



Interim condensed consolidated financial statements
(Unaudited)

For the nine months ended 30 September 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

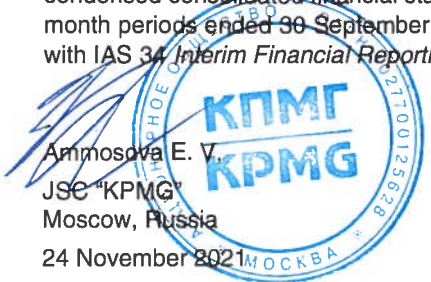
We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC MegaFon (the "Company") and its subsidiaries (the "Group") as at 30 September 2021, and the related interim condensed consolidated income statements and statements of other comprehensive income for the three- and nine-month periods ended 30 September 2021, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine-month period ended 30 September 2021, 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 2021 and for the three- and nine-month periods ended 30 September 2021 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.


Ammosova E. V.
JSC "KPMG"
Moscow, Russia
24 November 2021

Reviewed entity PJSC MegaFon.

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

Moscow, Russia

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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.

MegaFon

Interim condensed consolidated income statement

(In millions of Rubles)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2021	2020	2021	2020
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue		91,844	86,522	257,105	244,617
Operating expenses					
Cost of revenue		29,777	26,014	78,278	70,637
Sales and marketing expenses		5,152	4,526	14,204	13,260
General and administrative expenses		17,565	16,129	51,529	49,229
Depreciation		14,365	12,842	42,026	38,350
Amortisation		5,937	5,554	17,598	16,463
Loss on disposal of non-current assets		135	167	525	280
Total operating expenses		72,931	65,232	204,160	188,219
Operating profit		18,913	21,290	52,945	56,398
Finance costs		(8,068)	(9,035)	(24,203)	(29,550)
Finance income		3,089	2,459	8,138	6,355
Share of loss of associates and joint ventures and gain from START investment revaluation	4	(103)	(300)	(1,732)	(3,550)
Other non-operating expenses		(596)	(517)	(1,606)	(2,312)
Gain on financial instruments, net	10	3,919	1,937	9,470	2,920
Foreign exchange gain/(loss), net		327	1,177	649	(1,232)
Profit before tax		17,481	17,011	43,661	29,029
Income tax expense	12	3,730	3,856	9,204	6,764
Profit for the period		13,751	13,155	34,457	22,265
Attributable to equity holders of the Company		13,519	13,086	33,753	22,230
Attributable to non-controlling interest		232	69	704	35
		13,751	13,155	34,457	22,265

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		Nine months	
	ended 30 September		ended 30 September	
Note	2021	2020	2021	2020
	(Unaudited)		(Unaudited)	
Profit for the period	13,751	13,155	34,457	22,265
Other comprehensive loss that may be reclassified to loss in subsequent periods:				
Foreign currency translation difference, net of tax	(19)	(1,093)	(687)	(1,512)
Net other comprehensive loss that may be reclassified to loss in subsequent periods	(19)	(1,093)	(687)	(1,512)
Total comprehensive income for the period, net of tax	13,732	12,062	33,770	20,753
Total comprehensive income for the period				
Attributable to equity holders of the Company	13,505	12,161	33,046	20,964
Attributable to non-controlling interest	227	(99)	724	(211)
	13,732	12,062	33,770	20,753

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)

		30 September 2021	31 December 2020
	Note	(Unaudited)	(Audited)
Assets			
Non-current assets			
Property and equipment	9	285,250	292,283
Right-of-use assets		67,102	74,114
Intangible assets, other than goodwill	9	68,817	75,346
Goodwill	4	34,201	30,578
Investments in associates and joint ventures	5	35,630	66,914
Non-current financial assets	10	158,156	129,277
Non-current non-financial assets		9,494	9,096
Deferred tax assets		1,365	1,309
Total non-current assets		660,015	678,917
Current assets			
Inventory		9,585	9,659
Current non-financial assets		12,723	9,065
Prepaid income taxes		489	1,102
Trade and other receivables		31,576	28,008
Other current financial assets	10	21,493	12,201
Cash and cash equivalents		34,304	34,614
Total current assets		110,170	94,649
Total assets		770,185	773,566
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		190,485	233,548
Non-controlling interests	11	1,969	(524)
Total equity		192,454	233,024
Non-current liabilities			
Loans and borrowings	10	197,911	272,675
Other non-current financial liabilities	10	152	667
Non-current non-financial liabilities		3,276	3,968
Non-current lease liabilities		60,786	65,979
Provisions		8,115	7,715
Deferred tax liabilities		35,003	33,572
Total non-current liabilities		305,243	384,576
Current liabilities			
Trade and other payables		39,038	44,171
Dividends payable	6	69,998	—
Loans and borrowings	10	124,340	73,862
Other current financial liabilities	10	13	209
Current non-financial liabilities		23,168	21,054
Current lease liabilities		15,290	16,296
Income taxes payable		641	374
Total current liabilities		272,488	155,966
Total equity and liabilities		770,185	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 nine months ended 30 September 2021 and 30 September 2020

