



Interim condensed consolidated financial statements
(Unaudited)

For the six months ended 30 June 2020

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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 2020, and the related interim condensed consolidated income statements and statements of other comprehensive income for the three- and six-month periods ended 30 June 2020, and the related interim condensed consolidated statements of changes in equity and cash flows for the six-month period ended 30 June 2020, 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 June 2020 and for the three-and six-month periods ended 30 June 2020 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.


Ammosova E. V.
JSC "KPMG"
Moscow, Russia
12 August 2020



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-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.

MegaFon

Interim condensed consolidated income statement

(In millions of Rubles)

	Note	Three months ended 30 June		Six months ended 30 June	
		2020	2019	2020	2019
		(Unaudited)		(Unaudited)	
Revenue	5	78,543	85,640	158,095	165,768
Operating expenses					
Cost of revenue		22,342	24,420	44,623	47,691
Sales and marketing expenses		4,488	5,264	8,734	10,126
General and administrative expenses		16,088	17,052	33,100	33,821
Depreciation	7	12,617	16,770	25,508	32,974
Amortisation		5,576	5,091	10,909	10,037
Loss on disposal of non-current assets	7	232	8	113	106
Total operating expenses		61,343	68,605	122,987	134,755
Operating profit		17,200	17,035	35,108	31,013
Finance costs		(10,025)	(12,019)	(20,515)	(22,221)
Finance income		2,664	398	3,896	1,109
Share of loss of associates and joint ventures		(1,758)	(1,012)	(3,250)	(2,268)
Other non-operating expenses		(1,269)	(287)	(1,795)	(568)
Gain/(loss) on financial instruments, net	8	(961)	(522)	983	(1,901)
Foreign exchange (loss)/gain, net		(529)	298	(2,409)	1,503
Profit before tax		5,322	3,891	12,018	6,667
Income tax expense	9	1,361	930	2,908	1,580
Profit for the period		3,961	2,961	9,110	5,087
Attributable to equity holders of the Company		3,972	2,937	9,144	5,124
Attributable to non-controlling interest		(11)	24	(34)	(37)
		3,961	2,961	9,110	5,087

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

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Interim condensed consolidated statement of other comprehensive income

(In millions of Rubles)

	Three months ended 30 June		Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)
Profit for the period	3,961	2,961	9,110	5,087
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Foreign currency translation difference, net of tax	527	(77)	(419)	288
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	527	(77)	(419)	288
Total comprehensive income for the period, net of tax	4,488	2,884	8,691	5,375
Total comprehensive income for the period				
Attributable to equity holders of the Company	4,344	3,003	8,803	5,476
Attributable to non-controlling interest	144	(119)	(112)	(101)
	4,488	2,884	8,691	5,375

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

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Interim condensed consolidated statement of financial position

(In millions of Rubles)

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Assets			
Non-current assets			
Property and equipment	7	289,533	288,408
Right-of-use assets		78,061	85,485
Intangible assets, other than goodwill	7	76,579	80,845
Goodwill		30,549	30,549
Investments in associates and joint ventures		65,484	68,385
Non-current financial assets	8	124,115	15,239
Non-current non-financial assets		9,932	9,092
Deferred tax assets		747	848
Total non-current assets		675,000	578,851
Current assets			
Inventory		9,621	10,257
Current non-financial assets		8,848	7,432
Prepaid income taxes		3,074	3,908
Trade and other receivables		36,382	37,104
Other current financial assets	8	8,599	2,898
Cash and cash equivalents		24,368	52,706
Total current assets		90,892	114,305
Total assets		765,892	693,156
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		216,368	104,956
Non-controlling interests		(542)	(307)
Total equity		215,826	104,649
Non-current liabilities			
Loans and borrowings	8	327,301	350,066
Other non-current financial liabilities	8	1,643	2,552
Non-current non-financial liabilities		4,085	4,000
Non-current lease liabilities		70,396	77,315
Provisions		6,647	6,380
Deferred tax liabilities		30,474	34,601
Total non-current liabilities		440,546	474,914
Current liabilities			
Trade and other payables		41,934	54,607
Loans and borrowings	8	32,411	25,692
Other current financial liabilities	8	230	251
Current non-financial liabilities		19,388	18,264
Current lease liabilities		14,765	13,584
Income taxes payable		792	1,195
Total current liabilities		109,520	113,593
Total equity and liabilities		765,892	693,156

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

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Interim condensed consolidated statement of changes in equity

(In millions of Rubles)

