremental cost to obtain the contract

The incremental cost of obtaining the contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises as costs to obtain the contract the following expenses:

- Dealer commissions for attracting new subscribers;
- Extra payments to Group's employees who are engaged in similar functions.

The Group presents costs of obtaining a contract as a part of contract costs in the consolidated statement of financial position. Costs to obtain the contract is amortised on a systematic basis that is consistent with the contractual relationship with customers to which the assets relates.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Accounting policy as regard to Trade receivables is disclosed in Note 4 (h), 4 (i).

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

(o) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is charged in profit or loss or capitalized in an asset if it is required by IFRS.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(p) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on systematic basis over the useful life of the asset.

4. Significant accounting policies (continued)

(p) Government grants (continued)

Grants that compensate the Group for expenses incurred are recognized in profit or loss as other income on systematic basis in the periods in which the expenses are recognised.

(q) Pension and other post-employment benefits

The Group operates a defined benefit pension scheme which requires one-off contributions, representing the net present value of future monthly payments to employees, to be made by the Group to an own pension fund upon employees' dismissal. The Group is liable for payments to the retired employees.

The Group uses the Project Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

Actuarial gains and losses are recognized as other comprehensive income or expense immediately.

The Group also participates in a defined contribution plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred.

The Group accrues for the employees' compensated absences (vacations) as the additional amount that the Group expects to pay as a result of the unused vacation that has accumulated at the reporting date.

(r) Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for options for shares of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

(s) Dividends

Dividends are recognized when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the reporting date but before approval of the financial statements are not recognized as a liability at the reporting date in accordance with IAS 10 *Events after the Reporting Period*.

4. Significant accounting policies (continued)

(t) Treasury shares

The cost of treasury shares purchased is debited to a separate category of equity. When treasury shares are sold or re-issued, the amount received for the instruments is credited to this category, and any surpluses or deficits on sales of treasury shares are shown as an adjustment to additional paid-in capital. The average cost method is used to determine the cost of treasury shares sold. However, if the entity is able to identify the specific items sold and their costs, the specific cost is applied.

(u) Earnings per share

IAS 33 requires the application of the "two-class method" to determine earnings applicable to ordinary shareholders, the amount of which is used as a numerator to calculate earnings per ordinary share. The application of the "two-class method" requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

(v) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker, Management Board, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(w) Pension contracts

Classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affect the policyholders.

Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

4. Significant accounting policies (continued)

(w) Pension contracts (continued)

Discretionary participation feature (DPF)

Insurance and investment contracts are classified as contacts with or without a discretionary participation feature (DPF). DPF provides the policyholder with a contractual right to receive, as a supplement to guaranteed benefits, significant additional benefits, which are based on investment returns on a specified pool of assets held by the insurer and which amounts or timing are contractually at the discretion of the insurer. Group exercises its discretion as to the amount and timing of distribution of the eligible surplus to contract holders subject to provision of the minimum level required by statutory regulations. The Group policy is to treat all DPF, including undistributed amounts, as a liability within investment or insurance contract liability as appropriate.

Types of pension contracts

The Group has the following types of pension contracts:

Contracts of non-state pension provision (NPP) issued under a voluntary pension system are executed in accordance with the existing Pension rules of non-state pension provision. These contracts contain a right of contract holders to receive additional investment income as a supplement to guaranteed benefits. The Group classifies NPP contracts as insurance or investment contracts with DPF according to IFRS 4 *Insurance Contracts*.

Contracts of mandatory pension insurance (MPI) are issued in accordance with the Federal Law No. 167-FZ of 15 December 2001, *About Mandatory Pension Insurance in the Russian Federation* to provide contract holders with a funded pension. The Group classified MPI contracts as insurance contracts with DPF according to IFRS 4 *Insurance Contracts*.

Pension liabilities

Obligations under non-state pension and mandatory pension insurance contracts are determined as accumulated contributions reduced by performed payments and increased by investment income earned on assets baking such liabilities. At each reporting date, an assessment is made of whether the recognized liabilities are adequate by using the liability adequacy test.

The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows are used. Any inadequacy is recorded in the consolidated statement of comprehensive income by creating an additional liability for the remaining loss.

Pension contributions are recognized as revenue upon incurrence of contractual liability. In accordance with the terms of the existing pension schemes, incurrence of contractual liability occurs when the initial pension contribution is received from the Pension Fund of the Russian Federation, another non-state pension fund or a contract holder. Subsequent contributions are recognized as part of the revenue in those periods when they are due in accordance with the terms of the contract.

5. New standards, interpretations and amendments adopted by the Group

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Group has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted, but certain transition reliefs are available. These amendments had no impact on the annual financial statements ended 31 December 2019 of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments had no impact on the annual financial statements ended 31 December 2019 of the Group.

5. New standards, interpretations and amendments adopted by the Group (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments had no impact on the annual financial statements ended 31 December 2019 of the Group.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group’s current practice is in line with these amendments, they had no impact on the annual financial statements ended 31 December 2019 of the Group.

5. New standards, interpretations and amendments adopted by the Group (continued)

Annual improvements cycle − 2015-2017

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the annual financial statements ended 31 December 2019 of the Group. as there is no transaction where a joint control is obtained.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

Since the Group’s current practice is in line with these amendments, they had no impact on the annual financial statements ended 31 December 2019 of the Group.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group’s current practice is in line with these amendments, they had no impact on the annual financial statements ended 31 December 2019 of the Group.

5. New standards, interpretations and amendments adopted by the Group (continued)

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the Group's annual financial statements ended 31 December 2019 of the Group.

The Conceptual Framework for Financial Reporting

The *Conceptual Framework for Financial Reporting* was issued in March 2018 and sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.The *Conceptual Framework* includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The changes to the *Conceptual Framework* may affect the application of IFRS in situations where no standard applies to a particular transaction or event. The amendments must be applied prospectively for annual reporting periods beginning on or after 1 January 2020.

IFRS Interpretations Committee's agenda decision on cancellable or renewable leases, and related non-removable leasehold improvements

In November 2019, the IFRS Interpretations Committee published an agenda decision on cancellable or renewable leases, and related non-removable leasehold improvements. The conclusions are summarized below:

Lease term

The IFRS Interpretations Committee noted that, in determining the enforceable period of the lease, an entity considers:

- The broader economics and not only the contractual termination payments. For example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is enforceable beyond the date on which the contract can be terminated;
- Whether each of the parties has the right to terminate the lease without permission of the other party with no more than an insignificant penalty. A lease is no longer enforceable only when both parties have such a right. Consequently, if only one party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party.

If an entity concludes that the contract is enforceable beyond the notice period of a cancellable lease, it should assess whether the lessee is reasonably certain not to exercise the option to terminate the lease.

5. New standards, interpretations and amendments adopted by the Group (continued)

Useful life of non-removable leasehold improvements

An entity applies IAS 16 in determining the useful life of non-removable leasehold improvements. If the lease term of the related lease is shorter than the economic life of those leasehold improvements, the entity considers whether it expects to use the leasehold improvements beyond that lease term. If the entity does not expect to do so, then, applying IAS 16, it concludes that the useful life of the non-removable leasehold improvements is the same as the lease term.

In prior periods the Group, applied 'narrow' reading of the IFRS 16 and considers only contractual termination payments in determination whether the cancellable or renewable leases are enforceable. Therefore, agenda decision might affect its consolidated financial statements. However, the impact of the adoption of agenda decision is not yet reasonably estimable as the Group intends to complete the an analysis during 2020.

Standarts issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Definition of a Business – Amendments to IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

Definition of Material – Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively for annual reporting periods beginning on or after 1 January 2020. Early application is permitted and must be disclosed.

5. New standards, interpretations and amendments adopted by the Group (continued)

Standarts issued but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is in the process of assessment of the impact on its consolidated financial statements.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships directly affected by the interest rate benchmark reform:

- The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.
- The changes will mandatorily apply to all hedging relationships that are directly affected by the interest rate benchmark reform.
- The amendments are not intended to provide relief from any other consequences arising from the interest rate benchmark reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended standards, then discontinuation of hedge accounting is still required.

The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments. Specific disclosure is required about the extent to which the entities' hedging relationships are affected by the amendments. The Group is in the process of assessment of the impact on its consolidated financial statements.

6. Changes to 2018 financial statements

Netris revaluation

On 25 December 2018 the Group obtained control over Netris. The subsidiary of the Company, PJSC Bashinformsvyaz has signed the agreement to acquire 100% of Netris.

On 31 March 2019 the Group completed the valuation of Netris acquired net assets using the acquisition method. As a result, the 2018 comparative information was restated to reflect the adjustment to the provisional amounts.

The table below shows the adjustments made to consolidated statement of financial position as at 31 December 2018:

	As presented at 31 December 2018	**As restated at 31 December 2018**	**Changes in provisional value of Netris**
Goodwill	26,156	26,707	551
Intangible assets (except Goodwill)	40,090	39,376	(714)
Non-controlling interests	3,930	3,909	(21)
Deffered tax liabilities	38,411	38,269	(142)

There are no material changes in depreciation expenses made to consolidated statement of profit or loss and other comprehensive income.

Cession operations

Since 1 January 2019 the Group changed approach to presentation of accounts receivables write off, transferred under cession agreements.

The table below shows the adjustments made to consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018:

	As presented	**As restated**	**Changes in presentation**
Impairment loss of financial assets measured at amortized cost	(4,057)	(4,925)	(868)
Other operating income	13,579	13,673	94
Other operating expenses	(58,990)	(58,216)	774

The table below shows the adjustments made to consolidated statement of cash flows for the year ended 31 December 2018:

	As presented	**As restated**	**Changes in presentation**
Impairment loss of financial assets measured at amortized cost	4,057	4,925	868
Increase in accounts receivable and contract assets	(8,634)	(9,502)	(868)

There are no changes made to consolidated statement of financial position.

7. Business combinations

2019 transactions

LLC Infolink and LLC Svyazstroy-21

On 1 March 2019 the Group acquired control over LLC Infolink and LLC Svyazstroy-21, part of Infolink Group of Companies, one of the largest Internet services providers operating under the united brand Infolink in the Chuvash Republic. The subsidiary of the Company PJSC Bashinformsvyaz has signed an agreement to acquire 100% of Infolink for consideration in the amount 348.

Infolink has been involved in the telecommunications market in Cheboksary and Novocheboksarsk for more than 20 years, serving both individual and corporate clients. Internet and TV services (both cable and IPTV) account for 80% of the Company's revenues. Infolink operates its own fiber-optic communications line, serving more than 25,000 households and 2,000 corporate clients. The Company holds 12% of the Internet market and 10% of the IPTV segment in the region.

The effective share of the Group in Infolink as of 31 December 2019 is 96.33%.

The acquisition has been accounted using the acquisition method.

The fair value of the identifiable assets and liabilities of Infolink as at the date of acquisition were:

	Infolink
Fair value of identifiable assets and liabilities	
Property, plant and equipment	52
Intangible assets	85
Right of use assets	9
Inventories	11
Trade and other accounts receivable	9
Cash and cash equivalents	2
Deferred tax liabilities	(17)
Lease liabilities	(9)
Accounts payable, provisions and accrued expenses	(30)
Total identifiable net assets at fair value	**112**
Goodwill arising on acquisition	240
Non-controlling interests	**4**
Purchase consideration transferred (paid in cash)	**308**
Deferred consideration	**40**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	2
Cash paid	(308)
Net cash flow on acquisition	**(306)**

The goodwill of 240 comprises the value of expected synergies and other benefits from combining the assets and activities of the Infolink with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interests is 3.67%. The Group has elected to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired.

7. Business combinations (continued)

2019 transactions (continued)

From the date of acquisition until 31 December 2019 Infolink has contributed 3 to net profit of the Group and 157 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,188 and revenue would have been 337,452. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

JSC Nauchno-proizvodstvennoe obedinenie SAM

On 27 March 2019 the Group acquired the control over JSC Nauchno-proizvodstvennoe obedinenie SAM. The subsidiary of the Company LLC Data Storage Centre acquired 100% of JSC Nauchno-proizvodstvennoe obedinenie SAM for the consideration in the amount 1,013. Part of the consideration in the amount 650 was paid by cash. The rest of the consideration in the amount 363 will be paid by cash during three years period.

Following the strategy of the Group to keep the leading position in data storage services, new data centers are planned to be constructed. JSC Nauchno-proizvodstvennoe obedinenie SAM owns the land plot which has the number of characteristics to satisfy the requirements of construction new data centers. The property rights for land plot and buildings will enable to decrease rent costs for the Group and also to reduce business risks.

Acquisition of subsidiaries

The effective share of the Group in JSC Nauchno-proizvodstvennoe obedinenie SAM as of 31 December 2019 is 100%.

The acquisition has been accounted using the acquisition method.

The fair value of the identifiable assets and liabilities of JSC Nauchno-proizvodstvennoe obedinenie SAM as at the date of acquisition were:

	JSC Nauchno-proizvodstven-noe obedinenie SAM
Fair value of identifiable assets and liabilities	
Property, plant and equipment	451
Intangible assets	52
Right of use assets	3
Assets held for sale	67
Trade and other accounts receivable	17
Inventories	1
Loans and borrowings	(15)
Lease liabilities	(3)
Deferred tax liabilities	(77)
Accounts payable, provisions and accrued expenses	(20)
Total identifiable net assets at fair value	**476**
Goodwill arising on acquisition	537
Purchase consideration transferred (paid in cash)	**650**
Deferred consideration	**363**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	–
Cash paid	(650)
Net cash flow on acquisition	**(650)**

7. Business combinations (continued)

2019 transactions (continued)

The goodwill of 537 comprises the value of expected synergies and other benefits from combining the assets and activities of the JSC Nauchno-proizvodstvennoe obedinenie SAM with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition until 31 December 2019 JSC Nauchno-proizvodstvennoe obedinenie SAM has contributed 0 to net profit of the Group and 107 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,174 and revenue would have been 337,453. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

LLC RTK-CT

On 7 May 2019 the Group acquired the control over former joint venture LLC RTK-CT as a result of changes to shareholders agreement. As a result of this transaction no cash consideration was transferred.

The effective share of the Group in LLC RTK-CT is 51.10%.

Total consideration for acquisition of LLC RTK-CT includes the effective settlement of the pre-existing relations between the Group and LLC RTK-CT, represented by the trade and other accounts receivable from LLC RTK-CT in the amount 1,275, loans and borrowings owed by LLC RTK-CT to the Group in the amount 1,194 and accounts payables in the amount 164.

The previously held interest in LLC RTK-CT of 51.10% was accounted by the Group using the equity method. The fair value of the investment in LLC RTK-CT immediately before the Group obtained the control was 17.

The fair value of the identifiable assets and liabilities of LLC RTK-CT as at the date of acquisition were:

	LLC RTK-CT
Fair value of identifiable assets and liabilities	
Property, plant and equipment	6
Intangible assets	11
Deferred tax asset	32
Trade and other accounts receivable	423
Inventories	15
Cash and cash equivalents	197
Accounts payable, provisions and accrued expenses	(503)
Total identifiable net assets at fair value	**181**
Income arising on acquisition	(33)
Non-controlling interests	**48**
Previously held interest	**17**
Settlement of the pre-existing relationship	**83**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	197
Cash paid	–
Net cash flow on acquisition	**197**

7. Business combinations (continued)

2019 transactions (continued)

From the date of acquisition until 31 December 2019 LLC RTK-CT has contributed 634 to net profit of the Group and 5,296 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,109 and revenue would have been 337,747. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

The fair value of the trade and other accounts receivable amounts to 423, which is approximately equal to the gross amounts of corresponding receivables as of the acquisition date. None of the trade and other accounts receivable have been impaired and it is expected that the full contractual amounts can be collected.

LLC Prometey

On 25 July 2019 the Group acquired control over LLC Prometey. The subsidiary of the Company PJSC Bashinformsvyaz has signed an agreement to acquire 100% of LLC Prometey for the consideration in the amount 700. Part of the consideration in the amount 575 was paid by cash. The rest of the consideration in the amount 125 will be paid by cash during three years period.

Prometey deal is in line with a strategic priority to develop Rostelecom's digital ecosystem and client services. Prometey has been providing services to corporate and government customers, as well as to individual customers since 2004. The company operates its own fibre optics network which spans St. Petersburg and the Leningrad region, where it also possesses a strong market share in the B2B and B2G segments. Prometey has implemented a number of large-scale projects in both in St. Petersburg and the broader region, including projects carried out as part of the "Safe City" initiative. It has collaborated closely with the Government of St. Petersburg to assist with the set-up and maintenance of the Regional Automated Centralised Notification system. The provider's B2B/G client base consists of more than 1,600 organisations, most of which are business centres and commercial properties.

The effective share of the Group in LLC Prometey as of 31 December 2019 is 96.33%.

The acquisition has been accounted using the acquisition method.

The fair value of the identifiable assets and liabilities of LLC Prometey as at the date of acquisition were:

	LLC Prometey
Fair value of identifiable assets and liabilities	
Property, plant and equipment	210
Intangible assets	116
Inventories	14
Trade and other accounts receivable	47
Cash and cash equivalents	20
Deferred tax liabilities	(37)
Accounts payable, provisions and accrued expenses	(56)
Total identifiable net assets at fair value	**314**
Goodwill arising on acquisition	396
Non-controlling interests	**10**
Purchase consideration transferred (paid in cash)	**575**
Deferred consideration	**125**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	20
Cash paid	(575)
Net cash flow on acquisition	**(555)**

7. Business combinations (continued)

2019 transactions (continued)

The goodwill of 396 comprises the value of expected synergies and other benefits from combining the assets and activities of the LLC Prometey with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interests is 3.67%. The Group has elected to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2019 LLC Prometey has contributed 25 to net profit of the Group and 225 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,215 and revenue would have been 337,679. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

Alliance Telecom

On 2 August 2019 the Group acquired control over LLC OctopusNet, LLC Ussuri-Teleservis, LLC S25RU called Alliance Telecom Group. Alliance Telecom has been providing Internet access and TV services across the Primorsky region since 2007, servicing individual clients and business in the cities of Vladivostok, Ussuriysk, Nakhodka and Artyom. The subsidiary of the Company PJSC Bashinformsvyaz has signed an agreement to acquire 100% of Alliance Telecom Group for consideration in the amount 2,209. Part of the consideration in the amount 1,889 was paid by cash. The rest of the consideration in the amount 320 will be paid by cash during three years period.

The deal is in line with Rostelecom’s strategic priority to develop its digital ecosystem and client services offering. As for the household segment, which accounts for 80% of Alliance Telecom’s revenue, the operator is an undisputable leader in Vladivostok and one of the leading providers in the Primorsky region overall with a subscriber base of 110,000 individual customers. The company also serves more than 6,000 B2B clients which are predominantly consuming a mono-broadband service.

The effective share of the Group in Alliance Telecom Group as of 31 December 2019 is 96.33%.

The acquisition has been accounted using the acquisition method.

