



Interim condensed consolidated financial statements  
(Unaudited)

*For the nine months ended 30 September 2020*

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

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

  
Ammosova E. V.  
JSC "KPMG"  
Moscow, Russia  
25 November 2020



Reviewed 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 global organization of independent member firms affiliated with KPMG International Limited ("KPMG International"), a private English company limited by guarantee.

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 September		Nine months ended 30 September	
		2020	2019	2020	2019
		(Unaudited)		(Unaudited)	
<b>Revenue</b>	5	<b>86,522</b>	<b>89,991</b>	<b>244,617</b>	<b>255,759</b>
<b>Operating expenses</b>					
Cost of revenue		26,014	29,200	70,637	76,891
Sales and marketing expenses		4,526	4,583	13,260	14,709
General and administrative expenses		16,129	17,238	49,229	51,059
Depreciation	7	12,842	17,003	38,350	49,977
Amortisation		5,554	5,127	16,463	15,164
Loss on disposal of non-current assets	7	167	162	280	268
<b>Total operating expenses</b>		<b>65,232</b>	<b>73,313</b>	<b>188,219</b>	<b>208,068</b>
<b>Operating profit</b>		<b>21,290</b>	<b>16,678</b>	<b>56,398</b>	<b>47,691</b>
Finance costs		(9,035)	(11,640)	(29,550)	(33,861)
Finance income		2,459	287	6,355	1,396
Share of loss of associates and joint ventures		(300)	(633)	(3,550)	(2,901)
Other non-operating expenses		(517)	(182)	(2,312)	(750)
Gain/(loss) on financial instruments, net	8	1,937	(289)	2,920	(2,190)
Foreign exchange (loss)/gain, net		1,177	439	(1,232)	1,942
<b>Profit before tax</b>		<b>17,011</b>	<b>4,660</b>	<b>29,029</b>	<b>11,327</b>
Income tax expense	9	3,856	1,410	6,764	2,990
<b>Profit for the period</b>		<b>13,155</b>	<b>3,250</b>	<b>22,265</b>	<b>8,337</b>
Attributable to equity holders of the Company		13,086	3,202	22,230	8,326
Attributable to non-controlling interest		69	48	35	11
		<b>13,155</b>	<b>3,250</b>	<b>22,265</b>	<b>8,337</b>

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)

	Three months		Nine months	
	ended 30 September		ended 30 September	
Note	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
<b>Profit for the period</b>	<b>13,155</b>	<b>3,250</b>	<b>22,265</b>	<b>8,337</b>
<b>Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:</b>				
Foreign currency translation difference, net of tax	(1,093)	(134)	(1,512)	154
<b>Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods</b>	<b>(1,093)</b>	<b>(134)</b>	<b>(1,512)</b>	<b>154</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>12,062</b>	<b>3,116</b>	<b>20,753</b>	<b>8,491</b>
<b>Total comprehensive income for the period</b>				
Attributable to equity holders of the Company	12,161	3,090	20,964	8,566
Attributable to non-controlling interest	(99)	26	(211)	(75)
	<b>12,062</b>	<b>3,116</b>	<b>20,753</b>	<b>8,491</b>

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)