Notes	Attributable to equity holders of the Company								Non-controlling interests	Total equity
	Ordinary shares		Treasury shares		Capital surplus	Retained earnings	Other capital reserves	Total		
	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 for the period	—	—	—	—	—	22,230	—	22,230	35	22,265
Other comprehensive loss	—	—	—	—	—	—	(1,266)	(1,266)	(246)	(1,512)
Total comprehensive income/(loss)	—	—	—	—	—	22,230	(1,266)	20,964	(211)	20,753
Acquisition of a non-controlling interest	—	—	—	—	—	—	—	—	(19)	(19)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(104)	(104)
Sale of own shares	—	—	(184,029,380)	121,703	—	(17,797)	—	103,906	—	103,906
Revaluation relating to disposed assets	—	—	—	—	—	52	(52)	—	—	—
Discount on related party loan	—	—	—	—	—	(1,399)	—	(1,399)	—	(1,399)
As of 30 September 2020 (unaudited)	620,000,000	526	—	—	12,567	158,728	56,606	228,427	(641)	227,786
As of 1 January 2021	620,000,000	526	—	—	12,567	162,382	58,073	233,548	(524)	233,024
Profit for the period	—	—	—	—	—	33,753	—	33,753	704	34,457
Other comprehensive (loss)/income	—	—	—	—	—	—	(707)	(707)	20	(687)
Total comprehensive income	—	—	—	—	—	33,753	(707)	33,046	724	33,770
Dividends	6	—	—	—	—	(69,998)	—	(69,998)	—	(69,998)
Acquisition of non-controlling interests	4	—	—	—	—	672	—	672	1,839	2,511
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(70)	(70)
Revaluation amounts on disposed assets	—	—	—	—	—	97	(97)	—	—	—
Discount on amounts due from related parties	5,13	—	—	—	—	(6,783)	—	(6,783)	—	(6,783)
As of 30 September 2021 (unaudited)	620,000,000	526	—	—	12,567	120,123	57,269	190,485	1,969	192,454

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)

		Nine months ended	
		30 September	
	Note	2021	2020
		(Unaudited)	
Operating activities			
Profit before tax		43,661	29,029
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation		42,026	38,350
Amortisation		17,598	16,463
Loss on disposal of non-current assets		525	280
Gain on financial instruments, net		(9,470)	(2,920)
Foreign exchange (gain)/loss, net		(649)	1,232
Share of loss of associates and joint ventures and gain from START investment revaluation		1,732	3,550
Change in impairment allowance for receivables and other non-financial assets		1,571	2,251
Finance costs		24,203	29,550
Finance income		(8,138)	(6,355)
Working capital adjustments:			
Decrease in inventory		75	1,102
(Increase)/decrease in trade and other receivables		(4,104)	360
Increase in current non-financial assets		(3,300)	(2,306)
Increase/(decrease) in trade and other payables		1,264	(11,949)
Decrease in current non-financial liabilities		(1,598)	(587)
Change in VAT, net		536	4,007
Income tax paid		(4,982)	(2,717)
Net cash flows received from operating activities		100,950	99,340
Investing activities			
Purchase of property, equipment and intangible assets		(38,482)	(38,060)
Proceeds from sale of property and equipment		160	50
Acquisition of subsidiaries, net of cash acquired	4	2,670	—
Proceeds from sale of interest in associates	5	7,300	—
Purchase of interest in associates	5	(7,540)	—
Payment of deferred and contingent consideration		—	(218)
Net change in deposits		—	228
Loans granted	13	(5,550)	(9,450)
Interest received		476	1,458
Cash received for financial instruments		125	—
Cash paid for financial instruments		(362)	—
Other		47	—
Net cash flows used in investing activities		(41,156)	(45,992)
Financing activities			
Proceeds from borrowings, net of fees paid		70,096	22,119
Repayment of borrowings		(94,002)	(45,231)
Interest paid		(24,442)	(30,488)
Proceeds from sale of non-controlling interests	4	1,024	—
Dividends paid to non-controlling interests		(108)	(136)
Lease payments		(12,455)	(10,451)
Net cash flows used in financing activities		(59,887)	(64,187)
Net decrease in cash and cash equivalents		(93)	(10,839)
Net foreign exchange difference		(217)	1,517
Cash and cash equivalents at beginning of period		34,614	52,706
Cash and cash equivalents at end of period		34,304	43,384

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 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 24 November 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.

