



Interim condensed consolidated financial statements
(Unaudited)

For the three months ended 31 March 2021

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

To the 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 31 March 2021, and the related interim condensed consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the interim condensed consolidated financial statements (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements as at 31 March 2021 and for the three-month period then ended are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.


Ammosova E. V.
JSC "KPMG"
Moscow, Russia
26 May 2021



Reviewed entity: PJSC MegaFon.

Registration number in the Unified State Register of Legal Entities:
No. 1027809169585

Moscow, Russia.

Audit firm: JSC "KPMG", a company incorporated under the Laws of the Russian Federation.

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

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). Principal registration number of the entry in the Register of Auditors and Audit Organizations: No. 12006020351.

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Interim condensed consolidated income statement

(In millions of Rubles)

	Note	Three months ended 31 March	
		2021 (Unaudited)	2020
Revenue		81,132	79,552
Operating expenses			
Cost of revenue		23,598	22,281
Sales and marketing expenses		4,104	4,246
General and administrative expenses		17,317	17,012
Depreciation	8	13,755	12,891
Amortisation		5,804	5,333
Loss/(gain) on disposal of non-current assets	8	172	(119)
Total operating expenses		64,750	61,644
Operating profit		16,382	17,908
Finance costs		(8,236)	(10,490)
Finance income		2,542	1,232
Share of loss of associates and joint ventures and gain from START investment revaluation	4	(972)	(1,492)
Other non-operating expenses		(601)	(526)
Gain on financial instruments, net	9	260	1,944
Foreign exchange gain/(loss), net		774	(1,880)
Profit before tax		10,149	6,696
Income tax expense	11	2,405	1,547
Profit for the period		7,744	5,149
Attributable to equity holders of the Company		7,555	5,172
Attributable to non-controlling interest		189	(23)
		7,744	5,149

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 31 March	
	2021	2020
	(Unaudited)	
	<hr/>	<hr/>
Profit for the period	7,744	5,149
Other comprehensive loss that may be reclassified to loss in subsequent periods:		
Foreign currency translation difference, net of tax	(509)	(946)
Net other comprehensive loss that may be reclassified to loss in subsequent periods	(509)	(946)
Total comprehensive income for the period, net of tax	7,235	4,203
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the period		
Attributable to equity holders of the Company	7,075	4,459
Attributable to non-controlling interest	160	(256)
	7,235	4,203
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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)

		31 March 2021	31 December 2020
	Note	(Unaudited)	(Audited)
Assets			
Non-current assets			
Property and equipment	8	287,514	292,283
Right-of-use assets		71,918	74,114
Intangible assets, other than goodwill	8	73,998	75,346
Goodwill	4	34,201	30,578
Investments in associates and joint ventures	5	33,790	66,914
Non-current financial assets	9	133,877	129,277
Non-current non-financial assets		9,487	9,096
Deferred tax assets		1,367	1,309
Total non-current assets		646,152	678,917
Current assets			
Inventory		11,089	9,659
Current non-financial assets		9,457	9,065
Prepaid income taxes		836	1,102
Trade and other receivables		28,883	28,008
Other current financial assets	9	13,583	12,201
Cash and cash equivalents		17,107	34,614
Assets held for sale	5	27,095	—
Total current assets		108,050	94,649
Total assets		754,202	773,566
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		240,200	233,548
Non-controlling interests	10	1,123	(524)
Total equity		241,323	233,024
Non-current liabilities			
Loans and borrowings	9	254,650	272,675
Other non-current financial liabilities	9	622	667
Non-current non-financial liabilities		4,174	3,968
Non-current lease liabilities		64,625	65,979
Provisions		7,851	7,715
Deferred tax liabilities		34,338	33,572
Total non-current liabilities		366,260	384,576
Current liabilities			
Trade and other payables		37,566	44,171
Loans and borrowings	9	70,562	73,862
Other current financial liabilities	9	117	209
Current non-financial liabilities		22,105	21,054
Current lease liabilities		15,811	16,296
Income taxes payable		458	374
Total current liabilities		146,619	155,966
Total equity and liabilities		754,202	773,566

