Interim condensed consolidated financial statements
(Unaudited)

For the six months ended 30 June 2017

Contents

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

To the Board of Directors and Shareholders
PJSC MegaFon

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC MegaFon (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2017, the interim condensed consolidated income statement, and the related statement of other comprehensive income for the three- and six-month periods then ended, the related interim condensed consolidated statements of changes in equity and cash flows for the six-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 fair presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this 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 June 2017 and for the three- and six-month periods then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Akylbek Y. A.
Director
JSC “KPMG”
Moscow, Russia
29 August 2017

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

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

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

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

MegaFon

Interim condensed consolidated income statement

(In millions of Rubles, except per share amounts)

	Note	Three months ended 30 June 2017 (Unaudited)	Three months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)
Revenue		**89,689**	**78,723**	**175,943**	**153,873**
Operating expenses					
Cost of revenue		25,328	23,597	49,496	44,766
Sales and marketing expenses		6,744	4,955	12,969	9,010
General and administrative expenses		23,381	20,617	47,122	40,296
Depreciation		13,987	13,111	28,392	25,826
Amortisation		4,466	2,013	8,738	3,880
Loss on disposal of non-current assets	10	49	231	128	336
Total operating expenses		**73,955**	**64,524**	**146,845**	**124,114**
Operating profit		**15,734**	**14,199**	**29,098**	**29,759**
Finance costs		(6,236)	(4,137)	(12,137)	(8,308)
Finance income		683	470	1,103	748
Share of loss of associates and joint ventures		(873)	(1,056)	(1,928)	(1,787)
Impairment loss from Euroset	5	(15,917)	—	(15,917)	—
Other non-operating expenses		(585)	(330)	(996)	(1,867)
(Loss)/gain on financial instruments, net		(104)	(106)	82	(159)
Foreign exchange gain/(loss), net		23	553	(1,184)	2,636
(Loss)/profit before tax		**(7,275)**	**9,593**	**(1,879)**	**21,022**
Income tax expense	12	2,355	2,466	3,572	5,129
(Loss)/profit for the period		**(9,630)**	**7,127**	**(5,451)**	**15,893**
(Loss)/profit for the period					
Attributable to equity holders of the Company		(10,288)	7,234	(6,404)	16,071
Attributable to non-controlling interest		658	(107)	953	(178)
		(9,630)	**7,127**	**(5,451)**	**15,893**
(Loss)/earnings per share, Rubles					
Basic and diluted, (loss)/profit for the period attributable to equity holders of the Company		(18)	12	(11)	27

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 30 June 2017 (Unaudited)	Three months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)
(Loss)/profit for the period		**(9,630)**	**7,127**	**(5,451)**	**15,893**
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation difference, net of tax		(555)	189	(157)	665
Net movement on cash flow hedges, net of tax	11	(253)	(369)	(692)	(624)
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		**(808)**	**(180)**	**(849)**	**41**
Total comprehensive (loss)/income for the period, net of tax		**(10,438)**	**6,947**	**(6,300)**	**15,934**
Total comprehensive (loss)/income for the period					
Attributable to equity holders of the Company		(10,739)	7,012	(7,087)	15,979
Attributable to non-controlling interest		301	(65)	787	(45)
		(10,438)	**6,947**	**(6,300)**	**15,934**

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

MegaFon

Interim condensed consolidated statement of financial position

(In millions of Rubles)

