MEGAFON

Consolidated financial statements

For the year ended 31 December 2018

Contents

KPMG

Independent Auditors' Report

To the Board of Directors and Shareholders of PJSC MegaFon

Opinion

We have audited the consolidated financial statements of PJSC MegaFon (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, and the statements of other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: PJSC MegaFon

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

Moscow, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

<table>
<tr><th colspan="2">Revenue recognition - technical complexity</th></tr>
<tr><td colspan="2">Please refer to the Note 2.1 in the consolidated financial statements.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Revenue is a material amount consisting of a high volume of individually low value transactions. There are a number of complex IT systems used to process revenue-related data and the Group relies on the output of these IT systems.

The major risks of distortion of revenue arise from:
– the capture, processing and transfer of data on the parameters of services between the switching equipment, billing system and accounting system; and
– the correct application of the tariffs, as these continuously change during the year.</td><td>Our audit procedures included an assessment of the Group's policies and controls in place over the IT system environment to determine their effectiveness in preventing and/or detecting revenue-related data distortion or loss.

We performed the following key audit procedures:
— we tested how often back-ups were taken and inspected the server rooms to ensure appropriate physical safeguards were in place;
— we tested that only authorised access can be made to the systems by inspecting approved access requests for compliance with the internal policy;
— we tested that only authorised system program changes can be made, and that these authorised changes were appropriately made, by inspecting documentation relating to the testing of these changes before implementation;
— for new tariffs introduced in the year we inspected documentation relating to the application of the new tariffs in 'test' mode before going 'live' in the commercial operation;
— we inspected the data processing on parameters of services from initial capture of data by the switching equipment and further transfer of data to the billing system by tracing a number of connection entries. Further, we inspected the Group's end-to-end revenue reconciliations between the data in the billing system and the accounting system;
— we tested that valid metrology certificates were issued by appropriately specialized organizations for the switching equipment and billing system;
— we recalculated the amounts billed to subscribers on a sample basis by multiplying the parameters of services rendered and the appropriate tariffs;
— we reconciled the data on subscribers' payments taken from the payment agents' confirmations with the relevant amounts in the billing system.

In all of the procedures listed above we involved our own IT specialists.

We also performed other analytical procedures to assess whether the trends in revenue by type of service were in line with our understanding of the Group's business and the wider industry.</td></tr>
</table>

Valuation of investment in DTSRetail Limited (Svyaznoy Group)	
Please refer to the Note 3.3 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
In May 2018, the Group completed exchange of 100% stake in Euroset and the Lonestar loan (the former Strafor loan) for 25% + 1 share in DTSRetail (Svyaznoy Group, non-cash transaction). In accordance with IFRS 10 Consolidated Financial Statements the Company derecognized the assets and liabilities of Euroset and recognized an investment in DTSRetail at its fair value. Estimating the fair value is a complex process involving a number of judgements and estimates regarding various inputs. The valuation is based on a discontinued cash flow model that uses primarily inputs from internal sources.	Our audit procedures included the following: We assessed professional competence of the qualified independent appraiser, which was engaged by the Group by considering the appraiser's reputation and experience based on publicly available sources. We involved KPMG valuation specialists to assist us in testing the appropriateness of the Group's methodology and key assumptions applied to determine the fair value of the investment in DTSRetail. We evaluated the key assumptions used by the Group in its discounted cash flow model as follows: — we compared the historical information used in the calculations with the financial statements of Euroset and Svyaznoy Logistica for the previous reporting periods; — we compared the forecast data on the rate of revenue growth with the average annual historical sales level and the growth rate of the population in the forecast period, obtained from external sources; — we performed our own sensitivity analysis and assessed the impact of changes in key assumptions which we consider reasonably possible based on our industry knowledge. We assessed whether the related disclosures in the consolidated financial statements are appropriate.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report other than the consolidated financial statements and our auditors' report thereon.

The Annual Report is expected to be made available to us after the date of this auditors' report. Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of

our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Yerkozha Akylbek

JSC "KPMG"

Moscow, Russia

20 March 2019

MegaFon

Consolidated income statement

(In millions of Rubles, except per share amounts)

	Note	Years ended 31 December 2018	2017
Continuing operations			
Revenue	2.1	**335,541**	**321,797**
Operating expenses			
Cost of revenue		100,696	96,283
Sales and marketing expenses	2.2	19,574	19,911
General and administrative expenses	2.3	91,114	83,697
Depreciation	3.1, 3.8	49,254	55,282
Amortisation	3.2.1	16,116	8,071
Loss on disposal of non-current assets		337	484
Total operating expenses		**277,091**	**263,728**
Operating profit		**58,450**	**58,069**
Finance costs		(25,927)	(24,306)
Finance income		1,634	1,724
Share of loss of associates and joint ventures	3.3	(2,829)	(1,947)
Impairment loss from Euroset	3.3	—	(15,917)
Other non-operating expenses	5.3	(1,677)	(1,583)
Gain on financial instruments, net	3.4.4	713	—
Foreign exchange loss, net		(1,271)	(4,451)
Profit before tax from continuing operations		**29,093**	**11,589**
Income tax expense	2.4	7,823	6,706
Profit from continuing operations		**21,270**	**4,883**
Discontinued operations			
Profit from discontinued operations, net of tax	5.1	11,584	442
Profit for the year		**32,854**	**5,325**
Attributable to equity holders of the Company		35,170	4,551
Attributable to non-controlling interest		(2,316)	774
		32,854	**5,325**
Earnings per share, Rubles			
Basic and diluted, profit for the year attributable to equity holders of the Company		63	8
Earnings per share, Rubles —continuing operations			
Basic and diluted, profit for the year attributable to equity holders of the Company		38	8

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

MegaFon

Consolidated statement of other comprehensive income

(In millions of Rubles)

	Note	Years ended 31 December 2018	2017
Profit for the year		**32,854**	**5,325**
Other comprehensive income/(loss) items that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation difference, net of tax		(777)	(121)
Net movement on cash flow hedges, net of tax	3.4.4	1,567	152
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**790**	**31**
Total comprehensive income for the year, net of tax		**33,644**	**5,356**
Total comprehensive income for the year			
Attributable to equity holders of the Company		36,171	4,818
Attributable to non-controlling interest		(2,527)	538
		33,644	**5,356**

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

MegaFon

Consolidated statement of financial position

(In millions of Rubles)

	Note	As of 31 December 2018	2017
Assets			
Non-current assets			
Property and equipment	3.1	224,666	220,705
Intangible assets, other than goodwill	3.2.1	81,026	128,140
Goodwill	3.2.2	30,549	73,218
Investments in associates and joint ventures	3.3,5.1	73,265	28,567
Non-current financial assets	3.4	3,829	3,585
Non-current non-financial assets	3.7	7,531	4,558
Deferred tax assets	2.4	2,064	3,829
Total non-current assets		**422,930**	**462,602**
Current assets			
Inventory	3.6	9,885	10,045
Current non-financial assets	3.7	7,766	7,446
Prepaid income taxes	2.4	4,275	2,586
Trade and other receivables	3.5	29,137	26,520
Other current financial assets	3.4	7,955	16,097
Cash and cash equivalents	3.4.1	27,214	36,147
Assets held for sale	3.8	847	284
Total current assets		**87,079**	**99,125**
Total assets		**510,009**	**561,727**
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company	4	70,667	109,773
Non-controlling interests	5.1	(264)	55,536
Total equity		**70,403**	**165,309**
Non-current liabilities			
Loans and borrowings	3.4	288,262	212,097
Other non-current financial liabilities	3.4	4,713	4,540
Non-current non-financial liabilities	3.7	3,895	10,181
Provisions	3.9	5,117	4,378
Deferred tax liabilities	2.4	26,016	28,792
Total non-current liabilities		**328,003**	**259,988**
Current liabilities			
Trade and other payables	3.4	53,235	50,535
Loans and borrowings	3.4	39,232	52,013
Other current financial liabilities	3.4	145	3,853
Current non-financial liabilities	3.7	17,661	29,186
Income taxes payable	2.4	1,330	843
Total current liabilities		**111,603**	**136,430**
Total equity and liabilities		**510,009**	**561,727**

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

MegaFon

Consolidated statement of changes in equity

(In millions of Rubles)

		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 *(Note 4)*	Total	Non-controlling interests	Total equity
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**
Profit for the year		—	—	—	—	—	4,551	—	4,551	774	**5,325**
Other comprehensive income/(loss)		—	—	—	—	—	—	267	267	(236)	**31**
Total comprehensive income		—	—	—	—	—	**4,551**	**267**	**4,818**	**538**	**5,356**
Dividends	4	—	—	—	—	—	(19,211)	—	(19,211)	—	**(19,211)**
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(172)	**(172)**
Equity-settled share-based compensation	5.2	—	—	—	—	—	—	—	—	1,743	**1,743**
Acquisition of MGL	5.4	—	—	—	—	—	—	—	—	54,900	**54,900**
Acquisition of MGL treasury shares		—	—	—	—	—	—	—	—	(1,430)	**(1,430)**
As of 31 December 2017		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**115,230**	**(1,163)**	**109,773**	**55,536**	**165,309**
Adjustment on initial application of IFRS 15, net of tax	1.5	—	—	—	—	—	1,366	—	1,366	—	**1,366**
As of 1 January 2018		**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**116,596**	**(1,163)**	**111,139**	**55,536**	**166,675**
Profit/(loss) for the year		—	—	—	—	—	35,170	—	35,170	(2,316)	**32,854**
Other comprehensive income/(loss)		—	—	—	—	—	—	1,001	1,001	(211)	**790**
Total comprehensive income/(loss)		**—**	**—**	**—**	**—**	**—**	**35,170**	**1,001**	**36,171**	**(2,527)**	**33,644**
Sale of share in MGL	5.1	—	—	—	—	—	—	57	57	(55,580)	**(55,523)**
Purchase of outstanding shares	4	—	—	115,317,504	(76,700)	—	—	—	(76,700)	—	**(76,700)**
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(247)	**(247)**
Equity-settled share-based compensation	5.2	—	—	—	—	—	—	—	—	2,239	**2,239**
Acquisition of subsidiaries	5.4	—	—	—	—	—	—	—	—	315	**315**
As of 31 December 2018		**620,000,000**	**526**	**139,616,537**	**(94,087)**	**12,567**	**151,766**	**(105)**	**70,667**	**(264)**	**70,403**

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

MegaFon

Consolidated statement of cash flows

(In millions of Rubles)

	Note	Years ended 31 December 2018	2017
Operating activities			
Profit before tax from continuing operations		29,093	11,589
Profit before tax from discontinued operations	5.1	15,768	2,580
Profit before tax		**44,861**	**14,169**
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation	3.1,3.8	50,553	57,341
Amortisation	3.2.1	20,869	17,642
Loss on disposal of non-current assets		353	491
(Gain)/loss on financial instruments, net		(1,108)	30
Foreign exchange loss, net	3.4.4	965	3,722
Share of loss of associates and joint ventures	3.3	2,962	2,205
Impairment loss from Euroset	3.3	—	15,917
Gain on disposal of discontinued operations	5.1	(18,208)	—
Change in impairment allowance for receivables and other non-financial assets		3,602	2,680
Finance costs		25,942	24,321
Finance income		(1,899)	(2,235)
Equity-settled share-based compensation	5.2	2,239	1,743
Other non-cash items		3	58
Working capital adjustments:			
Decrease/(increase) in inventory		63	(665)
Increase in trade and other receivables		(13,137)	(4,687)
(Increase)/decrease in current non-financial assets		(3,554)	186
Increase in trade and other payables		4,027	4,774
Increase in current non-financial liabilities		4,478	6,617
Change in VAT, net		(4,133)	880
Income tax refunded		—	26
Income tax paid		(8,850)	(11,353)
Net cash flows received from operating activities		**110,028**	**133,862**
Investing activities			
Purchase of property, equipment and intangible assets	3.1	(79,454)	(61,748)
Proceeds from sale of property and equipment	3.1	727	465
Acquisition of subsidiaries, net of cash acquired	5.1,5.4	(8,029)	(40,136)
Proceeds from sale of subsidiaries, net of cash disposed	5.1	6,945	(43)
Payment of deferred and contingent consideration		—	(1,444)
Purchase of interest in associates and joint ventures	3.3,5.1	(2,414)	(823)
Net change in short-term deposits		4,810	(2,743)
Net change in other deposits		—	247
Loans granted	3.4	(71)	(56)
Repayments of loans granted		—	890
Interest received		1,747	2,152
Dividends received from equity-accounted investments		19	18
Net cash flows used in investing activities		**(75,720)**	**(103,221)**
Financing activities			
Proceeds from borrowings, net of fees paid		124,987	127,626
Repayment of borrowings		(70,370)	(104,134)
Interest paid		(25,989)	(24,588)
Purchase of outstanding shares	4	(76,700)	—
Dividends paid to equity holders of the Company		—	(22,050)
Dividends paid to non-controlling interests		(247)	(172)
Purchase of MGL treasury shares		—	(1,430)
Finance lease payments		(8)	(33)
Net cash flows used in financing activities		**(48,327)**	**(24,781)**
Net (decrease)/increase in cash and cash equivalents		(14,019)	5,860
Net foreign exchange difference		5,086	(1,635)
Cash and cash equivalents at beginning of year		36,147	31,922
Cash and cash equivalents at end of year	3.4.1	**27,214**	**36,147**

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

1. GENERAL

1.1. About the Company

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.

MegaFon lists its ordinary shares on the Moscow Exchange under the symbol "MFON". MegaFon listed its ordinary shares represented by Global Depositary Receipts, or GDRs, on the London Stock Exchange ("LSE") until 5 October 2018 when the listing was cancelled after the Group completed its purchase of 115,317,504 of the ordinary shares and GDRs *(Note 4)*, representing 18.6% of the Company's issued shares. The purchase price for securities tendered was $9.75 for each ordinary share and for each GDR.

As of 31 December 2018, the majority shareholder of the Company is AF Telecom Holding LLC, a company incorporated in the Russian Federation. The ultimate controlling party 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 the Group at his own discretion and for his own benefit.

1.2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. The consolidated financial statements are presented in millions of Rubles, except for per share amounts which are in Rubles, unless otherwise indicated.

The consolidated income statement for the year ended 31 December 2017 has been changed to present the discontinued operations separately from continuing operations *(Note 5.1).*

The consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Accountant on 20 March 2019.

