



Interim condensed consolidated financial statements
(Unaudited)

For the nine months ended 30 September 2018

Contents

Independent Auditors' report on review of interim condensed consolidated financial statements	2
Interim condensed consolidated income statement	3
Interim condensed consolidated statement of other comprehensive income	4
Interim condensed consolidated statement of financial position.....	5
Interim condensed consolidated statement of changes in equity.....	6
Interim condensed consolidated statement of cash flows.....	7
Notes to interim condensed consolidated financial statements	8
1. General	8
2. Basis of preparation.....	8
3. Significant accounting policies	9
4. IFRS 15	10
5. Discontinued operations	12
6. Investments in associates and joint ventures.....	14
7. Business combination.....	17
8. Purchase of outstanding shares	17
9. Segment information	17
10. Seasonality of operations	19
11. Property, equipment and intangible assets	19
12. Financial assets and liabilities	20
13. Income tax	22
14. Related parties	23
15. Commitments, contingencies and uncertainties	25
16. Events after the reporting date	27



JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

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 2018, and the related interim condensed consolidated income statement and statement of other comprehensive income for the three- and nine-month periods ended 30 September 2018, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine-month period ended 30 September 2018, 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 2018, and for the three- and nine-month periods ended 30 September 2018 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.


Akylbek Y. Akhmedov
JSC "KPMG"
Moscow, Russia
19 December 2018



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. 11663033203

MegaFon

Interim condensed consolidated income statement

(In millions of Rubles, except per share amounts)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Continuing operations					
Revenue		88,733	84,712	247,129	237,161
Operating expenses					
Cost of revenue		27,535	25,771	72,537	69,573
Sales and marketing expenses		4,997	4,975	13,061	14,022
General and administrative expenses		22,547	20,592	64,935	60,546
Depreciation		12,473	13,786	36,929	41,196
Amortisation		4,017	2,070	11,589	6,051
Loss on disposal of non-current assets	11	176	114	212	242
Total operating expenses		71,745	67,308	199,263	191,630
Operating profit		16,988	17,404	47,866	45,531
Finance costs		(6,712)	(6,119)	(18,543)	(18,241)
Finance income		447	379	1,123	1,248
Share of loss of associates and joint ventures	6	(677)	(245)	(1,803)	(1,944)
Impairment loss from Euroset	6	—	—	—	(15,917)
Other non-operating expenses		(432)	(236)	(1,172)	(1,148)
Loss on financial instruments, net		(23)	—	(23)	—
Foreign exchange gain/(loss), net		713	(423)	(1,212)	(2,183)
Profit before tax from continuing operations		10,304	10,760	26,236	7,346
Income tax expense	13	2,496	2,602	6,192	5,590
Profit from continuing operations		7,808	8,158	20,044	1,756
Discontinued operations					
Profit from discontinued operations, net of tax	5	—	973	11,584	1,924
Profit for the period		7,808	9,131	31,628	3,680
Attributable to equity holders of the Company		7,744	8,281	34,037	1,877
Attributable to non-controlling interest		64	850	(2,409)	1,803
		7,808	9,131	31,628	3,680
Earnings per share, Rubles					
Basic and diluted, profit for the period attributable to equity holders of the Company		14	14	59	3
Earnings per share, Rubles —continuing operations					
Basic and diluted, profit for the period attributable to equity holders of the Company		14	14	35	3

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

MegaFon

Interim condensed consolidated statement of other comprehensive income

(In millions of Rubles)

	Note	Three months ended		Nine months ended	
		30 September 2018	2017	30 September 2018	2017
		(Unaudited)		(Unaudited)	
Profit for the period		7,808	9,131	31,628	3,680
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation difference, net of tax		(105)	45	(503)	(112)
Net movement on cash flow hedges, net of tax	12	—	(674)	1,567	(1,366)
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		(105)	(629)	1,064	(1,478)
Total comprehensive income for the period, net of tax		7,703	8,502	32,692	2,202
Total comprehensive income/(loss) for the period					
Attributable to equity holders of the Company		7,681	7,687	35,260	600
Attributable to non-controlling interest		22	815	(2,568)	1,602
		7,703	8,502	32,692	2,202

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)

		30 September 2018	31 December 2017
	Note	(Unaudited)	(Audited)
Assets			
Non-current assets			
Property and equipment	11	211,016	220,705
Intangible assets, other than goodwill	11	73,478	128,140
Goodwill		30,549	73,218
Investments in associates and joint ventures	5,6	74,501	28,567
Non-current financial assets	12	3,208	3,585
Non-current non-financial assets	4	7,014	4,558
Deferred tax assets		1,694	3,829
Total non-current assets		401,460	462,602
Current assets			
Inventory		10,281	10,045
Current non-financial assets		8,675	7,446
Prepaid income taxes		612	2,586
Trade and other receivables		29,057	26,520
Other current financial assets	12	10,074	16,097
Cash and cash equivalents		36,916	36,147
Assets held for sale		—	284
Total current assets		95,615	99,125
Total assets		497,075	561,727
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		69,976	109,773
Non-controlling interests		(207)	55,536
Total equity		69,769	165,309
Non-current liabilities			
Loans and borrowings	12	283,975	212,097
Other non-current financial liabilities	12	4,734	4,540
Non-current non-financial liabilities		3,384	10,181
Provisions		4,663	4,378
Deferred tax liabilities		22,507	28,792
Total non-current liabilities		319,263	259,988
Current liabilities			
Trade and other payables		46,074	50,535
Loans and borrowings	12	35,391	52,013
Other current financial liabilities	12	117	3,853
Current non-financial liabilities		25,844	29,186
Income taxes payable		617	843
Total current liabilities		108,043	136,430
Total equity and liabilities		497,075	561,727

