



Interim condensed consolidated financial statements
(Unaudited)

For the three months ended 31 March 2019

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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 31 March 2019, and the related interim condensed consolidated income statement and interim condensed consolidated statements of other comprehensive income, changes in equity and cash flows for the three-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 31 March 2019 and for the three-month period then ended are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Akylbek Y. A.
JSC "KPMG" *
Moscow, Russia
29 May 2019

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Interim condensed consolidated income statement

(In millions of Rubles, except per share amounts)

	Note	Three months ended 31 March	
		2019	2018
		(Unaudited)	
Revenue		80,128	76,455
Operating expenses			
Cost of revenue		23,271	21,512
Sales and marketing expenses		4,862	3,506
General and administrative expenses	4	16,769	20,850
Depreciation	4	16,204	12,227
Amortisation		4,946	3,658
Loss/(gain) on disposal of non-current assets	9	98	(109)
Total operating expenses		66,150	61,644
Operating profit		13,978	14,811
Finance costs	4	(10,202)	(5,945)
Finance income		711	327
Share of loss of associates and joint ventures	5	(1,256)	(951)
Other non-operating expenses		(281)	(195)
Loss on financial instruments, net	10	(1,379)	—
Foreign exchange gain/(loss), net		1,205	(186)
Profit before tax from continuing operations		2,776	7,861
Income tax expense	11	650	1,819
Profit for the period from continuing operations		2,126	6,042
Discontinued operations			
Loss from discontinued operations, net of tax		—	(1,236)
Profit for the period		2,126	4,806
Attributable to equity holders of the Company		2,187	5,828
Attributable to non-controlling interest		(61)	(1,022)
		2,126	4,806
Earnings per share, Rubles			
Basic and diluted, profit for the period attributable to equity holders of the Company		5	10
Earnings per share, Rubles — continuing operations			
Basic and diluted, profit for the period attributable to equity holders of the Company		5	10

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

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Interim condensed consolidated statement of other comprehensive income

(In millions of Rubles)

	Note	Three months ended	
		2019	2018
		(Unaudited)	
Profit for the period		2,126	4,806
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation difference, net of tax		365	(82)
Net movement on cash flow hedges, net of tax	10	—	(216)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		365	(298)
Total comprehensive income for the period, net of tax		2,491	4,508
Total comprehensive income/(loss) for the period			
Attributable to equity holders of the Company		2,473	5,585
Attributable to non-controlling interest		18	(1,077)
		2,491	4,508

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

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Interim condensed consolidated statement of financial position

(In millions of Rubles)

	Note	31 March 2019 (Unaudited)	31 December 2018 (Audited)
Assets			
Non-current assets			
Property and equipment	9	213,628	224,666
Right-of-use assets	4	89,849	—
Intangible assets, other than goodwill	9	79,082	81,026
Goodwill		30,549	30,549
Investments in associates and joint ventures	5	72,004	73,265
Non-current financial assets	10	3,599	3,829
Non-current non-financial assets		7,421	7,531
Deferred tax assets		2,091	2,064
Total non-current assets		498,223	422,930
Current assets			
Inventory		9,561	9,885
Current non-financial assets		7,327	7,766
Prepaid income taxes		2,924	4,275
Trade and other receivables	12	84,401	29,137
Other current financial assets	10	2,493	7,955
Cash and cash equivalents		17,152	27,214
Assets held for sale		—	847
Total current assets		123,858	87,079
Total assets		622,081	510,009
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		45,592	70,667
Non-controlling interests		(246)	(264)
Total equity		45,346	70,403
Non-current liabilities			
Loans and borrowings	10	345,283	288,262
Other non-current financial liabilities	10	1,707	509
Non-current non-financial liabilities		3,858	3,895
Non-current lease liabilities	4	80,407	4,204
Provisions		5,242	5,117
Deferred tax liabilities		24,210	26,016
Total non-current liabilities		460,707	328,003
Current liabilities			
Trade and other payables		43,741	53,235
Loans and borrowings	10	37,286	39,232
Other current financial liabilities	10	95	84
Current non-financial liabilities	7	22,161	17,661
Current lease liabilities	4	11,631	61
Income taxes payable		1,114	1,330
Total current liabilities		116,028	111,603
Total equity and liabilities		622,081	510,009

