MEGAFON

Interim condensed consolidated financial statements
(Unaudited)

For the nine months ended 30 September 2017

Contents

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Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

To the Board of Directors and Shareholders
PJSC MegaFon

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC MegaFon (the "Company") and its subsidiaries (the "Group") as at 30 September 2017, the related interim condensed consolidated income statement and the statement of other comprehensive income for the three- and nine-month periods then ended, the related interim condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended, and notes to the interim condensed consolidated financial statements (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements as at 30 September 2017 and for the three- and nine-month periods then ended are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Akylbek Y.A.
Director
JSC "KPMG"
Moscow, Russia
30 November 2017

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

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

MegaFon

Interim condensed consolidated income statement

(In millions of Rubles, except per share amounts)

	Note	Three months ended 30 September 2017 (Unaudited)	Three months ended 30 September 2016 (Unaudited)	Nine months ended 30 September 2017 (Unaudited)	Nine months ended 30 September 2016 (Unaudited)
Revenue		**98,214**	**81,115**	**274,157**	**234,988**
Operating expenses					
Cost of revenue		28,942	24,745	78,438	69,511
Sales and marketing expenses		7,377	4,917	20,346	13,927
General and administrative expenses		24,709	19,168	71,831	59,464
Depreciation		14,316	13,370	42,708	39,196
Amortisation		4,441	1,981	13,179	5,861
Loss on disposal of non-current assets	10	115	248	243	584
Total operating expenses		**79,900**	**64,429**	**226,745**	**188,543**
Operating profit		**18,314**	**16,686**	**47,412**	**46,445**
Finance costs		(6,119)	(5,365)	(18,256)	(13,673)
Finance income		494	568	1,597	1,316
Share of loss of associates and joint ventures		(273)	(1,337)	(2,201)	(3,124)
Impairment loss from Euroset	5	—	—	(15,917)	—
Other non-operating expenses		(201)	(484)	(1,197)	(2,351)
Loss on financial instruments, net		(102)	(190)	(20)	(349)
Foreign exchange (loss)/gain, net		(326)	(413)	(1,510)	2,223
Profit before tax		**11,787**	**9,465**	**9,908**	**30,487**
Income tax expense	12	2,656	2,920	6,228	8,049
Profit for the period		**9,131**	**6,545**	**3,680**	**22,438**
Profit for the period					
Attributable to equity holders of the Company		8,281	6,346	1,877	22,417
Attributable to non-controlling interest		850	199	1,803	21
		9,131	**6,545**	**3,680**	**22,438**
Earnings per share, Rubles					
Basic and diluted, profit for the period attributable to equity holders of the Company		**14**	**11**	**3**	**38**

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

Interim condensed consolidated statement of other comprehensive income

(In millions of Rubles)

	Note	Three months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2017	Nine months ended 30 September 2016
		(Unaudited)		**(Unaudited)**	
Profit for the period		**9,131**	**6,545**	**3,680**	**22,438**
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation difference, net of tax		45	43	(112)	708
Net movement on cash flow hedges, net of tax	11	(674)	(699)	(1,366)	(1,323)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(629)**	**(656)**	**(1,478)**	**(615)**
Total comprehensive income for the period, net of tax		**8,502**	**5,889**	**2,202**	**21,823**
Total comprehensive income for the period					
Attributable to equity holders of the Company		7,687	5,675	600	21,654
Attributable to non-controlling interest		815	214	1,602	169
		8,502	**5,889**	**2,202**	**21,823**

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

MegaFon

Interim condensed consolidated statement of financial position

(In millions of Rubles)

	Note	30 September 2017 (Unaudited)	31 December 2016 (Audited)
Assets			
Non-current assets			
Property and equipment	10	229,411	237,155
Intangible assets, other than goodwill	4,10	116,213	61,295
Goodwill	4	73,317	30,549
Investments in associates and joint ventures	5	28,386	45,234
Non-current financial assets	11	3,483	4,799
Non-current non-financial assets		4,566	3,039
Deferred tax assets		4,290	1,199
Total non-current assets		**459,666**	**383,270**
Current assets			
Inventory		9,694	9,354
Current non-financial assets		9,778	5,051
Prepaid income taxes		1,414	1,992
Trade and other receivables		28,705	19,352
Other current financial assets	11	22,155	10,842
Cash and cash equivalents		23,371	31,922
Total current assets		**95,117**	**78,513**
Assets held for sale		284	—
Total assets		**555,067**	**461,783**
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		105,555	124,166
Non-controlling interests	9	55,860	(43)
Total equity		**161,415**	**124,123**
Non-current liabilities			
Loans and borrowings	11	199,405	195,724
Other non-current financial liabilities	11	4,481	6,653
Non-current non-financial liabilities		7,015	2,605
Provisions		4,195	3,888
Deferred tax liabilities		27,539	20,812
Total non-current liabilities		**242,635**	**229,682**
Current liabilities			
Trade and other payables		41,971	43,581
Loans and borrowings	11	64,992	39,389
Dividends payable	6	—	2,839
Other current financial liabilities	11	13,752	3,538
Current non-financial liabilities		29,736	18,186
Income taxes payable		566	445
Total current liabilities		**151,017**	**107,978**
Total equity and liabilities		**555,067**	**461,783**