	Note	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Assets			
Non-current assets			
Property and equipment	10	231,609	237,155
Intangible assets, other than goodwill	4,10	119,619	61,295
Goodwill	4	73,317	30,549
Investments in associates and joint ventures	5	28,038	45,234
Non-current financial assets	11	3,390	4,799
Non-current non-financial assets		4,698	3,039
Deferred tax assets		3,862	1,199
Total non-current assets		**464,533**	**383,270**
Current assets			
Inventory		9,432	9,354
Current non-financial assets		9,098	5,051
Prepaid income taxes		1,160	1,992
Trade and other receivables		24,272	19,352
Other current financial assets	11	26,688	10,842
Cash and cash equivalents		28,477	31,922
Total current assets		**99,127**	**78,513**
Total assets		**563,660**	**461,783**
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		97,868	124,166
Non-controlling interests	9	55,403	(43)
Total equity		**153,271**	**124,123**
Non-current liabilities			
Loans and borrowings	11	201,378	195,724
Other non-current financial liabilities	11	4,676	6,653
Non-current non-financial liabilities		6,627	2,605
Provisions		4,093	3,888
Deferred tax liabilities		27,352	20,812
Total non-current liabilities		**244,126**	**229,682**
Current liabilities			
Trade and other payables		39,385	43,581
Loans and borrowings	11	65,041	39,389
Dividends payable	6	19,211	2,839
Other current financial liabilities	11	12,803	3,538
Current non-financial liabilities		28,957	18,186
Income taxes payable		866	445
Total current liabilities		**166,263**	**107,978**
Total equity and liabilities		**563,660**	**461,783**

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 six months ended 30 June 2017 and 30 June 2016

		Attributable to equity holders of the Company									
		Ordinary shares		**Treasury shares**							
	Note	**Number of shares**	**Amount**	**Number of shares**	**Amount**	**Capital surplus**	**Retained earnings**	**Other capital reserves**	**Total**	**Non-controlling interests**	**Total equity**
As of 1 January 2016		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**152,425**	**(233)**	**147,898**	**(147)**	**147,751**
Profit/(loss) for the period		—	—	—	—	—	16,071	—	16,071	(178)	15,893
Other comprehensive income/(loss)		—	—	—	—	—	—	(92)	(92)	133	41
Total comprehensive income/(loss)		**—**	**—**	**—**	**—**	**—**	**16,071**	**(92)**	**15,979**	**(45)**	**15,934**
Dividends		—	—	—	—	—	(33,621)	—	(33,621)	—	(33,621)
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(59)	(59)
As of 30 June 2016 (unaudited)		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**134,875**	**(325)**	**130,256**	**(251)**	**130,005**
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**
(Loss)/profit for the period		—	—	—	—	—	(6,404)	—	(6,404)	953	(5,451)
Other comprehensive loss		—	—	—	—	—	—	(683)	(683)	(166)	(849)
Total comprehensive (loss)/income		—	—	—	—	—	**(6,404)**	**(683)**	**(7,087)**	**787**	**(6,300)**
Dividends	6	—	—	—	—	—	(19,211)	—	(19,211)	—	(19,211)
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(59)	(59)
Equity-settled share-based compensation	9	—	—	—	—	—	—	—	—	672	672
Acquisition of MGL	4	—	—	—	—	—	—	—	—	54,900	54,900
Acquisition of MGL treasury shares		—	—	—	—	—	—	—	—	(854)	(854)
As of 30 June 2017 (unaudited)		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**104,275**	**(2,113)**	**97,868**	**55,403**	**153,271**

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)