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

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Interim condensed consolidated statement of changes in equity

(In millions of Rubles)

For the three months ended 31 March 2021 and 31 March 2020

Note	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 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	—	—	—	—	—	5,172	—	5,172	(23)	5,149
Other comprehensive loss	—	—	—	—	—	—	(713)	(713)	(233)	(946)
Total comprehensive income	—	—	—	—	—	5,172	(713)	4,459	(256)	4,203
Sale of own shares	—	—	(184,029,380)	121,703	—	(17,797)	—	103,906	—	103,906
Discount on related party loan	—	—	—	—	—	(383)	—	(383)	—	(383)
As of 31 March 2020 (unaudited)	620,000,000	526	—	—	12,567	142,634	57,211	212,938	(563)	212,375
As of 1 January 2021	620,000,000	526	—	—	12,567	162,382	58,073	233,548	(524)	233,024
Profit for the period	—	—	—	—	—	7,555	—	7,555	189	7,744
Other comprehensive loss	—	—	—	—	—	—	(480)	(480)	(29)	(509)
Total comprehensive income	—	—	—	—	—	7,555	(480)	7,075	160	7,235
Acquisition of a non-controlling interest	4	—	—	—	—	—	—	—	1,487	1,487
Revaluation amounts on disposed assets	—	—	—	—	—	63	(63)	—	—	—
Discount on related party loan	—	—	—	—	—	(423)	—	(423)	—	(423)
As of 31 March 2021 (unaudited)	620,000,000	526	—	—	12,567	169,577	57,530	240,200	1,123	241,323

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	Three months ended 31 March 2021 (Unaudited)	2020
Operating activities			
Profit before tax		10,149	6,696
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation		13,755	12,891
Amortisation		5,804	5,333
Loss/(gain) on disposal of non-current assets		172	(119)
Gain on financial instruments, net		(260)	(1,944)
Foreign exchange (gain)/loss, net		(774)	1,880
Share of loss of associates and joint ventures and gain from START investment revaluation		972	1,492
Change in impairment allowance for receivables and other non-financial assets		752	632
Finance costs		8,236	10,490
Finance income		(2,542)	(1,232)
Working capital adjustments:			
Increase in inventory		(1,429)	(2,871)
Increase in trade and other receivables		(382)	(1,446)
Increase in current non-financial assets		(324)	(1,877)
Increase/(decrease) in trade and other payables		844	(4,566)
Decrease in current non-financial liabilities		(1,394)	(80)
Change in VAT, net		978	2,395
Income tax paid		(1,014)	(1,107)
Net cash flows received from operating activities		33,543	26,567
Investing activities			
Purchase of property, equipment and intangible assets	8	(15,193)	(14,181)
Proceeds from sale of property and equipment	8	34	7
Acquisitions of subsidiaries, net of cash acquired	4	2,270	—
Purchase of interest in joint ventures and associates		(38)	—
Loans granted	12	(4,036)	(2,500)
Interest received		151	754
Net cash flows used in investing activities		(16,812)	(15,920)
Financing activities			
Proceeds from borrowings, net of fees paid		57,652	17,823
Repayment of borrowings		(79,100)	(19,208)
Interest paid		(8,977)	(11,053)
Dividends paid to non-controlling interests		—	(57)
Lease payments		(4,018)	(3,002)
Net cash flows used in financing activities		(34,443)	(15,497)
Net decrease in cash and cash equivalents		(17,712)	(4,850)
Net foreign exchange difference		205	173
Cash and cash equivalents at beginning of period		34,614	52,706
Cash and cash equivalents at end of period		17,107	48,029

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

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Notes to interim condensed consolidated financial statements

1. General

Public Joint Stock Company MegaFon (“MegaFon”, the “Company” and, together with its consolidated subsidiaries, the “Group”) is a company incorporated under the laws of the Russian Federation and registered in the Unified State Register of Legal Entities under number 1027809169585. Its registered office is at 41 Oruzheyniy lane, Moscow, 127006, Russian Federation.

MegaFon is a leading pan-Russian operator of digital opportunities and offers a broad range of telecommunication and digital services to retail customers, businesses, government clients and telecommunication services providers.

