Interim condensed consolidated financial statements
(Unaudited)

For the nine months ended 30 September 2019

Contents

KPMG

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

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

To the Board of Directors and Shareholders
PJSC MegaFon

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC MegaFon (the "Company") and its subsidiaries (the "Group") as at 30 September 2019, and the related interim condensed consolidated income statements and statements of other comprehensive income for the three- and nine-month periods ended 30 September 2019, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine-month period ended 30 September 2019, and notes to the interim condensed consolidated financial statements (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements as at 30 September 2019, and for the three- and nine-month periods ended 30 September 2019 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

КПМГ
KPMG

Akylbek Y. A.
JSC "KPMG"
Moscow, Russia
13 November 2019

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

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

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

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

MegaFon

Interim condensed consolidated income statement

(In millions of Rubles, except per share amounts)

	Note	Three months ended 30 September 2019 (Unaudited)	Three months ended 30 September 2018 (Unaudited)	Nine months ended 30 September 2019 (Unaudited)	Nine months ended 30 September 2018 (Unaudited)
Revenue		**89,991**	**88,733**	**255,759**	**247,129**
Operating expenses					
Cost of revenue		29,200	27,535	76,891	72,537
Sales and marketing expenses		4,583	4,997	14,709	13,061
General and administrative expenses	4	17,238	22,547	51,059	64,935
Depreciation	4	17,003	12,473	49,977	36,929
Amortisation		5,127	4,017	15,164	11,589
Loss on disposal of non-current assets	9	162	176	268	212
Total operating expenses		**73,313**	**71,745**	**208,068**	**199,263**
Operating profit		**16,678**	**16,988**	**47,691**	**47,866**
Finance costs	4	(11,640)	(6,712)	(33,861)	(18,543)
Finance income		287	447	1,396	1,123
Share of loss of associates and joint ventures	5	(633)	(677)	(2,901)	(1,803)
Loss on financial instruments, net	10	(289)	(23)	(2,190)	(23)
Foreign exchange gain/(loss), net		439	713	1,942	(1,212)
Other non-operating expenses		(182)	(432)	(750)	(1,172)
Profit before tax from continuing operations		**4,660**	**10,304**	**11,327**	**26,236**
Income tax expense	11	1,410	2,496	2,990	6,192
Profit for the period from continuing operations		**3,250**	**7,808**	**8,337**	**20,044**
Discontinued operations					
Profit from discontinued operations, net of tax		—	—	—	11,584
Profit for the period		**3,250**	**7,808**	**8,337**	**31,628**
Attributable to equity holders of the Company		3,202	7,744	8,326	34,037
Attributable to non-controlling interest		48	64	11	(2,409)
		3,250	**7,808**	**8,337**	**31,628**
Earnings per share, Rubles					
Basic and diluted, profit for the period attributable to equity holders of the Company		7	14	19	59
Earnings per share, Rubles — continuing operations					
Basic and diluted, profit for the period attributable to equity holders of the Company		7	14	19	35

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

Interim condensed consolidated statement of other comprehensive income

(In millions of Rubles)

	Note	Three months ended 30 September 2019 (Unaudited)	Three months ended 30 September 2018 (Unaudited)	Nine months ended 30 September 2019 (Unaudited)	Nine months ended 30 September 2018 (Unaudited)
Profit for the period		**3,250**	**7,808**	**8,337**	**31,628**
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation difference, net of tax		(134)	(105)	154	(503)
Net movement on cash flow hedges, net of tax	10	—	—	—	1,567
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		**(134)**	**(105)**	**154**	**1,064**
Total comprehensive income for the period, net of tax		**3,116**	**7,703**	**8,491**	**32,692**
Total comprehensive income/(loss) for the period					
Attributable to equity holders of the Company		3,090	7,681	8,566	35,260
Attributable to non-controlling interest		26	22	(75)	(2,568)
		3,116	**7,703**	**8,491**	**32,692**

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

MegaFon

Interim condensed consolidated statement of financial position

(In millions of Rubles)