		Six months ended 30 June 2017	2016
		(Unaudited)	
(Loss)/profit before tax		(1,879)	21,022
Adjustments to reconcile (loss)/profit before tax to net operating cash flows:			
Depreciation		28,392	25,826
Amortisation		8,738	3,880
Loss on disposal of non-current assets		128	336
(Gain)/loss on financial instruments, net		(82)	159
Foreign exchange loss/(gain), net		1,184	(2,636)
Share of loss of associates and joint ventures		1,928	1,787
Impairment loss from Euroset	5	15,917	—
Change in impairment allowance for receivables and other non-financial assets		1,269	1,172
Finance costs		12,137	8,308
Finance income		(1,103)	(748)
Equity-settled share-based compensation	9	672	—
Other non-cash items		32	—
Working capital adjustments:			
Increase in inventory		(50)	(6,345)
Increase in trade and other receivables		(1,138)	(1,614)
(Increase)/decrease in current non-financial assets		(220)	1,008
(Decrease)/increase in trade and other payables		(1,757)	573
Increase/(decrease) in current non-financial liabilities		2,490	(1,195)
Change in VAT, net		1,353	(302)
Income tax refunded		—	18
Income tax paid		(5,820)	(4,814)
Net cash flows received from operating activities		**62,191**	**46,435**
Investing activities			
Purchase of property, equipment and intangible assets	10	(32,761)	(28,426)
Proceeds from sale of property and equipment	10	180	182
Acquisition of subsidiaries, net of cash acquired	4	(34,135)	(62)
Payment of deferred and contingent consideration		(1,197)	(492)
Proceeds from sale of subsidiaries, net of cash		(43)	—
Net change in short-term deposits		(14,259)	10,785
Net change in other deposits		—	401
Loans granted	11	—	(3,388)
Repayments of loans granted		890	—
Interest received		810	337
Net cash flows used in investing activities		**(80,515)**	**(20,663)**
Financing activities			
Proceeds from borrowings, net of fees paid		82,314	39,479
Repayment of borrowings		(50,281)	(36,774)
Interest paid		(12,218)	(8,267)
Dividends paid to equity holders of the Company		(2,838)	—
Dividends paid to non-controlling interests		(59)	(59)
Acquisition of MGL treasury shares		(854)	—
Finance lease payments		(16)	(24)
Net cash flows received from/(used in) financing activities		**16,048**	**(5,645)**
Net (decrease)/increase in cash and cash equivalents		(2,276)	20,127
Net foreign exchange difference		(1,169)	(1,703)
Cash and cash equivalents at beginning of period		31,922	17,449
Cash and cash equivalents at end of period		**28,477**	**35,873**

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

1. General

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

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

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

As of 30 June 2017, the Group is primarily owned by USM group, which is an indirect controlling shareholder, and by Telia Company and affiliates (Telia group), another major shareholder with significant influence over the Group. Telia Company is a publicly owned Swedish company.

2. Basis of preparation

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

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2016 audited consolidated financial statements and in the 2016 audited consolidated financial statements of MGL, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequently to the issuance of its 2016 audited consolidated financial statements and the 2016 audited consolidated financial statements of MGL. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the Group's and MGL's 2016 audited consolidated financial statements and the notes related thereto. In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments necessary to present fairly the Group's financial position, financial performance and cash flows for the interim reporting period in accordance with IAS 34.

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

2. Basis of preparation (continued)

The interim condensed consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Accountant on 29 August 2017.

The Company changed the presentation of comparative interest paid and interest received in its interim condensed consolidated statement of cash flows for the six months ended 30 June 2016 in line with the presentation in its consolidated statement of cash flows for the year ended 31 December 2016. Interest paid has been moved from operating activities to financing activities in the amount of 7,489; interest paid and capitalised has been moved from investing activities to financing activities in the amount of 778; and interest received has been moved from operating activities to investing activities in the amount of 337.

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

3. Significant accounting policies

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

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

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

Disclosure Initiative – Amendments to IAS 7

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

4. Business combination

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

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

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

Accordingly, the Group has consolidated the financial position and the results of operations of MGL from the beginning of 2017.

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

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

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

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

Assets	
Property and equipment	3,840
Intangible assets	62,568
Investments in associates and joint ventures	649
Other financial assets	539
Other non-financial assets	4,550
Deferred tax assets	2,600
Trade and other receivables	5,135
Cash and cash equivalents	5,513
	85,394

4. Business combination (continued)

Liabilities	
Loans and borrowings	123
Other financial liabilities	943
Other non-financial liabilities	9,844
Deferred tax liabilities	9,945
Trade and other payables	7,049
Income taxes payable	389
	28,293
Total identifiable net assets at fair value	**57,101**
Goodwill arising on acquisition	41,839
Non-controlling interest	(54,900)
Purchase consideration transferred	**44,040**

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

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

The valuation of the awards was changed in June 2017 and the acquisition date fair values of the NCI and goodwill were set at 54,900 and 41,839, respectively, a reduction of 1,287 from the provisional values.