7. Business combinations (continued)

2019 transactions (continued)

The provisional value of the identifiable assets and liabilities of Alliance Telecom Group as at the date of acquisition were:

	Alliance Telecom Group
Provisional value of identifiable assets and liabilities	
Property, plant and equipment	11
Trade and other accounts receivable	124
Inventories	19
Right of use assets	35
Investments	47
Cash and cash equivalents	54
Lease liabilities	(35)
Accounts payable, provisions and accrued expenses	(89)
Total identifiable net assets at provisional value	**166**
Goodwill arising on acquisition	2,049
Non-controlling interests	**6**
Purchase consideration transferred (paid in cash)	**1,889**
Deferred consideration	**320**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	54
Cash paid	(1,889)
Net cash flow on acquisition	**(1,835)**

The goodwill of 2,049 comprises the value of expected synergies and other benefits from combining the assets and activities of the Alliance Telecom Group with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interests is 3.67%. The Group has elected to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2019 Alliance Telecom Group has contributed 77 to net profit of the Group and 453 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,498 and revenue would have been 337,996. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

LLC Svyazservis

On 3 October 2019 the Group acquired control over LLC Svyazservis. The subsidiary of the Company PJSC Bashinformsvyaz has signed an agreement to acquire 100% of LLC Svyazservis for cash consideration in the amount 337.

LLC Svyazservis provides Internet access and TV services to individual customers and corporate clients at the territory of Karelia (cities of Petrozavodsk, Belomorsk, Kondopoga). Internet services accounts for 89% of the Company’s revenues. The company operates its own communications line serving 119,600 (or 80%) households in the city of Petrozavodsk.

7. Business combinations (continued)

2019 transactions (continued)

The effective share of the Group in LLC Svyazservis as of 31 December 2019 is 96.33%.

The acquisition has been accounted using the acquisition method.

The fair value of the identifiable assets and liabilities of LLC Svyazservis as at the date of acquisition were:

	LLC Svyazservis
Fair value of identifiable assets and liabilities	
Property, plant and equipment	162
Intangible assets	115
Trade and other accounts receivable	7
Inventories	5
Cash and cash equivalents	43
Deferred tax liabilities	(33)
Accounts payable, provisions and accrued expenses	(27)
Total identifiable net assets at fair value	**272**
Goodwill arising on acquisition	75
Non-controlling interests	**10**
Purchase consideration transferred (paid in cash)	**337**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	43
Cash paid	(337)
Net cash flow on acquisition	**(294)**

The goodwill of 75 comprises the value of expected synergies and other benefits from combining the assets and activities of LLC Svyazservis with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interests is 3.67%. The Group has elected to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2019 LLC Svyazservis has contributed 11 to net profit of the Group and 49 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,211 and revenue would have been 337,561.
In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

LLC LekStar Communication

On 10 October 2019 the Group acquired control over LLC LekStar Communication. The subsidiary of the Company PJSC Bashinformsvyaz has signed an agreement to acquire 100% of LLC LekStar Communication for the consideration in the amount 69. Part of the consideration in the amount 54 was paid by cash. The rest of the consideration in the amount 15 will be paid by cash during four years period.

LLC LekStar Communication provides Internet access services to individual customers and corporate clients in the city of Reutov. The company operates its own communications line serving 11,600 households in the city of Reutov.

7. Business combinations (continued)

2019 transactions (continued)

The effective share of the Group in LLC LekStar Communication as of 31 December 2019 is 96.33%.

The acquisition has been accounted using the acquisition method.

The provisional value of the identifiable assets and liabilities of LLC LekStar Communication as at the date of acquisition were:

	LLC LekStar Communication
Provisional value of identifiable assets and liabilities	
Property, plant and equipment	43
Trade and other accounts receivable	6
Cash and cash equivalents	2
Loans	(54)
Accounts payable, provisions and accrued expenses	(5)
Total identifiable net assets at provisional value	**(8)**
Goodwill arising on acquisition	77
Non-controlling interests	**–**
Purchase consideration transferred (paid in cash)	**54**
Deferred consideration	**15**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	2
Cash paid	(54)
Net cash flow on acquisition	**(52)**

The goodwill of 77 comprises the value of expected synergies and other benefits from combining the assets and activities of LLC LekStar Communication with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interests is 3.67%. The Group has elected to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2019 LLC LekStar Communication has contributed 2 to net profit of the Group and 18 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,179 and revenue would have been 337,486. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

SumTel

In October – December 2019 the Group obtained control over several entities working under the brand name SumTel (referred hereinafter as to “SumTel”), for total consideration in the amount 908. Part of the consideration in the amount 662 was paid by cash. The rest of the consideration in the amount 246 will be paid by cash until March 2020.

SumTel provides Internet access services to individual customers and corporate clients on the territory of 13 cities of Russian Federation. SumTel serves 94,480 households and 4,460 corporate clients.

7. Business combinations (continued)

2019 transactions (continued)

The effective share of the Group in SumTel as of 31 December 2019 is 100%.

The acquisition has been accounted using the acquisition method.

The provisional value of the identifiable assets and liabilities of SumTel as at the date of acquisition were:

	SumTel
Provisional value of identifiable assets and liabilities	
Property, plant and equipment	188
Intangible assets	718
Deferred tax assets	2
Trade and other accounts receivable	36
Cash and cash equivalents	1
Accounts payable, provisions and accrued expenses	(39)
Total identifiable net assets at provisional value	**906**
Goodwill arising on acquisition	2
Purchase consideration transferred (paid in cash)	**662**
Deferred consideration	**246**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	1
Cash paid	(662)
Net cash flow on acquisition	**(661)**

The goodwill of 2 comprises the value of expected synergies and other benefits from combining the assets and activities of SumTel with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition until 31 December 2019 SumTel has contributed 31 to net profit of the Group and 68 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,332 and revenue would have been 337,760. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

LLC DartIT

On 6 November 2019 the Group acquired control over LLC DartIT. The subsidiary of the Company PJSC Bashinformsvyaz has signed an agreement to acquire 100% of LLC DartIT for the consideration in the amount 430. Part of the consideration in the amount 300 was paid by cash. The rest of the consideration in the amount 130 will be paid by cash during four years period.

LLC DartIT is the software development company which serves mostly to Rostelecom. The acquisition of LLC DartIT will enable to reduce costs and risks on IT solutions in the process of developing digital ecosystem.

The effective share of the Group in LLC DartIT as of 31 December 2019 is 96.33%.

The acquisition has been accounted using the acquisition method.

7. Business combinations (continued)

2019 transactions (continued)

The provisional value of the identifiable assets and liabilities of LLC DartIT as at the date of acquisition were:

	LLC DartIT
Provisional value of identifiable assets and liabilities	
Property, plant and equipment	1
Intangible assets	39
Trade and other accounts receivable	36
Cash and cash equivalents	17
Accounts payable, provisions and accrued expenses	(39)
Total identifiable net assets at provisional value	**54**
Goodwill arising on acquisition	378
Non-controlling interests	**2**
Purchase consideration transferred (paid in cash)	**300**
Deferred consideration	**130**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	17
Cash paid	(300)
Net cash flow on acquisition	**(283)**

The goodwill of 378 comprises the value of expected synergies and other benefits from combining the assets and activities of LLC DartIT with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interests is 3.67%. The Group has elected to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2019 LLC DartIT has contributed 47 to net profit of the Group and 120 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,213 and revenue would have been 337,678. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

MegaCom Group

On 8 November 2019 the Group acquired control over LLC MegaCom IT and LLC Garant-Sibir called the MegaCom Group. The subsidiary of the Company PJSC Bashinformsvyaz has signed an agreement to acquire 100% in MegaCom Group for cash consideration in the amount 465.

MegaCom Group is the telecommunication operator in the city of Novosibirsk which provides services of Internet access, access to communication channels for VLAN and rental services of fiber-optic lines to corporate clients, mostly to telecom operators. MegaCom Group operates its own communications line serving 3,357 of corporate clients.

The effective share of the Group in MegaCom Group as of 31 December 2019 is 96.33%.

The acquisition has been accounted using the acquisition method.

7. Business combinations (continued)

2019 transactions (continued)

The provisional value of the identifiable assets and liabilities of MegaCom Group as at the date of acquisition were:

	MegaCom Group
Provisional value of identifiable assets and liabilities	
Property, plant and equipment	380
Deferred tax assets	18
Inventories	4
Trade and other accounts receivable	33
Investments	5
Cash and cash equivalents	1
Right of use assets	13
Loans	(53)
Lease liabilities	(13)
Accounts payable, provisions and accrued expenses	(58)
Total identifiable net assets at provisional value	**330**
Goodwill arising on acquisition	147
Non-controlling interests	**12**
Purchase consideration transferred (paid in cash)	**465**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	1
Cash paid	(465)
Net cash flow on acquisition	**(464)**

The goodwill of 147 comprises the value of expected synergies and other benefits from combining the assets and activities of MegaCom Group with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interests is 3.67%. The Group has elected to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2019 MegaCom Group has contributed 2 to net profit of the Group and 48 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,186 and revenue would have been 337,673.
In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

LLC Tsifrovye meditsinskie servisy

On 12 December 2019 the Group acquired the control over former joint venture LLC Tsifrovye meditsinskie servisy as a result of changes to shareholders agreement. As a result of this transaction no cash consideration was transferred.

The effective share of the Group in LLC Tsifrovye meditsinskie servisy is 51.00%.

7. Business combinations (continued)

2019 transactions (continued)

Total consideration for acquisition of LLC Tsifrovye meditsinskie servisy includes the effective settlement of the pre–existing relations between the Group and LLC Tsifrovye meditsinskie servisy, represented by the trade and other accounts receivable from LLC Tsifrovye meditsinskie servisy in the amount 11, loans and borrowings owed by LLC Tsifrovye meditsinskie servisy to the Group in the amount 5 and accounts payables in the amount 10.

The previously held interest in LLC Tsifrovye meditsinskie servisy of 51.00% was accounted by the Group using the equity method. The fair value of the investment in LLC Tsifrovye meditsinskie servisy immediately before the Group obtained the control was five thousands one hundred Russian roubles.

The fair value of the identifiable assets and liabilities of LLC Tsifrovye meditsinskie servisy as at the date of acquisition were:

	LLC Tsifrovye meditsinskie servisy
Fair value of identifiable assets and liabilities	
Property, plant and equipment	1
Trade and other accounts receivable	154
Inventories	8
Cash and cash equivalents	1
Deferred tax liabilities	(4)
Accounts payable, provisions and accrued expenses	(140)
Total identifiable net assets at fair value	**20**
Income arising on acquisition	(8)
Non-controlling interests	**7**
Previously held interest	**–**
Settlement of the pre-existing relationship	**5**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	1
Cash paid	–
Net cash flow on acquisition	**1**

The non-controlling interests is 49.00%. The Group has elected to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2019 LLC Tsifrovye meditsinskie servisy has contributed 28 to net profit of the Group and 640 to revenue. If the combination had taken place at the beginning of 2019, net profit of the Group would have been 16,194 and revenue would have been 337,648. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

DataLine

On 26 December 2019 the Group acquired control over DataLine, the second largest datacentre provider in Russia. The subsidiary of the Company LLC Data Storage Centre has signed an agreement to acquire 100% of DataLine for cash consideration in the amount 17,513.

7. Business combinations (continued)

2019 transactions (continued)

DataLine is one of the largest players in the data centres and cloud markets in Russia and provides collocation and virtualization, telecommunications and other auxiliary services. Through DataLine's management of eight Tier III data centres and 4,800 racks in total, this acquisition will increase Rostelecom's total capacity of commercial data centres to 11,500 racks, and see it secure a significant share in the commercial data centers market.

The effective share of the Group in DataLine as of 31 December 2019 is 100%.

The acquisition has been accounted using the acquisition method.

The provisional value of the identifiable assets and liabilities of DataLine as at the date of acquisition were:

	DataLine
Provisional value of identifiable assets and liabilities	
Property, plant and equipment	3,683
Right of use assets	735
Intangible assets	179
Deferred tax assets	39
Trade and other accounts receivable	744
Inventories	19
Cash and cash equivalents	582
Short-term and long-term loans	(3,282)
Short-term and long-term lease liabilities	(751)
Accounts payable, provisions and accrued expenses	(811)
Total identifiable net assets at provisional value	**1,137**
Goodwill arising on acquisition	16,376
Purchase consideration transferred (paid in cash)	**17,513**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	582
Cash paid	(17,513)
Net cash flow on acquisition	**(16,931)**

The goodwill of 16,376 comprises the value of expected synergies and other benefits from combining the assets and activities of DataLine with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the trade and other accounts receivable amounts to 744, which is approximately equal to the gross amounts of corresponding receivables as of the acquisition date. None of the trade and other accounts receivables has been impaired and it is expected that the full contractual amounts can be collected.

During 2019 the Group acquired the business which are individually immaterial. Total amount of purchase consideration transferred and paid by cash is 1,092. Property, plant and equipment in the amount 553 and intangible assets in the amount 862 were purchased as part of business combination. No goodwill arose on acquisition.

During 2019 the deferred consideration for LLC Tvingo telecom was paid in the amount 56.

7. Business combinations (continued)

2018 transactions

Acquisition of subsidiaries

LLC Servis telecommunikaciy

On 12 January 2018 the Group acquired control over LLC Servis telecommunikaciy. The subsidiary of the Company PJSC Bashinformsvyaz has signed an agreement to acquire 100% of LLC Servis telecommunikaciy for 250. LLC Servis telecommunikaciy owns the frequency resource in the area of Saint Petersburg that will enable the Group to develop 5G technology and expand the trial network in 5G technology.

The effective share of the Group in LLC Servis telecommunikaciy as of 31 December 2018 is 96.33%.

The acquisition has been accounted using the acquisition method.

The fair value of the identifiable assets and liabilities of LLC Servis telecommunikaciy as at the date of acquisition were:

	LLC Servis telecommuni-kaciy
Fair value of identifiable assets and liabilities	
Intangible assets	270
Trade and other accounts receivable	2
Cash and cash equivalents	1
Accounts payable, provisions and accrued expenses	(2)
Deferred tax liabilities	(55)
Total identifiable net assets at fair value	**216**
Goodwill arising on acquisition	45
Non-controlling interests	**8**
Purchase consideration transferred (paid in cash)	**250**
Deferred consideration	**3**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	1
Cash paid	(250)
Net cash flow on acquisition	**(249)**

The goodwill of 45 comprises the value of expected synergies and other benefits from combining the assets and activities of the LLC Servis telecommunikaciy with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interest is 3.67%. The Group has elected to measure the non-controlling interest at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2018 LLC Servis telecommunikaciy has contributed (1) to net profit of the Group and 2 to revenue.

Solar Security

On 21 May 2018 the Group obtained control over Solar Security. The subsidiaries of the Company, LLC Data Storage Centre and PJSC Bashinformsvyaz, have signed the agreements to acquire 70% and 30% of Solar Security respectively for 1,050 and 450. Solar Security is a technological leader in target monitoring and information security (IS) management.

7. Business combinations (continued)

2018 transactions (continued)

Rostelecom's IS division will become part of Solar Security, thus forming an integrated cybersecurity competence centre. Solar Security will be responsible for further development and promotion of existing products and services, as well as the implementation of Rostelecom's corporate and public projects in the space of data protection.

The effective share of the Group in Solar Security as of 31 December 2018 is 98.90%.

The acquisition has been accounted using the acquisition method.

The fair value of the identifiable assets and liabilities of Solar Security as at the date of acquisition were:

	Solar Security
Fair value of identifiable assets and liabilities	
Property, plant and equipment	20
Intangible assets	290
Contract assets	29
Deferred tax assets	48
Trade and other accounts receivable	130
Cash and cash equivalents	41
Inventories	13
Contract liabilities	(29)
Accounts payable, provisions and accrued expenses	(133)
Total identifiable net assets at fair value	**409**
Goodwill arising on acquisition	1,095
Non-controlling interests	**4**
Purchase consideration transferred (paid in cash in May 2018)	**1,417**
Deferred consideration paid in December 2019	**28**
Deferred consideration to be paid	**55**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	41
Cash paid	(1,445)
Net cash flow on acquisition	**(1,404)**

The goodwill of 1,095 comprises the value of expected synergies and other benefits from combining the assets and activities of Solar Security with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interest is 1.10%. The Group has elected to measure the non-controlling interest at the proportionate share of the value of net identifiable assets acquired.

The fair value of the trade and other accounts receivable amounts to 130, which is approximately equal to the gross amounts of corresponding receivables as of the acquisition date. None of the trade and other accounts receivables has been impaired and it is expected that the full contractual amounts can be collected.

From the date of acquisition until 31 December 2018 Solar Security has contributed (207) to net profit of the Group and 513 to revenue. If the combination had taken place at the beginning of 2018, net profit of the Group would have been 14,890 and revenue would have been 320,389. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

7. Business combinations (continued)

2018 transactions (continued)

LLC Star2Com

In December 2018 the Group obtained control over LLC Star2Com. The subsidiary of the Company, PJSC Bashinformsvyaz, has signed the agreement to acquire 99.92% of LLC Star2Com for 490. The remaining share 0.08% is included in net assets of the acquired company.

Star2Comm is one of the leading developers of telecommunications settlements and maintenance solutions. The company has its own proprietary billing software, which provides full settlement cycle to a considerable number of Rostelecom's broadband, IPTV and telephony subscribers.

The effective share of the Group in LLC Star2Com as of 31 December 2018 is 96.33%.

The acquisition has been accounted using the acquisition method. These consolidated financial statements include balances of LLC Star2Com as at 31 December 2018.

The fair value of the identifiable assets and liabilities of LLC Star2Com as at the date of acquisition were:

	LLC Star2Com
Fair value of identifiable assets and liabilities	
Intangible assets	519
Property, plant and equipment	9
Contract assets	19
Trade and other accounts receivable	21
Inventories	22
Cash and cash equivalents	6
Short-term loans	(26)
Shareholders liability	(20)
Contract liabilities	(19)
Accounts payable, provisions and accrued expenses	(112)
Deferred tax liability	(106)
Total identifiable net assets at fair value	**313**
Goodwill arising on acquisition	189
Non-controlling interests	**12**
Purchase consideration transferred (paid in cash)	**490**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	6
Cash paid	(490)
Net cash flow on acquisition	**(484)**

The goodwill of 189 comprises the value of expected synergies and other benefits from combining the assets and activities LLC Star2Com with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interest is 3.67%. The Group has elected to measure the non-controlling interest at the proportionate share of the value of net identifiable assets acquired.

7. Business combinations (continued)

2018 transactions (continued)

Netris

On 25 December 2018 the Group obtained control over JSC Netris and LLC Netris Group (called Netris). The subsidiary of the Company, PJSC Bashinformsvyaz has signed the agreement to acquire 100% of Netris for 1,712.

Netris is one of the leading developer of video monitoring systems software for government and corporate customers.

The effective share of the Group in Netris as of 31 December 2018 is 96.33%.

The acquisition has been accounted using the acquisition method. These consolidated financial statements include balances of Netris as at 31 December 2018.

The fair value of the identifiable assets and liabilities of Netris as at the date of acquisition were:

	Netris*
Fair value of identifiable assets and liabilities	
Intangible assets	633
Property, plant and equipment	9
Trade and other accounts receivable	100
Inventories	34
Cash and cash equivalents	347
Accounts payable, provisions and accrued expenses	(152)
Deferred tax liabilities	(126)
Total identifiable net assets at fair value	**845**
Goodwill arising on acquisition	898
Non-controlling interests	**31**
Purchase consideration transferred (paid in cash)	**1,712**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	347
Cash paid	(1,712)
Net cash flow on acquisition	**(1,365)**

* *Certain amounts do not correspond to the amounts disclosed in the notes to the consolidated financial statements of the Group as of 31 December 2018 and reflect measurement period adjustments made to the provisional amounts of Netris as the accounting for the business combination had been completed at the acquisition date (Note 6).*

The goodwill of 898 comprises the value of expected synergies and other benefits from combining the assets and activities Netris with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the trade and other accounts receivable amounts to 100, which is approximately equal to the gross amounts of corresponding receivables as of the acquisition date. None of the trade and other accounts receivables has been impaired and it is expected that the full contractual amounts can be collected.