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

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Interim condensed consolidated statement of changes in equity

(In millions of Rubles)

For the three months ended 31 March 2019 and 31 March 2018

Notes	Attributable to equity holders of the Company									
	Ordinary shares		Treasury shares		Capital surplus	Retained earnings	Other capital reserves	Total	Non-controlling interests	Total equity
	Number of shares	Amount	Number of shares	Amount						
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	—	—	—	—	—	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	—	—	—	—	—	5,828	—	5,828	(1,022)	4,806
Other comprehensive loss	—	—	—	—	—	—	(243)	(243)	(55)	(298)
Total comprehensive income/(loss)	—	—	—	—	—	5,828	(243)	5,585	(1,077)	4,508
Equity-settled share-based compensation	—	—	—	—	—	—	—	—	1,587	1,587
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	27	27
As of 31 March 2018 (unaudited)	620,000,000	526	24,299,033	(17,387)	12,567	122,424	(1,406)	116,724	56,073	172,797
As of 1 January 2019	620,000,000	526	139,616,537	(94,087)	12,567	151,766	(105)	70,667	(264)	70,403
Profit/(loss) for the period	—	—	—	—	—	2,187	—	2,187	(61)	2,126
Other comprehensive income	—	—	—	—	—	—	286	286	79	365
Total comprehensive income	—	—	—	—	—	2,187	286	2,473	18	2,491
Purchase of outstanding shares	6	—	—	126,246,094	(83,274)	—	—	(83,274)	—	(83,274)
Sale of own shares	6	—	—	(86,800,000)	58,958	—	(3,232)	55,726	—	55,726
As of 31 March 2019 (unaudited)	620,000,000	526	179,062,631	(118,403)	12,567	150,721	181	45,592	(246)	45,346

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

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Interim condensed consolidated statement of cash flows

(In millions of Rubles)

		Three months ended 31 March 2019 (Unaudited)	2018
	Note		
Operating activities			
Profit before tax from continuing operations		2,776	7,861
Loss before tax from discontinued operations		—	(889)
Profit before tax		2,776	6,972
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation	4	16,204	12,846
Amortisation		4,946	6,044
Loss/(gain) on disposal of non-current assets		98	(99)
Loss/(gain) on financial instruments, net		1,379	(678)
Foreign exchange (gain)/loss, net		(1,205)	16
Share of loss of associates and joint ventures		1,256	951
Change in impairment allowance for receivables and other non-financial assets		623	884
Finance costs	4	10,202	5,960
Finance income		(711)	(504)
Equity-settled share-based compensation		—	1,587
Other non-cash items		—	42
Working capital adjustments:			
Decrease in inventory		324	146
Decrease/(increase) in trade and other receivables		790	(1,446)
Decrease/(increase) in current non-financial assets		205	(573)
Decrease in trade and other payables		(1,783)	(5,606)
Increase in current non-financial liabilities		563	1,058
Change in VAT, net		5,425	2,960
Income tax paid		(1,403)	(2,473)
Net cash flows received from operating activities		39,689	28,087
Investing activities			
Purchase of property, equipment and intangible assets	9	(15,681)	(20,825)
Proceeds from sale of property and equipment	9	2	373
Acquisition of subsidiaries, net of cash acquired		—	(5,491)
Net change in short-term deposits	10	4,141	3,344
Loans granted		—	(164)
Interest received		585	408
Sale of associates and joint ventures		230	—
Net cash flows used in investing activities		(10,723)	(22,355)
Financing activities			
Proceeds from borrowings, net of fees paid		98,983	24,281
Repayment of borrowings		(41,336)	(23,937)
Interest paid	4	(9,790)	(5,561)
Purchase of outstanding shares	6	(83,274)	—
Lease payments	4	(2,745)	(2)
Net cash flows used in financing activities		(38,162)	(5,219)
Net (decrease)/increase in cash and cash equivalents		(9,196)	513
Net foreign exchange difference		(866)	97
Cash and cash equivalents at beginning of period		27,214	36,147
Cash and cash equivalents at end of period		17,152	36,757

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

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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 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”.