From the date of the acquisition, MGL has contributed 23,495 of revenue and 1,531 to the profit before tax of the Group *(Note 9).*

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

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

5. Impairment of investment in Euroset

The Group has determined that there is an objective evidence that the investment in Euroset is impaired as of 30 June 2017 due to the recent developments in the Russian mobile retail market, which have adversely impacted the profitability of Euroset. In anticipation of the termination of its Euroset joint venture *(Note 15)*, the Group reconsidered the composition of its cash generating units (‘CGUs’) for the purposes of asset impairment testing and removed the investment in Euroset from the integrated telecommunication services group of CGUs. The Group has calculated the amount of impairment as the difference between the recoverable amount of the Group’s investment and its carrying value and recognised the impairment loss in profit or loss in the amount of 15,917.

5. Impairment of investment in Euroset (continued)

The estimated recoverable amount of investment is based on its value in use and includes the Group's synergy effect from lower than market Euroset commission costs alongside the standalone Euroset results.The value in use was estimated using the cash flow projections for a six-year period. The calculation of recoverable amount of the investment is particularly sensitive to the following assumptions:

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

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

At 1 January 2017	**31,705**
Impairment loss from Euroset	(15,917)
Share of loss of associates and joint ventures	(1,722)
At 30 June 2017 (Level 3)	**14,066**

6. Dividends

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

7. Segment information

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

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

7. Segment information (continued)

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

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

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

Around 1.3% of the Group's telecom revenue and results are generated by segments outside of Russia. The information about the breakdown of revenue from customers of the internet segment by the customers'country of residence is not available to the management of the Group, and it considers that the cost to develop such information would be excessive.

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

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

Three months ended 30 June 2017	**Telecom (MegaFon)**	**Internet (MGL)**	**Eliminations**	**Group**
Revenue				
External customers	77,955	11,734	—	**89,689**
Inter-segment	3	1	(4)	**—**
Total revenue	**77,958**	**11,735**	**(4)**	**89,689**
OIBDA				
External customers	30,615	3,621	—	**34,236**
Inter-segment	2	(2)	—	—
Total OIBDA	**30,617**	**3,619**	**—**	**34,236**

Six months ended 30 June 2017	**Telecom (MegaFon)**	**Internet (MGL)**	**Eliminations**	**Group**
Revenue				
External customers	152,449	23,494	—	**175,943**
Inter-segment	5	1	(6)	**—**
Total revenue	**152,454**	**23,495**	**(6)**	**175,943**
OIBDA				
External customers	59,646	6,710	—	**66,356**
Inter-segment	4	(4)	—	**—**
OIBDA	**59,650**	**6,706**	**—**	**66,356**

7. 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 consolidated OIBDA to consolidated (loss)/profit before tax for the three and six months ended 30 June:

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
OIBDA	**34,236**	**29,554**	**66,356**	**59,801**
Depreciation	(13,987)	(13,111)	(28,392)	(25,826)
Amortisation	(4,466)	(2,013)	(8,738)	(3,880)
Loss on disposal of non-current assets	(49)	(231)	(128)	(336)
Finance costs	(6,236)	(4,137)	(12,137)	(8,308)
Finance income	683	470	1,103	748
Share of loss of associates and joint ventures	(873)	(1,056)	(1,928)	(1,787)
Impairment loss from Euroset	(15,917)	—	(15,917)	—
Other non-operating expenses	(585)	(330)	(996)	(1,867)
(Loss)/gain on financial instruments, net	(104)	(106)	82	(159)
Foreign exchange gain/(loss), net	23	553	(1,184)	2,636
(Loss)/profit before tax	**(7,275)**	**9,593**	**(1,879)**	**21,022**

8. Seasonality of operations

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

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

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

9. Non-controlling interest

One subsidiary of the Group that has a material NCI is MGL, based in Cyprus and acquired in the beginning of 2017, with a NCI of 84.8% *(Note 4)*. The balance of NCI of MGL at 30 June 2017 is 55,329. The amounts allocated to the NCI for the six months ended 30 June 2017 include profit of 800, other comprehensive loss of 189, equity-settled share-based compensation of 672 and acquisition of treasury shares of 854.