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

MegaFon

Interim condensed consolidated statement of changes in equity

(In millions of Rubles)

For the nine months ended 30 September 2018 and 30 September 2017

Notes	Attributable to equity holders of the Company								Non-controlling interests	Total equity
	Ordinary shares		Treasury shares		Capital surplus	Retained earnings	Other capital reserves	Total		
	Number of shares	Amount	Number of shares	Amount						
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 (loss)/profit	—	—	—	—	—	1,877	(1,277)	600	1,602	2,202
Dividends	—	—	—	—	—	(19,211)	—	(19,211)	—	(19,211)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(59)	(59)
Equity-settled share-based compensation	—	—	—	—	—	—	—	—	890	890
Acquisition of MGL	—	—	—	—	—	—	—	—	54,900	54,900
Acquisition of MGL treasury shares	—	—	—	—	—	—	—	—	(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
As of 31 December 2017	620,000,000	526	24,299,033	(17,387)	12,567	115,230	(1,163)	109,773	55,536	165,309
Adjustment on initial application of IFRS 15, net of tax	3	—	—	—	—	1,366	—	1,366	—	1,366
As of 1 January 2018	620,000,000	526	24,299,033	(17,387)	12,567	116,596	(1,163)	111,139	55,536	166,675
Profit/(loss) for the period	—	—	—	—	—	34,037	—	34,037	(2,409)	31,628
Other comprehensive income/(loss)	—	—	—	—	—	—	1,223	1,223	(159)	1,064
Total comprehensive income/(loss)	—	—	—	—	—	34,037	1,223	35,260	(2,568)	32,692
Sale of share in MGL	5	—	—	—	—	—	57	57	(55,580)	(55,523)
Purchase of outstanding shares	8	—	—	115,317,504	(76,480)	—	—	(76,480)	—	(76,480)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(149)	(149)
Equity-settled share-based compensation	—	—	—	—	—	—	—	—	2,239	2,239
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	315	315
As of 30 September 2018 (unaudited)	620,000,000	526	139,616,537	(93,867)	12,567	150,633	117	69,976	(207)	69,769

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)

		Nine months ended 30 September	
	Note	2018 (Unaudited)	2017
Operating activities			
Profit before tax from continuing operations		26,236	7,346
Profit before tax from discontinued operations	5	15,768	2,562
Profit before tax		42,004	9,908
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation		38,228	42,708
Amortisation		16,342	13,179
Loss on disposal of non-current assets		228	243
(Gain)/loss on financial instruments, net		(372)	20
Foreign exchange loss, net		906	1,510
Share of loss of associates and joint ventures		1,936	2,201
Impairment loss from Euroset	6	—	15,917
Gain on disposal of discontinued operations	5	(18,208)	—
Change in impairment allowance for receivables and other non-financial assets		2,504	2,001
Finance costs		18,558	18,256
Finance income		(1,388)	(1,597)
Equity-settled share-based compensation		2,239	890
Other non-cash items		3	(38)
Working capital adjustments:			
Increase in inventory		(332)	(315)
Increase in trade and other receivables		(11,716)	(6,368)
Increase in current non-financial assets		(2,082)	(970)
Increase in trade and other payables		3,708	1,454
Increase in current non-financial liabilities		3,986	3,576
Change in VAT, net		167	2,525
Income tax paid		(7,468)	(9,068)
Net cash flows received from operating activities		89,243	96,032
Investing activities			
Purchase of property, equipment and intangible assets	11	(49,043)	(48,240)
Proceeds from sale of property and equipment	11	721	215
Acquisition of subsidiaries, net of cash acquired	5,7	(8,029)	(34,170)
Proceeds from sale of subsidiaries, net of cash disposed	5	6,945	(43)
Payment of deferred and contingent consideration		—	(1,444)
Purchase of interest in associates and joint ventures	5,6	(2,414)	(640)
Net change in short-term deposits		4,825	(11,022)
Net change in other deposits		—	247
Loans granted	12	(71)	(3)
Repayments of loans granted		—	890
Interest received		1,164	1,288
Dividends received from equity-accounted investments		19	18
Net cash flows used in investing activities		(45,883)	(92,904)
Financing activities			
Proceeds from borrowings, net of fees paid		112,654	100,644
Repayment of borrowings		(64,441)	(69,500)
Interest paid		(17,955)	(17,868)
Purchase of outstanding shares	8	(76,480)	—
Dividends paid to equity holders of the Company		—	(22,050)
Dividends paid to non-controlling interests		(95)	(59)
Purchase of MGL treasury shares		—	(1,430)
Finance lease payments		(5)	(26)
Net cash flows used in financing activities		(46,322)	(10,289)
Net decrease in cash and cash equivalents		(2,962)	(7,161)
Net foreign exchange difference		3,731	(1,390)
Cash and cash equivalents at beginning of period		36,147	31,922
Cash and cash equivalents at end of period		36,916	23,371