During 2018 the Group acquired the business which are individually immaterial (LLC Sputnik Telecom, LLC TelecomSistemy, LLC Evraziya Telecom, LLC Udostoveryayuschiy centr Internet). Total amount of purchase consideration transferred and paid by cash is 270. Property, plant and equipment in the amount 109 and intangible assets in the amount 154 were purchased as part of business combination. No goodwill arose on acquisition.

8. Property, plant and equipment

The net book value of property, plant and equipment as at 31 December 2019 and 2018 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost / deemed cost					
At 1 January 2018	**101,013**	**657,049**	**129,613**	**28,563**	**916,238**
Reclassification financial leasing to rights in use assets a at 1 January 2018	(322)	(1,152)	(220)	–	**(1,694)**
Additions	23	6,114	3,294	63,009	**72,440**
Assets of acquired subsidiaries	2	114	28	47	**191**
Reclassification from investment property and assets held for sale	3,595	42	68	–	**3,705**
Reclassification to assets held for sale	(4,814)	(40)	(161)	–	**(5,015)**
Reclassification to intangible assets	–	–	–	(379)	**(379)**
Transfer	1,718	49,793	7,866	(59,377)	**–**
Disposals	(1,904)	(7,303)	(5,495)	(182)	**(14,884)**
Foreign exchange	1	403	23	16	**443**
Reclassification	9	(39)	2	4	**(24)**
At 31 December 2018	**99,321**	**704,981**	**135,018**	**31,701**	**971,021**
At 1 January 2019	**99,321**	**704,981**	**135,018**	**31,701**	**971,021**
Additions	157	6,966	5,544	58,845	**71,512**
Assets of acquired subsidiaries	2,231	1,341	1,460	709	**5,741**
Reclassification from investment property and assets held for sale	883	5	60	–	**948**
Reclassification to assets held for sale	(2,848)	(12)	(157)	–	**(3,017)**
Transfer	2,309	50,086	6,894	(59,289)	**–**
Disposals	(2,361)	(7,174)	(4,347)	(138)	**(14,020)**
Foreign exchange	–	(264)	(15)	(7)	**(286)**
At 31 December 2019	**99,692**	**755,929**	**144,457**	**31,821**	**1,031,899**
Accumulated amortisation and impairment losses					
At 1 January 2018	**(61,568)**	**(404,466)**	**(100,938)**	**(836)**	**(567,808)**
Reclassification financial leasing to rights in use assets a at 1 January 2018	39	127	34	–	**200**
Depreciation expense	(2,437)	(33,145)	(7,264)	–	**(42,846)**
Reclassification from investment property and assets held for sale	(2,515)	(37)	(59)	–	**(2,611)**
Reclassification to assets held for sale	3,173	34	117	–	**3,324**
Accruals of impairment losses	(12)	(817)	(110)	(150)	**(1,089)**
Disposals	1,454	7,057	5,246	80	**13,837**
Foreign exchange	–	(203)	(18)	–	**(221)**
Reclassification	(8)	48	(10)	2	**32**
At 31 December 2018	**(61,874)**	**(431,402)**	**(103,002)**	**(904)**	**(597,182)**
At 1 January 2019	**(61,874)**	**(431,402)**	**(103,002)**	**(904)**	**(597,182)**
Depreciation expense	(2,323)	(35,703)	(8,710)	–	**(46,736)**
Reclassification from investment property and assets held for sale	(480)	(3)	(59)	–	**(542)**
Reclassification to assets held for sale	1,801	7	139	–	**1,947**
Accruals of impairment losses	(68)	(30)	(75)	(790)	**(963)**
Disposals	1,945	6,689	4,250	62	**12,946**
Foreign exchange	–	135	12	–	**147**
At 31 December 2019	**(60,999)**	**(460,307)**	**(107,445)**	**(1,632)**	**(630,383)**
Net book value					
At 31 December 2018	**37,447**	**273,579**	**32,016**	**30,797**	**373,839**
At 31 December 2019	**38,693**	**295,622**	**37,012**	**30,189**	**401,516**

8. Property, plant and equipment (continued)

At 31 December 2019 and 2018 cost of fully depreciated property, plant and equipment was 224,716 and 220,965 respectively.

As required by IFRS 16, fixed assets fully under operating leases are disclosed below:

	Buildings and site services	Cable and transmission devices	Other	Total
Cost / deemed cost				
At 1 January 2018	**3,799**	**18,464**	**942**	**23,205**
Transferring to operating lease	647	3,478	336	**4,461**
Disposals	(713)	(1,119)	(13)	**(1,845)**
Return from operating lease	(438)	(5)	(291)	**(734)**
At 31 December 2018	**3,295**	**20,818**	**974**	**25,087**
Transferring to operating lease	570	4,340	504	**5,414**
Disposals	(98)	(19)	(70)	**(187)**
Return from operating lease	(218)	(30)	(60)	**(308)**
At 31 December 2019	**3,549**	**25,109**	**1,348**	**30,006**
Accumulated amortisation and impairment losses				
At 1 January 2018	**(2,287)**	**(7,288)**	**(546)**	**(10,121)**
Depreciation	(34)	(3,002)	(57)	**(3,093)**
Transferring to operating lease	(345)	(142)	(91)	**(578)**
Disposals	537	1,119	13	**1,669**
Return from operating lease	250	2	151	**403**
At 31 December 2018	**(1,879)**	**(9,311)**	**(530)**	**(11,720)**
Depreciation	(48)	(3,186)	(191)	**(3,425)**
Transferring to operating lease	(265)	(36)	(14)	**(315)**
Disposals	81	19	32	**132**
Return from operating lease	131	29	59	**219**
At 31 December 2019	**(1,980)**	**(12,485)**	**(644)**	**(15,109)**
Net book value				
At 31 December 2018	**1,416**	**11,507**	**444**	**13,367**
At 31 December 2019	**1,569**	**12,624**	**704**	**14,897**

Maturity analysis as at 31 December 2019 and 2018 represented below shows undiscounted cash flows from fixed assets under operating lease:

31 December 2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 and later**	**Total**
Operating lease cash flow	2,675	713	630	604	578	1,902	**7,102**

31 December 2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 and later**	**Total**
Operating lease cash flow	2,962	761	576	532	511	2,042	**7,384**

8. Property, plant and equipment (continued)

As required by IAS 16, the Group reassessed the useful lives of its property, plant and equipment. The Group determined that certain asset categories generally had longer useful lives than was being used for depreciation purposes. The standard requires the useful life of an asset to be estimated on a realistic basis and reviewed at least at the end of each financial year.

At the end of 2019, management revised certain useful lives of cable and transmission devices from 14 years to 22 years, buildings and site services from 19 years to 31 years and other equipment from 9 years to 18 years in accordance with IAS 8, effective 1 January 2020.

The change in estimate resulted in a decrease in the depreciation expense for the 2020 is disclosed below:

	Depreciation expense decreasing, expected as for 2020
Buildings and site services	217
Cable and transmission devices	2,806
Other	1,016
Total effect as for 2020	**4,039**

At the end of 2018, management revised certain useful lives of cable and transmission devices from 11 years to 18 years, buildings and site services from 18 years to 28 years and other equipment from 7 years to 14 years in accordance with IAS 8, effective 1 January 2019.

The change in estimate resulted in a decrease in the depreciation expense for 2019 is disclosed below:

	Depreciation expense decreasing for 2019
Buildings and site services	142
Cable and transmission devices	1,799
Other	1,055
Total effect for 2019	**2,996**

In December 2019 and 2018 the Group sold to Telecom-5 buildings with the carrying value of 1 and 178 respectively, for details see Note 39.

Interest capitalization

Interest amounting to 809 and 1,254 was capitalized in property, plant and equipment for the years ended 31 December 2019 and 2018 respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 7.64% and 7.94% for the years ended 31 December 2019 and 2018 respectively.

8. Property, plant and equipment (continued)

Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 4 and 179 was pledged under the loan agreements entered into by the Group as at 31 December 2019 and 2018 respectively.

Impairment of property, plant and equipment

As of 31 December 2019 and 2018, decline in demand for fixed line telephony services led to decrease in fixed telephony revenue, indicating a potential impairment of property, plant and equipment of Rostelecom CGU. Consequently, as at 31 December 2019 and 2018 the Group performed impairment test of its property, plant, equipment.

The Group assessed the recoverable amount of the assets for which estimation on individual basis is impracticable within respective CGU. The Group defines CGUs as PJSC Rostelecom and legal entities or group of legal entities (in case of subsidiaries).

The recoverable amount of each CGU is determined by estimating its value in use. Value in use calculation uses cash-flow projections based on actual and budgeted financial information approved by management and discount rate which reflects time value of money and risks associated with each individual CGU. Key assumptions used by management for the reporting dates in the calculation of value in use are as follows:

- Discount rates are estimated in nominal terms as the weighted average adjusted for risk specifics to CGU cost of capital on pre tax basis. Nominal rates for discounting varies from 11.89% to 15.74% per CGU;
- OIBDA margin is based on historical actual results and varies from 4.01% to 61.48% per CGU;
- For CGU cash flow projections cover the period of five years, cash flows beyond five-year period are extrapolated using growth rate of 2% for each CGU.

Future cash flows were adjusted using consistent assumptions about price increases attributable to general inflation.

For individual items of construction in progress and intangible assets for which the Group has no intention to complete and use or sell them the impairment loss 897 and 998 was recognised as at 31 December 2019 and 2018 respectively.

2019 impairment testing

As a result of impairment testing of property, plant and equipment the Group recognized an impairment loss of 29 related to Svyazist and 37 related to Orbita.

2018 impairment testing

As a result of impairment testing of property, plant and equipment the Group recognized an impairment loss of 91 related to Globus Telecom.

9. Goodwill and other intangible assets

The net book value of goodwill and other intangible assets as at 31 December 2019 and 2018 was as follows:

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Cost								
At 1 January 2018	**28,439**	**897**	**747**	**56,061**	**15,854**	**1,159**	**3,270**	**106,427**
Additions	–	131	1	8,647	57	648	1,266	**10,750**
Intangible assets of acquired subsidiaries	2,126	–	13	1,349	586	–	5	**4,079**
Disposals	–	–	–	(2,849)	(4)	(32)	(133)	**(3,018)**
Reclassification from PPE	–	–	–	379	–	–	–	**379**
Reclassification	–	–	–	178	10	(9)	(179)	**–**
Foreign exchange	98	–	–	18	5	12	3	**136**
At 31 December 2018	**30,663**	**1,028**	**761**	**63,783**	**16,508**	**1,778**	**4,232**	**118,753**
At 1 January 2019	**30,663**	**1,028**	**761**	**63,783**	**16,508**	**1,778**	**4,232**	**118,753**
Additions	–	51	1	12,778	7	602	547	**13,986**
Intangible assets of acquired subsidiaries	20,277	–	43	218	1,851	10	55	**22,454**
Disposals	–	–	–	(1,697)	–	(655)	20	**(2,332)**
Reclassification	–	–	–	55	–	(59)	4	**–**
Foreign exchange	(56)	–	–	(8)	(3)	(8)	(5)	**(80)**
At 31 December 2019	**50,884**	**1,079**	**805**	**75,129**	**18,363**	**1,668**	**4,853**	**152,781**
Accumulated amortisation and impairment losses								
At 1 January 2018	**(3,778)**	**(24)**	**(678)**	**(33,897)**	**(6,653)**	**(555)**	**(1,022)**	**(46,607)**
Amortisation expense	–	3	(13)	(6,761)	(453)	(454)	(753)	**(8,431)**
Disposals	–	–	–	2,849	4	32	133	**3,018**
Impairment losses	(178)	–	–	(520)	–	–	–	**(698)**
Reversal of impairment losses	–	–	–	69	–	–	–	**69**
Reclassification	–	–	–	1	(1)	–	–	–
Foreign exchange	–	–	–	(7)	(3)	(9)	(2)	**(21)**
At 31 December 2018	**(3,956)**	**(21)**	**(691)**	**(38,266)**	**(7,106)**	**(986)**	**(1,644)**	**(52,670)**
At 1 January 2019	**(3,956)**	**(21)**	**(691)**	**(38,266)**	**(7,106)**	**(986)**	**(1,644)**	**(52,670)**
Amortisation expense	–	(3)	(9)	(7,956)	(1,094)	(646)	(88)	**(9,796)**
Disposals	–	–	–	1,675	–	653	(20)	**2,308**
Impairment losses	(1,424)	–	–	(62)	–	–	–	**(1,486)**
Reversal of impairment losses	–	–	–	171	–	–	–	**171**
Reclassification	–	–	–	(19)	–	21	(2)	**–**
Foreign exchange	–	–	–	5	2	7	(4)	**10**
At 31 December 2019	**(5,380)**	**(24)**	**(700)**	**(44,452)**	**(8,198)**	**(951)**	**(1,758)**	**(61,463)**
Net book value								
At 31 December 2018	**26,707**	**1,007**	**70**	**25,517**	**9,402**	**792**	**2,588**	**66,083**
At 31 December 2019	**45,504**	**1,055**	**105**	**30,677**	**10,165**	**717**	**3,095**	**91,318**

Interest amounting to 222 and 350 was capitalized in intangible assets for the years ended 31 December 2019 and 2018 respectively.

Amortisation is calculated on intangible assets on a straight–line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Range of useful lives
Trade-marks	9-10
Computer software	0-51
Customer list	2-32
Licences	0-40
Other	2-11

9. Goodwill and other intangible assets (continued)

Intangible assets with indefinite useful lives and goodwill

The owned number capacities with a carrying amount of 1,055 (2018: 1,007) are intangible assets with indefinite useful lives and are not amortized. These assets have no legal restrictions on the term of their use and the Group can derive economic benefits from their use indefinitely. These assets are tested for impairment annually or more frequently if there is an indication that the intangible assets may be impaired.

No research and development expenditure was recognized in 2019 and 2018.

At each reporting date the Group performs impairment testing of goodwill allocated to CGUs that were acquired upon business combinations.

The Group determines the following reportable operating segments: PJSC Rostelecom and other operations which presented by subsidiaries of the Group. In identifying the cash-generating units, the Group proceeded from the requirement of IAS 36 in 2016, under which cash-generating units to goodwill is allocated. Cash generating units cannot be larger than the operating segments in accordance with IFRS 8. Reportable operating segments disclosed in Note 34.

Carrying amounts of goodwill and intangible assets with indefinite useful lives are presented in the table below:

	31 December 2019		**31 December 2018**	
CGU	**Goodwill**	**Intangible assets with indefinite useful lives**	**Goodwill**	**Intangible assets with indefinite useful lives**
PJSC Rostelecom	19,470	622	19,470	580
Macomnet	646	50	646	50
Globus Telecom	–	359	–	359
GNC Alfa	–	–	577	–
RTComm.RU	606	–	606	–
Severen telecom	432	1	432	1
RTK-DC Group	885	–	885	–
Global-Tel	–	–	442	–
FreshTel Group	–	–	–	–
IQ'Men	–	–	316	–
Aist	750	–	750	–
Morton Group	101	–	101	–
Twingo Telecom	–	–	145	–
Solar	1,095	–	1,095	–
Start2Com	189	–	189	–
Netrix	898	–	898	–
Infolink Group	240	–	–	–
NPO SEM	537	–	–	–
Prometey	396	–	–	–
Alliance Telecom Group	2,049	–	–	–
Lekstar	77	–	–	–
Svyazservis	75	–	–	–
DartIT	378	–	–	–
Megakom	147	–	–	–
DataLine	16,376	–	–	–
Sibitex	62	–	62	–
Other	95	23	93	17
Total	**45,504**	**1,055**	**26,707**	**1,007**

9. Goodwill and other intangible assets (continued)

Intangible assets with indefinite useful lives and goodwill (continued)

Key assumptions used by management in impairment testing are as follows:

- Discount rates are estimated in nominal terms as the weighted average adjusted for risk specifics to CGU cost of capital on pre tax basis. Nominal rates for discounting varies from 11.89% to 15.74% per CGU;
- OIBDA margin is based on historical actual results and varies from 4.01% to 61.48% per CGU;
- Cash flow projections cover the period of five years, cash flows beyond five-year period are extrapolated using growth rate of 2%.

Future cash flows were adjusted using consistent assumptions about price increases attributable to general inflation.

2019 impairment testing

As a result of impairment testing Group recognized an impairment loss of goodwill in the amount of 442 related to Globaltel, 521 related to GNC Alfa, 316 related to IQmen, 145 relatet to Tvingo telecom.

2018 impairment testing

As a result of impairment testing Group recognized an impairment loss of goodwill in the amount of 178 related to FreshTel Group.

Impairment loss was recognized in the line Depreciation, amortisation and impairment losses in the consolidated statement of profit or loss and other comprehensive income.

Discount rate and operating income before amortisation and depreciation (OIBDA) margin are the key assumptions to which calculations of value in use of CGUs with goodwill and indefinite useful life intangible assets allocated to are the most sensitive. Management approach to OIBDA projection is based on historical actual results and growth rate forecasts.

The table below demonstrates the sensitivity analysis for impairment and the effect of a reasonably possible change in key assumptions as at 31 December 2019:

CGU	Decrease of OIBDA margin	Impairment loss	Decrease in OIBDA margin which resulted in equality of recoverable and carrying amount
LLC Morton Telecom	5%	(37)	4.05%
JSC AIST	5%	(21)	4.46%
LLC RTK IT	5%	(251)	4.46%
SC MTs NTT	5%	(431)	1.35%
CJSC Globus-Telecom	5%	(19)	4.79%
PJSC Tsentralny Telegraph	5%	(704)	0.93%

9. Goodwill and other intangible assets (continued)

Intangible assets with indefinite useful lives and goodwill (continued)

The table below demonstrates the sensitivity analysis for impairment and the effect of a reasonably possible change in key assumptions as at 31 December 2018:

CGU	Decrease of OIBDA margin	Impairment loss	Decrease in OIBDA margin which resulted in equality of recoverable and carrying amount
SC Restrim	5%	(19)	4.93%
GNC Alfa	5%	(64)	4.12%
SC Severen–Telecom	5%	(159)	3.87%
LLC Morton Telecom	5%	(44)	3.66%
LLC Rostelecom Roznichnye sistemy	5%	(1,411)	3.22%
SC OK Orbita	5%	(68)	3.01%
LLC Sibitex	5%	(14)	1.83%
SC MTs NTT	5%	(414)	0.33%
SC RPK Svyazist	5%	(91)	0.01%

For CGUs listed below following possible change in discount rate would result in impairment:

CGU	Increase of discounts rates	Impairment loss
JSC AIST	2.00%	(44)
PJSC Tsentralny Telegraph	1.00%	(24)

Impairment testing of other intangible assets

At each reporting date the Group performs impairment testing of intangible assets not yet available for use and intangible assets with indefinite useful lives.

For individual items of intangible assets for which the Group has no intention to complete and use or sell them the impairment loss 62 and 520 was recognised as at 31 December 2019 and 2018 respectively.

2019 impairment testing

As at 31 December 2019 no material impairment loss in respect of other intangible assets was recognised.

2018 impairment testing

As at 31 December 2018 no material impairment loss in respect of other intangible assets was recognised.