	Note	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Assets			
Non-current assets			
Property and equipment	9	209,639	224,666
Right-of-use assets	4	86,645	—
Intangible assets, other than goodwill	9	75,131	81,026
Goodwill		30,549	30,549
Investments in associates and joint ventures	5	34,063	73,265
Non-current financial assets	10	3,347	3,829
Non-current non-financial assets		8,289	7,531
Deferred tax assets		1,803	2,064
Total non-current assets		**449,466**	**422,930**
Current assets			
Inventory		9,018	9,885
Current non-financial assets		8,282	7,766
Prepaid income taxes		1,396	4,275
Trade and other receivables		90,853	29,137
Other current financial assets	10	2,673	7,955
Cash and cash equivalents		22,746	27,214
Assets held for sale	5	36,519	847
Total current assets		**171,487**	**87,079**
Total assets		**620,953**	**510,009**
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		48,385	70,667
Non-controlling interests		(324)	(264)
Total equity		**48,061**	**70,403**
Non-current liabilities			
Loans and borrowings	10	345,398	288,262
Other non-current financial liabilities	10	1,825	509
Non-current non-financial liabilities		3,975	3,895
Non-current lease liabilities	4	78,361	4,204
Provisions		5,514	5,117
Deferred tax liabilities		22,630	26,016
Total non-current liabilities		**457,703**	**328,003**
Current liabilities			
Trade and other payables		50,504	53,235
Loans and borrowings	10	30,074	39,232
Other current financial liabilities	10	14	84
Current non-financial liabilities		21,146	17,661
Current lease liabilities	4	12,601	61
Income taxes payable		850	1,330
Total current liabilities		**115,189**	**111,603**
Total equity and liabilities		**620,953**	**510,009**

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

MegaFon

Interim condensed consolidated statement of changes in equity

(In millions of Rubles)

For the nine months ended 30 September 2019 and 30 September 2018

		Attributable to equity holders of the Company									
		Ordinary shares		Treasury shares							
	Notes	Number of shares	Amount	Number of shares	Amount	Capital surplus	Retained earnings	Other capital reserves	Total	Non-controlling interests	Total equity
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		—	—	—	—	—	34,037	—	**34,037**	(2,409)	**31,628**
Other comprehensive income/(loss)		—	—	—	—	—	—	1,223	**1,223**	(159)	**1,064**
Total comprehensive income/(loss)		**—**	**—**	**—**	**—**	**—**	**34,037**	**1,223**	**35,260**	**(2,568)**	**32,692**
Sale of share in MGL		—	—	—	—	—	—	57	**57**	(55,580)	**(55,523)**
Purchase of outstanding shares		—	—	115,317,504	(76,480)	—	—	—	**(76,480)**	—	**(76,480)**
Dividends to non-controlling interests		—	—	—	—	—	—	—	**—**	(149)	**(149)**
Equity-settled share-based compensation		—	—	—	—	—	—	—	**—**	2,239	**2,239**
Acquisition of subsidiaries		—	—	—	—	—	—	—	**—**	315	**315**
As of 30 September 2018 (unaudited)		**620,000,000**	**526**	**139,616,537**	**(93,867)**	**12,567**	**150,633**	**117**	**69,976**	**(207)**	**69,769**
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 for the period		—	—	—	—	—	8,326	—	8,326	11	**8,337**
Other comprehensive income/(loss)		—	—	—	—	—	—	240	240	(86)	**154**
Total comprehensive income/(loss)		**—**	**—**	**—**	**—**	**—**	**8,326**	**240**	**8,566**	**(75)**	**8,491**
Purchase of outstanding shares	6	—	—	131,212,843	(86,574)	—	—	—	**(86,574)**	—	**(86,574)**
Sale of own shares	6	—	—	(86,800,000)	58,958	—	(3,232)	—	**55,726**	—	**55,726**
Acquisition of subsidiaries		—	—	—	—	—	—	—	—	15	**15**
As of 30 September 2019 (unaudited)		**620,000,000**	**526**	**184,029,380**	**(121,703)**	**12,567**	**156,860**	**135**	**48,385**	**(324)**	**48,061**

