Interim condensed consolidated financial statements
(Unaudited)

For the three months ended 31 March 2017

Contents

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

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

To the Board of Directors and Shareholders
PJSC MegaFon

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC MegaFon (the "Company") and its subsidiaries (the "Group") as at 31 March 2017, the interim condensed consolidated income statement, and the related condensed consolidated statements of other comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard 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 2017 and for the three-month period ended 31 March 2017 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Akylbek Y. A
Director
JSC "KPMG"
Moscow, Russia
24 May 2017

MegaFon

Interim condensed consolidated income statement

(In millions of Rubles, except per share amounts)

	Note	Three months ended 31 March 2017 (Unaudited)	2016
Revenues		**86,254**	**75,150**
Operating expenses			
Cost of revenues		24,168	21,169
Sales and marketing expenses		6,225	4,055
General and administrative expenses		23,741	19,679
Depreciation		14,405	12,715
Amortisation		4,272	1,867
Loss on disposal of non-current assets	8	79	105
Total operating expenses		**72,890**	**59,590**
Operating profit		**13,364**	**15,560**
Finance costs		(5,901)	(4,171)
Finance income		420	278
Share of loss of associates and joint ventures		(1,055)	(731)
Other non-operating expenses		(411)	(1,537)
Gain/(loss) on financial instruments, net		186	(53)
Foreign exchange (loss)/gain, net		(1,207)	2,083
Profit before tax		**5,396**	**11,429**
Income tax expense	10	1,217	2,663
Profit for the period		**4,179**	**8,766**
Profit/(loss) for the period			
Attributable to equity holders of the Company		3,884	8,837
Attributable to non-controlling interest		295	(71)
		4,179	**8,766**
Earnings per share, Rubles			
Basic and diluted, profit for the period attributable to equity holders of the Company		7	15

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)

	Note	Three months ended 31 March 2017	2016
		(Unaudited)	
Profit for the period		**4,179**	**8,766**
Other comprehensive income/(loss) items that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation difference, net of tax of nil		398	476
Net movement on cash flow hedges, net of tax	9	(439)	(255)
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		**(41)**	**221**
Total comprehensive income for the period, net of tax		**4,138**	**8,987**
Total comprehensive income for the period			
Attributable to equity holders of the Company		3,652	8,967
Attributable to non-controlling interest		486	20
		4,138	**8,987**

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

MegaFon

Interim condensed consolidated statement of financial position

(In millions of Rubles)

	Note	31 March 2017 (Unaudited)	31 December 2016 (Audited)
Assets			
Non-current assets			
Property and equipment	8	233,492	237,155
Intangible assets, other than goodwill	4,8	121,588	61,295
Goodwill	4	73,675	30,549
Investments in associates and joint ventures		44,828	45,234
Non-current financial assets	9	3,477	4,799
Non-current non-financial assets		4,671	3,039
Deferred tax assets		4,385	1,199
Total non-current assets		**486,116**	**383,270**
Current assets			
Inventory		9,059	9,354
Current non-financial assets		9,164	5,051
Prepaid income taxes		473	1,992
Trade and other receivables		24,709	19,352
Other current financial assets	9	16,434	10,842
Cash and cash equivalents		30,325	31,922
Total current assets		**90,164**	**78,513**
Total assets		**576,280**	**461,783**
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		127,818	124,166
Non-controlling interests	4	57,420	(43)
Total equity		**185,238**	**124,123**
Non-current liabilities			
Loans and borrowings	9	208,915	195,724
Other non-current financial liabilities	9	8,179	6,653
Non-current non-financial liabilities		6,116	2,605
Provisions		3,982	3,888
Deferred tax liabilities		28,997	20,812
Total non-current liabilities		**256,189**	**229,682**
Current liabilities			
Trade and other payables		40,473	43,581
Loans and borrowings	9	54,061	39,389
Dividends payable		—	2,839
Other current financial liabilities	9	10,867	3,538
Current non-financial liabilities		28,637	18,186
Income taxes payable	10	815	445
Total current liabilities		**134,853**	**107,978**
Total equity and liabilities		**576,280**	**461,783**