		<b>30 September 2020</b>	<b>31 December 2019</b>
	<b>Note</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	7	289,551	288,408
Right-of-use assets		75,872	85,485
Intangible assets, other than goodwill	7	73,716	80,845
Goodwill		30,549	30,549
Investments in associates and joint ventures		64,798	68,385
Non-current financial assets	8	119,072	15,239
Non-current non-financial assets		9,311	9,092
Deferred tax assets		784	848
<b>Total non-current assets</b>		<b>663,653</b>	<b>578,851</b>
<b>Current assets</b>			
Inventory		9,155	10,257
Current non-financial assets		9,249	7,432
Prepaid income taxes		1,209	3,908
Trade and other receivables		35,279	37,104
Other current financial assets	8	12,020	2,898
Cash and cash equivalents		43,384	52,706
<b>Total current assets</b>		<b>110,296</b>	<b>114,305</b>
<b>Total assets</b>		<b>773,949</b>	<b>693,156</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Equity attributable to equity holders of the Company		228,427	104,956
Non-controlling interests		(641)	(307)
<b>Total equity</b>		<b>227,786</b>	<b>104,649</b>
<b>Non-current liabilities</b>			
Loans and borrowings	8	328,043	350,066
Other non-current financial liabilities	8	1,169	2,552
Non-current non-financial liabilities		4,027	4,000
Non-current lease liabilities		68,336	77,315
Provisions		6,785	6,380
Deferred tax liabilities		32,023	34,601
<b>Total non-current liabilities</b>		<b>440,383</b>	<b>474,914</b>
<b>Current liabilities</b>			
Trade and other payables		40,776	54,607
Loans and borrowings	8	28,328	25,692
Other current financial liabilities	8	16	251
Current non-financial liabilities		21,104	18,264
Current lease liabilities		15,217	13,584
Income taxes payable		339	1,195
<b>Total current liabilities</b>		<b>105,780</b>	<b>113,593</b>
<b>Total equity and liabilities</b>		<b>773,949</b>	<b>693,156</b>

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 2020 and 30 September 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						
<b>As of 1 January 2019</b>	<b>620,000,000</b>	<b>526</b>	<b>139,616,537</b>	<b>(94,087)</b>	<b>12,567</b>	<b>151,766</b>	<b>(105)</b>	<b>70,667</b>	<b>(264)</b>	<b>70,403</b>
Profit for the period	—	—	—	—	—	8,326	—	<b>8,326</b>	11	<b>8,337</b>
Other comprehensive income/(loss)	—	—	—	—	—	—	240	<b>240</b>	(86)	<b>154</b>
<b>Total comprehensive income/(loss)</b>	—	—	—	—	—	<b>8,326</b>	<b>240</b>	<b>8,566</b>	<b>(75)</b>	<b>8,491</b>
Purchase of outstanding shares	—	—	131,212,843	(86,574)	—	—	—	<b>(86,574)</b>	—	<b>(86,574)</b>
Sale of own shares	—	—	(86,800,000)	58,958	—	(3,232)	—	<b>55,726</b>	—	<b>55,726</b>
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	15	<b>15</b>
<b>As of 30 September 2019 (unaudited)</b>	<b>620,000,000</b>	<b>526</b>	<b>184,029,380</b>	<b>(121,703)</b>	<b>12,567</b>	<b>156,860</b>	<b>135</b>	<b>48,385</b>	<b>(324)</b>	<b>48,061</b>
<b>As of 1 January 2020</b>	<b>620,000,000</b>	<b>526</b>	<b>184,029,380</b>	<b>(121,703)</b>	<b>12,567</b>	<b>155,642</b>	<b>57,924</b>	<b>104,956</b>	<b>(307)</b>	<b>104,649</b>
Profit for the period	—	—	—	—	—	22,230	—	<b>22,230</b>	35	<b>22,265</b>
Other comprehensive loss	—	—	—	—	—	—	(1,266)	<b>(1,266)</b>	(246)	<b>(1,512)</b>
<b>Total comprehensive income/(loss)</b>	—	—	—	—	—	<b>22,230</b>	<b>(1,266)</b>	<b>20,964</b>	<b>(211)</b>	<b>20,753</b>
Acquisition of a non-controlling interest	—	—	—	—	—	—	—	—	(19)	<b>(19)</b>
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(104)	<b>(104)</b>
Sale of own shares	4	—	(184,029,380)	121,703	—	(17,797)	—	<b>103,906</b>	—	<b>103,906</b>
Revaluation relating to disposed assets	—	—	—	—	—	52	(52)	—	—	—
Discount on related party loan	—	—	—	—	—	(1,399)	—	<b>(1,399)</b>	—	<b>(1,399)</b>
<b>As of 30 September 2020 (unaudited)</b>	<b>620,000,000</b>	<b>526</b>	—	—	<b>12,567</b>	<b>158,728</b>	<b>56,606</b>	<b>228,427</b>	<b>(641)</b>	<b>227,786</b>