10. Rights of use assets and lease liabilities

The net book value of right of use assets as at 31 December 2019 and 31 December 2018 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Total
Right of use assets				
Cost				
At 1 January 2018	**14,421**	**1,976**	**783**	**17,180**
Additions and modifications	8,132	1,256	234	**9,622**
Derecognition	(519)	(20)	(67)	**(606)**
At 31 December 2018	**22,034**	**3,212**	**950**	**26,196**
Additions and modifications	5,818	491	7,274	**13,583**
Assets of acquired subsidiaries	150	645	–	**795**
Derecognition	(2,239)	(353)	(803)	**(3,395)**
At 31 December 2019	**25,763**	**3,995**	**7,421**	**37,179**
Accumulated amortisation and impairment losses				
At 1 January 2018	**(39)**	**(127)**	**(34)**	**(200)**
Depreciation expense	(4,402)	(495)	(354)	**(5,251)**
Derecognition	433	4	23	**460**
At 31 December 2018	**(4,008)**	**(618)**	**(365)**	**(4,991)**
Depreciation expense	(4,552)	(603)	(984)	**(6,139)**
Derecognition	2,136	213	492	**2,841**
At 31 December 2019	**(6,424)**	**(1,008)**	**(857)**	**(8,289)**
Net book value				
At 31 December 2018	**18,026**	**2,594**	**585**	**21,205**
At 31 December 2019	**19,339**	**2,987**	**6,564**	**28,890**

The net book value of lease liabilities at 31 December 2019 and 31 December 2018 was as follows:

Lease liabilities	**2019**	**2018**
At 1 January	**21,646**	**16,225**
Additions and modifications	13,663	9,635
Lease liabilities of acquired subsidiaries	811	–
Interest on lease liabilities	1,852	1,637
Derecognition	(504)	(180)
Repayment of lease liabilities:		
- operating activities	(1,852)	(1,637)
- financing activities	(5,674)	(4,034)
At 31 December	**29,942**	**21,646**

The profit from sale of assets with leaseback amounted 2,830 and 2,319 for the years ended 31 December 2019 and 2018 respectively with loss from leaseback operations amounted 57 and 180 respectively.

As usual, the Group leased land, buildings, transport and other assets if the purchase of them have no economic feasibility because of short term of use. The future cash outflows to which the Group is potentially exposed, including extension and termination options, are absent. The Group has no restriction or covenants imposed by lease.

11. Subsidiaries

These consolidated financial statements include the assets, liabilities and results of operations of the following significant subsidiaries:

Subsidiary	Main activity	Effective share of the Group as at 31 December 2019	2018
SC MTs NTT	Communication services	100%	100%
CJSC Westelcom	Leasing of equipment	100%	100%
CJSC Zebra Telecom	Communication services	100%	100%
SC RTComm.RU	Communication services (internet)	100%	100%
SC RTComm-Sibir	Communication services (internet)	100%	100%
LLC RTComm-Ug	Communication services (internet)	100%	100%
CJSC Globus-Telecom	Communication services	94.92%	94.92%
CJSC Makomnet	Communication services	51%	51%
SC TKT-stroy	R&D services	100%	100%
LLC Mobitel	Investment company	100%	100%
SC RT Labs	Communication services	100%	100%
CJSC AMT	Investment company	100%	100%
LLC Intmashservis*	Repair services	–	100%
SC Regionalnie informatsionnie seti	R&D services	100%	100%
LLC Set Stolitsa	Maintenance services	100%	100%
SC Services Projects Technologies	Communication services	100%	100%
SC Severen-Telecom	Communication services	100%	100%
CJSC GNC Alfa	Communication services	100%	74.98%
PJSC Tsentralny Telegraph	Communication services (telegraph)	64.71%	60.08%
PJSC Giprosvyaz	Engineering design	63.37%	63.37%
PJSC Bashinformsvyaz	Communication services	96.33%	96.33%
LLC Bashtelecomleasing	Leasing	96.33%	96.33%
OJSC Ufimsky zavod promsvyaz	Communication equipment manufacturing	96.27%	96.27%
SC MMTS-9	Communication services	88.29%	88.29%
SC OK Orbita	Recreational services	100%	100%
SC RPK Svyazist	Recreational services	100%	100%
Rostelecom International Limited	Communication services	100%	100%
JSC Restrim ***	IT consulting	–	100%
LLC Rostelecom Roznichnye sistemy	Retail services	100%	100%
LLC Rostelecom Informatsionnye tehnologii**	IT consulting	100%	100%
LLC Data Storage Centre	Data storage services	100%	100%
LLC RTK-DC	Data storage services	100%	100%
LLC Center Technology Virtualization	Data storage services	100%	66.44%
LLC Interaction Network Center	Data storage services	100%	100%
SC Interaction Computer Network Center “MCK-IX”	Data storage services	51%	51%
LLC Advanced Network Technology	Data storage services	50.10%	50.10%
LLC Tioniks	Data storage services	100%	75%
SC Vostoktelecom	Communication services	100%	100%
CJSC Globaltel	Communication services	100%	100%
LLC Search Website Sputnik	IT consulting	100%	100%
LLC Interproekt	Communication services	100%	100%
LLC Orion	Communication services	100%	100%
LLC Progress	Communication services	100%	100%
LLC Stolitsa	Communication services	100%	100%
LLC BUM SP	Investment company	80%	80%
LLC BUM TV*	Telecommunication services	–	80%
LLC Magalyascom*	Communication services	–	100%
IQmen – Business Intelligence	Data services	75%	75%
LLC KommIT Capital	Venture fund	100%	100%
JSC AIST	Communication services	96.33%	96.33%
LLC Morton-Telecom	Communication services	96.33%	96.33%
LLC Morton-Telecom-Zapad	Communication services	96.33%	96.33%
LLC NTK	Communication services	96.33%	96.33%
JSC Non-state Pension Fund Alliance	Pension Fund	93,38%	51%
LLC RADO	Maintenance services	100%	100%
LLC RusGIS Technologii	IT consulting	51%	51%
LLC Sibitex	Communication services	96.33%	96.33%
Soyuz operatorov svyazi “Centr issledovaniya communicaciy”	Consulting services in Telecommunication sector	100%	100%
LLC Tvingo Telecom	Communication services	96.33%	96.33%
LLC SET	Communication services	96.33%	96.33%
LLC Solar Security (Note 7)	IT consulting	98.90%	98.90%
LLC Udostoveryayuschiy centr Internet (Note 7)	Communication services	100%	100%
LLC Star2Com (Note 7)	IT consulting	96.33%	96.33%
JSC Netris (Note 7)	IT consulting	96.33%	96.33%
LLC Netris Group (Note 7)	Retail services	96.33%	96.33%
LLC Infolink (Note 7)	Communication services	96.33%	–
LLC Svyazstroy-21 (Note 7)	Communication services	96.33%	–
JSC Nauchno-proizvodstvennoe obedinenie SAM (Note 7)	Real estate	100%	–
LLC RTC-CT (Note 7)	IT consulting	51.10%	–
LLC Prometey (Note 7)	Communication services	96.33%	–
LLC OctopusNet (Note 7)	Communication services	96.33%	–
LLC Ussuri-Teleservis (Note 7)	Communication services	96.33%	–
LLC S25RU (Note 7)	Communication services	96.33%	–
LLC Svyazservis (Note 7)	Communication services	96.33%	–
LLC LekStar Communication (Note 7)	Communication services	96.33%	–
LLC Esotel-Rustelecom (Note 7)	Communication services	100%	–
LLC Dtcom (Note 7)	Communication services	100%	–
LLC DartIT (Note 7)	IT consulting	96.33%	–
LLC MegaCom (Note 7)	Communication services	96.33%	–
LLC Garant-Sibir (Note 7)	Communication services	96.33%	–
LLC Tsifrovye meditsinskie servisy (Note 7)	IT consulting	51%	–
LLC DataLine (Note 7)	Data storage services	100%	–
LLC CloudLight (Note 7)	Data storage services	100%	–
Flowstar Ltd. (Note 7)	Data storage services	100%	–

* *The Group lost control under these subsidiaries during 2019.*

** *Former LLC Rostelecom Integraciya.*

*** *JSC Restrim joined to LLC Rostelecom Informatsionnye tehnologii during 2019.*

11. Subsidiaries (continued)

All the above entities have the same reporting date as the Company.

All significant subsidiaries, except for Rostelecom International Limited and GNC Alfa, are incorporated in Russia. Rostelecom International Limited is incorporated in Cyprus, GNC Alfa is incorporated in Armenia.

Acquisition of non-controlling interests of subsidiaries

During 2019 the Group acquired the following non-controlling interests:

- Additional 25.02% shares in GNC Alfa increasing its stake up to 100%. Cash consideration in the amount of 507 was paid to the non-controlling shareholders;
- Additional 33.56% shares in LLC Center Technology Virtualization increasing its stake up to 100%. Cash consideration in the amount of 300 was paid to the non-controlling shareholders and the deferred consideration in the amount 310 is expected to be paid during 2020;
- Additional 4.63% shares in PJSC Tsentralny Telegraph increasing its stake up to 64.71%. Cash consideration in the amount of 190 was paid to the non-controlling shareholders;
- Additional 44.00% shares in JSC Non-state Pension Fund Alliance. The share in JSC Non-state Pension Fund Alliance was acquired by the subsidiary of the Company PJSC Bashinformsvyaz so the effective acquired share is 42.38%. The stake of the Group in JSC Non-state Pension Fund Alliance was increased up to 93.38%. Cash consideration in the amount of 400 was paid to the non-controlling shareholders.
- Additional 25.00% shares in LLC Tioniks increasing its stake up to 100%. Deffered consideration in the amount of 20 is expected to be paid during 2020.

Following is a schedule of additional interest acquired during 2019:

	GNC Alfa	LLC Center Technology Virtualization	PJSC Tsentralny Telegraph	JSC Non-state Pension Fund Alliance	LLC Tioniks
Cash consideration paid to non-controlling shareholders	507	300	190	400	–
Deferred consideration to non-controlling shareholders	–	310	–	–	20
Carrying value of the additional interest	158	(25)	(135)	(340)	10
Difference recognised in translation of foreign operations	(10)	–	–	–	–
Difference recognised in retained earnings	**(655)**	**(585)**	**(55)**	**(60)**	**(30)**

During 2018 the Group acquired an additional 10% shares in LLC Rado increasing its stake up to 100%. Cash consideration two thousand rubles was paid to the non-controlling shareholders.

The summarised financial information of subsidiaries that has non-controlling interests that are material to the Group is provided below. This information is based on amounts before inter-company eliminations.

11. Subsidiaries (continued)

Summarised statements of financial position

	PJSC Tsentralny Telegraph	
	As at 31 December 2019	As at 31 December 2018
Current assets	3,617	2,601
Current liabilities	(1,553)	(1,300)
Total current net assets	**2,064**	**1,301**
Non-current assets	1,338	1,506
Non-current liabilities	(246)	(214)
Total non-current net assets	**1,092**	**1,292**
Net assets	**3,156**	**2,593**
Non-controlling interest	**1,114**	**1,051**

	CJSC Makomnet	
	As at 31 December 2019	As at 31 December 2018
Current assets	577	560
Current liabilities	(575)	(373)
Total current net assets	**2**	**187**
Non-current assets	1,517	1,558
Non-current liabilities	(148)	(288)
Total non-current net assets	**1,369**	**1,270**
Net assets	**1,371**	**1,457**
Non-controlling interest	**672**	**726**

Summarised statements of profit or loss and other comprehensive income

	PJSC Tsentralny Telegraph	
	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	2,093	2,513
Profit before income tax	2,830	995
Income tax	(570)	(188)
Total comprehensive income	**2,260**	**807**
Total comprehensive income allocated to non-controlling interests	798	320
Dividends paid to non-controlling interests	615	3

11. Subsidiaries (continued)

Summarised statements of profit or loss and other comprehensive income (continued)

	CJSC Makomnet	
	Year ended 31 December 2019	**Year ended 31 December 2018**
Revenue	2,121	1,926
Profit before income tax	262	327
Income tax	(44)	(62)
Total comprehensive income	**218**	**265**
Total comprehensive income allocated to non-controlling interests	107	130
Dividends paid to non-controlling interests	149	136

Summarised cash flows

	PJSC Tsentralny Telegraph	
	Year ended 31 December 2019	**Year ended 31 December 2018**
Cash generated from operations	205	721
Income tax paid	(317)	(10)
Net cash (used in)/generated from operating activities	**(112)**	**711**
Net cash (used in)/generated from investing activities	**(117)**	**1,381**
Net cash used in financing activities	**(1,770)**	**(89)**
Net increase/(decrease) in cash and cash equivalents	**(1,999)**	**2,003**
Cash and cash equivalents at beginning of year	2,005	2
Cash and cash equivalents at end of year	**6**	**2,005**

	CJSC Makomnet	
	Year ended 31 December 2019	**Year ended 31 December 2018**
Cash generated from operations	774	595
Income tax paid	(62)	(84)
Net cash generated from operating activities	**712**	**511**
Net cash used in investing activities	**(393)**	**(31)**
Net cash used in financing activities	**(488)**	**(464)**
Net increase/(decrease) in cash and cash equivalents	**(169)**	**16**
Exchange gains/(losses) on cash and cash equivalents	(4)	8
Cash and cash equivalents at beginning of year	228	204
Cash and cash equivalents at end of year	**55**	**228**

12. Investments in associates and joint ventures

Investments in associates and joint ventures as at 31 December 2019 and 2018 were as follows:

	Main activity	Type	Voting share capital as at 31 December 2019, %	Voting share capital as at 31 December 2018, %	2019 Carrying amount	2018 Carrying amount
LLC T2 RTK Holding	Communication services	JV	45.00	45.00	63,958	60,975
SC Tsifrovoe televidenie	TV services	JV	41.29	41.29	3,405	3,460
Sailfish group	Software development	JV	75.00	75.00	243	1,911
LLC Telecom-5	Rental services	JV	50.00	50.00	2,120	1,511
OJSC KGTS	Communication services	Associate	37.29	37.29	307	341
B4N Group Limited	Network management systems development	Associate	26.08	26.08	191	175
LCC National technologies	IT developer	JV	49.00	–	352	–
Other	Various			Various	2,274	1,609
Total investments in associates and joint ventures					**72,850**	**69,982**

In 2018 the Group acquired 75% of LLC OMP and 75% LLC Votron (Sailfish group) for the cash consideration of 3,377, including 2,800 to refinance the debt. The Group obtained joint control according shareholder agreement.

In 2019 and 2018 the Company conducted an impairment testing and recognized the impairment loss of investments to Sailfish group in the amounts 1,119 and 1,178 as a result of reconsideration of Sailfish group's projects terms. The impairment loss was recoqnized in line Share of net profit (loss) of associates and joint ventures. The recoverable amount of the Sailfish group has been determined based on a value in use. Value in use calculation uses cash-flow projections based on actual and budgeted financial information approved by management and discount rate which reflects time value of money and risks associated with Sailfish group.

In July 2019 the Group acquired a 49% stake in LLC National Technologies for a cash consideration of 26.6.

In 2019 the Group acquired investments in other individually insignificant associates and joint ventures for 517.

In 2019 the Group received dividends from its investments in equity accounted investees and joint ventures in the amount of 232 (2018: 95).

Associated companies and joint ventures are incorporated in Russia, Finland, Cyprus and Hong Kong.

There are no contingent liabilities relating to the Group's interest in the associates and the joint ventures.

12. Investments in associates and joint ventures (continued)

Summarized financial information as at 31 December 2019 and 2018 and for the years then ended of associates and joint ventures is presented below:

Aggregate amounts	2019	2018
Assets	273,309	248,694
Liabilities	207,656	191,440
Revenue	186,785	149,611
Net income	7,511	3,068

Summarized financial information for significant associates and joint ventures as at 31 December 2019 and 2018 and for the years then ended is presented below:

Associate/JV	Year	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Net income/ (loss)
OJSC KGTS	2019	795	96	24	42	683	(90)
	2018	916	130	49	83	515	(40)
T2 RTK Holding	2019	226,808	10,503	92,481	97,620	163,315	6,630
LLC	2018	215,094	9,950	118,674	65,790	143,218	2,710
Sailfish group	2019	2,351	1,141	3,125	850	26	(789)
	2018	2,476	382	2,210	333	38	(416)
OJSC Tsifrovoe	2019	3,690	2,540	48	889	4,818	95
televidenie	2018	4,086	2,687	108	1,467	3,642	44
LLC Telecom-5	2019	9,239	1,845	95	397	1,040	500
	2018	9,180	1,717	44	161	1,113	704
LLC “National	2019	28	3,674	90	2,894	7,611	664
Technologies”	2018	–	–	–	–	–	–

Reconciliation of the summarised financial information presented to the carrying amount of the interest in associates and joint ventures:

Summarised financial information	LLC T2 RTK Holding	SC Tsifrovoe televidenie	Sailfish group	OJSC KGTS	LLC Telecom-5	LCC National technologies
Net assets at 31 December 2019	**47,210**	**5,293**	**(483)**	**824**	**10,592**	**718**
Group interest, %	45.00	41.29	75.00	37.29	50.00	49.00
Goodwill	42,714	1,220	2,853	–	–	–
Impairment of investment	–	–	(2,297)	–	–	–
Unrealised gain	–	–	49	–	3,221	–
Effect of disproportional allocation of profits	–	–	–	–	(45)	–
Carrying value at 31 December 2019	**63,958**	**3,405**	**243**	**307**	**2,120**	**352**

Investment in T2 RTK Holding LLC

	2019	2018
At 1 January	**60,975**	**59,755**
Share of income	2,983	1,220
At 31 December	**63,958**	**60,975**

Investment in T2 RTK Holding LLC was recognised as a result of the deal with the mobile operator Tele 2 Russia. There is no quoted market price available for its shares.

12. Investments in associates and joint ventures (continued)

Summarised financial information for T2 RTK Holding LLC

Set out below is the summarised financial information for T2 RTK Holding LLC which is accounted for using the equity method.

Summarised statement of financial position

	31 December 2019	31 December 2018
Current assets		
Cash and cash equivalents	400	412
Other current assets (excluding cash)	10,103	9,538
Total current assets	**10,503**	**9,950**
Financial liabilities (excluding trade payables)	64,782	34,843
Other current liabilities (including trade payables)	32,838	30,947
Total current liabilities	**97,620**	**65,790**
Non-current assets		
Lease assets	25,792	11,161
Other non-current assets	201,016	203,933
Total non-current assets	**226,808**	**215,094**
Financial liabilities	83,308	112,581
Other liabilities	9,173	6,093
Total non-current liabilities	**92,481**	**118,674**
Net assets	**47,210**	**40,580**

Summarised statement of profit or loss and other comprehensive income

	2019	2018
Revenue	163,315	143,218
Depreciation and amortisation	(41,020)	(33,349)
Interest income	44	196
Interest expense	(14,485)	(14,270)
Pre-tax profit from continuing operations	**10,140**	**3,765**
Income tax expense	(3,510)	(1,055)
Post-tax profit from continuing operations	**6,630**	**2,710**
Other changes in net assets	–	–
Total changes in net assets	**6,630**	**2,710**

12. Investments in associates and joint ventures (continued)

Reconciliation of summarised financial information to the carrying value of the investment

Summarised financial information	2019	2018
Opening net assets	**40,580**	**37,870**
Profit for the period	6,630	2,710
Other changes in net assets	–	–
Closing net assets	**47,210**	**40,580**
Interest 45%	21,244	18,261
Goodwill	42,714	42,714
Carrying value	**63,958**	**60,975**

13. Other financial assets

	31 December 2019	31 December 2018
Non-current financial assets		
Financial assets at fair value through profit or loss	1,261	258
Loans and receivables	1,406	1,692
Total other non-current financial assets	**2,667**	**1,950**
Current financial assets		
Loans and receivables	1,591	1,904
Financial assets at fair value through profit or loss	7,297	5,583
Total other current financial assets	**8,888**	**7,487**
Total other financial assets	**11,555**	**9,437**

In December 2019 the Group acquired an 18.36% stake in LLC IIDF Invest for a cash consideration of 1,000. Additional transaction costs amounted to 16.