As of 31 March 2021, 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 2020.

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 2020 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 2020 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 26 May 2021.

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 2020.

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Notes to interim condensed consolidated financial statements

4. Business combinations

START

By 31 December 2020 the Group acquired a 33.8% interest in the share capital of LLC Digital Media Holding, a Russian limited liability company, which represented a 25% interest in the corporate group consisting of LLC Digital Media Holding and its operating subsidiaries (“START”). START provides media and production services. The primary reason for the acquisition was to invest in a promising fast developing media services business which will be attractive to the Group’s content-consuming clients.

In January 2021 the Group increased its share in START to 50% via a 3,000 cash contribution to LLC Digital Media Holding of which 2,600 was paid in December 2020 and 400 in February 2021. Based on the manner in which START is managed, the Company concluded that it has the ability to direct relevant activities of START and therefore has control over the group. Accordingly, the Group has consolidated START from the beginning of 2021 when control was obtained.

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

Cash	3,000
Fair value of 25% investment	<u>2,111</u>
Total consideration transferred	<u><u>5,111</u></u>

The acquisition of START was accounted for using the acquisition method. The carrying value of the Group’s initial 25% investment in START has been re-set to fair value based on a discounted cash flow method. The Group recognised a 490 gain on this re-set in line ‘Share of loss of associates and joint ventures and gain from START investment revaluation’ of the interim condensed consolidated income statement.

The Group has elected to measure the non-controlling interest (“NCI”) in START as equal to its proportionate interest in the identifiable net assets of START.

The table below includes the preliminary purchase price allocation between the specific assets acquired and liabilities assumed based on their estimated fair values:

Assets	
Property and equipment	28
Intangible assets	2,353
Trade and other receivables	1,003
Other assets	261
Cash and cash equivalents	<u>2,670</u>
	<u>6,315</u>
Liabilities	
Trade and other payables	(745)
Loans and borrowings	(1,329)
Other liabilities	<u>(1,266)</u>
	<u>(3,340)</u>

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Notes to interim condensed consolidated financial statements

4. Business combinations (continued)

Total identifiable net assets at fair value	2,975
Goodwill arising on acquisition	3,623
NCI	(1,487)
Purchase consideration transferred	<u>5,111</u>

From the date of the acquisition, START has contributed 1,290 of revenue and 555 to the profit before tax of the Group.

The goodwill recognised is attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of START. It is not expected to be deductible for income tax purposes. Management is still assessing the allocation of goodwill among cash generating units ('CGUs').

5. Assets held for sale

In March 2021 the Group's management committed to selling 20,366,400 shares, which represents approximately 20.6% of total share capital, of AliExpress Russia Holding PTE. LTD ("AER") via a call and put option agreement with USM Investments Limited ("USMI") effective after 31 March 2021 and exercisable between 6 April 2021 and 31 December 2022 as to the call option and between 1 December 2022 and 31 December 2022 as to the put option - both at a price of 1,702 Rubles per share. Accordingly, as at 31 March 2021 the Group reclassified the respective investment in the amount of 27,095 from 'Investments in associates and joint ventures' to 'Assets held for sale' of the interim condensed consolidated statement of financial position.

6. 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 to 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 one integrated geographical operating segment within Russia, which represented the only reportable segment as of 31 March 2021 and which provided 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.

Around 2% 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

6. Segment information (continued)

Reconciliation of OIBDA to profit before tax for the three months ended 31 March is presented below:

	Three months ended 31 March	
	2021	2020
OIBDA	36,113	36,013
Depreciation	(13,755)	(12,891)
Amortisation	(5,804)	(5,333)
(Loss)/gain on disposal of non-current assets	(172)	119
Finance costs	(8,236)	(10,490)
Finance income	2,542	1,232
Share of loss of associates and joint ventures and gain from START investment revaluation	(972)	(1,492)
Other non-operating expenses, net	(601)	(526)
Gain on financial instruments, net	260	1,944
Foreign exchange gain/(loss), net	774	(1,880)
Profit before tax	10,149	6,696

Disaggregation of revenue

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

	Three months ended 31 March	
	2021	2020
Wireless services	67,460	66,850
Wireline services	6,629	6,543
Sales of equipment and accessories	7,043	6,159
Total revenue	81,132	79,552

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.