Foreign currency translation

The Group's consolidated financial statements are presented in Rubles, which is also the functional currency of MegaFon and its principal subsidiaries.

1.2. Basis of preparation (continued)

The functional currency of CJSC "TT mobile", the Company's 75% owned subsidiary in Tajikistan, is the US dollar as a majority of its revenues, costs, property and equipment purchases, debt and trade liabilities is either priced, incurred, payable or otherwise measured in US dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or fair value measurement where items are re-measured to their fair value. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 'Foreign exchange gain/(loss), net' line in profit or loss.

The assets and liabilities of foreign operations are translated into Rubles at the rate of exchange prevailing on the reporting date and the statements of comprehensive income are translated at the exchange rates prevailing on the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income ("OCI").

1.3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of 31 December 2018.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Profit or loss and each component of OCI are attributed to the equity holders of the Company and to the non-controlling interests ("NCI"), even if this results in the NCI having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

1.4. Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements required management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated statement of financial position, the consolidated income statement, the consolidated statement of other comprehensive income and the accompanying disclosures. Subsequent revisions or corrections made to these assumptions and estimates hereafter could result in outcomes that require a material adjustment to the carrying amount of affected assets or liabilities in future periods.

In the process of applying the Group's accounting policies, management has made various judgments. Those which management has assessed to have the most significant effect on the amounts recognised in the consolidated financial statements have been discussed in the individual notes for the related financial statement line items: revenue, income taxes, property and equipment, intangible assets, investments in associates and joint ventures, financial assets and liabilities, provisions, and business combinations.

1.4. Significant accounting judgments, estimates and assumptions (continued)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are also described in the individual notes for the related financial statement line items below. The Group based its assumptions and estimates on the information available to it when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

1.5. Significant accounting policies

The significant accounting policies have been discussed in the individual notes for the related financial statement line items.

Changes in accounting policies and disclosures

During 2018 the Group applied the following amendments to accounting standards for the first time (a number of other new standards are effective from 1 January 2018 but they do not have an effect on the Group's consolidated financial statements):

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a comprehensive revenue recognition guidance that replaces the following previous revenue recognition standards: International Accounting Standards ("IAS") 18, *Revenue,* IAS 11, *Construction Contracts*, International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 13, *Customer Loyalty Programmes,* IFRIC 15, *Agreements for the Construction of Real Estate,* IFRIC 18, *Transfers of Assets from Customers*, and Standard Interpretations Committee interpretation SIC-31, *Revenue – Barter Transactions Involving Advertising Services*.

The core principle of IFRS 15 is that an entity should recognise revenue in respect of the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group has applied IFRS 15 using the modified retrospective method with respect to contracts that are not completed at the date of initial application (1 January 2018) which permits it, instead of recasting revenues and expenses for all prior periods, to simply recognise an adjustment to the opening amount of retained earnings at 1 January 2018.

The key impact of the transition to IFRS 15 is an increase in customer acquisition costs assets of 1,707, an increase in deferred tax liabilities of 341 and a corresponding increase in the opening retained earnings of 1,366 at 1 January 2018. See *Note 2.1* for more details on the impact from the implementation of IFRS 15 and additional disclosures.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies are presented below.

The Group pays its dealers commissions for connecting new customers.

1.5. Significant accounting policies (continued)

Before the adoption of IFRS 15, revenue sharing commissions were recognised evenly during the services rendering period, generally a twelve-month period from the date a new subscriber is activated. With the implementation of IFRS 15, the Group treated certain dealer commissions as representing incremental costs of obtaining a customer contract, and deferred such costs so as to be recognised over the expected contract term.

The expected contract term is estimated based on historical information adjusted for any significant trends observed in the market and the Group's marketing strategies.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*.

IFRS 9 introduced a number of changes to accounting for financial instruments, including changes to the classification and measurement of financial assets, to financial assets impairment methodology involving expected credit loss models, and to hedge accounting.

The adoption of IFRS 9 did not have a material impact on the Group's consolidated financial statements.

1.6. Standards issued but not yet effective

The standards and interpretations that are issued and applicable to the Group, but not yet effective as of the date of issuance of the Group's consolidated financial statements, are disclosed below. The Group intends to adopt these standards when they become effective.

IFRS 16 Leases

In January 2016 the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces previous guidance on leases. The standard requires lessees to present right-of-use assets and lease liabilities on the balance sheet for all leases (with limited exceptions).

The Group will adopt IFRS 16 from 1 January 2019, the date when the Standard becomes effective. The Group will apply the Standard using the modified retrospective transition method without restating comparative amounts and recognising the cumulative effect at the initial application, if any, as an adjustment to the opening balance of retained earnings at 1 January 2019.

The Group, where it acts as a lessee, will recognise new assets and liabilities for its operating leases of telecommunication infrastructure sites, retail outlets, administrative facilities and other identifiable assets. The nature of expenses related to those leases will change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

1.6. Standards issued but not yet effective (continued)

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

No significant impact is expected for the Group's finance leases *(Note 5.8)*.

The Group does not expect a significant impact from applying IFRS 16 to those leases where it acts as a lessor.

The Group does not expect a significant impact on the opening retained earnings. The Group concluded that it is not practicable to provide an estimate of the impact that IFRS 16 will have on its assets and liabilities as the Group has not finalised the testing and assessment of controls over its new IT solutions for accounting for leases.

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective for annual periods beginning on or after 1 January 2019. The Group does not expect the Interpretation to have a material impact on the Group's consolidated financial statements.

Long-Term Interests in Associates and Joint Ventures - Amendments to IAS 28

In October 2017 the IASB issued Amendments to IAS 28, *Investments in Associates and Joint Ventures*, clarifying that companies should account for long-term interests in an associate or joint venture to which the equity method is not applied, using IFRS 9. The Amendments will be effective for annual periods beginning on or after 1 January 2019. The Group does not expect these amendments to have a material impact on the Group's consolidated financial statements.

Improvements to IFRSs - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

The amendments issued as a result of the Annual Improvements to IFRSs 2015-2017 Cycle introduced relatively minor changes to clarify guidance in existing standards. The amendments are effective for annual periods beginning on or after 1 January 2019. The Group does not expect these amendments to have a material impact on the Group's consolidated financial statements.

1.6. Standards issued but not yet effective (continued)

Conceptual Framework for Financial Reporting

In March 2018 the IASB issued a comprehensive set of concepts for financial reporting replacing the previous version of the Conceptual Framework. The revised Conceptual Framework will be effective from 1 January 2020 – with earlier application permitted – for companies that use it to develop accounting policies when no IFRS Standard applies to a particular transaction. The Group will apply the revised Conceptual Framework from the effective date and does not expect it to have a material impact on the Group's consolidated financial statements.

Definition of a Business (Amendments to IFRS 3)

In October 2018 the IASB issued Amendments to IFRS 3, *Business combinations*, clarifying the current definition of a business to enable entities to determine whether a transaction is a business combination or an asset acquisition.
The Amendments are effective for annual periods beginning on or after 1 January 2020. The Group does not expect these amendments to have a material impact on the Group's consolidated financial statements.

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018 the IASB issued a clarified definition of "material" in the amendments to IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and issued practical guidance on applying the concept of materiality. The Amendments will be effective for annual periods beginning on or after 1 January 2020 with earlier implementation permitted. The Group will apply these Amendments from the effective date and does not expect them to have a material impact on the Group's consolidated financial statements.

2. INCOME STATEMENT

2.1. Revenue

Accounting policies

Revenue is measured based on the consideration specified in a contract with a customer and represents amounts receivable for the sale of goods or services in the ordinary course of the Group's activities, net of value added taxes, returns and discounts.

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). Upfront payments received for connection of new customers, installation of infrastructure connection services are deferred and recognised over the estimated average customer contract life.

Service revenue

Service revenue is generally recognised when the services are rendered.

The revenue from provision of content is presented net of related costs when the Group acts as an agent of the content providers while gross revenues and related costs are recorded when the Group is the primary obligor in the arrangement. The reporting of revenue on a net versus gross basis, depending on an analysis of the Group's involvement as either principal or agent, involves management judgment.

Wireless revenue

The Group earns wireless revenues for usage of its cellular system, which include airtime charges from contract and prepaid subscribers, monthly contract fees, interconnect fees from other wireless and wireline operators, roaming charges, data transfer charges, and charges for value added services ("VAS"). Interconnect revenue includes revenues from wireless and wireline operators that was earned from terminating traffic from other operators. Roaming revenues include revenues from customers who roam outside their selected home coverage area and revenues from other mobile carriers for roaming by their customers using the network of the Group. VAS include SMS, provision of content and media and commissions for mobile payments.

(a) Loyalty programme

The Group operates a loyalty programme which allows customers to accumulate awards for usage of the Group's cellular network. The awards can then be redeemed for free services, subject to a minimum number of awards being obtained. The portion of consideration received is allocated to the awards based on their relative standalone selling price and deferred until the award credits are redeemed or expire. The Group estimates the standalone selling price of awards by applying a statistical analysis. Inputs to the models include making assumptions about expected redemption rates, the mix of services that will be available for redemption in the future and customer preferences.

2.1. Revenue (continued)

(b) Multiple element arrangements

The Group enters into multiple element arrangements in which a customer may purchase a combination of equipment (e.g. handsets) and telecommunication services (e.g. airtime, data, and other services). The Group allocates consideration received from subscribers to the separate performance obligations based on their standalone selling prices. Revenue allocated to the delivered equipment and related costs are recognised in the accompanying consolidated income statement at the time of sale provided that other conditions for revenue recognition are met. Amounts allocated to telecommunication services are deferred and recognised as revenue over the period of rendering the services. Allocation of each separable component of a bundled offer based on the individual components’ standalone selling prices involves estimates and management’s judgment.

(c) Roaming rebates

The Group enters into roaming discount agreements with a number of wireless operators. According to the agreements the Group is committed to provide and entitled to receive a discount that is generally dependent on the volume of roaming traffic generated by the respective subscribers. The Group uses actual traffic data to estimate the amounts of rebates to be received or granted. Such estimates are adjusted and updated on a regular basis. The Group accounts for discounts received as a reduction of roaming expenses and rebates granted as a reduction of roaming revenue.

The Group takes into account the terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statement of financial position. Amounts of rebates earned from and given to roaming partners are included in trade and other receivables and payables, respectively, in the accompanying consolidated statement of financial position.

Management has to make estimates relating to revenue recognition, relying to some extent on information from other operators on the values of services delivered. Management also makes estimates of the final outcome in instances where the other parties dispute the amounts charged.

Wireline revenue

The Group earns wireline revenues for usage of its fixed-line network, which include payments from individual, corporate and government subscribers for local and long-distance telecommunications and data transfer services. Charges are based upon usage (e.g., minutes of traffic processed), period of time (e.g., monthly service fees) or other established fee schedules. Wireline revenues also include interconnection charges from wireless and wireline operators for terminating calls on the Group’s wireline networks. Revenue from service contracts is recognised when the services are rendered. Billings received in advance of service being rendered are deferred and recognised as revenue as the service is rendered.

2.1. Revenue (continued)

Construction contracts revenue

The Group has contracts with customers for installation of network equipment for a fixed fee, which cannot exceed the costs incurred plus a certain margin. Revenue under the contracts is recognised over time, for example by reference to the stage of completion as defined in the contract and accepted by the customer, when any of the criteria for transferring control of a good or service over time are met, including the Group's having an enforceable right to payment for performance completed to date. Otherwise, revenue is recognised at a point in time when it is entitled to payment and control of the good or service has been transferred to the customer. An expected loss on a contract is recognised immediately in profit or loss.

Sales of equipment and accessories

Revenue from the sale of equipment and accessories is recognised when the customer obtains control of the goods, usually on their delivery.

IFRS 15

The following tables summarise the impacts of adopting IFRS 15 on the Group's consolidated statement of financial position as of 31 December 2018 and its consolidated income statement for the year ended 31 December 2018 for each of the line items affected. There was no material impact on the Group's consolidated statement of cash flows for the year ended 31 December 2018.

The impact on the consolidated statement of financial position is presented below:

	As of 31 December 2018		
	As reported	**Adjustments**	**Amounts without adoption of IFRS 15**
Assets			
Non-current non-financial assets	7,531	(4,617)	2,914
Current non-financial assets	7,766	404	8,170
Total assets	**510,009**	**(4,213)**	**505,796**
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company	70,667	(2,906)	67,761
NCI	(264)	—	(264)
Total equity	**70,403**	**(2,906)**	**67,497**
Non-current liabilities			
Deferred tax liabilities	26,016	(727)	25,289
Total non-current liabilities	**328,003**	**(727)**	**327,276**
Current liabilities			
Trade and other payables	53,235	(580)	52,655
Total current liabilities	**111,603**	**(580)**	**111,023**
Total equity and liabilities	**510,009**	**(4,213)**	**505,796**

2.1. Revenue (continued)

The impact on the consolidated income statement is presented below:

	For the year ended 2018		
	As reported	Adjustments	Amounts without adoption of IFRS 15
Operating expenses			
Sales and marketing expenses	19,574	1,925	21,499
Total operating expenses	**277,091**	**1,925**	**279,016**
Operating profit	**58,450**	**(1,925)**	**56,525**
Profit before tax from continuing operations	**29,093**	**(1,925)**	**27,168**
Income tax expense	7,823	(385)	7,438
Profit for the year from continuing operations	**21,270**	**(1,540)**	**19,730**
Profit for the year	**32,854**	**(1,540)**	**31,314**

The impact from adopting IFRS 15 on the Group's basic and diluted EPS is an increase of 3 Rubles per share.

As at 31 December 2018, the Group had 4,617 of deferred customer acquisition costs included in non-current non-financial assets. The amount of costs amortised into sales and marketing expenses for the year ended 31 December 2018 is 5,552.

As at 31 December 2018, the Group had 20,846 of receivables (2017: 13,870) and nil contract assets from contracts with customers included in trade and other receivables.

As at 31 December 2018, the Group had 13,847 (2017: 16,309) of contract liabilities from contracts with customers included in current non-financial liabilities and 3,777 (2017: 2,942) of contract liabilities included in non-current non-financial liabilities. The contract liabilities decreased since last year mainly as a result of completion of a significant construction contract in 2018; accordingly, the respective upfront fees were recognised in revenue during 2018. The contract liabilities included in non-current financial liabilities as at 31 December 2018 primarily relate to deferred upfront fees for infrastructure services. These are expected to be recognised as revenue over a term of ten years which is the average contract term.