The Group’s exposure to credit, currency and interest rate risks and fair value information related to other financial assets is disclosed in Note 37.

14. Other non-current assets

	31 December 2019	31 December 2018
Non-current advances for investing activities	8,143	3,097
Non-current advances for operating activities	1,771	1,812
Other assets	4	19
Less: allowance for impairment	(251)	(261)
Total other non-current assets	**9,667**	**4,667**

15. Inventories

	31 December 2019	31 December 2018
Finished goods and goods for resale (at lower of cost or NRV)	5,693	4,676
Cable (at lower of cost or NRV)	530	498
Spare parts (at lower of cost or NRV)	451	356
Tools and accessories (at lower of cost or NRV)	131	96
Construction materials (at lower of cost or NRV)	81	49
Fuel (at lower of cost or NRV)	264	128
Other inventory (at lower of cost or NRV)	2,263	1,828
Total inventories	**9,413**	**7,631**

As at 31 December 2019 572 (2018: 214) was recognised as allowance for inventories carried at net realisable value. Changes in allowance was recognised in other operating expenses in these consolidated statements of comprehensive income.

16. Trade and other accounts receivable

Trade and other accounts receivable included in non-current assets as at 31 December 2019 and 2018 comprised of the following:

	31 December 2019	31 December 2018
Non-current amounts due from customers for operating and non-operating activities	4,092	5,157
Non-current amounts due from lessees for financial lease	1,987	2,212
Non-current amounts due from sales of property, plant and equipment	82	106
Non-current amounts due from other debtors	7	1
Allowance for expected credit loss	(37)	(130)
Total non-current trade and other accounts receivable	**6,131**	**7,346**

Trade and other accounts receivable included in current assets as at 31 December 2019 and 2018 comprised of the following:

	Gross, 31 December 2019	Allowance for expected credit loss	Net, 31 December 2019
Amounts due from customers for operating and non-operating activities	54,533	(12,469)	42,064
Amounts due from commissioners and agents	842	(407)	435
Amounts due from personnel	261	–	261
Amounts due from lessees for financial lease	1,114	(1)	1,113
Amounts due from other debtors	2,643	(528)	2,115
Total trade and other accounts receivable	**59,393**	**(13,405)**	**45,988**

16. Trade and other accounts receivable (continued)

	Gross, 31 December 2018	Allowance for expected credit loss	Net, 31 December 2018
Amounts due from customers for operating and non-operating activities	51,974	(11,704)	40,270
Amounts due from commissioners and agents	1,122	(485)	637
Amounts due from personnel	232	–	232
Amounts due from lessees for financial lease	1,298	–	1,298
Amounts due from other debtors	2,166	(414)	1,752
Total trade and other accounts receivable	**56,792**	**(12,603)**	**44,189**

The table below represents the credit rating exposure on the Group's trade and other receivables and contract assets using a provision matrix as at 31 December 2019 and 2018:

	Contract assets 31 December 2019	Trade receivables 31 December 2019						Total
			Past due					
		Current	<1 month	<2 months	<3 months	<4 months	>4months	
Expected credit loss rate	21.42%	4.52%	8.71%	14.39%	24.94%	35.7%	78.01%	
Estimated total gross carrying amount at default	6,969	46,385	3,192	1,077	890	577	13,440	**65,561**
Expected credit loss	(1,493)	(2,096)	(278)	(155)	(222)	(206)	(10,485)	**(13,442)**

	Contract assets 31 December 2018	Trade receivables 31 December 2018						Total
			Past due					
		Current	<1 month	<2 months	<3 months	<4 months	>4months	
Expected credit loss rate	0.23%	1.13%*	4.53%	9.36%	15.03%	21.32%	74.12%	
Estimated total gross carrying amount at default	10,035	41,916*	2,935	1,827	1,224	680	15,686	**64,268**
Expected credit loss	(23)	(474)	(133)	(171)	(184)	(145)	(11,626)	**(12,733)**

* *Certain amounts do not correspond to the amounts disclosed in the notes to the consolidated financial statements of the Group as of 31 December 2018 due to the fact that amounts due from personnel and amounts due from lesses for financial lease are included to the table of credit rating exposure on the Group's trade and other receivables and contract assets.*

The following table summarizes the changes in the allowance for expected credit losses of accounts receivables and contract assets for the year ended 31 December 2019 and 2018:

	2019	2018
At the beginning of the year	**(12,756)**	**(10,160)**
Effect of application IFRS 9 at 1 January 2018 (Note 5)	–	(656)
Allowance for expected credit loss	(5,994)	(4,818)
Accounts receivable written-off*	3,904	2,878
Additions with acquired subsidiaries	(89)	–
At the end of the year	**(14,935)**	**(12,756)**

* *Includes write-off of accounts receivables under cession agreements in 2019 and 2018 in the amount of 1,904 and 868 respectively.*

The finance lease receivables originated as a result of transfer to companies of the group T2 RTK Holding terrestrial optical fiber cables under finance lease in April 2014. The lease agreement is non-cancellable for the period from 5 years till 18 years, which differs in each macroregional branches. Leasing period equals approximately the remaining useful life of the optical fibers. Effective interest rate of the lease is 13% p.a. Lease payments are denominated in roubles.

16. Trade and other accounts receivable (continued)

Finance income for the years ended 31 December 2019 and 2018 amounted to 171 and 229 respectively, and is included in other investing and financial gain in these consolidated statements of comprehensive income (Note 33).

The table below represents the maturity analysis of undiscounted lease payments to be received and reconciliation of undiscounted lease payments to the net investment in the lease as at 31 December 2019:

	31 December 2019
2020	1,454
2021	864
2022	578
2023	506
2024	169
2025 and later	625
Total undiscounted lease payments	**4,196**
Net investment in lease	**3,102**
Unearned finance income relating to the lease payments	**1,106**
Discounted unguaranteed residual value	**(12)**

The table below represents the maturity analysis of undiscounted lease payments to be received and reconciliation of undiscounted lease payments to the net investment in the lease as at 31 December 2018:

	31 December 2018
2019	1,588
2020	1,279
2021	531
2022	316
2023	247
2024 and later	699
Total undiscounted lease payments	**4,660**
Net investment in lease	**3,510**
Unearned finance income relating to the lease payments	**1,132**
Discounted unguaranteed residual value	**18**

17. Contract assets

As at 31 December 2019 the Group has non-current contract assets of 866 with allowance for expected losses of 64 (as at December 2018: 501 and 6 respectively).

As at 31 December 2019 the Group has current contract assets of 4,610 with allowance for expected credit losses of 1,429 (as at December 2018: 9,511 and 17 respectively).

18. Contract cost

	Costs to obtain contract*	Costs to fulfill contract**	Total
Contract cost at 1 January 2018	**6,590**	**4,982**	**11,572**
Capitalised during the year	2,907	1,513	**4,420**
Amortisation for the year	(1,869)	–	**(1,869)**
Expenses incurred for the year	–	(1,800)	**(1,800)**
Contract cost at 31 December 2018	**7,628**	**4,695**	**12,323**
Capitalised during the year	3,736	840	**4,576**
Amortisation for the year	(2,251)	–	**(2,251)**
Expenses incurred for the year	–	(1,874)	**(1,874)**
Contract cost at 31 December 2019	**9,113**	**3,661**	**12,774**

* *Cost to obtain contract: Incremental cost of obtaining the contract (SAC) (refer Note 4n).*

** *Cost to fulfill contract: the cost of customer–premises equipment (CPE) (refer Note 4n).*

Cost to obtain contracts represent incremental commission fees paid to agent as a result of obtaining contracts with customers and additional payments to employees who are engaged in functions of obtaining contracts. In 2019 and 2018 there was no impairment loss related to the costs capitalized.

The Group recognised an asset in relation to costs incurred in related to customer premises equipment that is used to fulfil contracts for Broadband Internet and TV services.

In 2019 and 2018 there was no impairment loss related to the costs capitalized.

Expenses incurred for the reporting period are included in other operating expenses as cost of sales of customer-premises equipment (Note 31).

19. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2019 and 2018 included cash in banks, cash in-hand, short-term deposits, bills of exchange with original maturities of less than three months and cash in the accounts of the Federal Treasury as follows:

	31 December 2019	31 December 2018
Cash in bank and in-hand	4,051	3,445
Cash in the accounts of the Federal Treasury	14,173	3,265
Short-term deposits and promissory notes up to 3 months	1,013	2,976
Other cash and cash equivalents	319	394
Total cash and cash equivalents	**19,556**	**10,080**

20. Other current assets

	31 December 2019	31 December 2018
Input VAT	4,627	2,867
Other current assets	181	150
Less: provision for impairment loss	(168)	(161)
Total other current assets	**4,640**	**2,856**

21. Equity

The nominal share capital of the Company recorded on its incorporation has been indexed, to account for the effects of hyperinflation from that date through 31 December 2002. The share capital of the Company in the Russian statutory accounts at 31 December 2019 amounted to 6,961,200 nominal (uninflated) RUB (2018: 6,961,200).

The authorized share capital of the Company as at 31 December 2019 comprised 5,188,850,705 ordinary shares and 209,565,678 non-redeemable preferred shares (2018: 5,188,850,705 ordinary shares and 209,565,678 non-redeemable preferred shares). The par value of both ordinary and preferred shares amounted to RUB 0.0025 per share.

At 18 December 2019 Extraordinary Meeting of Shareholders of the Company shareholders approved the additional emission of 1,200,000,000 ordinary shares. As at 26 December 2019 Bank of Russia has completed the state registration of the issue of additional ordinary shares of the Company through a private placement offering to PJSC VTB Bank. The issue price, including the price of shares offered to holders of preemptive rights to acquire them, amounts to 93.21 per share. Holders of preemptive rights can apply for purchase of the new issue within 45 calendar days starting from 27 December 2019 to 10 February 2020 inclusive. As at 31 December 2019 no shares were acquired by holders of preemptive rights.

As at 31 December 2019 the issued share capital of the Company was as follows:

Type of shares	Number of shares issued	Total par value	Carrying value
Ordinary shares, RUB 0.0025 par value	2,574,914,954	6.437	69
Preferred shares, RUB 0.0025 par value	209,565,147	0.524	24
Total	**2,784,480,101**	**6.961**	**93**

As at 31 December 2018 the issued share capital of the Company was as follows:

Type of shares	Number of shares issued	Total par value	Carrying value
Ordinary shares, RUB 0.0025 par value	2,574,914,954	6.437	69
Preferred shares, RUB 0.0025 par value	209,565,147	0.524	24
Total	**2,784,480,101**	**6.961**	**93**

Ordinary shares carry voting rights with no guarantee of dividends. Preferred shares have priority over ordinary shares in the event of liquidation but carry no voting rights except on resolutions regarding liquidation or reorganization, changes to dividend levels of preferred shares, or the issuance of additional preferred shares. Such resolutions require two-thirds approval of preferred shareholders. The preferred shares have no rights of redemption or conversion.

21. Equity (continued)

Owners of preferred shares have the right to participate in and vote on all issues within the competence of shareholders' general meetings following the annual shareholders' general meeting at which a decision not to pay (or to pay partly) dividends on preferred shares has been taken.

In case of liquidation, the residual assets remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares is distributed among preferred and ordinary shareholders proportionately to the number of owned shares.

Accordingly, the preferred shares of the Company are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 36).

Treasury shares

As at 31 December 2019 and 2018 total number of treasury shares held by the Group was as follows:

Type of shares	31 December 2019	31 December 2018
Ordinary shares	377,560,132	431,544,362
Preferred shares	64,519,345	64,519,345
Total	**442,079,477**	**496,063,707**

In 2019, 2018 total number of ordinary shares realized as an exercise of the options under the management motivation program constituted 53,958,975 and 39,445,687 shares respectively.

Dividends

According to the charter of the Company a preferred share carries dividend amounting to the higher of 10% of the net income after taxation of the Company as reported in the Russian statutory accounts divided by 25% of total number of shares and the dividend paid on one ordinary share.

On 26 April 2019 the Board of Directors approved a dividend policy of the Company for 2018-2020 according to which the Company pays dividends as a percentage of Free Cash Flow (hereinafter FCF, net cash from operating activities, reduced by the cash paid for acquisition of fixed assets and intangible assets, and increased by the proceeds from the sale of fixed assets and intangible assets) plus amount received of subsidies from Government. The payable dividend amount shall not be less than the level recommended by Rosimuschestvo for companies with state ownership interest.

In June 2019 the General Meeting of Shareholders approved the dividends for the year ended 31 December 2018 in the amount of 2.5 roubles per ordinary share (for 2018 5.045825249373 roubles per ordinary share) and 2.5 roubles per preference share (for 2018: 5.045825249373 roubles per preference share). In December 2018 the General Meeting of Shareholders approved the dividends for 9 month 2018 in the amount of 2.50 roubles per ordinary share and 2.50 roubles per preference share.

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, mln. roubles
Declared and approved for 2018 (paid in 2019)			
Preference shares	209,565,147	5.0	**1,048**
Ordinary shares	2,574,914,954	5.0	**12,875**
Total	**2,784,480,101**		**13,923**

21. Equity (continued)

Dividends (continued)

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, mln. roubles
Declared and approved for 2017 (paid in 2018)			
Preference shares	209,565,147	5.045825249373	1,057
Ordinary shares	2,574,914,954	5.045825249373	12,993
Total	**2,784,480,101**		**14,050**

The difference between the dividends declared and the dividends presented in the consolidated statement of changes in equity is for the account of dividends on treasury shares held by the subsidiaries of the Company.

22. Borrowings

Borrowings as at 31 December 2019 and 2018 were as follows:

	31 December 2019	31 December 2018
Long-term borrowings		
Non-current portion of long-term borrowings		
Bank and corporate loans	155,828	143,483
Bonds	63,474	30,863
Promissory notes	9	9
Vendor financing	8	16
Total non-current portion of long-term borrowings	**219,319**	**174,371**
Current portion of long-term borrowings		
Bank and corporate loans	1,659	2,007
Bonds	991	15,852
Vendor financing	9	11
Restructured customer payments	85	85
Total current portion of long-term borrowings	**2,744**	**17,955**
Total long-term borrowings	**222,063**	**192,326**
Short-term borrowings		
Bank and corporate loans	19,129	11,953
Total short-term borrowings	**19,129**	**11,953**
Current portion of long-term borrowings	2,744	17,955
Total current borrowings	**21,873**	**29,908**
Total borrowings	**241,192**	**204,279**

22. Borrowings (continued)

Management believes that the fair value of its financial assets and liabilities at 31 December 2019 and 2018 approximates their carrying amounts except for the following borrowings:

	31 December 2019		
	Fair value	**Book value**	**Difference**
Traded bonds	66,497	64,465	2,032
Bank loans	72,536	74,102	(1,566)
Total	**139,033**	**138,567**	**466**

	31 December 2018		
	Fair value	**Book value**	**Difference**
Traded bonds	45,907	46,715	(808)
Bank loans	132,125	136,989	(4,864)
Total	**178,032**	**183,704**	**(5,672)**

The fair value of the Group's quoted rouble bonds was determined based on Moscow Exchange quotes. The fair value of the Group's non-quoted bank loans was determined based on Central Bank's interest rate statistics. The fair value of the Group's bank loans and non-traded bonds was determined using rates currently available for debts on similar terms, credit risk and remaining maturities.

Changes in liabilities arising from financing activities

	1 January 2019	**Cash flows**	**Foreign exchange movement**	**Other**	**31 December 2019**
Bank and corporate loans	157,443	15,496	–	3,677	176,616
Bonds	46,715	17,611	–	139	64,465
Promissory notes	9	(51)	–	51	9
Vendor financing	27	(11)	–	1	17
Dividends payable	6,081	(12,555)	–	6,840	366
Other	85	–	–	–	85
Total liabilities from financing activities	**210,360**	**20,490**	**–**	**10,708**	**241,558**

	1 January 2018	**Reclassification to lease liabilities IFRS 16**	**Cash flows**	**Foreign exchange movement**	**Other**	**31 December 2018**
Bank and corporate loans	141,889	–	15,190	(10)	374	157,443
Bonds	48,093	–	(1,209)	–	(169)	46,715
Promissory notes	9	–	–	–	–	9
Vendor financing	45	–	(15)	–	(3)	27
Finance lease liabilities	1,249	(1,249)	–	–	–	–
Dividends payable	354	–	(11,773)	–	17,500	6,081
Other	87	–	(1)	–	(1)	85
Total liabilities from financing activities	**191,726**	**(1,249)**	**2,192**	**(10)**	**17,701**	**210,360**

23. Accounts payable, provisions and accrued expenses

Accounts payable, provisions and accrued expenses consisted of the following as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Payables for purchases and construction of property, plant and equipment	10,170	20,369*
Payable to personnel	16,067	13,356
Payable for operating activities	18,401	16,588*
Other taxes payable	11,695	8,272*
Payable to interconnected operators	2,744	2,590
Payable for purchases of software	1,983	2,635
Dividends payable	366	6,081
Current provisions	5,039	762*
Factoring by operating activity	11,177	6,825
Factoring by investment activities	–	3,093
Other accounts payable	8,862	7,959
Current accounts payable, provisions and accrued expenses	**86,504**	**88,530**
Non-current payables	1,210	479
Non-current provisions	3,461	2,611
Non-current accounts payable, provisions and accrued expenses	**4,671**	**3,090**
Total accounts payable, provisions and accrued expenses	**91,175**	**91,620**

* *Notes 2018 were changed to the amount of reclassification payables for purchases and construction of property, plant and equipment, paybles for operating activities,other taxes payble and current provisions.*

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The amount payable by the Group are offset against receivables from the operators as at 31 December 2019 in the amount of 930 (as at 31 December 2018: 1,177) and presents net in the balance sheet.

The following table summarizes the changes of current provisions for the year ended 31 December 2019:

	2019
At 1 January	**762**
Accrued during the year	5,360
Released during the year	(375)
Reversal provision accured	(708)
At 31 December	**5,039**

In 2019 Property tax legislation was amended by excluding movable property from taxable base. However, the definition of movable property is not specified clearly. Uncertainty of Tax Authority position regarding interpretation of movable property definitions expose the Group to the risk of additional tax accruals for the prior periods, as well as relevant fines and penalties.

The Group also assessed risks of third parties claims regarding gratuitous using of some properties as probable and accrued relevant reserves in these consolidated financial statements.