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

MegaFon

Interim condensed consolidated statement of cash flows

(In millions of Rubles)

	Note	Nine months ended 30 September 2019 (Unaudited)	2018
Operating activities			
Profit before tax from continuing operations		11,327	26,236
Profit before tax from discontinued operations		—	15,768
Profit before tax		**11,327**	**42,004**
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation	4	49,977	38,228
Amortisation		15,164	16,342
Loss on disposal of non-current assets		268	228
Loss/(gain) on financial instruments, net		2,190	(372)
Foreign exchange (gain)/loss, net		(1,942)	906
Share of loss of associates and joint ventures		2,901	1,936
Gain on disposal of discontinued operations		—	(18,208)
Change in impairment allowance for receivables and other non-financial assets		2,295	2,504
Finance costs	4	33,861	18,558
Finance income		(1,396)	(1,388)
Equity-settled share-based compensation		—	2,239
Other non-cash items		—	3
Working capital adjustments:			
Decrease/(increase) in inventory		867	(332)
Increase in trade and other receivables		(8,315)	(11,716)
Increase in current non-financial assets		(1,343)	(2,082)
Increase in trade and other payables		3,056	3,708
(Decrease)/increase in current non-financial liabilities		(1,434)	3,986
Change in VAT, net		5,982	167
Income tax paid		(3,793)	(7,468)
Net cash flows received from operating activities		**109,665**	**89,243**
Investing activities			
Purchase of property, equipment and intangible assets	9	(41,664)	(49,043)
Proceeds from sale of property and equipment	9	238	721
Acquisition of subsidiaries, net of cash acquired		47	(8,029)
Proceeds from sale of subsidiaries, net of cash disposed		—	6,945
Purchase of interest in associates and joint ventures		(278)	(2,414)
Sale of associates and joint venture		268	—
Net change in short-term deposits		4,141	4,825
Loans granted	10	(2,250)	(71)
Repayments of loans granted	10	2,550	—
Interest received		1,024	1,164
Dividends received from equity-accounted investments		—	19
Net cash flows used in investing activities		**(35,924)**	**(45,883)**
Financing activities			
Proceeds from borrowings, net of fees paid		171,946	112,654
Repayment of borrowings		(121,615)	(64,441)
Interest paid	4	(32,455)	(17,955)
Purchase of outstanding shares	6	(86,574)	(76,480)
Dividends paid to non-controlling interests		—	(95)
Lease payments	4	(8,627)	(5)
Net cash flows used in financing activities		**(77,325)**	**(46,322)**
Net decrease in cash and cash equivalents		(3,584)	(2,962)
Net foreign exchange difference		(884)	3,731
Cash and cash equivalents at beginning of period		27,214	36,147
Cash and cash equivalents at end of period		**22,746**	**36,916**

The accompanying notes are an integral part of these 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.

As of 30 September 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.

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 13 November 2019.

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 IFRS 16 using the modified retrospective transition method without restating comparative amounts. The cumulative effect of the initial application of IFRS 16 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 the impact of the adoption of IFRS 16 have 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 the 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 (because 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.

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 the '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:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on our assessment of whether leases are onerous by 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;
- excluding initial direct costs from the measurement of the ROU assets at the date of initial application; and
- using hindsight, for example, in determining the lease term if the contract contains options to extend or terminate the lease.

IFRS 16 impacts

The adoption of IFRS 16 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 3,162 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:

	1 January 2019
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	**92,944**

4. IFRS 16 (continued)

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

			ROU depreciation expense	
	Lease term, years	ROU assets as of 30 September 2019	for the three months ended 30 September 2019	for the nine months ended 30 September 2019
Telecommunication infrastructure	2-14	67,488	2,588	7,542
Retail outlets	2-5	9,140	1,012	3,051
Administrative premises	2-7	10,017	456	1,361
Total		**86,645**	**4,056**	**11,954**

During the three and nine months ended 30 September 2019 the Group recognised 2,411 and 7,246 of interest costs from these leases, respectively. Total additions to ROU assets and total cash outflow for leases for the nine months ended 30 September 2019 amounted to 10,399 and 15,850, respectively.