The amount of 16,309 recognised in contract liabilities at the beginning of the year has been recognised as revenue for the year ended 31 December 2018.

The Group used the practical expedient in IFRS 15 and did not disclose the information about its unsatisfied performance obligations for contracts that have an original expected duration of one year or less.

2.2. Sales and marketing expenses

Accounting policies

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. Other dealer commissions are expensed as incurred.

2.3. General and administrative expenses

Advertising costs are expensed as incurred.

Included in general and administrative expenses for the years ended 31 December are:

	2018	2017
Employee benefits and related social charges	34,125	30,807
Operating lease expense	17,740	17,717

State pension funds

The Group contributes to local state pension funds and social funds on behalf of its employees. The contributions are expensed as incurred. Contributions for the years ended 31 December 2018 and 2017 were 5,811 and 5,671, respectively.

2.4. Income taxes

Accounting policies

Current income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is recognised in OCI or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries in which the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. If the applicable tax regulation is subject to interpretation, the Company establishes a provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2.4. Income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Significant estimates

The Group assesses the recoverability of deferred tax assets based on estimates of future earnings.

Actual Group income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances. The expected resolution of uncertain tax positions is based upon management's judgment of the likelihood of sustaining a position taken through tax audits, tax courts and/or arbitration, if necessary. Circumstances and interpretations of the amount due or likelihood of a position being sustained may change during the settlement process.

Disclosures

The following presents the significant components of the Group's income tax expense for the years ended 31 December:

	2018	**2017**
Current income tax:		
Current income tax charge	5,762	7,774
Adjustments recognised for current tax of prior periods	631	(117)
Deferred tax	1,430	(951)
Income tax expense	**7,823**	**6,706**

The reconciliation between the average effective income tax rate and tax expense calculated at domestic statutory rates applicable to individual Group entities is as follows:

	2018	**2017**
Statutory income tax rate	**20.0%**	**20.0%**
Non-deductible expenses	6.9%	11.9%
Effect of intra-group transactions	0.5%	2.0%
Effect of income tax preferences	(0.3%)	(3.3%)
Euroset impairment *(Note 3.3)*	—	27.5%
Other	(0.2%)	(0.2%)
Effective income tax rate	**26.9%**	**57.9%**

The effect of intragroup transactions, in the table above, represents taxable intra-group income.

2.4. Income tax (continued)

Deferred tax relates to the following:

	Statement of financial position as of 31 December		Income statement for the years	
	2018	**2017**	**2018**	**2017**
Property and equipment	(10,718)	(16,050)	(5,380)	(721)
Intangible assets	(14,892)	(18,964)	(4,072)	3,311
Derivative financial instruments	(59)	770	829	186
Investments in associates and subsidiaries	(3,067)	(146)	5,751	(7)
Tax loss carry-forwards	2,605	4,009	1,404	(382)
Revenue recognition	2,059	2,793	734	(2,274)
Accrued employee benefits	846	1,279	433	(1,086)
Accrued expenses	1,181	1,504	323	(493)
Dealers' commissions	(929)	—	588	—
Other movements and temporary differences	(978)	(158)	820	515
Deferred tax expense			**1,430**	**(951)**
Net deferred tax liabilities	**(23,952)**	**(24,963)**		
Reflected in the consolidated statement of financial position as follows:				
Deferred tax assets	**2,064**	**3,829**		
Deferred tax liabilities	**(26,016)**	**(28,792)**		

The Group recognises deferred tax assets in respect of tax loss carry-forwards to the extent that realisation of tax losses against future taxable profit is probable. Deferred tax assets related to tax losses of the Group's subsidiaries are recognised based on the tax planning opportunities that would be implemented, if necessary, to prevent tax losses from not being used.

Deferred tax assets in respect of the tax losses are attributable to the following subsidiaries:

	2018	**2017**
Scartel	1,299	1,837
MegaFon Retail	1,181	1,375
Other	125	797
Balance at end of year	**2,605**	**4,009**

In order to utilise tax losses the Group is able to implement appropriate tax planning strategies depending on the results of these subsidiaries in subsequent periods. The tax planning strategies may include, among others, merging of the respective subsidiaries with MegaFon which is expected to have sufficient pretax income to utilise the accumulated tax losses of these subsidiaries.

2.4. Income tax (continued)

Unrecognised deferred tax assets in the consolidated statement of financial position amounted to 3,983 as of 31 December 2018 (2017: 3,859). Unrecognised deferred tax assets arose on the acquisition of subsidiaries and associates due to the difference between the accounting and tax bases of the subsidiaries and joint ventures acquired and are not expected to be realised due to lack of appropriate taxable profits.

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised amounted to nil as of 31 December 2018 (2017: 75,984).

Reconciliation of net deferred tax liabilities for the years ended 31 December is as follows:

	2018	**2017**
Balance at beginning of year	24,963	19,613
Tax expense/(benefit) during the year	1,430	(951)
Translation adjustment of foreign operations	48	(73)
Discontinued operations	(3,222)	6,337
Change of accounting policy (IFRS 15)	341	—
Deferred tax on cash flow hedges in OCI *(Note 3.4)*	392	37
Balance at end of year	**23,952**	**24,963**

2.5. Earnings per share

Accounting policies

Basic earnings per share ("EPS") are computed by dividing net profit available to shareholders of the Company by the weighted-average number of ordinary shares outstanding for the period.

Diluted earnings per share are computed by dividing adjusted net profit available to shareholders by the weighted-average number of ordinary shares outstanding during the period increased to include the number of additional ordinary shares that would be issued on the conversion of all the potentially dilutive securities into ordinary shares. Potentially dilutive securities include outstanding stock options and convertible debt instruments.

Disclosures

The following table sets forth the computation of basic and diluted EPS for the years ended 31 December:

	2018	**2017**
Numerator:		
Profit attributable to equity holders of the Company	35,170	4,551
Denominator:		
Weighted-average ordinary shares outstanding	555,386,284	595,700,967
EPS – basic and diluted, Rubles	**63**	**8**

There were no potentially dilutive securities outstanding at 31 December 2018 or 2017.

3. ASSETS AND LIABILITIES

3.1. Property and equipment

Accounting policies

Property and equipment is stated at cost, less accumulated depreciation and impairment, if any. Cost includes all costs directly attributable to bringing the asset to the location and condition for its intended use. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset.

Depreciation expenses are based on management's estimates of residual value, the depreciation method used and the useful lives of property and equipment. Estimates may change due to technological developments, competition, changes in market conditions and other factors, and may result in changes in estimated useful lives and depreciation charges. The actual economic lives of long-lived assets may be different from the estimated useful lives. A change in estimated useful lives is accounted for prospectively as a change in accounting estimate.

The estimated useful lives are as follows:

Telecommunications network	3 to 20 years
Buildings and structures	7 to 50 years
Vehicles, office and other equipment	3 to 7 years

Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful lives of the assets. The lease term includes renewals when such renewals are reasonably certain.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Repair and maintenance costs are expensed as incurred. The cost of major renovations and other subsequent expenditure is included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset. Please refer to *Note 3.9* for further information about the provision for decommissioning liabilities.

At the time of retirement or other disposition of property or equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded in profit or loss.

The Group, jointly with other operators, plans, develops and uses telecommunication networks. The activities are accounted for as joint operations. Accordingly, the Group records its share of the jointly held assets and its share of the jointly incurred expenses.

3.1. Property and equipment (continued)

Finance leases

Finance leases, that is, leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

A leased asset is depreciated over the lesser of the lease term or the useful life of the asset.

The Group has entered into long-term leases of telecommunication assets. The Group has determined that, based on an evaluation of the terms and conditions of the arrangements, such as the lease term constituting a major part of the economic life of the asset, it obtains all the significant risks and rewards of ownership of these assets. Accordingly, it accounts for the contracts as finance leases.

At the commencement of the lease term the Group recognises finance leases as assets and liabilities at the present value of the minimum lease payments. In determining the present value of the minimum lease payments, assumptions and estimates are made in relation to discount rates, the expected costs for services and taxes to be paid by and reimbursed to the lessor, and long-term inflation forecasts where the lease agreements include provisions to adjust the lease payments for inflation.

Capitalised borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset during the construction phase that necessarily takes a substantial period of time are capitalised as part of property and equipment until the asset is ready for use. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest, related foreign exchange differences, and other costs that the Group incurs in connection with the borrowing of funds.

Impairment

The Group tests long-lived assets, other than goodwill, for impairment when circumstances indicate there may be a potential impairment.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of (1) an asset’s fair value less costs to sell and (2) value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Impairment losses relating to continuing operations are recognised in profit or loss in the expense categories which are consistent with the function of the impaired asset.

3.1. Property and equipment (continued)

For assets other than goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Estimating recoverable amounts of assets is based on management's evaluations, including estimates of applicable market rates, if the market approach is used, or future cash flows, discount rates, terminal growth rates, and assumptions about future market conditions, if the income approach is used.

Non-current assets held for sale

Non-current assets are classified as assets held for sale ("AHFS") and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and the sale is considered highly probable.

3.1. Property and equipment (continued)

Disclosures

Property and equipment is as follows:

	Telecom-munications network	Buildings and structures	Vehicles, office and other equipment	Construction in-progress	Total
Cost as of					
1 January 2017	**463,713**	**76,334**	**28,179**	**18,640**	**586,866**
Additions	—	—	—	52,414	**52,414**
Acquisitions *(Note 5.4)*	2,451	636	215	538	**3,840**
Disposals	(24,932)	(318)	(3,034)	(398)	**(28,682)**
Put into use	44,308	3,469	2,198	(49,975)	**—**
Reclassified to AHFS	—	(634)	—	—	**(634)**
Reclassified to intangible assets *(Note 3.2.1)*	(33,349)	—	(809)	(1,384)	**(35,542)**
Translation	(393)	(135)	(131)	(104)	**(763)**
31 December 2017	**451,798**	**79,352**	**26,618**	**19,731**	**577,499**
Additions	—	—	—	59,702	**59,702**
Acquisitions *(Note 5.4)*	—	—	5	694	**699**
Disposals	(12,175)	(494)	(1,455)	(14)	**(14,138)**
Put into use	41,315	2,318	2,664	(46,297)	**—**
Discontinued operations *(Note 5.1)*	(6,145)	(1,400)	(433)	(1,140)	**(9,118)**
Reclassified to AHFS*(Note 3.8)*	—	—	(16)	—	**(16)**
Translation	1,656	532	779	65	**3,032**
31 December 2018	**476,449**	**80,308**	**28,162**	**32,741**	**617,660**
Depreciation as of					
1 January 2017	**(290,945)**	**(34,458)**	**(24,308)**	**—**	**(349,711)**
Charge for the year	(49,980)	(4,774)	(2,587)	**—**	**(57,341)**
Disposals	24,668	231	2,964	**—**	**27,863**
Reclassified to AHFS	—	350	—	**—**	**350**
Reclassified to intangible assets *(Note 3.2.1)*	20,908	—	705	**—**	**21,613**
Translation	277	63	92	**—**	**432**
31 December 2017	**(295,072)**	**(38,588)**	**(23,134)**	**—**	**(356,794)**
Charge for the year	(43,381)	(4,947)	(2,225)	—	**(50,553)**
Disposals	11,944	323	1,411	—	**13,678**
Discontinued operations *(Note 5.1)*	2,601	248	150	—	**2,999**
Reclassified to AHFS *(Note 3.8)*	—	—	3	—	**3**
Translation	(1,416)	(312)	(599)	—	**(2,327)**
31 December 2018	**(325,324)**	**(43,276)**	**(24,394)**	**—**	**(392,994)**
Net book value:					
31 December 2017	**156,726**	**40,764**	**3,484**	**19,731**	**220,705**
31 December 2018	**151,125**	**37,032**	**3,768**	**32,741**	**224,666**

3.1. Property and equipment (continued)

During the year ended 31 December 2017 the Group reclassified its billing system and similar software from property and equipment to intangible assets as a result of the technological changes in the system and software *(Note 3.2.1)*.

Included in construction in-progress are advances to suppliers of network equipment of 1,607 and 857 as at 31 December 2018 and 2017, respectively.

Assets purchased under certain contracts with deferred payment terms in the amount of 129 (2017: 332) are pledged as security for the related liabilities.

Finance leases

The carrying value of buildings and structures held under finance leases at 31 December 2018 was 3,162 (2017: 3,432). Leased assets are pledged as security for the related finance lease liabilities.

Capitalised borrowing costs

Capitalised borrowing costs were 1,889 and 1,752 for the years ended 31 December 2018 and 2017, respectively. The rate used to determine the amount of borrowing costs eligible for capitalisation was 9.3% and 9.5% for the years ended 31 December 2018 and 2017, respectively.

3.2. Intangible assets

3.2.1. Intangible assets, other than goodwill

Accounting policies

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment, if any. Intangible assets consist principally of operating licences, frequencies, customer base and software.

Software development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The useful lives of intangible assets are assessed as either finite or indefinite. The Group does not have intangible assets with indefinite useful lives, other than goodwill.

3.2. Intangible assets (continued)

All intangible assets are amortised on a straight-line basis over the following estimated useful lives:

Operating licences and frequencies	10 to 20 years
Customer base	3 to 19 years
Trademarks and patents	7 to 20 years
Other software	1 to 5 years
Other intangible assets	1 to 10 years

Amortisation expenses are based on management's judgment as to the amortisation method to be used and its estimates of the useful lives of the intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors, and may result in changes in estimated useful lives and amortisation charges. Critical estimates of useful lives of intangible assets are impacted by estimates of average customer relationship based on churn, remaining licence periods and expected developments in technology and markets. The actual economic lives of the assets may be different from the estimated useful lives. A change in estimated useful lives is accounted for prospectively as a change in accounting estimate.

Impairment

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. See *Note 3.1* for further description of the accounting policies for impairment testing of non-financial assets.

