



MEGAFON

Interim condensed consolidated financial statements
(Unaudited)

For the three months ended 31 March 2013

Contents

Report on review of interim condensed consolidated financial statements	2
Interim condensed consolidated statement of comprehensive income	3
Interim condensed consolidated statement of financial position	4
Interim condensed consolidated statement of changes in equity	5
Interim condensed consolidated statement of cash flows	6
Notes to interim condensed consolidated financial statements	7
1. General	7
2. Basis of preparation	7
3. Significant accounting policies	7
4. Segment information	9
5. Property and equipment	9
6. Financial assets and liabilities	10
7. Share-based compensation	12
8. Sales and marketing expenses	13
9. General and administrative expenses	13
10. Income tax	13
11. Related parties	14
12. Commitments, contingencies and uncertainties	15
13. Events after the reporting date	17

Report on review of interim condensed consolidated financial statements

The Board of Directors and Shareholders
OJSC MegaFon

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of OJSC MegaFon and its subsidiaries (hereinafter collectively referred to as the "Company") as of 31 March 2013 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

14 May 2013

MegaFon

Interim condensed consolidated statement of comprehensive income

(In millions of Rubles, except per share amounts)

	Note	Three months ended 31 March	
		2013 (Unaudited)	2012
Revenues			
Wireless services		59,603	55,748
Wireline services		4,522	4,427
Sales of equipment and accessories		3,599	2,785
Total revenues		67,724	62,960
Operating expenses			
Cost of services		12,684	13,489
Cost of equipment and accessories		3,104	2,660
Sales and marketing expenses	8	2,902	5,069
General and administrative expenses	9	16,653	16,207
Depreciation		11,287	11,143
Amortisation		1,346	1,347
Loss on disposal of non-current assets	5	137	194
Total operating expenses		48,113	50,109
Operating profit		19,611	12,851
Finance costs	6	(2,766)	(286)
Finance income		418	591
Share of loss of associates and joint ventures		(145)	—
Other non-operating income/(expense)		68	(15)
Loss on financial instruments		(74)	—
Foreign exchange loss, net		(816)	(1,440)
Profit before tax		16,296	11,701
Income tax expense	10	(3,655)	(2,440)
Profit for the period		12,641	9,261
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Foreign currency translation difference, net of tax of nil		(77)	88
Net movement on cash flow hedges, net of tax of nil		—	(44)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		(77)	44
Total comprehensive income for the period, net of tax		12,564	9,305
Profit for the period			
Attributable to equity holders of the Company		12,624	9,258
Attributable to non-controlling interest		17	3
Total comprehensive income for the period			
Attributable to equity holders of the Company		12,566	9,280
Attributable to non-controlling interest		(2)	25
Earnings per share, Rubles			
Basic, profit for the period attributable to ordinary equity holders of the Company		22	15
Diluted, profit for the period attributable to ordinary equity holders of the Company		22	15

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

MegaFon

Interim condensed consolidated statement of financial position

(In millions of Rubles)

		31	31
		March	December
		2013	2012
	Note	(Unaudited)	(Audited)
Assets			
Non-current assets			
Property and equipment	5	207,634	215,549
Intangible assets, other than goodwill		16,099	16,991
Goodwill		23,950	23,950
Investments in associates and joint ventures		35,517	35,662
Non-current non-financial assets		1,422	1,956
Deferred tax assets		1,892	2,573
Total non-current assets		286,514	296,681
Current assets			
Inventory		6,935	5,277
Current non-financial assets		6,056	5,990
Prepaid income taxes		4,677	5,066
Trade and other receivables		13,522	12,515
Other current financial assets	6	42,273	23,449
Cash and cash equivalents		3,119	2,387
Total current assets		76,582	54,684
Total assets		363,096	351,365
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		130,393	117,355
Non-controlling interests		516	518
Total equity		130,909	117,873
Non-current liabilities			
Loans and borrowings	6	136,057	125,575
Other non-current financial liabilities	6	456	501
Non-current non-financial liabilities		1,660	1,843
Provisions		5,887	5,724
Deferred tax liabilities		12,267	12,333
Total non-current liabilities		156,327	145,976
Current liabilities			
Trade and other payables		22,377	23,247
Loans and borrowings	6	9,748	20,457
Other current financial liabilities	6	23,903	23,282
Current non-financial liabilities		19,778	20,513
Income taxes payable		54	17
Total current liabilities		75,860	87,516
Total equity and liabilities		363,096	351,365