5. Investments in associates and joint ventures

Mail.Ru Group Limited ("MGL")

On 5 June 2019 the Company, Alibaba.com Singapore e-commerce private Limited ("Alibaba"), LLC 'RDIF Investment Management-19' ("RDIF"), LLC Mail.Ru, and AER Holding PTE. LTD ("AliExpress Russia") signed an agreement to establish a joint venture on the basis of the existing e-commerce businesses of AliExpress Russia and MGL. On 8 October 2019 MegaFon transferred a 9.97% economic share in MGL to Alibaba in exchange for a 24.3% share in the AliExpress Russia *(Note 14)*. The purpose of the transaction is to create a unique e-commerce joint venture to provide best-in-class financial services, media, and other consumer offerings to the Russian consumer base.

Accordingly, at 30 September 2019 the Group classified this part of its investment in MGL, an associated company, as an asset held for sale. The remaining approximately 2.3% economic interest in MGL with 26.7% voting rights will continue to be accounted for as an associate in the Group's financial statements.

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 the transaction. The sales resulted in insignificant gains.

6. Transactions with own shares

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 a mandatory tender offer for the remaining outstanding ordinary shares (other than those held by the Group and related companies) at a price of 659.26 Rubles per ordinary share.

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.

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, a related party, for cash consideration of 55,726 (or 642 Rubles per share) which was paid in November 2019.

On 6 June 2019 the Group completed the buy-out of the remaining shareholders who had not tendered by acquiring the remaining 4,966,749 ordinary shares, which constituted approximately 0.8% of the issued ordinary shares, for cash consideration of 659.26 Rubles per ordinary share.

Total cash consideration for ordinary shares purchased during the nine months ended 30 September 2019 amounted 86,574 including transaction costs.

Accordingly, at 30 September 2019 the Group held 29.68% of the Company's issued ordinary shares which, together with the issued ordinary shares held by its other related companies, constituted 100% of all the issued ordinary shares of the Company.

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.

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.

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

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
OIBDA	**38,970**	**33,654**	**113,100**	**96,596**
Depreciation	(17,003)	(12,473)	(49,977)	(36,929)
Amortisation	(5,127)	(4,017)	(15,164)	(11,589)
Loss on disposal of non-current assets	(162)	(176)	(268)	(212)
Finance costs	(11,640)	(6,712)	(33,861)	(18,543)
Finance income	287	447	1,396	1,123
Share of loss of associates and joint ventures	(633)	(677)	(2,901)	(1,803)
Other non-operating expenses	(182)	(432)	(750)	(1,172)
Loss on financial instruments, net	(289)	(23)	(2,190)	(23)
Foreign exchange gain/(loss), net	439	713	1,942	(1,212)
Profit before tax from continuing operations	**4,660**	**10,304**	**11,327**	**26,236**

Disaggregation of revenue

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

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Wireless services	71,236	72,298	209,616	205,003
Wireline services	7,670	8,314	20,810	22,664
Sales of equipment and accessories	11,085	8,121	25,333	19,470
Total external revenue	**89,991**	**88,733**	**255,759**	**247,137**
Intra-group revenue elimination	—	—	—	(8)
Total revenue	**89,991**	**88,733**	**255,759**	**247,129**

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.

7. Segment information (continued)

As at 30 September 2019 the Group had 11,905 (31 December 2018: 13,847) of contract liabilities from contracts with customers included in current non-financial liabilities and 3,889 (31 December 2018: 3,777) of contract liabilities from contracts with customers included in non-current non-financial liabilities. The decrease in contract liabilities since 31 December 2018 is largely seasonal.

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 nine months ended 30 September 2019, the Group acquired property and equipment with a cost of 26,893 (30 September 2018: 35,007). Assets with a net book value of 347 were disposed of by the Group during the nine months ended 30 September 2019 (30 September 2018: 485), resulting in a net loss on disposal of 283 (30 September 2018: net gain of 121). Capitalised borrowing costs were 1,305 and 1,291 for the nine months ended 30 September 2019 and 2018, respectively.