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 three months ended 31 March 2017 and 31 March 2016

		Attributable to equity holders of the Company									
		Ordinary shares		Treasury shares							
	Note	Number of shares	Amount	Number of shares	Amount	Capital surplus	Retained earnings	Other capital reserves	Total	Non-controlling interests	Total equity
As of 1 January 2016		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**152,425**	**(233)**	**147,898**	**(147)**	**147,751**
Net profit/(loss) for the period		—	—	—	—	—	8,837	—	8,837	(71)	**8,766**
Other comprehensive income		—	—	—	—	—	—	130	130	91	**221**
Total comprehensive income		—	—	—	—	—	**8,837**	**130**	**8,967**	**20**	**8,987**
As of 31 March 2016 (unaudited)		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**161,262**	**(103)**	**156,865**	**(127)**	**156,738**
As of 1 January 2017		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**129,890**	**(1,430)**	**124,166**	**(43)**	**124,123**
Net profit for the period		—	—	—	—	—	3,884	—	3,884	295	**4,179**
Other comprehensive income/(loss)		—	—	—	—	—	—	(232)	(232)	191	**(41)**
Total comprehensive income/(loss)		—	—	—	—	—	**3,884**	**(232)**	**3,652**	**486**	**4,138**
Equity-settled share-based compensation	7	—	—	—	—		—	—	—	790	**790**
Acquisition of MGL	4	—	—	—	—	—	—	—	—	56,187	**56,187**
As of 31 March 2017 (unaudited)		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**133,774**	**(1,662)**	**127,818**	**57,420**	**185,238**

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	Three months ended 31 March 2017 (Unaudited)	2016
Operating activities			
Profit before tax		5,396	11,429
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation		14,405	12,715
Amortisation		4,272	1,867
Loss on disposal of non-current assets		79	105
(Gain)/loss on financial instruments, net		(186)	53
Foreign exchange loss/(gain), net		1,207	(2,083)
Share of loss of associates and joint ventures		1,055	731
Change in impairment allowance for receivables and other non-financial assets		713	599
Finance costs		5,901	4,171
Finance income		(420)	(278)
Equity-settled share-based compensation	7	790	—
Other non-cash items		(34)	—
Working capital adjustments:			
Decrease/(increase) in inventory		321	(2,079)
(Increase)/decrease in trade and other receivables		(1,036)	2,043
Increase in current non-financial assets		(722)	(52)
Increase/(decrease) in trade and other payables		375	(2,010)
Increase/(decrease) in current non-financial liabilities		480	(1,651)
Change in VAT, net		2,643	1,447
Income tax paid		(1,875)	(1,216)
Net cash flows from operating activities		**33,364**	**25,791**
Investing activities			
Purchase of property, equipment and intangible assets	8	(20,269)	(17,000)
Acquisition of subsidiaries, net of cash acquired	4	(32,575)	—
Proceeds from sale of property and equipment	8	14	33
Payment of contingent consideration		(1,190)	(180)
Proceeds from sale of subsidiaries, net of cash		(43)	—
Loans granted	9	—	(3,388)
Repayments of loans granted	9	890	—
Net change in short-term demand deposits		(5,091)	—
Interest received		424	100
Net cash flows used in investing activities		**(57,840)**	**(20,435)**
Financing activities			
Proceeds from borrowings, net of fees paid		78,254	6,898
Repayment of borrowings		(45,458)	(9,637)
Interest paid		(5,266)	(3,617)
Dividends paid to equity holders of the Company		(2,839)	—
Finance lease payments		(6)	(22)
Net cash flows received from/(used in) financing activities		**24,685**	**(6,378)**
Net increase/(decrease) in cash and cash equivalents		209	(1,022)
Net foreign exchange difference		(1,806)	(796)
Cash and cash equivalents at beginning of period		31,922	17,449
Cash and cash equivalents at end of period		**30,325**	**15,631**

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

1. General

Public Joint Stock Company MegaFon ("MegaFon" or the "Company" and together with its consolidated subsidiaries the "Group") is a company incorporated under the laws of the Russian Federation ("Russia") and registered in the Unified State Register of Legal Entities under number 1027809169585. Its registered office is at 30 Kadashevskaya Embankment, Moscow, 115035, Russian Federation.