7. 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.

Notes to interim condensed consolidated financial statements

7. Seasonality of operations (continued)

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.

8. Property, equipment and intangible assets

During the three months ended 31 March 2021, the Group acquired property and equipment with a cost of 4,942 (2020: 7,877). Assets with a net book value of 290 were disposed of by the Group during the three months ended 31 March 2021 (2020: 185), resulting in a net loss on disposal of 200 (2020: loss 120). Capitalised borrowing costs were 94 and 226 for the three months ended 31 March 2021 and 2020, respectively.

During three months ended 31 March 2021, the Group acquired intangible assets with a cost of 2,146 (2020: 3,616).

9. Financial assets and liabilities*Fair values*

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

		Carrying amount		Fair value	
		31 March 2021	31 December 2020	31 March 2021	31 December 2020
Financial assets					
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	1,571	1,444	1,571	1,444
Other	Level 3	—	125	—	125
Financial assets at amortised cost:					
Amounts due from related parties	Level 2	145,071	139,155	145,753	139,926
Other deposits	Level 2	144	31	144	31
Other	Level 3	243	292	243	292
Total financial assets		147,460	141,478	148,142	142,249
Financial liabilities					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	258,851	259,492	261,919	274,626
Actively traded Ruble bonds	Level 1	40,842	56,518	41,576	56,490
Not actively traded Ruble bonds	Level 2	25,519	30,527	27,765	35,176
Other liabilities	Level 3	622	633	622	633
Financial liabilities at fair value through profit or loss:					
Derivatives not designated as hedges	Level 2	117	243	117	243
Total financial liabilities		325,951	347,413	331,999	367,168

9. Financial assets and liabilities (continued)

Ruble bonds

In February 2021 the Group redeemed in full at par its BO-001P-04 bonds in an aggregate principal amount of 20,000. The Group initially issued these bonds in February 2018 with a maturity of three years at an interest rate of 7.2% per annum.

Loans and borrowings

In March 2021 the Group refinanced its fixed-rate Ruble-denominated loans in the amount of 43,000 which were due in the period 2022-2023 and which are now due over the period 2023-2024.

Valuation techniques and assumptions

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.

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 fair values of the Group's amounts due from related parties, and loans and borrowings and other liabilities carried at amortised cost, except for actively traded 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 31 March 2021 and 31 December 2020 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 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 three months ended 31 March 2021 there were no transfers between levels of the fair value hierarchy.

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Notes to interim condensed consolidated financial statements

10. Non-controlling interest

The only subsidiary of the Group that has a material NCI is LLC Digital Media Holding, which is based in Russia and was acquired in the beginning of 2021, with a NCI of 50% (*Note 4*). The carrying value of NCI of LLC Digital Media Holding at 31 March 2021 is 1,692. The amounts allocated to the NCI for the three months ended 31 March 2021 include profit of 205.

The summarised financial information of START is provided below.

Summarised income statement for the three months ended 31 March 2021:

	<u>START</u>
Revenue	1,290
Profit and total comprehensive income for the period	410

Net decrease in cash and cash equivalents amounted to 276 for the three months ended 31 March 2021.

Summarised statement of financial position as at 31 March 2021:

	<u>START</u>
Non-current assets	3,417
Current assets	3,021
Non-current liabilities	(1,689)
Current liabilities	(1,364)
Total equity	<u>3,385</u>
Attributable to:	
Equity holders of the Company	1,693
NCI	1,692

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Notes to interim condensed consolidated financial statements

11. Income tax

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

The major components of income tax expense for the three months ended 31 March in the interim condensed consolidated income statement are as follows:

	Three months ended 31 March	
	2021	2020
Current income tax	1,592	1,058
Deferred income tax	813	489
Total income tax expense	2,405	1,547