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

Interim condensed consolidated statement of changes in equity

(In millions of Rubles)

For the nine months ended 30 September 2017 and 30 September 2016

		Attributable to equity holders of the Company									
		Ordinary shares		Treasury shares							
	Note	Number of shares	Amount	Number of shares	Amount	Capital surplus	Retained earnings	Other capital reserves	Total	Non-controlling interests	Total equity
As of 1 January 2016		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**152,425**	**(233)**	**147,898**	**(147)**	**147,751**
Profit for the period		—	—	—	—	—	22,417	—	22,417	21	22,438
Other comprehensive income/(loss)		—	—	—	—	—	—	(763)	(763)	148	(615)
Total comprehensive income/(loss)		—	—	—	—	—	**22,417**	**(763)**	**21,654**	**169**	**21,823**
Dividends		—	—	—	—	—	(33,621)	—	(33,621)	—	(33,621)
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(59)	(59)
As of 30 September 2016 (unaudited)		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**141,221**	**(996)**	**135,931**	**(37)**	**135,894**
As of 1 January 2017		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**129,890**	**(1,430)**	**124,166**	**(43)**	**124,123**
Profit for the period		—	—	—	—	—	1,877	—	1,877	1,803	3,680
Other comprehensive loss		—	—	—	—	—	—	(1,277)	(1,277)	(201)	(1,478)
Total comprehensive income/(loss)		**—**	**—**	**—**	**—**	**—**	**1,877**	**(1,277)**	**600**	**1,602**	**2,202**
Dividends	6	—	—	—	—	—	(19,211)	—	(19,211)	—	(19,211)
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(59)	(59)
Equity-settled share-based compensation	9	—	—	—	—	—	—	—	—	890	890
Acquisition of MGL	4	—	—	—	—	—	—	—	—	54,900	54,900
Acquisition of MGL treasury shares	9	—	—	—	—	—	—	—	—	(1,430)	(1,430)
As of 30 September 2017 (unaudited)		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**112,556**	**(2,707)**	**105,555**	**55,860**	**161,415**

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

MegaFon

Interim condensed consolidated statement of cash flows

(In millions of Rubles)

	Note	Nine months ended 30 September 2017 (Unaudited)	2016
Operating activities			
Profit before tax		9,908	30,487
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation		42,708	39,196
Amortisation		13,179	5,861
Loss on disposal of non-current assets		243	584
Loss on financial instruments, net		20	349
Foreign exchange loss/(gain), net		1,510	(2,223)
Share of loss of associates and joint ventures		2,201	3,124
Impairment loss from Euroset	5	15,917	—
Change in impairment allowance for receivables and other non-financial assets		2,001	1,919
Finance costs		18,256	13,673
Finance income		(1,597)	(1,316)
Equity-settled share-based compensation	9	890	—
Other non-cash items		(38)	—
Working capital adjustments:			
Increase in inventory		(315)	(2,729)
Increase in trade and other receivables		(6,368)	(1,859)
(Increase)/decrease in current non-financial assets		(970)	2,244
Increase/(decrease) in trade and other payables		1,454	(8,109)
Increase/(decrease) in current non-financial liabilities		3,576	(1,785)
Change in VAT, net		2,525	1,573
Income tax refunded		—	18
Income tax paid		(9,068)	(7,091)
Net cash flows received from operating activities		**96,032**	**73,916**
Investing activities			
Purchase of property, equipment and intangible assets	10	(48,240)	(42,562)
Proceeds from sale of property and equipment	10	215	659
Acquisition of subsidiaries, net of cash acquired	4	(34,170)	(62)
Proceeds from sale of subsidiaries, net of cash disposed		(43)	—
Payment of deferred and contingent consideration		(1,444)	(492)
Purchase of interest in associates and joint ventures		(640)	—
Net change in short-term deposits		(11,022)	(2,906)
Net change in other deposits		247	401
Loans granted	11	(3)	(3,388)
Repayments of loans granted		890	—
Interest received		1,288	793
Dividends received from associates		18	—
Net cash flows used in investing activities		**(92,904)**	**(47,557)**
Financing activities			
Proceeds from borrowings, net of fees paid		100,644	101,561
Repayment of borrowings		(69,500)	(72,098)
Interest paid		(17,868)	(11,826)
Dividends paid to equity holders of the Company		(22,050)	(33,621)
Dividends paid to non-controlling interests		(59)	(59)
Acquisition of MGL treasury shares		(1,430)	—
Finance lease payments		(26)	(25)
Net cash flows used in financing activities		**(10,289)**	**(16,068)**
Net (decrease)/increase in cash and cash equivalents		(7,161)	10,291
Net foreign exchange difference		(1,390)	(2,037)
Cash and cash equivalents at beginning of period		31,922	17,449
Cash and cash equivalents at end of period		**23,371**	**25,703**