MegaFon is a leading provider of integrated digital communications in Russia and offers a broad range of voice, data and other telecommunication services to retail customers, businesses, government clients and other telecommunication services providers.

On 9 February 2017 the Group completed the acquisition of 15.2% of the shares, representing 63.8% of the voting rights, of Mail.Ru Group Limited ("MGL"), which is a leading company in the Russian-speaking internet market. The Group consolidated MGL starting from the beginning of 2017 *(Note 4).*

As of 31 March 2017, the Group is primarily owned by USM group, which is an indirect controlling shareholder, and by Telia Company and affiliates (Telia group), another major shareholder with significant influence over the Group. Telia Company is a publicly owned Swedish company.

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 2016.

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 2016 audited consolidated financial statements and in the 2016 audited consolidated financial statements of MGL, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequently to the issuance of its 2016 audited consolidated financial statements and the 2016 audited consolidated financial statements of MGL. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the Group's and MGL's 2016 audited consolidated financial statements and the notes related thereto. In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments necessary to present fairly the Group's financial position, financial performance and cash flows for the interim reporting period in accordance with IAS 34.

The accompanying interim condensed consolidated financial statements are presented in millions of Rubles, except for per share amounts which are in Rubles, unless otherwise indicated.

2. Basis of preparation (continued)

The interim condensed consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Accountant on 24 May 2017.

The Company changed the presentation of comparative interest paid and interest received in its interim condensed consolidated statement of cash flows for the three months ended 31 March 2016 in line with the presentation in its consolidated statement of cash flows for the year ended 31 December 2016. Interest paid has been moved from operating activities to financing activities in the amount of 3,258, interest paid and capitalised has been moved from investing activities to financing activities in the amount of 359; and interest received has been moved from operating activities to investing activities in the amount of 100.

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 2016, except for the adoption of new standards and interpretations effective from 1 January 2017.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017. These amendments did not have an impact on the interim condensed consolidated financial statements of the Group.

Disclosure Initiative – Amendments to IAS 7

These amendments require companies to provide information about changes in their financing liabilities. The amendments will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017. The amendments affect presentation and disclosure only and have no impact on the Group's financial position or performance.

4. Business combination

On 9 February 2017 the Group completed the acquisition of 15.2% of the shares, representing 63.8% of the voting rights of MGL, from three entities owned by USM group for a total consideration of $740 million (44,040 at the exchange rate as of the date of acquisition), consisting of cash consideration of $640 million (38,088 at the exchange rate as of the date of acquisition) and deferred consideration of $100 million (5,952 at the exchange rate as of the date of acquisition) plus interest at a rate not higher than 3 month USD LIBOR plus 4.38% per annum payable on or prior to the first anniversary of the acquisition date.

The primary reason for the acquisition was to achieve significant synergies for both companies, including enhancement of MegaFon's digital offerings and their distribution, launch of a special VKmobile offering for users of the VK social network, and other potential initiatives.

4. Business combination (continued)

Based on the current set-up of the Board of Directors of MGL, the Company concluded that it has the ability to direct relevant activities of MGL and therefore has control over the investee.

Accordingly, the Group has consolidated the financial position and the results of operations of MGL from the beginning of 2017.