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

MegaFon

Notes to interim condensed consolidated financial statements

1. General

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

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

MegaFon lists its ordinary shares on the Moscow Exchange under the symbol “MFON”. MegaFon listed its ordinary shares represented by Global Depositary Receipts, or GDRs, on the London Stock Exchange (“LSE”) until 5 October 2018 when the listing was cancelled after the Group completed its purchase of 115,317,504 of the ordinary shares and GDRs (*Note 8*), representing 18.6% of the Company’s issued shares. The purchase price for securities tendered was \$9.75 for each ordinary share and for each GDR.

As of 30 September 2018, the Group is primarily owned by USM group, which is an indirect controlling shareholder.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2017.

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 2017 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequently to the issuance of its 2017 audited consolidated financial statements.

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 comparative interim condensed consolidated income statement for the three and nine months ended 30 September 2017 has been re-presented to show the discontinued operations separately from continuing operations (*Note 5*).

The interim condensed consolidated financial statements were authorised for issue by the Company’s Chief Executive Officer (“CEO”) and Chief Accountant on 19 December 2018.

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 2017, except for the adoption of new standards and interpretations effective from 1 January 2018 referred to below.

The Group has adopted IFRS 15, *Revenue from Contracts with Customers*, and IFRS 9, *Financial Instruments*, from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have an effect on the Group's interim condensed consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a comprehensive revenue recognition guidance that replaces the following previous revenue recognition standards: International Accounting Standards ("IAS") 18, *Revenue*, IAS 11, *Construction Contracts*, International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standard Interpretations Committee interpretation SIC-31, *Revenue – Barter Transactions Involving Advertising Services*.

The core principle of IFRS 15 is that an entity should recognise revenue in respect of the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group has applied IFRS 15 using the modified retrospective method with respect to contracts that are not completed at the date of initial application (1 January 2018) which permits it, instead of recasting revenues and expenses for all prior periods, to simply recognise an adjustment to the opening amount of retained earnings at 1 January 2018.

The key impact of the transition to IFRS 15 is an increase in customer acquisition costs assets of 1,707, an increase in deferred tax liabilities of 341 and a corresponding increase in the opening retained earnings of 1,366 at 1 January 2018. See *Note 4* for more details on the impact from the implementation of IFRS 15 and additional disclosures.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies are presented below.

The Group pays its dealers commissions for connecting new customers. Before the adoption of IFRS 15, revenue sharing commissions were recognised evenly during the services rendering period, generally a twelve-month period from the date a new subscriber is activated. With implementation of IFRS 15, the Group identified dealer commissions, which represent incremental costs of obtaining a customer contract, and deferred such costs to be recognised over an expected contract term.

The expected contract term is estimated based on historical information adjusted for any significant trends observed in the market and the Group's marketing strategies.

MegaFon

Notes to interim condensed consolidated financial statements

3. Significant accounting policies (continued)

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*.

IFRS 9 introduced a number of changes to accounting for financial instruments, including changes to the classification and measurement of financial assets, to financial assets impairment methodology involving expected credit loss models, and to hedge accounting.

The adoption of IFRS 9 did not have a material impact on the Group's interim condensed consolidated financial statements.

4. IFRS 15

The following tables summarise the impacts of adopting IFRS 15 on the Group's interim condensed consolidated statement of financial position as of 30 September 2018 and its interim condensed consolidated income statement for the three and nine months then ended for each of the line items affected. There was no material impact on the Group's interim condensed consolidated statement of cash flows for the nine months ended 30 September 2018.

The impact on the interim condensed consolidated statement of financial position is presented below:

	As of 30 September 2018		
	As reported	Adjustments	Amounts without adoption of IFRS 15
Assets			
Non-current non-financial assets	7,014	(4,089)	2,925
Current non-financial assets	8,675	404	9,079
Total assets	497,075	(3,685)	493,390
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company	69,976	(2,610)	67,366
Non-controlling interests	(207)		(207)
Total equity	69,769	(2,610)	67,159
Non-current liabilities			
Deferred tax liabilities	22,507	(653)	21,854
Total non-current liabilities	319,263	(653)	318,610
Current liabilities			
Trade and other payables	46,074	(422)	45,652
Total current liabilities	108,043	(422)	107,621
Total equity and liabilities	497,075	(3,685)	493,390

MegaFon

Notes to interim condensed consolidated financial statements

4. IFRS 15 (continued)

The impact on the interim condensed consolidated income statement is presented below:

	Three months ended 30 September 2018		
	As reported	Adjustments	Amounts without adoption of IFRS 15
Operating expenses			
Sales and marketing expenses	4,997	515	5,512
Total operating expenses	71,745	515	72,260
Operating profit	16,988	(515)	16,473
Profit before tax from continuing operations	10,304	(515)	9,789
Income tax expense	2,496	(103)	2,393
Profit for the period from continuing operations	7,808	(412)	7,396
Profit for the period	7,808	(412)	7,396

	Nine months ended 30 September 2018		
	As reported	Adjustments	Amounts without adoption of IFRS 15
Operating expenses			
Sales and marketing expenses	13,061	1,555	14,616
Total operating expenses	199,263	1,555	200,818
Operating profit	47,866	(1,555)	46,311
Profit before tax from continuing operations	26,236	(1,555)	24,681
Income tax expense	6,192	(311)	5,881
Profit for the period from continuing operations	20,044	(1,244)	18,800
Profit for the period	31,628	(1,244)	30,384

As at 30 September 2018, the Group had 4,089 of deferred customer acquisition costs included in non-current non-financial assets. The amount of costs amortised into sales and marketing expenses for the nine months ended 30 September 2018 is 3,778.

As at 30 September 2018, the Group had 27,453 of receivables and nil contract assets from contracts with customers included in trade and other receivables.

MegaFon

Notes to interim condensed consolidated financial statements

4. IFRS 15 (continued)

As at 30 September 2018, the Group had 16,387 of contract liabilities from contracts with customers included in current non-financial liabilities and 3,192 of contract liabilities included in non-current non-financial liabilities.

As at 30 September 2018, unsatisfied performance obligations on a long-term construction contract amounted to 621. The unsatisfied performance obligations are expected to be recognised as revenue before the end of the current year.

The Group used the practical expedients in IFRS 15 and did not disclose the information about its unsatisfied performance obligations for contracts that have an original expected duration of one year or less and for contracts which give the Group a right to consideration from a customer in an amount that corresponds directly to the value of services rendered to date.

5. Discontinued operations

Since the beginning of 2017 MegaFon had owned a 15.2% interest in the Class A and ordinary shares of Mail.Ru Group Limited (“MGL”), a leading company in the Russian-speaking internet market (which, because of the number of votes allocated to Class A shares, represented approximately 63.8% of the voting shares of MGL), and had consolidated MGL’s financial position and results of operations since the beginning of 2017.

In January 2018 the Group established an entity named JSC MF Technologies to which in May 2018 the Group contributed the 11,500,100 Class A shares of MGL, representing approximately 5% of the total shares (and 59% of the voting shares) of MGL, through a series of transactions. After that, in June, the Group sold a 55% interest in JSC MF Technologies to LLC Financial Investments (a subsidiary of USM Holdings Limited), Gazprombank and LLC RT-Business Development (a subsidiary of Rostec) for an aggregate cash consideration of \$247.5 million (15,510 at the exchange rate as of the payment day).

The sale resulted in decreasing the Group’s interest in MGL to approximately 12% of the total shares outstanding, or 31% of the voting rights. Accordingly, the Group determined that it had lost control over MGL and discontinued consolidating this subsidiary starting from 9 June 2018.

The Group accounts for its remaining interest in MGL as an associate as it has a significant influence over the investee.

The fair value of the remaining interest in MGL has been estimated in the amount of 46,052. The fair value of the Group’s interest in Class A shares has been estimated based on the selling price of the shares in the above mentioned transaction, and the fair value of the Group’s interest in ordinary shares has been estimated based on the market quote for the shares.

The comparative interim condensed consolidated income statement for the three and nine months ended 30 September 2017 has been re-presented to show the discontinued operations separately from continuing operations. Transactions between the continuing operations and the discontinued operations prior to the disposal have been eliminated.

MegaFon

Notes to interim condensed consolidated financial statements

5. Discontinued operations (continued)

Profit/(loss) from discontinued operations is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2018 (Unaudited)	2017	2018 (Unaudited)	2017 (Unaudited)
Revenue	—	13,502	30,439	36,996
Expenses	—	(12,475)	(32,879)	(34,434)
Profit/(loss) before tax from discontinued operations	—	1,027	(2,440)	2,562
Income tax	—	(54)	(543)	(638)
Profit/(loss) from discontinued operations, net of tax	—	973	(2,983)	1,924
Gain on sale of discontinued operations and revaluation of the remaining investment in MGL	—	—	18,208	—
Income tax on gain on sale of discontinued operations and the revaluation gain	—	—	(3,641)	—
Profit for the period from discontinued operations, net of tax	—	973	11,584	1,924
Attributable to equity holders of the Company	—	125	13,987	277
Attributable to non-controlling interest	—	848	(2,403)	1,647
	—	973	11,584	1,924
Earnings per share, Rubles — discontinued operations				
Basic and diluted, profit for the period attributable to equity holders of the Company	—	—	24	—

Cash flows generated from the sale of a portion of the Group's interest in MGL are presented below:

Cash received from discontinued operations	15,510
Cash disposed of with discontinued operations	(8,565)
Net cash inflow from sale	6,945

Cash flows generated by MGL are presented below:

	Nine months ended 30 September	
	2018 (Unaudited)	2017
Net cash flows from operating activities	4,825	12,388
Net cash flows used in investing activities	(11,934)	(6,586)
Net cash flows used in financing activities	(13)	(1,567)
Net cash flows generated by MGL	(7,122)	4,235

MegaFon

Notes to interim condensed consolidated financial statements

5. Discontinued operations (continued)

The effect of the disposal on the financial position of the Group is presented below:

Assets	
Property and equipment	6,119
Intangible assets	52,840
Goodwill	50,394
Other non-current assets	9,404
Cash and cash equivalents	8,565
Other current assets	8,621
	135,943
Liabilities	
Non-current liabilities	17,768
Current liabilities	19,298
	37,066
Non-controlling interest	(55,580)
Other comprehensive income (“OCI”)	57
Net assets and liabilities	43,354

6. Investments in associates and joint ventures

Euroset

In February 2018 MegaFon and VEON Ltd (“VEON”) terminated their Euroset joint venture agreement. MegaFon acquired a 50% interest in Euroset from VEON, resulting in MegaFon’s owning 100% of Euroset. VEON made a cash payment of approximately 1,200 in respect of its share of Euroset’s liabilities and obligations. Also, by the date of acquisition and as part of the termination of the joint venture, VEON had acquired the rights to Euroset’s lease agreements for approximately 1,700 outlets.

In May 2018 the Group acquired a share in DTSRetail Limited (“Svyaznoy group”), which will amount to 25% of the outstanding shares plus one share after completion of certain conditions, in exchange for contributing to the Svyaznoy group 100% of the shares of Euroset and the Lonestar Enterprises Ltd (“Lonestar”) loan (*Note 12*) in the amount of 1,730, including accrued interest.

The primary reason for the transaction was to enable MegaFon to acquire an interest in the largest retail chain in the technology sector in Russia to take part in future development of omnichannel networks.

The financial results of Euroset after the acquisition of the remaining 50% interest from VEON and before the disposal to the Svyaznoy group have been presented in the interim condensed consolidated income statement line “Share of loss of associates and joint ventures” in the amount of 679 (loss).

The fair value of the Group’s holding in the Svyaznoy group has been estimated in the amount of 15,440. It approximates the fair value of the consideration transferred by the Group (the shares of Euroset and Lonestar loan receivable).

MegaFon

Notes to interim condensed consolidated financial statements

6. Investments in associates and joint ventures (continued)

The provisional fair values of identified assets and liabilities of the Svyaznoy group reconciled to the Group's investment in the Svyaznoy group as at the date of acquisition are as follows:

Assets	
Property and equipment	1,896
Intangible assets, other than goodwill	48,947
Inventory	25,307
Trade and other receivables	9,612
Other assets	2,132
Cash and cash equivalents	9,210
	<u>97,104</u>
Liabilities	
Loans	19,567
Deferred tax liabilities	9,919
Trade and other payables	44,099
Other liabilities	1,410
	<u>74,995</u>
Total identifiable net assets at fair value	22,109
The Group's share in the investment	<u>25%</u>
The Group's share of identifiable net assets	<u>5,527</u>
Excess of the consideration transferred over the Group's share in the fair value of identifiable net assets	<u>9,913</u>
Purchase consideration transferred	<u>15,440</u>

The disposal of Euroset has resulted in a 651 gain, presented in the interim condensed consolidated income statement line "Share of loss of associates and joint ventures".

The fair value of the Svyaznoy group as at the date of acquisition has been determined using the cash flow projections for a six-year period.

The calculation of the fair value of the Group's holding in the Svyaznoy group is particularly sensitive to the following assumptions:

Pre-tax discount rate	16.1%
Average annual revenue growth rate during the forecast period	7.6%
Terminal growth rate	4.3%
Average OIBDA margin during the forecast period	5.3%

The discount rate represents the current market assessment of the risks specific to the Svyaznoy group, taking into consideration the time value of money and individual risks to the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Svyaznoy group and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Svyaznoy group's investors. The cost of debt is based on the interest-bearing borrowings the Svyaznoy group is obliged to service. Investee-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated based on publicly available market data.

MegaFon

Notes to interim condensed consolidated financial statements

6. Investments in associates and joint ventures (continued)

Average annual revenue growth is projected based on the combination of volume and pricing assumptions regarding smartphone, accessories, SIM-cards, and financial services sales.

The terminal growth rate is assumed to equal the Russian consumer price index.

OIBDA margin is projected based on a combination of management's forecasted revenue and operation cost strategies.

Sensitivity to changes in key assumptions

The following reasonably possible changes in the key assumptions made independently, with all other assumptions constant, would result in the following changes to the fair value of the Svyaznoy group:

Key assumption	Change in assumption	Change in fair value
Pre-tax discount rate	Increase by 2 p.p.	Decrease by 19%
	Decrease by 2 p.p.	Increase by 28%
Average annual revenue growth rate during the forecast period	Increase by 1 p.p.	Increase by 80%
	Decrease by 1 p.p.	Decrease by 77%
Terminal growth rate	Increase by 1 p.p.	Increase by 8%
	Decrease by 1 p.p.	Decrease by 7%
Average OIBDA margin during the forecast period	Increase by 2 p.p.	Increase by 57%
	Decrease by 2 p.p.	Decrease by 56%

City-Mobil

In April 2018 the Group via its subsidiary JSC MegaLabs (“MegaLabs”) acquired a 18.37% interest, and via MGL acquired a further 15.75% interest, in LLC City-Mobil (“City-Mobil”), a taxi aggregator, for cash consideration paid in full in the same month.