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

1. General

Public Joint Stock Company MegaFon ("MegaFon" or the "Company" and together with its consolidated subsidiaries the "Group") is a company incorporated under the laws of the Russian Federation ("Russia") and registered in the Unified State Register of Legal Entities under number 1027809169585. Its registered office is at 30 Kadashevskaya Embankment, Moscow, 115035, Russian Federation.

MegaFon is a leading provider of integrated digital communications in Russia and offers a broad range of voice, data and other telecommunication services to retail customers, businesses, government clients and other telecommunication services providers.

On 9 February 2017 MegaFon completed the acquisition of 15.2% of the shares, representing 63.8% of the voting rights, of Mail.Ru Group Limited ("MGL"), which is a leading company in the Russian-speaking internet market. The Group consolidated MGL starting from the beginning of 2017 *(Note 4).*

As of 30 September 2017, the Group is primarily owned by USM group, which is an indirect controlling shareholder, and by Telia Company and affiliates (Telia group), another major shareholder with significant influence over the Group. Telia Company is a publicly owned Swedish company. In October and November 2017 Telia Group sold its entire interest in the Group *(Note 15).*

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2016 audited consolidated financial statements and in the 2016 audited consolidated financial statements of MGL, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequently to the issuance of its 2016 audited consolidated financial statements and the 2016 audited consolidated financial statements of MGL.

The interim condensed consolidated financial statements are presented in millions of Rubles, except for per share amounts which are in Rubles, unless otherwise indicated

The interim condensed consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Accountant on 30 November 2017.

As of 30 September 2017 and 31 December 2016, the Group has a net current liability position. The Group believes that it will continue to be able to generate significant operating cash flows and that it has adequate access to sources of funding, so that its cashflows, together with the significant amount of credit lines available to it, are sufficient to meet the Group's liquidity requirements.

3. Significant accounting policies

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective from 1 January 2017.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017. These amendments did not have an impact on the interim condensed consolidated financial statements of the Group.

Disclosure Initiative – Amendments to IAS 7

These amendments require companies to provide information about changes in their financing liabilities. The amendments will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017. The amendments affect presentation and disclosure only and have no impact on the Group’s financial position or performance.

4. Business combination

On 9 February 2017 the Group completed the acquisition of 15.2% of the shares, representing 63.8% of the voting rights of MGL, from three entities owned by USM group for a total consideration of $740 million (44,040 at the exchange rate as of the date of acquisition), consisting of cash consideration of $640 million (38,088 at the exchange rate as of the date of acquisition) and deferred consideration of $100 million (5,952 at the exchange rate as of the date of acquisition) plus interest payable on or prior to the first anniversary of the acquisition date.

The primary reason for the acquisition was to achieve significant synergies for both companies, including enhancement of MegaFon’s digital offerings and their distribution, launch of a special VKmobile offering for users of the VK social network, and other potential initiatives.

Based on the current set-up of the Board of Directors of MGL, the Company concluded that it has the ability to direct relevant activities of MGL and therefore has control over that company.

Accordingly, the Group has consolidated MGL from the beginning of 2017.

The acquisition-date fair values of each major class of consideration transferred are as follows:

Cash	38,088
Deferred consideration	5,952
Total consideration transferred	**44,040**

4. Business combination (continued)

The acquisition of MGL was accounted for using the acquisition method. The Group has elected to measure the non-controlling interests ('NCI') in the acquiree at its proportionate interest in the identifiable net assets of the acquiree. The valuation of certain assets acquired and liabilities assumed has not been finalised as of the date these interim condensed consolidated financial statements were authorised for issue; thus, the provisional measurements of certain intangible assets, deferred taxes, goodwill and NCI are subject to change.