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

Cash	38,088
Deferred consideration	5,952
Total consideration transferred	**44,040**

The acquisition of MGL was accounted for using the acquisition method. The Group has elected to measure the non-controlling interests ('NCI') in the acquiree at its proportionate interest in the identifiable net assets of the acquiree. The valuation of certain assets acquired and liabilities assumed has not been finalised as of the date these interim condensed consolidated financial statements were authorised for issue; thus, the provisional measurements of certain intangible assets, deferred taxes, goodwill and NCI are subject to change.

The table below includes the provisional allocation of the purchase price to the acquired net assets of MGL based on their estimated fair values.

Assets	
Property and equipment	3,840
Intangible assets	62,568
Investments in associates and joint ventures	649
Other financial assets	539
Other non-financial assets	4,550
Deferred tax assets	2,600
Trade and other receivables	5,135
Cash and cash equivalents	5,513
	85,394
Liabilities	
Loans and borrowings	123
Other financial liabilities	943
Other non-financial liabilities	9,844
Deferred tax liabilities	9,945
Trade and other payables	7,049
Income taxes payable	389
	28,293
Total identifiable net assets at fair value	**57,101**
Goodwill arising on acquisition	43,126
Non-controlling interest	(56,187)
Purchase consideration transferred	**44,040**

4. Business combination (continued)

NCI includes the value of outstanding equity-settled share-based awards of MGL measured at market as of the date of acquisition.

From the date of the acquisition, MGL has contributed 11,760 of revenue and 284 to the profit before tax of the Group *(Note 7)*.

The goodwill recognised is attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of MGL. Management is still assessing the allocation of goodwill among cash generating units.

The Group recognised MGL acquisition-related costs as general and administrative expenses in the amount of 21 for the three months ended 31 March 2017 in the interim condensed consolidated income statement.

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 performance of the operating segments. The Company's CEO has been designated as the CODM.

The Group manages its telecommunication business primarily based on eight geographical operating segments within Russia, which provide a broad range of voice, data and other telecommunication services, including wireless and wireline services, interconnection services, data transmission services and value added services ("VAS"). 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 a telecom segment, which was the only reportable segment before MGL was acquired.

With the acquisition of MGL *(Note 4)* the Group acquired a whole new business which it did not have before. Accordingly, a new internet operating and reportable segment has been added to the Group structure. Currently the Group's CODM does not review the operating results of MGL on any level lower than the level of the consolidated financial statements of MGL, accordingly, no further operating segments have been identified following this acquisition.

The financial results of MGL are included in the segment disclosure starting from the date of acquisition.

5. Segment information (continued)

Around 1.4% of the Group's telecom revenues and results are generated by segments outside of Russia. The information about the breakdown of revenue from customers of the internet segment by the customers'country of domicile is not available to the management of the Group, and it considers that the cost to develop such information would be excessive.

No single customer represents 10% or more of the consolidated revenues.

The income statement items for each segment, as presented to the CODM, are presented below:

Three months ended 31 March 2017	Telecom (MegaFon)	Internet (MGL)	**Group**
Revenue			
External customers	74,494	11,760	**86,254**
OIBDA	29,031	3,089	**32,120**

Inter-segment revenues and expenses are not significant.

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 consolidated profit before tax for the three months ended 31 March:

	2017	**2016**
OIBDA	**32,120**	**30,247**
Depreciation	(14,405)	(12,715)
Amortisation	(4,272)	(1,867)
Loss on disposal of non-current assets	(79)	(105)
Finance costs	(5,901)	(4,171)
Finance income	420	278
Share of loss of associates and joint ventures	(1,055)	(731)
Other non-operating loss	(411)	(1,537)
Gain/(loss) on financial instruments, net	186	(53)
Foreign exchange (loss)/gain, net	(1,207)	2,083
Profit before tax	**5,396**	**11,429**

6. Seasonality of operations

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

The Group’s internet services are impacted by seasonal trends due to the seasonal nature of advertising and online games. Revenues and operating profits are usually expected to be higher in the second half of the year than in the first six months. Higher sales during the second half of the year are mainly attributed to the fact that a large portion of advertising budgets is spent in the last quarter of the year and to the increased demand for online games following the end of the summer vacation period.