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

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Interim condensed consolidated statement of changes in equity

(In millions of Rubles)

For the three months ended 31 March 2013 and 31 March 2012

	Attributable to equity holders of the Company									
	Ordinary shares		Treasury shares		Capital surplus	Retained earnings	Other capital reserves	Total	Non-controlling interests	Total equity
	Number of shares	Amount	Number of shares	Amount						
As of 1 January 2012	620,000,200	526	—	—	12,567	260,957	(53)	273,997	523	274,520
Net profit	—	—	—	—	—	9,258	—	9,258	3	9,261
Other comprehensive income	—	—	—	—	—	—	22	22	22	44
Total comprehensive income	—	—	—	—	—	9,258	22	9,280	25	9,305
As of 31 March 2012 (unaudited)	620,000,200	526	—	—	12,567	270,215	(31)	283,277	548	283,825
As of 1 January 2013	620,000,000	526	54,690,089	(39,133)	12,567	143,468	(73)	117,355	518	117,873
Net profit	—	—	—	—	—	12,624	—	12,624	17	12,641
Other comprehensive loss	—	—	—	—	—	—	(58)	(58)	(19)	(77)
Total comprehensive income	—	—	—	—	—	12,624	(58)	12,566	(2)	12,564
Share-based compensation expense	—	—	—	—	—	—	472	472	—	472
As of 31 March 2013 (unaudited)	620,000,000	526	54,690,089	(39,133)	12,567	156,092	341	130,393	516	130,909

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

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Interim condensed consolidated statement of cash flows

(In millions of Rubles)

	Three months ended	
	31 March	
	2013	2012
	(Unaudited)	
Operating activities		
Profit before tax	16,296	11,701
Non-cash adjustments to reconcile profit before tax to net cash flows:		
Depreciation	11,287	11,143
Amortisation	1,346	1,347
Loss on disposal of non-current assets	137	194
Loss on financial instruments	74	—
Net foreign exchange loss	816	1,440
Share of loss of associates and joint ventures	145	—
Change in impairment allowance for receivables	242	479
Finance costs	2,766	286
Finance income	(418)	(591)
Share-based compensation	472	—
Other non-operating income/(expense)	(68)	15
Working capital adjustments:		
Increase in inventory	(1,658)	(348)
Increase in trade and other receivables	(745)	(1,057)
Increase in current non-financial assets	(127)	(2,221)
Increase in trade and other payables	2,267	3,553
Decrease in current non-financial liabilities	(933)	(1,020)
Change in VAT, net	38	336
Income tax paid	(3,100)	(3,537)
Income tax refunded	600	—
Interest received	297	764
Interest paid	(2,483)	(22)
Interest capitalised	335	313
Net cash flows from operating activities	27,586	22,775
Investing activities		
Purchase of property, equipment and intangible assets	(7,270)	(13,288)
Proceeds from sale of property and equipment	70	61
Payment of deferred and contingent consideration	—	(55)
Net change in short-term and long-term demand deposits	(18,431)	(4,864)
Net cash flows used in investing activities	(25,631)	(18,146)
Financing activities		
Proceeds from borrowings, net of fees paid	20,015	1,512
Repayment of borrowings	(20,890)	(464)
Payment of liability for marketing related licences	(146)	(84)
IPO transaction fees paid	(207)	—
Net cash flows (used in)/from financing activities	(1,228)	964
Net increase in cash and cash equivalents	727	5,593
Net foreign exchange difference	5	(166)
Cash and cash equivalents at beginning of period	2,387	2,887
Cash and cash equivalents at end of period	3,119	8,314

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

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Notes to interim condensed consolidated financial statements

(In millions of Rubles, unless otherwise indicated)

1. General

Open Joint Stock Company MegaFon (“MegaFon”, the “Company” and together with its consolidated subsidiaries the “Group”) is a leading universal telecommunications operator in Russia and provides a broad range of voice, data and other telecommunications services to retail customers, businesses, government clients and other telecommunications services providers.

In November 2012, MegaFon completed an initial public offering (“IPO”) and listed its ordinary shares on the Moscow Exchange and its ordinary shares represented by Global Depositary Receipts, or GDRs, on the London Stock Exchange, in each case under the symbol “MFON”.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2012.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2012 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequently to the issuance of its 2012 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company’s 2012 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company’s financial position, financial performance and cash flows for the interim reporting periods.