3.2. Intangible assets (continued)

Disclosures

Intangible assets, other than goodwill, are as follows:

	Operating licences and frequencies	Customer base	Trademarks and patents	Games	Other software	Other intangible assets	Total
Cost as of							
1 January 2017	**79,693**	**4,194**	**719**	**—**	**15,797**	**7,304**	**107,707**
Additions	1,808	105	50	1,016	3,239	1,223	**7,441**
Acquisitions *(Note 5.4)*	—	22,295	22,493	12,151	4,586	1,456	**62,981**
Reclassified from property and equipment *(Note 3.1)*	—	—	—	—	34,158	1,384	**35,542**
Disposals	(539)	(105)	(54)	—	(2,481)	(534)	**(3,713)**
Translation	(19)	—	—	340	—	27	**348**
31 December 2017	**80,943**	**26,489**	**23,208**	**13,507**	**55,299**	**10,860**	**210,306**
Additions	1,407	118	725	1,413	20,604	74	**24,341**
Acquisitions *(Note 5.4)*	—	—	—	—	416	2,073	**2,489**
Disposals	(535)	(162)	(35)	(36)	(4,334)	(259)	**(5,361)**
Discontinued operations *(Note 5.1)*	—	(22,402)	(23,178)	(15,171)	(4,586)	(2,061)	**(67,398)**
Reclassified to AHFS *(Note 3.8)*	—	—	—	—	(462)	—	**(462)**
Translation	75	—	—	287	—	101	**463**
31 December 2018	**81,890**	**4,043**	**720**	**—**	**66,937**	**10,788**	**164,378**
Amortisation as of							
1 January 2017	**(28,811)**	**(2,815)**	**(597)**	**—**	**(11,065)**	**(3,124)**	**(46,412)**
Charge for the year	(4,392)	(3,757)	(2,300)	(2,197)	(3,807)	(1,189)	**(17,642)**
Disposals	510	105	54	—	2,472	485	**3,626**
Reclassified from property and equipment *(Note 3.1)*	—	—	—	—	(21,613)	—	**(21,613)**
Translation	19	—	—	(124)	—	(20)	**(125)**
31 December 2017	**(32,674)**	**(6,467)**	**(2,843)**	**(2,321)**	**(34,013)**	**(3,848)**	**(82,166)**
Charge for the year	(4,414)	(1,919)	(1,196)	(1,062)	(11,502)	(776)	**(20,869)**
Disposals	467	162	35	27	4,318	259	**5,268**
Discontinued operations *(Note 5.1)*	—	4,971	3,350	3,479	2,130	628	**14,558**
Reclassified to AHFS *(Note 3.8)*	—	—	—	—	83	—	**83**
Translation	(11)	—	—	(123)	—	(92)	**(226)**
31 December 2018	**(36,632)**	**(3,253)**	**(654)**	**—**	**(38,984)**	**(3,829)**	**(83,352)**
Net book value:							
31 December 2017	**48,269**	**20,022**	**20,365**	**11,186**	**21,286**	**7,012**	**128,140**
31 December 2018	**45,258**	**790**	**66**	**—**	**27,953**	**6,959**	**81,026**
Weighted-average remaining amortisation period, years	10	—	—	—	2	9	4

Operating licences and frequencies provide the Group with the exclusive right to utilise certain radio frequency spectrum to provide wireless communication services.

3.2. Intangible assets (continued)

Operating licences primarily consist of

- several 2G licences,
- a nationwide 3G licence,
- a nationwide 4G licence to use 2.5–2.7 GHz spectrum (10x10 MHz band), and
- a nationwide 4G licence to use 2.5–2.7 GHz spectrum (30x30 MHz band).

These licences are integral to the wireless operations of the Group and any inability to extend existing licences on the same or comparable terms could materially affect the Group’s business. While operating licences are issued for a fixed period, renewals of these licences previously had occurred routinely and at nominal cost. The Group believes that there are currently no legal, regulatory, contractual, competitive, economic or other factors that could result in delays in licence renewal, or even an outright refusal to renew.

Nationwide 3G and 4G licences require the Company to meet certain conditions, including capital commitments and coverage requirements *(Note 5.8)*.

Neosprint

In April 2018 the Group acquired spectrum in the 3.4GHz-3.6GHz band for Moscow through the purchase of a 100% interest in LLC Neosprint (“Neosprint”). The Group’s management concluded that the assets and activities of the acquired company are not capable of being conducted and managed as a business, accordingly the acquisition of Neosprint was accounted for as an acquisition of assets. The purchase price totaled 720, consisting of cash consideration of 504 and a deferred payment of 216 which was fully settled in June 2018.

3.2.2. Goodwill

Accounting policies

Goodwill represents the excess of the consideration transferred plus the fair value of any NCI in the acquired company at the acquisition date over the fair values of the identifiable net assets acquired. Goodwill is not amortised, but tested for impairment at least annually *(Note 3.2.3)*.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Disclosures

The changes in the carrying value of goodwill, net of accumulated impairment losses of 3,400, for the years ended 31 December 2018 and 2017 are as follows:

	2018	**2017**
Balance at beginning of year	73,218	30,549
Acquisitions *(Note 5.4)*	7,725	42,669
Discontinued operations *(Note 5.1)*	(50,394)	—
Balance at end of year	**30,549**	**73,218**

3.2. Intangible assets (continued)

3.2.3. Goodwill impairment

Accounting policies

Goodwill is not subject to amortisation and is tested annually for impairment as of 1 October or more frequently whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to each of the cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination. The Group has allocated goodwill to the following CGUs: 1) integrated telecommunication services and 2) GARS Holding Limited ("GARS").

An impairment loss of associated goodwill is recognised for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of (1) a CGU's fair value less costs to sell and (2) value in use. The recognised impairment loss is not subsequently reversed.

Estimating recoverable amounts of assets and CGUs is based on management's evaluations, including determining the appropriate CGUs and estimates of applicable multiples, if the market approach is used, or future cash flows, discount rates, terminal growth rates, and assumptions about future market conditions, if the income approach is used. Allocation of the carrying value of the assets being tested between individual CGUs also requires management's judgment.

Goodwill impairment test

The Group considers the relationship between market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As of 31 December 2018, the market capitalisation of the Group was not below the book value of its equity.

Goodwill acquired through business combinations has been allocated to related CGUs as follows:

	31 December	
	2018	**2017**
Integrated telecommunication services	28,951	25,384
Broadband internet	—	3,567
GARS	1,598	1,598
Total goodwill	**30,549**	**30,549**
Unallocated:		
MGL *(Note 5.1,5.4)*	—	42,669
Total goodwill	**30,549**	**73,218**

In assessing whether goodwill has been impaired, the carrying values of the CGUs (including goodwill) were compared with their estimated recoverable amounts.

As a result of the annual test, no impairment of goodwill was identified in 2018.

3.2. Intangible assets (continued)

Integrated telecommunication services

Over the last few years the Broadband business blended significantly with the integrated telecommunication services business in terms of mutual projects, costs, inputs and outputs convergence. This process has become particularly evident by 31 December 2018 as the volume of mutual projects and integration has risen significantly over the year. Accordingly, at 31 December 2018 the net assets of the Broadband business, as well as the net assets of the Company’s own retail network have been allocated to the integrated telecommunication services group of CGUs.

Management has determined that the cash flows of the Broadband business and the Company’s own retail network should not be considered independent of those from the integrated telecommunication services CGU, because of the extent of their integration with the Company’s other operations.

The recoverable amount of the integrated telecommunication services CGU has been determined based on its fair value less costs to sell (Level 3). The fair value was estimated at four times operating income before depreciation and amortisation (“OIBDA”), a multiple which is at the lower end of the range of OIBDA multiples observed in the market for acquisitions of similar businesses. The fair value was then reduced by 5% as an estimate of costs to sell the business.

Management believes that any change in any of these key assumptions which can currently be reasonably anticipated would not cause the aggregate carrying amount of the integrated telecommunication services CGU to exceed the aggregate recoverable amount of this unit.

3.3. Investments in associates and joint ventures

Accounting policies

Investments in associates and joint ventures which are jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group’s share of the profits and losses of these companies is included in the ‘Share of loss of associates and joint ventures’ line in the accompanying consolidated income statement with a corresponding adjustment to the carrying amount of the investment.

3.3. Investments in associates and joint ventures (continued)

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated only to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated to the extent of the Group's interest unless a transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates or joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Impairment

For associates and joint ventures accounted for using the equity method, at each reporting date the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the Group's investment in the associate or joint venture and its carrying value, then recognises the loss as 'Share of loss of associates and joint ventures' in profit or loss.

Disclosures

Investments in associates and joint ventures are as follows:

Investee	% equity interest	31 December 2018	2017
Mail.Ru Group Limited ("MGL"), associate	12.340	45,295	—
DTSRetail Limited ("Svyaznoy group"), associate	25.000	15,096	—
LLC Euroset-Retail ("Euroset"), joint venture	—	—	14,041
JSC Sadovoe Koltso ("Garden Ring"), joint venture	49.999	12,866	13,320
Other investments - associates		8	1,206
Total		**73,265**	**28,567**

MGL

MGL is a leading internet services company in Russia. The Group lost control of MGL in June 2018 *(Note 5.1)*, but maintains significant influence over the affairs of MGL as at 31 December 2018 as it holds approximately 12% of the total outstanding shares of MGL, or approximately 31% of the voting rights.

3.3. Investments in associates and joint ventures (continued)

The reconciliation of summarised financial information of MGL to the carrying amount of the Group's interest in the associate is presented below:

	31 December 2018
Assets	
Non-current assets	67,857
Cash and cash equivalents	11,723
Other current assets	13,469
	93,049
Liabilities	
Other non-current liabilities	(20,756)
Current financial liabilities	(13,903)
Other current liabilities	(11,101)
	(45,760)
Total identifiable net assets	**47,289**
NCI of MGL	(261)
Total identifiable net assets net of NCI	**47,028**
The Group's share in MGL	12.34%
The Group's share of identifiable net assets of MGL	5,803
Excess of the carrying value of the investment over the Group's share in the fair value of identifiable net assets	39,492
Carrying amount of the Group's interest in MGL	**45,295**

The composition of the Group's share of loss of MGL accounted for using the equity method is as follows:

	Year ended 31 December 2018
Revenue	35,946
Expenses	(35,290)
Depreciation and amortisation	(4,911)
Interest income	280
Interest expense	(2)
Other income and expenses, net	(758)
Income tax expense	(101)
Loss	**(4,836)**
OCI	(228)
Loss attributable to NCI	83
Amortisation of the Group's purchase price allocation adjustments and application of the Group's accounting policies	(1,148)
Loss and total comprehensive loss of MGL	**(6,129)**
The Group's share in MGL	12.34%
The Group's share of loss and total comprehensive loss of MGL	**(756)**

3.3. Investments in associates and joint ventures (continued)

Euroset and Svyaznoy group

Euroset is a retail chain, whose primary activities are sales of mobile phones, audio devices, other portable gadgets and accessories, and provision of customer subscription and payment collection services for major telecommunication operators in Russia.

In February 2018 MegaFon and VEON Ltd ("VEON") terminated their Euroset joint venture providing for shared ownership and operation of Euroset. MegaFon acquired a 50% interest in Euroset from VEON, resulting in MegaFon's owning 100% of Euroset. VEON made a cash payment of approximately 1,200 in respect of its share of Euroset's liabilities and obligations. Also, as part of the termination of the joint venture, VEON acquired the rights to Euroset's lease agreements for approximately 1,700 outlets.

In May 2018 the Group acquired an interest in DTSRetail Limited ("Svyaznoy group"), which will amount to 25% of the outstanding shares plus one share after completion of certain conditions, in exchange for contributing to the Svyaznoy group 100% of the shares of Euroset and the Lonestar Enterprises Ltd ("Lonestar") loan *(Note 3.4)* with the ascribed value of 1,730, including accrued interest.

The primary reason for the transaction was to enable MegaFon to acquire an interest in the largest retail chain in the technology sector in the Russian Federation to take part in future development of omnichannel networks.

The financial results of Euroset after the acquisition of the remaining 50% interest from VEON and before the disposal to the Svyaznoy group are presented in the consolidated income statement line "Share of loss of associates and joint ventures" in the amount of 679 (loss).

The fair value of the Group's holding in the Svyaznoy group was estimated in the amount of 15,440. It approximated the fair value of the consideration transferred by the Group (the shares of Euroset and Lonestar loan receivable).

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

Assets	
Property and equipment	1,896
Intangible assets, other than goodwill	48,947
Inventory	25,307
Trade and other receivables	9,612
Other assets	2,132
Cash and cash equivalents	9,210
	97,104

3.3. Investments in associates and joint ventures (continued)

Liabilities	
Loans	(19,567)
Deferred tax liabilities	(9,919)
Trade and other payables	(44,099)
Other liabilities	(1,410)
	(74,995)
Total identifiable net assets at fair value	**22,109**
The Group's share in the investment	25%
The Group's share of identifiable net assets	**5,527**
Excess of the consideration transferred over the Group's share in the fair value of identifiable net assets	9,913
Purchase consideration transferred	**15,440**

The disposal of Euroset resulted in a 651 gain, presented in the consolidated income statement line "Share of loss of associates and joint ventures".

The fair value of the Svyaznoy group as at the date of acquisition has been determined using the cash flow projections for a six-year period.

The calculation of the fair value of the Group's holding in the Svyaznoy group is particularly sensitive to the following assumptions:

Pre-tax discount rate	16.1%
Average annual revenue growth rate during the forecast period	7.6%
Terminal growth rate	4.3%
Average OIBDA margin during the forecast period	5.3%

The discount rate represents the current market assessment of the risks specific to the Svyaznoy group, taking into consideration the time value of money and individual risks to the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Svyaznoy group and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Svyaznoy group's investors. The cost of debt is based on the interest-bearing borrowings the Svyaznoy group is obliged to service. Investee-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated based on publicly available market data.

Average annual revenue growth is projected based on the combination of volume and pricing assumptions regarding smartphone, accessories, SIM-cards, and financial services sales.
The terminal growth rate is assumed to equal the Russian consumer price index.

OIBDA margin is projected based on a combination of management's forecasted revenue and operation cost strategies.