For the six months ended 30 June 2020 and 30 June 2019

Notes	Attributable to equity holders of the Company									
	Ordinary shares		Treasury shares		Capital surplus	Retained earnings	Other capital reserves	Total	Non-controlling interests	Total equity
	Number of shares	Amount	Number of shares	Amount						
As of 1 January 2019	620,000,000	526	139,616,537	(94,087)	12,567	151,766	(105)	70,667	(264)	70,403
Profit/(loss) for the period	—	—	—	—	—	5,124	—	5,124	(37)	5,087
Other comprehensive income/(loss)	—	—	—	—	—	—	352	352	(64)	288
Total comprehensive income/(loss)	—	—	—	—	—	5,124	352	5,476	(101)	5,375
Purchase of outstanding shares	—	—	131,212,843	(86,574)	—	—	—	(86,574)	—	(86,574)
Sale of own shares	—	—	(86,800,000)	58,958	—	(3,232)	—	55,726	—	55,726
As of 30 June 2019 (unaudited)	620,000,000	526	184,029,380	(121,703)	12,567	153,658	247	45,295	(365)	44,930
As of 1 January 2020	620,000,000	526	184,029,380	(121,703)	12,567	155,642	57,924	104,956	(307)	104,649
Profit/(loss) for the period	—	—	—	—	—	9,144	—	9,144	(34)	9,110
Other comprehensive loss	—	—	—	—	—	—	(341)	(341)	(78)	(419)
Total comprehensive income/(loss)	—	—	—	—	—	9,144	(341)	8,803	(112)	8,691
Acquisition of a non-controlling interest	—	—	—	—	—	—	—	—	(19)	(19)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(104)	(104)
Sale of own shares	4	—	(184,029,380)	121,703	—	(17,797)	—	103,906	—	103,906
Revaluation relating to disposed assets	—	—	—	—	—	38	(38)	—	—	—
Discount on related party loan	—	—	—	—	—	(1,297)	—	(1,297)	—	(1,297)
As of 30 June 2020 (unaudited)	620,000,000	526	—	—	12,567	145,730	57,545	216,368	(542)	215,826

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

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Interim condensed consolidated statement of cash flows

(In millions of Rubles)

	Note	Six months ended 30 June	
		2020	2019
		(Unaudited)	
Operating activities			
Profit before tax		12,018	6,667
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation		25,508	32,974
Amortisation		10,909	10,037
Loss on disposal of non-current assets		113	106
(Gain)/loss on financial instruments, net		(983)	1,901
Foreign exchange loss/(gain), net		2,409	(1,503)
Share of loss of associates and joint ventures		3,250	2,268
Change in impairment allowance for receivables and other non-financial assets		1,749	1,426
Finance costs		20,515	22,221
Finance income		(3,896)	(1,109)
Working capital adjustments:			
Decrease in inventory		636	913
Increase in trade and other receivables		(703)	(3,043)
Increase in current non-financial assets		(2,475)	(868)
Decrease in trade and other payables		(11,617)	(1,503)
Decrease in current non-financial liabilities		(454)	(1,946)
Change in VAT, net		2,055	4,085
Income tax paid		(1,819)	(2,140)
Net cash flows received from operating activities		57,215	70,486
Investing activities			
Purchase of property, equipment and intangible assets	7	(26,383)	(27,037)
Proceeds from sale of property and equipment	7	23	31
Payment of deferred and contingent consideration		(218)	—
Purchase of interest in associates		—	(220)
Net change in deposits	8	(5,674)	4,141
Loans granted	10	(8,500)	(2,250)
Repayments of loans granted		—	2,550
Interest received		1,245	874
Sale of associates and joint ventures		—	268
Net cash flows used in investing activities		(39,507)	(21,643)
Financing activities			
Proceeds from borrowings, net of fees paid		20,942	146,812
Repayment of borrowings		(38,614)	(90,038)
Interest paid		(20,850)	(20,627)
Purchase of outstanding shares		—	(86,574)
Dividends paid to non-controlling interests		(73)	—
Lease payments		(6,631)	(5,588)
Net cash flows used in financing activities		(45,226)	(56,015)
Net decrease in cash and cash equivalents		(27,518)	(7,172)
Net foreign exchange difference		(820)	(970)
Cash and cash equivalents at beginning of period		52,706	27,214
Cash and cash equivalents at end of period		24,368	19,072

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

MegaFon

Notes to interim condensed consolidated financial statements

1. General

Public Joint Stock Company MegaFon (“MegaFon”, the “Company” and, together with its consolidated subsidiaries, the “Group”) is a company incorporated under the laws of the Russian Federation 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 June 2020, the outstanding shares of the Company are held, as to 56.32%, by AF Telecom Holding LLC, a company incorporated in the Russian Federation, and as to the remaining 43.68%, by its 100% parent, USM Telecom LLC, a company incorporated in the Russian Federation. The ultimate controlling party of both AF Telecom Holding LLC and USM Telecom LLC 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 USM Holding Company LLC or its corporate 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 2019.