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

The interim condensed consolidated financial statements were authorised for issue by the Company’s Chief Executive Officer (“CEO”) and Chief Accountant on 14 May 2013.

3. Significant accounting policies

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2012, except for the adoption of new standards and interpretations effective from 1 January 2013.

In preparing the Group’s annual consolidated financial statements for the year ended 31 December 2012, the Group elected to early adopt a number of new standards including IFRS 10, IFRS 11, IFRS 12 and IFRS 13.

Notes to interim condensed consolidated financial statements (continued)

3. Significant accounting policies (continued)

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32, *Financial Instruments: Presentation*, clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12, *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

Notes to interim condensed consolidated financial statements (continued)

3. Significant accounting policies (continued)

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

4. Segment information

The Group manages its business primarily based on eight geographical operating segments within Russia, which provide a broad range of voice, data and other telecommunication services, including wireless and wireline services to clients, interconnection services, data transmission services and value added services (“VAS”). The Chief Operating Decision Maker (“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 not analysed by the CODM. Operating segments with similar economic characteristics have been aggregated into an integrated telecommunication services segment, which is the only reportable segment. The remaining operating segments, including less significant subsidiaries and retail business, do not meet the quantitative thresholds for reportable segments. Less than 1% 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.

Seasonality of operations

The Company’s services are impacted by seasonal trends throughout the year. Higher revenues and operating profits are usually expected in the second half of the year rather than in the first six months. Higher revenues during the period July to September are mainly attributed to the increased demand for telecommunication services during the peak holiday season, as well as in December, due to increased demand for telecommunication services and equipment from private customers. Also the number of working days is significantly higher in the second half of a calendar year than in the first half of the year due to long public holidays in January and May in Russia, which also contributes to higher revenues in the second half of the year. This information is provided to allow for a better understanding of the results, however management has concluded that this does not constitute ‘highly seasonal’ as considered by IAS 34.

5. Property and equipment

During the three months ended 31 March 2013, the Group acquired assets with a cost of 3,600 (the three months ended 31 March 2012: 8,657). Assets (other than those classified as held for sale) with a net book value of 222 were disposed of by the Group during the three months ended 31 March 2013 (the three months ended 31 March 2012: 418), resulting in a net loss on disposal of 137 (31 March 2012: 194).

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Notes to interim condensed consolidated financial statements (continued)

6. Financial assets and liabilities

Fair values

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

	Carrying amount		Fair value	
	31 March 2013 (Unaudited)	31 December 2012	31 March 2013 (Unaudited)	31 December 2012
Financial assets				
Financial assets at fair value through profit or loss:				
Euroset settlement put option	1,044	1,118	1,044	1,118
Loans and receivables	41,229	22,331	41,229	22,331
Total	42,273	23,449	42,273	23,449
Financial liabilities				
Financial liabilities at amortised cost:				
Loans and borrowings	145,805	146,032	146,626	146,991
Convertible debt instrument	17,274	16,812	17,274	16,812
Liability for marketing related licences	543	682	543	682
Contingent consideration	5,962	5,806	5,962	5,806
Derivatives designated as cash flow hedges	261	261	261	261
Due to employees and related social charges, non-current portion	319	222	319	222
Total	170,164	169,815	170,985	170,774

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

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.

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Notes to interim condensed consolidated financial statements (continued)

6. Financial assets and liabilities (continued)

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

	Euroset settlement put option	Total financial assets	Contingent consideration	Derivative financial instruments	Total financial liabilities
31 March 2013					
Level 1	—	—	—	—	—
Level 2	—	—	—	(261)	(261)
Level 3	1,044	1,044	(5,962)	—	(5,962)
Total as of 31 March 2013	1,044	1,044	(5,962)	(261)	(6,223)
31 December 2012					
Level 1	—	—	—	—	—
Level 2	—	—	—	(261)	(261)
Level 3	1,118	1,118	(5,806)	—	(5,806)
Total as of 31 December 2012	1,118	1,118	(5,806)	(261)	(6,067)

Valuation techniques and assumptions

The fair values of interest rate swaps are based on a forward yield curve and represent the estimated amount the Group would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

The Group estimated the fair value of Synterra and Euroset contingent consideration using a probability-weighted cash flow model and the fair value of Euroset purchased put option using Monte Carlo simulation. The significant unobservable inputs used for contingent consideration valuation are discount rate and several probability adjusted contingent payments. The significant unobservable inputs used for Euroset option valuation are expected term of the option, volatility based on the average historical volatility of publicly traded guideline companies over the period equal to the expected life of the option, dividend yield based on expected dividend payments, risk-free rate determined on the basis of U.S. Treasury yield curve rates with a remaining term to maturity equal to the expected life of the option.