As of 31 March 2019, the majority shareholder of the Company is AF Telecom Holding LLC, a company incorporated in the Russian Federation. The ultimate controlling party is USM Holding Company LLC, a company incorporated in the Russian Federation, which is controlled by a group of individuals, none of whom acting alone has the power to direct the activities of the Group at his own discretion and for his own benefit.

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 2018.

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 2018 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 2018 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 interim condensed consolidated financial statements for the three months ended 31 March 2018 have been changed to show the discontinued operations separately from continuing operations.

Lease liabilities as of 31 December 2018 in the amount of 4,204 have been reclassified from ‘Other non-current financial liabilities’ to ‘Non-current lease liabilities’ and in the amount of 61 have been reclassified from ‘Other current financial liabilities’ to ‘Current lease liabilities’ in the interim condensed statement of financial position for comparative purposes.

The interim condensed consolidated financial statements were authorised for issue by the Company’s Chief Executive Officer (“CEO”) and Chief Accountant on 29 May 2019.

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Notes to interim condensed consolidated financial statements

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 2018, except for the adoption of new standards and interpretations effective from 1 January 2019 referred to below.

The Group has adopted IFRS 16, *Leases*, from 1 January 2019. A number of other new amendments are effective from 1 January 2019 but they do not have a material effect on the Group's interim condensed consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces previous guidance on leases. The standard requires lessees to present right-of-use assets ("ROU assets") and lease liabilities on the balance sheet for all leases (with limited exceptions).

The Group has applied the Standard using the modified retrospective transition method without restating comparative amounts. The cumulative effect of the initial application of the Standard on the Group's retained earnings at 1 January 2019 is nil. On transition to IFRS 16 the Group recognised 88,679 of ROU assets and lease liabilities at 1 January 2019. New accounting policies and more details on impact from the adoption of IFRS 16 has been disclosed in *Note 4*.

As at the date when these interim condensed consolidated financial statements are issued, the Group continues to fine tune its information systems to streamline the accounting for leases under IFRS 16. The effects of transition to IFRS 16 are unaudited and certain management estimates and calculations may be subject to change up till the issuance of the Group's 2019 annual financial statements.

4. IFRS 16

Transition to IFRS 16 and changes in accounting policies

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

On transition to IFRS 16, for leases which were previously classified as operating leases and which have now been identified as leases under IFRS 16, as they convey a right to control the use of an identified asset for a period of time in exchange for consideration, the Group calculated lease liabilities as at 1 January 2019, and then as at the commencement of each new lease, using the present value of the remaining lease payments for the remaining lease term, discounted at the Group's incremental borrowing rate. The weighted-average discount rate at 1 January 2019 is 10.5%. The discount rates were estimated based on incremental borrowing rates, i.e. the rates of the Group's borrowings with similar terms as the leases.

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Notes to interim condensed consolidated financial statements

4. IFRS 16 (continued)

Simultaneously, the Group recognised the ROU assets in the amount of the lease liabilities increased by any lease prepayments and, in case of new leases which commenced after 1 January 2019, also increased by initial direct costs.

The Group has applied judgment to determine the lease term for the contracts that contain renewal or termination options. The assessment of whether the contract contains such an option and whether the Group is reasonably certain to exercise such an option takes into account various factors, including technology development expectations, costs to terminate the lease, economic factors, and also the Group's historical experience.

The nature of expenses related to those leases has changed because the Group is now recognising a depreciation charge for ROU assets and interest expense on lease liabilities recorded in 'Depreciation' and 'Finance costs' lines of the interim condensed consolidated income statement, respectively.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases where the Group acts as a lessee:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- rely on our assessment of whether leases are onerous applying IAS 37, *Provisions, contingent liabilities and contingent assets*, immediately before the date of the initial application as an alternative to performing an impairment review;
- exclude initial direct costs from the measurement of the ROU asset at the date of initial application;
- use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.