The summarised financial information of MGL is provided below.

Summarised income statement for the three and six months ended 30 June 2017:

	MGL	
	Three months	**Six months**
Revenue	11,735	23,495
Operating expenses	(8,116)	(16,789)
Amortisation and Depreciation	(2,940)	(5,739)
Finance costs	(3)	(15)
Finance income	115	234
Share of loss of associates and joint ventures	(237)	(229)
Foreign exchange gain	850	576
(Loss)/gain on financial instruments, net	(104)	82
Other non-operating loss	(53)	(84)
Profit before tax	**1,247**	**1,531**
Income tax	(569)	(584)
Profit for the period	**678**	**947**
OCI	(384)	(223)
Total comprehensive income	**294**	**724**

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

Summarised statement of financial position as at 30 June 2017:

	MGL
Non-current assets	111,261
Current assets	15,788
Non-current liabilities	(13,538)
Current liabilities	(14,025)
Total equity	**99,486**
Attributable to:	
Equity holders of the Company	44,157
NCI	55,329

Summarised cash flow information for the six months ended 30 June 2017:

	MGL
Operating activities	8,787
Investing activities	(4,739)
Financing activities	(991)
Net increase in cash and cash equivalents	**3,057**

10. Property, equipment and intangible assets

During the six months ended 30 June 2017, the Group acquired property and equipment with a cost of 19,638 (30 June 2016: 22,814). Assets with a net book value of 174 were disposed of by the Group during the six months ended 30 June 2017 (30 June 2016: 523), resulting in a net loss on disposal of 128 (30 June 2016: net loss of 289). Capitalised borrowing costs were 819 and 868 for the six months ended 30 June 2017 and 2016, respectively.

During the six months ended 30 June 2017, the Group acquired intangible assets with a cost of 3,631 (2016: 4,377).

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

11. Financial assets and liabilities

Loan receivable

In February 2016 the Group granted Strafor Commercial Ltd ("Strafor") a loan in the amount of $43.8 million (2,588 at the exchange rate as of 30 June 2017). The loan is repayable in February 2018 with interest at 7% paid annually. In February 2017 Strafor made an early repayment of $15 million (890 at the exchange rate as of the payment date) of the amount due in February 2018, together with interest. The loan is secured by a pledge of 50% of the shares of Strafor and 50% of the shares of North Financial Overseas Corp., both companies related to Svyaznoy group, the second largest telecommunications retailer in Russia, and was granted in the context of the Company's long term relations with the retailer.

Fair values

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

11. Financial assets and liabilities (continued)

		Carrying amount		Fair value	
		30 June 2017 (Unaudited)	**31 December 2016**	**30 June 2017 (Unaudited)**	**31 December 2016**
Financial assets					
Financial assets at fair value through OCI:					
Cross-currency swap designated as cash flow hedge	Level 2	—	435	—	435
Financial assets at fair value through profit or loss:					
Financial investments in associates	Level 3	224	—	224	—
Financial derivatives under lease and hosting contracts	Level 3	341	—	341	—
Derivative financial assets over the equity of investee	Level 3	43	—	43	—
Loans and receivables at amortised cost:					
Short-term bank deposits	Level 2	19,538	5,095	19,538	5,095
Loans receivable from Garden Ring and Strafor	Level 2	6,469	7,340	6,469	7,340
Other deposits	Level 2	3,401	2,771	3,069	2,534
Other loans	Level 2	62	—	62	—
Total financial assets		**30,078**	**15,641**	**29,746**	**15,404**
Financial liabilities					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	210,420	179,115	235,378	186,775
Ruble bonds	Level 1	55,999	55,998	55,479	55,411
Deferred consideration	Level 3	6,271	284	6,271	284
Finance lease obligations	Level 3	4,207	4,173	4,207	4,173
Long-term accounts payable	Level 3	475	335	544	384
Financial liabilities at fair value through OCI:					
Foreign currency forwards and cross-currency swap designated as cash flow hedges	Level 2	6,526	5,399	6,526	5,399
Total financial liabilities		**283,898**	**245,304**	**308,405**	**252,426**

11. Financial assets and liabilities (continued)

Valuation techniques and assumptions

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

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

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

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

The GARS Holding Limited ("GARS") escrow account (included in 'Other deposits' in the above table) holds cash reserved for deferred consideration settlements under the sale and purchase agreement with the sellers of GARS. The fair value of the account 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 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 June 2017 and 31 December 2016 was assessed to be insignificant.