23. Accounts payable, provisions and accrued expenses (continued)

At 31 December 2019 and 2018 non-current provisions includes the obligations of non-state pension fund Alliance under the pension plans:

	31 December 2019	31 December 2018
The non-state obligations under the contracts of mandatory pension insurance	838	636
The obligations under the contracts of non-state pension provision, classified as an investment, with a discretionary participation feature benefits	2,601	1,953
The obligations under the contracts of non-state pension provision, classified as an insurance, with a discretionary participation feature benefits	22	22
Total non-current provisions	**3,461**	**2,611**

24. Other non-current and current liabilities

Other non-current liabilities consisted of the following as at 31 December 2019, 2018:

	31 December 2019	31 December 2018
Contract liabilities		
for installation services, CPE and other	11,799	11,065
Advances received	5,253	5,519
Deferred revenue	400	470
Total contract liabilities	**17,452**	**17,054**
Subsidies from government	15,538	4,088
Total other non-current liabilities	**32,990**	**21,142**

Other current liabilities consisted of the following as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Contract liabilities		
for installation services, CPE and other	8,265	5,667
Advances received from operating activities	15,739	6,209
Advances received from non-operating activities	493	451
Advances received from various debtors	468	419
Advances received for disposed PPE	219	265
Advances received for disposal of other assets	82	13
Deferred revenue	441	372
Total contract liabilities	**25,707**	**13,396**
Subsidies from government	966	–
Total other current liabilities	**26,673**	**13,396**

Subsidies from government have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

24. Other non-current and current liabilities (continued)

The following table summarizes the changes of Subsidy from government for the years ended 31 December 2019 and 2018:

	2019	2018
At 1 January	**4,088**	**814**
Received during the year	13,572	3,641
Released during the year	(1,156)	(367)
At 31 December	**16,504**	**4,088**

Contract liabilities for installation services, CPE and other transactions for the years ended 31 December 2019 and 2018 set out below:

	CPE	Installation services	Total
Contract liabilities at 1 January 2019	**6,742**	**9,990**	**16,732**
Deferred during the year	416	9,886	**10,302**
Revenue included in contract liabilities at the beginning of the year	(2,676)	(3,141)	**(5,817)**
Revenue from contract liabilities recognised during the year	(53)	(1,100)	**(1,153)**
Contract liabilities at 31 December 2019	**4,429**	**15,635**	**20,064**
Current	1,999	6,266	**8,265**
Non-current	2,430	9,369	**11,799**

	CPE	Installation services	Total
Contract liabilities at 1 January 2018	**8,524**	**2,731**	**11,255**
Deferred during the year	945	10,524	**11,469**
Revenue included in contract liabilities at the beginning of the year	(2,613)	(1,679)	**(4,292)**
Revenue from contract liabilities recognised during the year	(114)	(1,586)	**(1,700)**
Contract liabilities at 31 December 2018	**6,742**	**9,990**	**16,732**
Current	2,455	3,212	**5,667**
Non-current	4,287	6,778	**11,065**

The transaction price allocated to the remaining contract liabilities as at 31 December 2019 and 2018 are as follows:

	2019	2018
Within one year	8,265	5,667
After one year but not more than three years	10,446	7,051
More than three years	1,353	4,014
	20,064	**16,732**

25. Employee benefits

According to staff agreements, the Group contributes to pension plans and also provides additional benefits for its active and retired employees.

As at December 2019 the employee benefits liability includes the defined contribution plans (DCP) liability of 4,167 and defined benefit plan (DBP) liability of 1,714 (2018: 2,934 and 1,741).

Defined contribution plans

The non-state pension fund Alliance maintain the defined contribution plan of Group in 2018-2019. In 2019 the Group expensed 1,230 (2018: 980) in relation to defined contribution plans.

Defined benefit plans and other long-term employee benefits

To become eligible for benefits under the plan upon retirement the participant must achieve the statutory retirement age and fulfill certain minimum seniority requirements.

As at 31 December 2019, the Group employed 11,654 participants of defined benefit plan (2018: 10,357) and supported 4,022 pensioners eligible for post-employment benefits (2018: 4,814).

As at 31 December 2019 and 2018 net defined benefit plan liability comprised the following:

	2019	**2018**
Present value of obligations on defined benefit plans	1,714	1,741
Fair value of plan assets	–	–
Present value of unfunded obligations	**1,714**	**1,741**

Net expenses/gains for the defined benefit plan recognized in 2019 and 2018 were as follows:

	2019	**2018**
Current service cost	31	49
Interest cost	65	95
Actuarial losses	16	–
Past service cost	(4)	(1,227)
Net expense/(income) for the defined benefit plan	**108**	**(1,083)**

Net expense/(income) for the defined benefit plan, excluding interest cost and return on plan assets, is included in the consolidated statement of comprehensive income in the line “Wages, salaries, other benefits and payroll taxes”. Return on plan assets and interest cost are recognized respectively in “Other investing and finance gain” and “Finance costs” line items of these consolidated statements of comprehensive income.

Past service cost in the table above is a result of reduction of social obligations of the Group in 2019 and 2018.

25. Employee benefits (continued)

Defined benefit plans and other long-term employee benefits (continued)

The following table summarizes movements in the present value of defined benefit obligations for the above plan in 2019 and 2018:

	2019	2018
Present value of defined benefit obligations as at 1 January	**1,741**	**2,721**
Interest cost	65	95
Current service cost	31	49
Past service cost	(4)	(1,227)
Benefits paid	(137)	(69)
Actuarial losses in PL	16	–
Remeasurement (gains)/losses in OCI:	2	172
- actuarial gains and losses arising from changes in demographic assumptions	(5)	(8)
- actuarial gains and losses arising from changes in financial assumptions	29	(48)
- experience adjustments	(22)	228
Present value of defined benefit obligations as at 31 December	**1,714**	**1,741**

The following table summarizes movements in the fair value of defined benefit plan assets in 2019 and 2018:

	2019	2018
Fair value of plan assets as at 1 January	**–**	**8**
Actuarial losses	–	(8)
Benefits paid	(137)	(69)
Contributions by the employer	137	69
Fair value of plan assets as at 31 December	**–**	**–**

As at 31 December 2019 and 2018 the principal actuarial assumptions used in determining the amounts for the defined benefit plan were as follows:

	2019	2018
Discount rate	6.2%	8.6%
Increase in financial support benefits	4.0%	4.0%
Staff turnover	6.5% for aged 50 and below; 0% for aged above 50	5% for aged 50 and below; 0% for aged above 50
Mortality tables (source of information)	Russia 2016	Russia 2016

The sensitivity analyses below are based on a change in a significant assumption, keeping all other assumptions constant.

DBO sensitivity analyses	Change, %
Discount rate -1%	4%
Inflation +1%	4%
Mortality 10% less	5%
Disability 10% less	0%
Employee turnover 10% for all ages below 50	-8%

25. Employee benefits (continued)

Defined benefit plans and other long-term employee benefits (continued)

The Group expects to contribute 124 to its non-state pension funds in 2020 in respect of defined benefit plans.

The following net pension liabilities were in consolidated statements of financial position in 2019 and 2018:

	2019	2018
Net defined benefit obligations as at 1 January	**1,741**	**2,713**
Total defined benefit plan expenses, net	108	(1,083)
Contributions by the employer	(137)	(69)
Remeasurement of pension liabilities	2	180
Net defined benefit obligations as at 31 December	**1,714**	**1,741**

Remeasurement of pension liabilities in OCI consists of:

	2019	2018
Actuarial (gains)/losses on liabilities	2	172
Actuarial losses on assets	–	8
Remeasurement of pension liabilities	**2**	**180**

26. Income taxes

The components of income tax expense for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Current income tax expense	**(3,588)**	**(2,378)**
Income tax for the year	(6,656)	(4,936)
Adjustments of the current income tax for previous years	3,068	2,558
Total current income tax for the year	**(3,588)**	**(2,378)**
Deferred tax (benefit)/expense	**1,541**	**(2,049)**
Origination and reversal of temporary differences	1,681	(1,990)
Changes in unused tax losses	(140)	(59)
Total deferred income tax	**1,541**	**(2,049)**
Total income tax expense for the year	**(2,047)**	**(4,427)**

A reconciliation of the theoretical tax charge to the actual income tax charge is as follows:

	2019	2018
Profit before tax	**18,535**	**19,439**
Statutory income tax rate (20%)	20%	20%
Theoretical tax charge at statutory income tax rate	**(3,707)**	**(3,888)**
Non-deductible expenses and non-taxable income, net	1,629	153
Tax on intragroup dividend income	(120)	(372)
Effect of 13% dividend tax rate applied to investments in associates and JVs	138	85
Effect of sale property to Telecom-5	–	(298)
Effect of reverse unrealised profit in Telecom-5	131	42
Changes in unrecognized deferred tax assets	(118)	(149)
Total actual income tax for the year	**(2,047)**	**(4,427)**
Effective tax rate, %	**11.05%**	**22.77%**

26. Income taxes (continued)

Non-deductible expenses and non-taxable income comprised the following amounts for the year ended 31 December 2019 and 2018:

	2019	2018
Effect of other employee benefits	(130)	(124)
Accrual of impairment loss	(290)	(36)
Accounts receivable	1,488	415
Income tax provision	153	(250)
Other	408	148
Total non-deductible expenses and non-taxable income	**1,629**	**153**

Other non-deductible expenses and non-taxable income include income connected with depreciation of certain property, plant and equipment, promotional and sponsorship expenditures, travel expenditures in excess of certain statutory allowances.

The components of net deferred tax assets and liabilities as at 31 December 2019 and 2018, and the respective movements during 2019 and 2018 were as follows:

		Movement during 2019 recognized in					
	Balance as at 1 January 2019	Acquisition through business combina-tions	Equity	Other compre-hensive income	Profit/ (loss) for the year	Disposal through business combina-tions	Balance as at 31 December 2019
Tax effects of future tax deductible items							
Property, plant and equipment	408	18	–	–	1,068	–	1,494
Intangible assets	44	6	–	–	574	–	624
Right of use assets	(22)	8	–	–	121	–	107
Unused tax losses	73	9	–	–	(69)	–	13
Trade and other accounts receivable	80	–	–	–	1,467	5	1,552
Inventories	103	–	–	–	70	–	173
Investments in associates and JVs	1,461	–	–	–	130	–	1,591
Contract costs	–	–	–	–	(24)	–	(24)
Employee benefits	201	–	–	–	(4)	–	197
Accounts payable, provisions and accrued expenses	4,826	1	–	–	1,313	–	6,140
Lease liabilities	437	4	–	–	376	–	817
Other non-current liabilities and current liabilities	3,357	51	–	–	590	–	3,998
Other	268	50	–	–	435	1	754
Gross deferred tax asset	**11,236**	**147**	**–**	**–**	**6,047**	**6**	**17,436**
Tax effects of future taxable items							
Property, plant and equipment	(40,634)	(170)	–	–	(2,817)	–	(43,621)
Intangible assets	(2,718)	(45)	–	–	51	–	(2,712)
Right of use assets	(181)	(4)	–	–	(322)	–	(507)
Investments in associates and JVs	(507)	–	–	–	110	–	(397)
Accounts payable, provisions and accrued expenses	(325)	–	–	–	(2,532)	–	(2,857)
Contract costs	(2,464)	–	–	–	(96)	–	(2,560)
Employee benefits	–	–	–	–	–	–	–
Trade and other accounts receivable	(1,178)	(1)	–	–	1,008	3	(168)
Inventories	(165)	–	–	–	118	–	(47)
Loans and borrowings	(330)	–	–	–	(21)	–	(351)
Lease liabilities	21	–	–	–	(1)	–	20
Other non-current liabilities and current liabilities	3	–	–	–	20	–	23
Other	(164)	(4)	–	–	(24)	(1)	(193)
Gross deferred tax liability	**(48,642)**	**(224)**	**–**	**–**	**(4,506)**	**2**	**(53,370)**
Net deferred tax liability	**(37,406)**	**(77)**	**–**	**–**	**1,541**	**8**	**(35,934)**

26. Income taxes (continued)

	Balance as at 1 January 2018	Adjustment IFRS 15,16 as at 1 January 2018	Movement during 2018 recognized in: Acquisition through business combinations	Equity	Other comprehensive income	Profit/ (loss) for the year	Disposal through business combinations	Balance as at 31 December 2018
Tax effects of future tax deductible items								
Property, plant and equipment	268	–	2	–	–	142	(4)	408
Intangible assets	45	–	24	–	–	(25)	–	44
Right of use assets	–	–	–	–	–	(22)	–	(22)
Unused tax losses	4	–	26	–	–	43	–	73
Trade and other accounts receivable	108	131	–	–	–	(159)	–	80
Inventories	(12)	–	1	–	–	114	–	103
Investments in associates and JVs	756	–	–	–	–	705	–	1,461
Contract costs	–	–	–	–	–	–	–	–
Employee benefits	329	–	–	–	36	(164)	–	201
Accounts payable, provisions and accrued expenses	5,195	69	9	–	–	(447)	–	4,826
Lease liabilities	–	–	10	–	–	427	–	437
Other non-current liabilities and current liabilities	–	2,017	–	–	–	1,340	–	3,357
Other	445	–	–	–	–	(181)	4	268
Gross deferred tax asset	**7,138**	**2,217**	**72**	**–**	**36**	**1,773**	**–**	**11,236**
Tax effects of future taxable items								
Property, plant and equipment	(38,424)	–	(38)	–	–	(2,172)	–	(40,634)
Intangible assets	(2,804)	–	(292)	–	–	378	–	(2,718)
Right of use assets	–	–	(4)	–	–	(177)	–	(181)
Investments in associates and JVs	(108)	–	–	3	–	(402)	–	(507)
Accounts payable, provisions and accrued expenses	(91)	–	–	–	–	(234)	–	(325)
Contract costs	–	(2,314)	–	–	–	(150)	–	(2,464)
Employee benefits	–	–	–	–	–	–	–	–
Trade and other accounts receivable	(693)	–	–	–	–	(485)	–	(1,178)
Inventories	(5)	–	(1)	–	–	(159)	–	(165)
Loans and borrowings	(53)	–	–	–	–	(277)	–	(330)
Lease liabilities	–	–	–	–	–	21	–	21
Other non-current liabilities and current liabilities	–	–	–	–	–	3	–	3
Other	6	–	(2)	–	–	(168)	–	(164)
Gross deferred tax liability	**(42,172)**	**(2,314)**	**(337)**	**3**	**–**	**(3,822)**	**–**	**(48,642)**
Net deferred tax liability	**(35,034)**	**(97)**	**(265)**	**3**	**36**	**(2,049)**	**–**	**(37,406)**

	Consolidated statement of financial position: 2019	2018
Deferred tax assets	1,133	863
Deferred tax liabilities	(37,067)	(38,269)
Deferred tax liabilities, net	**(35,934)**	**(37,406)**

Taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities were recognized in the accompanying consolidated statements of financial position as at 31 December 2019 and 2018 amounted to 24,174 and 13,246 respectively. Deductible temporary differences associated with investments in subsidiaries for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2019 and 2018 amounted to 7,201 and 6,943 respectively.

26. Income taxes (continued)

Deductible temporary differences for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2019 and 2018 amounted to 14,286 and 13,698 respectively.

Deductible temporary differences on prior year losses are available indefinitely for offsetting against future taxable profits of companies, but in the reporting period from 1 January 2017 to 31 December 2020, prior year losses made from 1 January 2018 onwards cannot reduce the tax base for income tax for the current reporting period calculated net of prior year losses more than 50 percent.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to the income taxes levied by the same fiscal authority on the same taxable entity.

The consolidated statement of comprehensive income for 2019 and 2018 includes tax expense in respect of following items of other comprehensive income:

	2019	2018
Actuarial gains and losses (Note 25)	–	36

27. Revenue

Revenue comprised the following for the years ended 31 December 2019 and 2018:

	2019	2018
Fixed Telephony	61,738	69,983
Broadband Internet	83,873	80,042
TV services	37,132	34,464
Wholesale Services	81,391	79,593
VAS & Clouds	49,799	36,902
Other telecommunication services	14,274	12,076
Other non-telecommunication services	9,214	7,179
Total revenue	**337,421**	**320,239**

The table below represents rental income for the period ended 31 December 2019 and 2018 that was included into relevant caption of each category of revenue.

	2019	2018*
Wholesale Services	224	236
VAS & Clouds	1,326	1,648
Other telecommunication services	1,033	942
Other non-telecommunication services	3,207	3,330
Total rental income	**5,790**	**6,156**

* *The comparative information is restated. These are no impact on the consolidated statement of profit or loss and other comprehensive income.*

27. Revenue (continued)

For the year ended 31 December 2019 and 2018 the Group generated revenue by the following major customer groups:

Customer Groups	**2019**	**2018**
Residential customers	140,338	137,745
Corporate/governmental customers	137,726	121,509
Interconnected operators	55,096	56,389
Other	4,261	4,596
Total revenue	**337,421**	**320,239**

Set out below is the disaggregation of the Group's revenue from contracts with customers for the period ended 31 December 2019 and 2018:

2019	**PJSC Rostelecom**	**Other operations and reconciliation**	**Adjustments and eliminations**	**Total segments**
Fixed Telephony	59,446	2,318	(26)	**61,738**
Broadband Internet	78,486	5,513	(127)	**83,872**
TV services	36,149	1,013	(30)	**37,132**
Wholesale Services	77,902	10,640	(7,375)	**81,167**
VAS & Clouds	41,206	27,708	(20,440)	**48,474**
Other telecommunication services	9,554	8,512	(4,826)	**13,240**
Other non-telecommunication services	6,033	11,604	(11,629)	**6,008**
Total revenue from contracts with customers	**308,776**	**67,308**	**(44,453)**	**331,631**
At a point in time	6,498	7,580	(4,430)	**9,648**
Over time	302,278	59,728	(40,023)	**321,983**
Total revenue from contracts with customers	**308,776**	**67,308**	**(44,453)**	**331,631**

2018	**PJSC Rostelecom**	**Other operations and reconciliation**	**Adjustments and eliminations**	**Total segments**
Fixed Telephony	67,350	2,685	(51)	**69,984**
Broadband Internet	74,086	6,065	(109)	**80,042**
TV services	33,385	1,491	(413)	**34,463**
Wholesale Services	76,730	8,714	(6,087)	**79,357**
VAS & Clouds	30,469	13,899	(9,893)	**34,475**
Other telecommunication services	8,507	7,519	(4,113)	**11,913**
Other non-telecommunication services	3,821	9,414	(9,386)	**3,849**
Total revenue from contracts with customers	**294,348**	**49,787**	**(30,052)**	**314,083**
At a point in time	4,717	3,657	(1,140)	**7,234**
Over time	289,631	46,130	(28,912)	**306,849**
Total revenue from contracts with customers	**294,348**	**49,787**	**(30,052)**	**314,083**

28. Wages, salaries, other benefits and payroll taxes

	2019	2018
Salary expenses	74,675	69,812
Share-based remuneration	3,449	3,162
Social taxes	21,216	19,866
Expenses/(income) from pension plans	1,273	(198)
Other personnel costs	5,580	4,708
Total wages, salaries, other benefits and payroll taxes	**106,193**	**97,350**

29. Materials, utilities, repairs and maintenance

	2019	2018
Utilities	11,392	11,316
Repairs and maintenance	8,138	8,945
Materials	6,638	5,922
Total materials, utilities, repairs and maintenance	**26,168**	**26,183**

30. Other operating income

	2019	2018
Universal communication services	13,105	10,873
Fines and penalties	1,901	1,482
Deffered income related to Subsidy from government	1,216	443
Reimbursement of other losses incurred	210	130
Gain on disposals of other assets	74	87
Other income	853	658
Total other operating income	**17,359**	**13,673**

31. Other operating expenses

	2019	2018
VAS projects / E-Government contract expenses	14,074	10,024
Cost of sales of customer-premices equipment	9,860	6,765
Advertising expenses	4,922	6,446
Taxes, other than income tax	5,114	5,747
Maintenance expenses	4,470	4,446
Agency fees	5,188	4,404
Fire and other security services	3,167	3,148
Contributions to universal communication services fund	2,655	2,588
Support and maintenance of software and databases	2,157	2,005
Third party services and expenses related to administration	2,160	2,019
Billing expenses	1,894	1,933
Transportation and postal services	1,156	1,557
Member fees, charity contribution, payments to labour units	821	767
Audit and consulting fees	960	749
Fines and penalties	332	481
Asset insurance	113	122
Other	6,951	5,015
Total other operating expenses	**65,994**	**58,216**

32. Finance costs

	2019	2018
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	16,306	15,073
Interest expense on lease liabilities	1,852	1,637
Borrowing servicing expense	1,296	470
Interest expense of defined benefit plans	65	95
Total finance costs	**19,519**	**17,275**

33. Other investing and financial gain, net

	2019	2018
Interest income from finance assets	1,789	1,769
Dividend income	6	7
Expenses related to subsidiaries' acquisition	(15)	(37)
Gain/loss on disposal of subsidiaries	42	10
Gain/loss on change in fair value of financial assets/liabilities through profit and loss	297	(224)
Impairment of financial assets	(468)	(86)
Other loss/gains	128	163
Total other investing and financial gain/(loss), net	**1,779**	**1,602**

34. Segment information

The Management Board of Rostelecom has been determined as the Group's Chief Operating Decision-Maker (CODM).