3.3. Investments in associates and joint ventures (continued)

Sensitivity to changes in key assumptions

The following reasonably possible changes in the key assumptions made independently, with all other assumptions constant, would result in the following changes to the fair value of the Svyaznoy group:

Key assumption	Change in assumption	Change in fair value
Pre-tax discount rate	Increase by 2 p.p. Decrease by 2 p.p.	Decrease by 19% Increase by 28%
Average annual revenue growth rate during the forecast period	Increase by 1 p.p. Decrease by 1 p.p.	Increase by 80% Decrease by 77%
Terminal growth rate	Increase by 1 p.p. Decrease by 1 p.p.	Increase by 8% Decrease by 7%
Average OIBDA margin during the forecast period	Increase by 2 p.p. Decrease by 2 p.p.	Increase by 57% Decrease by 56%

The reconciliation of summarised financial information of the Svyaznoy group to the carrying amount of the Group's interest in the Svyaznoy group is presented below:

	31 December 2018
Assets	
Non-current assets	52,986
Cash and cash equivalents	9,859
Other current assets	43,232
	106,077
Liabilities	
Non-current financial liabilities	(2,442)
Other non-current liabilities	(10,255)
Current financial liabilities	(69,216)
Other current liabilities	(3,434)
	(85,347)
Total identifiable net assets	**20,730**
The Group's share in the Svyaznoy group	25%
The Group's share of identifiable net assets of the Svyaznoy group	**5,183**
Excess of the carrying value of the investment over the Group's share in the fair value of identifiable net assets	9,913
Carrying amount of the Group's interest in the Svyaznoy group	**15,096**

3.3. Investments in associates and joint ventures (continued)

The composition of the Group's share of profit/(loss) of the Svyaznoy group accounted for using the equity method is as follows:

	Seven months ended 31 December 2018
Profit and total comprehensive income of the Svyaznoy group	15
Amortisation of the Group's purchase price allocation adjustments and application of the Group's accounting policies	(1,390)
Loss and total comprehensive loss of the Svyaznoy group	**(1,375)**
The Group's share in the Svyaznoy group	25%
The Group's share of loss and total comprehensive loss of the Svyaznoy group	**(344)**

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 ten-year lease agreement with Garden Ring for a part of the building. This building is the corporate headquarters of the Group, which consolidates the Group's operations in Moscow into the single location. See *Note 5.8* for the applicable lease commitments. The remaining part of the building is mostly leased by Sberbank.

The Garden Ring joint venture is accounted for using the equity method in the consolidated financial statements.

3.3. Investments in associates and joint ventures (continued)

The reconciliation of summarised financial information of Garden Ring to the carrying amount of the Group's interest in the joint venture is presented below:

	31 December 2018	31 December 2017
Assets		
Non-current assets	47,430	48,269
Cash and cash equivalents	755	1,003
Other current assets	45	280
	48,230	**49,552**
Liabilities		
Non-current financial liabilities	(22,774)	(21,572)
Other non-current liabilities	(5,685)	(5,712)
Current financial liabilities	(1,897)	(3,492)
Other current liabilities	(6)	—
	(30,362)	**(30,776)**
Total identifiable net assets	**17,868**	**18,776**
The Group's share in Garden Ring	49.999%	49.999%
The Group's share of identifiable net assets of Garden Ring	**8,934**	**9,388**
Excess of the carrying value of the investment over the Group's share in the fair value of identifiable net assets	3,932	3,932
Carrying amount of the Group's interest in Garden Ring	**12,866**	**13,320**

The composition of the Group's share of loss of the joint venture accounted for using the equity method is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
(Loss)/profit and total comprehensive (loss)/income of Garden Ring	(511)	275
Amortisation of the Group's purchase price allocation adjustments and application of the Group's accounting policies	(398)	(675)
Loss and total comprehensive loss of the joint venture	**(909)**	**(400)**
The Group's share in the joint venture	49.999%	49.999%
The Group's share of loss and total comprehensive loss of Garden Ring	**(454)**	**(200)**

City-Mobil

In April 2018 the Group via its subsidiary JSC MegaLabs acquired a 18.37% interest, and via MGL acquired a further 15.75% interest, in LLC City-Mobil ("City-Mobil"), a taxi aggregator, for cash consideration paid in full in the same month.

Then after subsequent changes in the number of shareholders, additional contributions by the shareholders and MegaFon's decreasing its interest in MGL *(Note 5.1)*, as of 31 December 2018 the Group's share in City-Mobil amounted to 15.61%.

3.3. Investments in associates and joint ventures (continued)

The total contributions of the Group, excluding MGL, for the acquisition of the interest in City-Mobil held at 31 December 2018 amounted to approximately 618.

MegaFon's voting interest in City-Mobil does not entitle the Group to control City-Mobil. However, the holding, alongside the share held by MGL, gives the Group significant influence over City-Mobil. Accordingly, the Group does not consolidate City-Mobil, but accounts for it as an associate. The primary reason for the acquisition was to expand the range of the Group's digital services and products. As at 31 December 2018 the net book value of the investment is nil.

Total summarised profit and loss information of Garden Ring, Euroset and Svyaznoy group is as follows:

	Year ended 31 December	
	2018	**2017**
Revenue	107,056	68,029
Depreciation and amortisation	(3,745)	(5,216)
Interest income	—	194
Interest expense	(4,450)	(3,685)
Income tax	(1,095)	716

3.4. Financial assets and liabilities

Accounting policies

Initial recognition and measurement

Financial assets and financial liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for a financial asset or financial liability accounted for at fair value through profit or loss, in which case transaction costs are expensed.

Subsequent measurement of financial assets and liabilities

The subsequent measurement of financial assets and liabilities depends on their classification as described below:

- *Fair value through profit or loss.* Derivatives are accounted for at fair value through profit or loss unless they are designated as effective hedging instruments.

  Financial assets and liabilities accounted for at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value being recognised in profit or loss, in the 'Net gain/(loss) on financial instruments' line.

3.4. Financial assets and liabilities (continued)

- *Amortised cost.* Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market such as trade and other receivables, loans receivable, contract assets, and loans and borrowings are classified as financial instruments at amortised cost. Previously, under IAS 39, such financial assets were classified as loans and receivables. After initial measurement, such instruments are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The amortisation based on EIR is included in profit or loss.

- *Fair value through OCI.* Derivative financial instruments designated as effective hedging instruments are accounted for at fair value through OCI.

De-recognition of financial assets

A financial asset is de-recognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost and contract assets. These loss allowances are measured at an amount equal to lifetime ECLs. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured at present value of all cash shortfalls, that is the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive. ECLs are discounted at an effective interest rate of the financial asset.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the relevant costs in profit or loss.

3.4. Financial assets and liabilities (continued)

De-recognition of financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised within profit or loss.

Disclosures

Financial assets are as follows:

	31 December 2018	2017
Trade and other receivables at amortised cost *(Note 3.5)*	29,137	26,520
Other financial assets:		
Financial assets at fair value through profit or loss:		
Financial investments in associates	—	264
Financial derivatives under lease and hosting contracts	—	150
Derivative financial assets over the equity of investee	—	122
Cross-currency swap not designated as hedge	697	—
Total financial assets at fair value through profit or loss	**697**	**536**
Financial assets at amortised cost:		
Short-term bank deposits in Rubles	—	560
Short-term bank deposits in US dollars	—	7,096
Short-term bank deposits in HK dollars	4,352	—
Loans receivable from Garden Ring and Lonestar	5,067	6,357
Other deposits	1,307	4,976
Other	361	157
Total financial assets at amortised cost	**11,087**	**19,146**
Total other financial assets	**11,784**	**19,682**
Other current financial assets	**(7,955)**	**(16,097)**
Other non-current financial assets	**3,829**	**3,585**
Total financial assets	**40,921**	**46,202**
Total current financial assets	**(37,092)**	**(42,617)**
Total non-current financial assets	**3,829**	**3,585**

Loan receivable

In February 2018 the loan due from Strafor Commercial Ltd, a company related to the Svyaznoy group, was extended to April 2018 and was converted into Rubles so that the amount due including interest as of the conversion date was 1,724. The loan was then assigned to and assumed by Lonestar, another company related to the Svyaznoy group, and was thereafter treated as part of the Group’s consideration for the investment in the Svyaznoy group *(Note 3.3)*.

3.4. Financial assets and liabilities (continued)

Other deposits

Other deposits consist of cash advances received under certain contracts with customers and held in Company bank accounts.

Financial liabilities are as follows:

	31 December 2018	2017
Trade and other payables at amortised cost	53,235	50,535
Financial liabilities at amortised cost:		
Loans and borrowings:		
Bank loans and borrowings	271,487	208,143
Ruble bonds	56,007	55,967
Total loans and borrowings	**327,494**	**264,110**
Total current loans and borrowings	**(39,232)**	**(52,013)**
Total non-current loans and borrowings	**288,262**	**212,097**
Other financial liabilities at amortised cost:		
Finance lease obligations *(Notes 3.1,5.8)*	4,265	4,222
Other liabilities	509	329
Total financial liabilities at amortised cost	**332,268**	**268,661**
Financial liabilities at fair value through profit and loss:		
Cross-currency swap not designated as hedge	84	—
Total financial liabilities at fair value through profit and loss	**84**	**—**
Financial liabilities at fair value through OCI:		
Foreign currency forwards designated as cash flow hedges	—	3,842
Total financial liabilities at fair value through OCI	—	**3,842**
Total other financial liabilities	**4,858**	**8,393**
Other current financial liabilities	**(145)**	**(3,853)**
Other non-current financial liabilities	**4,713**	**4,540**
Total financial liabilities	**385,587**	**323,038**
Total current financial liabilities	**(92,612)**	**(106,401)**
Total non-current financial liabilities	**292,975**	**216,637**

3.4.1. Cash and cash equivalents

Accounting policies

Cash and cash equivalents comprise cash on hand and deposits in banks with original maturities of three months or less.

3.4. Financial assets and liabilities (continued)

Disclosures

Cash and cash equivalents are as follows:

	31 December 2018	2017
Cash at bank and on hand in		
Rubles	3,749	7,023
US dollars	553	865
Euros	216	1,384
Other	2	50
Short-term bank deposits in		
Rubles	232	7,878
US dollars	16,423	18,947
Euros	6,039	—
Total cash and cash equivalents	**27,214**	**36,147**

3.4.2. Loans and borrowings

Principal amounts outstanding under loans and borrowings are as follows:

	Interest Rate	Maturity	31 December 2018	2017
Bank loans and borrowings:				
Ruble loans – fixed rates	7.13%-11.5%	2019-2024	230,855	161,928
US dollar loans – floating rates	LIBOR+0.95% - LIBOR+2.15%	2021-2022	20,598	34,153
US dollar loans – fixed rates	2.29-3.65%	2019-2022	6,340	5,082
Euro loans – floating rates	EURIBOR+0.19% - EURIBOR+2.05%	2019-2027	15,575	9,171
Total bank loans and borrowings			**273,368**	**210,334**
Ruble bonds	7.2%-9.95%	2019-2026 with a put option in 2021 and 2023	**55,000**	**55,000**
Total			**328,368**	**265,334**
Total current			**(37,909)**	**(50,961)**
Total non-current			**290,459**	**214,373**

Bank loans

In August 2018 the Group drew down 66,000 from different banks under fixed-rate Ruble-denominated facilities for a term of up to 1-5 years to finance general corporate needs and the shares and GDRs purchase programme.

3.4. Financial assets and liabilities (continued)

Ruble bonds

On 19 February 2018 the Group placed its Series BO-001P-04 Ruble denominated exchange bonds, in an aggregate principal amount of 20,000. The bonds have a term of three years following placement. The coupon rate was set at 7.2% per annum, payable semiannually.

On 7 March 2018 the Group redeemed in full at par its Series 06 and 07 Ruble denominated bonds in an aggregate principal amount of 20,000. The Group initially issued these bonds in March 2013 with a maturity of ten years at a coupon rate of 8% per annum. The coupon rate was to be re-set after five years and the Group had the right to redeem the bonds on the last day of the coupon period for which the coupon rate was defined. The redemption of the bonds was effected pursuant to the Group's exercise of this right.

New credit facility

In October 2018 the Group signed a new credit facility agreement for up to Euro 150 million. The credit facility must be used to refinance purchases of equipment and related services and requires the Group to make semi-annual repayments, including accrued interest, over a term of 8.5 years. An equivalent of 6,069 of that facility has been drawn as at 31 December 2018.

Covenant requirements

The majority of the Company's financing facilities contain restrictive covenants with certain permitted exceptions.

3.4. Financial assets and liabilities (continued)

3.4.3. Reconciliation of movements of liabilities to cash used in financing activities

	Liabilities			Equity		
	Loans and borrowings	Derivatives	Finance lease liabilities	NCI	Treasury shares	Total
Balance as of 1 January 2018	**264,110**	**3,842**	**4,222**	**55,536**	**(17,387)**	**310,323**
Proceeds from borrowings, net of fees paid	124,987	—	—	—	—	**124,987**
Repayment of borrowings	(67,409)	(2,961)	—	—	—	**(70,370)**
Interest paid	(25,109)	(403)	(477)	—	—	**(25,989)**
Dividends paid to NCI	—	—	—	(247)	—	**(247)**
Purchase of outstanding shares	—	—	—	—	(76,700)	**(76,700)**
Finance lease payments	—	—	(8)	—	—	**(8)**
Total cash flows used in financing activities	**32,469**	**(3,364)**	**(485)**	**(247)**	**(76,700)**	**(48,327)**
Finance costs	26,125	485	493	—	—	**27,103**
Foreign exchange loss, net	7,447	1,096	—	—	—	**8,543**
Gain on financial instruments, net	—	(713)	—	—	—	**(713)**
Changes through OCI	—	(1,959)	—	—	—	**(1,959)**
Acquisitions of subsidiaries and discontinued operations *(Notes 5.1,5.4)*	13	—	—	(55,265)	—	**(55,252)**
Assets-related other changes	(2,670)	—	35	—	—	**(2,635)**
Equity-related other changes	—	—	—	(288)	—	**(288)**
Balance as of 31 December 2018	**327,494**	**(613)**	**4,265**	**(264)**	**(94,087)**	**236,795**

3.4. Financial assets and liabilities (continued)

3.4.3 Reconciliation of movements of liabilities to cash used in financing activities

	Liabilities				Equity		
	Loans and borrowings	**Derivatives**	**Finance lease liabilities**	**Dividends payable**	**Retained earnings**	**NCI**	**Total**
Balance as of 1 January 2017	**235,113**	**4,964**	**4,173**	**2,839**	**129,890**	**(43)**	**376,936**
Proceeds from borrowings, net of fees paid	127,626	—	—	—	—	—	**127,626**
Repayment of borrowings	(99,416)	(4,718)	—	—	—	—	**(104,134)**
Interest paid	(24,142)	(9)	(437)	—	—	—	**(24,588)**
Dividends paid to equity holders of the Company	—	—	—	(2,839)	(19,211)	—	**(22,050)**
Dividends paid to NCI	—	—	—	—	—	(172)	**(172)**
Acquisition of MGL treasury shares	—	—	—	—	—	(1,430)	**(1,430)**
Finance lease payments	—	—	(33)	—	—	—	**(33)**
Total cash flows used in financing activities	**4,068**	**(4,727)**	**(470)**	**(2,839)**	**(19,211)**	**(1,602)**	**(24,781)**
Finance costs	24,625	—	519	—	—	—	**25,144**
Foreign exchange (gain)/loss, net	(1,411)	3,794	—	—	—	—	**2,383**
Changes through OCI	—	(189)	—	—	—	—	**(189)**
Acquisition of subsidiaries	268	—	—	—	—	54,900	**55,168**
Assets-related other changes	1,447	—	—	—	—	—	**1,447**
Equity-related other changes	—	—	—	—	4,551	2,281	**6,832**
Balance as of 31 December 2017	**264,110**	**3,842**	**4,222**	**—**	**115,230**	**55,536**	**442,940**

3.4. Financial assets and liabilities (continued)

3.4.4. Derivative financial instruments and hedging activities

Accounting policies

Derivative financial instruments, which include foreign currency forwards and cross-currency swaps, are initially recognised in the consolidated statement of financial position at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow ("DCF") models as appropriate. Derivatives are included within financial assets at fair value through profit or loss when fair value is positive and within financial liabilities at fair value through profit or loss when fair value is negative. Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract and the combined instrument is not measured at fair value, with changes in fair value being recognised in profit or loss.