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. Non-controlling interest

One subsidiary of the Group that has a material NCI is MGL, based in Cyprus and acquired in the beginning of 2017, with a NCI of 84.8% *(Note 4)*. The balance of NCI of MGL at 31 March 2017 is 57,340. The amounts allocated to the NCI for the three months ended 31 March 2017 include profit of 227, OCI of 136 and equity-settled share-based compensation of 790.

The summarised financial information of MGL is provided below.

Summarised income statement for the three months ended 31 March 2017:

	MGL
Revenue	11,760
Operating expenses	(8,673)
Amortisation and Depreciation	(2,799)
Finance costs	(12)
Finance income	119
Foreign exchange loss, net	(274)
Gain on financial instruments, net	186
Other non-operating loss	(23)
Profit before tax	**284**
Income tax	(15)
Profit for the period	**269**
OCI	161
Total comprehensive income	**430**

Profit for the three months ended 31 March 2017 includes the amortisation of acquisition-date fair value adjustments.

Summarised statement of financial position as at 31 March 2017:

	MGL
Non-current assets	114,014
Current assets	14,898
Non-current liabilities	(13,714)
Current liabilities	(13,750)
Total equity	**101,448**
Attributable to:	
Equity holders of the Company	44,108
NCI	57,340

Summarised cash flow information for the three months ended 31 March 2017:

	MGL
Operating activities	5,449
Investing activities	(2,352)
Financing activities	(134)
Net increase in cash and cash equivalents	**2,963**

8. Property, equipment and intangible assets

During the three months ended 31 March 2017, the Group acquired property and equipment with a cost of 7,628 (31 March 2016: 11,150). Assets with a net book value of 94 were disposed of by the Group during the three months ended 31 March 2017 (31 March 2016: 119), resulting in a net loss on disposal of 82 (31 March 2016: 99). Interest capitalised and paid was 370 and 430 for the three months ended 31 March 2017 and 2016, respectively.

During the three months ended March 31, 2017, the Group acquired intangible assets with a cost of 1,869 (2016: 3,148).

In February 2017 MegaFon acquired 1,800 MHz band spectrum in the Ulyanovsk and Penza regions and the Republic of Mordovia through the purchase of 100% of shares of JSC SMARTS-Ulyanovsk, JSC SMARTS-Penza and JSC SMARTS-Saransk, the subsidiaries of the Russian regional mobile operator JSC SMARTS. The Group's management concluded that the assets and activities of the acquired companies are not capable of being conducted and managed as a business, accordingly the acquisition of SMARTS is accounted for as an acquisition of assets (similar to the 2015 SMARTS acquisition). The purchase price totaled 780 at the date of acquisition, consisting of cash consideration of 480, deferred consideration of 53 and assumption of debt.

9. Financial assets and liabilities

Loan receivable

In February 2016 the Group granted Strafor Commercial Ltd ("Strafor") a loan in the amount of \$43.8 million (2,469 at the exchange rate as of 31 March 2017). The loan is repayable in February 2018 with interest at 7% paid annually. In February 2017 Strafor made an early repayment of \$15 million (890 at the exchange rate as of the payment date) of the amount due in February 2018, together with interest. The loan is secured by a pledge of 50% of the shares of Strafor and 50% of the shares of North Financial Overseas Corp., both companies related to Svyaznoy Group, the second largest telecommunications retailer in Russia, and was granted in the context of the Company's long term relations with the retailer.

Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments and certain non-financial assets that are carried in the interim condensed consolidated financial statements.