12. Related parties

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

	Three months ended 31 March	
	2021	2020
Revenues from USM group	54	31
Revenues from Svyaznoy group	26	34
Revenues from MGL	40	66
	120	131
Services from USM group	1,427	39
Services from Svyaznoy group	464	739
Services from Garden Ring	102	152
Services from AER	18	2
Services from MGL	125	14
	2,136	946
	31 March	31 December
	2021	2020
Due from USM group	140,342	135,503
Due from Svyaznoy group	8,404	8,705
Due from Garden Ring	6,031	5,903
Due from AER	47	158
Due from MGL	78	115
	154,902	150,384

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Notes to interim condensed consolidated financial statements

12. Related parties (continued)

	31 March 2021	31 December 2020
Due to USM group	2,677	6,496
Due to Svyaznoy group	491	263
Due to Garden Ring	18	33
Due to AER	1,752	1,725
Due to MGL	113	157
	5,051	8,674

Terms and conditions of transactions with related parties

As at 31 March 2021 the Group recorded an allowance of 345 for expected credit losses in respect of amounts owed by related parties (31 December 2020: 345).

As at 31 March 2021 and 31 December 2020 the Group provided guarantees for obligations of the Svyaznoy group to third parties in the amount of up to 12,700 (*Note 13*).

USM group

The outstanding balances and transactions with the USM group relate to transactions with USM Telecom LLC, USM Holding Company LLC, the Group's ultimate controlling company, and their subsidiaries.

In March 2020 the Group sold its ordinary shares to USM Telecom LLC for total consideration of 121,323. The outstanding balance due from the USM group as of 31 March 2021 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 2019, 2020 and 2021 the Group made interest-free loans totaling 33,560 to USM Telecom LLC with different tranches maturing in 2021, 2022, 2023 and 2024. In January 2021 the Group also made a fixed-rate 1,000 loan to a company within the USM group maturing in December 2021.

The Group purchased network equipment and related support services from LLC ICS Holding, another member of the USM group, and its subsidiaries in the amount of 2,343 during the three month ended 31 March 2021. The outstanding balances due to the USM group mainly relate to these purchases. Approximately 1,000 of advance payments for such purchases is included into the balances due from the USM group as at 31 March 2021.

AER loan

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.

12. Related parties (continued)

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 4,953 (31 December 2020: 5,233) and a liability of 5,602 (31 December 2020: 5,835) in respect of the lease as at 31 March 2021. Maintenance expenses in the amount of 102 were recognised directly in operating expenses in the interim condensed consolidated income statement (2020: 152).

The Group also has a loan receivable from Garden Ring. The balance due from Garden Ring at 31 March 2021 consists mainly of the loan receivable. Interest income of 109 was recognised in respect of the loan for the three months ended 31 March 2021 (2020: 110).

MGL

The Group owns an approximately 2% economic (26.7% voting) interest in Mail.Ru Group Limited ("MGL") through an associated company JSC MF Technologies. During the three months ended 31 March 2021 the Group purchased software from MGL in the amount of approximately 125 (2020: 40).

13. Commitments, contingencies and uncertainties

Russian operating environment

During 2020 and the three months ended 31 March 2021, 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.

13. 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 modernization, which have been extended for a further year.

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 remainder of the extended term of the agreements for each base station in use as at the date of termination. The amount of the commitments at 31 March 2021 is 8,359 (31 December 2020: 8,644).

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.

13. Commitments, contingencies and uncertainties (continued)

As of 31 March 2021 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 942 (31 December 2020: 893).

Svyaznoy guarantees

As at 31 March 2021 and 31 December 2020 the Group provided guarantees for obligations of the Svyaznoy group to third parties in the amount of up to 12,700 (*Note 12*). 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 as at 31 March 2021 (31 December 2020: 94).

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.

The Group has started implementation of the changes and based on the current understanding of the law's requirements, the Group expects that full implementation of the changes may cost it approximately 15,000-20,000 over the two year period beginning in 2021.

14. Events after the reporting date

In May 2021 the Group decided to early redeem its series BO-001P-02 Ruble denominated bonds in the amount of 10,000. The Group initially issued these bonds in June 2016 with a maturity of ten years at an interest rate of 9.9% per annum. The Group had the right to redeem the bonds at its discretion in five and seven years from the issue date. On 4 June 2021 the bonds will be redeemed in full.