The Group has derivatives which it designated as cash flow hedges and derivatives which it did not designate as hedges. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in OCI. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. For derivative instruments that are not designated as hedges or do not qualify as hedged transactions, the changes in the fair value are reported in the profit or loss.

The Group uses derivatives to manage interest rate and foreign currency risk exposures. The Group does not hold or issue derivatives for trading purposes.

Disclosures

The Group had the following outstanding cross-currency swaps and foreign currency forwards stated at their notional amounts:

3.4. Financial assets and liabilities (continued)

	Original currency	31 December 2018 Millions, original currency	31 December 2018 Millions, Rubles	31 December 2017 Millions, original currency	31 December 2017 Millions, Rubles
Foreign currency forwards:					
designated as cash flow hedges	US dollar	—	—	208	11,981
Total foreign currency forwards			**—**		**11,981**
Cross-currency swaps:					
not designated as hedges	Euro	97	7,708	—	—
not designated as hedges	US dollar	118	8,198	—	—
Total cross-currency swaps			**15,906**		**—**

Foreign currency forwards designated as cash flow hedges

During the year ended 31 December 2016 the Group entered into a number of US dollar forward purchase agreements that limited the exposure from changes in US dollar exchange rates on certain long-term debts. The forwards were designated and qualified as cash flow hedges of foreign currency risk. There was no ineffective portion in the reporting period. Forwards were settled in 2017 and 2018 and affected consolidated income statement in those periods.

Cross-currency swap designated as a cash flow hedge

In February 2017 the Group settled a cross-currency swap agreement which was designated and qualified as a cash flow hedge of foreign currency risk and affected consolidated income statement in 2017.

The table below presents the effect of the Group's derivative financial instruments designated as cash flow hedges on the consolidated income statement and consolidated statement of other comprehensive income for the years ended 31 December:

	2018	2017
Foreign currency forwards:		
Amount of gain/(loss) recognised in OCI	863	(3,560)
Amount of loss reclassified from OCI into foreign exchange loss, net	1,096	3,752
Deferred tax on movements in OCI	(392)	(38)
	1,567	**154**
Cross-currency swap:		
Amount of loss recognised in OCI	—	(47)
Amount of loss reclassified from OCI into foreign exchange loss, net	—	44
Deferred tax on movements in OCI	—	1
	—	**(2)**
Total in OCI	**1,567**	**152**

3.4. Financial assets and liabilities (continued)

Derivatives not designated as hedging instruments

In August 2018, the Company entered into cross-currency swap agreements with a notional amount of $129 million (8,962 at the exchange rate as of 31 December 2018) and Euro 106 million (8,423 at the exchange rate as of 31 December 2018) that limit the exposure from changes in US dollar and Euro exchange and interest rates on certain long-term debt.

The terms of the swap agreements did not meet the requirements for hedge accounting, therefore the Group reported all gains and losses from the change in fair value of these derivative financial instruments directly in the consolidated income statement.

Gain on financial instruments

Net gain on financial instruments recognised in profit or loss for the year ended 31 December 2018 consisted of 713 gain from change in fair value of cross-currency swaps not designated as hedges (31 December 2017: nil).

3.4.5. Fair values

Accounting policies

The fair value of financial instruments recorded in the consolidated statement of financial position and/or disclosed in the notes that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques, which include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a DCF analysis, or other valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

3.4. Financial assets and liabilities (continued)

Disclosures

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated financial statements:

		Carrying amount		Fair value	
		31 December		31 December	
		2018	2017	2018	2017
Financial assets:					
Financial assets at fair value through profit or loss:					
Cross-currency swaps not designated as hedges	Level 2	697	—	697	—
Financial investments in associates	Level 3	—	264	—	264
Financial derivatives under lease and hosting contracts	Level 3	—	150	—	150
Derivative financial assets over the equity of investee	Level 3	—	122	—	122
Financial assets at amortised cost:					
Short-term bank deposits	Level 2	4,352	7,656	4,352	7,656
Loans receivable from Garden Ring and Lonestar	Level 2	5,067	6,357	5,067	6,436
Other deposits	Level 2	1,307	4,976	1,307	4,706
Other	Level 3	361	157	361	157
Total financial assets		**11,784**	**19,682**	**11,784**	**19,491**
Financial liabilities:					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	271,487	208,143	283,473	234,969
Ruble bonds	Level 1	56,007	55,967	54,568	56,299
Finance lease obligations	Level 3	4,265	4,222	4,265	4,222
Other liabilities	Level 3	509	329	538	343
Financial liabilities at fair value through profit or loss:					
Cross-currency swap not designated as hedge	Level 2	84	—	84	—
Financial liabilities at fair value through OCI:					
Foreign currency forwards designated as cash flow hedges	Level 2	—	3,842	—	3,842
Total financial liabilities		**332,352**	**272,503**	**342,928**	**299,675**

Valuation techniques and assumptions

Management has determined that cash, short-term deposits, other financial assets, 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.

3.4. Financial assets and liabilities (continued)

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 loan receivable from Garden Ring approximates its 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 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 fair values of the Group's loans and borrowings and other liabilities carried at amortised cost, except for market quoted bonds, are determined by using 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 December 2018 and 2017 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 end of the reporting period, taking into account current interest rates, foreign exchange spot and forward rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

3.4. Financial assets and liabilities (continued)

Disclosures

The following tables summarise the valuation of financial assets and liabilities measured at fair value on a recurring basis by the fair value hierarchy:

	Cross-currency swaps	Financial invest-ments in associates	Derivatives under leases and over the equity of investee	**Total financial assets**	Foreign currency forwards	Cross-currency swap	**Total financial liabilities**
31 December 2018							
Level 1	—	—	—	—	—	—	—
Level 2	697	—	—	**697**	—	(84)	**(84)**
Level 3	—	—	—	—	—	—	—
Total as of 31 December 2018	**697**	**—**	**—**	**697**	**—**	**(84)**	**(84)**
31 December 2017							
Level 1	—	—	—	—	—	—	—
Level 2	—	—	—	—	(3,842)	—	**(3,842)**
Level 3	—	264	272	**536**	—	—	—
Total as of 31 December 2017	**—**	**264**	**272**	**536**	**(3,842)**	**—**	**(3,842)**

During the years ended 31 December 2018 and 31 December 2017 there were no transfers between levels of the fair value hierarchy.

3.5. Trade and other receivables

The ageing analysis of trade and other receivables that are not impaired is as follows:

	31 December	
	2018	**2017**
Neither past due nor impaired	20,004	20,114
Past due but not impaired:		
Less than 30 days	2,949	2,152
30 - 90 days	4,364	3,382
More than 90 days	1,820	872
Total trade and other receivables	**29,137**	**26,520**

The following table summarises the changes in the impairment allowance for trade and other receivables for the years ended 31 December:

	2018	**2017**
Balance at beginning of year	3,191	2,778
Acquisitions *(Note 5.4)*	—	398
Change in the impairment allowance	3,866	2,681
Discontinued operations *(Note 5.1)*	(288)	—
Accounts receivable written off	(3,229)	(2,666)
Balance at end of year	**3,540**	**3,191**

3.6. Inventory

Accounting policies

Inventory, which primarily consists of telephone handsets, portable electronic devices, accessories and USB modems, is stated at the lower of cost and net realisable value. Cost is determined using the weighted-average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Disclosures

The amount of inventory write-down to net realisable value and other inventory losses recognised in 'Cost of revenue' line in the consolidated income statement for the year ended 31 December 2018 is 1,108 (2017: 550).

3.7. Non-financial assets and liabilities

Accounting policies

Value-added tax

Value added tax ("VAT") related to revenues is generally payable to the tax authorities on an accrual basis when invoices are issued to customers. VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to revenues, or can be reclaimed in cash from the tax authorities under certain circumstances.

Management periodically reviews the recoverability of VAT receivables and believes the amount reflected in the consolidated financial statements is fully recoverable within one year.

Disclosures

Current non-financial assets are as follows:

	31 December	
	2018	**2017**
Prepayments for services	3,791	4,605
VAT receivable	3,051	1,160
Deferred costs	419	1,176
Prepaid taxes, other than income tax	502	289
Prepayments for inventory	3	216
Total current non-financial assets	**7,766**	**7,446**

3.7. Non-financial assets and liabilities (continued)

Non-current non-financial assets are as follows:

	31 December 2018	2017
Deferred costs, non-current	7,033	2,744
Long-term advances	498	1,814
Total non-current non-financial assets	**7,531**	**4,558**

Current non-financial liabilities are as follows:

	31 December 2018	2017
Advances from customers	10,620	15,044
VAT payable	2,003	4,987
Current portion of deferred revenue	3,227	7,579
Taxes payable, other than income tax	1,589	1,544
Other current liabilities	222	32
Total current non-financial liabilities	**17,661**	**29,186**

Non-current non-financial liabilities are as follows:

	31 December 2018	2017
Deferred revenue	3,789	9,672
Other non-current liabilities	106	509
Total non-current non-financial liabilities	**3,895**	**10,181**

3.8. Assets held for sale

As at 31 December 2018 the Group classified its investments in Forpost *(Note 5.3)* and another insignificant associate and the net assets of its subsidiary LLC "CoreClass" *(Note 5.4)* as assets held for sale. The investments have subsequently been sold in January 2019 *(Note 5.9)*.

3.9. Provisions

Accounting policies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to passage of time is recognised as finance costs.

3.9. Provisions (continued)

Decommissioning provision

The Group has certain legal obligations related to rented sites for base stations and masts, which include requirements to restore the real estate upon which the base stations and masts are located upon their being decommissioned. Decommissioning costs are determined by calculating the present value of the expected costs to settle the obligation using estimated cash flows, and are recognised as part of the cost of the particular asset. The cash flows are discounted at the current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed in profit or loss as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in estimated liability resulting from revisions of the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset, except where a reduction in the provision is greater than the unamortised recognised cost, in which case the recognised cost is reduced to nil and the remaining adjustment is recognised in the consolidated income statement.

In determining the best estimate of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the asset from the site, including long-term inflation forecasts, and the expected timing of those costs.

Disclosures

The following table describes the changes to the decommissioning provision for the years ended 31 December:

	2018	**2017**
Balance at beginning of year	4,378	3,888
Revisions in estimated cash flows	319	64
Net additions	21	51
Unwinding of discount	399	375
Balance at end of year	**5,117**	**4,378**

4. EQUITY

Accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

The Company's own issued equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration received upon any subsequent sale is recognised in equity.

Disclosures

Share capital

As of 31 December 2018 and 2017, the Company had 100,620,000,000 authorised ordinary shares with a par value of 0.1 Rubles, of which 620,000,000 were fully paid issued shares, including 480,383,463 (2017: 595,700,967) outstanding shares and 139,616,537 (2017: 24,299,033) shares classified as treasury shares (held through its wholly owned subsidiary, MegaFon Finance LLC as at 31 December 2018, and previously through its wholly owned subsidiary, MegaFon Investments (Cyprus) Limited, as at 31 December 2017).

Purchase of outstanding shares

During August-September 2018 the Group purchased through its subsidiary MegaFon Investments (Cyprus) Limited by way of a tender offer 115,317,504 of the ordinary shares and GDRs, representing 18.6% of the Company's issued shares, for 76,700 including transaction costs.

Mandatory tender offer

On 10 December 2018 the Group cancelled all remaining GDRs held by members of the Group and received the corresponding number of ordinary shares. Upon this cancellation of the GDRs the Group, together with its controlling shareholders *(Note 1.1)*, then held more than 75% of the Company's outstanding ordinary shares, which, according to the Federal Law "On Joint Stock Companies", required that a mandatory tender offer be made to the other shareholders to acquire the shares held by them. Accordingly, the Company's Board of Directors at the meeting held on 9 January 2019, approved the making of the mandatory tender offer for the remaining outstanding ordinary shares at a price of 659.26 Rubles per ordinary share, open for acceptance until 7 March 2019 *(Note 5.9)*, and recommended that the shareholders accept the mandatory tender offer.

Annual dividend payment

On 30 June 2017 the Annual General Meeting of Shareholders of the Company approved the payment of a final dividend for the 2016 financial year in the amount of 19,211, or 32.25 Rubles per ordinary share (or GDR). Such dividends were paid in full in August 2017. Together with the interim dividend approved and paid in 2016, total dividends for the 2016 financial year amounted to 38,423, or 64.50 Rubles per ordinary share (or GDR).