9. Financial assets and liabilities (continued)

		Carrying amount		Fair value	
		31 March 2017 (Unaudited)	**31 December 2016**	**31 March 2017 (Unaudited)**	**31 December 2016**
Financial assets					
Financial assets at fair value through OCI:					
Cross-currency swap designated as cash flow hedge	Level 2	—	435	—	435
Financial assets at fair value through profit or loss:					
Financial investments in associates	Level 3	340	—	340	—
Financial derivatives under lease and hosting contracts	Level 3	406	—	406	—
Derivative financial assets over the equity of investee	Level 3	22	—	22	—
Loans and receivables at amortised cost:					
Short-term bank deposits	Level 2	9,805	5,095	9,805	5,095
Loans receivable from Garden Ring and Strafor	Level 2	6,250	7,340	6,250	7,340
Other deposits	Level 2	3,038	2,771	2,759	2,534
Other loans	Level 2	50	—	50	—
Total financial assets		**19,911**	**15,641**	**19,632**	**15,404**
Financial liabilities					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	206,708	179,115	223,411	186,775
Ruble bonds	Level 1	56,268	55,998	55,665	55,411
Deferred consideration	Level 3	5,983	284	5,983	284
Finance lease obligations	Level 3	4,200	4,173	4,200	4,173
Long-term accounts payable	Level 3	712	335	815	384
Financial liabilities at fair value through OCI:					
Foreign currency forwards and cross-currency swap designated as cash flow hedges	Level 2	7,905	5,399	7,905	5,399
Financial liabilities at fair value through profit or loss:					
Derivative financial liabilities over the equity of investee	Level 3	246	—	246	—
Total financial liabilities		**282,022**	**245,304**	**298,225**	**252,426**

9. Financial assets and liabilities (continued)

Valuation techniques and assumptions

Management has determined that cash, short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The Group, using available market information and appropriate valuation methodologies, where they exist, has determined the estimated fair values of its financial instruments. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The fair value of loans receivable from Garden Ring and Strafor approximates their carrying value.

The fair value of the Group's other deposits relating to cash received under certain contracts with customers is determined by using a discounted cash flow ('DCF') method using a discount rate that reflects the bank deposit rates the Group would get in the market as at the end of the reporting period.

The GARS Holding Limited ("GARS") escrow account (included in 'Other deposits' in the above table) holds cash reserved for deferred consideration settlements under the sale and purchase agreement with the sellers of GARS. The fair value of the account approximates its carrying value.

The fair values of the Group's loans and borrowings and other liabilities carried at amortised cost, except for market quoted Ruble bonds, are determined by a DCF method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own nonperformance risk as at 31 March 2017 and 31 December 2016 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 foreign currency forwards and cross-currency swaps are based on a forward yield curve and represent the estimated amount the Group would receive or pay to terminate these agreements at the reporting date, taking into account foreign exchange spot and forward rates, current interest rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

During the three months ended 31 March 2017 there were no transfers between levels of the fair value hierarchy.

10. 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:

	2017	2016
Current income tax	3,436	3,938
Deferred income tax	(2,219)	(1,275)
Total income tax expense	**1,217**	**2,663**

11. Related parties

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

	Three months ended 31 March	
	2017	**2016**
Revenues from USM group	—	5
Revenues from Telia group	75	106
Revenues from Euroset	121	198
Revenues from MGL's equity accounted associates	29	—
	225	**309**
Services from USM group	219	306
Services from Telia group	203	189
Services from Euroset	207	329
Services from Garden Ring	405	392
	1,034	**1,216**
Other non-operating expenses from USM group	—	1,293

11. Related parties (continued)

	31 March 2017	31 December 2016
Due from USM group	1,410	4
Due from Telia group	164	253
Due from Euroset	572	333
Due from Garden Ring	4,619	4,509
Due from MGL's equity accounted associates	49	—
	6,814	**5,099**
Due to USM group	6,768	1,468
Due to Telia group	236	322
Due to Euroset	10	27
Due to MGL's equity accounted associates	2	—
	7,016	**1,817**

Terms and conditions of transactions with related parties

Outstanding balances as of 31 March 2017 and 31 December 2016 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 31 March 2017 and 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

USM group

The outstanding balances and transactions with USM group relate to operations with Garsdale Services Investment Limited ("Garsdale"), the Group's parent, USM Holdings Limited, an indirect owner of Garsdale, and their consolidated subsidiaries.