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

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

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

12. Income tax

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

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

	Three months ended 30 June		**Six months ended 30 June**	
	2017	**2016**	**2017**	**2016**
Current income tax	3,314	3,053	6,750	6,991
Deferred income tax	(959)	(587)	(3,178)	(1,862)
Total income tax expense	**2,355**	**2,466**	**3,572**	**5,129**

13. Related parties

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

	Three months ended 30 June		**Six months ended 30 June**	
	2017	**2016**	**2017**	**2016**
Revenue from USM group	1	4	1	9
Revenue from Telia group	89	206	164	312
Revenue from Euroset	1,088	147	1,209	345
Revenue from MGL’s equity accounted associates	29	—	58	—
	1,207	**357**	**1,432**	**666**
Services from USM group	219	266	438	572
Services from Telia group	265	216	468	405
Services from Euroset	251	300	458	629
Services from Garden Ring	414	387	819	779
	1,149	**1,169**	**2,183**	**2,385**
Other non-operating expenses from USM group	—	—	—	1,293

	30 June 2017	**31 December 2016**
Due from USM group	1,053	4
Due from Telia group	147	253
Due from Euroset	2,087	333
Due from Garden Ring	4,764	4,509
Due from MGL’s equity accounted associates	35	—
	8,086	**5,099**
Due to USM group	655	1,468
Due to Telia group	31	322
Due to Euroset	12	27
Due to Garden Ring	34	—
Due to MGL’s equity accounted associates	1	—
	733	**1,817**

13. Related parties (continued)

Terms and conditions of transactions with related parties

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

USM group

The outstanding balances and transactions with USM group relate to operations with Garsdale Services Investment Limited ("Garsdale"), the Group's parent, USM Holdings Limited, an indirect owner of Garsdale, and their consolidated subsidiaries.

The Group purchased billing system and related support services from PeterService, another member of the USM group, in the amount of 2,143 and 3,235 during the six months ended 30 June 2017 and 2016, respectively. The outstanding balances with USM group as of 30 June 2017 mainly relate to these purchases.

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

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

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

Telia group

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

Euroset

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

13. Related parties (continued)

Garden Ring

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

14. Commitments, contingencies and uncertainties

Operating environment

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

During 2016 and the six months ended 30 June 2017, the Russian economy was negatively impacted by significant declines in crude oil prices and the value of the Russian Ruble, as well as sanctions imposed on Russia by several countries. Ruble interest rates continued to fluctuate and as of 30 June 2017 the key rate of the Central Bank of Russia was at 9.0%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

4G/LTE licence capital commitments

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

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

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

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

14. Commitments, contingencies and uncertainties (continued)

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 June 2017 is 7,915 (31 December 2016: 7,459).

Social infrastructure expenses

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

Taxation

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

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

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

As at 30 June 2017 the Group's management estimated that the possible effect of additional taxes, before fines and interest, if any, on the interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations, is in the amount of approximately 703.

14. 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.

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

15. Events after the reporting date

On 7 July 2017 MegaFon and VEON Ltd, the parent company of VimpelCom, agreed to terminate their Euroset joint venture, subject to certain terms and conditions. VimpelCom will acquire rights to Euroset's lease agreements for approximately 2,000 outlets, with Euroset retaining all related equipment and inventories. MegaFon will then acquire VimpelCom's 50% interest in Euroset, resulting in MegaFon's owning 100% of Euroset which will remain an operating company, while VimpelCom will make a cash payment of 1,250.