During the nine months ended 30 September 2019, the Group acquired intangible assets with a cost of 9,101 (30 September 2018: 10,737).

10. Financial assets and liabilities

Ruble bonds

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

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

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

10. Financial assets and liabilities (continued)

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 an interest rate of 9.95% per annum.

Loans and borrowings

In January-September 2019 the Group drew down from different banks 81,814 under fixed-rate and 15,000 under floating-rate Ruble-denominated facilities for terms of up to 2-5 years to finance general corporate needs.

In January-September 2019 the Group early repaid approximately $356 million (23,093 at the exchange rate as of payment date) of US dollar-denominated floating-rate loans, which were due at the end of 2021 and of 2022, and partially prepaid 42,514 of Ruble-denominated fixed-rate loans, which were due in 2020-2023.

In August the Group negotiated a one-year extension of the term of a 5,000 fixed-rate Ruble-denominated loan, previously payable in August 2019.

At 30 September 2019 the principal amount outstanding under loans and borrowings is 374,654 (31 December 2018: 328,368).

Loans granted

During the nine months ended 30 September 2019 the Group made some loans to its associates in the total amount of 2,250 which were repaid in the same reporting period.

Derivative financial instruments

In February, March and June 2019 the Company entered into cross-currency swap agreements with a combined notional amount of Euro 143 million (10,055 at the exchange rate as of 30 September 2019) that limit the exposure from changes in the 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.

In June 2019 the Group early settled cross-currency swap agreements with a combined notional amount of $129 million (8,310 at the exchange rate as of 30 September 2019) following the early repayment of US dollar-denominated loans to which the cross-currency swaps related.

10. Financial assets and liabilities (continued)

Fair values

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

		Carrying amount		Fair value	
		30 September 2019 (Unaudited)	**31 December 2018**	**30 September 2019 (Unaudited)**	**31 December 2018**
Financial assets					
Financial assets at fair value through profit or loss:					
Cross-currency swap not designated as hedges	Level 2	—	697	—	697
Financial assets at amortised cost:					
Short-term bank deposits	Level 2	—	4,352	—	4,352
Loans receivable from Garden Ring	Level 2	5,366	5,067	5,366	5,067
Other deposits	Level 2	370	1,307	370	1,307
Other financial assets	Level 3	284	361	284	361
Total financial assets		**6,020**	**11,784**	**6,020**	**11,784**
Financial liabilities					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	288,960	271,487	304,603	283,473
Ruble bonds	Level 1	86,511	56,007	84,622	54,568
Other liabilities	Level 3	543	509	543	538
Financial liabilities at fair value through profit or loss:					
Cross-currency swaps not designated as hedges	Level 2	1,283	84	1,283	84
Total financial liabilities		**377,297**	**328,087**	**391,051**	**338,663**

Valuation techniques and assumptions

Management has determined that cash, short-term deposits, other financial assets, trade receivables, trade payables, 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 the loans receivable from Garden Ring approximates its carrying value.

10. Financial assets and liabilities (continued)

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 discounted cash flow method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own nonperformance risk as at 30 September 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 nine months ended 30 September 2019 there were no transfers between levels of the fair value hierarchy.

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 and nine months ended 30 September in the interim condensed consolidated income statement are as follows:

	Three months ended 30 September		**Nine months ended 30 September**	
	2019	**2018**	**2019**	**2018**
Current income tax	1,720	3,268	6,323	7,787
Deferred income tax	(310)	(772)	(3,333)	(1,595)
Total income tax expense	**1,410**	**2,496**	**2,990**	**6,192**