The Group determines the following reportable operating segments: PJSC Rostelecom and other operations which presented by subsidiaries of the Group.

Management of the Group assesses the performance of the operating segments based on the IFRS data on consolidated basis. A measure of segment profit or loss reported to the management of the company is operating income before depreciation, amortization, long-term employee motivation program expenses (OIBDA) and non-state pension fund program.

Total assets are not allocated to operating segments and are not analysed by the CODM.

The tables below illustrate financial information of the reportable segments reviewed by management for the year ended 31 December 2019 and 2018.

34. Segment information (continued)

The following table illustrates information about reportable segment revenue and OIBDA for the year ended 31 December 2019:

2019	PJSC Rostelecom	Other operations and reconciliation	Adjustments and eliminations	Total segments
Revenue				
Third party revenue	315,536	68,991	(47,106)	**337,421**
Inter-segment revenue	5,244	41,863	–	**47,107**
OIBDA	**89,701**	**16,825**	**–**	**106,526**

The following table illustrates reconciliation of reportable segment OIBDA to profit before income tax for the year ended 31 December 2019:

OIBDA of reportable segments	**89,701**
OIBDA of other segments	**16,825**
Adjustments	
Depreciation, amortisation and impairment losses	(67,313)
Share of net profit/(loss) of associates and joint ventures	1,971
Finance costs and other investing and financial gain, net	(17,740)
Foreign exchange loss, net	438
Share-based remuneration and non-state pension fund program	(5,361)
Other adjustments	–
Profit before income tax	**18,521**

The following table illustrates information about reportable segment revenue and OIBDA for the year ended 31 December 2018:

2018	PJSC Rostelecom	Other operations and reconciliation	Adjustments and eliminations	Total segments
Revenue				
Third party revenue	301,246	51,290	(32,297)	**320,239**
Inter-segment revenue	4,905	27,392	–	**32,297**
OIBDA	**90,278**	**10,622**	**–**	**100,900**

The following table illustrates reconciliation of reportable segment OIBDA to profit before income tax for the year ended 31 December 2018:

OIBDA of reportable segments	**90,278**
OIBDA of other segments	**10,622**
Adjustments	
Depreciation, amortisation and impairment losses	(60,329)
Share of net profit/(loss) of associates and joint ventures	(91)
Finance costs and other investing and financial gain, net	(15,673)
Foreign exchange loss, net	(597)
Share-based remuneration and non-state pension fund program	(4,756)
Other adjustments	(15)
Profit before income tax	**19,439**

35. Share-based payments

Share-based program started in 2017 (ordinary shares)

In July 2017 the Board of Directors approved the new employee motivation program. The program based on the principle of co-financing and established a plan under which the participants were granted a right to purchase of the corresponding number of shares as a part of the regular bonus payments (monthly, quarterly and/or annual) – contribution of the participant, as well as the acquisition of shares of an additional premium – the Company's contribution.

The duration of the program is 3 cycles: 1 cycle – 2017 and the first 11 months of 2018, 2 cycle – 2018 and the first 11 months of 2019, 3 cycle – 2019 and the first 11 months of 2020.

The total target package for all participants of the program consists of ordinary shares equivalent to 6% of the share capital of the Company, the total target package for all participants of the program for each of the cycles equivalent to 2% of the share capital of the Company.

The program uses the following key performance indicators: Free Cash Flow (FCF), net profit and Return on Invested Capital (ROIC).

To facilitate this new program, the Company also used a closed unit shares investment fund (RTK-Razvitie).

Total amounts 4,007 and 3,637 (including related social and personal income taxes gross-up in the amount of 955 and 839 correspondently) related to the Company's contribution per new motivation program were recognized as an expense in wages, salaries, other benefits and payroll taxes in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 and 31 December 2018 respectively.

Share options outstanding balances at the end of reporting period in accordance with old program were 206,190 shares at a weighted average exercise price 87.01 per share (2018: 206,190 shares at a weighted average exercise price 87.01).

The following table reconciles the share options on ordinary shares outstanding at the beginning and end of the year in accordance with new program:

	2019		**2018**	
	Number of options	**Weighted average exercise price, RUB**	**Number of options**	**Weighted average exercise price, RUB**
Balance at beginning of year	**53,458,556**	**64.02**	**38,323,651**	**70.19**
Conversion	889,865	64.02	1,122,036	70.19
Granted during the period	55,689,246*	71.29	53,458,556*	64.02
Forfeited during the period	–	–	–	–
Exercised during the year	(53,958,975)	64.02	(39,445,687)	70.19
Balance at end of year	**56,078,692**	**71.24**	**53,458,556**	**64.02**

* *Including Contribution of the participant for the year ended 31 December 2019 – 13,931,246, for the year ended 31 December 2018 – 11,679,499.*

35. Share-based payments (continued)

Share-based program started in 2017 (ordinary shares) (continued)

During the year period ended 31 December 2019 the new program participants exercised their rights for the 53,958,975 shares at a price 64.02 per share.

During the year period ended 31 December 2018 the new program participants exercised their rights for the 39,445,687 shares at a price 70.19 per share.

36. Earnings per share

	2019	2018
Profit attributable to equity holders of the Group	**14,777**	**14,154**
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,315,650,432	2,271,351,164
Weighted average number of shares outstanding used in calculation of diluted earning per shares	2,371,935,314	2,325,015,922
Earnings per share attributable to equity holders of the Group during the year, in RUB		
Basic earnings per share	6.38	6.23
Diluted earnings per share	6.23	6.09

Weighted average number of shares outstanding for the years ended 31 December 2019 and 2018 is adjusted for the weighted average number of treasury shares of the Group, which included to 404,310,324 (2018: 431,544,362) ordinary and 64,519,345 (2018: 64,519,345) preferred shares of the Company.

Reconciliation of weighted average number of shares used in calculation of basic and diluted earnings per shares:

	2019	2018
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,315,650,432	2,271,351,164
Dilutive effect of employee motivation program vested shares	56,284,882	53,664,746
Weighted average number of shares outstanding used in calculation of diluted earning per shares	**2,371,935,314**	**2,325,015,910**

37. Financial instruments

The Group's principal financial instruments comprise cash and cash equivalents, investments, bank loans, bonds and promissory notes issued and finance leases liabilities. These instruments serve to finance the Group's operations and capital expenditures; its corporate financial transactions such as share repurchase and acquisition strategy; place available funds in course of cash management. Other financial assets and liabilities such as trade receivables and trade payables arise directly from the Group's operations. The following table presents the carrying amounts of financial assets and liabilities as at 31 December 2019 and 2018 under IFRS 9:

Classes	Measurement categories	31 December 2019	31 December 2018
Cash and cash equivalents	Assets at amortized cost	19,556	10,080
Trade and other receivables	Assets at amortized cost	52,119	51,535
Financial assets at fair value through profit or loss	Financial assets at fair value through profit and loss	1,261	258
Loans	Assets at amortized cost	2,997	3,596
Debt trading securities	Financial assets at fair value through profit and loss	7,297	5,583
Total financial assets		**83,230**	**71,052**
Bank and corporate loans	Liabilities at amortized cost	176,616	157,443
Bonds	Liabilities at amortized cost	64,465	46,715
Promissory notes	Liabilities at amortized cost	9	9
Vendor financing	Liabilities at amortized cost	17	27
Lease liabilities	Liabilities at amortized cost	29,942	21,646
Other borrowings	Liabilities at amortized cost	85	85
Trade and other payables	Liabilities at amortized cost	74,987	75,144
Total financial liabilities		**346,121**	**301,069**

The fair value of cash and cash equivalents, current trade and other receivables, trade and other accounts payables, other current financial assets and liabilities approximate their carrying amount largely due to the short-term maturity of these instruments. The fair value of non-current trade and other receivables approximate their discounted carrying amount due to similar market and discounting rates.

The fair value of long-term debt investments and non-current accounts receivable and payable correspond to the present values of the payments related to the assets and liabilities, taking into account the current interest rate parameters that reflect market-based changes to terms and conditions and expectations.

37. Financial instruments (continued)

The table below represents book and fair value of financial instruments:

Classes	Level	Book value 31 December 2019	Fair value 31 December 2019	Book value 31 December 2018	Fair value 31 December 2018
Assets for which fair values are disclosed:					
Trade and other receivables	Level 3	52,119	52,119	51,535	51,535
Loans	Level 3	2,997	2,997	3,596	3,596
Assets measured at fair value:					
Financial assets at fair value through profit or loss	Level 3	1,261	1,261	258	258
Debt trading securities	Level 1	7,297	7,297	5,583	5,583
Total financial assets		**63,674**	**63,674**	**60,972**	**60,972**
Liabilities for which fair values are disclosed:					
Bank and corporate loans	Level 3	176,616	175,050	157,443	152,579
Bonds	Level 1	64,465	66,497	46,715	45,907
Promissory notes	Level 3	9	9	9	9
Vendor financing	Level 3	17	17	27	27
Lease liabilities	Level 3	29,942	29,942	21,646	21,646
Other borrowings	Level 3	85	85	85	85
Trade and other payables	Level 3	74,987	74,987	75,144	75,144
Total financial liabilities		**346,121**	**346,587**	**301,069**	**295,397**

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the twelve-month periods ended 31 December 2019 and 31 December 2018.

Level 1 financial assets include quoted on MOEX debt trading securities of NPF Alliance.

Acquisition of associates and joint ventures was in December 2019 (Note 13). The fair value of investments in associates and joint ventures approximates their carrying amount.

37. Financial instruments (continued)

Income and expenses on financial instruments

2019	Impairment loss of financial assets measured at amortized cost	Finance costs: Interest expense	Other investing and financing gains and losses: Interest income	Other investing and financing gains and losses: Dividend income	Other investing and financing gains and losses: Gains/ (losses) on asset disposal	Other investing and financing gains and losses: Fair value change	Other investing and financing gains and losses: Impairment loss (reversal of impairment)	Other investing and financing gains and losses: Other	Foreign exchange gains/ (losses)	OCI: Fair value change	Total
Cash and cash equivalents	–	–	184	–	–	–	–	–	(89)	–	**95**
Trade and other receivables	(6,190)	–	958	–	–	–	–	–	(188)	–	**(5,420)**
Investments in equity instruments	–	–	–	6	10	–	–	–	–	–	**16**
Debt trading securities	–	–	514	–	320	–	–	–	–	–	**834**
Loans	–	–	304	–	–	–	(468)	–	–	–	**(164)**
Total financial assets	**(6,190)**	**–**	**1,960**	**6**	**330**	**–**	**(468)**	**–**	**(277)**	**–**	**(4,639)**
Bank and corporate loans	–	(11,954)	–	–	–	–	–	–	–	–	**(11,954)**
Bonds	–	(4,300)	–	–	–	–	–	–	–	–	**(4,300)**
Lease liabilities	–	(1,852)	–	–	–	–	–	–	–	–	**(1,852)**
Trade and other payables and non-hedge derivatives	–	(52)	–	–	–	–	–	–	715	–	**663**
Total financial liabilities	**–**	**(18,158)**	**–**	**–**	**–**	**–**	**–**	**–**	**715**	**–**	**(17,443)**

37. Financial instruments (continued)

Income and expenses on financial instruments (continued)

		Finance costs	Other investing and financing gains and losses							OCI	
2018	**Impairment loss of financial assets measured at amortized cost**	**Interest expense**	**Interest income**	**Dividend income**	**Gains/ (losses) on asset disposal**	**Fair value change**	**Impairment loss (reversal of impairment)**	**Other**	**Foreign exchange gains/ (losses)**	**Fair value change**	**Total**
Cash and cash equivalents	–	–	161	–	–	–	–	–	47	–	**208**
Trade and other receivables	(4,057)	–	1,330	–	–	–	–	–	330	–	**(2,397)**
Investments in equity instruments	–	–	–	5	(24)	–	3	–	–	–	**(16)**
Debt trading securities	–	–	399	–	(144)	–	–	–	–	–	**255**
Loans	–	(51)	108	2	(56)	–	(89)	–	5	–	**(81)**
Total financial assets	**(4,057)**	**(51)**	**1,998**	**7**	**(224)**	**–**	**(86)**	**–**	**382**	**–**	**(2,031)**
Bank and corporate loans	–	(11,620)	–	–	–	–	–	–	10	–	**(11,610)**
Bonds	–	(3,402)	–	–	–	–	–	–	–	–	**(3,402)**
Vendor financing	–	–	–	–	–	–	–	–	–	–	**–**
Lease liabilities	–	(1,637)	–	–	–	–	–	–	–	–	**(1,637)**
Trade and other payables and non-hedge derivatives	–	–	–	–	–	–	–	–	(989)	–	**(989)**
Total financial liabilities	**–**	**(16,659)**	**–**	**–**	**–**	**–**	**–**	**–**	**(979)**	**–**	**(17,638)**

37. Financial instruments (continued)

(a) Credit risk

Each class of financial assets represented in the Group's consolidated statement of financial position to some extent is exposed to credit risk. Management develops and implements policies and procedures aiming to minimize the exposure and impact on the Group's financial position in case of risk realization.

Financial instruments that could expose the Group to concentrations of credit risk are mainly trade and other receivables. The credit risk associated with these assets is limited due to the Group's large customer base and on-going procedures to monitor the credit worthiness of customers and other debtors.

The Group's accounts receivable and contract assets are represented by receivables from the Government and other public organizations, businesses and individuals each of them bearing different credit risk. Collection of receivables from the Government and other public organizations is mainly influenced by political and economic factors and not always under full control of the Group. However, management undertakes all possible efforts to minimize the exposure to risk of receivable from this category of clients. In particular, creditworthiness of such subscribers is assessed based on financing limits set by the Government. Management believes there were no significant unprovided losses relating to these or other receivables as at 31 December 2019 and 2018.

To reduce risk of exposure on receivables from businesses and individuals the Group implements a range of procedures. Credit risk is determined based on a summary of probabilities of occurrences and possible impact of events negatively influencing the customer's ability to discharge its obligation. A credit rating is attributed to a customer on initial stage of cooperation and, then, reassessed periodically based on credit history. As a part of its credit risk management policy, the Group arranges preventive procedures which are represented by but not limited to advance payments, request for collaterals and banks and third parties guarantees. For collection of receivables, which are past due, the Group takes a variety of actions from suspension of rendering of services to taking legal action.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on months past due for grouping of various customer segments with similar loss patterns (Note 16).

According to the financial policy of the Group, the Group deposits excess cash available with several largest Russian banks (with high credit ratings). To manage the credit risk related to deposit of cash available with banks, management of the Group implements procedures to periodically assess the creditworthiness of the banks. To facilitate this assessment, deposits are mainly placed with banks where the Group has already had comparable credit obligations, current settlement account and can easily monitor activity of such banks.

Maximum exposures to credit risk are limited to the net carrying amounts of respective financial assets, except for guarantee (see Note 37 (e)).

37. Financial instruments (continued)

(b) Liquidity risk

The Group monitors its risk of a shortage of funds by preparing and monitoring compliance with cash flow budgets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, etc. Cash flow budgets consider the maturity of both cash inflows and outflows from the Group's operations. Based on projected cash flows the decision is taken on either investment of free cash or attracting financing required. Realization of liquidity risk management policy provides the Group with sufficient cash to discharge its obligation on a timely basis. Financing was provided within the Group introducing the need for certain companies to raise financing from the Group parent company (PJSC Rostelecom) via cash-pooling.

Issued guarantees are disclosed in Note 37 (e).

Maturity analysis as at 31 December 2019 and 2018 represented below shows undiscounted cash flows, including estimated interest payments:

	2020	**2021**	**2022**	**2023**	**2024 and later**	**Total**
31 December 2019						
Bank and corporate loans	32,061	27,339	17,212	67,935	76,285	**220,832**
Bonds	4,909	4,908	38,863	2,013	30,843	**81,536**
Promissory notes	–	–	–	1	8	**9**
Vendor financing	9	3	3	–	2	**17**
Lease liabilities	7,720	4,768	4,258	3,910	31,107	**51,763**
Other borrowings	86	–	–	–	–	**86**
Trade and other payables	73,765	438	326	151	306	**74,986**
Total financial liabilities	**118,550**	**37,456**	**60,662**	**74,010**	**138,551**	**429,229**

	2019	**2020**	**2021**	**2022**	**2023 and later**	**Total**
31 December 2018						
Bank and corporate loans	24,887	12,354	25,428	51,174	91,548	**205,391**
Bonds	18,787	2,409	2,408	21,995	12,095	**57,694**
Promissory notes	–	–	–	1	8	**9**
Vendor financing	11	5	7	3	2	**28**
Lease liabilities	5,814	2,850	2,339	2,187	25,884	**39,074**
Other borrowings	86	–	–	–	–	**86**
Trade and other payables	74,663	205	50	50	175	**75,143**
Total financial liabilities	**124,248**	**17,823**	**30,232**	**75,410**	**129,712**	**377,425**

37. Financial instruments (continued)

(c) Market risks

Significant market risk exposures are interest rate risk, exchange rate risk and other price risk. Exposure to other price risk arises from available for sale investments quoted on active markets.

Interest rate risk

Interest rate risk mainly relates to floating rate debt primary denominated in US dollars, Russian roubles and euros and financial instruments denominated in Russian roubles. Other borrowings do not materially influence the exposure to interest risk.

	31 December 2019	31 December 2018
Fixed rate instruments		
Financial assets	34,210	22,769
Financial liabilities	(193,431)	(220,353)
	(159,221)	**(197,584)**
Variable rate instruments		
Financial assets	–	–
Financial liabilities	(77,703)	(5,572)
	(77,703)	**(5,572)**

Cash flow sensitivity analysis for variable rate instruments

The tables below demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	2019
MosPrime (+1.25%)	(6)
MosPrime (-1.25%)	6
CB rate (+1%)	(1,887)
CB rate (-1%)	1,887

	2018
MosPrime (+0.75%)	(1)
MosPrime (-1%)	2
CB rate (+1%)	(123)
CB rate (-1%)	123

Foreign exchange risk

Currency risk is the risk that fluctuations in exchange rates will adversely affect the Group's cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Group's consolidated statement of comprehensive income, statement of financial position and/or statement of cash flows. The Group is exposed to currency risk in relation to its assets and liabilities denominated in foreign currencies, mostly from accounts receivable and payable from operations with international telecom operators, accounts payable for equipment, borrowings issued in foreign currencies. The Group does not have formal procedures to reduce its currency risks.