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 2019 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 2019 audited consolidated financial statements.

The interim condensed consolidated financial statements are presented in millions of Rubles.

The interim condensed consolidated financial statements were authorised for issue by the Company’s Chief Executive Officer (“CEO”) and Chief Accountant on 12 August 2020.

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 2019, except for the adoption of the revised Conceptual Framework, Amendments to IFRS 3, *Definition of a Business*, Amendments to IAS 1 and IAS 8, *Definition of Material*, and some other amendments effective from 1 January 2020 which did not have an impact on the Group's interim condensed consolidated financial statements.

4. Transactions with own shares

On 25 March 2020 the Group sold 29.68% of the Company's issued ordinary shares with a total cost of 121,703 to a related party USM Telecom LLC for cash consideration of 121,323 (or 659.26 Rubles per ordinary share) payable by 31 March 2023. The Group recognised the receivable due from the related party at fair value which was estimated by discounting the expected cash flows using the prevailing market rate of interest for a similar instrument. The discount has been recognised directly in retained earnings in equity as the receivable is treated as a transaction with a shareholder.

5. Segment information

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

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

Operating segments with similar economic characteristics, such as forecasted OIBDA, have been aggregated into an integrated telecommunication services segment, which is the only reportable segment. Around 1.9% of the Group's revenues and results are generated by segments outside of Russia. No single customer represents 10% or more of the consolidated revenues.

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

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Notes to interim condensed consolidated financial statements

5. Segment information (continued)

Reconciliation of OIBDA to profit before tax for the six months ended 30 June is presented below:

	Three months ended 30 June		Six months ended 30 June	
	2020 (Unaudited)	2019	2020 (Unaudited)	2019
OIBDA	35,625	38,904	71,638	74,130
Depreciation	(12,617)	(16,770)	(25,508)	(32,974)
Amortisation	(5,576)	(5,091)	(10,909)	(10,037)
Loss on disposal of non-current assets	(232)	(8)	(113)	(106)
Finance costs	(10,025)	(12,019)	(20,515)	(22,221)
Finance income	2,664	398	3,896	1,109
Share of loss of associates and joint ventures	(1,758)	(1,012)	(3,250)	(2,268)
Foreign exchange (loss)/gain, net	(529)	298	(2,409)	1,503
Gain/(loss) on financial instruments, net	(961)	(522)	983	(1,901)
Other non-operating expenses, net	(1,269)	(287)	(1,795)	(568)
Profit before tax	5,322	3,891	12,018	6,667

Disaggregation of revenue

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

	Three months ended 30 June		Six months ended 30 June	
	2020 (Unaudited)	2019	2020 (Unaudited)	2019
Wireless services	66,543	72,055	133,393	138,380
Wireline services	6,764	6,699	13,307	13,140
Sales of equipment and accessories	5,236	6,886	11,395	14,248
Total revenue	78,543	85,640	158,095	165,768

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 service revenue is recognised over time as the services are rendered to clients.

6. 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. 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.

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Notes to interim condensed consolidated financial statements

6. Seasonality of operations (continued)

During April-June of 2020 the level of the Group's services was impacted by "stay-at-home" orders issued by governmental authorities in response to the outbreak of the coronavirus (*Note 11*). From the middle of June the lockdown restrictions have been gradually removed. While efforts to deal with the coronavirus are expected to continue during the remainder of 2020, the Group believes that any impact will be temporary in nature.

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.

7. Property, equipment and intangible assets

Starting from 1 January 2020 the Group revised the useful lives for its property and equipment considering past experience and expectations derived from the analysis of technological trends, the Group's networks upgrade practices and other factors impacting useful lives. The revised useful lives are as follows:

Telecommunications network	5 to 20 years
Buildings and structures	5 to 100 years
Vehicles, office and other equipment	3 to 10 years

The change in estimates resulted in a reduction of approximately 12,000 in the depreciation expense for the six months ended 30 June 2020.