The Group purchased billing system and related support services from PeterService, another member of the USM group, in the amount of 960 and 987 during the three months ended 31 March 2017 and 2016, respectively. Amounts due from USM group mainly consist of advance payments for these purchases.

In February 2017 MegaFon acquired MGL *(Note 4)*. Before that date, MGL was a related party of the Group as both MegaFon and MGL were indirect subsidiaries of USM group.

Amounts due to USM group as of 31 March 2017 include the deferred consideration for MGL acquisition *(Note 4)*. In May 2017 USM group sold this receivable to a bank.

11. Related parties (continued)

The Group is a member of the not-for-profit partnership “Development, Innovations, Technologies” (the “Partnership”) which was established by companies in the USM group. The Partnership may determine to incur education, science and other social costs as well as to maintain certain social infrastructure assets in Skolkovo Innovation Centre which are not owned by MegaFon and not recorded in the interim condensed consolidated statement of financial position. The Group’s accrued contributions to the Partnership in the amount of nil and 1,293 during the three months ended 31 March 2017 and 31 March 2016, respectively, are included into other non-operating expenses in the interim condensed consolidated income statement.

Telia group

The outstanding balances and transactions with Telia group relate to operations with various companies in that Group. Revenues and cost of services are principally related to roaming agreements between MegaFon and members of the Telia group located outside Russia and a wireline interconnection agreement with Telia Carrier Russia.

Euroset

Euroset is the Group’s joint venture with PJSC VimpelCom. The Group has a dealership agreement with Euroset which qualifies as a related party transaction.

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. This building has become the new corporate headquarters of the Group, permitting the consolidation of the Group’s operations in Moscow into a single location. The Group also has loan receivable from Garden Ring. The balance due from Garden Ring at 31 March 2017 consists of the loan receivable.

12. Commitments, contingencies and uncertainties

Operating environment

During 2016 and the three months ended 31 March 2017, the Russian economy was negatively impacted by significant declines in crude oil prices and the value of the Russian Ruble, as well as sanctions imposed on Russia by several countries. Ruble interest rates have fluctuated significantly and as of 31 March 2017 the key rate of the Central Bank of Russia was at 9.75%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

12. Commitments, contingencies and uncertainties (continued)

4G/LTE licence capital commitments

In July 2012, the Federal Service for Supervision in Communications, Information Technologies and Mass Media granted the Company a licence and allocated frequencies to provide services under the 4G/LTE standard in Russia.

Under the terms and conditions of this licence, the Company is obligated to provide 4G/LTE services in each population center with over 50,000 inhabitants in Russia by 2019. The Company is also obligated to make capital expenditures of at least 15,000 annually toward the 4G/LTE roll-out until the network is fully deployed.

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

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

Equipment purchases agreements

In 2014 the Group entered into two separate 7-year agreements with two suppliers to purchase equipment and software for 2G/3G/4G network construction and modernisation. The software usage agreements contain various termination options, however the Group is specifically committed under the agreements to pay at least an amount equal to 50% of the fees due for years four through seven of the agreements for each base station in use as at the date of termination while receiving a credit against these commitments for fees already paid. The amount of the commitments at 31 March 2017 is 7,382 (31 December 2016: 7,459).

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 expenses in the interim condensed consolidated income statement *(Note 11).*

12. 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 31 March 2017 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 711.

Litigation

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

Anti-terror laws

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

The details of the package are currently under discussion and may undergo changes. The Group will estimate the potential effects of the laws on its capital commitments when more information about the final form of the anti-terror package is received.

13. Events after the reporting date

In May 2017 MGL, and thereby the Group, acquired the remaining 90.09% of ZakaZaka, the food delivery company, for total cash transaction of $18 million (1,015 at the exchange rate as of 31 March 2017). ZakaZaka is the number two player in the fast growing Russian food delivery market.