MegaFon

Notes to interim condensed consolidated financial statements

4. Business combinations

START

In 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 from the beginning of 2021 and therefore has control over the group. Accordingly, the Group has consolidated START from the beginning of 2021.

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 step 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	5,111

From the date of the acquisition, START has contributed 4,296 to revenue and 1,558 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. Investments in associates and joint ventures

Sale of AER shares

On 5 August 2021 USMI exercised the AER call option, which was signed by USMI and the Group in the first half of 2021, accordingly, the Group sold its 24,000,000 shares of AER to USMI for cash consideration of 40,853 of which part was received in August 2021 and the remaining part is due in the later periods.

The Group recognised the receivable at fair value which was estimated by discounting the expected cash flows using the prevailing market rate of interest for a similar instrument. The difference between the fair value and the nominal value of the receivable of 4,126, net of tax, has been recognised directly in retained earnings in equity as the receivable is treated as a transaction with a company under common control.

The sale resulted in 3,856 gain recognised in line 'Gain on financial instruments, net' of the interim condensed consolidated income statement for the three months ended 30 September 2021. The sale and the prior revaluation of the AER options and AER investment to fair value resulted in 9,409 gain recognised in line 'Gain on financial instruments, net' of the interim condensed consolidated income statement for the nine months ended 30 September 2021.

Investment in an entity in Uzbekistan

In September 2021 the Group made a cash contribution of 7,502 to LLC Digital Invest, a company registered in Russia and a 50/50 joint venture between MegaFon and USM Telecom LLC. LLC Digital Invest is a holding company which was set up to invest in LLC Digital Holding.

Then in September 2021 LLC Digital Invest made a capital contribution to LLC Digital Holding in the amount of \$100 million (7,251 at the exchange rate as of the payment date). As at 30 September 2021 the share of LLC Digital Invest in LLC Digital Holding was 51%.

MegaFon's primary reason for engaging in these transactions was to invest in a promising market and expand the Group's operations.

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Notes to interim condensed consolidated financial statements

5. Investments in associates and joint ventures (continued)

The provisional fair values of identified assets and liabilities of LLC Digital Invest reconciled to the Group's investment in LLC Digital Invest as at the date of acquisition are as follows:

Assets	
Non-current assets	15,002
Current assets	16,992
	<u>31,994</u>
Liabilities	
Non-current liabilities	(7,269)
Current liabilities	(1,631)
	<u>(8,900)</u>
Total identifiable net assets at fair value	23,094
NCI	(11,204)
Total identifiable net assets net of NCI	11,890
The Group's share in the investment	50%
The Group's share of identifiable net assets	5,945
Excess of the consideration transferred over the Group's share in the fair value of identifiable net assets	1,557
Purchase consideration transferred	<u>7,502</u>

The Group has not completed the assessment of the fair values of certain non-current assets, therefore the preliminary values of the assets as well as related deferred tax liabilities included in non-current other liabilities, NCI, and the excess of the consideration transferred over the Group's share in the fair value of identifiable net assets, may change.

6. Dividends

On 21 September 2021 the Extraordinary General Meeting of Shareholders of the Company approved the payment of a dividend in the amount of 69,998, or 112.9 Rubles per ordinary share, based upon the prior years' profits. The dividend was paid on 5 October 2021.

7. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM is responsible for allocating resources 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 30 September 2021 and which provided a broad range of voice, data and other telecommunication services, including wireless and wireline services, interconnection 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.

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Notes to interim condensed consolidated financial statements

7. Segment information (continued)

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

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

	Three months ended 30 September		Nine months ended 30 September	
	2021 (Unaudited)	2020	2021 (Unaudited)	2020
OIBDA	39,350	39,853	113,094	111,491
Depreciation	(14,365)	(12,842)	(42,026)	(38,350)
Amortisation	(5,937)	(5,554)	(17,598)	(16,463)
Loss on disposal of non-current assets	(135)	(167)	(525)	(280)
Finance costs	(8,068)	(9,035)	(24,203)	(29,550)
Finance income	3,089	2,459	8,138	6,355
Share of loss of associates and joint ventures and gain from START investment revaluation	(103)	(300)	(1,732)	(3,550)
Other non-operating expenses	(596)	(517)	(1,606)	(2,312)
Gain on financial instruments, net	3,919	1,937	9,470	2,920
Foreign exchange gain/(loss), net	327	1,177	649	(1,232)
Profit before tax	17,481	17,011	43,661	29,029

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.