During the six months ended 30 June 2020, the Group acquired property and equipment with a cost of 17,874 (2019: 18,804). Assets with a net book value of 335 were disposed of by the Group during the six months ended 30 June 2020 (2019: 180), resulting in a net loss on disposal of 315 (2019: 132). Capitalised borrowing costs were 414 and 1,294 for the six months ended 30 June 2020 and 2019, respectively.

During the six months ended 30 June 2020, the Group acquired intangible assets with a cost of 6,748 (2019: 5,583).

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Notes to interim condensed consolidated financial statements

8. Financial assets and liabilities

Fair values

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

		Carrying amount		Fair value	
		30 June 2020	31 December 2019	30 June 2020	31 December 2019
Financial assets					
Financial assets at fair value through profit or loss:					
Investments in City-Mobil	Level 3	431	431	431	431
Cross-currency swaps not designated as hedges	Level 2	62	—	62	—
Other	Level 3	125	125	125	125
Financial assets at amortised cost:					
Short-term bank deposits	Level 2	5,598	—	5,598	—
Amounts due from related parties	Level 2	125,931	16,814	127,367	16,814
Other deposits	Level 2	362	407	362	407
Other	Level 3	205	360	205	360
Total financial assets		132,714	18,137	134,150	18,137
Financial liabilities					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	272,708	288,755	282,157	305,689
Ruble bonds	Level 1	87,004	87,003	86,560	86,263
Deferred and contingent consideration	Level 2	391	568	391	568
Other liabilities	Level 3	711	665	711	665
Financial liabilities at fair value through profit or loss:					
Cross-currency swaps not designated as hedges	Level 2	771	1,570	771	1,570
Total financial liabilities		361,585	378,561	370,590	394,755

Loans and borrowings

In March-April 2020 the Group drew down from different banks 20,000 under fixed-rate Ruble-denominated facilities for terms of two-three years to refinance a Ruble-denominated fixed-rate loan in the amount of 20,000 which was due in 2022.

In June 2020 the Group refinanced its fixed-rate Ruble-denominated loans in the amount of 102,205 which were due in the period 2021-2024 and which are now due over the period 2022-2027.

In June 2020 the Group early repaid approximately 16,000 of Ruble-denominated fixed-rate loans, which were due in 2020 and in 2022.

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Notes to interim condensed consolidated financial statements

8. Financial assets and liabilities (continued)

Valuation techniques and assumptions

Management has determined that cash, short-term deposits, other financial assets, trade receivables, trade payables, bank overdrafts and other current financial 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 values of the Group's amounts due from related parties, loans and borrowings and other liabilities carried at amortised cost, except for market quoted ruble bonds, are determined by using a discounted cash flow method applying 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 2020 and 31 December 2019 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 six months ended 30 June 2020 there were no transfers between levels of the fair value hierarchy.

9. 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 six months ended 30 June in the interim condensed consolidated income statement are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
Current income tax	1,194	1,893	2,252	4,603
Deferred income tax	167	(963)	656	(3,023)
Total income tax expense	1,361	930	2,908	1,580

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Notes to interim condensed consolidated financial statements

10. 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		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
Revenues from USM group	19	18	50	32
Revenues from Svyaznoy group	59	1,559	93	2,693
Revenue from X-Holding	3	—	3	—
Revenues from MGL	77	39	143	56
	158	1,616	289	2,781
Services from USM group	43	46	82	79
Services from Svyaznoy group	827	925	1,566	1,881
Services from Garden Ring	100	83	252	171
Services from X-Holding	197	—	197	—
Services from AER	34	—	36	—
Services from MGL	13	2	27	2
	1,214	1,056	2,160	2,133

	30 June	31 December
	2020	2019
Due from USM group	120,103	11,344
Due from Svyaznoy group	13,613	13,305
Due from Garden Ring	5,679	5,525
Due from X-Holding	920	—
Due from MGL	26	22
	140,341	30,196

Due to USM group	213	332
Due to Svyaznoy group	679	302
Due to X-Holding	3,982	—
Due to AER	1,692	1,608
Due to MGL	67	70
	6,633	2,312

Terms and conditions of transactions with related parties

Outstanding balances as of 30 June 2020 and 31 December 2019 are unsecured. As of 30 June 2020 the Group recorded an allowance of 422 for expected credit losses in respect of amounts owed by related parties (31 December 2019: nil).

During 2019 the Group provided guarantees for obligations payable by the Svyaznoy group in the amount of up to 12,700 (*Note 11*).

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Notes to interim condensed consolidated financial statements

10. Related parties (continued)

USM group

The outstanding balances and transactions with USM group relate to operations with USM Telecom LLC, USM Holding Company LLC, the Group's parent, and their consolidated subsidiaries.