Shortly after the acquisition MegaLabs and MGL and the remaining equity holders of City-Mobil made additional capital contributions to Citi-Mobil. Also after the acquisition MegaFon decreased its interest in MGL (*Note 5*). As a result, as of 30 September 2018 the Group’s share in City-Mobil amounted to 29.61%.

The total contributions of the Group, excluding MGL, for the acquisition of the interest in City-Mobil held at 30 September 2018 amounted to approximately 618.

MegaFon’s voting interest in City-Mobil does not entitle the Group to control City-Mobil. However, the holding gives the Group significant influence over City-Mobil. Accordingly, the Group has not consolidated City-Mobil, but accounts for it as an associate. The primary reason for the acquisition was to expand the range of the Group’s digital services and products.

MegaFon

Notes to interim condensed consolidated financial statements

6. Investments in associates and joint ventures (continued)

The acquisition of an investment in City-Mobil is accounted for based on provisional values, as the Group has not completed the allocation of the purchase price over the fair values of City-Mobil identifiable assets and liabilities as of the date these financial statements were issued.

7. Business combination

Safe City

In June 2018 the Group acquired a 100% interest in LLC “TechnoInvestProject”, a Russian systems integrator, for a cash consideration of 530. The primary reason for the acquisition was to gain access to software and expertise for providing services to government sector clients under the government programme “Safe City”. The purchase consideration was mainly allocated to software in the amount of 416.

8. Purchase of outstanding shares

During August-September 2018 the Group purchased through a subsidiary by way of a tender offer 115,317,504 of the ordinary shares and GDRs, representing 18.6% of the Company’s issued shares, for 76,480 including transaction costs.

9. 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. 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.

MGL represented an internet operating and reportable segment before the Group determined that it had lost control of MGL in June 2018 (*Note 5*). Accordingly, as of 30 September 2018 MGL is no longer a reportable segment of the Group.

Operating segments with similar economic characteristics, such as forecasted OIBDA, have been aggregated into an integrated telecommunication services segment, which is the only reportable segment as of 30 September 2018. Around 1.4% of the Group’s revenues and results are generated by segments outside of Russia. No single customer represents 10% or more of the consolidated revenues.

MegaFon

Notes to interim condensed consolidated financial statements

9. Segment information (continued)

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

Reconciliation of OIBDA to profit from continuing operations for the three and nine months ended 30 September is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
OIBDA	33,654	33,374	96,596	93,020
Depreciation	(12,473)	(13,786)	(36,929)	(41,196)
Amortisation	(4,017)	(2,070)	(11,589)	(6,051)
Loss on disposal of non-current assets	(176)	(114)	(212)	(242)
Finance costs	(6,712)	(6,119)	(18,543)	(18,241)
Finance income	447	379	1,123	1,248
Share of loss of associates and joint ventures	(677)	(245)	(1,803)	(1,944)
Impairment loss from Euroset	—	—	—	(15,917)
Other non-operating expenses	(432)	(236)	(1,172)	(1,148)
Loss on financial instruments, net	(23)	—	(23)	—
Foreign exchange gain/(loss), net	713	(423)	(1,212)	(2,183)
Profit before tax from continuing operations	10,304	10,760	26,236	7,346

Disaggregation of revenue

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

	Three months ended 30 September		Nine months ended 30 September	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Wireless services	72,298	68,746	205,003	196,750
Wireline services	8,314	7,088	22,664	19,648
Sales of equipment and accessories	8,121	8,886	19,470	20,771
Total external revenue	88,733	84,720	247,137	237,169
Intra-group revenue elimination	—	(8)	(8)	(8)
Total revenue	88,733	84,712	247,129	237,161

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

MegaFon

Notes to interim condensed consolidated financial statements

10. Seasonality of operations

The Group's telecom services are impacted by seasonal trends throughout the year. Revenue and operating profits 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.

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.

11. Property, equipment and intangible assets

During the nine months ended 30 September 2018, the Group acquired property and equipment with a cost of 35,007 (30 September 2017: 32,296). Assets with a net book value of 485 were disposed of by the Group during the nine months ended 30 September 2018 (30 September 2017: 444), resulting in a net gain on disposal of 121 (30 September 2017: net loss of 243). Capitalised borrowing costs were 1,291 and 1,281 for the nine months ended 30 September 2018 and 2017, respectively.

During the nine months ended 30 September 2018, the Group acquired intangible assets with a cost of 10,737 (2017: 4,637).