IFRS 16 impacts

The adoption of the Standard did not have a significant impact on the Group's accounting for leases which were previously classified as finance leases, neither did it have a significant impact on those leases where the Group acts as a lessor. As at 1 January 2019 the Group reclassified 3,097 of assets relating to its former finance leases from property and equipment to ROU assets.

The reconciliation between operating lease commitments disclosed at the end of the 2018 financial year and lease liabilities recognised in the statement of financial position at the date of initial application is as follows:

	<u>1 January 2019</u>
Operating lease commitments at 31 December 2018 as reported	29,286
Operating lease commitments discounted at 1 January 2019	23,544
Finance lease liabilities recognised as at 31 December 2018	4,265
Extension options reasonably certain to be exercised	65,135
Lease liabilities recognised at 1 January 2019	<u>92,944</u>

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Notes to interim condensed consolidated financial statements

4. IFRS 16 (continued)

The Group, where it acts as a lessee, has recognised the following assets and their depreciation expense for its leases:

	Lease term, years	ROU assets as of 31 March 2019	ROU depreciation expense for the three months ended 31 March 2019
Telecommunication infrastructure	2-14	66,918	2,324
Retail outlets	2-5	11,933	1,099
Administrative premises	2-7	10,998	464
Total		89,849	3,887

During the three months ended 31 March 2019 the Group recognised 2,420 of interest costs from these leases and 3,425 of additions to ROU assets. Total cash outflow for leases for the three months ended 31 March 2019 amounted to 5,037.

5. Investments in associates and joint ventures

Forpost

In January 2019 the Group sold its investments in Forpost and another insignificant associated company for total consideration of approximately 270. The Group also sold 100% of LLC CoreClass for a cash consideration of 640 payable over two years from the date of acquisition. The sale resulted in an insignificant gain.

6. Transactions with own shares

Mandatory tender offer

On 10 December 2018 the Group cancelled all remaining GDRs held by members of the Group and received the corresponding number of ordinary shares. Upon this cancellation of the GDRs the Group, together with its controlling shareholders (*Note 1*), then held more than 75% of the Company's issued ordinary shares, which, according to the Federal Law "On Joint Stock Companies", required that a mandatory tender offer be made to the other shareholders to acquire the shares held by them. Accordingly, the Company's Board of Directors at the meeting held on 9 January 2019, approved the making of the mandatory tender offer for the remaining outstanding ordinary shares at a price of 659.26 Rubles per ordinary share, open for acceptance until 7 March 2019, and recommended that the shareholders accept the mandatory tender offer.

As of 7 March 2019, the expiration date of the mandatory tender offer, a total of 126,246,094 ordinary shares (or 20.36% of the issued ordinary shares) had been tendered by the Company's shareholders.

On 28 March 2019 the Group sold 86,800,000 of its ordinary shares with a total cost of 58,958 to USM Telecom LLC, an affiliated company, for a cash consideration of 55,726 (or 642 Rubles per share) payable within a year from the date of sale. As a result, the Group, together with other affiliates, holds 99.2% of the issued ordinary shares.

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Notes to interim condensed consolidated financial statements

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 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.

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. Around 1.6% 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.

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 before tax from continuing operations for the three months ended 31 March is presented below:

	Three months ended 31 March	
	2019	2018
	(Unaudited)	
	35,226	30,587
OIBDA		
Depreciation	(16,204)	(12,227)
Amortisation	(4,946)	(3,658)
(Loss)/gain on disposal of non-current assets	(98)	109
Finance costs	(10,202)	(5,945)
Finance income	711	327
Share of loss of associates and joint ventures	(1,256)	(951)
Other non-operating expenses	(281)	(195)
Loss on financial instruments, net	(1,379)	—
Foreign exchange gain/(loss), net	1,205	(186)
Profit before tax from continuing operations	2,776	7,861

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Notes to interim condensed consolidated financial statements

7. Segment information (continued)

Disaggregation of revenue

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

	Three months ended 31 March	
	2019	2018
	(Unaudited)	
Wireless services	66,325	64,388
Wireline services	6,441	6,451
Sales of equipment and accessories	7,362	5,620
Total external revenue	80,128	76,459
Intra-group revenue elimination	—	(4)
Total revenue	80,128	76,455

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.