4. EQUITY (continued)

No dividends were declared in respect of the 2017 or 2018 financial years.

Other capital reserves

The disaggregation of other capital reserves and changes of other comprehensive income by each type of reserve in equity is shown below:

	Foreign currency translation reserve	Cash flow hedge reserve	Share-based compen-sation reserve	Transac-tions with non-con-trolling interests	Reserve fund	**Total other capital reserves**
As of 1 January 2017	**(1,191)**	**(1,719)**	**1,488**	**(23)**	**15**	**(1,430)**
Foreign currency translation	115	—	—	—	—	**115**
Change in fair value of cash flow hedges *(Note 3.4.4)*	—	152	—	—	—	**152**
As of 31 December 2017	**(1,076)**	**(1,567)**	**1,488**	**(23)**	**15**	**(1,163)**
Foreign currency translation	(566)	—	—	—	—	**(566)**
Change in fair value of cash flow hedges *(Note 3.4.4)*	—	1,567	—	—	—	**1,567**
Discontinued operations *(Note 5.1)*	57	—	—	—	—	**57**
As of 31 December 2018	**(1,585)**	—	**1,488**	**(23)**	**15**	**(105)**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

The cash flow hedge reserve is used to record the accumulated impact of derivatives designated as cash flow hedges *(Note 3.4.4)*.

The share-based compensation reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. During 2018 and 2017 the Group did not have any equity-settled share-based programmes. The amount of the reserve relates to previous years awards that expired unexercised.

The reserve on transactions with NCI is used to record differences arising as a result of transactions with NCI that do not result in a loss of control.

The reserve fund has been established according to the requirements of Russian law and is used to cover the Company's losses, redemption of its bonds and re-purchase of its own shares in the absence of other capital resources.

5. ADDITIONAL NOTES

5.1. Discontinued operations

Since the beginning of 2017 MegaFon had owned a 15.2% interest in the Class A and ordinary shares of MGL, a leading company in the Russian-speaking internet market (which, because of the number of votes allocated to Class A shares, represented approximately 63.8% of the voting shares of MGL), and had consolidated MGL's financial position and results of operations since the beginning of 2017.

In January 2018 the Group established an entity named JSC MF Technologies to which in May 2018 the Group contributed the 11,500,100 Class A shares of MGL, representing approximately 5% of the total shares (and 59% of the voting shares) of MGL, through a series of transactions. After that, in June 2018, the Group sold a 55% interest in JSC MF Technologies to LLC Financial Investments, Gazprombank and LLC RT-Business Development (a subsidiary of Rostec) for an aggregate cash consideration of $247.5 million (15,510 at the exchange rate as of the payment day).

The sale resulted in decreasing the Group's interest in MGL to approximately 12% of the total shares outstanding, or 31% of the voting rights. Accordingly, the Group determined that it had lost control over MGL and discontinued consolidating this subsidiary starting from 9 June 2018.

The Group accounts for its remaining interest in MGL as an associate as it believes that it still has a significant influence over MGL through its remaining shareholding.

The fair value of the remaining interest in MGL has been estimated in the amount of 46,052. The fair value of the Group's interest in Class A shares has been estimated based on the selling price of the shares in the above-mentioned transaction, and the fair value of the Group's interest in ordinary shares has been estimated based on the market quote for the shares.

The comparative consolidated income statement for the year ended 31 December 2017 has been changed to present the discontinued operations separately from continuing operations. Transactions between the continuing operations and the discontinued operations prior to the disposal have been eliminated.

5.1. Discontinued operations (continued)

Profit/(loss) from discontinued operations for the years ended 31 December is presented below:

	2018	2017
Revenue	30,439	51,500
Expenses	(32,879)	(48,920)
(Loss)/profit before tax from discontinued operations	**(2,440)**	**2,580**
Income tax	(543)	(2,138)
(Loss)/profit from discontinued operations, net of tax	**(2,983)**	**442**
Gain on sale of discontinued operations and revaluation of the remaining investment in MGL	18,208	—
Income tax on gain on sale of discontinued operations and the revaluation gain	(3,641)	—
Profit for the year from discontinued operations, net of tax	**11,584**	**442**
Attributable to equity holders of the Company	13,987	(107)
Attributable to NCI	(2,403)	549
	11,584	**442**
Earnings per share, Rubles — discontinued operations		
Basic and diluted, profit for the year attributable to equity holders of the Company	23	1

Cash flows generated from the sale of a portion of the Group's interest in MGL described above are presented below:

Cash received from discontinued operations	15,510
Cash disposed of with discontinued operations	(8,565)
Net cash inflow from sale	**6,945**

Cash flows generated by MGL for the years ended 31 December are presented below:

	2018	2017
Net cash flows from operating activities	4,825	18,815
Net cash flows used in investing activities	(11,934)	(7,351)
Net cash flows used in financing activities	(13)	(1,565)
Net cash flows generated by MGL	**(7,122)**	**9,899**

5.1. Discontinued operations (continued)

The effect of the disposal on the financial position of the Group is presented below:

Assets	
Property and equipment	6,119
Intangible assets	52,840
Goodwill	50,394
Other non-current assets	9,404
Cash and cash equivalents	8,565
Other current assets	8,621
	135,943
Liabilities	
Non-current liabilities	17,768
Current liabilities	19,298
	37,066
NCI	(55,580)
OCI	57
Net assets and liabilities	**43,354**

5.2. Share-based compensation

Accounting policies

Equity-settled transactions

Employees (including senior executives) of the Group and, so long as it was a member of the Group, employees of MGL, may receive remuneration in the form of share-based payment transactions, whereby share-based payment recipients render services as consideration for equity instruments ("equity-settled transactions") or a cash equivalent thereof ("cash-settled share-based payments").

If the Group has a choice to settle share-based payments in cash or in equity, the entire transaction is treated either as cash-settled or as equity-settled, depending on whether or not the Group has a present obligation to settle in cash.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. During 2017 and 2018 the only equity-settled transactions were those incurred by MGL. Therefore the cost of those equity-settled transactions was recognised over the period in which the service conditions are fulfilled in Profit from discontinued operations *(Note 5.1)* while the corresponding amount was recorded as an increase in NCI.

5.3. 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 years:

	For the years ended 31 December 2018	2017
Revenues from USM group	12	1
Revenues from Telia group	—	350
Revenues from Euroset	127	3,450
Revenue from MGL’s equity accounted associates	141	121
Revenues from Svyaznoy group	2,394	—
Revenues from MGL	3	—
	2,677	**3,922**
Services from USM group	1,039	968
Services from Telia group	—	710
Services from Euroset	228	1,646
Services from Garden Ring	1,836	1,771
Services from MGL’s equity accounted associates	67	15
Services from Svyaznoy group	2,230	—
Services from MGL	730	—
Services from Forpost	167	—
	6,297	**5,110**
Other non-operating expenses	281	—

	31 December 2018	2017
Due from USM group	3	1
Due from Euroset	—	1,473
Due from Garden Ring	5,038	4,777
Due from MGL’s equity accounted associates	—	77
Due from Svyaznoy group	3,591	—
Due from MGL	7	—
Due from Forpost	91	—
	8,730	**6,328**
Due to USM group	1,861	1,271
Due to Euroset	—	92
Due to Garden Ring	—	142
Due to MGL’s equity accounted associates	—	2
Due to Svyaznoy group	933	—
Due to MGL	780	—
Due to Forpost	958	—
	4,532	**1,507**

5.3. Related parties (continued)

Terms and conditions of transactions with related parties

Outstanding balances as of 31 December 2018 and 31 December 2017 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 31 December 2018 and 31 December 2017, 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"), formerly the Group's parent, USM Holdings Limited, an indirect owner of Garsdale, and their consolidated subsidiaries. As of 3 August 2018 Garsdale transferred its 100% interest in the company through which it held its interest in the Group to USM Holding Company LLC and another member of the USM group. As a result USM Holding Company LLC has become the Group's parent.

The Group purchased billing system and related support services from PeterService, another member of the USM group, in the amount of 11,473 and 6,019 during the years ended 31 December 2018 and 2017, respectively. The outstanding balances with the USM group as of 31 December 2018 mainly relate to these purchases.

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 is required 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 consolidated statement of financial position. The Group's accrued contributions to the Partnership of 190 during the year ended 31 December 2018 (2017: nil) are included into other non-operating expenses in the consolidated income statement.

Telia group

The transactions with Telia group relate to operations with various companies in that group. Revenue 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.

In October and November 2017 Telia Company sold its entire interest in MegaFon to Gazprombank and other institutional investors. Consequently, Telia group ceased to be a related party.

5.3. Related parties (continued)

Euroset and Svyaznoy

Euroset was the Group's joint venture with PJSC VimpelCom until February 2018 when MegaFon acquired the remaining 50% interest in Euroset from VEON *(Note 3.3)*. After Euroset was disposed of in exchange for an interest in the Svyaznoy group *(Note 3.3)* the Svyaznoy group has become a related party for the Group.

The Group had a dealership and equipment sales agreement with Euroset and now has a dealership and equipment sales agreement with the Svyaznoy group 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. The Group also has a loan receivable from Garden Ring. The balance due from Garden Ring at 31 December 2018 and 31 December 2017 consists mainly of the loan receivable.

Forpost

The Group has an insignificant investment in Forpost, the holding company for LLC Talmer, a systems integrator and complex IT solutions provider in the Russian Federation, which is accounted for as an associate. The balances due from and to Forpost are prepayments and payables for IT equipment purchases and related services. In January 2019 Forpost ceased to be a related party of the Group *(Note 5.9)*.

MGL

The Group purchased advertising services from MGL *(Note 3.3)* in the amount of 730 for the six months ended 31 December 2018. The Group also contributed to sponsoring a cybersporting event of MGL; those contributions were recognised in other non-operating expenses in the consolidated income statement.

Compensation to key management personnel

Members of the Board of Directors and the Management Board of the Company are the key management personnel. The amounts recognised as employee benefits expense to key management personnel of the Group for the years ended 31 December are as follows:

	2018	**2017**
Short-term employee benefits	588	580
Long-term incentive programme	82	89
Total	**670**	**669**

5.4. Business combinations

Accounting policies

The Group applies the acquisition method of accounting and recognises the assets acquired, the liabilities assumed and any NCI in the acquired company at the acquisition date, measured at their fair values as of that date. For some acquisitions the Group may elect to measure an NCI in the acquiree at its proportionate interest in the identifiable net assets of the acquiree.

The identification of assets acquired and liabilities assumed as a result of those acquisitions, determining the fair value of assets acquired and liabilities assumed as well as any contingent consideration and quantification of resulting goodwill requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, terminal growth rates, licence and other asset useful lives and market multiples, among other items.

Results of subsidiaries acquired and accounted for by the acquisition method have been included in operations from the relevant date of acquisition.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability that is a financial instrument within the scope of IFRS 9, *Financial Instruments*, are recognised in accordance with IFRS 9 in the consolidated income statement. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

2018 acquisitions

Safe City

In June 2018 the Group acquired a 100% interest in LLC "UK TechnoInvestProject" (subsequently renamed into LLC "CoreClass"), a Russian systems integrator, for a cash consideration of 530. The primary reason for the acquisition was to gain access to software and expertise for providing services to government sector clients under the government programme "Safe City". The purchase consideration was mainly allocated to software in the amount of 416.

ESForce Holding Limited

In January 2018 MGL, and thereby the Group, acquired a 100% interest in ESForce Holding Limited ("ESForce"), one of the world's largest e-sports organisations, for a cash consideration of 5,659 and contingent consideration based on performance indicators determined at the end of 2018. The contingent consideration measured at fair value amounted to 1,132 as of the date of acquisition. The primary reason for the acquisition was to enhance the Group's position in the e-sports market.

5.4. Business combinations (continued)

The table below includes the allocation of the purchase price to the acquired net assets of ESForce based on their estimated fair values:

Assets	
Property and equipment	648
Intangible assets	674
Trade and other receivables	191
Other assets	438
Cash and cash equivalents	207
	2,158
Liabilities	
Deferred tax liabilities	144
Trade and other payables	365
Other liabilities	208
	717
Total identifiable net assets at fair value	**1,441**
Goodwill arising on acquisition	5,372
NCI	(22)
Purchase consideration transferred	**6,791**

Goodwill is mainly attributable to the potential of ESForce to further enhance its leadership position in the e-sports market and synergies with the Group's other operations. Goodwill is not expected to be deductible for income tax purposes.

Intangible assets mainly include trademarks and customer base, and are amortised over the period of 2 to 5 years.

BitGames, 33 Slona, InShopper

In April 2018 MGL, and thereby the Group, acquired control of mobile games developer PBL Bitdotgames Publishing Limited ("BitGames"), and a 100% interest in LLC "33 Slona" and LLC "Tekhnologii nedvizhimosti" (collectively, "33 Slona"), a digital real estate agency. In June 2018 the Group acquired a 100% interest in Consult Universal Corp ("InShopper"), a cash-back technology provider.

Total consideration for the transactions was approximately 2,500 paid in cash and a contingent consideration measured at fair value as of the date of acquisition in the amount of 93 based on performance indicators for one year after the acquisition.

The primary reason for the acquisition of BitGames was to enhance the Group's position in the mobile games market. The primary reason for the acquisition of 33 Slona was to leverage the Group's expertise and resources by achieving substantial synergies with Youla, the Group's general online classifieds product. The primary reason for the acquisition of InShopper was to leverage the Group's expertise and resources by achieving substantial synergies with the Group's payment technologies and solutions.

5.4. Business combinations (continued)

The table below includes the provisional allocation of the purchase price to the acquired net assets of BitGames, 33 Slona and InShopper based on their estimated fair values:

Assets	
Intangible assets	1,140
Trade and other receivables	36
Other assets	114
Cash and cash equivalents	26
	1,316
Liabilities	
Deferred revenue and customer advances	473
Deferred tax liabilities	143
Trade and other payables	90
Other liabilities	38
	744
Total identifiable net assets at fair value	**572**
Goodwill arising on acquisition	2,408
The acquisition date fair value of the Group's previously held equity interest	(114)
NCI	(247)
Derivative over the equity of investee	(11)
Purchase consideration transferred	**2,608**

2017 acquisitions

Mail.Ru

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 payable on or prior to the first anniversary of the acquisition date.

The deferred consideration of $100 million (5,773 at the exchange rate as of the payment date) was paid in December 2017.