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	
		2020	2019
		<b>30 September</b>	
		<b>(Unaudited)</b>	
<b>Operating activities</b>			
Profit before tax		29,029	11,327
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation		38,350	49,977
Amortisation		16,463	15,164
Loss on disposal of non-current assets		280	268
(Gain)/loss on financial instruments, net		(2,920)	2,190
Foreign exchange loss/(gain), net		1,232	(1,942)
Share of loss of associates and joint ventures		3,550	2,901
Change in impairment allowance for receivables and other non-financial assets		2,251	2,295
Finance costs		29,550	33,861
Finance income		(6,355)	(1,396)
Working capital adjustments:			
Decrease in inventory		1,102	867
Decrease/(increase) in trade and other receivables		360	(8,315)
Increase in current non-financial assets		(2,306)	(1,343)
(Decrease)/increase in trade and other payables		(11,949)	3,056
Decrease in current non-financial liabilities		(587)	(1,434)
Change in VAT, net		4,007	5,982
Income tax paid		(2,717)	(3,793)
<b>Net cash flows received from operating activities</b>		<b>99,340</b>	<b>109,665</b>
<b>Investing activities</b>			
Purchase of property, equipment and intangible assets	7	(38,060)	(41,664)
Proceeds from sale of property and equipment	7	50	238
Acquisition of subsidiaries, net of cash acquired		—	47
Payment of deferred and contingent consideration		(218)	—
Purchase of interest in associates		—	(278)
Net change in deposits	8	228	4,141
Loans granted	10	(9,450)	(2,250)
Repayments of loans granted		—	2,550
Interest received		1,458	1,024
Sale of associates and joint ventures		—	268
<b>Net cash flows used in investing activities</b>		<b>(45,992)</b>	<b>(35,924)</b>
<b>Financing activities</b>			
Proceeds from borrowings, net of fees paid		22,119	171,946
Repayment of borrowings		(45,231)	(121,615)
Interest paid		(30,488)	(32,455)
Purchase of outstanding shares		—	(86,574)
Dividends paid to non-controlling interests		(136)	—
Lease payments		(10,451)	(8,627)
<b>Net cash flows used in financing activities</b>		<b>(64,187)</b>	<b>(77,325)</b>
Net decrease in cash and cash equivalents		(10,839)	(3,584)
Net foreign exchange difference		1,517	(884)
Cash and cash equivalents at beginning of period		52,706	27,214
<b>Cash and cash equivalents at end of period</b>		<b>43,384</b>	<b>22,746</b>

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 September 2020, the outstanding shares of the Company are held, as to 50%, by AF Telecom Holding LLC, a company incorporated in the Russian Federation, and as to the remaining 50%, 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 25 November 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 used and disclosures made by other entities.

# MegaFon

## Notes to interim condensed consolidated financial statements

### 5. Segment information (continued)

Reconciliation of OIBDA to profit before tax for the three and nine months ended 30 September is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)
<b>OIBDA</b>	<b>39,853</b>	<b>38,970</b>	<b>111,491</b>	<b>113,100</b>
Depreciation	(12,842)	(17,003)	(38,350)	(49,977)
Amortisation	(5,554)	(5,127)	(16,463)	(15,164)
Loss on disposal of non-current assets	(167)	(162)	(280)	(268)
Finance costs	(9,035)	(11,640)	(29,550)	(33,861)
Finance income	2,459	287	6,355	1,396
Share of loss of associates and joint ventures	(300)	(633)	(3,550)	(2,901)
Foreign exchange (loss)/gain, net	1,177	439	(1,232)	1,942
Gain/(loss) on financial instruments, net	1,937	(289)	2,920	(2,190)
Other non-operating expenses, net	(517)	(182)	(2,312)	(750)
<b>Profit before tax</b>	<b>17,011</b>	<b>4,660</b>	<b>29,029</b>	<b>11,327</b>