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	
	2021 (Unaudited)	2020	2021 (Unaudited)	2020
Wireless services	72,349	70,810	208,118	204,253
Wireline services	8,419	7,274	21,938	20,581
Sales of equipment and accessories	10,154	8,438	24,697	19,783
Other	922	—	2,352	—
Total revenue	91,844	86,522	257,105	244,617

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.

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Notes to interim condensed consolidated financial statements

8. Seasonality of operations

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

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

9. Property, equipment and intangible assets

During the nine months ended 30 September 2021, the Group acquired property and equipment with a cost of 22,701 (2020: 26,128). Assets with a net book value of 832 were disposed of by the Group during the nine months ended 30 September 2021 (2020: 555), resulting in a net loss on disposal of 662 (2020: 508). Capitalised borrowing costs were 295 and 577 for the nine months ended 30 September 2021 and 2020, respectively.

During the nine months ended 30 September 2021, the Group acquired intangible assets with a cost of 8,871 (2020: 9,465).

10. 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 2021 (Unaudited)	31 December 2020	30 September 2021 (Unaudited)	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	1,580	1,444	1,580	1,444
Other	Level 3	—	125	—	125
Financial assets at amortised cost:					
Amounts due from related parties	Level 2	177,350	139,155	175,178	139,926
Other deposits	Level 2	94	31	94	31
Other	Level 3	194	292	194	292
Total financial assets		179,649	141,478	177,477	142,249

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Notes to interim condensed consolidated financial statements

10. Financial assets and liabilities (continued)

		Carrying amount		Fair value	
		30 September 2021 (Unaudited)	31 December 2020	30 September 2021 (Unaudited)	31 December 2020
Financial liabilities					
Financial liabilities at amortised cost:					
Dividends payable	Level 2	69,998	—	69,998	—
Loans and borrowings	Level 2	265,944	259,492	267,286	274,626
Actively traded Ruble bonds	Level 1	40,870	56,518	40,239	56,490
Not actively traded Ruble bonds	Level 2	15,437	30,527	16,107	35,176
Other liabilities	Level 3	152	633	152	633
Financial liabilities at fair value through profit or loss:					
Derivatives not designated as hedges	Level 2	13	243	13	243
Total financial liabilities		392,414	347,413	393,795	367,168

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.

In June 2021 the Group early redeemed in full 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.

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.

In May 2021 the Group drew down fixed-rate Ruble-denominated loans in the amount of 11,921 to refinance its BO-001P-02 Ruble denominated bonds and the AER loan (*Note 13*). The loans are due over the period 2022-2024.

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.

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Notes to interim condensed consolidated financial statements

10. Financial assets and liabilities (continued)

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 30 September 2021 and 31 December 2020 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 2021 there were no transfers between levels of the fair value hierarchy.

11. 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 (*Note 4*). The carrying value of the NCI of LLC Digital Media Holding at 30 September 2021 is 2,545. For the nine months ended 30 September 2021 profit of 669 has been allocated to the NCI.

The summarised financial information of START is provided below.

Summarised income statement for the three and nine months ended 30 September 2021:

	Three months	Nine months
Revenue	1,719	4,430
Profit and total comprehensive income for the period	318	1,266

Net decrease in cash and cash equivalents amounted to 457 for the nine months ended 30 September 2021.

Summarised statement of financial position as at 30 September 2021:

	START
Non-current assets	4,914
Current assets	3,019
Non-current liabilities	(1,859)
Current liabilities	(1,833)
Total equity	4,241
Attributable to:	
Equity holders of the Company	1,696
NCI	2,545

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Notes to interim condensed consolidated financial statements

12. 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	
	2021	2020	2021	2020
Current income tax	2,717	2,313	6,144	4,565
Deferred income tax	1,013	1,543	3,060	2,199
Total income tax expense	3,730	3,856	9,204	6,764

13. 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	
	2021	2020	2021	2020
Revenues from companies under common control	196	23	312	76
Revenues from Svyaznoy group	95	35	202	128
Revenues from MGL	30	47	99	190
Revenues from AER	—	2	4	2
	321	107	617	396