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.

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

Accordingly, the Group consolidated MGL from the beginning of 2017.

5.4. Business combinations (continued)

The acquisition-date fair values of each major class of consideration transferred were 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 elected to measure the NCI in the acquiree at its proportionate interest in the identifiable net assets of the acquiree.

The table below includes the 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	41,839
NCI	(54,900)
Purchase consideration transferred	**44,040**

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

The goodwill recognised was attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of MGL.

5.4. Business combinations (continued)

ZakaZaka

In May 2017, MGL, and thereby the Group, acquired the remaining 90.09% of ZakaZaka, a food delivery company, for cash consideration of 1,042. The main purpose of the acquisition was to further expand the MGL food delivery business. The provisional fair values of total identified assets and liabilities at the date of acquisition were insignificant. Goodwill in the amount of 678 is mainly attributable to expected synergies and cost savings with the MGL's food delivery business.

Am.ru

In May 2017, MGL, and thereby the Group, acquired exclusive rights for Am.ru, one of the largest Russian auto classifieds websites, for cash consideration of 542. The primary purpose of the acquisition was to establish the Group's solid presence in the auto classifieds.

5.5. Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks.

The Group's senior management is supported by the Finance and Strategy Committee of the Board of Directors that advises on financial risks and the appropriate financial risk governance framework for the Group. The Finance and Strategy Committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Company's Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risks that mostly impact the Group comprise two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include: loans and borrowings, deposits and derivative financial instruments.

5.5. Financial risk management (continued)

The sensitivity analyses in the following sections relate to the position as of 31 December 2018 and 2017. The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2018 and 2017.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

At 31 December 2018 approximately 94% of the Group's borrowings (including the effect of cross-currency swaps) are at a fixed rate of interest (2017: 84%).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/decrease in basis points	Effect on profit before tax
Year ended 31 December 2018		
US Dollar	+7	(16)
US Dollar	-7	16
Year ended 31 December 2017		
US Dollar	+17	(58)
US Dollar	-17	58

The analysis is prepared assuming the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities (when cash deposits and loans and borrowings are denominated in a different currency from the Group's functional currency).

5.5. Financial risk management (continued)

A significant portion of the Group's liabilities is denominated in US dollars or Euro. If the Ruble continued to fluctuate against the US dollar or Euro, this could negatively impact the Group's earnings.

To the extent permitted by Russian law, the Group keeps part of its cash and cash equivalents in US dollar and Euro interest bearing accounts to manage against the risk of Ruble decline or devaluation, and also to match its foreign currency liabilities.

To minimise its foreign exchange exposure to fluctuations in foreign currency exchange rates, the Group is migrating most of its foreign currency linked costs to Ruble based costs to balance assets and liabilities and revenues and expenses denominated in Rubles. In order to manage the foreign currency risk the Group is also focused on increasing the proportion of Ruble loans through refinancing and hedging activities.

When necessary the Group enters into cross-currency swap and foreign currency forward purchase agreements. These derivative financial instruments were used to limit exposure to changes in foreign currency exchange rates on certain of the Group's long-term debts denominated in foreign currencies *(Note 3.4.4)*.

Overall, the share of Ruble loans (including the effect of cross-currency swaps and forwards) amounted to 92% as of 31 December 2018 (2017: 87%).

In accordance with the Group's policies, the Group does not enter into any treasury management transactions of a speculative nature.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar, Euro and HK dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value and future cash flows of monetary assets and liabilities) after the impact of hedge accounting. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in foreign exchange rates	**Effect on profit before tax**
Year ended 31 December 2018		
US dollar	+20%	(353)
US dollar	-20%	353
Euro	+15%	(242)
Euro	-15%	242
HK dollars	+20%	871
HK dollars	-20%	(871)
Year ended 31 December 2017		
US dollar	+20%	(1,886)
US dollar	-20%	1,886
Euro	+20%	302
Euro	-20%	(302)

5.5. Financial risk management (continued)

The movement in the pre-tax effect is a result of monetary assets and liabilities denominated in currencies other than the functional currency of the Company.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

The Group deposits available cash with various banks in the Russian Federation. Deposit insurance is either not offered or only offered in *de minimis* amounts in respect of bank deposits within the Russian Federation. To manage the concentration of credit risk, the Group allocates available cash to domestic branches of international banks and a limited number of Russian banks. A majority of these Russian banks are either owned or controlled by the Russian government.

The Group extends credit to certain counterparties, principally international and national telecommunications operators, for roaming services, to certain dealers and to customers on post-paid tariff plans. The Group minimises its exposure to the risk by ensuring that credit risk is spread across a number of counterparties, and by continuously monitoring the credit standing of counterparties based on their credit history and credit ratings reviews. Other preventative measures to minimise credit risk include obtaining advance payments, bank guarantees and other security.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in *Note 3.4*. The Group considers the concentration of risk with respect to trade receivables to be low, as its customers are located in several jurisdictions and industries and operate in largely independent markets. Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Due to this management believes there is no further credit risk provision required in excess of the normal impairment allowance for trade and other receivables.

The Group monitors its credit risk with regards to loans extended to Garden Ring *(Note 3.4)*. This assessment is undertaken each financial year by examining the financial position of the debtor and the market in which the debtor operates. As at 31 December 2018 and 2017, no impairment losses were identified.

Liquidity risk

The Group monitors its risk relating to a shortage of funds using a recurring liquidity planning tool. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. Approximately 11% of the Group's loans and borrowings will mature in less than one year as of 31 December 2018 (2017: 20%) based on the carrying value of borrowings reflected in the consolidated financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

5.5. Financial risk management (continued)

As of 31 December 2018 and 2017, the Group has a net current liability position. The Group believes it will continue to be able to generate significant operating cash flows and that adequate access to sources of funding and significant amount of available credit lines are sufficient to meet the Group's requirements. Additionally, the Group can defer capital expenditures if necessary in order to meet short-term liquidity requirements. Accordingly, Group management believes that cash flows from operating and financing activities will be sufficient for the Group to meet its obligations as they become due.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
31 December 2018					
Loans and borrowings	69,174	177,491	140,715	41,138	**428,518**
Trade and other payables	53,235	—	—	—	**53,235**
Finance lease obligations	550	1,193	1,192	5,509	**8,444**
Long-term accounts payable	—	199	—	—	**199**
Total 31 December 2018	**122,959**	**178,883**	**141,907**	**46,647**	**490,396**
31 December 2017					
Loans and borrowings	74,557	72,935	119,367	100,658	**367,517**
Trade and other payables	50,535	—	—	—	**50,535**
Finance lease obligations	485	1,125	1,125	6,158	**8,893**
Derivative financial liabilities	3,842	—	—	—	**3,842**
Long-term accounts payable	—	96	—	—	**96**
Total 31 December 2017	**129,419**	**74,156**	**120,492**	**106,816**	**430,883**

Capital management

Capital includes equity attributable to the Group's shareholders. The primary objective of the Group's capital management is to ensure that it maintains a healthy credit rating and healthy capital ratios in order to secure access to debt and capital markets at all times and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

The Net Debt to OIBDA ratio is an important measure to assess the capital structure in light of the need to maintain a strong credit rating. Net Debt represents the carrying amount of interest-bearing loans and borrowings less cash and cash equivalents and current and non-current bank deposits. As of 31 December 2018 the Net Debt to OIBDA ratio was 2.37 (2017: 1.92).

Some loan agreements also have covenants based on Net Debt to OIBDA ratios. The Group believes it has complied with all the capital requirements imposed by external parties.

5.5. Financial risk management (continued)

Collateral

The Group did not pledge collateral as security for its financial liabilities at 31 December 2018 or 2017, except certain assets purchased under finance leases or on deferred payment terms *(Notes 3.1, 3.4)*.

100% of the shares of Garden Ring *(Note 3.3)* have been pledged as security for loans received by Garden Ring from Sberbank, which are due to be repaid in 2026.

5.6. Group information

The consolidated financial statements of the Group include the following significant subsidiaries, joint ventures and associates of MegaFon:

Legal entity		Principal activities	Country of incorporation	% equity interest 2018	% equity interest 2017
JSC MegaFon Retail	subsidiary	Retail	Russia	100	100
LLC NetByNet Holding	subsidiary	Broadband internet	Russia	100	100
LLC Scartel	subsidiary	Wireless services	Russia	100	100
LLC MegaFon Finance	subsidiary	Financing	Russia	100	100
MegaFon Investments (Cyprus) Limited	subsidiary	Transactions with treasury shares	Cyprus	100	100
JSC MegaLabs	subsidiary	New telecom services development	Russia	100	100
CJSC TT mobile	subsidiary	Integrated telecom	Tajikistan	75	75
DTSRetail Limited *(Note 3.3)*	associate	Retail	Russia	25	—
LLC Euroset-Retail *(Note 3.3)*	joint venture	Retail	Russia	—	50
Mail.Ru Group Limited *(Note 5.1)*	associate	Internet services	BVI	12.34	15.2
JSC Sadovoe Koltso *(Note 3.3)*	joint venture	Corporate office	Russia	49.999	49.999

The Company holds interests in material subsidiaries, associates and joint ventures through a number of intermediary holding companies.

5.7. 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 and assessing the 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. 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.

5.7. Segment information (continued)

MGL represented an internet operating and reportable segment before the Group determined that it had lost control of MGL in June 2018 *(Note 5.1)*. Accordingly, as of 31 December 2018 MGL is no longer a reportable segment of the Group.

Operating segments with similar economic characteristics, such as forecasted OIBDA, have been aggregated into an integrated telecommunication services segment, which is the only reportable segment as of 31 December 2018. Around 1.4% 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.

Reconciliation of OIBDA to profit from continuing operations for the years ended 31 December is presented below:

	2018	2017
OIBDA	**124,157**	**121,906**
Depreciation	(49,254)	(55,282)
Amortisation	(16,116)	(8,071)
Loss on disposal of non-current assets	(337)	(484)
Finance costs	(25,927)	(24,306)
Finance income	1,634	1,724
Share of loss of associates and joint ventures	(2,829)	(1,947)
Impairment loss from Euroset	—	(15,917)
Other non-operating expenses	(1,677)	(1,583)
Gain on financial instruments, net	713	—
Foreign exchange loss, net	(1,271)	(4,451)
Profit before tax from continuing operations	**29,093**	**11,589**

Disaggregation of revenue

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

	2018	2017
Wireless services	276,076	264,352
Wireline services	30,941	28,759
Sales of equipment and accessories	28,532	28,699
Total external revenue	**335,549**	**321,810**
Intra-group revenue elimination	(8)	(13)
Total revenue	**335,541**	**321,797**

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.

Revenue recognised under construction contracts for the year ended 31 December 2018 is 598 (2017: 2,143).

5.8. Commitments, contingencies and uncertainties

Russian operating environment

During 2017 and 2018, 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 continued to fluctuate and as at 31 December 2018 the key rate of the Central Bank of Russia was 7.75%. The combination of the above resulted in 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.

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 licence-holding 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 licences, i.e. by 2023.

As of the date these 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 December 2018 is 7,356 (31 December 2017: 8,675).

5.8. Commitments, contingencies and uncertainties (continued)

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 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 consolidated income statement *(Note 5.3).*

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 December 2018 the Group's management estimated the possible effect of additional taxes, before fines and interest, if any, on these consolidated financial statements, if the authorities were successful in enforcing different interpretations being taken by them, to be in the amount of up to approximately 1,300 .

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.

5.8. 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 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 revenue and OIBDA.

Based on the current understanding of the law's requirements, the Group expects that the implementation of the changes may cost it approximately 30,000-35,000 over the four years beginning from 2019.

Finance lease commitments

The Group has finance lease contracts for various items of telecommunication assets. Under these leases the lessor retains title to the leased assets as security for the Group's obligations thereunder.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments as of 31 December are as follows:

	2018		**2017**	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	550	519	485	456
After one year but not more than five years	2,385	1,676	2,250	1,581
More than five years	5,509	2,070	6,158	2,185
Total minimum lease payments	8,444	4,265	8,893	4,222
Less amounts representing finance charges	(4,179)	—	(4,671)	—
Present value of minimum lease payments	**4,265**	**4,265**	**4,222**	**4,222**

Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Group normally enters into operating leases with a term not exceeding one year. Accordingly, the Group's operating lease commitments at 31 December 2018 and 2017 approximate the annual lease expense *(Note 2.3).*

5.8. Commitments, contingencies and uncertainties (continued)

MegaFon has a ten-year lease agreement with Garden Ring for a part of the building *(Note 3.3)*. Future minimum rentals payable under this non-cancellable operating lease as at 31 December are as follows:

	2018	**2017**
Within one year	1,760	1,538
After one year but not more than five years	7,399	6,465
More than five years	3,925	5,196
	13,084	**13,199**

5.9. Events after the reporting date

Bonds

In February 2019 the Group placed its BO-001P-05 series bonds in the amount of 20,000 at an interest rate of 8.55% per annum to be paid semi-annually for a term of three years.

In March 2019 the Group placed its BO-001P-06 and BO-002P-01 series bonds in the total amount of 10,000 at an interest rate of 8.90% per annum to be paid semi-annually for a term of five years.

Bank loans

In January, February and March 2019 the Group drew down 51,814 from different banks under fixed-rate Ruble-denominated facilities for a term of up to 2-5 years to finance general corporate needs. In March the Group early repaid approximately $257 million (17,854 at the exchange rate as of 31 December 2018) of US dollar-denominated floating-rate loans, which were due at the end of 2022 and partially prepaid 7,514 of Ruble-denominated fixed-rate loan.

Sales of investments

In January 2019 the Group sold its investments in Forpost *(Note 3.8)* and another insignificant associate for total consideration of approximately 270. The Group also sold 100% of LLC “CoreClass” (Note 5.4) for a cash consideration of 640 receivable over two years from the date of acquisition. The sale resulted in an insignificant gain.

Mandatory tender offer

As of 7 March 2019, the expiration date of the mandatory tender offer *(Note 4)*, a total of 126,246,094 ordinary shares (or 20.36% of the outstanding ordinary shares) had been tendered by the Company’s shareholders. As a result, the Group, together with AF Telecom Holding LLC, is holding a 99.2% of the outstanding ordinary shares. The Group expects to resolve the status of any remaining shares outstanding by mid-to-late summer 2019.