### Disaggregation of revenue

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

	Three months ended 30 September		Nine months ended 30 September	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)
Wireless services	70,810	71,236	204,253	209,616
Wireline services	7,274	7,670	20,581	20,810
Sales of equipment and accessories	8,438	11,085	19,783	25,333
<b>Total revenue</b>	<b>86,522</b>	<b>89,991</b>	<b>244,617</b>	<b>255,759</b>

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.

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## Notes to interim condensed consolidated financial statements

### 6. Seasonality of operations (continued)

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.

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 18,000 in the depreciation expense for the nine months ended 30 September 2020.

During the nine months ended 30 September 2020, the Group acquired property and equipment with a cost of 26,128 (2019: 26,893). Assets with a net book value of 555 were disposed of by the Group during the nine months ended 30 September 2020 (2019: 347), resulting in a net loss on disposal of 508 (2019: 283). Capitalised borrowing costs were 577 and 1,305 for the nine months ended 30 September 2020 and 2019, respectively.

During the nine months ended 30 September 2020, the Group acquired intangible assets with a cost of 9,465 (2019: 9,101).

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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 September 2020 (Unaudited)	31 December 2019	30 September 2020 (Unaudited)	31 December 2019
<b>Financial assets</b>					
Financial assets at fair value through profit or loss:					
Investments in City-Mobil	Level 3	431	431	431	431
Derivatives not designated as hedges	Level 2	1,250	—	1,250	—
Other	Level 3	125	125	125	125
Financial assets at amortised cost:					
Amounts due from related parties	Level 2	129,005	16,814	130,088	16,814
Other deposits	Level 2	80	407	80	407
Other	Level 3	201	360	201	360
<b>Total financial assets</b>		<b>131,092</b>	<b>18,137</b>	<b>132,175</b>	<b>18,137</b>
<b>Financial liabilities</b>					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	269,838	288,755	260,878	305,689
Ruble bonds	Level 1	86,533	87,003	82,153	86,263
Deferred and contingent consideration	Level 2	398	568	398	568
Other liabilities	Level 3	749	665	749	665
Financial liabilities at fair value through profit or loss:					
Derivatives not designated as hedges	Level 2	38	1,570	38	1,570
<b>Total financial liabilities</b>		<b>357,556</b>	<b>378,561</b>	<b>344,216</b>	<b>394,755</b>

#### *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.

**8. Financial assets and liabilities (continued)**

*Derivative financial instruments*

In July 2020 the Company entered into interest rate collar agreements with a combined notional amount of 38,000 that limit the exposure from changes in the interest rates on certain long-term debt. The terms of the interest rate collar agreements did not meet the requirements for hedge accounting, therefore the Group reported all gains and losses from the change in fair value of these derivative financial instruments directly in the interim condensed consolidated income statement.

*Valuation techniques and assumptions*

Management has determined that cash, short-term deposits, other financial assets, trade receivables, trade payables, bank overdrafts and other current 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, and 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 September 2020 and 31 December 2019 was assessed to be insignificant.

The fair values of derivatives (cross-currency swaps and interest rate collars) 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 and expected interest rates, market volatility, foreign exchange spot and forward rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

During the nine months ended 30 September 2020 there were no transfers between levels of the fair value hierarchy.