The table below includes the provisional allocation of the purchase price to the acquired net assets of MGL based on their estimated fair values.

Assets	
Property and equipment	3,840
Intangible assets	62,568
Investments in associates and joint ventures	649
Other financial assets	539
Other non-financial assets	4,550
Deferred tax assets	2,600
Trade and other receivables	5,135
Cash and cash equivalents	5,513
	85,394
Liabilities	
Loans and borrowings	123
Other financial liabilities	943
Other non-financial liabilities	9,844
Deferred tax liabilities	9,945
Trade and other payables	7,049
Income taxes payable	389
	28,293
Total identifiable net assets at fair value	**57,101**
Goodwill arising on acquisition	41,839
Non-controlling interest	(54,900)
Purchase consideration transferred	**44,040**

The intangible assets recognized at a fair value of 62,568 include trademarks, customer base, game and other software and other intangible assets.

NCI includes the value of the outstanding equity-settled share-based awards of MGL measured at market as of the date of acquisition.

From the date of the acquisition, MGL has contributed 37,039 of revenue and 2,597 to the profit before tax of the Group *(Note 9)*.

4. Business combination (continued)

The goodwill recognised is attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of MGL. Management is still assessing the allocation of goodwill among cash generating units ('CGUs').

The Group recognised MGL acquisition-related costs as general and administrative expenses in the amount of 251 for the nine months ended 30 September 2017 in the interim condensed consolidated income statement.

5. Impairment of investment in Euroset

The Group has determined that there is objective evidence that the investment in Euroset is impaired due to the recent developments in the Russian mobile retail market, which have adversely impacted the profitability of Euroset. In anticipation of the termination of its Euroset joint venture *(Note 13)*, the Group reconsidered the composition of its CGUs for the purposes of asset impairment testing and removed the investment in Euroset from the integrated telecommunication services group of CGUs. The Group has calculated the amount of impairment as the difference between the recoverable amount of the Group's investment and its carrying value and recognised an impairment loss in profit or loss in the amount of 15,917.

The estimated recoverable amount of investment is based on its value in use and includes the Group's synergy effect from lower than market Euroset commission costs alongside the standalone Euroset results.

The value in use was estimated using the cash flow projections for a six-year period. The calculation of the recoverable amount of the investment is particularly sensitive to the following assumptions:

	30 September 2017
Pre-tax discount rate	13.8%
Average annual revenue growth rate during the forecast period	7.0%
Terminal growth rate	2.6%
EBITDA margin during the forecast period	0.8%

The changes in the carrying value of the investment in Euroset for the nine months ended 30 September 2017 are as follows:

At 1 January 2017	**31,705**
Impairment loss from Euroset	(15,917)
Share of loss of associates and joint ventures	(1,925)
At 30 September 2017 (Level 3)	**13,863**

6. Dividends

On 30 June 2017 the Annual General Meeting of Shareholders of the Company approved the payment of a final dividend for the 2016 financial year in the amount of 19,211, or 32.25 Rubles per ordinary share (or GDR). Such dividends were paid in full in August 2017. Together with the interim dividend paid earlier, total dividends for 2016 amounted to 38,423, or 64.50 Rubles per ordinary share (or GDR).

7. Segment information

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

The Group manages its telecommunication business primarily based on eight geographical operating segments within Russia, which provide a broad range of voice, data and other telecommunication services, including wireless and wireline services, interconnection services, data transmission services and value added services ("VAS"). The CODM evaluates the performance of the Group's operating segments based on revenue and operating income before depreciation and amortisation ("OIBDA"). Total assets and liabilities are not allocated to operating segments and are not analysed by the CODM.

Operating segments with similar economic characteristics, such as forecasted OIBDA, have been aggregated into a telecom segment, which was the only reportable segment before MGL was acquired.

With the acquisition of MGL *(Note 4)* the Group acquired a whole new business which it did not have before. Accordingly, a new internet operating and reportable segment has been added to the Group structure. Currently the Group's CODM does not review the operating results of MGL on any level lower than the level of the consolidated financial statements of MGL, accordingly, no further operating segments have been identified following this acquisition.

The financial results of MGL are included in the segment disclosure starting from the date of acquisition.

Around 1.4% of the Group's telecom revenue and results are generated by segments outside of Russia. The information about the breakdown of revenue from customers of the internet segment by the customers'country of residence is not available to the management of the Group, and it considers that the cost to develop such information would be excessive.