An increase in the discount rate would lead to a decrease in the fair value of the deferred and contingent consideration. An increase in the risk-free rate or expected dividend yield would lead to a decrease in the fair value of the put option asset. An increase in the expected volatility or expected term of the option would lead to an increase in the fair value of the put option. The significant unobservable inputs are not interrelated. The fair value of the instruments is not significantly sensitive to a reasonable change in any of the significant unobservable inputs.

Notes to interim condensed consolidated financial statements (continued)

6. Financial assets and liabilities (continued)

Loans and borrowings

In March 2013, the Group issued two series of Ruble denominated bonds, in an aggregate principal amount of 20,000. The bonds are due for repayment in full in 2023, subject to a five-year put option. The coupon rate for both series was set at 8.0% per annum, paid semiannually, subject to revision in five years. The net proceeds of the bonds issue were applied to prepay in full the VTB Credit Facility in the amount of 11,000 and to partially prepay one of the Sberbank Credit Facilities in the amount of 9,000.

Finance costs expense increased from 286 for the three months ended 31 March 2012 to 2,766 for the three months ended 31 March 2013 due to the increase in loans and borrowings as a result of the shareholder restructuring and dividend payment in April 2012.

7. Share-based compensation

Long-term incentive programme 2012

In October 2012, the Company's Board of Directors approved a long-term motivation and retention programme for certain key executive and senior level employees under which the parties which are selected to participate are awarded phantom share options. In the aggregate, the value ascribed to the full package of phantom share options for which options may be awarded is 1.1% of the share capital of the Company (equal to 7,000,000 phantom shares) at the base price of \$17.86 per share. The plan has a three-year duration and the awarded share options shall vest in April-May 2014 and 2015 and are settled in cash upon vesting, based on the difference between the base price and the weighted-average price of the Company's shares in the period between 15 January and 15 March of the relevant year of vesting. Vesting of the options is contingent upon the recipient's continuing employment with the Group.

In February 2013, a total number of 2,133,000 phantom share options were granted to certain key executive and senior level employees under the 2012 long-term incentive programme.

The respective awards are classified as a liability. The fair value of the options has been estimated using the Monte Carlo model. The fair value of each grant is estimated at the end of each reporting period. The expected volatility was estimated based on the average historical volatility of publicly traded guideline companies over the period equal to the expected life of the options granted. The dividend yield was included into the model based on expected dividend payments. The risk free rate was determined on the basis of U.S. Treasury yield curve rates with a remaining term to maturity equal to the expected life of the options. The expected term of the options equals their vesting term as the options are settled in cash at the end of vesting period.

The weighted-average fair value of options granted during the three months ended 31 March 2013 is 340 rubles. The compensation expense recognised in the reporting period in the interim condensed consolidated statement of comprehensive income is 68.

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Notes to interim condensed consolidated financial statements (continued)

8. Sales and marketing expenses

Sales and marketing expenses for the three months ended 31 March are as follows:

	<u>2013</u>	<u>2012</u>
Advertising	782	1,960
Dealer commissions	1,059	2,138
Cash collection commissions	1,061	971
Total sales and marketing expenses	<u>2,902</u>	<u>5,069</u>

9. General and administrative expenses

General and administrative expenses for the three months ended 31 March are as follows:

	<u>2013</u>	<u>2012</u>
Compensation expenses and related social charges	7,059	6,455
Rent	3,140	2,965
Operating taxes	1,675	1,529
Network repairs and maintenance	1,261	1,175
Utilities	1,008	901
Radio frequency fees	948	1,014
Office maintenance	411	445
Professional services	262	389
Change in allowance account for trade and other receivables	242	479
Vehicle costs	148	159
Materials and supplies	58	92
Insurance	24	22
Other expenses	417	582
Total general and administrative expenses	<u>16,653</u>	<u>16,207</u>

10. Income tax

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

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

	<u>2013</u>	<u>2012</u>
Current income tax	3,008	2,549
Deferred income tax	647	(109)
Total income tax expense	<u>3,655</u>	<u>2,440</u>

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Notes to interim condensed consolidated financial statements (continued)

11. Related parties

As of 31 March 2013 and 31 December 2012, the Group is primarily owned by USM Group, an indirect controlling shareholder, and TeliaSonera Group, another major shareholder with significant influence over the Group. Alfa Group held an equity interest in the Company until 24 April 2012.