In April 2018 the Group acquired spectrum in the 3.4GHz-3.6GHz band for Moscow through the purchase of a 100% interest in LLC Neosprint ("Neosprint"). The Group's management concluded that the assets and activities of the acquired company are not capable of being conducted and managed as a business, accordingly the acquisition of Neosprint was accounted for as an acquisition of assets. The purchase price totaled 720, consisting of cash consideration of 504 and a deferred payment of 216 which was fully settled in June 2018.

Intangible assets with a carrying amount of 52,840 and property and equipment with a carrying amount of 6,119 were disposed of as part of the discontinued operations (*Note 5*).

MegaFon

Notes to interim condensed consolidated financial statements

12. Financial assets and liabilities

Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments:

		Carrying amount		Fair value	
		30 September 2018 (Unaudited)	31 December 2017	30 September 2018 (Unaudited)	31 December 2017
Financial assets					
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	—	150	—	150
Derivative financial assets over the equity of investee	Level 3	—	122	—	122
Cross-currency swap not designated as hedge	Level 2	106	—	106	—
Loans and receivables at amortised cost:					
Short-term bank deposits	Level 2	4,154	7,656	4,154	7,656
Loans receivable from Garden Ring and Lonestar	Level 2	4,925	6,357	4,925	6,436
Other deposits	Level 2	4,008	4,976	4,008	4,706
Long-term accounts receivable	Level 2	50	—	47	—
Other loans	Level 2	39	157	39	157
Total financial assets		13,282	19,682	13,279	19,491
Financial liabilities					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	263,189	208,143	273,073	234,969
Ruble bonds	Level 1	56,177	55,967	54,691	56,299
Finance lease obligations	Level 3	4,228	4,222	4,228	4,222
Other liabilities	Level 3	385	329	398	343
Financial liabilities at fair value through profit or loss:					
Cross-currency swap not designated as hedge	Level 2	238	—	238	—
Financial liabilities at fair value through OCI:					
Foreign currency forwards designated as cash flow hedges	Level 2	—	3,842	—	3,842
Total financial liabilities		324,217	272,503	332,628	299,675

12. Financial assets and liabilities (continued)

Ruble bonds

On 19 February 2018 the Group placed its Series BO-001P-04 Ruble denominated exchange bonds, in an aggregate principal amount of 20,000. The bonds have a term of three years following placement. The coupon rate was set at 7.2% per annum, payable semiannually.

On 7 March 2018 the Group redeemed in full at par its Series 06 and 07 Ruble denominated bonds in an aggregate principal amount of 20,000. The Group initially issued these bonds in March 2013 with a maturity of ten years at a coupon rate of 8% per annum.

The coupon rate was to be re-set after five years and the Group had the right to redeem the bonds on the last day of the coupon period for which the coupon rate was defined. The redemption of the bonds was effected pursuant to the Group's exercise of this right.

Ruble loans

In August 2018 the Group drew down 66,000 from different banks under fixed-rate Ruble-denominated facilities for a term of up to 1-5 years to finance general corporate needs and the shares and GDRs purchase programme.

Loan receivable

In February 2018 the loan due from Strafor was extended to April 2018 and was converted into Rubles so that the amount due including interest as of the conversion date was 1,724. The Strafor loan was also assigned to and assumed by Lonestar, another company related to the Svyaznoy group, and it was then treated as part of the Group's consideration for the investment in the Svyaznoy group (*Note 6*).

New derivative financial instruments

In August 2018, the Company entered into cross-currency swap agreements with a notional amount of \$129 million (8,461 at the exchange rate as of 30 September 2018) and Euro 106 million (8,080 at the exchange rate as of 30 September 2018) that limit the exposure from changes in US dollar and Euro exchange and interest rates on certain long-term debt.

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

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.

MegaFon

Notes to interim condensed consolidated financial statements

12. Financial assets and liabilities (continued)

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 loan receivable from Garden Ring approximates its 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 ("DCF") method 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 2018 and 31 December 2017 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 forwards 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 end of the reporting period, 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 2018 there were no transfers between levels of the fair value hierarchy.

13. Income tax

The Group calculates the income tax expense for the period 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		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
Current income tax	3,268	1,956	7,787	7,342
Deferred income tax	(772)	646	(1,595)	(1,752)
Total income tax expense	2,496	2,602	6,192	5,590

MegaFon

Notes to interim condensed consolidated financial statements

14. Related parties

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
Revenue from USM group	5	—	5	1
Revenue from Telia group	—	186	—	350
Revenue from Euroset	—	2,110	49	3,319
Revenue from MGL's equity accounted associates	—	31	141	89
Revenue from Svyaznoy group	1,119	—	1,147	—
Revenues from MGL	4	—	4	—
	1,128	2,327	1,346	3,759
Services from USM group	251	263	766	701
Services from Telia group	—	262	—	730
Services from Garden Ring	456	525	1,321	1,344
Services from Euroset	—	629	228	1,087
Services from MGL's equity accounted associates	—	—	67	—
Services from Svyaznoy group	917	—	1,291	—
Services from MGL	169	—	169	—
Services from Forpost	39	—	122	—
	1,832	1,679	3,964	3,862
Other non-operating expenses from USM group	190	—	190	—
			30 September	31 December
			2018	2017
Due from USM group			1,062	1
Due from Euroset			—	1,473
Due from Garden Ring			4,979	4,777
Due from MGL's equity accounted associates			—	77
Due from Svyaznoy group			3,007	—
Due from MGL			10	—
Due from Forpost			2,246	—
			11,304	6,328
			30 September	31 December
			2018	2017
Due to USM group			1,144	1,271
Due to Euroset			—	92
Due to Garden Ring			2	142
Due to MGL's equity accounted associates			—	2
Due to Svyaznoy group			807	—
Due to MGL			198	—
Due to Forpost			424	—
			2,575	1,507