No single customer represents 10% or more of the consolidated revenue.

7. Segment information (continued)

The income statement items for each segment, as presented to the CODM, are presented below:

Three months ended 30 September 2017	**Telecom (MegaFon)**	**Internet (MGL)**	**Eliminations**	**Group**
Revenue				
External customers	84,712	13,502	—	98,214
Inter-segment	3	42	(45)	—
Total revenue	**84,715**	**13,544**	**(45)**	**98,214**
OIBDA				
External customers	33,374	3,812	—	37,186
Inter-segment	(39)	39	—	—
Total OIBDA	**33,335**	**3,851**	—	**37,186**

Nine months ended 30 September 2017	**Telecom (MegaFon)**	**Internet (MGL)**	**Eliminations**	**Group**
Revenue				
External customers	237,161	36,996	—	274,157
Inter-segment	8	43	(51)	—
Total revenue	**237,169**	**37,039**	**(51)**	**274,157**
OIBDA				
External customers	93,020	10,522	—	103,542
Inter-segment	(35)	35	—	—
OIBDA	**92,985**	**10,557**	**—**	**103,542**

Management has presented the performance measure OIBDA because it believes that this measure is relevant to an understanding of the Group's financial performance.

OIBDA is not a defined performance measure in IFRS. The Group's definition of OIBDA may not be comparable with similarly titled performance measures and disclosures by other entities.

7. Segment information (continued)

Reconciliation of consolidated OIBDA to consolidated profit before tax for the three and nine months ended 30 September:

	Three months ended 30 September		Nine months ended 30 September	
	2017	**2016**	**2017**	**2016**
OIBDA	**37,186**	**32,285**	**103,542**	**92,086**
Depreciation	(14,316)	(13,370)	(42,708)	(39,196)
Amortisation	(4,441)	(1,981)	(13,179)	(5,861)
Loss on disposal of non-current assets	(115)	(248)	(243)	(584)
Finance costs	(6,119)	(5,365)	(18,256)	(13,673)
Finance income	494	568	1,597	1,316
Share of loss of associates and joint ventures	(273)	(1,337)	(2,201)	(3,124)
Impairment loss from Euroset	—	—	(15,917)	—
Other non-operating expenses	(201)	(484)	(1,197)	(2,351)
Loss on financial instruments, net	(102)	(190)	(20)	(349)
Foreign exchange (loss)/gain, net	(326)	(413)	(1,510)	2,223
Profit before tax	**11,787**	**9,465**	**9,908**	**30,487**

8. Seasonality of operations

The Group's telecom services are impacted by seasonal trends throughout the year. Revenue and operating profit in the second half of the year are usually expected to be higher than in the first six months. Higher revenue during the period July to September is mainly attributable to increased demand for telecom services during the peak holiday season. Higher revenue also occurs in the month of December, due to increased demand for telecom services and equipment from subscribers. Also the number of working days is significantly higher in the second half of a calendar year than in the first half of the year due to long public holidays in January and May in Russia, which further contributes to higher revenue in the second half of the year.

The Group's internet services are impacted by seasonal trends due to the seasonal nature of advertising and online games. Revenue and operating profit are usually expected to be higher in the second half of the year than in the first six months. Higher sales during the second half of the year are mainly attributed to the fact that a large portion of advertising budgets is spent in the last quarter of the year and to the increased demand for online games following the end of the summer vacation period.

This information is provided to allow for a better understanding of the Group's results; however, management has concluded that these impacts on the results are not 'highly seasonal' as considered by IAS 34.

9. Non-controlling interest

One subsidiary of the Group that has a material NCI is MGL, based in Cyprus and acquired in the beginning of 2017, with a NCI of 84.8% *(Note 4)*. The balance of the NCI of MGL at 30 September 2017 is 55,768. The amounts allocated to the NCI for the nine months ended 30 September 2017 include profit of 1,647 , other comprehensive loss of 239 , equity-settled share-based compensation of 890 and acquisition of treasury shares of 1,430.

The summarised financial information of MGL is provided below.

Summarised income statement for the three and nine months ended 30 September 2017:

	MGL	
	Three months	**Nine months**
Revenue	13,544	37,039
Operating expenses	(9,693)	(26,482)
Amortisation and depreciation	(2,902)	(8,641)
Finance costs	—	(15)
Finance income	115	349
Share of loss of associates and joint ventures	(28)	(257)
Foreign exchange gain	97	673
Loss on financial instruments, net	(102)	(20)
Other non-operating gain/(loss)	35	(49)
Profit before tax	**1,066**	**2,597**
Income tax	(54)	(638)
Profit for the period	**1,012**	**1,959**
OCI	(59)	(282)
Total comprehensive income	**953**	**1,677**

Profit for the three and nine months ended 30 September 2017 includes amounts relating to the acquisition-date fair value adjustments.