8. Seasonality of operations

The Group's 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.

9. Property, equipment and intangible assets

During the three months ended 31 March 2019, the Group acquired property and equipment with a cost of 4,915 (2018: 7,857). Assets with a net book value of 81 were disposed of by the Group during the three months ended 31 March 2019 (2018: 330), resulting in a net loss on disposal of 83 (2018: gain 159). Capitalised borrowing costs were 683 and 382 for the three months ended 31 March 2019 and 2018, respectively.

During three months ended 31 March 2019, the Group acquired intangible assets with a cost of 3,048 (2018: 1,885).

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Notes to interim condensed consolidated financial statements

10. 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	
		31 March 2019 (Unaudited)	31 December 2018	31 March 2019 (Unaudited)	31 December 2018
Financial assets					
Financial assets at fair value through profit or loss:					
Cross-currency swaps not designated as hedges	Level 2	215	697	215	697
Financial assets at amortised cost:					
Short-term bank deposits	Level 2	—	4,352	—	4,352
Loan receivable from Garden Ring	Level 2	5,151	5,067	5,151	5,067
Other deposits	Level 2	415	1,307	415	1,307
Other financial assets	Level 3	311	361	311	361
Total financial assets		6,092	11,784	6,092	11,784
Financial liabilities					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	296,097	271,487	310,486	283,473
Ruble bonds	Level 1	86,472	56,007	83,745	54,568
Other liabilities	Level 3	821	509	821	538
Financial liabilities at fair value through profit or loss:					
Cross-currency swaps not designated as hedges	Level 2	981	84	981	84
Total financial liabilities		384,371	328,087	396,033	338,663

Bonds

In February 2019 the Group placed its BO-001P-05 series bonds in the amount of 20,000 at an interest rate of 8.55% per annum to be paid semi-annually for a term of three years.

In March 2019 the Group placed its BO-001P-06 and BO-002P-01 series bonds in the total amount of 10,000 at an interest rate of 8.90% per annum to be paid semi-annually for a term of five years.

Bank loans

In January, February and March 2019 the Group drew down 51,814 from different banks under fixed-rate Ruble-denominated facilities for terms of up to 2-5 years to finance general corporate needs. In March the Group early repaid approximately \$257 million (16,909 at the exchange rate as of payment date) of US dollar-denominated floating-rate loans, which were due at the end of 2022 and partially prepaid 7,514 of Ruble-denominated fixed-rate loan.

10. Financial assets and liabilities (continued)

New derivative financial instruments

In February 2019, the Company entered into cross-currency swap agreements with a combined notional amount of Euro 118 million (8,581 at the exchange rate as of 31 March 2019) that limit the exposure from changes in 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 financial assets, 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 loan receivable from Garden Ring approximates its carrying value.

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 using 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 31 March 2019 and 31 December 2018 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 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 three months ended 31 March 2019 there were no transfers between levels of the fair value hierarchy.

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Notes to interim condensed consolidated financial statements

11. 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 months ended 31 March in the interim condensed consolidated income statement are as follows:

	Three months ended 31 March	
	2019	2018
Current income tax	2,710	2,906
Deferred income tax	(2,060)	(1,087)
Total income tax expense	650	1,819

12. 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 31 March	
	2019	2018
Revenues from USM group	14	—
Revenues from Euroset	—	49
Revenues from MGL's equity accounted associates	—	40
Revenues from Svyaznoy group	1,134	—
Revenues from MGL	17	—
	1,165	89
Services from USM group	33	272
Services from Garden Ring	88	398
Services from Euroset	—	228
Services from MGL's equity accounted associates	—	4
Services from Svyaznoy group	956	—
	1,077	902
	31 March	31 December
	2019	2018
Due from USM group	55,726	3
Due from Garden Ring	5,145	5,038
Due from Svyaznoy group	4,607	3,591
Due from MGL	15	7
Due from Forpost	—	91
	65,493	8,730

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Notes to interim condensed consolidated financial statements

12. Related parties (continued)

	31 March 2019	31 December 2018
Due to USM group	508	1,861
Due to Svyaznoy group	627	933
Due to MGL	233	780
Due to Forpost	—	958
	1,368	4,532

Terms and conditions of transactions with related parties

Outstanding balances as of 31 March 2019 and 31 December 2018 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 31 March 2019 and 31 December 2018, 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 Telecom LLC, USM Holding Company LLC, the Group's parent, and their consolidated subsidiaries.