MegaFon

Notes to interim condensed consolidated financial statements

14. Related parties (continued)

Terms and conditions of transactions with related parties

Outstanding balances as of 30 September 2018 and 31 December 2017 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 30 September 2018 and 31 December 2017, 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 Garsdale Services Investment Limited (“Garsdale”), formerly the Group’s parent, USM Holdings Limited, an indirect owner of Garsdale, and their consolidated subsidiaries. As of 3 August 2018 Garsdale transferred its 100% interest in the company through which it held its interest in the Group to USM Holding Company LLC, a company incorporated in the Russian Federation and another member of the USM group. As a result USM Holding Company LLC has become the Group’s parent.

The Group purchased billing system and related support services from PeterService, another member of the USM group, in the amount of 4,799 and 2,966 during the nine months ended 30 September 2018 and 2017, respectively. The outstanding balances with the USM group as of 30 September 2018 mainly relate to these purchases.

The Group is a member of the Not-for-profit Partnership “Development, Innovations, Technologies” (the “Partnership”) which was established by companies in the USM group. The Partnership is required to incur education, science and other social costs as well as to maintain certain social infrastructure assets in Skolkovo Innovation Centre which are not owned by MegaFon and not recorded in the consolidated statement of financial position. The Group’s accrued contributions to the Partnership of 190 during the nine months ended 30 September 2018 (2017: nil) are included into other non-operating expenses in the interim condensed consolidated income statement.

Telia group

The 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.

In October and November 2017 Telia Company sold its entire interest in MegaFon to Gazprombank and other institutional investors. Consequently, Telia group ceased to be a related party.

MegaFon

Notes to interim condensed consolidated financial statements

14. Related parties (continued)

Euroset and Svyaznoy

Euroset was the Group's joint venture with PJSC VimpelCom until February 2018 when MegaFon acquired the remaining 50% interest in Euroset from VEON (*Note 6*). After Euroset was disposed of in exchange for an interest in the Svyaznoy group (*Note 6*) the Svyaznoy group has become a related party for the Group.

The Group had a dealership and equipment sales agreement with Euroset and now has a dealership and equipment sales agreement with the Svyaznoy group which qualifies as a related party transaction.

Garden Ring

Garden Ring, which owns and operates an office building in the center of Moscow, is the Group's joint venture with Sberbank. The Group has a lease agreement with Garden Ring which qualifies as a related party transaction. The Group also has a loan receivable from Garden Ring. The balance due from Garden Ring at 30 September 2018 consists mainly of the loan receivable.

Forpost

The Group has an insignificant investment in Forpost, the holding company for LLC Talmer, a systems integrator and complex IT solutions provider in Russia, which is accounted for as an associate. The balances due from and to Forpost are prepayments and payables for IT equipment purchases and related services.

15. Commitments, contingencies and uncertainties

Operating environment

During 2017 and the nine months ended 30 September 2018, the Russian economy was negatively impacted by sanctions imposed on Russia by several countries. Ruble exchange and interest rates continued to fluctuate. The combination of the above resulted in 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.

15. Commitments, contingencies and uncertainties (continued)

Under the 4G/LTE licences acquired at frequency distribution auctions and from other operators via acquisition of licence-holding 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 licences, 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 2018 is 10,410 (31 December 2017: 8,675).

Taxation

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

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

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

As of 30 September 2018 the Group's management estimated the possible effect of additional taxes, before fines and interest, if any, on these interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations being taken by them, to be in the amount of up to approximately 1,200.

15. Commitments, contingencies and uncertainties (continued)

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.

Based on the current understanding of the law's requirements, the Group expects that the implementation of the changes may cost it approximately 35,000-40,000 over the next five years.

16. Events after the reporting date

New credit facility

In October 2018 the Group signed a new credit facility agreement for up to Euro 150 million. The credit facility must be used to refinance purchases of equipment and related services and requires the Group to make semi-annual repayments, including accrued interest, over a term of 8.5 years. As of the date these interim condensed consolidated financial statements were issued, no amount has been drawn under this credit facility.

Mandatory tender offer

On 10 December 2018 the Group cancelled all GDRs held and received the respective number of ordinary shares. Upon the cancellation of the GDRs the Group, together with its controlling shareholder USM group, are holding 78.84% of the Company's issued ordinary shares, which, according to the Federal Law "On Joint Stock Companies", requires that the Group makes a mandatory tender offer to its other shareholders to acquire the shares held by them. On 11 December 2018 the Group submitted the mandatory tender offer to the Central Bank of Russia for review.