	Three months ended 30 September		Nine months ended 30 September	
	2021	2020	2021	2020
Services from companies under common control	1,643	538	4,515	817
Services from parent companies	166	—	298	—
Services from Svyaznoy group	909	175	1,752	1,946
Services from Garden Ring	89	85	294	337
Services from AER	71	42	111	78
Services from MGL	145	24	385	51
	3,023	864	7,355	3,229

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Notes to interim condensed consolidated financial statements

13. Related parties (continued)

	30 September 2021	31 December 2020
Due from parent companies	140,938	132,881
Due from companies under common control	32,848	2,622
Due from Svyaznoy group	9,041	8,705
Due from Garden Ring	6,261	5,903
Due from AER	393	158
Due from MGL	147	115
	189,628	150,384
Due to companies under common control	4,627	6,417
Due to parent companies	79	79
Due to Svyaznoy group	500	263
Due to Garden Ring	25	33
Due to AER	63	1,725
Due to MGL	232	157
	5,526	8,674

Terms and conditions of transactions with related parties

As of 30 September 2021 the Group recorded an allowance of 347 for expected credit losses in respect of amounts owed by related parties (31 December 2020: 345).

As at 30 September 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 14*).

Parent companies

The outstanding balances and transactions with the parent companies relate to transactions with USM Telecom LLC and AF Telecom Holding LLC.

In March 2020 the Group sold its ordinary shares to USM Telecom LLC for total consideration of 121,323. 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 October 2021 USM Telecom LLC made a partial payment in respect of the balance due in the amount of 33,800.

The outstanding balance due from the parent companies as of 30 September 2021 mostly relates to the above mentioned sales.

In 2019, 2020 and 2021 the Group made interest-free loans totaling 35,060 to USM Telecom LLC with different tranches maturing in 2022, 2023 and 2024; of those 4,500 were made during the nine months ended 30 September 2021 (30 September 2020: 9,450).

In June 2021, a 12,560 loan which was due from USM Telecom LLC in June 2021 has been extended to June 2024. Accordingly, a discount of 1,988, net of tax, resulting from the modification has been recognised directly in retained earnings in equity.

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Notes to interim condensed consolidated financial statements

13. Related parties (continued)

Companies under common control

The Group purchased network equipment and related support services from a company under common control, and its subsidiaries in the amount of 15,159 during the nine months ended 30 September 2021. The outstanding balances due to companies under common control mainly relate to these purchases. Approximately 758 of the balances due from companies under common control as at 30 September 2021 represents advance payments for such purchases.

In August 2021 the Group sold shares of AER to USMI for cash consideration of 40,853 of which part was received in August 2021 and the remaining part is due in the later periods (*Note 5*).

During the nine months ended 30 September 2021 the Group also made fixed-rate loans of 1,050 maturing in December 2024 to companies under common control.

AER loan

AER was 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. In June 2021 the Group early repaid the loan.

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 4,401 (31 December 2020: 5,233) and a liability of 5,133 (31 December 2020: 5,835) in respect of the lease as at 30 September 2021. Maintenance expenses in the amount of 294 were recognised directly in operating expenses in the interim condensed consolidated income statement (2020: 337). The Group also has a loan receivable from Garden Ring. The balance due from Garden Ring at 30 September 2021 consists mainly of the loan receivable. Interest income of 330 was recognised in respect of the loan for the nine months ended 30 September 2021 (2020: 331).

MGL

The Group owns an interest in Mail.Ru Group Limited ("MGL") through an associated company JSC MF Technologies. During the nine months ended 30 September 2021 the Group purchased software from MGL in the amount of approximately 504 (2020: 177).

14. Commitments, contingencies and uncertainties

Russian operating environment

During 2020 and the nine months ended 30 September 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.

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

The Group has two separate agreements with two suppliers to purchase equipment and software for construction and modernization of different generations of telecommunication network. Another agreement is effective for seven years beginning from 2021. And another is expiring at the end of the year and is about to be extended. 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 25% or 50% of the fees due over the remainder of the term for some of the base stations in use as at the date of termination. The amount of the commitments at 30 September 2021 is 4,105 (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.

14. Commitments, contingencies and uncertainties (continued)

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 September 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 838 (31 December 2020: 893).

Svyaznoy guarantees

As at 30 September 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*). 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 30 September 2021 (31 December 2020: 94).

Litigation

From time to time the Group, in the ordinary course of business, the Company and its 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' liabilities, 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.

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Notes to interim condensed consolidated financial statements

14. Commitments, contingencies and uncertainties (continued)

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.