37. Financial instruments (continued)

(c) Market risks (continued)

Financial assets and liabilities of the Group presented by currency as at 31 December 2019 and 2018 were as follows:

	31 December 2019		31 December 2018	
	USD	EUR	USD	EUR
Cash and cash equivalents	1,057	169	905	653
Trade receivables	637	61	908	376
Loans and receivables	–	–	1	–
Trade and other payables and non-hedge derivatives	(3,411)	(224)	(8,110)	(118)
Net exposure	**(1,717)**	**6**	**(6,296)**	**911**

The tables below demonstrate the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, of the Group's profit before tax:

	31 December 2019	
	USD	EUR
Strengthening of the currency (USD +13%, EUR +13%)	(223)	1
Weakening of the currency (USD -11%, EUR -11%)	189	(1)

	31 December 2018	
	USD	EUR
Strengthening of the currency (USD +14%, EUR +14%)	(881)	127
Weakening of the currency (USD -14%, EUR -14%)	881	(127)

The analysis was applied to monetary items denominated in relevant currencies at the reporting date.

Other price risk

As at 31 December 2019, the Group's assets don't include investments in quoted securities subject to other price risk.

(d) Capital management policy

Capital management policy of the companies comprising the Group is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, improving the structure of payables, and reducing cost of borrowings. Among the main methods of capital management are profit maximization, investment program management, sale of assets to reduce debt, debt portfolio management and restructuring, use of different classes of borrowings. In addition, the companies of the Group are subject to externally imposed capital requirements, which are used for capital monitoring. There were no changes in the objectives, policies and processes of capital management during 2018-2019.

The Boards of directors of the companies comprising the Group review their performance and establish a variety of key performance indicators which are based on Russian statutory accounts. The companies comprising the Group monitor and manage their debt using financial independence ratio and net debt/equity, net debt/OIBDA ratios.

37. Financial instruments (continued)

(e) Guarantee

The Group guaranteed repayment of debts of Infrastruktunie investitsii-4 LLC at the amount of 8,000 to its creditors. The Group received a loan from the company to finance elimination of digital divide.

(f) Insurance risk

Insurance contracts of the Group are subject to the following main risks:

- Risk of longevity – risk of losses due to pensioners living longer than expected;
- Investment return risk – risk of losses arising from actual returns being different than expected;
- Contract holder decision risk – risk of losses arising due to contract holder experiences (surrenders) being different than expected;
- Expense risk – risk of losses due to excess of expected expenses.

NPP contracts issued by the Group in accordance with the existing Pension rules of non-state pension provision are classified for the most part as investment contracts with DPF. Accordingly, the risk of longevity is mainly related to mandatory pension insurance contracts.

The Group had obligations under mandatory pension insurance contracts as of 31 December 2019 at the amount of 838 (31 December 2018: 636).

Insurance contracts are also subject to contract holder decision risk and expense risk. Contract holder decision risk (risk of termination of the contract) under mandatory pension insurance contracts is mitigated by the terms of guaranteeing the result of investing the funds of pension savings within five-year periods. Expense risk is reduced through expenses control and regular cost analysis.

The pension obligations are not sensitive to changes in actuarial assumptions due to the fact that reasonably possible changes in the actuarial assumptions do not lead to the formation of a deficit as a result of the liability adequacy test.

38. Commitments and contingencies

(a) Legal proceedings

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business (refer to (b) below). Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Group.

(b) Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. The management’s interpretation of the provisions of the law as applied to the operations and activities of the Group may be challenged by the relevant regional or federal authorities.

38. Commitments and contingencies (continued)

(b) Taxation (continued)

From 2019 VAT rate is increased from 18% to 20%. Foreign suppliers of electronic services must register in Russian tax authorities to pay VAT.

As of 31 December 2019, the Group's management estimated the possible effects of additional taxes before fines and interest on these consolidated financial statements, if the authorities were successful in enforcing different interpretations being taken by them.

Transfer pricing legislation effective in the Russian Federation from 1 January 2012 allows to tax authorities to control prices set up in transactions between related parties and impose additional tax liabilities to in case transfer price deviates from market level.

The transfer pricing rules specify an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold of RUB 1 billion.

Since practice of applying the new transfer pricing rules by the tax authorities and courts is not widely developed, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained upon examination. Management of the Group believes that it has adequately provided for tax liabilities in the consolidated statements of financial position as at 31 December 2019 and 2018. However, the general risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant.

(c) Licenses

Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years from 2020 up to 2025.

The Group has renewed all other licenses on a regular basis in the past, and believes that it will be able to renew licenses without additional cost in the normal course of business. Suspension or termination of the Group's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Group.

38. Commitments and contingencies (continued)

(d) Anti-terror package of laws

In July 2016, a package of anti-terror laws was accepted in the Russian Federation that requires telecommunication operators to store messages and phone calls for six months period, effectively from 1 July 2018, and audio and video data transmitted by subscribers during one-month period, effectively from 1 October 2018.

As of the date of the approval of the financial statements, the Group complies with the requirements under the plan approved by regulatory and supervisory bodies of the Russian Federation.

(e) Capital commitments

As at 31 December 2019, contractual commitments of the Group for the acquisition of property, plant and equipment, including VAT, amounted to 35,974 (2018: 21,983).

39. Related party transactions

(a) The Government as a shareholder

As indicated in Note 1, the Government of the Russian Federation controls the Company by indirect holding of 53% of the Company’s ordinary shares through Vnesheconombank and Federal Agency of State properties management. It is a matter of the Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

(b) Interest of the Government in the telecommunications sector in the Russian Federation and the protection of that interest

Effective telecommunications and data transmission are of great importance to Russia for various reasons, including economic, social, strategic and national security considerations. The Government has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Federal Tariff Service and the Federal Telecommunications Agency, has the general authority to regulate certain tariffs. In addition to the regulation of tariffs, the telecommunication legislation requires the Group and other operators to make certain revenue-based payments to the Universal communication services fund, which is controlled by the Federal Telecommunications Agency. Moreover, the Ministry of Telecom and Mass Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

(c) Associates and joint ventures

On 1 April 2014 the Group obtained significant influence over T2 RTK Holding as a result of the reorganization. Transactions with companies of T2 RTK Holding were as follows:

	2019	2018
Revenue	17,509	15,197
Interest income	120	176
Interconnection charges	(7,322)	(7,583)
Purchase of property, plant and equipment and intangible assets	(11)	(11)
Purchase of other services	(697)	(143)

39. Related party transactions (continued)

(c) Associates and joint ventures (continued)

The amounts of receivables and payables due from companies of T2 RTK Holding were as follows:

	31 December 2019	31 December 2018
Accounts receivable	2,539	2,548
Contract assets	117	23
Allowance for expected credit loss	(30)	(16)
Accounts payable and accrued expenses	(2,306)	(480)

The Group is also involved in various telecommunication services with entities in which it has investments, including associates and joint ventures over which it exerts significant influence. A summary of these transactions is as follows:

	2019	2018
Revenue	285	333
Dividend income	232	54
Gain on disposal of property, plant and equipment	649	1,084
Interest income	124	222
Purchase of telecommunication services	(1,329)	(577)
Purchase of other services	(525)	(653)
Purchase of property, plant and equipment and intangible assets	(2,568)	(3,935)
Cost of sales of customer–premices equipment	(97)	(222)
Impairment of financial assets	(467)	(150)
Amortisation*	(970)	(1,074)
Finance costs*	(25)	(49)

** JV Telecom-5.*

The amounts of receivables and payables due from these entities were as follows:

	31 December 2019	31 December 2018
Accounts receivable	387	413
Contract assets	3	–
Other financial assets	1,582	2,229
Right of use assets*	677	940
Allowance for expected credit loss	(12)	(22)
Accounts payable and accrued expenses	(846)	(3,724)
Lease liabilities*	(681)	(1,094)
Loans and borrowings	(3,082)	(247)

**JV Telecom-5.*

On 28 December 2016, the Group and LLC Sberbank Investicii (“Sberbank”) entered into the agreement to increase the share capital of LLC Telecom-5 (“Telecom-5”), the Group’s subsidiary.

39. Related party transactions (continued)

(c) Associates and joint ventures (continued)

Sberbank and the Group made a cash contribution into Telecom-5 in amount of 2,000 each. As a result, on 28 December 2016 the Group lost control over Telecom-5. At the date of disposal the carrying value of net assets of Telecom-5 and result of its disposal was nil. Starting from that date the Group ceased consolidation of Telecom-5 and began its further accounting as an investment in joint venture. The Group retained 50 percent of interest in Telecom-5 which was recognized at its fair value of 2,000 as at 28 December 2016.

During 2017 and 2018 the Group and Sberbank agreed to increase the share capital by 2,400 and 803 accordingly. The Group retained 50 percent of interest in Telecom-5.

In December 2018 the Group sold buildings with the carrying value of 178 to its joint venture Telecom-5 for cash consideration of 1,607 resulting in a profit of 1,292, including leaseback of (137). As a result of this transaction, the Group eliminated its share of unrealised profit of 646 to the extent of the Group’s interest in joint venture Telecom-5.

(d) Transactions with other government-related entities

Decree of the Government of the Russian Federation No. 453-r dated 21 March 2011 PJSC Rostelecom appointed sole executor of works as part of the state program of the Russian Federation “Information Society 2011-2020”. PJSC Rostelecom shall provide the following tasks:

(a) Creation of a common infrastructure to support the decisions of state tasks, ensuring the provision of services for various branches of the public sector.

(b) Create a national platform of distributed computing to provide solutions as services to federal, regional and municipal authorities.

This task the operator has already performed in a significant amount by implementing standard solutions for e–government in the regions under Saas. Services based on cloud computing will enjoy both government agencies and commercial customers.

(c) The development of institutions of electronic signature in Russia. The system of certification centers create a common space of trust, in which every citizen of Russia will be able to obtain an electronic signature and electronic signature can be identified in any region of Russia.

During 2019 the Group recognised revenue related to a significant projects with the Ministry of Digital Development, Communications and Mass Media of the Russian Federation:

- under the contract to operate the infrastructure of e-government in the amount of 4,989 (2018: 2,822), advances received in the amount of 3,381 as at 31 December 2019 (31 December 2018: 0).
- under the contracts signed in 2019 to connect socially significant objects to the Internet in the amount of 233 (2018: 0). As at 31 December 2019, advances received in the amount of 3,701 and obligations under these contracts amount to 3,577 (31 December 2018: 0).
- under the contract signed in 2019 for connecting facilities of FSUE (Federal State Unitary Enterprise) Russian Television and Radio Broadcasting Network to a public communication network using fiber-optic transmission cables in the amount of 91 (2018: 0). As at 31 December 2019, obligations under this contract amount to 3,199 (31 December 2018: 0).

39. Related party transactions (continued)

(d) Transactions with other government-related entities (continued)

In 2019 the Group received revenue under the contract concluded with the Ministry of Communications and Mass Communications of the Russian Federation, to connect hospitals to the internet, in the amount of 1,699 (2018: 1,558).

The Group and the Moscow Department of Information Technology (DIT) signed contracts for providing information about video surveillance objects to the state information system “Unified Data Storage and Processing Center”. For 2019 revenue under these contracts amounted to 3,490 (2018: 3,403).

The Group and the Federal Tax Service signed contracts for providing services of a unified multiservice data transmission network for information and technological interaction between information systems of the Federal Tax Service of Russia, provision of public services via Internet, and information interaction between employees of the Federal Tax Service of Russia. In 2019, Group’s revenue under agreements with the Federal Tax Service of Russia amounted to 1,892 (2018: 1,629).

In 2019 The Group and Federal Service for State Registration, Cadastre and Cartography signed contracts to provide a secured data network services at the federal and regional levels. For 2019 revenue under these contracts amounted to 1,549 (2018: 0).

For other individually immaterial contracts Group’s revenue in 2019 amounted to 63,483 (2018: 58,062).

Under *The Decree of the Government of the Russian Federation* No. 437-r dated 26 March 2014 Rostelecom has the responsibility for the provision of universal communication services starting from 1 April 2014. In May of 2014 the Federal Communications Agency and Rostelecom signed a contract for the provision of universal communication services for 10 years and the total amount of financial support of RUB 163 billion.

According to the supplementary agreement No. 9 to contract No.UUS-01/2014 signed with the Federal Communications Agency the amount of financial support for 10 years is 152 billion rubles.

In accordance with Federal Law *On Communication* PJSC Rostelecom as a single universal service provider for the entire territory of the Russian Federation shell ensure the functioning of:

(a) Telephone services using payphones, multifunction devices, information kiosks (informants) and similar devices;

(b) Data services and provide access to the “Internet” information and telecommunication network using multiple access means;

(c) Data services and provide access to the “Internet” information and telecommunications network with access points.

The total volume of income recognized by the Company under this contract for 2019 amounted to: 13,105 (2018: 10,873).

39. Related party transactions (continued)

(d) Transactions with other government-related entities (continued)

To provide universal telecommunication services Rostelecom contracted FSUE (Federal State Unitary Enterprise) Russian Post as an agent facilitating data services and providing access to the Internet information and telecommunication network using multiple (public) access points without a use of an end–user equipment. FSUE Russian Post is a Russian state company, operations of which are individually significant for disclosure purposes. For 2019 the cost of agency contracts amounted to 686. During 2018 corresponding expenses amounted to 568. In 2016 with the Federal State Unitary Enterprise “Russian Post” concluded a contract for the provision of integrated communication services for a period of 5 years for a total amount of 8,500. For 2019 revenue under this contract amounted to 1,553 (2018: 1,580).

The Group entered into an agent agreement with VTB Factoring LLC (agent), according to which the agent pays suppliers’ bills. The total amount of factoring fees of VTB Factoring LLC for the year 2019 amounted to 1,125 (2018: 359). The total amount of accounts payable to VTB Factoring LLC is 12,176 as at 31 December 2019 (as at 31 December 2018: 9,366).

The Group concluded a general factoring agreement with VTB-Factoring LLC in order to use the non-regression factoring mechanism for part of future payments under energy-service contracts, which allows the Company to receive a substantial part of accounts receivable under these contracts at an earlier date.

In 2019 the Group purchased data center equipment under lease agreements with JSC VTB Leasing, JSC Sberbank Leasing and JSC Gazprombank Leasing. At 31 December 2019 the net book value right of use assets is 4,836 and the outstanding lease liabilities is 4,890. Interest expense accured on the lease liabilities during year ended 31 December 2019 amounted to 31.

The total amount of lease payments payed to JSC VTB Leasing, JSC Sberbank Leasing and JSC Gazprombank Leasing for the year 2019 amounted to 122.

The Group received loans from government-controlled banks PJSC Sberbank, PJSC Bank VTB, PJSC Sviaz-bank and others. The outstanding balances from these banks amounted to 164,558 as at 31 December 2019 (31 December 2018: 150,577). Interest rate of these loans varies from 6.80% to 10.50%. During 2019 the Group obtained loans from these banks in the amount of 412,455 (2018: 399,536), made repayments in amount of 411,634 (2018: 369,678). Interest expense accrued on those loans during year ended 31 December 2019 amounted to 12,010 (2018: 10,609).

In 2014, the Company received a borrowing from the state-related special project company (Infrastructure investment-4 LLC) for implementation of the investment project “Bridging the Digital Divide in the sparsely populated areas of Russia”. The balance of the borrowing 31 December 2019: 4,050 (31 December 2018: 5,265). During year ended 31 December 2019 the Group made repayments in amount of 1,656 (2018: 1,899). Interest expense accrued on this borrowing during the year ended 31 December 2019 amounted to 441 (2018: 684).

The Group has in aggregate but not individually significant transactions with other government-related entities including but not limited to providing telecommunication services, consuming services having both production and miscellaneous nature, depositing and borrowing money. All these transactions are carried out in the course of normal day-to-day business operations on the terms comparable to those with other entities which are not government-related.

39. Related party transactions (continued)

(d) Transactions with other government-related entities (continued)

Management assesses these transactions as individually insignificant, except government-related banking deposits.

The amount of funds placed on deposits with government–controlled banks for the year ended 31 December 2019 is 751 (2018: 743) with related income recognised in profit and loss of 56 (2018: 20) and amounts repaid back to the Company's account of amounted to 801 (2018: 311).

The amount of the Group's cash and cash equivalents kept on the accounts opened with the government-controlled banks on 31 December 2019 is 4,233 (31 December 2018: 5,937). As of 31 December 2019 the Company's account with the Federal Treasury had the balance of 14,173 (31 December 2018: 3,265).

(e) The key management personnel remuneration

The key management personnel for the purpose of these consolidated financial statements comprises Management Board's members, the Board of Directors' members and Vice-Presidents.

Remuneration to the key management personnel for the year ended 31 December 2019 amounted to 939 (2018: 852). Remuneration includes salaries, bonuses, payments for participation in the work of management bodies and other short-term benefits.

In 2017 the Board of Directors of the Company approved a new long-term motivation program for the period 2017-2019 (Note 35). The amount of expenses related to the key management personnel in 2019 is 1,421 (2018: 1,093).

In 2019 the Group made a contribution of 15 to the non-state pension fund (2018: 17) for its key management personnel.

The remuneration amounts are stated exclusive of social taxes.

40. Assets held for sale

The following table illustrates information on assets held for sale for the year ended 31 December 2019 and 2018.

	31 December 2019	31 December 2018
Assets		
Property, plant and equipment (Note 8)	749	554
Total assets held for sale	**749**	**554**

Before the classification of property, plant and equipment as held for resale, the recoverable amount was estimated for certain items and impairment loss was identified for the years ended 31 December 2019 and 2018 amounted to 137 and 218 respectively, and is included in depreciation, amortization and impairment losses in the consolidated statements of profit or loss and other comprehensive income.

41. Subsequent events

In January 2020, the Group attracted funds under short-term loan agreements with credit institutions in the amount of 41,440. At the same time on short-term loans the Group repaid principal debt amount of 39,777.

In February 2020 the Group attracted funds from Sberbank under long-term agreements in the amount 50,000 for financing Tele2 Russia acquisition.

In February 2020 the Group placed it’s non-documentary interest-bearing non-convertible bonds with mandatory centralized accounting of rights:

- series 002P-03R, registration number 4B02-02-00124-A-002P of 11 February 2020 in the amount of 15 million units, with a nominal value of 1,000 roubles each, the volume at a nominal value of 15 billion roubles;
- series 002P-02R, registration number 4B02-03-00124-A-002P of 17 February 2020 in the amount of 15 million units, with a nominal value of 1,000 roubles each, the volume at a nominal value of 15 billion roubles.

In February 2020 the Group acquired additional stake 12.67% in LLC IIDF Invest for the cash consideration 1, 000, so the Group’s stake in LLC IIDF reached 31.03%

In February 2020 the Group signed with VTB Bank and a consortium of investors a number of legal agreements as part of the process to acquire the remaining 55% stake in T2 RTK Holding LLC (Tele2 Russia). As a result, the Group obtained control over Tele2 Russia with increasing its ownership to 100%. Total amount of the deal is RUB 132 billion.

The deal will be financed as follows:

- 17.5% of Tele2 Russia will be acquired for RUB 42 billion in cash;
- 27.5% of Tele2 Russia will be acquired using RUB 66 billion in cash proceeds received from the additional share issue and private subscription of Rostelecom ordinary shares awarded to VTB bank at a price of RUB 93.21 per share; and
- 10% stake in Tele2 Russia will be acquired through the exchange of 10% of ordinary Rostelecom shares held by MOBITEL (Rostelecom subsidiary) according to barter agreement. The transaction has a value of RUB 24 billion.

As a result of additional share issue, the number of ordinary shares will increase by 708,082,975 shares to 3,282,997,929 shares (including shares acquired in-line with preemptive rights).