Summarised statement of financial position as at 30 September 2017:

	MGL
Non-current assets	110,495
Current assets	17,419
Non-current liabilities	(13,413)
Current liabilities	(14,409)
Total equity	**100,092**
Attributable to:	
Equity holders of the Company	44,324
NCI	55,768

Summarised cash flow information for the nine months ended 30 September 2017:

	MGL
Operating activities	12,388
Investing activities	(6,586)
Financing activities	(1,567)
Net increase in cash and cash equivalents	**4,235**

10. Property, equipment and intangible assets

During the nine months ended 30 September 2017, the Group acquired property and equipment with a cost of 32,296 (30 September 2016: 33,855). Assets with a net book value of 444 were disposed of by the Group during the nine months ended 30 September 2017 (30 September 2016: 807), resulting in a net loss on disposal of 243 (30 September 2016: net loss of 517). Capitalised borrowing costs were 1,281 and 1,395 for the nine months ended 30 September 2017 and 2016, respectively.

During the nine months ended 30 September 2017, the Group acquired intangible assets with a cost of 4,637 (2016: 5,007).

In February 2017 MegaFon acquired 1,800 MHz band spectrum in the Ulyanovsk and Penza regions and the Republic of Mordovia through the purchase of 100% of the shares of JSC SMARTS-Ulyanovsk, JSC SMARTS-Penza and JSC SMARTS-Saransk, subsidiaries of the Russian regional mobile operator JSC SMARTS. The Group's management concluded that the assets and activities of the acquired companies are not capable of being conducted and managed as a business, accordingly the acquisition of SMARTS is accounted for as an acquisition of assets (similar to the 2015 SMARTS acquisition). The purchase price totaled 780 at the date of acquisition, consisting of cash consideration of 480, deferred consideration of 53 and assumption of debt. As of 30 September 2017 the deferred consideration was fully paid.

11. Financial assets and liabilities

Loan receivable

In February 2016 the Group granted Strafor Commercial Ltd ("Strafor") a loan in the amount of $43.8 million (2,541 at the exchange rate as of 30 September 2017). The loan is repayable in February 2018 with interest at 7% paid annually. In February 2017 Strafor made an early repayment of $15 million (890 at the exchange rate as of the payment date) of the amount due in February 2018, together with interest. The loan is secured by a pledge of 50% of the shares of Strafor and 50% of the shares of North Financial Overseas Corp., both companies related to Svyaznoy group, the second largest telecommunications retailer in Russia, and was granted in the context of the Company's long term relations with the retailer.

Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments and certain non-financial assets that are carried in the interim condensed consolidated financial statements.

11. Financial assets and liabilities (continued)

		Carrying amount		Fair value	
		30 September 2017	31 December 2016	30 September 2017	31 December 2016
Financial assets					
Financial assets at fair value through OCI:					
Cross-currency swap designated as cash flow hedge	Level 2	—	435	—	435
Financial assets at fair value through profit or loss:					
Financial investments in associates	Level 3	264	—	264	—
Financial derivatives under lease and hosting contracts	Level 3	238	—	238	—
Derivative financial assets over the equity of investee	Level 3	44	—	44	—
Loans and receivables at amortised cost:					
Short-term bank deposits	Level 2	15,892	5,095	15,892	5,095
Loans receivable from Garden Ring and Strafor	Level 2	6,585	7,340	6,585	7,340
Other deposits	Level 2	2,447	2,771	2,262	2,534
Long-term accounts receivable	Level 3	73		66	
Other loans	Level 2	95	—	95	—
Total financial assets		**25,638**	**15,641**	**25,446**	**15,404**
Financial liabilities					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	208,098	179,115	231,593	186,775
Ruble bonds	Level 1	56,299	55,998	55,925	55,411
Deferred consideration	Level 3	5,952	284	5,952	284
Finance lease obligations	Level 3	4,215	4,173	4,215	4,173
Long-term accounts payable	Level 3	274	335	314	384
Financial liabilities at fair value through OCI:					
Foreign currency forwards and cross-currency swap designated as cash flow hedges	Level 2	7,792	5,399	7,792	5,399
Total financial liabilities		**282,630**	**245,304**	**305,791**	**252,426**

11. Financial assets and liabilities (continued)

Valuation techniques and assumptions

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

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

The fair value of loans receivable from Garden Ring and Strafor approximates their carrying value.