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## Notes to interim condensed consolidated financial statements

### 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 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	
	2020	2019	2020	2019
Current income tax	2,313	1,720	4,565	6,323
Deferred income tax	1,543	(310)	2,199	(3,333)
<b>Total income tax expense</b>	<b>3,856</b>	<b>1,410</b>	<b>6,764</b>	<b>2,990</b>

### 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 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
Revenues from USM group	23	16	76	48
Revenues from Svyaznoy group	35	3,739	128	6,432
Revenues from AER	2	—	2	—
Revenues from MGL	47	55	190	111
	<b>107</b>	<b>3,810</b>	<b>396</b>	<b>6,591</b>
Services from USM group	538	45	817	124
Services from Svyaznoy group	714	527	2,280	2,408
Services from Garden Ring	85	75	337	246
Services from AER	42	—	78	—
Services from MGL	24	14	51	16
	<b>1,403</b>	<b>661</b>	<b>3,563</b>	<b>2,794</b>

	30 September 2020	31 December 2019
Due from USM group	123,693	11,344
Due from Svyaznoy group	12,696	13,305
Due from Garden Ring	5,792	5,525
Due from AER	1	—
Due from MGL	18	22
	<b>142,200</b>	<b>30,196</b>

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## Notes to interim condensed consolidated financial statements

### 10. Related parties (continued)

	<b>30 September 2020</b>	<b>31 December 2019</b>
Due to USM group	4,123	332
Due to Svyaznoy group	238	302
Due to Garden Ring	2	—
Due to AER	1,676	1,608
Due to MGL	65	70
	<b>6,104</b>	<b>2,312</b>

#### *Terms and conditions of transactions with related parties*

As of 30 September 2020 the Group recorded an allowance of 431 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*).

#### *USM group*

The outstanding balances and transactions with USM group relate to operations with USM Telecom LLC, USM Holding Company LLC, the Group's ultimate controlling party, and their 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 due from the USM group as of 30 September 2020 mostly relates to this sale. The receivable is due to be settled on or before 31 March 2023 and is secured by the ordinary shares sold to USM Telecom LLC.

In December 2019 and during the nine months ended 30 September 2020 the Group made interest-free loans to USM Telecom LLC totaling 22,010 with different tranches maturing in 2021, 2022 and 2023.

The Group purchased network equipment and related support services from X-Holding, another member of the USM group, in the amount of 7,314 during the period from June 2020 when the company was classified as a related party to 30 September 2020. The outstanding balances due to the USM group as of 30 September 2020 mainly relate to these purchases.

#### *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.



**10. 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. The Group recognised an asset in the amount of 5,485 (2019: 6,368) and a liability of 6,014 (2019: 6,761) in respect of the lease as at 30 September 2020. Maintenance expenses in the amount of 337 were recognised directly in operating expenses in the interim condensed consolidated income statement (2019: 246).

The Group also has a loan receivable from Garden Ring. The balance due from Garden Ring at 30 September 2020 consists mainly of the loan receivable. Interest income of 331 was recognised in respect of the loan for the nine months ended 30 September 2020 (2019: 330).

*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.

*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 nine months ended 30 September 2020 the Group purchased software and related support services from MGL in the amount of 177 (2019: 234).

**11. Commitments, contingencies and uncertainties***Russian operating environment*

During the nine months ended 30 September 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, and the closure of borders, all triggered by an outbreak of coronavirus, as well as decreases in prices of energy resources and the value of the Russian Ruble and sanctions imposed on Russia by several countries. The combination of the above resulted in fluctuations in the cost of capital and uncertainty regarding future economic growth.

Management believes it is taking appropriate measures to support the sustainability of the Group's business during the current difficult conditions. 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.

**11. Commitments, contingencies and uncertainties (continued)**

*4G/LTE licence capital commitments*

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. 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 September 2020 is 5,681 (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.

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## Notes to interim condensed consolidated financial statements

### **11. Commitments, contingencies and uncertainties (continued)**

As of 30 September 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 779 (31 December 2019: 928).

#### *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.

### **12. Events after the reporting date**

In October 2020 the Group early repaid 10,000 of Ruble-denominated fixed-rate loans, which were due in 2022.