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 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
Revenue from USM group	16	5	48	5
Revenue from Svyaznoy group	3,739	1,119	6,432	1,147
Revenues from MGL	55	4	111	4
	3,810	**1,128**	**6,591**	**1,156**
Services from USM group	45	251	124	766
Services from Garden Ring	75	456	246	1,321
Services from Svyaznoy group	527	917	2,408	1,291
Services from MGL	14	169	16	169
Services from Forpost	—	39	—	122
	661	**1,832**	**2,794**	**3,669**

	30 September 2019	31 December 2018
Due from USM group	55,759	3
Due from Garden Ring	5,381	5,038
Due from Svyaznoy group	9,279	3,591
Due from MGL	19	7
Due from Forpost	—	91
	70,438	**8,730**

	30 September 2019	31 December 2018
Due to USM group	393	1,861
Due to Svyaznoy group	211	933
Due to MGL	38	780
Due to Forpost	—	958
	642	**4,532**

Terms and conditions of transactions with related parties

Outstanding balances as of 30 September 2019 and 31 December 2018 are unsecured. As of 30 September 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.

In June 2019 the Group provided guarantees for obligations payable by the Svyaznoy group in the amount of up to 10,000 *(Note 13)*.

12. Related parties (continued)

USM group

The outstanding balances and transactions with the USM group relate to operations with USM Telecom LLC, USM Holding Company LLC, the Group's ultimate controlling party, and companies in the USM group.

In March 2019 the Group sold its ordinary shares to USM Telecom LLC for total consideration of 55,726 which was paid in November 2019 *(Note 6)*. The outstanding balance with the USM group as of 30 September 2019 relates to this sale.

Svyaznoy

Svyaznoy is the Group's associate. The Group has dealership and equipment sales agreements with Svyaznoy which qualify as related party transactions.

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 6,814 and a liability of 7,113 in respect of the lease as at 30 September 2019. Utilities expenses in the amount of 246 for the nine months ended 30 September 2019 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 30 September 2019 consists mainly of the loan receivable. Interest income of 330 was recognised in respect of the loan for the nine months ended 30 September 2019.

MGL

MGL is the Group's associate. During the nine months ended 30 September 2019 the Group purchased software from MGL in the amount of approximately 234.

13. Commitments, contingencies and uncertainties

Russian operating environment

During 2018 and the nine months ended 30 September 2019, the Russian economy was impacted by significant fluctuations in 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.

13. Commitments, contingencies and uncertainties (continued)

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 Company is obligated to provide 4G/LTE services in each population center with over 50,000 inhabitants in Russia by the end of 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 Company is obligated to provide 4G/LTE services in each population center with over 10,000 inhabitants in Russia by the end of the seven-year period starting from the date of obtaining the licences, i.e., by mid-April 2023.

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

Equipment purchases agreements

In 2014 the Group entered into two separate 7-year agreements with two suppliers to purchase equipment and software for 2G/3G/4G network construction and modernisation. The software usage agreements contain various termination options, however the Group is specifically committed under the agreements to pay at least an amount equal to 50% of the fees due for years four through seven of the agreements for each base station in use as at the date of termination while receiving a credit against these commitments for fees already paid. The amount of the commitments at 30 September 2019 is 6,147 (31 December 2018: 7,356).

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.

13. Commitments, contingencies and uncertainties (continued)

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

As of 30 September 2019 the Group's management estimated the possible effect of additional taxes, before fines and interest, if any, on these interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations being taken by them, to be in the amount of up to approximately 1,073 (31 December 2018: 1,300).

Svyaznoy guarantees

In June 2019 the Group provided guarantees for obligations payable by the Svyaznoy group in the amount of up to 10,000 *(Note 12)*. The guarantees remain in effect for one year after maturity of the underlying obligation. The Group assesses the likelihood of its having to incur any liability under these guarantees as remote.

Litigation

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

Anti-terror laws

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

Based on the current understanding of the law's requirements, the Group expects that the implementation of the changes may cost it approximately 30,000-35,000 over the next four years beginning from 2019.

14. Events after the reporting date

AliExpress Russia

On 8 October 2019 MegaFon transferred a 9.97% economic share in MGL to Alibaba in exchange for a 24.3% share in the AliExpress Russia *(Note 5)*.