In March 2020 the Group sold its ordinary shares to USM Telecom LLC for total consideration of 121,323 (*Note 4*). The outstanding balance with the USM group as of 30 June 2020 mostly relates to this sale. The receivable is due to be settled on or before 31 March 2023.

In December 2019 and during the six months ended 30 June 2020 the Group made interest-free loans to USM Telecom LLC totaling 21,060 due to be settled on or before 30 June 2021 and on or before 30 June 2023, respectively.

Svyaznoy

Svyaznoy is an associated company of the Group. The Group has a dealership agreement and equipment purchase agreements with the Svyaznoy group which qualify as related party transactions. Dealer commissions for connection of new subscribers which represent incremental costs of obtaining a customer contract are deferred and recognised in sales and marketing expenses over the expected contract term.

Garden Ring

Garden Ring, which owns and operates an office building in the center of Moscow, is the Group's joint venture with Sberbank. The Group has a lease agreement with Garden Ring which qualifies as a related party transaction. The Group recognised an asset in the amount of 5,786 (2019: 6,940) and a liability of 6,259 (2019: 7,148) in respect of the lease as at 30 June 2020. Utilities expenses in the amount of 252 were recognised directly in operating expenses in the interim condensed consolidated income statement (2019: 171).

The Group also has a loan receivable from Garden Ring. The balance due from Garden Ring at 30 June 2020 consists mainly of the loan receivable. Interest income of 220 was recognised in respect of the loan for the six months ended 30 June 2020 (2019: 219).

AER loan

AliExpress Russia Holding PTE. LTD ("AER") is an associated company of the Group. In October 2019 the Group received an interest-free loan in the amount of 1,921 for a term of up to 3 years from AER.

10. Related parties (continued)

X-Holding

X-Holding is a group of IT companies incorporated in Russia which is 99%-owned by Mr. Cherepennikov, who became a member of the Company's board of directors in June 2020. The Group purchased network equipment and related support services from X-Holding in the amount of 2,476 during the period from early June 2020 when the company was classified as a related party to 30 June 2020. The outstanding balances with X-Holding as of 30 June 2020 mainly relate to such purchases.

MGL

The Group owns a 2.03% economic (26.7% voting) interest in Mail.Ru Group Limited ("MGL") through an associated company JSC MF Technologies. During the six months ended 30 June 2020 the Group purchased software and related support services from MGL in the amount of 109 (2019: 200).

11. Commitments, contingencies and uncertainties

Russian operating environment

During 2019 and the six months ended 30 June 2020, the Russian economy was impacted by the downturn in the worldwide economy, introduction of an extended lockdown period in Russia and in other countries, closure of borders triggered by an outbreak of coronavirus, significant fluctuations in prices of energy resources and the value of the Russian Ruble, as well as sanctions imposed on Russia by several countries. The combination of the above resulted in fluctuations in cost of capital 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 during the current worldwide pandemic. However, further deterioration of the economic situation may negatively impact the results and financial position of the Group. Currently it is not feasible to assess the amount of the possible impact.

4G/LTE licence capital commitments

In July 2012, the Federal Service for Supervision in Communications, Information Technologies and Mass Media granted the Company licences and allocated frequencies to provide services under the 4G/LTE standard in Russia. Under the terms and conditions of these licences, the Group had certain obligations to provide 4G/LTE services and make capital expenditures. The Group has fulfilled all of the obligations.

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

11. Commitments, contingencies and uncertainties (continued)

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 over the remaining term of the agreements for each base station in use as at the date of termination. The amount of the commitments at 30 June 2020 is 5,893 (31 December 2019: 5,896).

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 loss in the interim condensed consolidated income statement.

Taxation

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

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

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

As of 30 June 2020 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 1,175 (31 December 2019: 928).

11. Commitments, contingencies and uncertainties (continued)

Svyaznoy guarantees

During 2019 the Group provided guarantees for obligations payable by the Svyaznoy group in the amount of up to 12,700 (*Note 10*). The guarantees remain in effect for one year after maturity of the underlying obligation. The Group recorded a provision for expected losses under the guarantees in the amount of 94 in the 'Share of loss of associates and joint ventures' line in the interim condensed consolidated income statement.

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 requires the Group to establish additional data centers and invest in data-processing technologies.

Based on the current understanding of the law's requirements, the Group expects that the implementation of the changes may cost it approximately 25,000-30,000 over the three year period beginning in 2020.