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

	Three months ended	
	31 March	
	2013	2012
Revenues from USM Group	133	—
Revenues from TeliaSonera Group	85	34
	218	34
Services from USM Group	217	355
Services from TeliaSonera Group	212	166
Services from Alfa Group	—	256
Services from Euroset	94	—
	523	777
	31	31
	March	December
	2013	2012
Due from USM Group	1,469	850
Due from TeliaSonera Group	59	154
Due from Euroset	142	82
	1,670	1,086
Due to USM Group	17,869	17,558
Due to TeliaSonera Group	95	53
Due to Euroset	3	57
	17,967	17,668

Terms and conditions of transactions with related parties

Outstanding balances as of 31 March 2013 and 31 December 2012 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 31 March 2013 and 31 December 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

MegaFon

Notes to interim condensed consolidated financial statements (continued)

11. Related parties (continued)

USM Group

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

As of 31 March 2013 and 31 December 2012, amounts due to USM Group include 17,274 and 16,812, respectively, related to the Group's obligation to acquire Garsdale's 50% interest in Lefbord.

TeliaSonera Group

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

Alfa Group

The transactions with Alfa Group relate to operations with Altimo, AlfaStrakhovanie and Alfa Bank, members of Alfa Group. Alfa Group held a 25.1% interest in the Group through its member subsidiary Allaction Limited until 24 April 2012, when Allaction Limited ceased to hold any shareholding in the Group and ceased to be a related party.

Euroset

Beginning from December 2012, Euroset is the Group's joint venture with OJSC VimpelCom. In December 2012, the Group entered into a dealership agreement with Euroset which qualifies as a related party transaction.

12. Commitments, contingencies and uncertainties

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, financial performance and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Notes to interim condensed consolidated financial statements (continued)

12. Commitments, contingencies and uncertainties (continued)

3G licence capital commitments

In May 2007, MegaFon was awarded a licence that expires on 21 May 2017 for the provision of 3G wireless communications services for the entire territory of the Russian Federation. The 3G licence was granted subject to certain capital and other commitments.

The three major conditions were that the Group builds a specified number of base stations that support 3G standards, starts commercial exploitation of the 3G technology in each region of the Russian Federation over the period from May 2008 through May 2010, and also builds a certain number of base stations by the end of the third, fourth and fifth years from the date of granting of the licence. As of 14 May 2013, the Group believes it is in full compliance with the 3G licence conditions.

4G/LTE licence capital commitments

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

Under the terms and conditions of this licence, the Group is obligated to provide 4G/LTE services in each population center with over 50,000 inhabitants in Russia by 2019. The Group 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, to clear frequencies currently allocated to the military at its own cost and to compensate other operators for surrendering frequencies in an aggregate amount of 401. In 2012, the Group has fully paid the compensation due to the other operators. It is currently not able to reasonably estimate the amount of the cost of clearing military frequencies.

Social infrastructure expenses

From time to time, the Group may decide 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 are conducted in collaboration with non-governmental charity organizations. These expenses are presented as part of the other general and administrative expenses in the interim condensed consolidated statements of comprehensive income.

Taxation

Russian tax, currency and customs 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 suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of the legislation and assessments 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

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Notes to interim condensed consolidated financial statements (continued)

12. Commitments, contingencies and uncertainties (continued)

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 14 May 2013, the Group's management estimated the possible effect of additional taxes, before fines and interest, if any, on these interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations, in the amount of up to approximately 269.

Litigation

The Group is not a party to any material litigation, although in the ordinary course of business, 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 Group'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.

13. Events after the reporting date

In April 2013 the Group drew down \$24.5 million (equivalent to 762 at the exchange rate as of 31 March 2013) from Fortis Bank, Nordea Bank Finland and Skandinaviska Enskilda Banken and \$98.2 million (equivalent to 3,052 at the exchange rate as of 31 March 2013) from China Development Bank.