The Group sold ordinary shares to USM Telecom LLC for total consideration of 55,726 during the three months ended 31 March 2019 (*Note 6*). The outstanding balance with the USM group as of 31 March 2019 relates to this sale. The receivable is due to be settled within a year from the date of sale.

Svyaznoy

Svyaznoy is the Group's associate. The Group has a dealership and equipment sales agreement with Svyaznoy 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. Following the adoption of IFRS 16 the Group recognised an asset in the amount of 7,217 and a liability of 7,322 in respect of the lease as at 31 March 2019. Utilities expenses in the amount of 88 were recognised directly in operating expenses in the interim condensed consolidated income statement.

The Group also has a loan receivable from Garden Ring. The balance due from Garden Ring at 31 March 2019 consists mainly of the loan receivable. Interest income of 109 was recognised in respect of the loan for the three months ended 31 March 2019.

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Notes to interim condensed consolidated financial statements

12. Related parties (continued)

MGL

MGL is the Group's associate. During the three months ended 31 March 2019 the Group purchased software from MGL in the amount of approximately 200.

13. Commitments, contingencies and uncertainties

Russian operating environment

During 2018 and the three months ended 31 March 2019, the Russian economy was impacted by significant fluctuations of crude oil prices and the value of the Russian Ruble, as well as sanctions imposed on Russia by several countries. 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 licences and allocated frequencies to provide services under the 4G/LTE standard in Russia.

Under the terms and conditions of these licences, the Group is obligated to provide 4G/LTE services in each population center with over 50,000 inhabitants in Russia until December 2019. The Group 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.

Under the 4G/LTE licences acquired at frequency distribution auctions and from other operators via acquisition of licence-holding entities, the Group 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. until mid-April 2023.

As of the date these 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 31 March 2019 is 6,864 (31 December 2018: 7,356).

13. Commitments, contingencies and uncertainties (continued)

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 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 loss in the interim condensed consolidated income statement.

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 31 March 2019 the Group's management estimated the possible effect of additional taxes, before fines and interest, if any, on these 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 1,424 (31 December 2018: 1,300).

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.

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Notes to interim condensed consolidated financial statements

13. Commitments, contingencies and uncertainties (continued)

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 30,000-35,000 over the four years beginning from 2019.

14. Events after the reporting date

Neosprint

In April 2019 the Group acquired spectrum in the 3.4GHz-3.6GHz band for St. Petersburg through the purchase of a 100% interest in LLC Neosprint Spb ("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 300, consisting of cash consideration of 210 and a deferred payment of 90 payable within three months.

Bonds

In April 2019 the Group placed its BO-002P-02 series bonds in the amount of 10,000 at an interest rate of 8.90% per annum to be paid semi-annually for a term of seven years.

In May 2019 the Group redeemed in full at par its BO-001P-01 bonds in an aggregate principal amount of 10,000. The Group initially issued these bonds in May 2016 with a maturity of three years at a coupon rate of 9.95% per annum.

Squeeze-out request

After acquisition of the ordinary shares following the mandatory tender offer which expired on 7 March 2019 (*Note 6*), the number of shares of the Company held by the Group, together with ordinary shares held by its affiliates, increased to approximately 99.2% of the ordinary shares of the Company. Accordingly, the Group became entitled to proceed with a squeeze-out of the remaining shareholders of the Company pursuant to Article 84.8 of Federal Law No. 208-FZ on Joint Stock Companies dated 26 December 1995.

The squeeze-out price is 659.26 Rubles per one ordinary share and will be paid in cash to all the holders of the ordinary shares who are the shareholders of the Company as of 3 June 2019. Payment of the squeeze-out price is expected to be completed within no more than 25 days of such date.