The fair value of the Group's other deposits relating to cash received under certain contracts with customers is determined by using a discounted cash flow method ('DCF') using a discount rate that reflects the bank deposit rates the Group would get in the market as at the end of the reporting period.

The fair values of the Group's loans and borrowings and other liabilities carried at amortised cost, except for market quoted Ruble bonds, are determined by a DCF method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own nonperformance risk as at 30 September 2017 and 31 December 2016 was assessed to be insignificant.

The Group, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, interest rate risks and credit risks. The Group manages these risks and monitors their exposure on a regular basis.

The fair values of foreign currency forward and cross-currency swaps are based on a forward yield curve and represent the estimated amount the Group would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, foreign exchange spot and forward rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

During the nine months ended 30 September 2017 there were no transfers between levels of the fair value hierarchy.

12. Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings.

The major components of income tax expense for the three and nine months ended 30 September in the interim condensed consolidated income statement are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2017	**2016**	**2017**	**2016**
Current income tax	2,721	2,804	9,471	9,795
Deferred income tax	(65)	116	(3,243)	(1,746)
Total income tax expense	**2,656**	**2,920**	**6,228**	**8,049**

13. Related parties

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

	Three months ended 30 September		Nine months ended 30 September	
	2017	**2016**	**2017**	**2016**
Revenue from USM group	—	3	1	12
Revenue from Telia group	186	113	350	425
Revenue from Euroset	2,110	25	3,319	370
Revenue from MGL's equity accounted associates	31	—	89	—
	2,327	**141**	**3,759**	**807**
Services from USM group	263	285	701	857
Services from Telia group	262	284	730	689
Services from Euroset	629	304	1,087	933
Services from Garden Ring	525	386	1,344	1,165
	1,679	**1,259**	**3,862**	**3,644**
Other non-operating expenses from USM group	—	—	—	1,293

	30 September 2017	31 December 2016
Due from USM group	1,070	4
Due from Telia group	194	253
Due from Euroset	3,483	333
Due from Garden Ring	4,967	4,509
Due from MGL's equity accounted associates	36	—
	9,750	**5,099**
Due to USM group	540	1,468
Due to Telia group	105	322
Due to Euroset	42	27
Due to Garden Ring	121	—
Due to MGL's equity accounted associates	44	—
	852	**1,817**

13. Related parties (continued)

Terms and conditions of transactions with related parties

Outstanding balances as at 30 September 2017 and 31 December 2016 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As at 30 September 2017 and 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

USM group

The outstanding balances and transactions with USM group relate to operations with USM Holdings Limited and its consolidated subsidiaries.

The Group purchased billing system and related support services from Peter-Service, member of the USM group, in the amount of 2,966 and 4,680 during the nine months ended 30 September 2017 and 2016, respectively. The outstanding balances with USM group as of 30 September 2017 mainly relate to these purchases.

In February 2017 MegaFon acquired MGL *(Note 4)*. Before that date, MGL was a related party of the Group as both MegaFon and MGL were indirect subsidiaries of USM group.

The Group is a member of the not-for-profit partnership “Development, Innovations, Technologies” (the “Partnership”) which was established by companies in the USM group. The Partnership may determine to incur education, science and other social costs as well as to maintain certain social infrastructure assets in Skolkovo Innovation Centre which are not owned by MegaFon and not recorded in the interim condensed consolidated statement of financial position.

The Group’s accrued contributions to the Partnership in the amount of nil and 1,293 during the nine months ended 30 September 2017 and 30 September 2016, respectively, are included into other non-operating expenses in the interim condensed consolidated income statement.

Telia group

The outstanding balances and transactions with Telia group relate to operations with various companies in that group. Revenue and cost of services are principally related to roaming agreements between MegaFon and members of the Telia group located outside Russia and a wireline interconnection agreement with Telia Carrier Russia.

Euroset

Euroset is the Group’s joint venture with PJSC VimpelCom (“VimpelCom”). The Group has dealership and equipment sales agreements with Euroset which qualify as related party transactions.

13. Related parties (continued)

In July 2017 MegaFon and VEON Ltd, the parent company of VimpelCom, agreed to terminate their Euroset joint venture, subject to certain terms and conditions. VimpelCom will acquire rights to Euroset's lease agreements for approximately 2,000 outlets, with Euroset retaining all related equipment and inventories. MegaFon will then acquire VimpelCom's 50% interest in Euroset, resulting in MegaFon's owning 100% of Euroset which will remain an operating company, while VimpelCom will make a cash payment of 1,250. Since the transaction has not closed, as of 30 September 2017 Euroset remains a Group joint venture.

Garden Ring

Garden Ring, which owns and operates an office building in the center of Moscow, is the Group's joint venture with Sberbank. The Group has a lease agreement with Garden Ring which qualifies as a related party transaction. This building has become the new corporate headquarters of the Group, permitting the consolidation of the Group's operations in Moscow into a single location. The Group also has a loan receivable from Garden Ring. The balance due from Garden Ring at 30 September 2017 consists mainly of the loan receivable.

14. Commitments, contingencies and uncertainties

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

During 2016 and the nine months ended 30 September 2017, the Russian economy was negatively impacted by significant declines in crude oil prices and the value of the Russian Ruble, as well as sanctions imposed on Russia by several countries. Ruble interest rates continued to fluctuate and as of 30 September 2017 the key rate of the Central Bank of Russia was at 8.5%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation 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.

4G/LTE licence capital commitments

In July 2012, the Federal Service for Supervision in Communications, Information Technologies and Mass Media granted the Company a licence and allocated frequencies to provide services under the 4G/LTE standard in Russia.

Under the terms and conditions of this licence, the Company is obligated to provide 4G/LTE services in each population center with over 50,000 inhabitants in Russia by 2019. The Company is also obligated to make capital expenditures of at least 15,000 annually toward the 4G/LTE roll-out until the network is fully deployed.

14. Commitments, contingencies and uncertainties (continued)

Under the 4G/LTE licences acquired at frequency distribution auctions and from other operators via acquisition of other entities the Company is obligated to provide 4G/LTE services in each population center with over 10,000 inhabitants in Russia by the end of the seven-year period starting from the date of obtaining the licence, i.e. by 2023.

As of the date these interim condensed consolidated financial statements were authorised for issue the Group was fully compliant with these capital expenditure commitments.

Equipment purchases agreements

In 2014 the Group entered into two separate 7-year agreements with two suppliers to purchase equipment and software for 2G/3G/4G network construction and modernisation. The software usage agreements contain various termination options, however the Group is specifically committed under the agreements to pay at least an amount equal to 50% of the fees due for years four through seven of the agreements for each base station in use as at the date of termination while receiving a credit against these commitments for fees already paid. The amount of the commitments at 30 September 2017 is 7,993 (31 December 2016: 7,459).

Social infrastructure expenses

From time to time, the Group may determine to maintain certain social infrastructure assets which are not owned by the Group and not recorded in the interim condensed consolidated financial statements as well as to incur education, science and other social costs. Such activities may be conducted in collaboration with non-governmental organisations. These expenses are presented in other non-operating expenses in the interim condensed consolidated income statement *(Note 13).*

Taxation

Russian and Tajik tax, currency and customs legislation are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent events within Russia and Tajikistan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. Therefore, significant additional taxes, penalties and interest may be assessed.

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

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

14. Commitments, contingencies and uncertainties (continued)

As at 30 September 2017 the Group's management estimated that the possible effect of additional taxes, before fines and interest, if any, on the interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations, is in the amount of approximately 791.

Litigation

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

Anti-terror laws

On 7 July 2016 the President of the Russian Federation signed a package of anti-terror laws. The package requires telecommunications operators to store all data, including that from phone calls, messages, and data transmitted by customers for certain time periods, effective from 1 July 2018. This would require the Group to establish additional data centers and invest in data-processing technologies. The potentially significant capital expenditures required to do this would negatively impact the Group's cash flow generation, diverting resources from investment in growth, which could potentially impact future revenue and OIBDA.

The details of the package are currently under discussion and may undergo changes. The Group will estimate the potential effects of the laws on its capital commitments when more information about the final form of the anti-terror package is received.

15. Events after the reporting date

On 9 October 2017 the Group placed its Series BO-001P-03 Ruble denominated exchange bonds in an aggregate principal amount of 15,000 at a coupon rate of 7.85% per annum paid semiannually. The new bonds have a term of 5 years with no embedded put options.

On 20 October 2017 the Group redeemed its Series BO-05 Ruble denominated bonds in an aggregate principal amount of 15,000. Early redemption is permitted under the terms of the bonds issue documentation. The Group initially issued its Series BO-05 Ruble bonds in October 2015 with a maturity of 10 years at a coupon rate of 11.4% per annum.

In October 2017 Telia Company announced that it had sold an approximately 6.2% interest in the Company to various institutional investors. Subsequently, it announced that it had sold its remaining stake of approximately 19% in the Company to Gazprombank.